China Health Care Sector Landscape: Seizing the opportunity now and more

China's healthcare sector stands at the confluence of some of the most powerful secular growth forces in the world today. The combination of demographic transformation, accelerating innovation, cost competitiveness in research and development (R&D), and increasingly supportive policy initiatives has elevated the sector into a strategic pillar of the country's economic development.

The significance of healthcare in China extends far beyond serving basic population needs. It is central to achieving the government's Healthy China 2030 vision, improving life expectancy, and fostering innovation amid the broader push toward self-reliance in high-value industries. It is also integral to China's ambition of moving up the pharmaceutical and biotechnology value chain, positioning itself not only as a manufacturing hub but also as an originator of globally competitive therapies.

For investors, this convergence of drivers translates into a uniquely attractive opportunity set. The sector offers exposure to resilient demand growth, innovation-led earnings potential, and a favorable policy backdrop that is gradually evolving to strike a balance between affordability and innovation. Together, these dynamics form a strong foundation for long-term value creation.

What are the driving forces?

To categorize, at least four major structural forces underpin the long-term investment case for China's healthcare industry:

1. Aging Population – The country is transitioning into a super-aged society, leading to rising demand across multiple therapeutic areas.

2. Accelerated Innovation – China has emerged as a global leader in drug innovation, moving from "fast-follow" strategies to producing Best-in-Class and First-in-Class drugs.

3. Low R&D Cost (Engineer Dividend) – An abundant supply of STEM graduates and cost-efficient clinical infrastructure provide a durable competitive edge.

4. Balanced Policy Stance – Regulatory reforms are shifting focus from cost containment toward encouraging innovation, access, and quality.

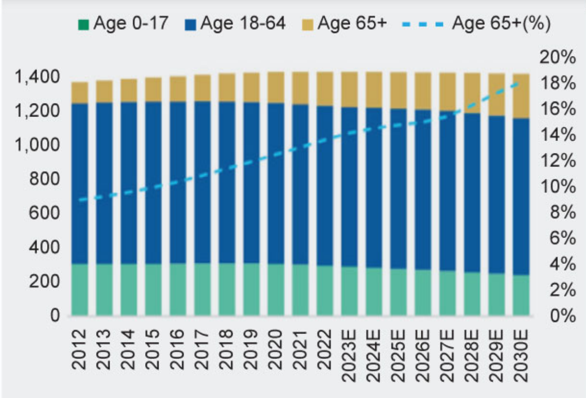
These drivers interact with one another, creating a reinforcing ecosystem: demographic demand fuels innovation, cost advantages accelerate R&D productivity, and policy support ensures sustainable commercialization.

In this article, these four structural forces would be discussed in further detail for investors' better understanding about the opportunities in China healthcare sectors that are ahead of them.

China's Aging Population

China's demographic transition is among the most important demand-side drivers of its healthcare industry. According to the United Nations, the number of individuals aged 65 and above will reach around 260 million by 2030, representing 18% of the total population (see chart 1). This compares with fewer than 200 million in 2022, or about 14% of the population. By World Health Organization (WHO) standards, this shift will mark China's entry into "super-aged society" status by 2030, a transition from its "aged society" classification since 2014.

Chart 1: Age distribution in China forecast by 2030



Source: United Nations (UN)

Longer life expectancy adds further momentum. China is projected to reach an average life expectancy of 79 years by 2024 (see chart 2), surpassing the goals set under its Healthy China 2030 initiative. At the same time, low birth rates mean that aging will continue to dominate population dynamics, resulting in an expanding patient base with complex healthcare needs.

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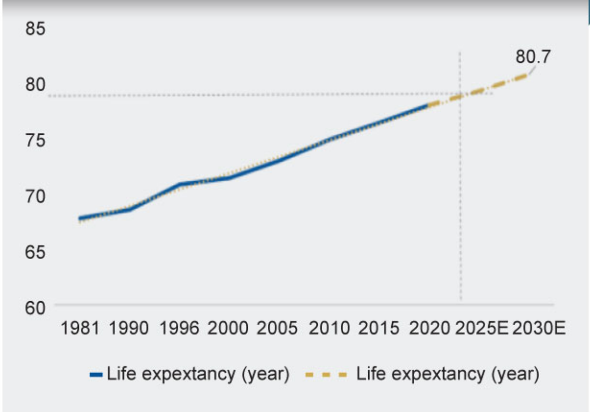
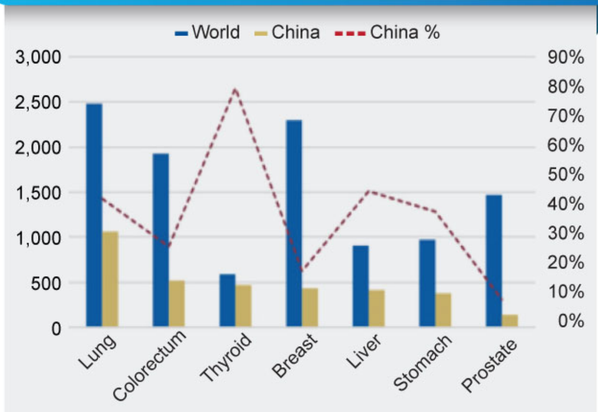
Chart 2: China's average life expectancy forecast by 2024



Source: NBS, Morgan Stanley Research

The implications for the healthcare system and the investment universe are profound. The rising prevalence of age-related illnesses such as cancer, cardiovascular diseases, and chronic obstructive pulmonary disease (COPD) will create sustained demand for pharmaceuticals, medical devices, and healthcare services. Indeed, China already accounts for about a quarter of global cancer incidence (see chart 3), underscoring the scale of its patient pool. This demographic-driven demand not only provides a vast market for existing therapies but also supports rapid patient enrollment for clinical trials, giving China a unique advantage in accelerating the development of innovative drugs.

Chart 3: Cancer incidence by major organs: World vs China



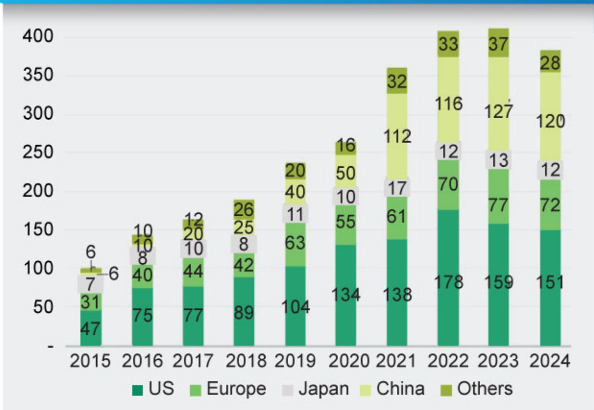
Source: GLOBOCAN, NBS, Morgan Stanley Research

Accelerated Innovation

Perhaps the most transformational development in recent years has been the rapid progress in China's pharmaceutical and biotechnology innovation. As of December 2024, Chinese companies had developed a cumulative total of 3,575 innovative drugs entering clinical trials, surpassing the United States and establishing China as the global leader in drug innovation.

Historically, China's pharmaceutical R&D was dominated by "Me-too" and "Me-better" drugs, essentially incremental improvements on existing therapies. However, policy orientation toward clinical value and competitive ambition has driven a significant shift toward Best-in-Class (BIC) and First-in-Class (FIC) innovation. In 2015, fewer than 10 FIC drugs developed by Chinese firms had entered clinical trials, representing under 10% of the total pipeline. By 2024, that figure had surged to 120 drugs, accounting for over 30% of the pipeline (see chart 4).

Chart 4: Global R&D Counts of FIC Innovative Drugs

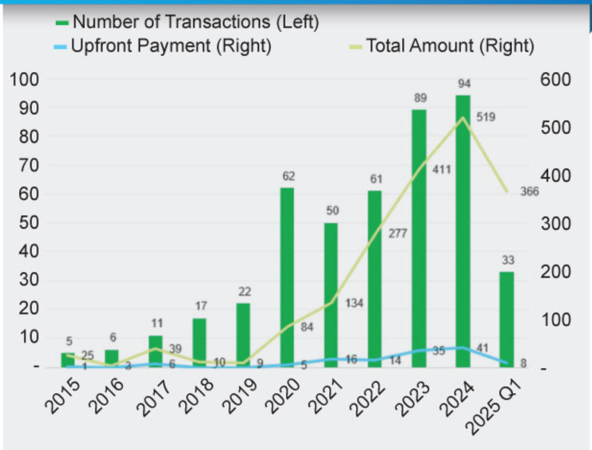


Source: Value Partners, NextPharma®, as of Jun 2025

Innovation is also extending beyond product development into global commercialization. China has become one of the most active regions for overseas licensing transactions, with the US as the top destination.

In 2024, Chinese biotech companies recorded 94 license-out transactions, valued at USD 51.9 billion, representing a 26% year-on-year increase (see chart 5). Upfront payments alone reached USD 4.1 billion, up 16% year-on-year. In the first quarter of 2025, the pace accelerated further, with 33 transactions, a 32% increase from the previous year, and transaction values soaring by over 250%.

Chart 5: China's license-out transaction volume and value



Source: Value Partners, Soochow Securities, as of Jun 2025

This expanding global footprint underscores international recognition of China's innovation and provides an important source of non-dilutive financing, reducing reliance on domestic markets.

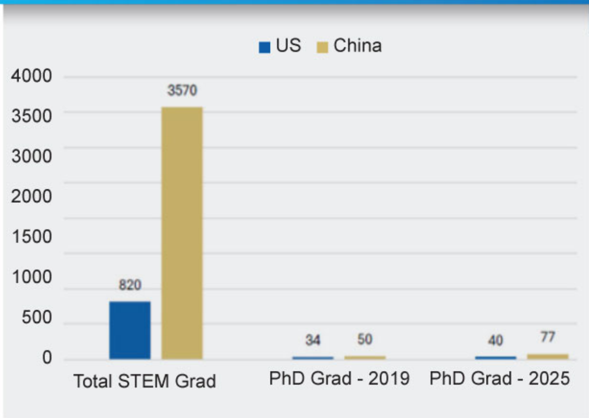
Low R&D Cost ("Engineer Dividend")

A distinctive competitive advantage of China's healthcare industry is its cost efficiency in R&D, often described as the "Engineer Dividend." This advantage is driven by two structural factors:

1. Abundant STEM Talent – China leads the world in producing STEM graduates, more than quadruple of that in the US, supplying a steady pipeline of highly trained researchers, clinicians, and engineers (see chart 6). This not only fuels scientific output but also keeps labor costs in clinical and laboratory settings significantly lower than in developed markets.

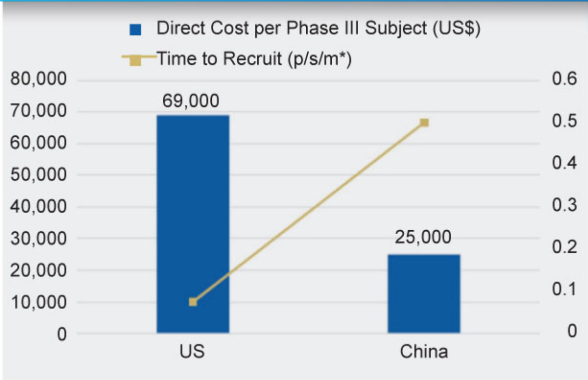
2. Lower Clinical Trial Expenditure – China's cost of conducting clinical trials is substantially more competitive than in the US, as the typical clinical expenditure in China is only less than a half of that in the US (see chart 7). This, combined with faster patient recruitment due to the large patient pool, enables companies to generate robust trial data more quickly and at lower cost.

Chart 6: China leads in STEM graduate outputs (thousands)



Source: DIA, Ministry of Education, US NCSES, GBI, Morgan Stanley

Chart 7: China's cost advantage in clinical expenditure



Source: DIA, Ministry of Education, US NCSES, GBI, Morgan Stanley

The combination of talent and cost advantages helped improve the R&D efficient, hence Chinese biotech firms can deliver globally competitive drugs at a faster pace with superior capital efficiency.

Balanced Policy Stance

Regulatory reform has historically been a double-edged sword for China's healthcare industry, often emphasizing cost containment at the expense of profitability. However, recent developments indicate a more balanced policy stance that supports both affordability and innovation.

In March 2025, the National Healthcare Security Administration (NHSA) circulated a draft document titled "Further Optimizing Drug Procurement Policies (Draft for Comments)", which signaled a shift away from the earlier emphasis on "lowest price wins." The draft emphasized quality, supply stability, and clinical value over pure cost competition.

A particularly significant development is the introduction of the Commercial Health Insurance Innovative Drug List, designed as a supplement to the existing Categories A and B of basic medical insurance. This new category specifically targets high-cost innovative drugs such as advanced oncology treatments and rare disease therapies. This new list will be supported by commercial health insurance pathways, creating a multi-tiered reimbursement system that expands access to breakthrough therapies without undermining drug developers' ability to recoup R&D investments. In August, the NHSA has announced the list of drugs that passed the preliminary review for the 2025 National Reimbursement Drug List (NRDL) negotiations. For the first time, a parallel Commercial Health Insurance Innovative Drug List was introduced, which includes 121 drugs that have cleared the initial review.

Local governments are also playing a proactive role. Beijing and Shanghai have introduced measures to support the high-quality development of innovative drugs, facilitating faster hospital access and broader commercial insurance coverage. These initiatives reinforce the central government's commitment to fostering a sustainable innovation ecosystem.

Implications for investors

With all the constructive driving forces, China's healthcare sector continues to trade at valuations that are reasonable by historical standards. With the MSCI China Health Care Index hovering around its long-term average forward P/E of 32.6x (see chart 8), investors are presented with an attractive entry point. Unlike sectors where structural growth has already been fully priced in, healthcare valuations remain grounded despite the powerful demographic and innovation tailwinds at play.

Chart 8: MSCI China Health Care Index Forward P/E

Source: Bloomberg, as of 30 June 2025

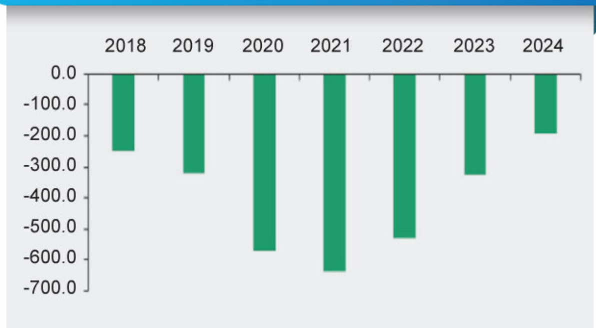
This balance between compelling fundamentals and undemanding valuations creates a rare window of opportunity for long-term investors seeking exposure to one of China's most resilient growth stories.

On top of the valuation, what is equally significant is the improving financial trajectory of the industry. In 2024, domestic biotech firms recorded operating revenue of RMB 92.4 billion (see chart 9), representing a 36% year-on-year increase, while aggregate losses continued to narrow (see chart 10). This marks a critical turning point, as years of heavy R&D investment begin to yield commercial results. With the sector on track to achieve profitability by 2026–27, supported by revenue expansion, moderated expense growth, and rising overseas licensing income, investors now have clearer earnings visibility. These structural improvements enhance confidence that the sector is transitioning from promise to sustainable profitability.

Chart 9: Trend of total revenue of China's domestic biotech innovative drug companies (unit: 100 million yuan)

Source: Value Partners, SDIC Securities, as of Jun 2025

Chart 10: Total attributable net profit (loss) of domestic biotech innovative drug companies (unit: 100 million yuan)



Source: Value Partners, SDIC Securities, as of Jun 2025

Looking ahead, the sector's growth outlook remains firmly underpinned by structural drivers. An aging population is expanding the addressable patient pool, while innovation leadership ensures China's role in developing Best-in-Class and First-in-Class therapies. Policy reforms—particularly the upcoming Commercial Health Insurance Innovative Drug List—will further broaden access to high-value treatments, creating a more sustainable commercialization pathway for innovative drugs.

Combined with strengthening global licensing partnerships, China's healthcare sector is entering a new phase where innovation, profitability, and policy alignment converge. For investors, this represents one of the most compelling long-term growth opportunities in Asia's equity markets.

Emerging market debt: A potential turning point?

Amid signs of revival and shifting global dynamics, a look at the compelling opportunities across high yield, local currency, and corporate emerging market bonds.

After a decade marked by volatility, capital outflows, and a strong dollar, emerging market "EM" debt may be nearing such a turning point.

For fixed income investors seeking yield and diversification, the current macroeconomic and geopolitical landscape presents both challenges and opportunities.

With spreads in high-yield and frontier markets appearing attractive, structural reforms gaining traction, and multilateral support remaining robust, the case for selective re-engagement in EM debt is strengthening.

Value amid volatility

One of the most compelling areas within EM debt today is the high yields in the frontier space.

Spreads remain wide relative to historical averages, offering a cushion against potential global shocks. These markets are often underpinned by improving fundamentals, including fiscal consolidation, governance reforms, and enhanced engagement with multilateral institutions such as the International Monetary Fund and World Bank. For example, countries such as Egypt, Kenya, and Pakistan have made significant strides in securing external financing and implementing structural reforms, which in turn bolster investor confidence.

Moreover, the technical backdrop is supportive. Many frontier issuers have limited access to capital markets, leading to constrained net supply. This scarcity, combined with high nominal and real yields, creates a favorable risk-reward dynamic for investors willing to navigate idiosyncratic risks.

A tactical shift

While high-yield remains attractive, the outlook for investment-grade (IG) EM debt is evolving.

With a potentially growing risk of a US recession, which could trigger a rally in US Treasuries, the relative appeal of IG EM debt has improved. As such, many investors are tactically reducing their underweight positions in IG sovereigns and corporates. Countries like Mexico, Indonesia, and Chile offer relatively stable macroeconomic frameworks and benefit from strong institutional support, making them appealing in a risk-off environment.

This shift is not merely defensive. It's believed IG EM debt can serve as a ballast in portfolios, especially if global growth slows and risk appetite wanes. The potential for capital appreciation in a Treasury rally scenario only adds another layer of appeal.

A reawakening?

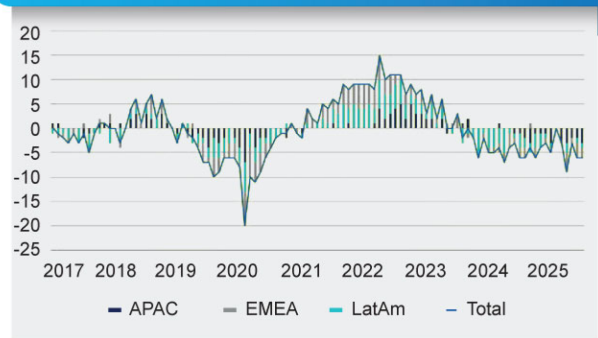
Perhaps the most intriguing development is the potential resurgence of EM local currency debt.

After years of underperformance driven by a strong dollar and inflationary pressures, the tide may be turning. The weakening of the dollar, questions over the US exceptionalism trade, and the end of aggressive rate hikes by the Federal Reserve are creating a more favourable backdrop for local currency bonds.

Many EM central banks were ahead of the curve in tightening monetary policy and are now able to ease monetary policy proactively. Countries such as Brazil, Chile, and Hungary have already begun cutting rates, and others are expected to follow as inflation moderates due to favourable base effects. This creates a supportive environment for local currency bonds, particularly in Latin America, where real rates remain among the most attractive globally.

The EM cutting cycle continues starting from mid 2023, but with greater caution. US Fed cuts and trade headwinds will eventually spur further EM easing.

Chart 1: Balance: number of EM CBs hiking rates minus number CBs cutting rates



Source: Aberdeen and Haver, as of September 2025

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Currency dynamics are also shifting. With the dollar losing momentum and EM currencies undervalued on a real effective exchange rate basis, there is room for appreciation. This could enhance total returns for dollar-based investors and further support flows into local markets.

Attractive carry and dollar weakness can continue driving EM debt positive returns.

Chart 2: Cumulative returns (%) since September 2024

Source: Aberdeen, JP Morgan and Bloomberg, as of September 2025
Past performance does not predict future returns.

Fundamentals remain resilient

In the corporate space, fundamentals remain broadly supportive.

Despite the global slowdown, EM corporates have maintained healthy balance sheets, characterized by low leverage and strong interest coverage ratios. Many companies have taken advantage of past periods of market access to term out debt and reduce refinancing risk.

Notably, net supply in the EM corporate bond market is expected to remain negative. Companies are prioritizing debt repayment over new issuance, which supports technicals and helps mitigate spread widening in periods of volatility. While operational performance may face headwinds from slower global growth, it's believed the overall credit quality of the asset class remains robust.

Headwinds on the horizon?

Despite the improving backdrop, several risks could derail the EM debt recovery.

Chief among them is the potential for a full-fledged trade war, particularly between the US and China. Such a scenario could severely impact EM exports and lead to protectionist policies that disadvantage developing economies.

A US recession, while potentially supportive for Treasuries, could also dampen global risk appetite and lead to capital outflows from EM assets. Similarly, a failure of the Chinese economy would be a sharp deceleration in the economy, as it is not expecting much of a rebound in growth. Though, to rebound meaningfully would weigh on commodity prices, particularly oil – a key export for many EM countries.

Geopolitical tensions remain elevated. The ongoing war in Ukraine shows no signs of resolution, the Israel-Iran tensions remain, and adversarial posturing by countries like Russia and China could test the resolve of the Trump administration, potentially leading to greater instability in the Middle East and Asia-Pacific regions.

Final thoughts

While uncertainties persist, it's believed the current environment presents a potential turning point for EM debt. The combination of attractive valuations, improving fundamentals, and shifting global macro dynamics creates a compelling case for re-engagement. For investors willing to take a long-term view and navigate short-term volatility, it's believed EM fixed income offers a notable opportunity to enhance yield and diversify portfolios in a world of slowing growth and evolving risks.

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