The Power of Public Insurance With Limited Benefits: Evidence from China's New Cooperative Medical Scheme

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October 2022

Abstract

Low-income people in low- and middle-income countries (LMICs) have limited access to healthcare when they are sick. To address this issue, the governments of LMICs have initiated health insurance programs that target these poor populations. However, the health benefits these programs provide are often limited due to resource constraints in LMICs. In this paper, we study the New Cooperative Medical Scheme (NCMS), a limited coverage insurance program for rural residents in China, to explore its effectiveness, and the mechanisms that contribute to its successes, if any. In a plausibly random design, we exploit the variation in provincial NCMS enrollment rate from 2004 to 2011 to identify its average treatment effect. We find that although the NCMS' coverage is limited, its effect on inpatient care use increases significantly. This increase is mainly driven by inpatient care delivered by primary care providers, which has the most generous reimbursement rates. In addition, we show that half of the increase in inpatient care use is attributable to the NCMS' healthcare investment in rural providers. For outpatient services, while the total effect is not statistically significant, we find that the utilization pattern across providers is consistent with the differential payment design of the NCMS: rural residents use more outpatient care provided by primary care institutions where they can get higher reimbursement rates. In addition, we show evidence that rural residents substitute outpatient services in hospitals for that in township health centers. Lastly, results on health expenditure and health outcomes indicate that the introduction of the NCMS does not affect out-of-pocket medical expense or all-cause mortality rates among rural residents, but it does reduce mortality for specific diseases such as AIDS and infectious disease.

Keywords: Healthcare Utilization, NCMS, Health Insurance, Poor Populations

JEL classification: H51, I12, I13, I18

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1 Introduction

Low-income people, and especially the rural poor in low- and middle-income countries (LMICs), are less likely than people with higher incomes to seek treatment when they get ill (WHO et al. 2012). The limited access to healthcare services among poor populations has long-term consequences, including persistent poverty, constraints on economic growth, and high rates of crime and social violence (Smith 1999; Wagstaff 2002; Thoa et al. 2013; Bondurant et al. 2018; Deza et al. 2022). To encourage poor individuals who are sick to seek healthcare, governments in LMICs have been expanding health insurance coverage to the rural uninsured since the 1990s.[1] However, the health benefits such insurances provide are often limited due to the insufficient fiscal resources in these LMICs (Dong et al. 2003; Asgary et al. 2004; Mataria et al. 2004; Yi et al. 2009; Pavel et al. 2015), which leaves the rural poor covered by these programs with much higher out-of-pocket (OOP) payments than people in OECD countries typically face.[2] How effective are such health insurance programs with limited benefits in increasing access to healthcare among the rural poor in LMICs? In this paper, we study the New Cooperative Medical Scheme (NCMS), a limited coverage insurance program for rural residents in China, to explore its effectiveness as measured by healthcare use, OOP medical expense, and health outcomes. We also examine the mechanisms behind the NCMS' successes, if any.

As a response to the financial burdens on the rural poor due to increasing medical OOP cost, the Chinese government launched the NCMS in a few pilot counties in 2003, and started to expanded it nationally since 2004.[3] The NCMS is similar to the health insurance programs in other LMICs designed to fully cover poor individuals since 1990s.[4] As is the

[1] For example, expansions of national insurance programs to cover poor residents were initiated in Colombia in 1993; in Ghana, Vietnam, and China in 2003; in Mexico in 2005; in Georgia in 2006; and in Nicaragua in 2007. See Acharya et al. (2013) for a detailed review of these programs.

[2] In 2014, on average, 36.26% of medical spending was paid out of pocket in LMICs, while the OOP payment in OECD countries was only 13.63%. See the WHO Global health expenditure database at https://apps.who.int/nha/database for more details.

[3] In 2003, 303 out of 1,642 counties were selected for the pilot program.

[4] For example, countries in the Caribbean area have adopted the British national health system model, or the models of socialist countries such as Cuba, China, and Vietnam.

case for the programs in most other LMICs, the benefits the NCMS provides are restricted: i.e., while all counties provide coverage for inpatient services, the inpatient reimbursement rate is limited; and the coverage for outpatient services is unsatisfactory, as most counties do not cover outpatient visits (Yi et al. 2009; Zhang et al. 2017).[5] Given the limited coverage under the NCMS, the rapid increase in enrollment occurred presumably because the funding provided by the central government to local governments was determined by the enrollment level (Vilcu et al. 2016).[6] As a supporting policy, the NCMS program also increased levels of investment in the healthcare supply in rural areas of China. The health resources such as hospital beds and medical equipment, expanded in tandem with NCMS enrollment. Since the NCMS fully covers the rural population of China, but provides only limited insurance benefits, we investigate how rural residents in China respond to the NCMS, as measured by their healthcare use, OOP medical expenditure, and mortality, between 2004 and 2011.

To identify the causal effects of the NCMS, we use information on provincial NCMS enrollment provided in a report by Chen and Zhang (2013), and detailed information on healthcare use, health expenditure, and mortality provided by China's yearbooks in a plausibly random design. Our identification relies on the within-province variation in NCMS enrollment in a province-year panel for the period 2004-2011. Since the NCMS program was phased in gradually and achieved full enrollment by 2010, there are fewer self-selection issues in the later years of our study period. However, endogeneity issues might arise in the earlier years, when the provincial governments were rolling out their NCMS programs at different speeds. The results of a battery of tests suggests that less developed provinces (lower GDP per capita or higher unemployment rate) have larger enrollment gains from the NCMS expansion. However, our event study estimates show that such divergence in economic conditions does not lead to differential time trend in healthcare utilization before the introduction of the NCMS, suggesting that our common

[5] Yi et al. (2009) find that individuals using inpatient care were reimbursed for 15% of their expenditure between 2004 and 2007.

[6] See section 2 for more details.

trend assumption holds. To further remove any plausible differential behavior patterns at the region level, we include region-by-year fixed effects, which reduces slightly the effect magnitude but does not change statistical significance. In addition, our estimates are robust across different specifications.

First, we find that over our study period, the NCMS significantly increases inpatient care use on a nationwide scale, despite the limited insurance coverage it offered. Specifically, our estimates show that a one-percentage-point increase in the NCMS enrollment rate increases the use of inpatient services by 0.1 percent (about 0.5 hospital stays per 10,000 people). The analysis by provider shows that the increased levels of inpatient care use are mainly delivered by primary care providers at community health centers (1.6 percent) and township health centers (0.4 percent), as these forms of care are reimbursed at the most generous rates; and, to a lesser extent, by county hospitals (0.1 percent), for which the reimbursement is less generous. Our event study estimates indicate that the effects on inpatient service use are mainly driven by the large increases during the period (2007-2009) when the NCMS rollout was nearly complete, and are weaker after 2009.

To understand the role of the NCMS' supply-side policy in increasing the use of inpatient care, we conduct an intermediate analysis. We find that NCMS enrollment rate increases the number of inpatient beds but not the number of institutions. After controlling for hospitals beds, the magnitude of the NCMS effect on inpatient care use is reduced by half. Our findings indicate that half of the NCMS' success in increasing inpatient care use among rural residents in China can be attributed to the supporting policy of increasing rural healthcare investment, which leads to increases in both the quantity and quality of healthcare services in rural China.

Second, we find that the NCMS does not affect rural residents' use of outpatient care, which is consistent with the fact that NCMS reimburses outpatient services at a more restricted rate than that for inpatient care. When examining the outpatient effect by providers, our results show that the rural residents are price-sensitive and their healthcare

visits to providers of different levels conform to the differential reimbursement scheme of the NCMS. In particular, rural residents seem to reduce outpatient visits at city hospitals, and increase outpatient visits to rural providers such as township health centers. When we analyze the outpatient effect by hospital outpatient department, we find that the reduced NCMS effect on hospital outpatient visits comes from outpatient use at general (with statistical significance), preventive care, and rehabilitation departments. To provide more evidence for the possibility that rural residents shift from city hospitals to primary care providers for outpatient care, we further examine the effects of the NCMS on outpatient services interacted with inpatient services delivered by primary providers at township health centers and community health centers that are reimbursed at more generous rates. We find that the effects of the NCMS on outpatient care use are stronger in provinces with more outpatient visits to primary care providers. Overall, these results suggest that rural residents substitute outpatient services in city hospitals that are reimbursed less generously with outpatient services delivered by primary care providers that are reimbursed more generously under the NCMS.

Third, we find that the introduction of the NCMS does not lead to increases in OOP medical cost as inpatient care use rises. In addition, we show that the rollout of the NCMS has no effect on the all-cause mortality rates among rural residents in China. These close-to-null estimates are shown to be robust across specifications. However, our analysis of mortality rate by disease shows that the NCMS significantly reduces the incidence of infectious disease on the extensive margin, and significantly reduces mortality rate of AIDS on the intensive margin.

Our findings contribute to several branches of literature. First, our paper is directly related to several empirical papers that estimate the effects of the NCMS, which generate conflicting findings. Some of these studies find that the effects of the NCMS on healthcare utilization are very small or close to null. In particular, Lei and Lin (2009) analyze the 2000, 2004, and 2006 data from the longitudinal China Health and Nutrition Survey

(CHNS) using multiple research designs, such as fixed effects, instruments, and difference-in-difference (DID) approaches, to correct the endogeneity of participation in the NCMS. They find that while the introduction of the NCMS has led to increases in preventive care use, particularly in the number of general physical examinations, it has little effects on the numbers of inpatient stays or outpatient visits, OOP expense, and health improvement. Yip et al. (2008) conduct a longitudinal survey in 2002 and 2005, and employ a DID method to show that the introduction of the NCMS does not result in an increase in outpatient visits. Babiarz et al. (2012) also estimate a DID model using two waves of survey data for five provinces in China in 2005 and 2008, and find little evidence that being enrolled in the NCMS makes sick people more likely to visit healthcare providers.[7]

In contrast, other studies find that the implementation of the NCMS significantly increases healthcare utilization. For example, An analysis by Wagstaff et al. (2009) of data from the National Health Service Survey (NHSS) for 2003 and 2005 in 15 counties for 12 provinces and of healthcare facility data using a DID design shows that the rollout of the NCMS increases the utilization in inpatient and outpatient visits, while has no effect on OOP payment. They also show that the effects occur mainly in township health centers. An analysis by Liu (2016) of data from the CHNS for 1993 to 2011 using a DID design shows that the NCMS has been effective in insuring households against health shocks, and in helping them invest in their children's education. The most recent study by Huang and Wu (2020) exploits the enhanced insurance benefit from the integration of rural-urban insurance since 2009 in a staggered DID design and shows that the increased reimbursement rate increases middle-aged and older residents' inpatient care utilization. Of the studies that examine the effects of the NCMS on medical OOP spending, some find that it decreases expense to a limited extent only (Lei and Lin 2009; Wagstaff et al. 2009; You and Kobayashi 2009; Cheng and Zhang 2012; Cheng et al. 2015), while others show

[7]The five provinces are Jiangsu, Sichuan, Shaanxi, Jilin, and Hebei.

that the NCMS is effective in reducing OOP spending (Babiarz et al. 2012).

There are several potential explanations for these mixed findings. First, as the effects of the NCMS may have been heterogeneous across regions, studies that use samples from different local areas have inconsistent findings. Second, the NCMS evolves as the program was rolled out. For example, the enrollment increases rapidly and the reimbursement rates for healthcare services improve as the program developes. Thus, studies that focus on different phases of the implementation of the NCMS may have yielded conflicting findings. For example, studies that explore the effects of the NCMS in the years immediately after its introduction (2004-2006), when the NCMS had low reimbursement rates and moderate enrollment levels, are very likely to find small or close-to-null estimates of changes in healthcare utilization; whereas studies that focus on the later stages of the NCMS rollout are more likely to produce significant findings. In contrast to the previous literature on the NCMS, our paper draws on a national sample that spans an eight-year period after the program was expanded in 2004, employs a random design utilizing variation in the NCMS enrollment levels over time, examines a broader range of the effects of the NCMS on healthcare use by provider and service type, and explores the mechanisms through which the NCMS increases healthcare access among rural residents in China.

Our findings are also related to the branch of literature on the effectiveness of health insurance. Studies conducted in developed countries have shown that the expansion of health insurance coverage increases healthcare use (Currie and Gruber 1996a; 2001; Finkelstein 2007; Card et al. 2008; 2009; Chay et al. 2010; Finkelstein et al. 2012; Kolstad and Kowalski 2012; Sommers et al. 2012), protects against catastrophic health expenditure (Finkelstein et al. 2012), and significantly reduces mortality (Currie and Gruber 1996a;b; Hanratty 1996; Card et al. 2009; Chay et al. 2010; Miller et al. 2021; Finkelstein et al. 2012; Sommers et al. 2012; Chou et al. 2014; Goodman-Bacon 2018; Swaminathan et al. 2018; Khatana et al. 2019; Borgschulte and Vogler 2020; Goldin et al. 2021). The conclusions of these studies apply to both poor and non-poor populations. Among the studies that focus on non-poor

populations are papers that examine the impact of health insurance on Medicare beneficiaries (Finkelstein 2007; Card et al. 2008; 2009; Chay et al. 2010), on patients with specific diseases such as end-stage renal disease (Swaminathan et al. 2018) or cardiovascular disease (Khatana et al. 2019), and on the general public (Kolstad and Kowalski 2012). The studies that focus poor populations include Currie and Gruber (1996a;b); Hanratty (1996); Chou et al. (2014); Currie and Gruber (2001); Goodman-Bacon (2018), which look at the effects of health insurance among low-income mothers and children, and Finkelstein et al. (2012); Sommers et al. (2012); Borgschulte and Vogler (2020); Goldin et al. (2021); Miller et al. (2021), which examine the impact of health insurance on poor adults. Utilizing Medicaid expansion as a natural experiment that allows for a rigorous empirical design, these studies focus on poor populations in developed countries (especially the United States). They all find that the expansion of insurance coverage has led to increases in healthcare use and improvements in mortality.

In contrast, the research findings on the effects of insurance expansion on healthcare use in developing countries are mixed. For example, studies that examine the impact of the Subsidized Regime in Columbia find that the program increases the use of preventive services and curative care (Miller et al. 2013; Trujillo et al. 2005; Giedion et al. 2009; Gaviria et al. 2006). However, a number of studies that look at the impact of insurance programs in other developing countries find only limited effects. For example, a study on the impact of an insurance program in Ghana finds that the program has led to an increase in the use of pregnancy care (Mensah et al. 2010), but also that it has no significant effect on OOP expenditure once self-selection is controlled for (Brugiavini and Pace 2016). King et al. (2009) find that the Seguro Popular program in Mexico does not lead to increases in the utilization of healthcare, whereas Sosa-Rubí et al. (2009) report that it has led to increases in diabetic care use. Other studies find that health insurance for the poor does not result in increases in the use of healthcare or lower OOP medical cost in Nicaragua (Thornton et al. 2010), in Georgia (Bauhoff et al. 2011), or in India (Karan et al. 2017). Assessments of the impact

of the Health Care Funds for the Poor program in Vietnam have also been mixed: Wagstaff (2007) finds that the use of inpatient and outpatient care increases, Axelson et al. (2009) report a small increase in the overall use of healthcare, and Wagstaff (2010) finds a null effect of this program on healthcare utilization.[8] We extend this literature by investigating the effects on healthcare utilization of the NCMS, one of the biggest insurance programs for the rural poor in China. More importantly, we explore the mechanisms behind its effectiveness, from which we derive some policy implications for the design and implementation of large-scale insurance programs in LMICs.

The paper is organized as follows. Section 2 introduces the institutional background of the NCMS. Section 3 describes the data, explains some key dependent variables, and presents summary statistics. Section 4 introduces the empirical models and potential threats to our identification. Sections 5 to 7 report the NCMS effects on healthcare utilization, explore mechanisms, investigate heterogeneous effects, and present robustness checks. Section 8 shows the NCMS estimates on medical expense and mortality. Section 9 concludes.

2 Institutional Background

2.1 The Healthcare System in Rural China

China's rural healthcare system is a three-tiered medical system (Wang 2004; Babiarz et al. 2012). Village health clinics are the first level of contact, which provides outpatient services only. Township health centers (THCs) serve as the middle tier, which provides basic inpatient and outpatient healthcare. In some urbanized provinces such as Zhejiang and Jiangsu, rural residents can visit community health centers (CHCs), which typically serve urban residents in neighboring communities and function similarly to that of the THCs in rural areas. The top tier of the rural healthcare system consists of county hospitals that provide relatively specialized and better quality care. Patients with complicated conditions can

[8] See Acharya et al. (2013) for a comprehensive review.

be referred to city hospitals. THCs play an important role in mediating between village clinics and county hospitals in this three-tier rural medical system. The common services delivered at THCs include preventive healthcare, basic medical care, health surveillance, health education, rehabilitation, and family planning (Wang 2004). Although city hospitals are technically not part of the rural healthcare system, rural residents (especially those living in the areas adjacent to cities) often go to city hospitals for treatment because they have much better staff and equipment than other healthcare facilities. Rural residents may go to a nearby city hospital for better-quality services, or for that their conditions cannot be treated in THCs or county hospitals.[9]

2.2 The New Cooperative Medical Scheme (NCMS)

Unlike the poor in developed countries mainly live in cities, poor people in China tend to be concentrated in rural areas, and especially in remote and mountainous rural areas far away from cities. However, only 20% of China's rural population, which accounted for about 70% of the country's total population, had any form of health insurance in the 1990s (MHCHSI 2004). Rural Chinese who lacked health insurance had to pay the full amount for medical care OOP. To reduce the financial burden associated with healthcare use, the Chinese government initiated one of the largest health insurance programs in history in 2002, the New Cooperative Medical Scheme (NCMS), which was designed to cover the 640 million otherwise uninsured rural residents, and to provide full coverage of this population by 2008.

The NCMS program was rolled out on a staggered basis, first through a pilot program in 300 counties in 2003, and then through an expansion to over 600 counties by 2005 (Liu 2004).[10] In 2003, each provincial government had to choose at least two to three counties for the pilot program based on the financial conditions of county governments, the needs of

[9] In addition, some rural patients with chronic or rare diseases may go to city hospitals outside of their home province for treatment.

[10] For example, Beijing had 13 pilot counties, Shanghai have 10 pilot counties, Zhejiang has 27 pilot counties, Jiangsu has 10 pilot counties, and Shangdong has 26 counties. More details on each province can be found in Appendix Table A1.

the local rural population, and the status of medical care delivery system. Thus, a small number of counties with better economic conditions were chosen to participate in the pilot stage, and the program was expanded to the majority of counties later on. As a result, provinces with better economic conditions will achieve full coverage sooner because of earlier and faster expansion. Appendix Table A1 summarizes the year when each province fully covered its rural population, and the number of counties participating in the pilot stage of the NCMS. We can see that all provinces achieved full coverage of their rural residents by 2008, and economically developed provinces such as Beijing and Shanghai achieve alomost full expansion in 2004, Jiangsu and Qinghai in 2005, Zhejiang and Hainan in 2006.

Although participation in the NCMS was voluntary for rural residents, the program offered sufficient incentives to ensure full enrollment. In establishing the premium payments, the central government sets a minimum contribution for participants and a minimum subsidy for local governments every year.[11] As a result, participants paid only around one-fifth of total premiums, with local and central governments subsidizing the rest. For example, an enrollee paid a minimum contribution of 10 to 80 yuan in the 2004-2011 period. In addition, the central government's budget transfers to local governments were conditional upon achieving a target enrollment rate and enrollment levels were tied to promotions for government officials (Vilcu et al. 2016). Thus, local governments put great efforts into promoting enrollment into the program. For example, village leaders visited the non-participating households in person and provided assistance to ensure that they were enrolled. The rapid increase in NCMS enrollment was largely incentivized to local governments from the central government in that the funding transfers were determined by the enrollment rates (Vilcu et al. 2016). As a result of the heavily subsidized premiums and the extensive promotion efforts by local governments, rural residents responded positively to the NCMS, as shown in Figure 1. The program expanded rapidly from 2004 to 2007, with the NCMS enrollment rate increasing from 18 percent to 86 percent. The coverage

[11] In particular, the minimum contribution set by the central government was 10 yuan in 2006, 20 yuan in 2007, 30 yuan in 2008, 50 yuan in 2009, 60 yuan in 2010, and 80 yuan in 2011.

rate rose to over 95 percent in 2008, flattened in 2009, and reached full coverage in 2010 and 2011.

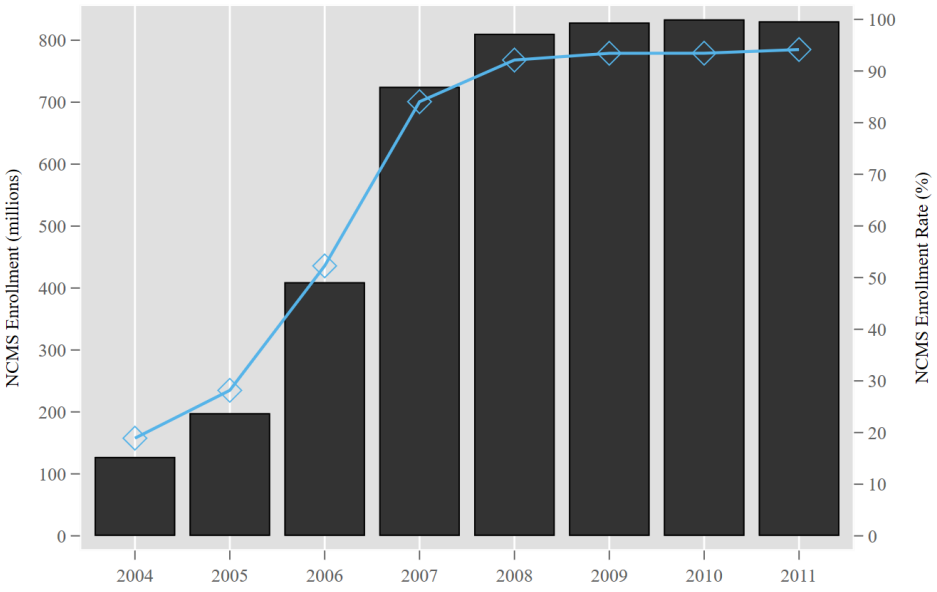


Figure 1: Enrollment in the NCMS over Time

Notes: The data source is the NCMS development report by Chen and Zhang (2013). The y-axis on the left is the number of enrollees and the y-axis on the right is the enrollment rate, which is calculated by dividing the rural population by the number of enrollees over the period from 2004 to 2011.

Provinces might have chosen to expand the NCMS program based on their economic conditions. To show this, we regress our NCMS enrollment rate on province economic variables such as the unemployment rate, GDP per capita (2014 yuan), and the average income per capita (2014 yuan), while controlling for province and year fixed effects in a province-year panel of the period 2004-2011. Table 1 reports the results using flexible forms of these economic controls. Column 1 estimates the simple relationship between the unemployment rate and the NCMS enrollment rate. Column 2 adds the basic demographic controls for each province such as population, education, age structure, percentage married and female, and the ratio of dependent persons. Column 3 allows for flexible quadratic and cubic forms of the unemployment rate. Column 4 adds other economic conditions in cities, such as consumption, medical expense, and the average income in 2014 yuan. Column 5

includes all possible economic controls and takes flexible forms of the unemployment rate and the average income per capita (2014 yuan) in rural areas. Overall, the results provide little evidence of any relationships between the NCMS expansion and economic conditions. For example, column 1 estimates that a one percentage point increase in the unemployment rate is correlated with an approximate 0.06 percentage point increase with no significance in the NCMS enrollment rate. The flexible forms in columns 4 and 5 show that there might be a significant relationship between the average income per capita of rural residents and the NCMS enrollment rate. We address the endogeneity concern of the NCMS enrollment rate in section 4.3 and section 7. We show that although more developed provinces seem to experience lower NCMS enrollment gain, they do not show systematically differential trend in rural residents' healthcare utilization as compared to less developed provinces. For further evidence, Appendix Table A2 shows the estimates of the effects of lagged economic conditions on the NCMS enrollment rate. The estimates on the lagged economic conditions confirm little correlations with the NCMS roll-out.

As the NCMS is implemented at the county level, local governments have discretion in choosing the benefit packages and the administrative arrangements offered in their areas. Thus, the deductibles, coinsurance rates, and ceilings of the scheme can vary across counties (You and Kobayashi 2009). However, the benefit designs of the NCMS programs in different counties have some similar features. First, the NCMS provides more generous benefits for inpatient care than for outpatient care: all counties cover inpatient care, while only a quarter of counties cover outpatient care on a pooling basis (Wagstaff et al. 2009). Second, to control medical expense, the NCMS generally adopts a hierarchical reimbursement scheme that offers more generous benefits for care delivered by lower-level providers, and less generous reimbursements for care delivered by higher-level providers. In 2011, the highest coverage rates (at 65 to 90 percent) were for care delivered by primary care providers, such as THCs and CHCs; the second-highest coverage rates (at 60 to 80 percent) were for care provided by county hospitals; and the lowest coverage rates (at 45 to 70 percent) were for care provided

Table 1: Effects of Province Economic Conditions on the NCMS Enrollment Rate

	(1)	(2)	(3)	(4)	(5)
Unemployment rate	0.057	0.057	-0.050	-0.407	-0.577
	(0.052)	(0.042)	(0.595)	(0.551)	(0.488)
Unemployment rate^2			0.085	0.147	0.194
			(0.149)	(0.145)	(0.126)
Unemployment rate^3			-0.011	-0.014	-0.018*
			(0.012)	(0.012)	(0.010)
GDP per capita (2014 yuan)				-0.054	0.000
				(0.050)	(0.060)
Average income per capita (2014 yuan)				-1.194**	3.477
				(0.504)	(2.181)
Average income per capita^2					-3.582*
					(1.924)
Average income per capita^3					0.100
					(0.068)
Basic demographic controls		Y	Y	Y	Y
Economic controls				Y	Y
Mean NCMS-rate	0.189	0.189	0.189	0.189	0.189
Observations	231	231	231	231	231
Adjusted R-squared	0.913	0.924	0.927	0.937	0.941

Notes: Each cell reports estimates from a separate specification. The unemployment rate, the demographics, and the economic controls for each province are from the CSY yearbooks, and the NCMS policy information is from the report on the development of the NCMS. The basic demographic controls include population, age structure, education, percentage married and female, and the ratio of dependent persons. The Economic controls include the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and city areas (2014 yuan), and consumption and medical expense in cities (2014 yuan). The GDP per capita, the average income per capita, and its quadratic and cubic form are re-scaled to show non-zero coefficients. All regressions include province and year fixed effects. All statistics are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

by city hospitals (Zeng et al. 2019). Third, the range of benefits offered by the NCMS have improved since its initial implementation in 2003. More infectious diseases and catastrophic diseases such as congenital heart disease, leukemia, and cancer, are covered. Since 2007, outpatient services associated with chronic diseases such as kidney dialysis and diabetes have also been reimbursed.[12]

[12]The co-payment for the treatment of such diseases is about 10 percent, and is fully reimbursed for some poor households.

On the supply side, while the NCMS does not determine provider payment rates,[13] another feature of the program expansion is the increasing investments in medical resources of rural areas, which is in parallel with the introduction of the program. From 2004 to 2011, the number of hospital beds at county hospitals grew quickly, while the number of hospital beds at CHCs and THCs remained stable (Appendix Figure A1). In addition, more healthcare providers have been established: the number of CHCs increased significantly and the number of county hospitals expanded rapidly starting in 2010, while the number of THCs decreased from 2004 to 2011 (Appendix Figure A2). Overall, the quantity and quality of the medical resources in rural areas has improved as a result of the NCMS program.

3 Data

To explore the effects of the NCMS, we rely on three sources of data with annual information in each province of China. Our healthcare utilization and health resources data are collected from the annual China Health Statistical Yearbook (CHSY) for the period 2004-2011. The CHSY is a national yearbook published by the Health Department of China that reports detailed information on health of the residents in all Chinese provinces. First, the CHSY provides the total numbers of outpatient and inpatient visits at all hospitals, and the corresponding numbers of health services delivered by each provider at city hospitals, county hospitals, CHCs, and THCs. In addition, the CHSY includes data on outpatient visits at hospitals by specialty from 2007 to 2011, which we use to explore the impact of the NCMS on substitution behavior across services and providers among rural residents. Second, the CHSY provides detailed information on household consumption and medical expense in rural and urban areas of a province, which allows us

[13] Although county governments have some discretion in setting premium and reimbursement levels, they do not negotiate with healthcare providers. The payment rates for healthcare providers are based on the payment design of the local public insurance for employees, which is, in turn, based on the standard set up by the national bureau of health insurance.

to estimate the impact of the NCMS on OOP cost.[14] Third, the CHSY contains detailed information on the health resources across provinces. We use two dimensions of health resources to explore the mechanisms of the effects of the NCMS in our paper: the number of providers and the number of beds offered by providers at different levels, such as county hospitals, CHCs, and THCs in rural areas in each province.

The second data source is the annual China Statistical Yearbook (CSY) from 1996 to 2011. The CSY contains demographic information for each province, including information on the total population; the rural population; the share of married individuals; the share of female individuals; the share of individuals with different levels of education, such as high school and college; the share of individuals belonging to different age groups, such as the proportion of people aged 14 and above and the proportion of older people aged 64 and above; and the ratio of dependent people (children and old parents) in a household.[15] In addition, the CSY contains detailed information on the economic characteristics of each province, including the gross domestic product (GDP) per capita, the unemployment rate, the average income in rural areas, and the household disposable income in cities. These variables are exploited as controls in our estimation model. The CSY also provides information on mortality (deaths per 1,000 people) in each province, which allows us to estimate the health effects of the NCMS.

Our data on the NCMS policy are derived from the report of the NCMS development by Chen and Zhang (2013). The report presents information on enrollment in the NCMS, NCMS beneficiaries, and the NCMS' reimbursements for inpatients in graphs for each province from 2004 to 2011. While the report explicitly provides the values of these variables for some years, it shows the specific values for other years only in graphs. Therefore, we impute the values for the years not specified in the graphs based on the numbers given for other years in the report. For example, the report provides specific NCMS enrollment numbers for Beijing in

[14]The medical expense includes payment on medical equipment, medications, hospital bills, and doctors' consultation services (Zeng et al. 2019).

[15]The population is based on *hukou* status, China's household registration system: if one's *hukou* is registered in rural areas, one is counted as rural population.

2004, 2005, 2006, and 2011. For the rest of the years, the corresponding numbers are plotted from 2004 to 2011 in a scattered graph. We use the y-scale information and a software tool to proportionately calculate the NCMS enrollment in all years from 2004 to 2011.[16] The main independent variable of interest is the NCMS enrollment rate constructed by the ratio of NCMS enrollment and the rural population in each province over the years 2004 to 2011.

We also supplement these data with another data source, the China Health Yearbook (CHY) from 1996 to 2003, to test our identification strategy. The CHY provides information on healthcare in the years prior to the NCMS implementation.[17] The variables of interest in the CHY are the number of healthcare providers, the number of hospital beds, the numbers of outpatient visits and emergency visits, and healthcare spending across the provinces. We employ the supplemental data in section 4 to test the parallel trend assumption in a framework with a continuous treatment variable.

3.1 Key Dependent Variables

The first set of outcomes is on healthcare use by service and by provider. We construct the total number of outpatient visits and the total number of inpatient visits using the information on the population in each province from 2004 to 2011. We then calculate the healthcare use in the form of outpatient and inpatient visits by provider at city hospitals, county hospitals, CHCs, and THCs in order to investigate how the NCMS affects the healthcare-seeking behavior across healthcare providers with different levels of quality. We also combine the information on outpatient visits by department, which allows us to investigate the substitution behavior among rural residents. All of these outcomes are scaled at per 10,000 people.

The second set of outcomes is on rural healthcare resources by provider, which we exploit to explore the mechanisms of the impact of the NCMS on the healthcare use of rural

[16] We use CorelDRAW, which is a powerful graphics tool for vector illustration, layout, and editing. More information about CorelDRAW can be accessed on its website.

[17] The annual CHY reports are available in a scanned version, and we manually collected the data for each province in the reports. The cleaned data are available upon request.

residents. We examine two types of healthcare resources: hospital beds and number of care providers. For the first two dimensions, we calculate the number of hospital beds per 10,000 people and the number of hospitals per 10,000 people for city hospitals, county hospitals, CHCs, and THCs, respectively.

The third set of outcomes is on medical expense and mortality rates in rural areas. The average medical expenditures of rural residents are inflation-adjusted (2014 yuan). The share of medical expense is defined by dividing the medical expense (2014 yuan) by the total consumption expense (2014 yuan) in rural areas. The mortality rate is measured as the number of deaths per 100,000 people.

The fourth set of outcomes is on the NCMS beneficiaries and the reimbursement rates for inpatient care use. We calculate the share of NCMS users as the ratio of NCMS beneficiaries and enrollment levels for each province in each year. The reimbursement rates for inpatient care use are drawn directly from the report, and do not distinguish between providers at different types of hospitals.

3.2 Sample Statistics

On average, 70 percent of rural residents are covered by the NCMS, and the first-year coverage rate in 2004 is about 19 percentage points. Over the period 2004-2011, the average increase in the NCMS enrollment rate is approximately 75 percentage points.[18] The average times of being reimbursed per rural resident is about one, indicating that an average enrollee uses the NCMS at least once during our sample period. In terms of healthcare utilization, rural residents visit a doctor twice a year on average, and about eight out of 100 people has used inpatient services. Across providers, city hospitals rank first in both outpatient and inpatient use. THCs rank second in outpatient visits and third in inpatient stays. The CHCs are used much less frequently for inpatient services than other providers, which

[18]Some provinces have a maximum NCMS enrollment rate that is higher than one. This is mainly driven by the urbanization process: as some rural residents turn into urban residents, the size of the rural population (the denominator for calculating the enrollment rate) decreases even through these people are still covered by the NCMS.

is reasonable given that CHCs mainly offer outpatient services. The average healthcare expense in the cities is about 856 yuan (2014 yuan), accounting for about seven percent of total consumption. The average disposable income in cities is close to 17,000 yuan (2014 yuan), while the average income in rural areas is around 6,000 yuan (2014 yuan). See Appendix Table A3 for more details.

4 Estimation Model

In this section, we describe our identification strategy to estimate the effects of the NCMS in a two-way fixed effect (TWFE) framework and a flexible event-study specification, as well as possible identification threats. The TWFE model uses a continuous NCMS enrollment rate across provinces over years as the key independent variable and exploits the within-province variation in the NCMS enrollment rate over time to quantify the effects on potential outcomes of interest. To show dynamic effects, we also estimate an event-study design, which utilizes a continuous value of the initial NCMS enrollment rate in 2004 across provinces as the treatment variable and compares province-level outcomes after 2004 between provinces with higher and lower total NCMS enrollment gain.

4.1 TWFE Specification

$$ln(Y_{pt}) = \beta_0 + \delta NCMS_{pt} + \eta_p + \mu_{rt} + X_{pt}^{'}\beta + \epsilon_{pt} \quad (1)$$

where Y_{pt} is the potential outcome in province p in year t: healthcare use by service and by provider, rural medical expense, and mortality rate. Without specific notification, all dependent variables are in natural logarithmic form. $NCMS_{pt}$ is the continuous NCMS enrollment rate in province p in year t. η_p, the province fixed effect, controls for unobserved time-invariant province characteristics, such as the political environment for promoting the NCMS and some unobserved preferences for healthcare use among the residents in each province. μ_{rt}, the region-by-year fixed effect, controls for common shocks across regions and

convergence in outcomes across regions uncorrelated with the NCMS (Stephens Jr and Yang 2014; Goodman-Bacon 2021).[19] X_{pt} is a vector of covariates that includes the province-level demographic characteristics, such as population size, age structure, education levels, percentage married and female, and the ratio of dependent persons in a household and a vector of economic controls that include the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and urban areas (2014 yuan), and consumption and medical expenses in cities (2014 yuan). The demographic controls are our basic controls. The full controls include both demographic and economic variables. ϵ_{pt} is the standard errors, which are clustered by province. All regressions are weighted by the rural population in 2003 to remove the endogenous urbanization process across provinces from 2004 to 2011.

4.2 Event-Study Specification

$$ln(Y_{pt}) = \alpha_0 + NCMS_p^{2004} \times \left[\sum_{y=-6}^{9} \theta_y \mathbf{1}\{t - 2002 = y\}\right] + \eta_p + \mu_{rt} + X_{pt}^{'}\beta + \epsilon_{pt} \qquad (2)$$

where $NCMS_p^{2004}$ is the continuous NCMS enrollment rate in 2004 in province p. To better interpret our results, we re-define the treatment variable as the differences between the NCMS enrollment rate in 2011 and the NCMS enrollment rate in 2004, which captures the possible differential effects of NCMS enrollment accumulation on health service utilization across provinces.[20] The larger the value of this treatment variable, the greater the accumulated increase in the NCMS enrollment rate. The event-year dummies $\mathbf{1}\{t-2004 = y\}$, are equal to 1 when the year of observations is $t = 1996 \ldots, 2002, 2003 \ldots, 2005 \ldots, 2007, \ldots, 2010, 2011$, respectively. We use 2002, the beginning year of the NCMS program, as the reference year and is thus omitted in our model. Based on the characteristics of the NCMS implementation

[19] China's 31 provinces are divided into five regions according to geographical location and economic condition: eastern region, northern region, middle region, sourthern region, and western region.

[20] The results are almost identical when using the alternative differences between 100 percent coverage and the initial NCMS enrollment rate in 2004. The treatment variable also reflects the possible timing effect of the NCMS, if there is any.

outlined in section 2, we group the years 2005 to 2006 as the rapid expansion stage of the program, 2007 to 2009 as the close-to-full coverage stage with flattening enrollment rates, and 2010 to 2011 as the full coverage stage. All other variables are the same as those in equation 1. The estimates of interest are the coefficients on the interaction terms between $NCMS_p^{2004}$ and event-year dummies, θ_y, which capture the differences in outcome Y in year t as compared to 2002 between provinces with larger NCMS enrollment gains (smaller initial $NCMS_p^{2004}$) and provinces with lower NCMS enrollment gains (higher initial $NCMS_p^{2004}$) over the period 1996-2011.

4.3 Identification Threats

Our empirical TWFE model and event study design, rely on two identification assumptions: provinces with higher total NCMS enrollment gain show similar dynamics absent the NCMS policy with lower-gain provinces; and provinces with a faster expansion speed of the NCMS share common time trend absent the NCMS policy with provinces with a slower expansion speed. Although there is no consensus on methods testing the parallel trend assumption in a model with a continuous treatment in the literature, we use two strategies in our context to address this issue.

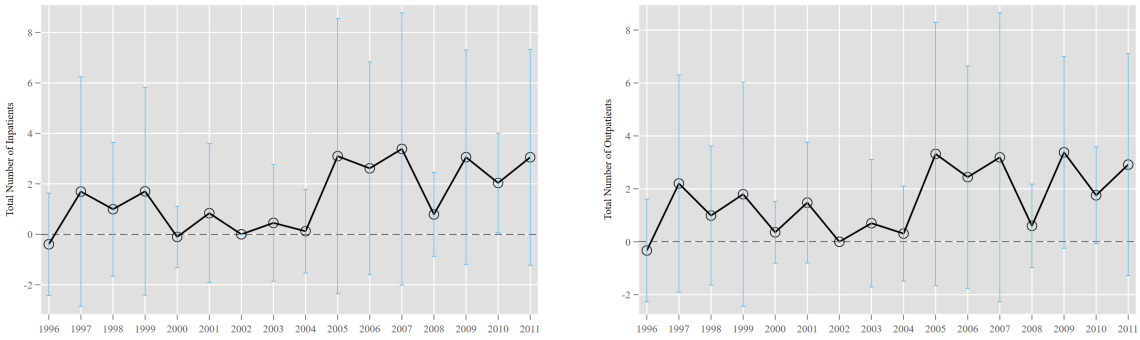
First, we estimate an event study model and show the results for years 1996-2011. Specifically, we obtain the pre-NCMS data 1996-2003 from CHY and combine it with the post-NCMS outcome data 2004-2011 from CHSY and CSY.[21] To test the first identification assumption, we regress outcomes of interest for the period 1996-2011 on the 2004 NCMS enrollment rate, employing the specification 2. Figure 2 shows the respective estimates of the NCMS effects on inpatient stays and outpatient visits with and without region-by-year fixed effects in years 1996-2011 (2002 is the omitted year). All the estimates before 2002

[21]The data for years 1996-2003 are derived from the CHY. The data for our working sample are from the CHSY in years 2004-2011. Although the CHY and the CHSY both document the healthcare outcomes of interest, there might be some inconsistencies between the two data sources. See section 3 for details of the description on each data source. In addition, CHY does not report outcome data by provider and by department. To be conservative and for more comprehense analysis, we do not combine the data sample in our main analysis. Instead, we use the pre-NCMS data mainly for identification assumption tests.

lie around the zero line and are statistically insignificant with and without region-by-year fixed effects. The evidence suggests that rural residents of smaller-gain and larger-gain provinces are similar in the growth rate of healthcare utilization before NCMS, despite that they might be different in terms of utilization levels. It's noteworthy that while both inpatient and outpatient services show an upward trend of more utlization after 2003, the increase in inpatient stays is more substantial. Appendix Figure A4 further shows the event study estimates on other healthcare outcomes for emergency visits and hospital discharges and Appendix Figure A5 plots the estimates on healthcare spending in 1996-2003, which demonstrate more evidence to support the parallel trend assumption.

(a) Inpatient, baseline

(b) Outpatient, baseline



(c) Inpatient, w/o region-by-year FE

(d) Outpatient, w/o region-by-year FE

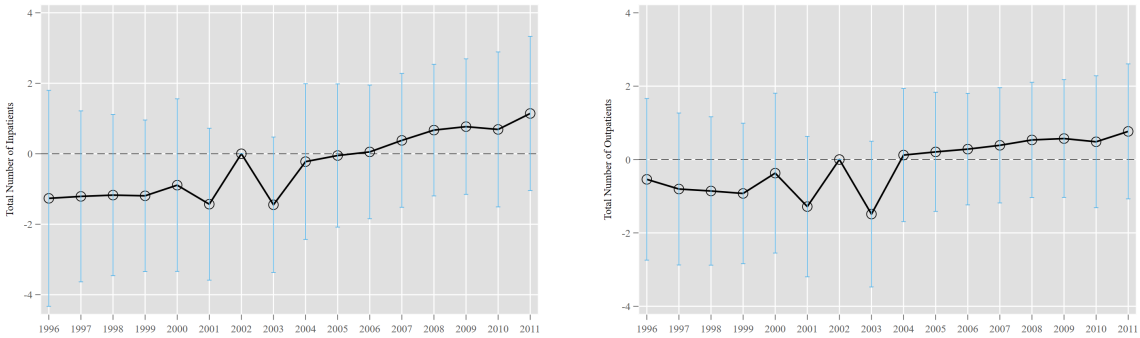


Figure 2: Event Study Estimates by Total NCMS Enrollment Gain

Notes: The data source is the 1996-2003 CHY and 2004-2011 CHSY and CSY. Each figure plots the event study in specification 2 with the baseline estimates. The y-axis is the dependent variable in log form. The interval is the 95% confident interval of each estimate.

To test whether the NCMS enrollment expansion speed is exogenous, we estimate an

event study model that delineates each province with expansion rate instead of pre-NCMS insurance rate. The annual expansion rate is calculated as dividing the total enrollment gain between 2004 and 2011 by the number of years each province takes to achieve full coverage. Figure 3 shows the respective estimates of the NCMS effects on inpatient stays and outpatient visits with and without region-by-year fixed effects in years 1996-2011 (2002 is the omitted year) by comparing provinces with faster and slower expansion speeds. The statistically insignificant estimates before 2002 support the validity of our second identification assumption: the provinces that expands NCMS faster show similar dynamics in rural residents' healthcare utilization with provinces that expand the progam at a slower speed. Appendix Figures A6 and A7 further give supportive evidence which plot the dynamic estimates on other healthcare use such as emergency visits and hospital discharges and healthcare resources in 1996-2003.

Second, we follow the methods used in Bailey and Goodman-Bacon (2015) and Goodman-Bacon (2018) and estimate the effect of the NCMS enrollment gains from 2004 to 2011 on a range of economic variables in 1996 to 2004.[22]

$$y_{pt} = \alpha + \beta_0 NCMS_p^{2004} + \beta_1 NCMS_p^{2004} \times (t - 2004) + \xi_{pt} \tag{3}$$

where y is the dependent variables to be tested against the NCMS enrollment rate in 2004 when the program expansion began. We test for balance both in levels ($H_0 : \beta_0 = 0$) in 2004 and in linear pre-2004 trends ($H_0 : \beta_1 = 0$).

Table 2 the tests of potential effects of economic conditions and healthcare variables on the NCMS enrollment rate. We find that before 2003, provinces with lower insurance rate in 2004 tend to have worse economic conditions in terms of level (lower rural income and lower GDP per capita) and trend (lower GPD per capita growth rate). However, the differences in pre-NCMS economic conditions are mitigated after removing region-by-year variations.

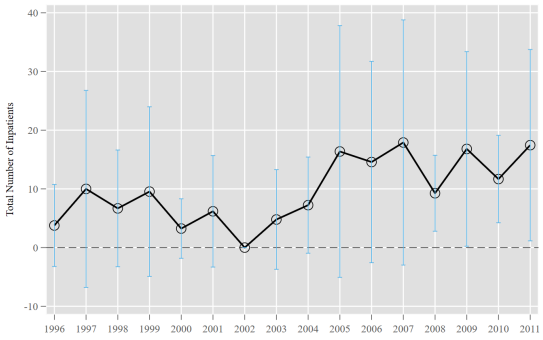
[22] As discussed, the results of the NCMS enrollment gains from 2004 to 2011 are almost identical to the results of the NCMS enrollment rate in 2004. Results are available upon request.

Table 2: Balance Test: Relationship Between the NCMS Enrollment Rate in 2004 and Pre-Expansion Characteristics in Levels and Trends

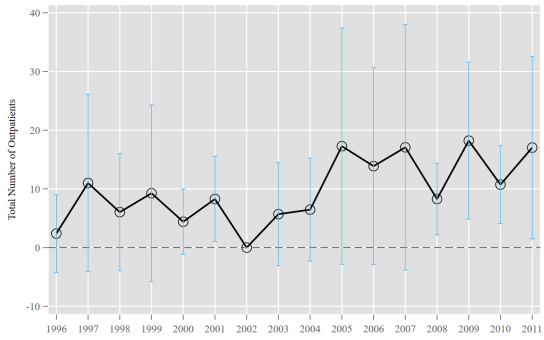
	(1)	(2)	(3)	(4)	(5)
		Without Region-Year FE		With Region-Year FE	
Dependent Variable	Mean in 1996	Level ($NCMS_p^{2004}$)	Trend ($NCMS_p^{2004} \times Year$)	Level ($NCMS_p^{2004}$)	Trend ($NCMS_p^{2004} \times Year$)
		Panel A. Economic Conditions (1996-2004)			
Rural income (K)	2.81	-4.016***	-0.140	-3.653***	-0.133*
		(1.317)	(0.108)	(0.985)	(0.067)
GDP per capita (K)	7.5	-19.67***	-1.416**	-29.879**	-2.257**
		(6.321)	(0.550)	(11.554)	(0.865)
Food consumption share in rural (%)	57.32	1.617	-0.751*	4.799	-0.139
		(5.959)	(0.414)	(4.560)	(0.425)
Food consumption share in urban (%)	48.95	-0.225	0.036	2.378	0.339
		(1.833)	(0.246)	(2.380)	(0.349)
Share of medical expenses in rural (%)	3.66	0.203	0.053	-1.380	-0.095
		(1.300)	(0.102)	(1.242)	(0.091)
Share of medical expenses in urban (%)	3.63	0.724	0.157	0.060	0.111
		(1.252)	(0.108)	(1.370)	(0.118)
Unemployment rate	3.26	0.339	-0.088	0.903	0.063
		(0.598)	(0.102)	(0.997)	(0.134)
		Panel B. Healthcare (1996-2003)			
Outpatient visits (10K)	216.9	-1.074	0.160	-0.016	0.049
		(1.418)	(0.107)	(0.947)	(0.067)
Emergency visits (10K)	18.25	-2.593*	0.077	-0.891	0.039
		(1.343)	(0.167)	(1.159)	(0.084)
Inpatient (10K)	5.21	-0.415	0.183	0.583	0.070
		(1.525)	(0.165)	(1.034)	(0.072)
Hospital discharge (10K)	5.07	-0.390	0.188	0.636	0.080
		(1.517)	(0.164)	(1.041)	(0.072)
Healthcare spending (10K)	8.57	-0.285	-0.186	-0.136	-0.304**
		(0.884)	(0.185)	(0.920)	(0.132)
Medical fixed capital (10K)	150.4	-0.796	-0.098	-0.475	-0.238
		(0.803)	(0.188)	(0.912)	(0.207)
Number of institutions (K)	0.83	-0.260	-0.073	1.075	0.083
		(0.544)	(0.051)	(0.705)	(0.063)
Number of hospitals (K)	0.26	-0.300	-0.012	0.695	0.059
		(0.824)	(0.130)	(0.620)	(0.090)
Number of beds (10K)	13.98	0.088	-0.014	1.709*	0.114
		(0.499)	(0.031)	(0.870)	(0.090)

Notes: The data used are from CSY 1996 to 2004. The first column reports the mean of each dependent variable tested in 1996. Columns 2 and 3 estimate the relationship between the NCMS enrollment rate gain and the outcomes without region-year fixed effects; columns 4 and 5 include region-year fixed effects, from the model weighted using the rural population in 2003: $y_{pt} = \alpha + \beta_0 NCMS_p^{2004} + \beta_1 NCMS_p^{2004} \times (t - 2004) + \xi_{pt}$. The dependent variables in panel B are in log form. Standard errors are clustered at the province level and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

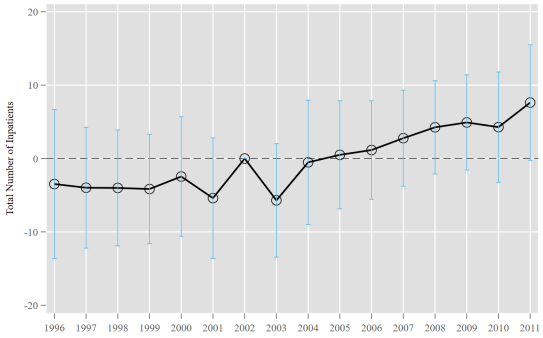
(a) Inpatient, baseline



(b) Outpatient, baseline



(c) Inpatient, w/o region-by-year FE



(d) Outpatient, w/o region-by-year FE

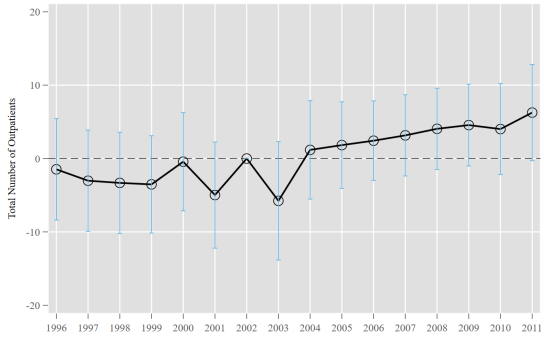


Figure 3: Event Study Estimates by NCMS Expansion Speed

Notes: The data source is the 1996-2003 CHY and 2004-2011 CHSY and CSY. Each figure plots the event study in specification 2 with the baseline estimates. The y-axis is the dependent variable in log form. The interval is the 95% confident interval of each estimate.

More importantly, Panel B of Table 2 shows that the 2004 insurance rate is not correlated with the levels and trends of pre-NCMS healthcare utilization, reinforcing our confidence that the higher-gain and lower-gain provinces show common trend in healthcare utilzation absent the NCMS program. The results alleviate the concern that the NCMS enrollment rate at the beginning of the period is selected for provinces with differential health resources.

5 NCMS Effects on Outpatient Services Utilization

Although the NCMS provides very restricted coverage for outpatient visits, outpatient care constitutes the fundamental and essential part of healthcare. We thus begin by examining

the relationship between the NCMS enrollment rate and outpatient services utilization by rural residents. We then explore the NCMS effect on outpatient care by provider of different level, i.e., the lower-level primary care providers (THCs and CHCs), and the higher-level hospitals, including county hospitals mainly serving rural populations and city hospitals.

Panel A of Table 3 reports baseline estimates of the model 1 and other estimates of its alternative specifications. The baseline estimate in column 1 suggests that a one percentage point increase in the NCMS enrollment rate leads to a statistically insignificant 0.06 percent decrease in outpatient visits among rural residents (approximately 9 visits per 10,000 people). Column 2 replaces region-year fixed effects with year fixed effects and shows similar results to the baseline estimates. The insensitivity of our results to the removal of region-level time trend suggests that time-varying regional changes, such as changes in socio-economic conditions and the convergence of local policies do not drive our results. One might also be concerned that our results could capture the effects of contemporaneous urbanization, economic development, and health insurance expansion in cities, which could coincide with the NCMS roll-out across provinces over time. Column 3 drops the economic controls, including the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), the disposable income in rural and urban areas (2014 yuan), and consumption and medical expense in cities (2014 yuan) in the baseline model and yields similar estimates, which alleviates concerns that our results capture the healthcare utilization behavior of urban residents. Column 4 further drops demographic controls and the estimate changes little compared to the baseline estimate. Column 5 without weights shows similar estimate.

The aggregate estimate above might mask the heterogeneous effect of the NCMS across providers of different levels. Assuming that rural residents value both price and proximity when choosing healthcare providers, we hypothesize that the NCMS effects are larger for higher-reimbursed THCs and county hospitals which are closer to rural neighborhoods than that for city hospitals with less generosity in coverage and longer distances. Panel B of Table 3 describes the NCMS effects on outpatient services utilization across healthcare providers: city

Table 3: Estimates of the Effects of the NCMS on Outpatient Services Utilization

	Panel A. Total Outpatient Services Utilization				
	(1)	(2)	(3)	(4)	(5)
	Baseline	No Region-Year FE	No Economic Controls	No Controls	Unweighted Baseline
NCMS rate	-0.060	-0.053	-0.063	-0.078	-0.025
	(0.050)	(0.041)	(0.050)	(0.047)	(0.054)
Mean	15293	15293	15293	15293	15293

	Panel B. Outpatient Services Utilization by Provider Using the Baseline Model			
	(1)	(2)	(3)	(4)
	City hospital	CHC	County hospital	THC
NCMS rate	-0.030	-0.076	0.077	0.070
	(0.040)	(0.433)	(0.056)	(0.149)
Mean	5726	602.4	3599	5365

Notes: Each cell reports estimates from a separate specification. The dependent variable is outpatient visits per 10,000 people. Panel A reports the effects of the NCMS on outpatient visits in all hospitals. Column 1 reports estimates from the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region by year fixed effects. Column 2 replaces region by year fixed effects with year fixed effects. Column 3 removes economic covariates including the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and urban areas (2014 yuan), and consumption and medical expense in cities (2014 yuan). Column 4 further drops demographic covariates including population, age structure, education level, percentage married and female, and the ratio of dependent persons in a household. The estimates in columns 1 to 4 are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. Column 5 displays the unweighted results of the baseline specification. Panel B reports the effect of the NCMS on outpatient visits at city hospitals, CHCs, county hospitals, and THCs, respectively using the baseline model 1. The mean of each dependent variable is the average in 2004 per 10,000 people and is weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

hospitals, CHCs, county hospitals, and THCs. As expected, the NCMS increases outpatient visits in county hospitals and THCs by 0.08 percent (about 3 visits per 10,000 people) with a one percentage point increment in the enrollment rate while it decreases outpatient use in city hospitals by 0.03 percent and in CHCs by 0.08 percent. This pattern of heterogeneity across providers strengthens the credibility of our findings. However, all of the coefficients are statistically insignificant, presumably because of the insufficient incentives to use outpatient services under the restrictive NCMS benefit design for outpatient visits as well as lacking statistical power due to the use of provincial data.

To further investigate the dynamic effects of the NCMS, we divide our working period into three stages according to the development of the NCMS: the rapid expansion stage (2005-2006), the close-to-full coverage stage (2007-2009), and the full coverage stage (2010-2011). Figure 4 plots the estimates on total outpatient care utilization from the event-study equation 2. Outpatient visits by rural residents decreased quickly during the rapid expansion stage in reference to 2004, caught up slightly during the close-to-full coverage stage, and continued to decline during the full coverage stage. Figure 5 in detail plots the estimates on outpatient use by healthcare provider. The results indicate that the patterns are similar at city hospitals and CHCs: outpatient visits increase slightly during the close-to-full coverage stage compared to the rapid expansion stage, and continue to decrease during the full coverage stage (however, outpatient visits picked up slightly at CHCs). By contrast, the outpatient visits at THCs increased steadily over the entire period from 2005 to 2011. The rate of increase continued even during the full coverage stage.

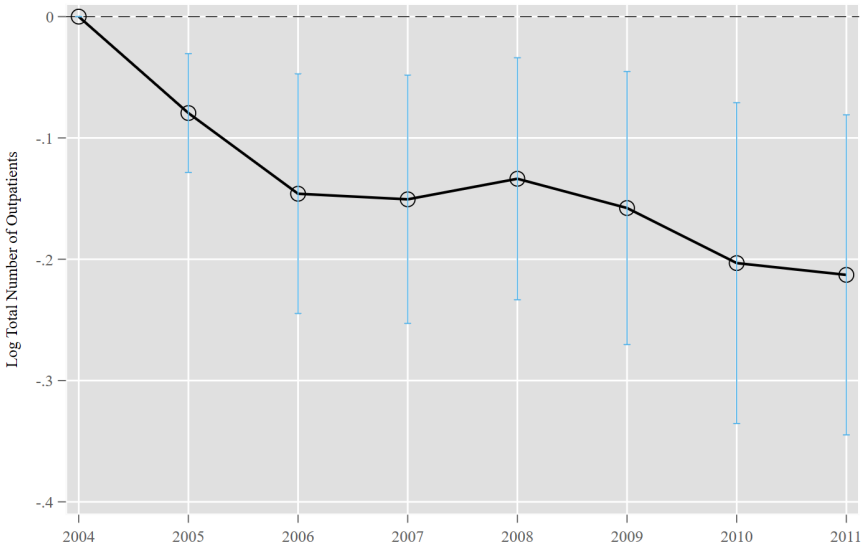


Figure 4: Event Study for the Effects of the NCMS on Total Outpatient Visits

Notes: The dependent variable is total outpatient visits per 10,000 people. The treatment variable is defined as the NCMS enrollment rate differences between 2011 and 2004. The coefficients are weighted event-study estimates from the baseline specification of equation 2. The weights are the rural populations across provinces in 2003. The 95 percent confidence intervals are calculated based on the standard errors clustered by province.

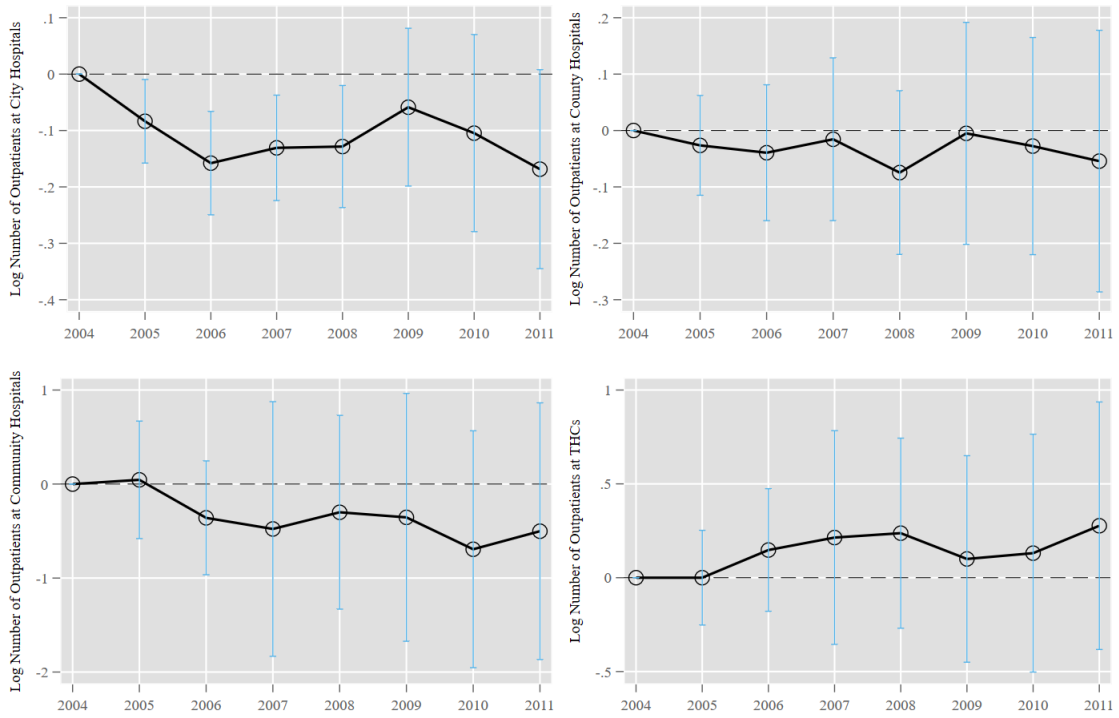


Figure 5: Event Study for the Effects of the NCMS on Outpatient Visits by Provider

Notes: The dependent variable is outpatient visits per 10,000 people. The treatment variable is defined as the NCMS enrollment rate differences between 2011 and 2004. Each figure plots the weighted event-study estimates from the baseline specification of equation 2 at city hospitals, county hospitals, CHCs, and THCs. The weights are the rural populations across provinces in 2003. The 95 percent confidence intervals are calculated based on the standard errors clustered by province.

Overall, the dynamic patterns shown in Figures 4 and 5 are consistent with the estimates in Table 3 employing the TWFE model in equation 1. While the NCMS seems to increase outpatient visits at THCs and county hospitals, the program reduces the overall number of outpatient visits by rural residents. The reducing effect of the NCMS is mainly driven by the decrease of outpatient visits at city hospitals. To provide more evidence on this pattern, we further examine the NCMS effect by hospital outpatient departments.

Table 4 reports the estimates of the effects of the NCMS on common outpatient specialty visits at hospitals. Each estimate is a coefficient from regressing the department visits per 10,000 people on the NCMS enrollment rate using the baseline model 1. The NCMS leads to an insignificant increase in outpatient visits at internal medicine, gynecology, and ophthalmology departments, which are popular among rural residents (with a higher mean)

and it leads to an decrease in visits at general (with statistical significance), preventive care, and rehabilitation departments. The services at internal medicine, gynecology, and ophthalmology departments tend to be provided through outpatient visits, while the services at general, preventive care, and rehabilitation departments are not exclusively provided through outpatient visits, and could be preformed at home or other facilities.[23] This piece of evidence supports the findings that the NCMS reduces rural residents' incentives to visit outpatient departments at hospitals, especially the general department.

5.1 Mechanism Analysis

In this section, we explore the possible mechanisms that explain our findings. The NCMS increases outpatient visits at THCs and county hospitals and decreases outpatient visits at city hospitals, though the effects are not statistically significant.

5.1.1 Supply-side Expansion in Healthcare Resources

We first investigate the mechanisms through which the NCMS increases outpatient visits at county hospitals and THCs consistently despite not statistically significant (Panel B of Table 3 and Figure 5). One straightforward explanation is that the NCMS insurance provides coverage for healthcare services and reduces OOP medical cost, leading to the increased demand for outpatient visits. The more generosity reimbursed, the more utilization at healthcare providers such as THCs and county hospitals. Besides, the increased use of outpatient visits can also plausibly be explained by the supply-side expansion of healthcare resources in rural areas. A distinct feature of the NCMS program is that it not only expanded insurance coverage for rural residents, but also increased investments in healthcare providers.[24] Therefore, our positive estimates on outpatient use at THCs and county hospitals can come from an increase in both healthcare demand and healthcare supply.

[23] Rehabilitation can be done at home or in some skilled facilities.
[24] Refer to the policy background section 2 for more details.

Table 4: Estimates of the Effects of the NCMS on Outpatient Service Utilization by Department

	(1) General	(2) Preventive	(3) Rehabilitation	(4) Pediatrics	(5) Physical	(6) Emergency	(7) Otolaryngology	(8) Oral	(9) Dermatology	(10) Internal	(11) Gynecology	(12) Ophthalmology
NCMS rate	-0.577*	-0.530	-0.321	-0.094	-0.061	-0.052	-0.041	-0.035	-0.009	0.079	0.050	0.015
	(0.307)	(0.428)	(0.259)	(0.067)	(0.074)	(0.188)	(0.064)	(0.105)	(0.099)	(0.074)	(0.081)	(0.069)
Mean	364.5	116.1	94.85	1109	1137	493.7	366.1	372.1	376.3	2640	1122	381.2
Observations	145	145	145	145	145	145	145	145	145	145	145	145
R-squared	0.960	0.950	0.957	0.996	0.994	0.988	0.995	0.992	0.992	0.994	0.996	0.995

Notes: The data on outpatient department visits are from 2007 to 2011. The dependent variable is log outpatient visits per 10,000 people by department. The model used is the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region by year fixed effects, weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. The mean of each dependent variable is the average from 2007 to 2011 per 10,000 people and is weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

To disentangle the NCMS effect caused by supply-side changes, we evaluate two dimensions of healthcare resources in rural areas: the number of healthcare providers and the number of beds at hospitals. First, we examine the effects of the NCMS enrollment rate on the healthcare supply measures using the baseline specification 1. Panel A of Table 5 shows that with a one percentage point increase in the NCMS enrollment rate, the number of county hospitals and THCs increases by approximately 0.13 percent and 0.06 percent, the number of CHCs decreases by around 0.3 percent while the estimates are not statistically significant. Panel B shows that the number of beds at hospitals in rural areas increase significantly in response to the NCMS. Specifically, as the NCMS enrollment rate increases by one percentage point, the number of beds grows significantly by 0.3 percent (0.02 beds per 10,000 people) at THCs. In brief, the NCMS increases investment in rural healthcare resources primarily by enhancing the quality of fixed capital for providers. Due to limited health resources data, we can only observe that the NCMS increases the number of hospital beds. The decreased number of CHCs also suggests that the program allocates more healthcare resources to providers in rural than providers in urban. In summary, we can conclude that medical resources in rural areas expand in tandem with increases in NCMS enrollment among rural residents.

Second, we re-estimate the effects of the NCMS on healthcare use after controlling for healthcare resources. Column 1 of Table 6 reports the baseline effects of the NCMS on outpatient visits at county hospitals, and columns 2 to 4 report the estimates after controlling for inpatient beds, the number of providers, and both, respectively. The results are in line with our expectations: outpatient services utilization at county hospitals is positively correlated with the supply of medical resources in rural areas. After controlling for these medical resources, the magnitude of the baseline effect becomes smaller, which suggests that the increase in outpatient visits at county hospitals can be attributed to the improvement in the rural healthcare supply. In total, column 4 shows that the supply-side health resources account for about half of the baseline effects of the NCMS on outpatient visits at county

Table 5: Effects of the NCMS Expansion on Medical Resources in Rural Areas

	(1) County hospital	(2) CHC	(3) THC
	Panel A. Number of Healthcare Providers		
NCMS rate	0.130	-0.108	0.062
	(0.095)	(0.280)	(0.074)
Mean	0.067	0.105	0.334
Observations	231	231	225
	Panel B. Number of Beds at Hospitals		
NCMS rate	0.029	1.046	0.282**
	(0.043)	(0.941)	(0.109)
Mean	7.335	0.098	5.280
Observations	231	220	225

Notes: Each cell reports estimates from the baseline specification 1, with full controls of both time-varying demographic covariates and economic covariates, province fixed effects, and region by year fixed effects on dependent variables per 10,000 people in logarithm form in each panel. The mean of each dependent variable is the average in 2004 per 10,000 people and is weighted by the rural population in 2003. All estimates are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

hospitals.[25]

5.1.2 Substitution Across Services and Across Healthcare Providers

In this section, we explore the possible explanations for the decreasing effect of the NCMS on outpatient visits at city hospitals. First, rural residents might substitute outpatient care with services that can be provided at the inpatient department given that the NCMS has more generous coverage for inpatient services than outpatient visits.[26] For example, an ultrasound guided puncture procedure could be performed at both outpatient and inpatient departments. Thus a rural resident who could have received outpatient care for the procedure without the NCMS may have chosen to get treated at an inpatient department with lower

[25]The mechanisms are similar for outpatient visits at THCs. Results are available upon request.
[26]See section 2 for more details.

Table 6: The NCMS Effect on Outpatient Visits at County Hospitals Controlling for Rural Healthcare Resources

	(1)	(2)	(3)	(4)
NCMS rate	0.077	0.060	0.022	0.039
	(0.056)	(0.043)	(0.039)	(0.035)
THC beds		-0.059		-0.028
		(0.042)		(0.069)
County hospital beds		0.666***		0.467***
		(0.073)		(0.100)
CHC beds		0.001		-0.003
		(0.007)		(0.007)
Number of THCs			0.013	0.017
			(0.051)	(0.085)
Number of county hospitalS			0.419***	0.194***
			(0.062)	(0.070)
Number of CHCs			-0.009	0.005
			(0.016)	(0.015)
Mean	3599	3599	3599	3599

Notes: Each cell reports estimates of the effects of the NCMS on outpatient visits at county hospitals after controlling for each set of healthcare resources: hospital beds and number of providers in rural areas using the baseline model 1. The mean of the dependent variable is the average of outpatient visits in 2004 per 10,000 people and is weighted by the rural population in 2003. All estimates are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

OOP cost. Regarding this substitution across services, we propose that the negative effects of the NCMS on the substitution of outpatient services may have been greater in provinces with more inpatient care use.

Table 7 shows the estimates of the effects of the NCMS on department visits including the interactive term between the NCMS enrollment rate and inpatient use in the baseline model 1 to provide preliminary evidence to support the hypotheses. Panel A reports the estimates for the interactive term between the NCMS rate and inpatient care use with primary care providers at CHCs and THCs. Panel B shows the results for the interactive term between the NCMS rate and inpatient care use at city and county hospitals. We expect the interaction in Panel A to be negative and the interaction in Panel B to be ambiguous given

that outpatient and inpatient services within one provider could substitute or complement each other. Six out of nine interactive estimates in Panel A are negative, which implies that rural residents use inpatient care by primary care providers at CHCs and THCs with generous coverage as a substitute for outpatient visits at city hospitals. Panel B shows that services at general practice and preventive care departments are substitutes for inpatient care, while services at other departments are complements for inpatient use within hospitals. Other than the substitution effect that dominates at general and preventive departments shown in Table 4, there might have been spillover effects of inpatient care use on outpatient visits within hospitals, which may have increased the use of outpatient services at some departments. Although the pattern of estimates are consistent with our hypothesis, without statistical power, we conclude that rural residents do not substitute outpatient care in city hospitals for inpatient care at primary care providers.

Second, rural residents might substitute outpatient services across providers. On the one hand, while the ranking of care quality is not straightforward among primary care providers, city hospitals in general provide the best quality care and county hospitals offer better quality care than primary care providers. If budget constraint and distance is not an issue, a city hospital may be seen as providing the best treatment, while a county hospital could be the second-best choice if a city hospital is not easily accessible. On the other hand, the NCMS employs a hierarchical reimbursement scheme. The most generous coverage is for healthcare rendered by primary care providers at CHCs and THCs; the coverage is lower at county hospitals; and the generosity is even lower at city hospitals. Therefore, for an average rural resident, the county hospital might have been the best option if the person valued better quality care, and the THC could have been the best option if the person valued accessibility combined with affordability. The results of Table 3 and Panel C of Table 7 support this hypothesis: the decrease in outpatient visits at expensive city hospitals is offset by the increase in outpatient visits at the more affordable county hospitals and THCs. In summary, rural residents substitute outpatient visits at city hospitals with that at rural

Table 7: Substitution Effects of the NCMS on Healthcare Utilization

	(1) General	(2) Preventive	(3) Rehabilitation	(4) Pediatrics	(5) Physical	(6) Emergency	(7) Otolaryngology	(8) Oral	(9) Dermatology
Panel A. Interacting the NCMS With Inpatient Services in CHCs and THCs									
NCMS*inpatient	-0.028	-0.523	0.149	-0.087	-0.080	-0.404	0.039	-0.210	-0.219
	(0.546)	(0.836)	(0.793)	(0.164)	(0.153)	(0.509)	(0.193)	(0.326)	(0.271)
Panel B. Interacting the NCMS With Inpatient Services in City and County Hospitals									
NCMS*inpatient	-0.398	-0.384	0.218	0.024	0.233	0.400	0.048	0.090	0.014
	(0.954)	(1.152)	(0.857)	(0.256)	(0.163)	(0.450)	(0.182)	(0.334)	(0.305)
Panel C. Interacting the NCMS With Outpatient Services in THCs									
NCMS*outpatient	2.013*	3.638**	1.559	-0.027	0.443	0.388	-0.257	-0.835	-0.093
	(1.080)	(1.735)	(1.100)	(0.380)	(0.352)	(0.842)	(0.348)	(0.718)	(0.516)
Mean	364.5	116.1	94.85	1109	1137	493.7	366.1	372.1	376.3
Observations	145	145	145	145	145	145	145	145	145

Notes: The data on outpatient department visits are from 2007 to 2011. The dependent variable is log outpatient visits per 10,000 people by department. The model used is the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region by year fixed effects, weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. The mean of each dependent variable is the average from 2007 to 2011 per 10,000 people and is weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

healthcare providers.

6 NCMS Effects on Inpatient Services Utilization

As the NCMS reimburses more generously for inpatient care, we expect that, contrary to the effect on outpatient service use, the effect of the NCMS on inpatient services utilization is positive. Panel A of Table 8 shows the estimates from the baseline model 1 and its alternative specifications similar in Table 3. The baseline estimate in column 1 suggests that a one percentage point increase in the NCMS enrollment rate significantly increases inpatient services use of rural residents by 0.1 percent (about 0.5 hospital stays per 10,000 people). The larger estimate in column 2, 0.16 percent as compared to the baseline estimate of 0.1 percent, implies that omitting region-level characteristics (e.g. the expansion of health insurance among urban residents) might lead to an overestimation of the NCMS effect on inpatient services utilization by around 0.05 percent. Column 3 provides further evidence that omitting economic controls for urban residents leads to an overestimation of the NCMS effect by 0.02 percent. Column 4 indicates that omitting both demographic controls and economic controls leads to an overestimation by about 0.09 percent, which points to the importance of controlling for time-varying demographic and social-economic conditions across provinces and regions. The similar unweighted coefficient presented as the baseline estimate in column 5 implies that the effect of the NCMS on inpatient care is robust to dropping the analytical weights for the rural population in 2003.

Given the hierarchical reimbursement scheme under the NCMS, we hypothesize that the NCMS imposes larger incentives for rural residents to use inpatient services with primary healthcare providers. Panel B of Table 8 shows that the positive effect of the NCMS on inpatient services utilization is mainly produced by increased use of primary care providers at CHCs and THCs. The largest effect is at CHCs with a 1.6 percent increase; followed by THCs with a 0.4 percent increase; at county hospitals with a 0.1 percent increase; and at

Table 8: Baseline Estimates of the NCMS Effects on Inpatient Services Utilization

	Panel A. Total Inpatient Services Utilization				
	(1)	(2)	(3)	(4)	(5)
	Baseline	No Region-Year FE	No Economic Controls	No Controls	Unweighted Baseline
NCMS rate	0.114*	0.160**	0.134**	0.200***	0.126**
	(0.065)	(0.073)	(0.065)	(0.058)	(0.046)
Mean	479.4	479.4	479.4	479.4	479.4
	Panel B. Inpatient Service Utilization by Provider				
		(1)	(2)	(3)	(4)
		City hospital	CHC	County hospital	THC
NCMS rate		0.032	1.647*	0.116***	0.360*
		(0.041)	(0.850)	(0.041)	(0.184)
Mean		183.4	0.995	169.1	127.6

Notes: Each cell reports estimates from a separate specification. The dependent variable is inpatient visits per 10,000 people. Panel A reports the effect of the NCMS on inpatient care use in all hospitals. Column 1 reports estimates from the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region by year fixed effects. Column 2 replaces region by year fixed effects with year fixed effects. Column 3 removes economic covariates including the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and urban areas (2014 yuan), and consumption and medical expense in cities (2014 yuan). Column 4 further drops demographic covariates including population, age structure, education level, percentage of married and female, and the ratio of dependent persons in a household. The estimates of columns 1 to 4 are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. Column 5 indicates the unweighted results of the baseline specification. Panel B reports the effect of the NCMS on outpatient visits at city hospitals, CHCs, county hospitals, and THCs, respectively using the baseline model 1. The mean of each dependent variable is the average in 2004 per 10,000 people and is weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

city hospitals with an increase that is close to null.

Figures 6 and 7 plot the dynamic effects of the NCMS on inpatient services utilization for inpatient services in total and by provider, respectively. Figure 6 shows that during the rapid expansion stage (2005-2006), the decline in total inpatient services utilization was relatively small in the provinces that had experienced a larger NCMS expansion. During the close-to-full coverage stage (2007-2009), inpatient use caught up rapidly in the provinces with a larger NCMS expansion, but this increasing momentum slowed and began to decline during the full coverage stage (2010-2011). The pattern of inpatient care use across providers displayed in

Figure 7 indicates that the NCMS significantly increases inpatient stays at county hospitals, CHCs, and THCs. While the NCMS effect on inpatient care at city hospitals fails to achieve statistical significance in Table 8 (column 1 of panel B), Figure 7 shows an upward trend. The inconsistency between the event-study estimates of equation 2 and the estimates of equation 1 is due to the intent-to-treat (ITT) estimand defined in the event-study specification. The ITT estimates shown in Figures 6 and 7 are smaller than the average treatment effect on the treated (ATT) shown in the specification 1. Overall, the patterns of these two estimands are consistent.

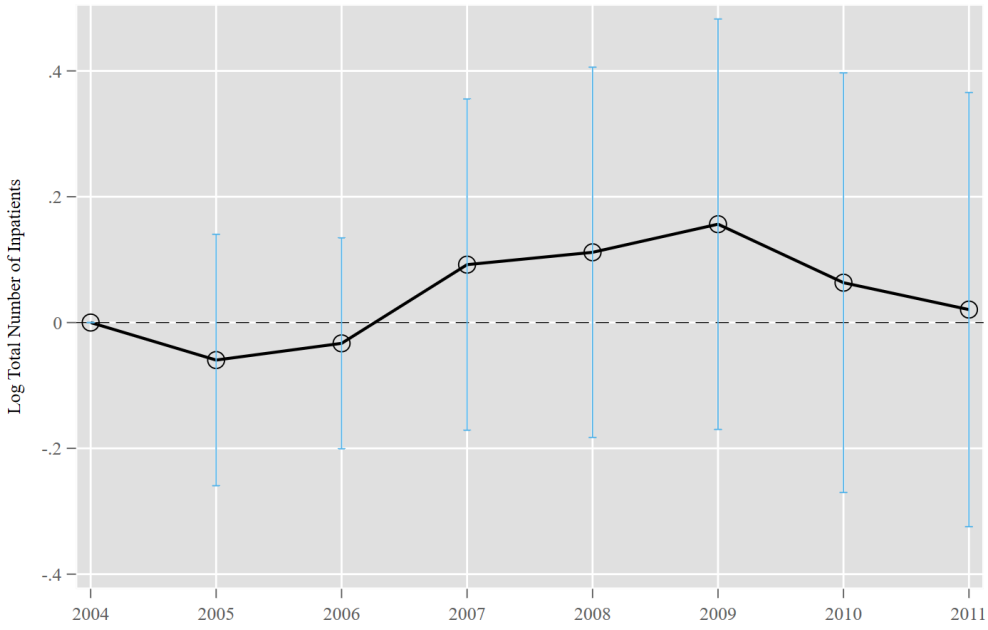


Figure 6: Event Study for the Effects of the NCMS on Total Inpatient Care Use

Notes: The dependent variable is the inpatient care use per 10,000 people. The treatment variable is defined as the NCMS enrollment rate differences between 2011 and 2004. The coefficients are weighted event-study estimates from the baseline specification of equation 2. The weights are the rural population across provinces in 2003. The 95 percent confidence intervals are calculated based on the standard errors clustered by province.

6.1 Mechanism Analysis

Similar to section 5.1, we explore the supply-side mechanism through which the NCMS leads to a significant increase in inpatient services use at county hospitals, CHCs, and THCs (Panel

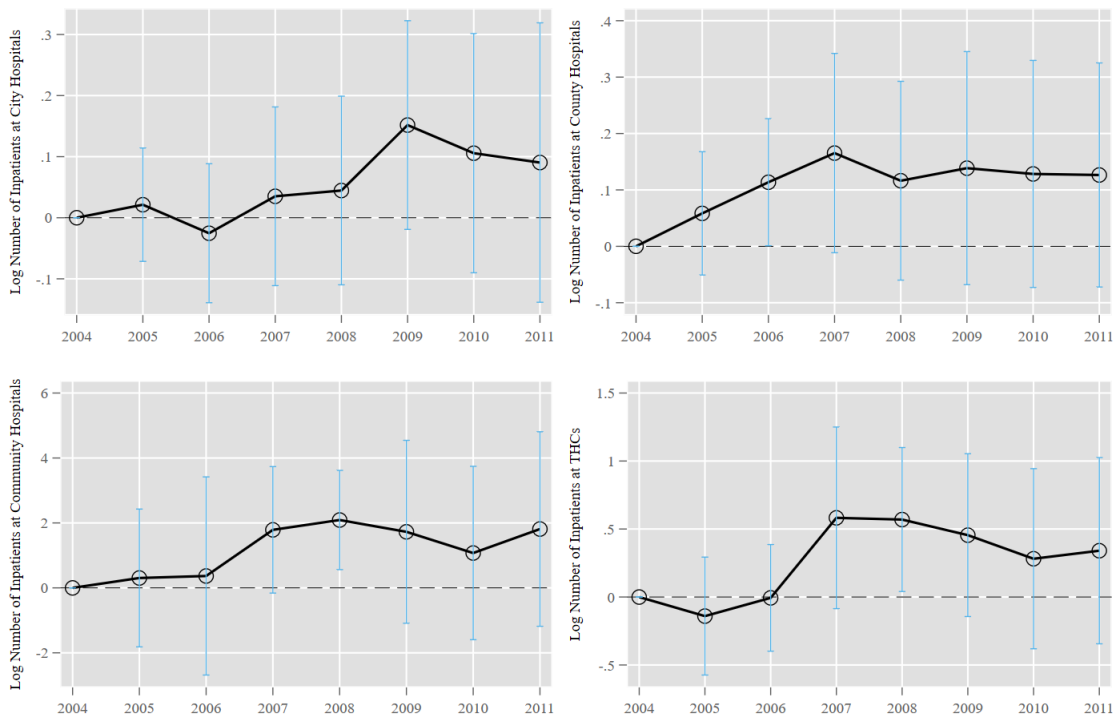


Figure 7: Event Study for the Effects of the NCMS on Inpatient Care Use by Provider

Notes: The dependent variable is the inpatient use per 10,000 people. The treatment variable is defined as the NCMS enrollment rate differences between 2011 and 2004. Each figure plots the weighted event-study estimates from the baseline specification of equation 2 at city hospitals, county hospitals, CHCs, and THCs. The weights are the rural population across provinces in 2003. The 95 percent confidence intervals are calculated based on the standard errors clustered by province.

B of Table 8). Table 9 describes the effects of the NCMS on inpatient care utilization after controlling for rural healthcare resources. Panel A shows that controlling for hospitals beds decreases the baseline effects of the NCMS on total inpatient stays by 0.06 percent (0.30 inpatient stays per 10,000 people), 0.75 percent (0.07 inpatient stays per 10,000 people) at CHCs, 0.05 percent (0.08 inpatient stays per 10,000 people) at county hospitals, and 0.38 percent (0.49 inpatient stays per 10,000 people) at THCs, compared to the baseline estimates. It is noteworthy that the NCMS effect on inpatient services utilization at THCs is close to null, and becomes insignificant after controlling for hospitals beds (Column 4). This suggest that the baseline effect at THCs is mainly driven by the increase in hospital beds in rural areas. Panel B further shows evidence that the number of providers also plays a role in the effects of the NCMS on inpatient care use. We find that these mitigating

effects are smaller than those of hospital beds in Panel A. This is understandable given that the number of hospital beds directly impacts the capacity of inpatient services utilization. Appendix Table A4 reports the NCMS estimates on inpatient use after adding all of the controls of rural healthcare resources from model 1. Compared to the baseline estimates, total medical resources account for about 65 percent of the effects of the NCMS on total inpatient services utilization, 27 percent of the NCMS effect at CHCs, and 32 percent of the NCMS effect at county hospitals, and they absorbs all of the NCMS effect at THCs.

6.2 Heterogeneity Analysis

We find that the NCMS led to increases in inpatient care use of by rural residents at CHCs, county hospitals, and THCs. However, the overall results might mask some unique patterns in certain provinces. In this section, we analyze the heterogeneous effects of the NCMS on inpatient services by levels of urbanization and NCMS coverage generosity. First, we expect to see that the effects of the NCMS on inpatient care are smaller in more urbanized provinces. For example, rural residents who are covered relatively well in provinces with more established healthcare systems may be less likely to respond to the NCMS. Panel A of Table 10 reports the coefficients of the interaction term between the NCMS enrollment rate and the average of the within-province urbanization rate, which is captured by the share of urban population. Consistent with our hypothesis, rural residents in more urbanized provinces are less likely to use inpatient services in general (column 1). Specifically, we assume that the rollout of the NCMS is less likely to lead to increases in inpatient stays at city hospitals and county hospitals in provinces with higher urbanization rates. This assumption is reasonable given that in the more urbanized provinces, the utilization of inpatient services is already high before the NCMS expansion because they have better economic conditions and local government welfare programs.[27]

[27]For example, in Shanghai, the average urbanization rate from 2004 to 2011 is about 86 percent, and the share of inpatients among the total population in 2004 is about 75 percent; and in Beijing, the urbanization rate is close to 76 percent, and the 2004 share of inpatients is close to 77 percent. In contrast, in Yunnan, the urbanization rate is around 16 percent, and the 2004 share of inpatients is about 11 percent; and in

Table 9: The NCMS Effect on Inpatient Care Use Controlling for Rural Healthcare Resources

	(1) Total	(2) CHC	(3) County hospital	(4) THC
		Baseline Estimates		
NCMS rate	0.114*	1.647*	0.116***	0.360*
	(0.065)	(0.850)	(0.041)	(0.184)
Mean	479.4	0.99	169.1	127.6
	Panel A. Number of Beds at Hospitals			
NCMS rate	0.052	0.892**	0.070**	-0.023
	(0.057)	(0.414)	(0.026)	(0.124)
THC beds	0.242	-0.020	0.086	1.162***
	(0.143)	(0.495)	(0.056)	(0.135)
County hospital beds	0.343**	0.120	0.759***	0.324
	(0.150)	(0.840)	(0.077)	(0.272)
CHC beds	-0.005	1.050***	-0.007	0.003
	(0.010)	(0.127)	(0.005)	(0.021)
	Panel B. Number of Healthcare Providers			
NCMS rate	0.096	1.767**	0.075*	0.278
	(0.066)	(0.716)	(0.043)	(0.178)
Number of THCs	0.137	0.720	0.125	1.283***
	(0.118)	(0.607)	(0.098)	(0.165)
Number of county hospitals	0.081	-0.116	0.326***	0.076
	(0.128)	(0.876)	(0.077)	(0.221)
Number of CHCs	0.021	0.645**	0.002	0.060
	(0.022)	(0.314)	(0.014)	(0.054)

Notes: Each cell reports estimates of the effects of the NCMS on inpatient care use after controlling for each set of healthcare resources: hospital beds, number of providers, and number of medical staff in rural areas using the baseline model 1. Each column corresponds to the estimates of inpatient care at specific hospitals. The mean of the dependent variable is the average of inpatient care use in 2004 per 10,000 people and is weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

Second, we hypothesize that the effects of the NCMS on inpatient care use are positively correlated with the generosity of the benefits for inpatient care. The NCMS' reimbursement rate for inpatient stays determines the OOP expense that rural residents pay. We assume that if rural residents are price-sensitive, the provinces with higher levels

Guizhou, the urbanization rate is approximately 16 percent, and the 2004 share of inpatients is as low as eight percent.

Table 10: Heterogeneous Effects of the NCMS on Inpatient Services Utilization

	(1) Total	(2) City hospital	(3) CHC	(4) County hospital	(5) THC
Panel A. Heterogeneous NCMS Effects by Urbanization					
NCMS rate	0.342**	0.271***	1.264	0.317***	0.392
	(0.138)	(0.067)	(1.440)	(0.096)	(0.363)
NCMS rate*urbanization	-0.007*	-0.007***	0.011	-0.006**	-0.001
	(0.004)	(0.002)	(0.032)	(0.003)	(0.010)
Panel B. Heterogeneous NCMS Effects by Inpatient Reimbursement Rate					
NCMS rate	-0.245	-0.077	3.189	-0.370	0.333
	(0.482)	(0.263)	(2.931)	(0.330)	(1.025)
NCMS rate*reimbursement	0.011	0.003	-0.047	0.014	0.002
	(0.014)	(0.007)	(0.086)	(0.010)	(0.029)
Panel C. Heterogeneous NCMS Effects by Older Population Share					
NCMS rate	-0.244	-0.290**	3.429	0.073	-0.309
	(0.196)	(0.127)	(2.093)	(0.213)	(0.399)
NCMS rate*age 65 percentage	3.887**	3.411**	-17.501	0.639	7.240*
	(1.865)	(1.267)	(18.504)	(2.277)	(3.570)

Notes: Each cell reports estimates from a separate specification using the baseline model 1, with full controls of time-varying demographic covariates and economic covariates for each province, province fixed effects, and region-by-year fixed effects. The dependent variable is inpatient visits per 10,000 people by provider: city hospitals, CHCs, county hospitals, and THCs. Panel A reports the heterogeneous effects of the NCMS on inpatient care use by the average of the within-province urbanization rate, which is captured by the share of urban population. Panel B reports the heterogeneous effects of the NCMS on inpatient visits by the generosity of inpatient reimbursement, measured as the mean of the within-province reimbursement rate from 2004 to 2011. The demographic covariates include population, age structure, education level, percentage married and female, and the ratio of dependent persons in a household. The economic covariates include the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and urban areas (2014 yuan), and consumption and medical expense in cities (2014 yuan). All estimates are weighted by the rural population in 2003. Standard errors are clustered by province, and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

of NCMS coverage for inpatient care would use more inpatient services. Panel B of Table 10 shows the estimates of the interaction term between the NCMS rate and the generosity of the inpatient reimbursement rate, measured as the mean of the within-province

reimbursement rate from 2004 to 2011. Rural residents use more inpatient services at city hospitals, county hospitals, and THCs with higher inpatient reimbursement rates. However, the differences in the levels of inpatient care use in provinces with higher and with lower reimbursement rates are statistically insignificant. To explore the reasons why there are no differences in levels of inpatient care use, Appendix Figure A3 plots the distribution of the average inpatient reimbursement rates across provinces, with the rates ranging from 25 to 45 percent. For instance, the average cost of an inpatient stay in 2020 was about 10,600 RMB, which implies that the differences in the out-of-pocket payments are less than 2,200 RMB. Therefore, the NCMS's low levels of coverage of inpatient care does not generate sufficient incentives for residents to use significantly more inpatient services, even in the relatively well-insured provinces.

Third, as is documented in the literature, the elderly uses the majority of inpatient services. Therefore, we expect to see larger effect in provinces with a larger share of people age 65 and above. In Panel C of Table 10, we interact the NCMS effect with the percentage of older group by provider and report positive and significant coefficients on the interacted terms for total hospitalization, hospitalization in city hospital, and THCs. Specifically, provinces with more elderly tend to see larger hospitalizations in city hospitals and THCs, suggesting that rural elderly tend to rely on city hospitals and THCs for inpatient services.

7 Robustness Checks

Outcomes of Interest in Aggregate Levels: In this paper, we are interested in estimating the treatment effects of the NCMS on the healthcare utilization of rural residents. The ideal measures for healthcare outcomes by rural residents would be the number of outpatient visits and inpatient stays used by rural residents. However, due to data limitation, we instead use healthcare measures of the total population as our outcome variables in our estimation model. To make our estimates reflect the treatment effects on the treated, the

implicit assumption of the identification strategy is that the healthcare utilization behavior of urban residents can be perfectly absorbed by the city-level controls, such as medical expenditure, consumption, the average disposable income of city residents, and region-by-year fixed effects. If the healthcare use patterns in cities or the effects of insurance on urban residents converge at the region level, the region-by-year fixed effect can do a good job of capturing those differential time trends across regions. Nevertheless, one could be concerned that unobservable characteristics of city residents might bias our results. We employ as many flexible forms of city-level controls as possible to check the sensitivity of our results. Table 11 shows the results of the NCMS effects on total outpatient and inpatient services utilization with flexible controls in quadratic and cubic forms, as well as with flexible lagged controls. All of the results are quite robust across specifications (baseline estimates in column 1) which alleviates the concern about using outcomes of the total population as proxies for outcomes of rural residents.

Contemporaneous Policy: One might be concerned that our results are driven by other contemporaneous policies. The New Rural Pension Scheme (NRPS), a large social pension reform in China, was rolled out in 2009. Older people who are 60 and above can receive a fixed pension every month from the program. In 2011, the last year of our working period, the Chinese government spent about $41 billion on the NPRS which benefits 89 million rural residents. Therefore, one might worry that our estimates on increased healthcare utilization are confounded with the income effect from the NRPS or by the increasing healthcare demand among the older population. However, the analysis on the NRPS by Huang and Zhang (2021) suggests the confounding effect from NRPS may not be an issue: they find no significant effects of the NRPS on inpatient or outpatient use, our outcomes of interest, neither on other health outcomes such as smoking and any medical services use. In addition, they do not find any health behavior change among people who are ineligible for the NPRS. Overall, the power of the NRPS is not manifested by any healthcare related outcomes. Second, we re-estimate our results using data from 2004-2009 where our outcome of interest are free

Table 11: Effects of the NCMS on Healthcare Use with Flexible City Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Panel A. Total Outpatient Service Utilization									
NCMS rate	-0.060	-0.063	-0.075	-0.077	-0.046	-0.074	-0.056	-0.064	-0.078	-0.079
	(0.050)	(0.049)	(0.057)	(0.056)	(0.054)	(0.052)	(0.057)	(0.054)	(0.054)	(0.056)
Mean	15293	15293	15293	15293	15293	15293	15293	15293	15293	15293
Observations	231	231	201	201	231	202	202	231	202	202
	Panel B. Total Inpatient Service Utilization									
NCMS rate	0.114*	0.112	0.128**	0.123**	0.090	0.117*	0.095	0.125*	0.116*	0.125*
	(0.065)	(0.068)	(0.060)	(0.059)	(0.069)	(0.058)	(0.060)	(0.068)	(0.059)	(0.063)
Mean	479.4	479.4	479.4	479.4	479.4	479.4	479.4	479.4	479.4	479.4
Observations	216	216	188	188	216	189	189	216	189	189
Flexible unemployment		Y		Y						
Flexible lag unemployment			Y	Y						
Flexible GDP					Y		Y			
Flexible lag GDP						Y	Y			
Flexible city medical expense								Y		Y
Flexible lag city medical expense									Y	Y

Notes: Each cell reports an estimate of the NCMS on total outpatient visits (Panel A) and total inpatient use (Panel B) per 10,000 people from different specifications in each column using equation 1. The first column reports the estimates using our baseline model which includes full controls, region-by-year fixed effects, and province fixed effects. Column 2 adds in flexible forms of the unemployment rate including both quadratic and cubic terms. Column 3 adds in flexible forms of the unemployment rate lagged one year for both quadratic and cubic terms. Column 4 adds both flexible controls of the unemployment rate in columns 2 and 3. Columns 5 to 7 test the results using flexible GDP per capita and follow the form as the unemployment rate. Columns 8 to 10 test the results using flexible medical expense of city residents as above. Standard errors are clustered by province and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

from NRPS.[28] Table 12 reports the estimates without the potential effect of the NRPS. The estimates on outpatient visits and inpatient care use are very robust to the main estimates in Tables 3 and 8. If anything, the magnitudes of the coefficients on total healthcare use and healthcare use at CHCs are larger than that of the main estimates. In summary, our main estimates are not biased by the rollout of contemporaneous NRPS policy.

Economic Controls: Our identification assumption relies on the variation in NCMS

[28]The NRPS started in September 2009 so we keep 2009 in the periods. The results of excluding the year 2009 are almost the same. Results are available upon request.

Table 12: Effects of the NCMS on Healthcare Utilization Without the NRPS

	(1) Total	(2) City hospital	(3) CHC	(4) County hospital	(5) THC
	Panel A. Outpatient Service Utilization				
NCMS rate	-0.000	-0.042	0.281	0.048	0.071
	(0.068)	(0.056)	(0.541)	(0.070)	(0.142)
Mean	15293	5726	602.4	3599	5365
Observations	173	173	173	173	171
	Panel B. Inpatient Service Utilization				
NCMS rate	0.167**	0.023	2.577*	0.110**	0.587**
	(0.079)	(0.047)	(1.295)	(0.046)	(0.221)
Mean	479.4	183.4	0.995	169.1	127.6
Observations	158	173	158	173	171

Notes: Each cell reports estimates from the specification 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region by year fixed effects in the period 2004-2009. Panels A and B report the effect of the NCMS on outpatient visits and inpatient use at city hospitals, CHCs, county hospitals, and THCs, respectively. The mean of each dependent variable is the average in 2004 per 10,000 people and is weighted by the rural population in 2003. All estimates are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

enrollment within provinces. As discussed in section 2, one potential identification threat is that the NCMS development might be endogenous to economic conditions, which in turn can be correlated with healthcare utilization. The balance tests in Table 2 suggest little evidence on significant relationships between the NCMS enrollment rate and a battery of controls except the income variables such as GDP per capita and income of rural residents. To clear this concern, column 2 of Table 13 reports the estimates after including an interaction term between GDP per capita and time trends in our baseline specification 1. In addition, Table 1 shows that the rural income might be correlated with our treatment variable, which may bias our findings. To check the sensitivity of our results, column 3 further controls for average rural income in flexible form. Columns 4 to 5 show the results of the NCMS effect on healthcare utilization after controlling for unemployment rate, lagged unemployment

rate, GDP per capita, lagged GDP per capita, medical expense by urban residents, and lagged medical expense by urban residents. These results suggest that our estimates are not sensitive to the demand-side controls, although there is a loss in statistical significance on inpatient services due to larger standard errors, which suggests that these controls might absorb too much variation in the NCMS enrollment rate with a small sample size in our context. Reassuringly, the magnitude of these coefficients is similar to that of our baseline estimates (column 1).

Table 13: Robustness of NCMS Results on Healthcare Utilization to Economic Controls

	(1) Baseline	(2)	(3)	(4)	(5)
	Panel A. Total Outpatient Service Utilization				
NCMS rate	-0.060	-0.066	-0.089	-0.076	-0.078
	(0.050)	(0.051)	(0.058)	(0.056)	(0.055)
Mean	15293	15293	15293	15293	15293
Observations	231	231	231	201	201
	Panel B. Total Inpatient Service Utilization				
NCMS rate	0.114*	0.111	0.107	0.116	0.116
	(0.065)	(0.066)	(0.072)	(0.078)	(0.077)
Mean	479.4	479.4	479.4	479.4	479.4
Observations	216	216	216	188	188
GDP trend		Y	Y	Y	Y
Flexible rural income			Y	Y	Y
Flexible unemployment and GDP				Y	Y
Flexbile medical expense in city					Y

Notes: Each cell reports estimates from a separate specification. The unemployment rate, demographics, and economic controls of each province is from CSY yearbooks, the NCMS policy is from the report of NCMS development. Column 1 is the baseline specification 1 with basic demographic and economic controls. The basic demographic controls include population, age structure, education, percentage of married and female, and ratio of dependent persons. Economic controls include unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and city (2014 yuan), consumption and medical expense in city (2014 yuan). The flexible rural income includes average income per capita, its quadratic, and cubic form. The flexible unemployment and GDP and medical expense in city include both flexible form and its lagged flexible form. The mean of each dependent variable is the average in 2004 per 10,000 people and weighted by the rural population in 2003. Standard errors are clustered by province and shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

8 Effects on Medical Expense and Health Outcome

8.1 Effects of the NCMS on Medical Expense

We have found that the NCMS has led to increases in healthcare service utilization among rural residents, which could decrease or increase their OOP medical expense, which is defined as all OOP expenditure on health-related items such as insurance premiums and co-payments. On the one hand, a NCMS beneficiary might pay less for healthcare due to insurance coverage, which lowers his or her average medical expenditure. On the other hand, the NCMS may increase beneficiaries' average medical expenditure through two channels by encouraging rural beneficiaries to consume more healthcare, and by requiring previously uninsured rural residents to pay insurance premiums. Therefore, the OOP medical expense paid by rural residents is negatively correlated with the generosity of the NCMS benefits, and positively correlated with premiums and with the healthcare utilization of rural residents.

Table 14 shows the estimates of the effects of the NCMS on medical expenditure and on the share of medical expenditure, separately. Column 1 of Panel A shows that the NCMS does not lead to significant changes in the average medical expenditure of rural residents using the baseline specification 1. The estimate is statistically insignificant and robust to replacing region-by-year fixed effects with year fixed effects (column 2), removing city-level controls (column 3), dropping all province-level time-varying covariates (column 4), and dropping weights (column 5). Panel B reports the estimates of the share of medical expenditure in total consumption in rural areas. Consistent with the close-to-null findings on medical expenditure in Panel A, we find that the NCMS does not change the percentage of medical expense in total consumption among rural residents. This result is quite robust across specifications in columns 2 to 5. In summary, the NCMS does not lead to increases in the financial burdens of rural residents, even though it improves their healthcare utilization.

Table 14: Estimates of the NCMS Effect on Medical Expenditure in Rural Areas

	(1) Baseline	(2) No Region-Year FE	(3) No Economic Controls	(4) No Controls	(5) Unweighted Baseline
			Panel A. Medical Expenditure per Capita		
NCMS rate	-0.021	0.013	0.126	0.165	-0.026
	(0.068)	(0.063)	(0.105)	(0.102)	(0.073)
R-squared	0.980	0.976	0.973	0.972	0.976
Mean	173.7	173.7	173.7	173.7	173.7
			Panel B. Ratio of Medical Expenditure to Consumption		
NCMS rate	-0.000	0.002	0.007	0.009	-0.003
	(0.004)	(0.004)	(0.006)	(0.006)	(0.005)
R-squared	0.925	0.916	0.911	0.907	0.913
Mean	0.0578	0.0578	0.0578	0.0578	0.0578

Notes: Each cell reports estimates from a separate specification. Column 1 reports estimates from the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region-by-year fixed effects. Column 2 replaces region-by-year fixed effects with year fixed effects in a standard TWFE specification. Column 3 removes economic covariates, including the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and urban areas (2014 yuan), and consumption and medical expense in cities (2014 yuan). Column 4 further drops demographic covariates, including population, age structure, education level, percentage married and female, and the ratio of dependent persons in a household. The estimates of columns 1 to 4 are weighted by the rural population in 2003. Standard errors are clustered by province, and are shown in parentheses. Column 5 displays the unweighted results of the baseline specification. The mean of each dependent variable is the average in 2004, weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

8.2 Effects of the NCMS on Mortality

Table 15 reports the effects of the NCMS on all-cause mortality. Overall, the rollout of the insurance program does not affect mortality rates. Column 1 shows that the NCMS has little effect on the mortality of rural residents using the baseline specification 1. The estimate is statistically insignificant and robust to replacing region-by-year fixed effects with year fixed effects (column 2), removing city-level controls (column 3), and dropping weights (column 5). The estimate in column 4 of the specification that drops all controls becomes statistically significant, while the magnitude of the coefficient is similar to that in our baseline model (column 1). This suggests that the omission of variables might overestimate the true effects, and generate an imprecise confidence interval.

Table 15: Estimates of the NCMS Effect on Mortality Rate

	(1) Baseline	(2) No Region-Year FE	(3) No Economic Controls	(4) No Controls	(5) Unweighted Baseline
NCMS rate	0.199	0.231	0.111	0.237**	0.091
	(0.161)	(0.149)	(0.109)	(0.114)	(0.135)
R-squared	0.917	0.906	0.913	0.888	0.914
Mean	6.162	6.162	6.162	6.162	6.162
Observations	231	231	232	232	231

Notes: Each cell reports estimates from a separate specification on the dependent variable, mortality rate. Column 1 reports estimates from the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region-by-year fixed effects. Column 2 replaces region-by-year fixed effects with year fixed effects in a standard TWFE specification. Column 3 removes economic covariates, including the unemployment rate, gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and urban areas (2014 yuan), and consumption and medical expense in cities (2014 yuan). Column 4 further drops demographic covariates, including population, age structure, education level, percentage married and female, and the ratio of dependent persons in a household. The estimates of columns 1 to 4 are weighted by the rural population in 2003. Standard errors are clustered by province, and are shown in parentheses. Column 5 displays the unweighted results of the baseline specification. The mean of the dependent variable is the average in 2004, weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

The estimates on all-cause mortality rate shown in Table 15 can mask potential benefits from the NCMS on particular diseases. As the program rolled out, it increased coverage for some preventive and highly infectious diseases such as AIDS/HIV, hepatitis, and catastrophic diseases.[29] We collect information about incidences and deaths by disease of each province from the Chinese Center for Disease Control and Prevention (CDC) to explore further evidence on potential benefits of the NCMS on some conditions. Panel A of Table 16 reports the effects of the NCMS on incidence rates per 100,000 people across diseases. The NCMS significantly reduces the incidence rate of infectious diseases by 0.3 percent with a one percentage point increase in NCMS enrollment rate (Column 1). Columns 2 to 8 show estimates on particular infections such as measles, AIDS/HIV, tuberculosis, hepatitis, dengue fever, and rabies. Overall, the NCMS seems to decrease the

[29]Infectious diseases include 57 conditions reported by the Chinese Center for Disease Control and Prevention. Catastrophic diseases include common cancers such as leukemia among children, breast cancer and cervical cancer among women, serious mental illness, and end-stage renal disease, to name a few. These severe diseases place a high risk to put rural residents into poverty.

Table 16: Estimates of the NCMS Effect on Incidence and Mortality Rate by Disease

	Panel A. Incidence Rate by Disease							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Infection	Measles	AIDS	HIV	Tuberculosis	Hepatitis	Dengue fever	Rabies
NCMS rate	-136.087*	5.757	-0.340	0.747	-4.046	-24.071	-0.201	-0.038
	(67.689)	(4.066)	(0.410)	(0.807)	(8.325)	(16.956)	(0.349)	(0.120)
R-squared	0.915	0.464	0.887	0.948	0.950	0.932	0.533	0.870
Mean	522.4	5.699	0.259	1.096	76.86	91.51	0.043	0.239
Observations	231	231	230	231	231	231	110	177

	Panel B. Mortality Rate by Disease						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Infection	Measles	AIDS	HIV	Tuberculosis	Hepatitis	Rabies
NCMS rate	-0.454	-0.010	-0.379*	-0.238	0.062	0.007	-0.038
	(0.439)	(0.011)	(0.199)	(0.277)	(0.041)	(0.033)	(0.120)
R-squared	0.898	0.557	0.847	0.881	0.882	0.820	0.873
Mean	0.773	0.006	0.062	0.003	0.104	0.078	0.239
Observations	231	101	229	197	230	227	177

Notes: Each cell reports estimates from a separate specification on the dependent variable by disease using the baseline equation 1, with full controls of both time-varying demographic covariates and economic covariates for each province, province fixed effects, and region-by-year fixed effects. The detailed incidence rate and mortality rate by disease data is from Chinese Center for Disease Control and Prevention. Panel A reports the estimates on incident rate per 100,000 people and Panel B reports the estimates on mortality rate per 100,000 people. There are not enough observations on mortality rate of Dengue fever. Standard errors are clustered by province, and are shown in parentheses. The mean of the dependent variable is the average in 2004, weighted by the rural population in 2003. *** p<0.01, ** p<0.05, * p<0.10.

incidence rate for most of these infectious diseases while the estimates are imprecise due to the small sample size (Columns 7 and 8). Panel B reports the estimates of the NCMS on mortality rate by disease. The NCMS is effective to reduce AIDS deaths by 6 percent with a mean of 6 deaths per 100,000 people with a one percentage point increase in NCMS enrollment. The magnitude on mortality rates of all infectious conditions in column 1 is about 0.6 percent with no statistical significance and 79 percent for HIV given a small mortality rate, 0.003 among 100,000 people in column 4. The magnitude of other coefficients is economically small and not statistically significant.

In summary, the introduction of the NCMS does not reduce all-cause mortality rate

but it seems to be effective to prevent some infectious diseases such as AIDS/HIV. Some of these estimates should be interpreted as suggestive with less precision due to a small sample size. Nevertheless, they do implicate some potential benefits of the NCMS on reducing the mortality rate on AIDS.

9 Discussion and Conclusion

This paper studies the effect of the NCMS program on healthcare utilization, OOP payment, and mortality of rural residents in China. The NCMS is one of the largest scale insurance expansion program targeting the rural poor among LMICs. Comparing to other insurance programs, the NCMS has achieved full coverage with the assistance of financial subsidies and administrative efforts from governments in China while the benefits of the NCMS are limited due to resources constraint, a common challenge in LMICs. Using a province-year panel dataset covering eight years since the NCMS expanded nationally in 2004, we find that the NCMS is overall successful in terms of the following aspects.

First, the NCMS significantly increases inpatient services utilization, which is consistent with the findings in Wagstaff and Lindelow (2008); Yi et al. (2009). In addition, the positive NCMS effect on inpatient stays mainly come from the services delivered at THCs, CHCs and county hospitals. This result is similar to that in Wagstaff (2007), which finds an increase of the NCMS on inpatient stays at THCs. These effects are conservatively estimated in our context of using the aggregate province-year panel data. Distinctly from previous literature, we find that half of the increase on inpatient care use can be attributed to the supply side policy of increasing investments in rural healthcare resources by the NCMS, which has proved to be essential in reinforcing the effectiveness of insurance expansion program by Kondo and Shigeoka (2013).

For outpatient services, we do not find statistically significant effect, which is consistent with Yip et al. (2008); Lei and Lin (2009); Babiarz et al. (2012). However, the close-

to-null estimate may be inefficient by potential limitations of using the aggregate data at the province level. In particular, our estimates might be imprecise due to larger standard errors in a small sample. To address this issue, we further examine the outpatient effect of the NCMS by service providers and by department, we find that the NCMS tends to reduce outpatient visits at city hospitals (by a larger but statistically insignificant magnitude) and that outpatient use of general medicine decreases significantly when the NCMS rolled out, reinforcing the credibility of our finding that NCMS decreases outpatient visits at city hospitals. In addition, we find that rural residents substitute cheaper services for more expensive inpatient services by visiting more at primary care providers.

Third, although the NCMS increases healthcare utilization among rural residents in China, it does not increase OOP medical cost. In addition, we find that the NCMS reduces incidence rates and mortality rates for conditions that are generously covered such as infectious diseases although the all-cause mortality rate is not affected by the NCMS.

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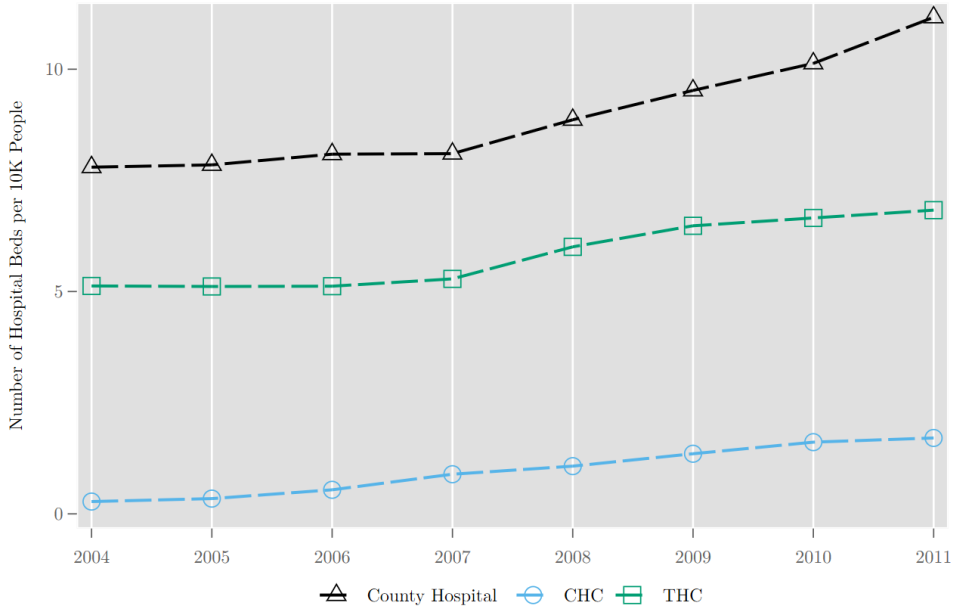

Figure A1: The Number of Hospital Beds Over Time

Notes: The data source is from CHSY 2004 to 2011. The y-axis is the number of hospital beds by provider across the period 2004 to 2011.

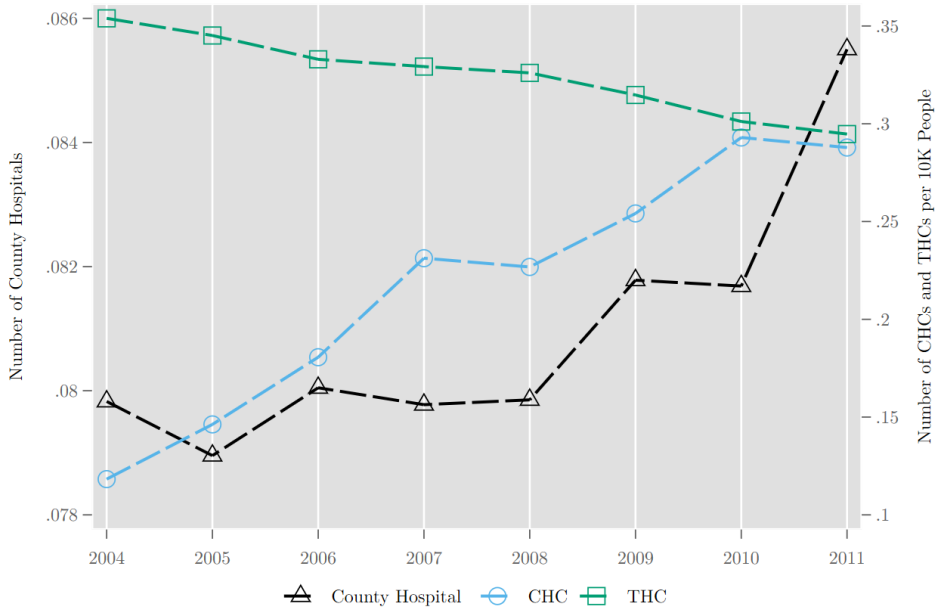

Figure A2: The Number of Institutions Over Time

Notes: The data source is from CHSY 2004 to 2011. The y-axis is the number of institutions by provider across the period 2004 to 2011.

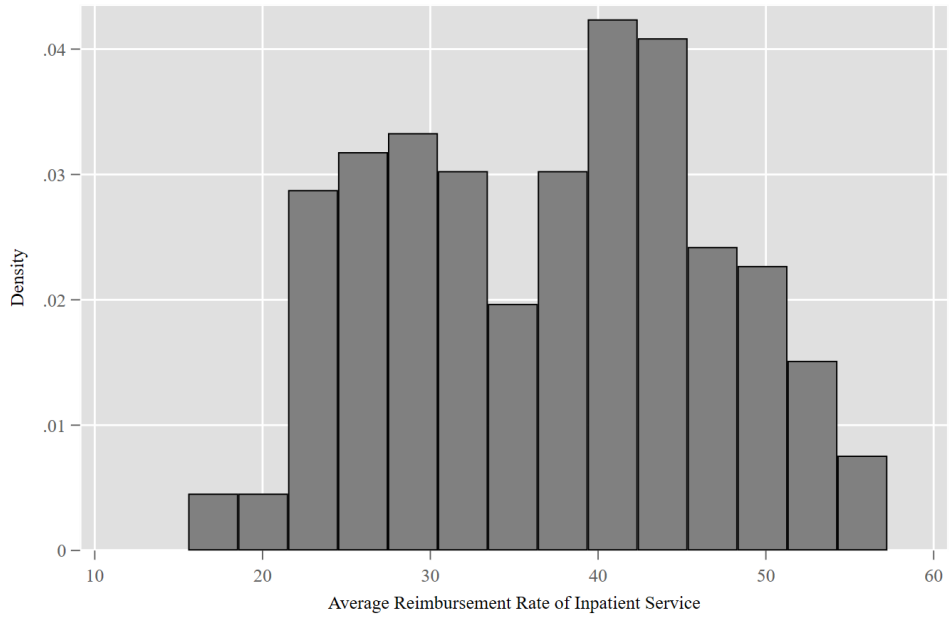

Figure A3: Distribution of the NCMS Reimbursement for Inpatient Service

Notes: The data source is from CHSY 2004 to 2011. The y-axis is the density of the average within-province reimbursement rate across the period 2004 to 2011.

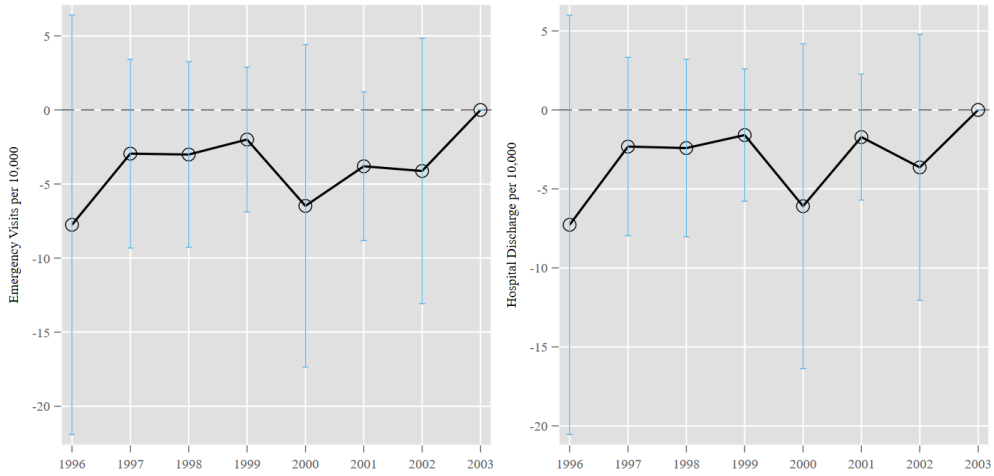

Figure A4: Parallel Trends for the NCMS Effect on Other Healthcare Outcomes

Notes: The data source is the CHY in 1996-2003. Each figure plots the baseline estimates in the event study of the specification 2. The y-axis is the dependent variable in log form. The interval is the 95% confident interval of each estimate.

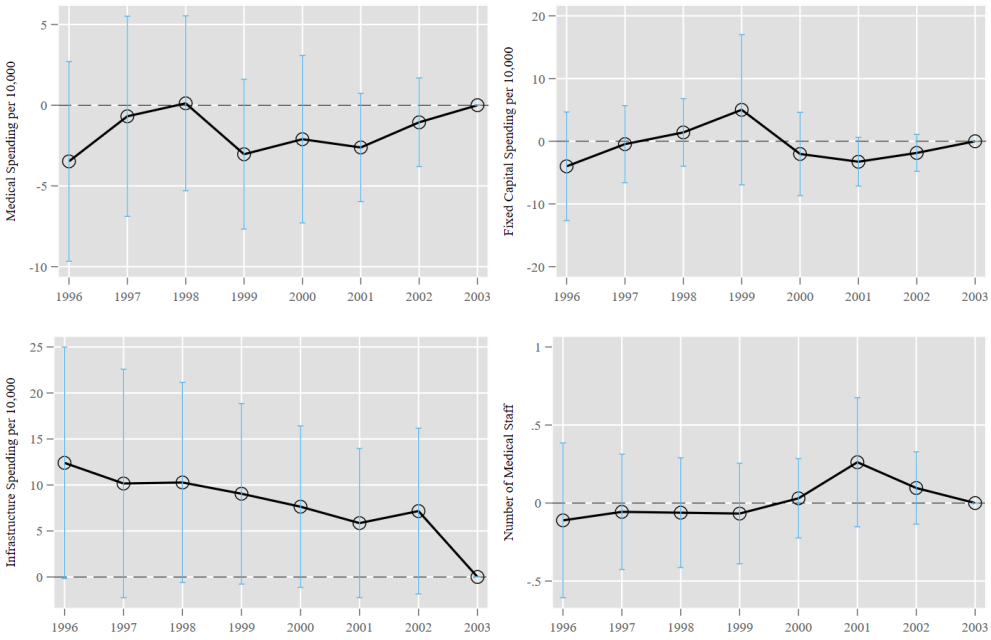

Figure A5: Parallel Trends for the NCMS Effect on Healthcare Spending

Notes: The data source is the CHY in 1996-2003. Each figure plots the baseline estimates in the event study of the specification 2. The y-axis is the dependent variable in log form. The interval is the 95% confident interval of each estimate.

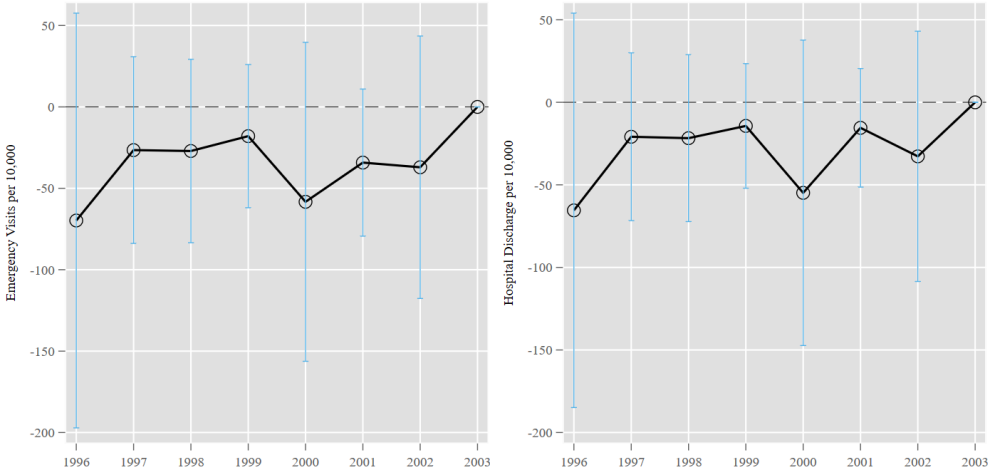

Figure A6: Event Study Estimates by NCMS Expansion Speed on Other Outcomes

Notes: The data source is the CHY in 1996-2003. Each figure plots the baseline estimates in the event study of the specification 2. The y-axis is the dependent variable in log form. The interval is the 95% confident interval of each estimate.

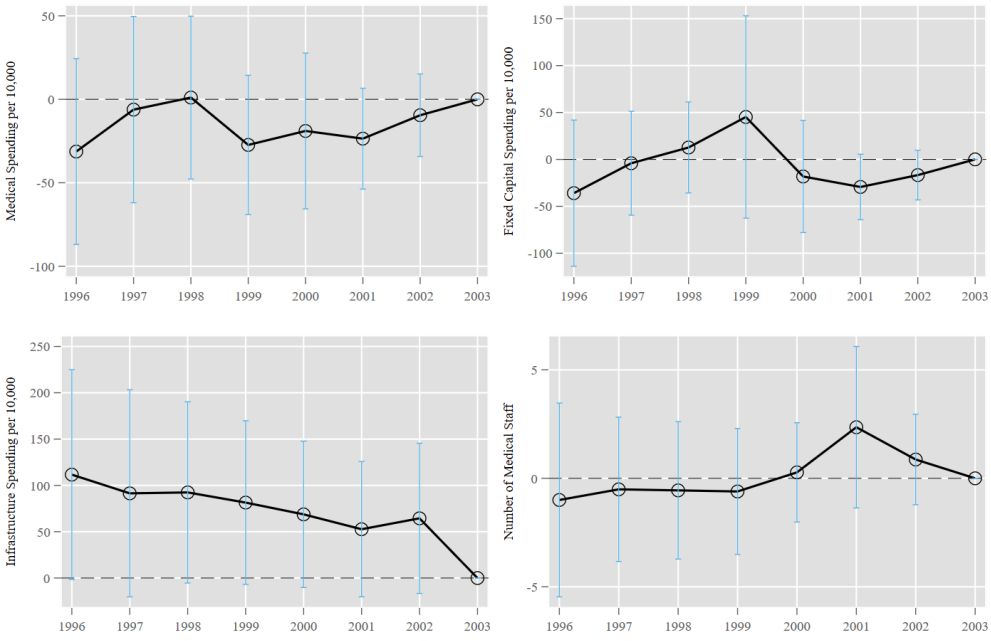

Figure A7: Event Study Estimates by NCMS Expansion Speed on Healthcare Spending

Notes: The data source is the CHY in 1996-2003. Each figure plots the baseline estimates in the event study of the specification 2. The y-axis is the dependent variable in log form. The interval is the 95% confident interval of each estimate.

Table A1: NCMS Implementation Across Provinces

	2002	2003	2004	2005	2006	2007	2008
Beijing	Pilot (13)		Full				
Tianjin			Pilot (4)			Full	
Hebei		Pilot (3)					Full
Shanxi			Pilot (15)				Full
Liaoning			Pilot			Full	
Jilin		Pilot (6)				Full	
Heilongjiang			Pilot (5)				Full
Shanghai		Pilot (10)	Full				
Jiangsu		Pilot (10)		Full			
Zhejiang		Pilot (27)			Full		
Anhui		Pilot (10)					Full
Fujian		Pilot (3)				Full	
Jiangxi		Pilot (7)					Full
Shandong		Pilot (26)				Full	
Henan		Pilot (25)					Full
Hubei		Pilot (8)					Full
Hunan		Pilot (5)					Full
Guangdong	Pilot (4)						Full
Guangxi		Pilot (3)					Full
Hainan		Pilot (3)			Full		
Chongqing		Pilot (6)				Full	
Sichuan		Pilot (5)					Full
Guizhou		Pilot (8)				Full	
Yunnan		Pilot (20)				Full	
Shaanxi			Pilot (3)			Full	
Gansu		Pilot (5)					Full
Qinghai		Pilot (8)		Full			
Ningxia		Pilot (2)					Full
Xinjiang		Pilot (5)					Full

Notes: Data source is the NCMS development report from Chen and Zhang (2013). The Full means that the province has covered all rural residents. The Pilot means that the number of counties a province participated in the pilot experiment of the NCMS.

Table A2: Effect of Lagged Province Economic Conditions on NCMS Enrollment Rate

	(1)	(2)	(3)	(4)	(5)
Unemployment rate lag 1	-0.007	-0.017	0.277	0.653	0.673
	(0.047)	(0.046)	(0.526)	(0.480)	(0.453)
Unemployment rate lag 1^2			-0.050	-0.142	-0.147
			(0.137)	(0.115)	(0.110)
Unemployment rate lag 1^3			0.002	0.009	0.010
			(0.011)	(0.009)	(0.008)
GDP per capita (2014 yuan)				-0.065*	-0.021
				(0.037)	(0.053)
Average income per capita (2014 yuan)				-1.608***	2.577
				(0.538)	(2.009)
Average income per capita^2					-2.822
					(1.902)
Average income per capita^3					0.066
					(0.072)
Basic demographic controls		Y	Y	Y	Y
Economic controls				Y	Y
Mean NCMS-rate	0.189	0.189	0.189	0.189	0.189
Observations	202	202	202	202	202
Adjusted R-squared	0.908	0.923	0.923	0.939	0.944

Notes: Each cell reports estimates from a separate specification. The unemployment rate, demographics, and economic controls of each province is from CSY yearbooks, the NCMS policy is from the report of NCMS development. The basic demographic controls include population, age structure, education, percentage of married and female, and ratio of dependent persons. Economic controls include gross domestic product (GDP) per capita (2014 yuan), disposable income in rural and city (2014 yuan), consumption and medical expenses in city (2014 yuan). The GDP per capita, average income per capita, and its quadratic and cubic form are re-scaled to show non-zero coefficients. All regressions include province and year fixed effects. All statistics are weighted by the rural population in 2003. Standard errors are clustered at the province level and shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

Table A3: Summary Statistics

	Mean	S.D.	Min.	Max.	N
NCMS Variables					
NCMS enrollment rate	0.70	0.35	0.02	1.27	232
Initial NCMS rate in 2004	0.19	0.24	0.02	0.93	232
NCMS enrollment gain (2004-2011)	0.75	0.25	0.04	1.04	232
Ratio of NCMS beneficiaries to enrollment	1.04	1.55	0.02	13.21	232
Inpatient reimbursement rate	0.37	0.10	0.16	0.57	222
Healthcare Utilization (per 10,000 people)					
Total number of outpatient visits	24150	20474	7558	133000	232
Outpatient visits at city hospitals	10955	14504	1580	79485	232
Outpatient visits at county hospitals	4416	2247	579	16810	232
Outpatient visits at CHCs	3184	7534	56	52484	232
Outpatient visits at THCs	5743	2257	335	15388	226
Total number of inpatient stays	807	274	310	1771	217
Inpatient stays at city hospitals	344	256	80	1565	232
Inpatient stays at county hospitals	248	138	24	1039	232
Inpatient stays at CHCs	10	18	0	111	217
Inpatient stays at THCs	191	112	2	551	226
Health Resources (per 10,000 people)					
Beds at city hospitals	16	13	5	67	232
Beds at county hospitals	9	4	1	30	232
Beds at CHCs	1	2	0	13	232
Beds at THCs	6	2	0	11	232
Number of city hospitals	0.10	0.07	0.04	0.44	232
Number of county hospitals	0.08	0.05	0.01	0.28	232
Number of CHCs	0.22	0.26	0.02	1.36	232
Number of THCs	0.32	0.16	0.00	0.83	232
Number of medical staff in rural areas	24	9	4	54	232
Number of doctors in rural areas	5	2	1	13	232
Number of nurses in rural areas	4	2	1	15	232
Number of assistant doctors in rural areas	2	1	0	4	232
Demographics					
Population (10,000)	4469	2671	499	10922	232
Married	0.73	0.03	0.64	0.78	232
Female	0.49	0.01	0.46	0.51	232
Education with college degree	0.08	0.05	0.03	0.34	232
Education with high school and above	0.14	0.04	0.06	0.28	232
Aged 65 and above	0.09	0.02	0.05	0.15	232
Aged 15 to 64	0.73	0.04	0.63	0.84	232
Gross dependency ratio	37.09	7.02	19.27	57.58	232
Economic Variables					
Medical expense in cities (2014 yuan)	856.05	254.61	353.42	1810.81	232
Share of medical expense in cities (2014 yuan)	0.07	0.01	0.04	0.10	232
Consumption expense in cities (2014 yuan)	12166	3817	6979	27005	232
GDP per capita (2014 yuan)	27800	17593	5610	91443	232
Income in cities (2014 yuan)	16786	5669	9515	38977	232
Income in rural areas (2014 yuan)	5867	2785	2350	17223	232
Unemployment rate (%)	3.74	0.65	1.30	6.50	231

Notes: The data used are from the CHSY and the CSY from 2004 to 2011. See the texts for details on each variable.

Table A4: The NCMS Effect on Inpatient Use Controlling for All Rural Healthcare Resources

	(1) Total	(2) CHC	(3) County hospital	(4) THC
NCMS rate	0.041	1.198***	0.079**	-0.006
	(0.055)	(0.417)	(0.032)	(0.137)
THC bed	0.380***	-1.289	0.070	0.991***
	(0.102)	(0.941)	(0.080)	(0.220)
County hospital beds	0.385**	1.203	0.790***	0.198
	(0.164)	(1.343)	(0.140)	(0.416)
CHC beds	-0.011	1.081***	-0.008	0.005
	(0.009)	(0.137)	(0.005)	(0.018)
Number of THCs	-0.239	1.771*	0.019	0.331
	(0.144)	(0.895)	(0.107)	(0.261)
Number of county hospitals	-0.039	-1.014	-0.027	0.125
	(0.114)	(1.150)	(0.092)	(0.295)
Number of CHCs	0.014	0.123	0.018	0.004
	(0.019)	(0.252)	(0.011)	(0.059)
Mean	479.4	0.995	169.1	127.6

Notes: Each cell reports estimates of the NCMS on inpatient use after controlling for all of the healthcare resources: hospital beds and number of providers in rural using the baseline model 1. The mean of dependent variable is the average of inpatient use in 2004 per 10,000 people and weighted by the rural population in 2003. All estimates are weighted by the rural population in 2003. Standard errors are clustered by province and are shown in parentheses. *** p<0.01, ** p<0.05, * p<0.10.