Med-tech industry is booming in China

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Star Tribune
May 3, 2014 - 4:15 PM

A Chinese market for medical technology used to be on the long list of lofty goals for devicemakers like Medtronic. Now U.S. med-tech firms are seeing double-digit growth as they partner with Chinese manufacturers, purchase Chinese companies and race to educate and woo Chinese doctors and patients eager to tap the latest technology.

A growing Chinese middle class and increasing investment in health care by the Chinese government are making such devices as pacemakers, defibrillators, insulin pumps and spine products accessible to hundreds of millions of new patients. More-familiar factors play a role, too, as the nation falls prey to such chronic ailments as heart disease and diabetes, meaning even more customers will lean on technology from U.S. devicemakers to prolong and improve their lives.

Fridley-based Medtronic, for one, is banking on this.

China is the linchpin in Medtronic CEO Omar Ishrak’s emphasis on building business in emerging markets. Medtronic’s China revenues have shot from $50 million a decade ago to $800 million today.

“China is clearly a unique opportunity and one of four regions around the world we’re targeting for expansion,” Ishrak said at Medtronic’s 2013 annual shareholders meeting. China — growing at 15 to 20 percent a year — now accounts for 40 percent of Medtronic’s emerging-market revenue. Emerging markets make up 10 percent of all Medtronic business.

“You’re talking about more than 1 billion people who need care,” Ishrak said more recently, referring to China and India. “With globalization, the key to sustainable growth in emerging markets will be addressing the barriers of access to lifesaving medical technology.”

The burgeoning Chinese middle class is estimated to number more than 400 million people — larger than the entire population of the United States. That middle class is demanding better access to health care, and the Chinese government has responded by pledging to spend $125 million over the next three years, promising that all citizens will have access to basic health care by 2020.

“China and Medtronic both have similar goals, ensuring that patients have access to lifesaving medical technology,” said Chris Lee, Medtronic vice president and president of the company’s Greater China business. “Medtronic has made significant investments in China, including going down to lower-tier regions while continuing to serve major cities, and developing and delivering innovations that can address the health care needs and challenges for patients in China.”

Making investments

American med-tech companies have gotten the message. Medtronic, which has been doing business in China since 1970, opened its Innovation Center in Shanghai in 2012 to develop products specifically for the Chinese market. It is the company’s first R&D center outside the United States and Europe, and has already introduced a titanium cranial closure...
system to treat skull damage.

“Our mission is to be a center of excellence for the emerging markets,” said Dr. Zhengrong Zhou, director of the center. “We want to develop products for the local Chinese market.”

Medtronic opened a patient care center in Beijing in 2010 to introduce its products to patients and their families. The center was developed in cooperation with China’s National Centre for Cardiovascular Diseases. In 2012, Medtronic paid $816 million for Kanghui Medical, a Chinese orthopedics company. It also spent $46.5 million to buy a piece of LifeTech Scientific Corp. to reach more cardiovascular patients. In addition, Medtronic has teamed with China’s National Institute of Hospital Administration to develop research projects for treating Type 1 diabetes.

Medtronic officials say they have provided therapy to more than 600,000 Chinese people. Including the workers at Kanghui, the Chinese firm that Medtronic recently bought, Medtronic employs nearly 3,000 workers in 10 mainland cities.

Other companies are pumping money into the market, as well. In 2011, Boston Scientific announced a five-year, $150 million investment in China, including a new local manufacturing facility. Its Institute for Advancing Science offers Chinese doctors programs in cardiology, cardiac rhythm management, electrophysiology, endoscopy, peripheral interventions, urology and women’s health. Also in 2011, St. Jude Medical opened its Advanced Technology Center Asia Pacific in Beijing. The center is expected to train up to 2,000 physicians each year. Covidien, which has Minnesota operations, has opened a $45 million R&D facility in Shanghai.

Karen Eggleston, director of the Asia Health Policy Program at Stanford University, said a multifaceted business strategy in China — from partnerships to training to facilities to outright purchases — is a solid approach. “It is common among the wiser firms, for people who are learning the market and trying to figure out which strategies work better,” she said.

No letting up

All that growth isn’t expected to slow down.

“The medical technology market in China has grown rapidly — consistently by double digits for the past decade or so — and it is projected to continue to do so,” said Ralph Ives, executive vice president for Global Strategy and Analysis at the Advanced Medical Technology Association, testifying recently to a U.S.-China trade commission in Washington. “The medical technology market in 2006 was about one-third the size of today’s market in China, and it could expand by 40 percent over the next three years.”

While China is one of the largest and fastest-growing markets for American medical technology, the size of the market is much smaller than the U.S., Europe or Japan. The $12 billion Chinese med-tech market is only about one-tenth the size of the U.S. market and less than the $70 billion spent in western Europe and the $30 billion spent in Japan.

Cultivating greater opportunities means not just selling products there. It’s hard to sell pacemakers if doctors have no experience implanting them. Boosting sales in China means training doctors, educating patients, building facilities, helping develop a regulatory industry and partnering with Chinese companies to take advantage of distribution and local knowledge. This is the infrastructure of the medical technology trade in China, said Rob Clark, a Medtronic vice president for corporate communications.

“The government is very interested in having the multinationals picking up these things,” he said. “But you have to be smart about it.”

Still, the market is being developed. Medtronic’s Global Heroes program highlights distance runners who run despite medical conditions including heart disease, diabetes or neurological disorders, thanks to medical technology.
In 2013, the program included a couple of young people from China: Yao Hui Wang and Lin Shen. Yao, a 21-year-old distance runner from Wuhan City with Type 1 diabetes, had his life changed by a Medtronic insulin pump, allowing him to finally forgo daily insulin injections and regain the freedom to run. Lin is a 20-year-old runner and high school basketball player from north-central China who also has a Medtronic insulin pump.

But there remain pitfalls to growth.

Chief among them is a concern that the Chinese government, which badly wants to develop its own medical device industry, is not willing or able to protect American intellectual property from pirates who would just turn around and produce devices under the name of Chinese companies.

Ives, of AdvaMed, said as Chinese manufacturers gain more expertise, concerns over piracy will intensify. Chinese companies already are selling lower-priced products that appear to use American intellectual property, he said. That could be dangerous to patients if Chinese products that claim to be the same as their U.S. counterparts do not work as well.

In 2011, St. Jude Medical won a $2.3 billion verdict in a California court against a former employee and a Chinese medical device company he started, for the theft of trade secrets.

N. Bruce Pickering, executive director and vice president of global programs at Asia Society Northern California, said intellectual property piracy fears keep some companies from jumping into the market — or selling top-line products in China.

“There is no desire to take cutting-edge stuff to China because it will get ripped off,” he said. “I think it really depends on how the analysis of the cost-benefit ratio plays out for you. Does the growth trajectory outweigh the risk? Then, OK.”

He added: “The truth is, there is for sure a compelling and attractive market. But companies need a clear strategy and understanding of risk.”

But that risk is not scaring away America's med-tech companies. The market is too big, the potential for huge revenues too lucrative.

“I think globalization is not an option. It’s a must [for Medtronic],” Ishrak told China Daily in an interview last year. “It doesn’t matter whether you know us. It doesn’t matter how uncomfortable it would be in a different environment. It doesn’t matter what risks you might have to take.”

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