Medicine and Society

Recent trends in the commercialization of medical care in China

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INTRODUCTION

Commercialization of healthcare is a global trend and many healthcare systems all over the world are affected by it. Privatization, marketization and liberalization are generally distinguished from commercialization in that while the former indicate a shift from state-led provisioning to market-led provisioning or the transfer of state-owned assets to private hands, the latter also takes into account the behaviour of public-owned institutions.[1] Commercialization of health services has mainly occurred when low levels of public investment have created a space for private interests to grow. It has also arisen from a generalized crisis due to the rising costs of medical care. These trends have coincided with the rise of neo-liberalism that argues that government-funding of social services is inefficient and called for an enhanced role for the market. Much of the scholarly writing on the roles of the market and the State during the post-1970s has tended to look upon these two spheres as discrete. However, Mackintosh and Koivusalo[1] have argued that this kind of analysis does not capture the interrelatedness of the two sectors and the underlying processes which drive them. They define commercialization as the 'increasing provision of healthcare services through market relationships to those able to pay; the associated investment in and production of those services for the purpose of cash income or profit; and an increase in the extent to which healthcare finance is derived from payment systems based in individual payment or private insurance.'[1]

For over three decades there has been an increasing trend towards the commercialization of health services in China. There are discernible phases in this shift, which began with the commercialization of public hospitals and has led to the more recent growth of private for-profit hospitals in the major cities. The Chinese commercialized their health sector fairly rapidly from the mid-1980s. The rationale given by the government was the inability of the State to meet the rising costs of healthcare. Various measures were taken to garner resources for the ailing hospital sector. These ranged from the introduction of user fees to the setting up of State-owned enterprises (SOEs)[1] which brought in organizational reforms, finally leading to the autonomization of hospitals. An SOE is a legal entity created by the government. It is partially or wholly owned by the government but is able to participate in commercial activities. Autonomization is a complex process aimed at financial autonomy and autonomy in governance. It has created a distinct separation between administrative government departments and public hospitals and between hospital management and supervision (for more details regarding the concept of autonomization, see Harding and Preker[2]).

User fees were introduced at the secondary and tertiary levels mostly for drugs and diagnostic testing. The setting up of SOEs provided the organizational structure that coordinated various mechanisms for augmenting financial resources. These included user fees, public–private partnerships (PPPs) in the form of contracting of services, attracting private capital and opening up avenues for the growth of markets in the tertiary sector. The autonomization of public hospitals essentially meant that while the ownership of these hospitals was still in the public sector, the administration and management was under the SOE. Therefore, the finances and governance of these hospitals was no longer under the direct control of the government. The SOE, an independent entity with greater control over financial and management decisions, was responsible only for the hospital(s) under its control.

MARKETS IN TERTIARY HOSPITALS

Commercialization of health services in China began in the early 1980s, when it was largely confined to individual practitioners offering primary level of care. According to Tu Jiong,[3] 'As of 1998, there were officially 126,068 private health care institutions in China (accounting for 40.1% of all medical institutions), employing 164,727 health care personnel that took 3.7% of the national total. Later in 2005, the number of registered private health institutions (for-profit-institution) increased to 156,000, more than the number of public ones (132,000) by 24,000. Not to mention the uncountable un-registered private facilities (many of which are called "black clinics").'

The entry of private enterprise into tertiary medical care is a recent phenomenon. The growth of secondary- and tertiary-level private institutions can be attributed to the initiative of two American women who set up a company called Chindex soon after the thawing of the Sino–US relationship during the early 1980s. This company was initially set up as a supplier of medical equipment and by the 1990s it diversified into medical care to establish the United Health Group. This group has set up private clinics and hospitals in Beijing, Shanghai, Guangzhou and Tianjin and operates mostly in the eastern part of China. More recently it has diversified into private insurance, leading to an integration of financing, provisioning, pharmaceuticals and medical technology.

Other foreign hospital groups are now poised to enter the market as a result of the Chinese government's recent initiatives to encourage the entry of private capital. With the ex-Chinese Minister of Health Chen Zhu reiterating his commitment to strengthening markets in the hospital sector, several Southeast Asian companies based in Hong Kong and Singapore are planning to expand their operations in China. Prominent among these are

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the Hong Kong Phoenix International Investment Group and Parkway Health of Singapore.

CONSULTING COMPANIES

Four consulting groups are active in providing a roadmap for the entry of private capital in the healthcare sector. These include KPMG,[4,5] Boston Consulting Group,[6] McKinsey[7] and Pricewaterhouse Coopers.[8] A careful reading of the reports of these companies reveals the diverse roles played by them. For example, KPMG's report entitled 'China's 12th Five-year Plan: Health Care Sector',[5] identifies areas in which private capital has a potential. These include insurance, pharmaceuticals, biotechnology and provisioning. The Boston Consulting Group report[6] does an analysis of hospitals by ownership across regions and levels of care and reviews government policies that clearly indicate a desire to woo private investment. It identifies interested investors such as private equity firms, venture capital firms, foreign and local hospital groups and provides a detailed roadmap for investors, assessing the risks and opportunities, the possibilities for PPPs and the privatization of public hospitals and setting up of hospital groups. The Pricewaterhouse Coopers report[8] sees potential partnerships with US and European academic medical centres and identifies frontier areas for investment—primary care, rehabilitation and long-term care and hospitals. The McKinsey report[7] studies factors that will facilitate the entry of private capital and envisages a synergy between sociodemographic factors, healthcare reform and the 12th five-year plan. It sees a greater role of local governments in creating opportunities for private capital in the health services.

Although the government's healthcare reform plans of 2009 emphasize strengthening of the public sector and doubling government investment in health, the reports of the consulting companies is a clear signal for the growth of private investment in healthcare in China. Given the size of the population and a burgeoning middle class, several international companies will seek to enter the Chinese healthcare market. The unfolding of this process requires to be studied and its implication for the health service system requires greater scrutiny.

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