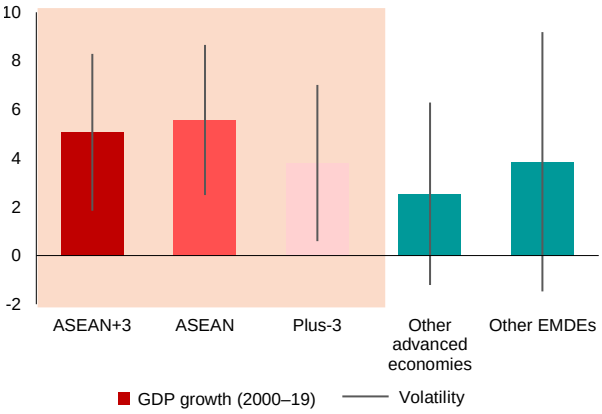
I. Introduction

The ASEAN+3 region has experienced immense economic progress in the past two decades. With relatively stronger and more stable growth compared to other parts of the world, the ASEAN+3 region has become the largest economic region in the world, accounting for more than a quarter of world GDP in 2022, at market exchange rates (Hinojales, Kho, and Tan 2023). Between 2000 and 2019—barring the years of the global financial crisis—the regional economy expanded at an average of 5 percent a year, double the growth in advanced economies and about 30 percent higher than that of other emerging market and developing peers (Figure 2.1). This rapid growth was also less volatile than for other peers. It was underpinned by various factors: active participation in global value chains (GVCs), which helped the boom in ASEAN+3 exports; favorable domestic policies that attracted large foreign direct investments (FDI); and brisk improvements in the quality of the labor force, alongside strong involvement in global and regional initiatives that signaled that the ASEAN+3 region was "open for business" (AMRO 2021). With the strong and stable growth in national incomes, all the region's economies have transitioned to middle-income status, with China and Malaysia well-positioned to reach high-income status by the end of this decade (Figure 2.2).

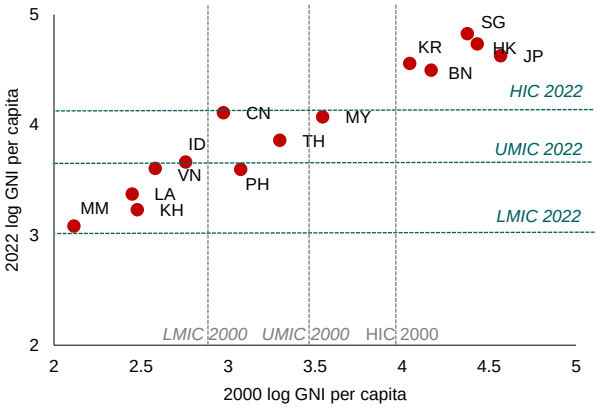
Economic transformation across the region's economies is occurring at varying degrees and speeds. Industrialization is pushing forward in most economies but is stalling for others. Most ASEAN-5 economies, in particular, continue to see the share of their manufacturing sectors lower than their historical peaks (Figure 2.3). Singapore, which experienced peak manufacturing the earliest, was able to shift economic activity rapidly toward services, especially high value-added ones related to information and communication technology (ICT), finance, and other business services. In contrast, the other ASEAN-5 economies have developed more traditional services, such as travel and tourism, transport, as well as goods-related services. Elsewhere across the ASEAN+3 region, industrialization continues. The growth of Vietnam's manufacturing sector is notable in the CLMV group, having increased its share to total output and employment at a brisk pace (Figure 2.4).[1] In the Plus-3, Korea and China are experiencing advanced industrialization, with the share of manufacturing to total value-added output still growing, although at a more moderate pace than during the past decade. Nevertheless, its relatively stable share of total employment indicates that manufacturing activity is mostly toward high-productivity and high-value added processes. In addition, the share of modern services in these economies is also gaining traction.

Figure 2.1. ASEAN+3: 2000–19 GDP Growth and Growth Volatility
(Percent, year-on-year)



Source: Penn World Tables; AMRO staff calculations.
Note: EMDE = emerging market and developing economies. The calculation of average annual GDP growth rate exclude 2008 and 2009; whiskers show average standard deviation. "Advanced economies" and "Other EMDEs" follow the International Monetary Fund's classification.

Figure 2.2. ASEAN+3: Gross National Income per Capita, 2000 versus 2022



Source: World Bank via Haver Analytics; AMRO staff calculations.
Note: BN = Brunei; CN = China; HIC = high-income class; ID = Indonesia; JP = Japan; KH = Cambodia; HK = Hong Kong; KR = Korea; LA = Lao PDR; LMIC = lower middle-income class; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; UMIC = upper middle-income class; VN = Vietnam. Thresholds for the gross national income (GNI) follow the World Bank's country classifications as of 2022.

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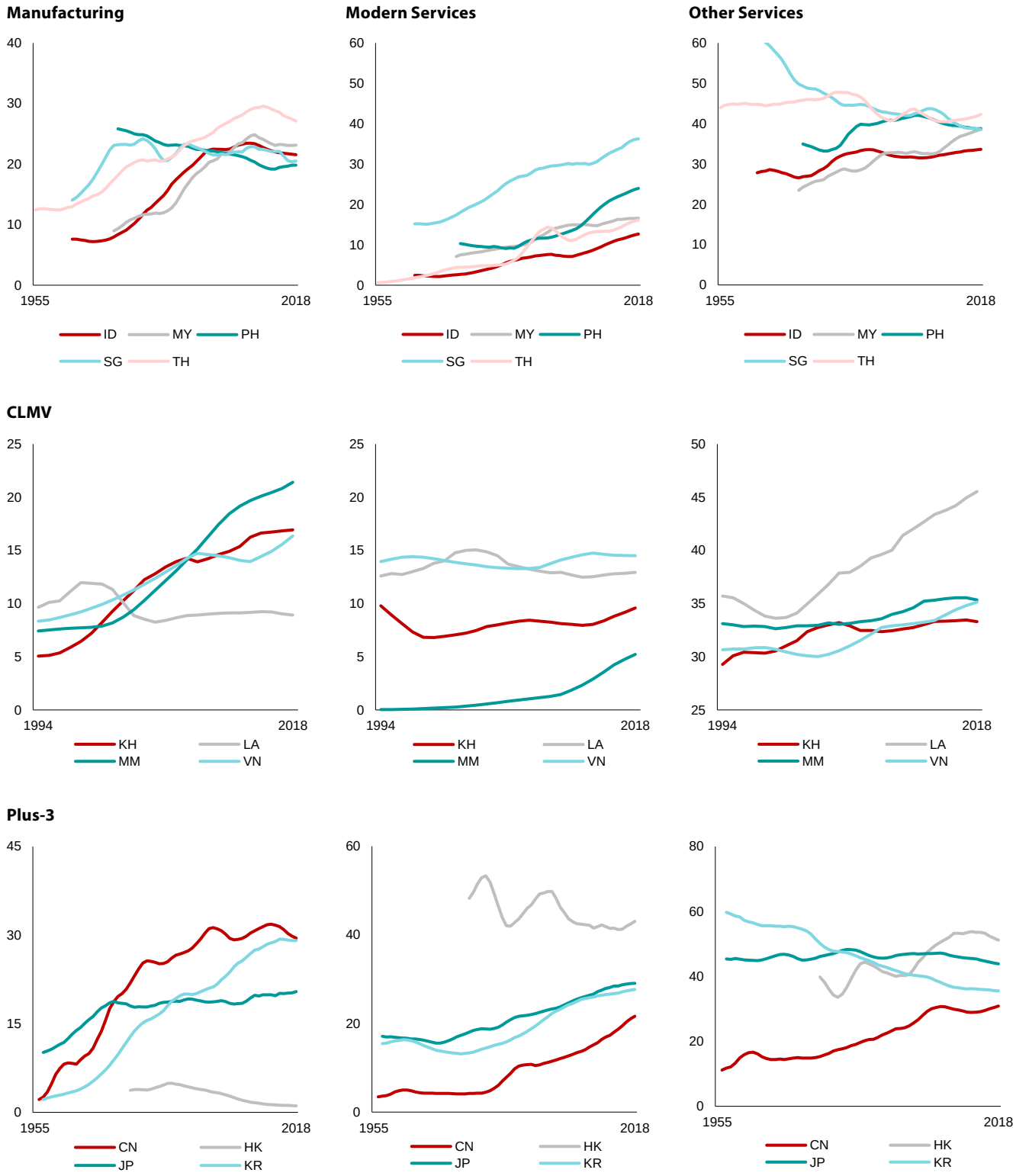
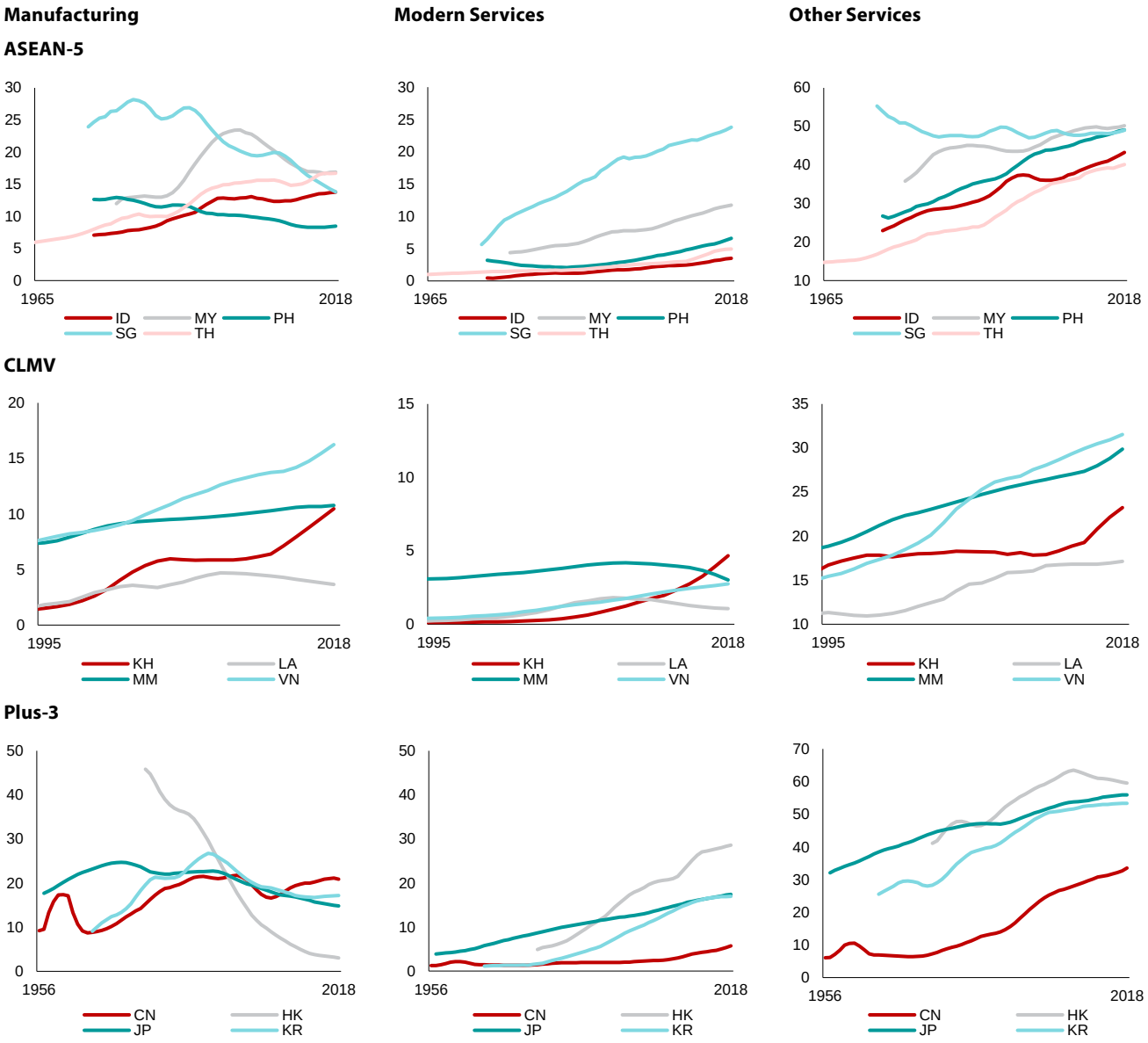
1/ Lao PDR is an exception to the overall trend in the CLMV. While industrialization has stalled, the economy has witnessed growing shares in the construction and non-modern services instead.

Figure 2.3. Selected ASEAN+3: Share in Total Value-Added, by Sector
(Percent, five-year moving average)



Source: GGDC/UNU-WIDER Economic Transformation Database; GGDC10-sector database; AMRO staff calculations.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Share in total value added is calculated based on constant 2015 prices. Modern services include business, financial, and real estate services. Data not available for Brunei.

Figure 2.4. Selected ASEAN+3: Share in Total Employment, by Sector
(Percent, five-year moving average)

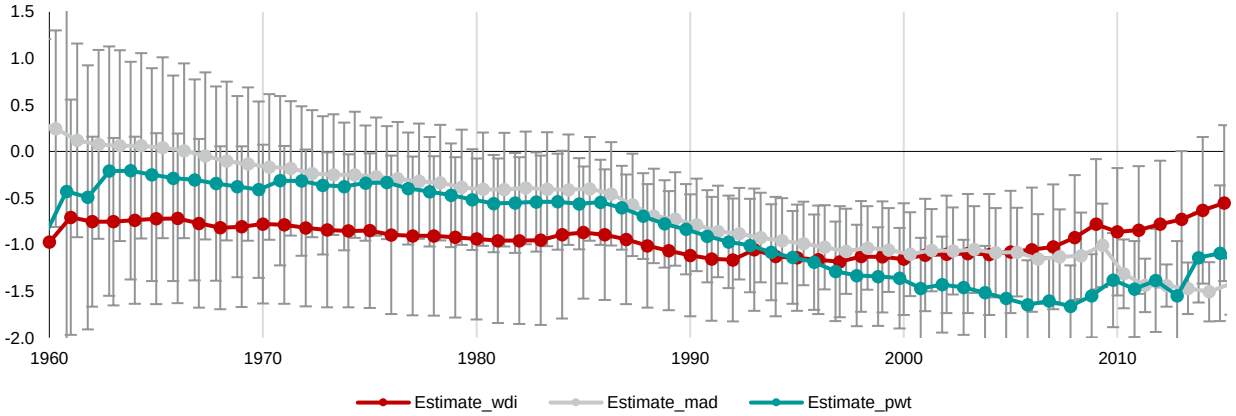


Source: GGDC/UNU-WIDER Economic Transformation Database; GGDC10-sector database; AMRO staff calculations.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Modern services includes business, financial, and real estate services. Data not available for Brunei.

However, the pace of growth and productivity improvements in the ASEAN+3 region—especially after the global financial crisis—is slowing. The region's income "catch-up" with more advanced and richer peers was especially evident in mid-1980s—driven by ASEAN-4—as well as in the 2000s, with the addition of China (Figure 2.5).[2] However, this "convergence effect" began to weaken in the years following the global financial crisis, as global growth slowed (Patel, Sandefur, and Subramaniam 2021). Further, productivity gaps remain wide between many in the region and the productivity frontier (proxied by the United States), despite significant progress achieved in the past two decades. In some economies, the total factor productivity (TFP) gap from the frontier has even widened (Figure 2.6). Compared to previous decades, TFP growth has decelerated across the region since 2010, except for Vietnam (Figure 2.7). Nevertheless, this slowdown is not unique to the ASEAN+3 region: the post-crisis decline was widespread, affecting all emerging market and developing economies and about 70 percent of advanced economies (Dieppe 2021). A confluence of factors underpinned this global phenomenon, including a deceleration in working-age population growth, stalled momentum in GVC expansion, a slower pace of structural transformation for developing economies, and slower economic growth in major advanced economies following the global financial crisis and the sovereign debt crisis in Europe.

2/ Convergence, following the Solow-Swan (1956) model, hypothesizes that "poorer economies' per capita incomes will tend to grow at faster rates than richer economies." This is because growth is driven by the accumulation of physical capital until an optimum level of capital per worker is reached. Developing economies have the potential to grow at a faster rate than developed economies because diminishing returns (in particular, to capital) are not as strong as in capital-rich countries, and all economies should eventually converge in terms of per capita income. That economic development is a result of capital accumulation is also posited by the Lewis Theory of Development (1954). In this theory, an unlimited supply of labor is available at a subsistence wage rate in underdeveloped economies. Growth results from the withdrawal of the surplus labor from the *subsistence* or traditional agricultural sector toward the *capitalist* or modern industrial sector, where it is more productive.

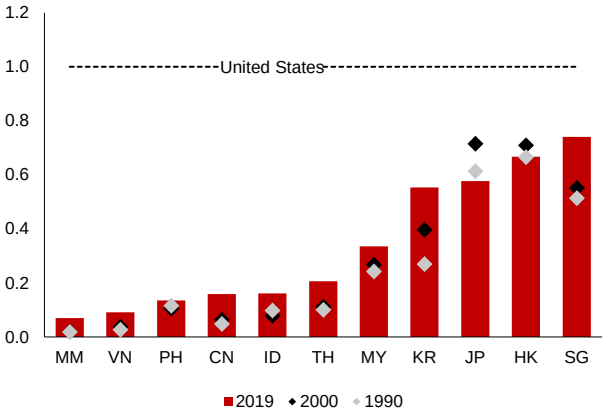
Figure 2.5. ASEAN+3: β-coefficient of Unconditional Convergence



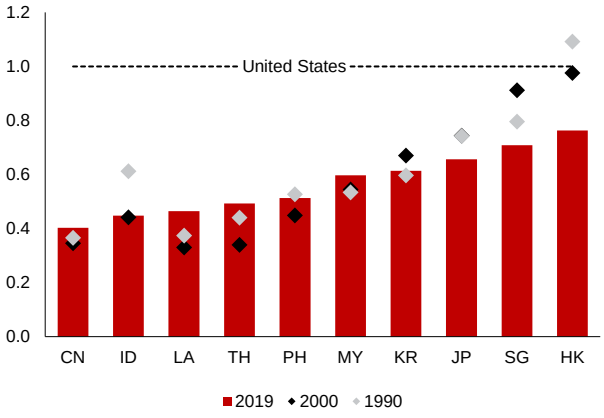
Source: World Bank; Penn World Table; Maddison Project Database; AMRO staff calculations.
Note: Each point represents the coefficient from a separate, bivariate, rolling (reverse recursive) regression. For each year, the dependent variable is the real GDP per capita growth rate from that year until the most recent data. The independent variable is the log of real GDP per capita in the base year. The more negative the beta (β)-coefficient, the faster the speed of convergence or catch-up.

Figure 2.6. Selected ASEAN+3: Selected Productivity Measures, 1990 versus 2019
(Index, distance to productivity frontier)

Labor Productivity

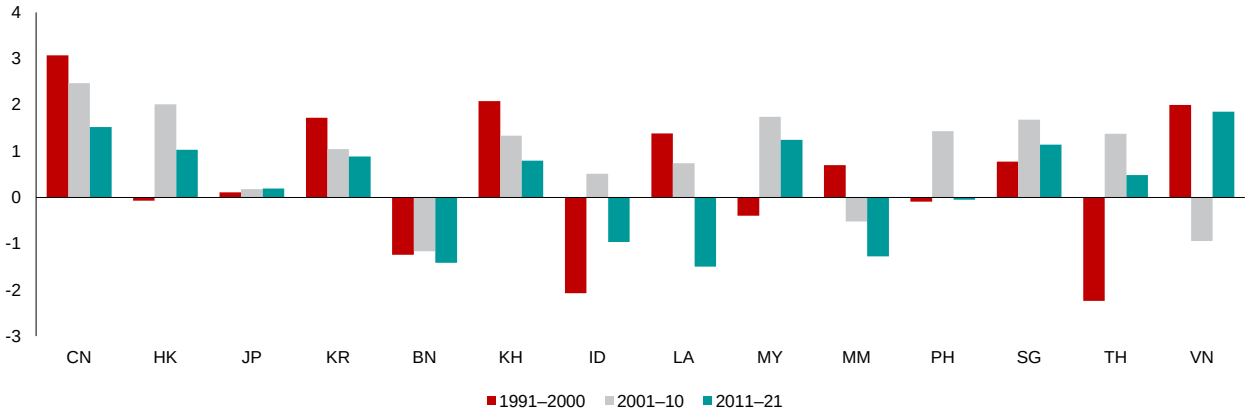


Total Factor Productivity



Source: Penn World Tables; AMRO staff calculations.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; HK = Hong Kong; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Labor productivity is measured as total output per hours worked. Other ASEAN+3 economies not included due to data unavailability.

Figure 2.7. ASEAN+3: Growth in Total Factor Productivity
(Percent)



Source: APO Productivity Database; AMRO staff calculations.
Note: BN = Brunei; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Bars refer to the average growth in total factor productivity over the period.

More crucially, the ASEAN+3 region is experiencing this slowdown in an environment increasingly beset by longer-term challenges to growth and stability. While the ASEAN+3 region will remain a major driver of global growth in the next decade, it also faces a multitude of structural challenges. An October 2023 survey by AMRO on the region's monetary and fiscal policymakers identified the ongoing reconfiguration in global trade and FDI as the most pressing risk to the long-term growth of ASEAN+3 economies, especially if it leads to a protracted global economic slowdown (Figure 2.8). This was followed by climate change, rapid technological transformation, and population aging—all affecting ASEAN+3 economies, although to varying degrees. Nevertheless, the macrostability implications of these secular risks will be contingent on each economy's ability to adapt to these challenges, and the extent with which they utilize technology-enabled solutions, among others, especially given unique country circumstances—including the depth of its scarring from the COVID-19 pandemic (Section V of Chapter 1).

Figure 2.8. ASEAN+3 October 2023 Survey: Most Pressing Challenges to Long-Term Growth
(Score, most pressing = 5)

Source: AMRO staff.
Note: The survey questions were "How would you rank the following challenges in relation to the long-term growth of your economy?" followed by "What do you think are the top three risks to your economy from [risk]?" Numbers represent the weighted average of all responses, where a higher "score" indicates that the challenge is more pertinent. Under "Others," the quality of human capital, as well as poverty and inequality, were cited by responding members.

ASEAN+3: Long-term Economic Prospects Amid Major Secular Shifts

Without commensurate policy responses, these secular trends could undermine ASEAN+3's long-term growth prospects and macro-financial stability. These developments are not unique to ASEAN+3, and their consequences are of concern to policymakers worldwide. Specific to the region, however, navigating these long-term issues—and their interactions—could become even more challenging, given their strong and extensive linkages with the rest of the global economy. The demographic transition across several ASEAN+3 economies is also occurring at relatively lower levels of development, which could further derail their ability to reach the per capita incomes of advanced economies. Critically, member economies are confronting these dynamics with varied degrees of economic scarring from the COVID-19 pandemic, and, in some cases, compressed policy space.

In this context, this year's thematic chapter explores how the region can potentially manage these secular shifts to secure sustainable, resilient, and inclusive growth for the future. The chapter follows up on the 2023 *ASEAN+3 Regional Economic Outlook* (AREO), which looked at the long-term growth implications of climate change mitigation and the transition to net zero (AMRO 2023). The rest of this chapter will focus on the following three trends:

- ***Aging.*** In the next decade, several ASEAN+3 economies are projected to become "super-aged"—or societies with more than 20 percent of the population above the age of 65. A shrinking working-age population not only impacts the economy's growth potential but also carries implications for the region's long-term inflation dynamics, fiscal sustainability, and the strength of the domestic financial system. However, these macroeconomic consequences are not predetermined.

- ***Global trade reconfiguration.*** Global trade is undergoing several changes—trade relationships are being increasingly influenced by geopolitics while at the same time becoming less diversified. The face of globalization is also gradually shifting: amid the weaker momentum in global goods trade, global services trade is rising in importance. How these forces interact carries significant policy implications for ASEAN+3's long-tested export strategies.

- ***Technological change.*** Technology has long enhanced productivity and underlying long-term growth potential of ASEAN+3 economies, and it will continue to power many solutions that they can use to successfully navigate the demographic transition and global trade reconfiguration. However, the speed of technological advancements, such as artificial intelligence and automation, are fueling concerns on the future of entire industries and jobs in the ASEAN+3 region.

This thematic chapter aims to provide a background on each of these secular trends and put forward several options for the region's policymakers. Each section first sets the current landscape as it relates to the ASEAN+3 region and analyzes the diverse impacts across the region's economies—recognizing that while each of these long-term challenges pose various risks, they also create opportunities for innovation, productivity gains, as well as new sources of growth. The chapter aims to set the context for future in-depth AMRO research on how the region can navigate demographic change, shifting global trade and investment patterns, and rapid technological changes.