



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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ASEAN: regional economic outlook

MARKET INTELLIGENCE REPORT

Summary

- ASEAN's economic outlook remains positive, with the regional grouping's economic growth continuing to outperform the global average. Most of ASEAN's key export sectors have recovered from the supply chain disruptions from 2022, although exports of fuel, machinery, and electronic goods have yet to return to pre-pandemic levels. Foreign Direct Investment remains sluggish however, with investments in ASEAN's financial and insurance sector notably bucking the general trend. ASEAN is alive to a range of risks that threaten further sustained growth and seeks to strengthen trade links, increase cross-border investment flows, and shore up global commodity supply networks to provide regional resilience and contingency against potential shocks.

Report

Growth projections

ASEAN is projected to sustain positive growth in the near term, with regional real GDP growth of 4.7% in 2024 and 4.8% forecast for 2025. Economic analysis conducted by the ASEAN Secretariat (ASEC) expects the region's steady growth trajectory will be maintained, but have revised the 2025 data down slightly from the 5% forecast provided in estimates last year.

Economy	2022	2023	2024f	2025f
ASEAN	5.6	4.1	4.7	4.8
Brunei Darussalam	-1.6	1.4	2.4	2.5
Cambodia	4.8	5.3	6.0	6.1
Indonesia	5.3	5.0	5.0	5.1
Lao PDR	4.4	3.7	4.0	4.0
Malaysia	8.7	3.7	4.4	4.4
Myanmar	2.8	2.8	1.5	2.0
Philippines	7.6	5.6	6.2	6.2
Singapore	3.6	1.1	2.1	2.3
Thailand	2.6	1.9	2.7	2.9
Viet Nam	8.0	5.1	5.8	6.5

ASEAN Real GDP Growth in %

Source: ASEAN Statistics (June 2024), Asian Development Bank (2024)

ASEC attributes their forecast to steady growth among emerging economies, but acknowledges the effects “a confluence of factors, including the lingering effects of the COVID-19 pandemic, the ongoing conflict in Ukraine, sluggish productivity growth, and a rise in geoeconomic fragmentation” are having on the global markets.

South East Asia’s growth has been led by a recovering tourism sector and a resurgence in semiconductor and electronics demand. Improved trade performance has also contributed, with gradual increases in demand identified among some of the region’s major trading partners, particularly with Japan and the United States.

ASEC expects the region’s financing environment will improve as inflation eases and borrowing costs start to stabilise. However, optimism is tempered due to ongoing geopolitical tensions, global conflicts, and persistent uncertainty in global markets.

Trade and exports

ASEAN’s total trade in goods declined by 7.4% in 2023, and now stands at USD 3.6 trillion (Comment: ASEAN does not routinely report trade in services). This decline has been attributed to slowing demand for trade-intensive manufactured goods, supply chain disruptions caused by the war in Ukraine, and the lingering effects of high energy prices and inflation.

While intra-regional trade between ASEAN Member States made up 21% of ASEAN’s overall trade, 50% of ASEAN’s goods trade is now attributable to ASEAN’s East Asia Summit (EAS) partners (Australia, China, India, Japan, New Zealand, Republic of Korea, Russia and United States). This is a 2% increase from 2022. China remains ASEAN’s largest single external trade partner, and vice versa.

New Zealand remains ASEAN smallest EAS trading partner contributing 0.4% of ASEAN’s overall bilateral trade. Conversely, New Zealand’s two-way trade with the region (standing at NZ\$27 billion in the year ending December 2023) represented 9.6% of New Zealand’s overall trade. In this regard, ASEAN retained its position as New Zealand’s third largest trading partner (ahead of the United States (at NZ\$26.1 billion) and behind China (NZ\$37.91 billion) and Australia (NZ\$31 billion)). ASEAN was also New Zealand’s largest source of imports. However, unlike these other markets, New Zealand’s trade with the region has slowed, decreasing from NZ\$27.42 billion in the year ending December 2022 due to a decline in exports over this period.

ASEAN assesses its primary sectors have broadly recovered from the effects of the 2022 global supply chain disruptions. However, recovery has not been universal. Exports of fuel, machinery, and electronic products decreased by 5%, 14%, and 2% respectively in 2023. Whereas transport equipment (up 8.1%), foodstuffs (up 6.1%), and precision instruments (up 5.3%), saw stable growth. However, ASEC expects lagging sectors to recover gradually over the next two years as inflationary pressures ease and as household incomes improve across the region.

Foreign Direct Investment (FDI)

FDI inflows into ASEAN showed sluggish growth in 2023, with only a 0.3% increase from 2022. ASEC attributes this slow growth to lower-than-expected investment in the secondary industry sector, specifically manufacturing, which saw a decline of USD 22.4 billion, or 30.7%, due to global supply chain disruptions in 2022. ASEAN's primary sector—which includes agriculture, forestry, fishing, mining, and quarrying—has normalised, surpassing 2021's investment levels in 2023.

ASEAN's FDI inflows from EAS partners surged by 42.3% in 2023, reaching USD 124.6 billion. EAS partners remained key investors, accounting for 54.2% of ASEAN's total FDI inflows. The United States remains ASEAN's largest single source of FDI, contributing 32.4% of ASEAN's total FDI, followed by China (7.5%) and Japan (6.3%).

The financial and insurance sector, which represents 55.5% of total FDI, saw a remarkable 218.6% increase from the previous year. Additionally, the professional, scientific, and technical activities sector experienced substantial growth, primarily driven by investments from the USA, has now become the third largest collective sectoral contributor to FDI inflows.

Risks and challenges

Despite the optimistic growth and indications for positive recovery in key sectors, ASEAN remains concerned about high debt-to-GDP ratios in the region. These surged during the pandemic and continue to exacerbate the debt burden for many ASEAN Member States. ASEC forecasts interest payments for low-income nations will nearly double in 2024, and that the region's fiscal policies will tighten throughout 2024 as leaders seek to rein in debt levels, resulting in higher taxes and reduced government spending.

The economic performance of ASEAN's trade partners is also a concern for the region. High inflation in advanced economies, reducing real incomes, and a decline in consumer spending have all been identified as risks for ASEAN's exports if wage growth in the region's key markets does not keep pace with rising costs.

Weaker than expected growth in China is a particular concern. A slowdown of the Chinese economy which resulted in a decline in discretionary household spending could have significant implications for the region's recovering, but still fragile, tourism sector. Furthermore, as the largest consumer of ASEAN's commodities, any slowdown in China is expected to cause a dampening effect across ASEAN's key commodity export sectors.

Escalating geopolitical tensions also remain a concern for the region. The region recognises it is not immune to the consequences of conflict on supply chains and prices.

Price volatility and the reliability of supply have all been identified as having the potential to disrupt most of the economies in the ASEAN region, although a few AMS may be well positioned to benefit economically in the short term from high prices in key export commodities.

To mitigate these concerns, ASEC assesses that enhanced international cooperation on trade and financial regulations will be crucial to counter any risks brought about by growing international protectionism, domestic fiscal tightening and currency depreciations. ASEAN is therefore seeking to strengthen trade links, increase cross-border investment flows, and shore up global commodity supply networks to provide regional resilience and contingency against potential shocks.

Comment

ASEAN is fundamentally an economic alliance – and one with a long history of successfully balancing great power interests. ASEAN Member States generally acknowledge that the region must adopt a multifaceted strategy that includes economic diversification, regional integration, and multilateralism to sustain the region's recovery and ascertain the region's role in the global economy. Much hope is placed in the economic value that may come from adopting circular and blue economy approaches, a carbon neutral strategy, and in embracing the digital economy to drive the region's development over the longer-term. But the ASEAN economic Community has ever been optimistic.

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