The Healthcare sector in Shanghai

Contents

2. Issues and perspectives in China’s healthcare sector .......................................................... 2
   2.1 Government investment .......................................................................................... 2
   2.2 Funding challenges ............................................................................................... 2

3. The situation in Shanghai ............................................................................................ 3
   3.1 Shanghai’s specific situation ............................................................................... 3
   3.2 Public hospitals .................................................................................................... 3
   3.3 Private hospitals .................................................................................................. 4

4. Reforms regarding county-level hospitals ................................................................... 4

5. Foreign investment ..................................................................................................... 4
   5.1 Perspectives ........................................................................................................ 4
   5.2 Potential challenges ............................................................................................ 5

6. Conclusion .................................................................................................................... 5

7. Bibliography ............................................................................................................... 6
1. Introduction

Health care is currently a highly pertinent topic in contemporary China and particularly in Shanghai. With a growing aging population and a partially incomprehensive healthcare insurance system, the challenges facing China and Shanghai are numerous. While the country used to have a basic public health care system provided by state owned enterprises as well as rural programs, market driven reforms implemented in the early 1990s failed to establish a comprehensive healthcare infrastructure. This resulted in huge disparities both between rural and urban areas, and between poor and rich. Nowadays, many people don’t have sufficient access to healthcare services. Conscious of the deficiencies in this field, the Chinese government and the authorities of Shanghai have recently put much effort to improve the situation. Thus, major reforms are adopted almost on a yearly basis, the most recent one on July, 1st 2011.

2. Issues and perspectives in China’s healthcare sector

2.1 Government investment

Compared with the impressive economic progress of the country, China’s healthcare sector has been left out. Due to this, the level of healthcare spending as a percentage of GDP is still relatively low in international comparison (cf. chart). According to the World Health Organisation, China spent in 2009 only 4,6% of its GDP on health. The same year, the other BRICS countries spent on average 6,7% and the OECD countries more than 8%, ranking China clearly below these countries.

One of the few countries managing to maintain a high economic growth during the most recent financial crisis, China, to the outside world at least, seems to have an economy in very good shape. However, in the words of the Chinese Premier Wen Jiaobao, the current growth is “unsustainable” and has a serious “lack of balance”\(^1\). These comments probably reflect the fact that China’s economic growth is currently very dependent on investment and exports\(^2\).

To ensure a bright economic future, the Chinese government is thus conscious that this growth has to be diversified.\(^3\) As such, the government identified the promotion of domestic consumption as one of the main national priorities, in the recently published 12\(^{th}\) five-year plan. Improving the healthcare system and decreasing its costs would precisely contribute to achieving this target. Indeed, it would allow Chinese households to have more disposable income for consumption, while, at the same time, increasing citizens’ confidence in the social-security system leading them to save less\(^4\).

This goal explains why the total expenditure on healthcare as a percentage of GDP is now increasing, although it hadn’t in the decade before 2008 (the rate was at 4,3% in 1998\(^5\)). Indeed, the 12\(^{th}\) five-year plan projects to create a modern health care industry, by reforming the system and promoting investment. Among others things, it plans to expand the basic medical insurance program, so as to provide rural residents a better access to health care services and to further develop the bio-medical industry.

2.2 Funding challenges

In China, the government does not heavily subsidize hospitals. Quite the contrary, a typical hospital used to receive less than 10% of its income from the government, while ministry hospitals got more funding \(^6\). Based on the “revenue-generating activities” principle, hospitals have to obtain by themselves the biggest part of their budget. Due to this, they are allowed to sell medication and services for profit\(^7\). Thus, doctors can charge an extra 15% for drugs and high-tech services. This

---

\(^1\) Sainsbury, M. (2011)
\(^2\) Prasad, E (2011, June 15)
\(^3\) Lemoine, F. (2011)
\(^4\) The Economist (2011, June 23)
\(^5\) Lawlor, A. (2010, November 29)
\(^6\) IBM Business Consulting. (2006, March)
\(^7\) The World Bank. (2010)
method of financing represents more than 60% of public hospitals’ revenues. At the same time, the incentive for doctors is also high as the revenue generated by the sale of medication greatly contributes to their monthly salary.

The prevalence of internal financing is however the cause of a major problem: bribery. Indeed, to balance their budget or enhance their private income, hospitals and doctors have the incentive to overprescribe medicine and treatments. Moreover, some of them also accept bribes from pharmaceuticals suppliers to sell in priority these suppliers’ products. Thus, it is estimated that 30% of healthcare resources are wasted because of bribery.

This issue involves both human and economic consequences. First, overtreatment is naturally a serious ethical issue, since it can lead to deteriorations in patients’ health. Furthermore, it leads to a major waste of resources. This squandering partially explains why, although the healthcare spending rate is growing faster than that of the GDP in recent years, a lot of patients still do not have access to healthcare.

However, the 12th five-year plan foresees major investments into hospitals. At the same time, the Chinese government recently decided to decrease the reliance of hospitals on sales to counter the above issue. Although the journey to completely eradicate corruption in hospitals is still long, there is a good hope to see an improvement of the situation in the near future.

3. The situation in Shanghai

3.1 Shanghai’s specific situation

Shanghai is facing a unique reality, and very different challenges from any other place in the country, with a fast growing aging population and increasingly knowledgeable patients. In its long term grand design to become a major world-city, it plans in the short term to develop into a major Asian medical center. Enhancements in almost every health related sector have therefore been intended. For instance, the number and quality of hospitals will be improved. The goal of this reform is not only to extend the coverage, but also to improve it. With the same objective, a reform in health care insurance has also been adopted, which puts Shanghai one step ahead of the rest of the country. Thanks to this reform, the proportion of the population covered by Basic Medical Insurance is planned to increase from 45% in 2006 to more than 90% by the end of 2015. Moreover, on average 70% of hospital fees will be reimbursed. Finally, 381 new medicines will be added to the essential drug list, which already contains 307 medicines, and be covered by the medical insurance.

3.2 Public hospitals

Public hospitals are divided into three levels. Township hospitals and community health service centers make up the first level. These hospitals are usually very small health clinics with very basic services. The second level includes clinics in urban areas and county-level hospitals. Unlike the first tier, these provide a relatively comprehensive range of care. However, the quality of these cares is often lagging compared to the top-level hospitals. Finally, the third and higher level comprises general or specialized hospitals. Usually well equipped with both good equipment and well-trained specialists, these hospitals can deal with more complex illnesses as well as provide emergency care. Often associated to a university, they are also teaching institutions.

Third-tier hospitals can nearly only be found in major cities, such as Beijing, Shanghai or Guangzhou. At the same time, demand for high quality services is strongly increasing throughout the country. This regional disparity and the popularity of third-tier hospitals lead to an excessive demand for these, which the system is unable to accommodate. Therefore, patients must often wait for hours in third-tier hospitals to eventually be received by a doctor while, on the other hand, first and second level hospitals tend to be neglected by the public.

Nowadays, Shanghai counts 34 main public hospitals (third-tier hospitals). However, these are very unevenly distributed in the city. While 32 of them are located in the center, the suburbs only have

---

8 Chen, H. L. (2010, July 1)
11 Hongyi, W. (2011, June 20)
Due to the Shanghai’s strong economic dynamism, many migrant workers are continually drawn to the city. Usually with little funds, they mostly live in the outskirts and have almost no access to high-quality medical resources. Thus, in order to improve the supply in the periphery, the authorities have planned to establish 9 new top-level hospitals in the suburbs by 2012. A renovation of some of the existing hospitals is also planned.

3.3 Private hospitals

Besides public state-owned hospitals, there are also some private hospitals in Shanghai. With less than 5% of all hospitals beds, they admittedly represent a small minority of the supply in healthcare. Indeed, the government decided that public hospitals had to remain the main component of the healthcare sector, while private hospitals would only play a supplemental role. However, these hospitals usually provide up-to-date equipment, excellent hygiene and well-trained specialists.

Some of these private hospitals are even partially funded or, at least, managed by foreign companies. According to Chinese law, foreigners are not yet allowed to be a sole investor. Thus, in order to enter the Chinese market, they have to create joint-ventures in which the Chinese shares have to be at least 30%. Although they charge consequently more than local-run hospitals, their English-speaking staffs make them a popular alternative for those with means.

Private hospitals are confronted by many issues though, like for instance difficulties to be integrated into the social insurance network and a lack of high-qualified doctors. This shortage explains why some of them decide to aim for niche markets, like dental, eye or gynecology hospitals.

4. Reforms regarding county-level hospitals

One of the most important health sector related reform recently adopted concerns county-level hospitals. Indeed, they are nowadays facing several issues. As for any hospital in China, the management system and government mechanisms are inadequate, causing overlapping functions and responsibilities. Furthermore, it is estimated that due to a lack of investment and inadequate management of the available funds, about 90% of county-level hospitals are in debt. Finally, a lack of qualified personnel and a low level of medical technology prevent county-level hospitals from developing themselves and gaining the trust of the population.

The central government has already adopted some reforms to heighten the capability of county-level hospitals. It has planned to invest about 4 billion Euros to build 2000 new county-level hospital in the next three years, so that every county will count at least one standardized hospital. The collaboration between city and rural hospitals will also be improved. As a result, ten thousand city hospital physicians will be sent to county-level hospitals and “Standardization Training Program for Resident Physicians” will be organized for local physicians. Additionally, the rural cooperative medical care system is to be ameliorated. This system’s goal is to increase the subsidies of medical costs for the rural population. Along with a further set of reforms, this should also reduce the stress on city-hospitals.

County-level hospital reforms are thus an important step in the fulfillment of two of the 12th five-year plan’s objectives: reducing inequalities between peripheries and centers, along with enhancing domestic consumption. Indeed, providing higher quality medical services to the rural population and reducing its cost will not only ameliorate the life of rural residents but also enhance the share of budget they will be able to allocate to consumption.

5. Foreign investment

5.1 Perspectives

Along with the sector of private hospitals, some others fields present good opportunities for foreign investors. Indeed, deciding to catch up in the healthcare field, the Chinese government plans to invest 4 billion Euros to build 2000 new county-level hospitals in the next three years. Additionally, a “Standardization Training Program for Resident Physicians” will be organized for local physicians. Furthermore, the rural cooperative medical care system is to be ameliorated. This system’s goal is to increase the subsidies of medical costs for the rural population. Along with a further set of reforms, this should also reduce the stress on city-hospitals.

County-level hospital reforms are thus an important step in the fulfillment of two of the 12th five-year plan’s objectives: reducing inequalities between peripheries and centers, along with enhancing domestic consumption. Indeed, providing higher quality medical services to the rural population and reducing its cost will not only ameliorate the life of rural residents but also enhance the share of budget they will be able to allocate to consumption.

---

14 Cf Shanghai Flash 2009/01
15 Shanghai Daily (2011, July 7)
government gave a special place to it in the 12\textsuperscript{th} Five-Year plan. The momentum of this can already be noticed with foreign investment in the healthcare sector having increased in an impressive way. These indeed have doubled between 2007 and 2010, and are planned to overtake 700 billion USD by 2015\textsuperscript{16}.

With a market size close to 40 billion Euros, China is currently an interesting market for foreign pharmaceutical companies. According to a research led by Frost and Sullivan, the yearly growth in the pharmaceutical market will raise by more than 25\% in the coming years\textsuperscript{17}. Indeed, China is still challenged by many diseases. The country has for instance the world highest Hepatitis B prevalence and the second for tuberculosis. Moreover, every year, two millions people pass away due to cancers and 1.3 million due to heart diseases. In order to reduce these alarming rates, the demand for appropriate medicine is therefore very high. This need creates opportunities for foreign-based pharmaceutical companies, who are investing more and more in China. Not only conscious of the growing opportunities that an emerging market represents but also attracted by the relatively low cost and high quality of the work force, many of these companies have also started to move a part of their R&D departments into the country.

China is also the third largest market for medical equipment in the world (about 16 billion Euros). The trend shows that it may become the largest market in the near future. Indeed, with the increasing numbers of hospitals in the country, the demand for medical equipment is inherently growing.

The government has furthermore recently decided to encourage foreign investment in some fields, such as private capital investment into healthcare services. At the same time, bio-medical has also been named as one of the seven strategic emerging industries in the 12\textsuperscript{th} five-year plan. Thus, risks are worth being taken since perspectives look bright for the healthcare market in China.

### 5.2 Potential challenges

The Chinese market of healthcare products involves particular difficulties for those willing to gain a foothold in it. First, the country is lacking not only a comprehensive and systematic standard for innovation drugs, but also, due to limited government resources, independent drug evaluation institutes are in need. Therefore to shorten the long market access period and the big gap with other countries, the evaluation process and results need to be more transparent, and the approval process for innovation drugs sped up. At last, doctors and patients need a better reimbursed system for these innovation drugs.

### 6. Conclusion

The 12\textsuperscript{th} five-year plan emphasizes a more balanced development for China. Recent investments and planned reforms show that the People’s Republic of China is determined to consequently improve its healthcare system, which should help reach this goal. As well as making the life of many citizens better, such improvements will also open new opportunities to local and international healthcare market players. Having understood this, many foreign companies are starting to develop a China strategy. Some uncertainties yet remain, such as the exact outline of the new social security coverage for foreigners, the actual stakeholders’ roles or clear strategies and guidance by the government. Nevertheless, the growing presence of foreign companies in the healthcare industry is clearly a proof of the rise of China as a major healthcare actor in the near future.

---

\textsuperscript{16} Frost & Sullivan (2011, April)
\textsuperscript{17} idem

Mr. Pierre-François Righetti
Economic Section
Consulate General of Switzerland in Shanghai
7. Bibliography


