

Rx for China's Health Care Headache

China's health care system has not caught up with its population's changing needs. Although Chinese might have more money to spend on health care thanks to their country's rapid economic growth and their own increased spending power, a range of constraints make it difficult for many of them to receive the care they need. Against this backdrop, the recent Wharton China Business Forum 2010 in Philadelphia dedicated one of its sessions to exploring the country's health care system, providing both insights and recommendations for change.

Health care spending per capita, in fact, has been increasing in China, growing 16% annually on average since 1978 and is expected to grow 20% in 2009 and 2010, according to data from China's Ministry of Health presented during the China Business Forum. "We see the potential that economic growth will eventually create more demand for health care," said John Cai, a former professor of economics at Fudan University in Shanghai and an expert on health care reform in China, who took part in the forum's discussion. "At the same time, there are some barriers holding back improvement."

The State of Health

One striking result of China's dramatically rapid economic growth is that the country "shows very similar [health] problems now to developed countries," noted Cai, who is currently a senior health policy analyst with the Massachusetts Health Care Finance and Policy Division and has been part of expert teams focusing on health care reform in both China and the U.S.

While the number of cases of infectious diseases has decreased in China, chronic disease is rising. One reason for the increase is the country's aging population. The United Nations projects that by 2050, nearly 24% of China's population will be 65 years of age or older, far above the world's projected average of about 15%. As China's population ages, chronic disease will increase significantly, according to various research and surveys carried out in recent years. For example, one survey in 2006 -- of Shanghai residents by the Shanghai Academy of Social Science -- found that 74% of respondents 65 years old and above suffered from chronic disease, compared with 5% of respondents between the ages of 18 and 34.

Urbanization is another factor affecting China's health problems. In 1952, 12.5% of China's population lived in urban areas; in 2008, nearly 45% did. The lifestyle changes that come from living in a city have increased chronic health problems, such as obesity, diabetes and high cholesterol. For example, according to a 2002 survey published by People's Health & Hygiene Press, 10.6% of the population in China's large cities was obese, compared with 4.3% in rural areas. Urban Chinese also reported a greater number of cases of cancer, hypertension and heart problems.

However, as the forum's discussion highlighted, rural China faces its own health problems. According to the Health Ministry, life expectancy in large cities like Shanghai and Beijing is around 78 years, compared with an average 64.4 in semi-urban areas. Meanwhile, the mortality rates of newborns, infants, children and pregnant women are far higher in rural than in urban China. "We see a huge difference between rural and urban areas," said Cai. "The rural rates are almost double."

Yet rural residents do not spend as much money on health care as their urban counterparts. In 2007, rural residents spent RMB 349 (US\$51) per capita, while urban residents spent RMB 1,480 (US\$217). Rural Chinese "don't have the purchasing power to consume health care, which creates a huge barrier for health care in China," Cai added.

Out of Pocket

Health insurance is not filling the gap. Although coverage today is widespread thanks to rural cooperatives introduced a few years ago -- around 13% of China's population is uninsured, compared with 16% or so in the U.S. -- health insurance benefits are often thin.

One upshot is that patients often end up paying a large part of their medical bills themselves. "China is the highest patient-pay-out-of-pocket country in the world," noted Sheldon Dorenfest, an international expert on health care systems improvement and another participant in the China Business Forum's health care session. Almost 60% of health care costs in China are paid directly by patients, said Dorenfest, who is president and CEO of The Dorenfest Group, a Chicago-based consultancy that specializes in IT systems for health care providers and is currently working with a number of hospitals in China.

Medicine accounts for a big part of the cost of hospital visits, according to data from the Ministry of Health that Dorenfest presented. The cost of an average outpatient hospital visit in 2007 was RMB 136, or about US\$20. Of that, about half was spent on drugs, slightly more than one-third on tests and even less than that on medical services.

"In Beijing, an average physician visit – that is, the service portion of the visit – costs about RMB 7, or about a dollar," Dorenfest said. "In [smaller cities], the average physician's visit is RMB 1 – about 15 cents."

The government's near monopoly on hospitals and strict regulations on physicians' pay exacerbate the problem. Most hospitals are public rather than private or non-profit, and 90% of beds are in public general hospitals. The situation is only changing slowly. "In recent years, they have opened some private hospitals, but these are mainly specialized," Cai noted.

Public Vs. Private

Heavy government regulations make it difficult for foreign companies to acquire or set up hospitals in China or recruit physicians. The government has said addressing this is a priority as part of a larger health care reform program, "but right now, there's still no concrete plan, so it's really hard to open this up to competition," said Cai.

China also suffers from a lack of qualified physicians. Although China has more physicians per capita than in many other countries -- including India and Nigeria -- few are fully educated. "Less than 1% of physicians [in China] receive a doctoral education ... and only one-third of physicians have received college-level education or above," Cai said. "Even if people have money and insurance, it is difficult to get proper health care if there aren't enough doctors.... A lot of these doctors are still considered 'barefoot doctors,'" referring to health workers, who were given rudimentary training to bring basic health care to China's countryside in the 1960s and 1970s.

China's education system isn't to blame, experts at the forum noted. Enrollment in China's medical schools has been high. Between 1998 and 2007, 1.46 million students graduated from medical schools in the country. But less than one-fourth become physicians. "That is a huge problem," Cai observed. "Why don't people want to be doctors? It's the opposite in the U.S."

The small numbers could be linked to the profession's low salaries. "Physicians are not compensated [in China] the way they are compensated in other countries," said Dorenfest. "That creates a variety of incentives to earn money in certain illegal, and some corrupt, ways. Those incentives mess up the health care system."

Experts suggest that medical school graduates decide to join the sales teams of pharmaceutical companies rather than becoming doctors because the pay is better. In China, physicians' salaries are kept low by government regulation and drugs are sold by hospitals instead of pharmacies. The result: Doctors' consultations are cheap but medicine is expensive, because hospitals mark up the price. Hospitals "have to make money from the drugs because

they can't really compensate for their labor or services," Cai said. "Hospitals lose money from their services. You have to make money somewhere."

In recent years, the government has been trying to curb the trend by putting limits on how much hospitals can mark up the price of a drug. The reform has had limited success, as a study shows that Cai carried out in Pudong Hospital. "We found that drug revenue, as a percentage of total [hospital] revenue, wasn't really reduced, even though mark-ups were reduced," said Cai. "Hospitals still find a way to get compensation from drugs. They might prescribe more expensive drugs or just prescribe more."

Both Dorenfest and Cai reckoned reforming physicians' salaries in China is a pivotal step to increasing the supply of doctors and improving China's health care. "Even doctors don't want their children to become doctors," Cai said. "You really need to loosen control on physicians' incomes. That's the major bottleneck... Everything starts from there."

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