



ASIAN ECONOMIC INTEGRATION REPORT 2025

HARNESSING THE BENEFITS OF REGIONAL
COOPERATION AND INTEGRATION

HIGHLIGHTS



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HIGHLIGHTS



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Note:

In this publication, “\$” refers to United States dollars.

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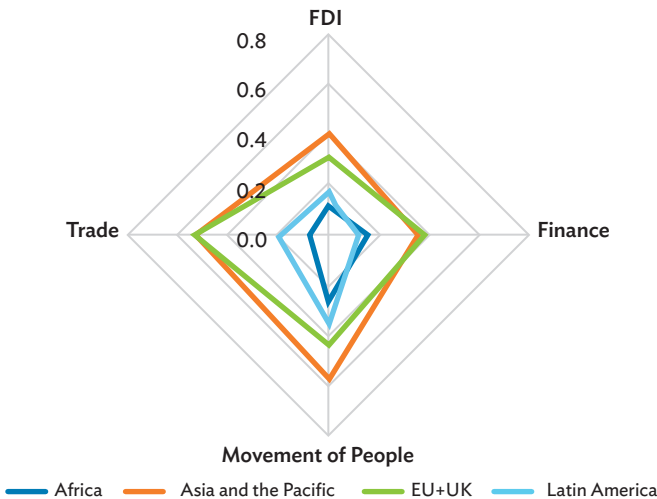
HIGHLIGHTS



Economic integration has been pivotal in Asia and the Pacific’s remarkable economic growth and rapidly rising global clout over the past 2 decades. Asian Development Bank (ADB) estimates indicate that the degree of Asia’s trade integration is comparable to that of the European Union plus the United Kingdom (EU+UK).¹ Regional integration in foreign direct investment (FDI) has also advanced significantly, although less than trade integration. Migration, remittances, and tourism—or “movement of people”—have remained steady. Financial integration has been the lowest, being lower than in trade, investment, and movement of people, and has lagged behind that of the EU+UK. This progress in regional integration has been supported by various projects, programs, and policy dialogue. Cooperation through trade facilitation, along with the development of transport and economic corridors, has helped advance integration across the region. Expanding digital connectivity and efforts to address climate change—supported by shared national and regional commitments—are strategic areas for future cooperation and integration in regional public goods.

Regional Integration in Asia and the Pacific Has Progressed, Driven by Trade and Investment

Regional Integration Index by Dimension, 2023



EU = European Union (27 members), FDI = foreign direct investment, UK = United Kingdom.
Note: Based on ADB’s Regional Integration Index estimates, the values for each dimension represent the ratio of the number of strong intraregional connections at the bilateral level relative to the sum of strong intraregional and extraregional connections.
Source: ADB calculations using data from ADB. Bilateral Economic Integration Index Database.

¹ Asia refers to the 49 members of ADB in Asia and the Pacific, which include Australia, Japan, and New Zealand in addition to 46 developing economies.

Although the expansion of preferential trade agreements (PTAs) across the region underscores its strong commitment to regional integration and global connectedness, its PTAs remain relatively narrow and shallow and have had limited impact. The significant rise in PTAs, now comprising 45% of all global PTAs, underscores Asia’s drive for expanding market access and deepening economic partnerships—even amid slow multilateral progress. However, estimated average exports increased by 3% among Asian PTA members compared with 20% in the more comprehensive agreements outside Asia. PTAs primarily intensify existing trade flows (intensive margin) without significantly broadening the diversity of traded goods (extensive margin). This trend is seen across intra-Asian PTAs, where the impact on manufacturing is modest compared to agreements outside Asia. Consequently, trade gains under Asian PTAs tend to be concentrated in specific sectors, particularly primary sectors, rather than producing broad-based trade expansion. The low utilization rates across PTAs often result from complex administrative requirements, stringent rules of origin, and limited understanding of PTA benefits, particularly for small and medium-sized enterprises.

Drivers of Preferential Trade Agreements

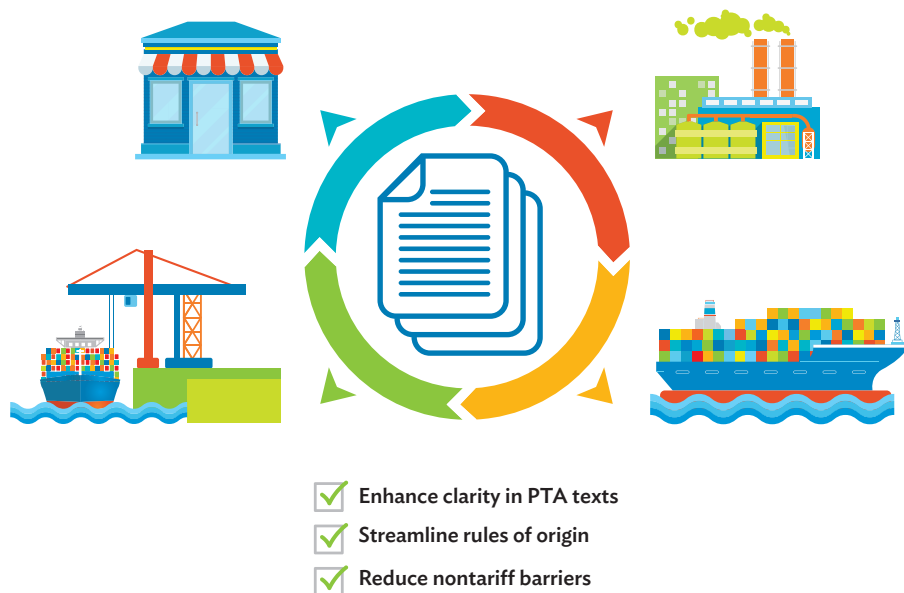


- ✓ Higher total bilateral trade
- ✓ More bilateral trade interventions
- ✓ Lower most-favored nation rates

Top Liberalized Policy Areas in Preferential Trade Agreements in Asia and the Pacific



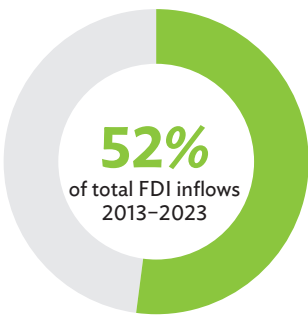
Improving Efficiency in Preferential Trade Agreements in Asia and the Pacific



PTA = preferential trade agreement.
Source: ADB.

Services, digital, and green industries have become major areas for foreign investment in Asia, while economies should embrace policy options to mitigate the impact of geopolitical risks. Asia continues to show strong intraregional linkages, with FDI among Asian members accounting for an average 52% of regional FDI from 2013 to 2023. FDI in services is now the main driver of foreign investment in Asia—its average share grew to 58% during the past decade from 46% over the previous decade. Digital and green FDI continues to redefine Asia’s investment landscape. Climate-related greenfield investments as a share of regional greenfield investment rose from 8% in 2013 to 27% in 2023. This was in part possible due to the expansion of renewable industries and deployment of electric vehicle supply chains across Southeast Asia. Global investment patterns have been influenced by geopolitical tensions as well as major industrial developments and changing policy environment in host economies. ADB estimates suggest that greenfield investments in trade-exposed sectors experienced sharper declines than other sectors during periods of increased geopolitical tensions, while ASEAN economies attracted significantly higher FDI primarily driven by the PRC. Regional economies need to continually work to improve the overall business climate and ease restrictions to FDI.

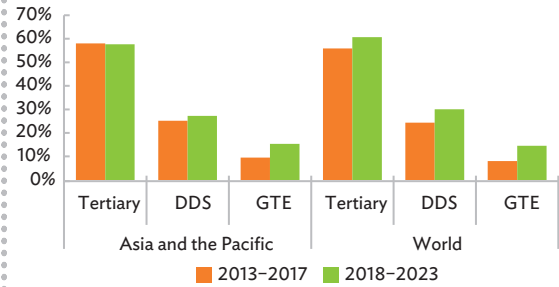
Intraregional Linkages Remain Strong in Asia and the Pacific



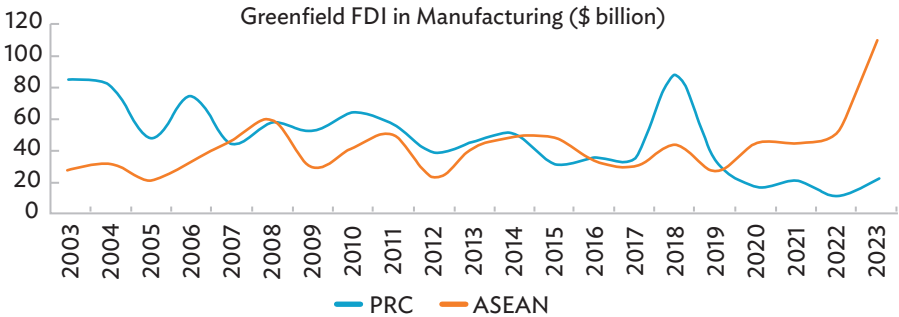
on average are intraregional inflows

Services, Especially Digital Services, and Green FDI are Driving and Redefining Investment Dynamics

Investment in Selected Sectors (% of total inflows)



ASEAN economies are regarded as alternative destinations, especially in manufacturing



Regional and global partnerships, as well as supportive domestic policies, can help Asia and the Pacific weather the possible effects of FDI fragmentation, which can be done through:



Continuing investment partnerships via BITs, IIAs, FTAs, and regional bloc cooperation frameworks



Fortifying aspects of investment policies and regional cooperation such as investment facilitation and attraction



Ensuring coherence between FDI-related industrial policies and international commitments

ASEAN = Association of Southeast Asian Nations, BIT = bilateral investment treaty, PRC = People's Republic of China, DDS = digital deliverable service, FDI = foreign direct investment, FTA = free trade agreement, GTE = green transition equipment, IIA = international investment agreement, US = United States.

Sources: ADB. Asian Economic Integration Report Foreign Direct Investment Database; classification based on methodology from Atlantic Council. 2022. Our Guide to Friend-Shoring: Sectors to Watch. <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/our-guide-to-friend-shoring-sectors-to-watch/>; and International Monetary Fund. 2023. Geoeconomic Fragmentation and Foreign Direct Investment. In World Economic Outlook: A Rocky Recovery, April; and Avendano, R., E. Blanchard, W. Olney, A. Santos-Paulino, and C. Trentini. 2024. The Great Reallocation Revisited: How FDI is (and is not) Evolving Amid Heightened Geopolitical Tensions. Background Paper for the Asian Economic Integration Report 2025 Cross-Border Investment Chapter.

Global monetary easing could increase capital inflows into the region, bringing with it important macroeconomic and policy implications. The global monetary easing since mid-2024 can help strengthen capital inflows due to smaller policy rate differentials between the US and the euro area on the one hand, and Asian economies on the other. While this also expands room for monetary policy easing across the region, each economy must remain vigilant against the risks of potential swings in capital flows and exchange rate volatility in case of unexpected economic shocks. It is vital to use regional cooperation to boost financial integration and maximize its benefits while minimizing costs due to vulnerabilities from any negative regional spillovers. Stronger regional cooperation can also harmonize disclosure standards and promote targeted financial instruments to help develop regional capital markets and promote sustainable finance when coping with the risks of climate change and environmental degradation.

Regional Cooperation Is the Backbone of Macrofinancial Stability in Asia and the Pacific



Strengthening Regional Financial Safety Nets and Addressing New Policy Challenges Are Essential to Deepening Regional Integration



Reversing biodiversity loss



Mitigating and adapting to climate change



Building resilience to geopolitical fragmentation



Preparing for public health emergencies



Managing risks from technological innovations

Source: ADB.

The growth and ease of Asian labor migration has benefited from increased regional cooperation. The increasing use of digital platforms in channeling remittances enhances access to the formal financial system and promotes financial inclusion. The region’s bilateral labor agreements are increasingly being used to provide access to work opportunities for low-skilled and semiskilled migrant workers. In addition, regional trade agreements, along with mutual recognition arrangements, have supported high-skilled labor mobility. However, these have had limited impact on high-skilled Asian migrants due to their minimal coverage for developing Asian economies, narrow occupational scope, and high implementation costs. Digital remittances, supported by an efficient regulatory environment, can help bring down remittance costs, which currently average 5.9% per transaction in Asia—above the 3% target of the United Nations 2030 Sustainable Development Goals. Regional cooperation should focus on leveraging digitalization in cross-border payments while narrowing the digital divide. Continuous financial and digital education, alongside best practice exchanges, would also help reduce barriers to financial access and enhance digital financial literacy.

Various Labor Facilitation Agreements Have Been Key in Helping Asia and the Pacific Maximize the Gains from International Migration

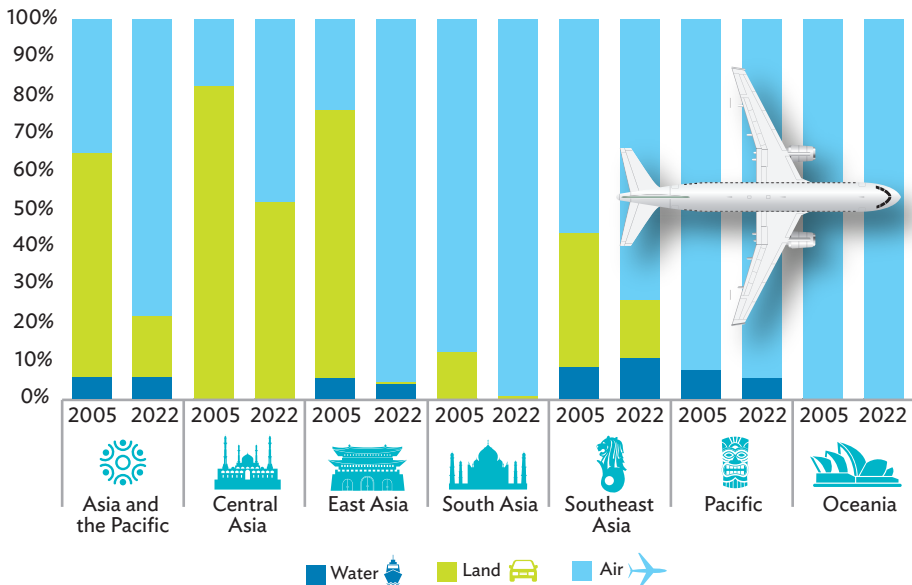


The Global Compact for Safe, Orderly, and Regular Migration

Source: ADB.

Accelerating regional cooperation on improving physical and institutional connectivity will increase tourism competitiveness and resilience, unlocking the industry’s potential for economic development. International arrivals in Asia grew at an average annual rate of 7.6% from 2010 to 2019, outpacing the global annual average of 5.1%—increasing the intraregional tourism share from 73.1% to 77.3%. As at least 60% of tourists to Asia arrive by air, good infrastructure and logistics are essential to support the flow of tourists. Land transportation is important for destinations that share common international borders. For institutional connectivity, visa policies are strongest in Southeast Asia, followed by Central Asia and East Asia. ADB research shows the important role connectivity plays in promoting tourism. Transportation infrastructure, in addition to other tourism infrastructure, positively influences international tourist flows and boosts the attraction of Asian destinations. Regional connectivity can help attract long-haul travel from outside the region and strengthen intraregional tourism as well. Priority investments in airport infrastructure and logistics, along with liberalizing and harmonizing policies on cross-border travel requirements, are crucial to increase tourist flows and foster the industry’s contribution to growth.

Air Transport Has Evolved as an Important Mode of Transport for Tourism Connectivity, Raising Opportunities for Greater Investment in the Sector



Note: Arrivals include same-day tourists.

Source: ADB calculations using data from United Nations Tourism. Compendium of Tourism Statistics data set. <https://www.unwto.org/tourism-statistics/tourism-statistics-database> (accessed August 2024).

Asian Economic Integration Report 2025

Harnessing the Benefits of Regional Cooperation and Integration—Highlights

This publication highlights key findings of the Asian Economic Integration Report 2025. It presents an overview of changes in Asia and the Pacific in trade and global value chains, cross-border investment, financial integration, and the movement of people. The Asian Economic Integration Report involves the annual review of regional cooperation and integration covering the 49 regional members of the Asian Development Bank.

About the Asian Development Bank

ADB is a leading multilateral development bank supporting sustainable, inclusive, and resilient growth across Asia and the Pacific. Working with its members and partners to solve complex challenges together, ADB harnesses innovative financial tools and strategic partnerships to transform lives, build quality infrastructure, and safeguard our planet. Founded in 1966, ADB is owned by 69 members—49 from the region.



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