

China Healthcare Outlook

North Head is a public affairs consultancy based in Beijing that works with a number of healthcare clients and tracks and follows developments in the industry in China.

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1. Executive Summary:

Hu Jintao's report at 18th Party Congress reemphasized healthcare reform. This report determines policy direction for China over the next five years and stated that the overarching goal for healthcare reform is to provide safe, effective, convenient, and affordable healthcare service and insurance.

In this issue North Head provides an overview of recent policy developments and local implementation. The developments of the past two months have focused on the healthcare sector's 12th five-year plan, pharmaceutical R&D innovation, subsidies for products on the Essential Drug List (EDL), drug approval, insurance reimbursement for serious diseases, and private investment in public hospital reform.

For pharmaceutical companies, there are clear opportunities within the growing urban healthcare market. Business implications are provided in the last section and contain further insight into recent policies relevant to firms in the healthcare industry.

2. Moving Forward: Policy Developments

During the opening ceremony for Novo Nordisk's R&D center in China, which took place in September, Minister of Health Cheng Zhu encouraged multinational pharmaceutical companies and medical research agencies to establish R&D centers in China. He gave the following overview of R&D ecosystem in China:

- Becoming an innovative country is one of the government's strategic goals. Considerable funding for pharmaceutical R&D will be provided by the state.
- The expansion of chronic diseases across China has become a pressing public issue. Demand for new preventive and treatment methods will continue to rise.
- The Ministry of Health (MOH) and local governments will provide supporting policies for multinational pharmaceutical companies establishing R&D centers in China.

<http://www.chinahealthreform.org/index.php/publicdiscussion/8-media/1591-2012-09-28-06-19-42.html>

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In October, the State Council announced details of the 12th Five-Year Plan on healthcare development. Specific goals mentioned were:

- Supporting the development of social capital as a part of healthcare reform.
- Boosting non-public healthcare institutions to provide 20% of all healthcare services.
- Achieving the goal of treating and curing 90% of common diseases, frequently-occurring diseases and critical and acute diseases at county-level hospitals.
- Increasing annual healthcare insurance allowances for urban residents and new rural cooperatives healthcare insurance to 360 yuan per individual.
- Reimbursing 75% of total hospitalization expenses under healthcare insurance for urban workers, urban residents and new rural cooperatives.
- Expanding insurance coverage to include acute and deadly diseases.
- Encouraging M&A among pharmaceutical companies.
- Enhancing the competitiveness and sustainability of pharmaceutical companies.
- Supporting pharmaceutical companies making technological upgrades.

<http://www.chinabidding.com/jksb-detail-217263651.html>

http://www.gov.cn/zwgk/2012-10/19/content_2246908.htm

3. Recent Developments

3.1 *Essential Drug List*

- The central government appropriated 8.2 billion yuan to support the implementation of the EDL system. 6.3 billion yuan of those funds will be injected into grass roots healthcare institutions and the remaining 1.9 billion yuan will go to village healthcare stations.

http://paper.people.com.cn/rmrb/html/2012-11/08/nw.D110000renmrb_20121108_4-02.htm

- Drafting of new EDL will conclude at the end of 2012. About 400 western medicines recommended by WHO and 200 traditional Chinese medicines will be added to it. Regulators will also address other issues such as low profit for manufacturers and low salaries for doctors working in grass roots hospitals.

http://www.askci.com/news/201211/14/174834_49.shtml

3.2 *Drug Approval*

- The State Food and Drug Administration has launched a pilot program in Guangdong Province that delegates a portion of its approval powers related to pharmaceutical companies to the Guangdong Food and Drug Administration. This initiative substantially shortens the project approval process within Guangdong and is expected to be expanded to other regions. Approvals for innovative medical



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technology transfer, drug manufacturing technology transfer, and some trans-provincial commission manufacturing would be affected by this pilot program.

<http://health.sohu.com/20121114/n357564195.shtml>

3.3 Insurance Reimbursement

- In August, guidelines on urban and rural residents' insurance coverage of serious diseases were publicized by NDRC, MOH, MOF, MOHRSS, MCA and CIRC. They require at least 50% of healthcare expenses for critical diseases to be reimbursed.
<http://news.qq.com/a/20120830/001743.htm?qq=0&ADUIN=35272593&ADSESSIO N=1346317577&ADTAG=CLIENT.QQ.4735 .0>
- During the month of November, Anhui Province announced its guidelines on urban and rural residents' insurance coverage of serious diseases. Urban and rural residents' reimbursement coverage for critical diseases will range from 30% to 80% and 40% to 80% respectively. Until 2014, the average coverage of both types of residents will be no lower than 50% of healthcare expenses.
http://124.42.43.7/zgbxb/html/2012-11/15/content_128728.htm
- In Guangdong, the local government is considering introducing commercial insurance to provide a second source of reimbursement in addition to basic healthcare insurance for patients with high healthcare expenses.
http://www.chinajilin.com.cn/content/2012-11/10/content_2701191.htm

3.4 Private Investment

- On August 30th, the Beijing Municipality issued 18 measures to attract social capital for establishing healthcare institutions and supporting public hospital reform. These measures fall into three categories:
 - Prioritizing the use of social capital when introducing capital to establish new hospitals.
 - Implementing equal policies for private and public hospitals.
 - Guaranteeing equal treatment of private and public hospitals.
http://news.ifeng.com/mainland/detail_2012_08/30/17227065_0.shtml
- In October, the State Council Healthcare Reform Office selected Wenzhou, a city located in the Zhejiang province, to launch the first pilot program allowing private capital investment into healthcare sector. Specific preferential policies enjoyed by private hospitals include:
 - Entry and designation approval processes identical to those undertaken by public hospitals
 - Preferential employment, land use and tax deductions and exemptions.
 - Doctors employed by private hospitals will enjoy access to the same social

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insurance and housing provident fund as staff of public hospitals.

- Social capital investment can be introduced into public hospital reform through joint ventures, M&As, and financial leasing.

http://health.gmw.cn/2012-10/10/content_5311707.htm

- During October, healthcare contracts totaling 5.5 billion yuan were signed with private investors.

<http://wz.people.com.cn/n/2012/1013/c139014-17578297.html>

3.5 Grassroots Healthcare

- On November 1st, at the opening ceremony of the Second Global Symposium on Health Systems Research, the Minister of Health stated that the central government invested 450 million yuan to train general physicians at 285 medical institutions, and 50,000 grassroots healthcare workers.

http://www.chinadaily.com.cn/china/2012-11/02/content_15871424.htm

4. Implications for Business

- Though the central government has begun implementing a reimbursement plan for serious disease treatment, widespread implementation may lag by one to two years. At the local level, provincial governments still face the challenge of funding this initiative. Consequently, some provinces may be reluctant to include expensive or high end medicines on the insurance list.
- Personnel changes made at the 18th Party's Congress will require MNCs to reassess their local stakeholder engagement strategies and plans.
- Policies for the continued encouragement of investment in private hospitals are already being realized at the local level. Preferential policies issued by provincial governments should be analyzed.

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