

# Quarterly Update of the ASEAN+3 Regional Economic Outlook (AREO)

**ASEAN+3 Macroeconomic Research Office (AMRO)**

Singapore

January 2023

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Unless otherwise indicated, the analysis in this report is based on information available up to 16 January 2023. For brevity, Brunei Darussalam is referred to as Brunei and Hong Kong, China is referred to as Hong Kong in the text and figures.

## Highlights

- Growth in the Plus-3 economies weakened while economic activity in ASEAN remained robust in the fourth quarter of 2022 and into 2023.
- Economic reopening in China and the resumption of international tourism may offset slowing external demand.
- ASEAN+3 growth is projected at 3.3 percent in 2022 and 4.3 percent in 2023. Inflation is projected at 6.3 percent in 2022 and 4.5 percent in 2023.
- The region's growth outlook is subject to a wide range of downside risks.

## Global and Regional Economic Developments since the October 2022 AREO Update

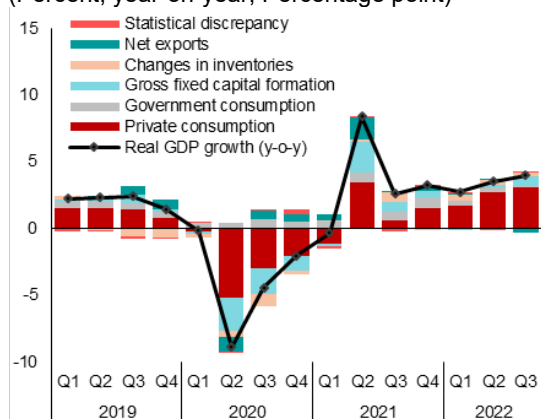
**The ASEAN+3 region grew strongly in the third quarter of 2022.** Domestic demand remained resilient and offset the drag on growth from net exports (Figure 1). ASEAN, Japan, and Korea led the expansion as further relaxation of containment measures alongside high vaccination rates enabled more economic activities, such as retail trade and construction, to resume. In China, the domestic economy was supported by economic stabilization policies.

from 65,000 in mid-October to about 260,000 in late December, driven by new cases in Japan and Korea (Figure 2). New infections in Hong Kong rose fourfold over the same period. Although pandemic containment measures were not tightened, the spike in cases could dampen consumer sentiment and consequently, private sector spending in the Plus-3 economies. Meanwhile, daily new cases in ASEAN economies have fallen to about 3,000.

**China ended its dynamic zero-COVID policy and began to reopen its economy at the end of 2022.** China loosened its COVID-19 containment policies (such as mandatory testing requirements and use of health codes) on 7 December 2022, and announced that it would no longer implement mandatory quarantines and contact-tracing for inbound travelers starting from 8 January 2023—effectively reopening its international borders after nearly three years. Hong Kong lifted all travel restrictions for inbound travelers starting from 29 December 2022, in concert with mainland China.

**Figure 1. Selected ASEAN+3: Contribution to Real GDP Growth**

(Percent, year-on-year; Percentage point)

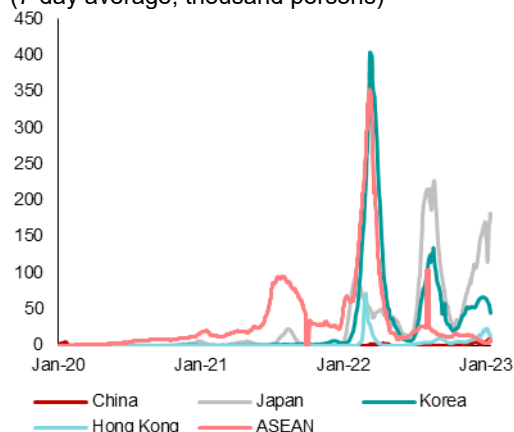


Source: National authorities via Haver Analytics; AMRO staff calculations.

Note: y-o-y = year-on-year Cambodia, China, Lao PDR, Myanmar, and Vietnam are excluded due to data unavailability.

**Plus-3 economies were beset by a large wave of COVID-19 infections in the last quarter of 2022.** The total COVID-19 caseload in the ASEAN+3 region surged

**Figure 2. ASEAN+3: Daily COVID-19 Cases**  
(7-day average, thousand persons)



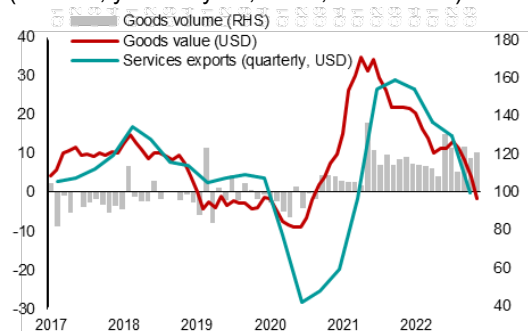
Source: Our World in Data via Haver Analytics; AMRO staff calculations.

Note: Latest data as of 12 January 2023.

**ASEAN+3 exports lost momentum in the second half of 2022.** ASEAN+3

export values fell for three consecutive months from July—mostly on the back of weakening global demand (Figure 3). In China, stringent policies to eliminate virus outbreaks weighed on factory activity, especially in the fourth quarter. Lower demand from China translated into lower outbound shipments from Japan and Korea. The global tech downcycle, reflected in lukewarm demand for electronics and electronic products, also weighed on ASEAN trade performance—a trend that is expected to continue in the coming months given anemic growth in the global economy.

**Figure 3. Selected ASEAN+3: Export Growth**  
(Percent, year-on-year; Index, 2019 = 100)

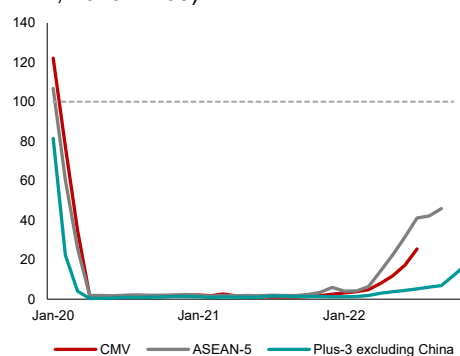


Source: National authorities via Haver Analytics; AMRO staff calculations.

**The resumption of tourism should offer some reprieve for the region’s export growth.**

Monthly tourist arrivals picked up further in September 2022, with the number of visitors to ASEAN-5 reaching almost half of pre-pandemic levels (Figure 4). Travel and tourism growth in the region has accelerated, thanks to the removal of travel restrictions and the resumption of international flights since Q2, 2022. By Q4, most economies—including Brunei, Cambodia, Korea, Malaysia, Thailand, and Vietnam—had removed all pandemic-related border measures. The expected large influx of Chinese tourists amid the ongoing surge of COVID-19 infections in China has prompted the reintroduction of COVID-19 testing and temperature screening in some regional economies. As these restrictions are relatively mild, tourism activity in the region is on track to increase further.

**Figure 4. Selected ASEAN+3: Tourist Arrivals**  
(Index, 2019 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.

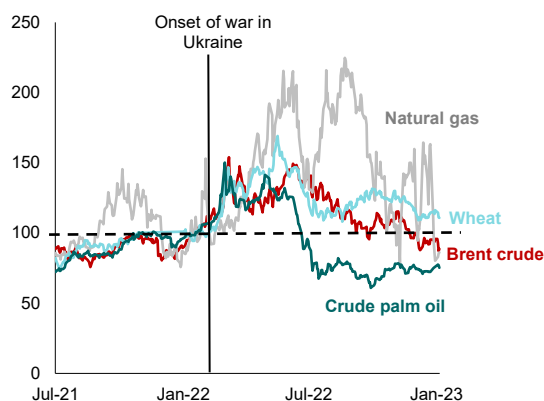
Note: Data as of July 2022 for CMV, November 2022 for ASEAN-5, and December 2022 for Plus-3 excluding China. CMV = Cambodia, Myanmar, and Vietnam. ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

**Inflation has moderated in most economies.**

Oil, gas, wheat, and palm oil prices have reverted, or are close to reverting, to their levels before the war in Ukraine, due to weaker global demand, gas rationing in Europe, and the extension of the Black Sea Grain Initiative to facilitate grain exports from Ukraine. Monetary policy tightening (interest rate hikes) has helped to contain inflationary

pressures in most regional economies. Consequently, inflation moderated across most of the region in the last quarter of 2022 (Figure 6). The exceptions are Lao PDR and Myanmar, where inflation remains high due to the sharp depreciation of their currencies against the US dollar.

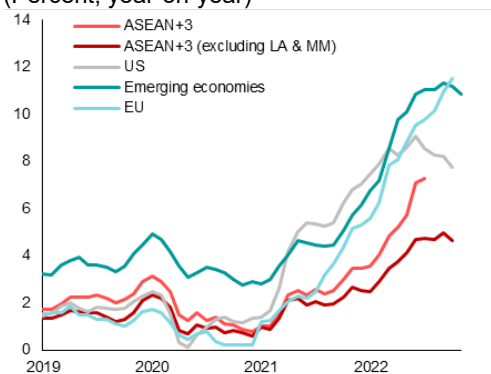
**Figure 5. World: Selected Commodity Prices**  
(Index, January 2022 = 100; index)



Source: Bank Negara Malaysia, Financial Times, Johnson Matthey, US Energy Information Administration, Wall Street Journal, and World Bank, via Haver Analytics; AMRO staff calculations.

Note: Wheat price refers to Kansas City wheat price.

**Figure 6. ASEAN+3 and Selected Economies: Headline Consumer Price Inflation**  
(Percent, year-on-year)



Source: National authorities via Haver Analytics; and AMRO staff calculations.

Note: The ASEAN+3 and Selected ASEAN+3 series are calculated by taking simple average of monthly inflation series for included economies. EU = European Union; LA = Lao PDR; MM = Myanmar; US = United States.

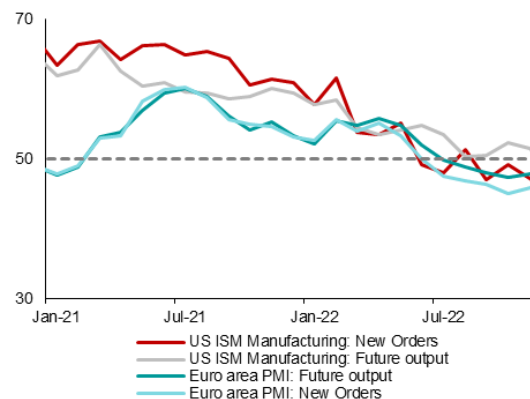
## Regional Economic Outlook

**The 2022 growth estimate for ASEAN+3 is lower than forecasted in the October 2022 AREO Update, reflecting weaker growth in the Plus-3 economies.** China is estimated to have grown at a slower rate of 3.0 percent in 2022 as recurring COVID-19 outbreaks disrupted factory

production and dampened consumer sentiment (Table 1). The troubled real estate sector continued to be a drag on domestic investment last year. Hong Kong's GDP is now estimated to have contracted in 2022 as exports contracted sharply in Q3. Meanwhile, GDP growth in the ASEAN region in 2022 is higher than forecasted last October as the continued recovery in private sector spending in the ASEAN-6 economies was augmented by the resumption of travel and tourism.

**The growth outlook for 2023 has also been revised downwards due to the Plus-3 economies.** The global economy is projected to expand at a more lackluster pace, as manufacturing activity in the United States and euro area continue to weaken (Figure 7). Lower external demand will lead to more moderate growth in Japan and Korea. At the same time, GDP growth in China is likely to pick up as domestic demand recovers following the removal of COVID-19 containment measures. Hong Kong's GDP is forecast to rebound strongly as pandemic containment restrictions are removed and the border with mainland China is reopened. Economic prospects for the ASEAN region are largely unchanged from the *October 2022 AREO Update*.

**Figure 7. United States and Euro Area: Selected Leading Indicators**  
(Index; 50 and above = expansionary)



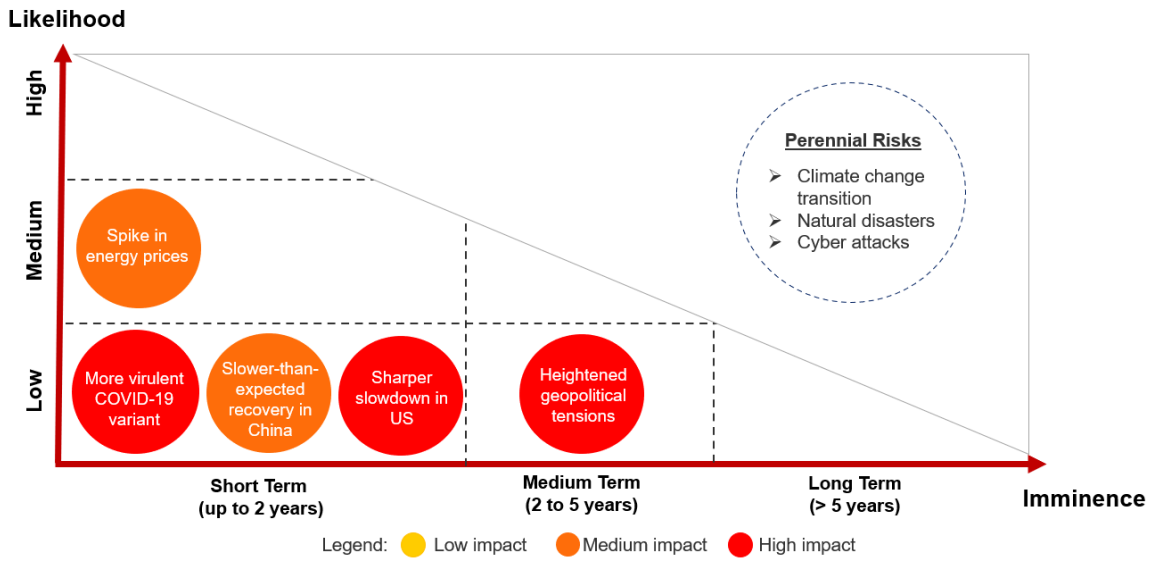
Source: IHS Markit.

**AMRO staff's assessment of headline inflation in the ASEAN+3 region is broadly unchanged from the October 2022 AREO Update.** The 2023 inflation forecast for the region is higher than last October due to the inclusion of data for Myanmar—where inflation is forecast to be 14 percent. Excluding Myanmar, headline inflation for the rest of the region in 2023 remains basically unchanged from last October, at 3.5 percent. Headline inflation is expected to moderate in 2023 from over 6 percent in 2022 as global energy and food prices come down.

**The baseline forecasts are subject to various downside risks:**

- **Global energy prices could spike up again.** New sanctions on the export of oil from Russia and retaliations by Russia could cause temporary supply shortages and precipitate spikes in global energy prices. The broadening of sanctions to include other petroleum products could further disrupt supplies of key refined petroleum products, such as diesel. Escalating energy prices and major disruptions to the global energy/refined petroleum supply chains would risk stoking inflation and lowering private consumption and growth in the region (Figure 8).
- **China's economic recovery could be slower than expected.** A rapidly deteriorating COVID-19 epidemiological situation in China could see the authorities retighten containment measures to avoid overwhelming the healthcare system. The return to strict containment measures could potentially cause another wave of production stoppages and port handling delays in China as happened in Ningbo and Shanghai last year. The recurrence of such supply chain disruptions would constrict intra-regional trade flows and undermine regional growth.
- **The US economy could experience a hard(er) landing.** With inflation in the United States still well above the 2 percent target, the US Federal Reserve may continue to hike interest rates substantially in an effort to bring it down. Sustained high borrowing costs and tighter financial conditions could trigger a sharper-than-expected slowdown in the US economy. The ASEAN+3 region would be impacted through weaker external demand and tighter financial conditions. A materialization of this risk, together with a slower-than-anticipated recovery in China would be a double whammy for the region's growth outlook.
- **More virulent COVID-19 variants could emerge.** If new variants of concern emerge, regional economies will likely reinstate some containment measures, which will inevitably set back the region's economic recovery.
- **The ongoing strategic rivalry between the United States and China could escalate.** Over the medium term, intensified geopolitical tensions between the United States and China could result in further fragmentation of the global trading system. Such a prospect would be very costly, especially for trade-dependent open economies in the region.

Figure 8. Regional Risk Map, January 2023



Source: AMRO staff estimates.

**Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2022–23**

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2021 (Actual)	AREO 2022 Quarterly Update (October 2022)		AREO 2022 Quarterly Update (January 2023)		2021 (Actual)	AREO 2022 Quarterly Update (October 2022)		AREO 2022 Quarterly Update (January 2023)	
		2022 <sup>e</sup>	2023 <sup>f</sup>	2022 <sup>e</sup>	2023 <sup>f</sup>		2022 <sup>e</sup>	2023 <sup>f</sup>	2022 <sup>e</sup>	2023 <sup>f</sup>
<b>ASEAN+3</b>	<b>6.1</b>	<b>3.7</b>	<b>4.6</b>	<b>3.3</b>	<b>4.3</b>	<b>2.1</b>	<b>6.2</b>	<b>3.4</b>	<b>6.3</b>	<b>4.5</b>
<b>Plus-3</b>	<b>6.9</b>	<b>3.3</b>	<b>4.5</b>	<b>2.6</b>	<b>4.2</b>	<b>1.2</b>	<b>2.8</b>	<b>2.1</b>	<b>2.9</b>	<b>2.2</b>
China	8.1	3.8	5.3	3.0	5.0	0.9	2.2	2.0	2.0	2.0
Hong Kong, China	6.3	0.3	3.9	-2.5	4.3	1.6	2.0	2.3	2.0	2.3
Japan	2.1	1.6	1.6	1.4	1.2	-0.3	2.1	1.1	2.5	1.5
Korea	4.1	2.4	2.3	2.6	1.9	2.5	5.0	3.0	5.1	3.0
<b>ASEAN</b>	<b>3.1</b>	<b>5.3</b>	<b>4.9</b>	<b>5.6</b>	<b>4.8</b>	<b>2.5</b>	<b>7.6</b>	<b>4.0</b>	<b>7.7</b>	<b>5.4</b>
Brunei Darussalam	-1.6	0.7	3.0	-1.2	2.8	1.7	3.5	2.0	3.7	2.5
Cambodia	3.0	5.0	5.4	5.0	5.4	2.9	5.3	3.0	5.3	3.0
Indonesia	3.7	5.2	5.1	5.3	5.0	1.6	4.4	5.0	4.2	4.6
Lao PDR	2.6	4.0	3.9	4.0	3.9	3.8	20.2	9.7	22.6	11.4
Malaysia	3.1	7.3	4.2	8.4	4.0	2.5	3.5	2.5	3.4	2.6
Myanmar	-18.7	1.2	-	1.2	2.2	3.6	18.0	-	16.0	14.0
The Philippines	5.7	6.9	6.3	7.3	6.2	3.9	5.1	4.0	5.8	4.3
Singapore	7.6	3.1	2.0	3.8	1.8	2.3	5.9	4.1	6.1	6.0
Thailand	1.6	3.2	4.8	3.2	3.9	1.2	6.3	2.5	6.2	2.6
Vietnam	2.6	7.0	6.5	8.0	6.8	1.8	3.5	3.3	3.2	3.0

Source: AMRO staff estimates.

Note: AREO = ASEAN+3 Regional Economic Outlook report. e = estimate, f = forecast. Regional aggregates for growth are estimated using the weighted average of 2021 GDP on purchasing power parity basis; regional aggregates for inflation are computed using simple averaging. Myanmar's numbers are based on its fiscal year which runs from October 1 of the previous year to September 30 of the current year. Excluding Myanmar, inflation in ASEAN+3 for 2023 is 3.8 percent.