TRILATERAL ECONOMIC REPORT 2026

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Trilateral Cooperation Secretariat

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Trilateral Cooperation Secretariat (TCS) is an international organization established to further promote cooperative relations among the People's Republic of China, Japan, and the Republic of Korea. Upon the agreement signed by the three governments, the TCS was officially inaugurated in Seoul in 2011.

The ASEAN+3 Macroeconomic Research Office (AMRO) is an international organization established to contribute toward securing macroeconomic and financial resilience and stability of the ASEAN+3 region, comprising members of the Association of Southeast Asian Nations (ASEAN) and China; Hong Kong, China; Japan; and Korea.

Contents

Disclaimers

- This report does not necessarily reflect the views of the Trilateral Cooperation Secretariat (TCS), the ASEAN+3 Macroeconomic Research Office (AMRO), or the governments they represent. All views and errors are solely those of the authors.

- In principle, this report employs the alphabetical order in listing the names of the People's Republic of China (China), Japan, and the Republic of Korea (Korea). References to "China" refer to Chinese mainland, excluding Hong Kong SAR, China and Chinese Taipei, unless otherwise stated.

- The factual information contained in this report covers information for the period up to May 2026, except when stated otherwise.

- Recommended citation: Trilateral Cooperation Secretariat. 2026. *Trilateral Economic Report*. Seoul, June 2026.

Abbreviations

AE	advanced economies
AI	Artificial Intelligence
AMRO	ASEAN+3 Macroeconomic Research Office
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BCLMV	Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam
CO_2	carbon dioxide
CN	China
EM	emerging market economies
EDGAR	Emissions Database for Global Atmospheric Research
EU	European Union
F-gases	fluorinated gases
GX	Green Transformation
GHG	greenhouse gas
GDP	Gross Domestic Product
ASEAN-5	Indonesia, Malaysia, the Philippines, Singapore, and Thailand
ICT	Information and Communications Technology
IEA	International Energy Agency
IFR	International Federation of Robotics
ILO	International Labour Organization
ILOSTAT	International Labour Organization Statistics
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
JP	Japan
JRC	Joint Research Centre
KR	Korea
KOSIS	Korean Statistical Information Service
LULUCF	Land Use, Land-Use Change and Forestry
LATAM	Latin America
CH_4	methane
METI	Ministry of Economy, Trade and Industry, Japan
N_2O	nitrous oxide
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
ROW	Rest of the World
CJK	The People's Republic of China (China), Japan, and the Republic of Korea (Korea)
US	The United States
TFP	Total Factor Productivity
TCS	Trilateral Cooperation Secretariat
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USD	United States dollar
EIA	US Energy Information Administration
WTI	West Texas Intermediate
WTO	World Trade Organization

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I

Global and Regional Economic Development in 2025

Chapter 1

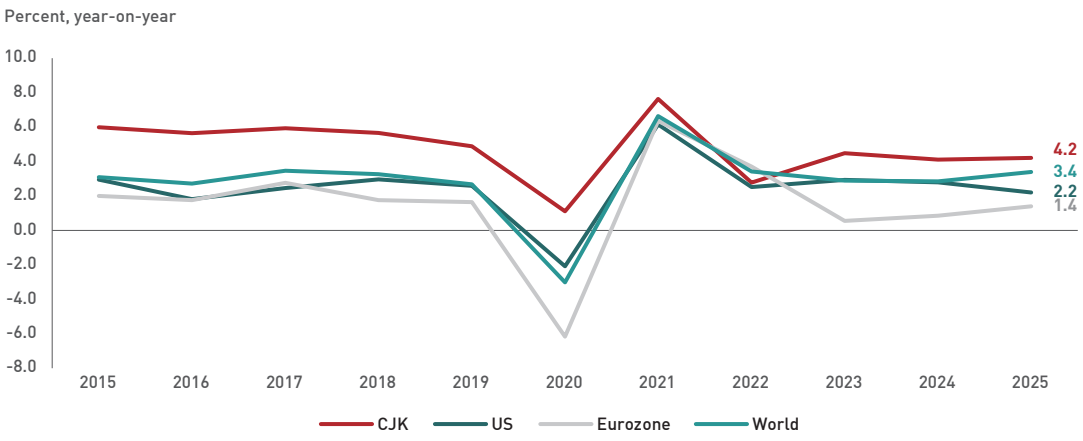
Chapter 1. Global and Regional Economic Development in 2025

Better-Than-Expected Performance amid External Headwinds

The global economy weathered a turbulent year in 2025, sustaining steady growth amid the most significant shift in trade policy in decades. US tariff announcements on April 2, 2025 pushed trade policy uncertainty to historic highs and triggered sharp financial market volatility, but tariff outcomes proved less severe than initially feared and their macroeconomic impact was more contained than expected. The United States expanded by 2.2 percent, supported by AI-related investment and fiscal stimulus (Figure 1.1). Euro area growth remained subdued at around 1.4 percent amid structural headwinds in manufacturing.

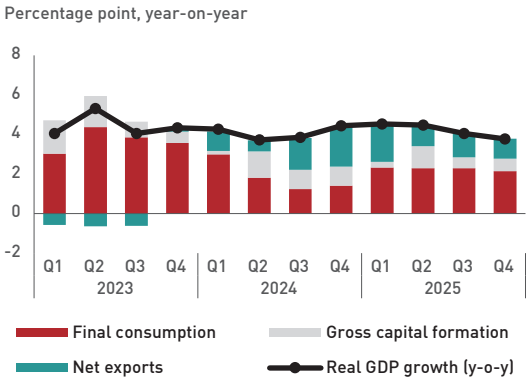
For 2025, the CJK economies outperformed expectations, expanding by 4.2 percent, well above the 3.7 percent projected in the immediate aftermath of the April tariff announcements. Several factors underpinned this outperformance: robust tech-demand sustained export momentum throughout the year; trade within the ASEAN+3 region strengthened even as US-bound shipments softened; and timely policy support helped cushion domestic activity (Figure 1.2). Private consumption remained firm in Japan and Korea, supported by wage gains and resilient labor markets. In China, government measures to boost spending helped support private consumption growth (Figure 1.3).

Figure 1.1 World: Real GDP Growth



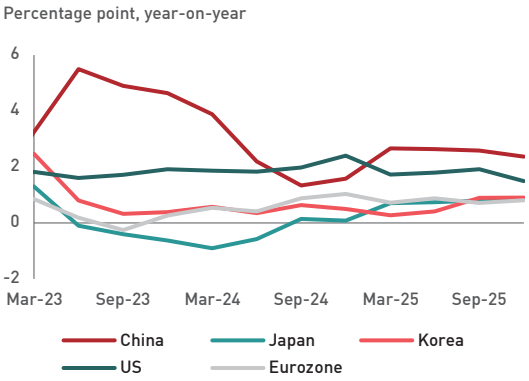
Source: Bloomberg.
Note: CJK = China (including Hong Kong, China); Japan; and Korea. US = United States. Regional aggregates are weighted by 2025 GDP on purchasing power parity basis.

Figure 1.2 CJK: Real GDP Growth by Component



Source: National authorities; AMRO staff calculations.
Note: CJK = China (including Hong Kong, China); Japan; and Korea. Regional aggregates for growth are weighted by 2025 GDP on purchasing power parity basis.

Figure 1.3 Selected Economies: Contribution of Private Consumption to GDP Growth



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Data for China refers to the weighted average of the contribution of China's total consumption to GDP growth and the contribution of Hong Kong, China's private consumption to GDP growth.

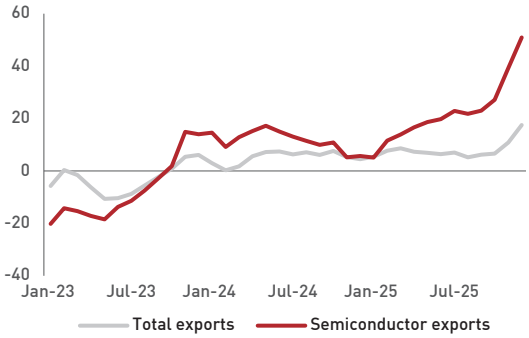
Tech-driven Exports and Investment Bolstered CJK Resilience

Although higher US tariffs weighed on exports to the United States, technology-driven export demand provided a significant offset (Figure 1.4). Korea led the increase, as continued strong expansion in semiconductor shipments since 2024 drove semiconductor export growth to more than 20 percent in 2025 (Figure 1.5). China's green transition also lifted exports, with exports of electric vehicles and lithium-ion batteries rising by 30.7 percent from the previous year.

The technology upcycle also supported investment activity. Rising demand for semiconductors, digital infrastructure, and other advanced electronics encouraged regional firms to expand production capacity and upgrade facilities. Importantly, the CJK economies are playing an increasingly prominent role as outbound investors, accounting for a rising share of new investment commitments into electronics and digital infrastructure sectors globally (Figure 1.6).

Figure 1.4 CJK: Export Growth

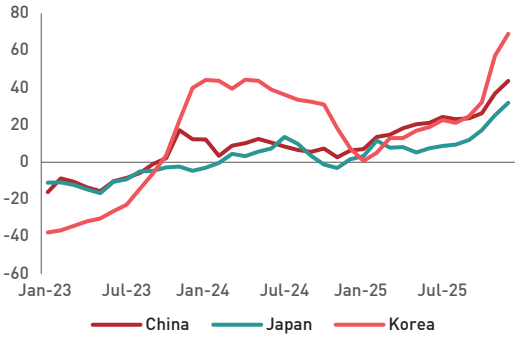
Percentage, year-on-year



Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: Semiconductor exports cover goods under HS Chapters 8541 and 8542.

Figure 1.5 Selected Economies: Semiconductor Export Growth

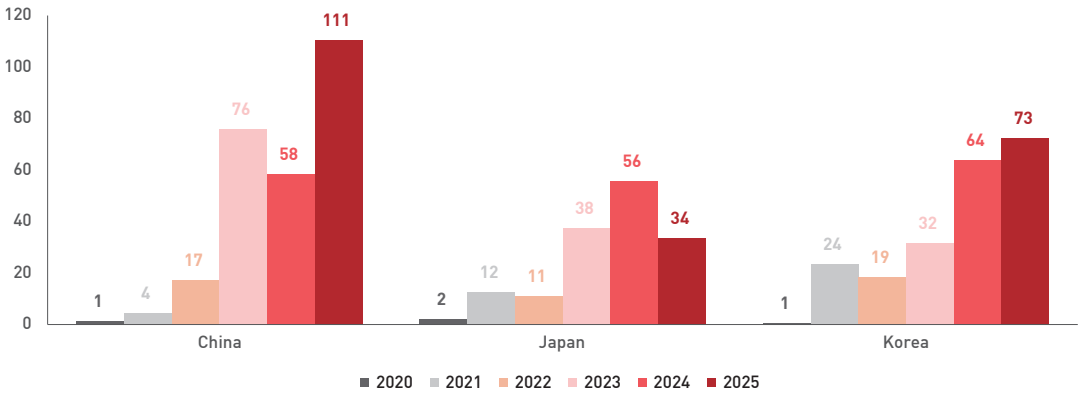
Percentage, year-on-year



Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: Data show semiconductor exports under HS Chapters 8541 and 8542. Data for China includes Hong Kong, China.

Figure 1.6 CJK: Outward Investment Announcements

Billions of US dollars

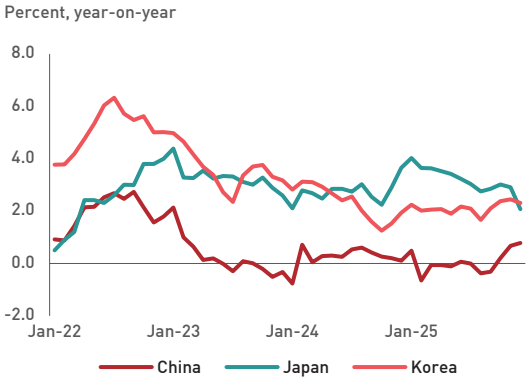


Source: Orbis Crossborder; AMRO staff calculations.
Note: Data for China includes Hong Kong, China.

Diverging Inflation Trends and Monetary Policy Paths in CJK

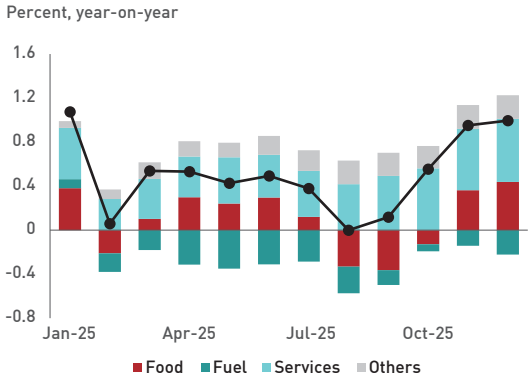
Headline inflation in the CJK economies showed varied dynamics in 2025 (Figure 1.7). In China, headline inflation stayed low, given subdued domestic demand alongside softer global commodity prices, though a slight uptick emerged toward the end of 2025 (Figure 1.8). Headline inflation in Korea remained low and stable, supported by stable food and energy prices. The low inflation environment allowed the central banks to maintain accommodative policy stance in support of growth for 2025 (Figure 1.9). Japan sustained above-target inflation for most of 2025, driven by wage growth and import cost pass-through, though headline inflation eased toward year-end. The Bank of Japan raised its policy rate as it continued its gradual exit from decades of ultra-loose monetary policy.

Figure 1.7 CJK: Headline Inflation



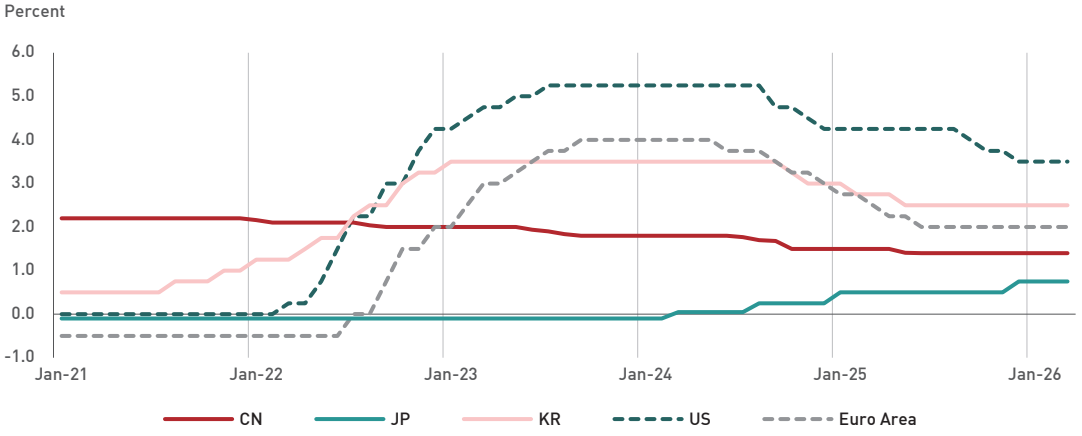
Source: National authorities via Haver Analytics; AMRO staff calculations.

Figure 1.8 CJK: Headline Inflation by Component



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Regional aggregate is GDP weighted on a PPP-adjusted basis.

Figure 1.9 Selected Economies: Policy Interest Rates



Source: National authorities via Haver Analytics.
Note: Policy rates refer to 7-day reverse repo rate (China, CN); base rate (Korea, KR); uncollateralized overnight call rate (Japan, JP); federal funds rate (lower range) (United States, US); and deposit facility rate (Euro Area).

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II

Trade in a Shifting Regional Landscape

Chapter 2. Trade in a Shifting Regional Landscape

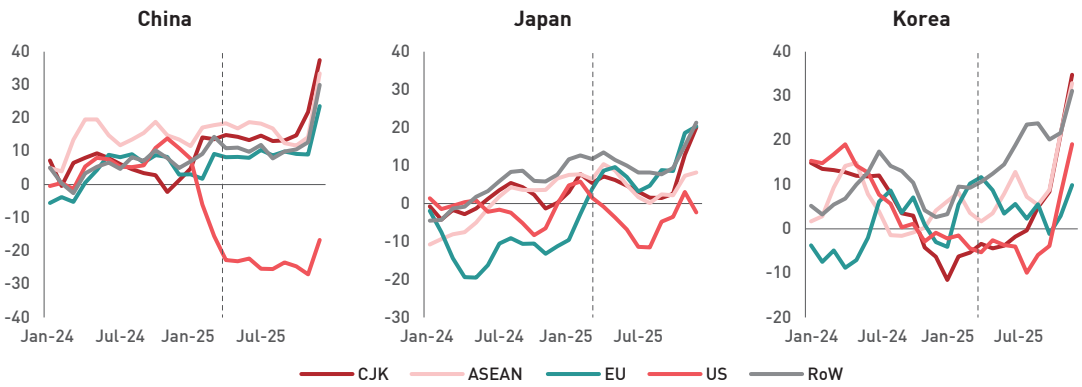
Trade Performance in 2025

Navigating Unprecedented Trade Disruption

Despite the sharp increase in US tariffs in 2025 and ongoing trade policy uncertainty, CJK external trade remained broadly resilient, providing crucial support for growth. Exports were boosted early in the year by frontloading ahead of US tariff implementation. While higher US tariffs led to weaker export growth to the United States for the CJK region, this was partly offset by continued strength to other trading partners (Figure 2.1, Figure 2.2). Technology exports provided additional support: strong global demand for semiconductors and AI-related components supported export growth even as US tariff uncertainty weighed on broader trade sentiment. Ultimately, tariff outcomes proved less severe than initially anticipated, and export momentum was sustained.

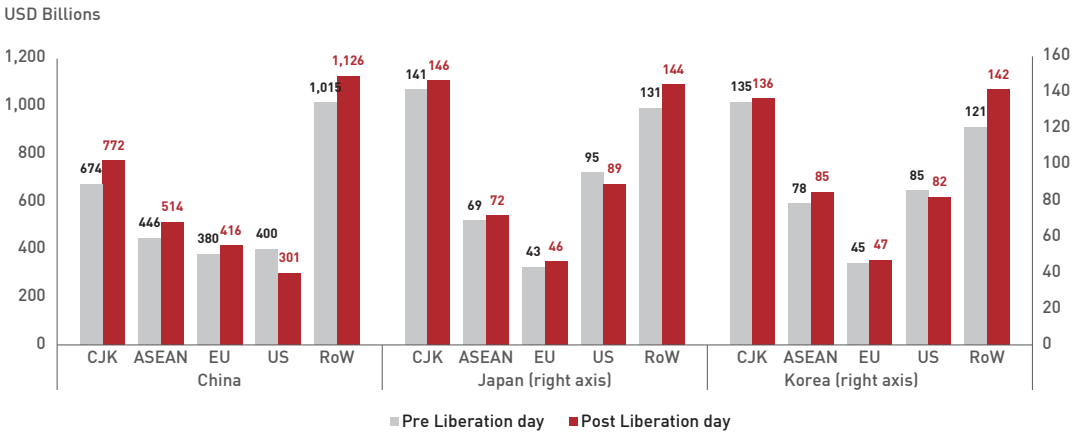
Figure 2.1 **CJK: Export Growth by Destination**

Percent, year-on-year, 3-month-moving-average



Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: CJK = China (including Hong Kong, China); Japan; and Korea. EU = EU-27; US = United States; RoW = Rest of the World. Vertical line marks Liberation Day, April 2, 2025.

Figure 2.2 CJK: Exports by Destination



Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: CJK = China (including Hong Kong, China); Japan; and Korea. EU = EU-27; US = United States; RoW = Rest of the World. Post-Liberation Day covers total exports in May–December 2025; Pre-Liberation Day covers total exports in the corresponding period of May–December 2024.

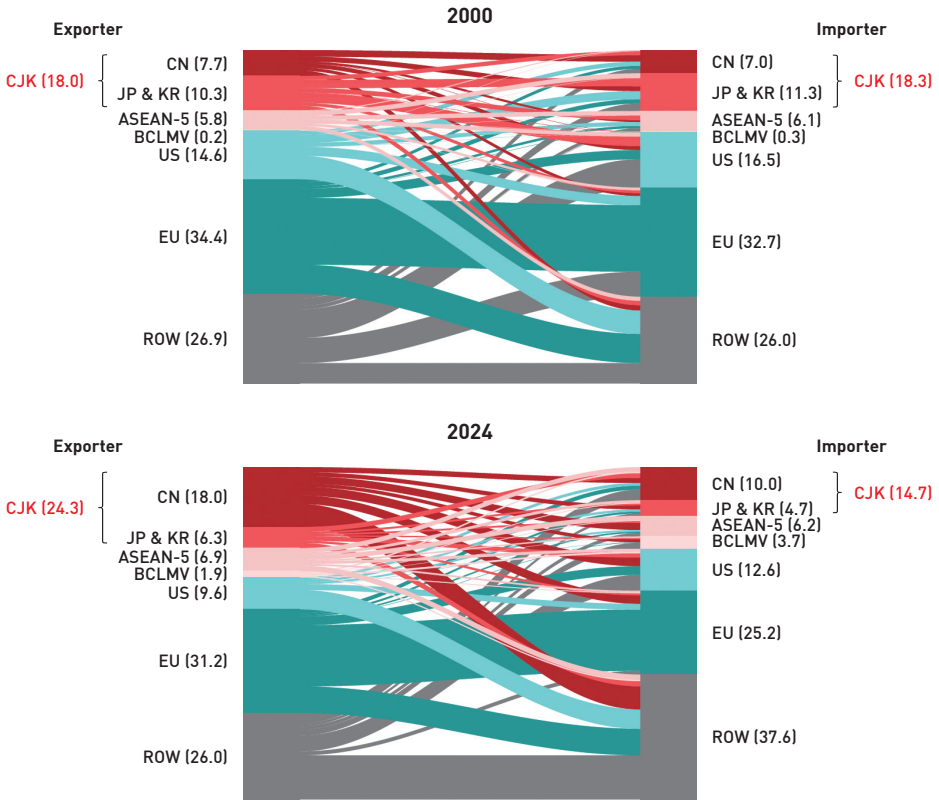
Structural Shifts in Regional Trade

CJK's Rising Role in Global Trade and Production Networks

This resilience in part reflects a fundamental transformation in global trade linkages over the past two decades, in which the CJK economies have played a central role (Table 2.1). As the largest economies in Asia, CJK collectively drove much of the region's trade expansion, outpacing most other regions. The sustained trade expansion translated into a larger CJK presence in global trade. CJK's share of global exports increased from 18.0 percent in 2000 to 24.3 percent in 2024, reflecting the region's growing role in global production and trade (Figure 2.3). Its import share edged down from 18.3 percent to 14.7 percent, reflecting not a retreat from openness but a diversification of trade relationships outward, particularly toward BCLMV and other developing economies.

Figure 2.3 **Global Trade Flows in 2000 and 2024**

Percent of gross global exports; Percent of gross global imports



Source: AMRO (2026a); United Nations Comtrade; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; BCLMV = Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam; CJK = China (including Hong Kong, China), Japan, and Korea; CN = China (including Hong Kong, China); EU = EU-27 member economies; JP & KR = Japan and Korea; ROW = Rest of the world; US = United States. The values represent each region's or economy's share of global exports or imports, and the width of each flow reflects the corresponding trade share size. Percent share totals may not sum to 100 due to rounding.

Table 2.1 **CJK: Global Trade Flows in 2000 and 2024**

USD Billions

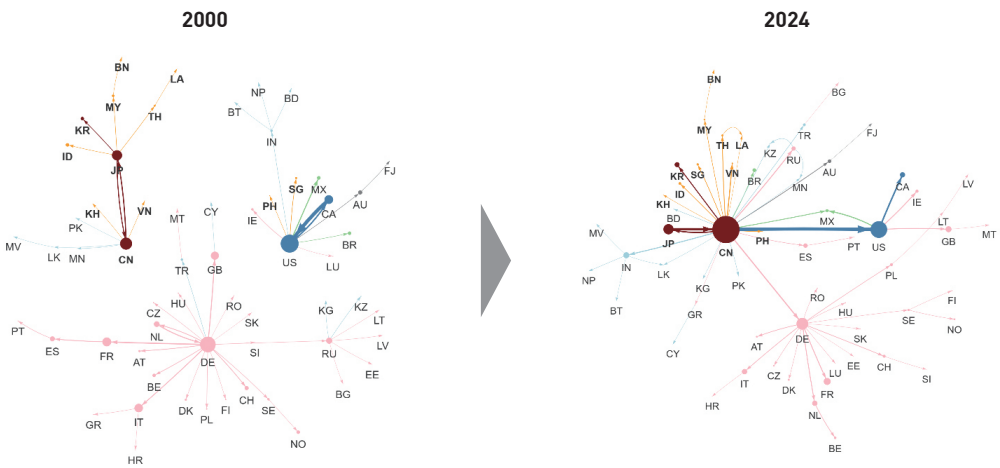
Economy		CJK	ASEAN-5	BCLMV	US	EU	ROW
China	2000	392	69.4	4.7	136	101	189
	2024	1,823	816	348	758	850	2,905
Japan	2000	165	121	6.8	215	107	244
	2024	407	167	50.4	226	144	454
Korea	2000	95.5	35.4	2.9	67.1	33.2	98.7
	2024	387	103	90	201	133	401

Source: AMRO (2026a); United Nations Comtrade; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; BCLMV = Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam; CJK = China (including Hong Kong, China), Japan, and Korea; EU = EU-27 member economies; ROW = Rest of the world; US = United States. The values represent each economy's total trade flows (export + import) with the respective partner regions.

This shift is not simply a change in relative size. It reflects a broader reorganization of production linkages within Asia, and between Asia and the rest of the world. The global supply network is structured around three major regional clusters – Asia, the Americas, and the EU – each anchored by a dominant hub economy that is the primary gateway for intraregional trade and connections to other clusters (Figure 2.4).

While the configurations in the Americas and the EU clusters remained relatively stable since 2000, centered on the United States and Germany as regional hubs, the Asian cluster underwent a significant transformation. CJK economies have continued to form the core of the region's production network (Figure 2.5), while linkages across Asia have deepened and diversified, supported by expanding manufacturing capacity, logistics infrastructure, and intermediate goods trade. Importantly, this transformation extended beyond Asia, with economies outside the region having stronger reorientation towards the Asian supply networks. The three clusters are now more interconnected, with China serving as a connecting node between the Americas and the EU.

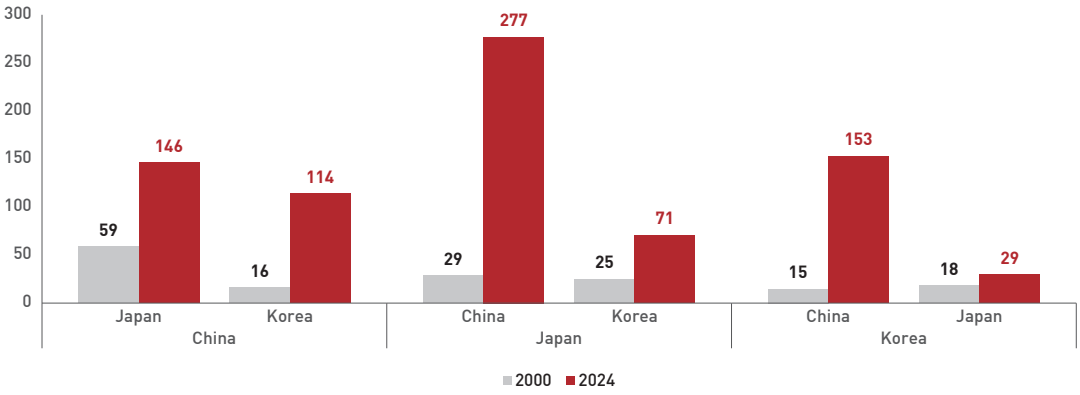
Figure 2.4 **Global Supply Hubs of Value Added in Goods and Services**



Source: AMRO (2026a); Asian Development Bank Multiregional Input-Output Table; AMRO staff calculations.
Note: Only linkages that represent the largest value-added imports or more than 25 percent of the total value-added imports of the importing economies are shown. The size of the bubble represents the share of an economy's value-added imports in the world's total value-added imports. The thickness of the linkage represents the share of value-added flow between each trading partner in the world's total value-added flow. Economies are labeled based on International Organization for Standardization 2 (ISO-2) codes.

Figure 2.5 **CJK: Bilateral Value-added Flows**

USD Billions, in 2010 prices

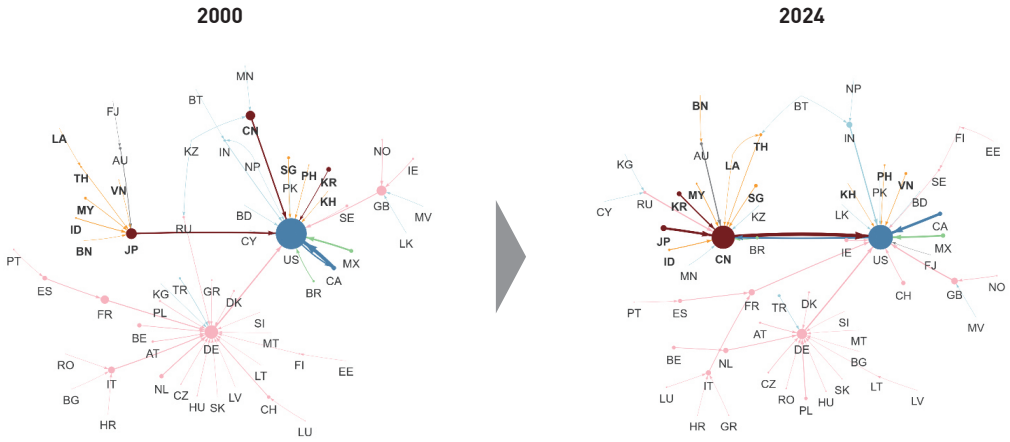


Source: Asian Development Bank Multiregional Input-Output Table; AMRO staff calculations.
Note: Figures show value-added exports from the source economy (outer label) to the partner economy (inner label).

CJK as a Growing Source of Global Demand

The deepening supply-side integration has been accompanied by an equally significant shift on the demand side. Over the past two decades, CJK has also become one of the world's most important demand sources alongside the United States (Figure 2.6). This transformation is driven largely by China's emergence as a major consumer within Asia and globally (Table 2.2). Reflecting this shift, CJK's share of global final demand increased from 12.3 percent in 2000 to 17.2 percent in 2024. This expanding market has also become increasingly important for the rest of Asia, particularly ASEAN, as rising incomes and a growing middle class strengthened consumption linkages across the region. Taken together, these developments have made the regional demand base more internally anchored in Asia and less dependent on any single external market.

Figure 2.6 **Global Demand Hubs of Value Added in Goods and Services**



Source: AMRO (2026a); Asian Development Bank Multiregional Input-Output Table; AMRO staff calculations.
Note: Only linkages that represent the largest value-added exports or more than 25 percent of the total value-added exports of the exporting economies are shown. The size of the bubble represents the share of an economy's value-added exports in the world's total value-added exports. The thickness of the linkage represents the share of value-added flow between each trading partner in the world's total value-added flow. Economies are labeled based on International Organization for Standardization 2 (ISO-2) codes.

Table 2.2 **CJK: Value-added Imports in 2000 and 2024**

USD Billions, in 2010 prices

Economy		CJK	ASEAN-5	BCLMV	US	EU	ROW
China	2000	54.8	22.5	2.3	21.0	39.1	128
	2024	519	207	33.2	211	391	1,021
Japan	2000	85.9	71.5	5.6	56.5	47.7	205
	2024	187	65.3	14.7	100	85.5	234
Korea	2000	42.1	17.8	1.1	24.3	16.4	64.2
	2024	194	33.0	9.4	65.9	77.7	169

Source: AMRO (2026a); United Nations Comtrade; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; BCLMV = Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam; CJK = China (including Hong Kong, China), Japan, and Korea; EU = EU-27 member economies; ROW = Rest of the world; US = United States.

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III

Outlook and Risks

Chapter 3. Outlook and Risks

Framing the Outlook

Despite heightened uncertainty and external headwinds, the CJK economies remained resilient in 2025, supported by robust technology demand, strengthened intra-regional trade, and timely policy support. Looking ahead to 2026, the outlook is subject to greater uncertainty, reflecting the evolving interplay among the AI-driven technology cycle, US tariff measures, and the Middle East-related energy risks.

Growth for the CJK economies is expected to moderate to 3.8 percent in 2026 and 2027 (Table 3.1). In China, growth is expected to be affected by softer external demand and moderate domestic demand amid ongoing structural rebalancing. Japan is also projected to expand more slowly on weaker external demand and higher energy import costs. In contrast, Korea's growth is expected to receive support from semiconductor demand and policy measures. Headline inflation for the region is projected to rise to 1.3 percent in 2026 and moderate to 1.1 percent in 2027, mainly reflecting energy price dynamics.

The outlook remains subject to material downside risks. The key near-term risks include a sustained rise in global energy prices related to the Middle East conflict, renewed tariff escalation, and a sharper-than-expected slowdown in the technology cycle. Under an adverse scenario where Brent oil price averages USD 125 per barrel for 2026, alongside broader and more prolonged disruptions to key industrial inputs, the CJK inflation could rise to 3.1 percent, while growth could slow to 2.4 percent (Figure 3.1).

Table 3.1 **CJK: Growth and Inflation Estimates and Forecasts, 2026–27**

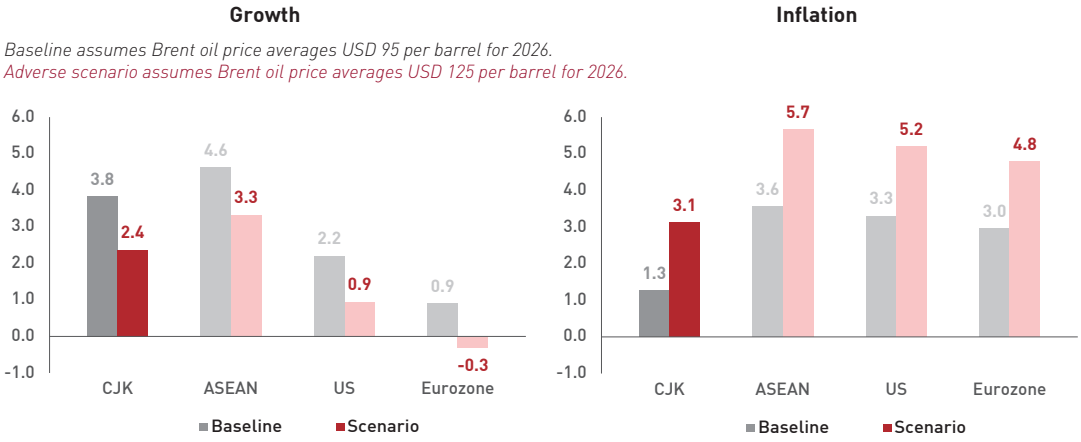
Percent, year-on-year

Economy	GDP Growth			Inflation		
	2025e	2026f	2027f	2025e	2026f	2027f
CJK	**4.2**	**3.8**	**3.8**	**0.6**	**1.3**	**1.1**
China	5.0	4.5	4.5	0.0	1.0	0.8
Japan	1.2	0.6	0.8	3.2	2.3	2.2
Korea	1.0	2.4	2.0	2.1	2.4	2.1

Source: AMRO (2026b); AMRO staff estimates and forecasts.
Note: e = estimates; f = forecast. Inflation estimates and forecasts refer to the yearly average; regional aggregates for growth and inflation are estimated using the weighted average of 2025 GDP on purchasing power parity basis.

Figure 3.1 2026 Growth and Inflation Under Scenario of Higher Energy Prices and Supply Disruption

Percent, year-on-year



Source: Oxford Economics Model; AMRO staff estimates and forecasts.
Note: ASEAN refers to ASEAN-6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) due to data availability; CJK = China (including Hong Kong, China), Japan, and Korea; US = United States. Regional aggregates for growth and inflation are estimated using the weighted average of 2025 GDP on purchasing power parity basis.

Short-term Risks

Navigating the AI Boom: The AI-Driven Growth Surge and Its Systemic Risks

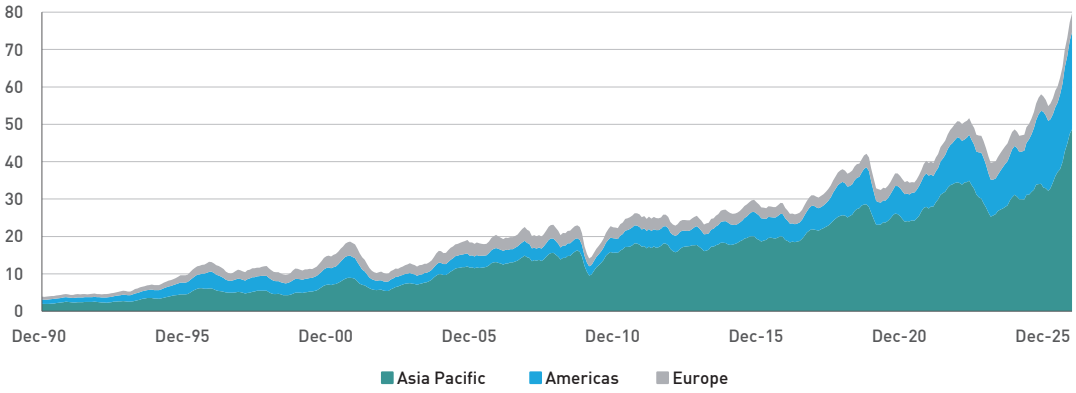
AI-related trade and investment have expanded rapidly since 2023, becoming an important driver of global growth in 2025. AI-related goods accounted for 42% of global trade growth in 2025, with total trade valued at USD 4.18 trillion, marking a 21.9% increase from the previous year. AI-related investment has also increased sharply. In the United States, tech-related investment – including, but broader than, AI-related spending – is estimated to have added around 0.5 percentage point to GDP growth in 2025. This rapid deployment of AI technologies has generated strong demand for AI-enabling goods, particularly semiconductors, processors, and related equipment (Figure 3.2).

While North America has emerged as a major investment hub, Asia has become the dominant provider of the hardware underpinning the AI boom, representing 62% of global AI-enabling trade in 2025. **CJK has been a major supplier of semiconductors and telecommunications equipment, representing nearly half of Asia's AI-related trade and more than one-fourth of the global total in 2024** (Figure 3.3).

Korea has played a central role in AI-related semiconductor supply, particularly in advanced memory segments, and its tech exports continued to rise through the third quarter of 2025, supported by strong global demand. Japan remains an important supplier of semiconductor manufacturing equipment and materials, while its tech sector also recorded rapid growth in industrial production alongside Korea. China has recorded 9.3% value-added growth in the tech sector in the year to October 2025, reflecting continued strength in electronics and related tech production.

Figure 3.2 Semiconductor Industry Billings by Region

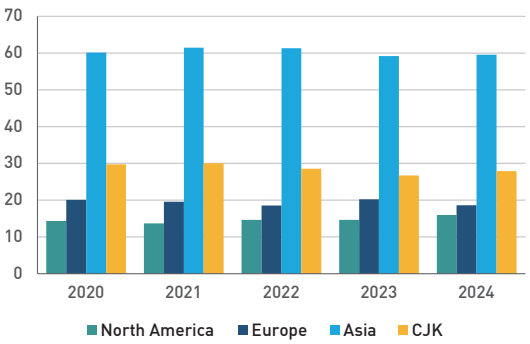
Three-month moving average; USD billion



Source: World Semiconductor Trade Statistics (WSTS), Historical Billings Report (Jan 2026); APEC Regional Trends Analysis (Feb 2026); TCS calculations.
Note: Three-month moving averages. Values are shown in USD billion.

Figure 3.3 AI-related Trade Shares in the World Market

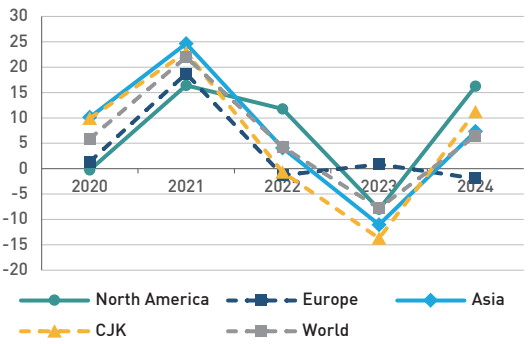
Percent of world AI-related trade



Source: WTO AI-enabling products classification; UN Comtrade data; TCS calculations.
Note: Shares are annual averages of exports and imports. World = 100. CJK = China, Japan, and Korea. Asia and CJK are not mutually exclusive. Some economies may be missing in certain years because reporter coverage varies over time.

Figure 3.4 AI-related Trade Growth

Percent year over year

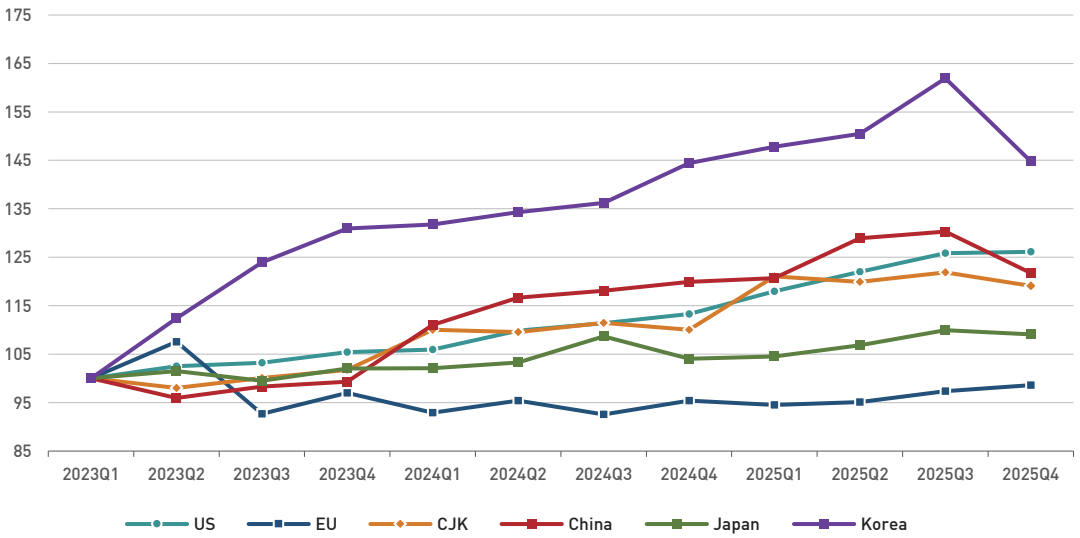


Source: WTO AI-enabling products classification; UN Comtrade data; TCS calculations.
Note: Growth is the year-over-year change in annual average AI-related trade values. CJK = China, Japan, and Korea. Asia and CJK are not mutually exclusive. Some economies may be missing in certain years because reporter coverage varies over time.

Global tech demand is likely to remain an important source of support, driven by continued investment in AI and data centers, albeit with signs of moderation following the strong expansion seen in 2025. However, US export controls, evolving tariffs, and volatile energy prices may add uncertainty to regional trade and investment flows. Korea's outlook remains closely tied to the semiconductor cycle and particularly sensitive to the durability of AI-related demand.

Recent ICT investment has supported production growth and trade expansion in CJK, although the pace may moderate as the investment cycle normalizes. The outlook remains subject to significant uncertainty, as AI-related productivity gains may take longer to materialize than currently expected. As the sector moves from rapid expansion to a more normalized growth phase, the resilience of CJK economies will likely be tested by weaker external demand, slower tech-sector production growth, and tighter global financial conditions.

Figure 3.5 **Industrial Production of Computer and Electronic Products**



Source: US Federal Reserve G.17; Eurostat STS; NBS China; METI Japan; Statistics Korea KOSIS; OECD Main Economic Indicators; and TCS calculations.
Note: SA = Seasonally Adjusted. Quarterly values are simple averages of monthly SA indices. CJK = GDP-weighted average of China, Japan, and Korea; US = The United States; EU = European Union.

Figure 3.6 The AI Economy: Upside Potential and Downside Risks

Opportunities and Potential Upside

Driving Global Expansion
Rapid growth in AI-related investment has supported global trade and investment, partly offsetting the adverse effects of higher tariffs and elevated trade policy uncertainty. Although the pace of expansion is likely to moderate, AI-related demand is expected to remain an important source of global momentum.

Early Materialization of Productivity Gains
Productivity growth could strengthen further if AI adoption diffuses beyond a narrow set of frontier firms and sectors, including finance, professional services, and ICT-intensive manufacturing. Broader diffusion would make AI-related gains more durable and widen their macroeconomic impact.

Self-Reinforcing Dynamics
If AI-related earnings and productivity gains are sustained, this could create a self-reinforcing cycle of stronger investment, firmer electronics demand, and improved export performance for regional suppliers. Under such a scenario, the upside for CJK exporters would extend beyond baseline projections.

Risks and Fragility

Stretched Valuations & Concentration Risk
US equity valuations remain elevated and increasingly concentrated in a small group of mega-cap IT and AI-related firms, leaving markets vulnerable to a reassessment of earnings expectations. A sharp repricing in a narrow set of firms could have outsized spillovers to broader financial conditions.

Financial Opacity and Debt
Market vulnerabilities are compounded by concentration, leverage and complex financing links among major AI firms. These features make underlying exposures more difficult to assess and could amplify stress if expectations weaken.

Moderating Momentum and Lower-than-Projected Returns
As the initial wave of investment normalizes, delayed or weaker-than-expected realization of AI benefits could prompt a reassessment of productivity expectations, potentially triggering market corrections and a broader slowdown. This would be particularly relevant for economies whose export performance is closely tied to AI-related hardware demand.

Source: IMF Oct. 2025, Jan. 2026, Apr. 2026; OECD Mar. 2026; TCS compilation.

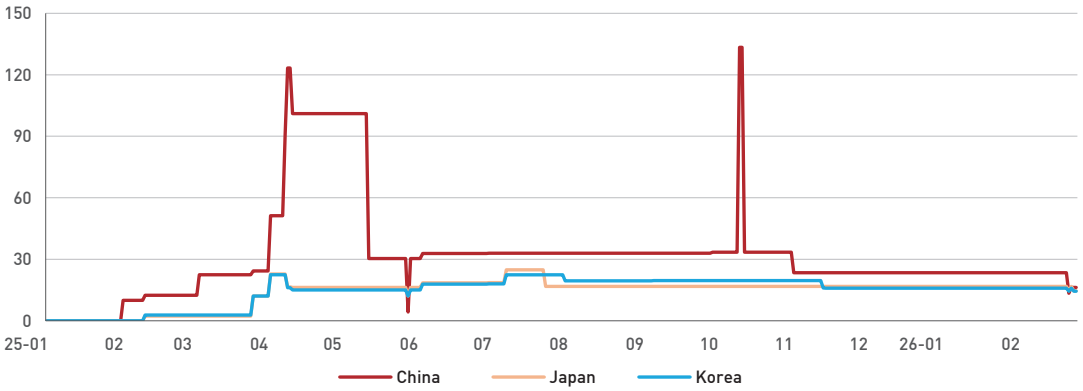
Tariff Dynamics and CJK Economic Impacts

Although the macroeconomic impact in 2025 proved more contained than initially anticipated, US tariff policy remained a primary external risk for the CJK economies throughout 2025. Figure 3.7 shows that effective tariff rates rose sharply after the April 2025 “Liberation Day” announcement, especially for China, before declining after subsequent arrangements but remaining above pre-2025 levels. Japan and Korea also faced a persistent tariff increase, although at a lower level than China.

Uncertainty has been as important as the tariff level itself. Frequent changes in legal authority, product coverage, exemptions, and bilateral carve-outs prolonged trade policy uncertainty and complicated medium-term business planning. This weighs on the CJK economies through delayed investment, changes in sourcing and supply-chain geography, and greater volatility in external demand (Figure 3.8).

Figure 3.7 US Effective Tariff Rates on CJK

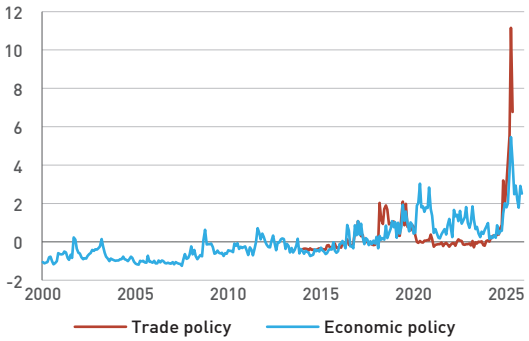
Trade-weighted average, percent



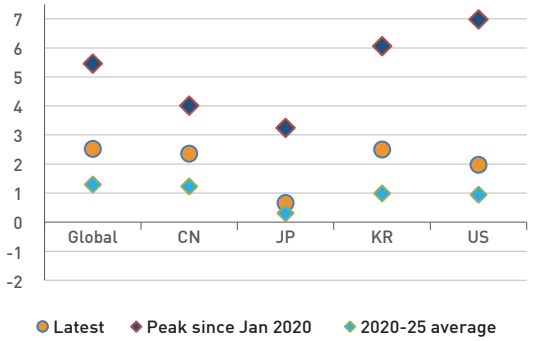
Source: AMRO staff calculations based on the official White House orders and fact sheets
Note: Estimated trade-weighted average tariff rates for China, Japan, and Korea in the US market, January 2025–February 2026.

Figure 3.8 Trade Policy Uncertainty in the CJK Region

A. Trade and economic policy



B. Economic policy uncertainty



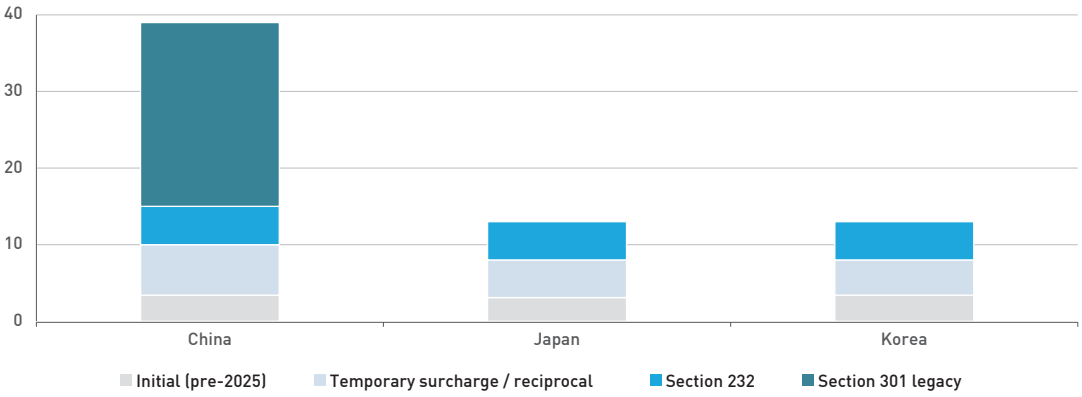
Source: PolicyUncertainty.com; TCS calculations.
Note: Panel A plots monthly z-scores of global trade policy uncertainty and global economic policy uncertainty from January 2000. Panel B reports the latest value, the peak since January 2020, and the 2020–25 average for economic policy uncertainty across Global, CN, JP, KR, and US.

Looking ahead, higher US tariffs could continue to weigh on trade and dampen external demand. The regional trade environment also remains fluid and highly uncertain. Important implementation details – potentially including the tightening of rules of origin for intermediate inputs – remain unclear, while the legal durability and future scope of existing bilateral arrangements are still subject to uncertainty. Tariff-related risks could broaden further, as ongoing Section 232 investigations cover several strategic product categories. Japan and Korea appear particularly exposed in semiconductors, pharmaceuticals, medical goods, and robotics, where these products account for a significant share of exports to the United States (Figure 3.10).

The effects are uneven across the three economies. **China** continues to face the heaviest effective US tariff burden among the three economies even after the 2025 arrangements, because legacy Section 301 and other China-specific measures remain in place. Formal negotiations with the US have yet to be concluded. **Japan and Korea** obtained partial relief through bilateral deals, but they remain exposed to sectoral tariffs and to future changes in rules of origin and product coverage. The large investment commitments linked to their recent US trade agreements – totaling $550 billion and $350 billion, respectively – may also affect capital allocation and financing conditions over the medium term. Taken together, these factors point to a still-fragile external environment that could constrain the region's resilience going forward.

Figure 3.9 **Apr 2026 US Tariff Rates on CJK Breakdown**

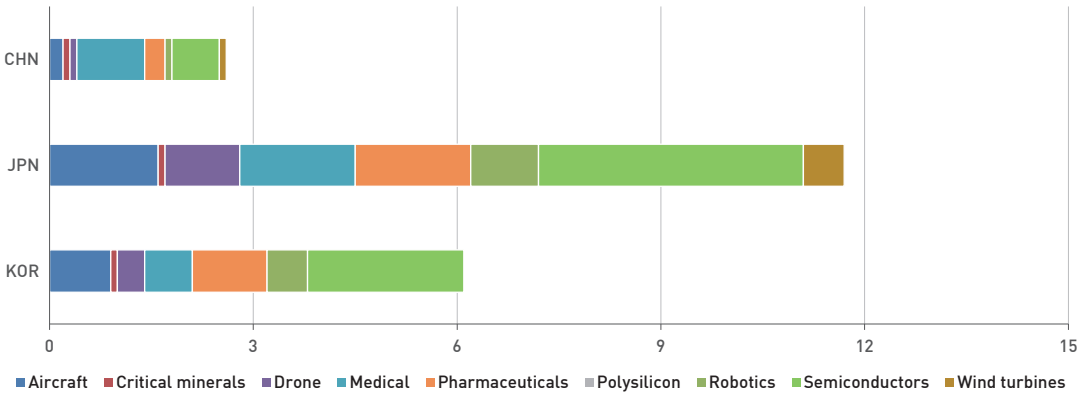
Approximate trade-weighted average, percent



Source: official White House orders and fact sheets; TCS calculations.
Note: The breakdown decomposes the approximate April 2026 trade-weighted average effective tariff rates, aligned with the end-period values shown in Figure 3.7, into the pre-2025 baseline, the post-ruling temporary surcharge component, Section 232 sectoral duties, and China's residual Section 301 legacy duties.

Figure 3.10 CJK Exports under Section 232 Investigation

Percent of total exports to the US, 2024



Source: AMRO (2026d) ASEAN+3 Tariff Exposure Dashboard.
Note: Stacked bars show exports under nine Section 232 investigation categories: aircraft, critical minerals, drones, medical goods, pharmaceuticals, polysilicon, robotics, semiconductors, and wind turbines.

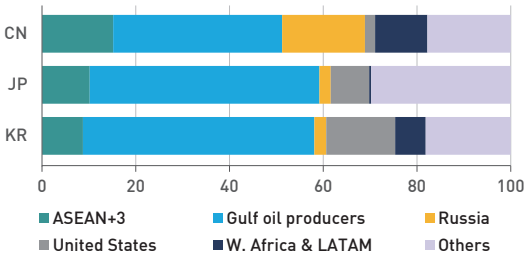
Middle East Conflict Spillovers: New External Headwinds for CJK Economic Outlooks

The escalation of the Middle East conflict since late February 2026 has posed a significant challenge to the CJK economies, with broader implications for global resilience. Rising geopolitical tensions have offset recent gains in global economic momentum, previously supported by AI investment and resilient consumption. The primary economic impacts include energy market disruptions, supply chain vulnerabilities, and elevated financial volatility. Higher shipping, insurance, and rerouting costs are extending delivery times and adding to input and transport expenses, with potential spillovers to petrochemicals and electronics. Swings in global risk sentiment have also tightened financial conditions and generated bouts of US dollar strength.

While Gulf oil producers remain the single largest source of energy imports for CJK, import growth from the region has fallen sharply amid the recent disruption (Figure 3.11 and 3.12). The escalation of the Middle East conflict has pushed up energy prices, with broader commodity prices also moving higher on elevated supply pressures and transportation costs (Figure 3.13, Figure 3.14). A more prolonged increase in global energy prices poses significant risk to both growth and inflation across the region.

Figure 3.11 Source Composition of CJK Energy Imports

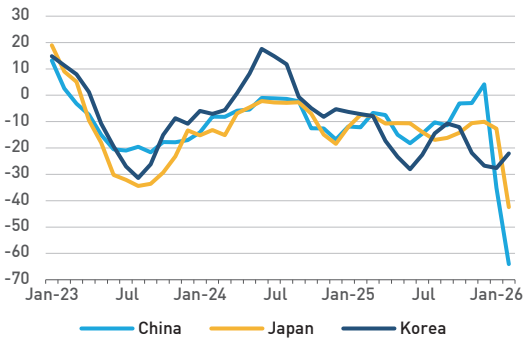
Percent of energy imports; 2025



Source: AMRO (2026c) ASEAN+3 Energy Exposure Dashboard; and TCS calculations.
Note: Energy imports refer to HS Chapter 27 products. Source groupings follow the AMRO ASEAN+3 Energy Exposure Dashboard. "Gulf oil producers" comprise Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Figure 3.12 CJK Energy Import Growth from Gulf Oil Producers

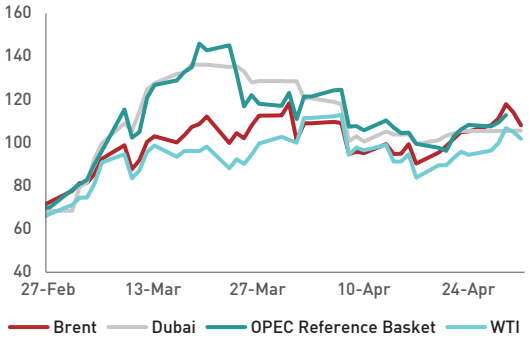
YoY changes in 3-month moving averages; percent



Source: AMRO (2026c) ASEAN+3 Energy Exposure Dashboard; and TCS calculations

Figure 3.13 Crude Oil Price

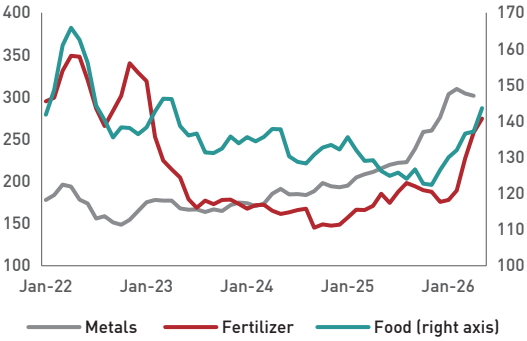
USD/barrel



Source: EIA Daily Energy Prices via Haver Analytics.
Note: Data as of 30 April 2026.

Figure 3.14 Commodities Price

Index, 2016 = 100



Source: International Monetary Fund via Haver Analytics.

Long-term Trend

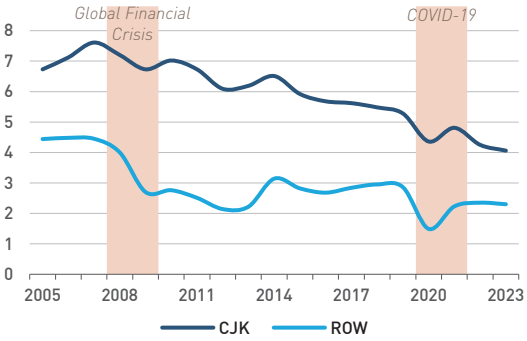
Slower Growth and the Productivity Challenge

The global economy has moved onto a lower-growth path since the global financial crisis, and the CJK economies have likewise entered a slower growth phase, despite occasional cyclical rebounds (Figure 3.15). Global growth was projected to average 3.2 percent in 2024–25 but to ease to 2.8 percent by 2030, well below the 3.8 percent pre-pandemic average (2000–19). CJK potential growth decelerated from 5.6 percent in 1980 to 4.3 percent in 2023, and is projected to weaken further. The decomposition suggests that the slowdown has been driven mainly by weaker capital accumulation and TFP growth (Figure 3.16).

The key question is why productivity remains weak despite rapid technological progress. Figure 3.17 shows that this weakness is not uniform across the CJK economies, consistent with broader evidence that AI and digital adoption remain uneven across firms and that productivity gains depend on complementary investments in skills, management quality, data, and digital infrastructure. Raising productivity will therefore require not only frontier innovation, but also broader technology diffusion, stronger human capital, and more efficient reallocation across firms and sectors.

Figure 3.15 CJK and ROW: GDP Growth

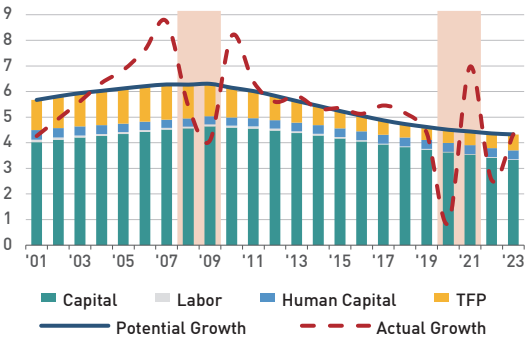
Percent year-on-year, five-year trailing moving average



Source: IMF World Economic Outlook database (real GDP growth and PPP shares); TCS calculations.
Note: CJK = China, Japan, and Korea; ROW = rest of the world. Group growth is computed as a PPP-weighted average of country real GDP growth rates using previous-year PPP shares. The displayed series is a five-year trailing moving average. Because the calculation uses the shorter available trailing window at the start of the sample, the plotted series begins in 2005.

Figure 3.16 Contribution of Components to CJK GDP Growth

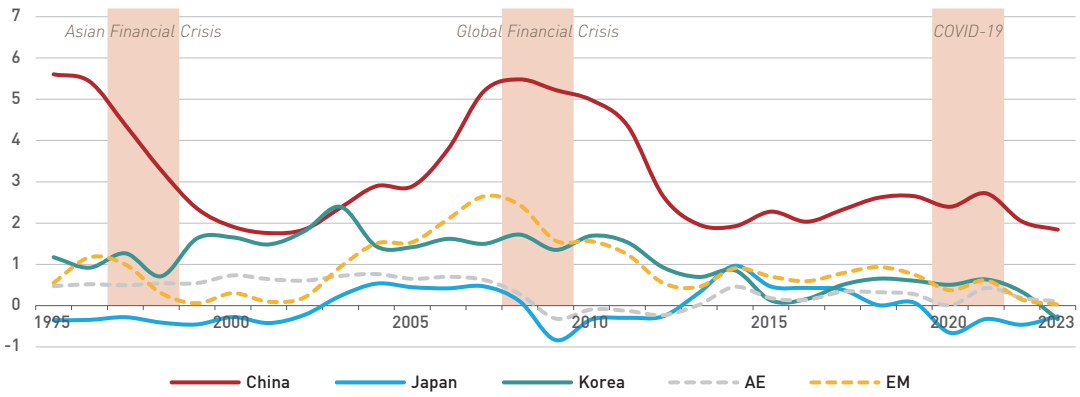
Percentage points; percent



Source: AMRO (2025); TCS calculations.
Note: Capital, labor, human capital, and TFP are shown as stacked bars, while potential growth and actual growth are shown as lines. Shaded areas denote the global financial crisis and the COVID-19 pandemic.

Figure 3.17 CJK TFP Growth Rate

Percent, 5-year Trailing Moving Average



Source: Penn World Table 11.0 and TCS calculations.
Note: AE = advanced economies; EM = emerging market economies. Shaded areas denote the Asian financial crisis, the global financial crisis, and the COVID-19 pandemic.

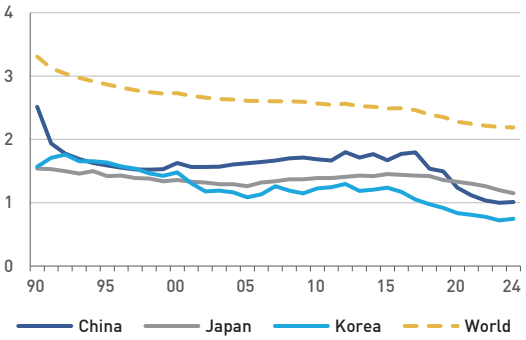
Vanguard of the Aging Shift: Harnessing the Silver Dividend in CJK

Population ageing is becoming an increasingly important structural challenge for the CJK economies. Fertility has fallen well below replacement in all three economies, with Korea at the lowest level and China and Japan also far below the world average (Figure 3.18). Old-age dependency ratios have risen steadily since the 1990s, already far above the world average in Japan and Korea and rising rapidly in China (Figure 3.19). The transition is also highly compressed: Japan is already deeply super-aged, Korea crossed the super-aged threshold around 2024–25, and China is projected to reach that threshold in the 2030s.

Population profiles suggest that by 2060, all three economies will have much larger older cohorts and narrower younger cohorts, though the pace and scale of ageing will differ across economies (Figure 3.20). The demographic shift will weigh on growth, fiscal balances, and social security systems through a shrinking working-age population, weaker labor input, and rising fiscal pressures from pensions, health care, and other age-related spending. These pressures are likely to be most pronounced where ageing proceeds faster than labor-market and social-security adjustments. Meanwhile, population ageing need not translate mechanically into lower growth. Longer and healthier working lives can help preserve productive capacity, particularly if older workers remain attached to the labor market and firms adapt jobs, skills, and workplace practices to support their productivity.

Figure 3.18 CJK and World: Fertility Rate

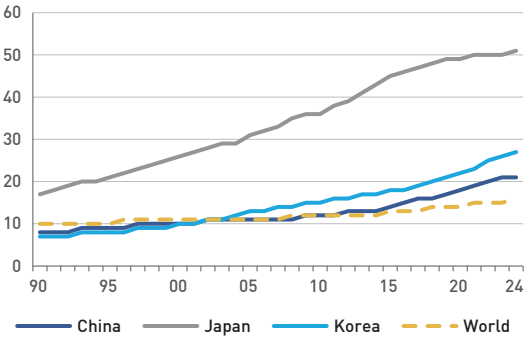
Births per woman



Source: World Bank, World Development Indicators.
Note: Annual data for 1990–2024. The sample covers China, Japan, Korea, and the world.

Figure 3.19 CJK and World: Old-Age Dependency Ratio

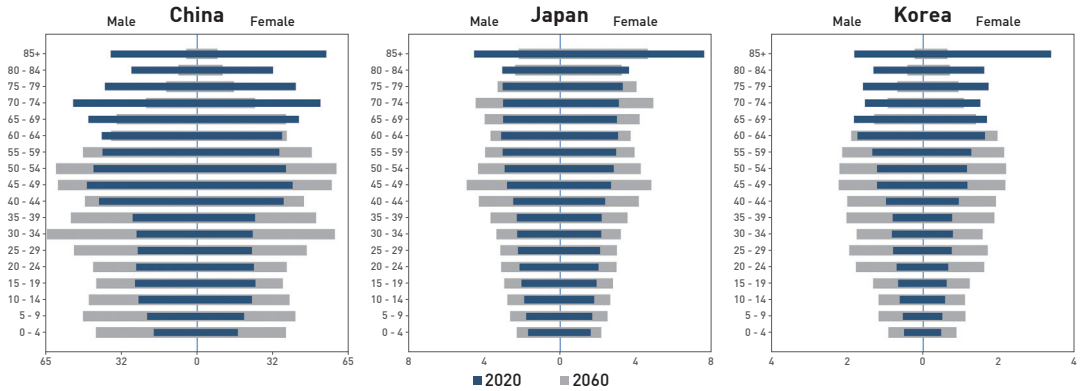
Persons aged 65+ per 100 persons aged 15–64



Source: UNCTAD stat.
Note: Annual data for 1990–2024. Old-age dependency ratio is defined as persons aged 65+ per 100 persons aged 15–64.

Figure 3.20 CJK Population Ageing Profiles: 2020 and 2060

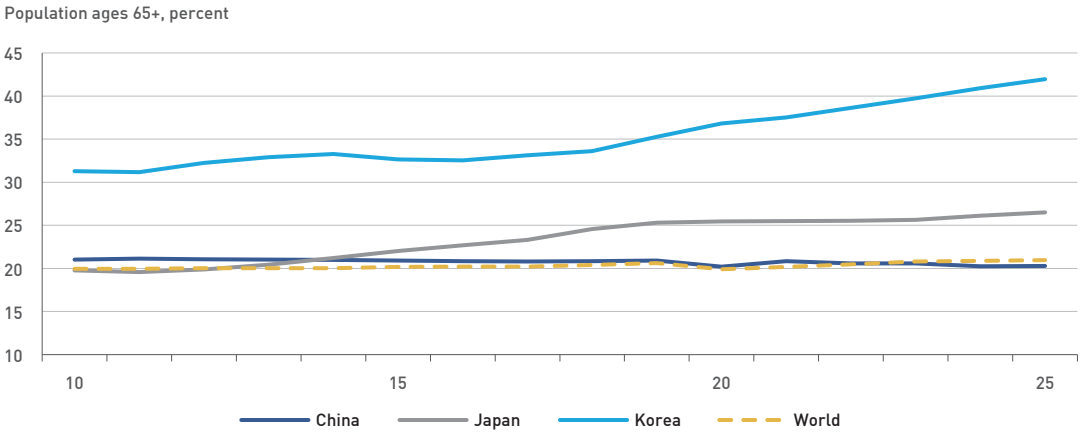
Million persons



Source: OECD Society at a Glance: Asia/Pacific 2025; TCS calculations.
Note: Population by age group and gender in 2020 and 2060. Panels are shown in the order China, Japan, and Korea.

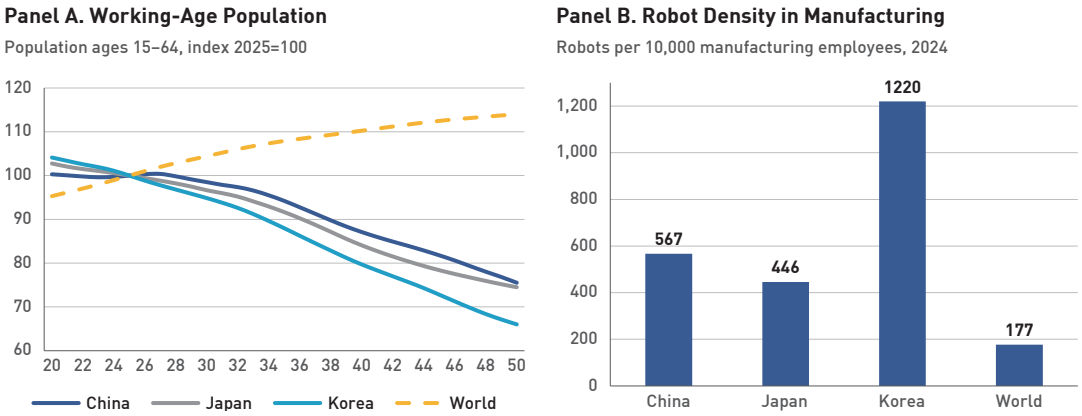
Older-worker participation therefore provides an important channel for mitigating the growth impact of ageing. Labor-force participation among people aged 65 and above is comparatively high in Korea, has risen in Japan, and remains close to the global benchmark in China (Figure 3.21). At the same time, Figure 3.22 shows that the working-age population is projected to decline in all three economies through 2050, even as automation capacity – measured by manufacturing robot density – is already well above the world average, especially in Korea and China. AI and automation could ease labor shortages where new technologies complement, rather than substitute for, older workers. However, the gains will depend on job design, digital skills, and workplace adaptation. Policy priorities should therefore focus not only on raising fertility, but also on converting longevity into productive capacity through preventive health care, pension and retirement-age reform, reduced gender gaps, lifelong learning, and technology adoption.

Figure 3.21 CJK and World: Old-Age Labor Force Participation Rate



Source: ILOSTAT and ILO modelled estimates (Nov. 2025); TCS calculations.
Note: Annual data for 2010–2025. Japan and Korea are based on original ILOSTAT 65+ labor-force-participation rates; China and the world are based on ILO modelled estimates for ages 65+.

Figure 3.22 CJK and World: Working-Age Population and Automation Capacity



Source: United Nations, World Population Prospects 2024 revision; International Federation of Robotics (IFR), World Robotics 2025; TCS calculations.
Note: Panel A shows the working-age population (ages 15–64) indexed to 2025=100 for 2020–2050. Panel B shows robot density in the manufacturing industry in 2024.

Advancing Greener Economies toward Sustainable Growth

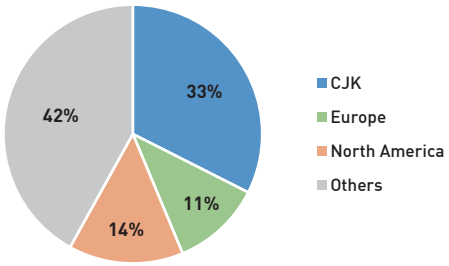
The net-zero transition requires fundamental changes in capital allocation, labor markets, industrial production, and global trade. It is unfolding in a global environment marked by still-high emissions, heightened energy security concerns, and increasingly carbon-sensitive trade rules. The shift will entail significant adjustment costs, including competitiveness risks, stranded assets, greenflation, and large investment needs for grids, storage, and industrial upgrading. At the same time, it can generate substantial long-term benefits by fostering new industries, enhancing energy security, improving trade balances, and reducing climate-related damages. The pace of transition varies widely across regions, reflecting differences in policy frameworks, energy systems, and industrial structures.

CJK economies are central to this global shift. According to ADB (2024), more than 90% of all green technologies are invented in just five countries, including China, Japan, and Korea. Yet, CJK also remains among the world's largest sources of GHG emissions (Figure 3.23). Since 1990, emissions have registered an increase in China and Korea, while Japan's emissions have declined from an earlier peak and global emissions have continued to rise (Figure 3.24). This combination of large emissions, energy-intensive manufacturing, and strong green-technology capabilities makes CJK both highly exposed to transition risks and important to the global low-carbon transition.

CJK's energy-investment profile indicates a relatively strong investment base for the transition, with energy investment as a share of GDP and the clean-energy share of total energy investment both above the world average (Figure 3.25). Even so, CJK economies face structural transition risks linked to their heavy industrial bases. Power and industry remain the dominant sources of GHG emissions in all three economies, exceeding the global average (Figure 3.26).

Figure 3.23 Global GHG Emissions by Region, 2024

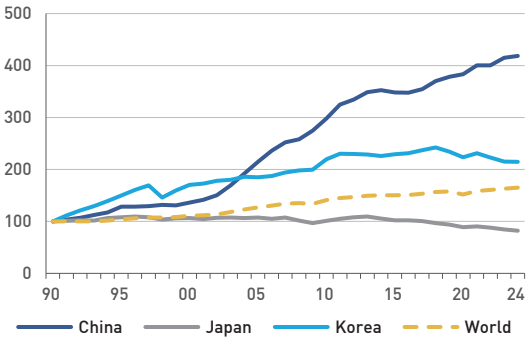
Share of total, percent



Source: World Bank, World Development Indicators.
Note: Annual data for 1990–2024. The sample covers China, Japan, Korea, and the world.

Figure 3.24 CJK and World: GHG Emissions

Index, 1990=100

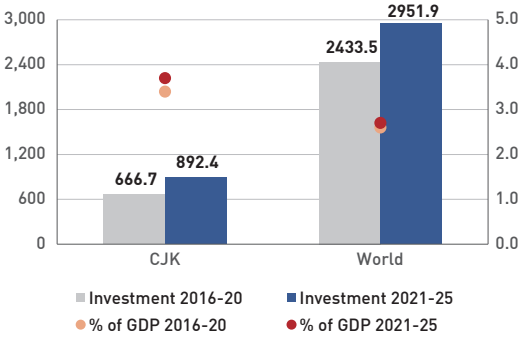


Source: World Bank, World Development Indicators; TCS calculations.
Note: Annual data for 1990-2024. Index = 100 in 1990. GHG excludes LULUCF and is measured in $MtCO_2e$.

Figure 3.25 CJK and World: Energy Investment

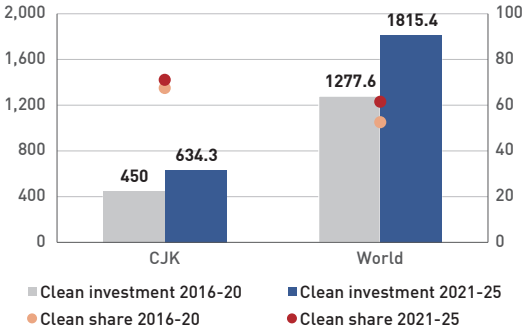
Panel A. Total Energy Investment

Billion USD; percent of GDP



Panel B. Clean Energy Investment

Billion USD; percent of total energy investment



Source: International Energy Agency (IEA); TCS calculations.
Note: Panel A compares total energy investment and total energy investment as a share of GDP for CJK and the world. Panel B compares clean energy investment and the share of clean energy investment. CJK aggregates China, Japan, and Korea.

The green transition is now a major pillar of **China**'s economic strategy, anchored by its "dual-carbon" goals of peaking emissions before 2030 and reaching carbon neutrality before 2060. Its energy-related CO_2 emissions declined by approximately 0.5% in 2025, marking a significant shift in its emissions trajectory. However, China also faces the largest transition challenge by scale. Going forward, more durable reductions will require continued power-sector decarbonization and lower-carbon production in heavy industries such as steel, cement, and chemicals.

Over the last decade, **Japan** has successfully decoupled major environmental pressures from its moderate economic growth, although its energy mix remains carbon intensive. Japan's building-sector fuel demand continued to shift away from gas in 2025, as natural gas demand declined and heat pump water heaters gained market share over gas-fired systems. Its Green Transformation (GX) strategy combines renewables, nuclear restarts, energy efficiency, transition finance, and low-carbon fuels. The central challenge is to translate technology, finance, and policy support into a broader low-carbon power and industrial system while preserving competitiveness in autos, machinery, and materials.

Korea's challenge lies in the gap between its strong clean-tech manufacturing base and its relatively limited domestic renewable-energy generation. The share of renewables in Korea's electricity mix almost doubled in the past five years but remains below the global benchmark despite rising capacity (Figure 3.27). Rising electricity demand from semiconductors, AI, and other energy-intensive industries has made energy security a more pressing concern. Addressing these challenges will require a clearer national strategy for public engagement that combines faster renewable deployment, grid and storage expansion, demand-side flexibility, industrial efficiency, and a balanced carbon-free power mix including nuclear power.

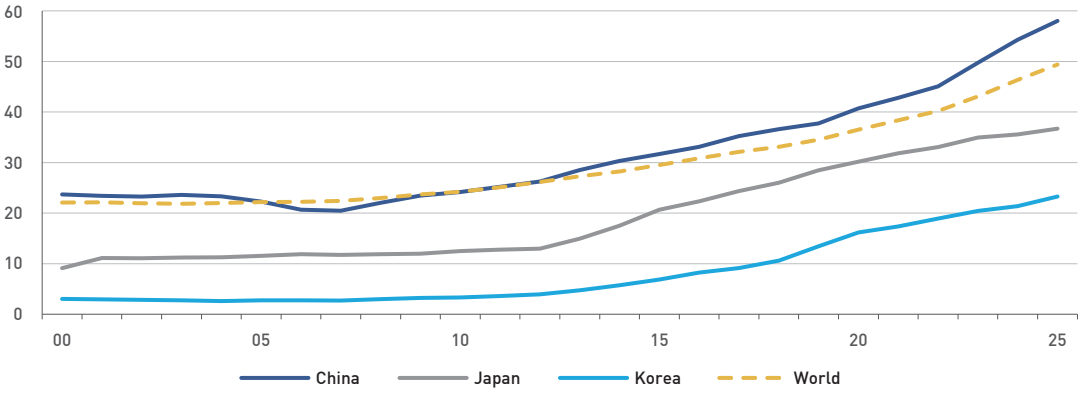
Figure 3.26 **CJK and World: GHG Emissions by Sector**

Share of total, percent, 2024

Source: JRC/IEA-EDGAR, GHG emissions of all world countries 2025; TCS calculations.
Note: Shares are based on total GHG emissions in 2024. Sectors are grouped into Power, Industry (industrial combustion and processes), Transport, Buildings, Agriculture, and Other (fuel exploitation and waste). GHG excludes LULUCF and includes CO_2 (fossil only), CH_4, N_2O, and F-gases.

Figure 3.27 CJK and World: Renewable Energy Share by Capacity

Percent of electricity capacity



Source: IRENA, Renewable Capacity Statistics 2026 and Renewable Energy Statistics 2025; TCS calculations.
Note: Annual data for 2000–2025. Renewable energy share by capacity is measured as renewable electricity capacity as a percent of total electricity capacity.

List of Figures and Tables

Figures

Tables

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