

## Foreword

The global economy in 2024 was full of twists and turns. Early in the year, persistent US inflation and robust growth led to expectations of prolonged high interest rates. However, by mid-year, signs of weakness in the US labor market had shifted expectations, with markets pricing in Federal Reserve rate cuts before the actual easing cycle started in September. The US presidential election in November added further complexity, creating uncertainties around trade and immigration policies, with potential implications for inflation and monetary policy trajectories.

Despite these external volatilities, the ASEAN+3 region demonstrated remarkable resilience in 2024, achieving steady growth of 4.3 percent. This resilience was underpinned by strong domestic demand, increased investment activity and a rebound in external demand, particularly in the semiconductors and services trade. Meanwhile, moderating inflation supported real income and consumer confidence. Targeted fiscal support and easing monetary policy stance in some economies, contributed to the region's stability. However, the region's resilient growth trajectory should not be taken for granted, as underlying vulnerabilities and external risks could pose challenges ahead.

In Chapter 1 of this year's AREO, the report provides a deeper analysis of the region's near-term outlook, including the risks and vulnerabilities facing ASEAN+3 economies. While the chapter forecasts sustained regional growth in 2025, it also highlights some major risks. Notably, the new Trump Administration has started the year by increasing tariffs on China and imposing heavy tariffs on its two closest trading partners, Mexico and Canada. The Administration has further threatened to impose reciprocally high tariffs on all countries that have high tariffs on US imports. This shift towards highly protectionist trade policy threatens to cause major disruptions to global trade and investment flows leading to higher inflation and a slowdown in the global economy.

These strong external headwinds and uncertainties pose a major challenge for policymakers in the region. It is crucial that policy responses be measured and strategic rather than proportionate and indiscriminate as that would exacerbate economic disruptions. Instead, the focus should be on buffering economic shocks while maintaining steady growth. Any retaliatory measure should be carefully calibrated to minimize self-inflicted harm while safeguarding national interest.

This year, the report introduces a new chapter on conjunctural thematic issues, complementing the usual macroeconomic analysis of near-term prospects. Chapter 2 explores how inflation dynamics have evolved in the region, comparing the underlying drivers and policy measures across the regional economies and with other major regions in the world. Inflation in ASEAN+3 has been relatively moderate and short-lived compared to the rest of the world, reflecting structural factors and policy frameworks that helped contain volatility and anchor price stability. Initially supply shocks drove the post-pandemic inflation surge, but demand pressures have since gained prominence. This chapter examines regional inflation trends and policy responses, as well as future inflation risks amid geopolitical shifts, demographic changes, and the low-carbon transition.

Chapter 3 delves into the factors influencing the region's potential growth. Through a growth accounting exercise, the report assesses the drivers behind ASEAN+3's declining potential growth over the past few decades, partly attributed to declining capital accumulation and weak productivity gains. The analysis further examines the pace of structural transformation across and within sectors, highlighting how many economies have yet to fully capitalize on sectoral reallocation and upgrading for productivity gains. The chapter identifies key policy priorities to boost productivity and potential growth, including upgrading manufacturing capabilities, prioritizing high-skill services, closing investment gaps, leveraging technology—particularly AI—and strengthening state capacity.

As the global economic landscape grows more uncertain, ASEAN+3 economies should continue to strengthen regional cooperation. Rising trade protectionism and geopolitical fragmentation threaten the open and interconnected markets that have been instrumental to the region's growth and prosperity. In the face of these challenges, deeper economic cooperation, coordinated policy responses, and a forward-looking approach to structural transformation will be essential to sustaining growth.

The ASEAN+3 region has proven time and again its ability to adapt and thrive in the face of change and adversity. By leveraging the region's collective strengths and fostering greater cross-border collaboration, ASEAN+3 can continue to chart a path of resilience and growth in an increasingly uncertain world. Beyond serving as a key driver of global growth, ASEAN+3 should also serve as a beacon of rules-based multilateral cooperation, promoting shared prosperity and mutual benefits in an era of growing fragmentation and division.

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