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BerAKHLAK
Berorientasi Pelayanan Akuntabel Kompeten Harmonis Loyal Adaptif Kolaboratif

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PANEL DISCUSSION I

Navigating Global Uncertainty

Sustaining Growth and Stability in ASEAN

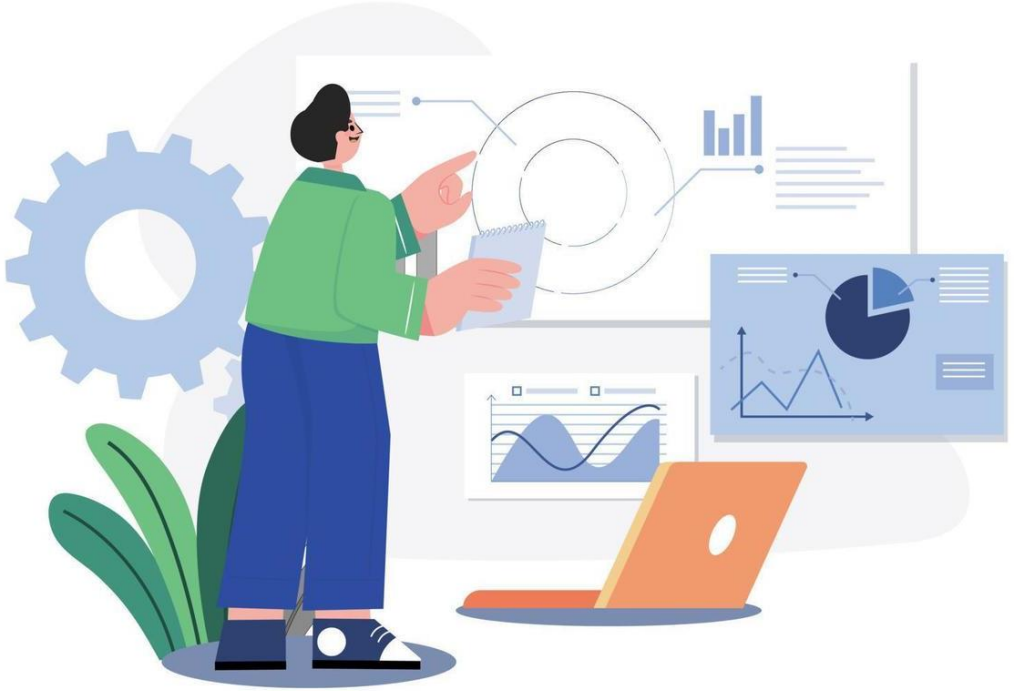
Jakarta, May 25th 2026

Seminar on ASEAN Regional Economic Outlook and Fiscal Policy

AMRO's outlook underscores the urgency for proactive regional policies against compounding external risks.

The 2026 outlook presents a challenging baseline driven by geopolitical conflicts, supply disruptions, and trade policy shifts.

- **Slower Growth Trajectory:** ASEAN GDP forecast stands at 4.6% in 2026, pressured by persistent external volatility and supply chain fragmentation.
- **Mounting Inflationary Pressures:** Cascading impacts from Middle East conflicts risk pushing ASEAN CPI to 3.7%, impacting domestic consumption.
- **Stagflationary Tail Risks:** A prolonged $125/bbl oil scenario coupled with industrial input shortages could shave 1.3 percentage points off projected ASEAN growth.



Deeper ASEAN integration acts as our primary structural buffer against global fragmentation and supply shocks.

Digital Integration

Accelerating the Digital Economy Framework Agreement (DEFA) and expanding cross-border payment connectivity to stimulate intra-regional demand and shield against external currency shocks.

Green Transition

Harmonizing sustainable finance taxonomies to attract high-quality global capital, accelerating the region's energy transition, and building resilience against fossil fuel price spikes.

Structural Reforms

Committing to aggressive domestic debottlenecking, industrial upgrading, and eliminating non-tariff measures to elevate overall regional productivity and competitiveness.

Trade liberalization alone has hit structural limits; the next phase of ASEAN integration must be strictly investment-led.

AMRO correctly identifies that we cannot rely solely on lowering tariffs. We must pivot towards denser cross-border investments and comprehensive regulatory harmonization.

~22%

Intra-ASEAN Trade

Stagnant despite the near-complete removal of tariffs within the bloc, indicating structural ceilings in pure trade integration.

$341B

ASEAN+3 FDI Capture

Recorded in the first three quarters of 2025. This highlights the region's massive potential as a hub for supply-chain diversification.

Operationalizing the Strategic Plan 2026–2030 requires tackling deeply entrenched "behind-the-border" resistance.

Priority Regional Measures

To move beyond trade, ASEAN is actively pursuing structural integration mechanisms:

- Implementation of comprehensive Regulatory Harmonization Dashboards.
- Progressive Capital Account Liberalization to ease cross-border flows.
- Strengthening frameworks to facilitate mobility for MSME integration.
- Enhancing cross-border tax cooperation to attract multinational investments.

Political & Structural Friction

These priorities face significant domestic hurdles that require strategic navigation:

- **Protectionism:** National pressures to protect strategic domestic industries and local MSMEs.
- **Development Gaps:** Disparate economic stages necessitate utilizing the "ASEAN Minus X" formula.
- **Standardization:** Reluctance to relinquish localized standards in favor of regional harmonization.

Indonesia advocates for an integrated ASEAN Value Chain rather than engaging in a zero-sum competition for FDI.

While Indonesia competes with Vietnam, Malaysia, and Thailand for global supply chain relocations, our strategic stance prioritizes regional synergy over isolation.

1. Domestic Upgrade

Accelerating structural reforms and mineral downstreaming (e.g., EVs, batteries) to capture specific, high-value segments of the global supply chain.

2. Regional Complementarity

Positioning each ASEAN member state to provide complementary strengths. This interconnected ecosystem makes the entire region irresistible to global MNCs seeking resilience.

ASEAN policymakers must calibrate immediate shock management with long-term structural transformation.

Prudent Short-Term Mitigation

Deploy targeted, temporary support to protect vulnerable households and sectors from acute energy and food price spikes, avoiding broad, market-distorting subsidies that strain fiscal capacity.

Accelerate Energy Security

Actively build long-term resilience by diversifying energy supply networks and aggressively accelerating the green energy transition to reduce systemic vulnerability to Middle East supply disruptions.

Deepen Macroeconomic Cooperation

Enhance real-time regional surveillance and strategic foresight mechanisms, as recommended by AMRO, to preemptively identify risks and coordinate unified ASEAN macroeconomic responses.

ASEAN Economic Modality Gap Analysis

Geoeconomics: The 2026 Baseline

$4,2T

Total Minimum GDP
representing massive potential for supply-chain diversification.

90x

Income Disparity Gap
The income disparity between the highest (Singapore) and lowest (Myanmar) nominal GDP/capita.

2/10

High-income States
the rest of it are:

- 3/10 Upper-Middle Income
- 5/10 Lower-Middle Income

Note: 50% of ASEAN member states currently occupy the lower-middle-income bracket.

Gap Dimensions between Countries in ASEAN

Member State	Nominal GDP/cap	Income Tier	Dominant Sector
Singapore	$99,365	High	Services (71%)
Brunei	$37,000	High	Industry (68%)
Malaysia	$14,000	Upper-Mid	Services (51%)
Thailand	$8,057	Upper-Mid	Services (56%)
Indonesia	$5,082	Upper-Mid	Services (42%)
Vietnam	$4,500	Lower-Mid	Services (41%)
Cambodia	$2,200	Low	Industry (38%)

- Service sector share ranges significantly from 34% in Cambodia to 71% in Singapore, representing a **78% spread**.
- Bridging the gap requires deepening **trade facilitation and investment in human capital** for lower-middle members.

Birdging the ASEAN Economic Gap

- **Trade Facilitation:** Deepening regulatory harmonization to lower barriers for lower-middle-income members.
- **Human Capital:** Strategic investment in education and reskilling to shift from agriculture to high-value services.
- **Institutional Frameworks:** Strengthening governance to attract higher FDI and infrastructure development.

Developing and Implementing Geoeconomics Model for ASEAN

ASEAN Geoeconomics Model

Develop-integrate-Implement-Sustain

Layer 1: External Environment

- **US-China Rivalry** — Tech Decoupling
- **Tariff Shocks** — US 2025 measures
- **Supply Chain Shifts** — China+1 trend
- **Energy Disruptions** — Strait of Hormuz risk

Layer 2: Strategic Objectives

- **Strategic Autonomy** — No forced alignment
- **Supply chain resilience** — Redundancy - Diversification
- **Inclusive Growth** — Bridge intra-ASEAN gaps

Layer 3: Model Pillars

- **Trade and Investment** — RCEP – ATIGA Upgrade – FDI Attraction
- **Digital and Technology** — DEFA – AI Governance Digital Payments
- **Energy and Critical Minerals** — Power grids – transition critical mineral chains
- **Financial and Monetary** — CMIM – Local Currency Payment Connectivity

Layer 4: Implementation Mechanisms

- **Data and Intelligence** — Geoeconomic risk mapping; ASEAN Stats Hub
- **Policy Coordination** — AGTF reports; AEM+ Forums; Plurilateral tracks
- **Institutional Capacity** — AGTF → permanent Think Tank network (ERIA, ISEAS)
- **External Engagement** — Multi-alignment strategy (ASEAN+3, RCEP, GCC, ASEAN centra

Layer 5: Governance and Feedback

ASEAN Economic Ministers + Geoeconomics Task Force (AGTF)

Monitor – Evaluate – Adapt – Report to ASEAN Summit

ASEAN Biggest Challenges

- Geopolitical Squeeze caused by US-China Competition
- US Tariff and Trade Shock
- Internal Security Crises
- The Institutional Paradox
- South China Sea

The bottom line:

Security crises exposed the limits of consensus and non-interference, testing ASEAN's credibility as a regional stabiliser.

The core question for 2026 is whether ASEAN can shift from merely managing turbulence to shaping regional leadership.

The economic fundamentals remain solid, but the political and institutional machinery is under its greatest strain in decades.

1 Geopolitical Squeeze: US–China Competition

This is arguably the overarching pressure. With geostrategic competition intensifying, the sustainability of ASEAN's longstanding nonaligned position is in question. Member states are **pursuing bilateral deals with the United States while scrambling to diversify external partnerships**, and flagrant violations of the international rules-based order are increasingly challenging the foundation of ASEAN cooperation.

2 US Tariff and Trade Shock

The biggest economic shock of 2025 was Trump's reciprocal tariffs. ASEAN was exposed to **significant economic shocks and growing geoeconomic pressures**, while the region's pillar-based, consensus-driven mechanisms proved insufficient to coordinate an effective response. The ASEAN Geoeconomics Task Force was only just established in 2025 to address this.

3 Internal Security Crises

ASEAN faces two major internal security fissures: the ongoing border dispute between Thailand and Cambodia, where renewed fighting erupted in late 2025 with airstrikes involved, and the far more complex situation in Myanmar, where efforts to negotiate a resolution, including the five-point consensus, have failed to achieve anything of note since the 2021 coup.

4 The Institutional Paradox

A central paradox defines ASEAN today: **it remains indispensable, but increasingly insufficient.** Contributions to crises are often seen as incremental, constrained by institutional limitations, consensus-based decision-making, and reliance on the rotating chairmanship.

5 South China Sea

A long-standing challenge has been forming a joint response to China, particularly to maritime disputes in the South China Sea. The Philippines, as 2026 chair, is pushing for a binding Code of Conduct, which are negotiations that have dragged on since the 1990s with no conclusion in sight.

> True resilience is not built by merely surviving external shocks, but by deepening our economic integration so that ASEAN becomes the anchor of stability and growth in a fragmented world.

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Thank you