MAIN LESSONS LEARNED FROM STRUCTURAL REFORMS IN THE NEWLY INDUSTRIALIZING COUNTRIES*

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In the post-war era 1945-90 the Newly Industrializing Countries (NICs): Hong Kong, Singapore, Taiwan, and Korea (South Korea) achieved higher standards of living and steady economic growth through structural reforms and export-led growth strategies founded on macroeconomics stability. Between 1963 and 1988, per capita income (in 1980 US dollars, at purchasing power parities in 1980 prices) in the NICs as a whole increased from $974 to $5162 (Noland, 1990: 4). Policies used by the respective governments vary where the level of intervention is concerned, more significant a factor in Korea and Taiwan, than Hong Kong and Singapore. However, when present, intervention has been selective, based on sound macroeconomics fundamentals and market-friendly in orientation. In this paper, lessons learned by the NICs are illustrated by examining Korea's experience with structural reforms implemented during various stages of its economic development since the Second World War, against a backdrop of the general framework adopted by the NICs in forming policies and choosing directions for economic growth.

BACKGROUND

During the reconstruction period following the Korean Conflict, 1953-60, substantial flows of United States (US) economic and military aid financed balance-of-payments deficits. Overvalued exchange rates discouraged exports, while domestic policy supported import substitution and high protection. The rise in prominence of exports in the Korean economy is evident in a 45 percent share of Gross Domestic Product (GDP) for exports of goods and services in 1987, compared to only three percent in 1960 (Balssa, 1991: 46).

Strategies of outward-oriented development and export expansion emerged in the mid-1960s. Prior policies of import substitution and protection failed to stimulate economic growth, or technological advancement. Reforms initiated by the government of Park Chung Hee, elected to office in 1964, included incentives for exporters, some import liberalization, and a devaluation of the official exchange rate to 247 won/dollar from 130 (Balassa, 1947). The reforms represented a shift towards export-led growth, and away from insular aid-based subsistence. Other features of the reforms include government sponsored formation of the Korean Trade Promotion Association

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(KOTRA) in 1964, intended to study markets and promote Korean exports abroad, and the establishment of an export promotion fund. Also, selected imported inputs were allowed duty-free entry, and financial reforms of 1995 helped increase exports and GDP (Balassa, 1991: 45-9).

The Organization of Petroleum-Exporting Countries (OPEC) oil crisis of 1973-74 forced Korea's leadership to modify its development strategy. In the Fourth Five Year Plan tariffs were lowered and import restrictions lessened, while income tax benefits for exporters were discontinued in favor of preferential export credits and the establishment of long-term- export credit facilities. In the years that followed, government policy favoured capital-intensive industries that produced intermediate goods like metals, chemicals, and heavy machinery. However, the effects of the measures dampened Korea's export growth because increasing exchange rate overvaluation aggravated the reduced access to funds for traditional export industries (Balassa, 1991: 48-50).

In June of 1981, Korea's policy framework changed, returning to an all-out export-led policy, Korea's per capita income (in 1980 PPP US dollars) increased to $4094, in 1988, from $747 in 1963 (Noland, 1990: 4). The rise in income pushed Korea into the category of upper-middle-income developing countries, according to the terms used by the World Bank.

MACROECONOMICS FRAMEWORK

The NICs success at achieving and maintaining high rates of economic growth can be attributed in large part to the emphasis placed, in the individual countries, on macroeconomic stability, coupled with rapid export growth. Macroeconomic stability is characterized by low inflation rates, manageable debt, and economic policies flexible enough to counter any macroeconomic crises that arise. What the World bank labels "export push" (World Bank, 1993:106) refers to a wide variety of policies and mechanisms, ranging from safeguards on currency appreciation to government-sponsored export contests.

Macroeconomic stability in the NICs has been achieved by careful management of inflation, budget deficits, external debt, and exchange rates — the macroeconomic fundamentals.

How a public sector deficit is financed, for example, determines the possible consequences, some potentially destabilizing. Inflation results from excessive monetary financing of deficits, private borrowing is crowded out by high interest rates resulting from domestic borrowing, and debt crises loom when there is heavy external deficit financing. The NICs have mostly been successful in balancing each type of financing and thereby avoiding the corresponding macroeconomic disruptions. Korea stands apart from the other NICs, being the only one to have borrowed abroad. The borrowing, which began in the 1970s, was intended to prop up investment in the private sector, and reserves of foreign exchange. By the mid 1980s, the debt had climbed to more than half of the Gross National Product (GNP) and was one of the highest in the world. However, Korea's export-GNP ratio remained high, compared to other low and middle-income countries, and a combination of robust economic growth and sound macroeconomic policies insured Korea remained creditworthy. Policies aimed at debt reduction helped lower the debt to GNP ratio to 14 percent by 1990 (World Bank, 1993: 107-14).

Effective responses to macroeconomic shocks, like the sudden oil price increases of 1974-75 and 1980-81, are a hallmark of the NICs. Stabilization measures counter terms of trade deterioration and high interest rates, the effects of adverse shocks. There is a view that the macroeconomic shocks of the 1970s and early 1980s were simply less severe for Asian economies, and thus they did not suffer from the lengthy, and in some cases severe, recessions that plagued other developing economies. The authors of the World Bank Policy Research Report (1993: 116-17) contend, however, that the shocks were no less severe for the NICs, especially oil importers Korea and Taiwan.

A stabilization package undertaken by Korea in 1980, with IMF backing, included tightening fiscal and monetary policy, abandoning fixed exchange rates, and devaluation of the won. The immediate effect of the measures was a drop in output in 1980, and inflation that rose to over 25

percent. However, by 1983 inflation fell to 3.4 percent and the economy rebounded, leading to rapid growth through the remainder of the 1980s (World Bank, 1993: 119-20). This growth was aided by a later appreciation of the yen, decreases in world interest rates and oil prices, and the Sixth Five Year Plan which emphasized further liberalization of the Korean economy.

Korea's annual inflation rates, as measured by using Consumer Price Index (CPI) figures for the period 1961-91 averaged 12.2 percent higher than the average of 6.2 for the other NICs, but considerably lower than the average of 61.8 for all low and middle-income economies (World Bank, 1993: 110). High inflation rates can have an adverse effect on economic growth for several reasons. With high inflation, real interest rates can become negative and the resulting relative price distortions may lead to volatile exchange rate fluctuations. Also, during periods of volatile inflation, vital managerial resources are siphoned away from real sector management into the financial sector, and problems of fiscal balance are aggravated because tax collections are usually based on earlier nominal incomes (World Bank, 1993: 120-22). The instability generated by high inflation and uncertainty about its future course discourages investment.

EXPORTS AND EXCHANGE RATES

Macroeconomic stability, liberalization of trade, and somewhat undervalued exchange rates all combined to encourage the export push which has led to the prosperity of the NICs. Lessening of import restrictions helps exporters by keeping prices of vital imported inputs low. In order to minimize any current account deficits because of lower-priced imports, trade liberalization must be accompanied by effective macroeconomic, and exchange rate strategies.

Korea's export push evolved through several distinct stages. In the period 1961-73, under President Park, import protection was still in place, but exporters were exempt from many of the controls, and encouraged through a system of multiple exchange rates and preferential interest rates on loans from the state-run banking system. The highly interventionist direction government policy took during the Heavy and Chemical Industries Drive of 1973-79 proved nearly disastrous. Approximately 80 percent of fixed investment in manufacturing in this period was channeled to the heavy and chemical industries, causing traditional industries (such as textiles and other light industries) to suffer from a lack of available credit as a result. By the time the 1979-80 oil shock set in, persistent production bottlenecks, large debts, and a fall in export earnings because of high exchange and inflation rates all signaled the need for change. In the 1980s, the Korean government abandoned large-scale interventionist policies in favour of allowing a greater role for markets in determining future allocation. Trade liberalization and financial reforms accelerated (Noland, 1990: 42, World Bank, 1993:127-30).

The effect of exchange rates on the performance of export-industries is important. An undervalued exchange rate will of course favour a nation's exports by making them more attractive in foreign markets. Indeed, in 1988, Korea was accused of trying to secure an unfair advantage in trade, through exchange rate manipulation, by the US Treasury in a report to the Congress on exchange rate policy. The won is theoretically pegged to a basket of currencies containing those of five major industrial economies. The problem area in Korea's exchange rate management centered around an additional factor in establishing rates called the "policy adjustment" factor. It appeared the policy adjustment factor had perhaps been overutilized because the won had depreciated, between 1984 and 1987, against all currencies in the basket. Following some consultation, Korea was removed from the US Treasury's list of exchange rate manipulators and the Korean government committed itself to a floating won by 1992 (Noland 1990: 49).

CONCLUSION

In the post-war era, the NICs have managed to maintain economic growth and increase standards of living dramatically. In contrast to other developing regions like Sub-Saharan Africa and Latin America, economic growth in the NICs has been more substantial, steady (less volatile), and characterized by a greater equality of incomes within the individual countries however a full analysis of income distribution is outside the scope of this paper. Though increased factor productivity and improvements in human capital are important elements, the main reason for the success of the NICs is the emphasis placed on macroeconomic stability combined with export-led growth strategies. Korea's trial and error development strategies ranged the neoclassical to revisionist approach continuum illustrating adaptivity as experiences warranted. Other developing regions may learn from the experience of the NICs, and Korea in particular, with regards to the benefits of open economies and adaptivity. The main lesson is that careful attention to the macroeconomic fundamentals is necessary in order to achieve substantial economic development. With a firm foundation in macroeconomic stability, and a market-oriented stance, significant economic growth is possible.

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STRUCTURAL MODIFICATIONS OF EFFECTIVE DEMAND AND SUPPLY IN LONG TERM CARE FOR THE ELDERLY IN SASKATCHEWAN AND SASKATOON*

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It is well recognized within the Canadian Health system that the elderly represent a group of people with unique health needs. The demand for institutional care for the elderly is constantly changing but consistently present. Within the framework of Continuing Care[1], care for the elderly is still in developmental stages. Future projections of demand and supply must now consider many factors: the aging population of Canada, the changing cultural composition of Canadians and the increased demand for "heavier care". As well as an increased awareness of public and private budget constraints, there is a need for increasingly skilled staff to provide care to an aging population. In its constant effort to make improvements and increase efficiency, Continuing Care has investigated every detail of Saskatchewan's Care for the elderly. Changes in funding distribution among various levels of care has occurred with the goal of increasing economic efficiency. Elderly people are encouraged (forced) to remain in their homes and in community care longer while institutional care is being discouraged until there is no reasonable alternative. This emphasis on efficiency and fiscal responsibility may seem to be a direct result of the "Wellness Model", however, upon closer inspection, these structural changes actually predate it and therefore can not legitimately be attributed to the "Wellness Model". This paper will discuss the effects of changing Canadian demographics and increased Saskatchewan government budget accountability (due in part to the Wellness Model) on institutional care for the elderly. The resulting redistribution of resources within Continuing Care will be analyzed with respect to both demand and supply, from the provincial perspective as well as the perspective of Saskatoon District Health.

Demand

In recent years, Canadians have been living healthier lives. Increased awareness of individual health, increased focus on prevention as well as better medical technology has resulted in people

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[1] According to the Statistical Supplement to the Annual Report for Continuing Care for the year ending March 31, 1993; Continuing Care Branch of Saskatchewan Health sets and monitors policies and standards for all areas of Long Term Care for the elderly. It is responsible for Home Care, Special Care Homes, Personal Care Homes and other forms of Long Term Care (hospitals, etc.). Essentially, "Continuing Care services are provided to people who require more care and support than can be provided by family and other informal care providers".

living longer, healthier lives[2]. A phenomenon labeled "compressed morbidity" seems to be the trend.[3] It is projected that in the future, people will be healthier in their later years and that demand for health care will be "compressed" into the final years of life. It has also been suggested, although it is still being debated, that this compression effect will ultimately reduce the total lifetime amount of health care consumed[4].

Since April, 1993 when Continuing Care became a part of Saskatchewan Health, population demographics and composition has been analyzed and assessed in order to project future demand and appropriate supply. At March 31, 1986, 20% of Saskatchewan seniors (age 65+) used Continuing Care services, while only 7% used Institutional care. The percentage of seniors utilizing Continuing Care has floated around the 20% mark and remained fairly constant since that time. It is the composition of this 20% that has undergone change. In 1986, only 5% of seniors between the ages of 65-69 used Continuing Care. But, utilization jumps to 66% for seniors over the age of 85. The statistics at that time did not disaggregate utilization, however, by 1991, the components of Continuing Care had been broken down to permit analysis of utilization. Nevertheless, the dominance of the senior age groups is striking. In the 85+ age category, 31.2% of Seniors used Special Care Homes while only 1.6% of the 65-74 age group used these services. By the1986-87 fiscal year, Long Term Care (LTC) utilization rates had decreased (relative to previous years) in almost every age group; notwithstanding the 90+ age group, where utilization increased. Again in 1988-89, utilization fell in under 80 age groups while it increased in 85+ age groups. The trend of falling utilization rates of LTC for the "younger" age categories continues; the majority of utilization, especially of LTC, is increasingly by the "old-old", higher care population. The fastest growing age group in Canada is the 85+ age group (see figure 1). Despite the projection for the next twenty years that this category will have the greatest proportional increase, the absolute number of people in this category remains relatively small.

TABLE 1
Percentage Population Growth—CANADA [5]

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Population														
1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7
65 and over														
2.9	2.8	2.6	2.7	2.6	2.4	2.2	1.9	1.9	1.9	1.7	1.7	1.8	1.8	2.1
85 and over														
4.7	5.6	4.2	5.1	4.8	5.5	5.2	5.0	4.7	3.8	2.9	2.1	2.8	4.7	5.1

By 1986, LTC had already experienced the shift towards "heavy care" (levels III and IV) and away from "lighter care" (levels I and II), a trend that continues to this day as illustrated in Figure 2. As of March 1981, 67% of residents in LTC were receiving "heavy care" while 33% of residents were receiving "lighter care". By 1991, 84% of residents received "heavy care" while only 16% received level I and II care. Thus, a profound structural change has been taking place dating back at least to 1981, clearly before the introduction of the "wellness model" in the early 1990's (see Figure 1—following page).

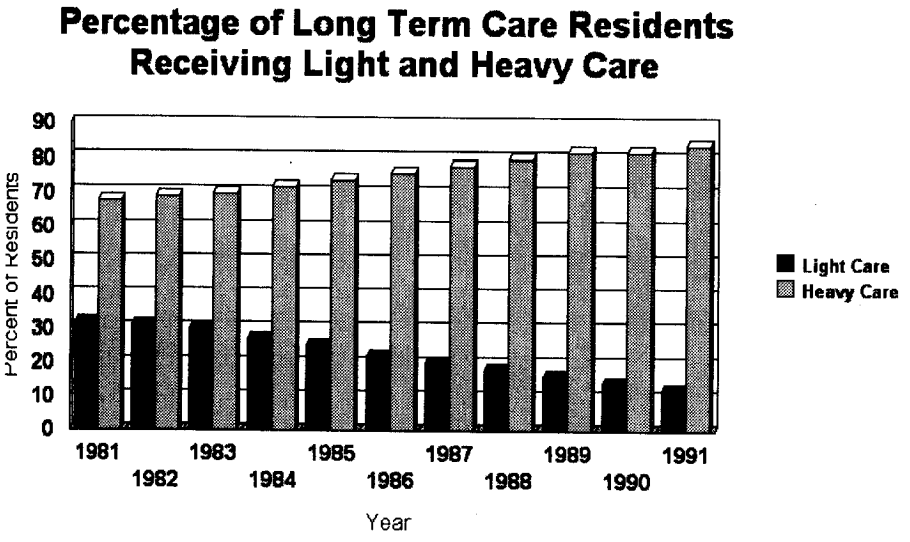
[2] According to the 1993 Interim annual report by Saskatchewan Health Vital Statistics, Life Expectancy for a female (male) born in 1941 was 68.19 (65.43) years. For a female (male) born in 1986 life expectancy increases to 80.47 (73.66) years. The gain in life expectancy is dramatic and greater in females reflecting improved medical technology as well as better health and survival conditions.

[3] Future Directions in Continuing Care. Health and Welfare Canada: September, 1992.

[4] Ibid.

[5] Future Directions in Continuing Care. Health and Welfare Canada: September, 1992.

FIGURE 1[6]



It is clear that the utilization rate of LTC increases with age, and statistics show an increasing feminization of utilization with increasing age. In 1991, 66% of residents in LTC were women. Generally, utilization increases with age and is higher for women.[7] With the "old old" being the fastest growing category, there is bound to be an effect on future consumer demand for long term institutional care. This age group has historically had the largest percent utilization and is becoming the only group whose percentage representation in care homes steadily increases. Because this "older" resident population will require higher levels of care, in time, an increasingly technically skilled staff will be required. Especially since the introduction of the Home Care Program, LTC facilities have been relegated to caring for those with heavier care needs. Home Care programs are much less costly than institutionalized care and thus, people are encouraged to remain at home and in the community as long as possible.

Supply

The dynamics of continuing care at the local level reflect much of what is happening, and is projected to happen, at the Provincial level. Saskatoon District has responded to (what is now) the mandate of the "Wellness Model" and redirected resources for "heavy care" to Special Care Homes and resources for "light care" to the relatively cost efficient community care. Saskatoon District has, consequently, been subject to changing consumer demands. Since 1993, the number of people on the waiting list for admission to Special Care Homes (SCH) shrank from 400 to 75.[8] It was predicted that by January 1995, no consumers requiring light care would be on the waiting list. This fall in demand for Special Care Homes was mirrored by an increase in Home Care

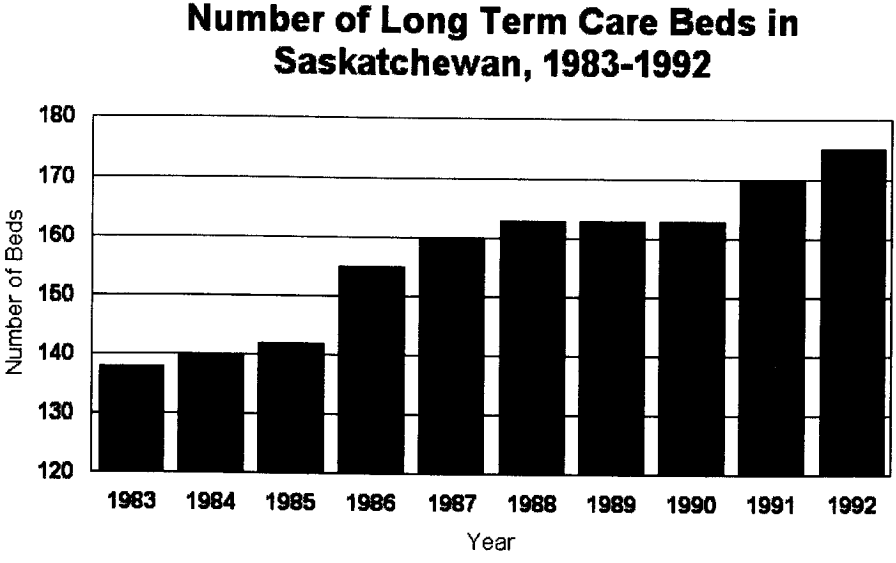
[6] Statistical Supplement to the Annual Report. Saskatchewan Health, Continuing Care: March, 1990 and 1991.
[7] All statistics taken from Annual Reports, Continuing Care, 1983-1991. Saskatchewan Health: Regina.
[8] Continuing Health — Completing the Network. Saskatoon District Health: January, 1995.
[9] Ibid.

For example, a category D resident requires 2.26 times as much nursing care as one from category A.[13]

The supply side of the question is largely determined by levels of government funding. Continuing Care provides operating grants to non-profit special care homes while commercial homes receive a negotiated fee for service. Funding is primarily based on past levels of use according to approved volumes of service. In recent years, government is faced with economic pressures such as the slowing of real economic growth since the 1960's and the increasing percentage of federal government expenditure being demanded by the growing debt. It has been suggested that such economic pressures will continue to decrease, or at least, slow the growth of future government expenditure on Continuing Care Programs.[14]

In 1984-85, Continuing Care inaugurated a five year Special Care Home construction program. By 1989-90, 1600 new LTC beds were to be constructed, representing a 17% increase over five years. This dramatic increase in LTC supply would surely generate increased demand for staff training and development. In the first year of the program, Continuing Care had completed 218 beds and had 522 under construction. As predicted, this increase coincided with increased funding for staff enrichment. In 1986-87 there were further staff increases in Special Care Homes and construction commenced on 348 beds; 740 new beds had been built during the first 2 years of the 5 year plan. Staff and bed increases continued but at a gradually slowing rate (see figures 2 and 3).

FIGURE 2 [15]



[13] All data taken from: A Client Classification System for Community and Long Term Care in Saskatchewan, Working committee group on Long term care: February, 1994.

[14] Future Directions in Continuing Care. Health and Welfare Canada: September, 1992.

[15] Data taken from Saskatchewan Annual Health Reports and Annual Health Reports-Continuing Care and Economic Review 1994, Saskatchewan Bureau of Statistics: 1994.

FIGURE 3

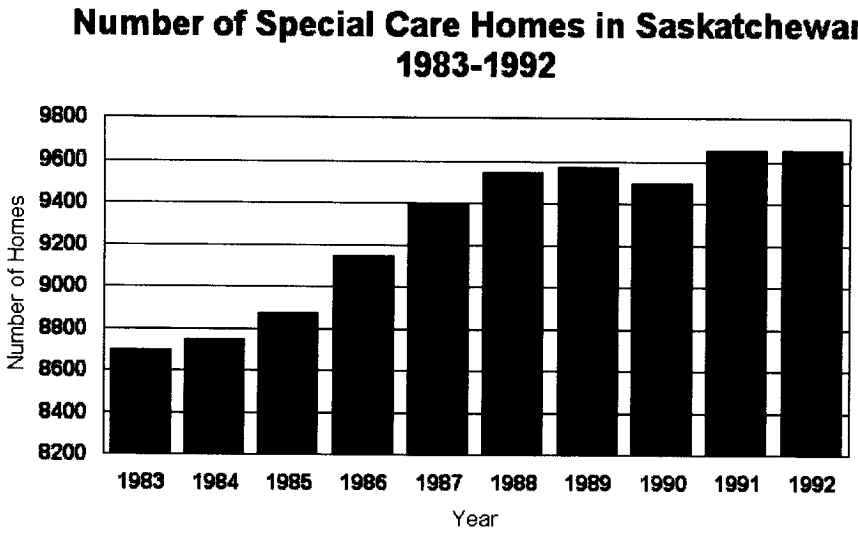


FIGURE 2

Beginning in the 1994-95 fiscal year, there is to be a change in the traditional method of allocating resources, especially to Long Term Care. Instead of using past experience and previous patterns of utilization as a basis for allocating 94-95 funding, Saskatchewan Health will introduce "needs based allocation of resources".[16] This new method will, theoretically, better allocate resources according to actual 'need' at present, rather than past patterns of use. According to the old system, areas with higher use would get more funding than areas with lower use. This does not necessarily indicate a greater degree of 'need' in those populations. It has been shown that where there is greater funding, there is greater utilization — but not necessarily greater need. The goal is to shift attention away from health service providers and toward the population receiving the services, targeting populations with the highest 'need'. In determining how to divide up funding, 'need determining' population characteristics are to be considered. The funding is thus allocated to service areas according to population size, adjusted cumulatively for age and gender, indicators of health need and a cost adjustment where applicable.[17] These characteristics, however, are fraught with loopholes and oversights; in the end, according to health economist R.G. Beck, rather than solving the problems of the old system, it has succeeded in creating new problems. This funding schema is still in developmental stages. Nevertheless, it seems at least theoretically possible that it could lead to a more equitable distribution of increasingly scarce resources, as well as increased financial efficiency if unnecessary (surplus) care is discouraged. A more thorough examination of needs based allocation is beyond the scope of this paper but the question of how adequately and fairly funding will be redistributed is certainly worthy of further investigation.

[16] Needs Based Allocation of Resources. Saskatchewan Health: March, 1994
[17] Ibid.

CONCLUSION

Saskatchewan care for the elderly is presently in a transitional state. With increased government fiscal restraint, resources are in the process of being reallocated in order to maximize the benefit of every health dollar. The days of unnecessary and superfluous Long Term Care are quickly coming to an end. Saskatchewan Long Term Care for the elderly is also faced with many new challenges and hurdles. Besides the dichotomization between heavy and light care, Continuing Care will be faced with increasingly changing and diverse health needs. The changing cultural composition of Canada will pose new and challenging questions. The ethnicities which compose Canada's population are increasingly varied due to recent increased levels of immigration. As these people are aging, increased cultural and ethnic sensitivity will be required. This translates into increased costs for staff and service development to meet these changing needs. Especially in Saskatchewan, aboriginal populations are demanding increased recognition of their unique health needs and a place within the health care system for traditional aboriginal medicine. Somewhere within the framework of Continuing Care and "needs based allocation", these issues, and many more like them will need to be resolved.

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