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Chapter 1: Macroeconomic Prospects and Challenges

2023 was a tale of two halves for the global economy and ASEAN+3. The first half saw continued aggressive monetary policy tightening and short-lived financial market instability in the United States (US) and Europe, and elevated inflation. In the second half, monetary policy tightening paused, financial markets stabilized, and growth in the US and Europe proved resilient alongside moderating inflation.

ASEAN+3 registered stronger growth of 4.3 percent in 2023—an increase from 3.2 percent in 2022—driven by robust domestic demand amid weakness in exports. Inflation in the region moderated, although core inflation remained high given firm domestic demand. Financial conditions improved toward the end of the year, with credit growth remaining firm, equity markets recovering, bond yields moderating, and exchange rates stabilizing. Healthy international reserves levels contributed to the region’s external resilience.

ASEAN+3 is expected to grow at a faster pace of 4.5 percent in 2024, before moderating to 4.2 percent in 2025. Domestic demand is likely to remain resilient, underpinned by recovering investment and firm consumer spending. Export recovery, especially in semiconductors, and tourism should provide an additional lift to growth. In the medium term, the ASEAN+3 region is expected to continue to be an engine of growth in the global economy—growing faster than the world average and contributing around 45 percent of global growth in 2024–2030. Inflation is forecast to continue moderating but disinflation would be gradual and core inflation is likely to remain elevated as domestic demand remains robust.

The near-term prospects for ASEAN+3 could be impacted by various risks. A sudden spike in global commodity prices due to an escalation in geopolitical tensions or weather shocks is the most salient risk. Other key risks include a slower-than-expected growth in China, adverse spillovers from US Presidential election campaign, and possible recession in major advanced economies outside the region. Over the longer term, escalating geopolitical confrontations, failure to prepare for an aging population, climate change, cyber-attacks, and pandemic outbreaks pose complex challenges to macrofinancial stability.

Nonetheless, the current positive outlook for ASEAN+3 provides an opportunity for the region to rebuild policy space lost during the pandemic. In 2023, fiscal consolidation continued in most ASEAN+3 economies, though most have not fully regained pre-pandemic policy space, while almost all central banks in the region have kept their monetary policy relatively tight to contain inflationary pressures. Going forward, the priority for fiscal policy should be directed mainly at restoring buffers while providing targeted support for the economy. Meanwhile, it is essential for monetary policy to be focused on anchoring inflation expectations given the continued upside risks to inflation.

Looking back to developments since the onset of COVID-19, despite a strong initial recovery, GDP growth for the region has remained below pre-pandemic trend. This reflects ongoing adjustments and scarring effects that have lowered underlying growth amid a challenging global environment. Notably, the recovery in investment has been particularly weak. Policies to support investment in productivity- and resilience-enhancing areas, especially for smaller firms, are crucial to steer growth back toward pre-pandemic trends. Closer regional collaboration could also strengthen growth potential eroded by the pandemic.

ASEAN+3: AMRO Staff Growth and Inflation Estimates and Forecasts, 2024–25
(Percent, year-on-year)

Economies	GDP Growth			Inflation		
	2023e	2024f	2025f	2023e	2024f	2025f
ASEAN+3	4.3	4.5	4.2	6.3	4.3	3.7
ex. LA and MM	–	–	–	2.8	2.5	2.3
Plus-3	4.4	4.4	4.1	2.3	2.1	2.0
China	5.2	5.3	4.9	0.2	1.0	1.6
Hong Kong	3.2	3.5	3.0	2.1	2.5	2.3
Japan	1.9	1.1	1.0	3.3	2.5	2.1
Korea	1.4	2.3	2.1	3.6	2.5	2.0
ASEAN	4.2	4.8	4.9	8.0	5.2	4.4
ex. LA and MM	–	–	–	3.0	2.7	2.4
Brunei	1.4	2.7	2.9	0.4	1.4	1.0
Cambodia	5.3	6.2	6.4	2.1	3.1	2.8
Indonesia	5.0	5.2	5.2	3.7	2.8	2.5
Lao PDR	4.3	4.7	4.9	31.2	14.3	9.3
Malaysia	3.7	5.0	4.7	2.5	2.5	3.0
Myanmar	3.4	3.2	3.2	24.4	16.1	15.8
Philippines	5.6	6.3	6.5	6.0	3.6	2.9
Singapore	1.1	2.6	1.9	4.8	3.0	2.5
Thailand	1.9	2.9	3.1	1.2	1.2	1.9
Vietnam	5.1	6.0	6.5	3.3	3.6	2.7

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates and forecasts.

Note: e = estimates; f = forecast; LA = Lao PDR; MM = Myanmar. Myanmar’s growth and inflation numbers are based on its fiscal year, which runs from 1 April to 31 March. Regional aggregates for growth are estimated using the weighted average of 2022 GDP on purchasing power parity basis; regional aggregates for inflation are computed using simple averaging.

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Chapter 2: Navigating Tomorrow

The ASEAN+3 region has achieved immense economic progress in the past two decades. Collectively, ASEAN+3 economies have now become the biggest driver of global growth. However, the various tailwinds that facilitated remarkable growth are dissipating while headwinds are rising, and the speed of the region's catch-up with high-income peers has been moderating since the global financial crisis of 2008–2009. More critically, the region is experiencing this slowdown in an environment increasingly beset by challenges from key secular trends, including aging, a global trade reconfiguration, and rapid technological change.

Aging is happening faster in ASEAN+3 than in many parts of the world. Its total working-age population is projected to shrink in the second half of this decade, which carries negative implications for the region's growth potential, macroeconomic stability, and the sustainability of public finances. However, these consequences are not predetermined and can be mitigated somewhat—especially if the population is allowed, and able, to age productively. When considering healthier life expectancies in the ASEAN+3 region, policies that support and promote healthy longevity could see about 200 million workers reenter the region's labor force by 2050.

The ongoing reconfiguration in global trade carries key implications for the region's time-tested export strategies. Geopolitical dynamics are increasingly realigning trade relationships globally and have unveiled new trade opportunities for ASEAN+3 economies that have been able to swiftly leverage their comparative advantage. At the same time, the region's trade has become concentrated into fewer trading partners and—in a world economy faced with higher uncertainty—this could translate into lower economic security. On the other hand, harnessing cross-border services trade, especially modern and digitally deliverable services, offers significant opportunities for growth and diversification.

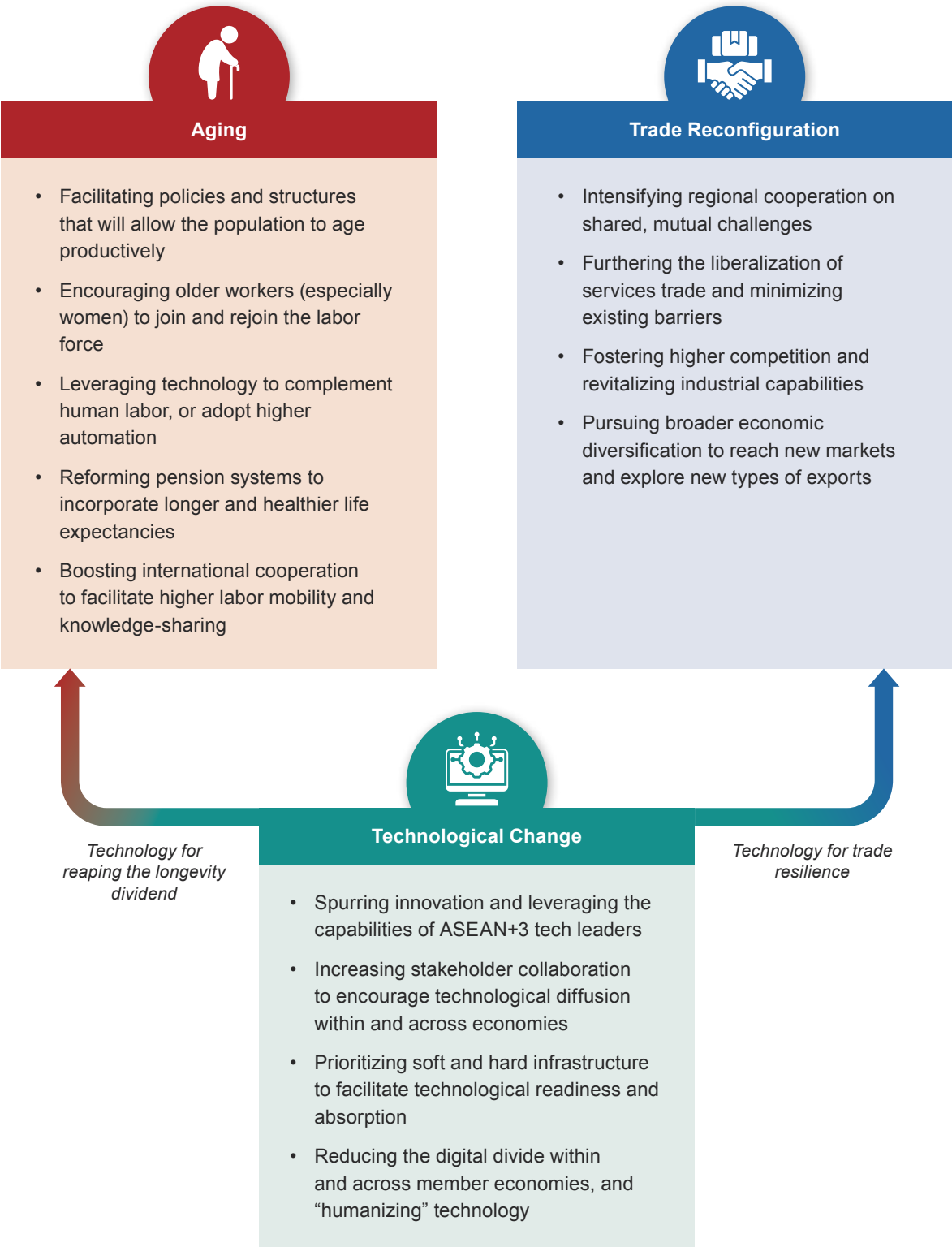
Technology will unlock many solutions that the ASEAN+3 region can use to navigate the ongoing demographic transition and global trade reconfiguration. Tech-enabled advances in medicine, automation, and work and learning platforms are crucial for productive aging. Advanced production technologies and smart logistics will be instrumental in making regional supply chains highly agile against sudden shocks. Yet, technology is also a harbinger of change. Rapid advancements in artificial intelligence, for example—especially in generative artificial intelligence or GenAI—are raising legitimate concerns about the future of work. A realistic, qualified, and balanced approach to GenAI's capabilities would be a sensible approach at the current juncture.

While the optimal policy mix—and timing—will differ across the region's economies, well-designed domestic policies that (1) emphasize quality infrastructure, (2) encourage innovation, and (3) promote inclusivity, would enable each economy to transform the challenges from these secular trends into growth opportunities.

Aging, trade reconfiguration, and rapid technological change are common long-term challenges that cut across borders. Effective responses to these common challenges—such as diversification, infrastructure upgrading, technology diffusion, and labor mobility—require enhanced and inclusive dialogue within ASEAN+3 economies and their key economic partners. Leveraging the strength of collective action will make for robust and resilient long-term growth in ASEAN+3—regardless of how the global economic order unfolds.

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ASEAN+3: Key Policy Options for Navigating Major Secular Shifts



Source: AMRO staff.