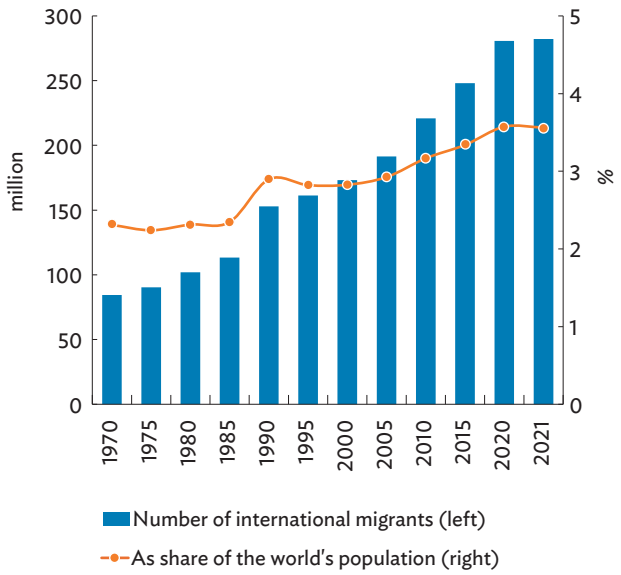
5 Movement of People

Migration

Cross-Border Migration Has Provided Opportunities for Economic Mobility and Higher Welfare

Between 1970 and 2021, international migrants had tripled in number from 84.5 million to 282 million, a moderate yet sustained increase heralding the greater movement of people in tandem with the global economy's pursuit of the freer exchange of goods, services, and capital (Figure 5.1).[42] The intensity and volume of migration have been influenced by various factors. The evolution of the industrial structure and systems of production, the availability of cross-border employment and advancements in transportation and communications, and the pursuit of greater economic gains, along with key global conflicts, have all impacted the cross-border movement of people.[43]

Figure 5.1: Number of International Migrants



Sources: ADB calculations using data from McAuliffe and Oucho (2024); and United Nations. Department of Economic and Social Affairs, Population Division (UN DESA). International Migrant Stock 2020. https://www.un.org/development/desa/pd/content/international-migrant-stock (accessed May 2024); World Bank Group. Global Knowledge Partnership on Migration and Development (KNOMAD). KNOMAD/World Bank Bilateral Migration Matrix 2021, December 2022. https://prosperitydata360.worldbank.org/en/indicator/WB+KNOMAD+MIG (accessed July 2024); and UN DESA. World Population Prospects 2024. https://population.un.org/wpp/ (accessed September 2024).

Migration has been integral to the development of Asia and the Pacific.

Cross-border migration is a major component of Asia's development journey. From 1990, out-migration from Asia grew by about 91% to 95 million in 2021, with one in three global migrants originating from the region (Figure 5.2). Another notable feature is that outbound migration from the region is increasingly directed toward destinations outside Asia. In 1990, economies outside the region hosted about 53.6% of Asian migrants (Figure 5.3). By 2021, this had gone up to almost 65%, with the Middle East, as major host, to about 57% of Asian out-migrants.

[42] Throughout this section, references to migrants in the context of frameworks, agreements, conditions, and movement refer to international economic migrants or international migrant workers, unless otherwise specified.

[43] For instance, at the turn of the 20th century, people in the agriculture sector mass-migrated from Europe to the Americas and to other lands with temperate climates (Nayyar 2000). The introduction of passports and other border control documents in 1919 to 1939 dented cross border movements only to pick up again after World War II, with the United States (US) and Latin America as primary destinations.

Figure 5.2: Outbound Migrants from Asia and the Pacific

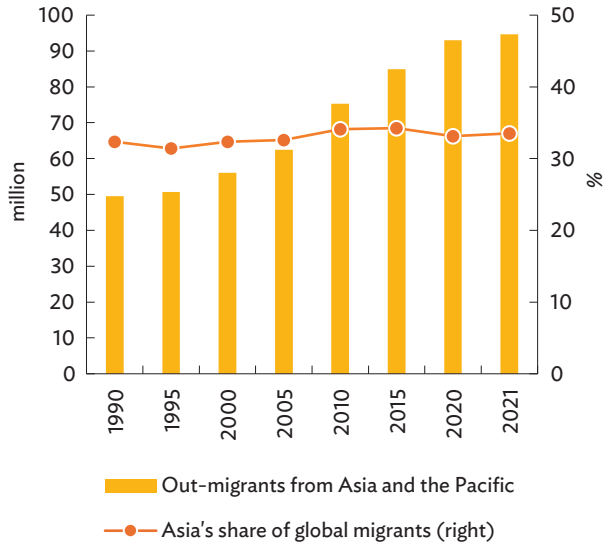
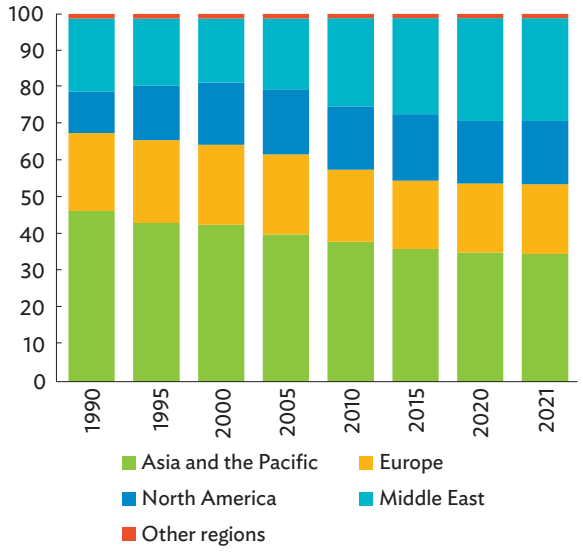


Figure 5.3: Asian Migrants by Destination Regions *(%)*



Source: ADB calculations using data from United Nations Department of Economic and Social Affairs, Population Division. International Migrant Stock 2020. https://www.un.org/development/desa/pd/content/international-migrant-stock (accessed May 2024); and World Bank Group. Global Knowledge Partnership on Migration and Development (KNOMAD). KNOMAD/World Bank Bilateral Migration Matrix 2021, December 2022. https://prosperitydata360.worldbank.org/en/dataset/WB+KNOMAD (accessed September 2024).

Out-migration from the region was led by South Asia and Southeast Asia.

South Asia accounted for nearly half of total Asian out-migrants (Figure 5.4). Among the top 10 migrant-sending economies from the region in 2021, migrants from four South Asian economies comprised 36.6% of the total out-migrants. Southeast Asia has also been gaining ground as a key source subregion. Led by the Philippines, Indonesia, and Viet Nam, the share of Southeast Asia as a source subregion increased to 25.0% of total out-migrants in 2021, from 15.6% in the 1990s. Saudi Arabia, the US, and the United Arab Emirates figure as the top destinations for Asian migrants, especially those from South Asia and Southeast Asia. Relative to 2019, the outflow of Asian migrants slowed when the pandemic struck in 2020 but has since resumed (Figure 5.5).

Asian migrants have increasingly sought more opportunities beyond the region.

Asian migrants have gained more presence in the Middle East and North America (Figure 5.6). From 2000, their number has increased by 16.7 million in the Middle East and by 6.8 million in North America. This increase was caused, in part, by the influence of international labor agreements that sending economies in Asia and major host economies entered into within bilateral or regional frameworks. Middle Eastern destinations also offer more opportunities for workers from different skills categories, while some migrant employment programs in major destinations such as North America provide permanent residency possibilities (Kikkawa, Gaspar, and Park 2019).

Asian subregions exhibit diverse profiles in intraregional migration patterns.

The intraregional migration share remained at 39.5%, on average, from 1990 to 2021. Oceania, East Asia, and Southeast Asia were the leading subregions in intrasubregional migration (Figure 5.7). Around 48% of migrants from Australia and New Zealand migrated between these two economies, while about one-third of migrants from East Asia and Southeast Asia went to economies in their respective subregions. Central Asia's strong ties with the Russian Federation explain why at least 90% of its migrants are in non-Asian economies. Within the region, Australia, Thailand, Malaysia, and

Figure 5.4: Sources of Asian Out-Migrant Stock by Subregion (% share of total)

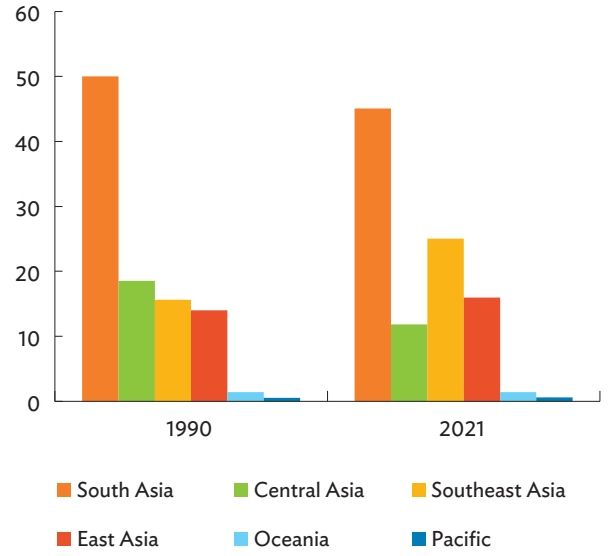
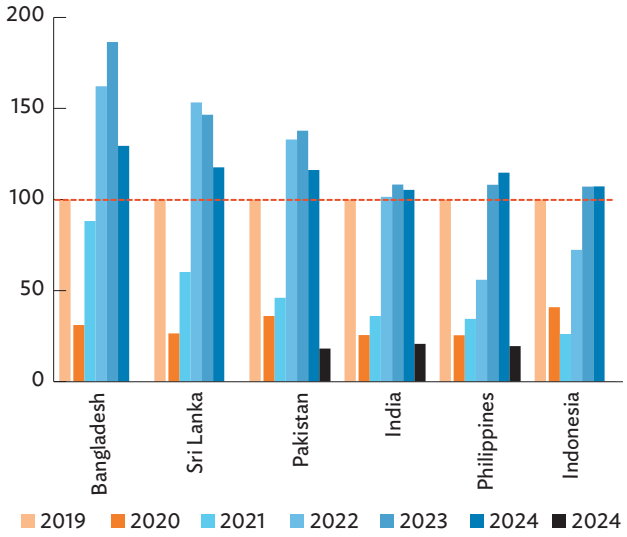


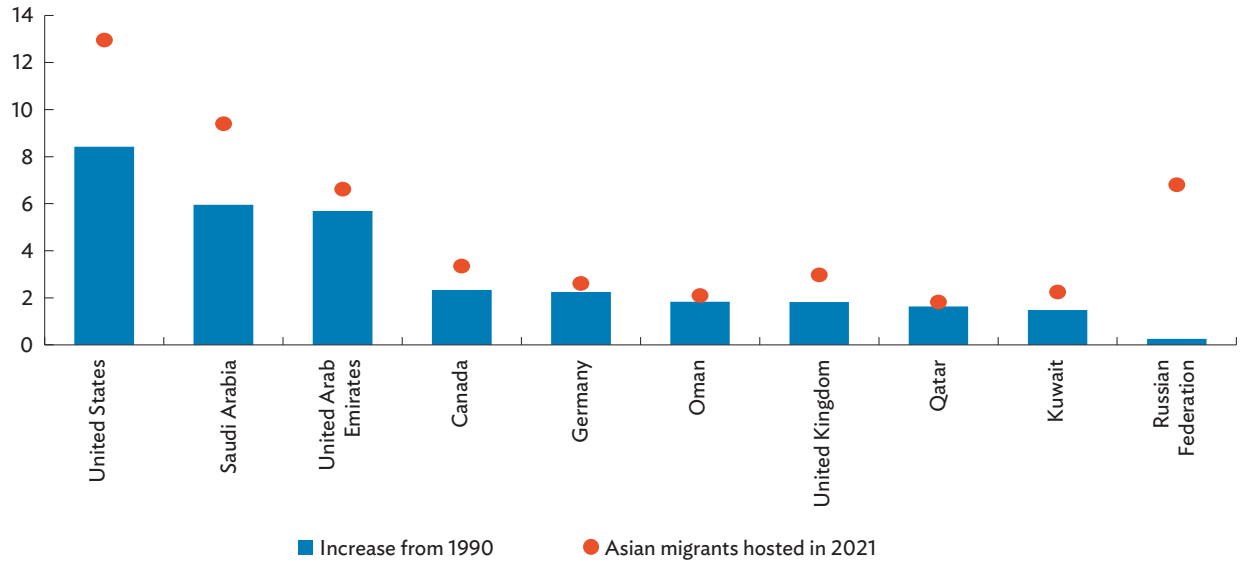
Figure 5.5: Outflow of Migrant Workers from Selected Asian Economies (2019 = 100)



Note: The 2024 data are up to October for Sri Lanka.

Source: ADB calculations using data from Central Bank of Sri Lanka. https://www.cbsl.gov.lk/en/statistics/statistical-tables/external-sector (accessed March 2025); Government of Bangladesh, Bureau of Manpower, Employment, and Training. http://www.old.bmet.gov.bd/BMET/stattisticalDataAction (accessed March 2025); Government of India, Ministry of External Affairs. Performance Smartboard. https://meadashboard.gov.in/indicators/15 (accessed March 2025); Government of Indonesia, Migrant Worker Protection Agency (Badan Pelindungan Pekerja Migran Indonesia). https://bp2mi.go.id/ (accessed March 2025); Government of Pakistan, Bureau of Emigration and Overseas Employment. https://beoe.gov.pk/reports-and-statistics (accessed March 2025); Government of the Philippines, Department of Migrant Workers. https://dmw.gov.ph/statistics/overseas-employment-statistics (accessed March 2025); United Nations Department of Economic and Social Affairs, Population Division. International Migrant Stock 2020. https://www.un.org/development/desa/pd/content/international-migrant-stock (accessed May 2024); and World Bank Group. Global Knowledge Partnership on Migration and Development (KNOMAD). KNOMAD/World Bank Bilateral Migration Matrix 2021, December 2022. https://prosperitydata360.worldbank.org/en/dataset/WB+KNOMAD (accessed September 2024).

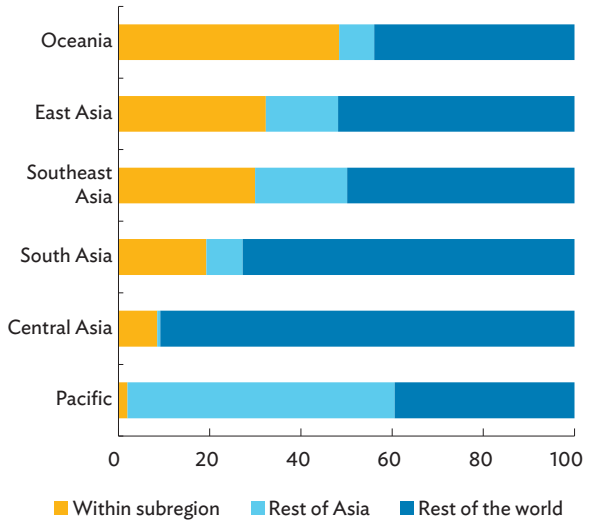
Figure 5.6: Major Extraregional Hosts of Asia and Pacific Migrants in 2021 (million)



Source: ADB calculations using data from United Nations Department of Economic and Social Affairs, Population Division. International Migrant Stock 2020. https://www.un.org/development/desa/pd/content/international-migrant-stock (accessed May 2024); and World Bank Group. Global Knowledge Partnership on Migration and Development (KNOMAD). KNOMAD/World Bank Bilateral Migration Matrix 2021, December 2022. https://prosperitydata360.worldbank.org/en/dataset/WB+KNOMAD (accessed June 2024).

Pakistan figure as major destinations of Asian migrants. Pakistan hosted migrants from Indonesia, the People's Republic of China (PRC), and Sri Lanka. Thailand mostly hosted working migrants from the neighboring Lao People's Democratic Republic (Lao PDR) and Cambodia. Meanwhile, Malaysia hosted migrants mostly from Indonesia and Nepal. Whereas absolute numbers put Australia as a key destination for migrants from the PRC, the Philippines, and Viet Nam, the majority of migrants to Australia are from the United Kingdom (UK).[44] Among Pacific developing economies, migrants from Fiji, Samoa, and Tonga account for 84.8% of migrants in Oceania.

Figure 5.7: Intraregional Migration by Asian Subregion *(%)*



Source: ADB calculations using data from United Nations Department of Economic and Social Affairs, Population Division. International Migrant Stock 2020. https://www.un.org/development/desa/pd/content/international-migrant-stock (accessed May 2024); and World Bank Group. Global Knowledge Partnership on Migration and Development (KNOMAD). KNOMAD/World Bank Bilateral Migration Matrix 2021, December 2022. https://prosperitydata360.worldbank.org/en/dataset/WB+KNOMAD(accessed June 2024).

Migration and Regional Cooperation and Integration

Over the past 2 decades, bilateral cooperation among governments on migration has intensified. It spans the entire spectrum of mobility governance from highly formalized to informal cooperation—from fully-fledged formal mobility frameworks and trade-related agreements that include migrant mobility components to economic cooperation frameworks that only facilitate specific aspects of mobility, or informal migration dialogues (Frankenhaeuser, Huss, and Frelak 2018). Meanwhile, the Global Compact for Migration (GCM), adopted in December 2018, promotes safe, orderly, and regular migration while emphasizing human and worker rights. The GCM provides broad principles to guide national and regional migration policies.

International labor agreements can be treaties between economies or economic groups, as components of regional trade accords, or as ways to promote the mobility of highly skilled labor.

Bilateral Labor Agreements

A bilateral labor agreement (BLA) is an accord between two economies concerning the movement of workers for migration and employment, often focusing on low-skilled labor. Although BLAs often take the form of a memorandum of understanding (MOU), their structure can be adapted to the specific needs of certain groups of migrants. Ideally, both sending and receiving economies share the resources and burden of ensuring adequate conditions for migrants, monitoring migrants, regulating intermediaries (i.e., recruitment agencies), and managing pre- and post-migration processes. Often, migration flows between economies already exist through informal channels and private recruitment agencies before a formal BLA is established.

While the agreement is mutual, the motivations and benefits to sending and receiving economies vary. Economies hosting economic migrants aim to address the labor needs of various industries, manage regular and irregular migration, and promote cultural and political ties with their cosignatories (Blank 2011; Go 2007). Meanwhile, migrant-sending economies aim to maintain access to labor markets while ensuring to protect

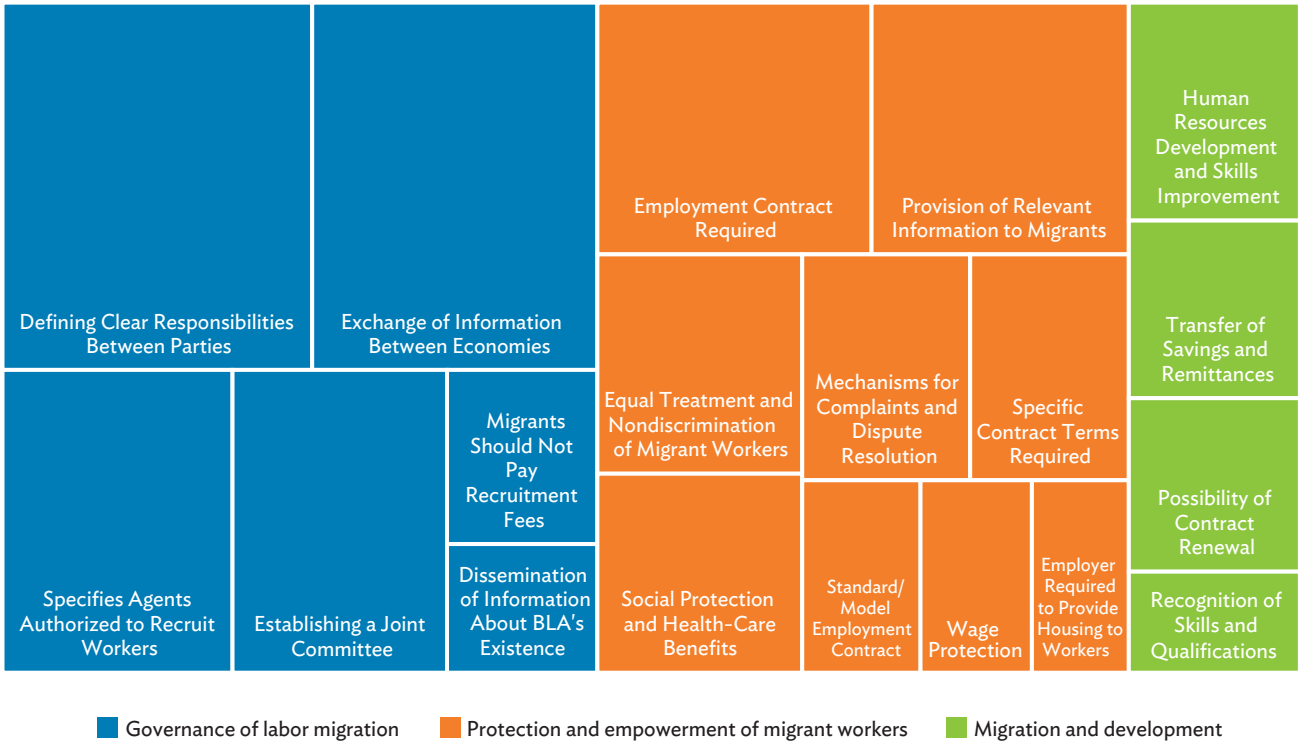
[44] Active migration between the United Kingdom (UK) and Australia is driven by historical and cultural ties. Modern factors include trade agreements like the Australia–UK Free Trade Agreement, which eases labor mobility through working holiday visas and mutual recognition of professional qualifications.

migrant workers' rights, ease unemployment pressures at home, increase capital flows as remittances (Blank 2011; Go 2007), and encourage repatriation of migrants, while mitigating brain drain effects (Oh 1977; Ozden and Schiff 2006).

Most BLA elements cover governance and information exchange, with varying emphasis on migrant worker protection and development aspects. The most commonly addressed topics in these agreements include defining clear responsibilities between parties, such as designating responsible line ministries for implementation (66.8%) and the exchange of information between economies (61.5%), highlighting the importance of structured management and effective bilateral communication in labor migration (Figure 5.8). Notably, provisions for the transfer of savings and remittances (17.8%) and the recognition of skills and qualifications (10.1%), which are key factors in migration and development, have limited inclusion.

Since 1990, the proportion of BLAs involving at least one Asian economy as a signatory has increased, underscoring the growing role of Asia as both a source and destination for migrant workers (Figure 5.9). More Southeast and South Asian economies entered into treaties with partners from the Middle East and East Asia. Australia, New Zealand, and the Republic of Korea have also increasingly engaged in BLAs such as the Republic of Korea's Employment Permit System, New Zealand's Recognized Seasonal Employer initiative and Seasonal Worker Program, and Australia's Pacific Labour Scheme with selected Pacific countries. East Asia and Southeast Asia are very active in engaging in intrasubregional BLAs, while Oceania engages in BLAs only with the Pacific and Southeast Asia. These developments suggest that regional economic integration and the potential for greater cooperation on labor issues could lead to more standardized labor practices and improved protections for migrant workers within the region.

Figure 5.8: Specific Provisions in Bilateral Labor Agreements

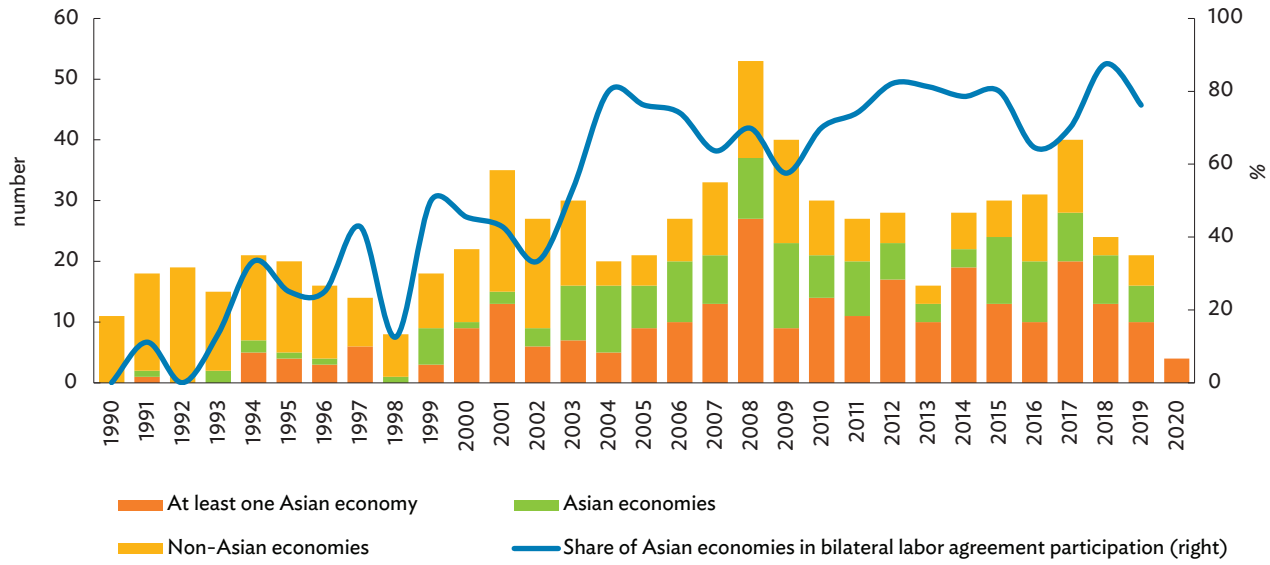


BLA = bilateral labor agreement.

Note: Data refer to BLAs signed since 1990, where Asian economies participate.

Source: ADB compilation based on Chilton and Woda (2022).

Figure 5.9: Number of Bilateral Labor Agreements



Sources: Chilton and Woda (2022); Chilton and Posner (2018); and Peters (2019).

Despite the positive association between the presence of BLAs and the migrant stock, the literature shows mixed findings on the causal impact of the agreements on facilitating labor migration. Early studies on the impact of BLAs on migrant flow indicate that most coincided with an increase in migrant flows on the year of the agreement and the year after (Battistella and Khadria 2011). Studies using global data sets in the recent decade indicate that signing BLAs could increase migrant flows. For example, a global data set of 582 BLAs from 1945 to 2015 revealed that economies with such agreements experienced higher migration (Chilton and Posner 2018), while Peters (2019) found BLAs to be correlated with an average increase in migrant flows of between 7% and 200% within 5 years. Agreements covering a broader set of industries also generated more migrant flows than those with limited or targeted sectors. However, this positive association did not explain causation, suggesting extraneous factors were at play and contributed to the increase in migrant flow. Some other studies found little to no relationship. For instance, O'Steen (2021) found no empirical evidence that the participation of the Philippines in BLAs effectively promoted labor mobility.

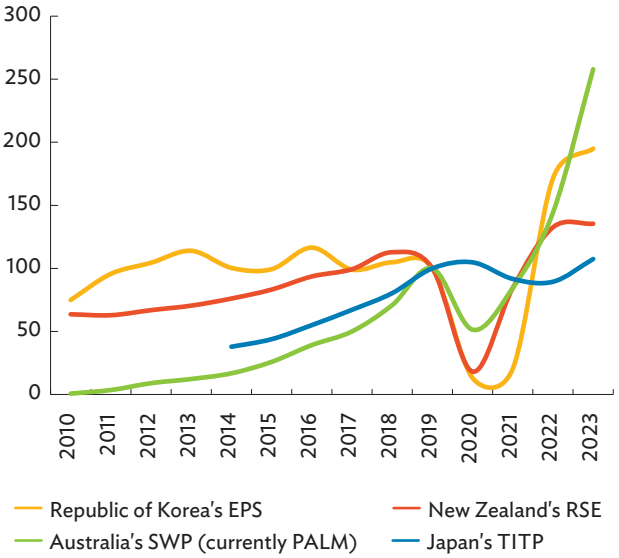
The solid structural framework of BLAs still allows ample room to address the economic and personal welfare issues of migrants. Homelessness, health outcomes, poverty, and access to education are just some of the issues that continue to challenge the viability of migration, depending on conditions in the destination economy. Migrant workers in the Middle East face work-related risks, such as labor exploitation, legal and social discrimination, physical and mental health issues, especially during the pandemic (International Labour Organization 2016; Ali, Al-Khani, and Sidahmed 2020; Karasapan 2020; Kikkawa et al. 2022; Jamil and Dutta 2021). In Australia, 11% of migrants lived in crowded housing in 2021, compared to the 7% national average.[45] In terms of affordability, around 28% of migrants spent 30% of their household income on rent while another 30% spent it on mortgage repayments. About 8% of skilled migrants in Australia accessed unemployment benefits compared to 13% for the national level. Meanwhile, Tsai and Gu (2019) found no significant difference between the lifetime adult homelessness rates of foreign-born (1%) and native-born workers (1.7%) in the United States (US), one of the top destinations of Asian migrants. However,

[45] Australian Bureau of Statistics. Migrant Settlement Outcomes. https://www.abs.gov.au/statistics/people/people-and-communities/migrant-settlement-outcomes/latest-release#data-downloads (accessed August 2024).

migrants were less likely to have mental health and substance abuse issues. They were also less likely to receive welfare and lifetime incarceration. However, this was not the case in Japan where mental health was affected by trouble in communicating in Japanese , being female, and lack of support (Miller et al. 2019). Migrant poverty is also a concern. Gilleland, Lurie, and Rankin (2016) found 22.3% of immigrants in the US to be living in poverty, compared to 13.2% of the US citizens.

As demand for Asian migrant workers rises in the post-pandemic period, BLAs are likely to become increasingly more important. Under these agreements a significant rise in inbound migrant flows occurred to major host economies such as the Republic of Korea, New Zealand, and Australia, driven by labor shortages in low-skilled sectors and the challenges from declining working-age populations in host economies (Figure 5.10). By helping to ensure that host economies have the necessary workforce to operate efficiently, BLAs have become even more crucial in the context of demographic challenges and post-pandemic growth goals.

Figure 5.10: Number of Labor Migrants in Major Host Economies in Asia Under Bilateral Labor Agreements
(2019 = 100)



EPS = Employment Permit System, PALM = Pacific Australia Labour Mobility, RSE = Recognised Seasonal Employer, SWP = Seasonal Worker Program, TITP = Technical Intern Training Program.

Notes:

(i) For the Republic of Korea, the EPS is mainly for manufacturing, agriculture, and construction; numbers include those under E9 visas; up to 4 years and 10 months.
(ii) For New Zealand, the RSE is mainly for agriculture (horticulture and viticulture); up to 7 months.
(iii) For Australia, the SWP is mainly for agriculture and accommodation sectors; in 2022, SWP was replaced by the Temporary Work visa (subclass 403; stay up to 9 months under a short-term contract or up to 4 years under a long-term contract) under PALM; and SWP and the Pacific Labour Scheme were consolidated and replaced by PALM.
(iv) For Japan, the TITP is mainly for manufacturing, construction, and agriculture; up to 5 years.

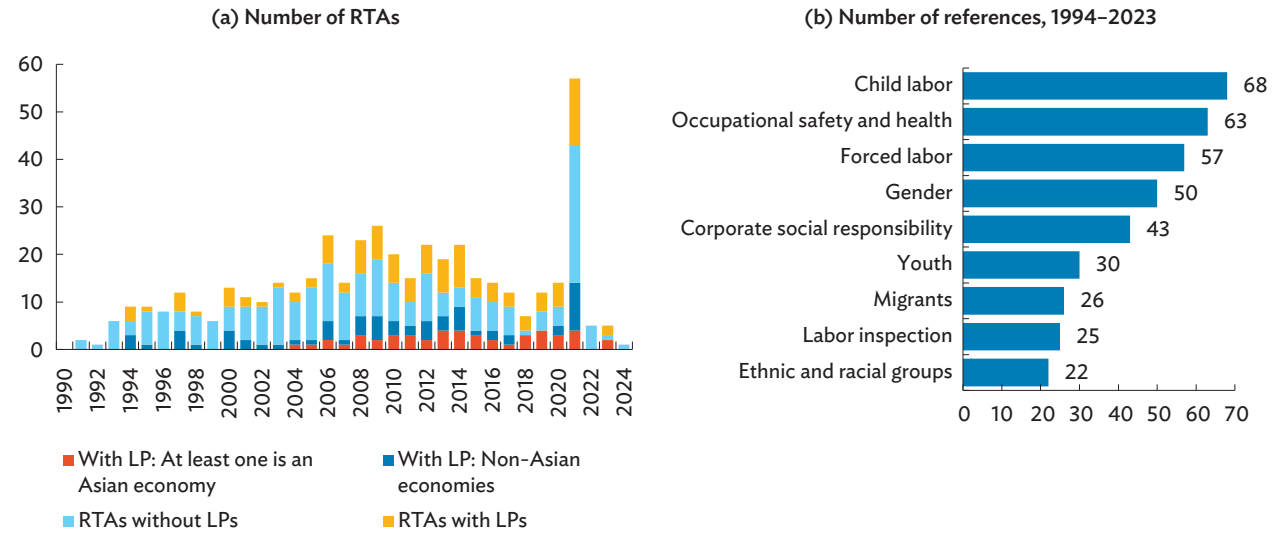
Sources: ADB calculations using data from Australian Government, Department of Employment and Workplace Relations. Pacific Australia Labour Mobility Scheme. https://www.dewr.gov.au/pacific-australia-labour-mobility-scheme; Korean Statistical Information Service. Statistical Database. https://kosis.kr/eng/; New Zealand Immigration. Recognised Seasonal Employer (RSE) Scheme Research. https://www.immigration.govt.nz/about-us/research-and-statistics/research-reports/recognised-seasonal-employer-rse-scheme; and Statista. https://www.statista.com/ (all accessed August 2024).

Regional Trade Agreements with Labor and Migration Provisions

Regional trade agreements (RTAs) are often used to incorporate labor provisions to ensure compliance with labor rights and standards for workers, regardless of their nationality. As of March 2024, labor provisions or chapters were found in 33% of all RTAs in force since 1990. This is equivalent to 115 RTAs that contain labor provisions in trade agreements spread across three categories—obligations, monitoring and cooperation, and dispute settle mechanisms (Corley-Coulibaly, Postolachi, and Tesfay 2021).[46] RTAs with labor provisions are more common between non-Asian economies (Figure 5.11a). Among Asian economies, Australia and New Zealand are the primary players. Thematic areas that are mostly covered in trade agreements with labor provisions include child labor (68 out of 115), occupational safety and health (63), and forced labor (57) (Figure 5.11b). However, the lower participation of developing Asian economies in such agreements may limit their impact on facilitating labor migration, particularly for Asian workers.

[46] Labor obligations are domestic and international commitments in labor standards made by signatories of the trade agreement. Monitoring and cooperation are mechanisms to promote labor obligation compliance through dialogues and cooperation activities. Dispute settlement mechanism relates to the resolution of noncompliance issues through processes agreed by stakeholders.

Figure 5.11: Regional Trade Agreements with Labor Provisions



LP = labor provision, RTA = regional trade agreement.

Source: International Labour Organization. Labour Provisions in Trade Agreements Hub. https://webapps.ilo.org/LPhub/ (accessed June 2024).

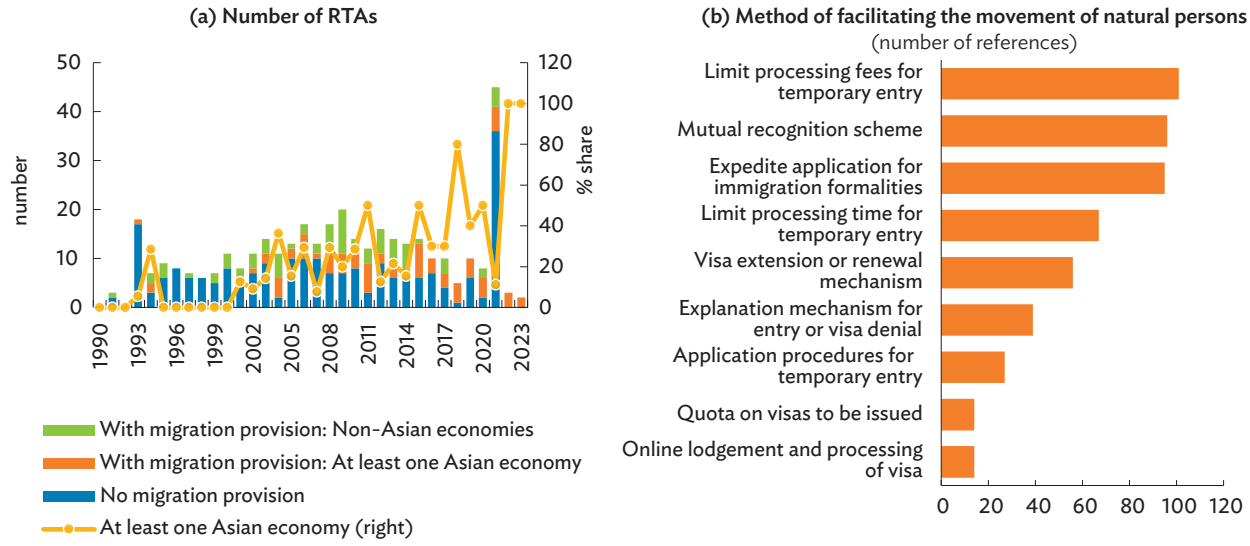
Trade agreements also function as platforms to facilitate the temporary movement of highly skilled workers. Migration provisions within these agreements are designed to enable the mobility of individuals involved in trade in goods, the supply of services, or the conduct of investment, all in relation to the agreement's objectives. Since the 2000s, the inclusion of such provisions has been steadily rising, often involving at least one Asian economy as a signatory (Figure 5.12a). The migration of professionals and skilled workers is primarily facilitated through mechanisms such as reduced processing fees, mutual recognition agreements, and expedited procedures (Figure 5.12b). Studies find that provisions on visas and asylum can be effective in facilitating bilateral migration flows (Orefice 2015; Figueiredo, Lima, and Orefice 2015; and Levelu, Mayda, and Orefice 2023).

Mutual Recognition Arrangements

Mutual recognition arrangements (MRAs) aim to promote labor mobility of professionals by recognizing their qualifications across borders. MRAs enable the qualifications of services suppliers, recognized by the authorities in their home economy, to be mutually recognized by other economies who are signatories to the MRAs.[47] Examples of MRAs are those in the Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN). The ASEAN Framework Agreement on Services, signed on 15 December 1995, recognizes the importance of MRAs to facilitate deeper services trade integration in ASEAN. Meanwhile, the APEC MRAs are part of the APEC Services Competitiveness Roadmap (2016–2025) that supports the "cross-border mobility for professionals, building on initiatives such as the APEC Architects and Engineers Registers to facilitate mutual recognition arrangements."

[47] MRAs can be established through various means, for example, regional trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and ASEAN Framework Agreement on Services; bilateral free trade agreements (FTAs) (Republic of Korea–Canada); multilateral agreements (the Washington Accord; APEC MRA); and bilateral agreements (Trans-Tasman Mutual Recognition Arrangement).

Figure 5.12: Regional Trade Agreements with Migration Provisions



RTA = regional trade agreement.

Notes: Panel (a) is based on labor provisions typology by Corley-Coulibaly, Postolachi, and Tesfay (2021) for the obligations category of RTAs. Panel (b) refers to the top 10 provisions in 400 RTAs using the Visa and Asylum subsection of the Deep Trade Agreements Database.

Source: ADB calculations using data from World Bank. Deep Trade Agreements Database. https://datatopics.worldbank.org/dta/table.html (accessed July 2024).

MRAs have expanded, but participation among economies remains uneven, and the range of occupations covered is limited. APEC's Inventory of Mutual Recognition Agreements for Professional Qualifications and Licensure lists 210 MRAs that involve at least one APEC economy. There were 15 agreements enacted in the 1990s, 41 in the 2000s, and 97 in the 2010s—80% of these are bilateral single-profession MRAs, while around 20 are multilateral single-profession MRAs (APEC Secretariat 2024a). About half of the member economies have entered into 10 or fewer MRAs, while five are engaged in 40 or more. About 80% of MRAs in APEC cover professions for engineers, accountants, surveyors, actuaries, and architects. ASEAN has concluded and signed MRAs in several professions: (i) engineering services (December 2005); (ii) nursing services (December 2006); (iii) architectural services and surveying professionals (November 2007); (iv) medical practitioners; (v) dental practitioners (February 2009); (vi) accountancy services (February 2009 and November 2014); and (vii) tourism professionals (November 2012).

Implementation of MRAs is often complex and resource intensive, and their effectiveness varies significantly across sectors and regions. Full implementation of MRAs requires clear processes for mutual recognition and registration, but national barriers slow progress (Mendoza and Sugiyarto 2017). Many MRAs focus on recognizing formal qualifications rather than on-the-job experience, limiting their effectiveness (Mendoza et al. 2017). Harmonizing training standards requires significant investment, and decentralized enforcement complicates compliance. Whereas MRAs in technical fields like engineering and accounting are common, their impact on mobility is limited (APEC 2024a). In ASEAN, health care-related MRAs have shown limited outputs because of stringent national regulations, whereas unregulated sectors like tourism professions have achieved more (Hamanaka and Jusoh 2018). In contrast, the experience of the European Union (EU) shows that mutual recognition has facilitated trade in services and improved intra-EU mobility, particularly in health and education (Nordas 2016). As digital economies expand, domestic regulations could become major barriers to cross-border digital services (mode 1),

similar to challenges in movement of individuals (mode 4). Embracing digital credentialing may be a key step toward professional recognition in a more digitally connected world (ADB 2022).

Labor Mobility Partnerships

Labor mobility partnerships (LMP), also known as skill mobility partnerships, are emerging frameworks that go beyond BLAs by encompassing labor market policies and development objectives (Box 5.1). These connect issues on skills and training placements, mutual recognition of professional qualifications, and circular migration to ensure the fair distribution of benefits (Huckstep and Clemens 2023). LMPs require support from both governments of the origin and destination economies and close collaboration with the private sector to share the benefits of labor migration. This type of partnership is an important component of the European Union's Global Approach to Migration and Mobility.

However, fully implementing LMPs presents significant challenges related to costs, skills recognition, and coordination. Issues arise regarding the cost-sharing structure of training programs and pilot projects and the insufficient transfer of resources to origin economies. These cost challenges limit the scalability of labor mobility partnership programs and projects (OECD 2018). Training programs conducted at destination economies, which are intended to benefit home economies through return migration, often have insufficient recognition and few opportunities to utilize these skills at home. Another challenge is enhancing the participation of employers in both economies to better satisfy employer requirements on worker skill levels and training program reliability and timeliness. Employers may be more focused on immediate training needs and labor gaps and may be unwilling to invest in building long-term skills (IOM 2023). Involving multiple stakeholders presents its own set of coordination challenges. The negotiations required to design and implement programs that cater to specific national contexts and sector requirements make scalability a major hurdle (European Migration Network 2022).

Policy Considerations

Moving forward, labor migration is likely to play an increasingly vital role in the global economy as a declining working-age population in major host economies intensify the demand for foreign labor. Many advanced economies are experiencing aging populations and shrinking workforces, driving the need for migrant workers to fill labor gaps across various sectors. At the same time, the growing impacts of climate change are expected to accelerate migration from vulnerable regions, with individuals and communities seeking new livelihoods and safer environments (Box 5.2).

In the context of the rising importance of labor migration, it is equally critical to ensure that the benefits are shared among all stakeholders—origin economies, host economies, and migrant communities. This section explores key national and international policy considerations to ensure that labor migration delivers inclusive and sustainable benefits for all parties involved.

Integrate the vital role of international migration into the development policy. To maximize migration's development impact, models like Skills Mobility Partnerships, which are designed to benefit all stakeholders—migrant workers, origin and destination economies—could promote net gains from labor migration. Incorporating development aspects, such as remittance facilitation, into bilateral labor agreements could enhance positive outcomes, including greater financial inclusion, in origin economies. National and regional migration policies, for both source and host economies, could take guidance from the Global Compact for Migration to promote safe, orderly, and regular migration.

At bilateral and regional levels, aiming for more extensive labor migration agreements with practical mechanisms for enforceability and monitoring could ensure a better flow of migrants and better reduce skills mismatches and labor shortages, the protection of migrant rights, fair recruitment, and the portability of social security benefits. Creating a multiagency support structure for labor mobility partnerships could

Box 5.1: Examples of Labor Mobility Partnerships

Several models of labor mobility partnerships have been tested, including the Global Skill Partnership model proposed by Clemens (2015). The European Union (EU) Talent Partnership Initiative is another example of labor mobility partnerships that seek to broaden the legal pathways for migration to the EU while engaging partner economies on migration management. Cooperation is tailor-made according to the labor market and skills needs of both the destination and origin economies, and direct assistance is provided by EU partner economies to support vocational training programs and professional exchange schemes. Other labor mobility partnership models include Skills Mobility Partnerships by the International Organization for Migration, Skills Mobility Schemes by the Organisation for Economic Co-operation and Development (OECD), and Transnational Skills and Mobility Partnerships by the Bertelsmann Foundation. These models often differ on the form of engagement (memorandum of understanding, trade-related agreement, migration partnership), the type of migration encouraged (short term, longer term, circular, or permanent), the skill level being developed (low, mid, or high), the location of the skills training (home or destination economy, or both), and the funding structure (public, private, international organizations, foundations, or mixed) (IOM 2023). The box table provides a brief overview of some programs that have been designed and piloted as labor mobility partnerships.

Labor Mobility Partnership Projects

Project Name	Features	Actors
Australia Pacific Training Coalition (APTC)	• Home economy-based skills and vocational training (automotive, construction, electrical and manufacturing, health and community services, hospitality and tourism) • Embedding APTC programs into Pacific technical and vocational education and training (TVET) systems	Australian and Pacific governments, regional government organizations, Pacific TVET systems, industry peak bodies, individual employers
PAM (Partnership Approaches to Development-oriented Training and Labor Migration)	• Full vocational training in Germany • Internship placement for trainees • Training in economy of origin	German Ministry for Economic Cooperation and Development (BMZ), Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)
THAMM (Towards a Holistic Approach to Labour Migration Governance and Labour Mobility in North Africa) project	• Taking up skilled employment • Full vocational training in Germany	GIZ; ZAV (Federal Employment Agency); European Union; BMZ; Moroccan Ministry of Employment and Professional Integration; Agency for Employment and Self-Employment in Tunisia (ANETI); Egyptian Ministry of State for Emigration and Egyptian Expatriates Affairs (MoSEEEA)
tQMP Bau (Transnationale Qualifizierungs- und Mobilitätspartnerschaften - Bau Academy) Bau	• Vocational training at Bavarian State Association of Bavarian Construction Guilds (LBB) member companies • VET partnership—Bau Academy in Kosovo	Kosovo Ministry of Labor and Social Welfare (MLSW), Bavarian State Association of Bavarian Construction Guilds (LBB), GIZ
Triple Win Nurses	• Taking up skilled employment • Adaptive qualifications to receive skills recognition	ZAV (Federal Employment Agency); GIZ; employment agencies in the partner economies (Bosnia-Herzegovina, India (state of Kerala), Indonesia, Jordan, Philippines, Tunisia)

Sources: Government of Australia, Department of Foreign Affairs and Trade (2017); World Bank (2024); and Sauer and Volarević (2021).

provide the required push for the actual take-off of mutual recognition of skills arrangements, while helping to address the key challenges of the cost-sharing structure in training programs and pilot projects between sending and destination economies. More important, the inclusion of remittance-related provisions in all labor migration agreements would underscore the vast development potential of migrants' remittances, contribute to data infrastructure on remittances, and complement existing remittance initiatives.

Box 5.2: Migration, Aging Populations, and Climate Change

Migration and Aging Populations

Population estimates by the United Nations indicate that the number of people aged 60 years or over is projected to increase from 13.4% in 2020 to 21.8% in 2050. By the mid-2030s, those aged 80 and over will outnumber infants (1 year of age or less), and that by the late 2070s, the global population aged 65 and older will exceed the number of children under 18. Asia is undergoing rapid demographic changes which pose challenges and opportunities for cross-border migration. These shifts will influence labor market dynamics, economic growth potential, and migration flows across the region.

Central Asia, South Asia, and Southeast Asia are expected to experience an increase in their working-age populations, while East Asia is expected to see a quickening pace of decline (box figure 1). South Asia will add 116 million by 2030 and 302 million by 2050. Relative to 2023, Pakistan's working age population is expected to grow by 18.7% in 2030 and 70.9% by 2050 (box figure 2). In Southeast Asia, the working age population of the Philippines will first increase by 11.8% in 2030 before ballooning further to 39.0% in 2050, while Indonesia's will grow by 6.2% in 2030 before increasing to 10.7% in 2050. East Asia, on the contrary, anticipates a decline in its economically active population by as much as 14 million in 2030 and 246 million in 2050. The People's Republic of China accounts for the majority of this decline (21.3% in 2050 from 0.7% in 2030), followed by Japan and the Republic of Korea.

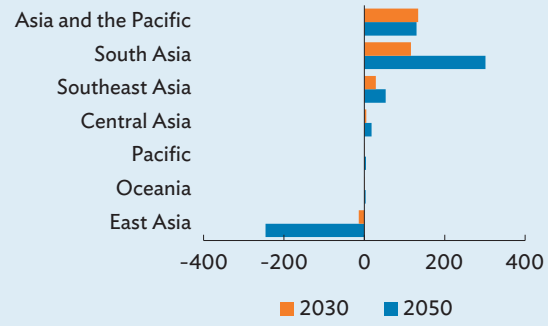
Migration and Climate Change

The World Bank estimates that by 2050, around 216 million people will flee their homes due to sudden onset disasters like flooding and slow-onset changes such as rise in sea levels and low crop yields because of drought (Clement et al. 2021). Although most people displaced or migrating as a result of climate impacts stay within their economies of origin, the accelerating trend of global displacement related to climate impacts is also increasing cross-border movements.

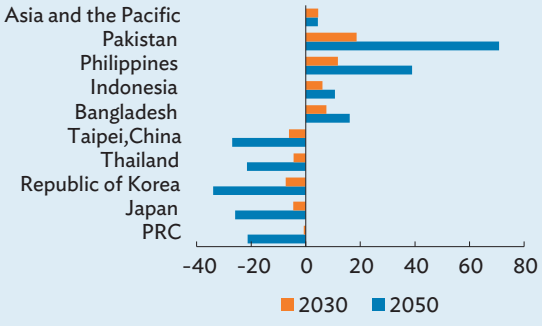
Asia is one of the regions that is hardest hit by climate change. Some of its economies are experiencing greater cumulative climate change impacts than others. Low-lying regions in South Asia are among the most vulnerable. Estimates warn that one in every seven people in Bangladesh will be displaced by climate change by 2050 (Environmental Justice Foundation (2018)). Inhabited parts of some Asian economies are under threat of disappearing under water or being totally uninhabitable because of ecological disasters including Indonesia, Maldives, Pacific economies, and the Philippines (International Organization for Migration (IOM) 2022; McConnell 2022; Missbach and Palmer 2018; Parsons 2023; Uddin 2024; United Nations Framework Convention on Climate Change (UNFCCC) 2017; and World Bank Group 2022).

Although the migration-climate change nexus has gained policy attention in recent years, there are still significant knowledge gaps in determining a clear relationship between climate-induced environmental changes and their effects on migration flows. Numerous empirical studies have explored the potential link but results indicating any specifically direct, monocausal connection between environmental or climate change and migration remain seriously lacking.

1: Changes in Working-Age Population from 2023, by Subregion (million)



2: Percent Change in Working-Age Population from 2023, by Economy (%)



PRC = People's Republic of China.

Source: ADB calculations using data from United Nations Department of Economic and Social Affairs, Population Division (UN DESA). https://www.un.org/development/desa/pd/ (accessed July 2024).

Sources: ADB calculations using data from UN DESA. https://www.un.org/development/desa/pd/ (accessed July 2024); Clement et al. (2021); IOM (2022); McConnell (2022); Missbach and Palmer (2018); Parsons (2023); Uddin (2022); UNFCCC (2017); and World Bank Group (2022).

Promote greater temporary labor mobility by reducing the costs associated with migration. Job search, recruitment, deployment, and the attainment of additional financial literacy skills add to the total cost of migration. Interventions at each phase of the migration cycle could reduce the overall cost of cross-border movement of workers and boost the net development effects of migration. Migrant-sending economies will benefit in the medium term to long term by implementing active labor market policies, promoting access to education and employment opportunities, and putting in place better skills matching mechanisms. Destinations could benefit by encouraging the migration of workers skilled in fields that are in critical demand and facilitating migrant inclusion, while addressing the effects of rising migration on the social fabric of their economies.

Remittances

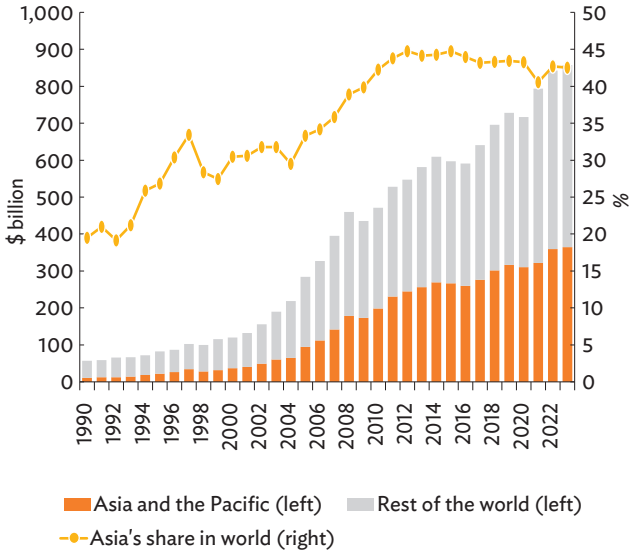
Remittance inflows, bolstered by migration, have gained increasing economic significance in the region over the past few decades.

Remittance inflows to Asia have accelerated over the past 3 decades, alongside the growth in labor migration from the region. From 1990 to 2024, these inflows increased 35 times, making remittance inflows the largest and most stable source of external financing for many migrant-sending Asian economies (Figure 5.13). In 2024, remittance inflows to Asia increased by 7.5% to $392.1 billion, up from $364.9 billion in 2023, and make up 43.3% of global remittances. Strong labor markets in major OECD migrant host economies, especially the US, bolstered remittances to the region (Ratha, Plaza, and Kim 2024).

Remittance flows to Asia have proven resilient, rebounding strongly after periods of crisis.

For instance, inflows to the region contracted by 17.3% in 1998 because of the Asian financial crisis, followed by growth of 11.5% in 1999. The global financial crisis, which caused global remittance inflows to drop by 5.3% in 2009, was made up for by an 8.1% increase in global flows in 2010. Despite the 1.1% contraction in global inflows in 2020, remittances still exceeded foreign direct investment and official development assistance in low- to middle-income economies (Collins 2023). Inflows to the region slowed by 1.9%, but this was followed by a 3.7% recovery in 2021 and a subsequent leap of 11.4% in 2022. The resilience of remittance flows can be partly attributed to migrants' altruism, as highlighted by various studies (Hagen-Zanker and Siegel 2007; Shimada 2011; Bettin, Presbitero, and Spatafora 2017; and Kim, Kikkawa, and Endriga 2022).

Figure 5.13: Remittance Inflows to Asia and the Pacific, and the World



Note: Data for 2024 are estimates.

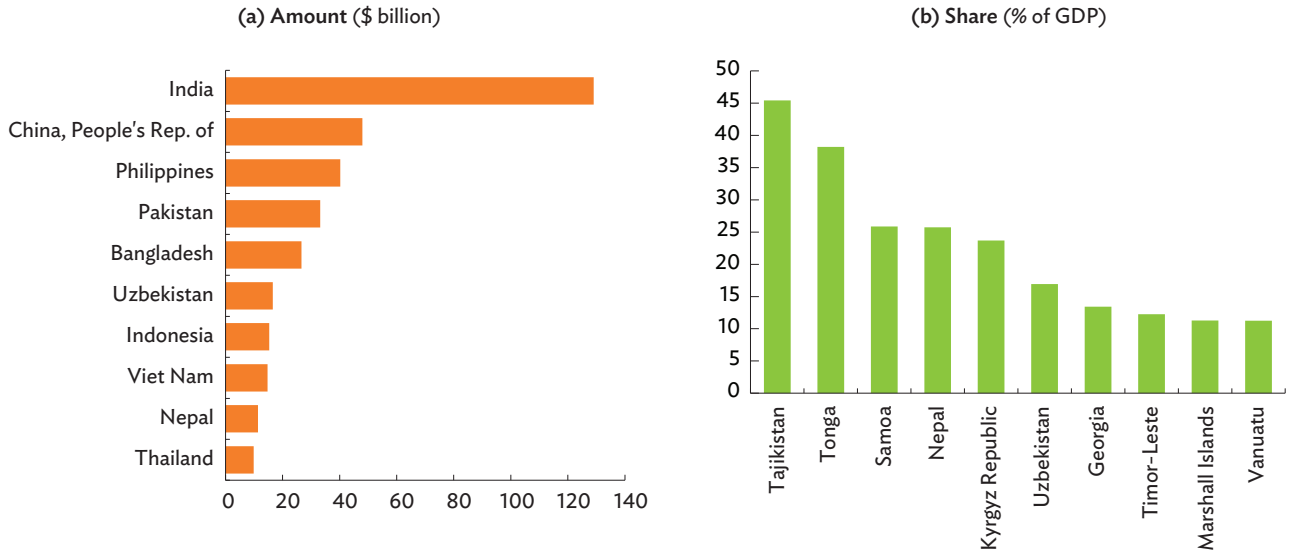
Source: ADB calculations using data from Ratha, Palza, and Kim (2024).

In 2024, remittance inflows continued to grow in South Asia (11.8%) and Southeast Asia (3.6%), as migrant outflows from these subregions continue the prepandemic pace. (Table 5.1). Inflows to Central Asia bounced back 12.5%, from a 14.2% contraction in 2023, as transfers from the Russian Federation normalized. This led to a $3.7 billion more inflows in 2024 over $29.5 billion in 2023. Significant increases in inflows to Tajikistan ($1.3 billion), the Kyrgyz Republic ($370.5 billion), and Georgia ($210.1 billion) more than offset the combined reductions of $564.1 million for Armenia, Azerbaijan, and Kazakhstan. Remittances to Central Asia in 2023 remained above the $18.4 billion annual

average in the 5 years prior to the Russian invasion of Ukraine (Box 5.3). Gross inflows to East Asia, of which around 80% go to the PRC, have been on a decline since 2020, as rising average income in the PRC and an aging population have slowed the pace of less-skilled out-migration (World Bank Group 2023).

Major recipients from South Asia and Southeast Asia top the list for total remittances in 2024. For instance, the Philippines received $40.2 billion, Pakistan inflows totaled $33.2 billion, while $26.6 billion flowed into Bangladesh, and $15.3 billion to Indonesia (Figure 5.14a). Relative to GDP, remittances are important to some Central Asian economies, especially Tajikistan (45.4%), the Kyrgyz Republic (23.7%), Uzbekistan (16.9%), and Georgia (13.4%) (Figure 5.15b). Among the Pacific developing economies, inflows are significant to Tonga (38.2%) and Samoa (25.9%). These two Pacific economies rely significantly on inflows from Oceania, where 43,828 Tongans and 91,895 Samoans reside.

Figure 5.14: Top 10 Remittance Recipient Economies in Asia and the Pacific, 2024



Note: Data for 2024 are estimates.

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

Table 5.1: Remittance Inflows to Asian Subregions

Region	Share of Total, 2024 (%)	Remittance Inflows ($ billion)		Growth (%)		Level Change ($ billion)	
		2023	2024	2023	2024	2023	2024
South Asia	52.9	185.5	207.3	5.1	11.8	8.9	21.8
Southeast Asia	22.0	83.3	86.2	5.2	3.6	4.1	3.0
East Asia	15.6	62.7	61.3	-3.6	-2.2	-2.3	-1.4
Central Asia	8.5	29.5	33.2	-14.2	12.5	-4.9	3.7
Oceania	0.7	2.5	2.6	34.9	3.3	0.7	0.1
Pacific	0.3	1.3	1.3	-0.3	0.6	-0.0003	0.01
Asia and the Pacific	100	364.9	392.1	1.8	7.5	6.5	27.2

Note: Data for 2024 are estimates.

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

Box 5.3: Recent Trends of Remittance Inflows and/or Money Transfers to Central Asia

The Russian Federation is the primary destination economy of most Central Asian migrants, serving as a source of foreign exchange through remittances and money transfers, as well as foreign direct investments. As a result, the Russian Federation's economic performance is closely correlated with remittance inflow to Central Asia. In 2022, what was initially expected to be a challenging time for remittance inflows to Central Asia because of the Russian invasion of Ukraine turned out to be a record year as money transfers surged. This increase was driven by capital migration from Russian firms and the relocation of Russians to former Commonwealth of Independent States economies. A strong Russian ruble also boosted remittances to Central Asia.

In 2023, remittances to Central Asia fell sharply by 14.2% from a high base in 2022, as money transfers from the Russian Federation slowed and the depreciation of the Russian ruble (39%) against the United States dollar decreased the value of money transfers from the Russian Federation. The slowdown of money flows from the Russian Federation in 2023 also led to a decline in remittances to Azerbaijan and the Kyrgyz Republic, which are highly dependent on Russian Federation remittances.

Growth Rates of Remittance Inflows to Central Asian Economies (%, year-on-year)

Remittance Recipient Economy	2020	2021	2022	2023	H1 2024	2023 Amount ($ billion)	2023 From the Russian Federation (%)
Central Asia	–10.5	24.1	61.9	–14.2	12.0	29.5	71.2
Armenia	–13.2	17.3	30.5	–28.5	–13.7	1.4	69.3
Azerbaijan	10.0	8.8	158.7	–51.6	1.9	1.9	55.3
Georgia	–6.6	25.3	45.8	9.0	–17.7	4.2	34.8
Kazakhstan	–26.0	–17.2	55.2	–36.8	–26.2	0.3	34.9
Kyrgyz Republic	–2.5	14.5	7.1	–11.6	6.4	2.9	93.3
Tajikistan	–5.8	33.6	83.0	–13.3	56.0	4.6	80.0
Uzbekistan	–17.1	31.0	67.2	–8.7	25.0	14.2	78.0

H1 = first half.

Notes: Armenia, Kazakhstan, and the Kyrgyz Republic benefit from visa-free access to Russian Federation labor markets due to their membership in the Eurasian Economic Union.

Sources: ADB calculations using data from Asia-Plus (2024); Daryo (2024); IFAD (2024); Ratha, Plaza, and Kim (2024); and respective central banks.

Source: ADB.

Facilitating remittances through lower sending costs can contribute to inclusive and sustainable growth.

Reducing the cost of remittances is crucial because it directly increases the amount of money received by beneficiary households. The average remittance is about $200 to $300 every 1 or 2 months, but the value and frequency of remitting depends on the migrant's situation and location (IFAD 2024). For example, a World Bank survey of Pacific migrant workers of labor schemes across Australia and New Zealand indicated these migrants send a significant proportion of their wages—with averages ranging from $330 to $500—either every week or every fortnight (Doan, Dornan, and Edwards 2023).. In the Pacific, achieving the United Nations (UN) Sustainable Development Goal (SDG) target of less than 3% per transaction would mean an additional A$79 million annually to households in Fiji, Tonga, and Vanuatu (Collins 2023).

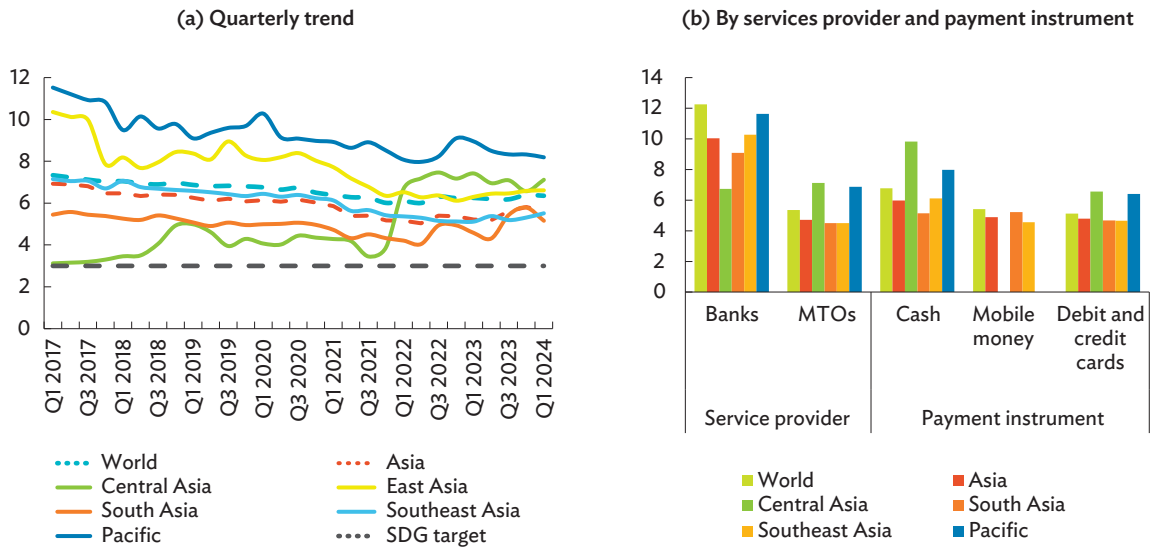
However, the cost of sending remittances to Asia remains above the SDG 3% target. As of the second quarter of 2024, the average cost of sending $200 anywhere in the world was 6.7%, which remains above the UN SDG target of 3% by 2030 (Figure 5.15a). In Asia, the cost is lower, at 5.9%, but there are variations across subregions, from 5.5% in South Asia to 8.4% in the Pacific. South Asia, a major migrant-sending subregion, had relatively lower remittance costs than other subregions. The average total cost of remitting to South Asia had also progressively declined from 2018 until mid-2022. Meanwhile, remittance costs in the Pacific have historically been higher than the global average. The continuous trend of derisking and the severance of correspondent banking relationships have kept costs in Pacific remittance corridors at the highest among Asian subregions, although the Pacific's average costs have gradually declined from 11% in 2017 to about 8.4% in the second quarter of 2024.

Remittance prices vary by service provider and payment instrument. Banks remain the most expensive followed by regulated money transfer operators (Figure 5.15b). Cash-to-cash remittance transactions—a migrant sends cash sent to a remittance service provider and the recipient collects the proceeds in local currency cash—are the most expensive, averaging 6.4% in Asia. Remittance transactions to the region cost much more if sent through banks (10.1%) than money transfer operators (5.1%). The most affordable sending option, and the closest to the 3% SDG target, is mobile money, which is fully digital end-to-end, and costs around 4% to 5% to send. However, despite the convenience of digital technology, the uptake of digital remittance in Asia and the Pacific remains low, at about 20%, indicating significant room for improvement, particularly in reducing barriers such as the regulatory burdens for cross-border digital remittances (ADB 2024a).

Another Benefit of Remittances Is Their Potential to Enhance Financial Inclusion

The intersection between remittances and the finance sector can be a gateway to other financial services, significantly deepening financial inclusion.

Figure 5.15: Average Total Cost of Remitting $200 (% of transaction value, as of Q2 2024)



MTO = money transfer operator, Q = quarter, SDG = Sustainable Development Goal.

Source: ADB calculations using data from World Bank. Remittance Prices Worldwide. https://remittanceprices.worldbank.org/ (accessed September 2024).

The goal of financial inclusion is to provide accessible financial products and services to those previously reliant on informal finance or lacked access to traditional banking channels (Box 5.4). Remittances act as a crucial link between migrants and their families, often facilitated by employers or labor programs that require migrants to open deposit accounts for receiving wages. From these accounts, migrants can send funds back home, integrating them into the formal financial system.

The literature generally shows that remittances strengthen financial inclusion, though some studies suggest an insignificant or negative association, particularly for credit use. Many studies highlight that remittances help families access formal financial markets by increasing the likelihood of opening bank accounts and improving credit access in various economies (Aga and Peria 2014; Anzoategui, Demirguc-Kunt, and Peria 2014; Ambrosius 2016; Ajefu and Ogebe 2019). The impact tends to be stronger when institutional quality is high (Saydaliyev, Chin, and Oskenbayev 2020). However, other studies suggest that remittances may reduce the demand for formal financial services by acting as a substitute for credit (Ambrosius and Cuecuecha 2013; Brown, Carmignani, and Fayad 2013), with the effect varying based on the availability of formal finance for borrowing (Cuecuecha 2013).

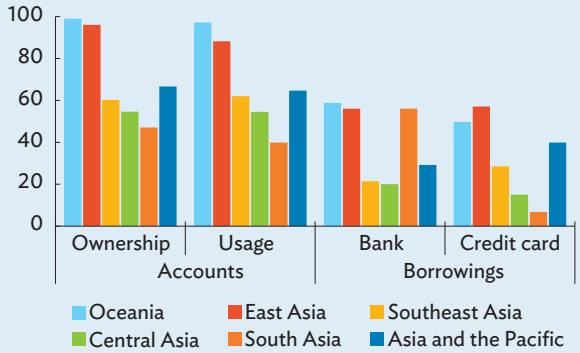
Making remittances more accessible and affordable can also help improve financial inclusion.

While remittances are regularly sent, not all remittances are captured by the formal financial system. Sending money through formal channels—which is generally the first regular interaction individuals have with financial institutions especially in the rural areas—are met by barriers such as high remittance costs, limited accessibility in remote areas, lack of proper identification, and low financial literacy.[48] A significant portion of remittances

Box 5.4: Financial Inclusion in Asia by Subregion

Although financial inclusion offers multiple benefits, it remains uneven across Asia. These benefits include promoting sustainable economic development, reducing poverty and inequality, and fostering entrepreneurship. Access to financial services enhances living standards by encouraging savings, enabling efficient payment systems, and helping households manage financial shocks (Dixit and Ghosh 2013; Le and Nguyen 2020). For firms, it secures capital, boosts productivity, and facilitates trade (Chauvet and Jacolin 2017; Nizam et al. 2020). However, in 2021, only 67% of the population aged 15+ had accounts at formal financial institutions, leaving about 33% unbanked, especially in major migrant-sending subregions like South Asia and Southeast Asia (box figure). In contrast, East Asia and Oceania showed higher financial development, account ownership, and account usage. Access to formal credit is also limited—in 2021, only 21% in Southeast Asia borrowed from a bank and only 6.7% in South Asia used a credit card—despite rising remittance inflows.

Accounts and Borrowings, 2021 (% of the population age 15+)



Source: ADB calculations using data from World Bank. The Global Findex Database 2021. https://www.worldbank.org/en/publication/globalfindex/Report (accessed September 2024).

Sources: Chauvet and Jacolin (2017); Dixit and Ghosh (2013); Le and Nguyen (2020); Nizam et al. (2020); and World Bank. The Global Findex Database 2021. https://www.worldbank.org/en/publication/globalfindex/Report (accessed September 2024).

[48] According to the International Fund for Agricultural Development (2024), more than 50% of remittances are received in rural areas with limited access to financial services.

is still collected in cash from physical locations in remittance-recipient economies, presenting a major obstacle to financial inclusion (Table 5.2). To overcome these barriers, economies must champion the following:

- **Promoting digital channels.** Encouraging the use of digital channels among migrant workers and their families can significantly reduce transaction costs and improve accessibility. Technologies such as mobile money enable real-time transfers, making remittances faster, cheaper, and more accessible. Also, digital means promote integration into formal finance sectors, further driving financial inclusion by linking remittance transactions to broader financial services.
- **Strengthening the regulatory environment.** Governments and institutions must strengthen laws and regulations that support the inclusion of underserved migrants and their families, and new entrants in the digital and mobile money space. They should integrate domestic and international payment systems, encourage competition among service providers, and protect consumer rights to ensure fair access to financial services.
- **Financial education and digital literacy.** All parties in the remittance services chain must do their part to help educate recipients on the basics of digital finance, the benefits of formal financial services, and expand access to digital services that enhance financial inclusion. By offering additional financial products, such as savings accounts or insurance linked to remittances, providers can improve the financial well-being of remittance-receiving families and contribute to the local economy.

Advancing Digitalization Can Facilitate Remittances and Promote Financial Inclusion

Digitalization can reduce the transaction cost of remittances, promote transparency to help comply with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulations, and enhance access to the formal financial system for migrants and their families. It offers significant benefits to both remittance senders and recipients, reducing the cost of remittances, improving the speed of transactions, and providing trackable, secure payment. This adds a layer of certainty to payments and expands access to a broader range of financial services (IFAD 2024).

Financial technology improves interoperability, enabling seamless cross-border payments and remittances. For instance, Project Mandala, a collaboration between the Bank for International Settlements Innovation Hub and the

Table 5.2: Framework for Leveraging Remittances to Enhance Financial Inclusion

Status Quo	Challenges		Enablers			Desired Outcome
Regular Remittance Flows	**Accessibility**	**Reliance on Cash**	**Digital Channels**	**Regulatory Environment**	**Financial Education**	**Financial Inclusion**
Remittances are sent regularly through formal and informal channels.	Distance, cost of overcoming physical barriers, lack of knowledge, and lack of trust are but some of the barriers hindering remittance senders and receivers from accessing formal finance channels.	Many receivers still prefer to collect their remittances in cash from physical locations.	Advocating for greater usage of digital channels makes remittances faster, cheaper, and more accessible.	Strong and improved laws and regulations foster better risk-based approaches to remittance AML-KYC compliance, and promote security and consumer protection while supporting inclusion of underserved communities.	Educating senders and receivers about the benefits of formal financial services, including digital knowledge.	Remittances function as a "gateway" to establish a long-term relationship with a financial institution.

AML-KYC = anti-money laundering and know-your-customer.

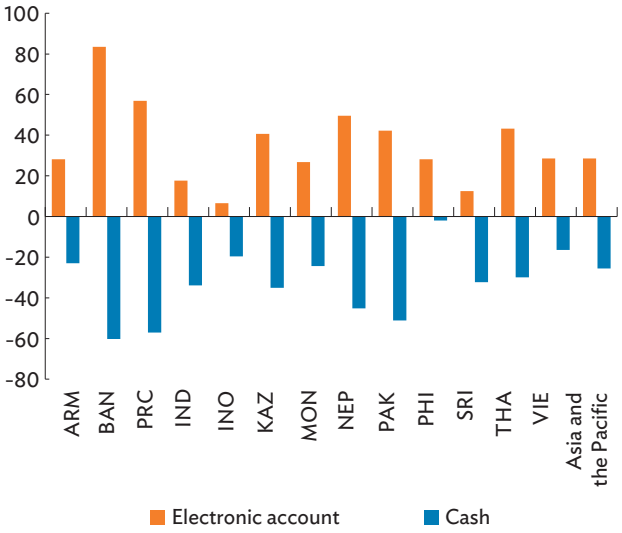
Source: ADB; and Isaacs and Capal (2024).

central banks of Australia, the Republic of Korea, Malaysia, and Singapore, aims to automate compliance procedures for cross-border financial transactions by embedding regulatory requirements directly into transaction protocols, resulting in regulatory-compliant and more streamlined cross-border payments. Mobile applications from fintech firms in the United Kingdom and Singapore, among others, developed software to launch cross-border digital remittance services, such as Wise (formerly TransferWise) and Nium (formerly Instarem), as well as technological linkages such as Singapore's PayNow, which offers real time payments to Malaysia's DuitNow, Thailand's PromptPay, and India's UPI (Colombu 2023). These services offer the user a much wider range of remittance corridor options than mobile network operator-based mobile money and, in some cases, additional payment services. Through correspondent partnerships, firms such as Wise and Nium are offering almost global coverage.

In Asia, rapid technological developments are accelerating the adoption of digital payments and remittances. While overall take-up for digital remittances remains less than 20% (ADB 2024b), the use of app-based remittance platforms is growing quickly thanks to their convenience and safety. A recent Money Travels report from VISA (2024) suggests that 70% to 80% of remittance users in Asia are adopting app-based digital payment options for sending and receiving funds. On average, the share of Asian populations who had sent or received digital payments is 60%, with variations across subregions—from a low of 32% in South Asia to highs of at least 93% in East Asia and Oceania.[49] Digitalization, being less costly than sending cash, has reinforced the adoption of mobile money for remittances, the most affordable among payment instruments, with costs averaging 4.7% in Asia and 5.7% globally, as of the second quarter of 2024.

The growing adoption of domestic digital remittance services highlights their effectiveness in replacing cash-based transactions, a trend that could similarly reshape international remittances once digital channels are fully implemented. Between 2014 and 2021, the uptake of electronic accounts in Asia and the Pacific increased by nearly as much as the decrease in reliance on cash. Armenia, Bangladesh, the PRC, Mongolia, Thailand, Viet Nam, and most South Asian economies saw significant increases in electronic accounts usage while reducing dependence on cash payments (Figure 5.16). As digital platforms for cross-border remittances become more accessible, the shift from cash to digital channels is expected to become pronounced. However, challenges such as restrictive national regulations on international payments and the lack of interoperability among network providers remain significant barriers that must be addressed.

Figure 5.16: Form of Receipt of Domestic Remittances in Asia, 2014 and 2021 (% change of senders and recipients aged 15+)



ARM = Armenia, BAN = Bangladesh, PRC = People's Republic of China, IND = India, INO = Indonesia, KAZ = Kazakhstan, MON = Mongolia, NEP = Nepal, PAK = Pakistan, PHI = Philippines, SRI = Sri Lanka, THA = Thailand, VIE = Viet Nam.

Source: ADB calculations using data from World Bank. The Global Findex Database 2021. https://www.worldbank.org/en/publication/globalfindex/Report (accessed September 2024).

Policy Implications of Remittance Digitalization

Adequate physical and technological infrastructure is key to digitalization. Leveraging digital remittance to lower the average cost of sending funds and impact financial inclusion requires secure and efficient payment systems, widespread internet accessibility and affordability, and a

[49] ADB calculations using data from World Bank's Global Financial Index Database. https://www.worldbank.org/en/publication/globalfindex/Report (accessed October 2024).

robust and responsive regulatory and legal infrastructure. Expanding mobile networks is particularly important in rural areas where access to formal finance is limited. Increasing investments in technology and digital infrastructure, through foreign direct investments and public–private partnerships, could encourage remittance service providers to expand and be innovative with services, while aiming for greater client reach at lower cost that is closer to the 3% SDG target. Greater investments in infrastructure could also result in more physical points of access to finance such as ATMs, bank branches, and mobile money providers, thereby potentially improving financial inclusion.[50]

Legal and regulatory frameworks for digital transactions should address safety and security concerns while fostering innovation and reducing costs. In Pacific developing economies, for instance, AML and know-your-customer (KYC) compliance and derisking operations of banks since 2013 pushed up costs, reduced the number of operators, and limited the range of remittance services available. While shifting to mobile money still requires compliance with AML and KYC regulations, the process is simpler than opening a bank account. A mobile wallet option could empower people in rural areas or those with little exposure to financial services, many of whom already own a mobile phone, hence enabling access to basic financial services with existing KYC documentation. Digital IDs could also help remittance service providers with an efficient way of verifying identities and complement e-KYC and AML compliance modules.

In addition, regulations to protect consumers and ensure data privacy and cybersecurity will help build trust and safeguard finance sector integrity. The digital environment thrives when access to data is secured, but unimpeded. However, restrictive data localization laws, though well-intentioned, may inhibit the mobile network operators from offering cross-border financial services.[51] Complying with such regulations increases business costs, limits potential for scalability and expansion, reduces the efficiency of mobile money operations, and could even limit the access to technology to mobile money network operations (Global System for Mobile Communications 2024). Harmonization of cross-border data transfer requirements will allow for more efficient business operations across different jurisdictions, increased innovation, and the seamless flow of information for both companies and consumers.

Financial literacy and knowledge of digital finance are essential for both senders and receivers. Providing economy-specific education to migrants prior to their departure can help build trust and understanding of financial products. Educating remittance households is just as important as educating the sender—if these recipients can be made to use a transaction account, the funds can be received and accessed securely for daily household expenses, as well as gradually building funds toward saving and investment purposes.[52] Engaging remittance-service providers in the delivery of financial literacy programs could be more effective as this would best showcase the benefits of technology-enabled money transfer services and work in collaboration with community organizations, nongovernment organizations, and migrant network groups.

Enhanced bilateral, regional, and global cooperation could foster the development impact of remittances to digitalize the remittance environment for greater financial inclusion. Regional bodies are keeping their cooperation in step with the growth opportunities of remittance and digitalization. For example, the ASEAN launched negotiations for a Digital Economy Framework

[50] For every 100,000 adults in Asia, physical access to financial services averaged 44 ATMs and 15 bank branches (Source: ADB calculations using data from G20 Financial Inclusion Indicators Database accessed through World Bank Group. Prosperity Data360. https://prosperitydata360.worldbank.org/en/dataset/WB+GPFI+G20FII (accessed September 2024).) Only 12% of females in South Asia have internet access relative to 72% of females in East Asia and 93% in Oceania. And although 84% of the region's 15+ population have access to a mobile phone, the share is lower among the poorest 40%.

[51] For instance, in Pakistan, the National Database and Registration Authority Ordinance 48 and the National Registration Act of 1973 impose limitations on accessing and disclosing information from the National Database. In Bangladesh, laws on data restriction inhibit mobile money operators from engaging in cross-border payments (Global System for Mobile Communications 2024).

[52] One example is the Famili i Redi (Family Ready) program launched in Vanuatu in 2022 as a predeparture training program for migrant workers and their families that includes a module on managing finances and remittances. Around the same time, Vodafone Fiji introduced a mobile wallet remittance service from Fiji M-PAiSA to M-Vatu in Vanuatu. Vanuatu has long been underserved in remittance-receiving options, with only a handful of Western Union payout options in urban areas, while workers' families often live in remote rural areas.

Agreement in September 2023 with, among other key priorities, the target of improving how the region cooperates on digital trade, cross-border e-commerce, and digital payments (ASEAN 2023). Currently still negotiated among member states, the digital framework will be completed soon. In Central Asia, the Platform for Remittances, Investment and Migrants' Entrepreneurship Central Asia Initiative was launched in March 2024, in cooperation with the European Union and the International Fund for Agricultural Development, to maximize the socioeconomic impact of remittances in Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan (IFAD 2024). In October 2024, APEC finance ministers issued a joint statement which underscored the importance of digitalization, especially digital financial education, and regional cooperation in promoting inclusive finance, reducing digital divides, and building resilient, inclusive and sustainable APEC economies (APEC 2024b).

International Tourism

International Tourism Maintained Steady Growth Until 2019

International tourism reached a peak of 1.46 billion global arrivals and generated $1.49 trillion in tourism receipts in 2019. Global arrivals and receipts had been on an upward trend since 1995 except for a slight decline caused by external shocks (i.e., SARS in 2003 and the global financial crisis in 2008). A strong global economy, an expanding middle class in emerging economies, the rise of low-cost carriers, the introduction of new business models, and enhanced visa facilitation fueled the robust growth of tourism (UN Tourism 2019). However, the COVID-19 pandemic halted cross-border travel and caused the deepest drop in both international arrivals and receipts. In 2020, global arrivals declined by 72% and receipts fell by 62%. Among all the regions, Asia and the Pacific suffered the most significant decline.

One in every four tourists in the world visited Asia in 2019, but the following year's inbound tourism flows plunged to 62 million, an 83.1% decline year-on-year. The share of Asia to global arrivals fell to as low as 6.8% in 2021. Asia's combined loss in tourism receipts during the pandemic amounted to $844 billion.

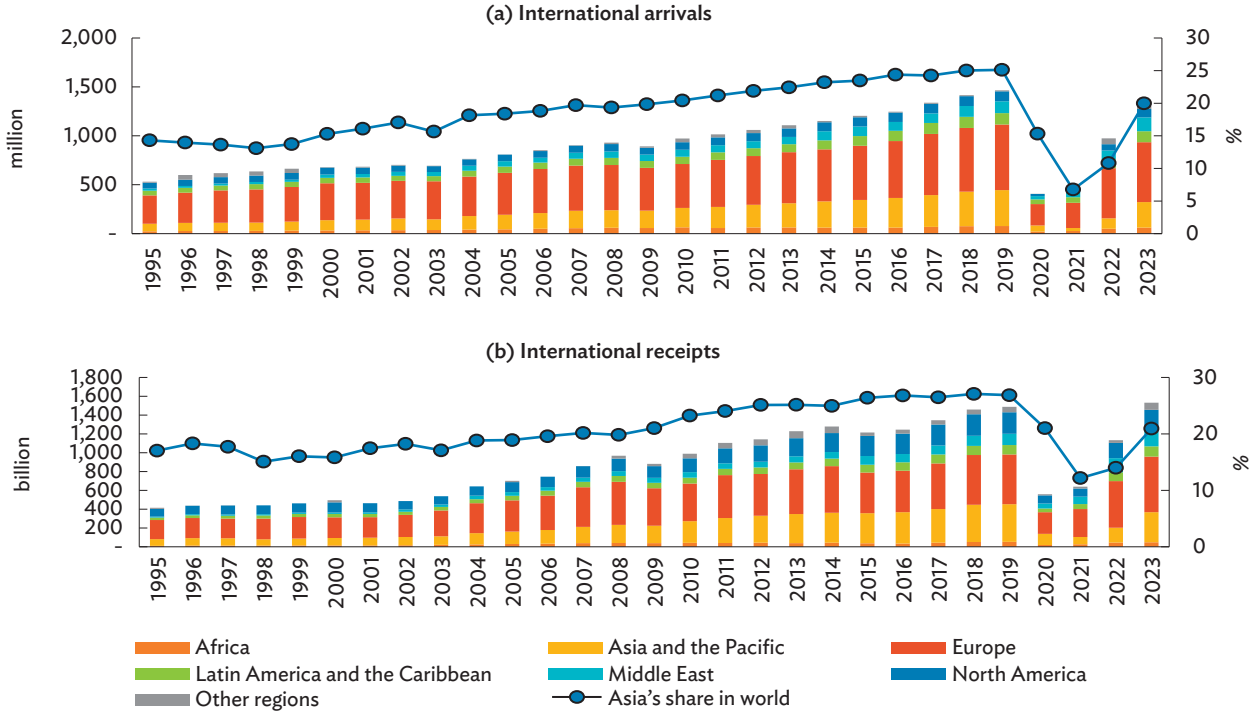
International tourism is gradually recovering. In 2023, 1.3 billion people traveled overseas, while tourism receipts climbed to $1.53 trillion, 3% higher than in 2019. In both international arrivals and tourism receipts, the Middle East led the recovery as it already exceeded its prepandemic arrivals by 16%, and its 2019 receipts by 43%. Meanwhile, Asia was the slowest to rebound. The region hosted 260.7 million tourists, equivalent to 70.8% of its 2019 volume, and generated $320.7 billion or 80.3% of its 2019 level (Figure 5.17).

From 2010 to 2019, international arrivals to Asia grew by an average annual rate of 7.6%, outpacing the global annual average of 5.1%, with the intraregional tourism share increasing from 73.1% to 77.3%. East Asia and Southeast Asia were the key contributors to the region's growth since they drew the largest influx of foreign tourists and generated the highest receipts. Prior to the pandemic, at least 80% of Asia's inbound tourists visited destinations in East Asia and Southeast Asia (Figure 5.18a). While there was a drastic decline in tourist inflows during the pandemic, inbound tourism is slowly going back to normal. By the end of 2023, 38.9% of Asia's tourists traveled to East Asia while 37.6% visited Southeast Asia.

Central Asia's share to Asia's total arrivals increased moderately, from less than 1% in 1995 to 12.6% in 2023 and reflected the subregion's efforts to boost tourism. Meanwhile, arrivals to the Pacific remained consistently small relative to the rest of Asia. Since 1995, the Pacific has accounted for less than 1% of Asia's arrivals and receipts (Figure 5.18b).

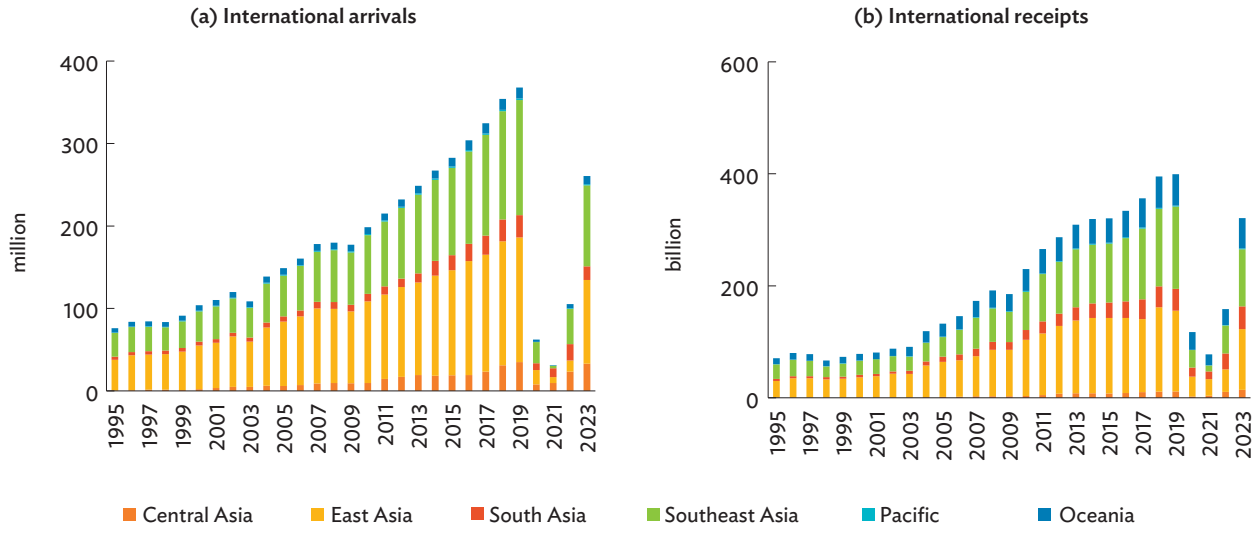
Prior to the pandemic, many destinations in Asia heavily relied on outbound travel from the PRC. For instance, around 67% of tourists to Hong Kong, China, from 2015 to 2019 are attributed to arrivals from the PRC (ADB 2024b). In addition, the PRC ranked first followed by Japan as top source markets for the Republic of Korea. The PRC emerged as ASEAN's largest market in 2015,

Figure 5.17: Tourism Performance by Region of Destination



Source: ADB calculations using data from CEIC Data Company (accessed December 2024); UN Tourism. Compendium of Tourism Statistics data set. https://www.unwto.org/tourism-statistics/tourism-statistics-database (accessed September 2024); and UN Tourism. International Tourism Highlights, 2024 Edition. https://doi.org/10.18111/9789284425808 (accessed December 2024).

Figure 5.18: Tourism Performance of Asia by Subregion



Source: ADB calculations using data from CEIC Data Company (accessed December 2024); UN Tourism. Compendium of Tourism Statistics data set. https://www.unwto.org/tourism-statistics/tourism-statistics-database (accessed September 2024); and UN Tourism. International Tourism Highlights, 2024 Edition. https://doi.org/10.18111/9789284425808 (accessed December 2024).

a strong dependence that has made destinations highly vulnerable to shocks. The pandemic highlighted the need to look for alternative source markets to ensure sustainability and resilience of the tourism sector. Of late, intraregional travel in ASEAN is fast becoming an alternative to many destinations. It accounted for 50% of the total travel in ASEAN in 2022, while only 35% is attributed to arrivals from ASEAN in 2019 (ADB 2024a). ASEAN is increasingly being seen as an important source of tourists for other destinations, such as the Republic of Korea, as well (Box 5.5).

Unique Tourism Characteristics Can Be Observed in Selected Subregions and Destinations

International tourist arrivals may not automatically translate to high receipts per arrival. While only 3.8% of Asia's international arrivals is attributed to Oceania, the subregion generated 16.8% of Asia's tourism receipts in 2023 (Table 5.3). It earned the highest tourism receipts; at $5,394 per arrival, or more than five times the earnings of East Asia ($1,071) and Southeast Asia ($1,041).

Box 5.5: Association of Southeast Asian Nations—An Opportunity for the Republic of Korea

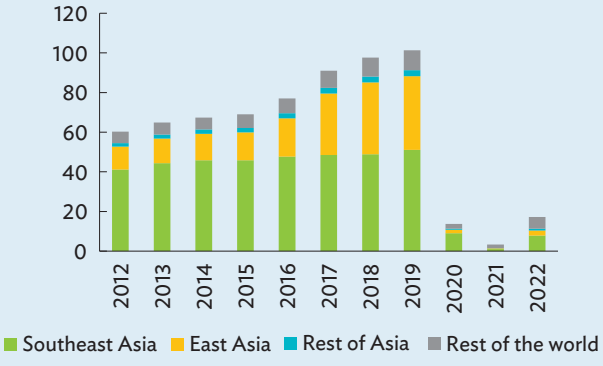
Economies in the Association of Southeast Asian Nations (ASEAN) are emerging as a market for outbound tourism. In 2012, 60.3 million tourists from ASEAN traveled abroad. From 2015 to 2019, that volume increased by an annual average rate of 10.2% and in 2019, 101.3 million tourists from ASEAN visited overseas destinations (box figure 1).

International arrivals from ASEAN used to be concentrated in Southeast Asia, where 68.2% of total ASEAN international trips were made in 2012. In recent years, East Asia has become more popular among ASEAN tourists. Destinations in East Asia welcomed 37 million tourists from ASEAN in 2019, more than a threefold increase from 2012.

From 2015 to 2019, the number of tourist arrivals from ASEAN to the Republic of Korea expanded by 14.7% a year on average, peaking at 2.7 million in 2019. This accounted for 15.4% of the Republic of Korea's total international arrivals, making ASEAN the third-biggest market for the Republic of Korea, after the People's Republic of China and Japan. During the pandemic (2021–2022), ASEAN contributed significantly to the economy's recovery by accounting for 30% of its international arrivals (box figure 2).

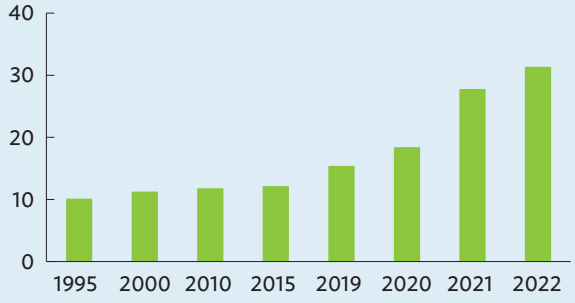
ASEAN's notable economic growth, expanding middle class, and a strong interest in Korean culture among the youth have fueled the increase in its tourism flows to the Republic of Korea. Moreover, initiatives and reforms that enhance cross-border travel have been instrumental in facilitating the movement of people between ASEAN and the Republic of Korea.

1: Association of Southeast Asian Nations Arrivals to the World by Destination (million)



Source: ADB calculations using UN Tourism. Data on Outbound Tourism. https://www.unwto.org/tourism-statistics/key-tourism-statistics. (accessed September 2024).

2: Share of Association of Southeast Asian Nations to Total International Arrivals in the Republic of Korea (%)



Source: ADB calculations using data from UN Tourism. Data on Outbound Tourism. https://www.unwto.org/tourism-statistics/key-tourism-statistics (accessed September 2024); and UN Tourism. UNWTO Tourism Statistics Database. https://www.unwto.org/tourism-statistics/tourism-statistics-database (accessed September 2024).

Source: ADB (2024a).

Table 5.3: International Arrivals and Receipts in Asia by Subregion, 2023

Subregion	International Arrivals		International Tourism Receipts		Receipts per Arrival
	million	% of international arrivals to Asia	$ billion	% of Asia's tourism receipts	$
Central Asia	33.0	12.7	14.1	4.4	427
East Asia	101.5	38.9	108.8	33.9	1,071
South Asia	16.5	6.3	40.4	12.6	2,444
Southeast Asia	98.1	37.6	102.1	31.8	1,041
Pacific	1.5	0.6	1.4	0.4	912
Oceania	10	3.8	54.0	16.8	5,394
Asia and the Pacific	260.7	100	320.8	100	1,231

Source: ADB calculations using data from UN Tourism. International Tourism Highlights, 2024 Edition. https://doi.org/10.18111/9789284425808 (accessed December 2024).

This suggests that Oceania's investments in tourism development have yielded higher nominal returns for every tourist compared to any other subregion in Asia. In contrast, Central Asia receives $427 per tourist, the lowest in Asia.

Across subregional economies, Australia received the highest amount of tourism receipts with $46.1 billion, followed by Japan (Figure 5.19a). It also earned the highest receipts per arrival with $6,410 (Figure 5.19b). The high receipts per arrival can be attributed to the tourists' length of stay and destination's relatively high costs. Compared to tourists in Thailand (9.3 nights) and Japan (6 nights), tourists in Australia (27 nights) stayed longer (UN Tourism 2023). Moreover, compared to other destinations in Asia, Australia's travel costs are more expensive. Its price competitiveness score worsened from 3.5 in 2019 to 2.75 in 2024 (World Economic Forum 2024).

High tourism receipts per arrival can help promote economic growth. Previously, destinations concentrated on attracting more tourists and generating economic benefits that come with tourism such as employment, livelihood, revenues, and foreign exchange receipts. Shifting the destination's efforts to focus on quality tourism as opposed to mass tourism can put less pressure on the destination's natural resources and also help ensure that growth improves local communities' quality of life (World Economic Forum 2019a).

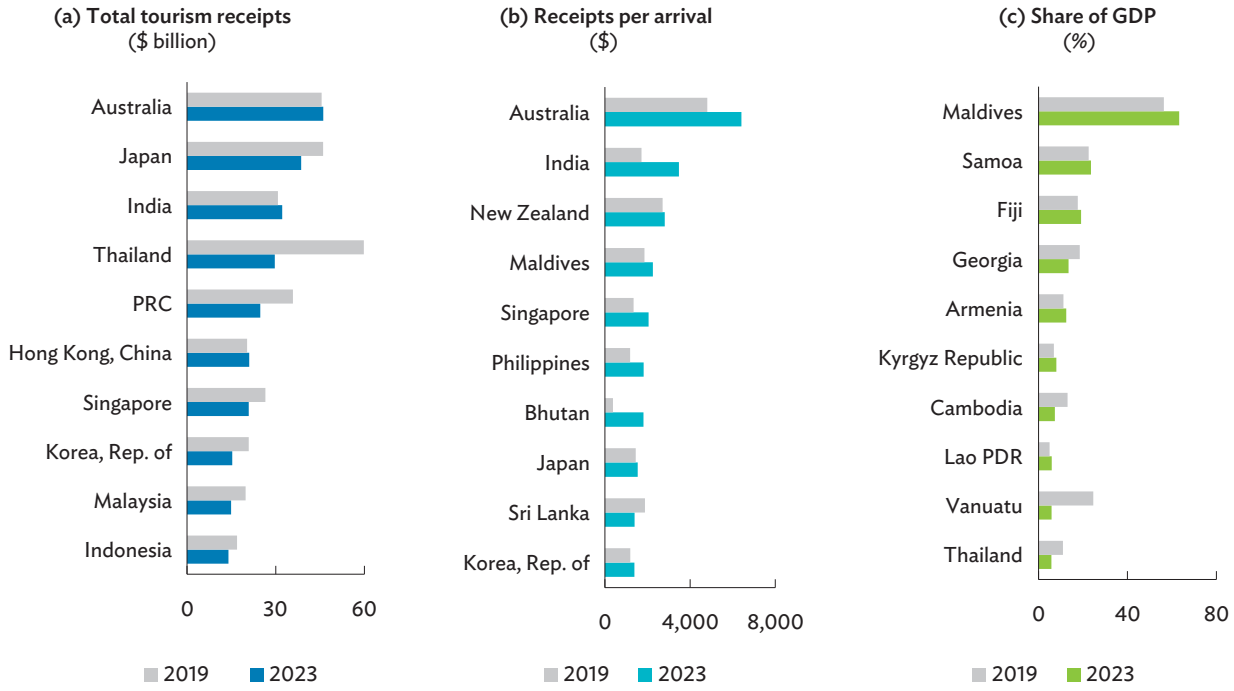
Tourism's impact varies across economies.

With 63.3% of its GDP in 2023 derived from tourism, Maldives was the most reliant on tourism (Figure 5.19c). Many economies in the Pacific consider tourism as a key economic pillar. Tourism's contribution in the economies of Samoa, Fiji, and Vanuatu were among the highest in Asia. Due to their heavy reliance on tourism, the economies in the Pacific were severely affected during the pandemic. This clearly illustrates the need for tourism-dependent economies to diversify to gain more resilience to external shocks. While tourism activities offer opportunities to other sectors of an economy, it raises merchandise trade because of greater familiarity with products of destination economies (Box 5.6).

Physical and Institutional Connectivity Are Key Determinants for Tourism

Connectivity enhances the appeal and competitiveness of destinations. The availability and quality of physical infrastructure and institutional policies are essential to facilitate reliable, seamless, and price-competitive tourist movements between or within subregions and to attractions within a destination. Two types of infrastructure connectivity influence international tourism in Asia. The first is cross-border connectivity that includes the transportation infrastructure and institutional air service agreements, motor vehicle transport agreements, and visa policies. The second

Figure 5.19: Top Recipients of Tourism Receipts



PRC = People's Republic of China, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.

Sources: ADB calculations using data from International Monetary Fund. World Economic Outlook Database April 2024. https://www.imf.org/en/Publications/WEO/weo-database/2024/April (accessed October 2024); and UN Tourism. International Tourism Highlights, 2024 Edition. https://doi.org/10.18111/9789284425808 (accessed December 2024).

Box 5.6: Tourism Inflow Interlinkages with Merchandise Exports—The Case of Pacific Island Economies

Tourism is an important driver of the economy, especially for economies that heavily depend on tourism receipts. Prior to the pandemic, more than 50% of the total exports of goods and services of the Pacific[a] are attributed to tourism exports. Moreover, tourism mitigates the deficit in merchandise trade. Many economies in the Pacific run a current account surplus because the share of tourism exports to the trade balance is large. The share of tourism exports to the trade balance is more than 100% in the Cook Islands (165.5%), Fiji (135.7%), Solomon Islands (274%), and Vanuatu (108.7%).

High dependence on tourism makes economies in the Pacific susceptible to crises. For example, the goods and services trade deficit in Samoa increased from 13.4% of GDP in 2019 to 40.4% in 2022 due to the absence of cross-border travel during the coronavirus disease pandemic.

Thus, to improve resilience, economies in the Pacific need to advance industries that directly benefit from tourism (i.e., food production, handicrafts).

Previous literature shows that trade can push the development of tourism by stimulating the growth of travel (Kulendran and Wilson 2000; Kumar, Prashar, and Jana 2019), and by reducing the costs of market development (Leitão 2010; Santana-Gallego, Ledesma-Rodríguez, and Pérez-Rodríguez 2016). On the other hand, international travel can increase trade by increasing imports of goods that tourists demand (Shan and Wilson 2001; Kumar, Prashar, and Jana 2019) and enable domestic firms to penetrate a foreign market without an expensive marketing campaign (Brau and Pinna 2013). Tourism also helps lessen trade costs since it facilitates understanding of culture and business practices among visitors and host communities

continued on next page

Box 5.6: continued

(Santana-Gallego, Ledesma-Rodríguez, and Pérez-Rodríguez 2016).

Using an augmented gravity model, the study examines tourist inflows as a determinant of merchandise exports for Pacific economies. The findings reveal that a 1% increase in inbound tourists leads to a 0.17% increase in merchandise trade. This is consistent with existing literature, which shows that international tourist arrivals stimulate a rise in exports through the reduction of trade costs (Santana-Gallego, Ledesma-Rodríguez, and Pérez-Rodríguez 2016). The study also found that the increase in merchandise exports will be higher if international tourists come from source markets that have a common language, free trade agreements, and an enabling visa policy.

Economies in the Pacific can utilize international tourism to develop garments and souvenir-related manufacturing, for example. These products have the potential to be exported if they can be customized to the preferences of international tourists.

[a] The Pacific comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Source: Gupta et al. (2024).

is domestic infrastructure connectivity such as inland transportation, information and communication technology (ICT), and tourist services infrastructure. Box 5.7 provides an empirical analysis of the influence of infrastructure connectivity on international tourism demand in Asia and the Pacific.

Cross-border physical connectivity varies based on geography and openness of subregional members.

Air transport is the leading mode of travel in Asia and the Pacific. Travel by land and air are the most prevalent modes of transportation used by tourists. In 2005, 59.2% of total arrivals in Asia traveled by land (Figure 5.20). Over the years, arrivals by air transport have been growing at a faster pace than land transport, and shares to total arrivals have also increased. Visitors traveling by air represented 35% of the region's arrivals in 2005, but in 2019 the share increased to 47.3%. During the pandemic, air travel was the dominant mode of transport as it accounted for at least 60% during 2020–2022.

Among the subregions, East Asia has the most extensive international air connectivity in terms of absolute number of flights and seats, followed by Southeast Asia.[53] Its share of the total flights in Asia increased significantly, from 40.7% in 2010 to 48.4% in 2019. There are more intrasubregional flights in East Asia and Southeast Asia than in other subregions. Both Central Asia and South Asia have limited intrasubregional flights, less than 25% of the total flights in each subregion. Nonetheless, based on the International Air Transport Association's international air connectivity index used in global competitiveness rankings, destination-weighted seats grew faster in the Pacific, South Asia, and Central Asia (Figure 5.21).

Aviation expanded rapidly, driven by the liberalization of bilateral and regional air transport markets that enabled the growth of the low-cost carriers, and expansion and construction of new international gateways through public and private investments (e.g., public–private partnership projects in three airports in the Philippines, and three airports in Cambodia).

[53] ADB estimates using data from the International Civil Aviation Organization data set—Passenger Traffic by City Pair, 2019–2022.

Box 5.7: The Role of Infrastructure Connectivity on International Tourism Development in Asia and the Pacific

Infrastructure determines the attractiveness of a tourism destination (Seetanah et al. 2011). Literature review shows the effects of various types of infrastructure apart from factors such as income, population, and distance (Rosselló-Nadal and Santana-Gallego 2022) on international tourism development.

Transport infrastructure "shortens" distance (Gołembski and Majewska 2018) and lowers travel time and costs for tourists (Peng et al. 2015). Meanwhile, high-quality transportation boosts tourism flows and overall competitiveness (Prideaux 2000; Khadaroo and Seetanah 2008). The distance from origin to destination, a proxy for travel costs, influences the mode of transport used by tourists (Thrane 2015). Transport infrastructure is a significant determinant (Seetanah and Khadaroo 2009) on tourist inflows to a destination. The imposition of visa requirements as cross-border institutional connectivity reduces international tourism movements (Rosselló-Nadal and Santana-Gallego 2024).

Information and communication technology (ICT) infrastructure (measured using indicators such as mobile and fixed broadband subscriptions) and accommodation infrastructure, a proxy of destination capacity, both have positive influence on inbound tourism flows and destination income (Lee et al. 2021; Khadaroo and Seetanah 2007).

Using an augmented gravity model, the study investigates the determinants of international tourism flows from global source tourism markets to the destinations in Asia during 1995–2022. The gravity function is specified to include different characteristics of the origin markets and destinations (i.e., origin specific, destination specific, and variables specific to origin-destination). The key variables of interest are the destination transportation stocks as a proxy for the transport modes (air, land, and sea), accommodation and ICT infrastructure, and visa policies. The findings reveal that transportation infrastructure has positive and significant effects on international tourism flows, consistent with the literature, and with air transportation exerting stronger influence, largely because of the distance from the top origin markets. A 1% increase in air transport capital, proxied by international flights, leads to a 0.98% increase in international tourism flows to Asia and a 1.1% increase in intra-Asia tourism. Restrictive visa policies tend to reduce international tourism flows by 52.05% to Asia and by 48.67% in intra-Asia tourism flows.

The availability of common borders and proximity of nearby destinations for multidestination products have positive effects specifically for landlocked economies of Southeast Asia and Central Asia. The impacts of road infrastructure, ports, ICT infrastructure, and accommodation capacities varied across subregions.

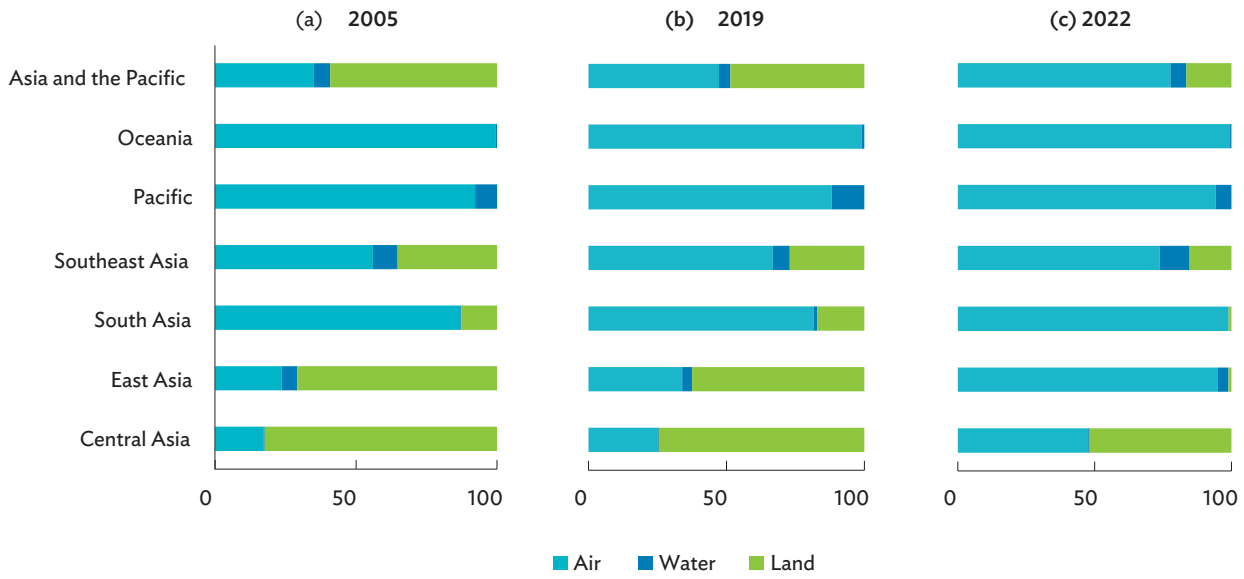
Improvements in infrastructure connectivity in the subregions facilitated international tourism flows from 1995 to 2022 (with declines during the COVID-19 pandemic). Nonetheless, empirical data highlighted that reforms in cross-border institutional connectivity, like air service agreements and visa policies in the subregions, facilitated the growth of their air transport infrastructure and international tourism. Investments in physical and institutional infrastructure connectivity particularly in less-developed subregions will help provide more seamless and convenient transfers across modes of transport and increase international tourism growth.

Source: Rodolfo (2024).

Variation on the prominent mode of transport is observed based on the geographic context. More than half of tourists in Southeast Asia travel by air. Air transport's share went up from 56% in 2005 to 67% in 2019. Southeast Asia's aviation market grew rapidly, driven primarily by low-cost carriers that accounted for shares of international seats of around 5% in Central Asia and 17% in the Central Asia Regional Economic Cooperation (CAREC) region; 34% in Southeast Asia; 20% in Northeast Asia; and 24% in South Asia (ADB 2024c).

In subregions that share borders (i.e., Central Asia, East Asia), land travel is the dominant means of transportation. For example, 62.4% of arrivals to East Asia traveled by land in 2019. This is heavily attributed to same-day visitors from the PRC to Hong Kong, China. Interregional travel from Southeast Asia to East Asia also increased from 6.5 million in 2015 to 25.9 million in 2019. In the Greater Mekong Subregion (GMS), linkages provided by new transnational highways and bridges between the urban centers have reduced travel times and increased options for visitors to use international tourist coach services and personal vehicles for intraregional travel (GMS Secretariat 2015).

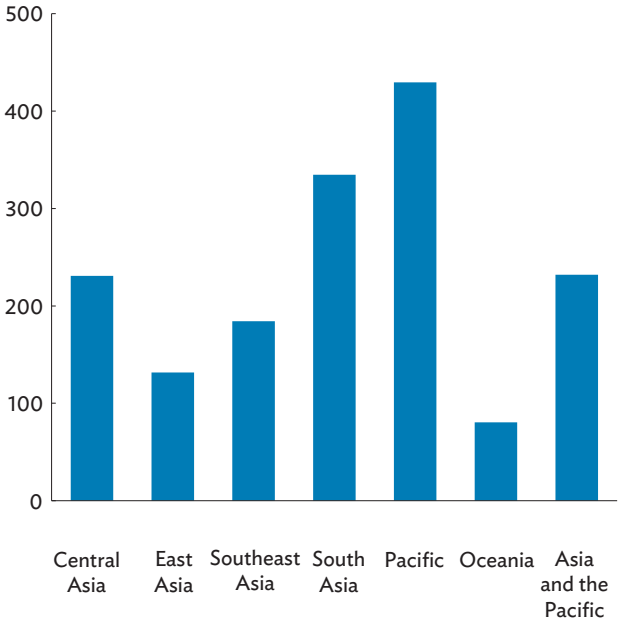
Figure 5.20: Share of Arrivals by Mode of Travel (%)



Note: Arrivals include same-day tourists.

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

Figure 5.21: International Air Connectivity Growth, 2009–2019 (%)



Note: Asia and the Pacific refers to the average growth rate in the region.

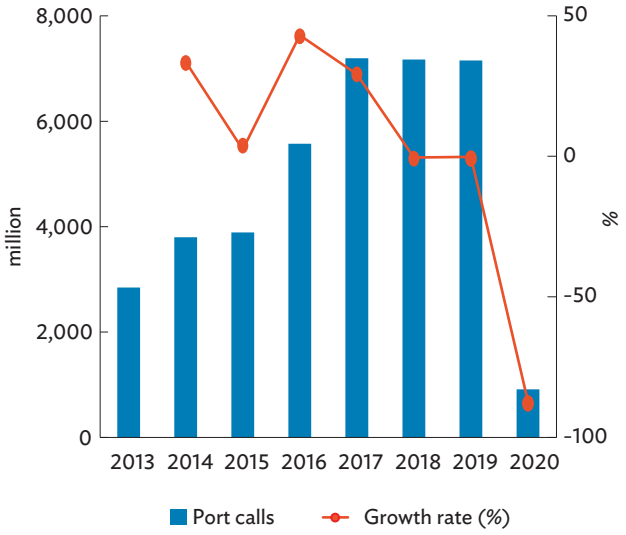
Source: International Air Transport Association (2020).

In Central Asia, land transportation represents more than 70% of arrivals to the subregion. Road and rail connections in Central Asia and between the CAREC economies are already used in several regional tour circuits, which ranges from 10 to 120 days, for tourists from Europe to the CAREC region (ADB 2019). Cross-border road transport is the key infrastructure in tourism circuit development in South Asia and in subtourism circuits such as the Great Himalayan Trail in the South Asia Subregional Economic Cooperation (SASEC) region.

The relative shares of arrivals by sea have increased in the Pacific and Southeast Asia, driven by growth of the cruise tourism market. The number of port calls in East Asia and Southeast Asia more than doubled from 2,842 in 2013 to 7,154 in 2019 (Figure 5.22). Apart from Japan and the PRC as dominant ports of call, the home ports of Singapore and Malaysia enabled the growth of intra-ASEAN cruise tourism. The Pacific island economies, with Vanuatu and Fiji as top cruise destinations in terms of passengers handled,[54] expanded their port capacities

[54] ADB estimates using data from UN Tourism. Compendium of Tourism Statistics data set. https://www.unwto.org/tourism-statistics/tourism-statistics-database and reports of National Tourism Organizations (accessed August 2024).

Figure 5.22: Port Calls in Asia and the Pacific per Year



Note: Data include destinations in East Asia, South Asia, and Southeast Asia only.

Source: Cruise Lines International Association (2020).

for regional cruises catering to Australia and New Zealand as major markets. In cruise port development, Royal Caribbean International financed a common-use jetty for passenger transfers on Mystery Island in Vanuatu that accommodated larger vessels and increased economic benefits for the economy (Everett, Simpson, and Wayne 2018). While variations exist across subregions, strong and efficient transport routes that link Asia and the Pacific to its source markets are crucial for improving tourist inflows and the income they generate.

Progress in institutional connectivity has complemented transport infrastructure developments.

The availability of flights and seats depends on the bilateral air service agreements and their commercial provisions, which limit the number of officially designated airlines, frequencies, type of aircraft and points of entry. Motor vehicle transport agreements define the type of vehicles allowed to cross national borders, the designated border crossing points, and requirements for recognition of licenses among others. Visa regulations, which primarily serve as a security measure, are among the most important government formalities affecting international tourism flows (UN Tourism 2024).

Economies in Asia liberalized their air transport and visa policies using unilateral, bilateral (most common), and regional approaches. Oceania and Southeast Asia are the most open subregions for intrasubregional travel.[55] It has been 2 decades since Oceania formed the Single Aviation Market with the Pacific Islands. In Southeast Asia, low-cost carriers grew rapidly due to the ASEAN Open Skies in 2015 (Bilotkach et al. 2021), which allowed officially designated air carriers of ASEAN member states to mount unrestricted frequencies and seats within ASEAN. ASEAN leveraged the subregion as single destination for industry, trade, and tourism with key partners (e.g., the PRC in 2010) and aviation blocs (e.g., the European Union in 2022). In the case of the Republic of Korea and ASEAN, pending the conclusion of a liberal air transport regime, individual ASEAN member states conducted air talks to amend the commercial provisions of their air service agreements. The amendments cover changes in airline designation (from single to multiple), increase in weekly seats between capital cities, unlimited seats in secondary gateways, and the removal of restrictions in aircraft type. The increase in flights from 17,785 in 2016 to 38,525 flights in 2019 between Viet Nam and Incheon Airport enabled a 120% increase in tourist arrivals from Viet Nam (ADB 2024a).

To promote cross-border road transportation for increased intra and interregional travel and trade, subregions have prioritized and developed motor vehicle transport agreements in the past 2 decades. Examples are the GMS Cross-Border Transport Facilitation Agreement, the ASEAN Framework Agreement on the Cross-Border Transport of Passengers by Road Vehicles signed in 2017, and the BBIN Motor Vehicle Agreement.[56]

[55] Based on ADB estimates of air service agreements using data from the International Civil Aviation Organization. World Air Services Agreements. https://data.icao.int/WASA/ (accessed August 2024); and bilateral visa policies using data from Arton Capital's Passport Index database. https://www.passportindex.org/ (accessed August 2024).

[56] Bangladesh, Bhutan, India, and Nepal.

Ranked as one of the most visa open regions in the world in 2023 (UN Tourism 2024), ASEAN implemented a regional framework in the grant of visa exemption to each other. In relation to extra-ASEAN markets, various categories of visa facilitation procedures emerged—visa on arrival, e-visas, ETA, Evisitor, and use of digital cards. Other visa products, including digital nomad visas and types such as the Muay Thai visa (for boxing training in Thailand) also emerged. These encourage travel by general leisure as well as niche markets, to accelerate recovery and meet national tourism targets. To recover from the pandemic, economies like Indonesia, the Lao PDR, Thailand, and Viet Nam granted visa-free entry to more markets such as the PRC.

Improved ICT Infrastructure Most Visible Across All Subregions

World Economic Forum Travel and Tourism Development reports have highlighted East Asia as the most competitive and the second-most competitive region in the world (World Economic Forum 2019b), with well-developed cultural and natural assets and exceptional cross-border and domestic infrastructure connectivity and tourist services infrastructure.

While the quality of ground transport infrastructure has improved in Asia overall, it became very visible in the developed economies of East Asia, where high-speed, metro rail, and heavy rail lines serve passenger traffic. From 2010 to 2019, high-speed railways in East Asia grew by an average of 19.47% a year, with the PRC recording the highest increase of 29.64% in line kilometers (km), followed by the Republic of Korea's 19.14%. The metro route railway infrastructure expanded by 9.13% in East Asia and by 7.57% in South Asia.[57] Heavy railway lines dominated the railway infrastructure in Central Asia, South Asia, and Southeast Asia. In 2023, Indonesia launched Southeast Asia's first high-speed rail, to connect Jakarta to the city of Bandung, 142 km east, and reducing travel time from 2–3 hours by conventional railway to just 40 minutes (Medina 2023).

Roads serve as the main transport infrastructure for sightseeing and holiday tours using cars, tour coaches, or public buses. Many tourist attractions are accessible only by land travel and where last-mile connectivity becomes a crucial element of the journey. From 2015 to 2021, physical progress in road transport has been evident across individual member states of subregions such as GMS, South Asian Association for Regional Cooperation (SAARC), SASEC, CAREC, Indonesia-Malaysia-Thailand Growth Triangle, and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area. Road length (primary/motorways/highways) in Pakistan, for example, increased by 7.5 times from 5,328 km in 2015 to 40,268 km in 2020. In the GMS, Viet Nam's road length increased from 19,545 km in 2015 to 25,875 km in 2019. The roads emerged as development priority for transport development in the GMS to reduce the connectivity gaps and improve multimodal and intermodal transport projects (ADB 2016). The road infrastructure in Malaysia more than doubled from 19,822 km to 43,093 km between 2015 and 2021.[58]

A well-developed inland ground transportation system draws private investment into tourist services infrastructure.

An example of a good transportation system attracting investment in tourism is the high-speed rail network of the Republic of Korea, connecting the international airport to the city of Pyeongchang, which hosted of the 2018 Winter Olympics. This catalyzed hotel room investments outside of Seoul (World Travel and Tourism Council 2022). In Asia, destination capacities increased by 1.4 times from 5.3 million rooms in 2010 to 7.3 million rooms in 2022.[59] The hotel room per capita, a measure of intensity, expanded from 0.13 per 100 people in 2010 to 0.17 in 2022. Oceania had the highest room per capita, while the highest average growth rates between 2010 and 2022 were registered in Central Asia (5.8%) and Southeast Asia (4.6%).

[57] ADB estimates using data from Asian Transport Observatory (2023). ATO National Database. https://asiantransportobservatory.org/ (accessed September 2024).

[58] ADB estimates using data from Asian Transport Observatory (2023). ATO National Database. https://asiantransportobservatory.org/ (accessed September 2024).

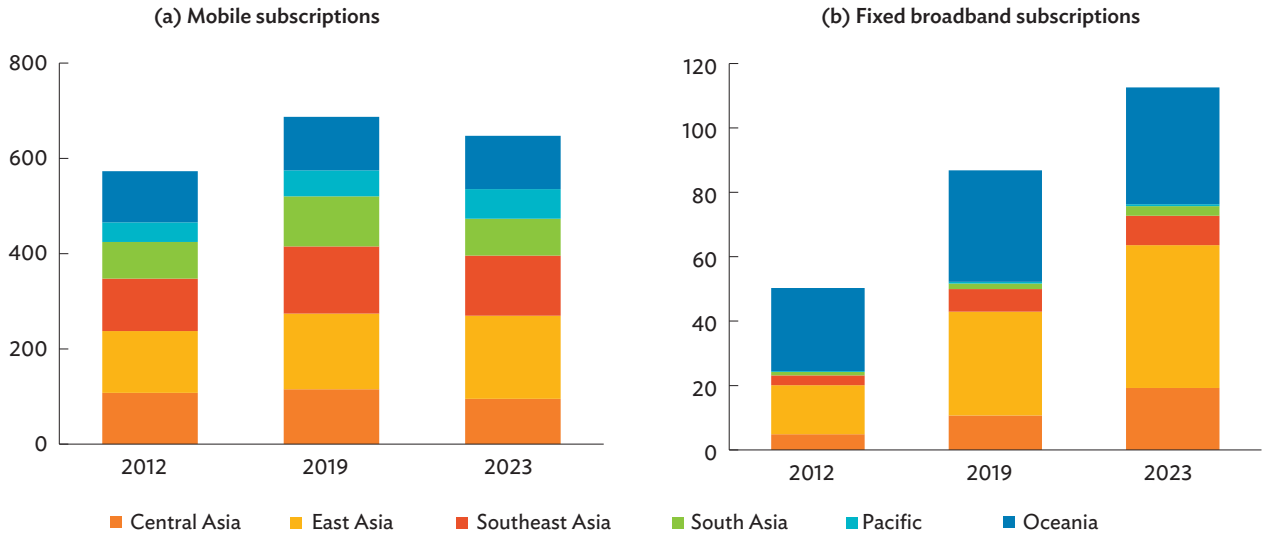
[59] ADB estimates using data from UN Tourism. Compendium of Tourism Statistics. https://www.unwto.org/tourism-statistics/key-tourism-statistics (accessed August 2024).

ICT infrastructure in Asia expanded significantly from 2010 to 2023 and accounted for the improvements in tourism rankings in World Economic Forum reports. The broadband subscriptions per 100 people more than doubled from 7.07 to 18.67, while mobile phone penetration increased from 68.01 in 2010 to 82.27 in 2023 (Figure 5.23). The economies of Bangladesh, the Lao PDR, and Mongolia registered the fastest average annual growth rates in percentage of individuals using the internet from 2013 to 2022.[60] The growth in ICT infrastructure narrowed the distance between tourists and service providers (e.g., online booking platforms, hotels, tour operators, transport services) and helped reduce the cost of searching for information about prices, facilities, customer reviews, and payment systems. This infrastructure backbone facilitated the adoption of smart applications to manage tourism flows, improve customer experience, and build resilient and smart tourism destinations.

Opportunities and Challenges

Key opportunities exist to leverage the diverse strengths of the region's tourism assets, human resources, infrastructure advancements, and strong and resilient domestic tourism. First, international tourism in Asia and the Pacific developed rapidly from 2013 to 2019 and is poised to achieve full recovery from the pandemic by 2025. Second, tourism has become an industry of national and regional importance and destinations are intensifying their collaboration initiatives to maximize benefits. Third, the strides achieved in infrastructure development and the ongoing infrastructure projects continue to expand destination capacities for resilient and sustainable growth. Fourth, Asia is home to world-class destinations such as Japan, Australia, and the PRC, which top the global rankings in overall tourism development (World Economic Forum 2024) and provide examples of good practices for the rest of the region. Besides these three, Asian economies made

Figure 5.23: Number of Subscription to Information and Communication Technology Infrastructure per 100 People



ICT = information and communication technology.

Note: For 2023, the Pacific data for mobile subscriptions per 100 people include only Kiribati and Palau.

Sources: ADB estimates using data from International Telecommunications Union. https://datahub.itu.int/; and World Bank. World Development Indicators. https://databank.worldbank.org/source/world-development-indicators (both accessed September 2024).

[60] ADB estimates using data from International Telecommunications Union (ITU). https://datahub.itu.int/ (accessed September 2024).

it to the list of top 10 performers in air transportation (Singapore) and ground and port infrastructure (Singapore and the Republic of Korea).

A review of subregional tourism strategies, plans, and data highlights key challenges related to infrastructure connectivity and tourism development. First, the limited air connectivity and lingering restrictive visa regimes between subregional economies and international markets are binding constraints on competitiveness. The CAREC region, for example, is constrained from expanding its share of the global business meetings market because of low flight frequencies. Fewer than half of all destination pairs within the CAREC region are served with direct flights, while time-consuming border crossing and visa procedures (including in airports) are the norm (ADB 2020). In Central Asia, economies do not have bilateral air service agreements with each other, while in South Asia only one economy has air service agreements with all subregional partners.[61]

Second, Asia has an extensive network of airports and ports that remain unutilized or underutilized even for subregions with open air access and liberal visa policies. Apart from inadequate airport and port facilities and services, there is a lack of incentive to mount direct flights and make port calls in secondary air and maritime gateways. In the case of ASEAN and the Republic of Korea, while recent policies have opened secondary gateways, ASEAN arrivals are still concentrated in Incheon Airport. Visa policies limit market development further. Only travelers from Brunei Darussalam, Malaysia, Singapore, and Thailand can apply for a Korean Electronic Travel Authorization, while the rest of the ASEAN economies must apply for a traditional visa (ADB 2024a). Outside of the gateways, internal mobility is limited by the lack of last-mile access to tourist attractions, lack of amenities (e.g., rest areas), and ancillary services (e.g., signages) on tourist routes. Developing other gateways can decongest the capital cities' attractions, avoid overtourism, and importantly distribute the economic benefits of tourism to more areas of the economy.

Investments in tourist services infrastructure, particularly in quality accommodation, are needed to meet targets in national and regional tourism plans. While the numbers will matter, the standards and quality of services need to be prioritized as part of quality tourism promotion. In Southeast Asia, for example, up to 55% of the room inventories in some destinations are alternative accommodation units, with limited regulation in safety and quality standards and fair competition (Roth and Schipani 2023). Another challenge in achieving competitiveness is the lack of destination infrastructure (i.e., piped water supply, sanitation services, affordable and reliable energy sources) that reduce the quality of tourist experience and can harm the environment. While ADB is assisting destinations in Asia to address gaps in tourism and infrastructure connectivity (Box 5.8), there are opportunities to further support the growth of tourism and regional cooperation in the region.

Recommendations for Strengthening Tourism

Enhance the linkages between tourism and trade in goods to diversify the economic structure and build economic resilience. The pandemic exposed the vulnerabilities of economies that are highly dependent on international tourism. However, analysis shows that tapping source markets with a common language, free trade agreements, and an enabling visa policy can stimulate merchandise export growth. An example highlighted in this chapter is the Pacific where international tourism can catalyze the development of merchandise goods such as souvenirs and garments that are customized to the preferences of international tourists (Gupta et al. 2024).

Link infrastructure prioritization, planning, and programming with tourism goals. National and regional plans should carefully consider tourism in medium- to long-term plans, recognize the role of infrastructure in dispersing tourism benefits to more areas, better manage visitor volumes, and protect destination assets.

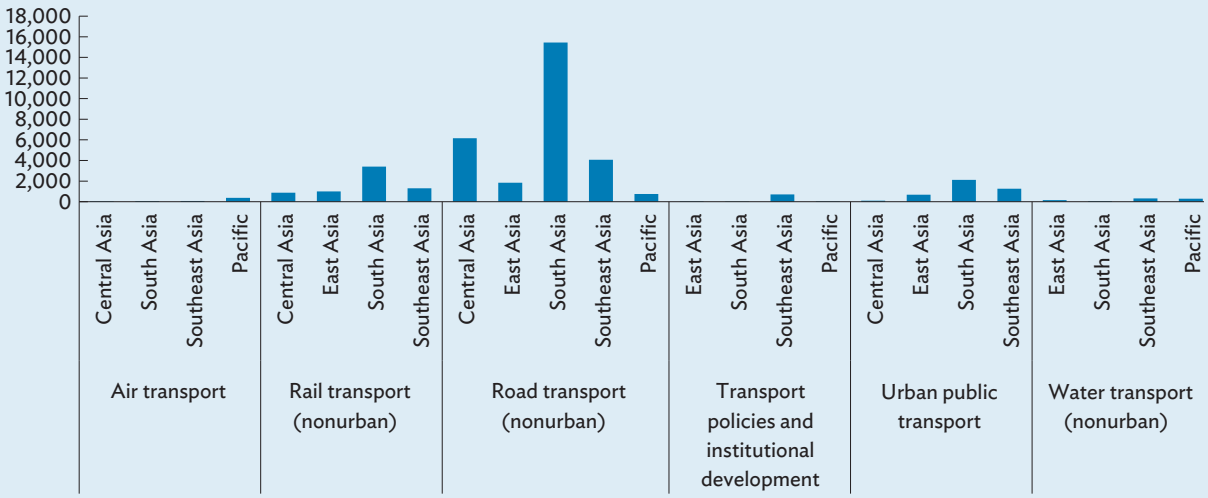
[61] Authors' estimates using data from the International Civil Aviation Organization. World Air Services Agreements. https://data.icao.int/WASA/ (accessed August 2024).

Box 5.8: ADB Commitments in Tourism and Infrastructure Connectivity

The Asian Development Bank (ADB) has a few projects that specifically support the development of tourism. An example is the South Asia Tourism Infrastructure Development Project,[a] implemented from 2010 to 2023. This enhanced infrastructure in tourist sites, including improvements in water supply, sanitation systems, and solid waste management. The project also upgraded airport infrastructure and road networks to improve connectivity to destinations in South Asia. Besides infrastructure development, projects in South Asia have included crafting a tourism strategy,[b] the preservation of cultural sites, and regulatory reforms as part of the investment program.[c]

In Southeast Asia, the first and second GMS Tourism Infrastructure for Inclusive Growth Projects[d] covering Cambodia, the Lao People's Democratic Republic, and Viet Nam are financing the improvement of road infrastructure to decongest urban areas and link secondary towns with tourist sites, the expansion of passenger ports, and the improvement of environmental services such as flood protection and drainage and the management of solid waste. Strengthening institutional capacity for destination management and infrastructure operations and management, and capacity building of stakeholders to implement ASEAN tourism standards are also part of the

ADB Transport Projects, 2010–2019 ($ million)



Source: ADB.

Investments in transportation infrastructure will need to be complemented by an increase in access to affordable renewable energy, and water supply and sanitation facilities to build resilient and sustainable destinations. The quality and standards of tourist services infrastructure, including accommodation and ground transport services, should be part of the prioritization process for infrastructure development.

Invest in the development and utilization of airports, ports, rail, and road corridors to reduce negative effects of route distances. Significant investments are needed to achieve efficient multimodal connectivity in the subregions that would shorten the distance to remote attractions, make travel more convenient, and promote regional circuit itineraries. To utilize gateways and reduce the development costs of new flights, destinations can provide incentives to charter operators and commercial airlines. Different encouragements come in the form of marketing support and time-bound passenger-based incentives, discounts on airport and port terminal charges, and taxes that are linked with key performance metrics.

Box 5.8: continued

projects. In 2021, the Southeast Asia Sustainable Tourism Facility was established to boost the subregion's recovery, stimulate sustainable tourism development, and help local tourism entrepreneurs innovate (ADB 2021).

From 2010 to 2019, ADB invested $41.2 billion in transport projects, of which 68.7% were allocated to road transport (nonurban). Meanwhile, $805.8 million was invested in water transport (nonurban) projects and $546 million (1.3%) was used to finance air transport projects (box figure).

Given the crucial role of aviation in tourism, there is an opportunity for ADB to support projects that help expand domestic and international air connectivity. The intervention is not limited to the construction or upgrading of airport infrastructure. It can also include policy reforms that facilitate the safe, seamless, and efficient movement of people. In the past, ADB supported Nepal in restructuring the Civil Aviation Authority of Nepal to comply with international civil aviation safety standards.[e] ADB also supported Indonesia[f] in strengthening regulatory and institutional frameworks that affect domestic and international connectivity. These have implications for the competitiveness of the economy and its tourism sector.

Most of ADB transport projects finance road infrastructure, with South Asia having attracted most of these investments. Much of the scope of investments and technical assistance is left for other areas such as air transport and institutional measures. Even within road infrastructure, investment for Central Asia needs to be scaled up, as much of the tourism activity in Central Asia happens through cross-border road connectivity. Southeast Asia offers an immense opportunity for investment in air transport as 66% of tourists arrive through international airports. Besides investment in infrastructure, ADB's support for institutional strengthening—through air service agreements, visa policies, and motor vehicle transport agreements—is crucial.

[a] ADB. South Asia Tourism Infrastructure Development Project (Bangladesh, India, and Nepal) - India (39399-013).

[b] ADB. Tripura Urban and Tourism Development Project (53276-001).

[c] ADB. Infrastructure Development Investment Program for Tourism - Tranche 1 (40648-023).

[d] ADB. South Asia Tourism Infrastructure Development Project (Bangladesh, India, and Nepal) - India (39399-013).

[e] ADB. Tripura Urban and Tourism Development Project (53276-001).

[f] ADB. Infrastructure Development Investment Program for Tourism - Tranche 1 (40648-023).

Source: ADB.

Investing in ground transportation infrastructure, a key weakness of tourism in the region, will incentivize the private sector in curating itineraries for overland tourism (cross-border) and creating activities to attract self-driving tourists to new and remote destinations. Ongoing negotiations of motor vehicle transport agreements in the subregions to further liberalize cross-border movements will benefit the development of tourism in landlocked economies. The GMS provides a good benchmark on how investments in road transportation infrastructure, including last-mile connectivity, supported tourism circuit development in subnational areas and enhanced cooperation, both in the subregion and with other subregions.

To address fiscal space issues, governments could pool resources with the private sector. Public–private partnership (PPP) models have been instrumental in the modernization of airports and to some extent ports and land transportation. ADB has provided extensive technical, financial, and institutional support in the development of international airport gateways of the Philippines, which relies on air transportation for 99% of its international tourist arrivals. In 2014, ADB provided financing of $75 million to GMR Megawide Cebu Airport Corporation, the firm that won the PPP contract for the expansion, rehabilitation, and operation of the Mactan-Cebu International Airport, the second-largest gateway in the Philippines. ADB also served as transaction advisor to the Philippine government for the ₱170.6 billion Manila Ninoy Aquino International Airport (NAIA) PPP, the largest such arrangement in the Philippines in nearly 25 years. ADB expertise can also be leveraged to transform more airports and seaports, and increase the value proposition of more destinations in the region. Other areas for PPP include developing amenities and services (e.g., hotels) and transnational tourism routes along economic corridors.

Liberalize air access and visa policies using regional cooperation arrangements to facilitate travel. A subregional approach makes negotiations more efficient among like-minded economies. Even if liberal aviation agreements are pursued, the benefits of such policy reform can be reduced by complex border formalities and travel procedures. A package of institutional reforms to reduce institutional connectivity gaps will increase mutual benefits from product and market development programs implemented by tourism organizations and the private sector in the subregions. In the case of the CAREC region, one proposed policy reform is to adopt a more liberal[62] aviation policy, which would allow foreign air carriers to operate intra-CAREC routes, set up bases to increase flight capacities of CAREC airports (ADB 2024c), and devise special visas such as a Silk Road visa (ADB 2019). Based on lessons learned from ASEAN and other regions, a phased approach to Open Skies with specific timelines in a road map can be pursued.

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[62] Provision of fifth and seventh freedom rights for intra-CAREC routes for local and foreign air carriers.

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