A Study of China's Health Reform

Features, Underlying Reasons and Future Trend

China and International Relations

Aalborg University/University of International Relations

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Abstract

Instead of carrying out a research of China's reform as a whole, this thesis selected one of its sub-reforms that took place in the health sector as the objective of the study. With a dynamic perspective, this thesis treats this reform as an institutional shift happens in a post-socialist state. Consequently, the thesis applies two theories that are highly relevant to transitional state and institutional shift. Meanwhile, in order to gain a better understanding of this reform, this thesis goes over the trajectory of China's health reform in details.

With the empirical and theoretical basis, this thesis analyzes the feature of this reform and the underlying reasons. It discovers that the foremost feature of this reform is that the government has not realized the transition of its role. For one thing, it legally acts as the owner of state-owned hospitals; for another thing, it serves as the supervisor of the area. As a result, the problems incurred cannot be rectified timely due to the deficiency of independent supervisory mechanism. This deficiency is also ideologically influenced by the transitional government of China. However, with the emergence of private-owned medical entities, this reform has also planted the seed for further institutional shift, because this process may possibly changes the distribution of social interest. The future trend will be decided by the competition between consolidating and challenging force to the current system, namely those who rely on the authoritarian mode and those who benefit from the well-functioned market.

Clarification

The object of this research is China's health reform. This term specifically represents the reform that has been carried out in the health sector of China since the year of 1985.

It is also necessary to clarify that China's health reform actually includes reforms in various aspects, like medical insurance, public hygienic system and so on. However, due to the lack of space and time, this thesis will mainly focus on the reform that has taken place in the operation of state-owned hospital. Although discussions may not be able to cover all details of China's health reform, this thesis, on the basis of observed empirical data, believes that discussion on the reform of state-owned hospitals would be adequately representative.

Content

Introduction

For many years and on many occasions, China's reform and its outcomes have been debated through different lenses. What is beyond doubt is that, after this thirty years' high-speed economic growth, China has achieved a "triple-jump"——turning into a low-middle income state from a low income state, and then further becoming a high-middle income state. It is also universally acknowledged that China has outrun Japan and become the second biggest economy since the year of 2010. With its population and the vast volume of economy, China correspondingly becomes a pivotal actor in the world economic system.[1]

Under the circumstance, "China Model" has been accredited, by someone, as the key of such an accomplishment. But what is "China Model"? Proponents of the "China Model" hold various interpretation of the essence of the model though, these interpretations converge at certain point that "China Model" and its success depend on a "strong government" that has the greatest administrative power[2]. They believe this model lays the foundation of the rise of China and even paves the way for further "miracles" to come.

However, could all aspects of social changes that have happened in China since its opening-up reform be deemed to be success, or be epitomized by "China Model"? The answer is probably negative.

Actually, doubts and criticism targeting the latent crisis behind "China Model" have ceaselessly occurred. Increasing social inequality, corruption, excessive monetary mobility, environmental damages, etc have been persecuting this transitional state. It seems that China's developmental trajectory is more complex than what is alleged by

[1] JL WU and GC MA(2013). *Re-launch the Agenda of Reform*. Beijing: SANLian Bookstore Publishers. pp. 1-2.
[2] Ibid. pp. 290-292.

those proponents of "China Model".

We may wonder, in this case, that how does China's reform manifest itself? With a comprehensive perspective, it should not be easily represented by "China Model". In order to learn this grand reform, we may also need to apply a "magnifier" to examine reforms in different industries. Because, compared to the general market where new emerging forces coming from the bottom broke fresh ground while the redundant state-own enterprises failed, some fields experienced a different trajectory of reform.[3] These fields are normally defined as "Public market" or "Public affairs" or "Soft economic/social areas"[4]. Markets in these fields differ from those in manufacturing or large-scale industry because of the prevalence of uncertainty and deficiency of initiative "general equilibrium"[5]. It is even granted that government should take a hand in these public affairs, especially with a Keynesian perspective[6].

Given these considerations, a specific understanding of reforms in these fields is not meaningless to the understanding of China's reform as a whole. Thusly this paper will carry a study on the reform of one of those public affairs——health, aiming at epitomizing China's reforms in public affairs and trying to shed a light on the raveled side of China's development.

Health sector is necessary for every society, even the communist society. During the period between 1949 and 1978, China was pursuing a communist regime and the state was operated by the "State-Syndicate"[7]. Correspondingly, the health sector had been fully funded, controlled and supervised by the government. Its reform chronologically came up in the year of 1985 following China's opening-up reform.

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[3] WU, JL. *Understanding and Interpreting of China's Economic Reform*. Shanghai: Shanghai Fareast Press, 2010. pp. 319-328.
[4] Grimsey, Darrin and Mervyn Lewis(2007). *Public private partnerships: the worldwide revolution in infrastructure provision and project finance.* Nothampton: Edgar Elgar. pp. 18-20.
[5] Arrow, Kenneth J. (1963). "Uncertainty and the Welfare Economics of Medical Care". *American Economic Review*, 53 (5). pp. 941–973
[6] Donald Kettle(1993). *Sharing Power—Public Governance and Private Markets.* Washington D.C: The Brookings Institution. pp. 1-3.
[7] WU (2010). op.,cit. p.12.

After this almost 30-year reform, Chinese now could enjoy a health network covering both urban and rural areas, a Medicare system supporting people at different ages and a public health system dealing with emergent events, etc. Meanwhile, individual health expenses once roared up to 65.3% of health expenditure per capita, as much as about five times that in the UK or France[8]. It is commented that China's citizen could hardly enjoy the fruition of China's opening-up and reform because the individual expense excel the government investment in the health sector, and difficulties and high expenditures in medical treatment are the mostly bothering topic throughout the state[9].

Around the year of 2006, a debate about which direction China's health reform should move in broke out. Some criticized that it is the "market-oriented reform" that generate the turmeoil in health sector and claimed that China's health reform should insist the planned economy mode.[10] While the opponents pointed out that it is not the market-oriented reform but the authoritarian mode contributed to today's situation.[11]Afterwards, with the pressure from both the society and the government, China's government announced that a new round of reform in health sector is about to launch.[12] So to speak, after all these 28 years of reform, China is still groping for a suitable path for the development of its health sector.

We may wonder that why couldn't China find the right path when it first set the reform out? What underlying problems profoundly hinder? Given this, we are going to specifically inquire that what (kind of) problems China's health reform generates while accomplishes such achievements; what its essence is and how it has been shaped? We hope that enquiries in this cause could provide an insight for further

[8] LI, Jun and Qi XIAO(2010). "A Study of the Status of China's Health Affairs". *Science and Technology Association Forum,* no.1(2010). pp. 71-72.
[9] WU, MA(2013). op.,cit. p.212
[10] LIU, GL and Xia JIN.(2012). "Ideology, Institution and Interest:An Understanding of China's Health Reform". *Special Zone Economy*. No.3 (2012). pp.133-135.
[11] WU, MA(2013).op.,cit. p291.
[12] LI,XIAO. op.,cit.

understanding in China's development.

Problem Statement

Based on the aforementioned wonderments, we have formulated the following problem statement:

How does China's health reform manifest itself and what consequences it could generate to further reform in the future?

- What factors feature China's health reform?
- Why has it been established this way?
- How would it possibly influence further reforms?

Methodology

In this thesis, suitable theories and reliable empirical data will be applied to undertake an analysis enabling us to unravel the problems formulated above.

Pursuant to observations that China's reform in health sector was conducted with the socialist regime framework, we have developed several questions and a relevant hypothesis. From this, the aim of this thesis is to illustrate the essence of China's health reform and the reason bringing about it. Furthermore, it is also intended to reflect on the future development of China's health reform. This understanding is planned to gain through the application of two selected theories and the study of a series of interrelated cases.

1. Scientific Approach

Through the following analysis, the "Deductive Method" shall be applied. According to our hypothesis, the thesis will go into examine selected cases thus to verify/falsify the hypothesis and thereby provide us a thorough understanding on China's health reform. More specifically, two theories will be successively applied in studies on "the essence of China's health reform is" and "what reasons bring this reform about".

The so-alleged "Deductive Method" initiates a scientific process supported by relevant theoretical knowledge and embodied by studies in targeted subject. With a certain theoretical perspective, observations would create a realistic hypothesis. This hypothesis should be able to disprove or prove via a scientific process——verification or falsification. During this process, both theories and empirical data will be applied. What is also worth of noticing is that this process cannot be a definite process because many factors can impact and even disrupt it.

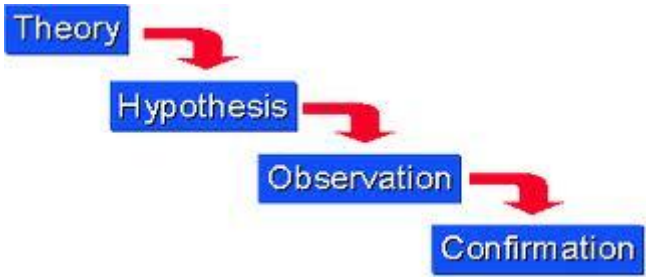

Figure1 Illustration of the Deductive Method[13]

2. Hypothesis

The hypothesis of this research is formulated with the basis of the problem statement above——"How does China's health reform manifest itself and what reasons bring this reform about and what influence can such a reform have on the further reform?" Taking certain observations as background, it is assumed that China's health reform cannot be judged successful. Under this circumstance, we further hypothesize that this sort of failure stems from its "Top-bottom" pattern. Through this lens, the coming discussions will actually focus on the transition of China's health system, where the China's transitional government and socio-economic background will be main actors. In conclusion, it is hypothesized that the failure of China's health system stems from the structure of administrative system of the sector. And current problems and tensions cannot be removed without a structural reform.

3. Empirical Framework

As this thesis is going to unravel what features China's health reform and why this sort of reform took place. It is necessary to go over relevant historical cases so as to create a comprehensive and supporting picture of the trajectory of China's health reform. Besides, it is also believed that as a branch of many reforms happened during

[13] Introduction of Deduction and Induction. In webpage of *Research Methods Knowledge Base.* <http://www.socialresearchmethods.net/kb/dedind.php> (23-5-2013)

that period of time, China's health reform was profoundly impacted by socio-economic background of China. Taking this into account, a brief introduction about China's developmental path from 1980s to 2000s is deemed necessary and helpful so that it will be briefly introduced in the empirical data part.

Then with careful reorganizing relevant empirical data, the thesis will chronologically go examining important events and time nodes through China's health reform. This will shape the backbone of the empirical part. Though the empirical data part, this thesis will be focusing on the trajectory of China's health reform, the thesis will also need to illuminate the status quo of China's health system with various aspects, like scales and monopoly of public hospitals and compensation mechanism. Both quantitative data and narrative cases will be applied within this part.

4. Theoretical Framework

Since the objective of the thesis is to discover what factors feature and shape China's health reform and how they will impact the future reform, theories about "post-socialist transitional state" and "institutional shift" will be applied. This, we think, is suitable for the study and will provide us a political-economic insight into understanding of China's development path since 1978.

The first theory, developed by Janos Cornei, is esteemed as one of most authoritative theory about transition of communist state. Because it illustrates the key elements, dynamics and external factors that impacting the transition of former communist state, this theory will be applied to examine what features China's health reform from aspect to aspect, like government functions, ideology and property right.

The second theory belongs to the neo-institutional school. It is the latest academic fruition of Ronald Coase, one of representative figures in institutional school. Ronald

Coase has paid a lot attention on China's development, and then further developed the theories of "Institutional shift" on the basis of China's reform. This theory will be applied to reflect on why China's health reform came out in this way and how would this exert influences on the future.

Along with these two theories, relevant theoretical tools and notes will also be introduced in the coming theory part to support the analysis. Because the subject of this thesis is related to the health market that differs from general markets, we need to take usage of some useful theoretical conclusions as tools to serve the discussions in the thesis better. These theoretical tools are selected from the fields of "Health Economics" and "Public Management".

The flow chart below illustrates the methodological strategy and the structure of this thesis:

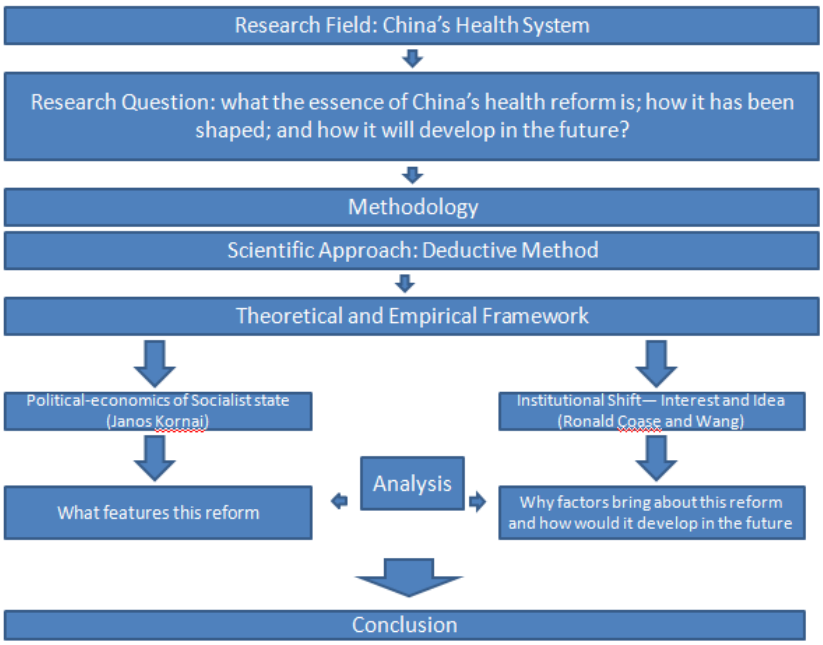

Figure 2. Illustration of Methodological Framework of this thesis

Theory

In this part, theories developed by Janos Kornai and Ronald Coase will presented to help gain a better understanding about the reform that have been taking place in China's health sector.

1. The Socialist System

Janos Kornai is world-wide esteemed Hungarian economist, Professor Emeritus of Harvard University and six times' Nobel Prize Nominee. In the year of 1955, Kornai entered the economic institute of Hungarian Academy of Science. During his first years in HAS, he initiatively produced a book entitled "Overcentralization of Economic Administration" as a critical study on planned economy. This book was the first book written by an "Insider" to criticize the communist economy. However, this book couldn't be well accepted by authorities then, as a result, Kornai got fired from HAS. Afterwards, He entered other economic institute in different industries, even directed certain planned economic project. Many years' working experience in Communist institute rendered him very well knowing the limit of planned economy and led him to further theoretical works. Throughout his life, Kornai has never moved his eyes out of issues like socialism and post-communist transition. His book "Economics of Shortage" and "The Road to Free Economy" globally gained much reputation for him and were treated as pioneering work in certain fields. [14]

Hereby this thesis will apply the theory developed by Janos Kornai in his book "The Socialist System——The Political Economy of Communism".[15] This book was

[14] The profile of Janos Kornai in Harvard University Website. http://economics.harvard.edu/people/j%C3%A1nos-kornai (5-29-2013)
[15] Kornai, Janos(1992). *The Socialist System——The Political Economy of Communism* .New York: Oxford University Press.

evaluated as the pinnacle of Kornai's studies on Socialist issues. It contains comprehensively theoretical analysis and covers sequential phases of the "Rise and fall" of a communist state. This thesis will specifically quote and apply Kornai's theory about characteristics of socialist state and post-socialist transition.

It is argued by Kornai that alike other occidental countries, socialist states also consist of legislative, administrative and judicial branches. However, operation of a socialist state relies on hierarchical orders. Kornai pointed out that it is because that the structure of socialist state distinct from capitalist state in three ways:

1. Important appointments are made by Party and government orders;
2. Party organizations make decisions that could act as administrative orders from government;
3.Party members and organs participate in administration of national and social affairs.[16]

Furthermore, these orders fully embody the ideological "superiority complex" and a sense of paternalism. This superiority is based on such an assumption that the socialist productive relations are more beneficial for the development of productive forces than those in capitalist states. Thusly it is commonly believed that socialist would outrun capitalist states sooner or later. This sense of superiority is the most significant part of official ideology in socialist state and can strengthen and support the legitimacy of communism. It is also indicated by Kornai that another pivotal part of socialist official ideology is the perception of the position of Party in the state power structure. At the same time, socialist government used to declare its dictatorship, and in order to keep this dictatorship legitimate, Party must be at the top of political ladder. Therefore paternalism is significant and necessary in keeping this legitimacy.[17]

"Power structure" and "Official Ideology" are significant but not enough in making

[16] Ibid.p.35.
[17] Ibid.p. 45,48,51.

the whole state apparatus function well. Besides, coordination mechanism is needed and can act as "hinges" to keep this apparatus work. Kornai elaborated that there might exist five coordination mechanisms in a socialist state, namely bureaucracy coordination, market coordination, self-discipline coordination, morality coordination and family coordination.[18] Among these, bureaucracy coordination prevails in any state organs. This mechanism both creates and maintains the hierarchy within an entity. Information flows from the "top" to the "bottom" or from the "bottom" to the "top". This mechanism also generates the restriction and incentive mechanisms.[19] What is worth of noticing is that bureaucracy coordination is not the product of socialism, but it is the most prevalent one and can exclude the others in a socialist society. This is because dictatorship, state ownership and bureaucracy coordination inter-depend on one another.[20]

As to state ownership, we must distinguish public property from public goods first. The property right in public goods is not settled; however, public property nominally belongs to the whole nation while it is exercised by the government practically. According to certain statistics, public property or so-alleged state-owned capital took the overwhelming position in most socialist state before 1990. However, compared to the capitalist state where public goods need government to invest, public goods and agriculture are treated as subordinates to heavy industries that are titled as "heights" in socialist states.[21] In this case, most of surplus values are produced by investment of state-owned capital in heavy industries and shall be disposed by the government. Consequently, deposition of national wealth belongs to bureaucrats.[22] In a word, public property should be treated as a kind of "ideological declaration", because it cannot be a reflection of the real relationship of proprietary in socialist states.[23]

[18] Ibid. p86-88.
[19] Ibid.p91-92.
[20] Ibid.p93-94.
[21] Ibid.p57.
[22] Ibid.p80-83.
[23] Ibid.p82.

Under this circumstance, the incentive generated by private property cannot prevail in socialist states. But incentive mechanism is necessary for any kinds of producing activities. Socialist bureaucrats had to artificially design and develop some alternative incentive mechanism instead. Usually it was incarnated as "expansion of autonomy".[24]

Above we have introduced Kornai's arguments about key constituents of a socialist state, we may further wonder that why these socialist states withdrew from the historical stage and what characteristics these withdrawals share? Kornai pointed out that socialist state could function well for a limited period of time, but it cannot last long because of its inherent problems. It is summarized by Kornai that economic hardship, popular discontent, loss of confidence in policy-makers and exogenous demonstration effect are the four reasons that gradually overthrow the socialist regime.[25]

However, it is also concluded by Kornai that deviation from socialist regime is a complicated process. Changes would happen in various areas like political structure, economic growth structure, ideology, coordination mechanism and proprietary relations, and degrees of the deviation varies between states. To measure the degree of deviation from socialist regime, Kornai developed a set of criteria with two referential dimensions:

1. The profound degree of deviation
2. The complete degree of deviation.

With the chart below, Kornai argued that further the reform is away from the first layer (the dominance of official ideology), more superficial it is. For example, the changes in proprietary relations make the reform more profound than changes only in coordination mechanism. As to the complete degree of deviation, reforms or

[24] Ibid.p. 363-364.
[25] Ibid.p.364-366.

deviations on each layer could be complete or partial[26]. Through this lens, we may be able to define the distinction between reform and revolution in socialist. It is observed by Kornai that any deviation that carries over the country in socialist regime should be defined as reform. Usually this kind of deviation do not happened on the first and second layer, that is to say political structure and relationship of proprietary are not changed. However, Kornai also pointed out that reform must be, to some extent, profound and relatively radical. Concretely it should change at least one of political structure, property right and coordination mechanism.[27]

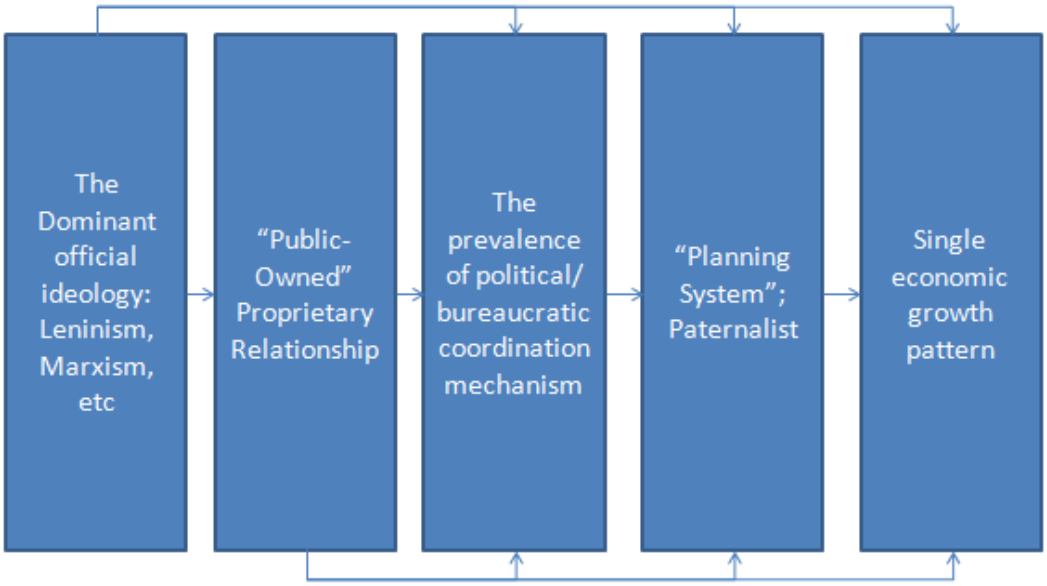

Figure 3. The Causal Relationship in Typical Socialist State.[28]

Kornai further categorized those deviations into three sorts: top-design, political reform and rise of private capital. Among these, top-design believes that government is already adequately aware of the limit of planning economy and also knows the way to fix it. As a result, this kind of reform will not refer to any change in political regime and property right arrangements.

[26] Ibid.p.343.
[27] Ibid.p.366-367.
[28] Ibid.p.343.

During the process of reform, official ideology will correspondingly evolve so as to maintain its legitimacy. However, Kornai indicated that there exist some notions in official ideology are unchanged. These notions are normally related to political structure and property right.[29]

With political structure and property right unchanged, state-owned capital will remain its predominance. Consequently entities are positioned within a dual-dimension coordination mechanism. There both vertical/hierarchical and horizontal/level-playing relations prevail.[30] However, the vertical or hierarchical coordination mechanism overwhelms the other one because of its political background.[31] Under this circumstance, many entities in transitional society are practically controlled by government and maintain "soft budget constraint" as it did before the reform.[32] The whole market has been divided into two part——one with political background and the other without. Only if the true market force is able to compete with governmental forces, the market mechanism could take effect. Otherwise, administrative monopoly would prevail.[33]

In the coming analysis part, Kornai's theory will be applied to investigate the characteristics of China's health reform and to gain a better understanding of this reform. Discussion about property right, coordination mechanism and influence of state-owned capital will be examined one after another, aiming at sketching a whole picture of the reform happened in China's health sector. At last, with the basis of acquisition of this reform's features, the thesis is about to probe into and define the essence or nature of this reform.

[29] Ibid.p.377.
[30] Ibid.p.446-451.
[31] Ibid.
[32] Ibid.p.456
[33] Ibid.p.440.

2. Institutional Shift——Interest and Ideology

The thesis regards the occurrence of China' health reform as a process of institutional shift. Given this, hereby we are going to apply a theory about institutional shift. This theory is developed by a representative of neo-institutional school Ronald Coase and his student Ning WANG.

Ronald Coase is a British-born and American-based economist. He is also a Professor Emeritus of Economics in the Law School of University of Chicago and the laureate of Nobel Prize in 1991. His 1937 paper "The Nature of the Firm" established the "Transaction Cost Theory" and 1961 paper "The Problem of Social Cost" founded the so-alleged "Coase Theorem" and a new economic research field——"Law and Economics". Besides being awarded the Alfred Nobel Memorial Prize in 1991, he was, in 2003, also the winner of "The Economist Innovation Award" in the category of "No Boundaries". [34]

Ronald Coase, along with Douglass North, Oliver Williamson, Armen Alchian, Steven Cheung, etc, has founded the "Neo-Institutional Economics". Beyond the earlier institutional economics and neoclassical economics, NIE attempts to extend the focus onto social and legal statute and norms underlying and regulating economic activities. As relevant researches in this field developed, now NIE School consists of many aspects of studies, like property right, transaction cost, organizational arrangements, ideology values, hierarchical structure and modes of governments and so on. [35]

In this thesis, it is going to apply a theory developed by Coase and Wang in their latest

[34] The profile of Ronald Coase in the Chicago University Website.
< http://www.law.uchicago.edu/faculty/coase>(5-29-2013)
[35] Malcolm Rutherford (2001). "Institutional Economics: Then and Now". *Journal of Economic Perspectives*, 15(3). pp. 185-90

book "How China Became Capitalist".[36] Throughout the book, Coase and Wang reflect on the trajectory of China's development since 1978. Coase and Wang, with an "Institutional Shift" perspective, amplified how China realized this incredible feat.[37] They also came up with certain critique to earlier studies on the "problems behind China's success" and pointed out that lacking of "The market for ideas" is the reason that China is meeting the "Bottle-Neck" in socio-economic development. [38]

In order to better establish the theoretical tool we need in the coming analysis, here we are going to introduce some basic theoretical knowledge in "Institutional Shift". To begin with, the classic "institutional shift" theories believe that institution can be treated as a sort of public goods. With this perspective, there must exist the demand and supply relationship of institutions in the society. In addition, the modes of institutional shift can be categorized as "initiative" and "inductive". As to "inductive institutional shift", the government, which is theoretically called secondary action subject, is the supplier and has to meet the demand of the society. When excessive externalities occur, the existing institutions might not be applicable and the demand for new institutions arises.[39]

However, the classical theories, with a static perspective, treated the "institutional shift" as the outcome of certain a "productive" activity. Responsively, Coase and Wang argued that institutional shift is not mutation but a process. And this process could be long and full of uncertainty. Two major factors influence this process, namely interest and ideological struggle. That is to say Institution shift could always embodies the result of interest conflict and ideological changes.[40] This is because institutions have two different but inter-related functions, the first and the foremost is to "*constitute various social groups out of individuals"*. Coase and Wang further

[36] Coase, Ronald and Ning WANG(2012). *How China became Capitalist.* New York: Palgrave Macmillan.
[37] Ibid.p.10.
[38] Ibid.p.158.
[39] Davis, Lance and Douglass North(1970). "Institutional Change and American Economic Growth: A First Step Towards a Theory of Institutional Innovation". *The Journal of Economic History.* 30(1),(1970). pp.131-149.
[40] Coase and WANG (2012). Op.,cit. p.82.

argue that "*Once created, how these corporate actors work and interact with each other to bring about the intended goals is further regulated and coordinated by other institutions.*"[41] In another word, institutions are man-made devices or vehicles to achieve certain aims. It is also concluded by Coase and Wang that Institutions could not only tell people "what to do", but also "who we are". This is the second function that institutions assume. In this second function, institutions are more like symbols signaling what values we hold rather than tools serving interests. Recognition could grow as time goes when we take institutions as badges we wear. Consequently this cognitive change at individual level may exert a profound impact at a societal level.[42]

To sum up, Coase and Wang emphasized that both interests and ideas are the two major dynamics pushing forward institutional shift. As a result, the process of institutional shift could be gradual and hazardous. Political power can take a hand in during this process, but its function may not be certain. Political power could speed up or a process of institutional shift while it can also act as an "iron-fist" to impede any institutional changes when existing institutions are functions against the will of the public. [43] Furthermore, political interventions could also generate the loss of institutional diversity, which could be a serious, even fatal liability if the prevalence of institutional diversity is needed.[44] In other words, institutional diversity warrant the existence of diversity in interest groups and ideas, lacking of institutional diversity may reduce the possibilities of future institutional shift.

Contextually, Coase and Wang pointed out that an independent "market for ideas" may be crucial for successful institutional shifts. Firstly, it is because this independent "market for ideas" could create an arena where ideas and ideologies may mutually exchange, communicate and influence. Secondly, lacking of a free and independent "market for ideas" is usually related to the lacking of institutional diversity and

[41] Ibid.
[42] Ibid.
[43] Ibid.p.50.
[44] Ibid.

political monopoly, because political interventions is the most powerful destroying force to "market for ideas". In addition, socio-economic development status and ideological orientations could also play a role in establishing of an independent "market for ideas". At last, a free "market for ideas" is highly relevant to democracy and political reform, but it is not the production of democracy and it may not certainly help maintain democracy because of threat of tyranny of the majority.[45] In a word, a free and independent "market for ideas" relies on the non-existence of political monopoly where various interest groups could bargain; and it is also under the influence of both socio-economic and ideological factors; its development may be subject to the existing institutions while it can play a part in pushing forward institutional shift.

In the coming analysis part, the theory stated above will be applied to probe the reason bringing about this reform in China's health sector. Correspondingly, the thesis will focus on both the interest group and ideological factors that may shape the trajectory of China's health reform. Furthermore, whether there is an independent "market for ideas" and its ramifications will be discussed so as to shed a light on how China's health reform is going to develop in the future.

The two theories set forth above are the ones will be applied as theoretical tools in the analysis. However, because the object of this research is reforms in health sector, we may need some relevant and specific knowledge on health market. Given this, we are going to introduce some expertise in health economics to pave the way for the analysis.

[45] Ibid.p.159-160.

3. Other Theoretical Information

The theoretical information mentioned below actually includes some literature studies. Some conclusion from esteemed scholars will be introduced and interpreted. However, the theoretical information in this section will not be specifically applied to examine the hypothesis but applied to facilitate the analyses. Because this thesis agrees to the arguments presented below, it will take a usage of these theses to found a theoretical background for the analysis part.

First of all, we need to know the essence of "health product" so as to know the role of government in the health market. It is rather commonly acknowledged that many liberalist arguments claim that government should not intervene the general market and should focus in provision of public service.[46] With certain statements, we may wonder that whether the health market is the field where government interventions are necessary?

The answer is not simple. On the one hand, "health product" does possess the "exclusiveness" as other private products do. Through this lens, "health product" shall be defined as "private product" rather than the typical "public goods" where governmental interventions are always necessary.[47]

On the other hand, "health product" and "health market" differs much from other general products and markets. It is concluded that "uncertainty" prevails in almost every aspects of "health market", including the supplying, demanding, performance of products and so on. In a manner of speaking, "uncertainty" is the core attribute of "health market". Given this, it is concluded by Kenneth Arrow that the health market

[46] Folland,Sherman, Allen C.Goodman and Miron Stano(2011). *The Economics of Health and Health Care.* Translated into Chinese by WANG, Jian, Shunping Li and Qingyue MENG. Beijing: RENMIN University of China Press. pp.421-432.
[47] Ibid. pp.423-426.

is inherently unable to achieve the "general equilibrium" and cannot initiatively accomplish the so-alleged "Pareto Improvement".[48] Arrow pointed out that the society, under this circumstance, would take certain actions to rectify this failure; and among all options to take, government intervention is proved to be a feasible one. Moreover, what is worth of noticing is that government intervention, like other social movements, must be subject to certain value judgment. In other words, the orientation of governmental interventions in the "health market" would greatly influence the development of the market.[49] To sum up, out of certain feature, "health market" may need government interventions to help level off to the "Pareto Optimality".[50]

However, it is not proved that governmental forces should monopolize in such a field. This statement refers to another discussion, that is, what is the core competency of government. Out of the development of modern society, the government has gradually taken charge in various aspects of public affairs, including health, education, transportation, telecommunication, etc.

During certain a period of time, it is perceived that the legitimacy of government's interventions in certain areas is granted. Keynesianism was the most representative. It was observed that between 1930s and 1980s, such a belief had prevailed across the western world. People believed that the government was the omnipotent "knight" who would come up to rectify the problems caused by market failure and social vicissitudes.[51]

However, along with the emergence of "Public Choice Theory", "Thatcherism" and "Reagonism", a sort of ideological change occurred. People began to re-consider the

[48] In neoclassical economics, an action in an economy helps at least one person. The theory suggests that Pareto improvements will keep adding to the economy until it achieves a "Pareto equilibrium" where no more Pareto improvements can be made.
Seen at the Investopedia.
< http://www.investopedia.com/terms/p/paretoimprovement.asp>(5-29-2013)
[49] Arrow(1963). Op.,cit.
[50] Folland(2012).Op.,cit. p.425.
[51] Kettle(1993). Op.,cit. pp. 2-3

role of government in various public affairs. With the recognition of governmental failure, the society stopped to worship the governmental intervention blindly.[52]

Actually, debates on what is the core task of government has continued for decades. It was converged that legislative, administrative and judicial activities shall specifically belong to the government.[53] Someone pointed out that the government shall be the protector of the domain, and the guardian of the society.[54] Milton Friedmann concluded that the core competency of the government is to provide such a channel to revise rules; and on the basis of these rules, to act as reconciler; and then compel those who violate the rules to obey.[55]

Friedmann also pointed out that the government should help the disadvantaged groups in the society.[56] However, obviously the terms of references of the government have exceeded the range described above. Arthur Seldon in this regard indicated that many public organs are created by political movements rather than the real need for economic development.[57] ZHOU also concluded that historical evidences cannot provide us a proof that government is more competent to surmount problems in public market than the market itself.[58] In this case, Officer further suggested that the arrangements about the accountability of government in public market shall be made on the basis of pursuit of maximum public welfare. Either the market or the government could take a hand in certain affairs with respective comparative advantages.[59]

As a conclusion, it is not granted that the government should monopolize in public

[52] ZHOU,Zhiren.(2005). "New Concepts in Public Management of Government". *Journal of Peking University.* 42(3),(2005). pp.103-111.
[53] Grimsey and Lewis(2007). p.96.
[54] Ibid.
[55] Ibid.
[56] Ibid.
[57] Seldon, Arthur(1993). "Politicians for or against the people". In *Government Servant of Master*, edited by Gerard Radnitzky and Hardy Boullon. Amsterdam：Rodopi. pp.3-22.
[58] ZHOU(2005).op.,cit.
[59] Officer,R.R(2003). "The Respective Roles of Government and the Private Sector and Private/Public Partnerships". *Public Private Forum*, The Accounting Foundation, The University of Sydeney, 8.Dec(2003).

market and affairs. However, many of those markets cannot function well without government's interventions. To improve the performance of these markets is to pursue the proper range of government's accountability. With such a perspective, this thesis believes that governmental monopoly in the public market, like health or education, is not the best pattern. The flexibility of government's accountability is, to some extent, necessary for the development of these markets so as to accommodate the complexity of the society.

Additionally, "health product" has another attribute, that is, the rate of inflation in "health market" is higher than the general inflation rate.[60] And it is defined by scholars that the inflation in the "health market" is the cost-push inflation. Due to the ubiquitous desire to improve health conditions, capitals and technologies are continuously and increasingly invested in such industry. Consequently a kind of persistent cost-push inflation would befall.[61] The foremost consequence of this inflation tendency is the decline of availability of "health product".[62] In response to this, government usually has to invest via financial input to prevent the society from the decline of availability in "health product", aiming at maintaining social order and public support to the government.

[60] Folland, Goodman and Stano(2012). Op.,cit. pp.11-12.
[61] Ibid.
[62] Ibdi.

Empirical Data

1. Socio-economic Background

China's developmental trajectory is not unfamiliar to many ones. Hereby this thesis will not go over details about the entire China's opening-up reform course. We will just briefly demonstrate several significantly related events that play a part in the establishment of China's health reform.

1.1 Ideology

It is indicated by scholars that China's opening-up reform assumes a characteristic of duality.[63] One part of this duality is so-alleged "marginal revolution". This "marginal revolution" is a "bottom-up" reform bringing back a private sector to China while kept the state-owned sector intact.[64]

The other part which happened in the state-controlled sector was presented in a form of "economic decentralization". It was officially called "delegating rights and sharing profit", namely assigning more autonomy to local actors.[65] Concretely this reform was undertaken in three areas——state-owned enterprises, foreign trade and public finance. [66]

The guiding ideology behind this was believed to inherit the pattern of reforms before 1978. That is giving more incentives to local governments via re-assignment of autonomy. This guiding ideology was created within the typical socialist

[63] WU and MA(2013). Op.,cit.pp.122-138.
[64] Coase and WANG(2012). Op.,cit.pp.153-154.
[65] Ibid.p.78.
[66] Ibid.

political-economic framework. When the societal and economic development stagnated, policy-maker of socialist states would choose to shift autonomies from the planning institute——the government to micro units——enterprises. [67] Without privatization, this form of reform was deemed to be legal and licit and not damaging to the foundation of socialism.

This mode of reform had lasted about 18 years in China after the tectonic shift of China, which reflects this "gradual and progressive reform" and the guiding ideologies behind it. On the one hand, the core of socialist regime remains the property right relationship and hierarchical coordination mechanism; on the other hand, the socio-economic development urges some sort of incentive mechanism to stimulate and boost production.[68]

Alongside, with the influence of Leninist and Stalinist, the government of China believed that the "heights" of national economy laid on stated-owned enterprise and the expansion of investment in stated-owned enterprise would result in the boost of economy. Thusly public affairs had to be in a subordinate position. "Delegating rights" and "autonomous management" were not only the creed in the reform of state-owned enterprise, but also in social affairs. However, those fields, like education, health, belonging to public affairs could not get adequate financial support from the government. [69]

1.2 Fiscal System

China's fiscal system has evolved twice since 1978. Between the year of 1980 and 1994, the fiscal system of China was carried out in a form of "Fiscal Contracting System". Then this system was replaced by "Fiscal Sharing System".

[67] WU(2010).op.,cit. pp.38-46.
[68] Ibid.pp.42-44.
[69] SONG,Lin(2012). "Retrospection and Reflection of China's Health Reform". *China's Market.* No.31(2012). pp.143-144.

Before 1980, there was no real "tax" and "monetary" systems in the planned economy, even the central bank of China was just affiliated to the Ministry of Finance once.[70] To match up with the "Delegating Right and Sharing Profits", China's government decided to lay a reform on its fiscal system. Consequently, this reform's foremost task was to offer better incentives to local governments and state-owned enterprises.[71] Basically this reform established a system where central and local governments shared all the revenue. Within this system, a pre-settled budget expenditure quota was consolidated exogenously on the basis of negotiation between central and local governments and 1980-1982 provincial levels. Sequentially, various sharing rates were set to cover this expenditure and to accommodate differing local conditions.[72] To guarantee the expenditure that local economies needed, China's central governmental also provided that if the local yearly revenue was more than the quota, the surplus left to local coffers; if the revenue was less than the quota, the difference would be offset by financial support or loans from central governments.[73] It is commented that this is an ambitious reform aiming at overhauling the whole fiscal system. This adjustment was also seen as a mandate alongside the market-oriented reform at the time. [74]

It is observed that the prime advantage of this system was that it generated incentives for tax collection at local levels. However, the outcomes of this reform were highly complicated. This bargaining mechanism between central and local governments oddly led to an extremely low level of retention of revenue to the central government. Although the sharing ratios were fixed, the local governments spared no effects to increase revenue and to reserve as much as possible into the local coffers. As a result, a vast fiscal income loss happened to the central government. In the increment of

[70] WU and MA(2013). Op.,cit. p.182.
[71] WONG, Christen.P.W(1992). "Fiscal Reform and Local Industrialization: The Problematic Sequencing of Reform in Post-Mao China". *Modern China*, 18(2), April(1992). pp.197-227.
[72] Ibid.
[73] Ibid.
[74] Ibid.

fiscal income, only 3.3% belonged to the central government in the year of 1988 and 4.8% in the year of 1989. Local governments began to perform for its immediate interest. It was astonishing that during the late 1980s, the central government of China failed twice to "borrow" money from local governments.[75] In a word, the central government of China in 1980s was running out of money and the whole fiscal system was fragmented. [76]

At the same time, the central government still assumed its tasks as before. Gradually the central government became unable to afford expenditures in public affairs since the mid-1980s while local governments focused on increasing industrial production and thusly subordinate the investment in public affairs.[77] Therefore, an indifference to public affairs, like education and health, was prevailing.

[75] WU and MA(2013). p.189.
[76] Ibid.
[77] Ibid.

2. The trajectory of China's health reform

China's health reform also carried a "delegating rights and sharing profit" mode. China's health system evolved from the health department in a socialist regime. Before the reform, 100% of hospitals in China were state-owned.

Back in the year of 1980, the thought to apply "delegating right and sharing profit" in health sector was already initiated. However, there were no actual deeds carried out until 1985. In the first half of 1985, the state council of China circulated a report on "policy issues about the reform in health sector" and kicked off the health reform. [78]

This report required that governments at respective levels support hospitals with preferential policies but withdraw financial support. It is observed that "delegating rights" and "expanding autonomy" became the guiding ideology of the reform at the beginning.[79] Afterwards, the Ministry of Health of China encouraged hospitals to apply "contract responsibility system" and "director responsibility mechanism" as the managerial mode to fulfill autonomous operation. It further laid down that government should support hospitals with "fixed subsidies" that is set on the basis of exogenous negotiation.[80] All these measures were set to offer incentives to hospitals. Consequently, a new relationship between governments and hospitals occurred. With limited financial support, China's government allowed hospitals widening incomes via "drug price mark-up" and "service charge mark-up". Gradually hospitals had dived for expanding operating incomes.

In the September of 1992, the state council of China issued the "Opinions on deepening the reform in the health sector" which requires intensifying the autonomy

[78] SONG(2012).op.,cit.
[79] Ibid.
[80] Ibid.

in hospital operation and insisting on the development of profitable business. Besides, it also suggested reassigning more autonomy on personnel issues.[81] However, independent disposition on personnel issues in state-owned hospitals has never been realized since then, especially on appointment of senior managers.

Four years later, the state council firstly convened a specific meeting about the reform in the health sector. This meeting also initiatively pointed out that concerns about social equity should be blended in the reform. This event marked a transition in ideology of China's government in management of public affairs.[82] A year after this meeting, the state council of China pinpointed that it was the time to establish the medical insurance system and to adjust the mechanism of hospital operation so as to maintain social equality.[83]

However, up to the 20th century, state-owned hospitals in China had not changed this operation mechanism. As a response, drug prices had soared up; and doctors tended to apply "high-value equipments" to carry out examinations so as to charge more. Tensions occurred in the health market. Although the government realized that the operation of hospitals can not deviate from maintaining social justice, practical measures rarely came up. Government even tried to rectify these problems by the means on the other extreme of spectrum——privatization, but these trials failed to bring about satisfactory results too. As statistics from WHO (World Health Organization) showed, the unfairness of China's health affairs topped the list (the fourth among 191 investigated countries).[84]

After entered the 21st century, debates on tensions and problems in China's health reform have increased and spread. In May of 2005, a reported from the "Development

[81] ZHONG, Dongbo(2002). "Reforms Suggestions to the Operational Mechanism of China's State-owned Hospitals". *Chinese Economics of Health.* 21(232). pp.18-21.
[82] SONG(2012). Op.,cit.
[83] The State Council of China(1997). "Decisions on the development of the health sector" http://www.jdzx.net.cn/article/402881e4094442080109473d4662001f/2009/3/402881e4094442080109487e45b1002a.html
[84] LI and XIAO(2012). Op.,cit.

Research Centre of the State Council" announced that the reform in the health sector failed the society.[85] This reported also sparked a fierce debate about which way China's health reform should choose. In July of the same year, the vice president of Ministry of Health explicitly pointed a finger at "market-oriented reform". He claimed that it is the introduction of market mechanism that generates the existing problems in the health market. With this open opposition of "market-orientation", he further avouched that the development of China's health affairs should accommodate China's situation and cannot succeed without puissant government interventions.[86] On the contrary, some others pointed out that this argument is just agitation. They further refuted that the true and complete market mechanism has never been set up because of the wielding of government's iron fist. They insisted that it was the recessive dual-track system created by Government that has caused all the tensions and problems in the health sector.[87] The occurrence of this debate is thought-provoking and it also reflects the ideological disunity in which way the future reform shall take.

As the debate went on, the central authority finally launched a new round reform in the health reform in the next year. This newly rebooted reform emphasized on improving availability of health production and service. As a response, in 2010, "drug price mark-up" mechanism was overhauled; newly designed medical insurance for rural population has been effectuated. However, reforms in relationship of property right of state-owned hospital and appointment issues of senior managers of hospital have been perennial, and no practical deeds have been implemented in such cases.[88]Fortunately, after 7 years' introspection, authorities realized that pluralistic ownership of hospitals is helpful and meaningful for the development of health market. Policies have begun to encourage private investment in the health market. Coincidentally, practical measures have only been performed in Beijing. Indeed,

[85] The Research Centre of the State Council of China(2005). "A Report on China's Health Refrom".
< http://www.china.com.cn/chinese/health/927874.htm >(5-29-2013)
[86] LIU,Xinmin(2005). "Market-Orientation doesn't belong to China's health reform".
< http://news.sina.com.cn/c/2005-08-03/16066602511s.shtml>
[87] WU and MA (2013). Op.,cit. pp.258-259.
[88] The State Council of China(2010). "Instructions on the reform of the state-owned hospital".
< http://www.moh.gov.cn/mohylfwjgs/s10005/201103/50856.shtml >

hindrances and obstacles for private capital still exist across the country.[89]

[89] Ibid.

3. The status of the area of health in China

So far, we have briefly described that trajectory of China's health reform. This reform began with a keynote of "delegating rights and sharing profit" and adjusted with a pursuit of social equity. This phenomenon is not isolated and unique but coincident with socio-economic background at the time. Hereby, we may wonder that how this 30 years' reform impact the development of this industry? This thesis will make discussions over the status of China's health sector from 4 different aspects. Both solid data and cases will be applied.

3.1 Financial Support

China's state-owned hospitals are attributed to non-profitable organizations that should be affiliated to governments at various levels. In fact, certain relationship of affiliation does exist. The Ministry of Health and the "Administration of Traditional Chinese Medicine" preside over supervision and administration of health affairs across the state. Meanwhile, local governments at respective levels take charge in programming, investing and supervision of local health projects, which establishes a horizontal coordination mechanism. Moreover, some puissant state-owned enterprises possess exclusive hospitals system, which develops several independent administrative systems. [90]

Under this circumstance, state-funded hospitals are supposed to receive yearly financial support from higher administrative authorities to maintain non-profit. However, with the guiding ideology of "delegating rights" and "autonomous operation", financial support for state-owned hospitals has basically decreased since

[90] GAO, Guangying(2011). The economics of health and studies of typical cases. B+eijing:People's Medical Publishing House. pp.94-95.

1980s. It is demonstrated by official statistics that around the year of 2010 and 2011, financial support from government only accounted for about 9% of the revenue of all the state-owned hospitals as a whole. The rest were gained by business incomes, like the sale of drug (accounted for 44%) and the charge of service (accounted for 46%).[91] During the period of the 11th "five-year plan", the annual national health expenditure even reached 2 trillion. However, the total extra-budgetary financial support for 5 years from the government was 55.84 billion.[92]

On the other hand, a shortage of financial fund for hospitals generally exists. This is because as stated above, local governments at each level shall be in charge of financing the development of local health affairs. Thusly fiscal investment for hospitals has diversified. What is worse, this assignment of administrative powers is applicable in other areas, like public security, education. [93]Local governments, as a result, bear excessive tasks so that local financial pools are too much decentralized to concentrate on those affairs that need funded most.

In the year of 2010, the *Journal of China's health* made an anonymous questionnaire survey, the result showed that 33.87% of interviewees thought that inadequate financial support precipitates the decrease of public welfare; and 54.74% of interviewees believed that insufficient financial support is the major cause of problems and tension in the health market.[94]

In a word, state-owned hospitals in China are unable to receive enough financial support. Instead, to maintain desired revenue, state-owned hospitals have to count on business incomes.

[91] 2011's Statistical Yearbook of China's Health Affairs.
< http://www.moh.gov.cn/htmlfiles/zwgkzt/ptjnj/year2011/index2011.html>
[92] ZHANG, Die(2012). "Financial Support and Administration of Medical Organizations". *Western Finance and Accounting.* NO.6(2012). pp. 57-60.
[93] CHENG, Feng(2005). "The role of government in the reform of state-owned hospitals". *Management of Hospitals Forum.* 109(11). pp.15-19.
[94] ZHANG(2012). op.,cit.

3.2 The scope and scale of the industry

State-owned hospitals take a predominant position in this area. By the end of 2011, there are 21979 hospitals in China, 13542 of these belong to the state. As to total asset of hospital, in the year of 2010, total asset of state-owned hospitals account for 94% of that of all hospitals in China, which is about 19 times of that of private hospitals (see table.1).[95]

Table 1. Brief Balance Sheets of Hospitals in China,2010

Category	Total Assets（ten thousand yuan）			Liabilities (ten thousand yuan)	Net assets (ten thousand yuan)
		Current Assets	Fixed Assets		
Total	176133693	60193354	113645963	56552830	119580863
Public Hospital	163682439	56070775	106304506	51127994	112554444
State-Owned Hospital	156313642	53434570	101655028	48918572	107395070
Non-public Hospital	12451255	4122579	7341456	5424836	7026419
Private Hospital	6926580	2089128	4120807	2470078	4256502

Similarly, most of large hospitals in China belong to the state (the amount of hospital beds is usually applied as the indicator of the scale of hospital). As seen in the Table 2 and Table 3, state-owned hospitals are taking a leading position in the industry. Although it is observed in the Table 2 that Private-owned hospitals have been

[95] 2011's Statistical Yearbook of China's Health Affairs. Op.,cit.

enjoying a higher marginal increase rate, state-owned hospitals account for almost 90% of beds in the area. What is more important, it is apparently demonstrated in the Table 3 that private hospitals in China are still flocking at the lower levels. On the contrary, almost 99% of hospitals with no less than 800 beds are possessed by the state.[96]

Table 2. Development of the scale of Hospitals in China, from 2005 to 2010

Category	2005	2006	2007	2008	2009	2010
Total	2445012	2560402	2675070	2882862	3120773	3387437
State-owned	2300910	2368877	2444714	2609636	2792544	3013768
Private-owned	144102	191525	230356	273226	328229	373669

Table 3. Hospitals sectionalized by the amount of beds, 2010

Category	Total	0~49	50~99	100~199	200~299	300~399	400~499	500~799	800or more
Amount of hospitals	20918	8644	3750	3496	1691	968	582	1069	718
State-owned	13850	3896	2273	2911	1557	922	560	1024	707
Private-owned	7068	4748	1477	585	134	46	55	45	11

Moreover, about 89% of personnel working in hospitals were employed by state-owned hospitals in the year of 2010 and 2011.[97] Especially for those advanced and talented ones, large state-owned hospitals are more appealing because of higher availability of substantial reward there.

Once upon the time (from the year of 2000 to 2003), the government gave private-owned hospitals a three-year tax reduction as a preferential policy. However,

[96] Ibid.
[97] Ibid.

right after the expiration of this tax abatement, many private-owned hospitals were entrapped in difficult situations. A local report revealed that more than 60% of private-owned hospitals in the city of NANJin had deficits since the year of 2005. Many investors were, therefore, scared away[98]. Lin, the owner of a private-operated hospital- "Shuguang", pointed out that we are trying our best to keep the business running, but since the break-out of SARS, clients have tended to go to state-owned hospitals, without tax abatement, we can only enjoy increasingly less profit. He also complained that when you have problems in business, it would be more difficult attract investment let alone expanding the hospital.[99]

To sum up, it is observed that although a so-alleged "market-oriented" reform has been carried out in the health sector for decades, state-owned hospitals are still overwhelming the private-owned ones. Some researches argue that the space for private-owned hospitals are highly pinched by the aggressiveness of state-owned hospitals, this is the reason that private-owned hospitals are crowding in the field of small-scale hospitals.[100]

However, we may also witness a development of private-owned hospitals. As showed in Table. 2 and 3, although not outstanding, private-owned hospitals in China have been gaining a bigger market share. The average growth rate of the amount of private-owned hospitals between 2005 and 2010 is 23.9%, and 23.4% for the amount of beds in private-owned hospitals. There as well as emerge 11 mega size private-owned hospitals that are equipped with no less 800 hundred beds. While the state-owned hospitals are still remaining its predominance, it is obviously detectable that market forces (embodied as private-owned hospitals) are expanding, which reflects that more and more resources must have been invested in private-owned hospital projects.

[98] The Guardian of the East(2006). "Private-Owned Hospitals are at downturn".
< http://news.sohu.com/20060407/n242691381.shtml >
[99] Ibid.
[100] FU,Zhongxue(2010). "Solutions of the imbalance in the health affairs". *Decision-Making.* No.8 (2012). pp.36-38.

3.3 Compensation Mechanism

As mentioned above, the state-owned hospital in China is defined as non-profit institution, it is funded and administrated by certain public organs (usually it is the Ministry of Health). Thusly a compensation mechanism was invented to maintain this relationship and the operation of hospitals.

As regulated, the drugs, supplies and equipments that hospitals need are substantially procured and allocated by both central and local public organs. Thusly state-owned hospitals are placed in a complicated network of supervising and administrating.[101] Furthermore, hospitals are allowed to do a markup on the basis of cost price to obtain the incomes that is necessary. However, the regulation about the upper bound of this markup had not been issued until 2010.[102] Unfortunately, the perception of expanding financial support had failed to prevail. Especially between 1993 and 2006, government investment had accounted for no more than 20% of national health expenditure and 1% of annually GDP. [103]

It can be imagined that hospitals had to spare no effort to expand incomes via the sale of drug and service. It was also reported that drugs sold by state-owned hospitals are 14% more expensive than the market price and 60% of drugs in the market are sold by state-owned hospitals.[104]

Meanwhile, the existing distribution system in hospitals was established early back in 1993 and evolved from that in the planned economy era. Salaries of employees are divided into two part——the fixed and the bonus part. With the fixed as the major

[101] The Ministry of Health(2010). "Administrative Measures on centralized procurement of drugs" < http://www.moh.gov.cn/mohghcws/pzbcg/201007/48124.shtml >
[102] HU,Xiao, Dian ZHOU, et.al(2011). "Analyzing the advantages and disadvantages of drug mark-up being cancelled in state-owned hospitals". *The Chinese Health Service Management.* No.1(2011). pp.32-35.
[103] 2011's Statistical Yearbook of China's Health Affairs. Op.,cit.
[104] HU,Xiao, Dian ZHOU, et.al(2011).op.,cit.

part, the ratio of the fixed to the bonus could be alterable. The fixed part is granted on the basis of professional level; and the bonus part is granted referring to contribution and workload.[105] In general, this system assumes rigidity and cannot offer employees proper incentives. As a result, doctors tend to apply "high-tech" equipments and "high-value" supplies to raise the charge.

In 2007, an ordinary doctor, WANG, who worked in Beijing, captured a lot of attention. Because, during her 40 years' career as being a doctor, she had insisted not to prescribe improperly expensive drugs and services. The creed of her career is ensuring the "value for money" for patients. And the average price of her prescription was about 80 yuan, which was judged affordable to most patients.[106] This case mirrors the actual demand in the society of putting the adverse trend on hold.

To be short, the existing mechanism of state-owned hospitals, which is created and developed by this reform, has distorted the non-profit tenet. Therefore, tensions and complaints rise from all around.

[105] YAO,Zhongxin, Ning MA, et.al(2006). "A Study of the Distribution Mechanism of the State-owned Hospitals". *Chinese Hospital Management*. 26(1). pp.16-18.
[106] XINHUA News(2009). "A Working Prescription of 80 yuan, hard to come by".
< http://www.hb.xinhuanet.com/zhuanti/2009-12/24/content_18675791.htm >

3.4 Personnel Appointment and Managerial Mode

Despite of the initiative mentioned above that aimed at delegating autonomy in personnel issues to hospitals, state-owned hospitals actually are not entitled with such autonomy. It is a corollary of being affiliation of governmental organs. Not only the appointment of senior officials is taken over by the government, but also normal employment should be carried out on the basis of approval from senior authorities.

Under this circumstance, presidents and directors of state-owned hospitals are indeed dispatched by authorities. More than this, the state-owned hospital is not only leaded by the president but also the "Secretary of the party committee" who is at the same level with the president. This "Secretary" must be appointed by the Party and it also presides over operation of the hospital. Sometimes one appointee could serve both the president and the secretary.[107]

Moreover, this mechanism generated another problem. In fact, a majority of presidents of state-owned hospitals are experts in the medical field. With the "director responsibility mechanism", these experts are ultimate decision-makers of hospitals. According to certain regulations, presidents of hospital shall take charge not only in medical activities but also in affairs like investment, financing and personnel.[108]

However, hospitals differ from general enterprises. Within a hospital, both medical and managerial affairs need respective professionals. Because medicine is exceptional so that to be a professional in this field always takes a long process. Consequently, this profession is relatively isolated from others, like managing, investing and human resourcing. Given this, managerial mode of China's state-owned hospital is one-sided. "Director Responsibility Mechanism" entitles the president great powers in various

[107] ZHONG (2002). Op.,cit.
[108] Ibid.

affairs. Nevertheless, the situation that most president are experts only in medical fields renders that state-owned hospital are running out of profession managers at the top level.

Above the thesis has demonstrated the development and the outcome of China's health reform. On the whole, this reform hasn't changed the proprietary relationship of multitudinous state-owned hospitals. And it has not converted the coordination mechanism between governments and hospitals. At the same time, this reform which began with a guiding ideology of decentralization did inaugurate a space for private capital. But it is observed that private capitals are still outrun by state-owned ones.

On the other hand, problems brought about by this reform have aroused a strong desire to rectify them, which has pushed the government toward designing a new-round reform. Although it is witnessed that the formulation of this new-round reform seemed to be perennial. Controversy occurred and sequentially influenced the path of the reform. However, there is one thing for sure that innumerable links between government and state-owned hospitals are still discernable.

It is indicated in the aforementioned empirical data that this reform has led to some social problems and tensions. For China which had just broken away from stagnation and poverty since 1980, these problems instead slashed the fruition of socio-economic development.

In the coming part, the thesis will take a usage of the theories set forth before to verify or falsify the hypothesis and to ultimately answer the questions posed in the beginning of the thesis, namely what features this reform possesses and why it has been brought about this way. Furthermore, the thesis will try to discuss about how this reform would influence the future trend.

Analysis

1. Features of China's health reform

1. 1Confusing accountability of government

Similar to the reform in the state-owned enterprise, China's health reform took the form of "delegating rights and sharing profit" at the beginning. In a way, there was no distinct between reforms from health sector to industrial sector. This mode could be attributed to a progressive reform or gradualism.

Under this circumstance, in this reform, it is conspicuously observed that the relationship of property right had not been altered. To some extent, this reform was carried out within the framework of socialist regime. On the one hand, the government treated the proprietary relationship as the foundation of socialist regime and thusly unalterable. Alteration of proprietary relationship was not compatible with the retention of socialist regime. On the other hand, in the socio-economic context in 1980s, a reform without modifying the relationship of property right between government and entities was indeed a feasible option, because this would not cause unpredicted societal turbulence and erosion of state-owned assets. Ideologically, gradualism may be more acceptable; physically, without relevant supporting system, a mere transition in proprietary relationship would lead to unlawful acts.

Causally, the vertical/hierarchical coordination mechanism was remained. The government still holds the administrative powers and influences over major affairs, like the appointment of senior officials, the financial support, the compensation mechanism and even the operation of the hospital. The government's will directly influences the operation of the hospital. Through this lens, hospitals might be

regarded as the “extension” of administrative organs rather than independent institutes that exercise certain social duties.

Meanwhile, the government has been exercising its political power in administrating. It takes charge in supervising and administrating the whole area. Along with laws, the whole health market is restraint by various administrative regulations that are issued by governments at respective levels. Correspondingly, the government ought to exercise the arbitrary power to maintain the order of the market.

As a result, the government and hospitals are entrapped in such a paradox, that is, the government, on the one hand, acts as the owner of hospitals and appoints its plenipotentiaries as the operator of these hospitals; on the other hand, the government must exercise its duty of supervision and administration to supervise the performance of those plenipotentiaries designated by the government itself. With certain stake, there exist no independent supervisory institute and mechanism. Informally speaking, the “athlete” and the “referee” are all in the same family.

In this case, it is reasonable to argue that there exist no solid incentives and constraints to monitor hospitals’ performance. The wrongs caused by hospitals might not be righted timely; and the government might not be able to detect the social demand for institutional adjustment, a good example is that it took twelve years since 1985 for China’s government to firstly and explicitly recognize that this reform cannot function well without maintenance of social equity.

Just as Coase argued, institutions not only show “what to do” but also “who we are”. State-owned hospitals have made the impression——affiliation of government. China’s health reform has never changed the situation where government’s interventions significantly and directly impact the operation of state-owned hospitals. Taking the scale of state-owned hospitals into considerations, we may find that the government, in fact, is able to control almost the whole “health market”.

Unlike the planned economy, China's health reform took place along with a gradually growing market. However, the role of government has not been converted thoroughly. It is predictable that contradictions between political and markets force could arise under certain circumstance. It is also a reasonable inference that turbulence and disorder would possibly occur. Because this system cannot clear-cut define the government as the supervisor of the market, otherwise inherently creates a certain administrative monopoly. Another example is the disadvantage of private-owned hospitals in the market. It is thought-provoking that this reform, which was originated with a "market-oriented" guiding ideology, has not eliminated the barriers that private capitals might face. Private-owned hospitals actually are competing with the vast government capitals and the heritage of previous socialist regime.

To sum up, China's health reform failed to re-define the government's role and caused a series of problems. The thesis regards this phenomenon as the foremost feature of this reform. This feature sets the tone that this reform would be "government-oriented" rather than the "market-oriented". This so-alleged "market-oriented" refers to a sort of amelioration to the previously typical socialist system. It has never truly established a "level-playing" arena for private investors.

Unfortunately, this phenomenon triggers a series of problems. Many other problems actually stems from this one. The coming two discussions will try to shed a light on two of those inducted problems.

1.2 Loss of commonweal

It is observed that burdens caused by burgeoning of the price of medical services and drugs have befallen on the China's society. This was caused by the "delegating rights and sharing profits" and exacerbated by China's fiscal system. This thesis believes that China's government was both not aware of and not able to maintain the social equity in the reform of the health sector.

As mentioned before, state-owned hospitals began to take effort to expand business incomes. With the influence of state-owned hospitals in the market, this became phenomenal across the society. Gradually, medical services and goods have been more alike commodities. Although it is stated in the theory part that medical productions belong to private-goods, but the health market differs much from other general markets so that government's interventions are usually needed to improve citizen's availability to medical productions. With the withdrawal of government's financial and policy support, state-owned hospitals, which have always monopolized the market through the past three decades, have actually "plundered" the social wealth for the past decades.

This conclusion is crucial for this discussion. It is indicated that the reform happened in China's health sector deviated from the tenet of maintenance of public welfare. An enduring inflation thusly occurred in the market and the availability of medical productions declined. To some extent, the living standard of normal Chinese citizens descended against the tendency of socio-economic development.

Unfortunately, this is not the only problem incurred. As Kornai argued that with the retention of political structure and proprietary relationship, state-owned entities could obtain predominance, it is reasonable to say that this predominance is founded on the

basis of administrative powers. However, when the role of government became confusing, there would be no restriction mechanism to rectify the problems caused by this predominance. As a result, employees of public-owned hospitals are prone to charge unreasonably; and the patient would loss trust when disputes could not be well settled.

Kornai also argued that during the process of China's post-socialist transition which is labeled "gradualism", public affairs may not be attached so much importance to by the government. With this perspective, it is suspected by the thesis that the reform of China's health sector had never aimed at maintaining public welfare in the first years since 1985. It is conceivable that a reform like this cannot be easily reversed while the political structure, proprietary relationship and coordination mechanism remain unchanged. This may be the reason that it took 20 years for China's government to start a new round reform explicitly and formally.

In a manner of speaking, this reform of China's health sector had damnified the public welfare, which represents the loss of commonweal of state-owned hospitals. Furthermore, it even destroyed the confidential relationship between hospitals and patients. It is concluded that this reform has pulled down the livening standards of Chinese citizens while it create more medical productions. It is also believed that this failure stems from the pattern of itself——a gradual post-socialist transition. In others words, with bureaucratic structure, property right relationship and political coordination mechanism unchanged, China's state-owned hospitals cannot realize the promotion of public welfare. The loss of commonweal in the operation of state-owned hospitals is a corollary.

1.3 Recessive “Dual-track system”

It is argued by Kornai that in a gradual post-socialist transition, there would be both vertical/hierarchical and horizontal/level-playing coordination mechanism because of the simultaneous existence of planned-economic elements and market forces. Under this circumstance, a “dual-track system” is created.

On the one hand, state-owned hospitals, as affiliations of public organs, evolved from the monopolizing position in the planned-economy era; on the other hand, private capital became licit in the health market. When these exists no independent supervisory mechanism, it is hard to imagine that private capitals could obtain equal status with state-owned hospitals. Kornai pointed out that in this case, the state-owned capitals would overwhelm private-owned capitals. As shown in the empirical data part, about 90 percent of assets, employees and investments belong to state-owned hospital. Thusly the whole market has been dissevered. A “dual-track system” emerged.

Within this system, state-owned hospitals not only enjoy more resources but also policy bias. This would directly consolidate its monopolizing position and generating certain interest groups that parasitize this system. On the contrary, the transactional cost and risks that private capitals are facing would correspondingly increase. The market mechanism cannot offer investors driving incentives when political monopoly prevails. In a manner of speaking, a true and healthy market has never been established in China’s health sector.

Simultaneously, this “dual-track system” would create a series of vicious circles. To begin with, state-owned hospitals in China are able to provide better medical services than private-operated hospitals, because they, on the whole, enjoy better equipment and human resources. The whole society depend more upon state-owned hospitals due

to theirs granted abilities. Consequently, policies biased to state-owned hospitals are prone to be issued, and private-owned hospitals are entrapped in lacking of resources and supports. This “dual-track system” could be solidified in this way.

In addition, a sort of distrust and prejudice on the private-owned hospital would also emerge. Because people believe that state-owned hospitals are more capable of producing reliable services. However, private-owned hospital may loss the acceptance from the society and became relatively desolated.

At last, talented and competent job hunters would prefer to work for state-owned hospitals because state-owned hospitals are able to offer better salaries due to their abundant capitals. Private-owned hospitals contrarily would have difficulties in getting competent employees and improving the quality of medical productions they produce to attract more clients. As for job hunters, a sort of worship to public organs would also occur. The market mechanism, therefore, got further and deeper extruded.

We cannot say that market mechanism within a “dual-tracked system” is not a true market. But it is suggested that market in “dual-track system” is fragile. China’s health reform did create such a fragile health market where political forces could play aggressive. This phenomenon could lower the efficiency and impair the justice in the market. It could even generate interest groups that are willing to spare no effort to consolidate such a system.

To sum up, China’s health reform has created such a “dual-track system”. The emergence of this system roots in the unchangeableness of political coordination mechanism. In another word, this reform was bound to establish such a system.

The above, the thesis has analyzed the characteristics of China’s health reform. With a confusing role of government, the operation of state-owned hospitals losses the commonweal which it is supposed to maintain and the entire health market is dissevered by a “dual-track system”. And this thesis also argues that the reason that

leads to the current situation is inherently embedded in the mode of "gradual transition". This transitional process has never been able to alter the administrative coordination mechanism and the relationship of property right.

With Kornai's perspective, this reform could neither be profound nor complete. It may be treated as a sort of amelioration rather than a reform. What is also worth of noticing is that this reform was launched with a guiding ideology that may be improper for China's health sector. All of these phenomena reflect that China's government has kept applying a compromise path. It could also be revealed that the health market of China is, on the whole, still immature after this 30 years' reform. In a word, this reform indeed contributes to accommodating the social demand for medical productions. But, it has not successfully realized a radical institutional shift.

2. Why the reform has been brought about this way

2.1Ideology

In this section, the thesis will try to answer the question "why the government choose 'delegating rights and sharing profit'". In order to fulfill this aim, the thesis will apply Kornai's arguments because it believes that the reason that picked this path was highly related to socialist regime.

We have already known that the China's fiscal system in the 1980s played a part in weakening the financial support from the government, which exacerbated the loss of commonweal in operation of state-owned hospitals. However, this was not the cause of the intention to apply "delegating rights and sharing profit" in the reform of the health sector. The initiative of "delegating rights and sharing profit" was not originated in this health reform. This guiding ideology was firstly applied in the reform of state-owned enterprises. We may wonder why this mode got transplanted in the health sector. This thesis believes that three ideological factors acted as facilitators.

First, the thesis thinks that China's government in 1980s possessed no clear and cutting-edge perception in public affair management. China's society evolved from a typical socialist regime, within this regime, each sector was fully controlled by the government. The government created a "state syndicate" that took over the management of all social affairs. Relevant scientific knowledge in public affair management had not prevailed in China at the time. The Leninism and Stalinism were the guiding factors that directed government's movements. Since the "delegating right and sharing profits" was precedent, it naturally became one of optional policies for the policy-makers. Thusly, with this mode of reform applied, the foremost task for the

reform was to create incentives for micro actors rather than maintaining social welfare. In other words, there was no concept of public service in a socialist regime. As a result, government didn't treat the reform in health sector with much difference.

In addition, the health sector didn't belong to the "heights"——heavy industries to which governments attached much importance. The socialist orthodoxy believed that the development of heavy industries could energize the development of whole socialist society. One of the prime aims of a planning economy was to maintain a high rate of growth in heavy industries. As a result, the health sector was not the destination where investment targeted. The development of the health sector was perceived to be set aside to make way for the heavy industries. This guiding ideology led to a widespread ignorance of supporting the health sector financially. And this phenomenon reflects an inherent contradiction between socialist orthodoxy and the modern managerial philosophy of public affair.

Thirdly, "delegating rights and sharing profit" not only meant a tendency of decentralization but also implied the maintenance of previous proprietary relationship and coordination mechanism. "Delegating rights and sharing profits" was a way that would not cause any vibrations to the foundation of socialism. It wouldn't change the relationship between government and state-owned hospitals and the property right arrangements, which was ideologically more acceptable to policy-makers. That is to say that China's health reform was carried out within the socialist political-economic framework. This reform was not defined to fulfill a profound and complete alteration in property right relationship.

With an overall consideration, the ideological factors behind the reform were, to some extent, "gradualism-oriented". Specifically, this reform was not launched with a clear-cut aim. It was not initiatively designed to promote public welfare as western states do. Because the government simultaneously perceived that energizing heavy industries was the way to save the society which was devastated in the previous

socialist time. Other sectors shall be treated as subordinates.

As to the shift in government's attitudes in health reform, it is treated by this thesis that China's health reform presents a learning process of China's government. The government has learnt how to deal with affairs and how to alleviate conflicts in the health market. With this ideological change, the direction of China's health reform has re-navigated. And once the aim of promoting public welfare got blended into the reform, it would be hard for the government to take it down. Consequently, no matter which direction—strengthening the government's control or cultivating market force—China's health reform is going to take in the future, improving public welfare must be its core task.

2.2 Conflict of interest

Another factor that would influence an institutional shift is the “conflict of interest”. It is observed that there broke out a debate on whether the reform of the health sector in China should kept “authoritarian”. This thesis suspects that along with the growing of market in the health sector, the distribution of social interest has been changed. This is treated as a threat by those whose interest parasite the authoritarian regime. Relatively the occurrence of the debate may represent a conflict of interest behind. As Coase argued that institutions tell “who we are”, an institutional shift may follow the contradiction between social groups.

Before 1980s, China was in a typical socialist regime. Societal interest had been unified to accommodate political need. It was the puissant Party that led the reform to a gradual and progressive mode.

However, when the market mechanism was established in the health sector, social interest was able to be diversified. Since then “interest conflict” has become a factor that could possibly influence the trajectory of the reform As we may see, the date occurred around 2005 was a reflection of potential interest conflict. Politicians who propped de-marketization represented a certain interest group that laid its foundation in the authoritarian regime. Consolidating the existing system was to protect the existing distribution of interest.

Honestly, it is out of the reach this thesis to report the cases of interest conflict in this reform. To clarify, this discussion does not aim at revealing political struggles. But it is reasonable to say that there emerge possibilities that could promote further institutional shift. With the growing of market forces, it becomes possible that market system would constrain the willfulness of political monopoly; with the growing of

market forces, private investors would find it more profitable to invest in the health market, strengthening this market system in return; with the growing of market forces, the society would recognize that private-owned hospitals could provide as much good services as large state-owned hospitals do.

As Coase and Wang pointed out, institutional shift is a process rather than a mutation, and during this process the distribution of social interest would play a decisive role. However, we have to admit that the distribution of interest in China's health market is much disproportioned. State-owned hospitals still hold an overwhelming position. Compared to this, the market forces are relatively weak. Take state-owned hospitals as a whole, there might not exist equals that have different voices. Especially when the role of government is confusing, the current situation is prone to get solidified.

This phenomenon not only reflects the superficiality of this reform but also the reason why it has taken decades for the governments to take actual deeds to revise the previous reform. It is assumed by this thesis that the reason why problems caused by this reform cannot be rectified timely was because there exist no challenging interest groups to facilitate the adjustment that need to be done. In a word, the reform happened in China's health sector has not vibrated the monopolizing position of state-owned hospitals, while it has open up certain space for private capitals. It is concluded that without the transition of government's role and the change of proprietary relationship, the monopoly of state-owned hospitals was bound to maintain, which would elbow out the living space of organizations with other pursuit of interest. This severe unbalance in the distribution of interest may act as a impediment for further reform.

2.3 The influence on the future

In the above two sections, we have examined the two factors——ideology and "interest conflict" that decisively impact institutional shifts. It is indicated that this reform failed to promote social welfare because there were no ideological prerequisite and has not been rectified due to the lack of diversification of social interest.

One direct outcome of this situation is the suppression of institutional diversification. China's health reform, as one of its post-socialist reforms, has not radically changed the prevalence of political monopoly. Thusly the authoritarian regime remains. Within this regime, political forces hold an overwhelming position and thus the different voices could not sonorously sound. In another word, in this reform, there was no mature "market for ideas". The trajectory of reform has to be subject to the will of government. Under this circumstance, concerns of ideology or interest would play a significant role in the shaping of reform. The diversification of institution thusly is prone to get strangled by the iron fist of government.

However, it is detectable that market forces have emerged and grown in the health sector. As Coase argued, this wasn't the outcome of a well-designed reform but a spontaneous social movement. This emergence has changed the situation of the market, planting a seed for the development of new interest groups. Those who depend on a genuine market mechanism would prefer to defend their rights, especially when the market is developing. The well-being of their businesses is highly related to the well-being of market mechanism. When the political factors are against the development of the market, these private actors would possibly form a force to challenge the authority. Of course, if the risk and cost are deemed excessively high, these private actors would also quit the market. But the possibility of the establishment of a "market for ideas" in the health sector of China cannot be denied.

Ideologically, it is also discernable that a perceptive shift in public affair management took place. China's government explicitly emphasizes that the aim of next round reform shall be "promoting social welfare". Unlike in the 1980s, China's government has realized the particularity of health market and gained more knowledge in public affair management. Thanks to the socio-economic development, modern scientific information is much more available than before. This intangible factor may also improve the government's ability of governing. These changes could finally result in a reshape of the reform in China's health sector.

After all, we may find that the future direction of China's health reform will be decided by a competition that is between the existing monopolizing force and the increasing challenging force from the bottom. The result of this competition may be unable to predict because it can be impacted by both exogenous and endogenous factors. However, for the sake of public welfare, what we may need is fostering the market forces so as to break the existing political monopoly.

Conclusion

This thesis has gone over various aspects of China's health reform. It demonstrates such an epitome of China's opening-up in a specific sector. As we stressed in the beginning, the health sector, due to its economic characters, differs from other industries. However, China's government applied the same pattern of reform that is applied in other sector. Thusly the outcomes of this blend become the object of this thesis research.

This thesis treats the occurrence and development of this reform as an institutional shift that took place along with the grand transition of China during its post-socialist era. Therefore, this thesis picked one theory about socialist political-economics and another one about institutional shift as analytical tools.

With these theoretical perspectives, this thesis finds that the trajectory of this reform assumes a deviation from promoting the public welfare at the beginning. This was because ideologically, the government had not clear-cut perception in public affair management; and physically, the reformed compensation mechanism between government and hospitals pushed the whole system away from the non-profit. In a manner of speaking, the maintenance of public welfare had never been involved in the guiding ideology in 1980s.

Actually except of decentralization, we have not found any other philosophy behind the reform at its beginning. This thesis suggests that this is because as a transitional socialist state, China had no experience in public affair management during the ex-transition period. This conclusion may possibly be applicable in other public sectors.

Furthermore, since China's government orientated the reform with "gradualism", previous proprietary relationship and hierarchical coordination mechanism was remained. Under this circumstance, the role of government became confusing. For one thing, it is the owner of the state-owned hospital and its delegations are the actual operators of these hospitals; for another thing, the government is expected to exercise the supervisory power over the state-owned hospital. With this "double identity", a solid and independent supervising mechanism cannot be established. What is more, the government has kept its influence in appointment of senior official of state-owned hospital. It is interpreted by this thesis that state-owned hospitals actually act as the extension of public organs.

With this relationship between government and state-owned hospital, a compensation mechanism was invented. However, it is observed that this compensation mechanism has not indeed offered the desired financial support, which forced state-owned hospitals to expand incomes with business charges. Thusly, the operation of state-owned hospital lost the due commonweal. When the whole market is dominated by the state-owned hospital, this loss of commonweal would become phenomenal.

Besides, the countless relations between government and state-owned hospitals, state-owned hospitals gradually gained an advantageous position over private-owned hospitals. State-owned hospitals, compared to private-owned ones, enjoy overwhelmingly superiority in assets, human resource and other aspects. Correspondingly, private-owned hospitals had to be entrapped in a series of vicious circles where public orientation and competent human resource may be increasingly disinclined. That is to say that this reform has created a "dual-track system".

All these phenomena described above reflect that this reform is an incomplete reform. Because it has neither changed the role of government nor created an arena where the governmental and non-governmental entities enjoy fair competition. This reform couldn't be regarded radical either. It maintains many coordination mechanisms that

emerged before the reform. With an overall consideration, this reform can be interpreted as a learning process during which the government has kept on adjusting policies. This process accords with the pattern of "gradualism", which was ideologically decided by many exogenous factors. Under this circumstance, the official ideology and paternalism of socialism cannot be practically challenged.

Unfortunately, what we have also witnessed is that the rectification of these problems assumes to be perennial. It took more than 12 years for the government to firstly announce that public welfare shall be concerned in the operation of state-owned hospital and more than 20 years to take actual deeds. A debate, over the future direction of this reform in the health sector, broke out around the year of 2005. This debate reflected that there exists a sort of "conflict of interest group" behind the reform. Some would prop up moving back towards the previous socialist system where the government holds a dominating position; while some declare that the way this reform should be carried out is clearly defining the role of government via adjusting proprietary arrangements.

The factor of "interest group" has taken a hand in shaping the trajectory of the reform, but it is also noticeable that market forces have gained certain a ground. The unification of social interest has been broken. Although it is defined by the thesis that China's health reform, where the authoritarianism suppresses institutional diversification, is neither profound nor complete, conditions for establishing a "market for ideas" are taking shape.

To sum up, China's health reform embodies certain features of post-socialist transition. It is not a radical reform that changes the relationship of property right and political coordination mechanism. However, it also hews out certain a space molding market forces and different ideas, which incubates the possibility for further radical institutional changes.

Notes

This thesis applied an amplifier to examine the performance of China's reform. It focuses on no vicissitudes of the whole society but a specific developmental trajectory of one single sector.

This thesis believes that this would be helpful and meaningful for us to understand this grand transition of China. On many occasion, it is the perspective of modernization school that we hold in judging China's transition. We usually take the situation of developed states as the basis to study the transitional courses of underdeveloped states.

This thesis also applied such a perspective. And it laid its focus on the specialization of government. Its foremost aim was to unravel the causes that generate the difference in the specialization of government between developed and developing state, in this case, China.

Relatively, the underlying bewilderment behind the thesis is "what is the essence of post-socialist transition". Some may argue that it shall be the emergence of the market and the diminishment of planned-economic mechanism. This thesis agrees to these arguments. But it lays its eyes on the tectonic shift during the transitional process. This is the reason that this thesis attaches much attention to proprietary relationship and coordination relationship, because changes in these aspects could lead to structural vicissitudes.

In China's case, we could see that incomplete changes in these aspects cause many societal paradoxes. To some extent, it may be difficult to imagine that a socialist state established a health system which was operated against public welfare. Unfortunately, that was a real thing. It is not proper to apply moral criticism in such a case. But what this thesis takes efforts to demonstrate is the incapacity of the transitional government

of China in re-defining role of government in the complexity which is caused by the transition itself.

It is worth of noticing that this phenomenon may not be universally applicable. This is because the establishment of this incapacity is historically, culturally and political-economical specific. China's specific developmental path incubates this incapacity. Hereby, it is not saying that developed states are fully capable in dealing with public affairs. Actually they have been facing difficulties in public affairs for decades. The incapacity mentioned above specifically means incongruity between bureaucratic system and its entitled tasks. In other word, the existing proprietary relationship and political coordination mechanism in China impede the government fulfilling certain socio-economic tasks that are supposed to be realized by the government.

This conclusion is at least supported by this thesis and applicable in China's health sector. This seems not reach a universally applicable conclusion for all sectors. But this thesis believes it is meaningful because it demonstrates the trajectory of the development in a post-socialist transitional state in details. Even if the incapacity of China's government is prevailing across sectors, it can be embodied in different forms in different sectors. In other word, this thesis implies that China's government hasn't fulfilled a complete specialization. As to the public market, it only exists in a highly specialized society. Clear-defined fiscal system and accountability of public organs together pillar this market. Although China has broken away from the previous typical socialist regime, its incomplete transition has not established a system where the accountability is practically confusing.

Another underlying thought is to probe the societal changes this reform brings about. China's opening-up reform includes reforms in almost every area. It has created world-shaking changes throughout the territory. However, due to disparities between sectors, this reform must produce differing outcomes in respective sectors. Unlike the

health sector, some manufacturing industries now may be less influenced by the political monopoly.

One prominent outcome of China's health reform is the emergence of market force. Although not predominant, private-owned hospitals indeed constitute such a group different from the state-owned hospitals. The emergence and development of private-owned hospitals provide the patient an option besides purchasing medical products in state-owned hospitals. With more patronization, the health market becomes more attractive for private capitals. Thusly a stronger urge for enhancing the market legislation would occur. Correspondingly the current position of government in the health market may be "threatened". In this case, conflict of interest would come into being. Dynamics for further institutional shift may follow.

Actually, China's health reform epitomized the many reforms leading to the emergence of market force in respective areas. But, in this case, the market force is still in the disadvantageous position. This situation indicates such an interesting phenomenon in nowadays China, that is, the coexistence of ubiquitous emergence of market and its various epitomes in different areas.

At last, what is worth of mentioning is that although this study holds a value orientation which attaches great importance to the promotion of public welfare. But it is not indicating that the future of China's health reform would go in this direction. Because of the existence of interest conflict, we cannot apply such a value orientation and make a prediction.

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