Quarterly Update of the ASEAN+3 Regional Economic Outlook (AREO)

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

July 2025

This report was co-authored by Kriti Andhare, Jun Ee Yohnsen Ang, Naoaki Inayoshi, Catharine Kho (lead), Haobin Wang, and Yuhong Wu, under the supervision of Allen Ng (all Regional Surveillance), with contributions from AMRO country desk economists. The report was reviewed by AMRO Senior Management and approved by Dong He (Chief Economist).

Unless otherwise indicated, the analysis in this report is based on information available up to 21 July 2025. For brevity, “Brunei Darussalam” is referred to as “Brunei”, and “Hong Kong, China” is referred to as “Hong Kong” in the text and figures.

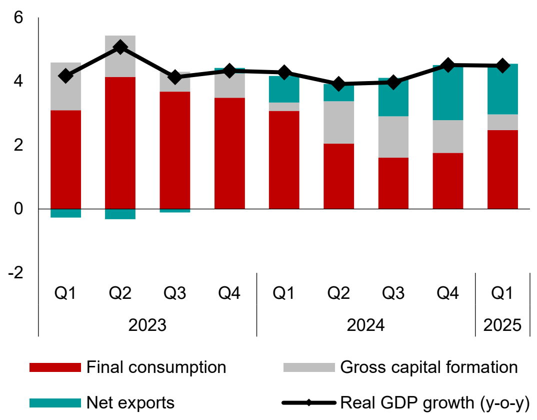
Highlights

- *ASEAN+3 is expected to grow at a slower pace of 3.8 percent in 2025 and 3.6 percent in 2026, reflecting the impact of higher tariffs and a broader global demand slowdown.*
- *Regional inflation is expected to remain low at about 1 percent in 2025 and 2026, in line with moderation in global commodity prices and more subdued demand pressures.*
- *Outlook for the region remains fraught with high uncertainties. Escalation of US protectionist policies continues to be the most salient risk, alongside tighter global financial conditions and commodity price spikes.*
- *Several regional policymakers have taken proactive steps to ease monetary policy and increase fiscal support. Efforts have also been stepped-up to strengthen regional cooperation and deepen intra-regional integration to enhance longer-term resilience.*

Regional Economic Developments since the *AREO 2025*

Economic growth in ASEAN+3 remained firm in the first half of 2025, driven by domestic demand and supported by net exports. Private consumption in most ASEAN economies remained resilient, underpinned by favorable labor markets conditions and moderating inflation (Figure 1). Similarly, consumption in the Plus-3 economies also improved, albeit at a more subdued pace. In contrast, investment activity moderated across the region, amid heightened uncertainty driven by the constantly evolving US trade policies (Box 1).

Figure 1. Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year; percentage points)

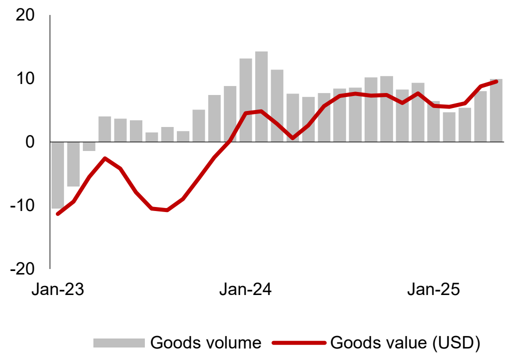


Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Statistical discrepancies are not shown. Excludes Cambodia, Lao PDR, Myanmar, and Vietnam due to data unavailability.

Despite facing higher tariff from the US, China sustained robust growth of above 5 percent in the first half of 2025. Growth was supported by stronger domestic demand, alongside the frontloading of export demand. The strength in domestic demand partly reflects the impact of accommodative macroeconomic policies, including the nationwide trade-in program—expanded this year with broader product categories from its 2024 launch—the issuance of ultra-long bonds to support infrastructure and urban renewal, and targeted credit easing. The sluggish recovery in the property sector was partially offset by robust growth in manufacturing and infrastructure investment.

Frontloading of export orders also helped to boost overall regional export performance. Export growth doubled in the second quarter of 2025 as businesses expedited shipments ahead of anticipated tariff increases (Figure 2). However, US import demand has begun to slow, signaling a potential moderation in export growth going forward. Reflecting this trend, new orders in manufacturing PMIs across Plus-3 and ASEAN economies have softened in recent months. Nonetheless, machinery and industrial goods PMI remained relatively resilient, suggesting continued underlying strength in key manufacturing segments.

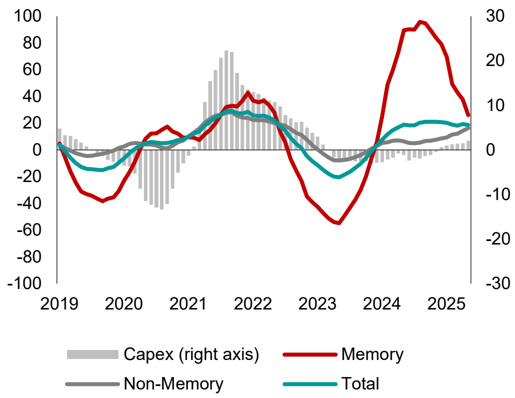
Figure 2. Selected ASEAN+3: Export Growth
(Percent, year-on-year, three-month moving average)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Goods exports data are up to May 2025.

A key driver of manufacturing activity, global semiconductor demand is expected to remain robust but grow at a more moderate pace. After a strong 19.7 percent expansion in 2024, semiconductor sales are projected to rise by 11.2 percent in 2025 (Figure 3). Growth is underpinned by sustained demand for artificial intelligence (AI) and cloud infrastructure, while memory chips continue to perform well despite some easing in momentum. Looking ahead, semiconductor sales growth is forecast to moderate further to 8.5 percent in 2026.

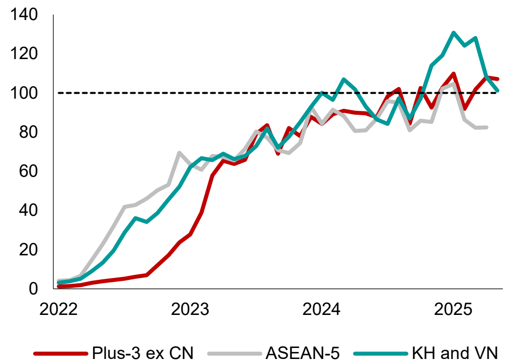
Figure 3. World: Semiconductor and Capital Expenditure (Capex) Cycles
(Percent, year-over-year, six-month moving average)



Source: World Semiconductor Trade Statistics; AMRO staff estimates.

However, service exports grew at a slower pace due mainly to lower tourist arrivals. While Chinese tourist arrivals surged from late-2024 to early-2025—especially to Vietnam—momentum has since eased, contributing to the broader slowdown in services export growth across the region (Figure 4). While the tourism recovery continues in the Plus-3 economies, ASEAN-5 economies experienced a decline in visitors from China and Europe.

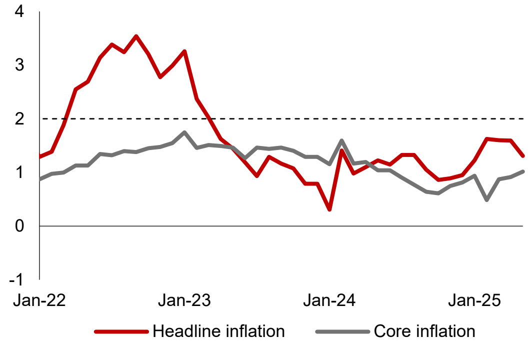
Figure 4. Selected ASEAN+3: Tourist Arrivals
(Index, 2019 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Plus-3 ex CN = Hong Kong, Japan, and Korea. ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand. KH and VN = Cambodia and Vietnam. Excludes Brunei, Lao PDR and Myanmar due to data unavailability. Data are up to May 2025 for Plus-3 ex CN, KH and VN, and April 2025 for ASEAN-5.

Headline inflation continued to moderate, while core inflation registered a slight uptick but remained well-contained through May 2025. Although headline inflation maintained a downward trend, the temporary spike in oil prices—driven by Iran–Israel tensions in the Middle East—could cause a short-lived inflation spike in June (Figure 5; Box 2). Core inflation remained stable, with modest increase since end-2024 in some economies, such as Vietnam, Thailand, China, Hong Kong, and Indonesia. These movements, however, remain limited and do not point to broad-based inflationary pressures.

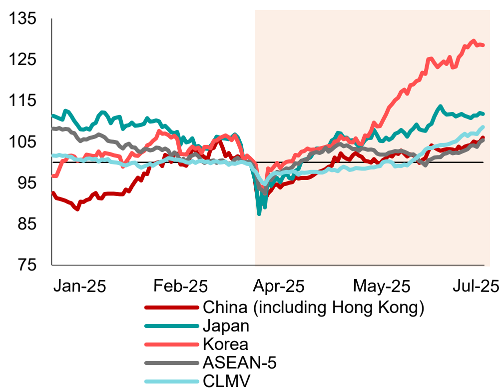
Figure 5. Selected ASEAN+3: Headline and Core Consumer Price Inflation
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Excludes Lao PDR and Myanmar due to data unavailability.

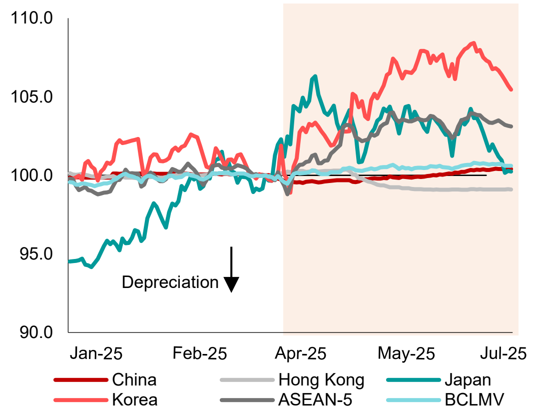
Financial market volatility increased amid global policy shifts and geopolitical tensions. The announcement on April 2 of reciprocal tariffs by the United States on all trading partners triggered sharp declines in ASEAN+3 equity markets (Figure 6). Financial markets partially recovered after the United States postponed tariff implementation by 90 days. The Iran–Israel conflict also led greater financial market volatility temporarily. Meanwhile, regional currencies showed resilience, appreciating further against the US dollar amid growing concerns over US policy uncertainty (Figure 7).

Figure 6. Selected ASEAN+3: Equity Market Indices
(Index, 31 March 2025 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 is the simple mean of returns in the benchmark equity indices of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data as of 21 July 2025.

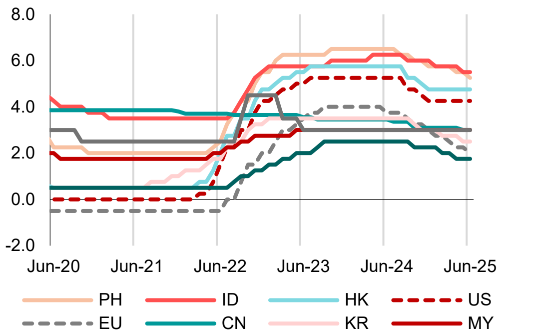
Figure 7. ASEAN+3: Exchange Rates against the US dollar
(Index, 31 March 205 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 and BCLMV are the simple mean of the changes in bilateral exchange rate against the US dollar of member economies within the group. Data as of 21 July 2025.

Regional policymakers have acted preemptively to cushion the trade shock. Since April, central banks in half of ASEAN+3 economies have eased monetary policy amid moderating inflation and rising growth concerns stemming from US tariffs (Figure 8). The Philippines initiated the first cut in April and, along with Indonesia, has eased twice this quarter. Thailand, China, Korea, Lao PDR and Malaysia have also lowered rates. Other central banks held rates steady, maintaining caution amid ongoing uncertainty. Japan, Korea, Indonesia, and Thailand also implemented fiscal measures to mitigate tariff impacts. Regional policymakers have also stepped up efforts to strengthen regional cooperation and deepen intra-regional integration to build further resilience for the region in the longer-term.

Figure 8. Selected Economies: Policy Interest Rates
(Percent)



Source: National authorities via Haver Analytics.
Note: Data are up to 21 July 2025. Policy rates refer to one-year loan prime rate (China, CN); BI Rate (Indonesia, ID); base rate (Hong Kong, HK; Korea, KR); overnight policy rate (Malaysia, MY); overnight reverse repo rate (the Philippines, PH); one-day repurchase rate (Thailand, TH); refinancing rate (Vietnam, VN); federal funds rate (upper range) (United States, US); and deposit facility rate (euro area, EU).

Regional Economic Outlook

ASEAN+3 region is expected to grow at a slower pace of 3.8 percent in 2025 and 3.6 percent in 2026. The downward revision from earlier projections for both years reflects the impact of higher US tariffs set to take effect on August 1 (Table 1). These tariffs will likely reduce US demand, increase investment uncertainty and dampen consumer confidence. Given the broad scope of the tariffs, the associated slowdown in global growth would further weigh on the region's outlook. The impact of the tariffs is projected to be more significant in 2026. This is particularly so for regional economies which face both higher tariffs from the US and rely more on external demand. Overall, however, continued strength in domestic demand and sustained external demand for electronics and tourism, is expected to continue to underpin regional growth.

Headline inflation in the region is projected to remain low and stable at around 1.0 percent in 2025 and 2026. This outlook reflects stable commodity prices, including the normalization of oil prices following the temporary volatility during the brief escalation of Iran–Israel conflict. Softer food prices and weaker global growth are expected to further ease inflationary pressures. Additionally, subdued consumer demand and ongoing reallocation of productive capacity in China are also likely to limit the increase in regional inflation.

External uncertainties remain elevated, with ongoing policy shifts in the United States posing the most salient risk. As a key trading partner of the region, abrupt and unpredictable US policy changes are expected to have substantial near-term effects and medium-term implications for the region. Uneven progress in tariff negotiations and bilateral considerations further compound uncertainty, while escalating geopolitical tensions add an additional layer of complexity. The five main risks that could affect the 2025-2026 baseline forecast are as follows (Figure 9):

- **More aggressive protectionist policies from the United States.** Although new tariffs announced in early July (to take effect on August 1) have been incorporated into the baseline forecast, the risk of further tariff increases remains significant. The United States administration has threatened to levy tariffs on currently exempted sectors, such as semiconductors and pharmaceuticals. As these products represent a substantial share of exports to the United States for some regional economies, such measures could further dampen growth. Idiosyncratic considerations are also influencing tariff decisions.
  - Under an adverse scenario where tariffs revert to April 2 rates for China, BRICS-aligned economies face an additional 10 percent tariff, and previously exempt goods incur a 25 percent tariff, ASEAN+3 growth could slow to below 3

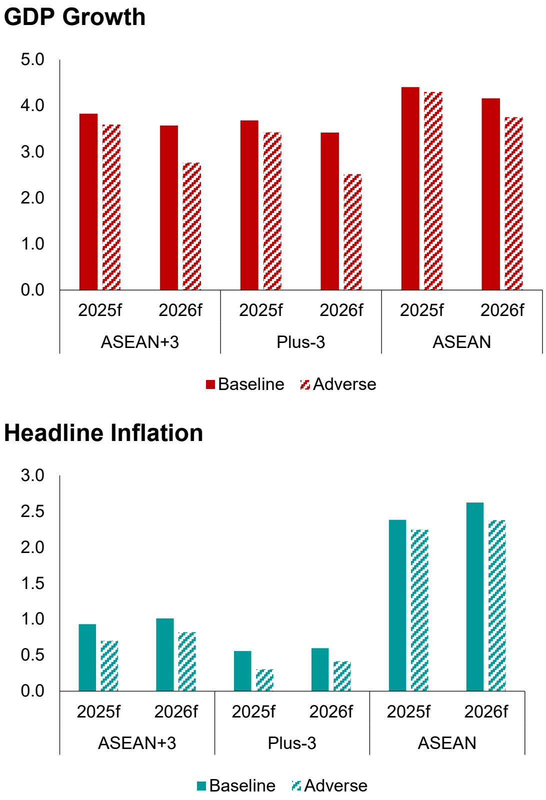
percent in 2026—its lowest level since the Asian Financial Crisis, excluding the COVID-19 pandemic years (Figure 10). Lower global commodity prices and weaker regional demand are expected to contribute to a more subdued inflation outlook under this scenario.

- Other non-tariff protectionist measures—such as expanding domestic-sourcing procurement, stricter investment screening and broader export controls—could exacerbate this impact.

- **Sharper growth slowdown in the United States and Europe.** In the United States, domestic policy uncertainty may dampen consumer sentiments and weigh on investment. Tighter immigration enforcement, including accelerated deportations, also risk disrupting the labor market. In Europe, growth could be impacted by rising global trade tensions, and higher energy and shipping costs driven by ongoing geopolitical conflicts.

- **Tighter global financial conditions.** Higher inflation in the United States could lead to the US interest rate remaining high for an extended period, leading to a stronger US dollar and overall tighter global financial conditions. This will likely spill over to the region, complicating the conduct of monetary policy, with policy rates compelled to rise or remain high despite growth headwinds in response to capital outflows and sustained exchange rate depreciations. Economic activity across the region could moderate further as a result.

Figure 10. ASEAN+3: GDP Growth and Headline Inflation under Baseline and Adverse Scenario
(Percent, year-on-year)



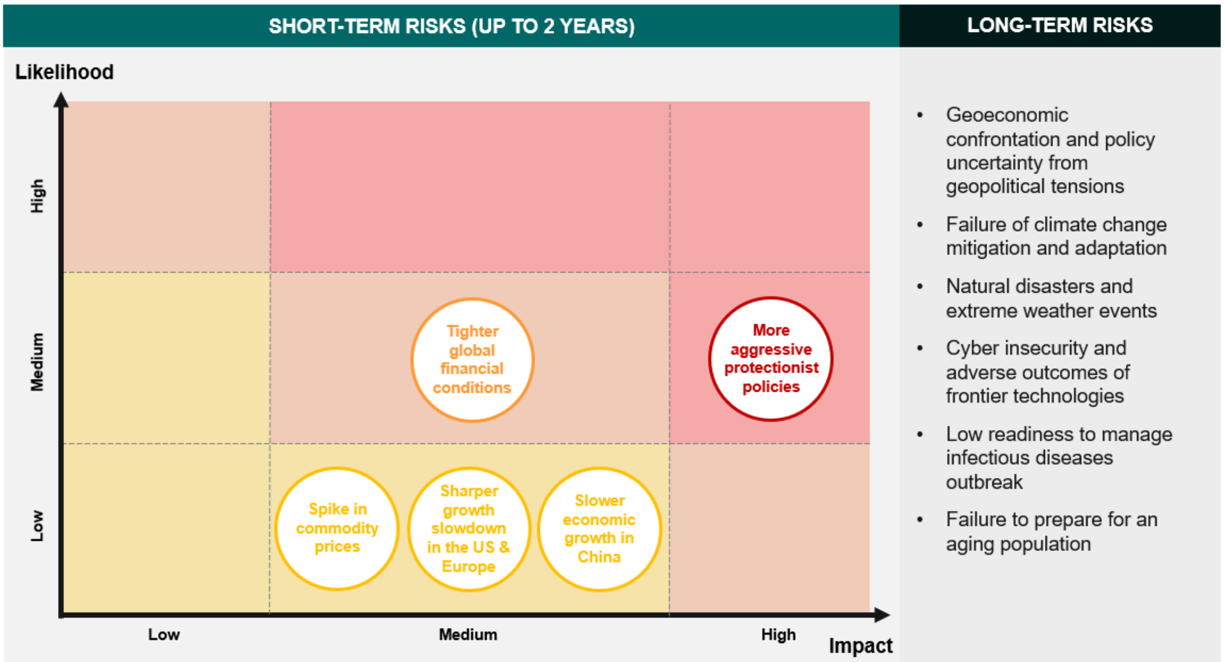
Source: AMRO staff estimates.
Note: f = forecast. Regional aggregates are weighted using 2024 GDP on PPP basis. Brunei, Cambodia, Lao PDR and Myanmar are excluded due to data unavailability. The baseline scenario assumes bilateral tariffs announced prior to July 10. The adverse scenario assumes China's reciprocal tariff reverts to the 34 percent announced on 2 April, 10-percent tariff on BRICS-aligned economies and 25-percent tariff on products currently exempt from reciprocal tariffs.

- **Spike in global commodity prices.** Heightened geopolitical tensions in the Middle East, especially following the June escalation of hostilities, raise the risk of energy price spikes. While prices have stabilized due in part to softer global demand, renewed volatility could fuel inflationary pressures in ASEAN+3 economies.

- **Slower economic growth in China.** China's property sector remains sluggish despite initial signs of stabilization. Prolonged adjustment and continued subdued consumer sentiments could hinder broader economic growth. Slower economic activities in China could weigh on trade, investment and tourism flows in the rest of the region.

Beyond near-term risks, structural challenges remain a concern for the region. Amid rising protectionist measures, accelerating geoeconomic fragmentation and geopolitical tensions could dampen long-term growth prospects, especially for trade-dependent economies. Additionally, rapid population aging poses significant economic and social challenges. At the same time, failure to mitigate climate change risks may also increase the frequency of extreme weather events, with substantial economic repercussions.

Figure 9. Regional Risk Map, July 2025



Source: AMRO staff.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2025–26

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2024	AREO 2025		AREO July Update		2024	AREO 2025		AREO July Update	
		2025f	2026f	2025f	2026f		2025f	2026f	2025f	2026f
ASEAN+3	**4.3**	**4.2**	**4.1**	**3.8**	**3.6**	**1.2**	**1.7**	**1.7**	**0.9**	**1.0**
Plus-3	**4.1**	**4.1**	**4.0**	**3.7**	**3.4**	**0.7**	**1.4**	**1.5**	**0.5**	**0.6**
China	5.0	4.8	4.7	4.5	4.1	0.2	1.1	1.3	0.0	0.2
Hong Kong, China	2.5	2.4	2.3	2.1	1.9	1.7	2.2	2.0	1.8	1.6
Japan	0.1	1.3	1.0	0.7	0.6	2.7	2.5	2.1	2.9	2.1
Korea	2.0	1.6	1.9	0.7	1.6	2.3	1.9	1.8	2.0	1.9
ASEAN	**4.9**	**4.7**	**4.7**	**4.4**	**4.2**	**2.9**	**3.0**	**2.9**	**2.4**	**2.7**
Brunei Darussalam	4.2	2.6	2.6	1.7	2.3	–0.4	0.6	0.4	0.2	0.3
Cambodia	6.0	5.8	6.0	5.2	4.7	0.8	2.9	2.5	2.5	2.3
Indonesia	5.0	5.0	5.1	4.8	4.7	2.3	2.2	2.7	1.5	1.9
Lao PDR	4.5	4.6	4.6	4.4	4.2	23.1	10.1	6.4	10.1	6.4
Malaysia	5.1	4.7	4.5	4.2	3.8	1.8	2.7	2.5	2.0	2.2
Myanmar	3.2	1.0	1.0	–1.0	1.5	27.5	25.0	18.0	30.0	28.0
The Philippines	5.7	6.3	6.3	5.6	5.5	3.2	3.3	3.2	1.8	3.2
Singapore	4.4	2.7	2.4	2.3	1.6	2.4	1.8	1.8	1.0	0.8
Thailand	2.5	2.9	3.0	2.1	1.8	0.4	1.2	1.3	0.5	0.8
Vietnam	7.1	6.5	6.2	7.0	6.5	3.6	3.5	3.0	3.4	3.0

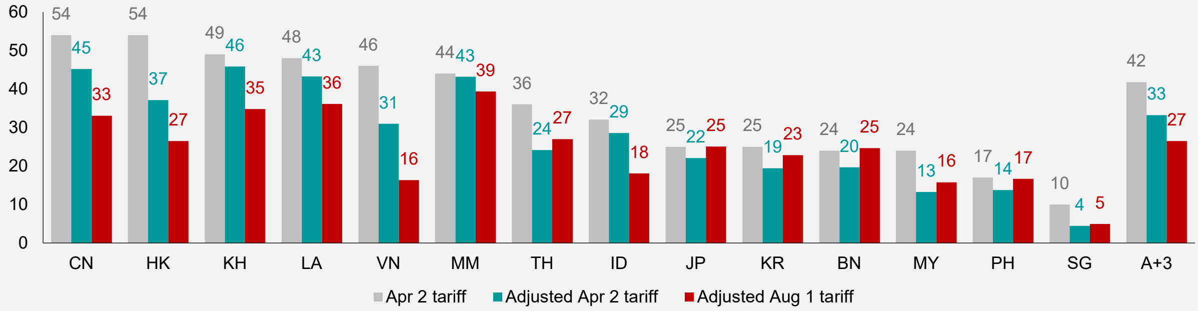
■ Revised upwards from April ■ Revised downwards from April ■ Maintained from April

Source: National authorities via Haver Analytics and AMRO staff estimates.
Note: AREO = ASEAN+3 Regional Economic Outlook report. e = estimate, f = forecast. Regional aggregates for growth are estimated using the weighted average of 2024 GDP on purchasing power parity basis; regional aggregates for inflation are computed using simple averaging. Myanmar's GDP and inflation figures are based on its fiscal year, which runs from April 1 of the reference year to March 31 of the following year. Forecasts are as of July 17, 2025.

Box 1. US Tariff Developments for the ASEAN+3 Region

Since January 2025, the United States has initiated multiple rounds of tariff escalations, and revised trade terms with ASEAN+3 economies. Tariffs on China have risen over five times, peaking at 145 percent before being lowered to 30 percent for a 90-day period from May 14. After April 2, most economies began bilateral talks with limited progress. With the 90-day pause expired, most economies received letters detailing new tariff rates effective August 1, except China (pause ends on August 12) and Singapore. Some economies now face higher tariffs than initial reciprocal tariffs, with the region's average tariff at 27 percent (Figure 1.1). The United States President has suggested that economies without letters will face 15 to 20 percent tariffs and proposed an additional 10 percent tariff on BRICS and its aligned members (China, Indonesia, Malaysia, Thailand, and Vietnam). With no clear framework and negotiations extended to August 1, the near-term outlook remains highly uncertain.

Figure 1.1. United States: Adjusted Tariff Rate for Imports from ASEAN+3
(Percent)



Source: S&P Global Trade Analytics; AMRO staff calculations.
Note: A+3 = ASEAN+3; BN = Brunei; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MM = Myanmar; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Adjusted Apr 2 tariff accounts for product exemptions and a 25-percent tariff on automotive, steel, and aluminum products. Adjusted Aug 1 tariff reflects the tariff rates stipulated in the bilateral letters and latest agreements, a 50-percent tariff on auto products, and an additional 50-percent tariff on copper products under HS Chapter 74, effective from August 1. For economies that did not receive new tariff announcements (China, Hong Kong, China, and Singapore), the prevailing rates remain in place. Tariffs on China and Hong Kong, China include the 20-percent Fentanyl tariff.

Beyond broad-based tariffs, the United States has also implemented tariffs on strategic products. The recent 50-percent copper tariff announcement poses limited risks to ASEAN+3 economies, which account for less than 1 percent of the region's exports to the United States. However, the steel and aluminum tariffs raised to 50 percent on June 3 have significantly impacted most regional economies, particularly Brunei, China and Korea. Similarly, automotive tariffs have weighed heavily on car-exporters such as Japan, Korea, and Thailand. While key exports including electronics and pharmaceuticals remain exempt, President Trump has suggested potential tariffs on semiconductor and pharmaceutical products. Should these targeted tariffs expand to cover all key products—representing over 40 percent of regional exports to the United States—the economic impact would be substantial.

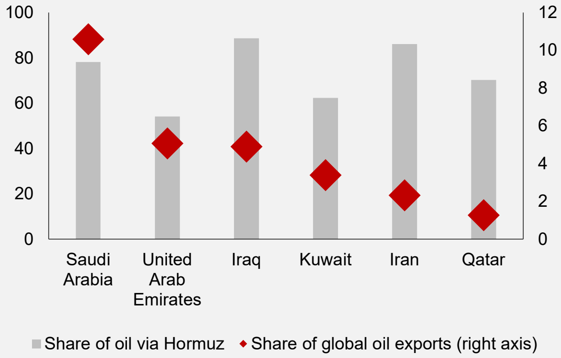
Most regional economies remain engaged in negotiations with the United States, although outcomes remain uncertain. Critical details of the new/emerging deals are still opaque. For example, transshipment goods through Vietnam would face a punitive 40-percent tariff, but the definition of transshipment remains unclear—a very narrowly defined interpretation could be highly disruptive to established global value chains. The rapid and unpredictable nature of these developments is likely to generate significant impacts on financial markets, exports, and the broader real economy of the region. Amid this uncertainty, continued efforts to diversify export markets and strengthen regional integration to reduce US economic dependence must remain a priority. In a global trading system that is increasingly being reshaped by divisive forces, it is imperative for regional economies to stay committed to a rules-based, open, and transparent multilateral trading system, with the World Trade Organization at its core.

The author of this box is Yuhong Wu.

Box 2. Impact of Iran–Israel Conflict on the ASEAN+3 Region

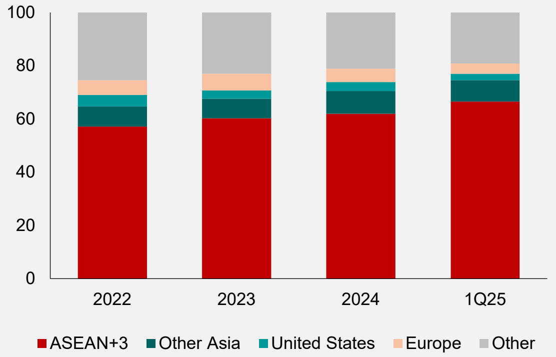
The escalation of Iran–Israel conflict in June 2025 demonstrated potential vulnerability of the ASEAN+3 region to geopolitical tensions in the Middle East. The potential disruptions to the Strait of Hormuz pose the biggest risk to the region. The conflict has heightened geopolitical uncertainty around this critical maritime passage that transports 73 percent of Middle Eastern crude oil exports. With over 20 percent of ASEAN+3's energy sourced from Middle Eastern partners and Iran controlling the northern approach to the Strait, any sustained closure would create severe supply bottlenecks affecting approximately 15.5 million barrels of crude oil per day.

Figure 2.1. Middle East: Crude Oil Transported via the Strait of Hormuz, by Origin
(Percent share)



Source: US Energy Information Administration Analysis based on Vortexa tanker tracking data, OPEC; AMRO staff calculations.
Note: Share of oil via Hormuz is calculated as the volume of oil transported via the Strait of Hormuz divided by each economy's total crude oil and condensate exports

Figure 2.2. Middle East: Crude oil Transported via the Strait of Hormuz, by Destination
(Percent of total volume via the Strait)



Source: US Energy Information Administration Analysis based on Vortexa tanker tracking data, S&P Global & IHS Markit Merger, UN Comtrade; AMRO staff calculations
Note: ASEAN's share is calculated by multiplying each of the six Middle Eastern partners' share of ASEAN crude oil imports by their respective volumes transiting the Strait of Hormuz.

While tensions have abated, potential future escalations could lead to stagflationary pressures across the region. Although the immediate crisis has passed, the brief escalation provided valuable insights into potential economic transmission channels that could affect ASEAN+3 in future conflicts. AMRO's internal scenario assessment examined three plausible scenarios ranging from contained conflicts to regional escalation, revealing that the region faces differential but significant impacts depending on conflict intensity. The analysis shows that economic transmission occurs primarily through energy price channels, with sustained conflicts generating compounding effects through elevated war risk premiums, increased marine insurance rates, and higher transportation costs from extended shipping routes. The region's heavy energy import dependence amplifies vulnerability to supply-side shocks, though actual impacts vary significantly based on each economy's strategic reserves, alternative supply arrangements, and demand management capabilities in responding to sustained price volatility.

This conflict represents part of a larger pattern of systemic changes that could reshape ASEAN+3's operating environment for decades. While immediate commodity shocks may fade, the episode signals broader Middle Eastern instability and its longer-term ramifications. The systematic dismantling of Iran's nuclear capabilities may paradoxically accelerate nuclear proliferation as middle powers seek immunity from external intervention, while unilateral military actions continue eroding rules-based international order. For economic policymakers, this convergence of energy insecurity and institutional fragility compounds existing trade tensions. In this shock-prone world, central banks and finance ministries would need to prepare for larger and more frequent supply-side disruptions by reconsidering how their policy frameworks operate when geopolitical volatility becomes the norm.

The authors of this box are Kriti Andhare and Catharine Kho, with inputs from Yohnsen Ang and Yuhong Wu.