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Filling the Institutional Void: Roles of Associations in China's HealthCare Sector

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Purpose of the Research Project

This paper aims at making contributions to the understanding of institutional change in China's transition period from a planned economy to a market economy. Using the transformation in the healthcare sector as a case study, it pinpoints the need of filling an institutional void on the industry level: strengthening the roles of intermediaries such as trade and industry associations who are supposed to assume the roles of a bridge between the party/government system and the corporate world.

Since China embarked on the road of building a market economy more than three decades ago, the approach of building institutions was to follow the pragmatic philosophy of "cross the river while touching the stones" espoused by the major architect of China's economic reform, Deng Xiaoping. Despite astonishing achievements in economic growth and development, the necessary multi-level institutional framework is far from being complete. With the deepening of economic reform and social transformation, the old regime of institutional arrangements has been gradually phased out; however, designing and institutionalizing a new set of social contracts for the market economy with Chinese characteristics remain a daunting task from both theoretical and practical perspectives. Amid the massive problems and difficulties facing China's economy and social development, there have been strong voices in China's academic world and policy making circles calling for "institutional (re)design from the top".

On the theoretical front, our goal is to build a theory of "Neo-Corporatism with Chinese Characteristics". In contrast to the mainstream market economics doctrine which emphasizes the superiority of free competition and rationalizes government intervention only when market failure occurs, and the centrally planned economy philosophy which puts the government at the center stage in the economy and leaves little freedom of choice to individuals, corporatism stands in the middle and is based on the belief that "the society and economy of a country should be organized into major interest groups (sometimes called corporations) and representatives of those interest groups settle any problems through negotiation and joint agreement". The theory of neo-corporatism inherited the essence of the old corporatism but emphasizes the mechanisms of collective bargaining and the formation of interest groups while government is seen as sitting at the negotiation table as well. Based on a detailed reflection on the theoretical roots and practices of corporatism and neo-corporatism in the western world, this paper elaborates the rationale for building corporatism with Chinese characteristics in the current China and its possible impact on the boundary between government and the corporate world. In the planned economy era, the Chinese society and economic activities were governed

by the Communist Party system. Although this system remains largely unscathed on the surface and it is unlikely that China will adopt western style political and legal systems rooted on the mechanism of multi-party competition and free election, the ever more complex and sophisticated society and economy are posing great challenges to the authoritarian, top-down approach of governing society in the past. Among all the missing parts, an intermediary level of organizations which can represent the corporate interest and play the bargaining game with the government will have to emerge and become an important player in the society.

Rather than approaching this endeavor on the scale of broad national institutions, the unit of analysis in this study is the industry. To be more specific, the healthcare sector is chosen as the unit of observation and analysis, and implications of the findings for other industries and the overarching higher level institutions will also be investigated. The research group of this project has been following China's healthcare industry development since 2004, accumulating rich knowledge about the industry's development and ongoing transformation. Motivation for this research originates from the researchers' observation of the fragmented and chaotic situation in the healthcare sector, both horizontally and vertically, which will be documented in detail in the analysis. On the vertical dimension, the government is endeavoring to overcome these problems through some massive projects such as implementing centralized pharmaceutical bidding and procurement platforms; meanwhile, on the horizontal dimension, the fragmented industry structure makes it difficult, if not impossible, for such projects to succeed. Among other reasons, a necessary force and mechanism to coordinate the government and the industry is missing. In China, the roles played by such intermediaries as industry and trade associations currently are negligible, despite the fact that many stakeholders in the industry believe that associations should and could play a critical role in coordinating the evolution and organization of the industry. The case analysis of the healthcare sector will provide a test-bed for the theory of neo-corporatism with Chinese characteristics developed in this research project.

Design/Methodology/Approach of the Project

The paper draws upon the framework of new institutional economics (NIE) and the theory of corporatism and neo-corporatism in political science. Built on a reflection of the historical roots of corporatism and its more recent revived form of neo-corporatism and practices in other nations such as Europe and the United States as well as those of countries in transition from the old planned economy to "mixed economies", a theory of neo-corporatism with Chinese characteristics will be developed. In parallel, an account of the history of associations in China's health care related industries will be given to set the stage for the theory development.

The information used in this study comes from the researchers' extensive engagement with the stakeholders in the whole industry value chain, including hospitals, pharmaceutical manufacturers, wholesalers, government agencies, and more importantly, the variety of industry trade associations. Questionnaire surveys have also been distributed to these industry players in order to test the appropriate roles which the associations should play in the course of industry development.

In addition to the traditional approaches of information collection through interviews and questionnaires, the research group has developed a unique data collection mechanism called a "Learning Community". The idea is to have representatives from all the major segments of the industry value chain to meet regularly and discuss issues of common interest and concerns. The

face to face interactions among these participants can generate some unique information which can hardly be collected through stand-alone interviews and questionnaires. The interactions among participants in the Learning Community as well as their contents are all carefully documented. The conflicting ideas generated during the Learning Community meetings are used as a basis for additional questionnaires and interviews. With the financial support from the Natural National Science Foundation of China and the German Ministry of Research and Education, the Learning Community has held meetings on a biannual basis; in total 7 meetings have occurred which took place in the Novembers of 2010, 2011, 2012 and 2013, and in the Mays of 2011, 2012 and 2013.

One interesting development in the Learning Community is the increasing involvement of government agencies and trade associations. As the original rationale for organizing the Learning Community was to foster collaboration and cooperation among cooperating and competing firms in different segments of the industry supply chain, the community organizers purposely avoided the participation of government agencies and trade associations in order to ensure that candid conversations can take place in the workshops. However, with the deepening of the workshop discussions, corporate participants put forward the idea of having the relevant government representatives and trade associations join the discussions in order to reflect the most recent messages from government regulation and, at the same time, to create a channel of voicing the industry's messages to the government. Therefore some government officials from the Ministry of Commerce one director of the Chinese Pharmaceutical Distribution Association attended the latest two Learning Community workshops. This change marks a clear watershed with regard to the Learning Community working principles. After discussing the challenges facing the industry, one chronic problem which has been bothering both the industry and the government was identified, namely the standardization of drug codes used in pharmaceutical distribution. Following the consensus built in these two workshops, a joint project group consisting of firms from all segments of the industry value chain and the association was formed. Now the group is in the stage of setting a realistic agenda for the next several months with the aim of achieving some concrete and observable results by the end of September 2014.

This paper will use this project as the major case study material for building and developing our theory on the roles of filling the institutional gap in industry development and corporatism with Chinese characteristics.

Contributions of the Research Findings

The findings of this study can help answer practical issues such as: how can the stakeholders of an industry value chain work collectively to improve their welfare? From the government and the communist party's perspective, how can they make adjustments to the changing business environment and find a win-win situation with the corporate world?

With the deepening of economic reform and social transformation, a new set of rules of game needs to be designed and implemented in China. This research proposes some preliminary ideas on building a new social contract by adapting the essences of neo-corporatism which was developed in the context of the western world to the reality of China. The healthcare sector chosen for the study has implications not only on the economic front, but also has broader impacts on the society. Many countries in the world are striving to design mechanisms to curb the ever exploding medical expenses and the social problems

arising out of the process of medical reform. Our findings regarding the interaction between the vertical and horizontal governance structures will have implications for other nations as well, developing countries and developed ones alike.

As far as we know, the ideas of institutional void and neo-corporatism have not been thoroughly analyzed and synthesized in the context of China, despite the ever exploding research interest in China's economy and social transformation. Research on China's healthcare sector has mainly focused on detailed facets such as financing issues, the social and economic roles of hospitals etc. Theories about institutional arrangements have been left untouched thus far. One of the most significant characteristics of the so called Chinese model of economic development is the strong hand played by the government. Whether this Chinese way of promoting development can be sustainable will be worth investigating from the theoretical perspective. Practically, the findings can shed light on the directions for redesigning the whole industry value chain and redefining the roles of the stakeholders getting involved, including those of the government and the trade and industry associations. Although the healthcare sector is singled out as the focus of analysis, other industries in China are also facing similar challenges in their transformation processes and can draw upon the insights learned from this sector.