

Why You Should Be Paying Attention to the Medical Device Industry in China

It's not controversial to suggest that China's rapid economic expansion over the past few decades has been a sight to behold. In a staggeringly short space of time, it has grown to become a global powerhouse not just in cheap, mass-produced consumables – but in a range of industries across different levels of complexity. As an economy, they continue to push the boundaries of what is possible in this globalized landscape that we find ourselves in.

One of the most exciting industries that they've taken a firm grasp of is that of medical devices. A Deloitte [study](#) estimates that China's medical device market revenue now exceeds RMB800bn and accounts for 20% of the global market production. This is more than double where they were just 5 years ago. If you're looking for growth potential in 2021 and beyond, you'd be hard pressed to find many better options than the medical device industry in China.

Why is the Medical Device Industry Booming in China?

Let's look at some of the key reasons why we think this is such a great opportunity:

- **Thriving Middle Class.** As China's general economic fortunes have improved over the past few decades, we've seen an emerging middle class that is starting to gain the purchasing power needed to invest in higher levels of healthcare. This is not just happening in the major cities like Beijing, Shanghai, and Guangzhou – but also in many of the other surrounding areas who have benefitted greatly from the overall increase in living standards across the country. As families move into the middle class, they start to transition towards more holistic and preventative healthcare – which represents a significant opportunity for medical device manufacturers of all types.
- **Technological Innovation.** Healthcare, as an industry, has seen an incredible range of technological improvements in recent years thanks to the impact of Health Tech start-ups around the world who continue to push the boundaries of traditional medicine. When combined with rapid advancements in wearable technology and the quantified self movement – the medical device sector has seen more advancement in the past 10 years or so than any could have imagined. In China, this innovation is celebrated as they strive to become the technology hub of the world. The medical device industry has been a shining light in this respect and that has buoyed the industry's fortunes significantly.
- **Economic Growth.** Much has been written about the economic growth that China has seen in recent times and while it has slowed slightly from what we saw in the early 2000s, it still remains incredibly dynamic when you compare to the rest of the

developed world. If you're looking for growth potential, it's impossible to ignore China – it simply has to be a part of the conversation. They are nowhere near their ceiling just yet and there remains tremendous opportunity in the region – if you know how to leverage it effectively.

- **Scale.** The sheer size of China's consumer market makes any opportunity a compelling one, but in the case of medical devices – this is even more so. Any company that can go through the laborious and expensive process of developing new medical technology, jumping through the regulatory hoops, and bringing something to market that is in demand – will benefit greatly from the economies of scale that are possible when you sell into a market like China. Your intellectual property can be leveraged in a much more lucrative way when you're selling into a market of over 1 billion people.
- **Production Capacity.** China has built itself on the foundation of extremely efficient manufacturing – and that is a significant advantage for something like medical devices which require high levels of precision at low costs in order to make them economically feasible. The country has proven itself time and time again in its ability to manufacture technological devices at scale and those hard-won advantages give this industry the fuel it needs to expand rapidly in the way that it has.
- **Aging Population.** Compared to a few decades ago, the Chinese population is aging significantly – as all economies do after sustained levels of growth. As a result, there is lots of growth in demand for medical devices to treat chronic illnesses and other age-related medical conditions. This is a demand that is only going to increase from here and it's not an exaggeration to suggest that the medical device industry could hit new heights in the years to come on the back of this [demographic shift](#).
- **Governmental Support.** China's 5-year plan which is codified as the strategic direction of the government prioritises healthcare and technology as key components of their focus going forward. This is a big advantage because it suggests that medical devices might find themselves in favourable business conditions, receiving support from the government – which in China is a big deal. This tailwind is exciting enough to draw more and more attention to the space – which bodes well for its long term prospects.

Those are just a few of the reasons why the medical device industry in China has generated such exceptional results. In fact, a [report](#) from IBIS World estimated that the industry's average growth from 2015 to 2020 was 12.5% per year, signalling just how much things have evolved. We could go on and on, but hopefully that illustrates to you some of the key underlying reasons why the medical device industry has seen such fertile ground in the country.

The Globalization of Health Tech

It's worth ruminating a little bit on how Health Tech, as the industry is affectionately known, has seen incredible globalization over the past decade which makes these sorts of opportunities much more plausible.

Traditionally, because of the varied regulatory frameworks in each jurisdiction, it made it very difficult to take a piece of technology that was working in one place and have it set up for success somewhere else. If you could manage it, it would often take years of work, lots of capital investment – and a very nuanced understanding of the local medical authorities to make it happen.

This is no longer the case as more and more countries have begun to work together to speed up research and development so we can leverage new technology across the world. We've seen a perfect example of this during the COVID-19 pandemic as scientists around the world collaborated to create the necessary vaccines and there was an overwhelming sentiment of togetherness as we came together to fight the invisible enemy.

This has proven to so many that the global healthcare community is served best when we can leverage IP across country borders and that shift has been palpable. Of course, China doesn't have a great track record when it comes to protecting IP like this, but in the case of medical devices specifically, we've seen tremendous progress. The barriers to entry have been significantly reduced and if you can demonstrate novel technology that is going to be of benefit to Chinese citizens, you can make the transition into China's local markets easier than was ever possible before.

The Rise of Preventative Healthcare

Another key trend that is worth discussing is the shift towards more holistic, preventative healthcare. As a society, we've started to realize that our typical healthcare setup is much more focused on solving problems after they've occurred, than it is in preventing those problems happening in the first place.

There have been major discussions around the world talking about the benefits of more proactive medical care that aims to get ahead of the problem. This is where medical devices really shine – in their ability to assist with this sort of preventative medicine at scale. China is on the forefront of this revolution as they grapple with how they are going to provide adequate healthcare for their large population. They realize that it's going to require significant innovation in industries like these to give them the room and budget they need to attend to the aging population.

The tailwinds are there. You just have to be in the country to take advantage of them.

How Should You Think About Entering the Medical Device Industry in China?

If you are in the medical device industry and are looking at China as a potential expansion opportunity, it's important that you understand the landscape because entering China is undoubtedly more tricky than many of the other developed markets around the world. Here are a few important considerations to keep in mind:

Business Model.

The first key decision that needs to be made is how you plan to set up your operation from a strategic perspective. Typically, you've got three different options here, each with their own pros and cons:

1. Importing. You could choose to import the medical devices from your production facilities elsewhere and sell them on to the Chinese consumer market as is. This helps to guard against potential IP theft, and it requires lower levels of capital injections, but it also creates all sorts of supply chain headaches that can stifle fast and agile growth.

2. Build a local manufacturing facility. On the other end of the spectrum, you could choose to build a local operation from the ground up, so you can be self-sustaining in the local context. This requires significant upfront investment and is much slower to get going, but once you're up you can benefit from cheaper labour, and better integration with local consumer demand.

3. Partner with an OEM. The middle ground here is when you partner with a local manufacturing operation on the ground and empower them to produce the items based on your IP. This reduces the amount of capital needed upfront and gets you up and running much faster – but it does leave you exposed to the risk of IP theft, and you're reliant on someone else to fulfil your orders.

Protect against undercutting.

We've alluded to this above, but the Chinese market is so competitive that you have to be wary of operating in a sector where you can't protect your IP or your technology. Ideally, you want to be in a niche, technical space where you have some competitive moat that makes it more difficult for other operators to enter the space and compete on price. The more novel your technology is, the better you're going to fare in this dog eat dog market.

Regulatory Compliance.

Of course, it's important to have all your ducks in a row from a regulatory perspective in order to operate in China. These aren't necessarily as stringent as you might see in other countries, but the socio-political situation is very unique, so you'll want to make sure that you've got everything covered. It's recommended that you work with lawyers and professionals who have lots of expertise in this niche area – so you can get things right from

the beginning. The good news is that we've seen lots of regulatory easing in the last few years and a lot of the constraints that existed previously have been rectified. There's never been a more favourable regulatory landscape for medical devices.

Cultural Understanding.

Many companies have tried to move into China but have failed because they did not understand the quirks and nuances of the local area they were selling into. Chinese culture is very different to what we are used to in the West, and it makes a big difference as to how you build your business. If you don't have that experience in China, it is imperative that you work with partners who do – so you can leverage what they've learned and put your best foot forward. You can't just copy paste what you did elsewhere. You need to have a depth of understanding about the local context to make it work.

Working with Summer Atlantic Capital

If this is an avenue that you're exploring, then we'd love to work with you. [Summer Atlantic Capital](#) is a private equity firm who work with clients of all types who are seeking to take novel technology into the Chinese market. We are not a consulting firm, but an investment firm in our own right. We put our money where our mouth is and invest directly into these sorts of deals.

We have a wealth of experience in entering the Chinese market through joint ventures, licensing deals, distribution deals, and the like. So, when you work with us, you'll gain a valuable business partner who understands the landscape and can help to manage the operational structure of the deal from start to finish. And because we're investing directly, our interests are aligned with yours throughout – and that makes a big difference. Our success is your success.

If you've got a medical device business and are considering a Chinese expansion, we'd love to hear from you. [Get in touch today](#) and tell us a bit about your story. We'd love to see how we can help.