In early 2009, the China Central Communist Party along with the China State Council announced a comprehensive healthcare reform initiative through a program titled “Opinions on Deepening Pharmaceutical and Healthcare System Reform.” It was a decision that precipitated a host of policy documents, draft implement rules and ultimately, a new future for China.

In the wake of that initiative, China has taken numerous steps to further advance the development of its primary healthcare services system. By 2011, an additional 900 million Chinese will enjoy a basic level of care (compared to 2004 coverage figures). Through its reform program, China will by 2011 have extended its healthcare coverage to 90 percent of the country’s 1.3 billion people, thereby creating a primary healthcare services system that, for the first time ever, offers basic and affordable drugs to the masses.

Chinese healthcare reform stands on four key pillars. The new healthcare financing designed to increase the breadth and depth of insurance coverage and to draw from broader fiscal sources is the first pillar. So are the ways in which primary care services are being systematically strengthened—bolstered by both a three-tier system for healthcare delivery in rural areas and by expanding, dual-referral urban hospitals and community health programs. The Essential Drug List (EDL) with open tender purchases shares the third pillar with EDL retail prices set by central regional governments and value innovation with first-to-marketplace benefits. A series of hospital reforms, including clearer lines between ownership and management and the gradual elimination of drug margins, rounds out the picture.

Underpinning these four pillars is a series of initiatives, all of which have special implications for pharmaceutical multinational companies.

**KEY PILLARS OF THE HEALTHCARE REFORMS**

**HEALTHCARE FINANCING**
- Increasing breadth and depth of insurance coverage
- Broader sources of financing

**CARE DELIVERY**
- Strengthening primary care services
- Establishing a three-tier system for healthcare delivery in rural areas
- Urban hospitals and community health centers dual referral

**DRUG SUPPLY**
- Essential Drug List (EDL) with open tender purchases
- EDL retail price set by central/regional governments
- Value innovation with first-to-marketplace benefits

**HOSPITAL REFORMS**
- Separation of ownership and management
- Gradual elimination of drug margins

**MAJOR REFORM INITIATIVES**
- Increased medical insurance coverage for over 90% by 2011.
- Increased government contributions to urban resident basic medical insurance and a new rural cooperative medical system to 120 RMB per person by 2010.
- Establishment of Essential Drug List System with higher reimbursement.
- Construction and renovation of county hospitals, rural and town clinics, village clinics, and urban community medical service institutions.
- Provision of equal public health services in rural and urban area via establishment of standardized medical records, health screening systems, and strengthened specialized institutions, including mental care, pediatrics, and maternity centers.
- Strengthening of disease prevention efforts and the broadening of national vaccination programs.
- Piloting of drug margin reforms in selected cities throughout 2009.

To ensure the success of its burgeoning healthcare system, the Chinese government has committed US$125 B over the next three years. An estimated 46% of that will be allocated to medical insurance initiatives, 47% to healthcare provisions, and 7% to public health.
Looking Ahead, Past the Reform Era

Clearly we anticipate drastic shifts in the health-care landscape in the post-reform era. It’s important to note, however, that key initiatives will be implemented at a different pace and to a different extent, with further variations at the provincial level.

In the near-term we foresee significant increases in the number of people under the three medical insurance schemes with higher reimbursement levels. IMS anticipates as well the revision of the NDRL and the creation of attractive growth opportunities, particularly in the arena of innovative drugs. With the enforcement of the EDL in the Community Health Centers (CHC) and the rural areas, and with the implementation of central procurement and drug supply systems at the provincial level, we expect to see a rapid expansion of basic and primary care drug usage.

Further, healthcare reforms in China will result in the near-term shifting of a sizeable proportion of primary care outpatients to CHCs as well as to other tier 1 facilities. Greater emphasis on disease prevention and improved access to medical services in rural areas will result as well.

Such near-term change is not expected with regard to public hospital reforms. Tremendous complexity surrounding funding and supervision, not to mention resistance from large hospitals, will inevitably slow that down. Nonetheless, we anticipate a gradual reduction in drug income and a move toward other sources of income for the hospitals over the next three years. This will ultimately lead to the separation of prescribing from dispensing, which can be expected in the 2018-2020 timeframe.

What does IMS think?

With such far-reaching reform implications, and with an ever-growing emphasis on China on the part of competitor MNCs, pharmaceutical companies are faced with a web of challenges across the three key areas of portfolio management, pricing and market access, and the optimization of the commercial model.

When it comes to portfolio management, MNCs will need to focus on optimization scenarios that reflect the changing demographics, disease patterns, and reform implications. This means identifying the most attractive therapy areas for future investment and making tough decisions—premium segment? mass segment? OTC? a hybrid approach?—about investment dollars. It also means taking the time to understand just how the overall portfolio (including current assets and pipeline) is positioned to capture these opportunities and what steps must be taken to strengthen the current portfolio.

In terms of pricing and market access, pharmaceutical companies must dig beneath the surface to understand the likely impact to their business of EDL and NDRL inclusion. How will they, going forward, execute the best strategic options to improve the market access of their high cost drugs; and how will they identify their key stakeholders and map out effective engagement plans?

Finally, it is time for pharmaceutical manufacturers to investigate and to implement a variety of the emergent commercial models—including the contract sales model, local partnership, and deep distribution—now being put to good use, and to meld commercial strategies with future portfolio and target segments. Success in China will come to those who structure their organizations around the opportunities that exist, who respond wisely to the increasing number and complexity of stakeholders, and who build a commercial strategy that is at once flexible and effective in a country both ripe with possibility and destined for continuing change.

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ABOUT IMS

Operating in more than 100 countries, IMS Health is the world's leading provider of market intelligence to the pharmaceutical and healthcare industries. With $2.3 billion in 2008 revenue and more than 50 years of industry experience, IMS offers leading-edge market intelligence products and services that are integral to clients' day-to-day operations, including product and portfolio management capabilities; commercial effectiveness innovations; managed care and consumer health offerings; and consulting and services solutions that improve productivity and the delivery of quality healthcare worldwide.

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