

Special Feature: ASEAN at a Crossroads: Pathways for Deeper Economic Integration

“What we have decided today is only a small beginning of what we hope will be a long and ongoing series of achievements, of which we ourselves, those who will join us later, and future generations can be proud.”

Thanat Khoman, Foreign Minister of Thailand, at the founding of ASEAN (1967)

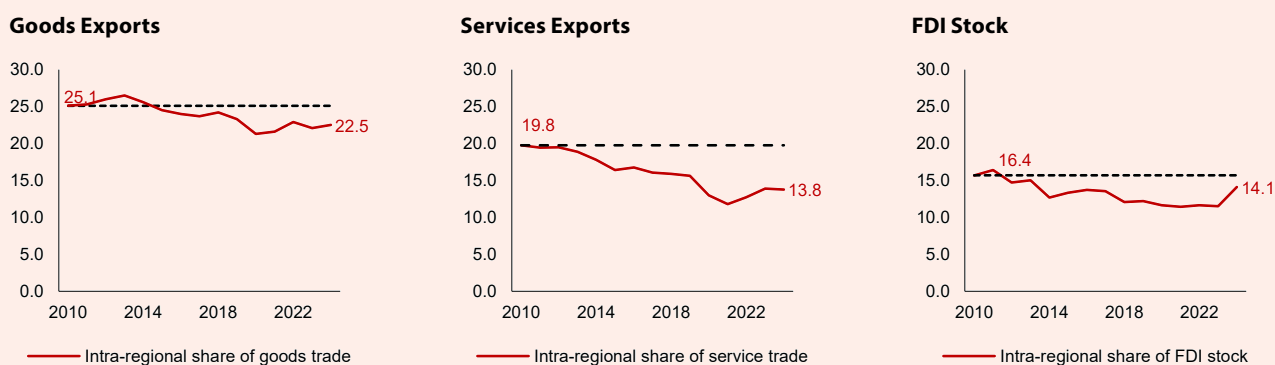
ASEAN is one of the most important economic regions in the global economy. Nearly six decades ago, Thailand's Foreign Minister Thanat Khoman described the founding of ASEAN as “only a small beginning.” His words proved prescient. With 700 million people and an economy worth more than USD 4 trillion by 2024, the region is expected to surpass the Japanese economy in size by 2027 and the fifth-largest economy in the world.²⁰ It is also one of the fastest-growing regions in the world, with growth consistently above the global average since the 1980s. ASEAN has a highly open economy and is deeply integrated into international markets and supply chains, with a trade-to-GDP ratio exceeding 95 percent. It attracted record foreign direct investment (FDI) inflows of USD 226 billion in 2024, equivalent to 15 percent of global FDI flows.²¹

Intra-ASEAN trade and investment shares have declined since the mid-2010s. In 2010, the intra-ASEAN goods trade share stood at 25.1 percent and the services trade share at 19.8 percent; by 2024, both had fallen to 22.5 percent and 13.8 percent, respectively (Figure 2.29, left and middle panels). Intra-ASEAN investment flows present a similar picture: despite total FDI inflows to ASEAN doubling over the past five years, the intraregional investment share declined from 16.4 percent in 2010 to 14.1 percent in 2024 (Figure 2.29, right panel).

Deeper intra-ASEAN integration is important not only for improving ASEAN's resilience against mounting external challenges, but also for strengthening the broader ASEAN+3 regional architecture. The global economic environment has become increasingly fragmented as geopolitical tensions and structural shifts reshape trade networks, heightening uncertainty for smaller open economies. Yet despite decades of policy efforts, intra-ASEAN integration remains shallow relative to its potential. A more densely connected ASEAN would help mitigate external vulnerabilities while complementing – rather than substituting for – the region's deep linkages with the Plus-3 economies, creating a more balanced and resilient production network that benefits ASEAN+3 as a whole.

This special feature provides an assessment of the current state of regional economic integration in ASEAN and outlines broad policy directions to deepen it. It assesses how far ASEAN's trade integration has progressed relative to underlying economic fundamentals and peer regions such as ASEAN+3 and the European Union (EU) and uses this benchmarking to highlight the structural factors that keep intraregional trade and production linkages shallow. Building on this diagnostic, it outlines policy pathways – illustrated with model-based simulations – through which ASEAN can leverage global value chain linkages and stronger intraregional investment to advance regional integration over the medium to long term.

Figure 2.29. Intraregional Trade and Investment Shares in ASEAN
(Percent of gross goods exports; Percent of gross services exports; Percent of gross investment stock)



Source: ASEAN Stats; United Nations Comtrade; AMRO staff calculations.

Note: FDI = Foreign direct investment. The dotted line represents the initial intraregional share in 2010 for each respective panel.

The authors of this special feature are Yohnsen Ang, Allen Ng, Haobin Wang (lead), and Yuhong Wu. This special feature summarizes key findings from the working paper “ASEAN at a Crossroads: Pathways for Deeper Economic Integration” (AMRO 2026).

²⁰ In 2027, the nominal GDP of ASEAN is estimated at USD 4.7 trillion, larger than Japan's USD 4.6 trillion. This would place ASEAN behind the United States, China, the European Union, and India (International Monetary Fund 2026).

²¹ While global FDI flows in 2024 declined by 11 percent and inflows to developing regions remained broadly stagnant, investment in ASEAN increased by 8 percent in 2024 (United Nations Conference on Trade and Development 2025).

Intra-ASEAN Trade Integration: Structural Limits

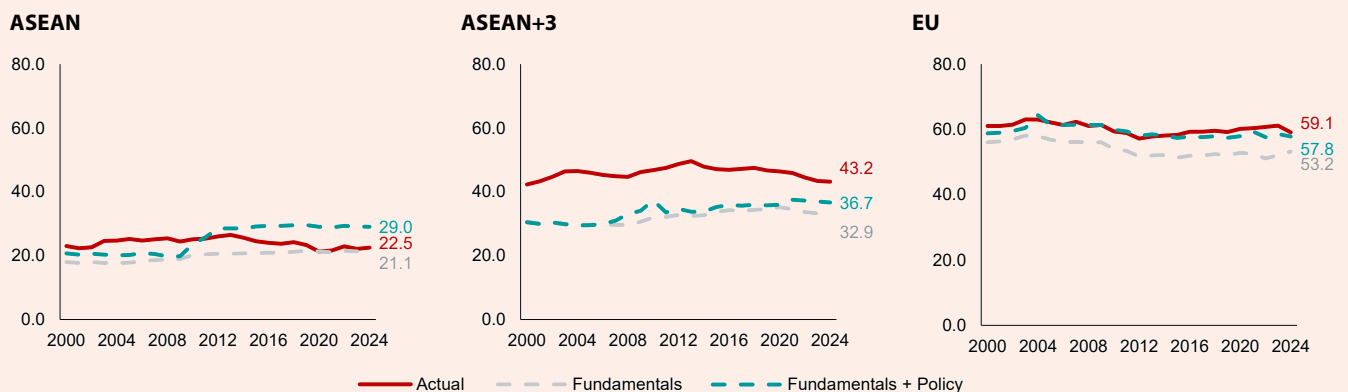
Intra-ASEAN trade integration has remained modest, despite the region's overall growth and openness. While intra-ASEAN trade has expanded in absolute terms in line with regional growth, its share of total trade has hovered around 20 percent to 25 percent for the past three decades. Model-based estimates suggest that this outcome is broadly consistent with ASEAN's economic fundamentals, such as market size, geography, and historical linkages.²² When policy variables – such as the presence of trade agreements – are incorporated, predicted integration rises slightly above 25 percent, indicating that full realization of commitments under existing trade policies and other regional frameworks could yield incremental gains in intraregional trade (Figure 2.30).

Comparisons with ASEAN+3 and the EU highlight the structural limits to deeper trade integration in ASEAN. In both the broader ASEAN+3 and the EU, actual intraregional trade shares consistently exceed levels predicted by fundamentals and trade policies (Figure 2.30). One possible reason is that the complementarities in production structures and demand patterns, which are not captured by the model, are reinforcing integration beyond the model estimates. In the EU, for instance, high income levels and dense industrial specialization have created self-reinforcing trade flows.²³ In ASEAN+3, cross-border

value chains are anchored by a few large and advanced economies that provide substantial market demand and technology know-how. By contrast, ASEAN's trade integration has remained limited within the levels implied by its structural characteristics.

ASEAN's relatively modest trade integration is reflected in its limited intraregional trade complementarity. The alignment between what ASEAN economies produce and what they demand from each other remains relatively limited. ASEAN's trade complementarity index is substantially lower than that of ASEAN+3 or the EU, reflecting narrower demand structures and less diversified supply capabilities.²⁴ On the demand side, lower and uneven income levels across ASEAN restrict the breadth of consumption and investment needs, limiting the role of final demand within the region. On the supply side, average economic complexity in the region is below global peers, implying a more limited range of intermediate and final production capabilities. This combination reduces the likelihood that exports from one ASEAN economy can meet the needs of another. The outcome is both weaker demand–supply alignment and shallower intraregional value-chain participation, with ASEAN economies continuing to rely more on extraregional partners for both inputs and demand (Figure 2.31).

Figure 2.30. Intraregional Goods Export Share in Selected Regions
(Percent of gross goods export)



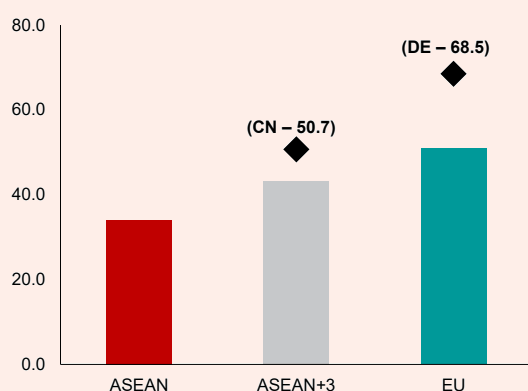
Source: United Nations Comtrade; AMRO staff calculations.

Note: EU = EU-27 member economies. "Fundamentals" and "Fundamentals + Policy" are the model-based estimates of the intraregional goods export share. Fundamentals reflects structural drivers like economic size, distance, and historical ties, while Policy accounts for trade-policy variables such as regional trade agreements. Refer to AMRO (2026) for the model specification and variable definitions.

^{22/} A gravity model was employed to assess ASEAN's intraregional trade dynamics, comparing predicted intra-ASEAN trade shares based on economic fundamentals alone with those incorporating trade-policy variables. The results provide a benchmark for ASEAN's intraregional trade shares relative to levels implied by fundamentals and policy. Refer to AMRO (2026) for methodological details.

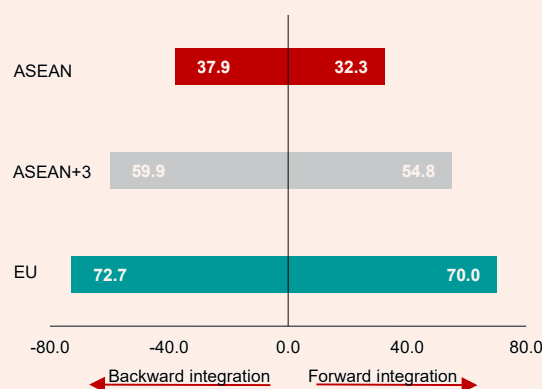
^{23/} Key determinants of intra-EU trade integration have been well studied. For instance, Balassa and Bauwens (1988) and Serlenga and Shin (2007) found that income level and industrial capacity were the important drivers of intra-EU trade integration.

^{24/} The trade complementarity index evaluates how closely one economy's export structure matches another economy's import structure. At the regional level, the index is calculated as a trade-weighted average of these bilateral values across member economies. Refer to AMRO (2026) for methodological details.

Figure 2.31. Trade Integration Indicators of Selected Regions**Trade Complementarity Index**
(Index, 0-100)

Source: United Nations Comtrade; AMRO staff calculations.

Note: CN = China; DE = Germany; EU = EU-27 member economies. Regional average indices are weighted by each member's intraregional value by its share of the region's total trade to derive a region-wide average. Diamonds indicate each region's central trading-hub index value versus the rest of the region.

Regional Value Chain Integration
(Percent of total backward/forward integration)

Source: Asian Development Bank Multiregional Input-Output Table; AMRO staff calculations.

Note: EU = EU-27 member economies. Regional percentages are a simple average of individual economies' backward/forward participation with respective regional economies as a share of total value chain participation.

Disparities in development levels, together with limited income levels and production sophistication, remain a fundamental constraint on intraregional trade in ASEAN. ASEAN economies span the full spectrum of income and industrial capability, from high-income, innovation-driven economies to lower-middle-income, more resource-based exporters (Figure 2.32). While this diversity enables integration with the global economy by matching ASEAN's supply with external demand, it reduces the degree of overlap within the region. Higher-income members demand sophisticated goods and services that lower-income partners cannot yet supply, while lower-income members lack the purchasing power to absorb higher-value exports. Conceptually, regional integration deepens most readily when economies converge to higher income levels and greater production sophistication, creating overlapping demand structures and opportunities for complementary specialization.²⁵ ASEAN has not yet reached this stage, and as a result, intraregional demand remains segmented and production linkages are relatively shallow compared with more advanced blocs.

Weak intra-ASEAN investment further constrains deeper trade integration. FDI is a critical enabler of trade – embedding production networks, transferring technology, raising productivity, and creating stakeholders for cross-border exchange. Empirical analysis shows that bilateral FDI has a positive, statistically significant impact on ASEAN trade flows, underscoring its catalytic role for regional trade integration.²⁶ However, investment flows within the

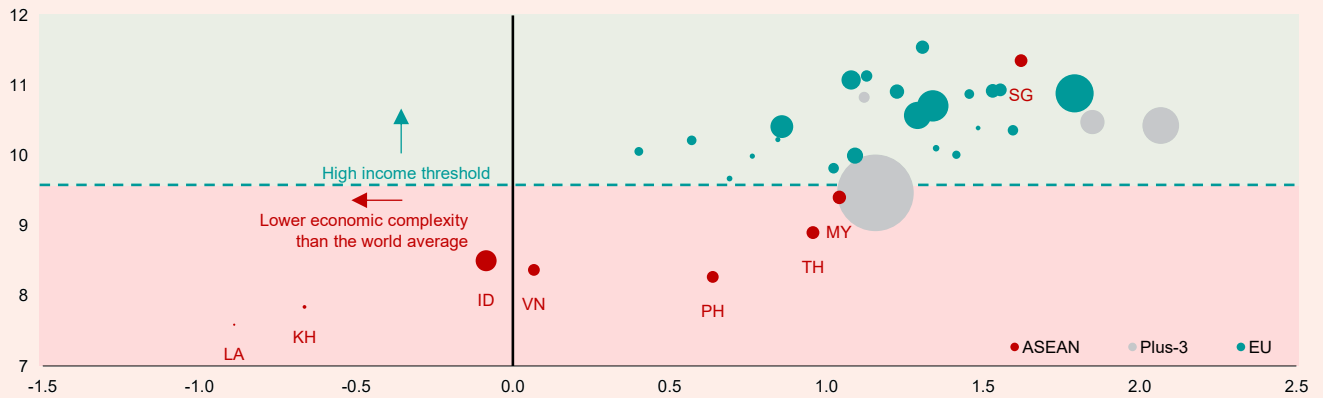
region have declined in relative terms, with intraregional FDI stock standing at only about 10 percent of the total in 2023, less than roughly 50 percent seen in ASEAN+3 or the EU (Figure 2.33). This is also about 25 percent below levels predicted by fundamentals.²⁷ Intraregional investment weakness therefore limits ASEAN's ability to build supplier networks and deepen value-chain integration. In many respects, FDI is the weakest link in ASEAN's integration – without stronger cross-border investment, efforts to strengthen trade complementarity or reduce policy friction are unlikely to translate into significantly deeper integration.

Overall, ASEAN's trade integration is limited by structural constraints that trade policies alone cannot resolve. The persistence of modest intraregional trade shares reflects the region's income gaps with advanced economies, the limited breadth of demand and production capabilities, and the weakness of investment flows within ASEAN. These structural limits explain why ASEAN's intraregional trade has remained broadly unchanged over time and why trade policy measures on their own, though necessary, will not be able to drive deeper integration to levels observed in the broader ASEAN+3 and the EU. By contrast, ASEAN's outward orientation toward Plus-3 partners reflects structural complementarities: larger and advanced economies provide the technological inputs, production sophistication, and market demand that complement ASEAN's development stage. This outward orientation is consistent with the region's fundamentals, even as ASEAN works to strengthen its own foundations for deeper intraregional trade over the longer term.

²⁵ As per the Linders' hypothesis, when incomes and product sophistication converge, demand structures overlap, boosting intra-industry trade and regional integration. For example, as discussed in Hallak (2010), income similarity and product-quality considerations have empirically led to stronger intra-industry trade.

²⁶ A two-stage least squares regression was conducted to identify the causal impact of FDI on bilateral trade flows in ASEAN, by instrumenting bilateral FDI with corporate tax differentials. The estimates confirm a positive, statistically significant relationship between FDI and trade after controlling for standard gravity covariates. Refer to AMRO (2026) for further details on the data and methodology.

²⁷ Gravity-based simulations combining growth and FDI projections are used to quantify the potential increase in intra-ASEAN trade under different scenarios. Refer to AMRO (2026) for further details on methodology and model specifications.

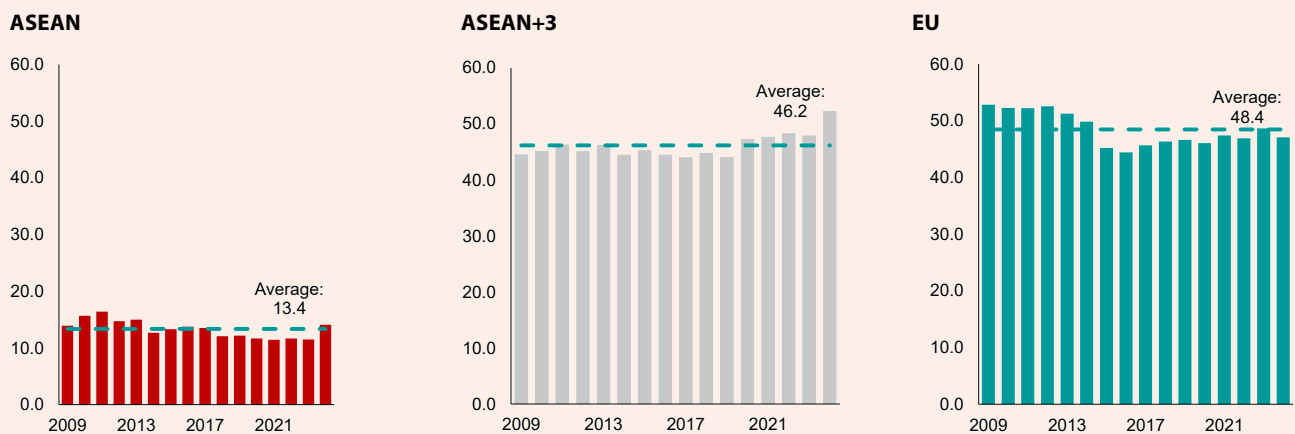
Figure 2.32. Diversity in Income and Industrial Capability in Selected Regions, 2023

Source: Harvard Growth Lab; International Monetary Fund; AMRO staff calculations.

Note: BN = Brunei; ID = Indonesia; KH = Cambodia; LA = Lao PDR; MM = Myanmar; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam; EU = EU-27 member economies; Plus-3 = China, Hong Kong, Japan, and Korea. The x-axis shows the Economic Complexity Index (ECI), while the y-axis represents the log GDP per capita. High income threshold follows the World Bank's definition in 2023. Negative ECI indicates the economy's export basket is less complex than the world average. The size of each bubble is the economy's nominal GDP for 2023, measured in USD. For ASEAN and ASEAN+3, the ECI for Brunei and Myanmar is unavailable. For the EU, ECI data for Cyprus, Estonia, Latvia, Luxembourg, and Malta are unavailable.

Figure 2.33. Intra-regional Investments in Selected Regions

(Percent of gross FDI stock)



Source: International Monetary Fund Coordinated Direct Investment Survey (IMF CDIS); AMRO staff calculations.

Note: EU = EU-27 member economies; FDI = Foreign Direct Investment. The data covers from 2009 to 2024, based on the availability of data in the IMF CDIS database.

Policy Pathways for Deeper ASEAN Integration

Sustained progress toward deeper ASEAN integration will depend on establishing the necessary economic fundamentals that trade and liberalization initiatives alone cannot achieve. The preceding analysis identified several structural factors that constrain deeper regional integration, including relatively lower and less diverse development levels that limit the capacity to trade differentiated products and build complementary specializations. Shallow intraregional investment has further hampered the development of domestic productive capacities and regional production networks. Two reinforcing policy pathways could complement ongoing efforts to realize trade and liberalization initiatives: first, leverage existing linkages in the global value chain to build domestic capabilities and market depth, which are critical foundations for deeper intraregional integration; and second, promote greater intraregional investment and firm internationalization to make production networks denser and to embed commercial linkages across borders. Taking together, these pathways offer a pragmatic route to translate formal openness into deeper regional trade and investment ties over time (Figure 2.34).

The realization of ASEAN's existing and planned integration initiatives remains a critical foundation for deeper regional integration. ASEAN's roadmap for strengthening the Economic Community between 2026 and 2030 provides an opportunity to consolidate progress and sharpen focus on areas that matter most for the private sector – reducing nontariff barriers, advancing services liberalization, and strengthening trade facilitation through consistent standards and interoperable processes. These initiatives hold significant potential to lower costs and uncertainty across markets, provided implementation is predictable and mutually recognized. Continued emphasis on the progressive streamlining of nontariff measures, steady liberalization of modern, digitally delivered services, and more efficient cross-border procedures will be especially important. Such measures can provide the enabling environment within which domestic capability upgrading, intraregional investment, and firm internationalization can take root, positioning trade and liberalization initiatives as essential pillars that reinforce the broader pathways to sustained ASEAN integration.

Figure 2.34. Policy Pathways to Deeper ASEAN Integration

Source: AMRO staff.

Note: While ASEAN's existing integration initiatives provide a strong foundation, these policies alone are unlikely to overcome deeper structural constraints on further regional integration. Refer to AMRO (2026) for a comprehensive analysis of ASEAN's current integration measures.

Leveraging Existing Global Value Chain Linkages for Domestic Upgrading

Existing global value chain linkages offer a practical way for ASEAN to build the economic fundamentals necessary for deeper intraregional integration. ASEAN's deep participation in global value chains and its role as a major destination for foreign investment provide practical existing channels to upgrade domestic industrial capabilities and, over time, develop the foundations for deeper integration – outcomes that liberalization measures alone are unlikely to secure. For instance, ASEAN's position in the global electrical and electronics sector – now tightly integrated into Asia's supply and production networks – and its growing role as a provider of digital services to both China and the United States (US) provide an opportunity to attract FDI in new growth areas, such as those related to artificial intelligence, and develop new capabilities to move up the technological ladder. Yet the extent to which such gains are realized depends on whether high-value FDI is matched by adequate domestic absorptive capacity. Human capital, institutional quality, openness in services, and financial development are all

important in determining whether external linkages lead to broad-based productivity improvements or remain confined to enclave activities.

Policy emphasis, therefore, falls on raising the yield from extraregional FDI and guiding domestic upgrading toward a more complementary regional supply base. This involves attracting FDIs with high spillovers and network-embedded activities matched to local capability starting points, strengthening linkages between anchor firms and local suppliers, and fostering industrial ecosystems where capabilities can accumulate and diffuse over time. Particular attention should be given to the role of small and medium-sized enterprises (SMEs), whose integration into regional and global supply chains is essential for broadening the base of firms that benefit from spillovers. Differentiation across member economies, aligned with comparative strengths, would help emerging specializations reinforce one another rather than duplicate efforts. In this way, existing global value chain linkages not only build the fundamentals identified earlier but also prepare the ground for stronger intra-ASEAN investment and firm internationalization.

Promoting Intraregional Investment and Firms' Internationalization

Building a more resilient ASEAN requires complementing existing global value chain linkages with denser ties among ASEAN members themselves. Trade openness and global FDI have firmly embedded individual ASEAN economies in international production networks, but predominantly through outward-facing, hub-and-spoke linkages with larger partners such as China, Japan, and Korea, rather than with each other. This has left intra-ASEAN investment comparatively shallow, constraining the development of dense intraregional supplier networks and the mutual interdependence that underpins thicker regional trade. Building such linkages requires not only maintaining attractive conditions for foreign capital but also supporting ASEAN's own firms to invest in regional peers. Outward investment by regional

firms is the channel through which domestic capabilities are translated into regional production links – reinforcing trade flows and gradually strengthening intra-ASEAN investment that has proven critical in other integration experiences.

Internationalization of ASEAN firms also represents the next stage of the region's structural transformation. Many member economies have advanced as recipients of foreign investment; the next phase is to nurture competitive domestic firms that expand across borders and embed their capabilities into regional production networks. This outward orientation not only reinforces integration but also supports the broader economic transformation needed for countries to move from middle- to higher-income status, as seen in past high-growth economies where outward investors drove industrial upgrading and

productivity growth (Figure 2.35).²⁸ SMEs will be central to this process, bringing specialized capabilities into supply chains but requiring broader ecosystems – skills and managerial upgrading, recognition of standards, efficient regulatory frameworks, and access to finance and enabling services – that allow them to scale across markets. In this framing, external integration builds capabilities, while intra-ASEAN investment and firm internationalization embed them regionally, creating a reinforcing cycle between domestic upgrading and deeper regional integration.

Finance-related initiatives can play a pivotal role in supporting the internationalization of ASEAN firms. As firms expand across borders, the availability of predictable and cost-effective financial services becomes an important enabler. Looking ahead, continued efforts to broaden cross-border payment linkages, promote the practical use of local currencies, deepen regional capital markets, and expand the regional reach of banking services can help create a more seamless environment for business expansion. For smaller enterprises in particular, such developments can reduce the frictions of operating in multiple jurisdictions and lower the risks associated with exchange rate volatility and working-capital constraints. In this way, financial cooperation complements the broader integration agenda by providing the foundations on which both large corporations and SMEs can participate more actively in regional production networks and investment flows.

ASEAN's intraregional trade share could rise to nearly 40 percent by 2050 if efforts to build domestic capabilities and strengthen intraregional investment are advanced. Model simulations indicate that, with all identified pathways advancing in tandem, intra-ASEAN trade could approach 40 percent by 2050, compared to only 25 percent to 30 percent under baseline projections, underscoring the scale of the opportunity (Figure 2.36). The potential gains reflect a reinforcing cycle: external investment helps build technological and managerial capacity; internationalizing firms embed these capabilities into regional networks; and stronger intra-ASEAN investment creates the mutual interdependence that attracts higher-quality capital and sustains more intensive trade. In this sense, ASEAN is in effect pursuing a regionwide investment strategy – focused on capability formation and regional investment linkages that complement its long-standing commitment to trade openness.

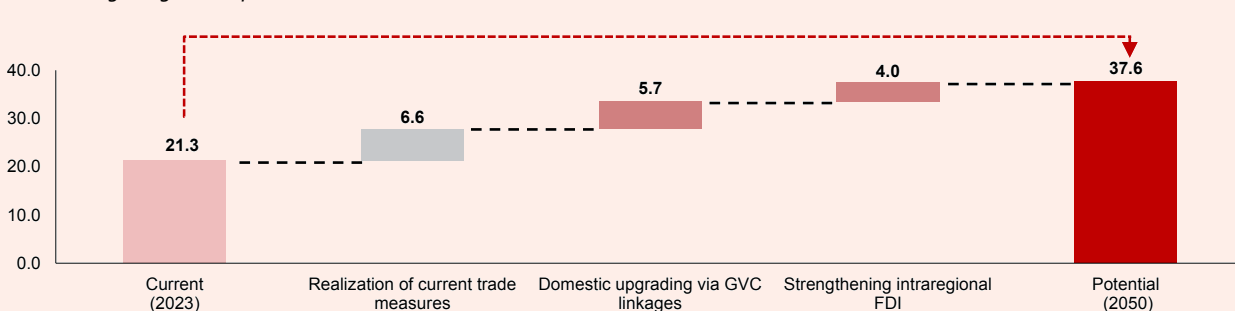
Looking ahead, deeper regional integration pursued alongside continued global openness will be essential to strengthen ASEAN's resilience. By focusing on leveraging its extraregional ties to strengthen economic fundamentals and deepening regional investment links, ASEAN can reinforce the outward orientation that has underpinned its success. A balanced strategy of deeper regional integration alongside continued global openness will enhance resilience, consolidate more competitive supply chains, and chart a path of shared prosperity in an increasingly uncertain world.

Figure 2.35. Structural Transformation from the Perspective of Firm Development



Source: AMRO staff.

Figure 2.36. Potential Policy Impacts on Intra-ASEAN Trade Integration
(Percent of gross goods exports)



Source: AMRO staff estimates.

Note: FDI = Foreign direct investment; GVC = Global value chain. This is based on a simulation in which ASEAN+3 economies converge toward the region's productivity frontier by 2050, while ASEAN fully leverages existing trade policies, and sees intra-regional FDI rise toward the level predicted by an FDI gravity model. Refer to AMRO (2026) for methodological details.

²⁸ This pattern is documented well in the literature. For instance, Cherif and Hasanov (2019) showed that economies developing internationally competitive firms in advanced industries moved up the value chain and transformed their economic structure, achieving rapid growth and sustaining high-income status.