

Taiwan Firms Head for China To Make Money on Hospitals

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For years, foreign health-care providers have moved cautiously in China, mainly offering Western-style medicine to expatriates and rich Chinese. But now some Taiwan companies are taking a radically different tack: selling low-cost quality health care to China's masses.



Ryan Pyle for The Wall Street Journal

BenQ Corp.'s new hospital in Nanjing is one of 14 already opened or planned by Taiwan companies investing in China's medical industry.

The move is risky. China's health-care market is fragmented and largely insulated from criticism because the state runs most of it. But the companies have an interesting edge: All are Taiwan manufacturing giants that have been running low-cost factories in China for years.

They say the knowledge they have gained, plus their experience running hospitals in Taiwan, gives them an advantage in dealing with grassroots China.

China's health-care market is estimated to be worth \$140 billion. The average patient pays \$110 to stay in the hospital for a day, compared with \$90 in Taiwan, according to government figures. As a result, the companies figure they can undercut Chinese hospitals and eventually turn a profit.

Already, 14 Taiwan hospitals, including one run by the giant conglomerate Formosa Plastics Group, have opened or are scheduled to open. BenQ Corp., which is best known for making consumer electronics, recently opened a hospital in Nanjing.

"China was the world's factory, but manufacturing is yesterday's story now," says Michael Tseng, a BenQ vice president.

China opened the hospital market to foreign investors in 2000 but set a ceiling for them of 70% in any one venture. Since then, the government has approved more than 200 applications for joint-venture hospitals, but most have been small operations.

"These hospitals represent a good beginning for China's hospital reform," says Zhao Chun, a senior official with the government-run Chinese Hospital Association.

Currently, more than 90% of China's hospitals are state run, according to China's Health Ministry. The World Health Organization has ranked China fourth from the bottom of 191 countries in terms of the fairness of its medical system, and China acknowledges that its hospitals have problems.

Last month, the government issued a white paper calling for an overhaul of the medical system and more affordable care.

Formosa Plastics founded the first major private hospital in Taiwan three decades ago. It has since built a giant and profitable health-care service network that includes seven hospitals with more than 10,000 patients daily, a nursing school and a medical school.

In China, Formosa Plastics runs a \$257 million hospital in Xiamen, a large port city on the Taiwan Straits. "It only costs some 70 yuan (\$10) for each visit, and doctors explain my symptoms thoroughly," a 21-year-old female migrant worker says.

But breaking into the market hasn't been easy for the Taiwan companies. The city of Nanjing invited BenQ to invest in a hospital six years ago. Because of bureaucratic delays, the \$130 million project didn't open until this past May.

"I believe other foreign investors would have left," says Rick Lei, chairman of BenQ Hospital.

Located in a newly developed part of the city, the BenQ facility is a clean, bright building connected directly to a subway station. The full-service hospital includes 40 specialty clinics and 3,000 beds. Patients' records are kept on a computerized system that tracks prescriptions and treatments.

Shen Bo, a 36-year-old scientist and new father, says he and his wife chose BenQ because of its advanced technology, low fee for a Cesarean delivery and its service. The procedure cost the couple \$600. State-run hospitals typically charge at least a third more.

And, Mr. Shen says, in "state-run hospitals, it takes a couple of weeks to arrange a surgery, but doctors here worked extra hours for my wife's delivery."

But the BenQ facility has only 600 patients a day, compared with some 7,000 in comparably sized state hospitals. The company says it's prepared to wait 10 years before seeing a profit.

Recruiting doctors has also been a challenge. Chinese physicians have civil-service status, and they often receive income from drug companies and other sources. BenQ's local physicians must list all outside sources of income before they start work for the hospital, which tries to cover their total income, but they aren't supposed to accept any outside pay after they accept employment.

As a result, the hospital still flies doctors over from Taiwan to fill holes.

Some local doctors, though, have made the leap. David Fei, vice superintendent of BenQ Hospital and former chief surgeon at the Xinhua Hospital in Shanghai, says he forfeited his retirement pension for a chance to work at a modern hospital that met international standards.

"Defects of state-run hospitals have no chance to be improved so I put my hope in private hospitals," Mr. Fei says.