

**GOVERNING THE HEALTHCARE MARKET:
REGULATORY CHALLENGES AND OPTIONS
IN THE TRANSITIONAL CHINA**

Submitted by

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TABLE OF CONTENTS

LIST OF TABLES	vi
LIST OF BOXES	vi
LIST OF FIGURES	ix
LIST OF FORMULA	ix
LIST OF ABBREVIATIONS	xi
TERMS AND DEFINITIONS	xiii
ACKNOWLEDGEMENT	xvi
ABSTRACT	xvii
STATEMENT OF AUTHORSHIP	xviii
CHAPTER ONE. CONCEPTUALISATION OF THE RESEARCH	1
MACRO PERSPECTIVE: FROM PLANNING TO MARKET	2
DEFINING THE RESEARCH QUESTION	5
CONCEPT OF REGULATION AND ADAPTATION FOR MARKET-ORIENTED HEALTHCARE	8
Regulation is about rules and norms	8
Evolving concept of regulation for market-oriented healthcare system	9
ANALYSIS FRAMEWORK FOR REGULATION DESIGN AND IMPLEMENTATION	12
ORGANIZATION OF THE THESIS	15
CHAPTER TWO. STATE CONCEPT AND HEALTHCARE SYSTEM EVOLUTION	19
THE EVOLVING CONCEPT OF STATE AND SOCIETY, AND STATE DEVELOPMENT POLICY	19
STATE HEALTH POLICY PRACTICE EVOLUTION	21
‘Public identity, egalitarian behavior’ – development of healthcare system (1949-1979).....	22
‘Public identity, private behaviour’ - the first stage health reform (1980-1999)	24
Mixed public/private market - the second stage health reform policy (2000 – 2010).....	33
SUMMARY: A MIX OF ISSUES DUE TO RULES NOT SPELLED OUT OR FOLLOWED	36
CHAPTER THREE. INTERNATIONAL APPROACHES TO REGULATING HEALTHCARE	38
STATE AND MARKET IN HEALTHCARE	38
HEALTHCARE SYSTEM OBJECTIVES AND TECHNICAL REGULATION	41
THE TECHNICAL REGULATORY APPROACH IN ESTABLISHED MARKETS	43
Technology-based (or contract-based) regulatory system.....	43
Performance-based regulatory system	45
THE GOVERNING SYSTEM VIEWED AS REGULATION IN A HEALTHCARE SYSTEM IN TRANSITION	47
Management-based regulatory system	47
REGULATORY PROCESS AFFECTS RELATIONS ON COMPETITION, COST AND QUALITY	51
SUMMARY: HOW TO DESIGN AND IMPLEMENT REGULATION FOR TRANSITION	52
CHAPTER FOUR. NORMS AND SOCIAL INSTITUTIONS	55
SNAPSHOT ON THEORIES ABOUT RULES, NORMS AND COMPLIANCE	56
COMPLIANCE WITH RESPECT TO SOCIAL INSTITUTIONS IN TRANSITIONAL CHINA	60

REFORM ‘PUBLIC IDENTITY, PRIVATE BEHAVIOUR’ ADMINISTRATIVE INSTITUTIONS	63
SUMMARY: COMPROMISE OF REGULATORY EFFECTIVENESS LIES IN SOCIAL INSTITUTIONS	66
CHAPTER FIVE. RESEARCH APPROACH AND METHODOLOGY	68
RESEARCH FRAMEWORK AND RESEARCH QUESTION	68
The research aim	68
Development of research framework	69
METHODOLOGY, RESEARCH STRATEGY AND ANALYTICAL METHOD	70
Research strategy and analytical method	71
DATA COLLECTION AND ANALYSIS	76
Research settings and sampling	77
Data Collection	79
Data analysis	82
SUMMARY: FROM RESEARCH QUESTION INTO REPORTING	83
CHAPTER SIX. STATE AND REGULATION IN THE CONTEXT OF MARKETIZATION	85
ECONOMIC REFORM AND MARKET-DRIVEN DEMAND FOR HEALTHCARE	86
CONNECTION OF THE FIRST STAGE HEALTH REFORM WITH THE SECOND STAGE REFORM	87
Marketization approach in three sampled provinces under the first stage reform	90
Shenzhen: Mix of managed and planned market and entrepreneurial state.....	93
Shenyang: A laissez faire healthcare market and networked state	97
Jining: Development towards market and developing state for healthcare	100
SUMMARY: IMPLICATIONS FOR DESIGN AND IMPLEMENTATION OF REGULATION	102
CHAPTER SEVEN. ECONOMIC REGULATION FOR MARKET STRUCTURE AND FUNCTION .	105
FINANCING AND PLANNING TO REGULATE THE FORMATION OF MARKET STRUCTURE	105
Crippled financing tool (state purchaser vs. out of pocket consumption)	106
Planning in the formation of mixed public/private market structure	108
REGULATORY TOOLS TO ENHANCE MARKET COMPETITION.....	111
Regulating competition by introducing the private sector	112
Regulating competition (of the NFP hospital sector)	116
‘Regulating’ sub-market (developing labor and insurance market institutions)	121
Regulating information asymmetry on price and quality (of the NFP hospital sector)	123
SUMMARY: THE CRIPPLED FINANCING AND DISTORTED PRICES DURING TRANSITION	125
CHAPTER EIGHT. SOCIAL REGULATION FOR INSTITUTIONAL PERFORMANCE	127
REGULATING ‘RISK’ AND ‘INCENTIVE’: TOWARDS LEGAL AND REGULATORY INSTITUTIONS	128
Safety of medical care: Regulating on market entry (legal tools)	128
Quality of medical care: Regulating on performance (traditional administrative tools)	130
Risks of medical practices: Regulating medical disputes (legal tools)	133
Regulatory process: Regulating provider incentives (financial and managerial audit)	135
REGULATING ‘INTEREST’: DEVELOPING ARMS-LENGTH GOVERNANCE STRUCTURE	137
Dual regulating institutions for NFP hospitals at time of transition	137

Towards an open governing systems model by piloting arms-length governing	140
REGULATING ‘INCENTIVE’ AND ‘INTEREST’: DEVELOPING CORPORATE GOVERNANCE	144
No credible regulation to ascertain the right to claim hospital operation residuals	145
Regulating NFP hospital social objectives by surrogate regulators	146
The capture of surrogate regulator	147
Alternative accountability mechanism to regulate the NFP hospitals	148
Regulating conflict of interest in blurred public/private governing systems	149
SUMMARY: REGULATING RISK, INCENTIVE AND INTEREST INSTITUTIONALLY	150
CHAPTER NINE. THE STATE AND CIVIL REGULATORY SYSTEMS IN TRANSITION	153
PUBLIC GOVERNING SYSTEM: STRUCTURE, REFORM, AND ISSUES	154
The influence of governing structures on policy making and implementation	154
New role of MOH and regulatory approach under the second stage health reform	156
Policy effectiveness is compromised by the interest of local governance	160
NEW INITIATIVE ON NFP HOSPITAL ORGANIZATIONAL REFORM	163
TO DEVELOP THE ALTERNATIVE REGULATOR DURING TRANSITION	165
SUMMARY: COMPROMISED POLICY IMPLEMENTATION UNDER LOCAL GOVERNANCE	167
CHAPTER TEN. NORMS AND THE COMPLIANCE SYSTEM IN TRANSITION	169
TOWARDS RULE OF LAW: TO REGULATE THE REGULATOR	169
Administrative adjudication to limit power abuse by state regulator	170
Inadequate capacity for law enforcement	171
No legal framework for rule-based administration	172
SYSTEM OF NORMS AND VOLUNTARY COMPLIANCE	172
Medical profession drifts into business under the first stage health reform	172
Low voluntary compliance to the second stage health reform	173
TOWARDS THE FORMATION OF SOCIAL AGREEMENT FOR MARKET-BASED GOVERNANCE	174
Evolution of norms at a time of social transition	174
Rule-based administration and ‘new ethics’ as social routine	176
REFORM CHALLENGE: TO HARMONISE BETWEEN RULES AND NORMS	178
SUMMARY: TRUST, JUDGMENT, COMPROMISE AND REFORM	180
CHAPTER ELEVEN. REGULATORY STRATEGIES TO ACHIEVE REFORM OBJECTIVES 2010	183
FROM THE ‘HEALTHCARE SYSTEM’ TO THE ‘HEALTHCARE MARKET’	184
REFORM PROGRESS ON REGULATING HEALTH SERVICE AND ITS INFLUENCE FACTORS	186
OPTIONS AND STRATEGIES IDENTIFIED TO ACHIEVE REGULATORY OBJECTIVES 2010	188
System level perspective: A market-based governance system	188
Institutional level perspective: A management-based regulatory strategy	191
Individual practice level: Risk management program to be based on MATO	193
REGULATORY CHALLENGES	193
Revisit the role of the state in the market	194
Local governance forms localized interest groups under incremental reform	194
Lack of rules to regulate risk, incentive and interest: Corporate governance matters	196

SUMMARY: REGULATORY CHALLENGES LIE IN NORMS AND SOCIAL INSTITUTIONS	196
CHAPTER TWELVE. CONCLUSIONS AND RECOMMENDATIONS	198
RESEARCH FINDINGS	199
RESEARCH CONCLUSIONS	200
PROJECTION ON MARKET COMPETITION SCENARIOS AND REGULATORY RESPONSES	203
Scenario I. Price competition among NFP hospitals and with FP hospitals	204
Scenario II. Tax status competition: FP hospital seeks tax exemption	204
Scenario III. Quality or product competition among all NFP providers	204
Scenario IV. High cost, high volume competition	204
RECOMMENDATIONS	205
Future research agenda	207
APPENDIX A1. CHINA: PROVINCES BY ECONOMIC BELTS, 2000	208
APPENDIX A 2. HEALTHCARE SYSTEM PERFORMANCE COMPARISON, 1997	209
APPENDIX A3. CHINA: POPULATION AND HEALTHCARE SYSTEM PROFILE	210
APPENDIX B 1. OPEN ENDED INTERVIEWING GULDE	212
APPENDIX B 2. CONSENT FORM	214
APPENDIX C. CODING FRAMEWORK FOR TRANSCRIPTS	218
APPENDIX D. HEALTH POLICY, DIRECTIVE AND CIRCULAR LIST	222
APPENDIX E. HEALTH RELATED LAW, DECREE AND ORDINANCE	224
BIBLIOGRAPHY	226

LIST OF TABLES

Table 1-1 Organization of the Thesis	15
Table 2-1 Government Health Expenditures, 1991 and 2000 (in billion yuan)	26
Table 2-2 Trend of National Health Accounts (NHA) and Composition.....	26
Table 2-3 Healthcare system Evolutions in China: Goal, System, Issues and Options.....	37
Table 3-1 Standard Competitive Markets vs. Healthcare Market	40
Table 3-2 Comparison of Agency Theory and Stewardship Theory	41
Table 3-3 Healthcare system Objectives vs. Technical Regulatory Tools	42
Table 3-4 Technical Regulatory Tools by Cluster of Sub-Market	43
Table 3-5 Technical Regulatory Tools under Technology-based Regulation	45
Table 3-6 Regulatory Challenges in Healthcare system in Transition	49
Table 3-7 Tasks to Regulate the Supply-side in Developing Economies.....	51
Table 3-8 Regulatory Issues and Approaches for Healthcare system in Transition	54
Table 4-1 Social Institution Theory: Influence on Predisposing and Mediating Factors	59
Table 4-2 Public Governing Structure in China	61
Table 4-3 Comparison of Progressive Culture with Static Culture	62
Table 4-4 Chinese Senior Leaders Punished: Selected Years	63
Table 4-5 Relation between Party and State as Key Elements of Political Reform	63
Table 5-1 Research Framework: High Cost, High Volume Competition vs. Regulation	70
Table 5-2 Sampled Provincial Profile, 2000 (GDP in yuan).....	78
Table 5-3 Sampled City Profile, 2000 (GDP in yuan)	78
Table 5-4 Analytical Framework	83
Table 6-1 Per Capita Urban Disposable Income (in RMB yuan).....	86
Table 6-2 Market-driven Demand and Implication for State	87
Table 6-3 Private Sector Utilization by Outpatient Services (%), 1993-1998.....	88
Table 6-4 Shenzhen: Profile of Mixed public/private Healthcare market, 2000	93
Table 6-5 Market in Liaoning: Increased Capacity vs. Decreased Outputs, 1991 and 1999.....	97
Table 6-6 Developing Market in Jinan: Weak Market Demand and Provider Monopoly	101
Table 6-7 China: Emerging Healthcare market Characterised by Marketization Parameters	104
Table 7-1 China: Decreasing Urban Health Insurance Coverage (%), 1993-2003.....	106
Table 7-2 Approached to Achieve Equity/Efficiency in Mixed public/private Market	109
Table 7-3 Mixed public/private Market Structure: Issues and Regulatory Tools.....	111
Table 7-4 State Regulatory Policy Model	112

Table 7-5 MSA: Payment Method, Hospital Response and Regulatory Tools	122
Table 8-1 Commencement Time for Entry Regulation	129
Table 8-2 NFP Hospital Governing Challenges under Dual Regulating Institutions.....	138
Table 8-3 Decreasing Total Services Volume, Early 1990s to 2000.....	148
Table 9-1 China: Government Departments Concerning Healthcare, 2002.....	157
Table 10-1 Deterrence System: Administrative Adjudication and Legal Punishment.....	171
Table 10-2 Factors Constraining Economic and Social Development towards 2010	176
Table 11-1 Assessment of Reform Achievement by 2004	187
Table 12-1 Proposal for Managing Transition in China.....	202

LIST OF BOXES

Box 2-1 Hierarchy Governance Model (1949 –1979).....	24
Box 2-2 Self-governance Model (1980-1999)	32

LIST OF FIGURES

Figure 1-1 Administrative Practice in a Planned Economy	3
Figure 1-2 Market-based Governance System	5
Figure 1-3 Health Regulation Evolution (adapted from Merry, 2003).....	10
Figure 2-1 Government Administrative and Technical Directive Structure	23
Figure 2-2 Conceptualising the Consequences of China's Decentralisation Policy.....	25
Figure 2-3 Provider Preference for Cost-Quality Compromise under Competition.....	29
Figure 2-4 Private Health Consumption in Proportion to Total Health Expenditure	31
Figure 2-5 Healthcare market Structure in China.....	35
Figure 2-6 Healthcare system Governance Model Evolution in China (1949-2010)	36
Figure 3-1 Healthcare system Distribution in the World	39
Figure 4-1 Relationships between Rule, Norm and Compliance	56
Figure 4-2 The Universe of Norm (Source: adapted from Fukuyama, 2000, p. 106)	58
Figure 4-3 Escalation of Enforcement Force (adapted from Braithwaite, 2003)	60
Figure 4-4 China Policy Practice: From Decentralization to Governance Reform	65
Figure 4-5 Modern State and Social Stability	66
Figure 5-1 Healthcare market Continuum.....	72
Figure 5-2 State Role Continuum along Marketisation.....	74
Figure 5-3 Surrogate Regulator to Harmonize Risk, Incentive and Interest	75
Figure 5-4 Regulation Frontier in Relation to Social Institution Readiness.....	76
Figure 6-1 Healthcare Market Distribution in Three Cities	102
Figure 6-2 State Role Distribution in Three Cities.....	102
Figure 9-1 NFP Hospitals Reform Perspective and Regulatory Responses (Liu 2004).....	165
Figure 10-1 Regulation Design to Harmonize between Norms and Rules.....	182
Figure 12-1 Regulatory Tools Spread along Marketization in China.....	201
Figure 12-2 Relationship between Technical Regulation and Social Support	202

LIST OF FORMULA

Formula 1-1 Regulatory system = State regulatory system + Civil system	12
Formula 1-2 Compliance system = Compulsory compliance system + System of norms	12
Formula 2-1 Provider Cost-Quality Preference Function for Revenue: $R = \{F(\text{quality}) - \text{Cost}\}$	29
Formula 2-2 Revenue Max: $R_{\max} = U_{\min} = \text{Max} \{F(\text{quality}) - \text{cost}\} = \text{Max} \{\text{economic efficiency}\}$	29
Formula 2-3 Revenue Trade-off: $R_{\text{trade}} = U_{\text{trade}} = \text{Opt} \{F(\text{quality}) - \text{cost}\} = \text{Opt} \{\text{Social efficiency}\}$.	30
Formula 2-4 Revenue Min: $R_{\min} = U_{\max} = \text{Min} \{F(\text{quality}) - \text{cost}\} = \text{Approach} \{\text{Breakeven}\} = 0$	30

LIST OF ABBREVIATIONS

CCTV	China Central Television
CEE	Central and East Europe
CEO	Chief Executive Officer
CHEI	China Health Economics Institute
CHI	Commission for Health Improvement
CHMAA	China Hospital Management Accreditation Association
CIS	Commonwealth of Independent States
CLEAR	Consolidated Licensure of Entities Assuming Risk
CMA	China Medical Association
CMS	Cooperative Medical Scheme
CMS	Centres for Medicare and Medicaid Services
CCP	China Communist Party
DRG	Diagnosis Related Group
EFQM	European Foundation for Quality Management
FDA	Food and Drug Administration
FFS	Fee-For-Services
FP	For-Profit
GDP	Gross Domestic Product
GP	General Practitioner
GIS	Government Insurance Scheme
HCFA	Healthcare Financing Administration
HEDIS	Health Plan Employer Data and Information Set
HPEDIS	Health Plan Employer Data and Information Set
HIC	Health Inspection Centre
HMA	Hospital Management Association
HMO	Health Maintenance Organization
IHM	Institute of Hospital Management
ISO	International Organization for Standardization
JCAHO	Joint Commission of Accreditation of Healthcare Organization
LIS	Labour Insurance Scheme
MATO	Medical Accidents Treatment Ordinance
MIMOIA	Medical Institutions Management Ordinance Implementation Article
MOC	Ministry of Construction
MOCA	Ministry of Civil Affairs
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MOLSS	Ministry of Labour and Social Security
MOP	Ministry of Personnel
MQSA	Medical Quality Supervision Agency
MSA	Medical Savings Account
NAT	National Administration of Taxation
NBS	National Bureau of Statistics

NCQA	National Commission of Quality Assurance
NDRC	National Development and Reform Commission (new name for SDPC)
NETC	National Economic and Trade Commission
NFP	Not-For-Profit
NHS	National Health Service
NICE	National Institute for Clinical Excellence
NIH	National Institute of Health
NLHI	National Library of Healthcare Indicators
NPC	National People's Congress
NPFPC	National Population and Family Planning Commission
OECD	Organization of Economic Cooperation and Development
ORYX	(A core performance measurement set identified by JCAHO)
PMA	Physician Management Association
PPO	Preferred Providers' Organization
PRO	Professional Review Organization
PRC	People's Republic of China
RBRVS	Relativity Based Relative Value Scale
RMB	Renminbi (Chinese monetary currency. 1 USA = 8.2 RMB)
SAA	State Administration of Audit
SAIC	State Administration of Industry and Commerce
SOE	State-Owned Enterprise
SPB	State Price Bureau
SDPC	State Development and Planning Commission (now NDRC)
SATCM	State Administration of Traditional Chinese Medicine
WTO	World Trade Organization
yuan	unit of Chinese monetary currency (also RMB)

TERMS AND DEFINITIONS

Accreditation: Professional self-regulation on performance of facilities.

Audit: Either internal or external evaluative intervention in the form of monitoring, review, supervision, site inspection and reporting.

Certification: Professional self-regulation on performance of personnel.

Clinical governance: To have hospital CEO, manager and clinicians responsible for service outcome.

Corporate governance: To keep corporate actions directed at the corporate objectives established by the corporation's shareholders and to follow statutory laws.

Cost-quality compromise: The provider tends to increase and/or decrease service volume depending on the service payment method, which implies an increase in cost and/or decrease in quality.

Cost-quality regulation: Aims to regulate cost-quality compromise.

Dynamic efficiency: To refer to innovations made by the provider in technological advancement and economic sustainability (in contrast to static efficiency).

Economic regulation: Regulating marketisation that includes economic steering on market structure and competition.

Effectiveness: In term of regulation, it refers to the extent to reach the regulatory objective.

Enforced self-regulation: Aims to impose regulation by external agency either by state or by civil groups.

Entrepreneurial state: The state pushes marketisation by creating contestability and transforming public hospitals into business operated public firms.

Extensive accountability: balance multiple missions claimed by constituencies.

Governance: All sorts of organizations, public, private, semi-public, that contribute to the pursuit of the public interest

Guanxi (connection or association): Two meanings: Reciprocity between individuals and/or organizations, and rent seeking.

Healthcare regulation: Any social action exerting an influence, directly or indirectly, on the behavior and functioning of healthcare personnel and/or organizations.

Informal regulatory system: System of norms.

Institutional cost: Payments made by market participants to institutions to allow them to operate in the market (status costs), and to encourage favorable institutional action (influence costs).

Intensive accountability: Demands to embrace a spectrum of values.

Formal regulatory system: Combination of state and civic regulatory systems.

Licensure: Minimum legal requirements set by a state agency for market entry.

Local governance: Formal and informal rules by which local stakeholders collectively solve their problems.

Local state corporatism: Means state and/or collective institutions have been turned into quasi-corporate entities. Local governments regard such entities within their administrative purview as components of a larger corporate whole. Public employees serve on behalf of board of directors. Control has been made by monopoly of property rights that local governments retain.

Managed market: Refers to the U.K. NHS where internal market reform is halfway, and that managerial cooperation prevails instead of purchase between NHS Trusts and Health Authorities.

Mandated self-regulation: See enforced self-regulation.

Marketisation: Use market mechanisms to finance and provide health services.

Market-based governance: That civil society groups are to undertake increasing role previously played by state, and that civil society groups mandate market agents to act on their behalf.

Management-based regulation: Regulation aims at integrating public objective into institutional management practice, and that public objective translated at planning and operating stage of production at the institution.

Market-driven consumers: Unorganized privately financed healthcare consumption, or organized commercial health insurance consumption.

Market socialism: Combination of market mechanisms with socialism.

Market state: Without use of public employee (such as entrepreneurial state) and public money (such as networked state), to use government power to create market that fulfills public value.

Managerial mechanism: Regulatory tools in state and civil regulatory systems.

Multi-power centered: Pluralist relationships between society and state

Network state: Policies implemented by NGOs through contracting-out and financing.

Open systems governance model: NFP hospitals are detached from health departments and are in the marketplace exposed to market risk and benefit.

Performance-based regulation: Regulating on selected measurements of service outputs and/or process throughputs

Planned market: State purchases the health service, on behalf of principal (taxpayers). As the purchase is equity-oriented, it is therefore the policy or planned purchaser. The planned market in OECD is planner-dominated that differs from multi-purchasers-dominated regulated market in the U.S.

Planning system culture: There is no accountability at cascading administration levels and no merit based performance incentive, only to follow the orders from the top.

Policy purchaser: State purchases the health service, on behalf of principal (taxpayers).

Rational goal governance model: State policy purchaser purchases healthcare in accordance to the level of economy, e.g. the rational approach instead of social entitlement for healthcare.

Regulated market: Extensive use of private contracts, multi-purchasers and strong regulation, as in the U.S.

Social agreement: a) norms are accepted by individuals cognitively; b) norms have become a social capital that is shared among a growing number of people; and c) eventually, the norms have become a social routine that forms mainstream behavior.

Social efficiency: measured by the level of provision of unnecessary services.

Social insurance-based policy purchaser: Socially organized and socially financed purchase of healthcare.

Self-governance model: Hospitals are under autonomous after fiscal decentralisation, and regulated by the surrogate regulator with internal rules.

Self-regulation: Actors themselves impose restrictions on their actions.

Semashko model: Healthcare system under planned economy, where finance, provision and management of health service are all under a state monopoly.

Social capital: Value or norm shared to allow cooperation among people.

Social market: Firms prefer social objective as well as economic objectives.

Social ownership: Public ownership with private operation, and collective claims on dividend (residual value of operation).

Social regulation: Aims at social control such as standard settings.

Surrogate regulator: The same as the agent that is on behalf of the principal to regulate.

Stakeholders: Those people may affect policy-making and implementation.

State-society: That there is a unitary and homogeneous society without social groups, with state as a monopoly for social life.

Technical regulatory tools (or technical regulation): Regulatory tools included in social and economic regulations.

Technology-based regulation (contract-based regulation): Regulation that emphasizes the use of (information) technology and/or a contract to regulate technical quality.

Voluntary self-regulation: Self-initiated and self-disciplined regulation.

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ABSTRACT

During the transition from a planned economy to a decentralized, market socialist economy, the Chinese healthcare system has evolved from a centralized, egalitarian public system (1949-1979) to one which is largely self-governed and can be characterized as ‘public identity, private behavior’ healthcare system (1980-1999). With blurring of the distinction between public and private governing systems, and a shift in norms towards profit orientation, major concern has arisen about the extent of high cost, high volume services being offered through excessive entrepreneurial practices.

This thesis is concerned with the regulatory strategies and options to reach 2010 health reform objectives of equity and efficiency under a mixed public/private market. While possible lessons can be drawn from established economies and transitional economies, China faces some unique challenges, given the diverse market structures and fragmented healthcare system across the country, and the underdeveloped framework for the rule of law. The thesis reviews policy documents from 1949 to 2004 and draws from interviews with senior health policy-makers and hospital directors in three different locations, in order to explore the role of the state in market regulation, the effectiveness of technical and social regulations, and how policy implementation and regulatory compliance occur.

The research has found that the dynamics of the healthcare system are shaped by the financing arrangements for healthcare and the absence of arms-length governance of hospitals by health departments. Without an effective state health financing tool, nor mature market institutions, China is not able to use neither performance-based regulation nor technology-based regulation. China has adopted a management-based regulatory strategy but the absence of effective governance structure hinders effective regulation.

If the reform objectives of improving healthcare quality while costs are to be attained, China will need to develop purchasing tools to alter the current perverse incentives for provider behavior. Government will also need to work with civil society organizations to develop tools for clinical governance, such as clinical audit for risk management and hospital accreditation programs. To do so requires establishing arms-length governance mechanisms between health departments and hospitals, and appropriate corporate governance structures within hospitals. Specifically, MOH needs to establish a technical policy think tank to investigate all the policy issues arising from the announcement of the 1997 health reform, including coordination with other line ministries and provincial authorities, and formulation and implementation of a policy research agenda, in order to attain a market-based governance system for health by 2010.

STATEMENT OF AUTHORSHIP

Except where reference is made in the text of the thesis, this thesis contains no material published elsewhere or extracted in whole or in part from a thesis submitted for the award of any other degree or diploma.

No other person's work has been used without due acknowledgement in the main text of the thesis.

This thesis has not been submitted for the award of any degree or diploma in any other tertiary institution.

The Ethics Committee of the Faculty of Health Sciences, La Trobe University, approved all research procedures reported in the thesis.