

INTERVIEW

China's Latest Health Reforms: A Conversation With Chinese Health Minister Chen Zhu

China is focusing effort and resources on providing health care to all, with the goal of “building a harmonious society.”

by **Tsung-Mei Cheng**

ABSTRACT: Chen Zhu, a hematologist and Ph.D. systems biologist, became Chinese health minister in 2007 after serving as vice president of the Chinese Academy of Sciences (2000–2007); he is a member of three national academies of science (Chinese, U.S., and French) and one of only two Chinese cabinet members who are not Communist Party members. In this interview by Tsung-Mei Cheng, Minister Chen discusses China's health care priorities, its vision behind pending reforms to provide health care for all citizens (from financing and coverage, through delivery and public/private roles), and the role of health care in broader societal objectives. The discussion also reaches into disparities, health care costs, mandates, provider payment, and more. [*Health Affairs* 27, no. 4 (2008): 1103–1110; 10.1377/hlthaff.27.4.1103]

Tsung-Mei Cheng: Thank you very much for agreeing to sit for this interview during this busy time. I feel both honored and privileged by your willingness to do so. Readers of *Health Affairs* worldwide are fortunate to have this rare opportunity to hear from the top health official of China on what I hope will be a wide-ranging conversation about a host of issues concerning health care and the current health care reforms in China.

Minister Chen: Certainly; it is my pleasure.

Challenges Facing China's Health Care

Cheng: It can safely be said that every country is now engaged in some kind of health reform. Most of the problems addressed by the reformers are the same the world over: namely, (1) the strain that the provision of modern health care

puts on household, government, and business budgets; (2) the high variance in the quality of care among the providers of care; and (3) the associated high variance in the cost-effectiveness of medical treatments—that is, the relationship between the cost of care and the benefits it yields. But some problems are country-specific. For example, in the U.S. the millions of uninsured Americans pose a serious problem for policymakers, because these Americans lack financial protection from the often high cost of health care. Europe, Canada, and some countries in East Asia do not have that problem any more. They solved it years ago.

If you were to address an American audience about health reform in China, what top three or four “problems” in your system would you tell them about?

Minister Chen: With China's rapid and sus-

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tained economic and social development, the Chinese government, through careful evaluation of our national situation, has placed the livelihood of the people at the top of our national policy agenda. The heightened attention on this topic at the highest level of government thus has created a highly favorable policy environment for China's health care reform and further development. We believe that realizing the coordinated development of China's health sector and China's economy as a whole will be a new shining spot in the next period of China's economic and social development.

The Chinese government's most pressing concern now is with delivering on its principles of "equalization of access to public services" and "everyone enjoys," meaning that all Chinese should enjoy equal access to basic health care and medical services. To put these principles into practice, the government seeks effective systems changes in order to provide our whole population equitable and universal basic health care and medical services, to improve the health status of every Chinese.

Second, through improving our public health system, our health care systems, our health insurance systems, and the safety and availability of our drug supply systems, we will improve our capacity to cope with the new challenges posed by changing disease patterns and the burden associated with our aging population and ongoing urbanization, thereby contributing to China's sustained, coordinated, and comprehensive economic and social development.

Third, through innovations in systems reengineering, we would like the government to play the leading role in overcoming the failure of the market to provide health care and insurance efficiently and to provide people with protection from the cost of illness.

Ethical Values Underpinning China's Health Reforms: "Building A Harmonious Society"

Cheng: China is now on the eve of unveiling a major reform of its health system. It is to be made public this year. To help our readers get a

good sense of such a massive undertaking, permit me to break the reform down into components, the way policy analysts usually do to describe such reforms.

When health policy people talk about health reform, they usually talk about (1) the overall social goals to be achieved with the reform, by which is meant in large part the ethical values the system should pursue; and (2) the operational steps or functions that must be performed to achieve those social goals.

Before going into the operational details of China's proposed reform, I would like to ask you to talk about the social—that is, ethical—values underlying China's reform. What ethical goals do China's leaders espouse with the proposed reform?

Minister Chen: The Chinese government has clearly stated its objective of achieving a "harmonious society" as a national priority. What this means is that the government intends to build a socialist harmonious society in which every Chinese enjoys the benefit of education, income from work, health care when sick, care when old, and a home to live in. I think this clearly demonstrates the Chinese government's keen attention to the question of the people's standard of living, which includes health care. It also demonstrates the government's strategic commitment to, and humanitarian concerns about, providing equal access for *all* the people to basic public services.

Underlying all this is the government's core central value and belief that health care is a right as well as a foundation for the realization of an individual's full potential. The right to health care is not only the ultimate objective of social development, but it also is a means to economic and social development; it is an important indicator of a harmonious society.

"Basic Health Care Protection For All" Defined

Cheng: As I understand it, one of the major goals of the current reform is to provide for every Chinese what you have called "basic health care protection." Exactly what does that mean?

Minister Chen: As already noted, the Chinese government has firmly established as a new re-

quirement in building a harmonious society that “everyone shall enjoy basic medical and health care services” regardless of their ethnic identity, age, gender, occupation, income, where they live, etc. By “basic health care and medical services” is meant cost-effective health care and medical services that are compatible with the current stage of China’s social and economic development and are affordable to the government, society, and individuals.

This will require that public health, rural health care, urban community health care, and traditional Chinese medicine be placed in an even more prominent position on the national development agenda. This also will require that we enlarge the responsibility borne by all levels of the government, and increase government investment in and strengthen government regulation and oversight of the health care sector. We must improve and perfect our urban and rural health systems by developing basic health care facilities, training basic health care manpower, equipping the facilities with basic medical technology, adopting basic drugs to satisfy the basic health care and medical needs of China’s rural and urban residents, and so on. Through organizing our health system in such a comprehensive way, complete with strategies for implementation, we hope to guarantee continuous improvement in the health status of the Chinese population.

Health Expenditure, Financing, And Coverage In China’s Health Reforms

Cheng: Let us now turn to the operational steps involved in health reform, given the social goals you have set for the reform. Usually health reformers think here of the basic functions of (1) financing, (2) insurance coverage, (3) producing and delivering health care, and (4) purchasing health care from the providers of health care, including how to pay those providers. Countries take quite different approaches in how each of these functions is to be performed and who should perform them—government, private nonprofit entities, or private commercial entities. There is also the

question of how tightly these functions should be regulated and supervised by government.

I’d like to start with financing health care in China. It is well known, of course, that all financing of health care ultimately comes from the people. By “financing,” therefore, I mean how the money for health care is extracted from the people. It can be done in the form of taxation, insurance premiums, or out-of-pocket payments. First, how does China finance health care now—for example, what is government’s share in total financing, and how much is financed by patients out of pocket? Next, in the proposed reform, how would China’s health care be financed? Purely by taxes? By a mixture of premiums and taxes, which are then paid out as subsidies? Who would pay the premiums? The insured themselves or perhaps their employers, if they are employed?

Minister Chen: The financing of China’s health care system comes from multiple sources: resources from society, individuals, and various levels of the government are mobilized and pooled. Since China’s opening and reform, which began thirty years ago, there has been continued growth in health care spending, from RMB 11 billion in 1978 to RMB 984.3 billion in 2006.¹ In terms of percentages of GDP [gross domestic product], health spending grew from 3 percent in 1978 to 4.67 percent in 2006.

In recent years, the share of government investment in health care has been growing, and this has resulted in a corresponding reduction in the share of out-of-pocket spending for health care services by the public. In 2006, the combined government-budgeted health care expenditure and social health care expenditure constituted 50.6 percent of China’s total national health spending. Government-budgeted health expenditure includes public health spending; medical insurance for civil servants and employees of public institutions (for example, teachers); administrative costs; government subsidies to various population groups such as the aged, children, and unemployed; and government’s share of the contribution to the basic medical schemes like the

NRCMS [New Rural Cooperative Medical Scheme], etc. “Social health care expenditure” in China is best understood as a form of third-party coverage (outside of government and individual out-of-pocket) for health care and medical benefits, which includes premiums for basic social medical insurance, commercial health insurance premiums, start-up costs for private clinics and hospitals, contributions to premiums and reimbursements by enterprises (both state-owned and private), etc. Out-of-pocket spending by the people was 49.4 percent of China’s total national health expenditure in 2006.

Cheng: At this time, what fraction of the Chinese population enjoys some form of health insurance coverage? How is health insurance organized in China?

Minister Chen: The Chinese government has always viewed as important the establishment of health protection schemes for the public. In the early years since the founding of the People’s Republic of China in 1949, the government built delivery systems like disease prevention stations and public hospitals and established public insurance schemes that covered civil servants, employees of public institutions, and university students; a separate labor insurance scheme that covered employees of state-owned enterprises [SOEs] and collective (township) enterprises; and the Rural Cooperative Medical Scheme [RCMS] that covered rural residents.

After several reforms and since 1998, the government’s public insurance schemes for civil servants and university students were combined with the Labor Insurance Scheme for employees of enterprises to form the urban employees’ basic medical insurance scheme. Currently 180 million urban employees are covered by this scheme. We have folded into this basic scheme members of population groups like temporary workers and migrant workers—those rural residents who migrate to urban areas to seek work.

Since 2003, we established the NRCMS and a medical assistance scheme that covers the indigent population in urban and rural areas. As of the end of 2007, rural residents in 86 percent

of China’s counties were covered under the NRCMS, accounting for 730 million of China’s rural population. Subsidies to the medical assistance scheme for the poor have reached more than RMB 7.0 billion. In 2007 we began pilot trials for the urban basic health insurance scheme, which covers elementary and middle school pupils, teenagers and young children, the elderly, the disabled, and other nonworking urban residents. To date, 40.68 million people are enrolled in this scheme. Urban and rural commercial health insurance schemes have also picked up speed.

Role Of Private Health Insurance

Cheng: Are there private, commercial health insurance companies operating in China now? What fraction of health care financing do they represent? Does the proposed reform of China’s health system foresee an expanding role for them?

Minister Chen: Nationwide there are over eighty commercial insurance companies that offer disease-specific policies, and premiums collected have reached RMB 37.6 billion.

Extent Of Insurance Coverage, Mandates, Disparities

Cheng: So, with all of these different insurance schemes now existing, how many Chinese enjoy some form of health insurance protection?

Minister Chen: These multiple channels for health care financing have played important roles in satisfying the public’s demand for health care services, preventing both financial bankruptcy from illnesses and reimpoverishment from illnesses. To date China has close to one billion people participating (enrolled) in basic health insurance of one type or another, and the rudimentary framework for a basic health protection system with Chinese characteristics has been established.

Cheng: At the moment, there clearly is a huge disparity in access to modern health care between the urban and rural populations of China. How long, in your estimation, will that disparity persist? How does the new reform address this disparity? More specifically, in the reform that is to provide all Chinese with “ba-

sic health care protection,” do China’s leaders envisage *one* health insurance system for all segments of the population in the long run, or will there always be different systems—for example, one for the rural population, one for the steadily employed urban population, one for the urban migrant workers, one for the more well-to-do segment of the population, one for the elderly, and one for children?

Minister Chen: Of course, we recognize that large disparities exist in available funding and scope of benefits among the various insurance schemes. We are actively looking for solutions to this problem. The Chinese government will continue to focus attention on the disparities in service provision among geographic regions, between urban and rural areas and different population groups. We hope, through careful comprehensive planning, to link gradually the urban and rural medical security schemes. We expect that, with the continued rapid economic development in China and the continued progress in China’s social programs, the various schemes will merge and integrate eventually to become one, realizing our ultimate goal of equity in coverage for all Chinese.

Cheng: In the U.S. we now have a raging debate on whether individuals should be mandated by government to obtain health insurance coverage or be left free to decide whether or not to buy coverage. Does the Chinese reform call for mandated insurance for all or continue with the present voluntary insurance for the rural residents?

Minister Chen: Regarding the question of a mandate, at the moment different principles are applied to different insurance schemes. For the urban employees’ basic medical insurance scheme, employers and employees each pay a share of the premium, and enrollment is mandatory. For the NRCMS and the urban residents’ basic medical insurance scheme, participation is voluntary, with the government subsidizing a substantial part (80 percent) of the premiums. Currently, all three of these schemes are developing nicely and operating smoothly, and evidence to date shows that they are compatible with the current stage of China’s social and economic development.

Delivery Of Health Care Services In China’s Reforms

Cheng: Could we now switch from the financing and insurance functions of health systems to the production and delivery of health care? I understand that there are two schools of thought on this topic in China. If I understand it correctly, your ministry is in favor of delivering services through publicly owned and run facilities, such as clinics. On the other hand, some officials seem to lean toward allowing private entities in the delivery of services, including commercial for-profit entities. Do I understand this correctly? And what is, in fact, the government’s current thinking on this issue as far as the proposed health reform is concerned?

Minister Chen: On this question—the delivery of health care and medical services through either all public or a mix of both public and private delivery systems—there are no so-called two different schools of thought. We all recognize that government investment in health care, especially in basic health and medical care, is an important responsibility for all levels of the government. It is also an important guarantee for maintaining the “public good” nature of public health care institutions, and we should make sure to protect and increase government investment in this sector in step with our economic and social growth. Government subsidies to either the supply side (medical care institutions) or the demand side (establishing health insurance) can effectively lower the share of health care and medical expenses borne by the public. We should insist on doing what is pragmatic: subsidize those aspects of the supply side that deliver public health and primary care services, which means that the subsidies should go to provider organizations (doctors and hospitals); and subsidize those aspects of the demand side that merit government subsidies—that is, coverage for catastrophic illnesses, through subsidizing people’s health insurance premiums. International experience has shown that no country uses a single subsidy scheme. Based on China’s situation on the ground, our guiding

policy is to insist on the principle of having tax financing play the leading role in safeguarding equity in basic health care for all Chinese through using, to the fullest extent, China's public delivery system built over sixty years of the history of our country that covers both the rural and urban areas of China, so that the public delivery system can serve its dual functions of service provision and access protection. At the same time, we are also seeing to it that the private sector performs fully its role in spreading the availability of basic health care services. For example, "purchasing services" from private care facilities by the government as a way to procure services can be tried in certain regions of the country and for selected service items.

Paying Providers In China's Reforms

Cheng: It seems part of the human condition that there just is not an ideal method of paying the providers of health care that does not have some undesirable incentives built into it. All nations are wrestling with this problem as we speak.

I have read that China's current payment system for health care has triggered some particularly serious side effects—for example, excessive use of prescription drugs and high-tech procedures with huge profit margins at the expense of procedures that are clinically desirable but not well reimbursed. I have seen you quoted to the effect that some doctors have caved in too much to this inherent conflict of interest—that "doctors should get rid of profit-driven motives." I saw that you even had proposed a "physician ethical rating system" for doctors. I found this a very courageous statement on your part. Can you elaborate a bit more on these problems for our readers?

Minister Chen: We should make it clear that the main body of our health care providers—rank and file of the "health care troops"—are good and decent. The broad masses of health care workers are committed to service of the health care of the people. They work conscientiously and diligently in their exalted and honorable position as guardians of their patients'

health, contributing selflessly their wisdom and capabilities to the welfare and health of countless numbers of families, to the development of health care services and medical science, and to the promotion of social and economic development.

Nevertheless, problems do exist, which are the consequences of insufficient government investment in the health care sector, which in turn has resulted in hospitals' attempting to make up for their lack of funding to cover costs through sales of drugs, which has led to overprescription of drugs, which then has created not only waste of medical resources but also increased financial burden on patients and their families.

Cheng: How would you go about addressing these problems that have arisen from insufficient government funding of the public hospitals and clinics—the problems seem to run around in a circle? All around the world, health care providers were once paid strictly on a fee-for-service [FFS] basis, but it is widely believed to lead to a lot of unnecessary care and waste. For that reason, many countries have been experimenting with alternative payment systems—for example, annual prepaid capitation payments, or DRGs [diagnosis-related groups] for bundles of services going into the treatment of medical cases. Some countries have even subjected the entire system to global sectoral budgets or spending targets. Even the U.S. does that for physician payments under Medicare. Is FFS also the dominant method of payment in China? If so, what payment reform (if any) will be packed into China's health reform?

Minister Chen: To address this set of interconnected problems, we must, on the one hand, change the service mentality of providers to reduce their profit-driven motive and redirect their thinking toward service of their patients' medical needs; and, on the other hand, take aim specifically at the current situation in which the unreasonable payment system with its fee-for-service payment method can easily lead to induced demand. We will in future reforms take steps to have government, in its role as regulator and overseer, cooperate closely with market forces in the delivery of

health care services, pricing pharmaceuticals, setting a fee schedule for public provider organizations, and exploring alternative methods of paying providers such as DRGs and prepaid capitation to control health care costs and increase the overall efficiency in the utilization of our health care resources. We will also carry out a series of major reforms aimed at overhauling the overall operations of our health system, including the practice of “selling drugs to subsidize medical services,” in order to make sure that public provider institutions once again return to their original station as agents that serve the public good, so they can fully concentrate on meeting the real health care and medical needs of the patients.

For three consecutive years now we have been developing a national initiative on hospital management based on “patient-centered care, with quality improvement as focus.” We have also delved deeply into dealing with commercial fraud and bribery through discounts and kickbacks between the sell side (suppliers of pharmaceuticals and devices) and the buy side (providers) for drugs and medical services through a special initiative to curb unethical practices and abuses of the system. In our future endeavors we aim to systematically improve our public hospitals’ financial accounting and management systems, to better regulate the public hospitals’ revenues and expenditures, and to strengthen their financial oversight and overall efficiency.

Government’s Response To Rising Costs

Cheng: You were quoted recently as saying that health care costs in China grew by 277 percent between 2006 and 2007. Another source put the percentage at only about 41 percent, although even that is extremely high. Were you misquoted? How fast are health care costs rising in China compared to China’s GDP growth, one of the fastest in the world? And how badly do such rapidly rising health care costs affect people’s access to care?

Minister Chen: In recent years, China’s governments of various levels have restructured their revenue and expenditure schemes and

have increased their investment in the health care sector. The cumulative expenditure for the five-year period 2003–2007 by the government for the health care sector reached RMB 629.4 billion in 2007—that is RMB 358.9 billion more than the previous five-year period. The government’s total annual expenditure for the health sector has grown from RMB 45.0 billion in 2003 to RMB 73.4 billion in 2006, an increase of 63.1 percent. In 2007, China’s *central* government spending on the health care sector alone (not of all levels of government spending combined) amounted to RMB 63.1 billion, which represented an increase of 277 percent over the year before (2006). Public finance has provided strong support for the development of the health care sector in China, and has both increased the sector’s capacity and raised the level of the health care and medical services, both of which played a positive role in promoting the health of our people.

Role Of Traditional Chinese Medicine

Cheng: At the Seventeenth Party Congress last October, it was decided that traditional Chinese medicine [TCM] is to play a major role in Chinese health care. As an internationally renowned systems biologist, you are uniquely qualified to speak to the efficacy and promise of TCM. Can you elaborate on what that decision means?

Minister Chen: Traditional Chinese medicine is a great creation of the Chinese. Not only has it historically made incalculable contributions to the continuity, health, and prosperity of the Chinese people, but also it plays today an irreplaceable role in the health maintenance and health promotion of the Chinese people. Traditional Chinese medicine is an important component of our health care, and as a matter of policy we must always value both traditional Chinese and Western medicine. Since opening and reform began three decades ago, our traditional Chinese medicine has enjoyed rapid development. Service networks of traditional Chinese medicine have been building up and improving, and the capacity to deliver services and the quality of services are both further im-

proving—in recent years, in particular, traditional Chinese medicine has played an important role in both the NRCMS and the urban community health centers, welcomed by broad masses of people. Furthermore, traditional Chinese medicine also has been drawing growing attention from the international community.

The government will firmly stay the course on its policy of “equal emphasis on both traditional Chinese and modern Western medicine” and will lend strong support to the development of traditional Chinese and ethnic medicine. It will play the leading role in promoting the coordinated development of both Western and traditional Chinese medicine, and traditional Chinese medicine and drugs for Chinese medicine. There will be continued further increases in both investment in and policy initiatives that favor traditional Chinese medicine to help retain its special characteristics to meet the demand of the public for it, and also so that it may better play its important role in advancing every citizen’s right to enjoy basic health care and medical services.

Building Health Information Technology

Cheng: There seems to be broad agreement now that no country’s health system will ever be able to control the cost and quality of care without putting the entire system onto a coherent health information technology [IT] platform. Because such a platform is really a public good, the government should be heavily involved in regulating and financing it. Does the current reform in China address this facet of the health system explicitly?

Minister Chen: The Chinese government will work hard to build a national health and medical information system that is practical (user-friendly) and can be used by every party concerned. We will speed up the standardization of information and the building of an information platform for public service on which to build a highly efficient, integrated health information system with interoperability. Such an IT system will facilitate the transfer and sharing of information, be easy to use, and al-

low real-time monitoring. It will also improve transparency and enhance management and service capabilities. Patients would also benefit from the convenience such an efficient IT system offers.

International Support And Cooperation In China’s Health Policy

Cheng: In one of your speeches, you called for international support and cooperation with regard to health system reform. Specifically, what did you have in mind here? Just advice? Help with financing? Cooperation on common threats like pandemics or on medical and health services research?

Minister Chen: International cooperation and exchange through the health care sector play an important role in promoting health reforms and health-sector development. We hope that through such exchange and cooperation, China will improve its health system and the health of the Chinese people. Going forward, China will continue to strengthen cooperation and exchange in the health care area with different countries and regions of the world, and at the same time to contribute to the health of all the people around the world.

Cheng: Let me thank you again, Minister Chen, for your kindness in taking out time from your busy schedule to share your thoughts on health care policy with the readers of *Health Affairs*, which is read worldwide. I am sure our readers will much appreciate it as well.

NOTE

1. RMB, short for renminbi, is the Chinese currency. At the time of this writing, the spot exchange value of a U.S. dollar was about 7 renminbi, or yuan.