

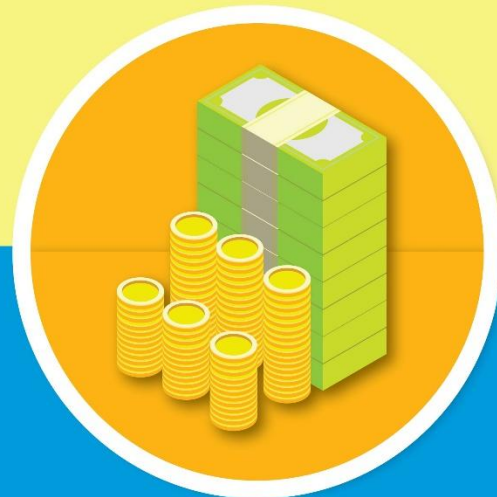
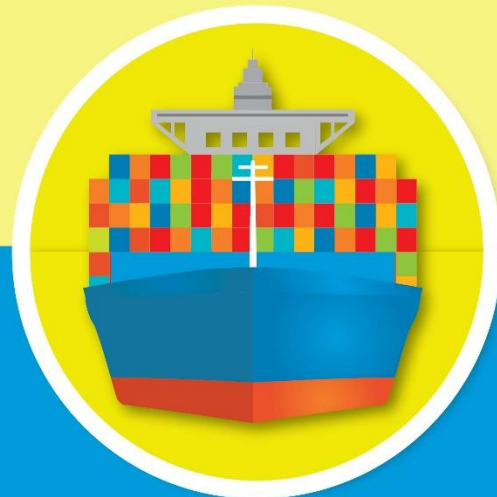
Services Trade in Asia and the Pacific: Trends, Challenges and Recent Developments

Rolando Avendano

Economist

Economic Research and Development Impact Department
Asian Development Bank

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OUTLINE

I. SERVICES TRADE

- Trends in services trade in Asia and the Pacific
- Trends in services trade and digital services in Central Asia
- Barriers to services trade
- Opportunities for opening up services trade
- International experiences: the Philippines and Malaysia

II. TRADE-INVESTMENT NEXUS

- Trends in FDI flows in Asia and the Pacific
- Investment in the digital economy

III. POLICY RECOMMENDATIONS

- Roadmap for sustainable investment in the CAREC region

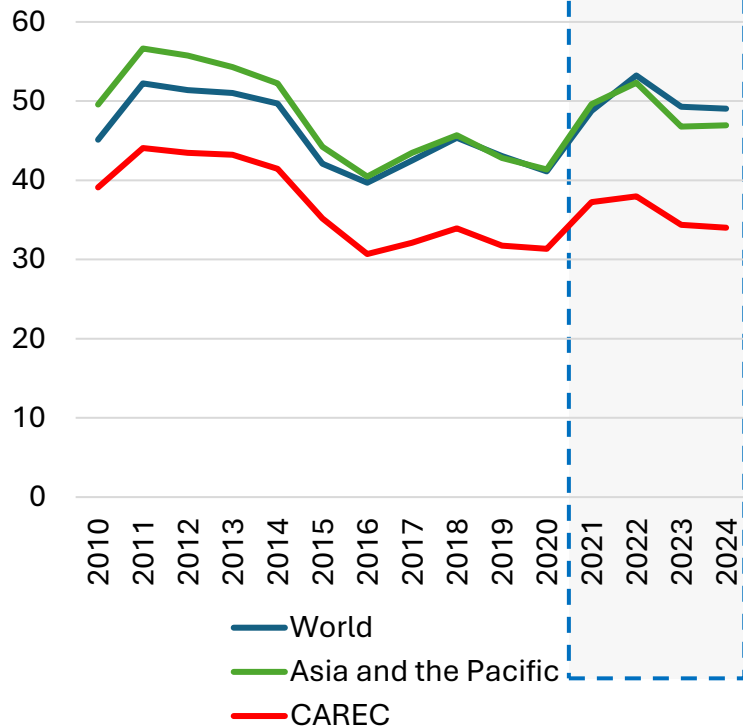
IV. KEY TAKEAWAYS

I. TRADE IN SERVICES

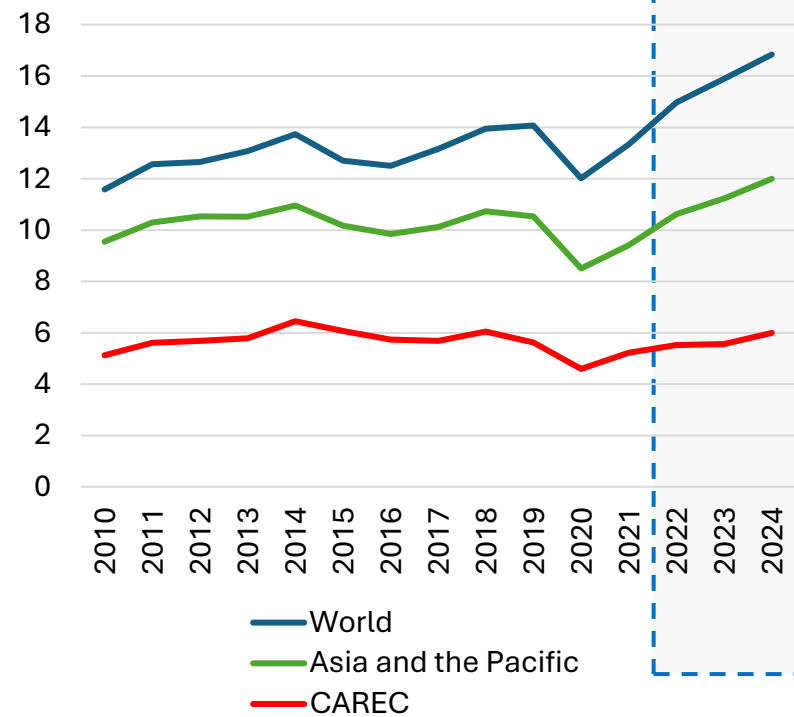
Asia's trade in services has grown significantly

Trade in goods, services and digital services as a share of GDP (%)

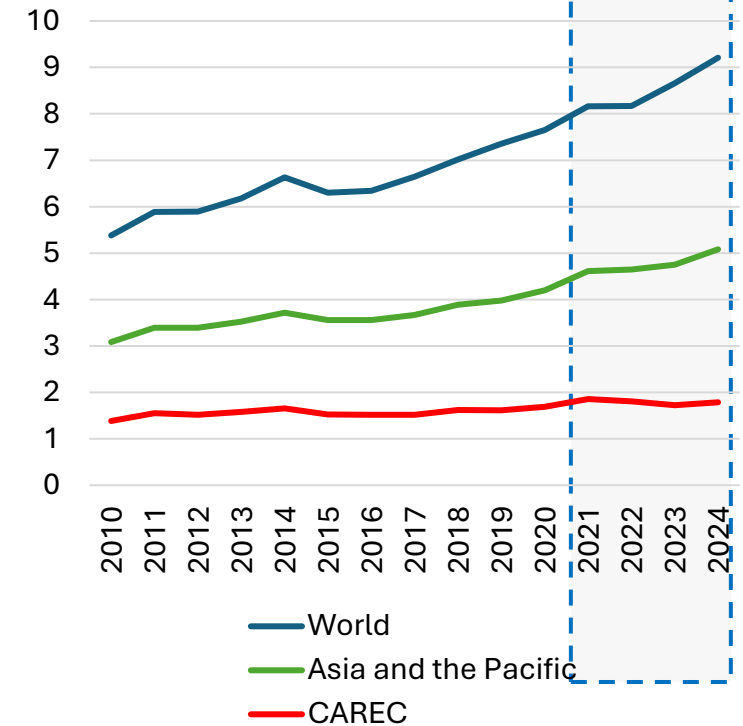
Trade in Goods



Trade in Services



Trade in Digital services

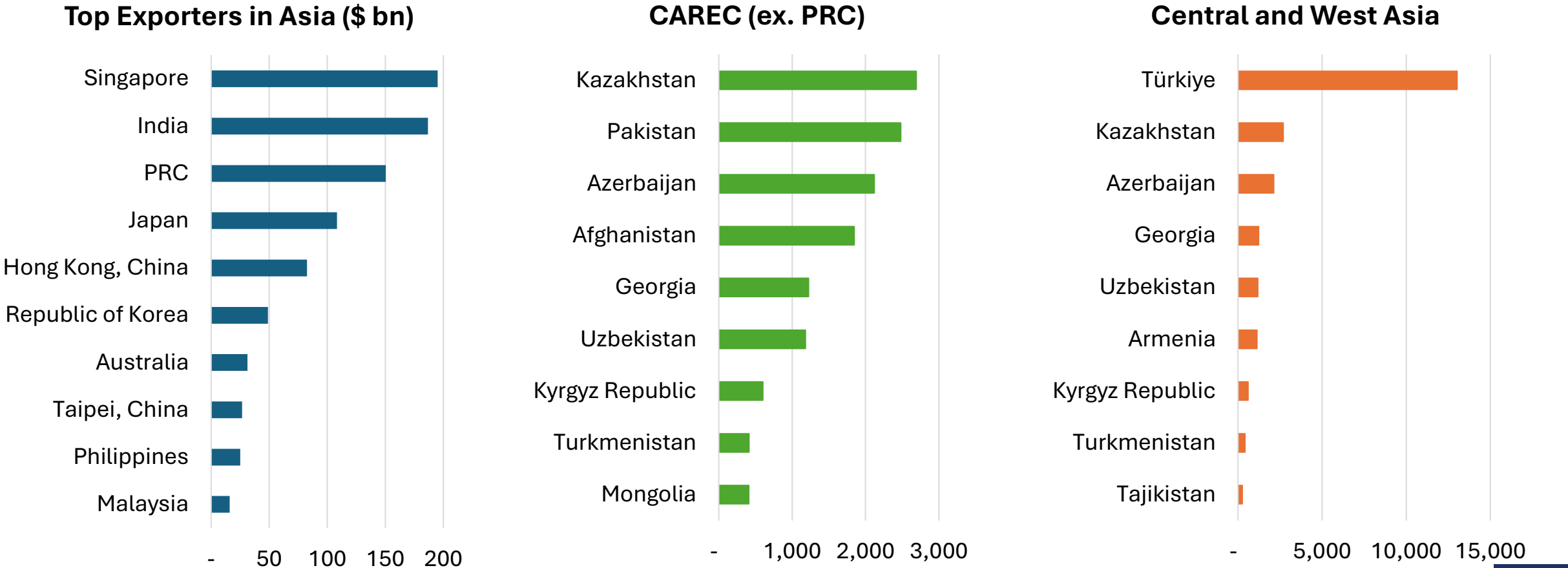


Note: a) Trade in services excludes mode 3 (commercial presence). B) Solid lines denote digitally deliverable services, dotted lines are non-digitally deliverable service items.

Source: ADB calculations using WTO-UNCTAD (accessed March 2026).

Yet, digital services exports in Asia remain highly concentrated

Top Asian Exporters in Asia, CAREC and Central Asia, 2024 (\$ million)



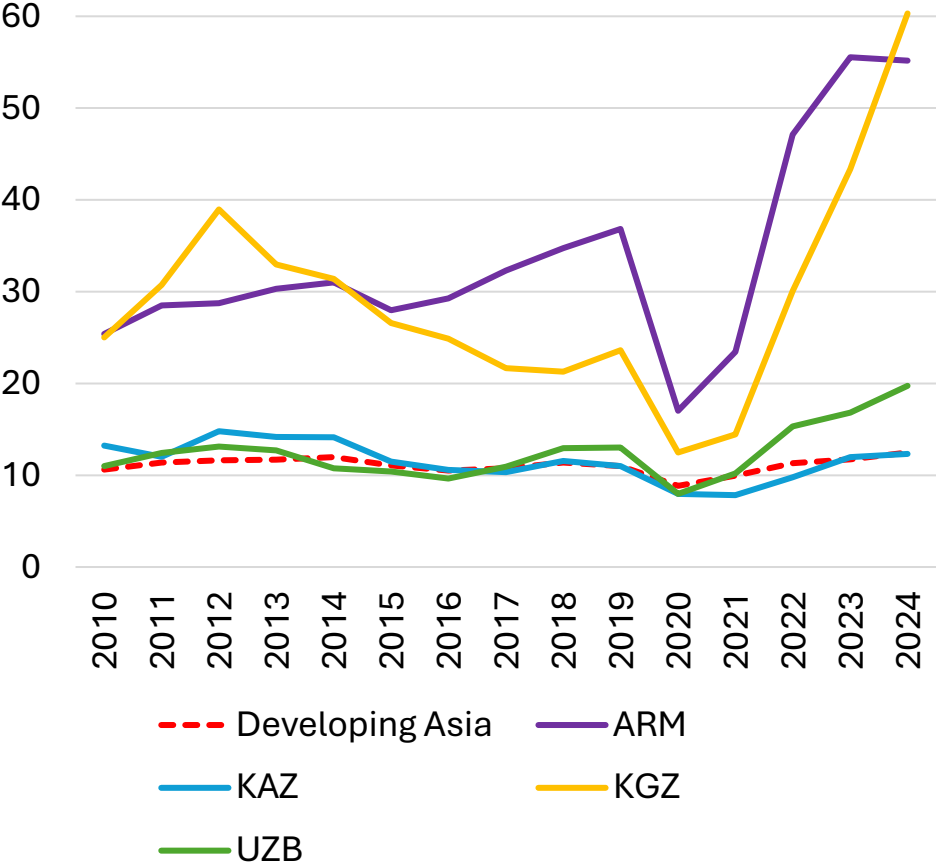
Source: ADB calculations using WTO-UNCTAD (accessed March 2026).



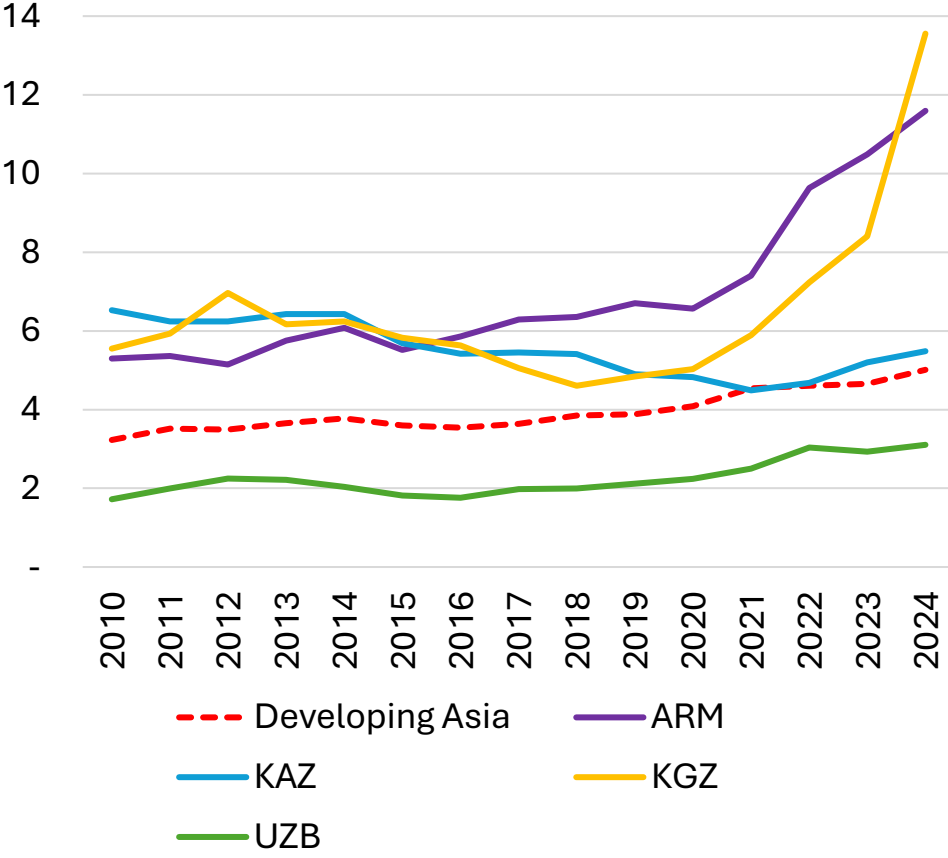
Services trade in Central Asia has expanded in recent years vis-à-vis Developing Asia

Services Trade as Share of GDP, Central Asia and Developing Asia

Trade in Services



Trade in Digital Services

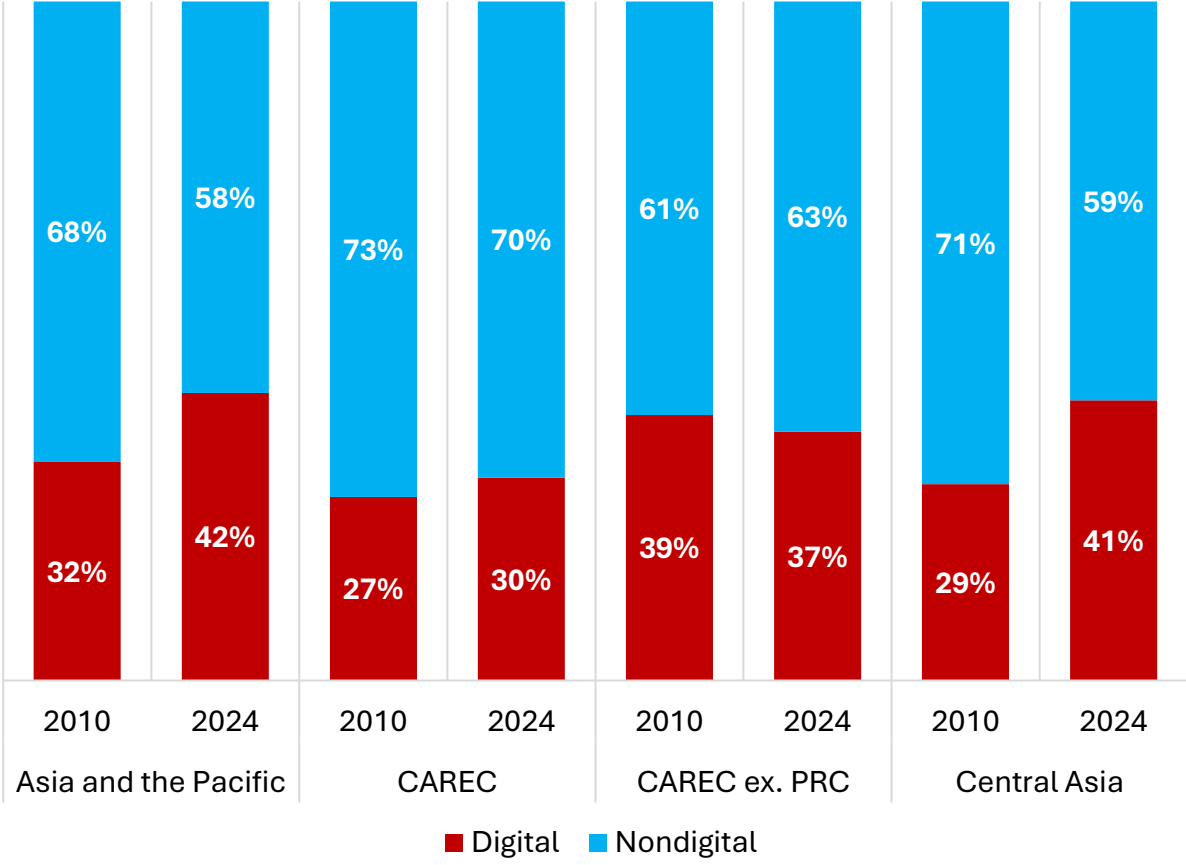


Source: ADB calculations using WTO-UNCTAD (accessed March 2026).

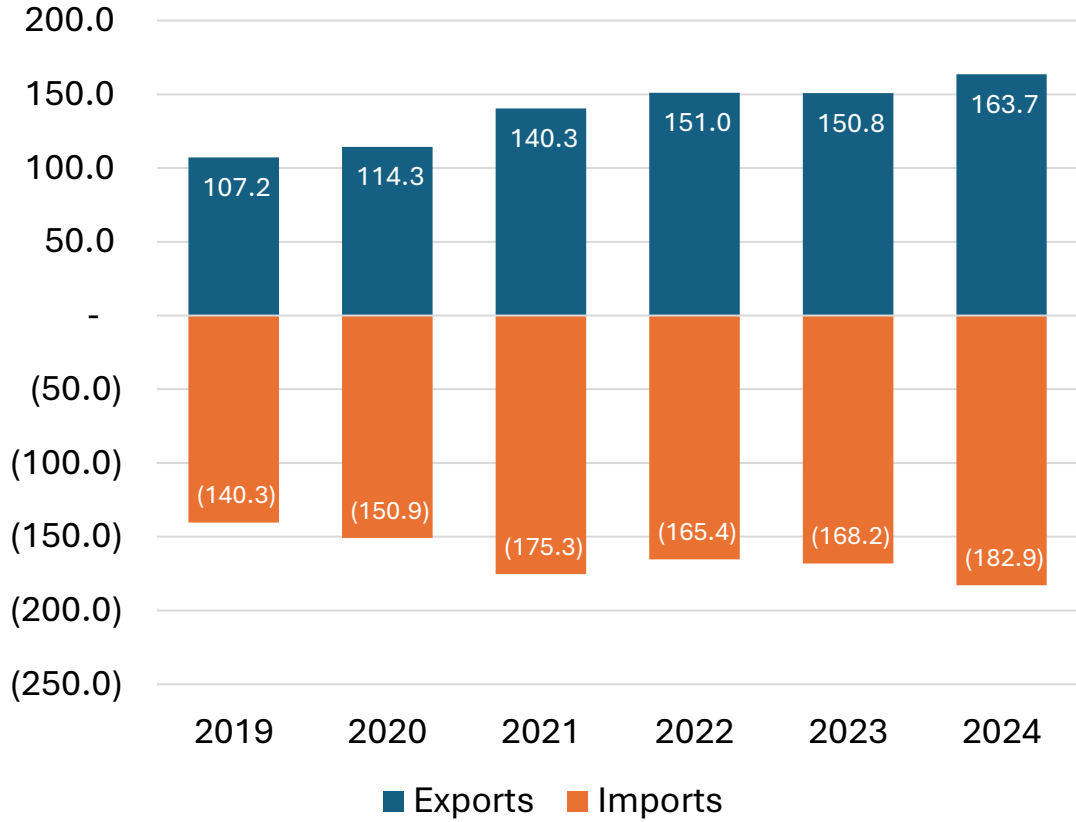


Digital services can be a pillar for CAREC's diversification and sustainable growth

Share of digital and non-digital services in CAREC

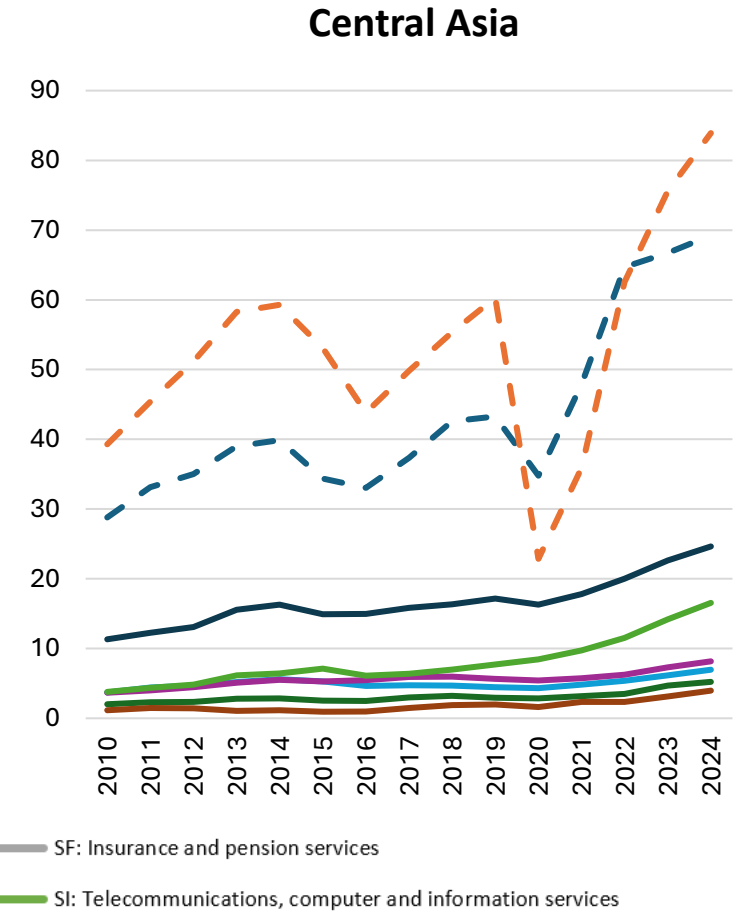
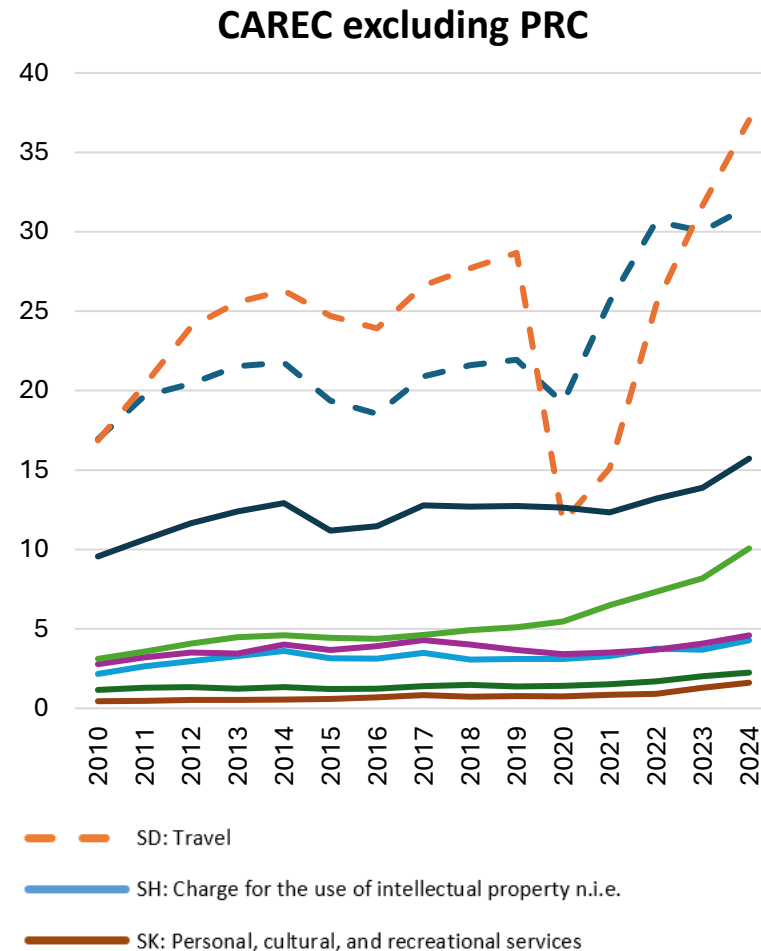
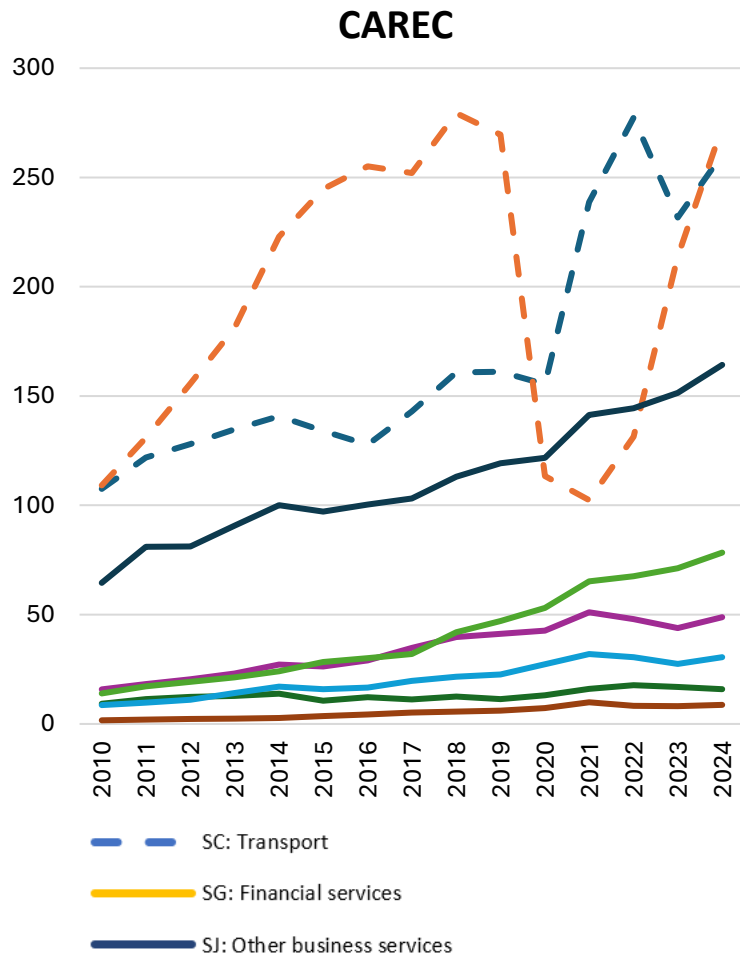


Digital services trade balance in CAREC (\$ billion)



Characterizing digitally deliverable services in CAREC region

Services Trade by Sector (\$ billion)



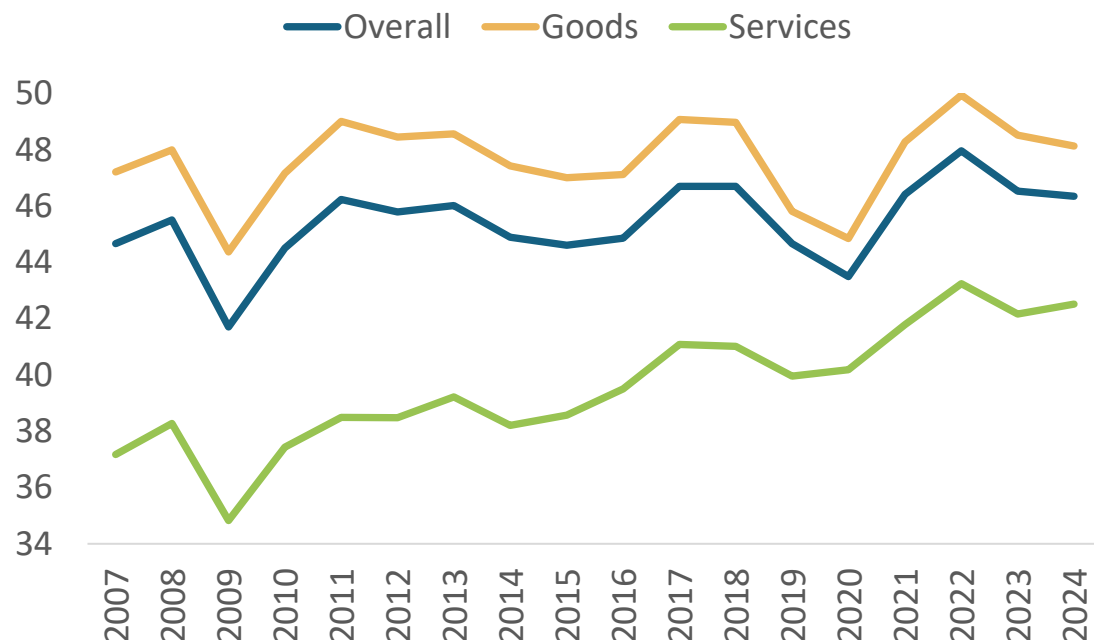
Note: Solid lines denote digitally deliverable services, dotted lines are non-digitally deliverable service items.
 Source: ADB calculations using WTO-UNCTAD (accessed March 2026).

GVC are reconfiguring, narrowing traditional pathways while creating new opportunities

Services are increasingly traded and embedded in manufacturing GVCs, opening new avenues for upgrading

Caucasus and Central and West Asia have expanded medium-tech manufacturing, and low-tech services in GVC trade

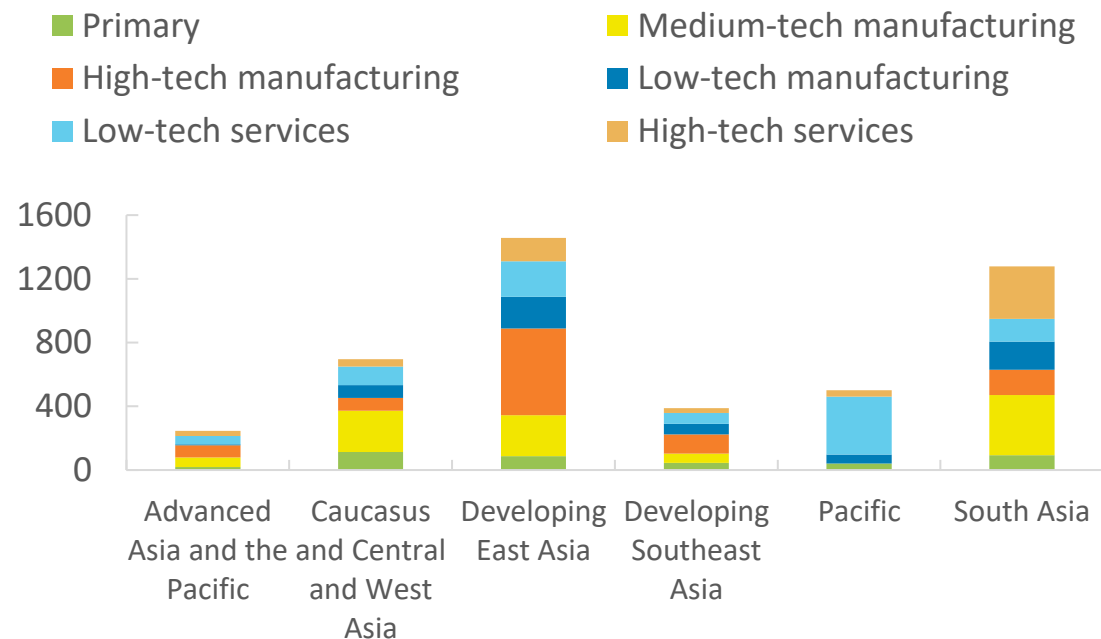
GVC Participation Rates of Goods and Services (%)



GVC = global value chain.

Source: ADB calculations using data from ADB. Multiregion Input-Output Tables.

(b) Growth in GVC Trade, by Sector and by Asian Subregion (percentage change, 2000 vs. 2023)



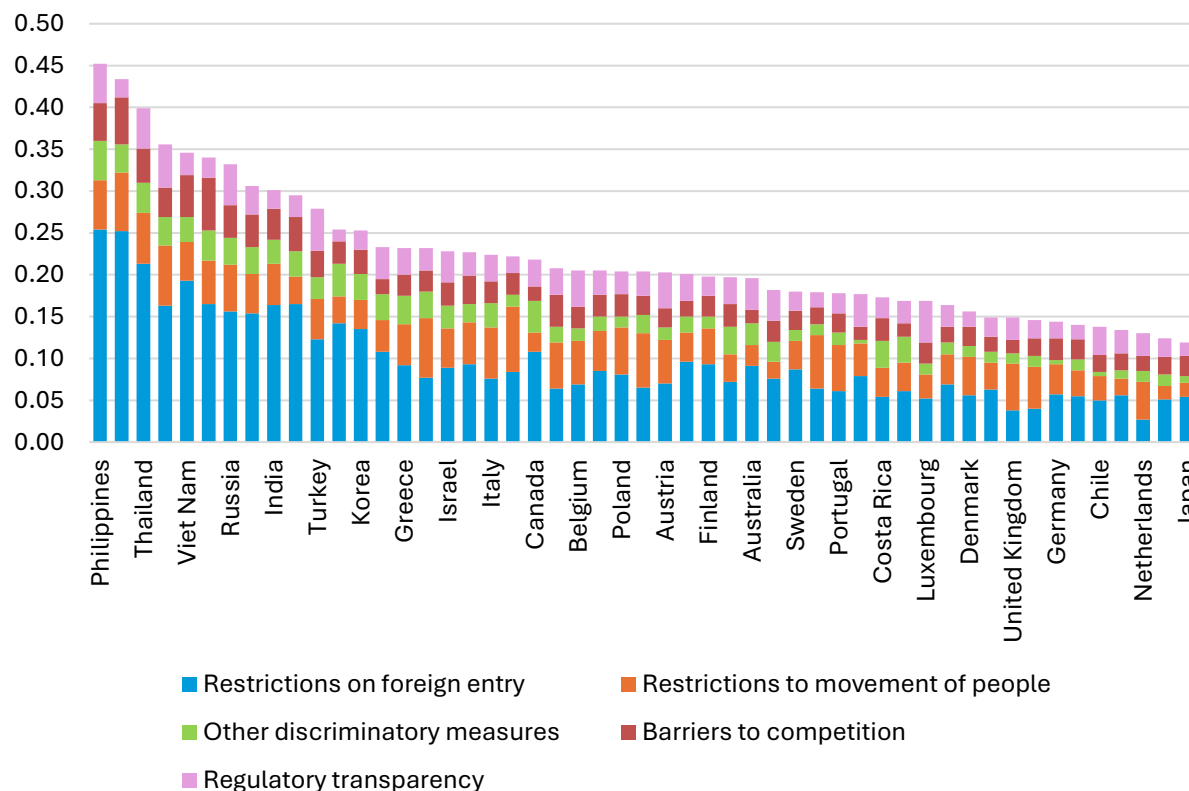
Services trade faces barriers due to a fragmented regulatory environment

Restrictions to foreign entry remain the dominant restrictive policy for services globally

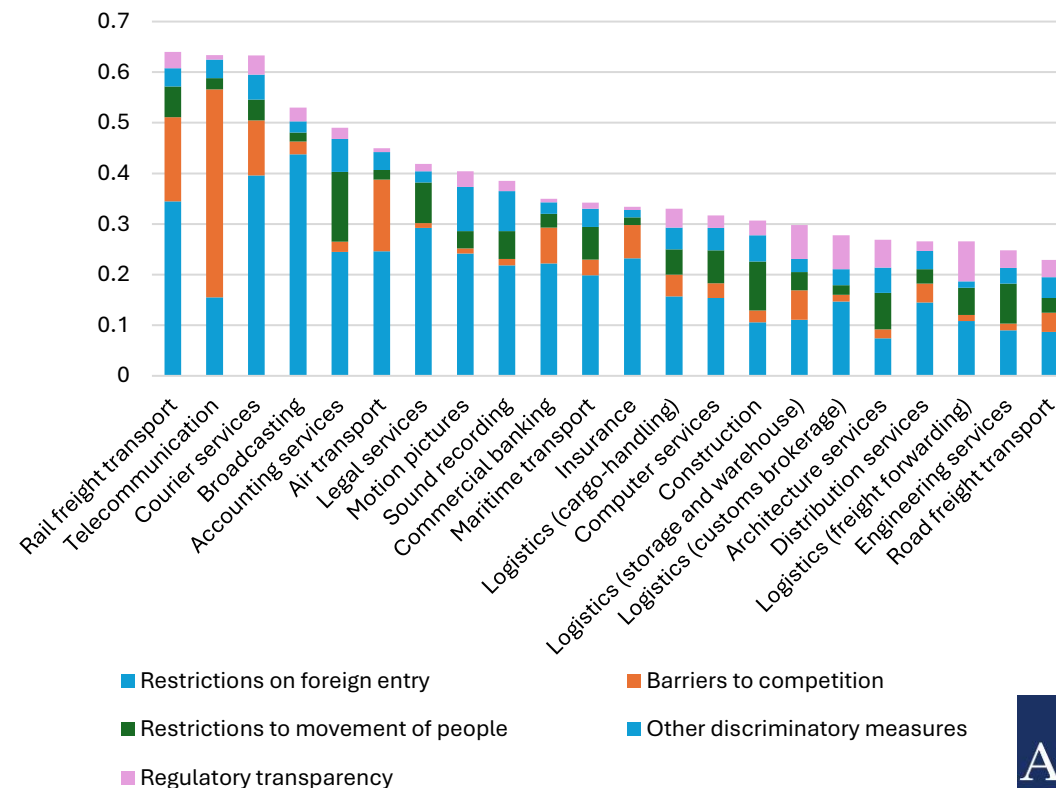
Rail freight transportation, telecommunications, and courier services are among the most restrictive sectors in PRC and Kazakhstan

OECD Services Trade Restrictiveness Index (STRI) –2025

By country



By sector (PRC and Kazakhstan)

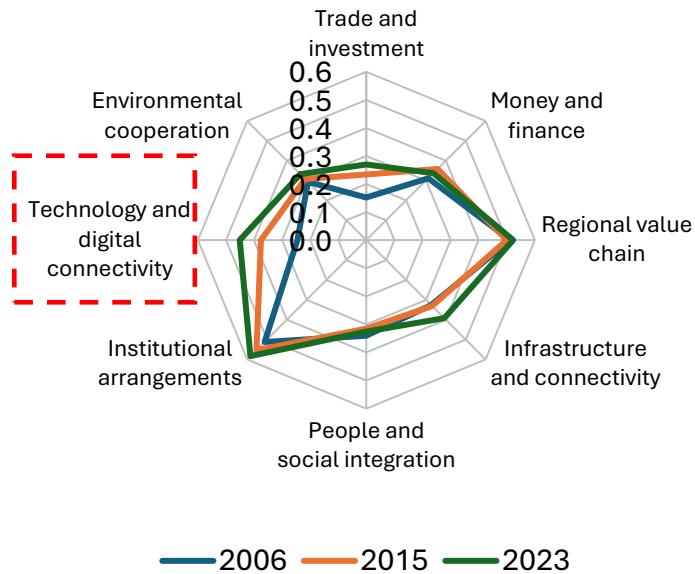


Source: OECD Services Trade Restrictiveness Index (STRI) (2025)

Restrictive regulatory environments discourage digital services trade

Digital connectivity is one of the fastest growing dimensions for regional integration in CAREC

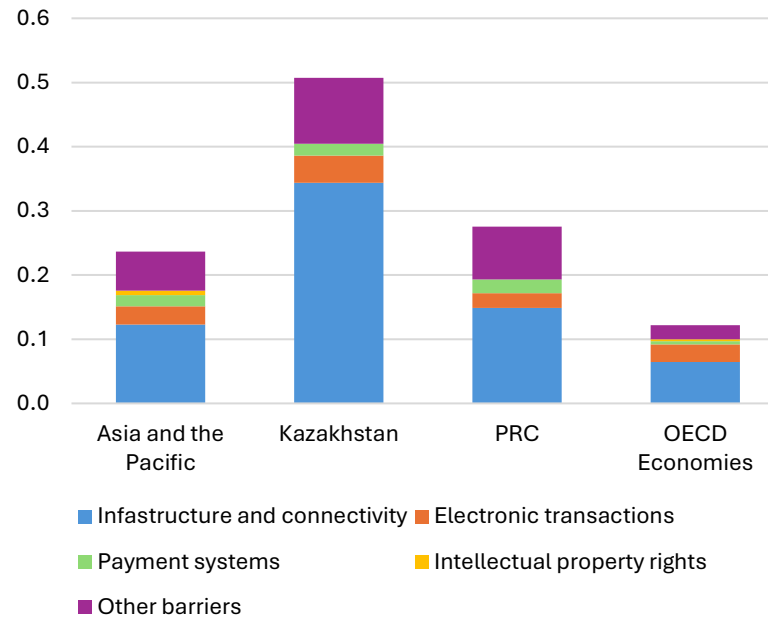
Regional integration estimates for CAREC, by ARCII dimensions



ARCII = Asia-Pacific Regional Cooperation and Integration Index.
 Note: Higher score indicates deeper integration with Asia.
 Source: Asia-Pacific Regional Cooperation and Integration Index (ARCII) (accessed March 2026).

Barriers in cross-border data flows may hinder digital trade integration in Asia

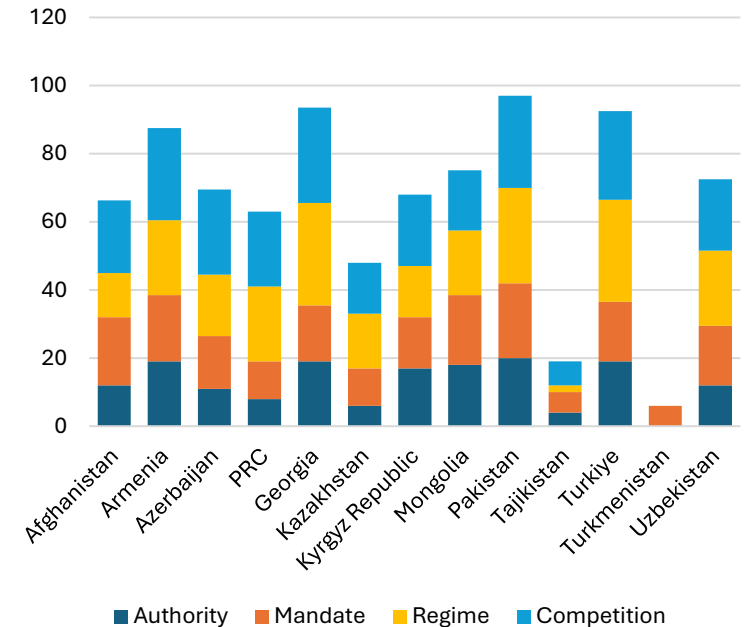
Digital Trade Restrictiveness Index



Note: Higher score indicates more restrictive regulatory environment.
 Source: OECD Digital Services Trade Restrictiveness Index (accessed April 2026).

Modernizing regulatory regimes in ICT sectors can amplify benefits

ITU Regulatory Tracker Score – Asia



Note: Higher score indicates more modern ICT regulatory regime.
 Source: International Telecommunications Union.

The Philippines: Expanding services trade and empowering the IT-BPM industry

The Philippines services sector, particularly the Information Technology and Business Process Management (IT-BPM) industry, contributed to export earnings, employment and development.

Merchandise and services trade in the Philippines, 2005-2024 (\$ million)



Source: BSP Balance of Payment data

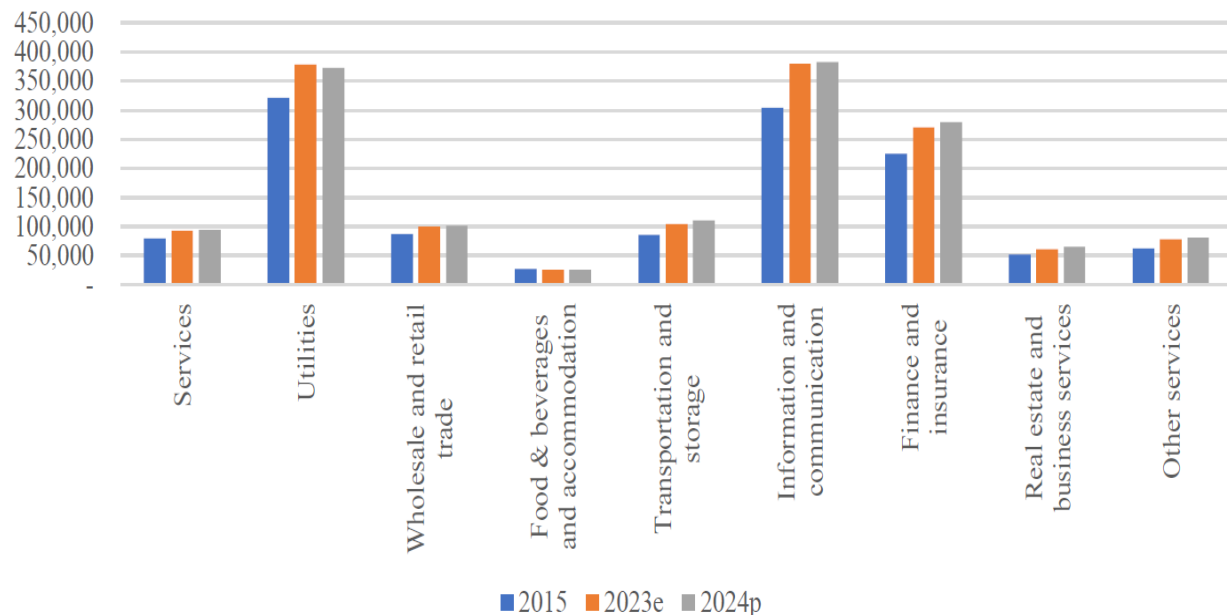
Initiatives to support IT-BPM industry and expand services trade in the Philippines:

- **Talent development programs** for workers in the IT-BPM industry through formal and informal training
 - Advanced courses in AI and data analytics
- **Export promotion services** to help domestic enterprises including SMEs
 - Trade missions, networking events, buyer-to-business matching, and participation in global affairs
- Regulations to **streamline business processes** (Ease of Doing Business Act)
- **Fiscal incentives** to multinational corporations to encourage more strategic FDIs.

Malaysia: Leveraging export promotion strategies to support high-value segments of the services industry

Malaysia's economy experienced a marked structural transformation, shifting from an agriculture- and manufacturing-led model toward one dominated by services

Annual labour productivity, value added per worker by economic activity



Source: DOSM, Labour Productivity, First Quarter 2025

Multi-pronged approach to opening up services trade in Malaysia

- **Financial support instruments:** subsidises participation of Malaysian firms in trade fairs, market research and promotion
 - Market Development Grant and Services Export Fund
- **Buyer-seller connectivity:** connects Malaysian exports to foreign buyers through trade missions and international fairs
 - International Sourcing Programme
- **Branding and promotion:** strengthen reputation of Malaysian services providers in international expos
- **Digitalisation and SME export readiness:** increasing the access of SMEs to cross-border e-commerce platforms such as Alibaba

II. TRADE-INVESTMENT NEXUS

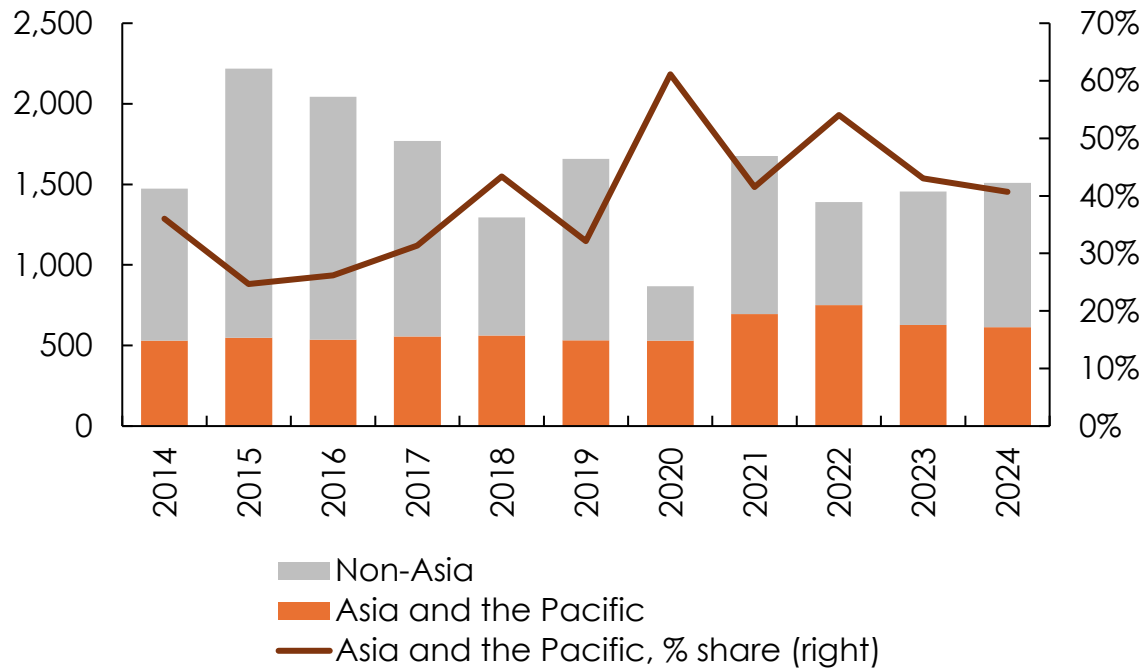
Despite a rough economic landscape, FDI inflows to Asia and the Pacific only saw a modest decline in 2024

Over 40% of global inflows headed towards Asia and the Pacific despite downside risks

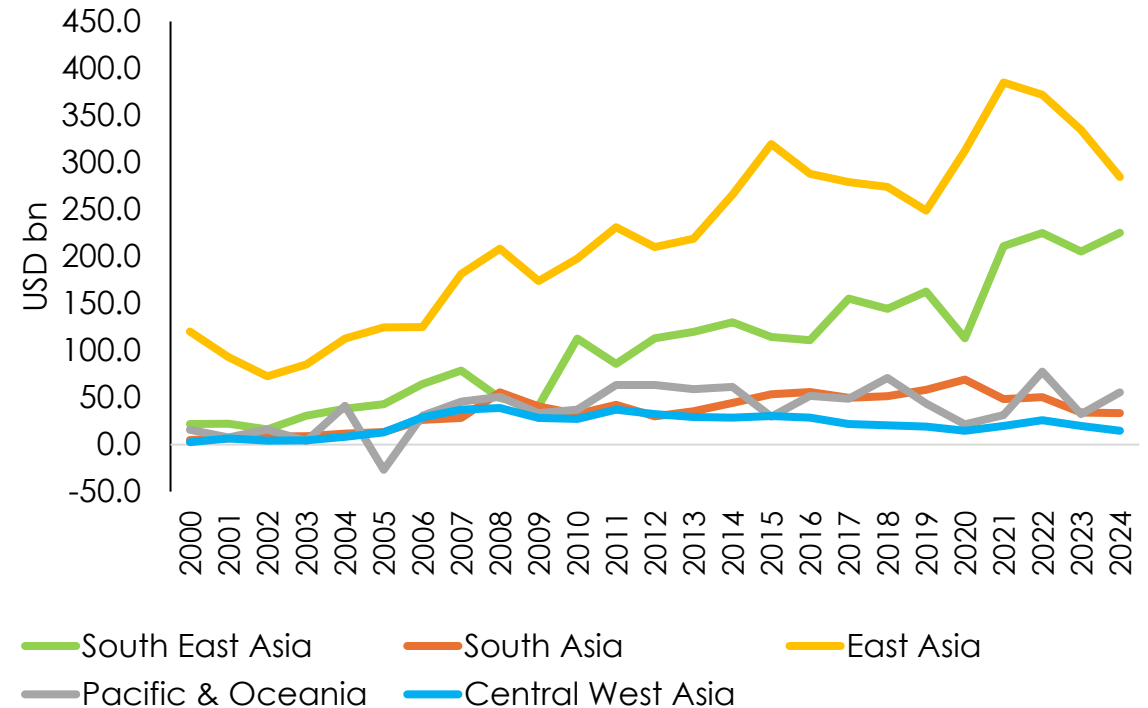
After a sharp 17% decline in 2023, inflows declined modestly in 2024, with subregional variation

Global Foreign Direct Investment Inflows, Balance of Payments

(a) By destination region



(b) By Asia subregion

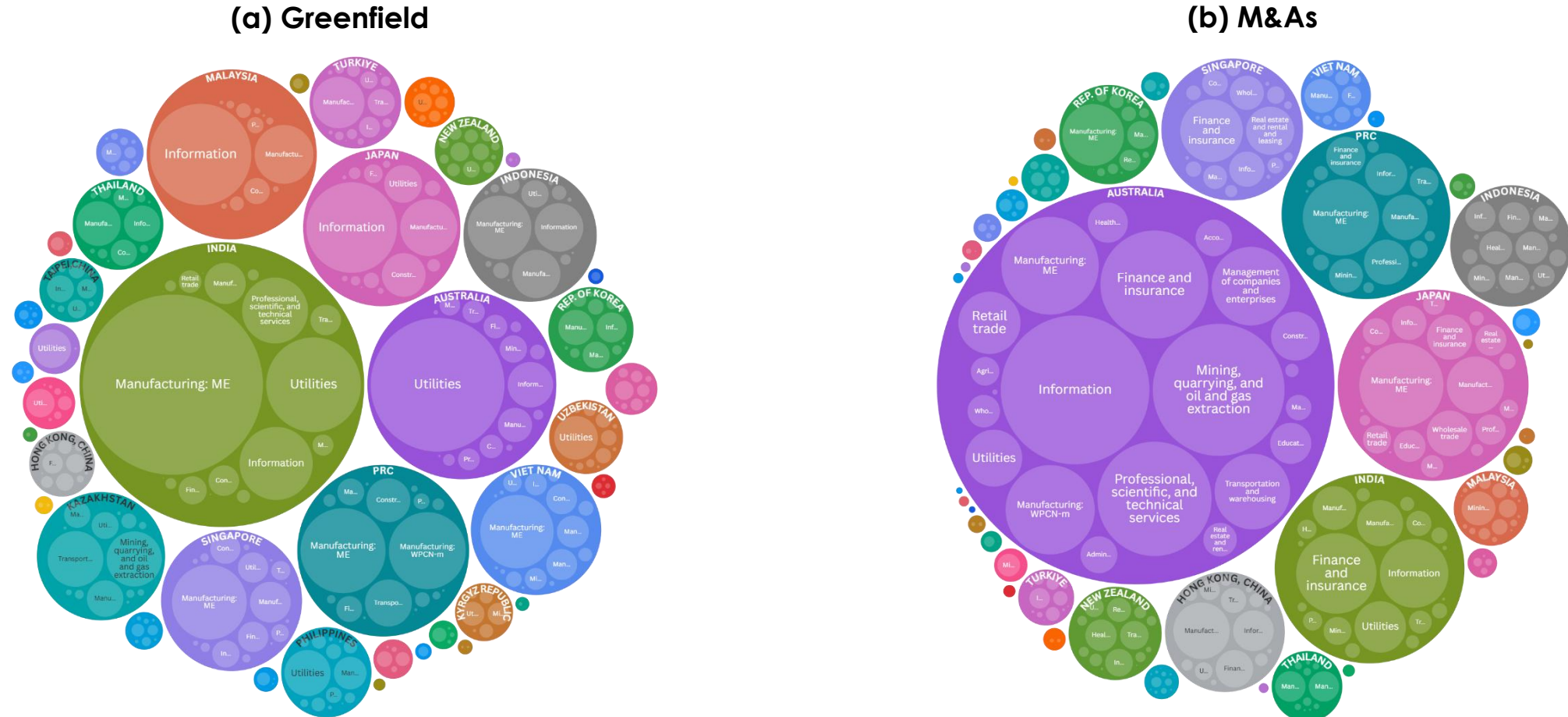


FDI = foreign direct investment.

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).

Asian greenfield investments were dominated by manufacturing, while M&As remained prevalent in ICT services sectors

Investment in Asia and the Pacific by Destination Economy and Sector—Firm-Level Investment, 2024

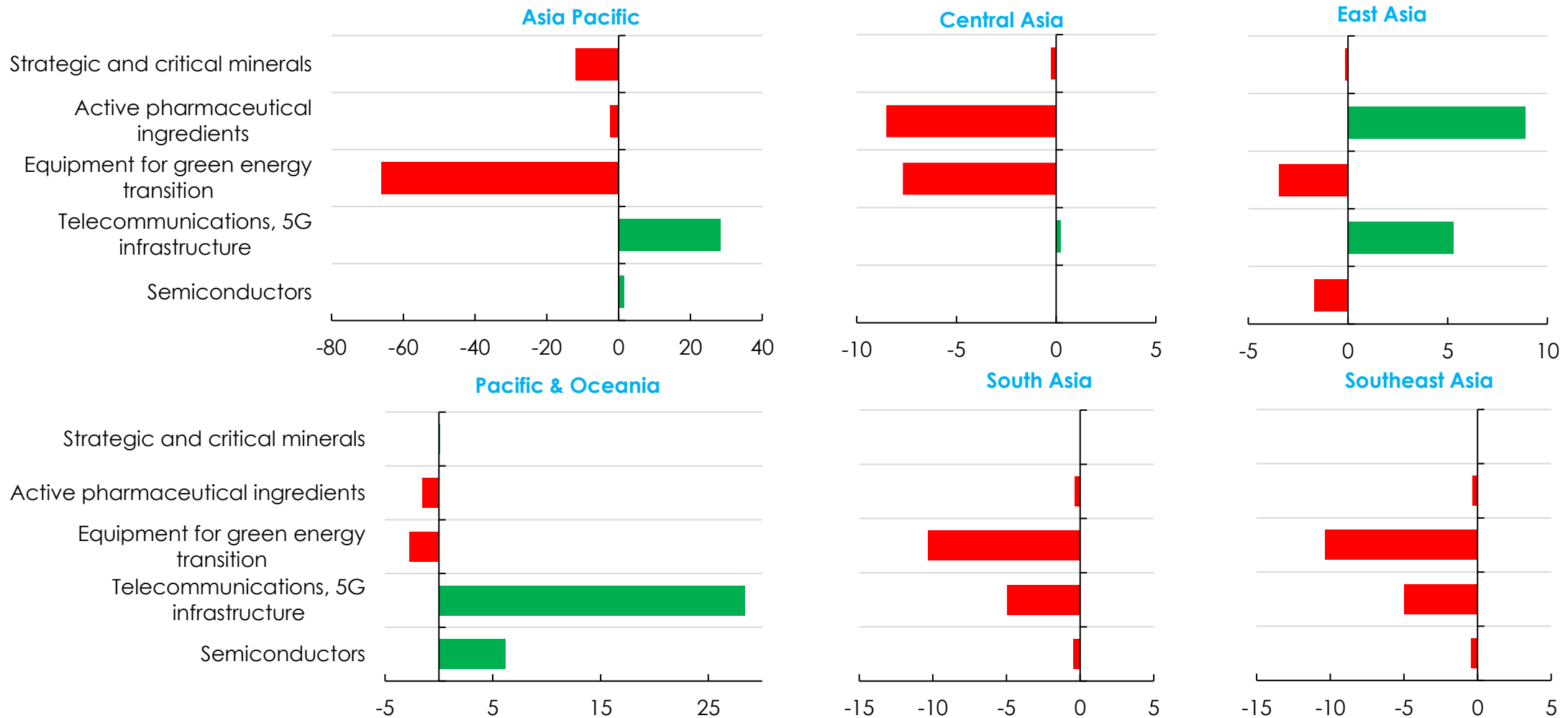


M&A = merger and acquisition.

Sources: ADB calculations using data from Financial Times. fDi Markets; and Moody's Analytics. Orbis M&A (formerly Zephyr M&A Database) (both accessed June 2025).

Inbound FDI into strategic sectors in 2024: sharp decline in green energy transition, growth in telecommunications and 5G

Investment in Strategic Sectors, Asia and the Pacific—Firm-Level Investment, 2023 versus 2024 (\$ million)



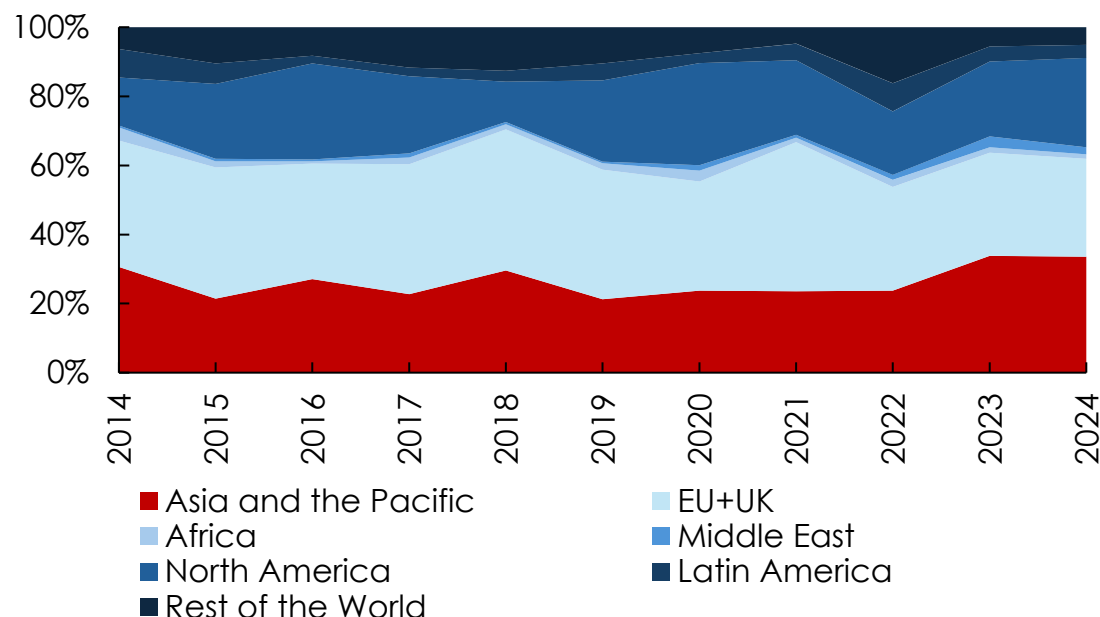
Investment in the digital economy continued to grow globally

Asia and North America have seen digital FDI increase in recent years

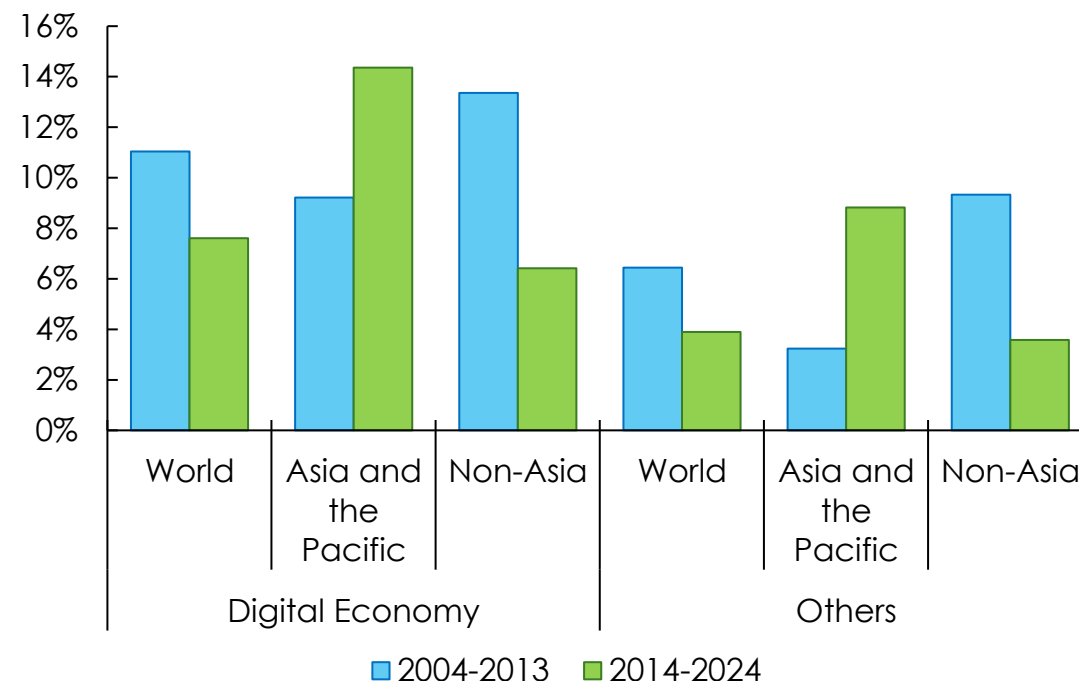
Asia's FDI in the digital economy has grown faster than those in other segments

Global Investment Inflows in the Digital Economy by Mode of Entry—Firm-Level (%)

(a) Regional share in global inflows



(b) Average growth by region and period



EU = European Union (27 members), UK = United Kingdom

Notes: Classification is adapted from UNCTAD's WIR 2025 framework on the digital economy. For these estimates, the digital economy covers the narrow scope, which includes emerging areas and core ICT. Core ICT is comprised of ICT manufacturing, ICT trade, and ICT services. New areas cover e-commerce, fintech, and platform and sharing economy..

Sources: ADB calculations using data from Financial Times. iDi Markets; and Moody's Analytics. Orbis M&A (formerly Zephyr M&A Database) (both accessed June 2025); and framework using OECD and UNCTAD.

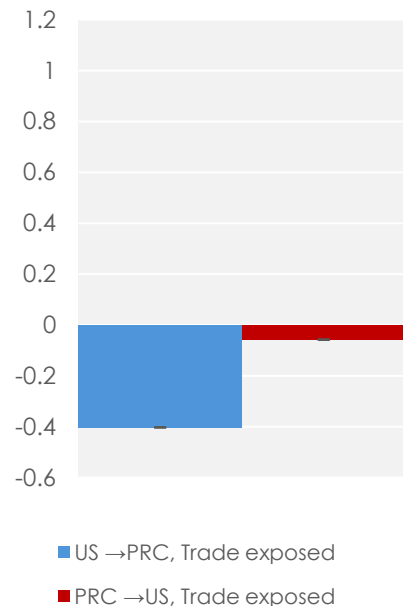
Intensifying geopolitical tensions are reshaping the foreign direct investment landscape

Policy uncertainty has prompted firms to adjust global investment strategies

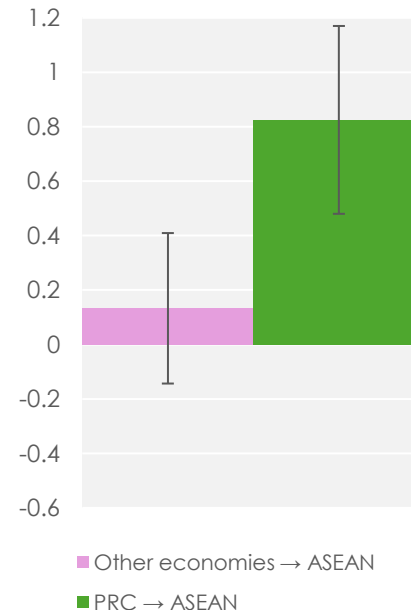
Economies should embrace policy options to mitigate the impact of geopolitical risks

Effects of Geopolitical Tensions on Greenfield Investments

Trade-exposed sectors



FDI diversion



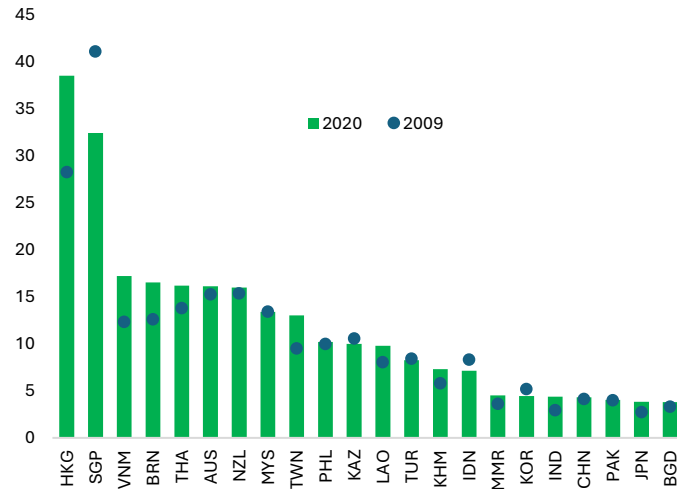
- **FDI decisions are influenced by broadening economic and strategic considerations**
 - Geopolitical risks could affect FDI decisions
 - Industrial policies are also an important factor, yet commercial incentives still play a crucial role
- **Motivation for FDI relocation could intensify**
 - Projects associated with efficiency-seeking sectors and trade-related business activities could be more exposed to negative impact of trade conflicts
- **New policy approaches are needed**
 - Open trade policies, regulatory stability, and export potential important for attracting FDI

ASEAN = Association of Southeast Asian Nations, PRC = People's Republic of China, US = United States.

Notes: PPML estimation. The dependent variable is the number of new FDI projects. *Exposed* denotes projects in efficiency seeking sectors where the listed business activity is trade-related (e.g. logistics, transport). Other economies includes Australia; Canada; EU; Japan; the Republic of Korea; Taipei, China; and the US. Robust standard errors clustered at the origin and destination level. $p < 0.05$.

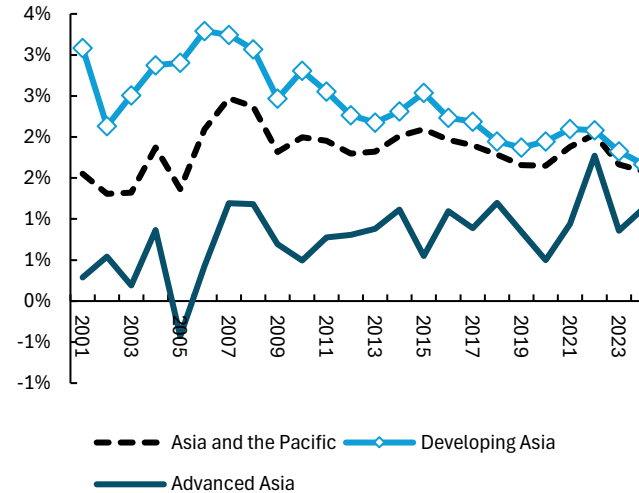
FDI, MNEs and GVC Integration in Asia

MNE share of gross value-added

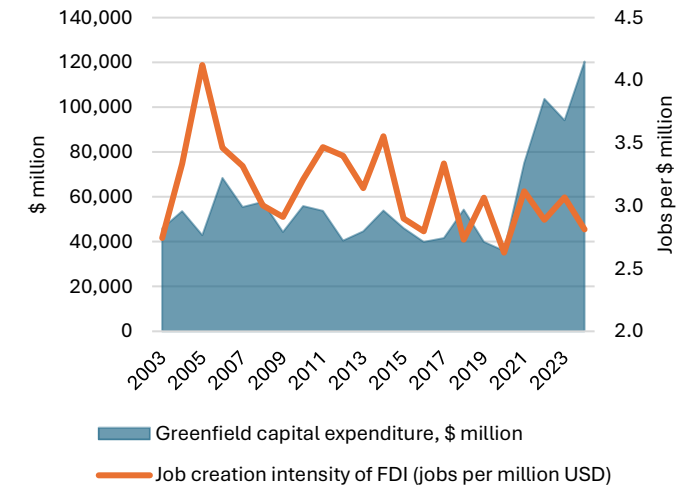


Source: AMNE

FDI flows as % GDP (BoP)



Greenfield FDI and job creation in digital sectors - Asia



FDI as a core channel of GVC participation

- MNEs are central to building GVCs through ownership, control, and intra-firm coordination
- Foreign affiliates account for 15% of gross value added in Asia, with higher shares in small, open economies
- MNEs are more deeply embedded in trade than domestic firms, contributing disproportionately to value added

Slowing global FDI, regional resilience

- Global FDI inflows are falling, reflecting tensions, policy uncertainty, and investment screening
- Asia remains resilient, attracting 40% of global FDI, supported by dense regional production networks and agglomeration economies
- Inflows are more concentrated in a small number of economies and sectors, reinforcing uneven development.

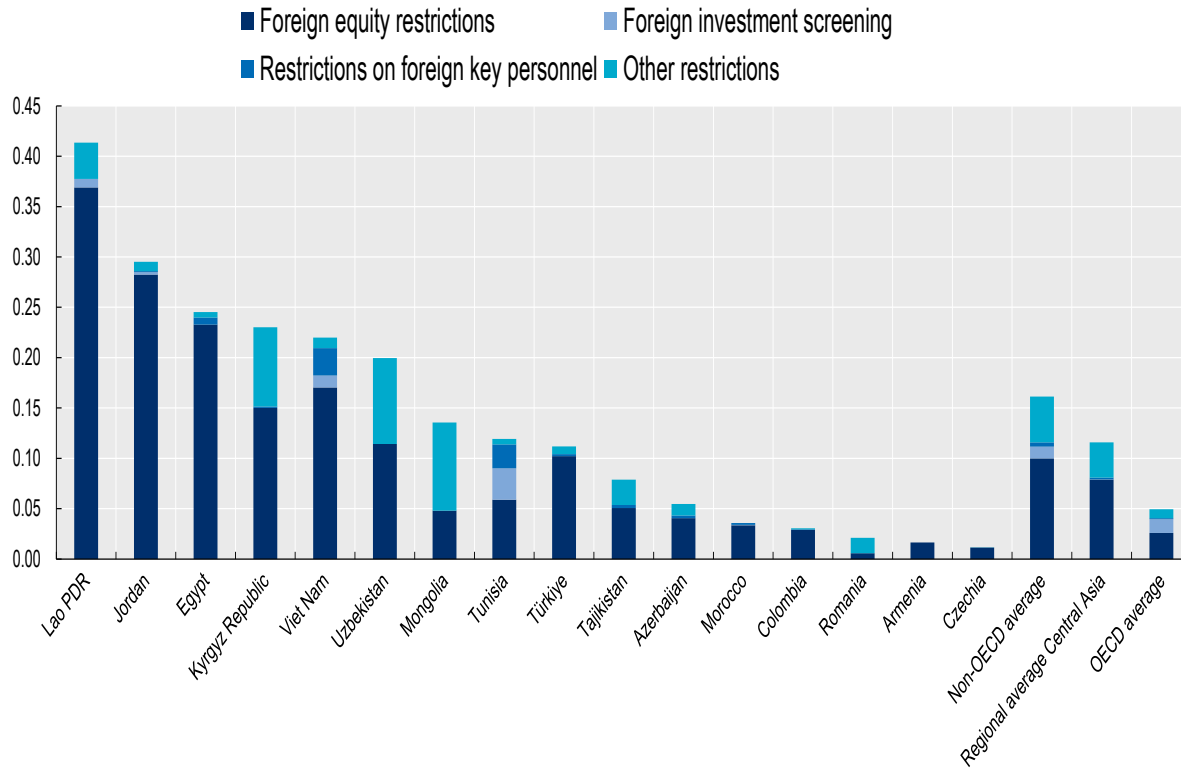
FDI and inclusive development

- MNEs are significant sources of employment in host economies
- FDI-related activities within GVCs have slowed down since 2017 amid disruptions to cross-border production
- Job-generating potential of FDI is declining due to sectoral and geographic concentration, particularly in digital

III. POLICY ROADMAP FOR SUSTAINABLE INVESTMENT IN THE CAREC REGION

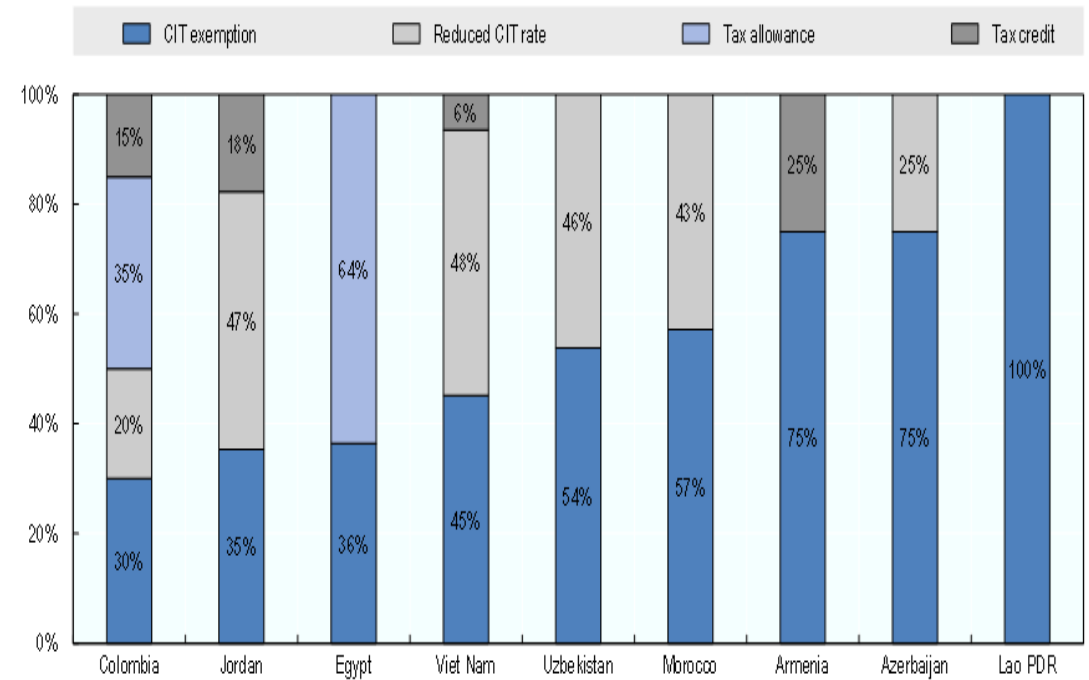
Improving the domestic investment climate will benefit CAREC economies

OECD FDI Regulatory Restrictiveness Index: 0 (fully open) and 1 (fully closed)



Source: OECD FDI Regulatory Restrictiveness Index database, 2023.

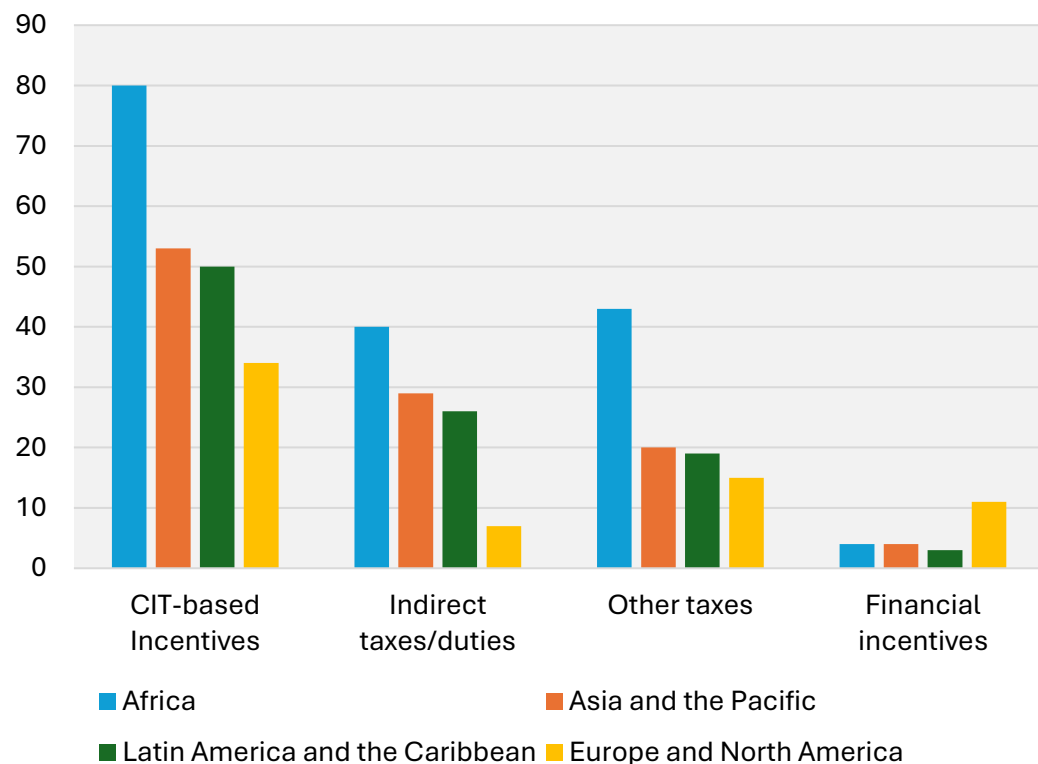
Tax incentives Instruments used, as % of total tax incentives instruments



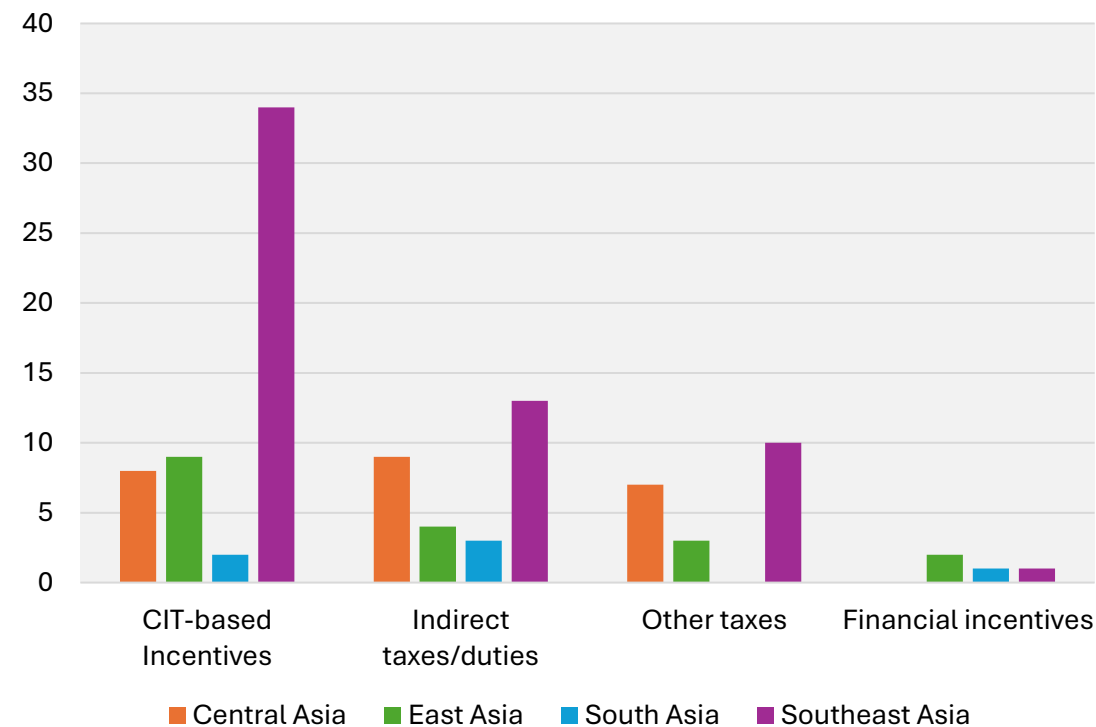
Investment incentives has gained traction in Asia

New Investment Incentives and New CIT-based Investment Incentives by Region, 2011-2021

(a) By region



(a) By subregions in Asia



Notes: Chart provides the number tax-related investment policy measures. Asia and the Pacific refers to the 49 members of the Asian Development Bank where data are available.

The subregional groupings are based on ADB definitions.

Source: UNCTAD (2022b), UNCTAD Investment Policy Monitor (to be updated with charts by region and subregion using ADB country classification).

Priorities for sustainable investment policies

Priority 1:

Improve market openness and the clarity, consistency and transparency of investment rules to boost competition and private sector development

- **Reduce the frequency of regulatory changes and improve regulatory impact assessments** to determine whether the adoption of new laws or regulations is necessary.
- **Re-evaluate the necessity of foreign equity restrictions** in service sectors and discriminatory minimum capital requirements.
- **Consolidate FDI restrictions through a negative list approach** in the future by-law on investment and make sure it is adopted in parallel with the new Law to reduce uncertainty.
- **Enhance judicial capacity for complex commercial disputes** and expand mediation and arbitration mechanisms to improve legal predictability.
- **Reduce SOEs' preferential access to land and finance, and improve SOE transparency** and governance—including ESG reporting

Priority 2:

Promote responsible business conduct (RBC) to advance sustainability goals

- Co-ordinate efforts to promote RBC across government and stakeholders, including by **adopting National Action Plans** to set out expectations for businesses
- **Raise awareness of RBC** and provide support to businesses, for instance by implementing the national SME strategy.
- **Promote greater compliance** with labour, human rights and environmental standards and effective access to remedy.
- **Encourage RBC through economic policies.** Governments can reinforce expectations of SOEs, building on its efforts to promote ESG risk management, and provide guidance on integrating RBC in green and sustainable procurement.

Priority 3:

Improve investment promotion, facilitation and tax incentives governance and strengthen FDI impact in green and digital sectors and export diversification

- **Ensure responsibilities spanning investment promotion and facilitation government bodies are clear**, with transparent key performance indicators and increased resources for investor relations, aftercare, and policy advocacy.
- **Prioritise tax incentives that are linked to firm expenditures** over those that give relief based on income (tax holidays), including in SEZs.
- **Streamline coordination between investment promotion bodies** to strengthen investment promotion, facilitation, and aftercare in the digital sector.
- **Enhance cross-border investment facilitation procedures** through a single window system, ensuring alignment with the WTO Trade Facilitation Agreement.

KEY TAKEAWAYS

- **Trade in services in Asia and the Pacific has grown significantly** in recent years, but exporters remain concentrated in a few economies.
- For CAREC and Central Asia, trade in nondigital services continue to dominate but **digital services are catching up**. Particularly, **telecommunications services** has increased significantly for the subregion.
- The **contribution of FDI to the internationalisation of services** in Asia has been important for the region's expansion in trade in services. Growth in FDI flows into telecommunications is observed for many Asian subregions, including Central Asia.
- Restrictive policies persist which limit the growth of trade in services. **Digitalization, infrastructure connectivity, improving market openness and leveraging investment promotion activities** can propel the growth of services trade for Central Asia.