

China's healthcare reform plan: which way now?



James Shen

It has been two years since a report from the development research centre of China's State Council concluded that the healthcare reforms of the past 10 years had been largely unsuccessful (see *Scrup* No 3196, p 18 for further details of the reforms).

This honest assessment instantly won applause from the public as shown in a number of opinion polls. A survey by the China Youth Daily in August 2005 found that more than 90% of respondents were dissatisfied with the reforms, for example.

The debate has continued to simmer over the past two years, but it became clear in 2006 that the Chinese government was getting ready to discuss major changes to the national healthcare system.

...new broom

A central government inter-agency group, the National Co-ordination Group for Healthcare System Reform, was formed under the State Council to work out a sweeping new reform plan.

The group is led jointly by the National Development and Reform Commission and the ministry of health (MoH), with participation from nine other central government agencies, including the State Food and Drug Administration, the ministry of labour and social security (MOLSS) and the ministry of finance (MoF).

However, it failed to come up with substantive suggestions by the end of the year because the numerous factions became deadlocked by differing opinions.

China is planning to make fundamental reforms to its healthcare system in an effort to improve equity, funding and access. But can consensus be reached amid a cacophony of differing views?

James Shen of Pharma China takes a look.

By early 2007, the group had to seek outside help from a further six organisations: a government thinktank, two Chinese universities, the World Health Organization, the World Bank and the international management consultancy McKinsey & Co.

When these outside advisors then showed a tendency to group into two blocs, the Beijing Normal University was hurriedly added to the already complex mix in March.

...disagreements

The delay is believed to be due mainly to arguments between the MoH, MOLSS and MoF over an appropriate model for the future Chinese healthcare system.

The MoH is reported to be proposing something resembling the UK's national health service, under which basic healthcare would be paid for by the government and all public medical institutions funded entirely by the state.

But this proposal has met strong resistance from the MoF because of financial concerns, as well as from the MOLSS, which favours a different model.

The MoH plan, released by health minister Gao Qiang before the end of 2006, has the following main components:

- a national basic healthcare programme would be organised and operated by the government and provide free public health services and essential medical care at cost to all Chinese residents;
- as this would provide only essential services, a "medical security system" would be added to protect against major medical risks. This would comprise multiple layers and types of insurance, with the urban employee basic scheme, urban resident insurance scheme and new rural co-operative programme as its backbone, supplemented by social assistance schemes;

- the MoH envisages the national essential drug scheme providing basic drugs covered by the national basic healthcare programme. The government would organise the procurement, production and distribution of such products.

The MOLSS model is thought to reference the German system, under which all employers and employees participate in a national social security programme which then contracts providers to deliver services.

This January, the MOLSS published a counter-proposal to the MoH scheme, with two core elements: assumption of full responsibility by the government for public health services; and sharing of healthcare expenditure by the government, social security scheme and individuals.

...future goal

MOLSS agrees with the MoH about the need for government-funded public health services, but disagrees that China needs a government-funded basic healthcare service free for all, suggesting instead that this should be a future goal.

It believes that – after funding the public health service – the government should fund only selected parts of the medical insurance system, such as schemes for the poor and to help with catastrophic expenditure. The rest of the insurance system would be funded by premiums.

The proposals from the external Chinese advisory organisations are widely expected to have similar principles to the MoH scheme, with an emphasis on government leadership and public welfare.

By contrast, international advisors are likely to stress the importance of market forces, local press reports note.

Beijing Normal University's principle idea is likely to be compulsory participation in the government-led medical insurance programme (funded by premiums) and, to a lesser

degree, government funding for those who cannot afford premiums.

The government would negotiate prices and fees with providers and pay a fixed fee per participant to these.

Despite the inter-agency group's inability to come up with detailed proposals, some general principles have at least been agreed upon, including that:

- the welfare nature of healthcare provision must be upheld;
- the leading role of state-owned hospitals in provision should be emphasised, while private capital is encouraged to supplement the public system;
- supervision of the industry should be strengthened to ensure public welfare;
- "unreasonable" growth of drug expenditure must be controlled and state funding of healthcare increased;
- hospitals and pharmacies must be separated and the classification of OTC and prescription drugs fully enforced.

With widespread media coverage of the disagreements plus claims of borrowing from European systems,

the government has been keen to deny any similarities, pointing instead to a new system with "Chinese characteristics".

But experts predict that the reforms will likely end up as a blend of many different ideas.

Considering the ongoing debate, it came as a surprise when the State Council approved in early April a trial of a new urban resident basic medical insurance programme.

...public health provision

The government made it clear that it wanted this system to be financed primarily by premiums – in line with the financing mechanism for the existing urban employee basic medical insurance programme – rather than by the state, as many had hoped.

In retrospect, when the government talked about its leadership role in healthcare, it may not have meant funding but rather regulation and public health provision.

The new scheme suggests it may have already made up its mind about the future financing of healthcare, and thus saw no need to wait for a final reform plan before approving the trial.

All the external organisations involved in the reform debate are supposed to submit their proposals this month, but there have been ongoing reports of internal disagreements.

With so many different ideas coming from all directions, Chinese leaders must be having a hard time making a final decision.

The direction of healthcare reform in China will no doubt have a fundamental impact on the pharmaceutical industry, and will surely spark another round of restructuring.

While in the short run a lack of direction may create more turbulence in the marketplace, over the longer term the industry stands to benefit from successful reforms which address and correct the problems of the existing system.

James Shen is the publisher and chief editor of Pharma China (www.pharmacinaonline.com), an English-language publication providing specialised coverage of China's pharmaceutical market, and the author and co-publisher of Scrip's China Pharmaceutical Guide.

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