



Opportunities & Challenges in Chinese Emerging Cities

The Chinese dental market size is estimated to be worth about US\$220 million. According to the agency Export to China, imports of dental equipment and materials reached US\$153 million in 2010, with a growth of 21.37% on 2009. About 90% of imports were destined to the provinces of Shanghai, Beijing and Guangdong. Germany was the largest source of China's dental equipment in 2010, with exports worth \$27.17 million, followed by Switzerland, Japan, the U.S. and Brazil.

The potential market is huge, considering that according to figures provided by the organizers of Dental South China International Expo, there are 110,000 dentists and dental lab technicians in the country. Oral health coverage has improved dramatically in the last fifteen years, from a 1:50,000-60,000 dentist to population ratio in 1995 up to 1:13,000 in 2010. However, the goal of one dentist per 4-5,000 population, which is closer to the average ratio in developed countries, is still far and will require a much greater expansion of dental services and facilities across the country. Figures released in the Third National Survey of Oral Health Status (2006), for instance, showed that dental caries affect 66% of 5-year-old and 28.9% of 12-year-old children, but 90% of them did not receive proper treatment. 50% of adults suffer from periodontal disease and 37% from decayed teeth, that means about 500 million people. Increased awareness towards oral health and the growth of average incomes will contribute to support the market with such a big demand to meet.

It is therefore crucial for all dental companies wishing to access the opportunities offered by the Chinese market to carefully plan their approach. Major cities such as Beijing, Shanghai or Guangzhou have seen a tremendous increase in their population and are now long established international trade hubs. These large metropolis are preferred destinations since the concentration of clinics and facilities offering dental services is much higher, as well as the number of middle

income or wealthy people able to afford quality dental treatments, yet, second and third-tier cities are gaining importance as an attractive locations for foreign investments, especially with the improvements in transportation infrastructure and services. These cities act as important, expanding trade hubs for their regions, each with different characteristics according to the economic profile of the province.

The growth potential of the so-called "middleweight cities", with a population of 150,000 to ten million, is described in McKinsey's report "Urban World: Mapping the economic power of cities". According to the report's claim, currently about 30% of global GDP comes from 380 cities in developed regions. Over the next 15 years the growth of the so-called "middleweight" cities will outpace the growth of the megacities in developed and emerging countries. 577 of them will be accounting for more than half of global growth by 2025, and it is worth noticing that 7 of the 13 middleweight cities that are likely to become megacities by that date are located in China. Moreover, 136 new cities from the developing world are expected to enter the top 600 cities contributing to 60% of global GDP, and 100 of them are in China. These figures account for the important role that second and third tier cities are going to play in the next 20 years, especially considering the pace of urbanization. In fact, 49.7% of the 1.34 billion people living in China's mainland (as per 2010 Census) are urban residents, an increase of 13.4% in the share of urban population compared to the year 2000.

According to the US Commercial service, the most interesting second-tier cities for the dental market are Suzhou, Shenzhen, Qingdao, Tianjin, Nanjing and Xi'an. Suzhou is a biotech center hosting over 1,500 foreign companies with a per capita GDP of US\$17,169. Shenzhen has the highest local GDP at US\$120 billion and is also an important high-tech hub as well as southern China's major financial centre. Qingdao has a strategic location close to Korea and Japan and is investing heavily on infrastructure and transportation, being a special Economic and Technical Development Zone with 50 large-scale projects currently running.

Tianjin, China's third largest city, is a municipality on its own not far from Beijing and its role as trade and distribution hub is supported by national transportation routes crossing its area, in addition to its being the 6th largest Chinese port. Imports are growing at a double-digit rate due to high per capita GDP and positive investment climate. Tianjin is a particularly attractive market for dental products and equipment as it closely mirrors Beijing's consumption trends.

Nanjing is eastern China's second largest trade center, enjoying high competitiveness rate and favoured by its proximity to Shanghai. This also impacts on market trends as regards purchasing habits for medical and dental equipment, following products and brands most known in Shanghai. In the northwestern region, Xi'an benefits from the general upgrade of Shaanxi Province's transportation and distribution infrastructure, with a good number of renowned dental hospitals and laboratories.

As reported by China Briefing Magazine, wages in these cities are rising along with their economies, especially considering that local governments are raising taxes as well as the annual minimum wages. The minimum employer contribution for mandatory welfare is ranging around 35% (but it reaches 44% in Tianjin, the same as in Beijing), compared to average 40.5% in first-tier cities. So this is also a factor to keep in mind, when considering the potential savings to be obtained by moving to second-tier cities.

The Magazine highlights that third-tier cities (defined as third largest city in a specific province) still have comparatively lower rates of minimum contributions, but not to such a great extent, in fact their average is estimated at 31.3%.

These figures are generally indicating that wealth is progressively, though not really evenly, spreading across the country, making work progressively more expensive. SMEs will benefit from a careful evaluation about the better location for their investment by considering these changes in course in the Chinese scenario.

Dental Imports, 2010

Imported commodity	million US\$
Dental cements and other dental fillings, bone cements	31.5
Toothpaste	27.8
Tooth brushes including dental plate brushes	23.1
Dental floss	0.89
Preparations for oral/dental hygiene	5.07
Dental drill engines (whether or not combined on a single base with other dental equipment)	24.9
Instruments and appliances used in dental sciences, excl. drills	44.2
Artificial teeth	2.4
Dental fittings (excl. artificial teeth)	29.6
Dental x-ray apparatus	20.9

Source: UNcomtrade

2009 Economic indicators of selected Chinese provinces

Emerging Cities	Sub-provincial city inhabitants (million)	Region	Gross Regional Prod. (100 million yuan)	Indices (preceding year=100)	Regional exports (million USD)	Regional imports (million USD)
Tianjin	8.2	(municipality)	7521.85	116.5	29,892.72	33,938.52
Dalian	6.17	Liaoning	15212.49	113.1	33,414.93	29,519.45
Harbin	4.75	Heilongjiang	8587.00	111.4	10,082.13	6,147.39
Nanjing Suzhou	6.8 / 6.3	Jiangsu	34457.30	112.4	199,199.19	139,540.51
Hangzhou	8.7	Zhejiang	22990.35	108.9	133,012.95	54,717.91
Xiamen	3.5	Fujian	12236.53	112.3	53,319.11	26,330.48
Qingdao	7.5	Shandong	33896.65	112.2	79,490.71	59,562.66
Wuhan	6.6	Hubei	12961.10	113.5	9,978.8	7,272.22
Shenzhen Zhuhai	8.6 / 1.48	Guangdong	39482.56	109.7	358,954.89	252,139.16
Chongqing	7.5	(municipality)	6530.01	114.9	4,280.07	3,432.45
Chengdu	11	Sichuan	14151.28	114.5	14,169.45	9,999.2
Kunming	6.8	Yunnan	6169.75	112.1	4,513.25	3,534.34
Xi'an	8.2	Shaanxi	8169.80	113.6	3,988.15	4,417.24

Source: China Statistical Yearbook 2010

• Source:

National Bureau of Statistics of China - www.stats.gov.cn

McKinsey Global Institute - www.mckinsey.com

China Chamber of Commerce for Import and Export of Medicines and Health Products - www.cccmhpie.org.cn

US Commercial Service, "China's Emerging Markets: Opportunities in the Dental and Dental Lab Industry" - www.export.gov

Companies.Asia Group - <http://companies.asia>

China Briefing - www.china-briefing.com

