Asian Economic Integration Report 2026

Leveraging Regional Cooperation and Integration to Navigate Global Uncertainties

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Key messages

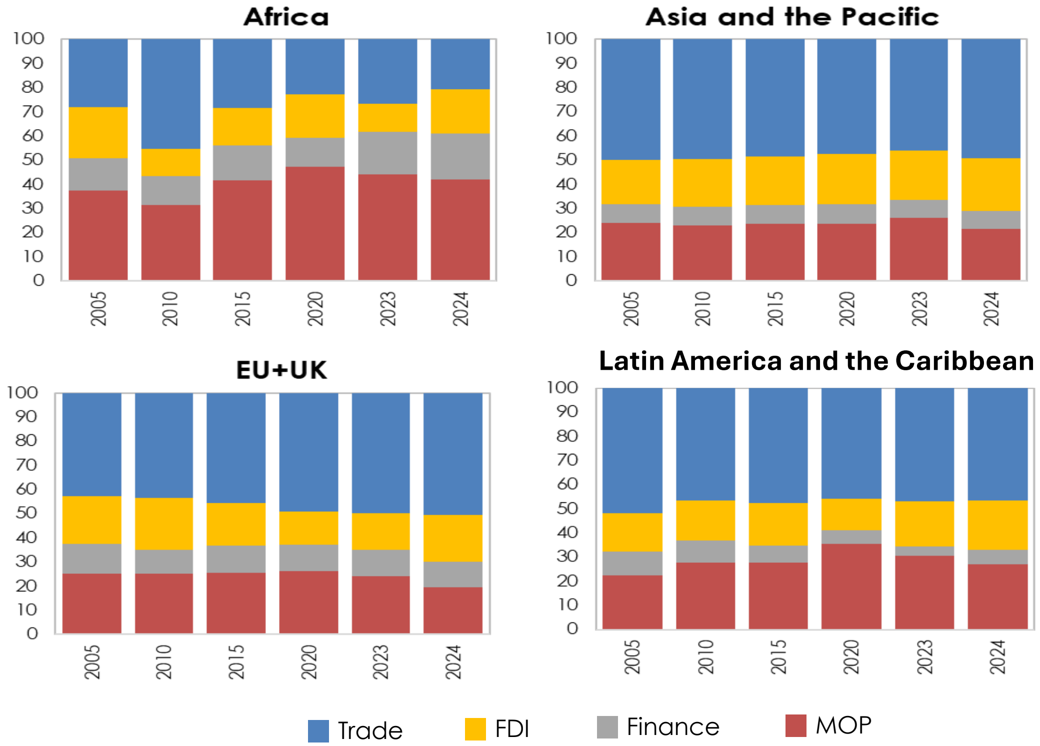
- Despite heightened global uncertainty and a challenging trade policy environment, Asia and the Pacific remains resilient in trade and continues to upgrade its value-chain structure.
- After contracting in 2023, foreign direct investment (FDI) inflows to the region show signs of stabilization and nonresident capital flows remain steady.
- Key policy priorities include promoting trade diversification, strengthening the effectiveness of trade agreements, leveraging digital FDI, and strengthening regional financial safety net.
- Sustaining long-term resilience will also require enhanced regional economic cooperation for improved cross-border skills recognition and the facilitation of seamless tourism.

ADB

Trade has been the main driver of regional economic integration in Asia; followed by FDI and movement of people

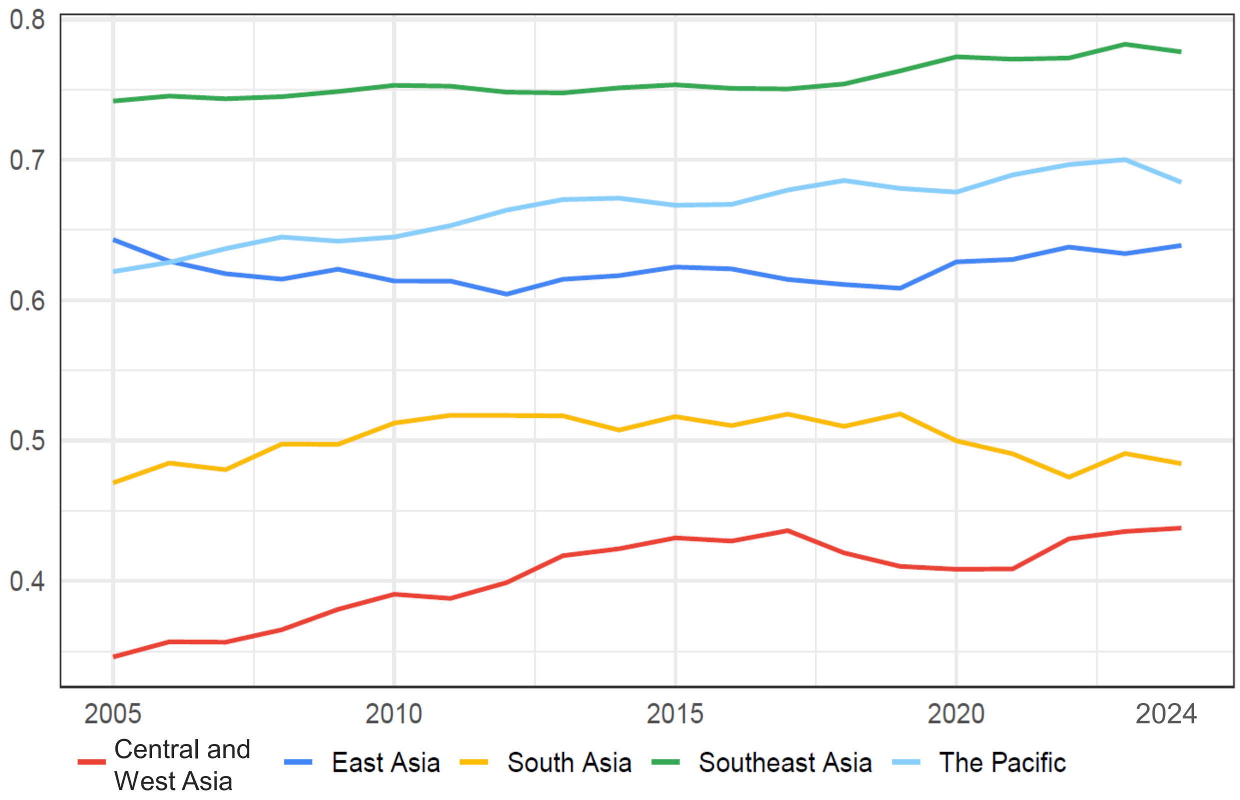
Trade in goods and services is the main driver of regional integration in Asia and other regions, except for Africa

Dimensional Shares to Overall Regional Integration Index, by World Regions (%)



Economic integration with Asia is highest for Southeast Asia compared to other Asian subregions

Overall Regional Integration Index by Asian Subregions
(subregion's integration with itself plus with the rest of Asia and the Pacific)

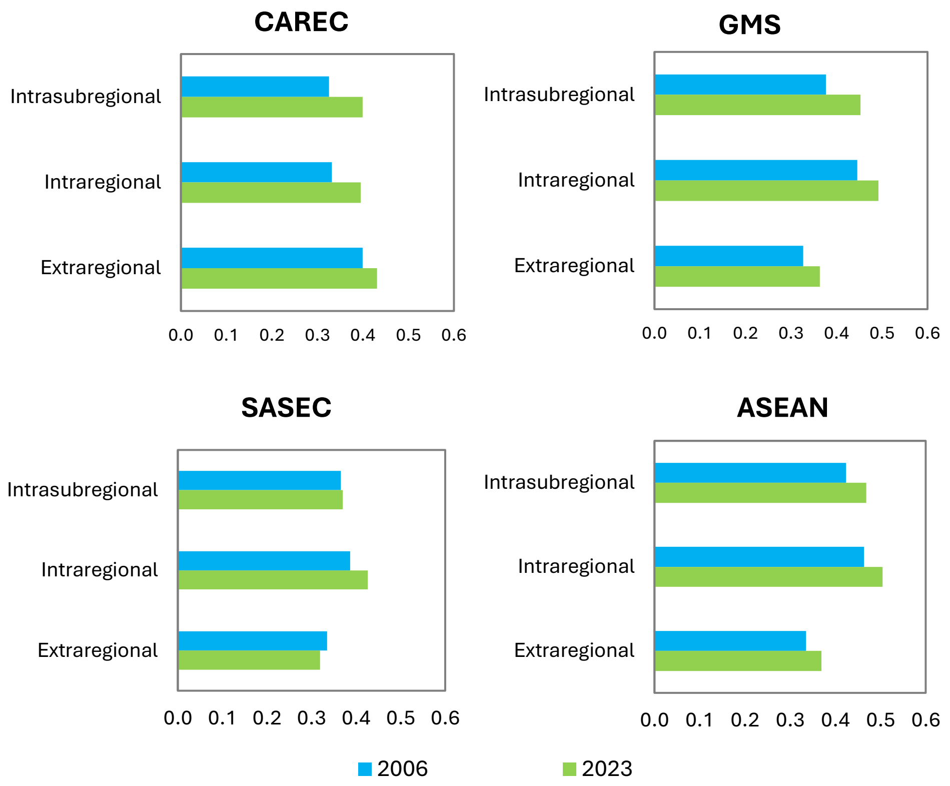


EU = European Union (27 members), FDI = foreign direct investment, MOP = movement of people, RII = Regional Integration Index, UK = United Kingdom.
Notes: Based on ADB's Regional Integration Index, estimated using Bayesian state-space model, the overall RII is the weighted average of the dimensional indexes: trade in goods and services, movement of people, FDI, and finance. For the detailed methodology, indicators used per dimension, and data sources, refer to Box 1.1 of ADB. 2025. *Asian Economic Integration Report 2025*. The composition of subregional groupings in Asia and the Pacific is outlined in https://aric.adb.org/integrationindicators/groupings.
Source: ADB calculations using ADB's Regional Economic Integration Index Database.

CAREC's economic integration among members, with Asia and beyond Asia is rising

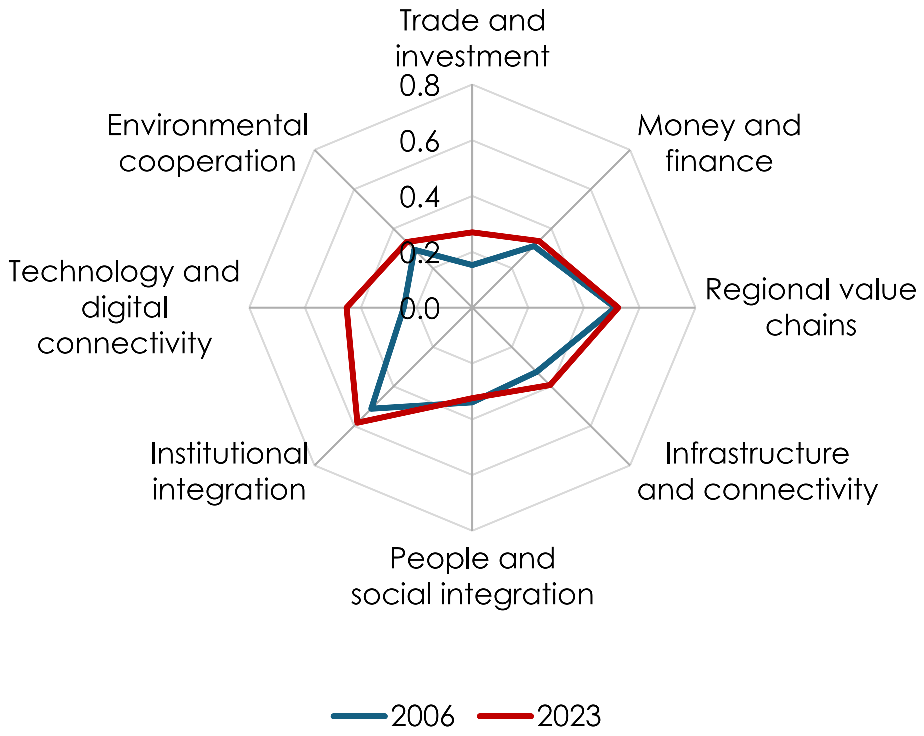
Asian subregional initiatives show different patterns of economic engagement

Overall intrasubregional, intraregional, and extraregional integration, 2006 and 2023



Integration within CAREC has been driven mostly by institutions and regional value chains

Dimensional regional integration index—CAREC

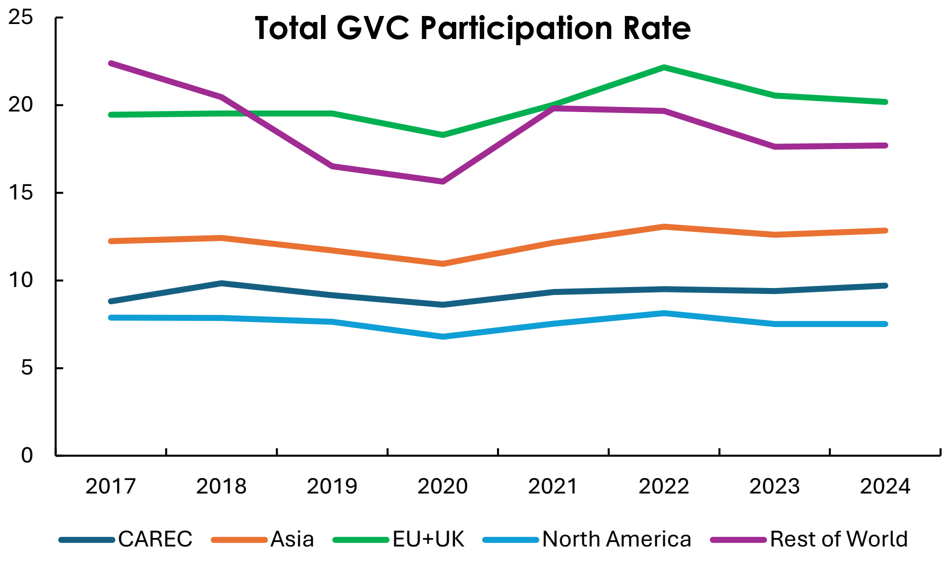


CAREC = Central Asia Regional Economic Cooperation; ASEAN = Association of Southeast Asian Nations; GMS = Greater Mekong Subregion; SASEC = South Asia Subregional Economic Cooperation.
Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Intraregional integration captures integration of subregional initiatives with Asia and the Pacific; intrasubregional integration reflects integration within subregional initiatives; and extraregional integration measures integration of subregional initiatives with economies outside Asia-Pacific.
Source: ADB. Asia-Pacific Regional Cooperation and Integration Database. https://aric.adb.org/database/arcii (accessed November 2025).

Trade and Global Value Chains

CAREC remains deeply integrated into global value chains—and its structure is evolving

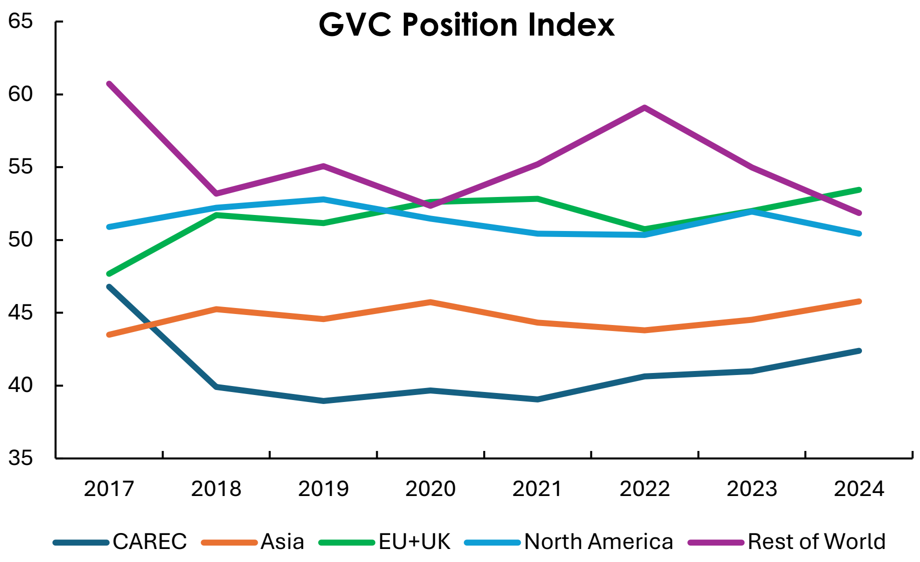
CAREC's average GVC participation remains steady



Higher forward linkages, more upstream activities

Higher backward linkages, more downstream activities

CAREC has upgraded into more complex segments since 2022



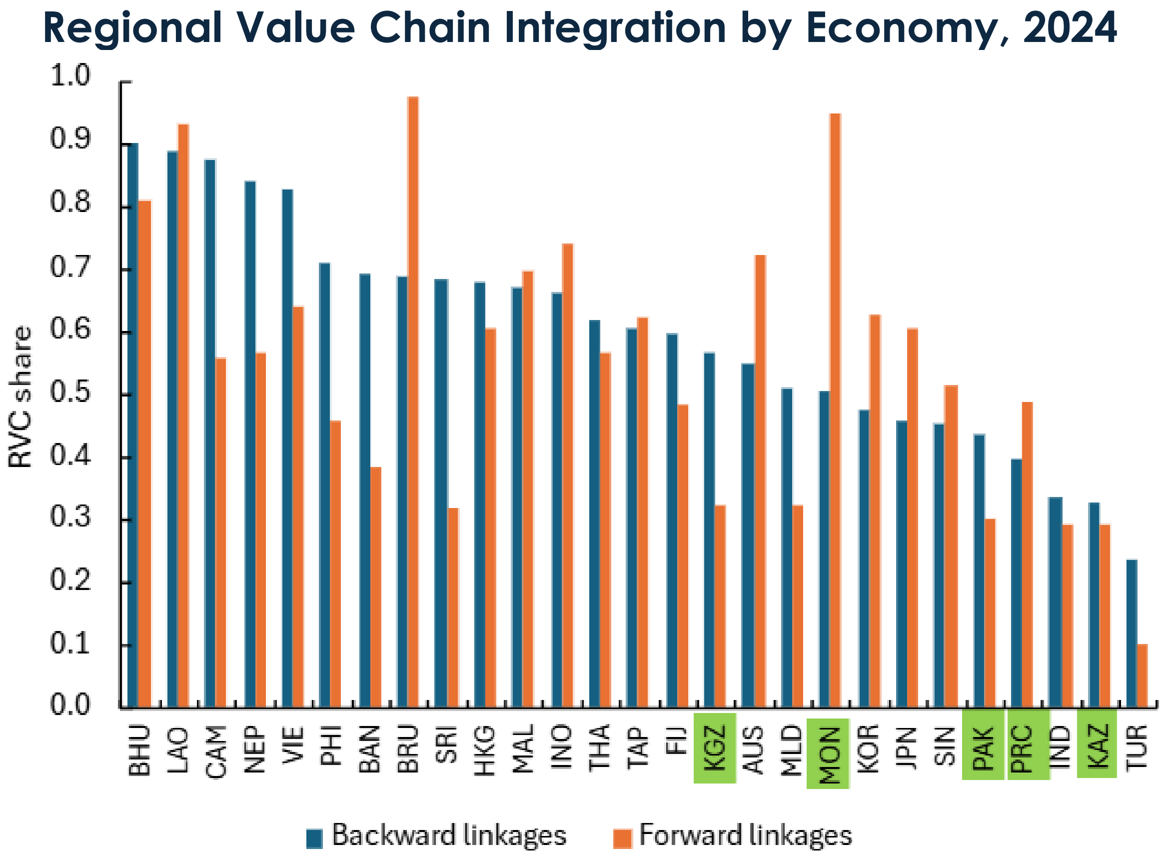
CAREC = Central Asia Regional Economic Cooperation, EU = European Union, GVC = global value chain, UK = United Kingdom.
Note: Asia refers to Asia and the Pacific. The composition of Asia and the Pacific is outlined in https://aric.adb.org/integrationindicators/groupings.
Sources: ADB calculations using data from ADB Multiregional Input–Output Database; and methodology by Wang et al. (2017).

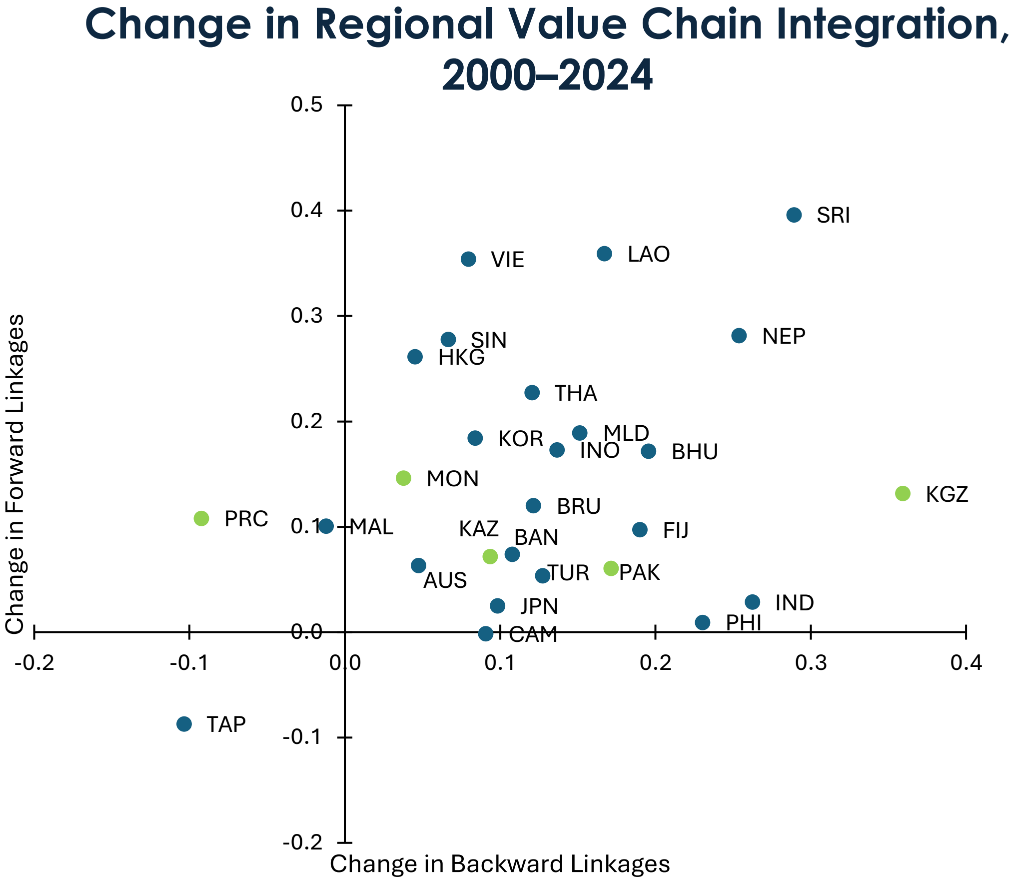
- CAREC's GVC participation moves closely with the Asia and the Pacific and North America with steady rates slightly above the 2020 level.

- CAREC's GVC positioning shows the high backward linkage orientation relative to other regions including Asia.
- Since 2022, there has been a gradual shift toward stronger forward linkages—more upstream activities—suggesting a move from primarily assembling imports to supplying value-added inputs to global production

ADB

Regional value chain integration has deepened among CAREC members, albeit at different speeds



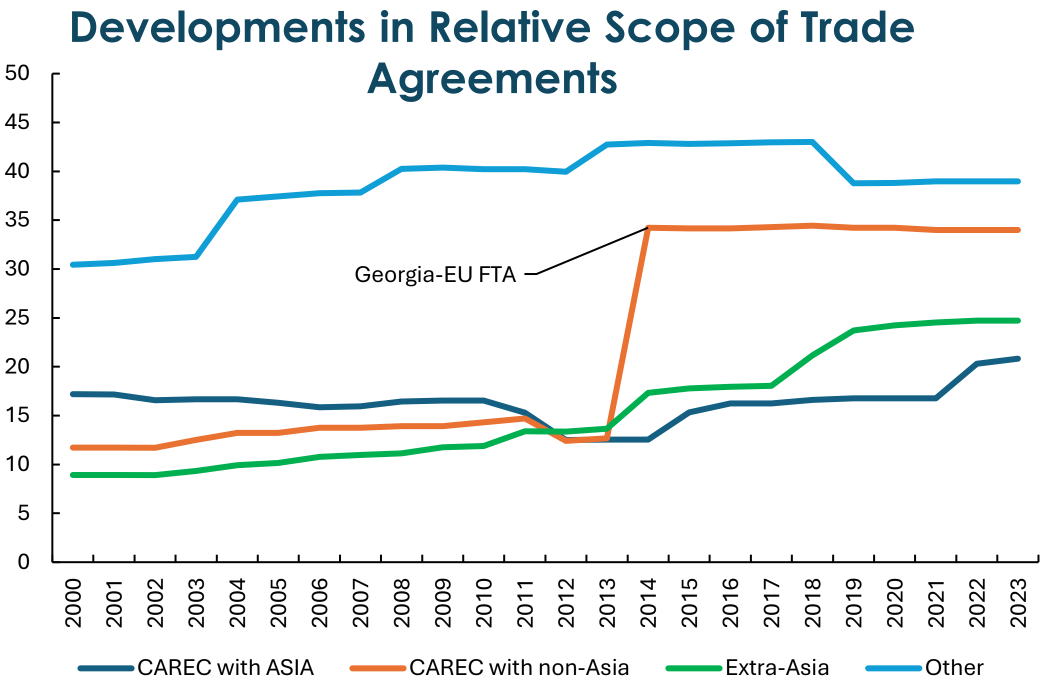


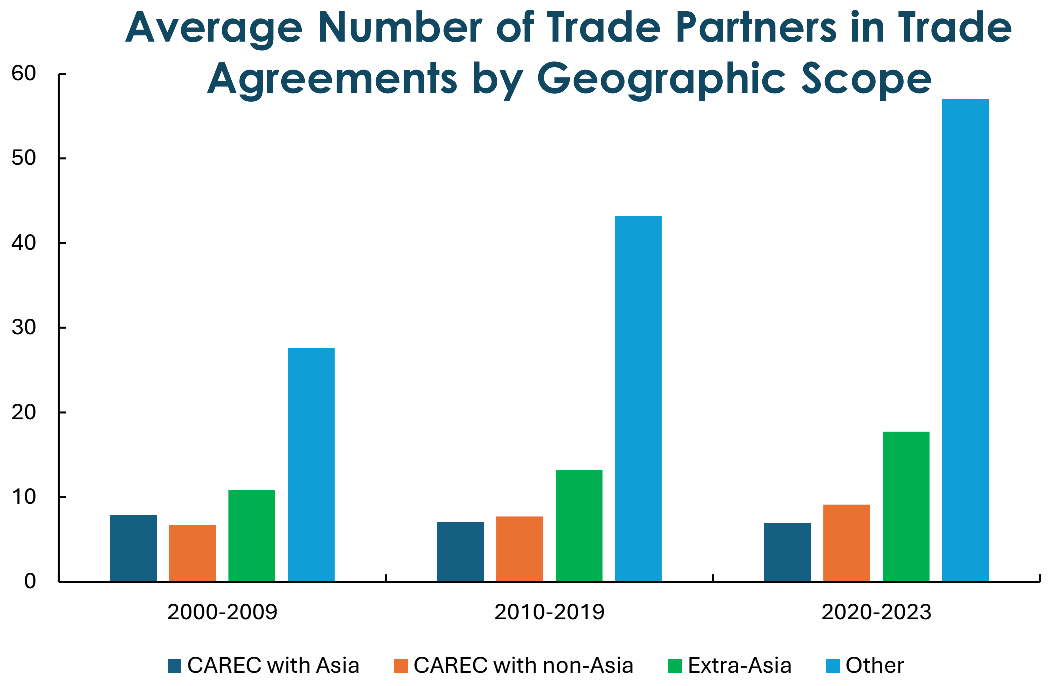
ARM = Armenia; BAN = Bangladesh; BHU = Bhutan; BRU = Brunei Darussalam; CAM = Cambodia; PRC = People's Republic of China; FIJ = Fiji; GEO = Georgia; GVC = global value chain, HKG = Hong Kong, China; IND = India; INO = Indonesia; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; ROK = Republic of Korea; LAO = Lao People's Democratic Republic; MAL = Malaysia; MLD = Maldives; MON = Mongolia; NEP = Nepal; PAK = Pakistan; PHI = Philippines; RVC = regional value chain; SIN = Singapore; SRI = Sri Lanka; TAP = Taipei,China; THA = Thailand; TUR = Türkiye; and VIE = Viet Nam.

Notes: The RVC indicators are calculated using hypothetical extraction, wherein trade in value-added with no trade in intermediates between Asian economies is compared with the scenario allowing trade in intermediates between Asian economies. Participation rates are calculated as the share of forward GVC activity in total value-added in the case of forward linkages and as the share of backward GVC activity in final production in the case of backward linkages.

Sources: ADB calculations using data from ADB. Multiregional Input–Output Tables; and methodology by Los and Timmer (2018).

While the number of trade agreements has risen globally and in CAREC, they tend to be narrower in membership and scope





- In 2014, Georgia-EU FTA, which include 92% of the provision, was signed; boosting CAREC's average scope from 13% to 34%.
- Convergence has occurred more for CAREC–non-Asia agreements than with CAREC–Asia agreements.

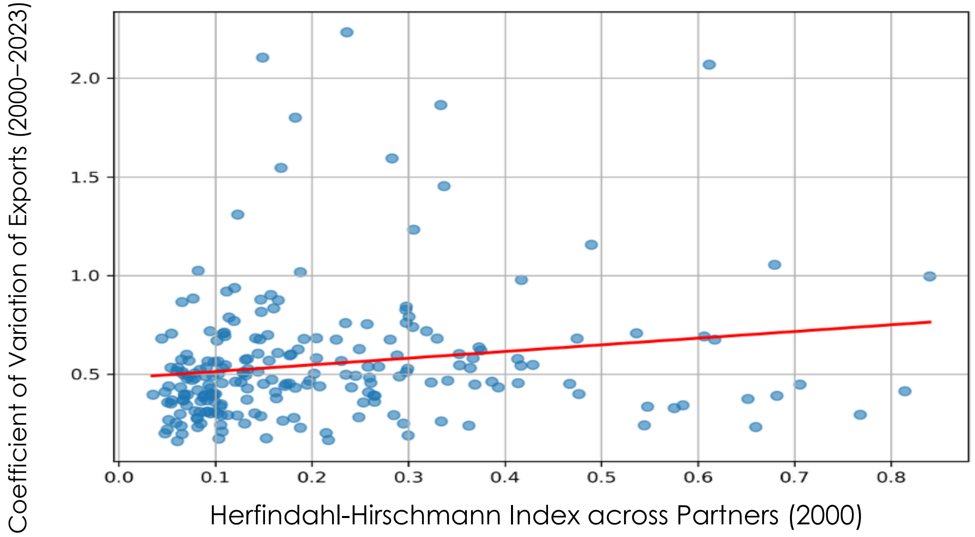
- In the recent years, CAREC trade agreements with Asia tend to involve fewer trade partners than outside Asia.
- Though membership size for CAREC's agreements outside Asia is still fewer than Asia’s total average.

Notes: Asia refers to the 50 regional member economies of ADB. Extra-Asia refers to the trade agreements of Asian economies (including BIMSTEC) with economies outside of Asia. Other refers to the trade agreements between non-Asian economies.
Source: ADB calculations using data from World Bank. Deep Trade Agreements Database. https://datatopics.worldbank.org/dta/table.html (accessed August 2024).

Diversification and trade agreements can mitigate the negative impact of uncertainty on trade

Diversifying trade partners could help reduce trade volatility

Concentration of Trade Partners vs. Export Volatility

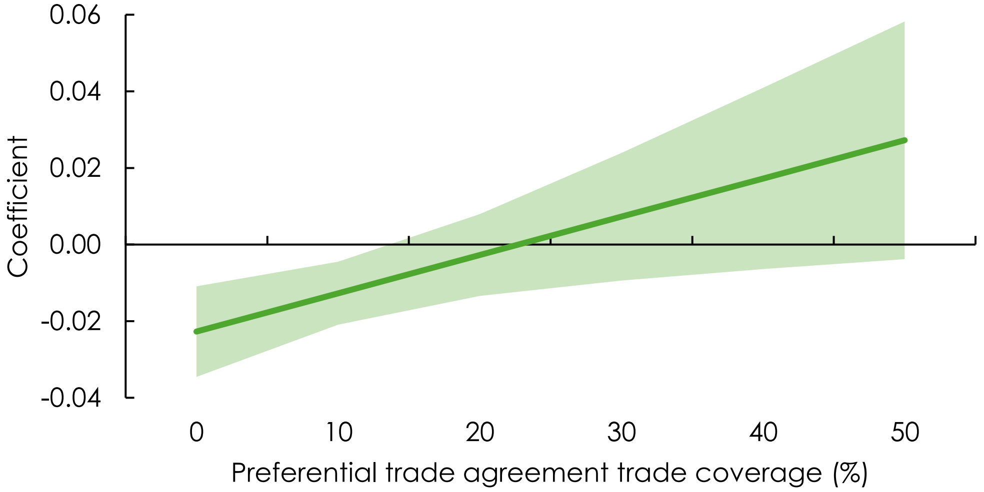


Note: The Herfindahl-Hirschmann index is an indicator of the concentration of an economy's exports across partner economies, with higher numbers indicating a more concentrated export structure. The coefficient of variation is an indicator of how volatile an economy's exports were over the period 2000-2023.

- Economies with more diversified exports experience lower export volatility
- Greater geographic diversification reduces exposure to economy-specific shocks
- Diversification strengthens resilience in an environment of elevated uncertainty

Trade agreements contribute to mitigating the negative impact of policy uncertainty on trade

Effect of Policy Uncertainty on Exports, by Level of Preferential Trade Agreement Coverage



Note: The line reports the estimated effect of trade policy uncertainty on exports for different shares of exports covered by trade agreements. The shaded error reports the 95% confidence interval.

- Higher trade coverage by preferential trade agreements weakens the negative effect of uncertainty on exports
- Trade agreements provide predictability and reduce effective trade costs

Enhancing the effectiveness of trade agreements by Asian economies is crucial in maximizing the benefits of regional cooperation and integration

Limitations with Trade Agreements

- Shallow commitments, especially in critical market access provisions
- Failure to solve structural barriers, restricting potential impact on trade flows
- Complex administrative requirements
- Overlapping network of PTAs creating compliance challenges and administrative costs
- Limitations in promoting export diversification and services trade

Ways to Improve the Effectiveness of Trade Agreements

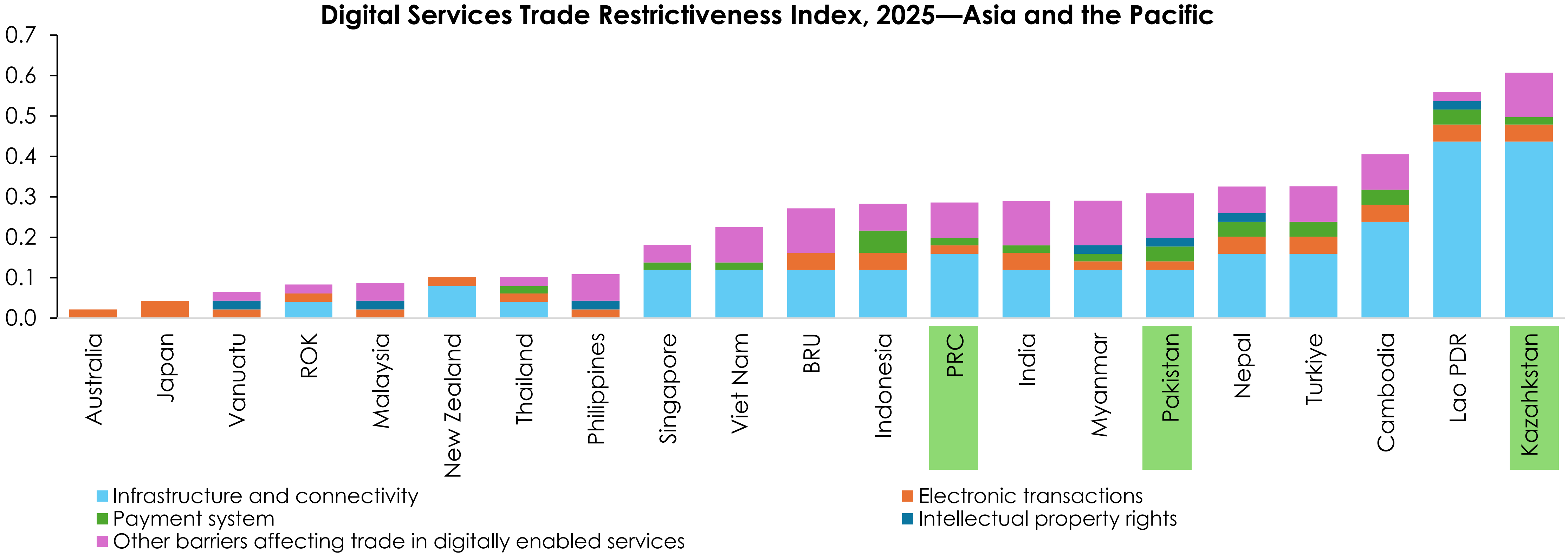
- Simplifying trade rules
- Deepening commitments
- Aligning Rules of Origin criteria with regional production patterns
- Fostering diversification of negotiating partners with prospective markets instead of solely reinforcing existing trade relationships
- Reducing compliance costs through awareness enhancement and capacity building

- ❑ An opportunity for development partners and bilateral donors in providing technical support to developing economies in negotiating and implementing trade agreements
- ❑ Ensuring that all members benefit more equitably and building a cohesive and competitive trade environment across Asia

ADB

Reducing digital services trade barriers—especially infrastructure and 'other' regulatory constraints—could help deepen regional integration

CAREC economies show wide divergence in digital services trade restrictiveness



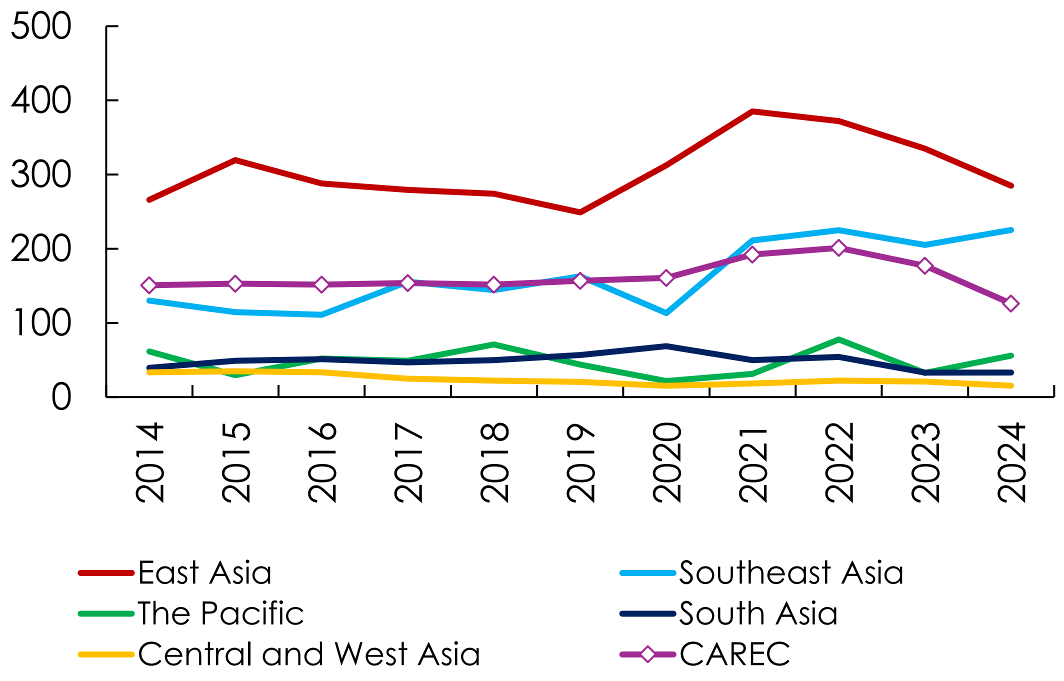
PRC = People's Republic of China, ROK = Republic of Korea, Lao PDR = Lao People's Democratic Republic.
Notes: The OECD Digital Services Trade Restrictiveness Index (STRI) identifies, catalogues and quantifies barriers that affect trade in digitally enabled services across 129 economies. It provides policy makers with an evidence-based tool that helps to identify regulatory bottlenecks, design policies that foster more competitive and diversified markets for digital trade, and analyze the impact of policy reforms. The OECD Digital STRI captures cross-cutting impediments that affect all types of services traded digitally. As a stand-alone instrument, it complements the OECD Services Trade Restrictiveness Index (STRI). The indexes take values between 0 to 1, where 0 is completely open and 1 is completely closed. They are calculated on the basis of information provided in the Digital STRI regulatory database.
Source: OECD.

Cross-Border Investment

Decreasing FDI inflows into CAREC but investments from Asia remain stable in 2024

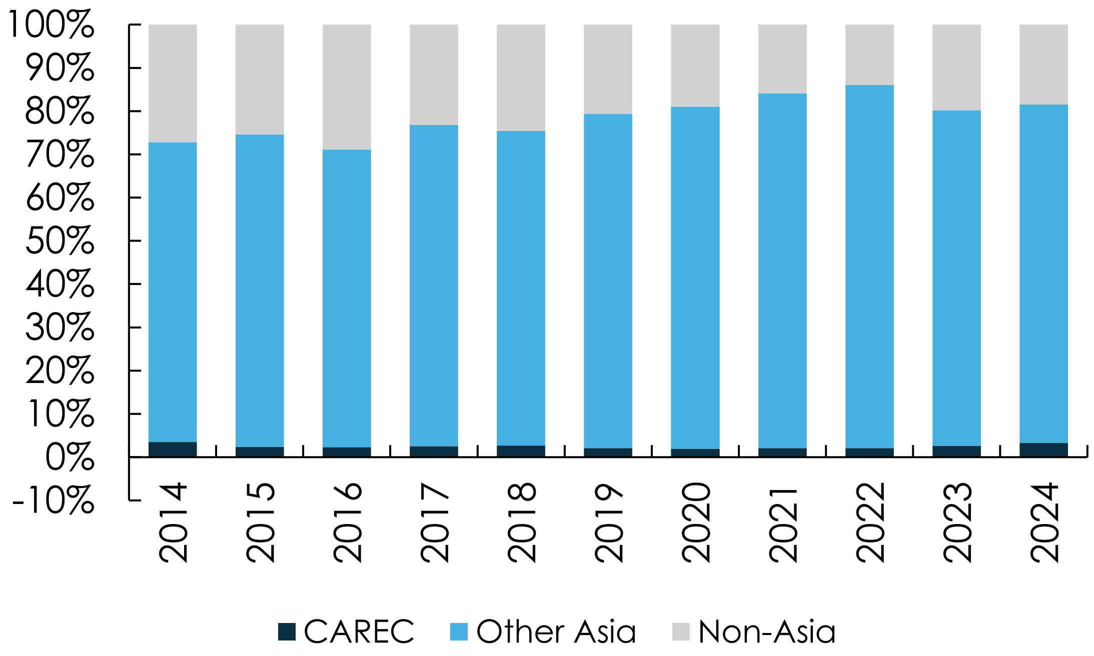
While FDI into CAREC and East Asia has declined, Southeast Asia has attracted increasing FDI

Foreign Direct Investment in Asia and the Pacific by Destination Subregion—BOP ($ billion)



Rising intraregional FDI both in amount and share underpins strong investment value chain connectivity

FDI inflows to CAREC by Source—BOP (% of CAREC's total)

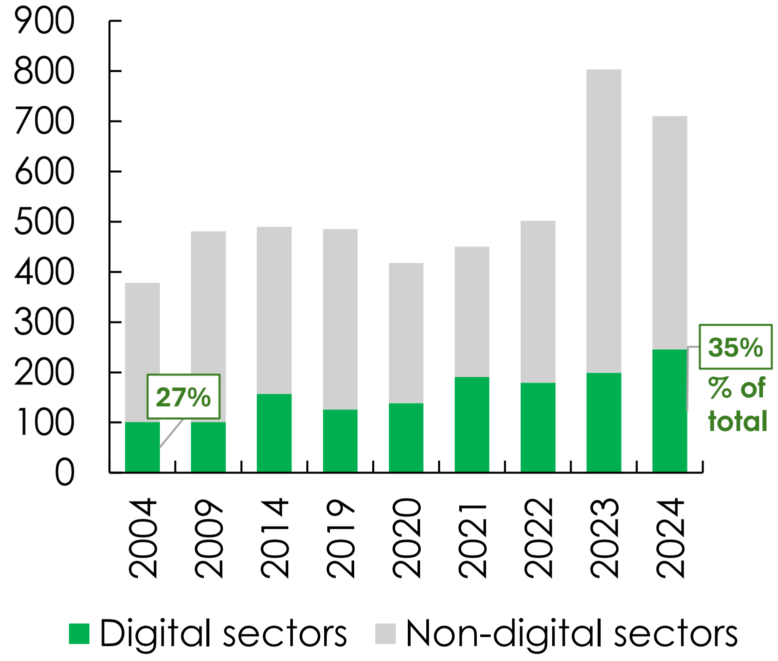


BOP = balance of payments; CAREC = Central Asia Regional Economic Cooperation; FDI = foreign direct investment.
Note: The composition of subregional groupings in Asia and the Pacific is outlined in https://aric.adb.org/integrationindicators/groupings.
Source: ADB calculations using data from UN Trade and Development. *World Investment Report 2025* Statistical Annex Tables. https://unctad.org/topic/investment/world-investment-report (accessed July 2025).

Vibrant digital FDI across the Asian region can support digitalization and growth

Digital FDI has accelerated in Asia and the Pacific

FDI into Asia and the Pacific—Firm-Level ($ million)



Digital sectors remain important drivers of FDI across Asian economies

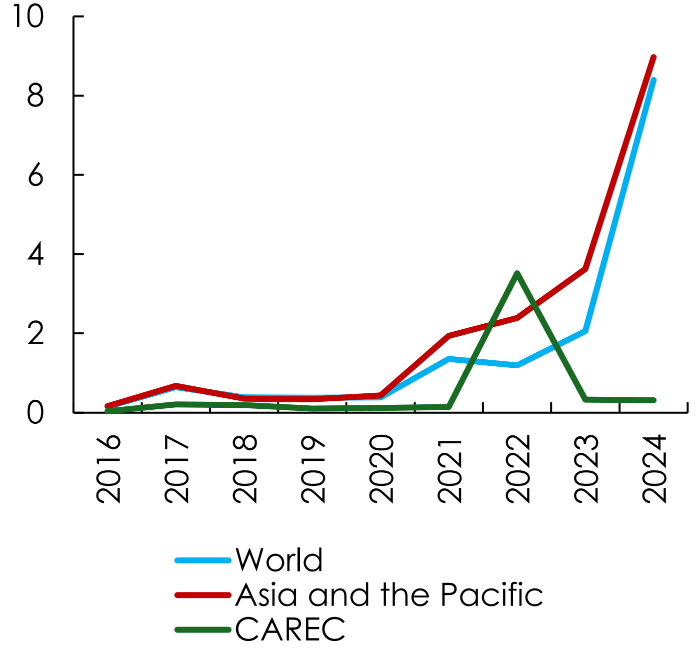
Digital FDI in Asia by Destination Subregion and Sector—Firm-Level, 2003-2024 ($ million)

		Destination					
		Central and West Asia	East Asia	The Pacific	South Asia	Southeast Asia	CAREC
Digital Sector	Manufacture of electronic components and boards	24	353	186	465	307	472
	Financial services	150	388	291	186	148	295
	Data processing, hosting and related activities	62	280	254	296	142	382
	Wireless telecommunications activities	142	107	233	395	113	108
	Other telecommunications activities	58	444	109	140	28	101
	E-commerce	118	69	63	562	39	64
	Other digital sectors	15	65	30	58	38	55

$24 million — $562 million

AI and data centers presents opportunities for FDI

Greenfield FDI in AI and Data Centers (% share in total greenfield FDI)



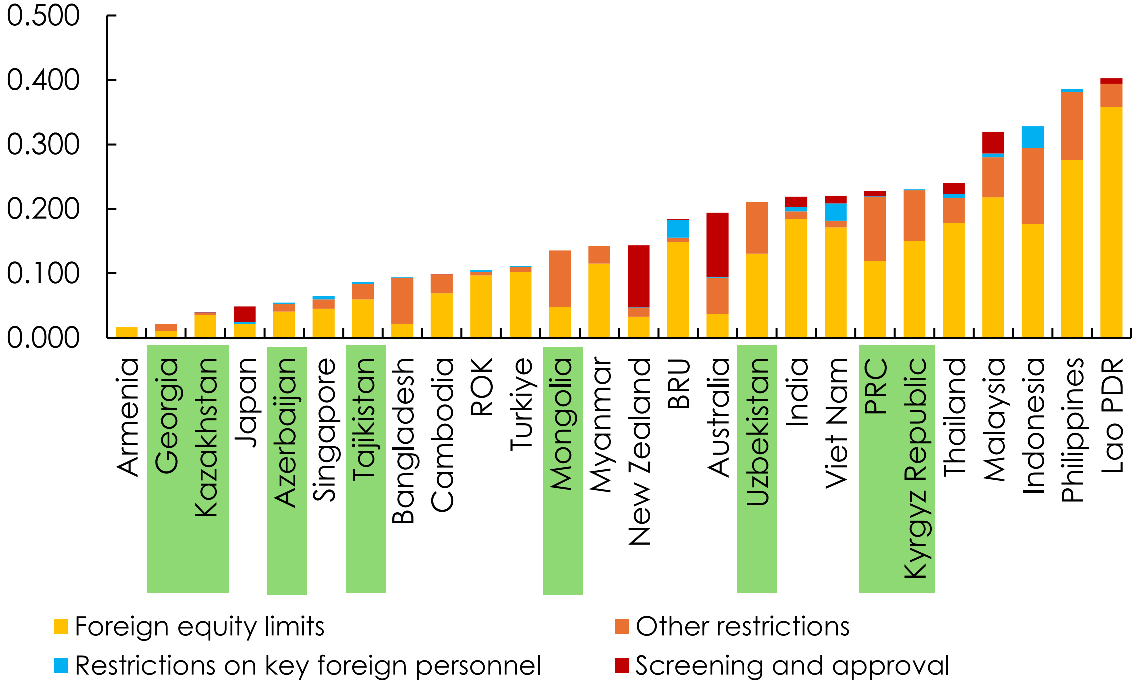
AI = artificial intelligence, CAREC = Central Asia Regional Economic Cooperation, FDI = foreign direct investment, M&A = merger and acquisition.
Notes: Digital FDI refers to total cross-border investments in the digital economy. It includes receipts from greenfield projects and mergers and acquisitions (M&As). Classification is adapted from UN Trade and Development's World Investment Report 2025 framework on the digital economy. For these estimates, the digital economy covers the narrow scope, which includes digital adoption and core scope. Core scope is comprised of foundational infrastructure, digital services and solutions, and industrial development. The composition of subregional groupings in Asia and the Pacific is outlined in https://aric.adb.org/integrationindicators/groupings.
Sources: ADB calculations using data from Financial Times. fDi Markets; and Moody's Analytics. Orbis M&A (formerly Zephyr M&A Database) (accessed June 2025).

ADB

Reducing regulatory restrictiveness and aiding investment facilitation policies can help drive more and better investments

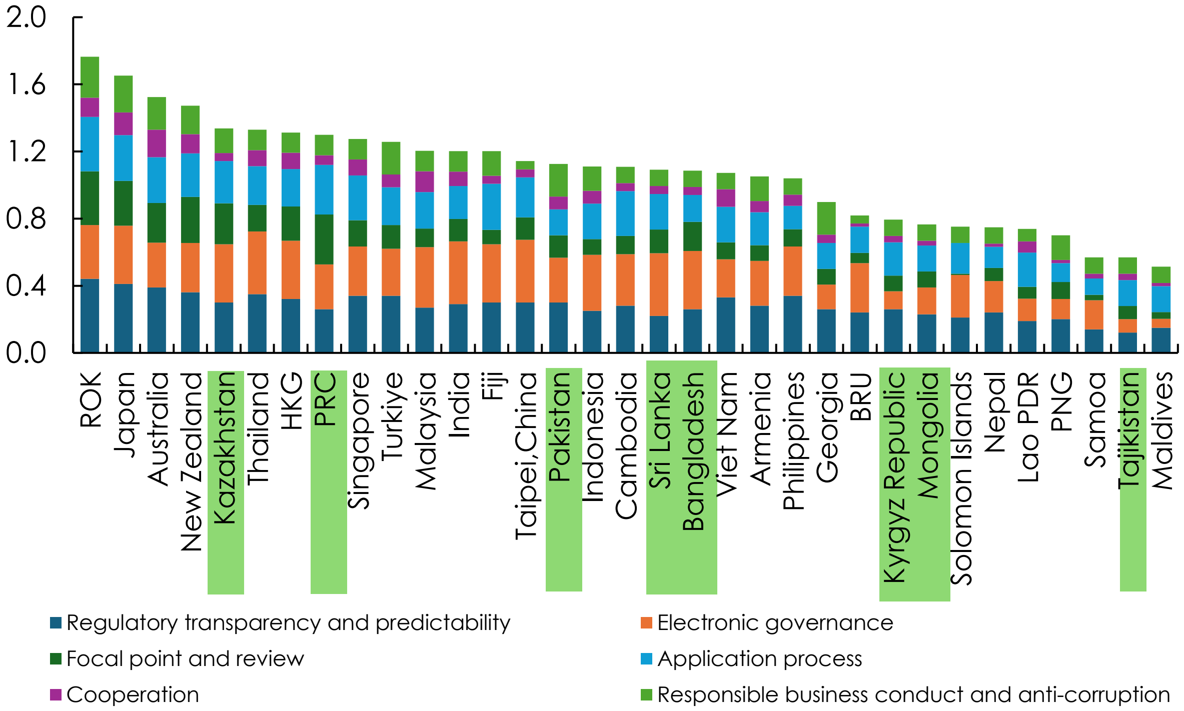
Regulatory restrictiveness remains higher in developing Asian economies

FDI Regulatory Restrictiveness Index, Period Average, 2018-2024



Asian economies feature high adoption of investment facilitation measures, with some regional variation

Investment Facilitation Index, 2023



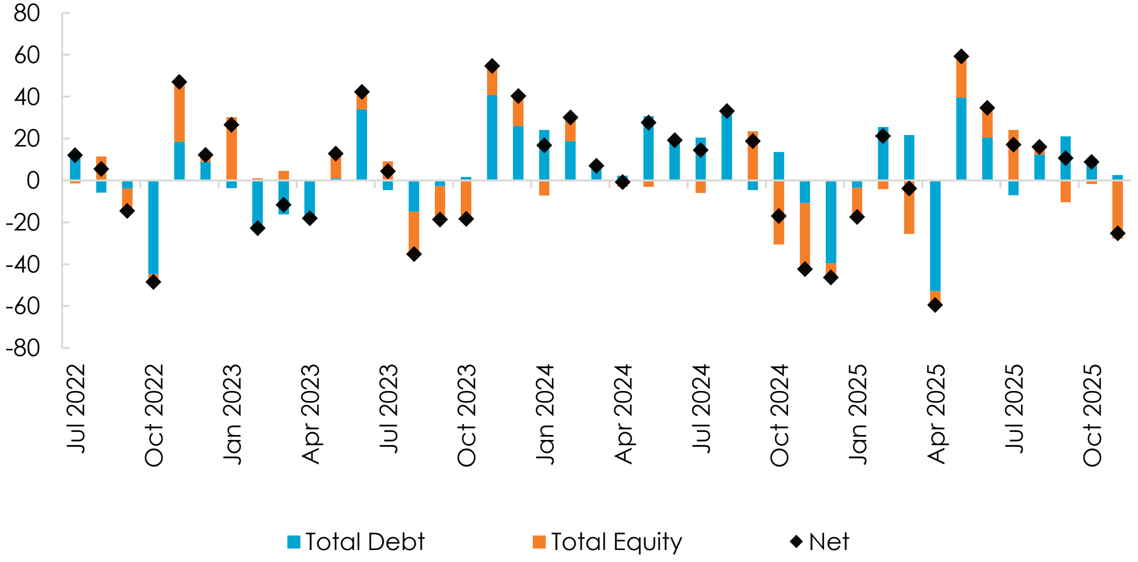
BRU = Brunei Darussalam; PRC = People's Republic of China; HKG = Hong Kong, China; ROK = Republic of Korea; Lao PDR = Lao People's Democratic Republic; PNG = Papua New Guinea.
Notes: The FDI Regulatory Restrictiveness Index measures statutory restrictions across 4 main areas, with values ranging from 0 to 1, 0 being more open and 1 being more closed. The Investment Facilitation Index measures how deeply economies have adopted investment facilitation policies across 6 dimensions. Values range from 0 to 2, with values close to 2 indicating a higher degree of adoption. CAREC economies are highlighted in green.
Sources: ADB calculations using data from IDOS and WTO. WTO Investment Related Databases. Investment Facilitation Index Database. https://www.wto.org/spanish/res_s/reser_s/invest_related_db_s.htm (accessed March 2026); and OECD. OECD Data Explorer. https://data-explorer.oecd.org/ (accessed October 2025).

Financial Integration

Regional capital markets remained resilient amid global policy uncertainty

Inflows were strong particularly in the first half of 2025 supported by United States–Asia policy rate differentials although this trend has weakened recently

Nonresident Capital Flows—Selected Asian Economies
($ billion)



Notes: Positive values denote net inflows, negative values denote net outflows. Except for Sri Lanka and Viet Nam, for which data are available only for equity, the selected Asian economies are Indonesia; the Republic of Korea; Malaysia; Mongolia; Pakistan; the Philippines; Taipei,China; Thailand; and Türkiye.

Capital market performance showed positive momentum in 2025 with average regional stock prices gaining 22.0% and bond prices 5.0%

Year-to-Date Change—Selected Asian Economies (%)

AUS = Australia; PRC = People's Republic of China; HKG = Hong Kong, China; IND = India; INO = Indonesia; JPN = Japan; KAZ = Kazakhstan; MAL = Malaysia; PHI = Philippines; ROK = Republic of Korea; SIN = Singapore; SRI = Sri Lanka; TAP = Taipei,China; THA = Thailand; TUR = Türkiye; UZB = Uzbekistan; VIE = Viet Nam.
Note: Estimates show change between 01 January and 31 December 2025.

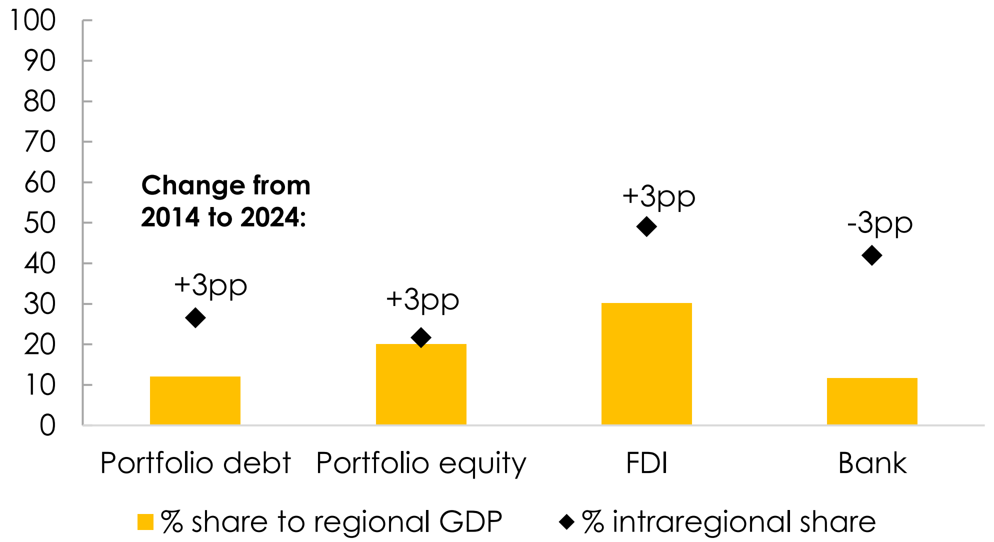
Source: ADB calculations using data from Bloomberg, CEIC Data Company, and the Institute of International Finance. Capital Flows Tracker. https://www.iif.com (all accessed January 2026).

Rising cross-border assets and liabilities have been coupled with progress in regional financial integration, reflected in increasing regional shares

Cross-border assets and liabilities within Asia grew faster than with outside Asia, with FDI showing the largest intraregional share

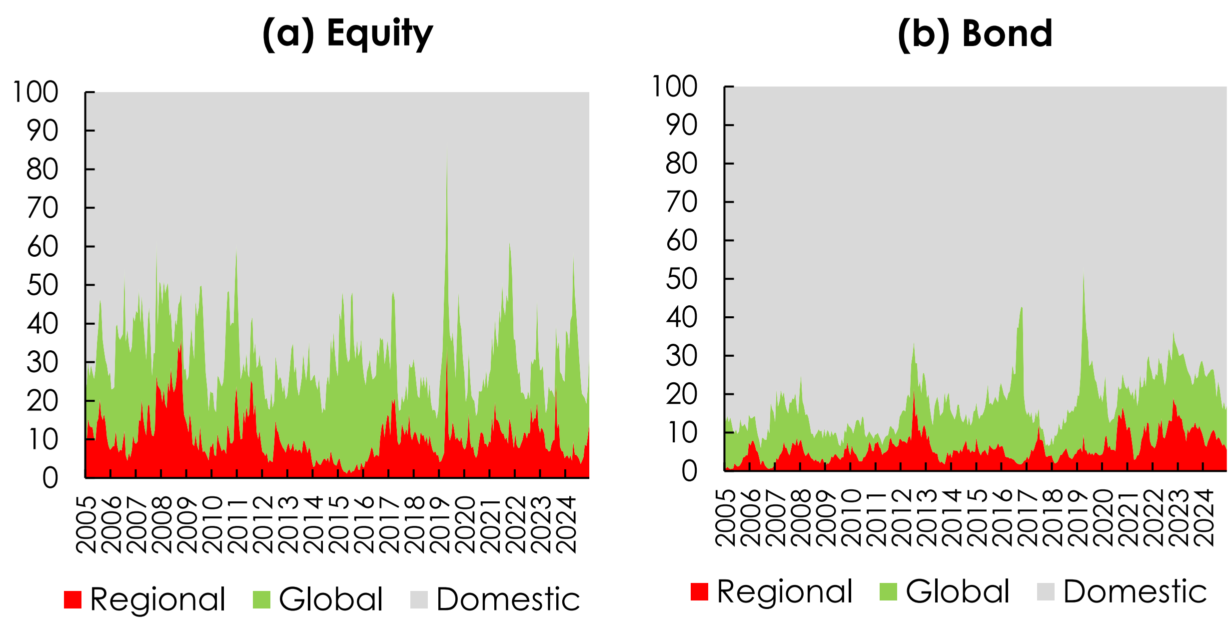
Relative importance of both global and regional factors in bond returns has declined recently

Average Cross-Border Assets and Liabilities, Asia and the Pacific, 2024 (%)



FDI = foreign direct investment, GDP = gross domestic product, pp = percentage points.
Note: The orange bars represent the share of different investment types to Asia's GDP. Data labels show the percentage point change in the intraregional share from 2014 to 2024.
Sources: ADB calculations using data from the Bank for International Settlements. Locational Banking Statistics. https://stats.bis.org/statx/toc/LBS.html (accessed January 2025); International Monetary Fund (IMF). Balance of Payments and International Investment Position Statistics. Accessed from CEIC Data Company (accessed February 2025); IMF. Coordinated Direct Investment Survey. https://data.imf.org/cdis; and IMF. Coordinated Portfolio Investment Survey. https://data.imf.org/cpis (both accessed January 2025).

Variance Decomposition of Equity and Bond Returns (%)



Notes: Asia includes Australia; Bangladesh (equities only); Cambodia (equities only); the People's Republic of China; Georgia (equities only); Hong Kong, China; India; Indonesia; Japan; Kazakhstan; the Republic of Korea; the Kyrgyz Republic (equities only); the Lao People's Democratic Republic (equities only); Malaysia; Mongolia (equities only); Nepal (equities only); New Zealand (equities only); Pakistan (equities only); the Philippines; Singapore; Sri Lanka (equities only); Taipei,China; Thailand; Uzbekistan (equities only); and Viet Nam.
Sources: ADB calculations using data from Bloomberg; CEIC Data Company (both accessed July 2025); and methodology by Lee and Park (2011) using 1-year rolling window estimations.

Amid economic and geopolitical uncertainties, the region should strengthen financial safety nets

Multilayered regional responses are crucial to safeguard financial stability

Governance architecture can be reinforced to ensure credible and effective regional safety nets

Remain vigilant to geopolitical risks through well-coordinated actions
- Detect potential signals of looming risks
- Implement appropriate policy measures to resolve source of strains

Broaden local currency bond markets
- Reduce reliance on volatile external finance
- Lower currency-mismatch risk
- Ensure flexibility to act when global liquidity tightens

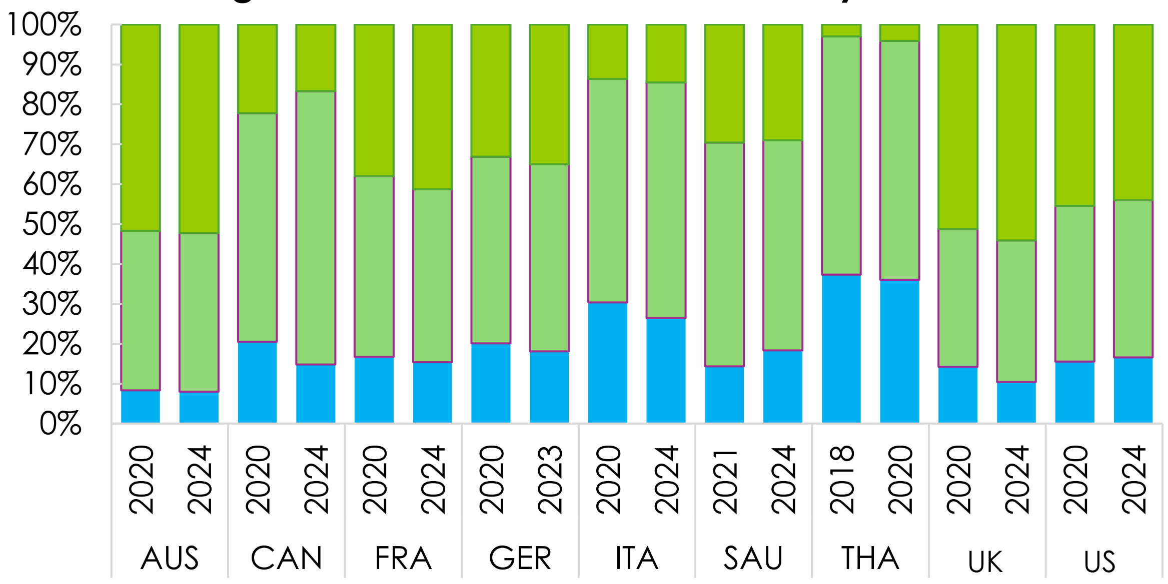
Diversify swap arrangements
- Expand multicurrency and local-currency swap arrangements
- Increase efforts in making swap arrangements more inclusive

Strengthen regional financing arrangement
- Example: Chiang Mai Initiative Multilateralisation for ASEAN+3: improve ability to deliver timely support during regional shocks

Movement of People (migration, remittances, and tourism)

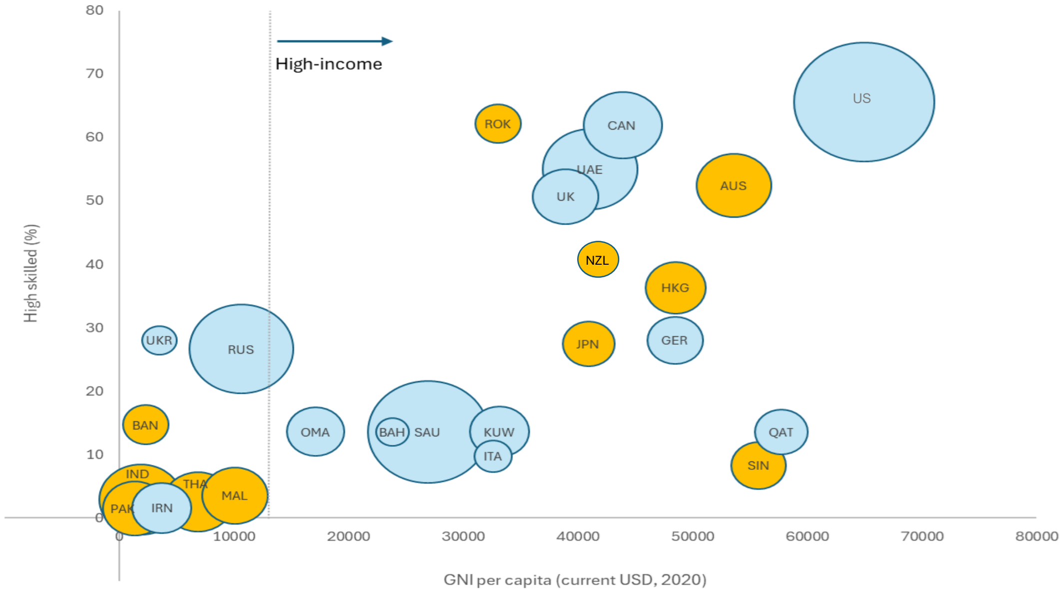
High-skilled Asian migrants are concentrated in a small number of high-income economies, vulnerable to the risk of policy changes in major destinations

Demand for medium and high-skilled workers remains robust in major destinations of Asian migrants



AUS = Australia, CAN = Canada, FRA = France, GER = Germany, ITA = Italy, SAU = Saudi Arabia, THA = Thailand, UK = United Kingdom, US = United States.
Notes: Using the International Standard Classification of Occupations (ISCO), high skill level refers to managers, professionals, and technicians and associate professionals; medium skill level refers to clerical support workers, sales, and service workers, skilled agricultural, forestry, and fishery workers, crafts and related trades workers, and plant and machine operators and assemblers; and low skill level refers to elementary occupations.
Source: ADB calculations using data from ILOStat. https://ilostat.ilo.org/.

Around 70% of Asia's migrant workers with tertiary education are concentrated in just 6 destination economies



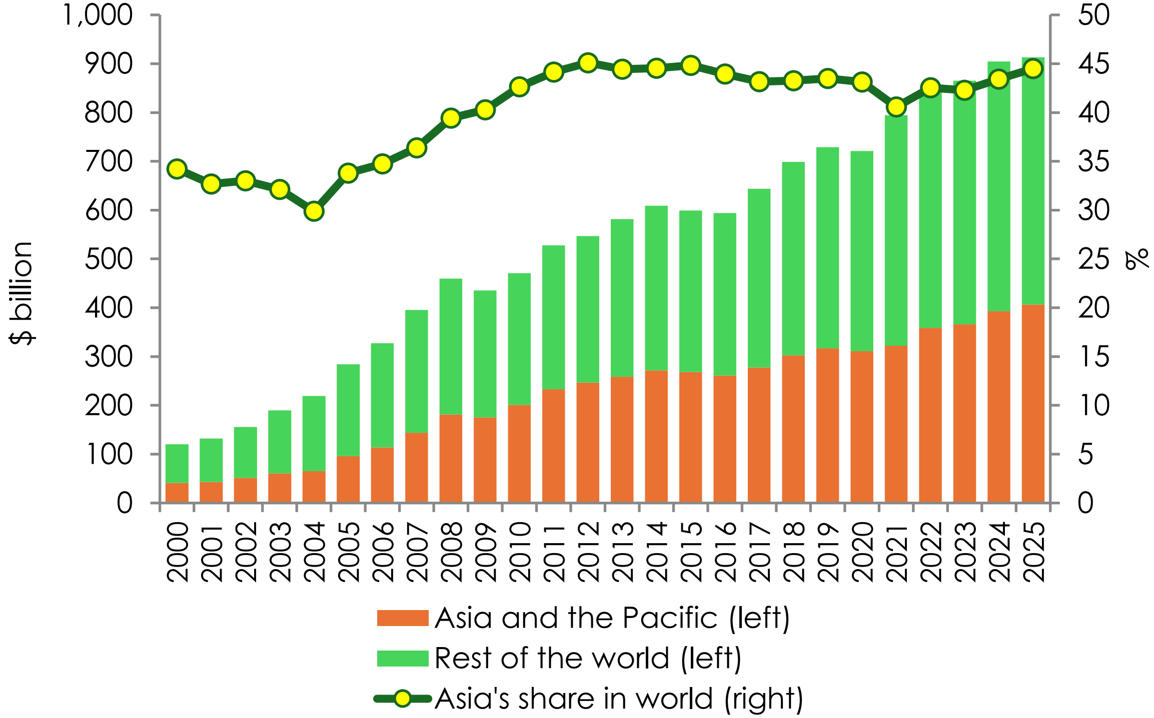
AUS = Australia; BAN = Bangladesh; BAH = The Bahamas; CAN = Canada; GER = Germany; GNI = gross national income; HKG = Hong Kong, China; IND = India; ITA = Italy; IRN = Iran; JPN = Japan; KUW = Kuwait; MAL = Malaysia; NZL = New Zealand; OMA = Oman; PAK = Pakistan; ROK = Republic of Korea; SIN = Singapore; QAT = Qatar; RUS = Russian Federation; THA = Thailand; UAE = United Arab Emirates; UK = United Kingdom; UKR = Ukraine; US = United States; USD = US dollar.
Notes: The share of high-skilled migrants is calculated based on the proportion of migrants with tertiary education. Circle size reflects the total number of Asian migrants received by each economy. Yellow circles represent economies in Asia and the Pacific. In 2020, the World Bank classified economies by income using GNI per capita (Atlas method), with the threshold for high income at $12,536 or above.
Source: Authors using the World Bank. World Development Report 2023 Migration Database.

ADB

Despite migration policy uncertainties, remittances to Asia in 2025 remained resilient, supported by increasing use of digital channels

In 2025, remittance inflows to the region are expected to be robust, accounting for 45% of total remittances to the world

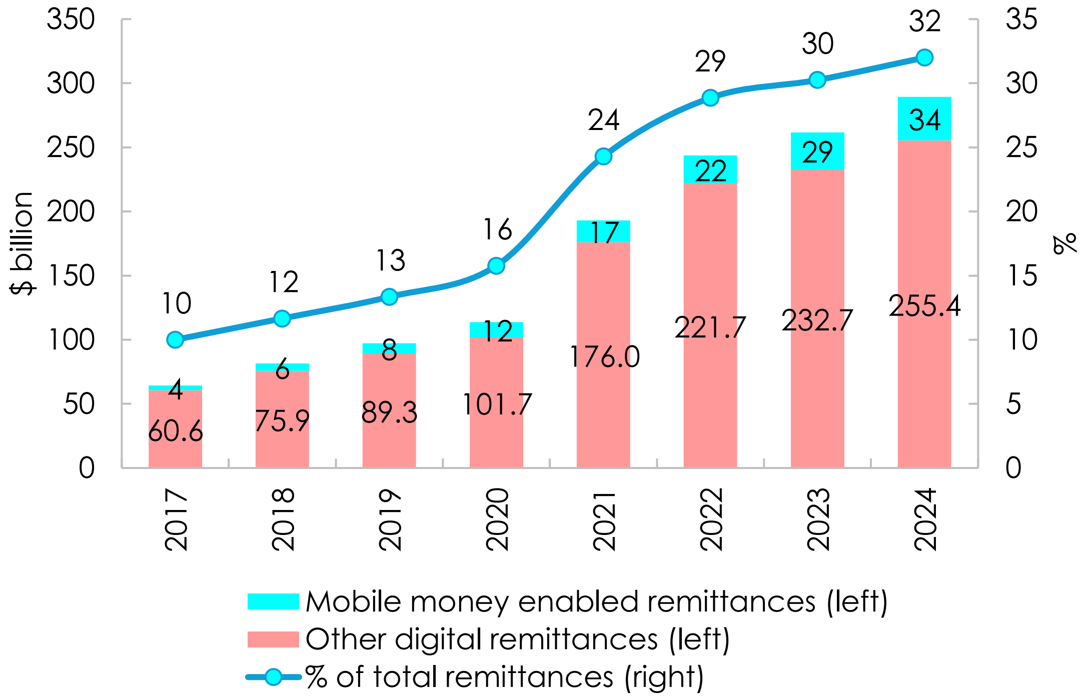
Remittance Inflows to Asia and the World



Note: 2024 and 2025 data are estimates.
Source: ADB calculations using data from Ratha, Plaza, and Kim (2024).

Global digital remittances have accelerated rapidly since 2020, driven by rising internet penetration and mobile money use

Digital Remittances in Global Total Remittances



Note: Mobile money-enabled remittances and other digital remittances refer to the electronic transfer of money from one person or entity to another where the transfers are made via online platforms, mobile apps, or other digital channels.
Source: GSMA State of the Industry Report on Mobile Money and Statista.

Skills recognition supports seamless flows of skilled labor, and digital financial literacy is an important enabler for digital remittances

Skills recognition is a foundation of effective labor mobility

Existing mobility mechanism is focused on labor deployment to meet demand instead of supporting portability of skills

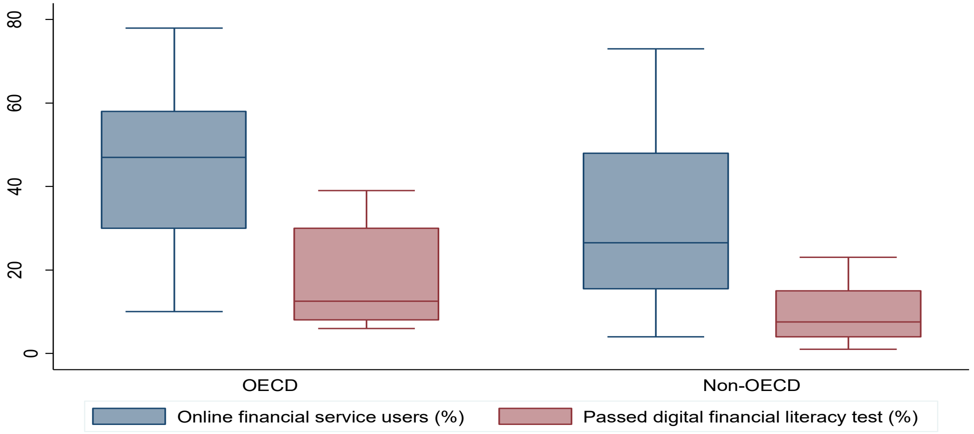
Regional frameworks for skills recognition provide transparency and common reference points for people mobility across economies

For example, ASEAN's 2024 Vientiane Declaration seeks to connect skills recognition tools with migration governance

Digital financial literacy lags behind the use of digital financial services

Remittance-dependent economies can leverage national financial inclusion strategies to broaden digital financial literacy

Online Financial Service Use and Digital Financial Literacy (% of respondents, 2022)



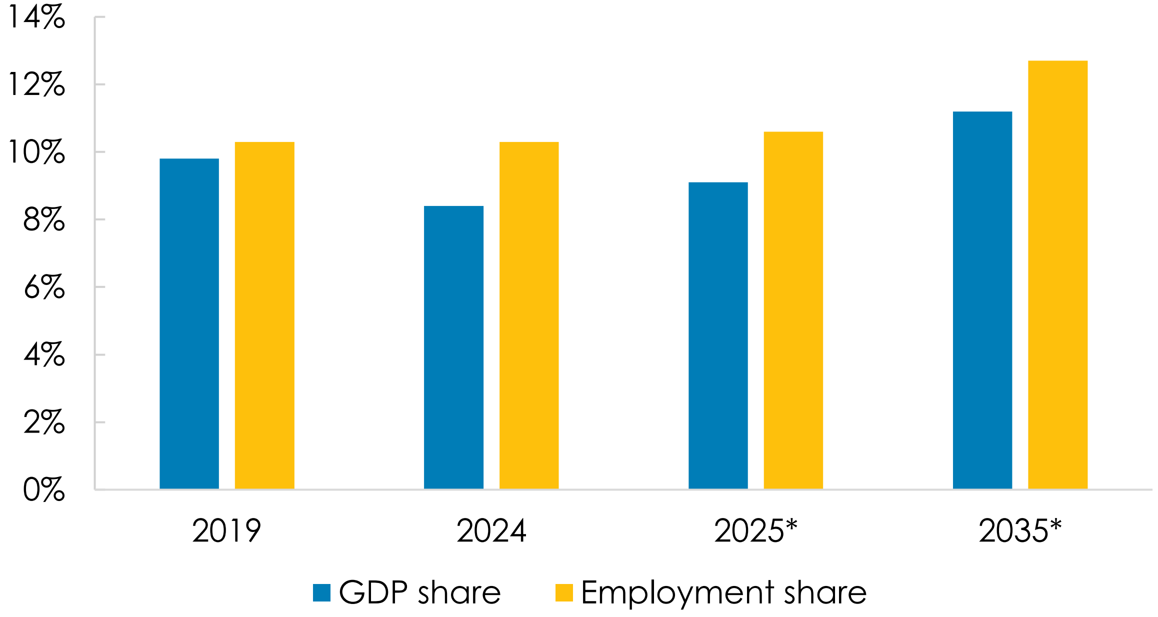
OECD = Organisation for Economic Co-operation and Development.
Notes: The OECD/INFE 2023 Survey covers 18 OECD and 12 non-OECD economies. Online financial service users refer to "Adults who manage financial products and services online." The digital financial literacy score in the survey is designed to capture an individual's level of digital financial literacy, as a combination of knowledge, skills, attitude, and behavior necessary to safely use digital financial services and technologies.
Source: OECD/INFE 2023 Survey; World Bank (accessed July 2025).

ADB

Tourism remains a bright spot for Asia's economic growth

Tourism is projected to be a more significant contributor to Asia's economy

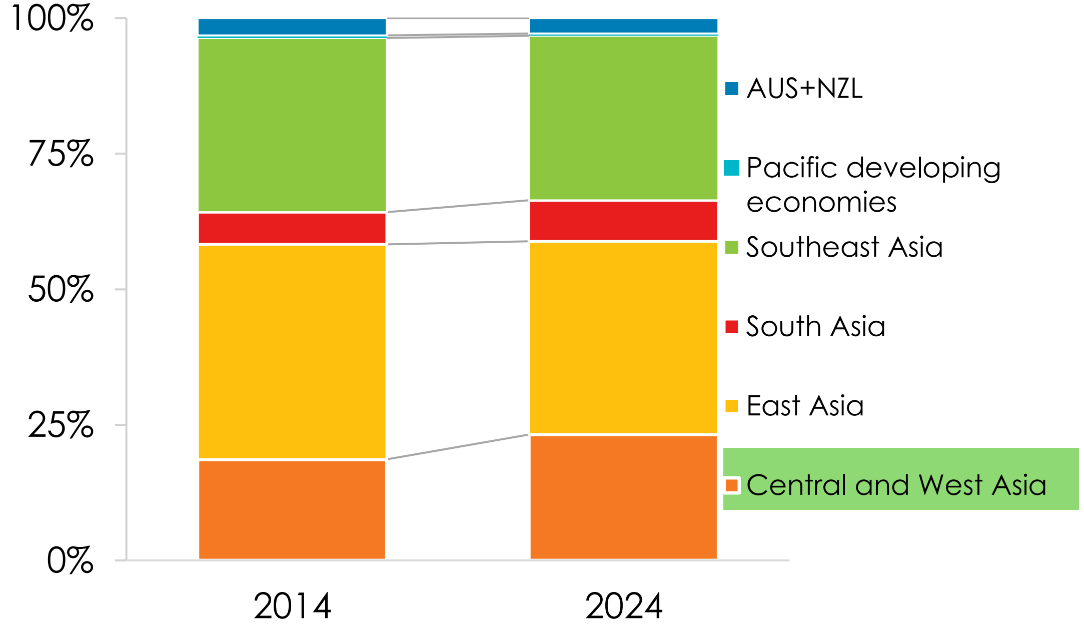
Economic Impact of Tourism in Asia and Pacific Region



* = projection, GDP = gross domestic product.
Note: The World Travel and Tourism Council only has data for Armenia; Australia; Azerbaijan; Bangladesh; Brunei Darussalam; Cambodia; People's Republic of China; Fiji; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Kiribati; Republic of Korea; Kyrgyz Republic; Lao People's Democratic Republic; Malaysia; Maldives; Mongolia; Myanmar; Nepal; New Zealand; Pakistan; Papua New Guinea; Philippines; Singapore; Solomon Islands; Sri Lanka; Taipei,China; Tajikistan; Thailand; Tonga; Türkiye; Uzbekistan; Vanuatu; and Viet Nam.
Source: ADB calculations using data from World Travel and Tourism Council Research Hub. Interactive Economic Impact Dashboard. https://researchhub.wttc.org/dv-dashboard (accessed September 2025).

The share of arrivals to Central and West Asia, and South Asia has increased gradually

Subregional Breakdown of International Arrivals in Asia and the Pacific



AUS+NZL = Australia and New Zealand.
Source: ADB calculations using data from CEIC Data Company (accessed September 2025); Euromonitor Passport (accessed September 2025); UN Tourism. Compendium of Tourism Statistics data set. https://www.unwto.org/tourism-statistics/tourism-statistics-database (accessed September 2024); and UN Tourism. World Tourism Barometer, September 2025. https://doi.org/10.18111/wtobarometereng (accessed October 2025).

Strategic actions are needed to unlock Asia's tourism potential

Rising income

Demographic shifts

Digital readiness

Push factors

Attractions and infrastructure

Safety

Connectivity

Visa facilitation

Pull factors

Empirical evidence shows:

- A **1% income increase** can generate **4%–10%** more outbound travel
- Restrictive visa requirements can **reduce arrivals by up to 52%**

Prioritize value creation, quality employment, and source market diversification

Enhance tourism data system

Ease logistics constraints to unlock demand

Strengthen regional cooperation to remove barriers and scale solutions

Leverage multilateral development banks and private sector for targeted support and investment

ADB

ADB supports regional integration and sustainable development in CAREC

- Cooperation focuses on connectivity, trade, and regional public goods through the following:
    - Support for the CAREC Integrated Trade Agenda (CITA) 2030 and its rolling Strategic Action Plans
    - Support for the CAREC Transport Strategy 2030, including corridor development and transport facilitation

- Analytical and strategic work to strengthen regional cooperation:
    - Conduct of transport, logistics, and trade facilitation studies to support CAREC corridor performance and regional connectivity
    - Development and implementation support for the CAREC Trade Facilitation Strategy and Roadmap

- Institutional capacity building and policy dialogue:
    - Support for capacity building of CAREC institutions and national focal points
    - Facilitation of policy dialogue and coordination with development partners and regional organizations to advance CAREC priorities

ADB

ADB

Thank you!