Critical Issues Confronting China:  
The Power of China’s Bureaucracy:  
Through the Healthcare Sector Lens  
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Whereas China’s political structure, politics, and decision-making processes have been well studied by political scientists, the role of the Chinese bureaucracy in formulating and implementing policies has not received as much attention from academics, especially in formulating policies. William C. Hsiao, K.T. Li Research Professor of Economics in the Department of Health Policy and Management and the Department of Global Health and Population at the Harvard T.H. Chan School of Public Health, attempted to remedy this deficiency by examining the inhibiting role of the Chinese bureaucracy in healthcare reforms, in which Hsiao has developed insights through decades of extensive field work. His analysis shed light on why the reform of Chinese public hospitals is stalemate and remains one of the most daunting challenges confronting President Xi Jinping’s administration.

Hsiao first identified two special features of China’s political structure that are different from Western nations. The first is the integration of the Communist Party's leadership with the executive branch, currently headed by Premier Li Keqiang. This intertwined relationship, from the highest level of the country’s governance—the seven-member Standing Committee of the Politburo—down to the local level, permeates the governance of essentially every field.

The second feature is a legacy from the 1950s to 1980, during which each of the numerous ministries—52 of them in the 1950s in China’s emulation of the Soviet model—represented the special interest of an economic sector or a particular occupational group. For example, an implicit objective of the Ministry of Health is not primarily to provide good and effective healthcare to the entire Chinese population, but to look after the interests of the public hospitals, clinics, and their employed physicians and staff. The number of medical professionals and their supporting staff in this system amounts to about 50 million people, or four percent of the total population, which constitutes a powerful political base. Similarly, other ministries all have their own respective clientele.

Hsiao then explained the roles of bureaucrats in the Chinese policy-making process. The political elites in the Politburo identify critical issues to be resolved, then appoint dozens of lead committees to come up with solutions. The members of these lead committees are
ministerial-level officials. Xi himself is the head of four such lead committees. These committees delegate studies and policy proposals to various ministries, which in turn rely on their own policy bureaus for data collection, analysis and recommendations. Ministries also fund academic studies at various universities for specific purposes. One purpose of such studies is to come up with scholarly support for that ministry’s preconceived policy positions. Those scholars selected by the ministries are often pejoratively referred to as “scholars for official use” (御用学者), in the sense that they’re not independent or objective in their analyses.

Hsiao noted that lower-level bureaucrats also have significant influences on policy formulation. At the bureau level, officials must first produce some policy positions for the ministry, then invest tremendous amounts of time in meetings with their counterparts from many other ministries in order to thrash out coherent policies through argument and bargaining. If they’re successful in reaching an agreement, then their policies will bear the red stamps of approval from all the ministries involved, and get passed down to provinces, then to cities and counties for implementation. If no agreement is reached at the policy bureau level, the issues will go back to the lead committees of mostly ministerial-level officials for another round of compromise. It is well documented by scholars that bureaucrats have much discretion in implementing policies. Some bureaucrats can vigorously implement a policy while others may passively resist.

After explaining the roles of bureaucrats in policy-making process, Hsiao took a deep dive into China’s complex bureaucratic structure, using China’s healthcare reforms as an example. He highlighted the dispersion of power among ministries and how it impacts the healthcare reform. Most healthcare policies in China require coordination and consensus from many ministries, including the Ministry of Finance (MOF) and the National Development and Research Commission (NDRC) on budgets and capital investments; the Ministry of Health on the delivery of healthcare; the State Asset Supervision Commission and the Ministry of Science and Technology on large research and development projects; the Ministry of Education on training of doctors and nurses; the Food and Drug Safety Commission and the Ministry of Human Resources and Social Security on the administration of China’s social health insurance; and the Communist Party’s Organization Department on the appointment of hospital leaders. The lead group for Chinese healthcare reform, headed by one of four vice premiers, consists of ministers or vice ministers from 16 ministries, each of which represents the interest of a powerful clientele. It is not surprising that even in some instances when Xi himself took over the lead group, the members of the lead group still had difficulty in reaching a consensus.

Hsiao showed how the fragmented Chinese bureaucratic structure thwarted healthcare reform efforts. By 2012, China had effectively implemented a universal health insurance, which
significantly reduced the number of Chinese people driven into poverty by medical expenses. Why, then, does the Chinese public still complain about inaccessible and unaffordable healthcare (看病难，看病贵)? Hsiao pointed out that Chinese public hospitals are actually profit-seeking organizations, which incentivize doctors to over-prescribe drugs and order unnecessary tests. Meanwhile, China has misallocated its resources. Large public tertiary hospitals in major cities still receive most of the relevant resources—large budgets, the best trained doctors and advanced equipment—while primary care at the local level remains inadequate. People with minor illnesses frequently seek healthcare from tertiary hospitals because they do not trust the competency of the primary care centers. This hospital-centric system with weak primary care results in terribly long waiting lines in major hospitals.

To strengthen primary care requires a major change in the fragmented governance of the public tertiary hospitals. However, Chinese public hospitals have 16 “bosses” (ministries) governing them—controlling budgets, capital investments, research, pricing, personnel, physician incentives and compensation, and training. Ministries often issue contradictory policies and rules. Thus, no ministry can hold public hospitals accountable for their performances in serving patients.

Due to the inability to reach consensus by all the relevant ministries, the Chinese government adopted a policy for 17 major cities to conduct social experiments to solve the problem of “inaccessible and unaffordable healthcare.” But all of them failed. Surprisingly, Sanming, a prefecture of 4.5 million people in Fujian Province, outside of the pilot cities, succeeded because it was able to integrate at least five different government bureaus into one Medical Security Commission, thereby internalizing conflicting interests of various groups. The Sanming prefecture was able to centralize the purchase of drugs, and triple official compensations to physicians and hospital staff, holding hospital directors accountable for their performances, while removing the profit-seeking motive from all the public hospitals. Many study tours from other provinces were organized to learn from Sanming’s case, but few localities have adopted the Sanming model. Their ostensible reason is that their local conditions are very different from Sanming’s.

The impasse of this bottom-up experimental approach implies that reforms to integrate the governance structure have to come from the top. Yet how can those 16 ministries, each of which has its own clientele to look after, reach consensus on policies which will potentially have a profound impact on the health of 1.4 billion people? Hsiao concluded that fragmented Chinese bureaucracy with partial veto power in making policies and implementing them leads to compromised solutions at best, and more likely to protracted delays of any reform.