

Chapter 1



Introduction

1.1 Introduction:

China has total population of 1.21 billion, about 80% of them live in rural areas (1995). The birth rate is 17.12 per thousand population while the mortality is 6.57 per thousand population. The current GDP is RMB 5,846 billion yuan (US\$697 billion) in 1995. The current fiscal budget was in deficit with revenue and expenditure of RMB 618.77 billion yuan (US\$74.76 billion), and RMB 680.92 billion yuan (US\$82.34 billion), respectively, at present. Health systems of China is facing a difficult dilemma: on one hand, populations may have important needs for better health and on the other hand the financial resources they can mobilize are limited. Choices have to be made all the time: households allocate part of their budget to health, government have to establish their health budget under budgetary constraints.

In order to meet the need of administration for health services in China, the study on China Total Health Expenditure (CTHE) started in the early 1980s .

In 1991, the China Total Health Expenditure Task Force was established, and the study on CTHE was formally taken as study project in the Network for Training and Research on health Economics and Financing(Network), which was supported by EDI / World Bank.

Some essential questions have been paid attention on the study of CTHE. What is the trend in the percentage of health expenditure in GDP? The percentage of government health budget in health expenditure? Are the percentage adequate?

From the existing data on Chinese health expenditure, many problems were found:

- ❖ In 1995, the percentage of CTHE / GDP is 3.88%, the guideline of CTHE/GDP in developing countries is about 5% by WHO.
- ❖ The share of health funding from the government budget (excluding the subsidies for Government Employee Insurance Scheme) decreased from 32% (1986) to 12% (1995).
- ❖ The share of the out-of-pocket payments from the total health expenditure increase from 20% (1978) to 26%(1986) , 37%(1990), and 50.27%(1995).

National Health Account (NHA) provides the best value when it is carried out periodically and used to track changes in the financing of the

health care system. Three important questions facing developing countries can be addressed by the NHA. First, what is the contribution to and impact on national health spending of reforms which develop new sources of finance for the health sector? Second, what are the functional and distribution implications of efforts to make financing-provision linkages more pluralistic? Third, what is the impact of policies to manage health consumption and expenditure?

However, the NHA analysis has a limitation as it does not take into account of the financial constraint and the link between health expenditure and other potential production sector in the economy.

1.2 Rationales:

The health sector does not operate in isolation from the rest of the economy. The economic situation of China, especially over the last two decades, has affected the public sector and therefore the level of public expenditure on health. China now has realized that the improvements they wish to see in health are constrained by the current state of the economy and by its growth.

This study aims to examine various relationship between national health expenditures and the macroeconomic conditions. This enables the

policy-makers to predict the trend of health expenditures and to learn to know various potential results from alternative scenarios of policy.

1.3 Objectives:

1.3.1 General Objectives:

This macroeconomic analysis can help decision-makers to establish an appropriate development policy and devise health system reforms. There are twofolds: 1) to examine the changes between national health expenditure and important economic variables, 2) to offer an overview of the structure of health expenditure.

1.3.2 The Specific Objectives:

1. Analyze the structure of health expenditure;
2. Predict the trend of health expenditures in China, particularly the government health expenditure within the macroeconomic condition;
3. Using scenarios to assess the possible existing macroeconomic impact on the health expenditure.