THE ATLANTIC COUNCIL
OF THE UNITED STATES

Healthcare for Tomorrow's China

China's leaders are facing critical healthcare challenges. Life spans have doubled and infant survival has dramatically improved since 1949, resulting in rapid increases in noncommunicable diseases as causes of death and disability, and sharply escalating costs. Pilot programs exist which adapt aspects of foreign models of healthcare financing and delivery, but China's human and financial resources pale beside the task. How China opens its healthcare system to the private sector to share healthcare costs is critical to meeting the Chinese people's rising expectations. China's search for quality, equity and efficiency in healthcare provides the United States with important opportunities for collaboration, confidence building, and business.

Introduction

In November 1999 the Atlantic Council and the China Foundation (USA) co-sponsored a healthcare conference in Beijing with the China Preventive Medical Association and the China Health Economics Institute. Sanctioned by the Chinese Ministry of Health, "Healthcare for Tomorrow's China" provided an important opportunity for health experts from throughout China to share data and discuss healthcare experiences with former U.S. government officials and leading experts. Specialists from the Harvard School of Public Health, the Centers for Disease Control, the University of California at Los Angeles (UCLA), the University of California at Berkeley, the World Bank, the Centre d'Etudes et Recherches sur le Développement International (CERDI) in France, and the China Foundation (Taiwan) participated in the conference. Prominent U.S. private sector experts, represented by healthcare providers, insurers, and law and consulting firms, also made important contributions.

The conference contributed to a multi-year Atlantic Council study entitled *China 2020*, which examines the implications of various facets of China's reform process for the United States. The conference made clear that maintaining and improving the health of its people is a vital part of China's overall reform process. Accurately assessing its health problems for the coming decades is critical to how China will respond to the outside world after its entry into the World Trade Organization and how China will meet domestic demand for quality healthcare by its increasingly urban, wage-based, and elderly population.

China's Healthcare Challenge for Tomorrow

China is praised by international health experts for its dramatic gains in public health over the last 50 years—success that is often overshadowed in the West by memories of the estimated 23-25 million deaths that resulted from the Great Leap Forward and the Cultural Revolution. With a life expectancy in 1949 of just 35 years and an infant mortality rate (IMR) of 200 for every 1000 live births, the PRC

necessarily prioritized preventive medicine over curative medicine. Investments in immunizations, clean water, sanitation, and education in hygiene paid off, and helped to raise average life expectancy to 70 by 1999. The IMR, one of the most sensitive indicators of a country's social progress, has declined dramatically. Estimates now range from 32 to 43 deaths per 1000 live births in the first year of life. This range is comparable to Kyrgyzstan and Kazakhstan with IMRs of 38, or to emerging economies such as the Philippines and Thailand with IMRs of 32 and 31 respectively.

However, impressive gains in life expectancy have led to a dramatic rise in noncommunicable diseases as the major cause of death. In 1990, deaths from noncommunicable diseases were almost five times higher than those from communicable diseases. Cardiovascular disease, chronic lung obstruction, and cancer were the leading causes. The burden of these deaths and incapacitating diseases primarily affects the adult working population and the elderly, leading to lost productivity at work and imposing high indirect costs on dependent family members and society at large.

The Third World is now confronted with diseases of the First World. Referred to as the "epidemiological transition," deaths from noncommunicable diseases and accidents now make up some 58 percent of all deaths in developing countries. The traditional infectious diseases such as diarrhea, malaria, measles and respiratory infections account for 42 percent. The widely held perception that diseases such as heart disease and cancer are not a problem for the developing world has been dispelled by recent analyses.

One measure of the epidemiological transition used by the World Health Organization and the World Bank ranks causes of disease and disability by years of healthy life lost. Using this scale, the burden of disease and disability shifts dramatically from infectious diseases in 1990 to chronic diseases in 2020. In order of their impact worldwide, they are 1) heart disease; 2) unipolar major depression; 3) traffic accidents; 4) cerebrovascular disease; 5) chronic obstructive pulmonary disease; 6) lower respiratory infections; 7) tuberculosis; and 8) war.

The major challenge for China is how to handle its high and growing burden of noncommunicable diseases. These diseases frequently require expensive curative care, including the use of sophisticated technology both in and out of the hospital. Since the elderly are more likely to be so afflicted, they consume considerably more healthcare than younger people do. Today, 10 percent of China's population is over the age of 60; the figure will reach 15 percent by the year 2015. As China's population ages, healthcare costs will continue to soar.

These realities, complicated by a rising demand for quality care spurred by a growing per capita GDP, raise a host of new issues for China's health sector. They deal with such fundamentals as who pays for healthcare, who provides the services, and who assures quality and consumer safety. China now spends a mere 2.2 percent of its GDP on healthcare. Private expenditures account for 1.6 percent, bringing the total to 3.8 percent, an extremely low percentage given the death and disease profile of the Chinese population.

The questions are clear:

How does China take advantage of technology and therapeutic medicines to treat noncommunicable diseases on an outpatient basis as a more cost-effective alternative to inpatient care in rural and urban settings?

In a society with virtually no health insurance experience or infrastructure, how can the necessary growth in healthcare expenditures be shared with the private sector through private health insurance or other forms of risk pooling?

How can the delivery of healthcare services be made more efficient by creating the right incentives for physicians, clinics and hospitals?

What will the appropriate regulatory role be for a government that will increasingly need to share the burden of healthcare delivery with the private sector?

What does China need to do to create and enforce what the United Nations refers to as the "new rules of globalization" (privatization, liberalization and intellectual property rights) as China

enters the WTO and prepares for greater government transparency in economic transactions?

Themes for China's Healthcare in 2020

The conference provided a wide ranging and very open exchange of data and expert opinion on financing, service delivery, managed care, healthcare for special populations such as the elderly and the poor, rural health cooperatives, and such topics as blood transfusions, tobacco taxation, and regulatory issues including trade regimes and intellectual property rights. At least three core themes emerged.

I. China's continuing shift toward a market economy will necessitate changes in the government's role in healthcare finance and delivery.

While events since the November 1999 conference have underscored China's commitment to continue its transition toward a free enterprise economy, the healthcare sector will likely be among the last sectors to open up to private investment and ownership. The traditional view in developing countries that healthcare is an entitlement, and subsequent government actions to guarantee that entitlement, are factors among some segments of the Chinese population as well.

The difficulty for China will be to define the proper role for all the players in tomorrow's health sector, including government, nongovernmental organizations, and industry. Some of the issues to be addressed are:

(a) Increased salaries for healthcare workers and standardized charges for services so that medical personnel have adequate compensation and are less susceptible to graft and the widespread practice of marking up and selling medical supplies and equipment as a major source of profit;

(b) Improved and expanded training for healthcare workers, and increased public education on major health problems in China;

(c) An improved regulatory environment that allows for maximum competition and choices in healthcare. This includes increasing competition in the insurance market, hospitals, physician and nursing services, and the licensing and availability of pharmaceuticals so that intellectual property rights are respected, quality is assured, and the volume of available products creates market price competition; and

(d) Enhanced quality control and health supervision by the government and quasi-governmental groups. The fact that China's vaccines have not received approval from the World Health Organization because they do not meet quality and safety standards, coupled with inadequate competition in China from foreign vaccine producers, is an example of suboptimal quality control and harmful protectionism.

II. China will need to invest more in healthcare infrastructure, particularly in the poor rural areas.

While China has made progress in improving the health of its people since 1949, a significant gap continues between urban and rural areas. The Maoist system of rural healthcare cooperatives has been dismantled, but in many areas new systems of healthcare financing have not yet replaced the old. Unable to pay out of pocket for all the care they need, many peasants have limited access to healthcare services and must cope with the double burden of noncommunicable diseases and continuing high rates of infectious diseases.

The continued lack of access to basic services, both preventive and curative, in many parts of rural China calls for an increased investment by the government to help assure equity in the healthcare system. National measures that shift the burden of healthcare financing from the government to those better able to pay for insurance and portions of their healthcare can help free up resources for the government to play a more substantial role in basic services for the rural poor.

In some rural areas, there are models of risk pooling and cost sharing that can be expanded as long as the rural population has confidence in the transparency of the local system and has a role in the governance of new rural healthcare cooperatives. Rural health

cooperatives could be reinstated if they discard the autocratic, corrupt practices of the past. Involving villagers in the governance of cooperatives, greater management transparency, and experimenting with private insurance should be considered for these areas where possible. The U.S. non-profit healthcare sector could provide valuable experiences to the Chinese in rural, resource-constrained environments.

III. The healthcare needs of special groups will require more attention.

Some key health problems and groups need special attention in the Chinese healthcare system. First and foremost, the needs of the aging and elderly are critical since chronic care in China is the most underdeveloped sector and older citizens will consume the largest share of healthcare expenditures. Finding cost-effective alternatives to expensive hospital stays through increased outpatient care and therapeutic medicines that can reduce the total cost of disease is needed.

The already large and growing "floating population" of migrant workers and transients has particular needs that are not being met because of their lack of legalized status and resulting lack of access to healthcare resources.

Mental illness, disabilities, sexually transmitted diseases and the high incidence of smoking were all cited as healthcare problems that needed more attention. Overall systemic reform of China's healthcare system is key, but some vertical health programs can and should be implemented. While all these problems deserve attention, the silent epidemic of mental illness is particularly compelling. By the year 2020 unipolar major depression will be ranked second in terms of disease burden worldwide. For women between the ages of 15 and 44, suicide is second only to tuberculosis as a cause of death. In China, the only country in the world in which female suicides outnumber male suicides, over 180,000 women killed themselves in 1990. Suicide rates in the countryside are much higher than in the cities, another anomaly in China.

What to Share and How to Share in China's Healthcare for Tomorrow

China's epidemiological and economic transitions offer opportunities for U.S. healthcare researchers, practitioners and medical equipment and supply companies to invest, trade and share knowledge.

Both the United States and China are large countries capable of experimenting with many different approaches to healthcare finance and delivery. In this regard, the U.S. nonprofit health sector, with its roots in community-based cooperative care, has a great deal to offer Chinese policy makers as they explore public and private models of healthcare.

The United States can also share its experiences in voluntary self-regulation and in understanding the proper role of government as it moves from being the only player in the healthcare field to more of a referee. The new rules required in market economies do not come overnight but must be observed, discussed and played out in demonstration models to be effective in the Chinese context.

As the conference demonstrated, China is exploring other countries' healthcare models as well. These include the systems of privatized or corporatized healthcare in Hong Kong, Singapore, Britain and some Latin American countries. These models consist of various combinations of government ownership of assets such as hospitals and clinics with private provision of services, thus encouraging practitioners to deliver healthcare efficiently. India and Japan have successfully used cooperative structures for modern healthcare delivery as well. As was pointed out in one of the papers presented at the conference, urban cooperatives based on a successful model in Sao Paulo, Brazil might well serve as an intermediary structure leading to a mixed healthcare model in China.

Finally, the easiest way for China to improve its healthcare system is through educational exchanges and joint training that link hospitals, clinics and academic medical centers in the West to China's

healthcare institutions. Already, many Chinese are studying in the United States and other Western countries. Foreign doctors are incorporating Chinese herbal medicine and acupuncture traditions into the fabric of international healthcare. Information technologies such as web-based learning, the Internet, and interactive telemedicine could be the basis for immediate access and linkage to contemporary clinical practices in the West.

Conclusions

When so much needs to be done and the journey is so long and difficult, the temptation is to stop and say that the problems are beyond any one institution with a small budget. Knowledge management can be the means of taking the first steps in creative and economical ways.

First, there are many and varied models of mixed healthcare throughout the world. Visiting these countries and studying different healthcare systems is part of a first step that Chinese policy makers are taking. Inviting serious discussion and analysis of the basics of these systems–who pays, who delivers and who monitors quality–would be a significant step toward developing demonstration projects. It is much easier to understand the rules of a market economy when a government can actually experiment with a market-based intervention and has to design and implement the legal and regulatory structure for the project to work.

A second step would be to share with China the knowledge and skills of Western advanced technologies and techniques in therapeutic medicine and curative care for chronic diseases. Such a step is manageable and can bring about efficient returns. Leveraging private sector funding for both of these initiatives with international donor or U.S. government funding could provide a fruitful partnership.

The simplest and most effective approach to healthcare for tomorrow's China is to "learn by doing." Now that the world's most populous country has expressed a willingness to open its healthcare system to the private sector and the rules of the global economy, we should encourage and support China in its efforts to reform this vital sector.

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