ASEAN+3
Regional Economic Outlook 2026

Navigating Headwinds from a Position of Strength

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National Economic Council (DEN)
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International Organization AMRO

Kwai Tsing Container Terminals, Hong Kong, China

Presentation outline

1. **ASEAN+3 outlook** – A strong starting point, but downside risks materially higher
2. **Transformation of economic linkages** – A more regionally anchored ASEAN+3
3. **ASEAN Integration** – Deepening economic resilience through integration

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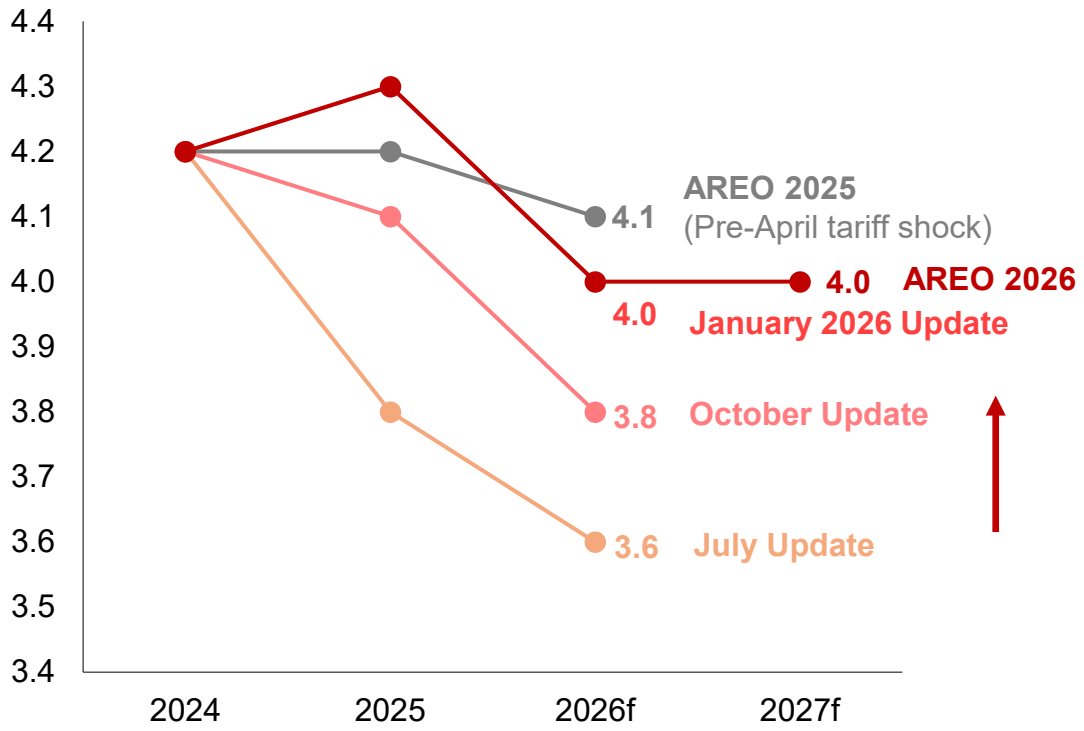
ASEAN+3 entered 2026 from a position of relative strength

Growth for ASEAN+3 outperformed initial expectations in the immediate aftermath of the April 2025 tariff shock. Exports remained robust, while resilient domestic demand provided a firm anchor to regional growth.

ASEAN+3 GDP Growth Forecast Evolution
(Percent, year-on-year)



- **Growth outperformed despite the tariff shock.** ASEAN+3 grew 4.3 percent in 2025 – well above the 3.8 percent projected after the April 2025 tariff shock, in part reflecting lower effective tariff rates and AI-driven semiconductor export demand
- **Domestic demand provided a firm anchor.** Private consumption remained firm amid favorable labor markets and low inflation, while investment strengthened on broad-based FDI inflows
- **Intraregional linkages continued to deepen.** Strengthening trade and investment ties within ASEAN+3 provided an important buffer against external headwinds

Source: National authorities via Haver Analytics, AMRO staff estimates.
Note: f = forecast. Regional aggregate for growth is estimated using the weighted average of 2025 GDP on purchasing power parity basis.

Growth to moderate to 4.0 percent in 2026 and 2027, with inflation trending higher on elevated energy prices

Domestic demand remains the key growth anchor, while higher US tariffs weigh on external demand and the Middle East conflict adds to inflationary pressure

AMRO Staff Baseline Estimates and Forecasts, 2026-27
(Percent, year-on-year)

Economy	GDP Growth			Headline inflation		
	2025	2026f	2027f	2025	2026f	2027f
ASEAN+3	**4.3**	**4.0**	**4.0**	**0.9**	**1.4**	**1.5**
Plus-3	**4.2**	**3.8**	**3.8**	**0.6**	**1.0**	**1.2**
China	5.0	4.5	4.5	0.0	0.6	0.9
Hong Kong, China	3.5	2.8	2.7	1.4	1.9	1.6
Japan	1.2	0.7	0.8	3.2	2.4	2.2
Korea	1.0	1.9	1.9	2.1	2.3	2.2
ASEAN	**4.9**	**4.6**	**4.8**	**2.3**	**3.1**	**2.9**
Brunei Darussalam	0.7	1.9	1.8	–0.3	0.9	0.8
Cambodia	5.2	4.9	5.2	2.5	2.9	2.5
Indonesia	5.1	5.0	5.1	1.9	2.8	2.9
Lao PDR	4.8	4.6	4.5	7.7	7.8	7.1
Malaysia	5.2	4.6	4.7	1.4	2.0	2.0
Myanmar	–1.5	2.5	2.5	28.0	24.0	16.0
Philippines	4.4	5.3	5.8	1.7	3.9	3.6
Singapore	5.0	3.4	3.1	0.9	1.8	1.8
Thailand	2.4	1.7	2.2	–0.1	1.1	1.0
Vietnam	8.0	7.4	7.1	3.3	3.8	3.4

Overall balance of risks is tilted to the downside:

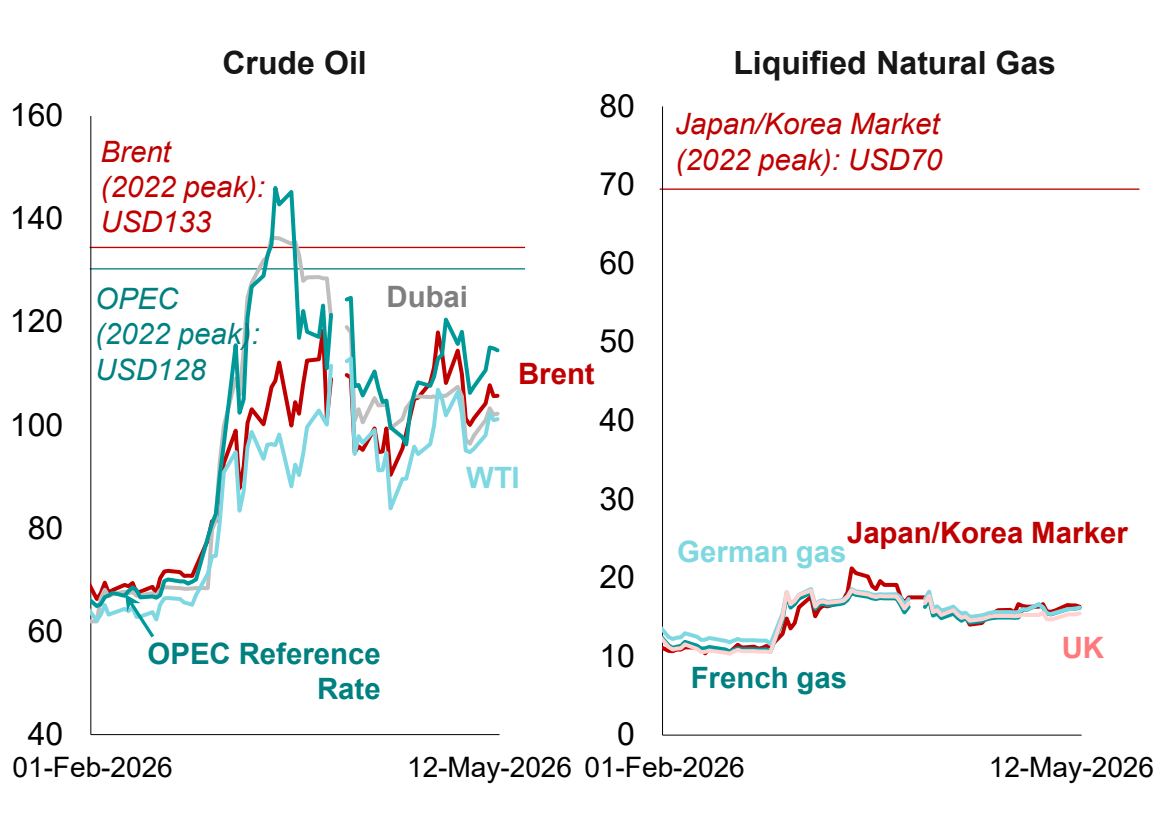
- **Middle East conflict and energy prices:** A prolonged conflict could keep energy prices elevated, with pressures cascading to the broader economy
- **Technology cycle:** AI-driven demand has been the region's strongest export buffer, but its persistence is a two-sided risk to the outlook
- **Trade policy uncertainty:** Effective tariff rates are well below the April 2025 peak, but the policy framework remains unsettled and sector-specific measures are still in play

Source: National authorities via Haver Analytics, and AMRO staff estimates.
Note: f = forecast. Regional aggregates for growth are estimated using the weighted average of 2025 GDP on purchasing power parity basis. Myanmar's GDP forecast covers April 1 of the reference year to March 31 of the following year. Forecasts are as of 24 March 2026.
As Timor-Leste is not currently a member of AMRO, it falls outside AMRO's formal surveillance mandate and is not included in the ASEAN+3 regional economic assessment.

The ongoing Middle East conflict represents the most significant energy supply disruption to the region in decades

Energy prices have increased sharply since the start of the conflict, with the potential scale of supply disruption significantly larger than 2022 during the Russia-Ukraine conflict which escalated into a crisis

Global Crude Oil and Natural Gas Prices
(USD per barrel; USD per million British thermal units)



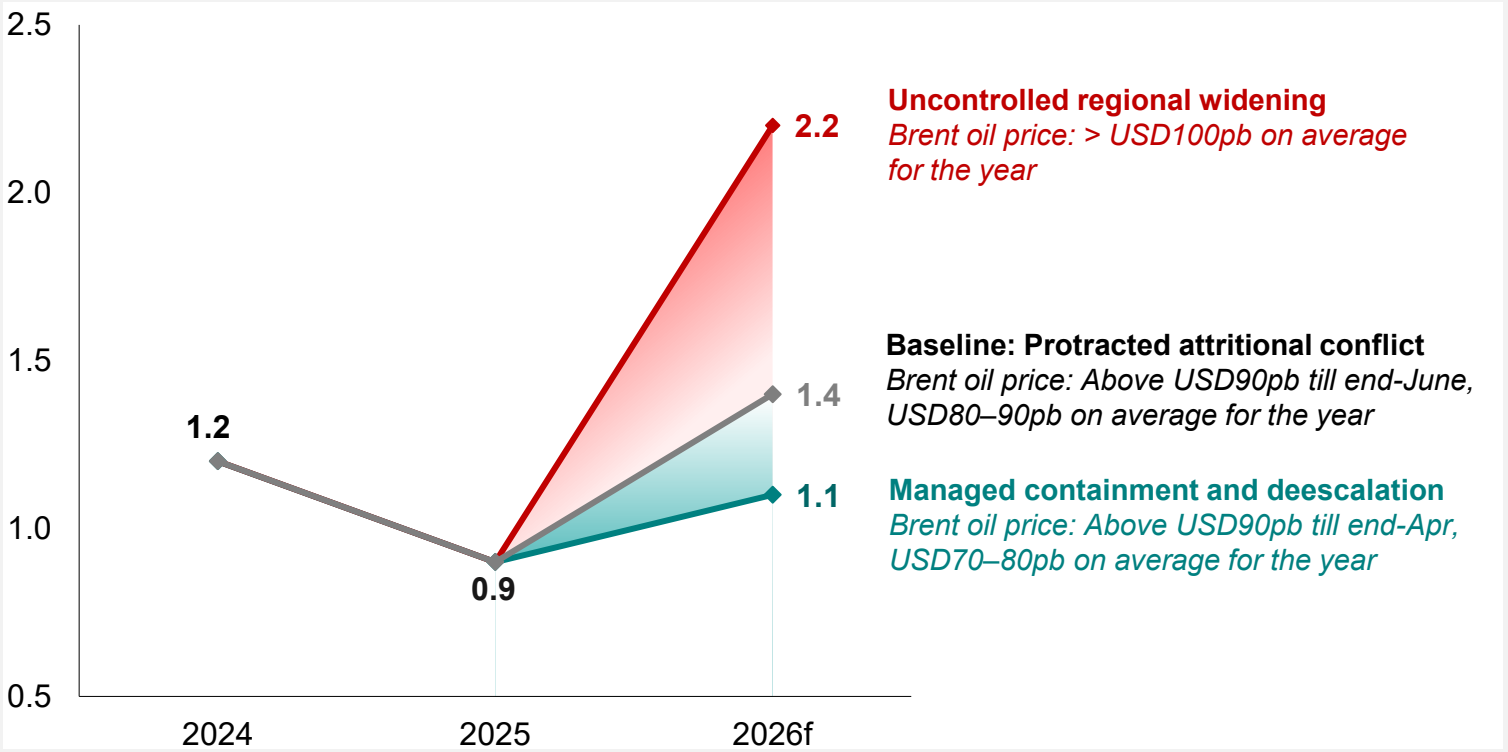
- **Scale of energy supply disruption is significant.** Affected global oil supply is four times larger than 2022, and unlike that episode, the Strait of Hormuz disruption directly affects the region's own oil and LNG supply routes
- **Duration of conflict will determine severity.** A prolonged conflict would see cost pressures cascade beyond energy into industrial inputs, logistics, food prices, and services

Source: EIA and New York Mercantile Exchange via Haver Analytics; AMRO staff calculations.
Note: MMBtu = Metric Million British Thermal Unit.

A prolonged Middle East conflict could push inflation materially higher and weigh on growth

Impact on the region will depend on the duration of the conflict, with effects likely to be uneven across economies

ASEAN+3 Inflation Projections Under Different Conflict Scenarios
(Percent, year-on-year)



AREO 2026 considers three scenarios:

- **Managed containment and de-escalation:** inflation at 1.1 percent; growth 0.1 ppt higher than baseline
- **Protracted attritional conflict (baseline):** growth at 4.0 percent, inflation at 1.4 percent
- **Uncontrolled regional widening:** inflation at 2.2 percent; growth 0.3 ppt lower than baseline

Outcomes could be worse. A prolonged conflict could produce compounding, non-linear effects that exceed model-based scenario estimates

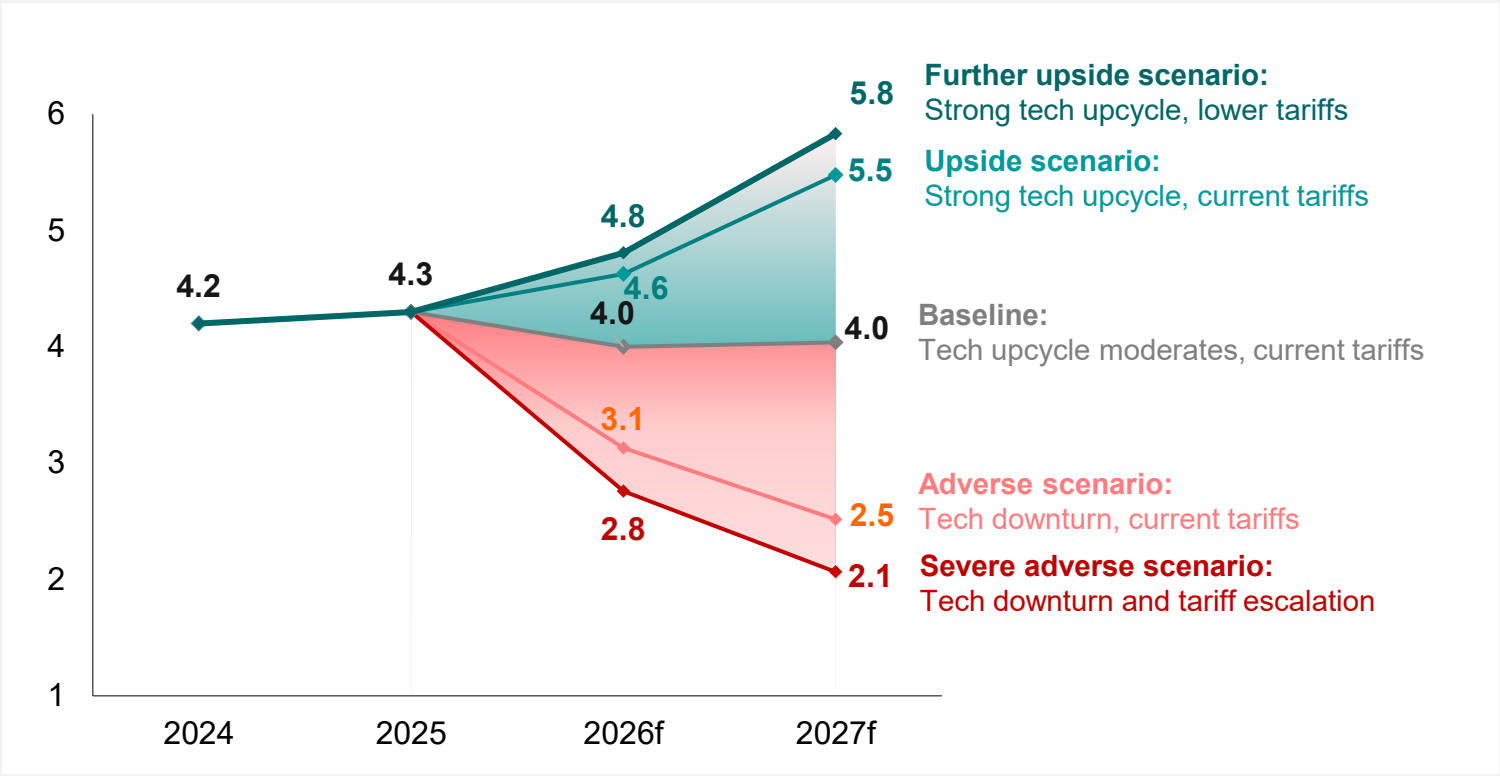
Impact will be uneven. Severity will also differ across economies depending on energy import dependence, available buffers, and policy space

Source: Oxford Economics Model; AMRO staff estimates and forecasts.
Note: f = forecast. Inflation estimates and forecasts refer to the yearly average. Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

Technology demand and trade policy present additional two-sided risks to the outlook

Stronger AI adoption could lift growth, while tariff escalation or a tech downturn could weigh significantly on the region

ASEAN+3 Growth Projections Under Different Scenarios
(Percent, year-on-year)



- **Technology cycle.** AI-driven demand has been the region's strongest export buffer, but its persistence is uncertain. No evidence of pullback yet, but a correction would weigh significantly on regional economies
- **Trade policy.** Effective tariff rates well below the April 2025 peak, but the framework remains unsettled. A re-escalation of tariffs remains a material risk to the region
- **These risks can interact.** A prolonged energy shock could disrupt industrial supply chains and dampen tech investment, while tariff escalation would compound the drag on exporters etc.

Source: Oxford Economics Model, AMRO staff calculations.
Note: Baseline assumes tariffs as of end February 2026 (ASEAN effective rate 10.2 percent) with investment growth moderating from 2025. Upside scenarios assume investment grows 10 percent quarter-on-quarter faster than baseline, adverse scenarios 5 percent slower (in line with the 2022 tech downcycle). Further upside and severe adverse scenarios additionally assuming tariffs 5 percent lower or 10 percent higher than baseline, respectively. Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

Macro-policy priority: preserving flexibility in the near term, while standing ready to respond decisively should the conflict's impact deepen

Most ASEAN+3 economies retain meaningful fiscal and monetary space – the key is to calibrate the response to the evolution and persistence of the conflict's economic impact

AMRO Staff Assessment of Policy Space in 2026

		Monetary Policy Space		
		Limited	Moderate	Ample
Fiscal Policy Space	Limited	LA	JP, MM	
	Moderate	KR, KH, ID, TH	CN, MY, PH, VN	
	Ample	HK, BN	SG	

- **Fiscal policy:** Targeted, temporary support for exposed households and critical sectors – avoid broad-based price suppression that could fuel inflation or erode fiscal sustainability
- **Monetary policy:** Look through the initial energy price shock, but respond decisively if pressures broaden into core inflation and wages. Clear communication is essential to anchoring expectations
- **Longer-term resilience:** Diversify energy and input sources, accelerate the energy transition, strengthen buffers, and preserve open regional trade channels

The AREO 2026 Chapter 1 Special Feature examines how central banks can navigate monetary policy under this kind of elevated uncertainty

Source: AREO 2026
Note: Policy space for each economy is based on AMRO's latest country assessment, guided by AMRO's Fiscal Policy Space Assessment and Monetary Policy Space Assessment.

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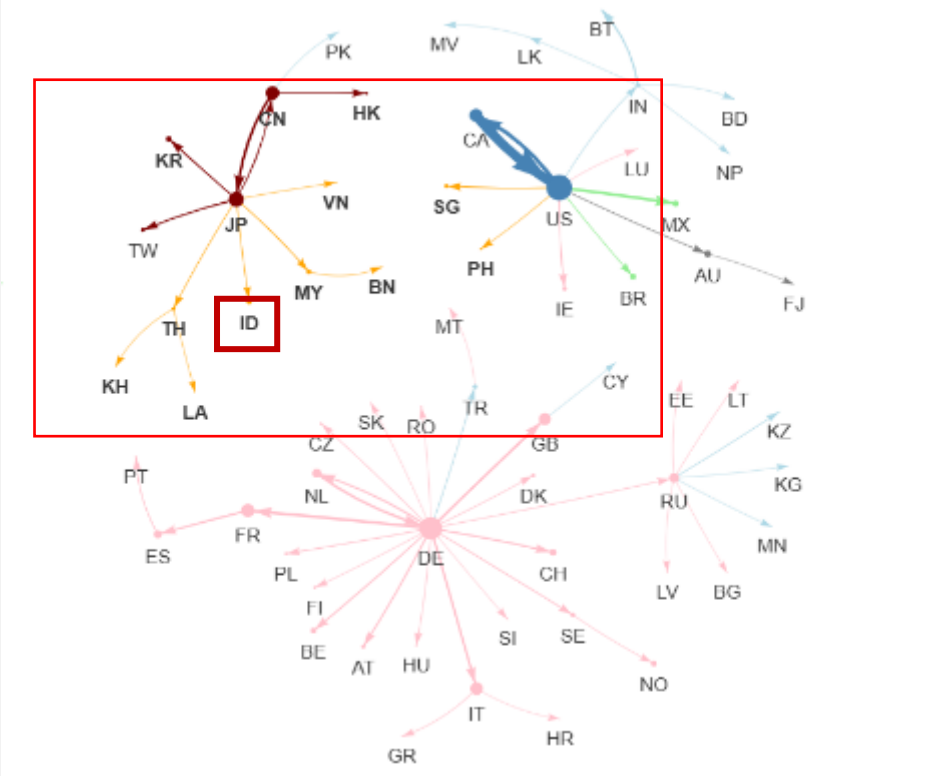
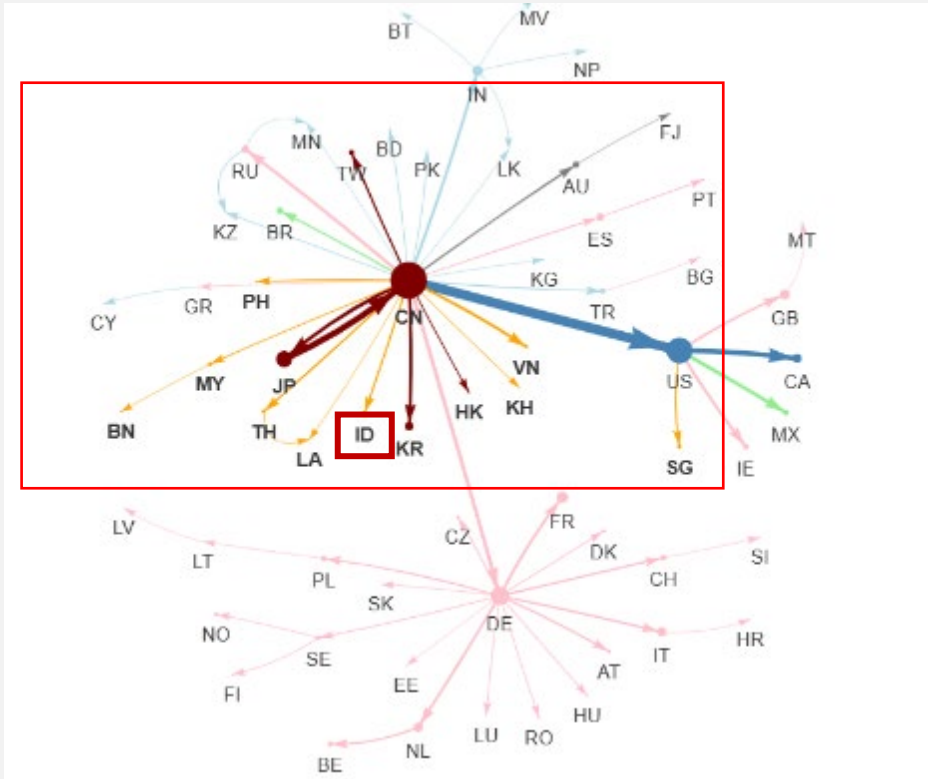
Shift 1: Denser, more integrated, regional supply chains

The region's supply chain has deepened, with China at the core of production, Japan and Korea specializing in high-precision inputs, and ASEAN economies driving mid-value manufacturing and digital services – a pattern of densification rather than displacement

Goods and Services: Global Supply Hubs in 2000



Goods and Services: Global Supply Hubs in 2024

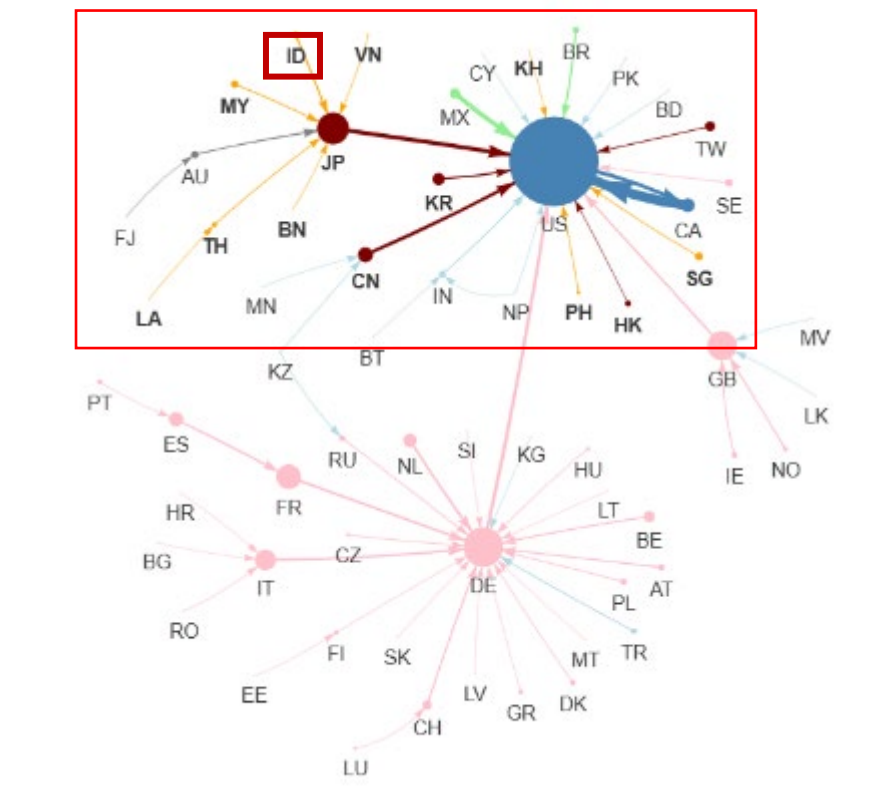


Source: ADB Multi-regional Input Output Table; AMRO staff calculations.
Note: Only linkages that represent the largest import or more than 25 percent of the total import are shown. The size of the bubble represents the share of an economy's imports in the world's total imports. The thickness of the linkage represents the share of flow between each trading partner in the world's total flow.

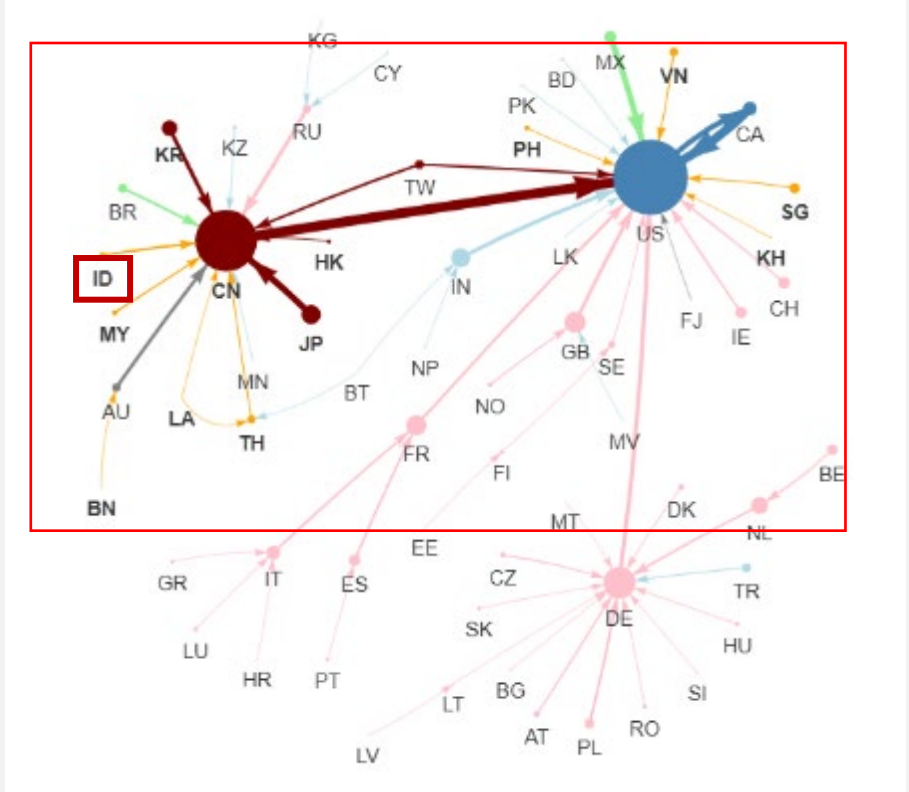
Shift 2: Demand has become more regionally anchored

ASEAN+3 has emerged as a major source of global final demand – collectively larger than the US – with intraregional demand now substantially more important than two decades ago

Goods and Services: Global Demand Hubs in 2000



Goods and Services: Global Demand Hubs in 2024

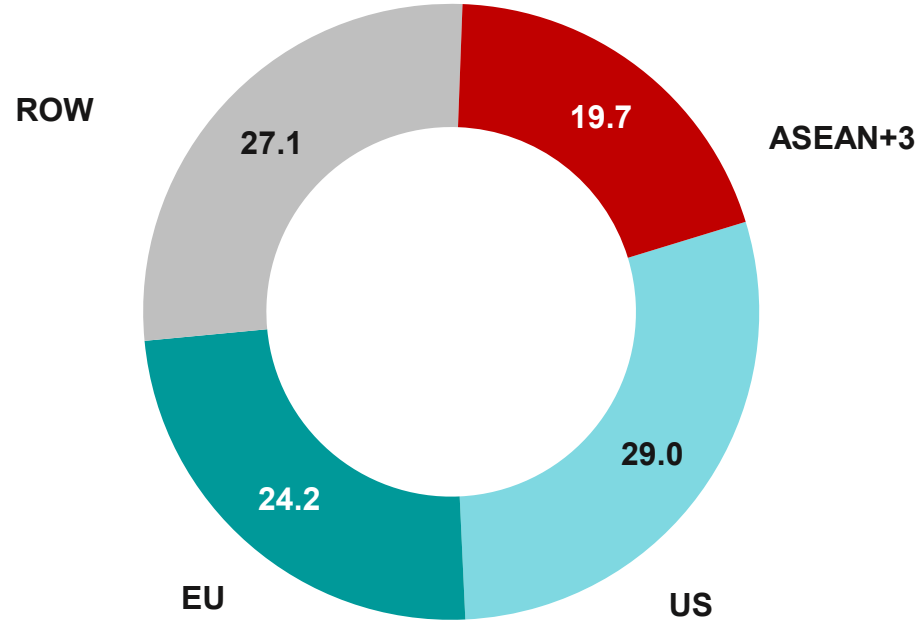


Source: ADB Multi-regional Input Output Table; AMRO staff calculations.
Note: Only linkages that represent the largest export or more than 25 percent of the total export are shown. The size of the bubble represents the share of an economy's exports in the world's total exports. The thickness of the linkage represents the share of flow between each trading partner in the world's total flow.

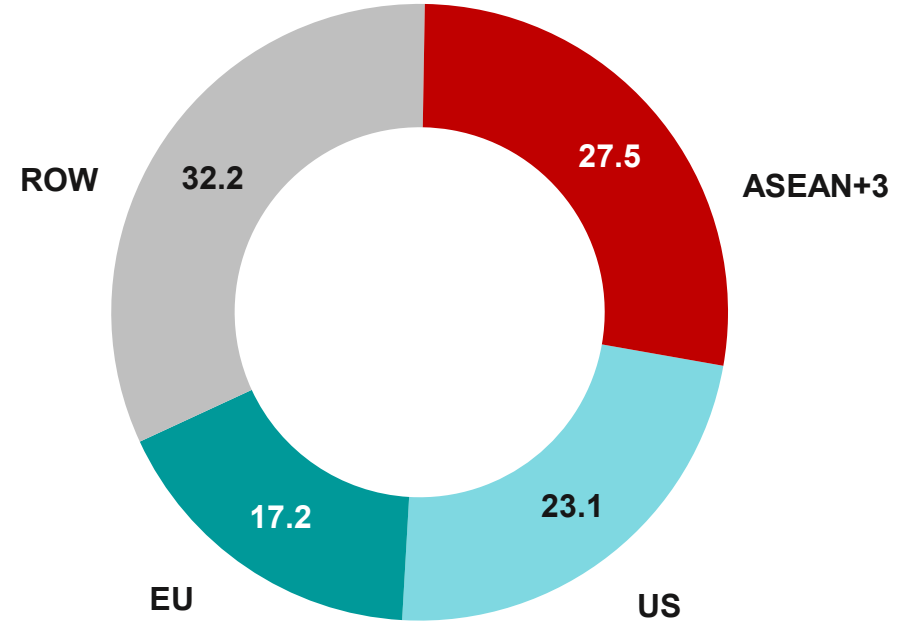
ASEAN+3: The largest final demand market in the world today

ASEAN+3 has surpassed the US as the largest source of global final demand, representing a share of 27.5 percent in 2024

Share of Global Value-added in Final Demand by Region
(Percent share, 2000)



Share of Global Value-added in Final Demand by Region
(Percent share, 2024)



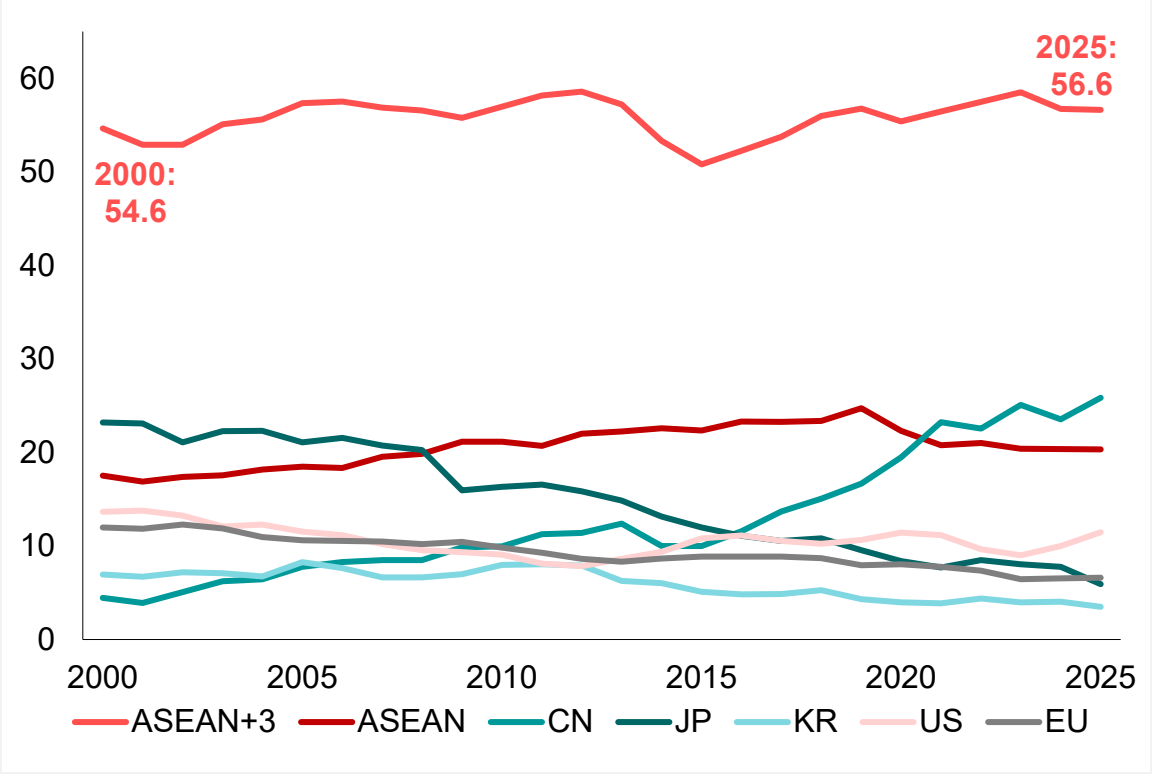
Source: ADB Multi-regional Input Output Table; AMRO staff calculations.
Note: EU = EU-27 member economies; ROW = Rest of the world; US = United States.

Share of Global Value-added in Final Demand by Region (Percent share, 2024)

Indonesia's economic ties with ASEAN+3 continue to be significant

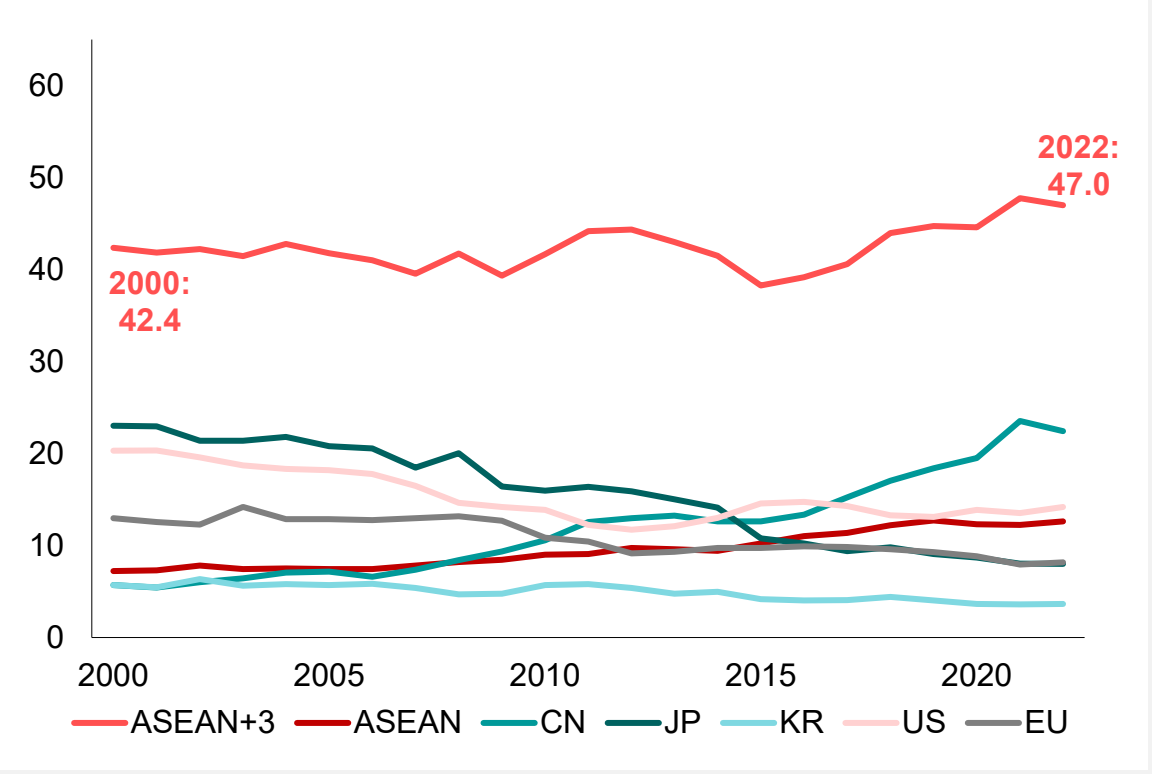
The ASEAN+3 region is Indonesia's largest trade partner and the most important source of final demand

Indonesia: Gross Exports to Key Trading Partners
(Percent share)



Source: IMF via Haver Analytics; AMRO staff calculations.

Indonesia: Domestic Value-added Exports, by Final Market
(Percent share)



Source: OECD TiVA; AMRO staff calculations.
Note: Data refer to Indonesia's domestic value-added exports to each partner as a share of Indonesia's total domestic value-added exports.

Big picture: from ‘world’s factory’ to regionally anchored production and trade networks

Twenty years ago, the region was often framed as “the world’s factory.” But that framing no longer fits

Old model: Produce for the world

- Limited intraregional demand
- Externally oriented growth model

New model: Regionally anchored networks

- Denser supply chain linkages
- Inward anchored demand
- Reinforcing investment flows

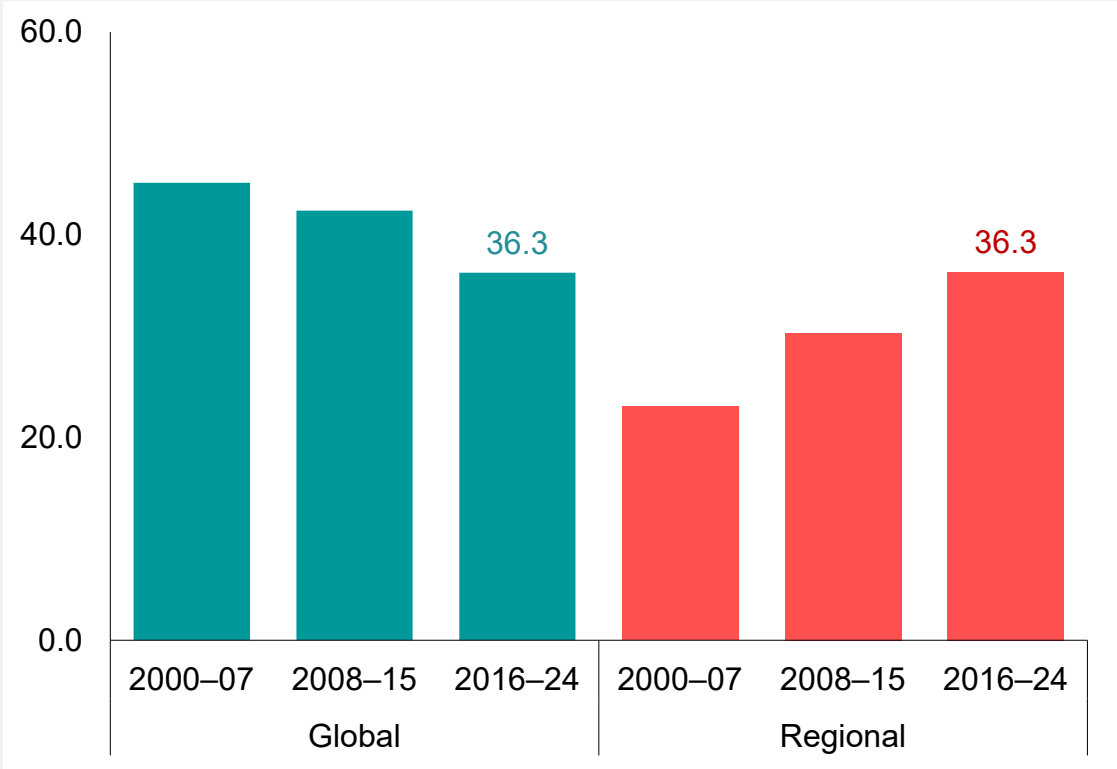
Source: AMRO staff

Implication 1: Stronger business-cycle synchronization in the region

GDP growth correlations have strengthened across economies, and since 2016 regional factors have explained as much variance as global forces, reflecting how shared production networks increasingly transmit shared shocks

ASEAN+3: Variance in Real Growth Explained by Factors
(Percent)

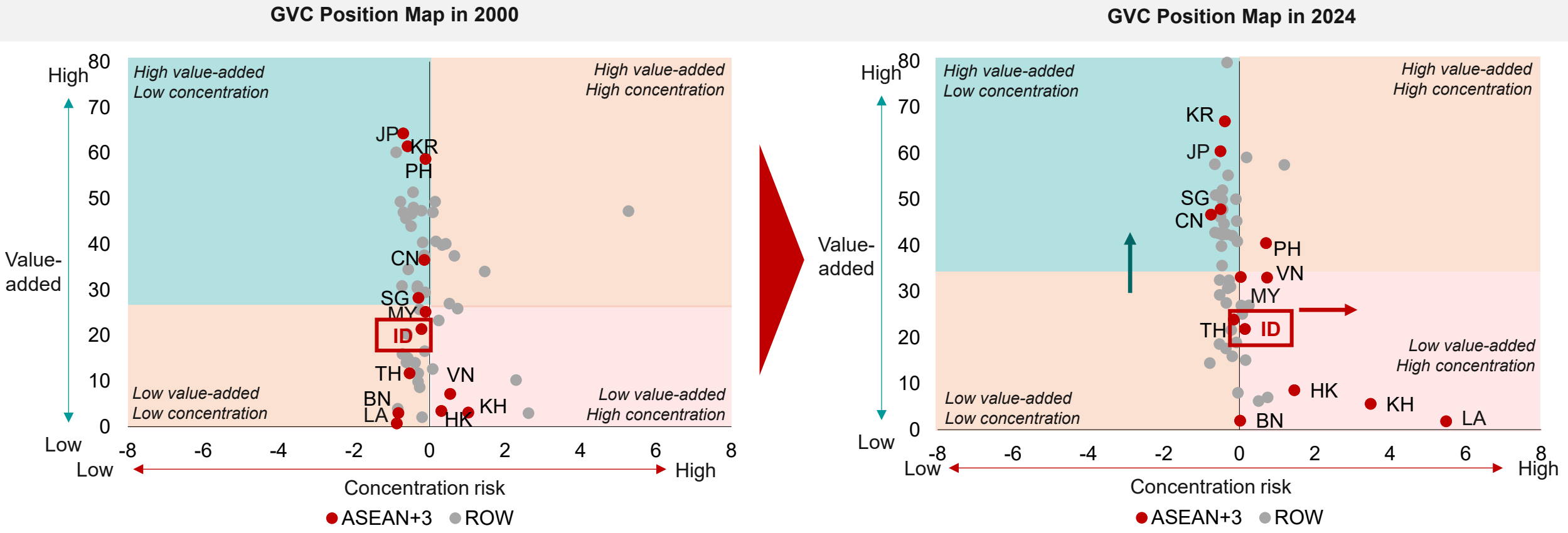
ASEAN+3: Variance in Real Growth Explained by Factors, Excluding Crisis Years
(Percent)



Source: World Bank; AMRO staff calculations
Note: Crisis years refer to the global financial crisis (2008–2009) and COVID-19 (2020–2021). The variance in real growth is decomposed into shares explained by global factor, regional factor, and idiosyncratic economy-specific fluctuations, based on an estimated dynamic factor model following He and Liao (2012).

Implication 2: Structural upgrading has been accompanied by greater concentration risk for some

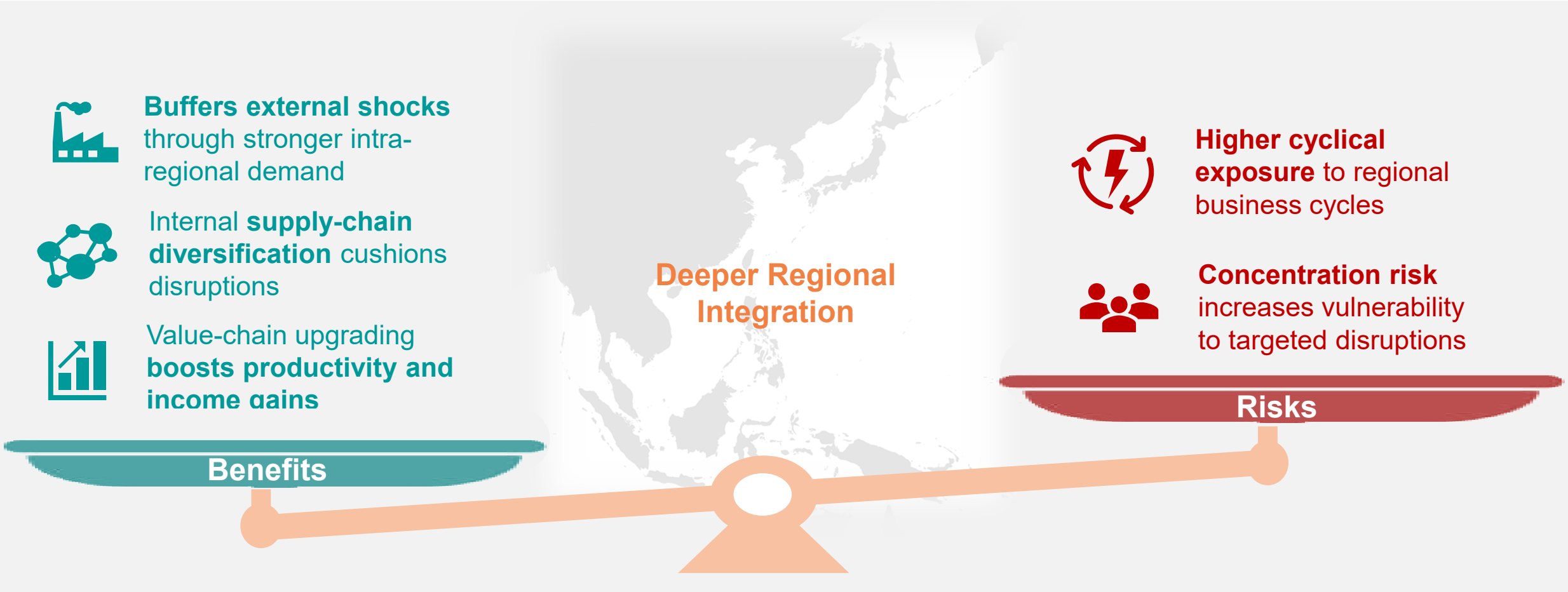
While most ASEAN economies increased their value-added activities, their concentration risk also rose as they are more embedded in the Asian cluster of the production network



Source: ADB; OECD Pass Through Frequency (PTF) Indicator; AMRO Staff Calculations.
Note: ROW = Rest of the world. The y-axis represents each economy's value-added exports in high-value sectors as a share of its total value-added exports. High-value sectors are defined by the OECD as sectors with a high R&D spending as a share of global value-added. The x-axis shows the normalized Herfindahl–Hirschman Index (HHI) of PTF. For each producer–supplier economy pair, PTF values are aggregated across sectors before computing the index.

The new linkages create benefits and vulnerabilities

Integration has strengthened resilience to external shocks and a source of structural upgrading, but it brings new risks: greater regional shock spillover and concentration risk from deeper structural interdependence.



Source: AMRO staff

Navigating deeper integration: Policy priorities

Managing Synchronization

Greater synchronization calls for:

- **Sound domestic frameworks**
  As policy spillovers grow with deeper linkages, strong domestic frameworks become a more important regional public good
- **Enhanced regional dialogue**
  Timely exchange of information on macro conditions and risks, building on existing frameworks, incl. ASEAN+3 finance process
- **Preparedness for global shocks**
  Preserving fiscal space, monetary flexibility, and policy buffers

Structural Positioning

Sustaining long-term growth requires:

- **Domestic Upgrading**
  Move toward higher value-added activities through investment in innovation and human capital
- **Diversification**
  Reduce concentration risk through geographic and sectoral diversification of trade partners and production networks
- **Inclusion**
  Ensure integration gains are broadly shared across firms, regions, and workers

The AREO 2026 Chapter 2 Special Feature examines how ASEAN can deepen regional integration by leveraging global value chain linkages to build domestic capabilities, and by strengthening intra-ASEAN investment

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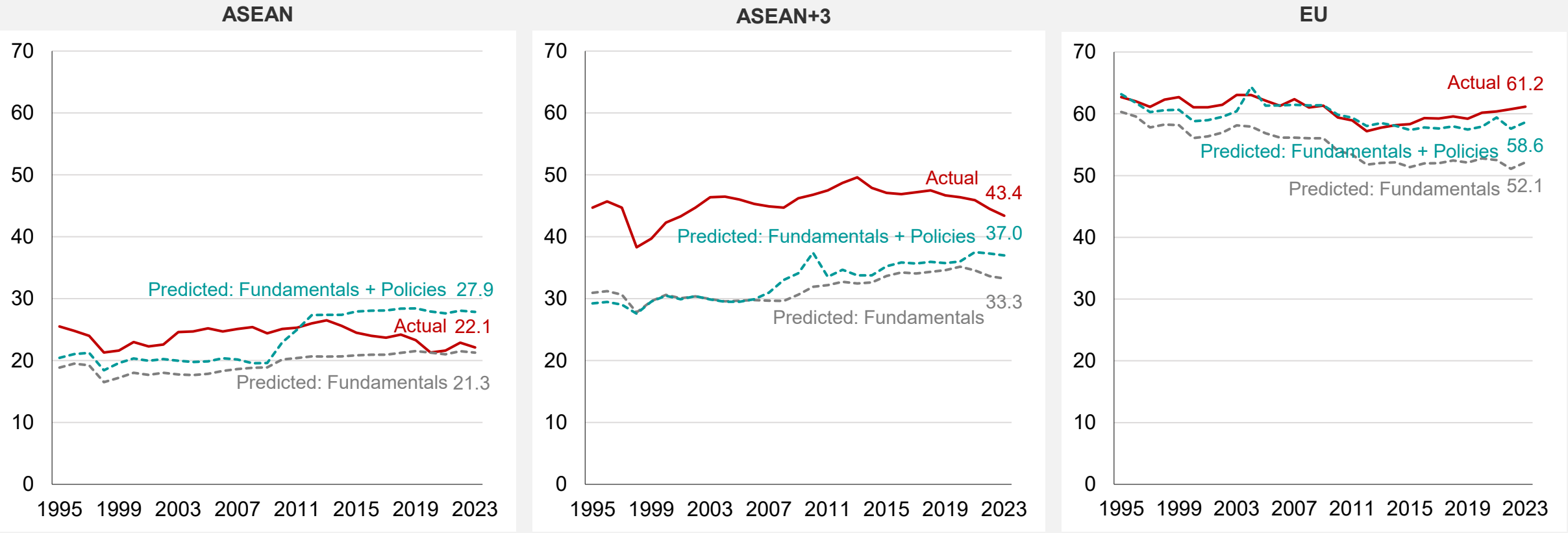
The current level of intra-ASEAN trade is in line with what is predicted by economic fundamentals

Comparisons with the broader ASEAN+3 region and the EU provide clues on the structural limits of deeper integration for ASEAN

Intra-regional Goods Export Share in Selected Regions
(Percent share)

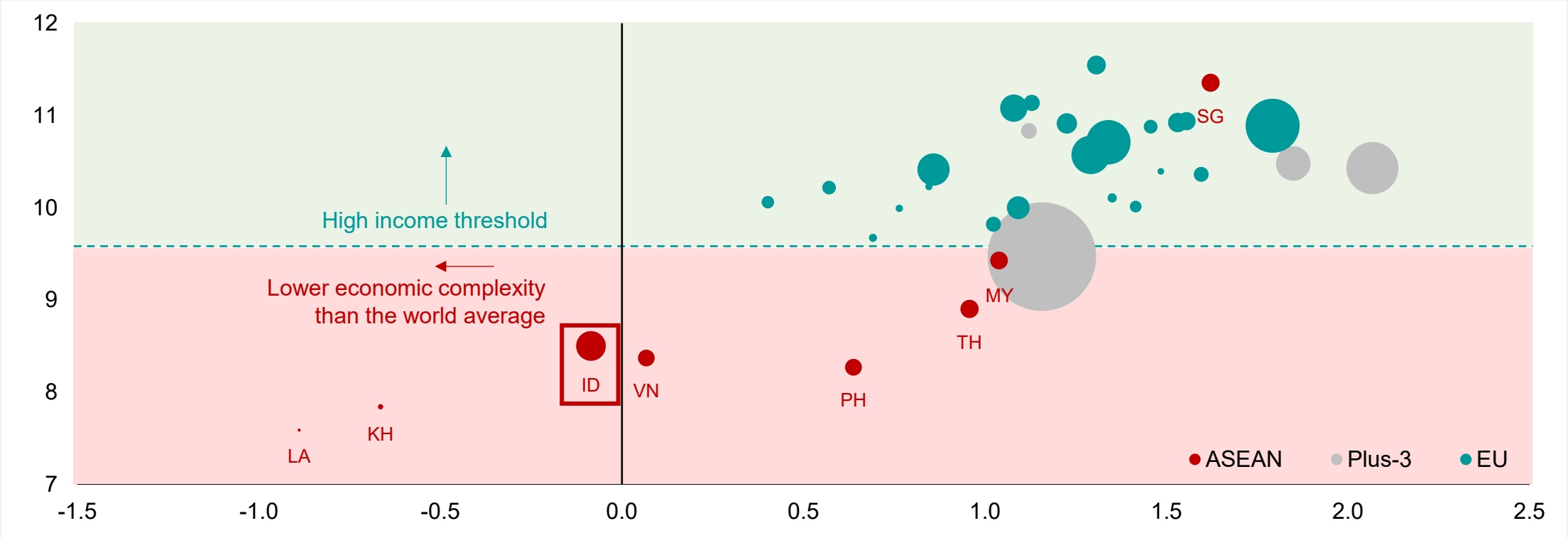


Source: UN Comtrade, CEPII, Mario Larch's Regional Trade Agreements Database from Egger and Larch (2008); AMRO staff calculations.
Note: Fundamental variables include nominal GDP of trading partners, bilateral distance, shared border, common language, and colonial ties. Policy variables capture both the presence and coverage of trade agreements (e.g., PSA, FTA, EIA, CU).

ASEAN's development levels and production sophistication limit the potential to sustain dense regional trade

ASEAN's lower and diverse development levels and production sophistication limit its ability to trade in differentiated products, build complementary specializations, and generate the purchasing power to absorb regional output

Diversity in Income and Industrial Capability in Selected Regions, 2023

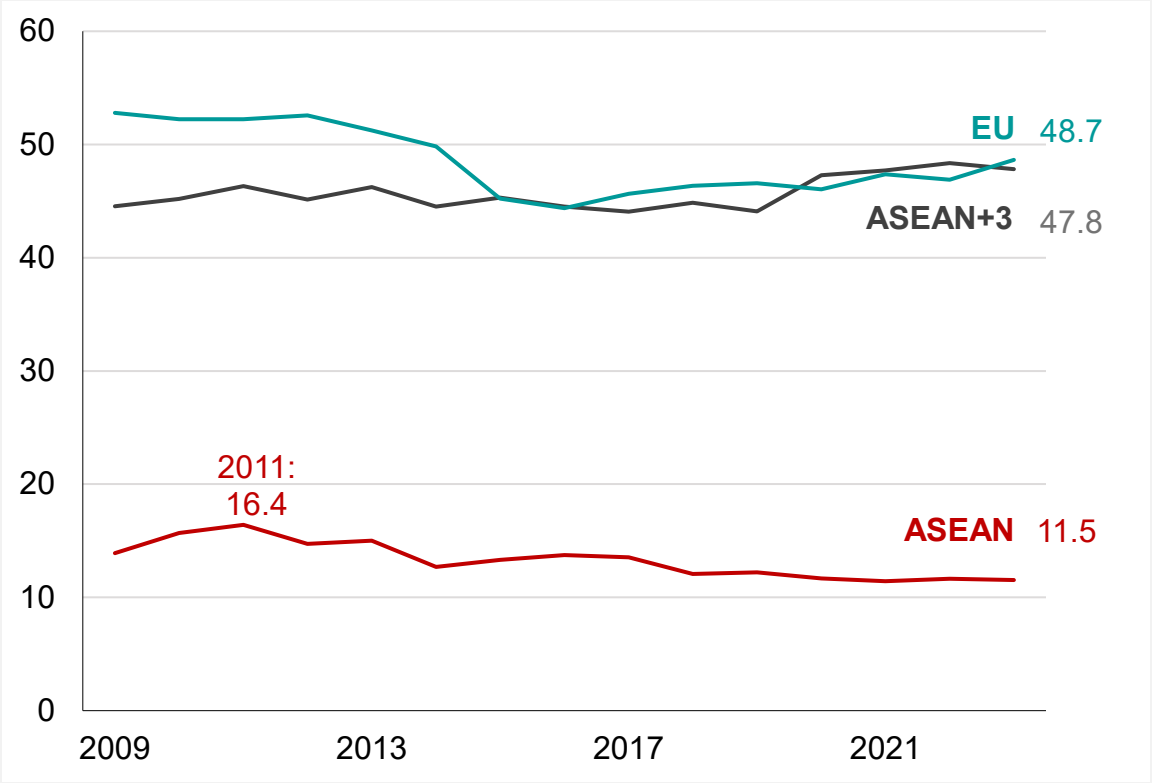


Source: IMF, Harvard Growth Lab; AMRO staff calculations.
Note: The x-axis shows the Economic Complexity Index, while the y-axis represents the log GDP per capita. High income threshold follows the World Bank's definition of high income for FY25. Negative Economic Complexity Index indicates the economy's export basket is less complex than the world average. The size of each bubble corresponds to the economy's nominal GDP for 2023, measured in USD. For ASEAN and ASEAN+3, Economic Complexity Index for Brunei Darussalam and Myanmar are unavailable. For the EU, ECI data for Cyprus. Estonia, Latvia, Luxembourg, and Malta are unavailable.

Low intra-ASEAN investment also limits deeper regional trade integration

ASEAN intra-regional investment integration is even lower than its trade integration and those predicted by fundamentals, and considerably below that of ASEAN+3 and EU, limiting its role as enablers for developing production networks and sustaining regional demand linkages

Intra-regional FDI Stock in Selected Regions
(Percent share)



- ASEAN intra-regional FDI stock is low and has been declining since the early 2010s, highlighting weaker intra-regional investment integration.
- Literature points to a significant role of FDI in promoting deeper economic ties. FDI builds future trade, transfers technologies and capacity, generates productivity spillovers, and creates stakeholders for further integration.
- Aligned with existing studies, our empirical analysis found that FDI has a significant positive relationship with bilateral trade flows.

Source: IMF CDIS via Haver Analytics; AMRO staff calculations.
Note: In our empirical analysis, we employed a two-stage instrumental variable regression, using corporate tax differentials as an instrument for FDI, and found that FDI exerts a positive and statistically significant effect on bilateral trade flows even after controlling for factors in standard gravity models.

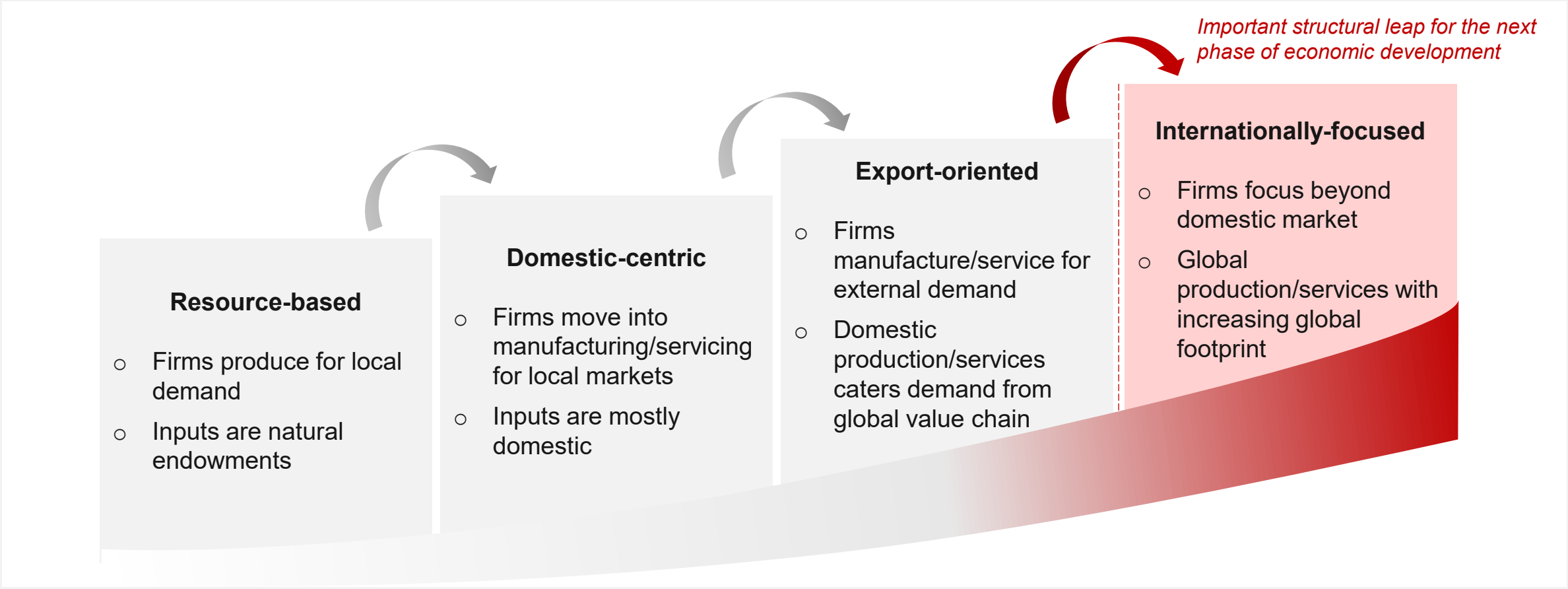
Deeper integration will require an ASEAN investment strategy

Beyond current and planned integration initiatives, ASEAN needs to focus on 1) domestic upgrading through linkages with the broader region and 2) promotion of intra-ASEAN investment, to promote deeper and more enduring regional integration over time

Source: AMRO staff

Internationalization of firms is key to both advancing intra-ASEAN integration and ASEAN's next phase of economic transformation

As domestic firms expand regionally, they create new investment flows and trade linkages that reinforce integration. Beyond enhancing investment flows, this aligns with the next phase of structural transformation for ASEAN economies

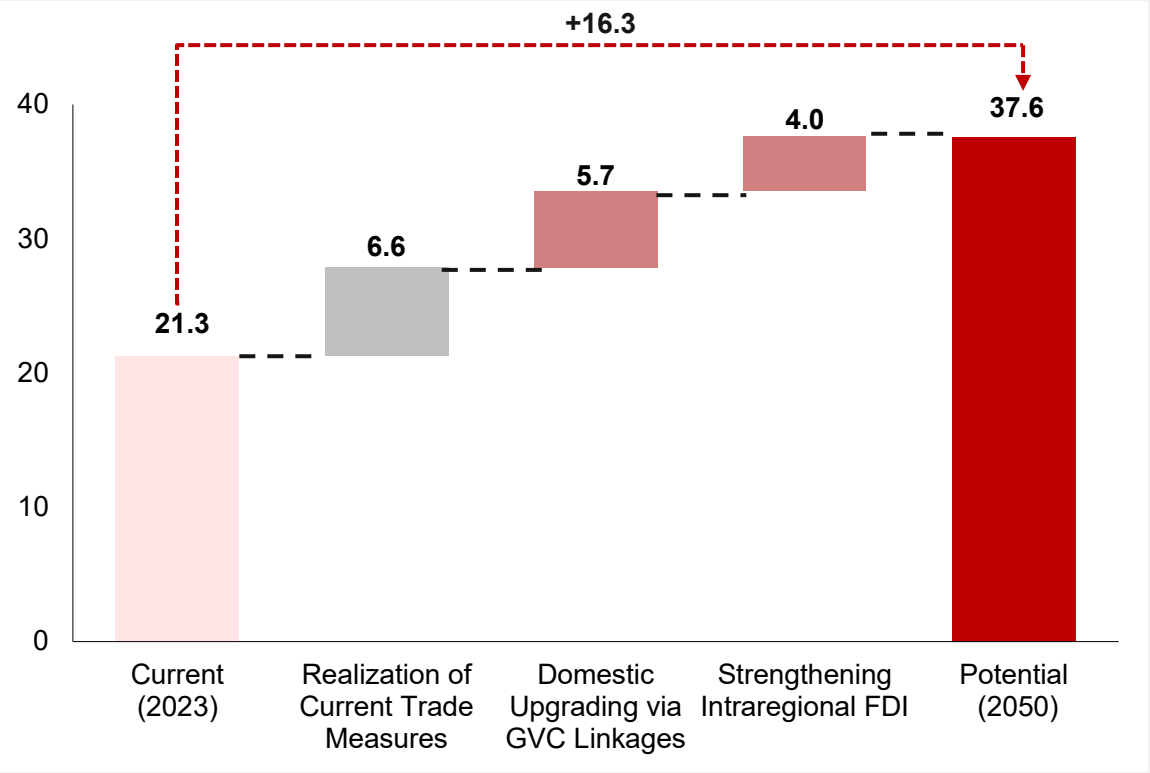


Source: AMRO staff

A more integrated ASEAN would strengthen overall ASEAN+3 resilience

Model simulation suggests that intra-ASEAN trade could reach close to 40 percent by 2050 with an investment strategy that focuses on maximizing spillovers from integration with the broader region and increasing intra-ASEAN FDI, alongside trade liberalization measures

Intra-ASEAN Trade Integration by 2050
(Percent share)



- A more integrated ASEAN is beneficial for the Plus-3 economies and the broader region: create a more stable source of final demand within the region, reducing external reliance.
- It would also reinforce a more resilient regional production system, helping to diversify supply chains as global value chains reconfigure amid rising protectionism.

Source: IMF CDIS via Haver Analytics, Harvard Growth Lab, UN Comtrade; AMRO staff calculations.
Note: FDI = foreign direct investment; GVC = global value chain. The realization of current trade measures assumes maximizing the benefits of existing trade agreements. By 2050, intra-regional FDI stock is projected to reach 27 percent, while the regional Trade Complementarity Index (TCI) is expected to improve by 10 points. Average annual growth for ASEAN economies is projected under the assumption that regional economies converge faster towards the ASEAN+3 productivity frontier.

Thank you

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