

China Update

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China's Premier Wen Jiabao Confirms Major Healthcare Reform at National People's Congress

Ministry Of Health Emphasizes National Essential Drug System

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At the 2nd Session of the 11th National People's Congress (NPC) convened on March 5, 2009, China's Premier Wen Jiabao confirmed the major contents of the healthcare reform in the 2009 Government Work Report. On January 21, 2009, the State Council approved the Opinions on Advancing Healthcare Reform and the Implementation Plan on Advancing Healthcare Reform 2009-2011 in principle¹. The opinions and the plan are expected to be published after the NPC session, with the Government Work Report representing the first government document that confirms work focuses in the coming healthcare reform program. According to the Work Report, the Chinese government will spend US\$124 billion (850 billion RMB) on healthcare reform between 2009 and 2011, including 331.8 billion RMB from the central government. The funds will be used in five primary areas:

- medical insurance,
- essential medications,
- basic healthcare service systems,
- equal access to basic public health services, and
- reform of public hospitals.

The establishment of the National Essential Drug System is listed in the Work Focuses of the Ministry of Health in 2009, issued on February 23, 2009². Basic medical institutions such as rural healthcare centers will be required to use essential drugs on what may be an almost exclusive basis. The utilization of essential drugs used in large urban hospitals, by comparison, is expected to reach 40 per cent. China's Health Minister Chen Zhu said that the government will set up a national essential drug committee and update the 2009 version of the National Essential Drug List. The government will issue further policies on production, circulation, pricing, usage, and reimbursement of essential drugs. In the current list of National Essential Drugs distributed in 2004³, there are 2033 essential medicines/drugs including both Chinese medicines and western medicines such as domperidone, mebendazole, rabeprazole, etc. The press reports that the list may be shrunk to 400 medicines/drugs⁴.

The government would designate specific companies to produce or supply essential drugs. Only those companies who supply these "essential" drugs to the designated medical institutions, can take part in the centralized bidding in government procurement, or offer medicine supply services. The new system and list may create barriers to companies that do not produce essential drugs or companies that produce essential drugs but are not designated for supplying.

There are also reports in the press that the central government may set a guiding price while local provinces may decide the final price in the bidding and procurement process. Meanwhile, manufacturers producing essential drugs may take part in the unified bidding and tendering for medical institutions.

¹ Wen Jiabao Hosts the Standing Conference of the State Council, People's Daily, January 22, 2009, as at http://www.npc.gov.cn/npc/xinwen/szyw/zhbd/2009-01/22/content_1468145.htm.

² Notice of the Ministry of Health on Distributing Medical Work Focuses in 2009, *Wei Ban Fa [2009] No. 15*, issued by the Ministry of Health on January 24, 2009 and posted on the Central Government's official website on February 23, 2009 as at http://www.gov.cn/zwqk/2009-02/23/content_1239545.htm.

³ Notice of Distributing the Catalogue of Preparations of National Essential Drugs, *Guo Shi Yao Jian An [2004] No. 627*, State Food and Drug Administration, December 31, 2004, as at <http://former.sfda.gov.cn/cmsweb/webportal/W945325/A64001151.html>.

⁴ New Healthcare Reform Plan Finalized, Economic Observer, February 28, 2009, as at http://www.eeo.com.cn/Politics/beijing_news/2009/02/28/130728.shtml.

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The government intends to continue its efforts to improve the country's medical services, especially those at the grassroots level. In 2009, China plans to build 29,000 clinics at the township level, and in the following three years, there will be another 5,000 clinics at the township level, 2,000 hospitals at the county level, and 2,400 urban community clinics.

Observations and Implications: Increased funding to hospitals could support higher purchases of drugs and medical devices in China. Some drugs may be advantaged if they are designated as an essential drug, but these could also be subject to price reductions. There may also be changes in how public hospitals are paid for drugs. The National Essential Drug List may include both brand and generic drugs produced by both domestic and multinational companies. Domestic Chinese and multinational companies may face different opportunities under the new system. The pilot programs, to be launched first in cities selected by the Chinese government, will likely have initial impact in those cities.

The new National Essential Drug System may create incentives for drug companies to develop products that will qualify for inclusion on the new list. Drug companies could also urge the government to expand the list on a regular basis. Companies with products on the list may consider scaling up production to meet new demands but should also anticipate price reductions and new pricing pressures. Further, companies should be prepared for new distribution channels in certain urban and rural markets. Brand drugs, priced by the producers themselves, may find a unique niche in the changing reimbursement environment.

Healthcare reform is near the top of the Chinese government's list of priorities, as the government accelerates social reforms crucial to the country's growth model and the economic crisis. Further details are likely to emerge following the session of the National People's Congress running from March 5-13, 2009.

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