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Policy Insight

Caring for a Third of the World's Population

Challenges for the Health Systems of China and India

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China and India together have more than 2 billion residents, accounting for nearly 40 percent of the total world population. Over the past 50 years, both of these countries have made substantial gains in health, including increases in life expectancy, reductions in infant mortality, and the eradication of several diseases. Yet China and India still lag behind many countries on key measures of health, and the health gains achieved have been uneven across subpopulations.

Comparing the health systems in China and India illuminates the health challenges common to both nations as well as those that are distinct to each of them. Such a comparison is also timely, as health care reform is high on the political agenda of both countries.

Health systems include not just health care but also many other factors that affect health, such as poverty, education, nutrition, and sanitation. In this *Policy Insight*, we focus our comparison along two essential dimensions: health system goals and the policy levers that are used to accomplish these goals.

Goals

The World Health Organization's (WHO's) 2000 report, *Health Systems: Improving Performance*, states that a health system should have three fundamental objectives: (1) improving the health of the population it serves, (2) providing financial protection against the costs of poor health, and (3) responding to people's expectations. How do China and India fare in achieving these goals?

1. China Has Achieved More Gains in Health. While China and India face very different demographic and health challenges, both countries have achieved substantial gains in life expectancy and the prevention of certain diseases since the 1940s. These improvements are reflected in the key health indicators for each country shown in Table 1. The gains in China have been more substantial, particularly in improving birth outcomes and preventing communicable diseases.

Overall, people in China live longer, healthier lives than people in India. The difference between women is larger than that for men, resulting in part from the 10-fold greater maternal death rate for Indian compared with Chinese women.[1]

Significant differences exist in causes of death as well. In China, noncommunicable diseases, particularly chronic obstructive pulmonary disease and cancer, account for 77 percent of all deaths. In India, however, more than 40 percent of all deaths are due to communicable diseases—including HIV/AIDS, diarrhoeal diseases, respiratory infections, and perinatal conditions (Liu, Rao, and Hsiao, 2003)—which can be addressed by more-effective health policies.

2. Ineffective Financial Risk Protection in Both Countries. Poor health can increase poverty and reduce material well-being through a number of pathways, including excessive medical expense, impaired labor market participation, and loss of productivity (Liu, Rao, and Hsiao, 2003). Unfortunately, the health systems in China and India provide little protection from financial risk. In China, medical expenditures have become an important cause of poverty, increasing the number of rural households below the poverty line by 44 percent (Liu and Rao, 2006). Similarly, in India, up to a third of hospitalized patients are impoverished by medical costs (Krishna, 2004, and Peters et al., 2002).

The heavy burden of health costs in China and India is not surprising, given the lack of well-developed health insurance schemes in both countries. This situation is exacerbated by two

1 Maternal death rates are correlated with rates of childbirth. Therefore, the large difference in maternal death in the two countries is attributable to both better health care and Chinese women's low fertility rate, a result of China's "one-family-one child" policy.

Table 1. Key Health Indicators											
	Life Expectancy			Probability of Dying (per 1,000)						Maternal Death Rate	Low-Birthweight Rate
				0–1 Years Old	Under 5 years old			15–60 Years Old		(per 100,000)	(%)
	Both sexes	Male	Female	Both Sexes	Both sexes	Male	Female	Male	Female	2000	1999
China	72	70	74	27	31	27	36	158	99	56	6
India	62	61	63	58	85	81	89	275	202	540	30

SOURCE: World Health Organization, *The World Health Report 2006: Working Together for Health*, 2006, and other WHO statistics.

key factors. First, the lack of access to affordable care means that people defer preventive and other necessary care; consequently, when they do seek care, they typically have a more serious and costly medical condition. Second, for those who seek care, physician-induced overutilization of care further increases the financial burden of care.

3. Consumer Satisfaction Understudied in Both Countries. Consumer satisfaction has not been widely studied in either country, suggesting that perhaps neither country has yet employed patient satisfaction as an important measure of quality of care.

Five Policy Levers for Improving Health Systems

As William C. Hsiao (2003) argues, financing, payment, organization of health care delivery, regulation, and behavior are the five essential policy levers in a health system, since they are the key forces for influencing the ultimate performance of a health system and can also be affected by policy. Below, we compare China's and India's performance with respect to each of the five policy levers. A summary of these comparisons is shown in Table 2.

1. Financing. *Financing* refers to the mechanisms by which resources are mobilized to fund health-sector activities. Financing has the most important and direct effect on the performance of a health system (Roberts et al., 2003).

As Table 2 indicates, in both countries, the main mechanism for financing health care is individual out-of-pocket spending, followed by general government expenditures. Since out-of-pocket payment does not pool the financial risks associated with health care, it places heavy financial burdens on the poor and the sick and often bankrupts patients and their families. In recent years, the function of health insurance, either private or social, as a way to pool risk has drawn policymakers' attention in both countries. The focus in China has been on social or public insurance; in contrast, India is betting on the emergence of private micro–health insurance.

2. Payment. The fee-for-service (FFS) payment method, in which health service providers are reimbursed a fee for each service provided, dominates in both China and India. FFS creates incentives for the overuse of health care services, further increasing the burden on consumers. In China, these problems are exacerbated by the use of government-administered price-setting rather than bilateral negotiation between the government and providers. In contrast, India's government and professional associations have little influence on price-setting. Both countries face the challenge of reforming the payment system to reduce overuse and to increase use of more cost-effective health care technologies. Savings from such reforms could be passed on to consumers, reducing their health care expenses.

3. Organization. Starting in the late 1940s, both countries worked to develop public health care systems that provided basic medical care, disease prevention, and health education. Government provision of health care was largely successful in China but less so in India. As a result, China experienced much larger gains in health through to the 1980s. In the 1980s, both countries faced pressure to increase the role of the private sector in providing health care services. India was more successful than China in this, in large part because India's private sector was much more mature than China's.

However, the privatization of health care has had negative effects in both cases. Citizens of both countries now bear greater burdens and risks in financing their health care needs. In addition, the private sector has a greater incentive to provide curative rather than preventive treatments. This reduction in attention to public health, especially on the prevention of communicable diseases and the promotion of healthy lifestyles, may be one of the most important health issues emerging in each country.

Table 2. China and India: Policy Levers Used in Health Systems			
Policy Lever	**Indicator**	**China**	**India**
Financing	Total expenditure on health per capita[a] (2003)	$61	$27
	% of GDP (2003)	5.6%	4.8%
	Out-of-pocket as a % of total medical spending (2003)	56%	73%
	General government input as a % of total medical spending (2003)	36%	25%
	Health insurance	Reliance on public insurance	Emerging private micro-insurance
Payment	FFS	Dominant; governments set price	Dominant; providers set own price
Organization	Public providers	96%	30%
	Public providers	4%	70%
Regulation	Enforcement	Many regulations, little enforcement	Fewer regulations, little enforcement
	Regulatory structure	Diffuse	Very diffuse
Behavior	Education and promotion campaigns	Somewhat effective	Limited by illiteracy

[a]Per capita total expenditure in U.S. dollars at average exchange rates.

4. Regulation. *Regulation* refers to the government's use of coercive power to impose a full range of legal constraints on organizations and individuals (Roberts et al., 2003). Both countries lack a coherent regulatory framework for their health systems. The Chinese government has many health regulations but lacks the capacity to enforce them; noncompliance in the public health system has been exacerbated by structural deficiencies and lack of communication between different government branches. India has less-stringent regulation of the private sector and also less enforcement of laws in both the private and public sectors.

5. Behavior. In addition to formal regulations, governments and the private sectors can achieve their goals by influencing people's beliefs, expectations, and lifestyles through advertising, education, and information dissemination. The health education and promotion campaigns initiated by the Chinese government have been rather effective. However, in India, almost 40 percent of the population is illiterate (compared with 7 percent in China), so the use of print media to convey health messages is much less effective.

Key Challenges and Policy Implications

We conclude by identifying key challenges for China's and India's health systems and their policy implications in each country.

- Reduce the out-of-pocket burden on individual consumers. Currently, both countries rely heavily on out-of-pocket health care payments. However, as Xu et al. (2007) have argued, "moving away from out-of-pocket to prepayment mechanisms is the key to reducing financial catastrophe." This can be accomplished by providing nationalized or social insurance, as is common in Europe, or encouraging private insurance, as is common in the United States. China is leaning toward the former, whereas India seems to be favoring the latter. We recommend that both public and private insurance models and their adapted versions should be considered in both countries in order to meet a diversity of needs. Also, both countries should consider a health maintenance organization (HMO) model with vertically integrated provision of health insurance and health care to contain costs.
- Reform the reimbursement mechanism. Reduction in overuse of unnecessary services can be accomplished by moving away from regulated prices and FFS-type contracts. Both countries should consider separating drug prescribing and dispensing, as well as adopting alternate reimbursement mechanisms, such as the prospective payment model adopted by Medicare in the United States.
- Improve quality of care. Both countries should make quality assessment and evaluation integral parts of their health systems. Developing and encouraging a culture of professionalism in health care can also help to improve quality.
- Increase access to care for the poor. While certain health care services are overutilized, both China and India face the critical challenge of a disadvantaged and underserved population. Both countries need to build more primary health care facilities, especially those that provide preventive

[A key challenge for both countries is to] reduce the out-of-pocket burden on individual consumers.

care and basic curative care, and better manage existing facilities. Special attention should be paid to improving access to care in rural areas by expanding education, screening, immunization, and transportation-assistance programs in these areas.

- Build capacity for addressing and monitoring emerging diseases, such as HIV and obesity, and for promoting healthy behaviors. Both China and India should improve horizontal and vertical coordination between government branches on surveillance and control of communicable diseases. China needs to make its data more transparent and reliable; India needs to develop a more effective surveillance system by investing more resources without interrupting routine primary care. Both China and India have high prevalence rates of smoking; tobacco control is one effective policy instrument to prevent tobacco-related deaths and chronic diseases.
- Match hospitals' capabilities with local needs. Both countries, but especially China, suffer from an inefficient health care delivery system that is overly concentrated in urban areas and thin in rural and remote areas. Policies that ensure capital and human resources for preventive and basic curative care will help lower-tiered clinics and community hospitals to continue to exist and develop.

The above recommendations address the most pressing and fundamental challenges. They will help the two countries to achieve their ultimate health system goals, particularly the goals of improving health and providing financial protection.

As the home of nearly 40 percent of the world's population, China and India face a great challenge in reforming their health systems to achieve maximum health outcomes in the face of limited resources and competing priorities. The health policy choices these two countries make will not only affect their citizens, but could also provide policymakers around the globe with ideas for coping with their own health care challenges. Health system reform is high on the political agenda of both China and India, and it is our hope that this analysis and the recommendations we derive from it will help inform this debate.

Further Reading

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