

UPDATE ON THE ASIAN ECONOMIES AND MAJOR HEALTHCARE TRENDS

**BY
AMES GROSS
PACIFIC BRIDGE, INC.
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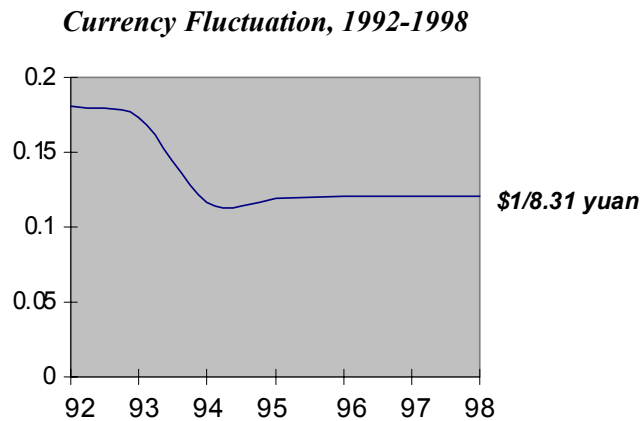
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China

Overview



Note: Beginning 1 January 1994, the People's Bank of China quotes the midpoint rate against the US dollar based on the previous day's prevailing rate in the interbank foreign exchange market.

Economy

- China registered growth rates of 10.5% and 9.6% in 1995 and 1996, respectively, and before the onset of the Asian crisis was expected to achieve an average 8% growth between 1997 and 1998. Recent industrial output figures, however, show that growth this year will probably be around 7%.
- China's foreign exchange reserves grew much slower in the first half of 1998, increasing by only US\$620 million. Experts attributed the slowdown to the Asian crisis, changes in foreign exchange management, and down-adjustment of interest rates. These factors (and thus the trend in reserve growth) are not likely to change for the rest of 1998.
- However, China's growth is still very high compare to the rest of the region; industrial output (which traditionally accounts for about 40-45% of total GDP) has rebounded from its slump in July, growing 7.9% in August 1998 compared to 7.6% a year ago.

Healthcare

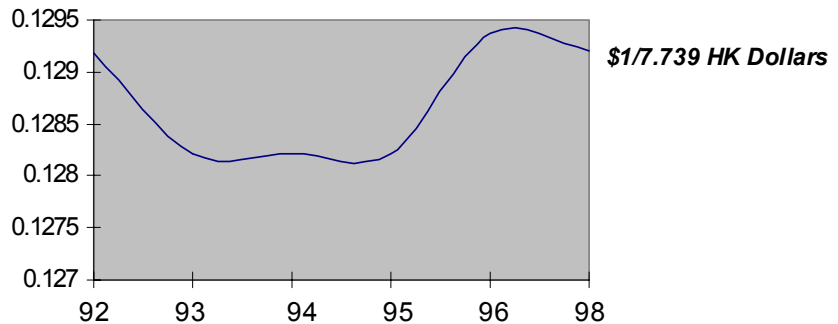
- In 1997, there were about 648 people for every physician in China, and per-capita healthcare spending was about \$11. Per-capita medical consulting expenditure rose from 40 yuan (US\$4.80) in 1995 to 53 yuan (US\$6.30) in 1996, and the average medical cost for in-patient treatment went up from 1,668 yuan (US\$200) to 2,190 yuan (US\$263).
- There were about 315,000 health institutes in China at the end of 1997, including hospitals, preventive healthcare centers and medical science research and education

institutes. Also, at the end of 1997, there were 4.4 million health workers and 2.9 million hospital beds in China.

Hong Kong

Overview

Currency Fluctuation, 1992-1998



Economy

- Hong Kong's economy contracted 5% in second-quarter 1998, and is now officially in recession for the first time since 1983. The official annual growth forecast for 1998 had been 3.5%, but has now been revised to a contraction of approximately 4%.
- Factors behind the contraction include slowing regional demand that has shrunk Hong Kong's exports, decreased domestic demand, dramatic falls in asset valuations, a 15-year high on unemployment (4.8%), and interest rate volatility.
- In an attempt to restore investors' confidence and boost the flagging economy, the government announced a US\$5.67 billion stimulus package in June 1998 that will result in a \$2.7 billion deficit for 1998-99.
- On a positive note, Hong Kong's foreign exchange reserves rose to US\$96.4 billion at the end of May 1998 from \$96.2 billion in April, thus remaining the world's third largest after Japan and China. Hong Kong's competitiveness was also ranked second worldwide after Singapore, according to a recent report by *World Economic Forum*. Consumer price inflation for Hong Kong could moderate in the coming months and even fall below the 5% official forecast.

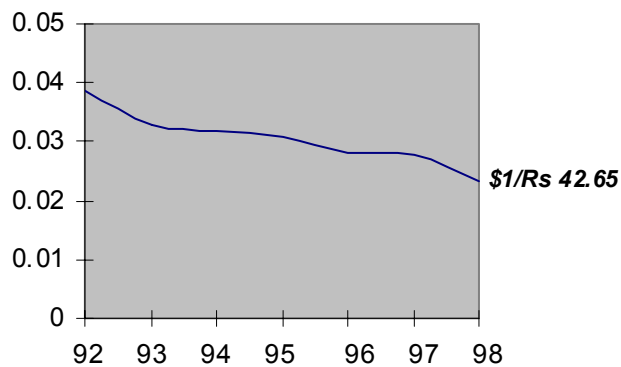
Healthcare

- Before the crisis, total healthcare spending in Hong Kong was about 4% of GDP. In the past five years, government spending on healthcare doubled to 14% of the territory's budget.
- However, Hong Kong's economic troubles have placed increased strain on its healthcare sector. The official amount of expenditure needed for the Department of Health alone, for example, is US\$3.18 billion for 1998-99.
- Private healthcare facilities are also being hurt by the recession, since people have started going to public hospitals instead of private hospitals to save money.

India

Overview

Currency Fluctuation, 1992-1998



Economy

- Despite rapid growth after liberalizing its economy in 1991, India has recently experienced an economic slowdown. This is less related to the current regional troubles than to slow export and industrial growth. The fiscal deficit is still very high at around 5% of GDP, with few controls placed on excessive spending.
- Favorable performance in the agriculture and services sectors may, however, make a 6.5% growth rate attainable for 1998-99.

Healthcare

- India's healthcare industry is estimated at about US\$20 billion, but public healthcare expenditure is only about 0.8% of GDP. Per capita healthcare expenditure is about \$3, but this is misleading since about 75-80% of the population does not have access to healthcare.
- An estimated that 75-80 percent of healthcare services and investments in India are now provided by the private sector. Hospital privatization is also increasing rapidly in India, but healthcare costs are still a major issue since 35-40% of India's population lives below the poverty line. Experts believe that India needs to add 80,000 beds per year for the next five years to meet the growing need for healthcare. Many corporate hospitals are therefore facing a financial crunch, and are looking to foreign companies and individuals for money.
- The insurance sector is still not open for private investment, but industry sources confirm that health insurance will be one of the few subsectors of the insurance industry which will be open to foreign companies.

Major Foreign Corporate Hospital Plans in India

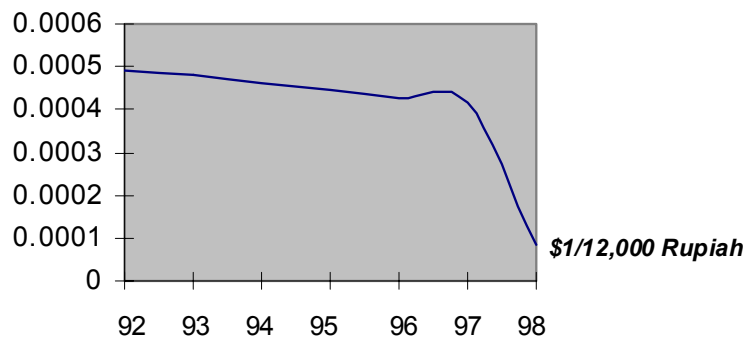
- **Sir Edward Dunlop Hospital, Faridabad (Haryana).** US\$40 million, jointly promoted by Interhealth, Canada; Health Solutions and Aust-Asian Consultancy of Australia, and backed by such companies as the Bhai Mohan Group, Punj Lloyds, Siemens and General Electric. This will be followed by another hospital built in Maharashtra and a 250-bed hospital in Nepal.
- **Cleveland Clinic (U.S.) and C.K. Birla (India).** 350-bed superspecialty hospital in Jaipur (Rajasthan).
- **Gleneagles (Singapore) and Escorts Heart Institute (India).** 900-bed Duncan's Gleneagles superspeciality hospital in Calcutta.
- **Warburg (Hong Kong).** Planning a chain of superspecialty hospitals in India; plans not yet finalized.

Many domestic Indian companies, such as Escorts and Apollo Hospitals, are also planning expansions. Private investments in Indian hospitals have improved the overall quality of healthcare; several hospitals now offer non-invasive surgery procedures and many foreign companies in India also have exclusive healthcare and “health-check” programs for their expat staff.

Indonesia

Overview

Currency Fluctuation, 1992-1998



Economy

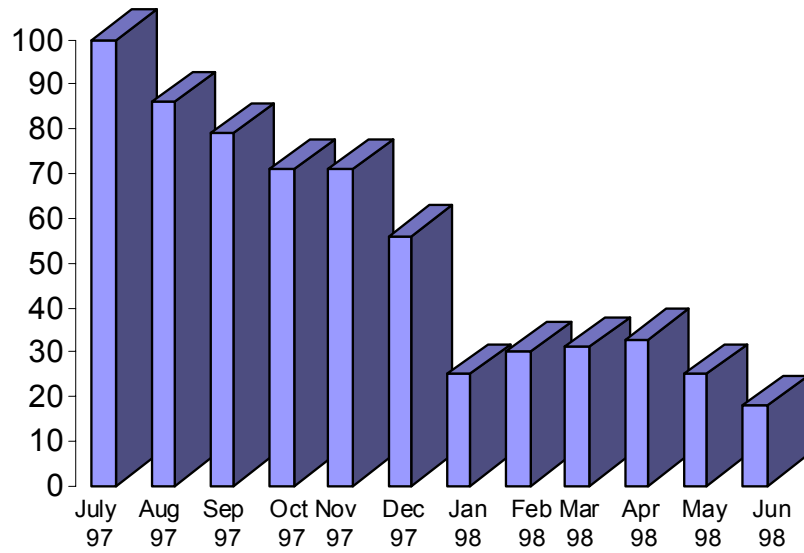
- Before mid-1997, Indonesia's real GDP growth had averaged over 7% per year since 1987. GDP per capita had surpassed US\$1,000 by 1996, compared to \$70 in 1965.
- All that has changed. Indonesia's real GDP has contracted 13% since January 1998, and per-capita income is only about \$450. Many major banks have survived only because of direct government liquidity support, and most loans are non-performing. Indonesian private banks and businesses owe roughly \$73 billion to foreign creditors, and the Indonesian government owes another \$66 billion. The government's budget deficit is expected to be around 8-10% of GDP for FY98-99.
- In January 1998, the government introduced a rehabilitation package whose main features were 1) a GOI guarantee, effective immediately, on the claims of depositors and creditors of locally-incorporated banks (excluding foreign banks), and 2) the establishment of an Indonesian Bank Reconstruction Agency to handle the restructuring of banks. So far, however, this initiative has not been very effective.
- The rupiah has strengthened somewhat from its low point of \$1/15,000 rupiah in June, and is attributable to the IMF's recent vote of confidence on Indonesia's economic policies by releasing another \$1 billion in aid to the country. Some of Indonesia's recent reform efforts include removing subsidies on some food products and reducing a number of sectors previously closed to foreign investment.

Healthcare

- There are about 6,861 people per physician in Indonesia, and before the crisis per-capita health expenditure was \$12. The current figure is likely to be far lower.
- Because of Indonesia's limited budget for healthcare services, the government is concentrating its resources on the lower-income strata and is encouraging the private sector to provide health services to middle and upper-income citizens. Under this policy, the number of private hospitals increased by 27% in 1997, while government

hospitals increased only 4%. Currently, about one-third of the country's 938 hospitals are privately owned.

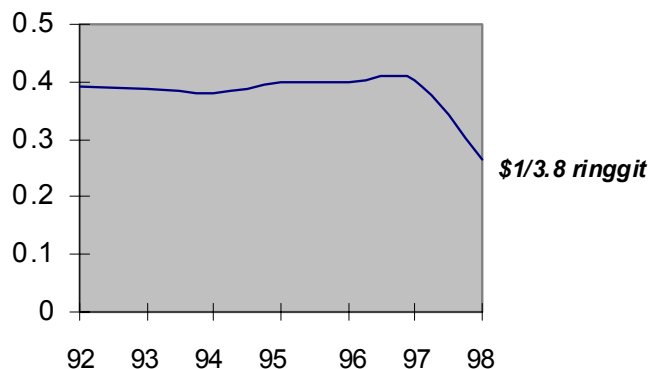
CPI Inflation in Indonesia (%), July 1997-June 1998



Malaysia

Overview

Currency Fluctuation, 1992-1998



Economy

- Malaysia's economy shrank by 6.8% in second-quarter 1998, compared to the same quarter in 1997. The country is in its first downturn in 13 years, after growth of 7.8% last year and rapid expansion over the past decade.
- Economists have revised their estimates of Malaysia's GDP contraction in 1998 from 4-5% to 7-8%.
- Banks are overwhelmed by non-performing loans, which economists predict will soon account for 25-30% of all loans in the country.
- On July 23, 1998, Malaysia released a National Economic Recovery Plan (NERP) to steer the country out of its current financial crisis. Recommendations included: 1) allowing the ringgit to move within a band pegged to a trade-weighted basket of currencies, and 2) authorizing an RM 20 billion government bond issuance for bank recapitalization.

Healthcare

- Malaysia's healthcare expenditure increased \$227 million in 1997; nevertheless, it is finding it difficult to keep up with the increasing demand for services and equipment.
- As a result, the number of private hospitals and private healthcare facilities in Malaysia is growing. Malaysia's Seventh Healthcare Plan (1996-2000) has adopted a policy of corporatizing and privatizing healthcare facilities and services, the latter of which will total more than 2.6 billion ringgit under the Seventh Plan.
- Privatization in healthcare is driving growth in the import market as well — more than 93% of all medical equipment in Malaysia is sourced from outside the country.

Medical Professionals in Malaysia, 1990-2000*

	<i>Number</i>			<i>Requirement in</i>
	1990	1995	2000	2000
Doctors	7,012	9,504	14,029	15,510
Dentists	1,471	1,791	2,243	2,909
Pharmacists	1,239	1,622	2,586	2,909

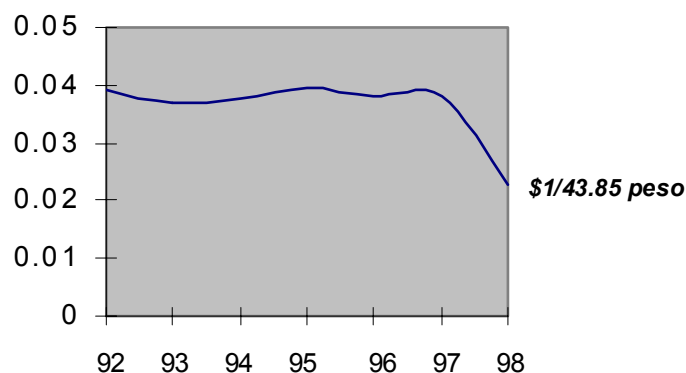
* Population of Malaysia is about 17 million.

Source: Seventh Malaysia Plan

Philippines

Overview

Currency Fluctuation, 1992-1998



Economy

- The Philippine government has set its 1998 real GDP growth target at 2-3%, but private forecasts range as low as *negative* 2% real GDP growth. Technically, the Philippines is already in recession, having registered negative growth for the first two quarters of 1998. At best, the Philippines will register a very low positive growth rate for this year.
- About 4.3 million Philippines are unemployed, generating an unemployment rate of about 14%. The government's proposed 1999 budget includes measures to fight unemployment through deficit spending in labor-intensive projects, including school and irrigation system construction.
- Non-performing loans held by the Philippine banking system rose to 10.2% of all loans in August, up from 9.44% in May. However, officials pointed out that this is far below Thailand's 46% and South Korea's and Malaysia's 25%. Also, as of May 1998, commercial banks in the Philippines held p41.6 billion in reserves as provision for bad loans, up from p17.9 billion a year earlier.
- Nevertheless, U.S. companies still continue to find opportunities in this market. U.S. exports to the Philippines have declined about 9.5% in the first half of 1998, but numerous opportunities still exist for equipment and services (i.e. specialized equipment, telecommunications, information technology, medical equipment, etc.)
- Also, despite Malaysia's recent decision to impose capital controls and similar caution against speculative trading in Taiwan and Hong Kong, Philippine officials have uniformly rejected exchange controls or other market-distorting measures.

Healthcare

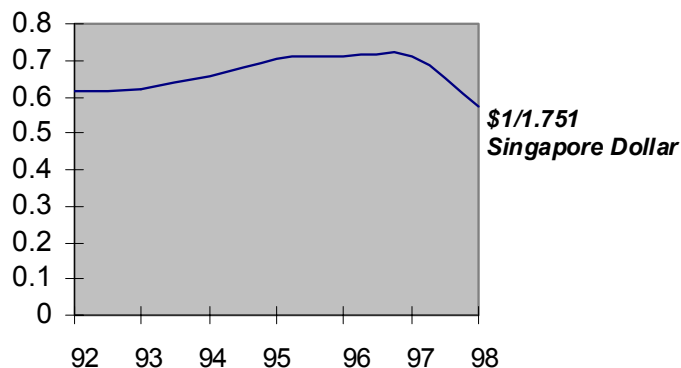
- With a population of about 73.27 million, the Philippines maintains a physician-person ratio of about 1:1,062. Per-capita health spending is about US\$15.

- The Philippines is also expanding its public and private healthcare facilities. The private sector operates the majority of the nation's 1,748 hospitals. However, though the government runs 574 facilities, it offers 11,400 more beds than private hospitals. Private facilities are the principal customers of high-tech equipment, and most of the medical equipment in both public and private hospitals is imported.

Singapore

Overview

Currency Fluctuation, 1992-1998



Economy

- Researchers have cut their growth forecasts for Singapore to 1% in 1998 and 0.5% in 1999. Singapore's economic growth has decreased for the fourth consecutive quarter, aggravated by a 13% decline in its electronics sector. Singapore's economy has also been suffering from low consumer demand — the country's trade ministry has noted that 30% of overall demand is local, while the remaining 70% is external.
- Singapore's manufacturing output has decreased 6.2% in 1998, the largest decline in over a year. Foreign manufacturing investment commitments also plunged 61.7% in the second quarter.
- Singapore was able to generate a \$6.4 billion budget surplus for the last fiscal year ending in March 1998, despite a fourth-quarter S\$800 million deficit on lower operating revenues. Nevertheless, the Monetary Authority of Singapore said that the S\$2 billion package of off-budget measures unveiled in June 1998 would cause a projected budget deficit of S\$800 million for the current fiscal year.

Healthcare

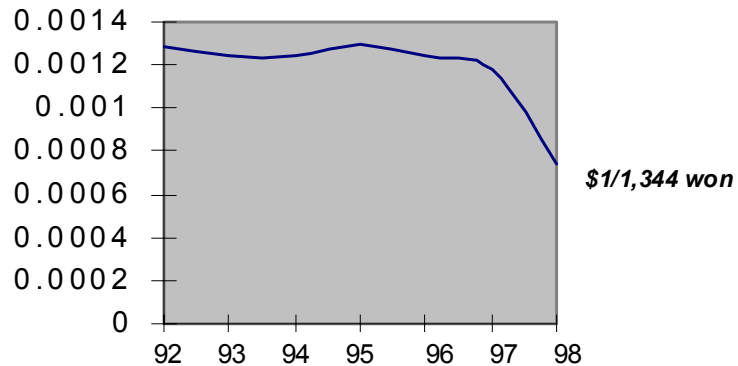
- Singapore has the most advanced healthcare system in Asia. In 1996, per-capita health expenditure in Singapore was US\$703, the second-highest in Asia after Japan. The private sector also accounts for 70% of total healthcare expenditures, with the government responsible for the remaining 30%.
- Nevertheless, the healthcare industry in Singapore is expected to experience flat growth in 1998 as the current economic uncertainty in Asia influences the buying habits of Singaporeans and foreigners. Due to the decline in patients from Indonesia and Malaysia, who together make up 30% of the private healthcare business, Singapore's private healthcare service sector is expected to drop by 10% in 1998. Singaporeans have also become more prudent in their healthcare spending.

- Because of the region's currency fluctuations, the many companies linked to the Singaporean government are being restricted from regional healthcare investments. Singapore's Temasek Holdings, for example, is said to be negotiating with Indonesian developer PT Ciputra Development to dissolve a hospital joint venture in Indonesia.
- To attract more patients, private hospitals have worked out more affordable options for foreign and local patients, such as providing lower-priced wards and generic drugs over proprietary drugs.

South Korea

Overview

Currency Fluctuation, 1992-1998



Economy

- The Bank of Korea reported that GDP shrank 6.6% in real terms in second quarter 1998, the worst quarterly negative growth in 18 years. This followed a first quarter 1998 contraction of 3.9%. Private economists are now predicting a 7-8% decline in GDP for the full year.
- In July 1998, the jobless rate hit 7.6%, the highest level recorded in 31 years. Some researchers predict that the unemployment rate could climb to 8.2% by the end of the year, hitting 10% (or about 2 million workers) in 1999.
- Also, despite a series of government-sponsored meetings and follow-up measures to raise exports, Korea's foreign shipments for 1998 are expected to register negative growth for the first time in 40 years. With monthly exports recording negative growth for the past 3 months, officials expect this year's exports to decline by 1.2%. Only shipments of steel products have increased so far this year.
- Nevertheless, due to a steep decline in the imports of raw materials, capital goods and consumer products, Korea's cumulative current account surplus reached \$25 billion for the period of January-July 1998. The total current account surplus is expected to reach \$35 billion by the end of the year.
- Korea's budget deficit for 1998 is expected to be 4% of GDP, the highest since 1981.

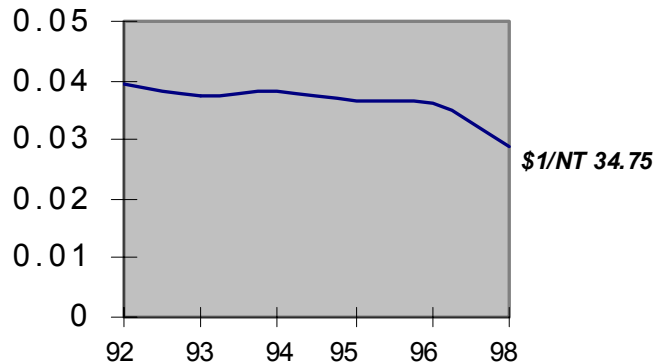
Healthcare

- South Korea implemented universal mandatory insurance in 1989, and since then the strain on the government to provide adequate healthcare has been rising (see Tables on following pages). In 1996, the South Korean market for healthcare services was \$23 billion.

Taiwan

Overview

Currency Fluctuation, 1992-1998



Economy

- Revised economic growth forecasts for 1998: 5.0-5.5%, down from a 6% prediction in May 1998.
- Although exports in first half of 1998 declined 7% from the same period in 1997, Taiwan has continued to run a trade surplus of US\$1.2 billion.
- Foreign investment in the first half of 1998 declined 26.45% from first-half 1997, but this is mainly the result of an unusual increase in foreign investment in June 1997. Investment coming from Europe and the U.S. in the first half of 1998 surged over 50%.
- Unemployment rate in June 1998 still remained very low at 2.7%.
- In 1986, annual per capita income was US\$8,000; currently, this figure is above \$13,000.

Healthcare

- In 1991, the ratio of healthcare expenditure to Gross Domestic Product (GDP) was 5.2%, much lower than the average for other member countries of the Organization for Economic and Cooperative Development (OECD). For example, the ratio of healthcare expenditure to GDP was 14% in the US, 10% in Germany, and 9.8% in Canada (OECD Health Data, 1997.)
- Currently, there is one hospital bed per 208 people and one physician per 804 people in Taiwan. This is much lower compared to Japan, which has one hospital bed per 74

people and one physician per 556 people, and much higher when compared to China, which has one hospital bed per 382 people and only one physician for every 647 people.

- Most of Taiwan's medical facilities are private; only 12% are public. Nevertheless, public sector facilities tend to be large — of the total 101,111 hospital beds in Taiwan, 35.6% are public.

Taiwan Healthcare Data

	1970	1980	1990
1996			
<i>Medical Facilities</i>			
No. of Hospitals 773.00	NA	NA	827.00
Total Hospital Beds 104111.00	NA	NA	89151.00
No. of Beds per 1000 people 4.80	2.40	3.20	4.10
Public Hospital Beds (%) 35.60	60.80	53.30	42.70
No. of Physicians per 1000 people 1.16	0.40	0.70	1.09
No. of Physician Clinics 15872.00	NA	NA	7223.00
No. of Dental Clinics 5706.00	NA	NA	3180.00
No. of Chinese Medicine Clinics 1933.00	NA	NA	1672.00
<i>Healthcare Expenditures (NTD)</i>			
Total Expenditures (million) 410025.00	NA	NA	180959.00
Expenditure per Person per Year 19070.93	NA	2184.00	9420.00
<i>as % of GDP</i> 5.48	NA	3.30	4.20
Insured as % of Population 96.10	7.90	16.00	47.30

Source: Evaluation Report of National Health Insurance's Two Years Implementation. ROC Department of Health, 1997.

Taiwan's New Universal Health Coverage Program

In March of 1995, at the insistence of many politicians, scholars, and lobbyists, the government finally assumed responsibility for providing universal health insurance under its new National Health Insurance Program (NHI). Prior to this, three major social insurance systems were in operation, offering at least 10 different health insurance programs — Labor Insurance, initiated in 1940, followed by Government Employees' Insurance (GEI) in 1950, and finally Farmer's Health Insurance in 1985. Only GEI extended coverage to participants' dependents. These three systems together only covered about 12.7 million Taiwanese, about 60% of the total population, thus leaving 8.5 million people uninsured. Most of those uninsured were under 14 or above 65 years of age, and covering these large and vulnerable groups became an important government policy objective. Thus, the NHI was created in 1995 and implemented substantially after the end of 1996.

Basics of the New Program

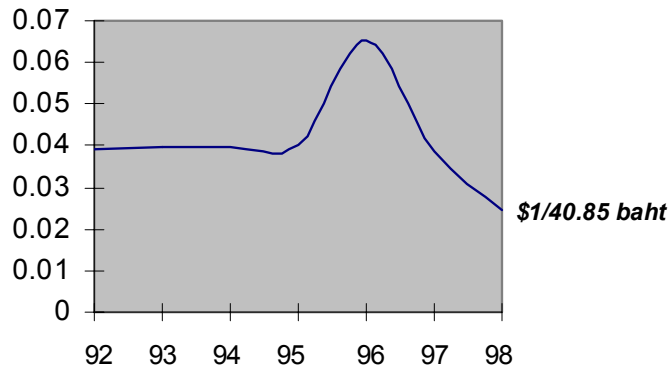
NHI's objectives are to provide universal coverage, eliminate financial barriers to healthcare, provide equal access for all, create a sound financial structure for universal coverage, improve the quality of care, and thereby promote and improve the health of all citizens. To this end, R.O.C. has made it mandatory that all Taiwanese join NHI. In fact, since the NHI has been implemented, 96% of the total population is receiving coverage, including almost eight million Taiwanese who previously had no health insurance.

NHI is administered solely by the Bureau of National Health Insurance (BNHI), an agency of the Taiwanese Department of Health. The new law requires that NHI must become economically self-sufficient. All benefits are paid by BNHI, on a fee-for-services basis, and co-payment is required of beneficiaries in order to discourage unnecessary abuse of the system.

Thailand

Overview

Currency Fluctuation, 1992-1998



Economy

- Thailand has signed a fifth “letter of intent” with the IMF, assuming a 7% decline in GDP for 1998, but a return to growth in 1999 of about 1%.
- The Thai unemployment rate increased from 8.5% in February 1997 to 11.8% in May 1998.
- Interestingly, Thailand’s 70 largest firms posted average profit increases of 510% from January to June of 1998, compared to the same period in 1997. Most of the increase was due to foreign exchange gains, however, as sales rose 17% on average. Major warehouse companies, on the other hand, reported a 75% drop in capacity utilization in the first 7 months of 1998.
- There are some indications that inflation may be easing somewhat — currently, inflation is at 9.7%, compared to 10.7% in June.

Healthcare

- As a result of the crisis, Thailand has been forced to cut back spending on healthcare/public health by 14.6%, a US\$240 million decrease in the projected spending level. Before the crisis, Thailand’s healthcare expenditures were almost 6% of GDP.

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1155 Connecticut Ave., N.W. Suite 850 • Washington, D.C. 20036

Phone (202) 467-5020 • Fax (202) 883-2279

www.pacificbridgemedical.com • email: info@pacificbridgemedical.com

