

4. Asia-Pacific's Next Integration Frontier: Services Trade¹

Asia and the Pacific's economic success has long been built on trade in goods. However, as digitalization expands and services become increasingly important inputs into production, services trade is becoming a new source of growth and integration for the region. Despite this potential, services trade remains less integrated within Asia-Pacific than in other regions and faces significant policy barriers. Thus, evidence in this chapter shows that reducing these barriers can generate meaningful gains in output, making services trade the region's next integration frontier.

The Growing Importance of Services Trade

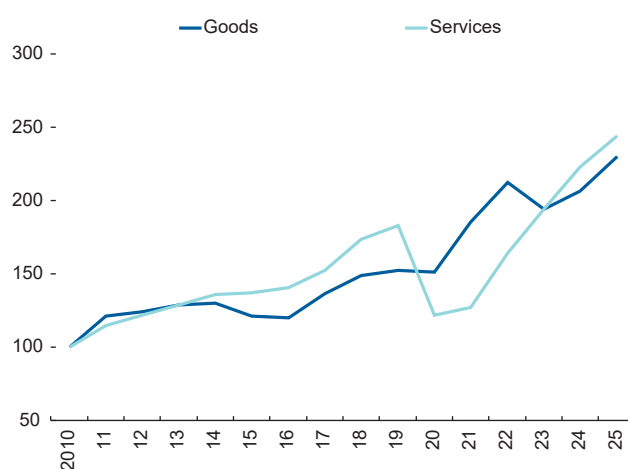
For decades, deep integration into global goods trade, for example, through cross-border production networks ("supply chains"), has helped transform the Asia-Pacific region into the world's manufacturing hub, driving productivity gains, creating jobs, raising living standards, and reducing extreme poverty (October 2025 *Regional Economic Outlook: Asia and Pacific*, Chapter 2). More recently, however, geoeconomic fragmentation has led to a shifting trade landscape.

At the same time, services trade has become more important to the region, outpacing the growth of goods exports (Figure 4.1) and currently accounting for about one quarter of the region's total exports. Growing services trade reflects rising demand for services as economies develop, the increasing use of services as inputs in production, and digitalization, which has made more services tradable across borders.

Services trade is crucial for productivity and growth resilience in the region. Previous work (November 2024 *Regional Economic Outlook: Asia and Pacific*, Analytical Note) has shown that modern tradable services—such as business and financial services—are among the most productive sectors in the region and could play an important role in boosting productivity growth. In addition, services matter through their role as key inputs into production, increasingly supporting competitiveness in manufacturing and global value chains. Furthermore, services can broaden export opportunities and diversify sources of growth. In some cases, services trade is less exposed than goods trade to tariffs, transportation bottlenecks, and disruptions in energy markets.

Services trade in Asia-Pacific remains smaller relative to other regions and compared with goods (Figure 4.2 and Online Annex Figure 4.3.1) and regional integration is comparatively shallow (Figure 4.3), even as services exports have expanded rapidly during the past two decades (Figure 4.1). Although a few of the region's economies have emerged as global or regional services hubs, most of the region remains under-integrated, pointing to substantial heterogeneity and untapped potential. Services trade remains less open than goods trade, owing in part to restrictive domestic regulation, which may be constraining services-based growth.

Figure 4.1. Average Services and Goods Exports from the Asia-Pacific Region
(Index, 2010=100)

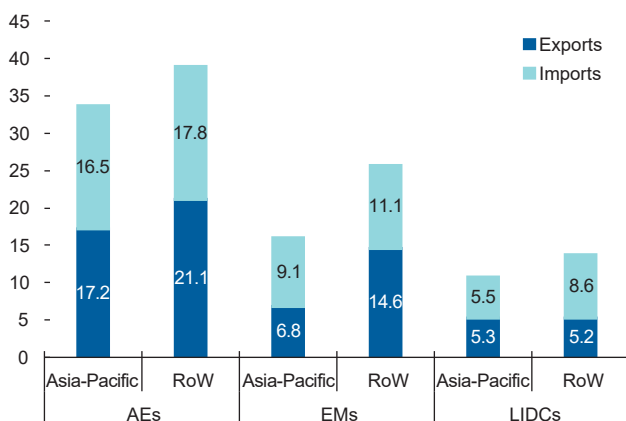


Sources: IMF Balance of Payments, International Trade in Goods (IMTS); and IMF staff calculations.

Note: See Online Annex 4.4 for details.

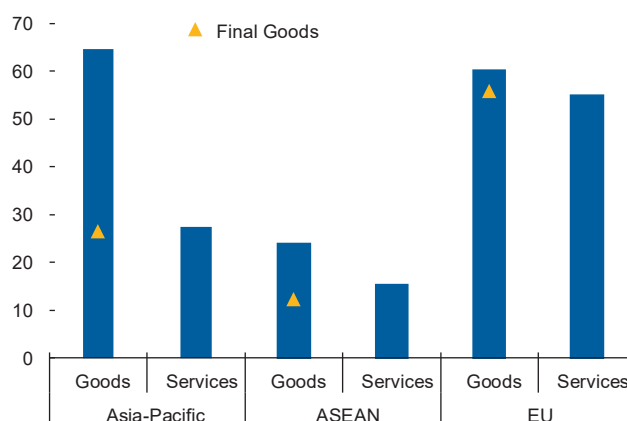
¹ This chapter was prepared by Marco Errico, Anne Oeking (lead), Anne-Charlotte Paret Onorato, Haruki Seitani, and Anoulat Sinthavy, with research assistance from Thi Chung Trinh and Keiko Mitomi, under the overall guidance of Chad Steinberg and Ingo Borchert (visiting scholar).

Figure 4.2. Services Exports and Imports to GDP
(Percent, 2023)



Sources: IMF Bilateral Trade in Services; and IMF staff calculations.
Note: See Online Annex 4.4 for details.

Figure 4.3. Regional Trade Integration
(Percent of intra-regional exports in total exports, 2022)



Sources: Asian Development Bank; Centre d'Etudes Prospectives et d'Informations Internationales; IMF Bilateral Trade in Services; and IMF staff calculations.
Note: See Online Annex 4.4 for details.

Therefore, the next opportunity for Asia-Pacific to further trade integration may lie in services. In this context, this chapter documents the region's services trade patterns, assesses the role of policy barriers, and quantifies potential gains from deeper integration.

To What Extent Are Asia-Pacific Economies Trading Services?

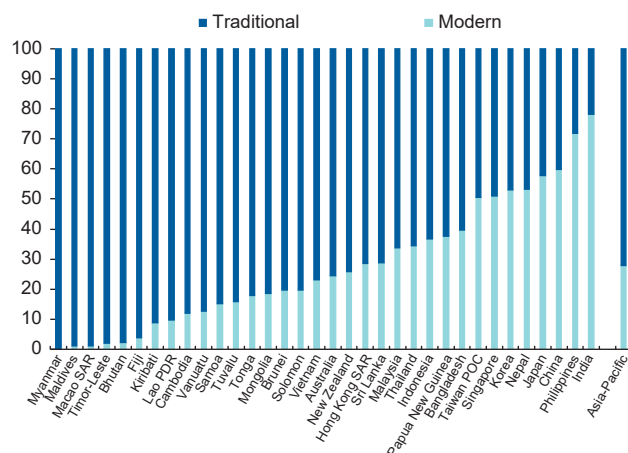
Services exports from Asia-Pacific remain concentrated in a relatively narrow set of sectors, although patterns differ considerably across economies. Traditional services still account for the largest share—on average, around 70 percent—of services exports from the region (Figure 4.4), reflecting the region's role as a major tourism destination and manufacturing hub.² This composition has important implications for resilience, as traditional services have proven considerably more cyclical and shock sensitive (Borchert and Mattoo 2010; Ariu 2016 and Figure 4.5). That said, the regional composition of services trade is gradually shifting toward more modern and digitally deliverable services (Figure 4.5), though unevenly across countries.

This shift matters because modern tradable services tend to be highly productive (November 2024 *Regional Economic Outlook: Asia and Pacific*, Analytical Note), digitally scalable, and easier to deliver digitally across borders, while many traditional services are more labor intensive, although differences within both groups are substantial (Online Annex Figures 4.3.2 and 4.3.3). They are also generally less dependent on physical proximity than many traditional services (Li and others 2025). Looking ahead, advances in artificial intelligence (AI) may further increase modern services tradability, although broader implications remain uncertain and dependent on countries' AI preparedness (see Online Annex 4.1 Box 4.1).

Regional integration in services remains modest and even weaker in the Association of Southeast Asian Nations (ASEAN) region, resembling shares in final goods trade (October 2025 *Regional Economic Outlook: Asia and Pacific*, Chapter 2). Asia has built some of the world's most extensive regional production networks, reflected in high levels of trade in intermediate goods. However, regional integration is considerably weaker for final goods,

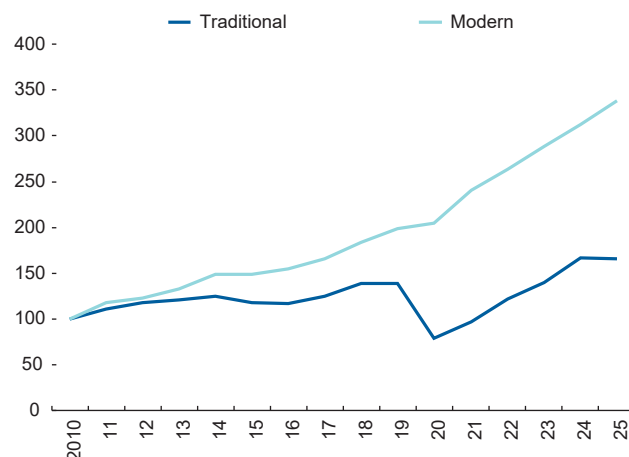
² Traditional services in this chapter include transport, travel, construction, manufacturing services on physical inputs owned by others, maintenance and repair services, personal, cultural, and recreational services, and government services. Modern services include insurance and pension services, financial services, charges for the use of intellectual property, information and communications technology, computer, and information services, and other business services, including professional services (in line with Baldwin and others 2024).

Figure 4.4. Share of Modern versus Traditional Services Exports in Asia-Pacific
(Percent, 2023)



Sources: IMF Bilateral Trade in Services; and IMF staff calculations.
Note: See Online Annex 4.4 for details.

Figure 4.5. Modern versus Traditional Services Exports in Asia-Pacific
(Index level 2010 = 100)



Sources: IMF Balance of Payments; and IMF staff calculations.
Note: See Online Annex 4.4 for details.

and services trade exhibits a similar pattern, also when compared to other regions such as Europe (Figure 4.3 and Online Annex Figure 4.3.4).³ Many services exports remain oriented toward global, rather than regional, markets, especially modern services (of which only 14 percent, on average, are exported to countries within the region).

Conventional services trade statistics capture only part of international services trade. Services are increasingly traded not only directly but also indirectly across borders, both as inputs into goods production (*"servicification"*) and by establishing a commercial presence abroad (such as foreign bank branches or hotel chains). Estimates in this chapter demonstrate that roughly 20 percent of total regional services exports are embodied in goods trade (compared to 12 percent in the European Union (EU) and 10 percent in other advanced economies [AEs]), whereas services through commercial presences abroad—heavily dominated by AEs and China—account for about 45 percent of total regional services exports (50 percent in the EU and 56 percent in other AEs;⁴ see Online Annex 4.2.2).⁵ Because services supplied through commercial presence abroad and services embodied in goods exports are generally not captured in balance-of-payments services trade statistics, standard measures may understate the role of services in regional integration. Therefore, strengthening services integration could support not only direct services exports but also the competitiveness of the region's manufacturing sectors.

What Is Holding Back Services Trade in Asia?

Although these patterns point to substantial untapped potential, they also raise an important question: if services are becoming more tradable and increasingly important to growth, why does regional integration remain relatively limited?

Policy barriers appear to be an important determinant of Asia-Pacific's integration in services trade, alongside standard exogenous factors such as geography and language (see Online Annex 4.2.4). Notably, measures of services trade restrictiveness, which capture regulations and policy measures affecting foreign services providers and cross-border services trade, show that barriers remain relatively elevated in several Asia-Pacific economies across sectors, especially among emerging markets (Online Annex Figure 4.3.5).

³ The EU should be interpreted as a frontier benchmark rather than a directly comparable reference point, reflecting both its single market for services and greater geographic proximity.

⁴ For ASEAN, services exports embodied in goods exports stand at 17 percent, and through a commercial presence at 30 percent.

⁵ The reported shares are intended to illustrate relative magnitudes. They combine information from different statistical frameworks and are therefore not strictly additive.

Many barriers to services trade arise from domestic regulations rather than cross-border measures, some of which also apply to domestic providers. These can include licensing requirements, regulations that limit competition, cross-border data and transfer rules, and other measures that raise the costs of doing business across borders. Although many such measures reflect legitimate public policy objectives, better-designed regulation could achieve these objectives while making cross-border services trade less costly.

An examination reveals areas where improvements are possible for Asia-Pacific economies:

- Cross-economy differences in overall services trade barriers are driven mostly by barriers to competition and restrictions on the movement of people. In addition, for modern services, data storage and transfer rules and local-presence requirements stand out, as they can directly limit cross-border digital delivery. Across the region, foreign entry limits remain widespread (Online Annex Figure 4.3.6).
- The regional integration landscape in Asia-Pacific is characterized by a patchwork of bilateral and subregional agreements (October 2025 *Regional Economic Outlook: Asia and Pacific*, Chapter 2). Although services provisions have become increasingly common and cover a broader range of issues, commitments generally remain less extensive than in other major trading blocs.

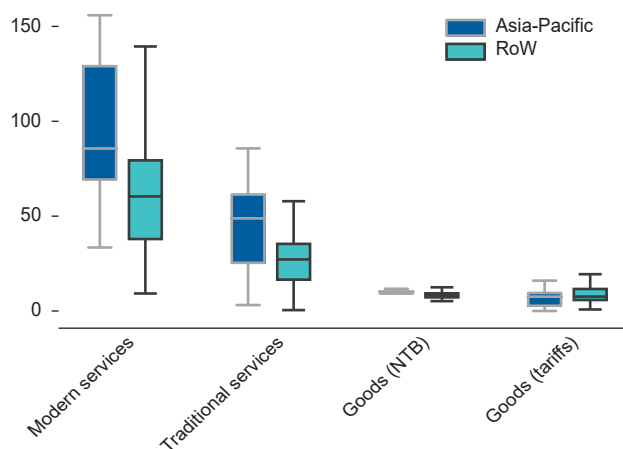
Taken together, these barriers make it more difficult for firms to provide services across borders, limiting competition, reducing market access, and increasing the cost of trading services. The next section quantifies the economic significance of these restrictions.

Estimates of tariff-equivalent trade costs are useful to quantify costs associated with services trade restrictions. Measures such as the Services Trade Restrictiveness Index capture policy restrictions but do not directly indicate how costly they are for trade. To bridge this gap, this chapter estimates how changes in policy restrictiveness (relative to the least restricted country, globally) affect trade flows and translates those effects into tariff-equivalent trade costs, or ad valorem equivalents, that is, costs that scale proportionally to the value of the traded product (see Online Annex 4.2.4).

The estimated trade costs associated with services restrictions in the region are substantial and considerably higher relative to economies outside the region. This chapter shows that services restrictions in modern services sectors add more than 70 percent in trade costs in many Asia-Pacific economies relative to the least restrictive country, compared to about 25 percent in traditional services sectors (Figure 4.6; see Online Annex Figure 4.3.7 for alternative comparisons).⁶ In the insurance, financial, and information and communications technology sectors, for almost half of Asia-Pacific economies, policy restrictions more than double the cost of trading services relative to the global benchmark. Although the least restrictive policy setting observed may not be desirable or feasible in all cases, this exercise illustrates the economic significance of the costs associated with such restrictions. Trade costs in the region are significantly higher for services than goods, suggesting that restrictions could remain an important brake on services integration, with potentially significant gains from reform.

Figure 4.6. Services Trade Costs in Asia and the Pacific

(Percent, ad valorem equivalents of trade restrictions, 2025)



Sources: Centre d'Etudes Prospectives et d'Informations Internationales; Global Trade Analysis Project; International Trade and Production Database for Estimation; Organisation for Economic Co-operation and Development; World Trade Organization; and IMF staff calculations.

Note: See Online Annex 4.4 for details.

⁶ This refers to the 25th percentile of the regional ad valorem equivalent distribution, such that 75 percent of Asia-Pacific economies face trade costs at least this high.

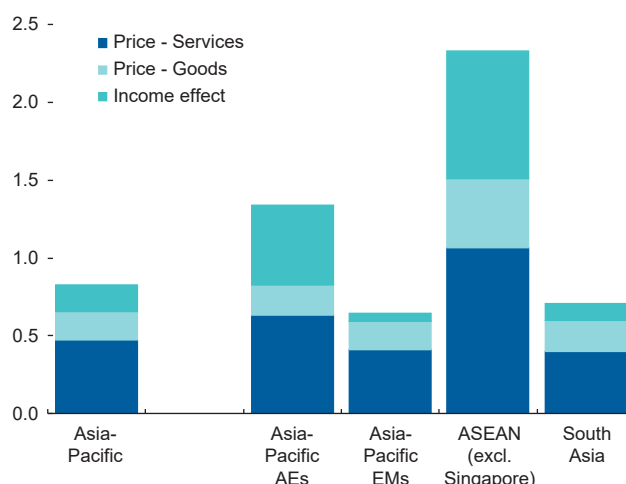
How Much Could Asia and the Pacific Gain by Deregulating Services?

How large are the potential gains from strengthening regional integration and lowering services trade restrictions? To answer this question, this chapter uses a multicountry, multisector quantitative trade model with input-output linkages to quantify the long-term effects of deeper integration on real GDP and consumption (see Online Annex 4.2.5), using the estimated tariff-equivalent trade costs (ad valorem equivalents) as an input to examine the effects of reducing services trade restrictions. The model captures complementarities between goods and services, and it accounts for production linkages and reallocation of labor and capital across sectors, allowing effects of lower services trade barriers to propagate through the economy through supply chains, in addition to their direct effects.

The first scenario quantifies gains from deep regional integration in services trade among Asia-Pacific economies. Specifically, the scenario assumes that the region's economies reduce trade barriers within the region, bringing them toward global benchmarks, while leaving barriers vis-à-vis economies outside the region unchanged. The reforms generate sizable long-term gains, increasing the long-term level of regional GDP by close to 1 percent (Figure 4.7).⁷ Because the underlying policy measures are not partner specific, the results should be viewed as indicative of the potential gains from coordinated regulatory reform and regional integration. As a comparison, the estimated GDP gains are broadly equivalent to those from a region-wide reduction in goods tariffs of about 10–15 percentage points on intra-Asia trade, applied across all goods sectors (see Online Annex 4.2.5).⁸

A decomposition of real GDP gains in this scenario indicates that most of the gains stem from lower prices. By reducing barriers to imports of services from regional partners, both consumers and producers can access cheaper services. For producers, the sizable gains—between 20 and 25 percent of the total—reflect positive spillovers to the manufacturing sector, which expands as lower-cost imported services reduce production costs. Finally, economies benefit from regional integration because of improved access to export markets in other Asia-Pacific economies, as stronger regional demand generates positive spillovers that support growth across the region (the income effect in Figure 4.7).

Figure 4.7. Real GDP Gains from Opening Regionally
(Percent, Asia-Pacific-wide integration scenario)



Source: IMF staff calculations.
Note: See Online Annex 4.4 for details.

The variation in gains across Asia-Pacific economies can be explained by several factors. First, gains are smaller in economies less integrated into regional services trade or with relatively limited direct and indirect uses of imported services as intermediate inputs, as is the case for several emerging and South Asian markets. Second, gains are larger where the gap between existing and targeted barriers is greater, as larger reductions in trade costs generate stronger efficiency gains (for example, in ASEAN economies). Finally, economies with stronger services export sectors and a larger regional footprint benefit more from integration, as improved market

⁷ For context, October 2025 *Regional Economic Outlook: Asia and Pacific* Chapter 2 finds long-term real GDP gains averaging about 1.8 percent from deeper regional integration through lower non-tariff barriers, suggesting that the gains estimated here are economically meaningful. Together, these findings underscore the potentially substantial benefits of deeper regional integration across both goods and services.

⁸ Specifically, this refers to a uniform reduction in tariff rates. Such tariff reductions are substantially larger than existing tariffs in most intra-Asian trade relationships, reflecting that tariffs within the region are already relatively low and that remaining barriers increasingly arise outside tariffs.

access enables them to expand exports and leverage existing areas of specialization. This channel is particularly important for AEs and some ASEAN members, which have already developed strong comparative advantages in a range of tradable services and are therefore better positioned to benefit from increased regional demand.

In the second scenario, each economy unilaterally reduces services trade restrictions vis-à-vis the rest of the world, whereas other economies' barriers are unchanged. Resulting gains are comparable in magnitude to those from regional services trade liberalization, averaging about 1 percent of GDP (Online Annex Figure 4.2.4). Despite that, the two scenarios have markedly different sectoral implications. Under unilateral liberalization, manufacturing and industrial sectors expand as they are intensive services users, improving their competitiveness. However, because foreign demand for domestic services does not increase, services sectors face stronger import competition without a corresponding expansion in export opportunities. Thus, domestic services contract, the adjustment falling disproportionately on labor, given the sector's relatively high labor intensity. By contrast, gains from regional integration are more evenly distributed (Online Annex Figure 4.2.5). Reciprocal market access boosts regional demand for services exports, offsetting much of the competitive pressure faced by domestic service providers under unilateral liberalization. More broadly, liberalization beyond the region could yield larger gains still, although with a composition more tilted toward lower import costs than export-market access.

Conclusion and Policy Recommendations

The region's economic success has long been built around growth in goods trade and integration into regional production networks, but a growing role for services creates opportunities for deeper economic integration. This chapter has highlighted three main findings. First, services trade is growing rapidly, particularly in modern services, but remains less regionally integrated than goods trade. Second, policy barriers continue to impose substantial trade costs, particularly in modern services sectors. Third, reducing these barriers could generate meaningful gains in real GDP, making services trade one of the region's most promising opportunities for deeper economic integration, while strengthening manufacturing competitiveness and supporting more resilient growth.

Unlocking the potential of services trade would require domestic regulatory reforms and deeper regional integration. Easing excessive restrictions on the entry of foreign service suppliers, both firms and professionals, strengthening competition, and improving regulatory transparency could lower the cost of trading services. At the regional level, expanding services provisions in trade agreements, strengthening regulatory cooperation and technical interoperability, and reducing fragmentation across overlapping frameworks could facilitate cross-border services trade. As digitally delivered services become increasingly important, digital infrastructure and policy frameworks that support secure and efficient cross-border service delivery, including data flows, will also become more important for competitiveness. Complementary policies, including active labor market policies, reskilling and upskilling programs, mobility assistance, and targeted social protection, can help workers transition across sectors, ensure that the gains from integration are broadly shared, and strengthen public support for reform, particularly as AI reshapes demand for services tasks and skills.

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