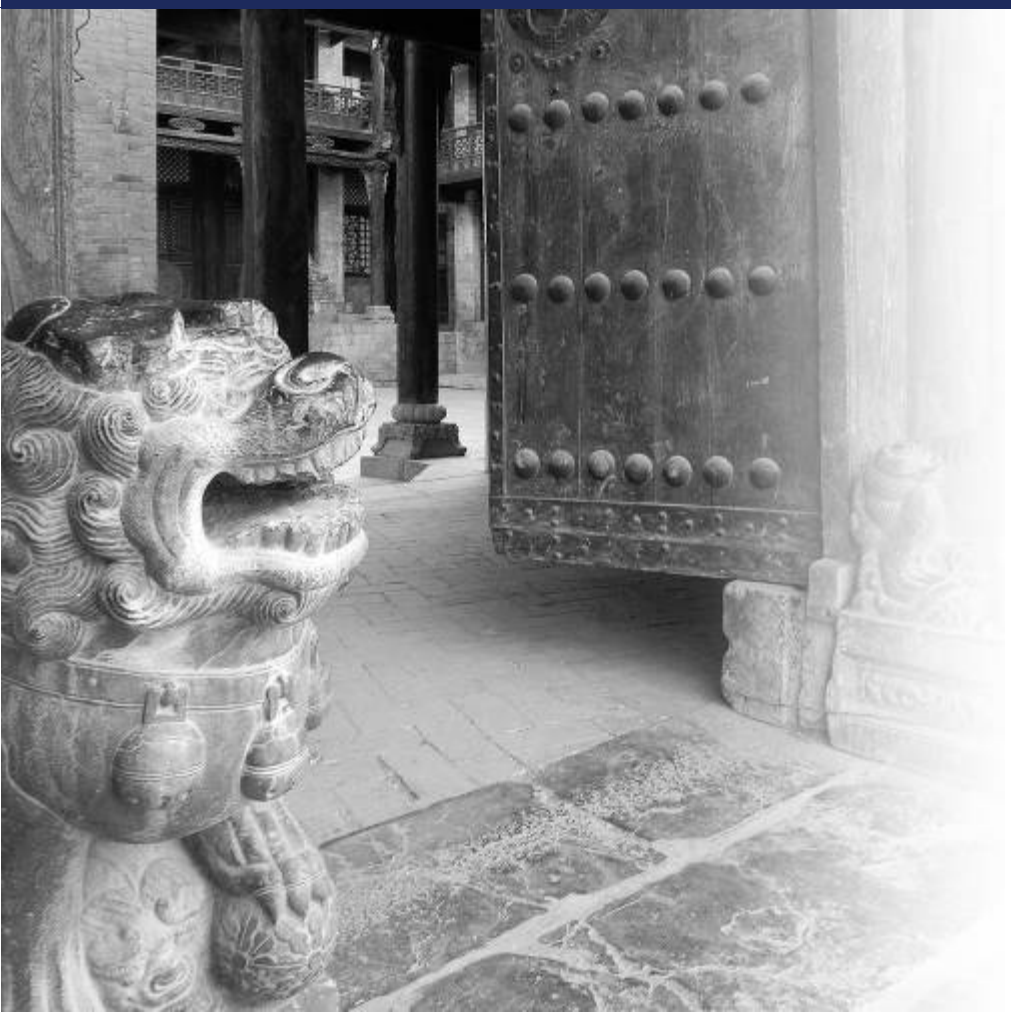
InterChina Insight

A Phoenix Emerges From The Ashes, For The Masses

Rural Healthcare Centers in China

By **James A.C. Sinclair & Franc Kaiser** | July 2010



InterChina Consulting
英特华投资咨询有限公司

Beijing

Shanghai

Shenzhen

Madrid

Milan

Washington DC

Management Consultants
www.InterChinaConsulting.com

After several decades of neglect, China's health care system is decidedly dysfunctional. Costs have soared, putting affordable care out of reach for many Chinese, even if they are lucky enough to be insured. Good doctors are scarce; relations with their patients are lousy; care is geared more toward revenue enhancement through excess testing and prescriptions than toward prevention. In April 2009, the government announced a RMB 850 Billion (US$124 billion) three-year overhaul meant to expand medical insurance, build or upgrade thousands of hospitals and clinics and cap the cost of prescription drugs. That was a first step in a 10-year effort to cure an ailing health care system causing widespread public discontent. By 2011, each village should have at least one medical clinic and each county a hospital, if all goes according to plan.

Thanks partly to the persecution of professionals during the 1966-76 Cultural Revolution, China suffers from a severe shortage of good doctors. But the legacy of neglect has continued in recent decades: China spent less than 1 percent of GDP for government health outlays in 2006, ranking 156th out of 196 countries, according to the WHO. Of that amount, only about one-quarter went to the rural areas that are home to about 60 percent of the population. The reform plan is intended to redress this imbalance and narrow the gap.

China's market for medical devices and equipment was estimated at about RMB 100 billion in 2009 and is growing about 20 percent a year. With the government expected to spend RMB 850 billion on its heath care reform program in 2009-2011, providers of such products can expect wider opportunities to sell to Chinese hospitals and clinics.

Explanation of our survey

This article is based on a survey conducted by InterChina in the first quarter of 2010. We surveyed a sample of grassroots healthcare providers in East China, with a focus on rural healthcare centers. In this article, we are focusing on Township Health Centers, as those are generally not catered to by drug and medical devices suppliers, but are a very important part of the reforms, with an important role to play in China's future medical system.

Investing in key rural health centers

Although the reform is in its initial stages, changes are already evident – for some Rural Healthcare Service Providers (RHSP) more than others. The 5,000 facilities the government has designated as "leading township health centers" will get more funding and are meant to become strong primary care points for rural patients. The number of beds in those centers rose by 86,000 in 2009 to 933,000, while average cost per inpatient was RMB 897.20, 13.5% higher than a year before.

Despite the big changes for the key centers included in the reforms, the other 33,000 or so of China's Township Health Centers will be obliged to muddle along without extra funding. This raises questions about the overall likely effectiveness of the reforms.

A key goal of the health care reforms is to improve the basic public health system by encouraging use of grassroots heath centers as a first stop for medical consultations. Most Chinese tend to seek care in big hospitals, where the doctors will each see an average of 50 or so patients within four to five hours in a day, having no time to spare for chatting and getting to know them.

Since rural Chinese distrust care available in the countryside, they also travel to the cities to consult the doctors in the biggest hospitals, which are overstretched by trying to keep up with demand. Patients commonly line up at dawn, waiting five to six hours to see a doctor at an urban hospital. This means that city hospitals are swamped with primary care issues when they should be dealing with secondary or tertiary issues. The reform plan emphasizes construction and upgrading of county hospitals and township health centers and better training for doctors and other medical professionals, to help persuade patients to get help in their own communities before heading to the bigger hospitals.

By the end of Nov. 2009, the central government had spent RMB 20 billion on construction of grass-roots health care institutions, including 986 county-level hospitals, 3,549 township health centers, and 1,154 urban community health centers. It spent another RMB 1.73 billion on purchasing medical devices for those hospitals and health centers. The investments are meant to help correct a

chronic skewing of healthcare resources to secondary and tertiary care: over 60% of annual healthcare expenditures usually go to urban hospitals, while local health centers, which should be providing the bulk of China's primary care, get only about 10%.

Although urban hospitals will remain the backbone of the overall healthcare system, in the future China intends to put more emphasis on developing and improving healthcare providers at the grassroots level (rural healthcare service providers or RHSP). These are the health centers and clinics that should provide simple and cost-effective basic care, but are been under-funded and generally poorly equipped and understaffed.

A tale of 2 health centers: urban and rural.

At the apex of the rural healthcare infrastructure are the county hospitals. China has 1,500 counties, not including county-level cities, and we estimate that there are a few thousand county-level hospitals. The next level in the rural healthcare system is township health centers. (See Chart below. Community health centers in urban areas and township health centers in rural areas: Shown here are examples from a county in Wenzhou, Zhejiang province, and a community health center in Jinshan, Shanghai).

In our survey we found that there are differences between the urban and rural health service providers. To sum those up, rural and urban hospitals feature comparable resources in terms of the number of beds, doctors and nurses, but all of them obviously have far more resources than urban and rural health centers. Urban and rural health centers also have similar budgets and spending.

When we compared the resources and caseloads of the urban and rural healthcare service providers, we found that caseloads are lower in rural areas (as we expected), but seem to grow faster, especially in the in-patient section. Rural health centers see inpatient numbers growing by 25% a year. This suggests that rural healthcare service providers are becoming more relevant and important, in line with the government's objectives.

China's county hospitals likewise have services and equipment similar to district hospitals in the cities. The scope of each health center varies, both in urban and rural areas. Some have certain departments, others do not. Generally, the scope of urban community health centers is broader that of than township health centers.

At the next lower level, we found that China's more than 600,000 village clinics have very limited medical services, equipment and staffing. Village clinics offer very basic services, such as general diagnoses. They also have very basic equipment such as stadiometers, stethoscopes and blood pressure meters.

Urban and Rural Healthcare Providers

Urban healthcare providers		Rural healthcare providers	
• National, Provincial Municipal and District Hospitals	18,000	• County Hospitals	~a few thousand
• Community Health centers	27,308	• Township Health centers	38,175
• Neighborhood Clinics	182,448	• Village Clinics	632,770

Source: MOH, InterChina analysis

Community Healthcenters in Urban Areas and Township Healthcenters in Rural Areas

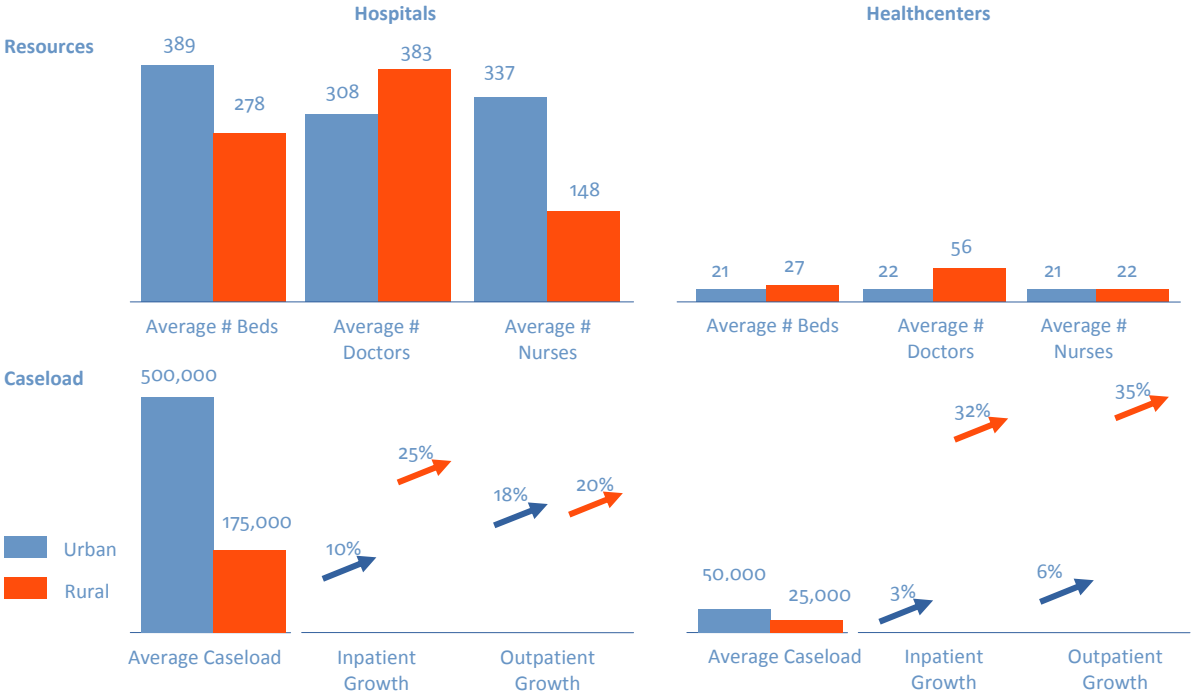
Jinshan Community Healthcenter — Urban | Rural — Aojiang Township Healthcenter

Shanghai Municipality, Jinshan District

Wenzhou Urban Center

Zhejiang Province, Wenzhou City, Pingyang County, Aojiang Township

Rural Healthcare Service Providers Are a Match in Terms of Scale of Resources, and Caseloads Are Growing Faster



Source: InterChina grassroots survey (1Q10)

The Vicious Circle

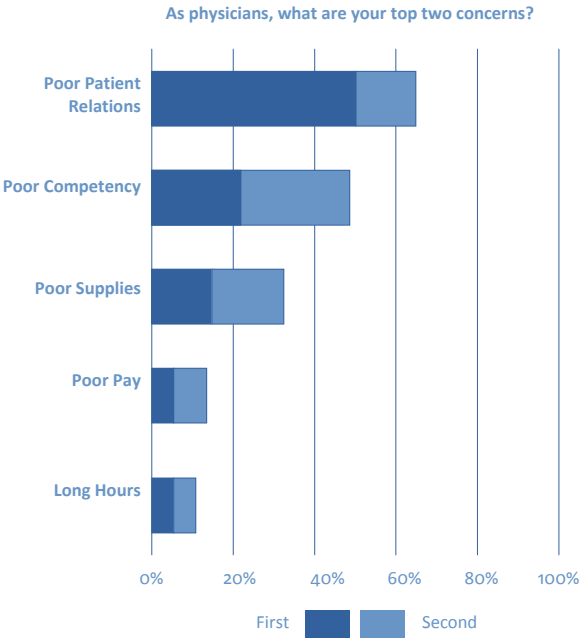
All RHSPs face similar difficulties, with the most crucial being poor doctor-patient relations. Interactions between patients and doctors suffer because health providers tend to sell excess prescription drugs, often overcharging their patients, and because clinics are so poorly staffed.

Chinese hospitals are impersonal, feeling more like factories than service providers. This is true of both rural and urban hospitals. Doctors lack enough time to focus on one patient when they have 10 more waiting right outside or even inside the treatment room. Doctors often also give wrong diagnoses or treatment and prescriptions. None of this serves to improve patients' lack of trust in their doctors.

The doctors and other staff tend to be inexperienced and incompetent, giving simple health checks that fail to meet patient needs, especially for doctors between 35-45 years old. The poor skills level stems from an inadequate medical training system and a lack of continuing professional training. Patients generally need more than a diagnosis. They need treatment. But the RHSPs often do not have needed drugs in stock or simply cannot provide them due to the NEDL (National Essential Drug List) restrictions that limit the types of medications available. The facilities also often lack the right supplies and equipment. All these inadequacies are doubly dangerous since many patients in China only go to the hospital when they feel something is really wrong. They rarely visit doctors for early detection or preventive care.

Chinese patients are acutely aware of these short-comings, which are openly acknowledged by rural health centers. The quality of services, physicians' skills, available facilities and equipment fall far below their expectations. Furthermore, rural health centers generally do not run emergency rooms, so patients cannot reach doctors out of normal working hours.

Difficulties for Rural Healthcare Service Providers (RHSP)



- '**Poor patient relations**' due to
  - Prescription driven care.
  - Insufficient number of staff given increasing caseload.
- '**Poor competency**' due to
  - Simple physical checks cannot meet patient needs.
  - Insufficient experience, especially doctors 35-45 years old.
  - Lack of continuous education.
- '**Poor supplies**' due to
  - Old facilities and equipment.
  - Some foreign drugs are not listed.

Source: InterChina grassroots survey (1Q10)

Three impacts of the reforms

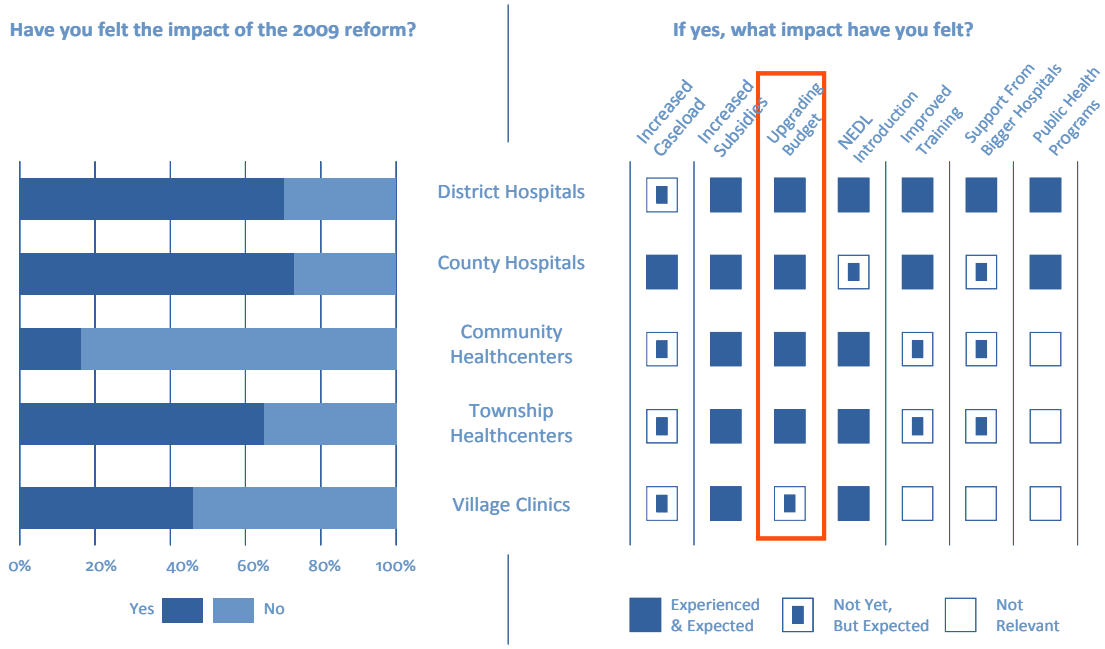
However, despite all this gloom there is some good news. Over half of the RHSPs we surveyed, including more than 60% of county hospitals and township centers, have already felt the positive impact of the reforms. Government subsidies are flowing in, enabling many RHSPs to expand their budgets and upgrade their facilities. More money also means new investments in medical devices and equipment. We found confirmed purchases or budgets for buying basic analytical devices for ENT (Ear, Nose and Throat), medical imaging (black and white or color ultrasound and analog x-rays), electronics (patient monitoring, defibrillators), IVD (In-Vitro Diagnostic, which are biochemical analyzers and hematology analyzers), as well as more efficient sterilizers, examination tables and procedure lights.

Crucially, doctors expect pay raises, which can make working in a rural health center or clinic more attractive to them and should encourage better services and performance. This will also be reinforced through improved training (partly through training programs provided by other, larger hospitals).

As part of the reforms, in 2010 the government is offering incentives for 5,000 medical students to become general practitioners, by financing their tuition fees and living expenses. The idea is for those students to return after graduation to the rural healthcare system and work for at least for six years in Township Health centers and levels below that. Such training at leading medical schools should help transfer knowledge and competence to the countryside.

However, some RHSPs do anticipate problems, especially with the introduction of the NEDL, as some of them are not included in the program, and thus cannot provide such drugs to patients. They expect patients who need more sophisticated treatments and medications to resort to large (i.e. level 3) hospitals. Township health centers are transforming themselves into entrepreneurial enterprises, a process catalyzed by the infusions of reform funds, but will have a hard time making money on drugs if they cannot prescribe and dispense them to patients.

RHSP's feeling to the impact of the healthcare reform



Source: InterChina grassroots survey (1Q10)

The future for rural health centers

China's 5,000 key township heath centers will become a mainstay of rural health care services but they cannot possibly suffice for all of the country's vast rural areas. The 33,000 other township health centers, meanwhile, are likely to struggle to improve their provision of primary care. Foreign suppliers of drugs and medical devices will likely continue to ignore them because they lack funds and offer low efficiency for suppliers' distribution coverage. If the majority of RHSPs remain in this trap, China's rural areas will continue to suffer from poor quality health care.

The NEDL system, moreover, creates a fundamental axis of risk for most RHSPs. Patients wanting better medications will still prefer to seek out the urban, higher-level hospitals _ a trend exactly contrary to what China's planners are seeking. Although most RHSPs have seen patient numbers rise this year, they fret that they will lose patients in the future to urban hospitals.

Urban and rural hospitals are thus fighting for patients, and there will be winners and losers on different levels within both systems. Better education and training for doctors and staff, and improved awareness among patients will be keys to success. New forms of knowledge transfers and new technology, such as linking doctors to online knowledge platforms that enable them to access better medical information, may lead the way.

China urgently needs to retrain its doctors and upgrade its medical teaching. The country only introduced a nationwide medical exam and licensing system in 2000. Most of China's 1 million rural doctors, charged with caring for the country's rural majority, have no formal medical education and little knowledge of Western medicines. Improving medical training of those "barefoot doctors" and their successors will be yet another potentially fertile business opportunity. Foreign suppliers of medical equipment and expertise need to keep these realities in mind as they plot strategies for expanding sales in China's huge and evolving rural healthcare market.

Contributed by
Mr. James A.C. Sinclair,
Strategy Practice Director
InterChina Consulting

James.Sinclair@interchinaconsulting.com

James A.C. Sinclair is a British national, resident in China since 1997. He is InterChina's Strategy Practice Director and is based in Shanghai.

Co-contributed by
Mr. Franc Kaiser,
Senior Consultant,
InterChina Consulting

Franc.Kaiser@InterChinaConsulting.com

Franc Kaiser, a Swiss national, is a Senior Consultant at InterChina's Shanghai Office, and the leader of InterChina's Healthcare Sectorial Group. He regularly advises pharmaceutical and medical devices clients.

Edited by Kazuhiko Shimizu, Shanghai-based writer and editor.

InterChina Consulting

Leading Consultancy: InterChina is a boutique management consultancy specialized in strategy, corporate and human resources services for companies doing business in China. Since being founded in 1994, InterChina has emerged as one of the leading consultancies in China, and half our project volume is accounted for by clients choosing to return to InterChina when new consultancy needs arise.

Comprehensive Services: InterChina supports clients along the sequence of challenges faced when entering or expanding in China, and our 3 specialized consulting practices combine to provide a suite of comprehensive and complementary services:

- InterChina's Strategy Practice assists our clients better understand and penetrate their markets in China.
- InterChina's Corporate Practice supports our clients establish and expand corporate structures in China.
- And InterChina's Human Resources Practice helps our clients recruit executives and other key positions in China.

Differentiated Approach: We deploy consulting methodologies developed in China for China. Our strategy solutions are practical, since we often support clients implement the strategies we recommend, and our corporate solutions are always oriented towards strategic objectives. We involve our clients in the consulting process, transferring understanding and receiving feedback, enabling our clients to better adapt to the Chinese environment and ensuring continuity following the project.

Strong Sector Expertise: As our clients are international companies with demanding consultancy needs, InterChina has developed expertise in select sectors to further our delivery of pioneering and practical solutions. These sectors include (but are not limited to): Automotive, Energy & Power, Machinery, Chemicals, Healthcare, Food & Beverage, and Distribution & Retail.

Stable Consulting Team: InterChina's Board of Partners is both Western and Chinese, and our Partners provide stability through their commitment to the company. In fact, InterChina enjoys one of the highest employee retention rates in China, and as stability is fundamental for Consulting Teams to be successful, our clients benefit directly as a result. Moreover, all our 50 plus consultants are committed and capable professionals, with a balance of experience and skills that allow InterChina to customize Project Teams to meet the needs of individual clients.

Local Presence: InterChina has three operations offices in China, located in Beijing, Shanghai and Shenzhen, supported by liaison offices in Europe, located in Madrid and Milan, and North America, located in Washington D.C.

For further information, please visit our website at www.InterChinaConsulting.com