# CHINA'S NATIONAL ESSENTIAL MEDICINE SYSTEM

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# Executive Summary

1. China's recent healthcare reform focuses on reforming its drug system to increase the affordability of health care. Health expenditure in China accounted for 5% of GDP, with drug expenditure chalking up 40% of aggregate health expenditure. Drug sale also constituted more than 40% of revenue for all service providers.

2. The high drug expenditure could be attributed to health service providers' incentive to overprescribe drugs and the inefficiency of drug distribution and dispensing. To curb drug expenditure growth, the Chinese government has released a series of policies since 2009 to build up the National Essential Medicine System (NEMS, 基本药物制度).

3. The system mainly targets primary care clinics, where essential drugs are sold with zero price mark-up. Essential medicine under this system includes 307 cost effective drugs that are covered by social health insurance plans. A procurement agency for distributing and procuring medicines at the provincial level is also in the plan.

4. The NEMS was established on September 1, 2011. Under this system, all 31 provinces have established procurement agencies and all public primary clinics are equipped with essential medicines at zero price mark-up. Prices for essential medicines have also been reduced by 25% on average.

5. However, physicians in public hospitals may still have the incentive to overprescribe drugs since the NEMS is mainly for primary care clinics. These clinics, on the other hand, may not have the incentive to provide services given the zero price mark-up arrangement.

6. To address these problems, reforming the payment system for both public hospitals and primary care clinics may be necessary. Corruption could also be a concern especially with the government procurement agency for essential medicines.