REFORMING PUBLIC HOSPITALS IN CHINA

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Executive Summary

1. Health expenditure in China has increased rapidly in the recent two decades. Public hospitals' profit seeking behavior is believed to be the key reason for the high health expenditure. To address this problem, the Chinese government released a guideline in April 2009 to overhaul the healthcare system, with particular attention given to public hospital reform.

2. The guideline clearly states that public hospitals should put public interest in the first place and be better managed to increase efficiency as well as improve the quality of service.

3. The ongoing reform aims to change the public hospitals' governance structure through two "separations": separation between administrative government department and public hospitals (政事分开) and separation between the function of hospital management and supervision (管办分开).

4. In addition to governance reform, and according to the guideline, market forces are conceived as complementary to a "government led" health service provision system to reduce health expenditure.

5. In February 2010, sixteen cities were announced pilot sites for the public hospital reform. The focus of the reform is hospital's governance structure. In these pilot reforms, hospital managers are granted a higher degree of autonomy with local governments having a larger *de jure* power to supervise and regulate budget and investment within public hospitals.

6. As local governments play a salient role in the public hospital reform, the central government has to rely on and work through local governments to achieve the goals of the healthcare reform to a large extent, including the affordability of healthcare services.

7. While some local governments can afford to build a public hospital system geared toward public interest, other local governments may be financially constrained or incentivized to use public hospital as a source of government coffers. If such incentives prevail, local residents may not be able to enjoy affordable healthcare in the years to come.

8. It is clear that currently the central government does not have much leverage over local governments if the latter engages in profit seeking through public hospital reform. Reforming governance structure of public hospitals alone is not a guarantee that medical services will be more affordable than before.