

Executive Summary

The services sector plays a critical role in the economy as it makes available to other productive sectors an environment to be more efficient by providing inputs in their production and distribution activities. However, in a globalized setting, a more efficient services sector does not only serve domestic industries but the global market as well. The expansion of global trade in recent years has seen a phenomenal rise in trade in services due to the prominence of the services as an economic sector, the rapid developments in information and communication technology, intense competition among global players, and the liberalization measures brought about by the General Agreement on Trade in Services (GATS) and the ASEAN Framework Agreement on Services (AFAS).

The aim of transforming the ASEAN Economic Community (AEC) into a global services hub is not only to further expand trade in services and reap the opportunities in global and regional trade in services but ultimately to be one of the useful avenues that will link the economies in the region in realizing the goal of regional integration and eventually the formation of an economic community. The healthcare and medical services, and the creative services were chosen in this study not only because of their potentials for income, employment and foreign exchange earnings generation but more importantly in contributing to regional integration.

A SWOT analysis of the sectors was made to determine their competitiveness. The strengths and weaknesses of the sectors are influenced mainly by internal factors as well as some external factors while opportunities and threats are mostly coming from external factors. Internal factors consist of resources and other characteristics inherent to the firms consisting of human, physical and financial resources, as well as the availability of appropriate technology. External factors, on the other hand, consist of a set of features in the environment where the sectors operate including the external market environment, domestic market environment, presence of supporting industries and the state of infrastructure. A second level of analysis was undertaken on the roles played by government policies, regulations and institutional support in expanding these

strengths and opportunities, on the one hand, and in mitigating the weaknesses and threats, on the other hand.

The analysis of strengths, weaknesses, opportunities and threats was made for the healthcare and medical tourism in Malaysia, Singapore and Thailand. Meanwhile, the creative services sector was represented by animation and design (fashion and interior) in Indonesia, animation and digital publishing in the Philippines, and fashion and interior design in Vietnam. Although the two sectors have huge economic potentials, they are characterized with varied strengths, faced with different set of opportunities and exposed to differing weaknesses and threats.

The healthcare industry is confronted with a set of opportunities including the huge tourism industry in the region, the changing demographic landscape, aging population, rise of chronic and non-communicable diseases rising income and the growth of the middle class. In the creative services the opportunities are numerous including the emergence of a knowledge-based economy, phenomenal development in ICT, enormous potential and actual demand in creative industries brought about by rising prosperity in the region and the varied applications of creative services.

The medical tourism sector is a mature industry while the creative services sector is a developing industry in terms of scope and depth of their current contributions in the domestic economy as well in regional trade in services. Medical tourism is a capital-intensive industry utilizing complex facilities, state of the art equipment and employing highly skilled, sometimes foreign-trained health professionals which are its core strengths. This sector is dominated by few large holding companies that control a network of hospitals in the region. However, an incipient component of the healthcare and medical travel industry is relatively labor-intensive and competitive including wellness and alternative medicine. The creative services sector, on the other hand, is composed of small firms in a highly competitive market. Although the industry uses information and communication technology including modern computer hardware and software it is relatively labor intensive employing skilled technicians, artists and writers which is a major component of its strengths.

In terms of supplying services, the healthcare and medical services utilize primarily mode 2 with foreign patients seeking medical treatment in internationally accredited hospitals in the region. Trade in creative services, on the other hand, is primarily

facilitated by cross border transactions with outputs of animation, electronic games, and digital publication transmitted to customers and foreign partners digitally. In addition, some of the outputs of fashion design and interior design are used in the garments and furniture industry whose products are exported to foreign markets.

Another important difference is the impact of these industries on the other sectors of society. The health has a number of externalities because healthcare and medical tourism is not only a service to be traded regionally and globally but a public good for domestic consumption. This conflict is totally absent in the creative services where efficiency and reaping the economic gains of trade in services is a major consideration in the expansion of the creative services for the internal and external markets.

In transforming the AEC into a global services hub, the challenge for the countries and for the region is to respond to these opportunities by enhancing the strengths of the sectors and mitigate their weaknesses and threats. In addition, given the differences of the two sectors in terms of their market structure, scale of production, factor intensity, utilization of the various modes of supply of services as well its impact on other sectors of society there will be differences in the approaches that government can take in promoting the sectors via the formulation of regulations, the provision of regulatory environment, and the extension of institutional support. The regional cooperative measures for the two sectors will likewise differ. Identification and implementation of these government measures as well as regional efforts are meant to strengthen the sectors, mitigate their weaknesses and threats in order to reap the opportunities that will enhance their contributions towards the transformation of the ASEAN as a global hub for services.

Government responses in healthcare travel industry must be crafted in the light of inconsistencies arising from trade and public service perspectives of medical tourism, inequities from the dual delivery system and varied financing schemes, imbalances and subsequent migration of doctors and other health professionals from the public to private hospitals resulting from compensation gap, the regulatory frameworks for healthcare provision, on the one hand, and the differentiated services in medical tourism, on the other hand. In creative services the government can assist in addressing the sector's major concern: enhancing its contributions in the value chain. To this end, the linkages of the various industries can be explored by revisiting the rich cultural

heritage of the country for product development, discovering the global market for niches, exploring information and communication technology (ICT) for applications, and improving skills of its human talents..

Three categories of measures including investment in physical capital, investment in human capital and exploration of market niches were identified that the national government and the regional bodies can undertake to enhance the competitiveness of the sectors. These specific recommendations although meant to address productive capacity, human resource development and market expansion are likewise responding to the modes services are supplied. They are also linked with the policies, regulatory environment, and institutional support needed to enhance the competitiveness of the healthcare sector and the creative services and realize the goal of transforming the region into a global hub in services.