

KEY ECONOMIC DEVELOPMENTS IN 2024

The ASEAN+3 region demonstrated remarkable resilience throughout 2024, achieving growth of 4.2 percent, nearly matching the previous year's 4.3 percent. This robust growth was particularly noteworthy given the big shifts and developments in the global economic landscape.

Early in the year, persistent US inflation and robust growth led to expectations of prolonged high interest rates. By mid-year, this outlook had reversed with signs of weakness in the US labor market, as markets began pricing in Federal Reserve rate cuts before the actual easing cycle started in September.

The November US presidential election added further complexity, introducing more uncertainties about trade policies and inflation risks to the outlook. Meanwhile, ongoing geopolitical developments and bouts of market volatility continued to weigh on the overall economic outlook for the year.

Despite these external uncertainties, the region's macroeconomic performance remained strong. The robust growth in 2024 was largely driven by resilient domestic demand and strengthening external demand. A healthy job market played a crucial role, with economies like Japan, Thailand, Malaysia, and Indonesia maintaining high labor force participation and low unemployment rates.

Steady employment, rising wages, and falling inflation helped sustain consumer confidence and spending, aided by strong export and tourism recovery, which was evident in the ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Thailand, and Singapore). Growth also accelerated in Brunei Darussalam, Cambodia, Lao PDR, and Vietnam, led by strong improvement in external demand. However, consumption trends in China and Hong Kong, China, were weaker, and stayed relatively subdued in Japan and Korea despite some improvement.

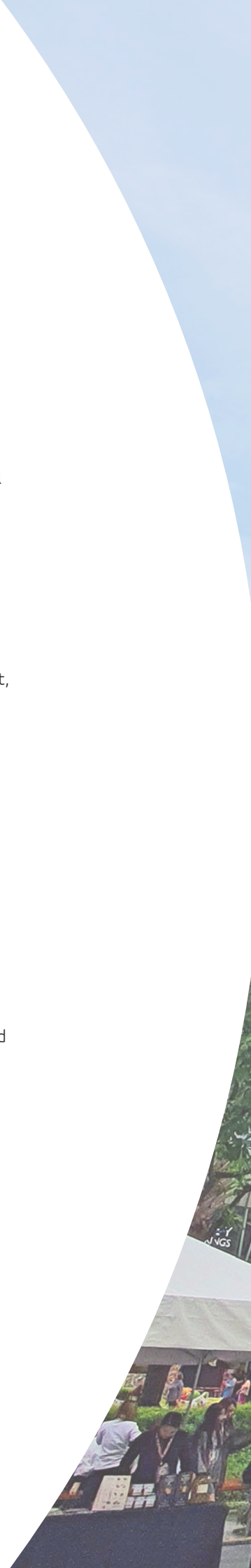
Complementing this consumer spending, investment activities across the region increased in 2024. The ASEAN-5 economies and Vietnam saw significant improvements in capital investment

compared with the previous year. Indonesia, Thailand, Malaysia and Vietnam benefited from foreign investments in emerging sectors such as electric vehicles, batteries, data centers, and semiconductors. In Japan and Korea, capital formation was slow early in the year, but showed signs of recovery later in the year, and China maintained steady investment levels in manufacturing and infrastructure.

Domestic activity remained robust, and external trade showed improvement in 2024. The semiconductor industry was a bright spot, with a substantial increase in global sales benefiting several regional economies. The global pick-up in capital expenditure, especially in Artificial Intelligence (AI)-related technologies and infrastructure, further supported the region's goods export momentum. The services sector, especially tourism, saw substantial improvement, led by a strong recovery in Chinese outbound tourism, albeit still below pre-pandemic levels. Transport and manufacturing services also gained momentum alongside strengthening goods exports.

The region experienced a further decline in inflation to pre-pandemic levels during 2024, although the path was not always smooth. External factors, such as the conflicts in the Middle East and shipping disruptions in the Red Sea, caused temporary spikes in energy prices and transportation costs. However, the overall trend showed improving price stability across the region, with core inflation easing across both Plus-3 (China; Hong Kong, China; Japan; and Korea) and ASEAN economies.

In response to these improving inflation dynamics, most central banks in the region moved toward more supportive monetary policies as inflation fell near to or within the inflation target band. Several economies, including China, Korea, Philippines, Indonesia and Thailand, cut interest rates in the second half of the year. However, Japan stood out as an exception by ending its long-standing unconventional monetary stimulus program and raising its policy rate to reduce the accommodativeness of its policy stance.



Despite significant market volatility during the year, financial markets continued to function normally, albeit with liquidity support from central banks. External positions remained resilient, despite volatile capital flows and sharp movements in exchange rates during the year. The region, especially ASEAN-5 and Vietnam, also attracted substantial international investment flows during the first half of the year, reflecting the reconfiguration of global supply chains.

The region's macroeconomic fundamentals remained strong in 2024, demonstrating impressive

resilience in adapting to evolving global conditions. Looking ahead, external risks will continue to impact the region, including shifts in global trade patterns, uncertain US inflation and monetary policy trajectories, and potential geopolitical tensions. In this environment of growing economic fragmentation, regional cooperation will become increasingly crucial for maintaining stability and fostering sustainable growth. The region's proven resilience, combined with strengthened collaboration, positions ASEAN+3 well to navigate future challenges and opportunities.

