

Chapter 1. Macroeconomic Prospects and Challenges

The global economy weathered a turbulent year in 2025, sustaining steady growth amid the most significant shift in trade policy in decades. Sweeping tariff measures announced by the United States (US) in April pushed trade policy uncertainty to historic highs, but tariff outcomes proved less severe than initially feared and their macroeconomic impact was more contained than expected. The US economy continued to expand at a solid pace, supported by firm domestic demand and investment related to artificial intelligence (AI). Euro area growth remained subdued amid structural manufacturing headwinds and soft external demand. Global inflation continued to moderate, with lower commodity prices and weaker demand easing price pressures outside the United States, even as tariff pass-through kept US disinflation on a slower path.

For 2025, ASEAN+3 outperformed expectations, expanding by 4.3 percent – well above the 3.8 percent projected in the immediate aftermath of the April tariff announcements. Several factors underpinned this outperformance: robust AI-driven semiconductor demand sustained export momentum throughout the year; intraregional trade strengthened even as US-bound shipments softened; and timely policy support helped cushion domestic activity. Private consumption remained firm across most economies, anchored by favorable labor markets and low inflation, while investment strengthened notably in ASEAN amid continued foreign direct investment (FDI) inflows into advanced electronics, electric vehicles, and digital services. Headline inflation stayed low and stable at 0.9 percent – below the region's 2014-2019 long-run average – providing room for accommodative monetary policy. Rising international reserves reinforced the region's external buffers in a volatile year.

Growth is projected to moderate to 4.0 percent in 2026 and 2027, mainly as higher US tariffs weigh on external demand. Domestic demand is expected to remain the key anchor, underpinned by continued investment activity, sustained FDI inflows, and resilient private consumption amid favorable labor market conditions. Technology-driven export demand should provide an important offset, with semiconductor and electronics shipments expected to remain firm on the back of ongoing AI-related investment, though at a more measured pace than in 2025. Headline inflation is projected to rise to 1.4 percent in 2026 and 1.5 percent in 2027, mainly reflecting higher global energy prices and subsidy rationalization in several economies.

The balance of risks to the outlook is tilted to the downside, with uncertainty remaining elevated. Technology demand and trade policy shifts have evolved into sources of two-sided risk. Stronger-than-expected AI adoption and capital expenditure could lift growth above the baseline, while setbacks in the technology cycle or renewed tariff escalation could weigh materially on regional activity. Elevated global energy prices and the potential for a more sustained disruption to energy supply pose a further risk to growth while adding to inflationary pressures. Beyond these, financial market volatility and weaker-than-expected growth in major economies continue to pose downside risks to the region.

Preserving policy flexibility is the central challenge for ASEAN+3 policymakers in the near term. The region enters 2026 from a position of relative strength – growth exceeded expectations in 2025, inflation remained low, and most economies retain meaningful fiscal and monetary space. The imperative to preserve that flexibility reflects the elevated uncertainty surrounding the outlook and the unusually wide range of plausible outcomes. A data-dependent and flexible approach, supported by clear communication and complementary fiscal and monetary policies, will be essential to sustaining growth momentum while keeping the capacity to respond to shocks intact.

Chapter 2. A More Regionally Anchored ASEAN+3: The Transformation of Economic Linkages

The global environment surrounding ASEAN+3 has shifted markedly. Tariff measures, broader geoeconomic reconfiguration, and heightened policy uncertainty have raised pressing questions about the region's near-term resilience, the nature of its deepening intraregional trade, and its longer-term positioning. This chapter provides the structural perspective essential for assessing these questions – mapping how the region's economic linkages have transformed over the past two decades, examining what this means for business cycle dynamics and macroeconomic management, and considering how economies can position themselves for long-term resilience and growth.

ASEAN+3's economic linkages have undergone a fundamental transformation compared to two decades ago, challenging the common characterization of the region as primarily a manufacturing location serving external demand. From the supply side, regional production networks have evolved from a Japan-centered hub into a denser, more interconnected architecture anchored by China, with trade concentrated in the intermediate and capital goods that underpin an integrated production network. From the demand side, the reorientation has been equally profound. ASEAN+3 has emerged as a major source of global final demand – collectively larger than the United States – with intraregional demand now substantially more important than two decades ago. The interdependence is comprehensive: China for the region, the region for China, and increasingly among ASEAN, Plus-3, and China collectively.

This structural transformation means the region is better positioned to weather current trade disruptions than earlier configurations would have allowed. The region's demand base is now more regionally anchored and less dependent on extraregional markets. Its supply-side integration reflects substantive production linkages embedded in a complex, cohesive regional value chain network, rather than re-routing arrangements with limited domestic value addition. This does not imply immunity to external headwinds, but it does suggest a degree of resilience that the conventional characterization would not predict.

Deeper linkages have brought ASEAN+3 business cycles closer together, with regional factors now explaining as much cyclical variation as global factors. This greater regional anchoring has provided some buffering against external demand shocks. At the same time, regional spillovers would be larger today should shocks occur – making sound domestic macroeconomic management a matter of regional, not just domestic, concern. Regional dialogue and surveillance become increasingly valuable for anticipating shared vulnerabilities. Preparedness for global shocks remains essential: global factors continue to be an important influence on the region's cyclical dynamics.

Beyond cyclical considerations, how can economies sustain long-term resilience and growth within these transformed linkages? For many economies, gains from moving up value chains have been accompanied by rising concentration risks – framing the central policy challenge of capturing integration's benefits while managing its vulnerabilities. Three priorities emerge: upgrading domestic capabilities toward higher value-added activities; diversification to reduce concentration vulnerabilities; and inclusive participation so that integration gains are broadly shared. For ASEAN specifically, structural constraints mean that further deepening integration requires strategies beyond trade liberalization – including promoting denser intraregional investment linkages.

The landscape shaping ASEAN+3's integration will continue to evolve. Geoeconomic tensions may reinforce regional orientation; demographic shifts and economic rebalancing are tilting demand toward regional sources; digital technologies and the green transition are creating new integration frontiers. Navigating this environment requires building adaptive capacity. Regional cooperation will be particularly valuable: as economies become more sensitive to developments in their neighbors, the case for policy dialogue and collective action strengthens. ASEAN+3 has demonstrated this capacity before – most notably through the financial cooperation architecture built after the Asian financial crisis. The region's growth over the past two decades was built on openness, integration, and cooperation; sustaining that trajectory in a more uncertain world will require deepening all three.