

Foreword

2023 was another year of multi-shocks. The year started with a major COVID-19 outbreak in some regional economies but by mid-year, all ASEAN+3 economies had fully reopened—marking a decisive shift away from pandemic-lockdown to endemicity or living with the virus which has become quite mild by then. The year also started with continued monetary policy tightening by the US Fed which caused interest rates to reach multi-year high and led to the collapse of several major regional banks in the US and Euro area. Fortunately, the banks in the region have little exposure to the crisis-affected banks and remained unscathed. In the region, inflation had peaked and were trending down causing most regional central banks to move to a pause in their tightening cycle. At the same time, policy makers have started to consolidate their fiscal stance to rebuild the fiscal buffers that had been eroded by the large stimulus spending during the pandemic years. Notwithstanding the tighter monetary and fiscal policies as well as weak external demand, the regional economies grew robustly by 4.3 percent, led mainly by domestic demand and a rebound in tourism with the reopening of the economies.

Growth momentum is expected to remain favourable in 2024 and 2025, with domestic demand remaining resilient and exports forecast to turnaround, benefitting mainly from the semiconductor upcycle, a pickup in retail spending on durable goods, and continued recovery in tourism. Robust growth in China is also expected to generate positive spillovers for the region. Yet, as the report underscores, the region's promising economic trajectory should not be taken for granted.

In the Chapter 1 of our latest ASEAN+3 Regional Economic Outlook (AREO), we provide deeper insights into the region's near-term outlook, including the risks and vulnerabilities facing the region. While the chapter forecasts a sustained period of firm regional growth, it also highlights potential disruptors to the growth trajectory. Commodity price shocks, weaker-than-expected growth in China, possible sharp growth slowdown in advanced economies outside the region, or escalating geopolitical tensions could undermine the region's growth prospects. In the longer-term, inaction on structural challenges such as aging populations, climate change, and cybersecurity threats could diminish the region's growth potential.

Nevertheless, we are confident that in the baseline case, with robust growth and gradual disinflation, ASEAN+3 economies are well-positioned to regain policy space to address long-term needs and bolster resilience against future shocks. The recalibration of fiscal policy would enable fiscal buffers to be rebuilt, while sustaining targeted support. Meanwhile, monetary policy should remain tight to ensure that inflation expectations are firmly anchored until disinflation is entrenched.

This year's AREO also took a deep dive into the scarring effects of COVID-19 on the region's long-term growth trajectory, highlighting the loss in capital formation during the pandemic and a weak recovery in investment. Looking ahead, restoring and sustaining strong growth would require reinvigorating investments in productive sectors, implementing comprehensive labor market reforms, and exploring avenues for deeper regional collaboration.

As in previous AREO reports, Chapter 2 explores macro-critical issues that confront the region in the longer term. Following last year's in-depth analysis on the topic of climate change mitigation, this year's thematic chapter looks closely at three other major secular shifts facing ASEAN+3 economies: aging populations reflecting the collapse in fertility rates coupled with longer lifespans, the ongoing global trade reconfiguration arising from the pandemic disruptions as well as the geopolitical tension between the US and China, and rapid technological change from digital revolution and generative AI. Navigating these shifts are made more challenging by lingering pandemic scars, geopolitical uncertainties, and the prospect of weaker global growth in the decade ahead. We analyze the macro-implications of these forces across the region's diverse set of economies, recognizing that while these pose various risks, they also create opportunities for innovation, productivity gains, as well as new and inclusive sources of future growth.

Thanks to their openness to rules-based trade and technological change, many of our economies are equipped to transform the risks associated with geoeconomic fragmentation and aging into growth opportunities. But capturing these gains is not guaranteed. As we highlight in the chapter, doing so requires pragmatic and forward-looking policies that are centred on developing quality infrastructure, promoting innovation, and embracing inclusivity.

Our operating economic landscape has become highly challenging and uncertain. Deepening divisions and mounting structural headwinds are casting a shadow over the region's growth prospects. Strengthening regional cooperation to safeguard collective action would therefore reignite the spark to allow ASEAN+3 to continue being a bright spot in a global economy that is increasingly challenging to navigate in.

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