# ASEAN+3

## Regional Economic Outlook 2026

### Navigating Headwinds from a Position of Strength

AMRO

ASEAN+3 MACROECONOMIC RESEARCH OFFICE


# Presentation outline

1. **ASEAN+3 outlook** – A strong starting point, but downside risks materially higher
2. **Transformation of economic linkages** – A more regionally anchored ASEAN+3


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1 **ASEAN+3 outlook** – A strong starting point, but downside risks materially higher

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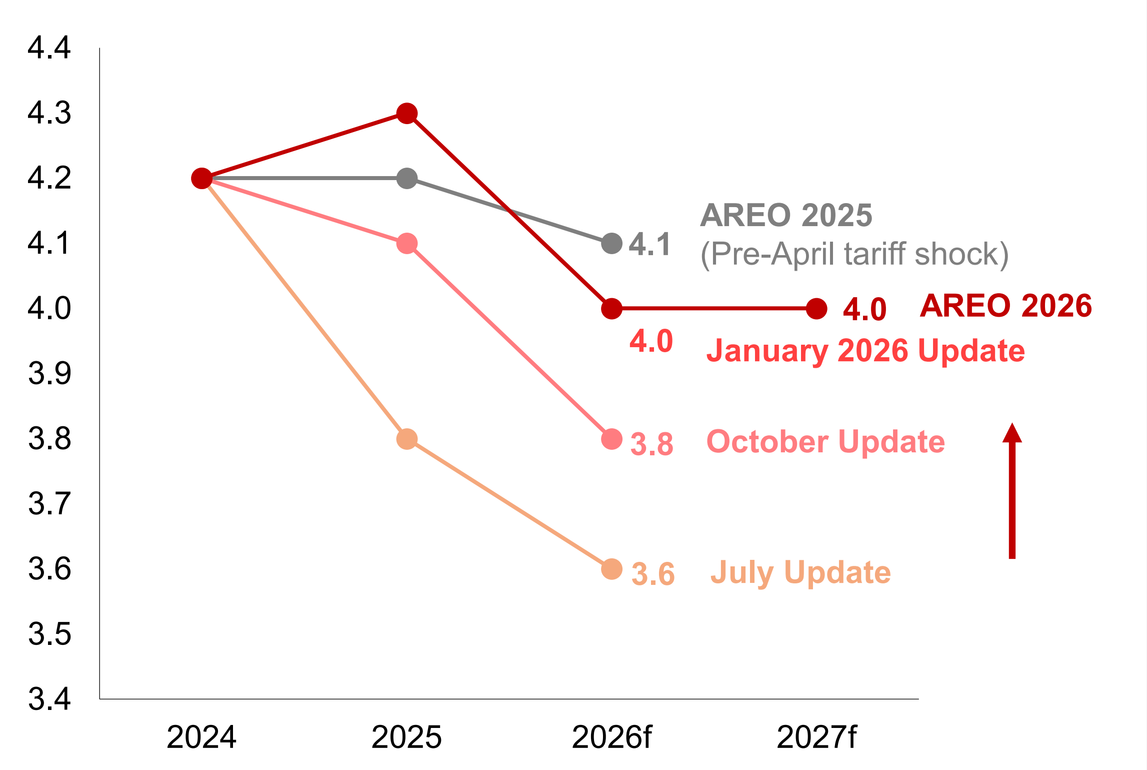
# ASEAN+3 entered 2026 from a position of relative strength

*Growth for ASEAN+3 outperformed initial expectations in the immediate aftermath of the April 2025 tariff shock. Exports remained robust, while resilient domestic demand provided a firm anchor to regional growth.*

**ASEAN+3 GDP Growth Forecast Evolution**
(Percent, year-on-year)




- **Growth outperformed despite the tariff shock.** ASEAN+3 grew 4.3 percent in 2025 – well above the 3.8 percent projected after the April 2025 tariff shock, in part reflecting lower effective tariff rates and AI-driven semiconductor export demand
- **Domestic demand provided a firm anchor.** Private consumption remained firm amid favorable labor markets and low inflation, while investment strengthened on broad-based FDI inflows
- **Intraregional linkages continued to deepen.** Strengthening trade and investment ties within ASEAN+3 provided an important buffer against external headwinds

Source: National authorities via Haver Analytics, AMRO staff estimates.
Note: f = forecast. Regional aggregate for growth is estimated using the weighted average of 2025 GDP on purchasing power parity basis.

# Growth to moderate to 4.0 percent in 2026 and 2027, with inflation trending higher on elevated energy prices

*Domestic demand remains the key growth anchor, while higher US tariffs weigh on external demand and the Middle East conflict adds to inflationary pressure*

**AMRO Staff Baseline Estimates and Forecasts, 2026-27**
(Percent, year-on-year)

| Economy | GDP Growth | | | Headline inflation | | |
|---|---|---|---|---|---|---|
| | 2025 | 2026f | 2027f | 2025 | 2026f | 2027f |
| **ASEAN+3** | **4.3** | **4.0** | **4.0** | **0.9** | **1.4** | **1.5** |
| **Plus-3** | **4.2** | **3.8** | **3.8** | **0.6** | **1.0** | **1.2** |
| China | 5.0 | 4.5 | 4.5 | 0.0 | 0.6 | 0.9 |
| Hong Kong, China | 3.5 | 2.8 | 2.7 | 1.4 | 1.9 | 1.6 |
| Japan | 1.2 | 0.7 | 0.8 | 3.2 | 2.4 | 2.2 |
| Korea | 1.0 | 1.9 | 1.9 | 2.1 | 2.3 | 2.2 |
| **ASEAN** | **4.9** | **4.6** | **4.8** | **2.3** | **3.1** | **2.9** |
| Brunei Darussalam | 0.7 | 1.9 | 1.8 | –0.3 | 0.9 | 0.8 |
| Cambodia | 5.2 | 4.9 | 5.2 | 2.5 | 2.9 | 2.5 |
| Indonesia | 5.1 | 5.0 | 5.1 | 1.9 | 2.8 | 2.9 |
| Lao PDR | 4.8 | 4.6 | 4.5 | 7.7 | 7.8 | 7.1 |
| Malaysia | 5.2 | 4.6 | 4.7 | 1.4 | 2.0 | 2.0 |
| Myanmar | –1.5 | 2.5 | 2.5 | 28.0 | 24.0 | 16.0 |
| Philippines | 4.4 | 5.3 | 5.8 | 1.7 | 3.9 | 3.6 |
| Singapore | 5.0 | 3.4 | 3.1 | 0.9 | 1.8 | 1.8 |
| Thailand | 2.4 | 1.7 | 2.2 | –0.1 | 1.1 | 1.0 |
| Vietnam | 8.0 | 7.4 | 7.1 | 3.3 | 3.8 | 3.4 |

**Overall balance of risks is tilted to the downside:**

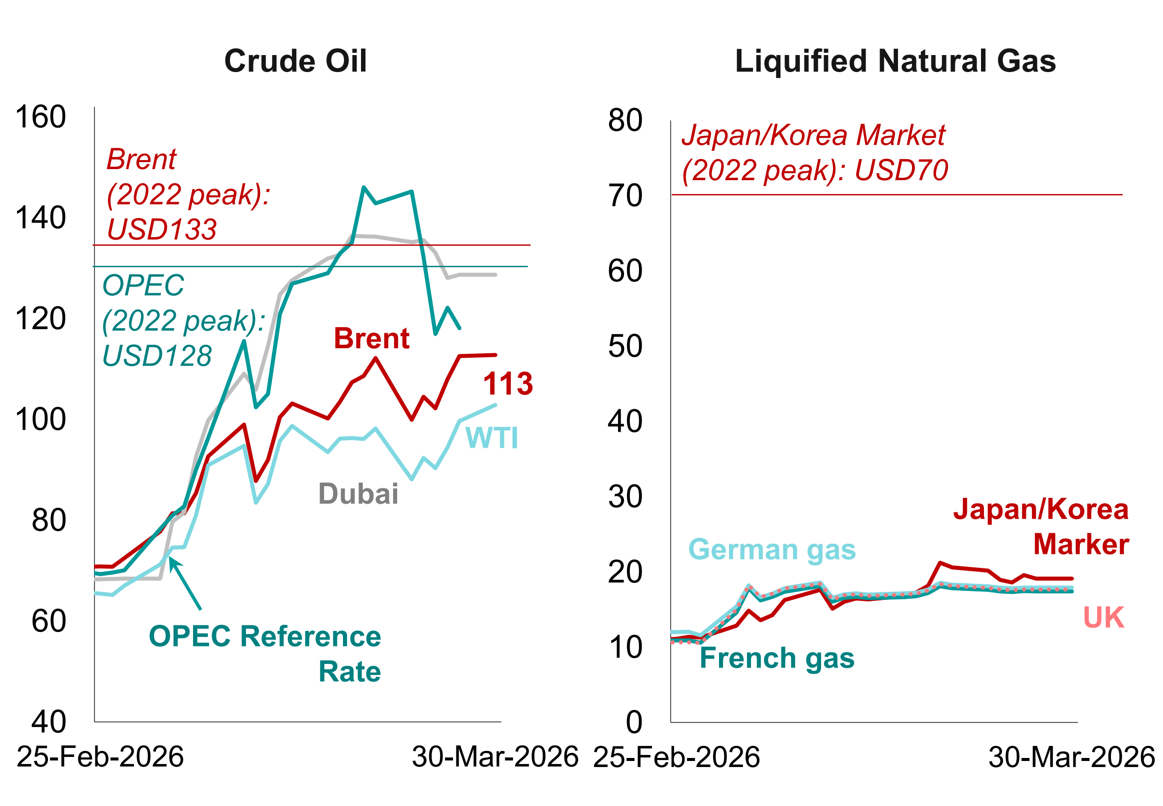
- **Middle East conflict and energy prices:** A prolonged conflict could keep energy prices elevated, with pressures cascading to the broader economy
- **Technology cycle:** AI-driven demand has been the region's strongest export buffer, but its persistence is a two-sided risk to the outlook
- **Trade policy uncertainty:** Effective tariff rates are well below the April 2025 peak, but the policy framework remains unsettled and sector-specific measures are still in play

Source: National authorities via Haver Analytics, and AMRO staff estimates.
Note: f = forecast. Regional aggregates for growth are estimated using the weighted average of 2025 GDP on purchasing power parity basis. Myanmar's GDP forecast covers April 1 of the reference year to March 31 of the following year. Forecasts are as of 24 March 2026.
As Timor-Leste is not currently a member of AMRO, it falls outside AMRO's formal surveillance mandate and is not included in the ASEAN+3 regional economic assessment.

# The ongoing Middle East conflict represents the most significant energy supply disruption to the region in decades

*Energy prices have increased sharply since the start of the conflict, with the potential scale of supply disruption significantly larger than 2022 during the Russia-Ukraine conflict which escalated into a crisis*

**Global Crude Oil and Natural Gas Prices**
(USD per barrel; USD per million British thermal units)



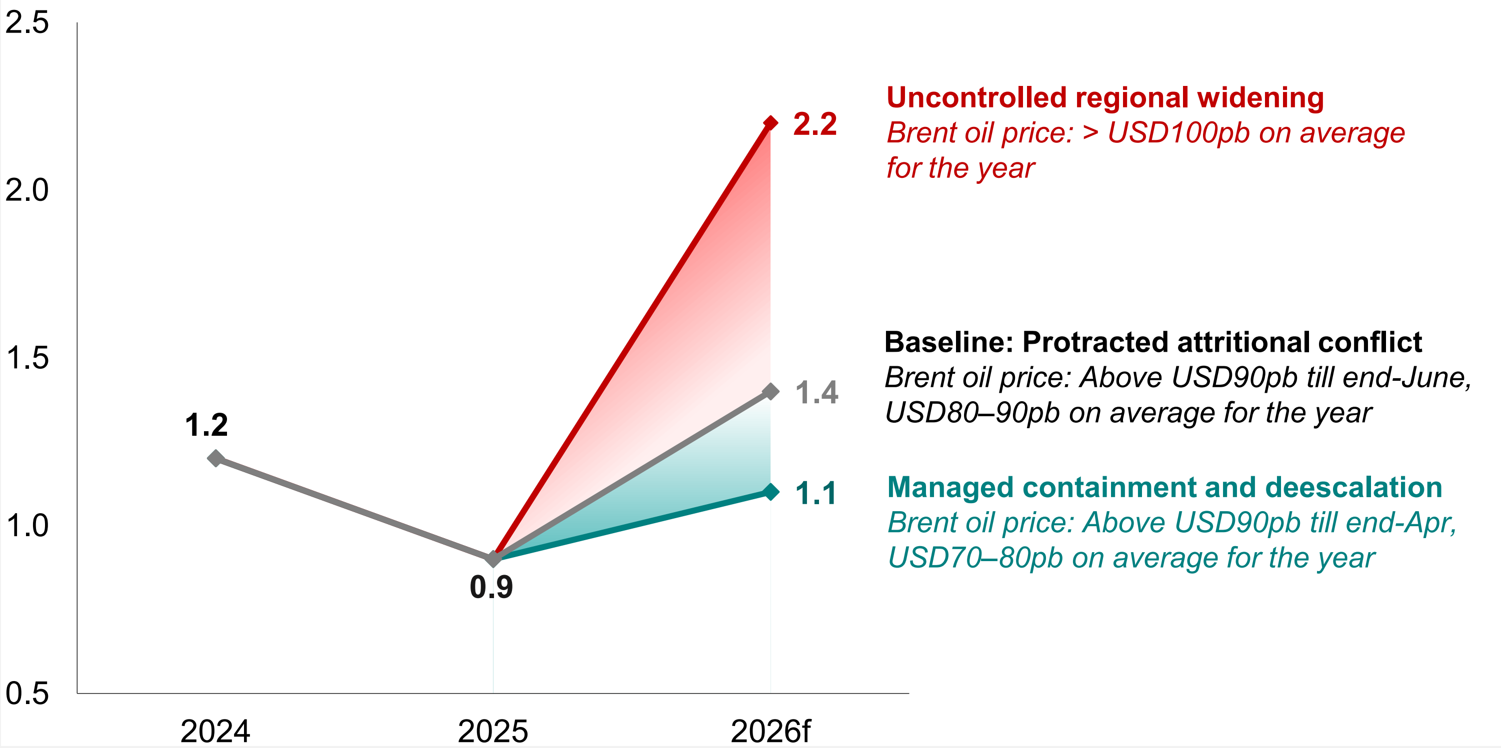

- **Scale of energy supply disruption is significant.** Affected global oil supply is four times larger than 2022, and unlike that episode, the Strait of Hormuz disruption directly affects the region's own oil and LNG supply routes
- **Duration of conflict will determine severity.** A prolonged conflict would see cost pressures cascade beyond energy into industrial inputs, logistics, food prices, and services
- **But the region is structurally better positioned.** Energy intensity has fallen significantly since 2000, power sources have diversified, and EV adoption is accelerating

Source: EIA and New York Mercantile Exchange via Haver Analytics; AMRO staff calculations.
Note: MMBtu = Metric Million British Thermal Unit.

# A prolonged Middle East conflict could push inflation materially higher and weigh on growth

*Impact on the region will depend on the duration of the conflict, with effects likely to be uneven across economies*

**ASEAN+3 Inflation Projections Under Different Conflict Scenarios**
(Percent, year-on-year)




**AREO 2026 considers three scenarios:**

- **Managed containment and de-escalation:** inflation at 1.1 percent; growth 0.1 ppt higher than baseline
- **Protracted attritional conflict (baseline):** growth at 4.0 percent, inflation at 1.4 percent
- **Uncontrolled regional widening:** inflation at 2.2 percent; growth 0.3 ppt lower than baseline

**Outcomes could be worse.** A prolonged conflict could produce compounding, non-linear effects that exceed model-based scenario estimates

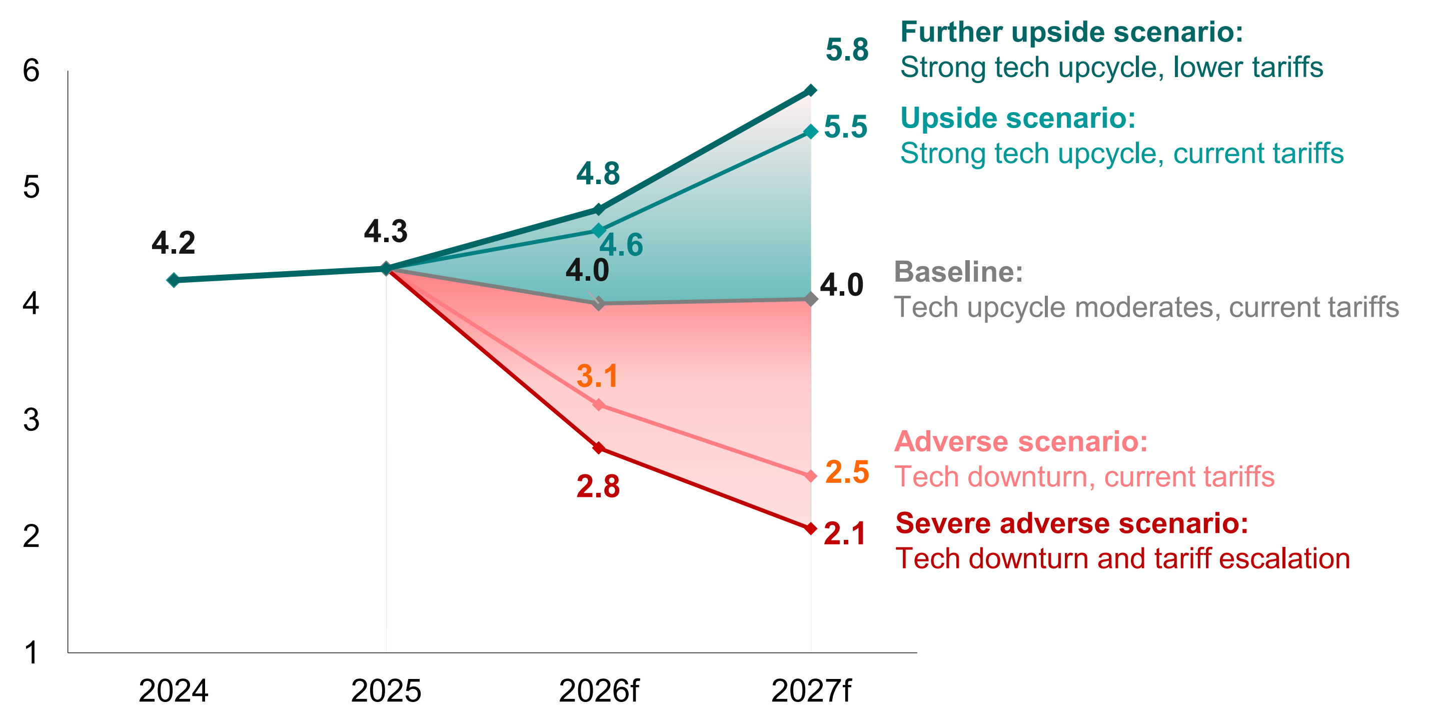
**Impact will be uneven.** Severity will also differ across economies depending on energy import dependence, available buffers, and policy space

Source: Oxford Economics Model; AMRO staff estimates and forecasts.
Note: f = forecast. Inflation estimates and forecasts refer to the yearly average. Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

# Technology demand and trade policy present additional two-sided risks to the outlook

*Stronger AI adoption could lift growth, while tariff escalation or a tech downturn could weigh significantly on the region*

**ASEAN+3 Growth Projections Under Different Scenarios**
(Percent, year-on-year)




- **Technology cycle.** AI-driven demand has been the region's strongest export buffer, but its persistence is uncertain. No evidence of pullback yet, but a correction would weigh significantly on regional economies
- **Trade policy.** Effective tariff rates well below the April 2025 peak, but the framework remains unsettled. A re-escalation of tariffs remains a material risk to the region
- **These risks can interact.** A prolonged energy shock could disrupt industrial supply chains and dampen tech investment, while tariff escalation would compound the drag on exporters etc.

Source: Oxford Economics Model, AMRO staff calculations.
Note: Baseline assumes tariffs as of end February 2026 (ASEAN effective rate 10.2 percent) with investment growth moderating from 2025. Upside scenarios assume investment grows 10 percent quarter-on-quarter faster than baseline, adverse scenarios 5 percent slower (in line with the 2022 tech downcycle). Further upside and severe adverse scenarios additionally assuming tariffs 5 percent lower or 10 percent higher than baseline, respectively. Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

# **Macro-policy priority:** preserving flexibility in the near term, while standing ready to respond decisively should the conflict's impact deepen

*Most ASEAN+3 economies retain meaningful fiscal and monetary space – the key is to calibrate the response to the evolution and persistence of the conflict's economic impact*

**AMRO Staff Assessment of Policy Space in 2026**

| | | Monetary Policy Space | | |
|---|---|---|---|---|
| | | Limited | Moderate | Ample |
| Fiscal Policy Space | Limited | LA | JP, MM | |
| | Moderate | KR, KH, ID, TH | CN, MY, PH, VN | |
| | Ample | HK, BN | SG | |

- **Fiscal policy:** Targeted, temporary support for exposed households and critical sectors – avoid broad-based price suppression that could fuel inflation or erode fiscal sustainability
- **Monetary policy:** Look through the initial energy price shock, but respond decisively if pressures broaden into core inflation and wages. Clear communication is essential to anchoring expectations
- **Longer-term resilience:** Diversify energy and input sources, accelerate the energy transition, strengthen buffers, and preserve open regional trade channels

**The AREO 2026 Chapter 1 Special Feature** examines how central banks can navigate monetary policy under this kind of elevated uncertainty

Source: AREO 2026
Note: Policy space for each economy is based on AMRO's latest country assessment, guided by AMRO's Fiscal Policy Space Assessment and Monetary Policy Space Assessment.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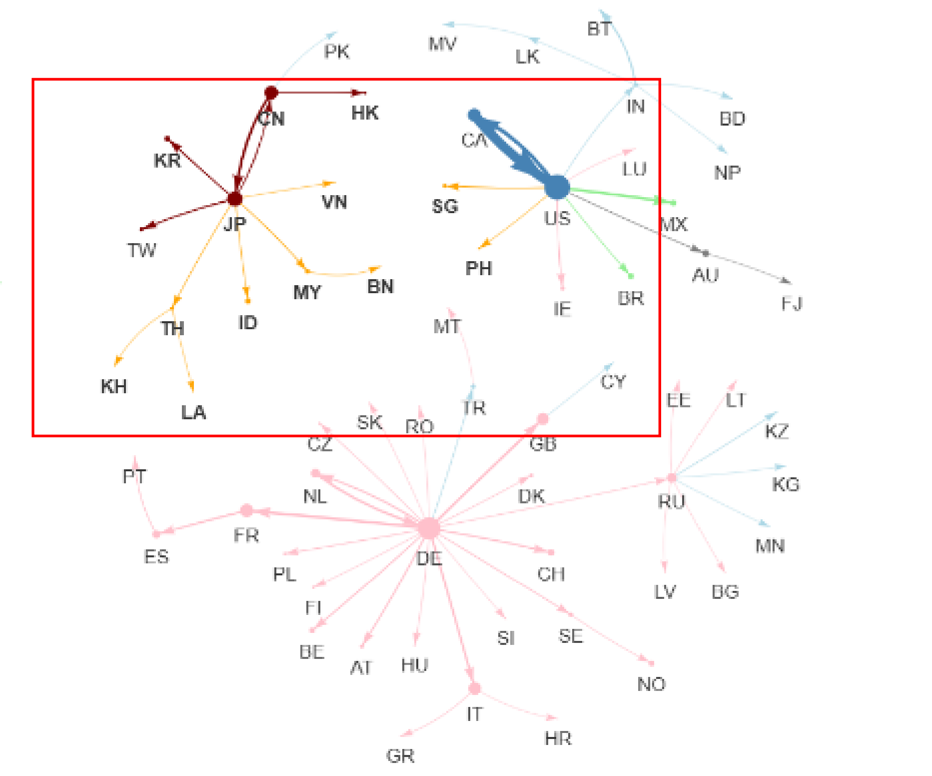
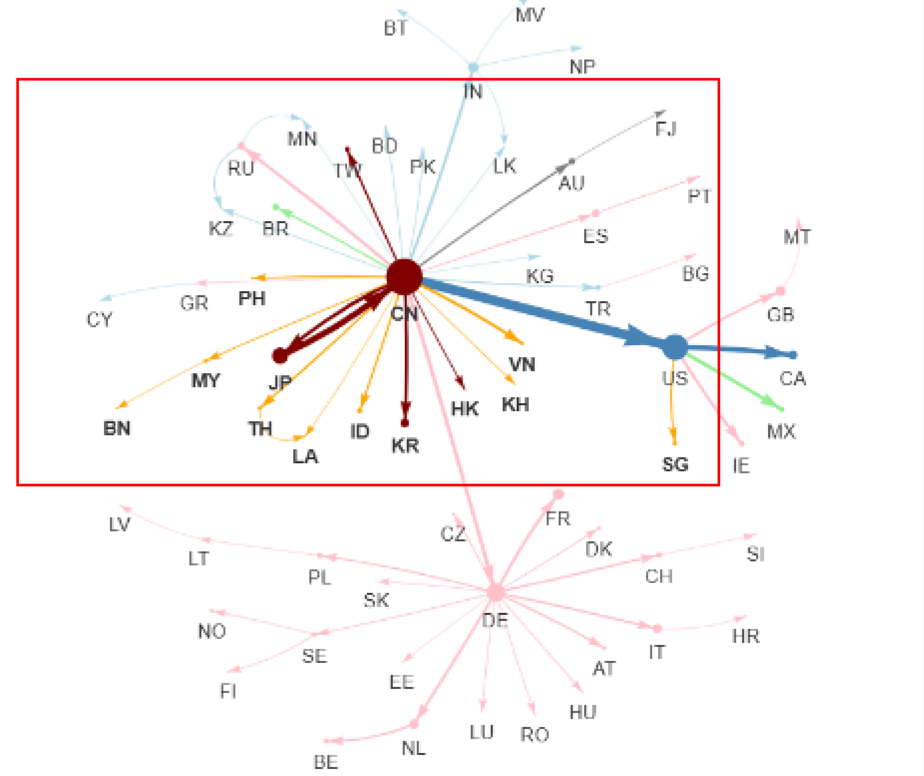
# Shift 1: Denser, more integrated, regional supply chains

*The region's supply chain has deepened, with China at the core of production, Japan and Korea specializing in high-precision inputs, and ASEAN economies driving mid-value manufacturing and digital services – a pattern of densification rather than displacement*

**Goods and Services: Global Supply Hubs in 2000**




**Goods and Services: Global Supply Hubs in 2024**

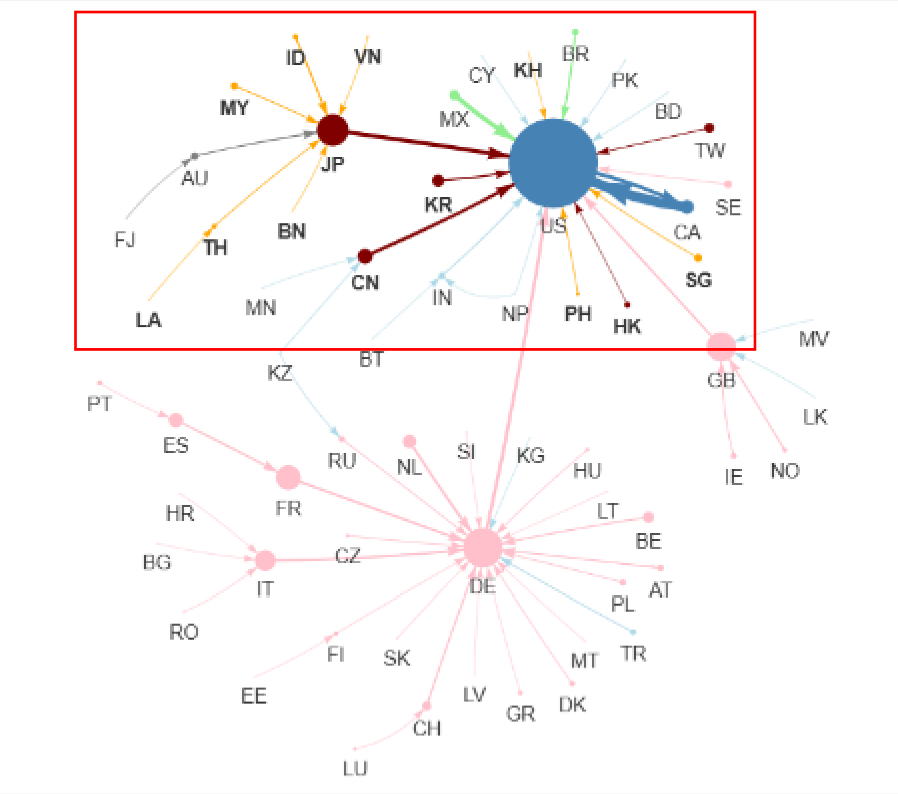



Source: ADB Multi-regional Input Output Table; AMRO staff calculations.
Note: Only linkages that represent the largest import or more than 25 percent of the total import are shown. The size of the bubble represents the share of an economy's imports in the world's total imports. The thickness of the linkage represents the share of flow between each trading partner in the world's total flow.

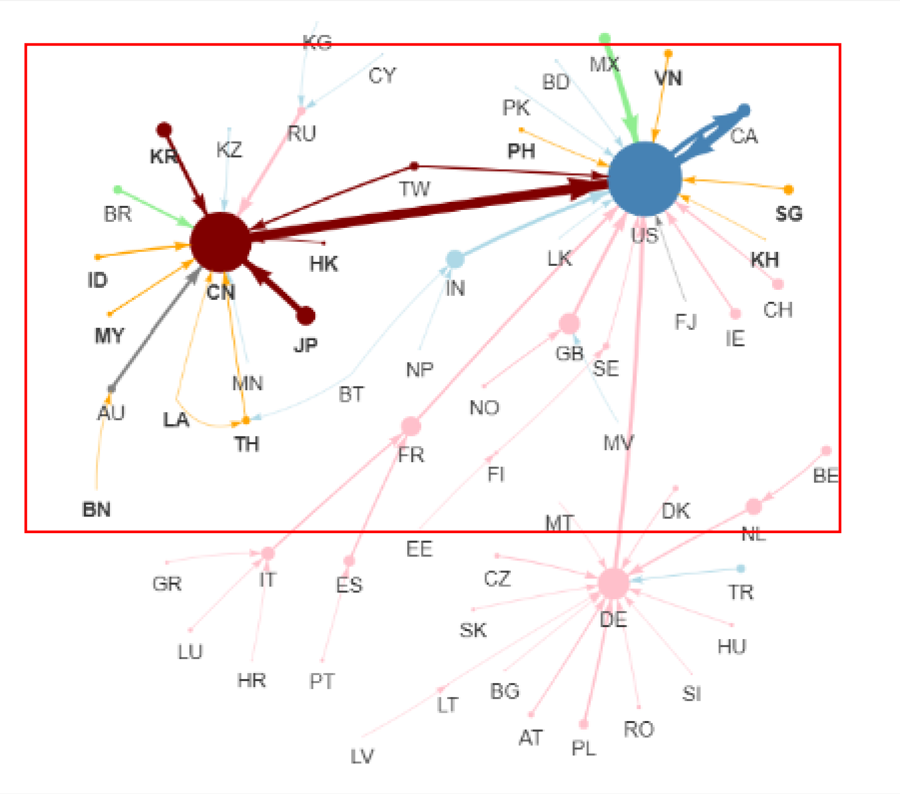
# Shift 2: Demand has become more regionally anchored

*ASEAN+3 has emerged as a major source of global final demand – collectively larger than the US – with intraregional demand now substantially more important than two decades ago*

**Goods and Services: Global Demand Hubs in 2000**




**Goods and Services: Global Demand Hubs in 2024**

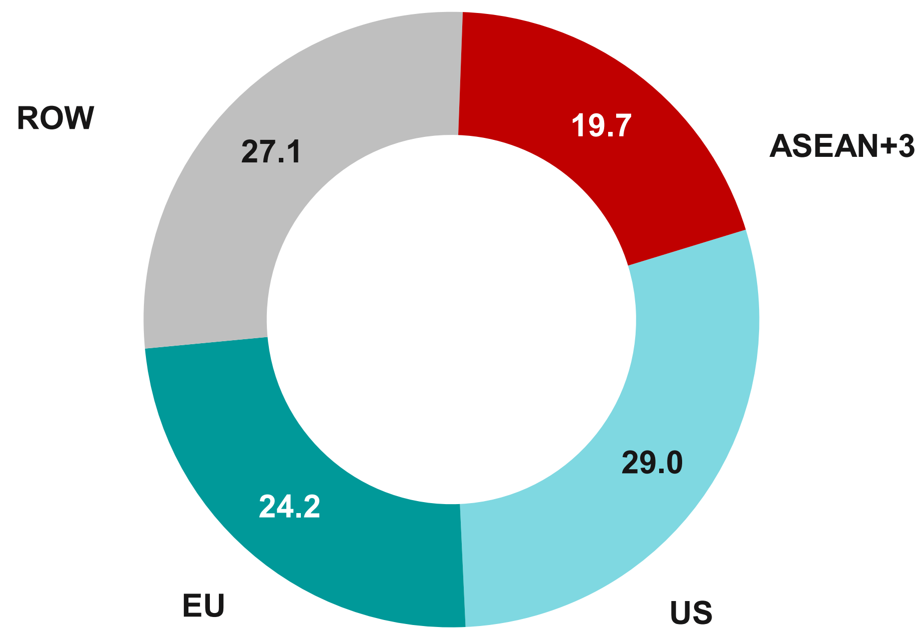



Source: ADB Multi-regional Input Output Table; AMRO staff calculations.
Note: Only linkages that represent the largest export or more than 25 percent of the total export are shown. The size of the bubble represents the share of an economy's exports in the world's total exports. The thickness of the linkage represents the share of flow between each trading partner in the world's total flow.

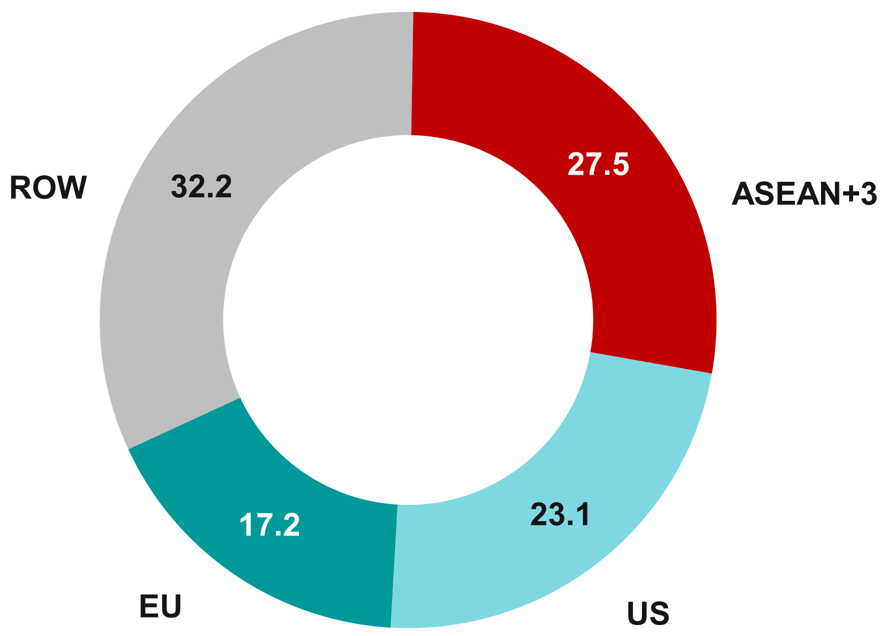
# ASEAN+3: The largest final demand market in the world today

*ASEAN+3 has surpassed the US as the largest source of global final demand, representing a share of 27.5 percent in 2024*

**Share of Global Value-added in Final Demand by Region**
(Percent share, 2000)




**Share of Global Value-added in Final Demand by Region**
(Percent share, 2024)

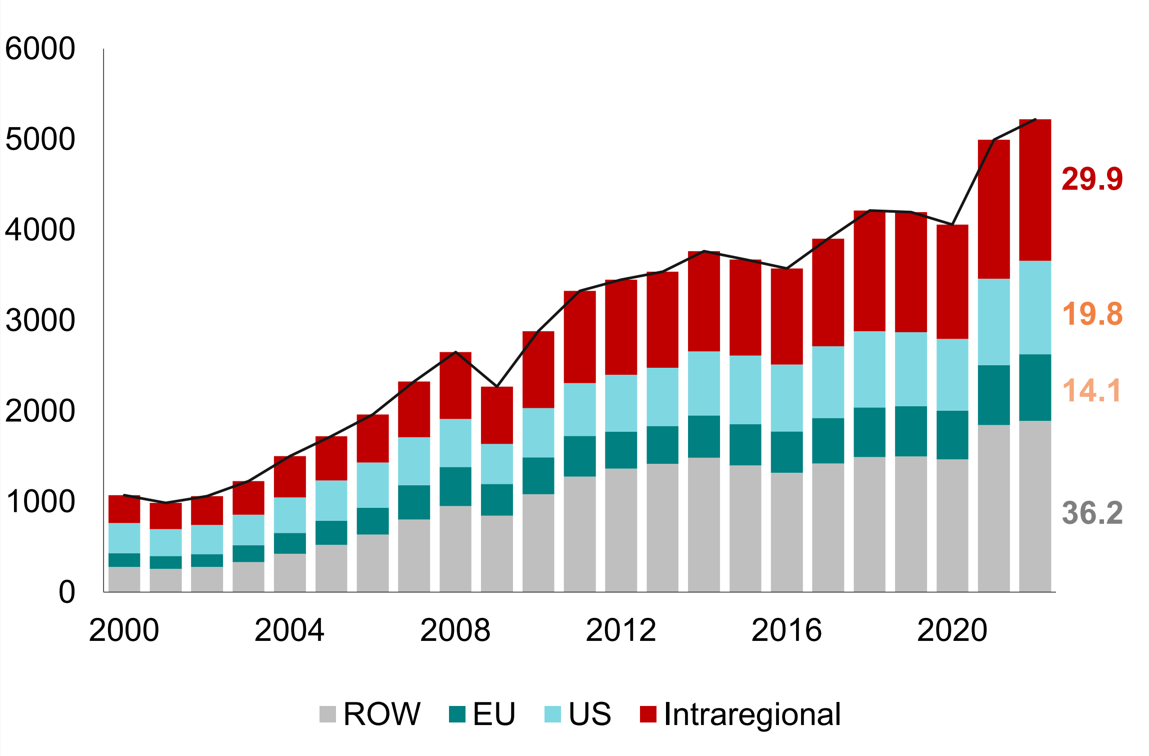



Source: ADB Multi-regional Input Output Table; AMRO staff calculations.
Note: EU = EU-27 member economies; ROW = Rest of the world; US = United States.

# ASEAN+3 is also the largest final demand market for itself now

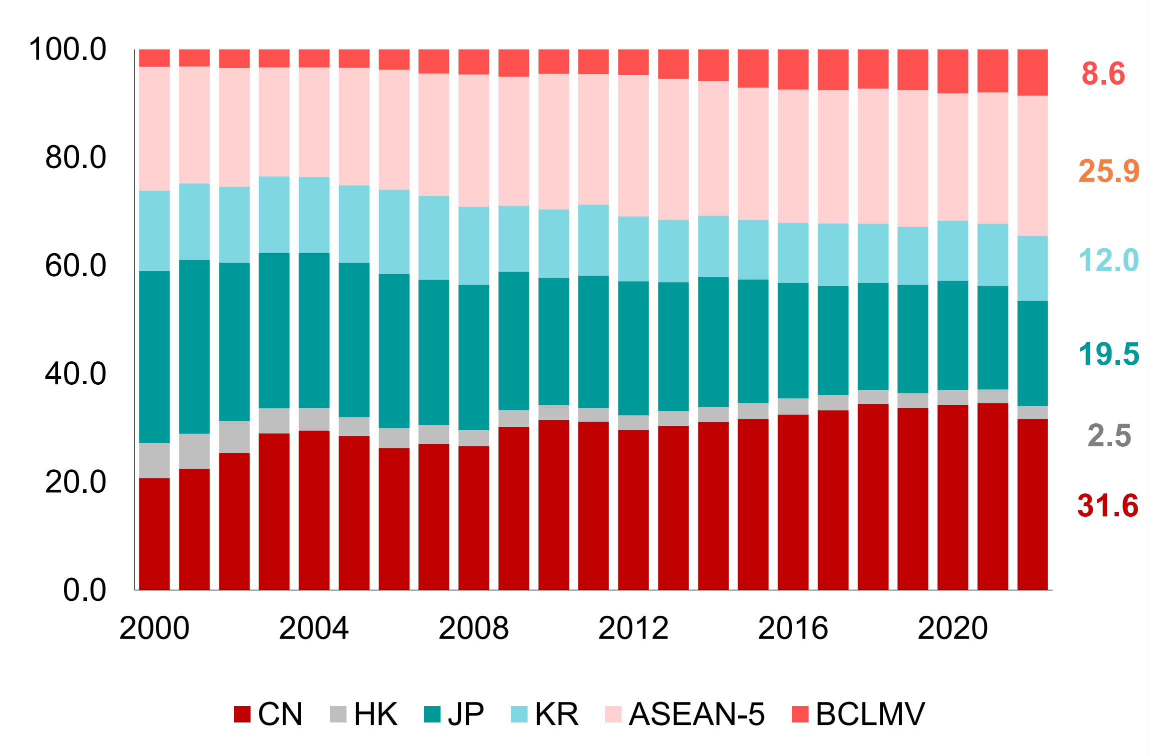
*Intraregional final demand has reached nearly 30 percent as the US share fell from 31.2 to 19.8 percent. China is ASEAN's top demand source, while ASEAN also ranks as China's second largest, having grown three-fold since 2000*

**ASEAN+3 Domestic Value-Added in Foreign Final Demand, by Final Market**
(USD Billions, percent)




Source: OECD TiVA Database; AMRO staff calculations.
Note: The colored data labels represent ASEAN+3's aggregated domestic value-added embodied in each partner economy's final demand as a share of ASEAN+3's total domestic value-added in foreign final demand.

**Intra-ASEAN+3 Domestic Value-Added Exports, by Final Market**
(Percent)

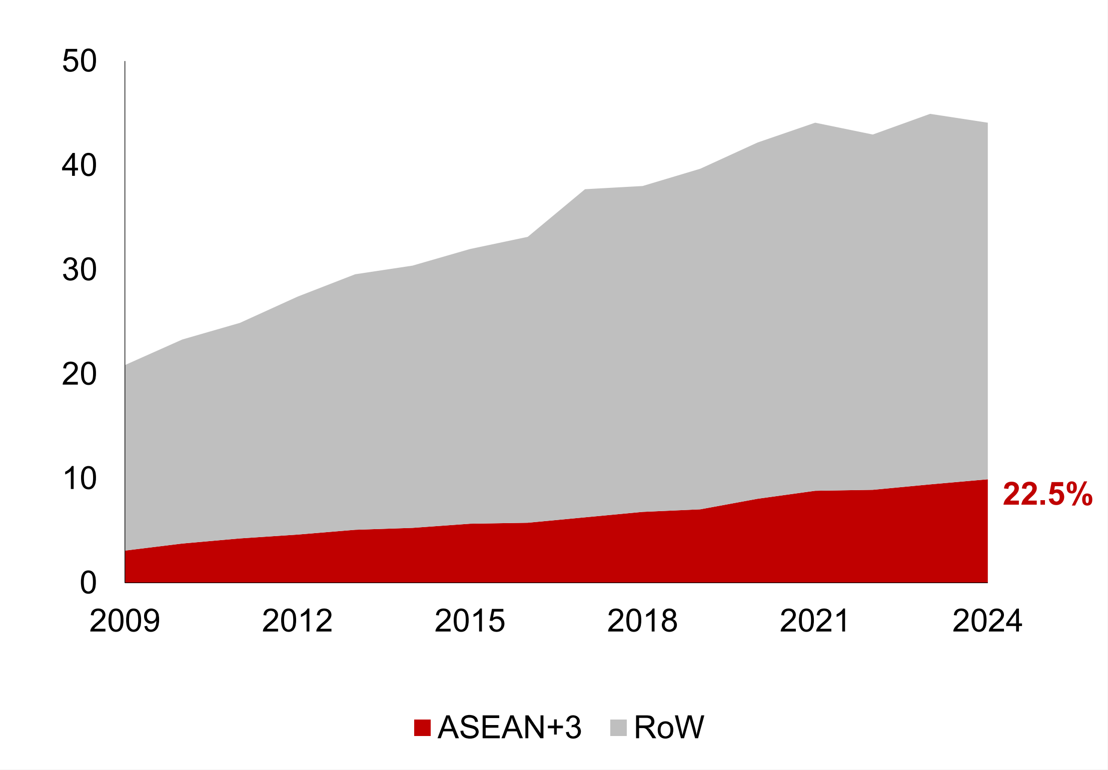



Source: OECD TiVA Database; AMRO staff calculations.
Note: The colored data labels represent each intraregional partner's share of the total intraregional final demand for value-added from ASEAN+3 economies.

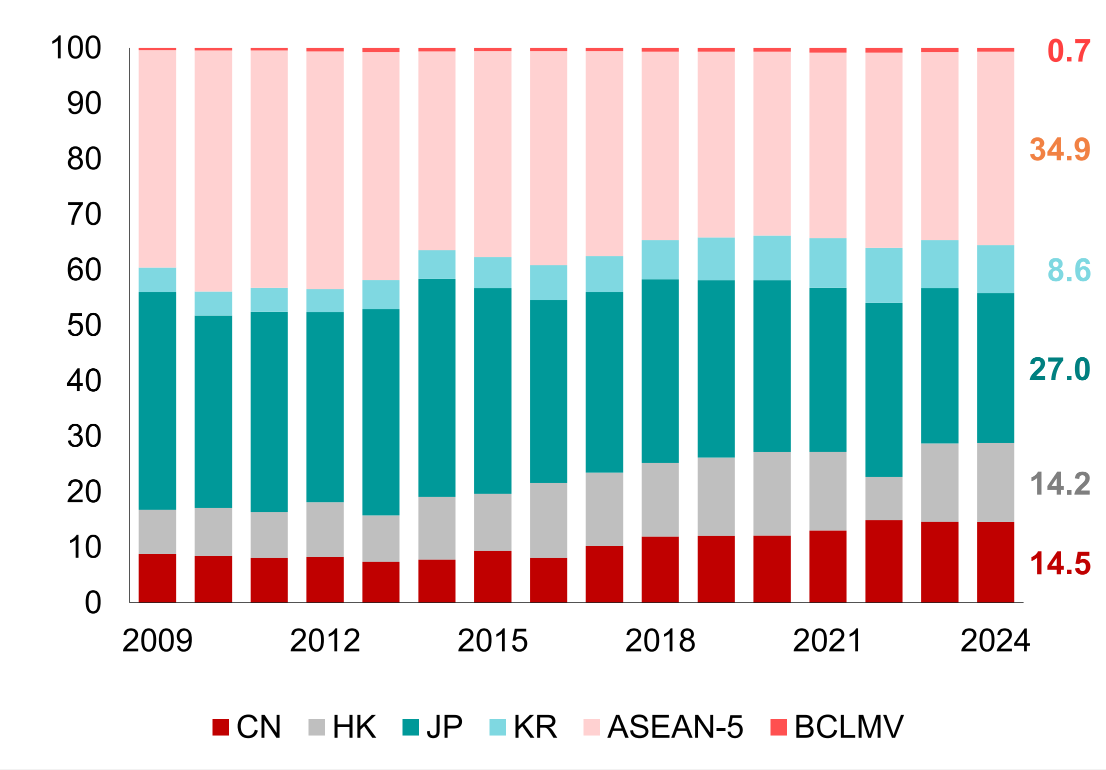
# Shift 3: Investment flows reinforce integration

*ASEAN+3 attracts 22.5 percent of global FDI inflows and intraregional FDI is nearing 49 percent. The investor base is also shifting, with China emerging alongside Japan as significant sources – China's investments into Vietnam being a notable example.*

**Global FDI Inflow Stock**
(USD Billion)




**ASEAN: FDI Stock from ASEAN+3**
(Percent)




Source: IMF CDIS; AMRO staff calculations

Note: RoW = Rest of the world; CN = China; HK = Hong Kong; JP = Japan; KR = Korea; US = United States; ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; BCLMV = Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam.

# Big picture: from ‘world’s factory’ to regionally anchored production and trade networks

*Twenty years ago, the region was often framed as “the world’s factory.” But that framing no longer fits*

## Old model: Produce for the world

- Limited intraregional demand
- Externally oriented growth model

## New model: Regionally anchored networks

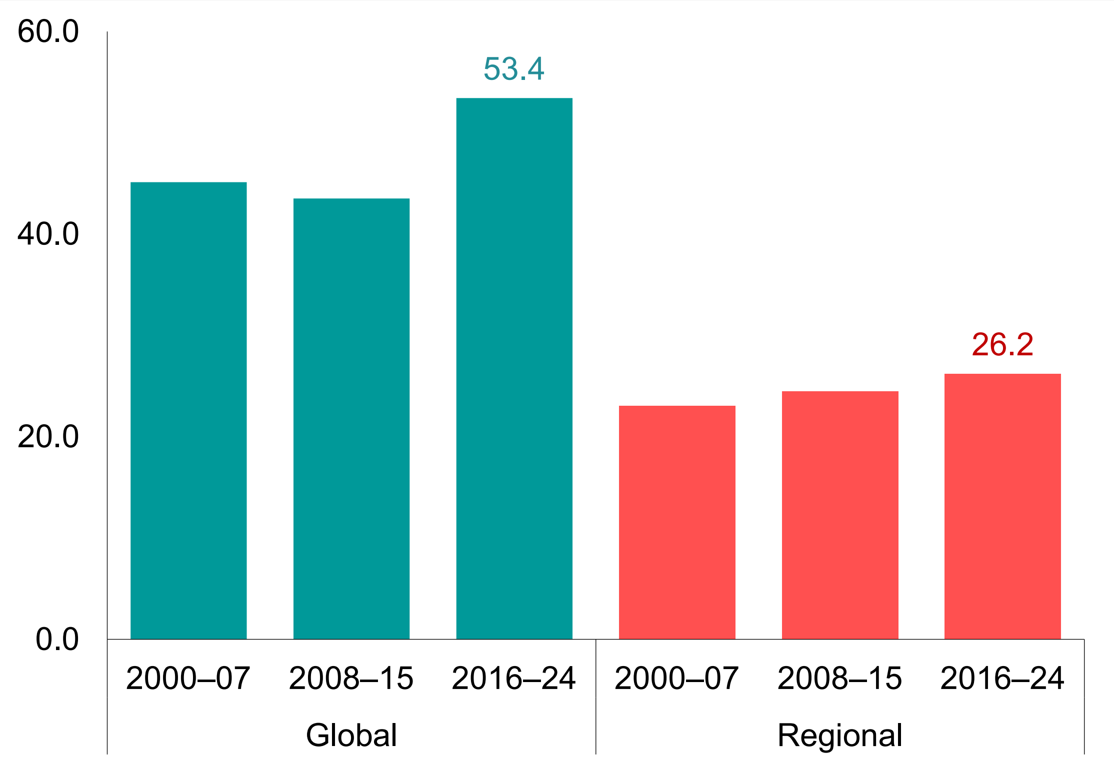
- Denser supply chain linkages
- Inward anchored demand
- Reinforcing investment flows

Source: AMRO staff

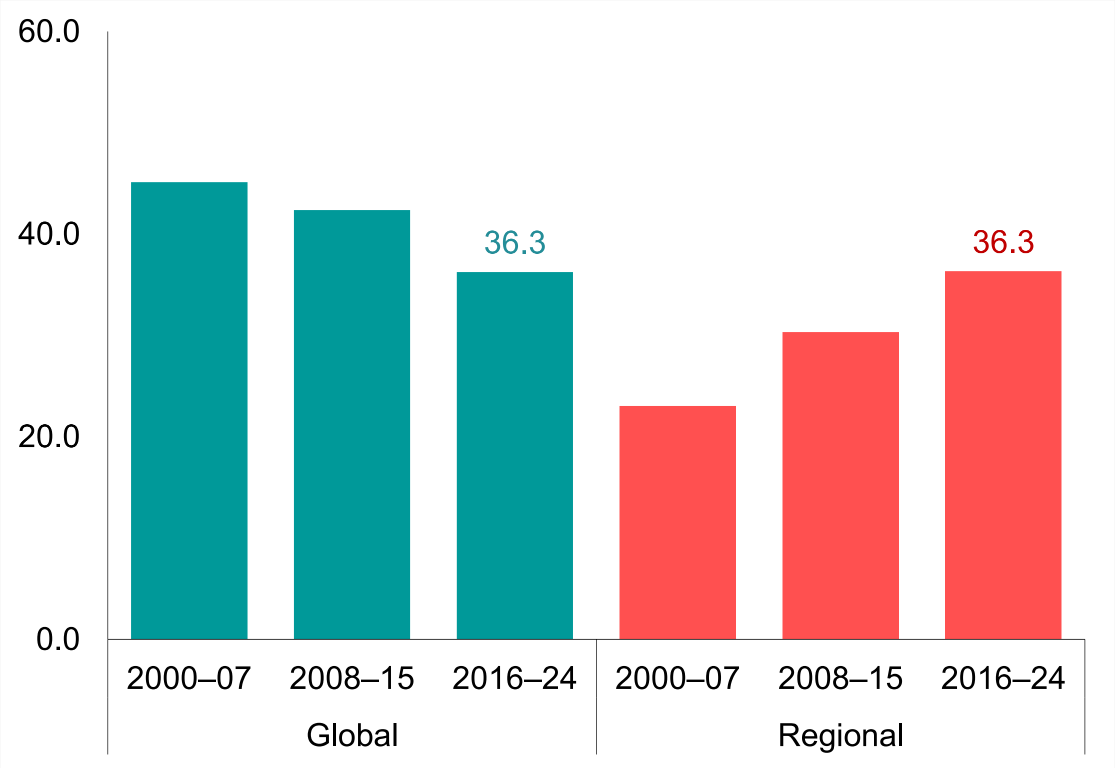
# Implication 1: Stronger business-cycle synchronization in the region

*GDP growth correlations have strengthened across economies, and since 2016 regional factors have explained as much variance as global forces, reflecting how shared production networks increasingly transmit shared shocks*

**ASEAN+3: Variance in Real Growth Explained by Factors**
(Percent)




**ASEAN+3: Variance in Real Growth Explained by Factors, Excluding Crisis Years**
(Percent)

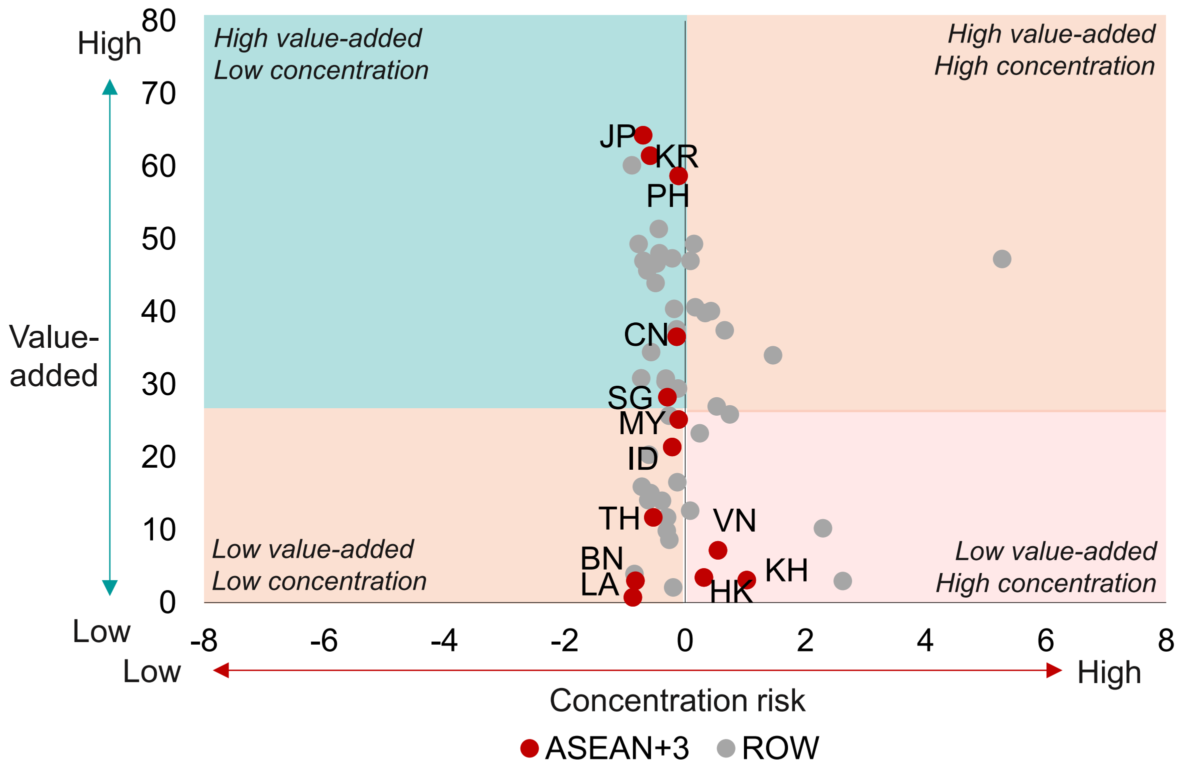



Source: World Bank; AMRO staff calculations
Note: Crisis years refer to the global financial crisis (2008–2009) and COVID-19 (2020–2021). The variance in real growth is decomposed into shares explained by global factor, regional factor, and idiosyncratic economy-specific fluctuations, based on an estimated dynamic factor model following He and Liao (2012).

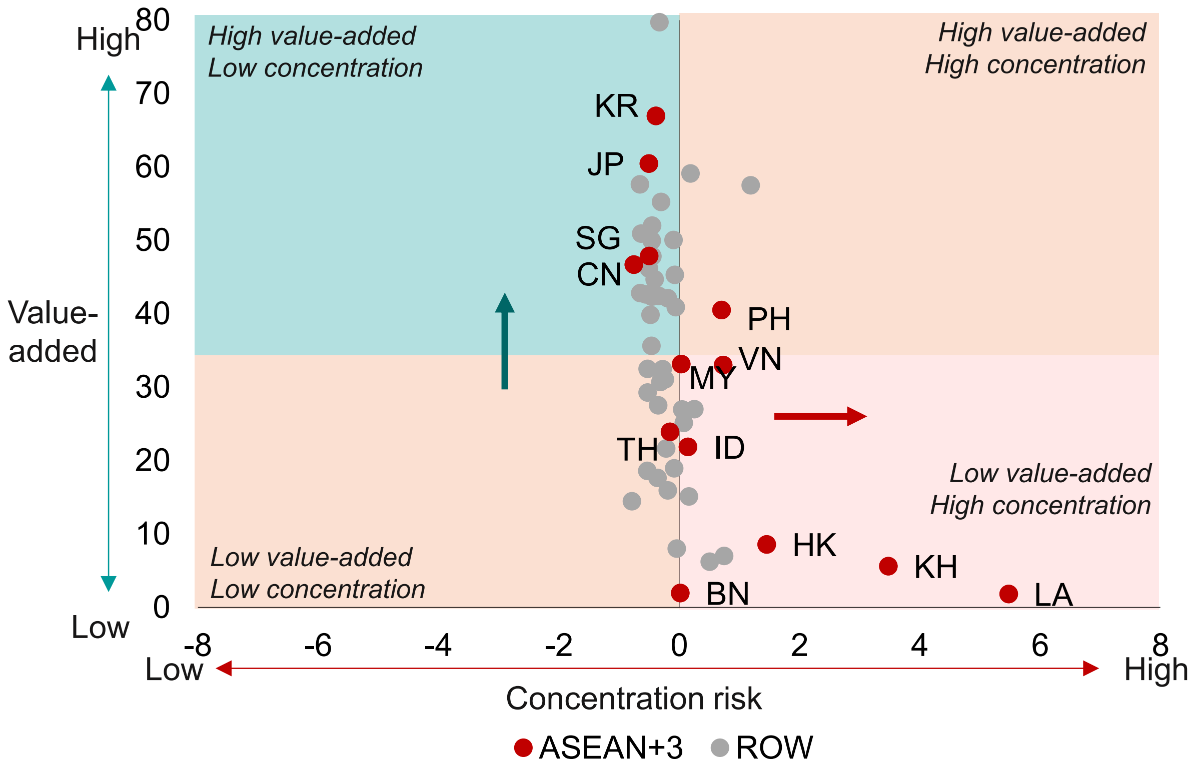
# Implication 2: Structural upgrading has been accompanied by greater concentration risk for some

*While most ASEAN economies increased their value-added activities, their concentration risk also rose as they are more embedded in the Asian cluster of the production network*

**GVC Position Map in 2000**



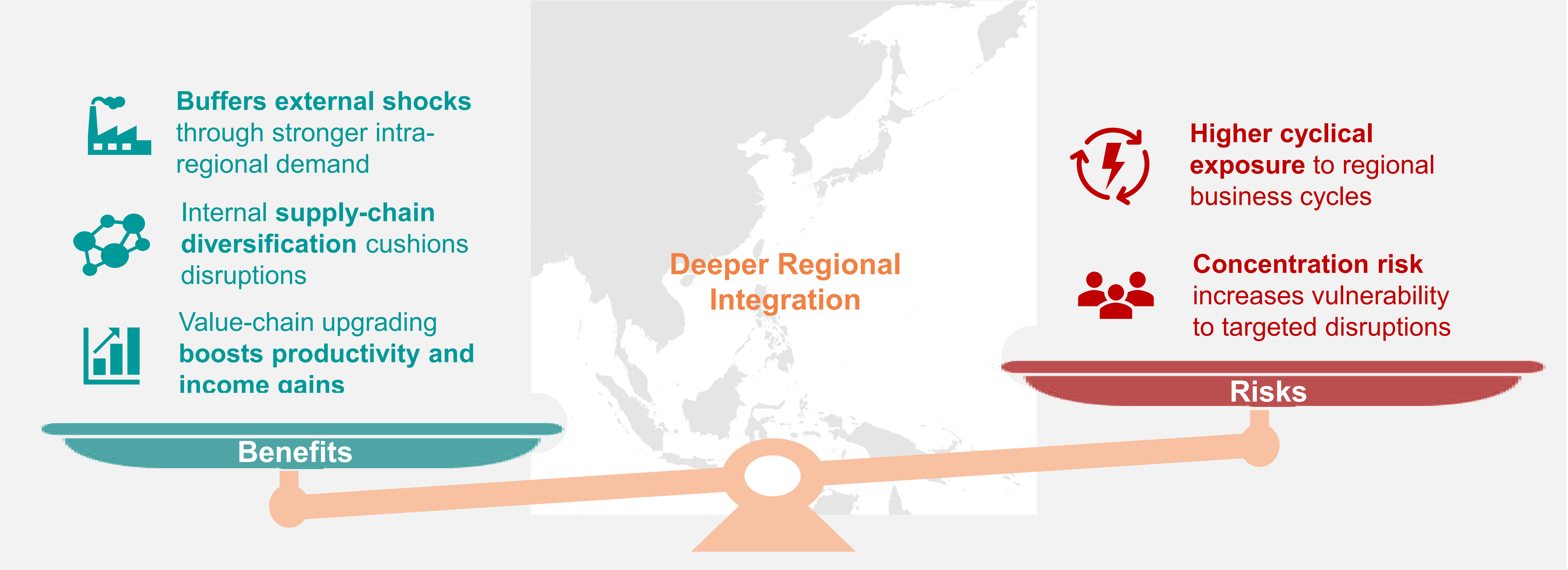

**GVC Position Map in 2024**




Source: ADB; OECD Pass Through Frequency (PTF) Indicator; AMRO Staff Calculations.
Note: ROW = Rest of the world. The y-axis represents each economy's value-added exports in high-value sectors as a share of its total value-added exports. High-value sectors are defined by the OECD as sectors with a high R&D spending as a share of global value-added. The x-axis shows the normalized Herfindahl–Hirschman Index (HHI) of PTF. For each producer–supplier economy pair, PTF values are aggregated across sectors before computing the index.

# The new linkages create benefits and vulnerabilities

*Integration has strengthened resilience to external shocks and a source of structural upgrading, but it brings new risks: greater regional shock spillover and concentration risk from deeper structural interdependence.*




Source: AMRO staff

# **Navigating deeper integration:** Policy priorities

## Managing Synchronization

*Greater synchronization calls for:*

- **Sound domestic frameworks**
  As policy spillovers grow with deeper linkages, strong domestic frameworks become a more important regional public good
- **Enhanced regional dialogue**
  Timely exchange of information on macro conditions and risks, building on existing frameworks, incl. ASEAN+3 finance process
- **Preparedness for global shocks**
  Preserving fiscal space, monetary flexibility, and policy buffers

## Structural Positioning

*Sustaining long-term growth requires:*

- **Domestic Upgrading**
  Move toward higher value-added activities through investment in innovation and human capital
- **Diversification**
  Reduce concentration risk through geographic and sectoral diversification of trade partners and production networks
- **Inclusion**
  Ensure integration gains are broadly shared across firms, regions, and workers

**The AREO 2026 Chapter 2 Special Feature** examines how ASEAN can deepen regional integration by leveraging global value chain linkages to build domestic capabilities, and by strengthening intra-ASEAN investment

# Thank you

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