OVER THE PAST 30 YEARS of economic reform and development, China’s health care system has not kept pace with the economy. Instead, it has deteriorated in many aspects, both in rural and urban areas. In terms of quality, efficiency and equity, China’s health care system is far behind the current level of economic development and the demands of the people. Briefly summarized, the tottering system is in a state of low accessibility and high prices.

This is in contrast to the many achievements China had in public health during the period from 1949 to 1978, when a universal health care system was created that was very low in cost and emphasized the delivery of primary health care as widely as possible, despite the very low per capita income at the time. In urban areas, the public hospital system provided free or very cheap health care services for virtually everyone and undertook widespread disease prevention strategies. In rural areas, the famous “barefoot doctors” provided health care to farmers at minimal cost. The system was touted as one of the great successes of the Mao Zedong era in China.

As a result of the system, China’s public health status improved significantly, with some indicators reaching the level of developed countries. Life expectancy increased from around 35 years in 1949 to 68 years in 1978, higher than that of some...
countries much richer than China. The infant mortality rate declined from 250 in every 1,000 live births to under 50 during the same period.

**DETERIORATION AND DISSATISFACTION**

Since 1978, health status improvements have slowed, although total health expenditure has increased nearly 90 times over the last three decades, much faster than gross domestic product (GDP) growth, accounting for about 5 percent of current GDP. China still has a dominant public hospital system, which eats up over 90 percent of health care resources. The difference is that since the beginning of economic reforms in the 1980s, most so-called public hospitals are self-financed and function as for-profit organizations even though they are classified as not-for-profit. There has been a steady decrease in government financial support that now accounts for less than 10 percent of the annual budgets for public hospitals.

Because public hospitals are now money makers, an over-supply of services, pharmaceuticals and pricey medical check-ups are common. In order to make basic health care affordable for citizens, the government regulated the prices of certain services, but hospitals responded to this practice by shifting demand to high technology, high-cost services and drugs that have a high profit margin. As a result, health care expenditures grew rapidly and now an increasing number of people can’t afford health care, a fact that has been a cause of public discontent in the country.

**WE HAVE A PLAN**

The above problems in the health care system are mainly due to government failure. The absence of a firm government role in guaranteeing people’s basic health care needs is the main reason for the breakdown of the public health system. The lack of government regulations caused a market failure that made matters worse, as some hospitals and doctors prescribed too many unnecessary treatments, not only increasing the costs for patients, but also hurting their health.

The outbreak of severe acute respiratory syndrome (SARS) in 2003 not only awakened government attention to the deficiencies of the public health system, but also highlighted the need for balanced economic and social development. The performance of local government officials used to be based on a single economic indicator, GDP growth for their area. However, GDP does not accurately reflect improvements in people’s lives, which should be the ultimate purpose of economic development. The government has recently stated that it will shift the focus from pure economic development to prioritizing the country’s social development. In doing so, the government has pledged a larger role for itself in balancing economic development and ensuring the health of the people.

On Oct. 23, 2006, President Hu Jintao said at a workshop of the Political Bureau of the Central Committee that the government would shoulder more responsibility for strengthening the health care system. The government, Hu said, would build a safe, effective, convenient and inexpensive health care network covering both urban and rural residents. “The goal is for everyone to enjoy a basic healthcare service,” he said.

Since then, the government has made health care reform one of its top priorities, and set to work on a health care reform plan. The Chinese government put forth global open bidding for different health care reform plans, and groups from around the world were asked to participate, including the World Bank and the World Health Organization. In November 2008, the government issued a document outlining the guiding principles for health care reform and solicited input from the public via the Web in what was seen as a unique and open way to refine the plan.

China’s health care reform plan was issued on April 6, 2009, by the State Council, and is very comprehensive, with the goal of establishing a universal health care system by 2020. In doing so, the government will restructure the entire system, including financing, delivery, public health, regulation, and the delivery of essential drugs.

In the short term, the overall goal for health care reform is to have universal coverage for basic health services by 2011. The government has pledged 850 billion yuan ($123 billion) to achieve the target.
REBUILDING A BROKEN SYSTEM

The plan includes investing over three years in the following areas: increasing insurance coverage in both rural and urban areas, improving the basic community health service network, facilitating equal access to public health services, pushing trial reforms in public hospitals and setting up a basic/essential drug system. The 850 billion yuan is in addition to the annual 270 billion yuan that the government already spends on health care. With so many challenges facing the system, the blueprint for change includes tackling financing, delivery, management and regulation, drugs and equipment, and personnel.

Among the particulars:

Health-Care Financing: After the economic reform period began, a new form of insurance emerged in 2000 called urban social insurance. It is employer-based and given to employees but not their family members. Commercial insurance is available for purchase on the market, but none of the plans offer full coverage to children under the age of 18, only catastrophic coverage. Therefore, a large portion of the urban population remains uncovered. In addition, China launched public health insurance for both urban and rural areas in 2007 and 2003, respectively, with the premiums shared by the central government, local government and households. The coverage of these three programs, however, is notoriously uneven.

The current health reform is committed to expanding the coverage of health insurance and gradually making the three programs into a unified framework. The government will subsidize rural and urban populations to join the insurance programs with the target by 2011 of getting 90 percent of the people covered either by the basic health insurance system for urban dwellers or by a new rural cooperative medical system (CMS) to replace the existing one.

As of 2009, the new CMS had been extended to nearly every county nationwide, with almost 95 percent of the rural population signing up for the program. The coverage level has now also increased significantly for each individual, the central and local government contributes 100 yuan ($15), instead of 10 yuan as before, and the individual contributes 20 yuan.

However, there are still issues of access, with a dearth of qualified personnel working in rural areas as opposed to urban areas. The government will invest in training programs to provide primary care personnel in rural areas.

Health Care Delivery: After the reform period, private (for-profit) hospitals were allowed in China. Currently around half of all hospitals are private, but the vast majority of hospital beds belong to public hospitals. The health care reform plan targets rebuilding a three-tiered health serv-
ice delivery system, with a renewed emphasis on improving basic care. The government will build another 5,000 clinics at the township level, 2,000 hospitals at the county level and 2,400 urban community clinics over the next three years.

The government will also invest more on public health, gradually providing equal public health services to both rural and urban areas. Starting in 2009, public health is now funded on a per person basis with 15 yuan for every citizen.

Public hospitals themselves are also overly decentralized, with each hospital acting as an individual profit-making business. They lack the coordination necessary to form an integrated medical system. In addition, there is little oversight, and hospitals self-report their finances with no system in place for the government to check on these reports.

The current health reform includes a commitment to reversing the distortion in the public hospital financing structure and incentive mechanism. The government will increase funding to public hospitals, and adjust its payment system. The goal is to make current so-called public hospitals become real public hospitals. These reform trials in public hospitals have been implemented in 16 cities across the country.

**Essential Drugs System:** Restructuring the pharmaceutical industry is a key part of health care reform in China. Hospitals' profits are tied to prescription drugs because they are allowed a 15 percent mark-up on the drugs they prescribe, making prescriptions a key revenue source. Lack of regulation has meant that drugs are sometimes sold at 10 times the manufacturing cost, and many patients are unable to afford the drugs that they need. In addition, doctors prefer to prescribe high-priced name-brand drugs over generics, which further drives up costs and pushes generics out of the market. A central segment of health care reform is building a basic/essential drug system that is independent of hospitals.

An essential drug list will be developed, possibly based on the WHO list of Essential Medicines. The list would also include traditional Chinese medicines. Community health centers would be required to have a ready supply of the drugs on the list. Inexpensive generic pharmaceuticals would form the basis, replacing the more costly brand name drugs that are currently in use. The state will organize the procurement, production, distribution and utilization standards for drugs. It will also increase supervision for the approval, production, circulation and use of drugs.

**Management and Regulation:** At the moment, China lacks a sufficient system for managing and regulating the health care sector. Responsibilities for this are spread over several government departments, which have conflicts of interest with one another and do not communicate or coordinate. The result is a management and regulation system that lacks a clear and unified vision and division of responsibility.

An efficient management and regulation system for health care should be established, with a clear vision, integrated management and an independent regulation system that is well-coordinated among relevant departments. To be more specific, it would be necessary to strengthen the power of the health administrative department for overall planning, separating management from regulation, developing better methods of management and supervision, emphasizing performance evaluation, and controlling the costs of management.

Currently, health care reform is pushing ahead, with ordinary people already benefitting from the changes. With government determination, public support, and the help of information technology, China’s health care reform will provide universal health care coverage in the near future.

If all goes well, where once the barefoot doctors and their contemporaries provided widespread basic care during the Mao Zedong era, finally a low cost and efficient health care system suitable for the modern period of economic change will emerge and become part of the “China model.”

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