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- *ASEAN-6 has been one of the most dynamic regions globally, with nominal GDP surging 4-fold in the two decades to 2024.*
- *The region benefited from a mix of domestic (higher investments and demand), and global (exports, US and China + 1 tailwinds) drivers in this period.*
- *ASEAN-6 is set to be the fourth largest in the world by the end of this decade.*
- *We forecast an average real GDP growth of 4.8% (PPP-weighted) from 2025 to 2040, outpacing China's growth trend.*
- *Regional growth will be mainly driven by capital and TFP gains, with some support from labour inputs and quality.*
- *The region will climb the income ladder. By 2040, Malaysia and Vietnam are poised to emerge as high-income countries, while Philippines transits to upper-middle-income status.*
- *We expect the bloc to be energised over the next decade and a half by domestic and trade catalysts, despite the ongoing and upcoming geopolitical shakeout.*
- *In addition to higher intra-ASEAN trade, extra-ASEAN dynamics involving China, India, and regions beyond Asia will also be key.*
- *Development of capital markets will be pivotal in supporting private sector participation.*
- *Pursuing green transition and expanding the digital economy will build long-term resiliency in development goals.*
- *We conduct a SWOT analysis of the individual countries at the end of the report.*

*\*ASEAN-6: Indonesia, Malaysia, Philippines, Thailand, Vietnam, Singapore*

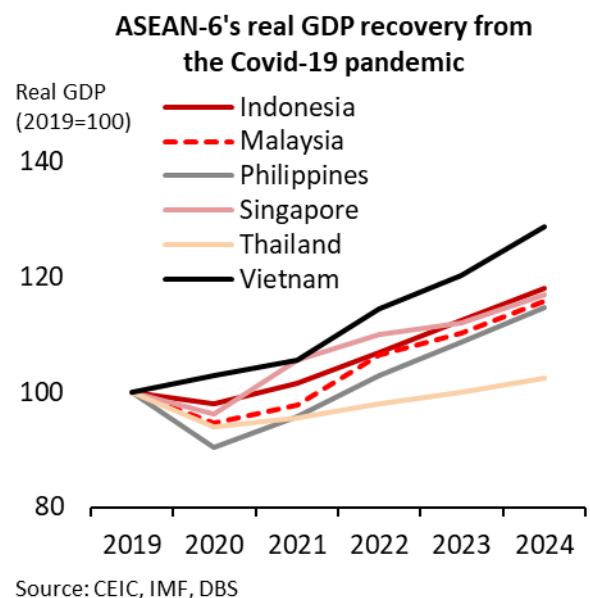
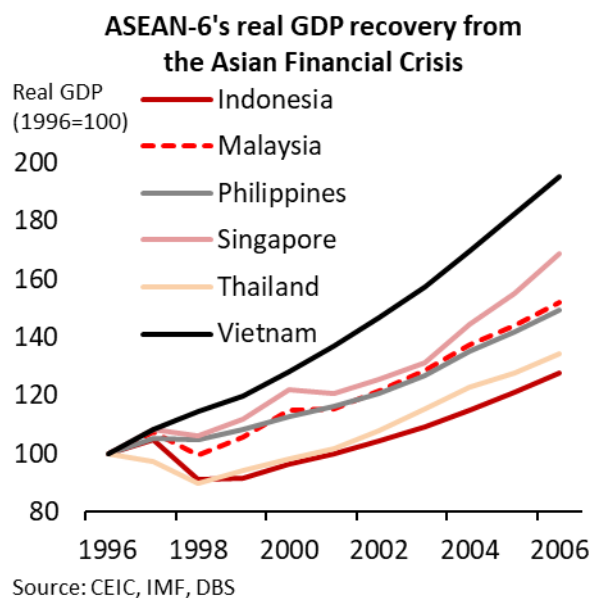
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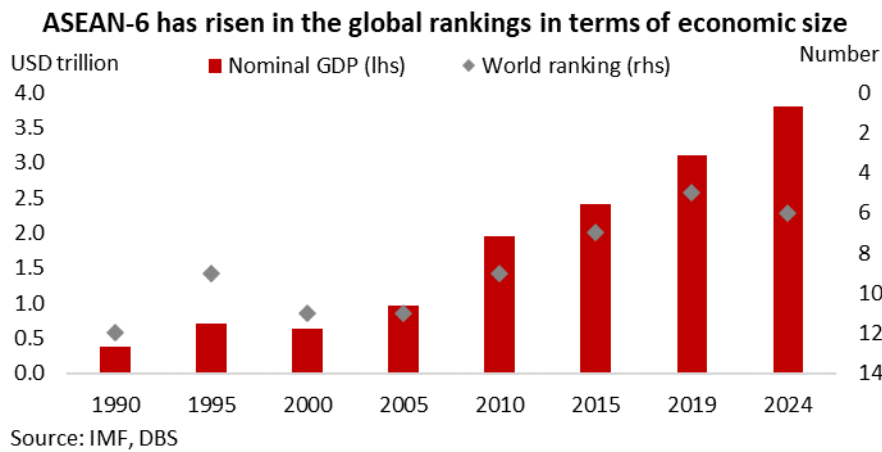
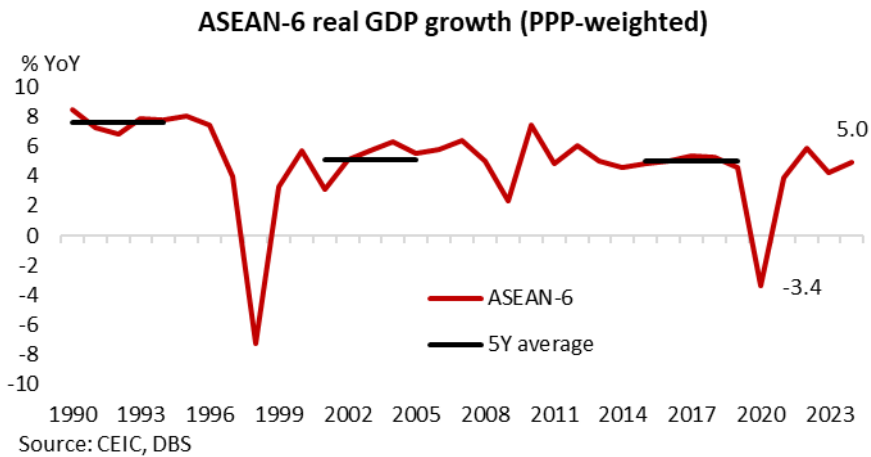
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## The ASEAN-6 ascent

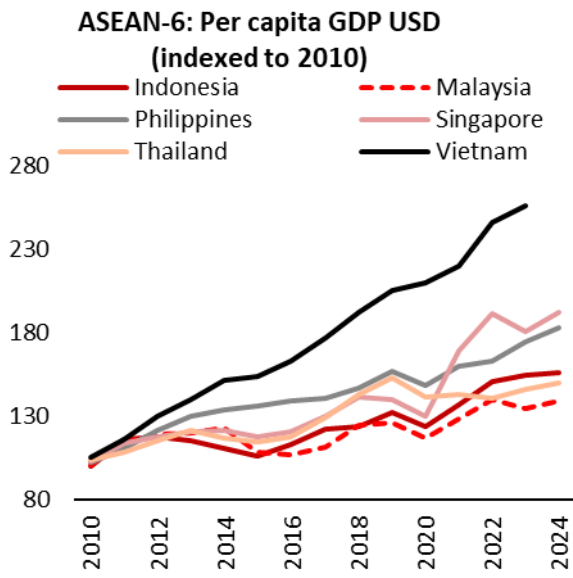
The ASEAN-6 bloc (comprising of Indonesia, Malaysia, Philippines, Thailand, Vietnam, and Singapore) is one of the most dynamic and resilient in the world. The region has weathered many storms, including the Asian Financial Crisis (AFC) in the late-90s, SARS in early-2000s, Global Financial Crisis (GFC) in 2008-09, and the COVID-19 pandemic in 2020-21. **The economies have come out stronger from the crises with strong domestic and external balance sheets, managing debt, fixing vulnerabilities, and supporting growth.** Institutional quality has improved, with the average regional percentile ranking rising from sub-50 in early-2000s to 55.4 last year. Average life expectancy rose to 75.5 from around 72 over the same period, with the average PISA score close to the OECD average.

Other structural catalysts like urbanisation, growing integration with the global supply chains, export-oriented development strategies, and riding on China’s development wave were timely. Real growth averaged 5.2% in the past two and half decade to 2019 (to exclude the pandemic-related impact). **The bloc’s heft is also reflected in the jump to the sixth largest economy in the world last year from 12<sup>th</sup> in 1990. Nominal GDP jumped four-fold in the two decades to 2024**, from \$959bn in 2005 to \$3.8trn by 2024. On PPP-basis, Indonesia accounts for ~40% of the region’s output, followed by Thailand at ~15%.

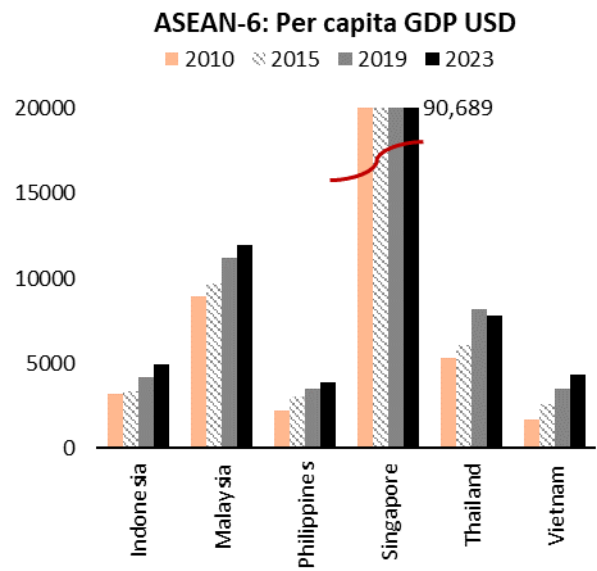




During these years, per capita GDP (on \$ basis) also expanded sharply across the region. Taking 2010 as a starting point, we indexed the change for the ASEAN-6 countries (*see chart*). The improvement was the most notable for Vietnam, followed by Singapore. This period was marked by strong export growth, a stronger US, and regional countries benefiting from the tailwinds of China+1 strategy. Domestic demand driven countries also fared well in this period, while political uncertainties sapped Thailand’s momentum. **Demographics** are a mixed bag. The median age is low in Philippines and Indonesia at under 30 years, providing a crucial demographic dividend. On the other hand, Thailand and Singapore are contending with higher median age and an ageing population, which require deft policy support and measures to navigate the challenging labour dynamics.

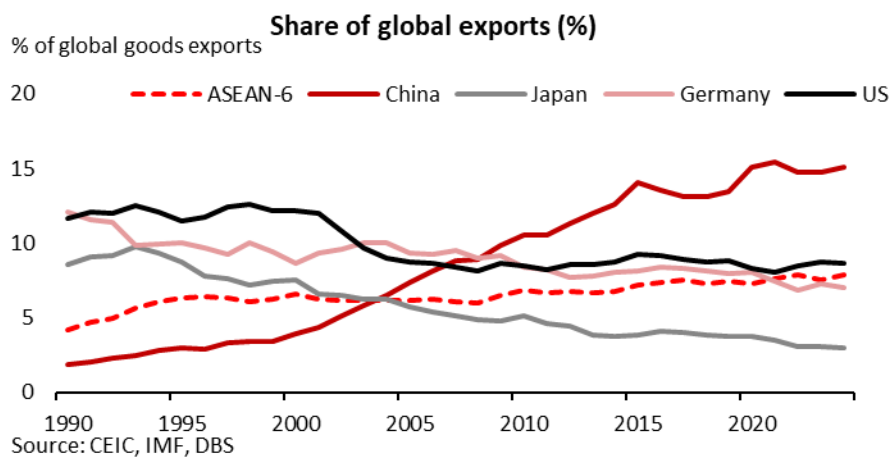


Source: CEIC, DBS;



Source: CEIC, DBS

In the past three decades, goods exports have propelled growth in the ASEAN-6 countries as they became more integrated with the global supply chains, led by labour-intensive sectors like textiles and footwear, as well as medium-tech industries like assembly of semiconductors and electronics. As we highlight later in this report, the region has also been an active participant in bilateral and multilateral trade agreements, which has lowered trade barriers and improved export competitiveness. All these factors saw the region’s share of global exports rise to nearly 8% last year from below 5% in the 1990s, tracking a sharp rise in China’s share, while that of the US and Japan decelerated. In addition to higher exports, **domestic demand** was also a key anchor, with household consumption accounting for an average 50% of GDP across the region.



Source: CEIC, IMF, DBS

## Growth forecasts: 2025 to 2040

We forecast ASEAN-6's economy to grow by 4.8% average (PPP-weighted) from 2025 to 2040. This will outpace China's 3.0% average real GDP expansion, reversing the trend of the past three decades. The region offers significant opportunities and is on track to become the fourth-largest economy over the coming years, with its nominal economic size poised to rise from \$3.8trn in 2024 to \$5.6trn in 2030. Subsequently we expect this to almost double to ~\$10trn in 2040. SEA-6's population will climb to a sizeable 670mn in 2040, according to the United Nations (UN). Our regional forecasts reflect an aggregation of diverse economies with unique characteristics, and we provide key considerations in the [individual country overview at the end of our report](#).

### ASEAN-6 real GDP growth, %

	Historical average			DBS forecasts
	2000-09	2010-19	2020-24	2025 - 40
<b>ASEAN-6</b>	<b>5.1</b>	<b>5.3</b>	<b>3.1</b>	<b>4.8</b>
<b>Vietnam</b>	6.9	6.6	5.2	6.0
<b>Philippines</b>	4.5	6.4	3.0	6.0
<b>Indonesia</b>	5.3	5.4	3.4	5.6
<b>Malaysia</b>	4.7	5.4	3.1	4.2
<b>Singapore</b>	5.4	5.0	3.3	2.3
<b>Thailand</b>	4.3	3.6	0.5	2.2

Source: IMF, CEIC, DBS

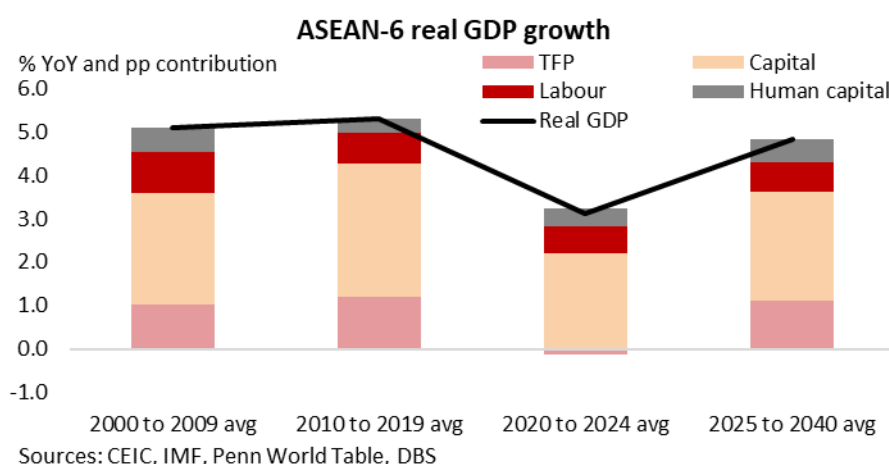
We derive our long-term regional economic growth forecasts for 2025 to 2040 using a widely used growth accounting framework. Based on a standard Cobb-Douglas production function  $Y = AK^\alpha(LH)^{1-\alpha}$ , we decompose growth (Y) into four underlying production factors: labour (L), human capital (H), capital (K), and total factor productivity (TFP)(A)<sup>1</sup>, with  $\alpha$  and  $1-\alpha$  representing the elasticities of output to capital, as well as labour and human capital, respectively. Using Penn World Table and national statistics as key data sources, we analyse these four growth drivers, and project them for the next 15 years.

From 2000 to 2019, average growth was above 5%, constrained by the Global Financial Crisis (GFC) in the interim. Capital accumulation was the biggest growth engine, even if the pace was not as exuberant as during the 1990s before the Asian Financial Crisis (AFC). Since China's entry into the WTO, ASEAN-6 benefitted from increased integration into global supply chains alongside China's ascendancy prior to the GFC, and shifting foreign investments during Trump 1.0, besides domestic infrastructure investments. Labour inputs were supported by favourable

<sup>1</sup> TFP broadly reflects the boost from reforms and other structural improvements, but is estimated as a residual of other growth factors, using the growth accounting framework and Cobb-Douglas production function.

demographics and strong workforce, although these started to shift as some countries ages, while human capital’s contribution was only modest. The region broadly benefitted from positive TFP alongside higher export sophistication amid globalisation.

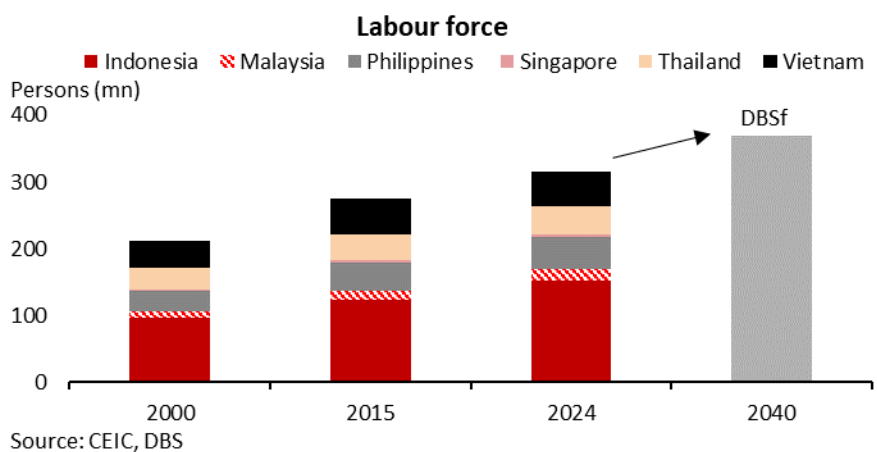
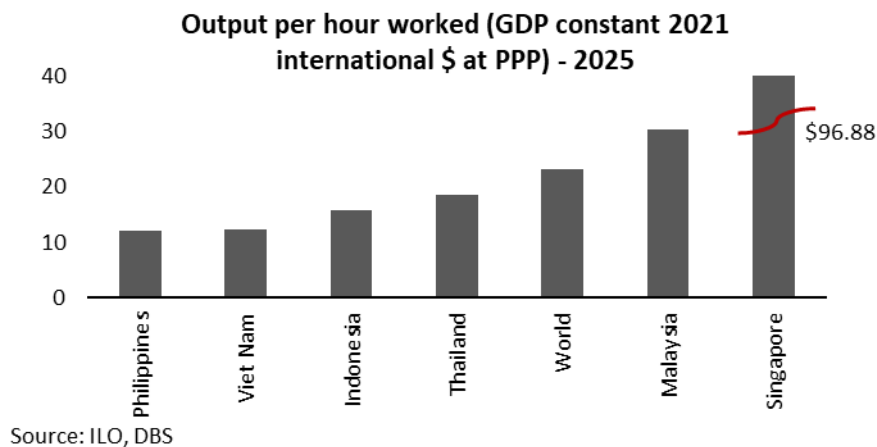
From 2020 to 2024, growth slowed to 3.1% average, amid severe disruptions by the lockdowns adopted during the highly uncertain COVID-19 pandemic. Economic activities in many ASEAN-6 economies contracted by the most since the AFC in 2020. The growth contribution of capital and TFP reduced noticeably in 2020 to 2024, as investments were reduced and TFP was hurt by the loss of productivity and efficiency particularly for certain high contact services sectors amid start-stop lockdowns and challenges in remote work. Despite a spike in unemployment rates during the depth of the pandemic, the growth contribution from labour was little changed in 2020 to 2024 due to the strong employment recovery post-pandemic.



### Growth driver 1: Labour quantity and demographics

Demographics and labour availability are crucial barometers to sustain growth. We project that an average 0.7 percentage point (ppt) i.e., (14% share in growth) lift is likely from this growth driver. Here, not only the availability of labour but also other factors like median age, participation rate, employment rates, and productivity will matter for the economies. Labour participation rates, on average, linger around 67-68%. The cumulative labour force stood at around 315mn last year, which is expected to rise by another 20% by 2040, assuming a modest pace of annual increase. Indonesia and Philippines are best placed on labour availability given favourable median age and working age population metrics, but output per worker lags peers. Singapore faces an ageing society but output per worker is high, providing a competitive edge. Thailand by comparison faces challenges in improving productivity, compounded by adverse dependency ratios. Policy measures are required to offset the resultant drain on growth.

Most of ASEAN-6, including Indonesia, Malaysia, and Thailand, are currently in the upper-middle-income status, according to the World Bank, while Philippines and Vietnam lag as lower-middle-income countries<sup>2</sup>. Singapore, which is in the high-income status, is by far the most developed and wealthiest economy in the region. **By 2040, our forecasts imply that rapidly developing Vietnam, together with Malaysia, will potentially join Singapore as high-income countries, while Philippines would have transitioned to upper-middle-income status.** The region, excluding Singapore, would see its GDP per capita range between ~\$12k to 22k in 2040, from ~\$4k to 12k in 2024.

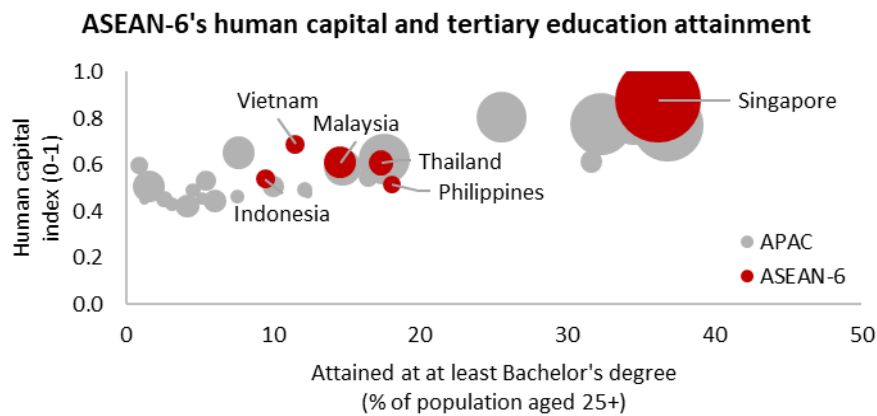


### Growth driver 2: Human capital

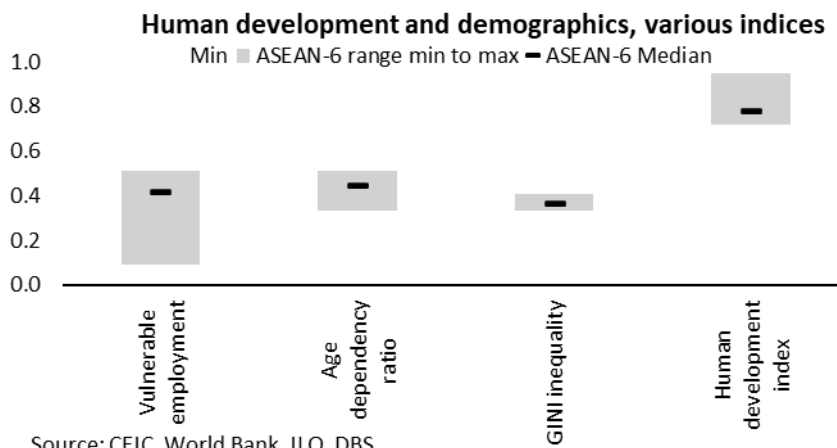
We forecast human capital to contribute 0.5 ppt (11% share) to ASEAN-6’s real GDP growth in the next 15 years but varies between countries. Singapore will continue to lead the region with 1.4 ppt contribution to economic growth, supported by continuous life-long upskilling efforts

<sup>2</sup> The World Bank assigns the world’s economies into four income groups based on GNI per capita (in \$). The latest classifications are Low (≤\$1,145), Lower-middle (\$1,146-4,515), Upper-middle (\$4,516-14,005), and High (>\$14,005). We can roughly approximate these from GDP per capita (\$).

for an already highly educated population. This is reflected in 36% of the city-state’s population aged 25 and above attaining at least Bachelor’s degree, and a top score in the World Bank’s human capital index, ranking high among Asia Pacific economies. Better educational outcomes can lead to higher GDP per capita. We foresee human capital contributing 0.3 to 0.9 ppt to the GDP growth of other regional peers. It will be critical that they not just aim to improve foundational education, but also look to move up the skills ladder by enhancing access and quality of higher education and vocational training to cater to higher value investments and industries.



Source: World Bank, IMF, DBS. Note: Bubble size refers to GDP per capita (USD).

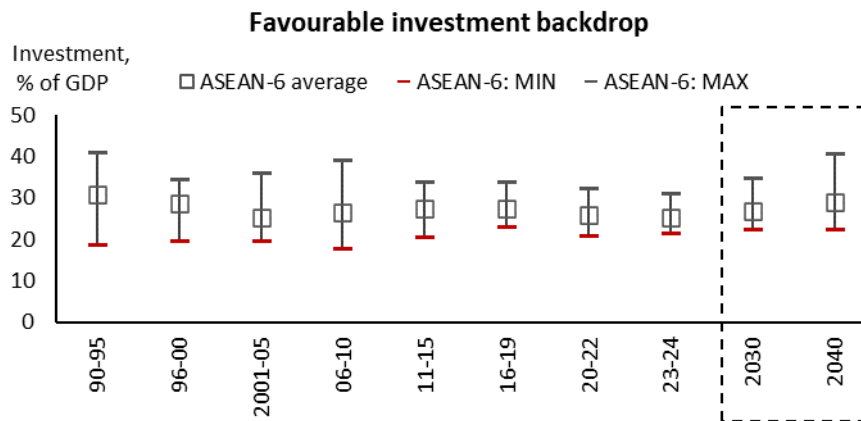


Source: CEIC, World Bank, ILO, DBS

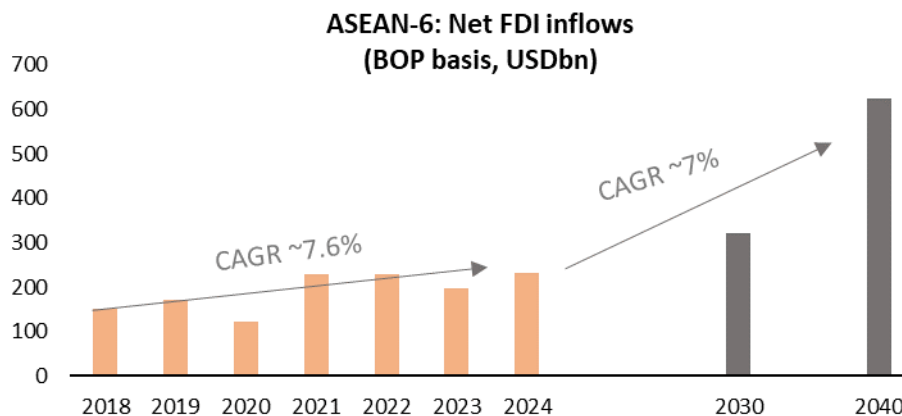
**Growth driver 3: Investments**

National governments have actively pursued policies on industrialisation in the past three decades, while also working on improving the ease of doing business to attract foreign investors. Our forecast is for Capital to be the main contributor to growth at average 2.5 ppt (52% share) during 2025-40. This included a mix of fiscal policies, such as tax incentives, easier access to various factors of production, amongst others, as well as financial incentives which as guarantees and subsidised credit. To attract durable interest, governments have also had to invest in improving domestic human capital and improving infrastructure investments.

Creation of special economic zones, including export processing zones, has also been an important feature of this policy. Investments as % of GDP varied across countries, averaging between 20-30% of GDP in the past decade. Over the coming decade, we expect investments to take up a bigger share of nearly 30% of GDP on average in the region. **FDI inflows into ASEAN-6 could grow at a compound annual growth rate (CAGR) of 7% over the next 15 years, reaching around \$630bn by 2040.**



Source: CEIC, DBS

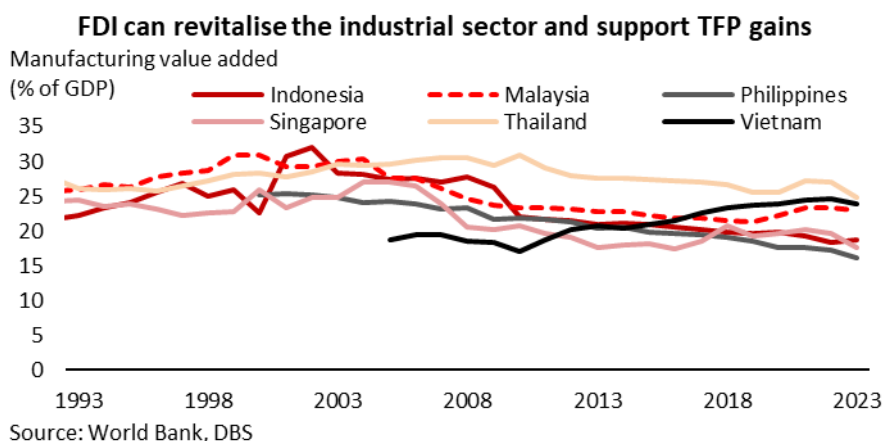
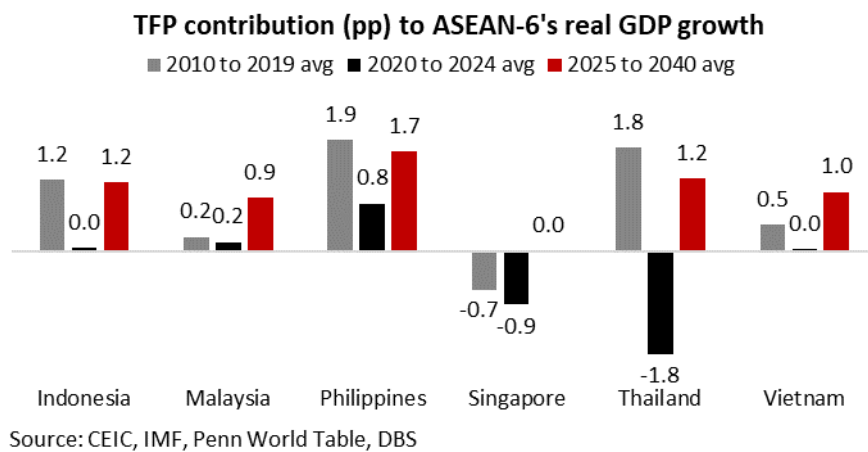


Source: CEIC, DBS

Besides manufacturing, the share of services in ASEAN-6's overall economy has also been on a secular rise. Average regional services as a % of GDP rose to ~56% in 2024 from 47.5% in 2000. This comprises of a host of sub-sectors, weightage of which differs between countries. For instance, services stand out in Singapore, exceeding 70% of national output, dominated by trade-related services (wholesale trade: 19.2% of GDP, and transport & storage), and modern services (finance & insurance: 13.5%, information & communications, and professional services), amongst others. While the services sectors will remain key, national governments in the bloc will be keen to expand their manufacturing base to ensure there are positive multiplier spillovers to employment and incomes.

**Growth driver 4: Total factor productivity (TFP)**

TFP has been a crucial regional growth driver prior to the pandemic, and we expect it to be as important in the next decade and a half, contributing 1.1 ppt (23% share) to ASEAN-6’s GDP growth. TFP has potential to be supported by multiple factors, including continued FDI influx over the coming years amid supply chain realignment that supports more productive manufacturing, digitalisation, and other structural reforms to improve the private sector and institutions. Regional manufacturing value-add as % of GDP on average trended lower over the past two decades, but we are hopeful for a reversal to the pre-pandemic 2010-2019 average of ~22%. Favourable policies include Vietnam’s fresh business environment reforms announced in 2025, which prioritise private businesses as a key growth driver by reducing administrative burden, strengthening regulatory certainty, and levelling the playing field for SMEs. Indonesia has been pursuing value addition in its commodity sector, with an emphasis on downstreaming industries, providing more domestic value addition. Philippines is coming off few years of infrastructure development, with more public sector commitments required in this sector. Malaysia has embarked on the Madani Economic Framework in 2023 that provides the roadmap and foundation for multiple industrial and energy policies to improve competitiveness and promote investments.



**Macro risk analysis: Healthy metrics with limited vulnerabilities**

The buildup of macroeconomic vulnerabilities raises the susceptibility to crises and shocks, like the AFC, and a costly unwinding of imbalances will hinder long-term economic growth prospects.

**Our eight-indicator macro risk analysis suggests that ASEAN-6 is well placed to capture opportunities, with the major emerging economies looking healthy and facing limited vulnerabilities, when compared to peers from other regions.**

Vietnam, Indonesia, Thailand, and Philippines have some of the best scores in Asia based on 2024 data, except for Malaysia (see [27-country macro risk analysis: Annual update](#) for our detailed methodology). Malaysia’s high government, private, and external debt levels are partly mitigated by sustained domestic demand, and ongoing structural business and fiscal reforms, while short-term external debt is mostly in the form of stable intragroup borrowing or trade credits. Singapore’s solid economic fundamentals are reflected in its rare AAA sovereign credit rating. The city-state’s government debt is to mainly facilitate non-spending debt market development purposes that are backed by significant government financial assets, while its high external debt are mainly deposits kept in Singapore banks by overseas banks and depositors, reflecting its position as an international financial centre.

**Macro Risk Analysis**

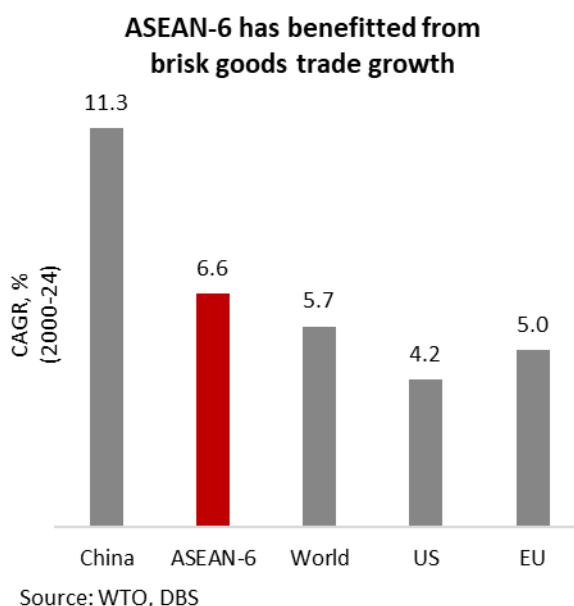
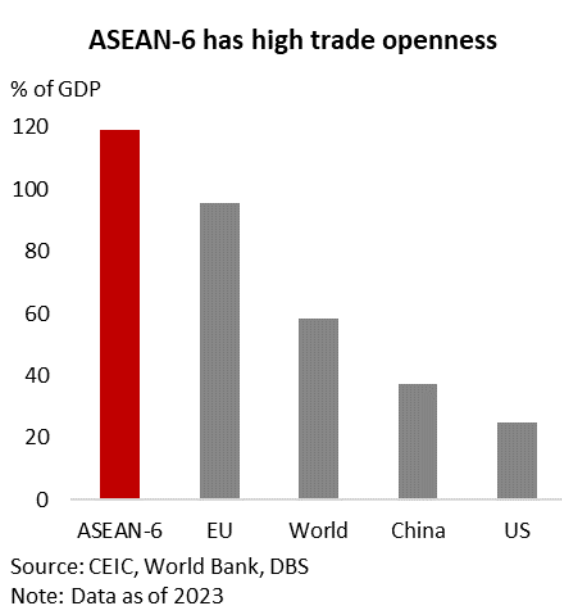
	Sovereign credit rating (S&P)	% of GDP						REER misalignment (abs)	
		Reserves	Fiscal balance	Private Debt	Gov debt	External Debt	Saving/ Investment balance	Reserves/GEFR	
Singapore	AAA	High	High	Low	Low	Low	High	High	Low
Malaysia	A-	Low	Low	High	High	High	Low	Low	High
Philippines	BBB+	Low	Low	Low	Low	Low	Low	Low	Low
Thailand	BBB+	Low	Low	Low	Low	Low	Low	Low	Low
Indonesia	BBB	Low	Low	Low	Low	Low	Low	Low	Low
Vietnam	BB+	Low	Low	Low	Low	Low	Low	Low	Low

Source: BIS, CEIC, IIF, IMF, DBS

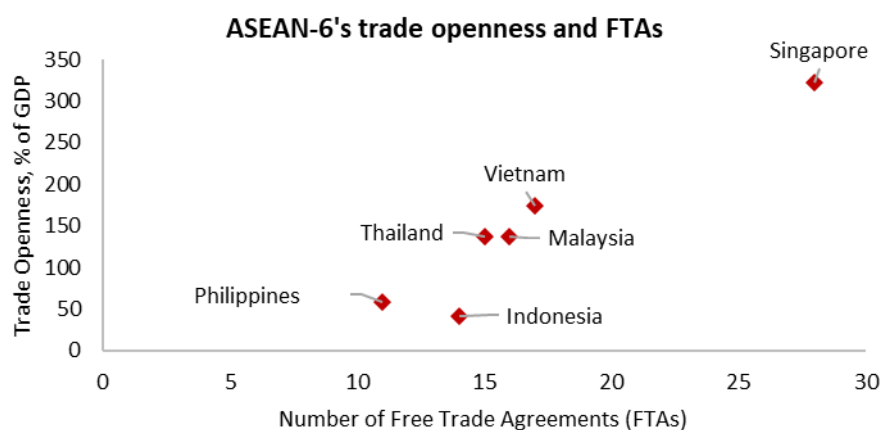
## Key themes for the next decade and a half

### Trade & Investment: Opportunities despite geoeconomic fragmentation

We believe that Southeast Asia will continue to position itself as a region open to international trade and investments, despite rising geoeconomic fragmentation and protectionism led by an inward US. Its open policies have attracted foreign investments and facilitated trade, serving the region well with fast economic growth following the massive shock from the AFC and more recently the COVID-19 pandemic. ASEAN-6’s high trade openness is reflected in its average goods and services trade-to-GDP ratio of nearly 120% across the six key economies, above key global economies and twice the world’s figure. The bloc achieved brisk goods trade growth of 6.6% CAGR between 2000 and 2024, above global trade expansion of 5.7%, and improved its global exports share over the past decade.



**Free Trade Agreements (FTAs) have been instrumental in driving ASEAN’s trade-led economic growth and will remain a key development enabler over the coming years.** The bloc remains committed to upholding an open and rules-based multilateral trading system and deepening integration by actively upgrading existing FTAs while exploring new ones with like-minded partners. Within the bloc, SEA’s most trade reliant economy, Singapore, exemplifies continuing efforts to expand FTA, as well as other agreements such as the digital economy. The city-state has forged an extensive network of bilateral and multilateral FTAs, with its 28<sup>th</sup>, The Pacific Alliance – Singapore Free Trade Agreement entering into force in May 2025.

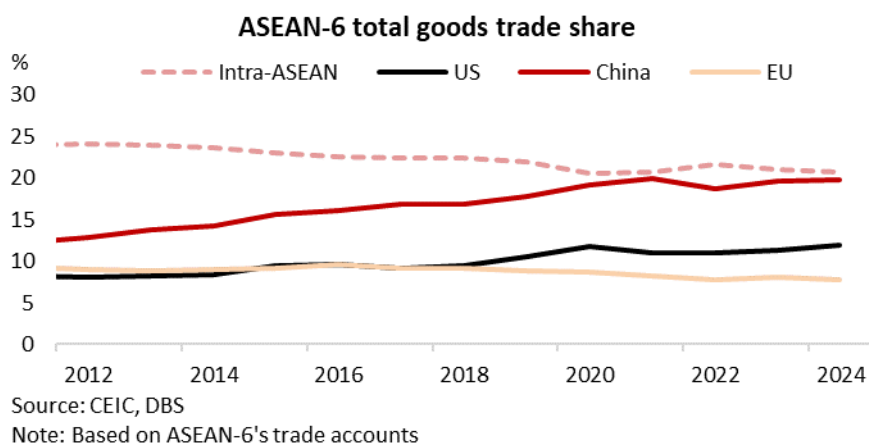


Source: ADB, World Bank, CEIC, Various news sources, DBS

Against the tide of US-led trade protectionism, the world could begin to transition to [‘Trade Outside the US \(TOTUS\)’](#), with **ASEAN’s regional integration providing opportunities while potentially buffering against global shocks**. Southeast Asia is therefore collectively enhancing its economic relations with other key Asian partners, while taking gradual improvements in its long-term path towards a cohesive and economically integrated ASEAN Economic Community (AEC). Even as the 10-member ASEAN and other five countries – China, Japan, South Korea, Australia, and New Zealand – have the world’s largest FTA, comprising about 30% of global GDP and about a third of the world’s population under The Regional Comprehensive Economic Partnership (RCEP), the bloc is engaging in bilateral agreement upgrades to keep up with emerging trends that will last for years. Two enhancements include the ASEAN-China Free Trade Area 3.0 upgrade (ACFTA: to be signed in October 2025) and the upgraded ASEAN-Australia-New Zealand Free Trade Area (AANZFTA: entered into force in April 2025) with forward-looking provisions such as digital economy, sustainability, and supply chain resilience.

## Intra-ASEAN: Growing synergies as a bloc

**We foresee intra-ASEAN trade remaining a vital part of the bloc.** Our estimates show that intra-ASEAN goods trade share for ASEAN-6 continues to be the largest, exceeding 20% over the years (valued at above \$700bn for the third consecutive year as of 2024), even as China’s share has caught up due to the region’s increased Chinese goods imports. The upgraded ASEAN Trade in Goods Agreement (ATIGA), which the region will sign in October 2025, has the potential to bolster intra-ASEAN trade in the coming years. The upgraded ATIGA will lower remaining tariffs, reduce non-tariff barriers, incorporate sustainable trade practices, and address supply chain connectivity. The enhanced trade pact reflects the bloc’s ambitions to further liberalise trade, although the ATIGA has promoted intra-regional trade since being in force since 2010. Six out of 10 Southeast Asian countries have no import duties on almost all their taxable products, while the remaining four members impose no more than 5% on about 99% as part of the trade pact. **We project intra-ASEAN goods trade value to potentially double to \$1.4trn by 2040**, assuming ASEAN’s sizeable population generates sufficient domestic demand to benefit from intra-regional trade and investment (factoring in intra-ASEAN trade share of 23% in 2040 on conservative 3% annual overall trade growth for the next 15 years).



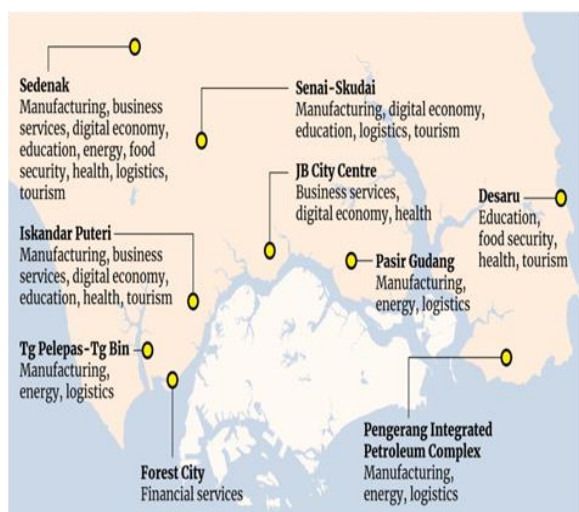
**Johor-Singapore Special Economic Zone (JS-SEZ): Scaling up regional collaboration**

**Singapore and Malaysia are dialling up their collaboration in the Johor-Singapore Special Economic Zone (JS-SEZ) amidst rising geoeconomic fragmentation.** Having formalised the JS-SEZ Agreement during the 11<sup>th</sup> Malaysia-Singapore Leaders’ Retreat on January 6-7, 2025, the JS-SEZ aims to create a dynamic and integrated economic hub that promises a significant scaling up of an already deep regional symbiosis. Firms are set to benefit from Singapore’s strength as a business and financial centre, complemented by Johor’s abundant land, energy, and labour force (see [Chartbook: Johor-Singapore Special Economic Zone](#)).

The JS-SEZ will occupy 3,571 square km of land across southern Johor, consisting of nine flagship zones, with each focusing on different activities. Investments into Johor have gained traction and momentum in early 2025, and we expect continued strong investor interest. Johor secured MYR30.1bn worth of investments in 1Q25, compared to MYR48.5bn in full-year 2024, according to Johor Chief Minister Onn Hafiz Ghazi. Both countries aim to promote 100 projects in 10 years.

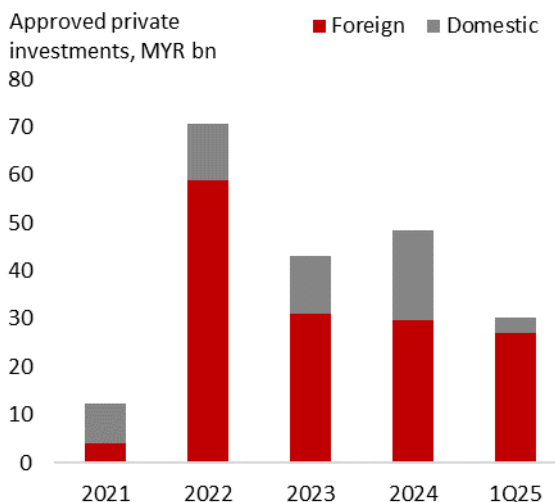
**Policymakers in Johor and Singapore will aim to boost competitiveness and spur greater investments into the JS-SEZ over the coming years, viewing the zone as a growth opportunity against a backdrop of rising global protectionism.** They aim to create a favourable business environment by simplifying custom procedures to improve the flow of people and goods; strengthening the ecosystem through talent development and investment facilitation centres to support businesses; as well as introducing special tax incentives. The Johor Bahru-Singapore Rapid Transit System (RTS) Link that looks to be completed by end-2026 will significantly increase the movement of people as travelling time is significantly shortened to five to six minutes between stations on both sides of the Causeway. Efforts to scale up through a new ASEAN industrial park in the JS-SEZ could strategically attract greater investments from the members of the Regional Comprehensive Economic Partnership, amid supply chain reconfiguration via the China+1 strategy.

**JS-SEZ Nine Flagship Zones and Targeted Sectors**



Source: CNA

**Strong foreign investment interest in Johor due to JS-SEZ**

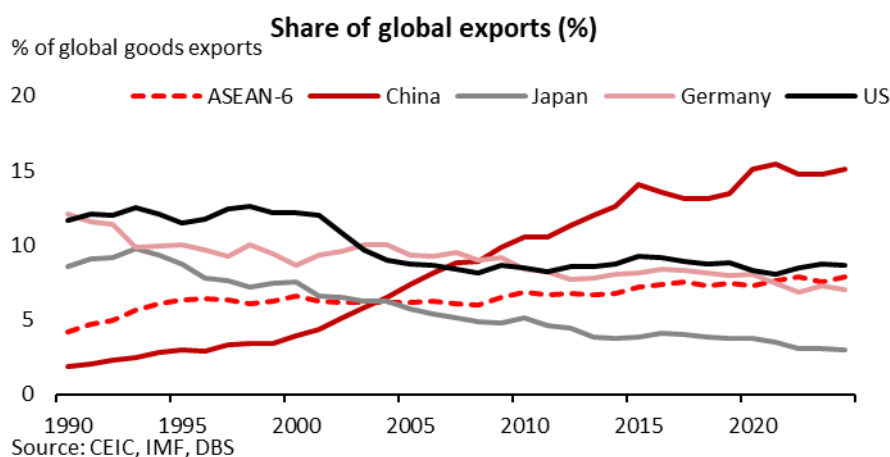


Source: MIDA, DBS

## Extra-ASEAN Linkages

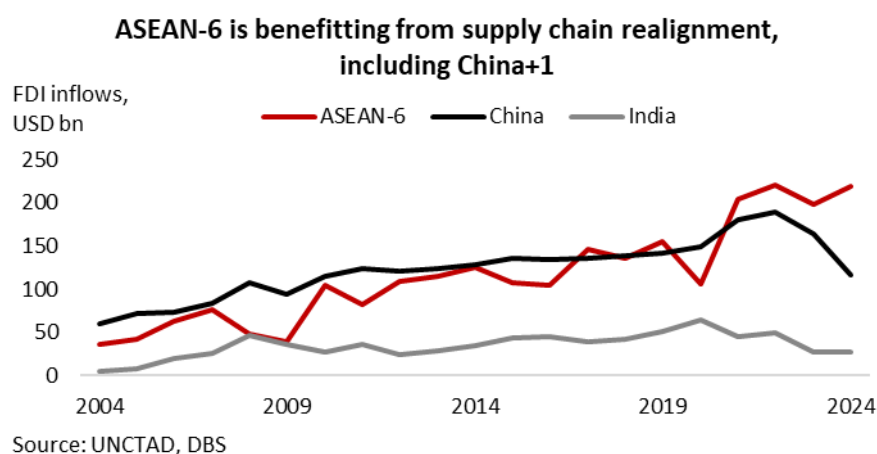
### China & ASEAN-6: Balancing deeper interdependence with geopolitical ruptures

China's impressive transformation into an economic superpower over the past three decades, particularly its rapid industrialisation into the factory of the world following its accession to the World Trade Organisation in 2001, has reshaped regional trade and investment dynamics, including for ASEAN-6. The bloc benefitted from increased global trade integration with China through bilateral and multilateral trade agreements that lowered trade barriers, even if the increase of ASEAN-6's goods exports share in global markets over the past decades was not as high as China's. The bloc's share of global exports rose to nearly 8% in 2024 from below 5% in the 1990s, but still dwarfed by China's hefty ~15%. Nonetheless, ASEAN-6 rode the wave of regional production networks, for instance supplying key intermediate electronics and components into Chinese assembly hubs, with China being ASEAN-6's largest trading partner since around the GFC.



As China grew to become the second largest economy globally, rising labour costs prompted a shift towards higher value-added and technologically advanced industries. In turn, this resulted in the migration of low-tech and labour-intensive sectors like textiles and footwear to SEA-6, as well as medium-tech industries like assembly of semiconductors and electronics. The diversification of supply chains with an alternative beyond China and into ASEAN-6 was subsequently catalysed by rising US-China geopolitical and trade tensions in the past decade and the unprecedented COVID-19 pandemic (see [ASEAN-6: Counting on trade, eye on risks for our four key observations](#)). **ASEAN-6 is likely to remain a location of choice for a production base over the next decade and a half**, not just for western multinational companies but also Chinese firms, due risk diversification, cost optimisation, and market expansion (see [China + 1 strategy led benefits](#) below). FDI inflows into ASEAN have exceeded from that into China since

2021. Interestingly, China already has and will be an increasing supplier of capital to the bloc, as ODI (outbound direct investments) has been on a gradual uptrend in the past five-six years.



**ASEAN-6 would also have to be mindful of potential risks associated with greater economic linkages with China over the coming years.**

First, with greater geopolitical contestation and strategic rivalry between the US and China, the bloc will have to navigate cautiously to avoid being in the crossfire that could strain relations. Challenges have already emerged. For example, the US's aim to rein in transshipment flows in its lowered tariff trade deal with Vietnam was seemingly targeted at China's move to channel trade through 'connector' economies to tap the tariff differential. ASEAN-6 received a rising share of intermediate imports from China, led by Vietnam at 37% in 2021. The bloc is tackling such issues with stricter certificates of origin. The US also plans to restrict shipments of AI chips to some ASEAN countries, aimed at clamping down on suspected semiconductor smuggling into China.

Second, ASEAN-6 will also have to manage the influx of competitively low-priced Chinese imported goods amid overcapacity at home that have had a detrimental impact on domestic producers, despite benefits to consumers. For instance, Thai manufacturers are losing domestic market share to Chinese imports in goods such as autos, furniture, and metals, while Indonesia's local textile firms are suffering from rising Chinese clothing imports. Singapore's domestic food and beverage players that are already tackling rising cost challenges are pressured by intensifying competition from Chinese brands. Lastly, the regional trade balance with China has become lopsided as the bloc has witnessed an increase in imports but have been unable to make deeper inroads into the Chinese economy.

### China + 1 strategy led benefits

**ASEAN remains well positioned to benefit from the global supply chain realignment and the increasing adoption of “China+1” strategy.** Between 2010 and 2023, total net FDI into ASEAN rose from \$108bn to \$234bn, reflecting a CAGR of 6.1%. Since 2021, ASEAN has consistently attracted more FDI inflows than China.

This shift has been driven by several key structural factors: 1) risk diversification – foreign companies are seeking to diversify operations and reduce exposure to geopolitical tensions and unexpected disruptions, such as US tariffs and sanctions on China or the supply chain bottlenecks experienced during the COVID-19 pandemic; 2) cost optimisation – rising production costs in China have prompted firms to explore ASEAN’s relatively cost-competitive labour markets; 3) market expansion – companies are targeting ASEAN’s fast-growing consumer markets, especially as competition intensifies from domestic brands within China.

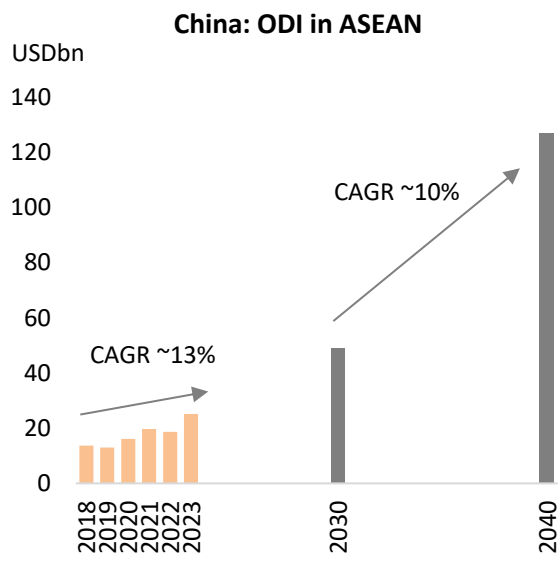
Although some ASEAN countries are now facing US tariff challenges, which could impact the attractiveness of certain export-oriented investments, the underlying drivers of supply chain shifts – risk management, cost efficiency, and market access – are expected to remain intact over the long term. With maturing supply chain ecosystems, competitive labour costs, and large domestic markets, ASEAN will continue to attract significant global investment.

**China is expected to continue playing an important role in ASEAN’s FDI landscape.** China's outward direct investment into ASEAN increased from \$4.4bn in 2010 to \$25.1bn in 2023, representing a strong CAGR of 14.3%. In 2023, China ranked as ASEAN’s second-largest source of FDI on a single country basis —after the US and ahead of Japan. Meanwhile, ASEAN has become China’s second-largest FDI destination, following Hong Kong SAR. Chinese companies, like their global peers, are expanding into ASEAN to manage rising geopolitical uncertainty, domestic cost pressures, and the need to tap into new growth markets amid China’s slowing economy.

In addition, state-led initiatives such as the Belt and Road Initiative and the RCEP have further encouraged outbound investment into the region. These drivers are expected to sustain Chinese investment momentum into ASEAN over the next 15 years.

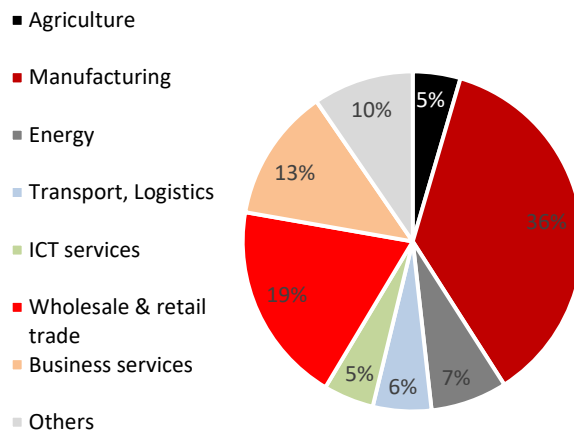
However, Chinese investors are also likely to encounter growing challenges. Several ASEAN countries face pressure from the US to address concerns related to Chinese transshipment and origin-washing practices. At the same time, domestic debates within ASEAN countries over economic overdependence on Chinese capital, supply chains, and the influx of low-cost Chinese goods are gaining traction.

Vietnam exemplifies the complexity of this dynamic. The country now relies on the US for nearly 30% of its exports, and on China for approximately 40% of its imports. Moreover, Vietnam and China exhibit the highest level of industrial overlap, as measured by revealed comparative advantage indices, underscoring direct competition across key sectors. **Balancing opportunities and risks, we forecast that China’s ODI into ASEAN will grow at a CAGR of 10% over the next 15 years, reaching approximately \$130bn by 2040.**



Source: CEIC, DBS

China: ODI in ASEAN, by industry (2023)



Source: CEIC, DBS

**From a sectoral perspective, FDI in ASEAN is expected to increasingly shift toward domestically oriented and higher value-added sectors over the next 15 years.** Traditional export-oriented industries targeting the US market, such as textiles and consumer electronics, are likely to become less attractive. Conversely, ASEAN’s growing domestic consumer market—driven by population growth and an expanding middle class—will boost investment in consumer-facing sectors like retail, food and beverage, lifestyle services, and financial services. Additionally, ongoing urbanization and infrastructure development will continue to attract FDI in real estate, construction, transportation, and logistics. The expansion of the digital and green economies is also expected to draw significant investment into advanced technologies, including semiconductors, artificial intelligence, electric vehicles, and renewable energy.

*Ma Tieying*

## Scope to strengthen economic linkages with India

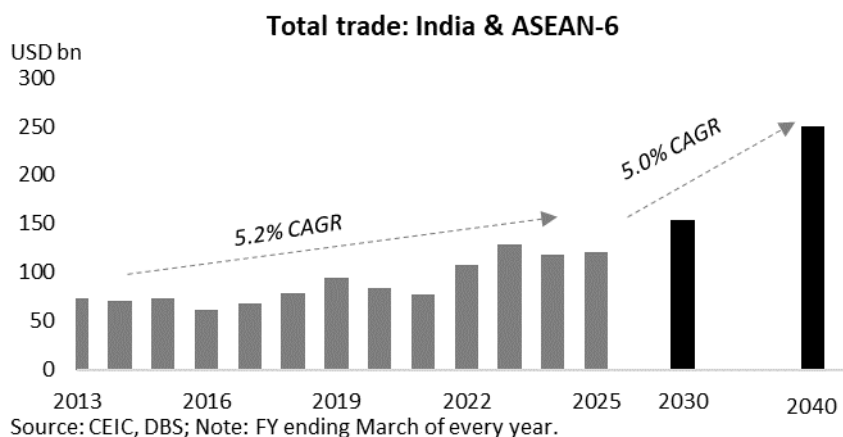
### Multilateral as well as bilateral linkages

India’s ‘Look East’ policy was formulated in the 1990s, after which the policy was upgraded and institutionalised to the ‘Act East’ push under the current administration. Links that were first established in the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India was signed in October 2003, which formed the basis of the subsequent agreements, including the ASEAN-India Free Trade Agreement (AIFTA). The trade in goods chapter was subsequently concluded in May 2011, followed by services in July 2015. The ASEAN-India Trade in Goods Agreement (AITIGA) is under review by both the parties, with nine rounds on negotiations in the past year. There are also bilateral agreements, for instance existing agreement between India and under-discussion India-Indonesia CECA, while others on digital and logistics connectivity are underway.

### Strong existing links and prospective growth

#### Trade

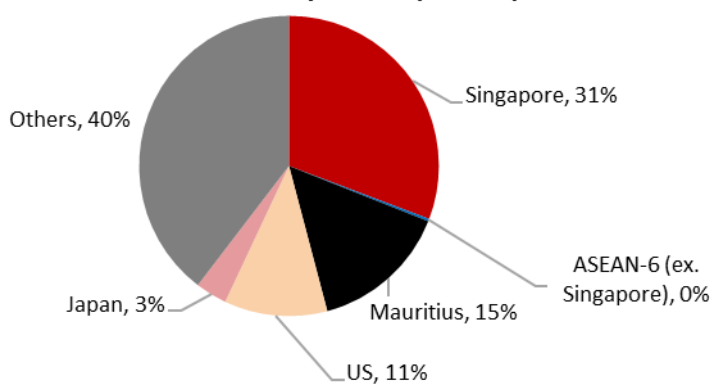
**India and ASEAN-6 already enjoy strong trade linkages, with room to flourish further.** The Southeast Asian bloc was India’s fourth largest trading partner as of FY2024, ranking behind the EU, the US, and China, accounting for a steady share of around 11% of India’s global trade over the years. Bilateral goods trade between India and ASEAN-6 grew by 5.2% CAGR from FY2014 to FY2024, outpacing India’s overall trade growth of 3.8% CAGR over the same period. Singapore (30% share in India’s trade with ASEAN-6 in FY2024), Indonesia (25%), and Malaysia (17%), and Thailand (13%) have been India’s top trading partners within ASEAN-6 in recent years. India’s trade growth with ASEAN-6 has been driven by higher imports compared to exports, with net deficits with all except the Philippines. The largest trade deficits were registered with Indonesia and Singapore. **Assuming 5.0% CAGR over the next decade and a half, India’s total goods trade with the bloc has the potential to expand to around \$250bn by FY2040 from \$120bn in FY2025.**



**Investments**

Foreign direct investment (FDI) flows between India and ASEAN-6 have been concentrated in Singapore. Singapore was India’s largest source of FDI, accounting for 28% of total FDI inflows into India in 2024, amounting to \$16bn. This share has hovered close to this level over the past few years. FDI inflows from Singapore to India grew by 15% CAGR between 2013 and 2024, exceeding the overall FDI growth rate of 6.5% during the same period. In contrast, FDI inflows from other ASEAN economies into India were significantly lower, representing less than 1% of the total in 2023. **FDI inflows from ASEAN into India** have been dominated by the real estate sector, renewable energy, commodities (coal, oil & gas), communication, semiconductors, and chemicals<sup>3</sup>. On the other hand, outbound FDI into the ASEAN region have been dominated by investments into resources i.e., coal and oil & gas, besides service sectors comprising of a mix of software, business, and logistics segments.

**India's FDI inflows by source (USD bn)**



Source: CEIC, DBS; Note: CY ending December 2024.

**Linkages have spanned public sector (sovereign wealth funds) as well private sector partners.** For instance, Singapore’s President had travelled to India at the start of 2025 to affirm bilateral ties, with India’s External Affairs Minister to Singapore to coincide with six decades of economic linkages between the two countries. Singapore’s Temasek plans to place bigger investment bets in India, with the existing portfolio at \$13bn in 2025. Other ASEAN economies are also looking to collaborate and tap into such opportunities. Vietnam’s VinFast is on track to begin production of its integrated factory EV factory in southern India, with an annual capacity of 150K vehicles. Malaysia and India have collaborated in areas like digital technologies, manufacturing and renewable energy. Given the likely bullish outlook of ASEAN businesses towards India, we see room for FDI inflows to India to expand by 10% CAGR over the next decade and half, like that in the past decade, potentially hitting \$75bn by 2040.

<sup>3</sup> [Exim Bank](#)

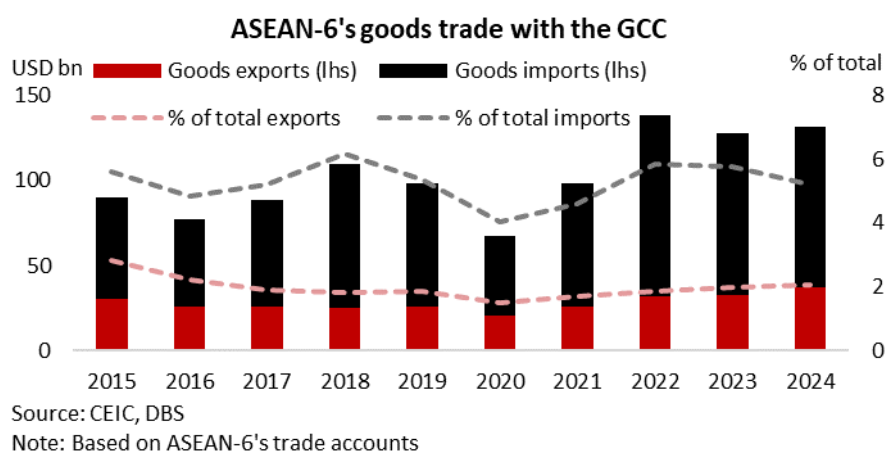
### Outlook and areas to address

We expect synergies between these two regions to strengthen in the coming years, encompassing stronger trade and investment ties. India opted to stay out of the RCEP negotiations as well as the broader Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Given the lopsided nature of India's trade with ASEAN, authorities have been keen on reviewing current terms of the AIFTA, especially the Goods Agreement to eliminate barriers, correct the inequitable tariff liberalisation, and tighten origin of trade terms. India is seeking to introduce product-specific rules in the rules-of-origin determination as a push to jumpstart its exports to the region, with ASEAN also pushing for concessions on ROO rules.

*The complete report: [India & ASEAN-6: Scope to strengthen economic synergy](#)*

## Beyond Asia: Expanding partnerships

ASEAN is also seeking trade partnerships beyond Asia, which can diversify and support future trade growth. A plan includes launching FTA talks with the six-member Gulf Cooperation Council (GCC) (comprising of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates), which were reflected in the Joint Declaration on Economic Cooperation between ASEAN and GCC adopted in May 2025. ASEAN-6's goods trade share with the GCC averaged 3.6% from 2015 to 2024, although the GCC was the region's seventh largest trading partner in 2024. Singapore is the only ASEAN economy that has an FTA with the GCC (in force since 2013), and therefore, we see room to address trade barriers between the two promising regions. The two blocs also see scope to cooperate on multiple areas such as agriculture and food security, renewable energy and sustainable infrastructure, digital economy, Islamic finance, as well as halal products and services. These could reduce trade volatility that historically associated with global oil price movements, as ASEAN imports from GCC were mainly focussed on oil. The GCC also remains keen to diversify from its traditional reliance on hydrocarbons over the long term.



We see scope for greater trade with the EU, also a highly open region, over the medium term with ASEAN and the EU elevating their relationship to a Strategic Partnership in 2020. Europe has received increased investor interest in 2025, reflected in financial market gains this year, amid plans for higher public infrastructure and defence spending that could spark private sector involvement and revive long-term economic growth (see [Macro Insights Weekly: The case for Europe](#)). The EU is ASEAN's third-largest trading partner after the US and China (also third-biggest investor), accounting for 7.7% of SEA-6's trade in 2024, despite a gradually declining share over the past decade. The EU has FTAs with Singapore and Vietnam, which entered into force in November 2019 and August 2020, respectively. Bilateral FTAs appear to be the way forward to break down trade barriers, with Indonesia concluding negotiations, while talks are underway between the EU and the remaining ASEAN-6 economies. ASEAN can also partner and leverage on EU's leadership in green transition and sustainability. It is also in the EU's interest to maintain a competitive position in this dynamically growing region.

## Non-trade measures/ barriers

Most free trade agreements have helped to lower tariffs in intra and extra trade, although non-trade measures (NTM) including non-trade barriers (NTB), continue to pose significant hurdles in intra and extra trade between ASEAN-6 countries and key trading partners. According to the World Bank, NTMs are categorised into import and export Measures, further divided into Technical i.e., TBT (e.g., sanitary measures) and Non-Technical Measures i.e., (e.g., licenses). Of these, quarantine and food safety (SPS) as well as technical barriers to trade make up nearly two-third of the total. Lack of uniformity in regulations across the region increases costs, extends clearance time, and adds to operational risks. World Trade Organisation (WTO) data highlights that between 1995 and 2024 member countries gave notifications to their trading partners on nearly 56,000 technical barriers, covering agriculture and industrial, besides changes to nearly 36,000 food safety, animal and plant health measures. Such measures are also regressive by nature, as although the measures are linked to protecting workers and tended to be imposed on sectors that tend to employ more low-wage workers or women, shielding them from import competition (*Ural Marchand, 2019; Artuç, Porto and Rijkers, 2019 and Bekkers et al, 2024*). However, the economic benefits are negated by higher inflation and lower consumption. A research paper<sup>4</sup> concluded that SPS and TBT are the two main NTMs applied in the ASEAN region, with 74% of 13,804 NTMs in these two categories.

## Competitive advantages

To drill deeper, we gauge the product lines where ASEAN-6 countries have Revealed Comparative Advantage (RCA) published by the UN's Trade agency (three HS code level). To recall, when a country has a revealed comparative advantage for a given product ( $RCA > 1$ ), it is inferred to be a competitive producer and exporter of that product relative to a country producing and exporting that good at or below the world average. The chart below highlights the comparison of China and the ASEAN-6 countries.

**A few observations.** Firstly, under broader categories, Indonesia and Malaysia are key exporters of raw materials as well as intermediate goods in the region, likely a reflection of the abundance of natural resources, including fuel, minerals, and other primary goods. Capital goods exports (low and medium tech) are more dispersed, in Malaysia, Singapore, Vietnam, and Thailand. Secondly, when comparing China to the region, Vietnam comes the closest to China in terms of similarity in the export sectoral strengths, reinforcing the country's rising position as a supplementary destination for exporting firms' the mainland. Thirdly, the region provides a good mix of strength in key export categories, including resource based, low tech

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<sup>4</sup> [The dissemination of non-tariff measures in ASEAN and some implications](#)

manufacturing and labour availability. In all, trade flows between the ASEAN region and China are about to continue as they complement as well as supplement each other’s strengths. We expect the tariff differential between the countries to keep inward FDI at a healthy pace.

China and ASEAN-6 - Revealed comparative advantage (2022)

	China	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Fuels							
Minerals							
Vegetable							
Animal							
Food Products							
Stone and Glass							
Transportation							
Wood							
Chemicals							
Metals							
Plastic or Rubber							
Miscellaneous							
Hides and Skins							
Mach and Elec							
Textiles and Clothing							
Footwear							

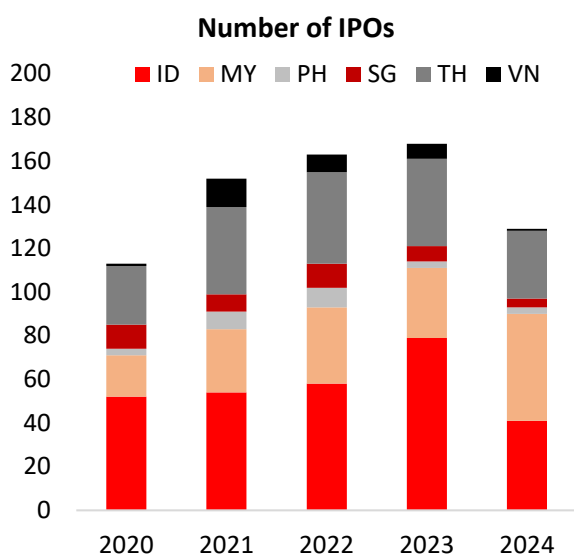
Source: WITS, DBS

**Development of capital markets**

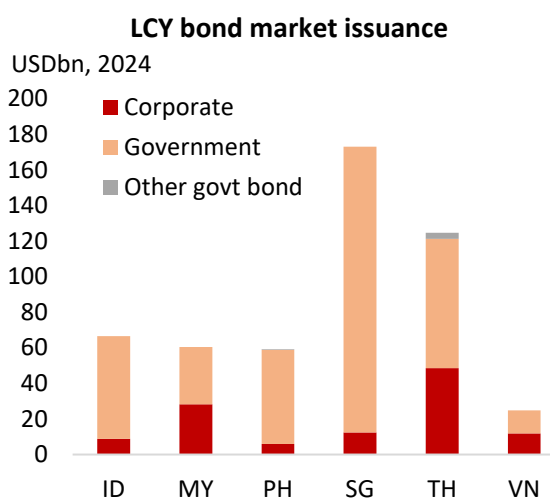
**Capital markets across ASEAN remain underdeveloped, characterised by limited market depth, constrained access, and low overall efficiency.** Credit-to-GDP ratios vary significantly across the region: Indonesia, the Philippines, and Vietnam range from 50% to 130%, while more mature markets such as Malaysia and Thailand report ratios between 220% and 230%. Stock market capitalisation in most ASEAN countries remains below 100% of GDP, and bond market capitalisation is particularly low in Indonesia, the Philippines, and Vietnam, ranging from only 20% to 50% of GDP.

Access to capital markets is concentrated among large corporations and government-backed entities. Small and medium-sized enterprises (SMEs) and low-income households face significant barriers to financing, including insufficient collateral and limited credit histories. Furthermore, SMEs encounter difficulties entering public equity and debt markets due to stringent requirements, such as minimum earnings thresholds, mandatory credit ratings, and complex issuance procedures.

Capital market development is further hindered by ASEAN’s relatively low savings rates and a narrow investor base. Low household savings undermine bank deposit bases and restrict the availability of long-term lending capital. Retail participation in equity markets remains modest, reflecting limited household wealth and financial literacy. Additionally, domestic institutional investors—including banks, mutual funds, and insurance companies—are underdeveloped and small in scale, resulting in low trading volumes in both stock and bond markets.



Source: ASEAN Exchanges, EY, DBS



Note: For VN, bonds of state-owned entities are categorized as government bonds

Source: AsianBondsOnline, DBS

**Supportive macroeconomic trends combined with ongoing structural reforms are expected to drive capital market development in ASEAN over the next 15 years.** Key growth drivers include rapid urbanisation, industrialisation, infrastructure expansion, and transitions toward digital and green economies. These factors will stimulate demand for corporate loans, IPOs, as well as sovereign and corporate bond issuances. Concurrently, an expanding middle class will increase demand for housing mortgages, consumer loans, and investment products.

Household savings rates in emerging ASEAN economies, such as Indonesia and the Philippines, are projected to rise, supported by a demographic dividend. Retail investor participation is also expected to increase, driven by growing household wealth and improved financial literacy. In more mature markets like Singapore and Thailand, aging populations will likely spur the expansion of insurance and pension funds, thereby strengthening the institutional investor base. Meanwhile, foreign investor participation is anticipated to grow as the global trend toward de-dollarisation encourages international investors to diversify portfolios. ASEAN's robust growth prospects, improving credit fundamentals, and greater inclusion in global equity and bond indices enhance the region's attractiveness.

Governments throughout the region are expected to accelerate capital market reforms. Policy priorities may include improving SME access to credit, simplifying IPO and bond issuance procedures, lowering listing thresholds, and expanding credit rating coverage. Additional initiatives could focus on enhancing household financial literacy, fostering the growth of domestic institutional investors, further opening markets to foreign investors, and developing a broader range of investment products.

**Digital financial services (DFS) are poised to play a pivotal role in accelerating capital market development in ASEAN.** Rapid DFS adoption is driven by a young, tech-savvy population, high smartphone penetration, and large domestic markets conducive to commercialization. DFS promotes financial inclusion by facilitating account openings and expanding services to rural and underbanked communities. They also improve credit access for consumers and SMEs by leveraging alternative data sources, such as utility payments and e-commerce activity, for credit scoring. Furthermore, DFS increases retail investor participation by offering user-friendly investment platforms and innovative financial products tailored to diverse investor needs.

According to the e-Economy SEA 2024 report, ASEAN's digital payments gross transaction value is projected to reach \$2.1–2.4trn by 2030. The region's digital loan book is expected to grow to \$200–300bn, while digital wealth assets under management (AUM) is projected to reach \$410bn.

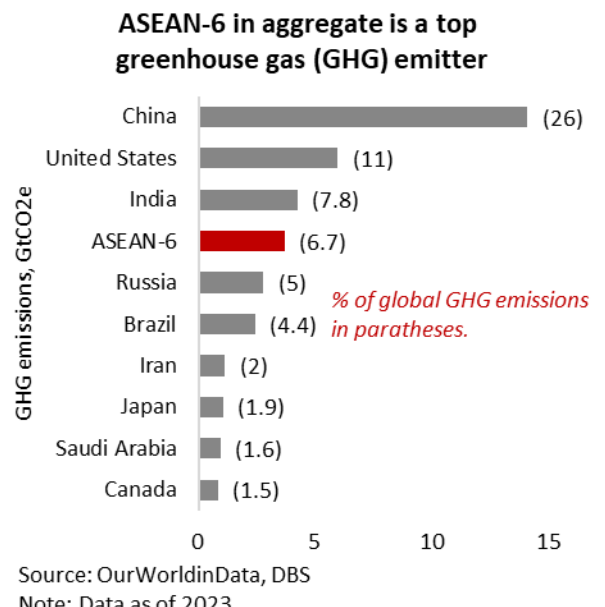
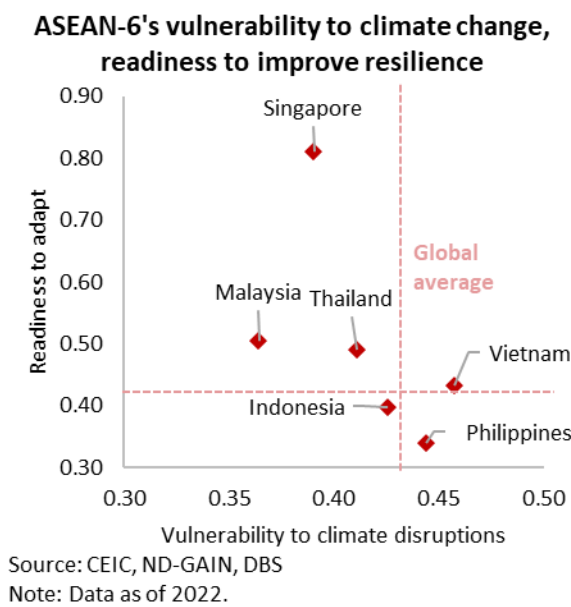
*Ma Tieying*

# Building resilient foundations

## Green transition amid economic growth pursuit

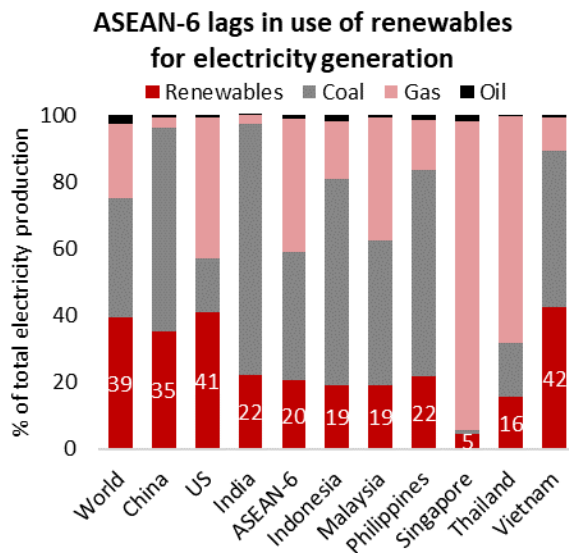
ASEAN-6 stands at a critical juncture, facing the dual imperative of sustaining robust economic growth and the urgent need to embrace the green transition.

SEA is highly vulnerable to physical risks from climate change, with its coastlines and densely populated low-lying areas increasingly threatened by rising seas levels and climate-related hazards. The region is vulnerable and less ready to adapt to climate change to varying degrees. Indonesia, Philippines, and Vietnam ranked lower than the global average on both metrics, according to the ND-GAIN index. Singapore, Malaysia, and Thailand are better placed. The region could face losses ranging between 18% to 30% of GDP by 2070 under a high emissions scenario estimated by the Asian Development Bank (ADB).

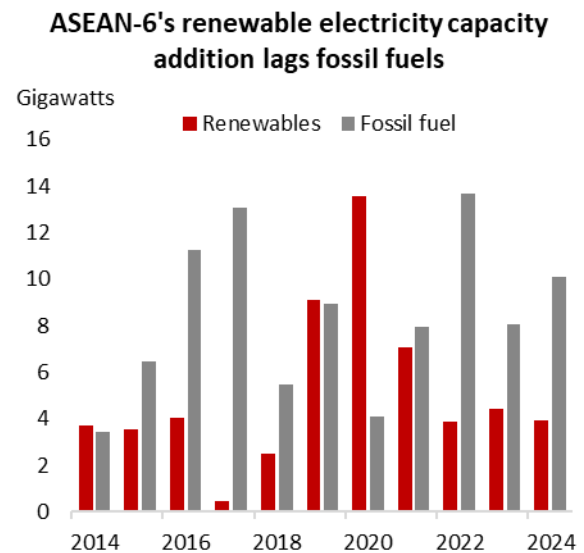


Recognising the importance of transiting to climate and energy resilient future, ASEAN-6 has set national GHG emission reduction targets by 2030 under the Paris Agreement. All countries except Philippines have additional ambitions of achieving net zero between 2050 to 2065. However, the region does not appear to be on track to hit the 2030 targets.

The regional net addition of installed capacity from renewables lagged that from fossil fuels between 2021 and 2024. Despite remaining heavily reliant on high emitting coal for its electricity generation (power was a major source of total carbon emissions at ~24% average), the bloc has made some progress in deploying clean energy technologies in countries like Vietnam (the highest renewables share in electricity generation regionally at 42%).



Source: OurWorldinData, DBS  
Note: Data as of 2023. Average for ASEAN-6.



Source: CEIC, IRENA, DBS

Even as ASEAN-6 is endowed with fossil fuel natural resources, **we see potential for increased adoption of renewable energy over the coming years, due to lower costs, as well as domestic and regional policy momentum and ambitions.** The International Energy Agency (IEA) foresees strong combined technical potential for utility-scale solar photovoltaics, onshore and offshore wind that can play a key role in future electricity supply until 2050. These would be alongside abundant hydropower potential from water in larger rivers such as Mekong, and bioenergy and geothermal momentum in Indonesia, Malaysia, and Philippines. IEA also sees some nuclear power in the energy mix by 2050, with Indonesia, and Vietnam considering the construction of such plants, while Singapore will study deployment and build capabilities.

**The stronger impetus by governments across individual ASEAN nations to promote increased renewable energy adoption in recent years with clear targets and timeframes is a positive development.** Given that global actions are needed to effectively tackle climate change, regional collaboration would be crucial in the orderly path to carbon neutrality. ASEAN has joined forces on climate resilience, demonstrating joint commitments through important global forums like COP29, as well as through initiatives such as ASEAN Plan of Action for Energy Cooperation (APAEC), ASEAN power grid, and ASEAN Catalytic Green Finance Facility. Bilateral efforts through the Johor-Singapore SEZ with strong emphasis on renewable energy initiatives like green industrial park with a dedicated solar park, electricity trading, carbon capture and storage, and carbon credit would also scale up and accelerate efforts.

**SEA’s growing sustainable debt market and instruments will be a key enabler to mobilise the capital needed to fund the massive green investments for a low carbon economy.** Regional climate finance was mostly through debt funding (project-level market rate debt and low-cost project debt), according to the ADB. ASEAN-6’s sustainable debt market has grown over the years, despite being a small part of the global issuance value at ~3-4%, based on our

estimates using Bloomberg Intelligence data. Total issuances rose to a new high of nearly \$65bn in 2024, compared to ~\$51bn in 2021, and 2.8x higher than pre-pandemic in 2019.

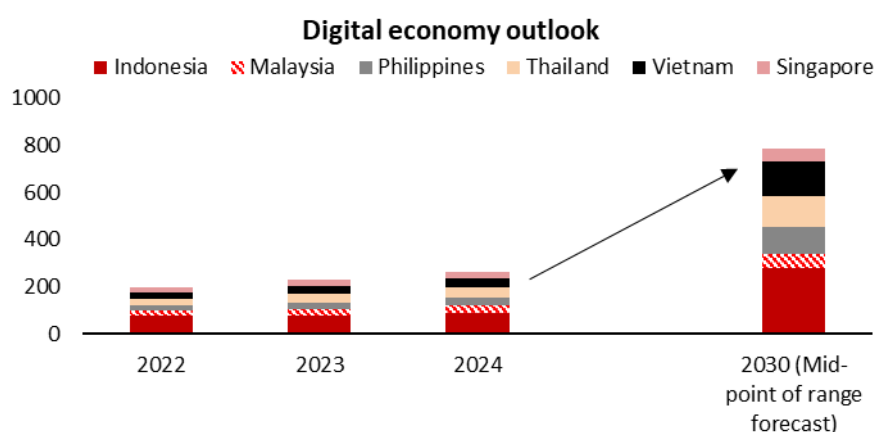
**Increased efforts towards carbon neutrality by mid-century, driven by green opportunities and development of sustainable technologies and infrastructure back by enhanced regional cooperation, has the potential to generate sizeable economic benefits for ASEAN, while building energy resilience.** ASEAN Strategy for Carbon Neutrality citing analysis from Boston Consulting Group estimates that the carbon transition could add \$3.0-5.3trn to the 10-member region's GDP by 2050, driven by an influx of \$3.7-6.7trn in green investments, which could unlock 49-66mn new jobs.

## Digital economy: counting on productivity gains

### Current state and growth drivers

The region's digital economy has had a positive spillover not only on the countries but has also helped to fulfil the AEC's objectives, including plans to improve connectivity, productivity and competitiveness. **Two key drivers in the region** are favourable demographics and urbanisation. Nearly two-thirds of the population is under 35 years of age, which is more likely to embrace digital technology, out of a cumulative population of over 610mn as of 2024. This is accompanied by supportive growth dynamics, including urbanisation and a rising middle class, which has increased the demand for digital services. For a sustained pickup in the digital economy, not only internet penetration but also internet consumption is important.

Internet penetration stood at a high of average 78% in Southeast Asia, with this translating into a gradual climb in the internet consumers at about 60% on average. The region's digital economy has made significant progress in the past year, with revenues and profits growing by double-digits, according to the [e-Conomy SEA 2024 report](#). **Few key sectors** that have improved their margin and profitability, include a) online media, which includes video streaming services; b) e-commerce platforms, with a push to introduce new services; c) transport and food; d) travel and associated services to include car rentals, guided trips; e) education and others, to include online learning, gaming.



Source: eConomy SEA 2024, DBS

The size (gross merchandise value) of ASEAN-6 digital economy is projected to grow by a CAGR of ~17% by the end of this decade to reach \$800bn (*see chart*). One of the key underlying assumptions being that a regulatory overhaul (*discussed in the next section*) will introduce uniformity across differences in development levels, regulatory capacity, infrastructure, and digital skills across the region. Firms in this sector are expected to achieve growth as well as profitability, whilst also ensuring the need to innovation, and enhancing digital security.

### Collaboration and policy framework

In the past decade, the ASEAN region has collaborated and promoted digital connectivity in fields like cyber security, data protection, and cross border digital trade. The ASEAN ICT Masterplan of 2020 was succeeded by the AEC Blueprint from 2021 to 2025, widening core areas to free flow of digital services, e-commerce and trade facilitation. Concurrently, other rulemaking collaborations have been underway through various agreements, including the ASEAN Agreement on Electronic Commerce, with the ASEAN Digital Economy Framework Agreement (DEFA) the latest milestone in this journey.

**Over the next five years, progress on the DEFA is likely to be in focus.** Establishing an implementation mechanism will be important amidst ongoing DEFA negotiations, including the dispute settlement mechanisms to make room for the evolving provisions in preferential and standalone digital economy agreements. Few factors will determine the success of DEFA<sup>5</sup>, including:

- a) broad spectrum of digital development across ASEAN members and varied regulatory capacity;
- b) differences in the extent of importance of digital policies across the countries;

<sup>5</sup> [SEA Institute](#)

c) progress on the agreement given its size, spanning nine chapters covering varied aspects of digital policy. A relatively low hanging fruit would be to achieve alignment in areas that have already been visited like paperless trade, and payments connectivity. A more challenging aspect will be cross border data flows, on hurdles like data localisation requirement. In these respects, Singapore and Malaysia are expected to emerge as front runners, while Indonesia and Vietnam might trail the rest in digital policymaking.

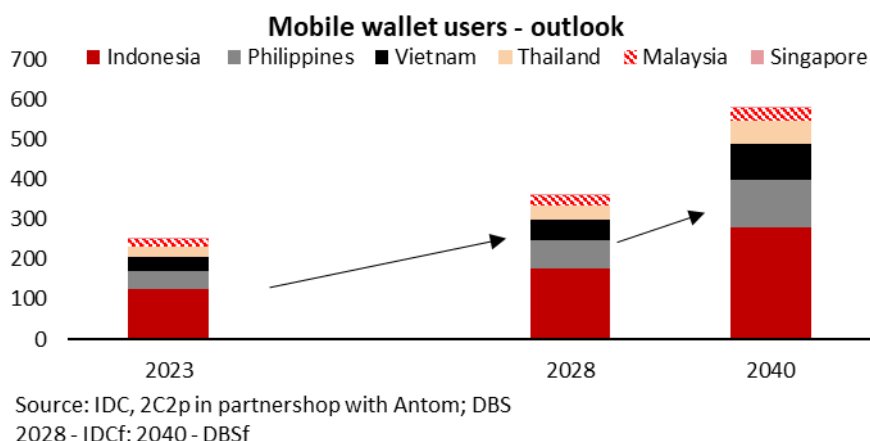
## Digital Payments

**Key trends.** Development of digital payments has accelerated in the ASEAN-6 countries, tracking an increase in mobile penetration, financial inclusion, development of the banking system and a supportive ecosystem. Expansion of domestic options has been notable, including PayNow in Singapore, GoPay in Indonesia, amongst others. Digital payments recorded a total of 34.5bn transactions in 2024, across various modes, including mobile app (36%) transactions, internet, QRIS (up 175%). Concurrently, the adoption of QR code payments has been significant, for example Indonesia's QRIS (Quick Response Code Indonesian Standard). These have, in turn, hastened the pace of financial inclusion as well as supported the expansion of e-commerce. The next step for the region to boost cross-border flow of funds, by integrating the national payment systems. In addition, regional central banks have also conducted proof studies or pilots on digital currencies/ central bank digital currencies.

**Outlook.** Payment systems are at various levels of maturity across regional countries. For instance, Singapore's digital payment landscape is well-developed, and digital payments are widely used for retail as well as wholesale transactions. The MAS formed the Payments Council to drive adoption of e-payments as well as boost innovation in the industry. Indonesia, meanwhile, has made great strides. With national governments likely to be keen to learn from mutual technologies and seek to integrate systems to ease transactions, introduce efficiencies and make it cost effective.

Digital payments have linkages to various sectors, including e-commerce. The share of past offline payment options such as cash-on-delivery and ATM transfers for e-commerce transactions has dwindled to below 15%, with over 85% comprising of digital payments, including cards, mobile wallets, domestic real time payments etc., according to an [IDC Report](#). The share of digital payments is likely to head towards 95% in the decade ahead, requiring businesses/ merchants to adopt payment technologies as well. The digital payments market is expected to witness a strong momentum in this decade, expanding from an estimated \$789bn worth transaction value in 2025 to \$1.7-1.8trn, helped by strong internet penetration, technology upgrades, business acceptance of digital modes, besides a faster pace of financial inclusion. This growth is expected to be led by mobile point of sale (POS) transactions, besides mobile wallets (*see chart*). For the latter, the growth of super-apps will be an important thrust

factor, banking on increased activity in e-commerce, ride-hailing, financial services and telecom applications.



**Challenges.** Challenges impeding a quick improvement in the region includes a sizeable digital divide i.e., rural and unbanked part of the population, which is still to get access to smartphones or internet. Secondly, lingering cybersecurity risks, amidst rising fraud and security concerns with e-transactions. Next, is the lack of the standardization across platforms, regulations and digital infrastructure, which needs to be resolved to expedite not only domestic growth in digital payments but also cross-border integration.

### Artificial Intelligence (AI)/ GenAI

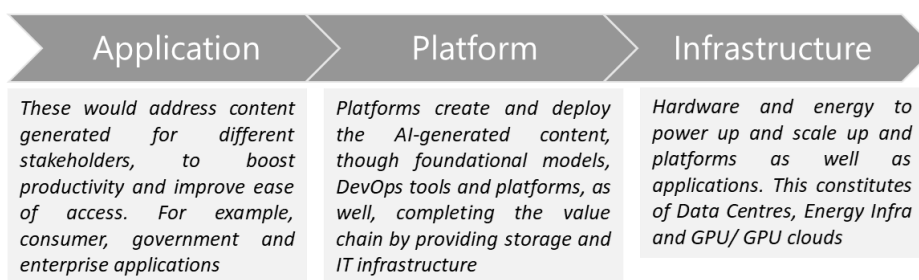
AI is increasingly reshaping industries across the world, including ASEAN-6, which has turned into a fertile ground for innovation as well as investments into hard and soft AI infrastructure.

In recent years, regional countries have made efforts to integrate AI into various sectors, from healthcare, finance to manufacturing. This surge in interest is not only about technological advancement but also future-proofing growth and to stay competitive. At an aggregate level, initiatives like the ASEAN Guideline on AI Governance and Ethics and the establishment of the ASEAN Working Group on AI to promote collaborative efforts and ethical AI use across its member states, has been established. As mentioned earlier in the report, the proposed Digital Economy Framework Agreement (DEFA) will help synergise cross-border data regulations in the region, thereby strengthening the AI infrastructure backbone. At the country level, Indonesia has introduced the National Strategy for AI and Singapore’s Smart Nation project, to integrate the tech across various sectors. Countries are also investing in large language models to meet unique domestic requirements. Several regional papers have also been released to align national practises with AI governance and ethics, for example Thai LLM, PhoGFP, Vin AI in Vietnam, amongst others.

Private sector participation has also been crucial in driving AI adoption, across the software as well as hardware technology stacks. **Spanning the software value chain**, from end-layer applications (low barrier to entry) to foundational models (players will need sufficient talent and upfront investments), the region’s capacity to compete is the most in the first part of this value chain, according to the e-Economy SEA Report 2024. **Under hardware value chain**, the ASEAN countries are best placed to compete in data centres, besides other section like computer hardware and semiconductor design and manufacturing.

Investments into data centres, which are a crucial sector to address demand for cloud storage, e-commerce and growing use of AI, amongst others, have surged. Around \$30bn worth investments have taken place in first half of 2024 alone into AI-ready data centres, in Malaysia, Singapore and Thailand, according to the e-Economy SEA 2024 report. This stands to grow by at least 1.5x over the coming years. Regional governments have also supported these investments by increasing availability of land, lowering utility tariffs, tax incentives, and encouraging more green energy. Under our Sectoral section, there are more details on these regional forecasts.

Branching from AI to Machine Learning and Generative AI models, has introduced use-cases in the region, for example, the ability to analyse medical records, AI-driven tutoring systems, better traction in creative industries, amongst others. The GenAI value chain typically has three components:



Source: Deloitte, DBS

Growth will get a hand from high value foreign and domestic investments in this space. Lastly, the underlying funding and innovation for cutting edge technology will also provide new business opportunity to the regional players. **An important refrain is the impact of AI/ GenAI on jobs and employment in the region**, especially those countries with a bigger proportion of population employed in agriculture and informal sectors. A higher proportion of jobs across the region have the likelihood of being augmented rather than replaced. When demarcated by income groups, a greater proportion of high-skilled jobs than medium-skilled jobs have the potential to be augmented, with lower-income economies benefiting more. High-skilled workers in lower-middle-income economies are likely to benefit the most from augmentation, while impact will be less on low-skilled jobs, especially that require manual labour.

## Sectoral implications

From a sectoral perspective, investments – domestic and FDI – are likely to be attracted by the region’s structural strengths, shifting from domestic demand-oriented industries to higher value added as well as specialised labour-intensive sectors over the next 15 years. This is likely to translate into a transition from textiles, footwear, and furniture-driven push towards low to medium-tech industries, such as consumer-facing services, consumer electronics, e-commerce, and cleantech industries. Urbanisation and infrastructure development will continue to attract FDI in real estate, construction, transportation, and logistics. The expansion of the digital and green economies is also expected to draw significant investment into advanced technologies, including semiconductors, AI, electric vehicles, and renewable energy.

We discussed these sectoral opportunities in detail in [Navigating High Winds: Southeast Asia Outlook 2024 – 34](#)

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NAVIGATING HIGH WINDS

**Southeast Asia**

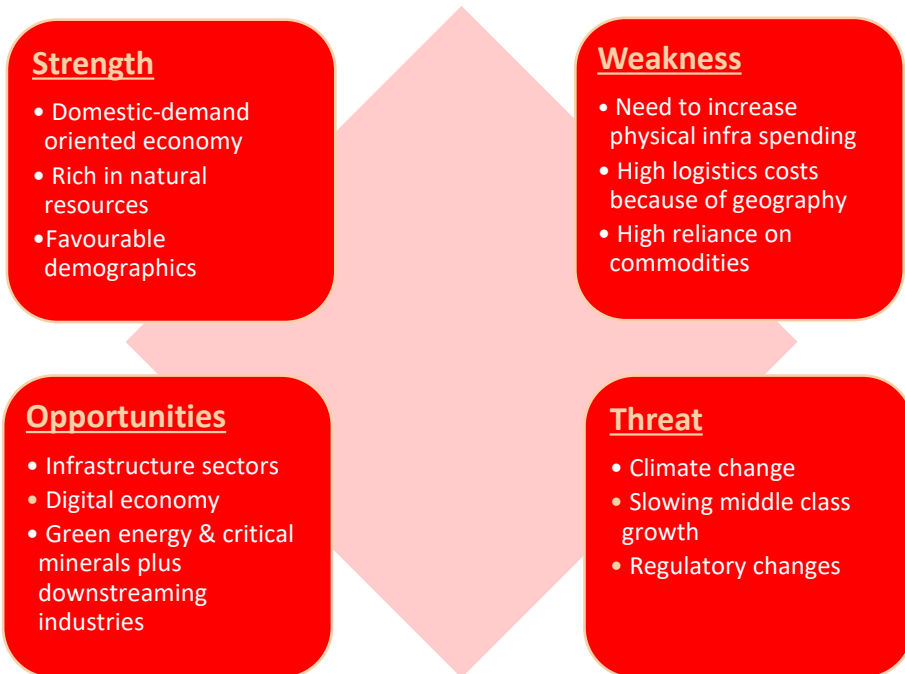
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## Individual country overview

### Indonesia

Indonesia is Southeast Asia’s largest and most populated economy, driven by domestic consumption and endowed with rich deposits of commodities, including palm oil, coal, and nickel, amongst others. Counting on its positive demographics and unique strength in commodities, we expect growth to average 5.6% over the next decade and a half.

**Nominal GDP:** \$1.43trn  
**Population:** 281.6mn  
**GDP per capita:** \$ 4,958  
**Top industries (% of GDP, 2024):**  
 1) Manufacturing 19.8%  
 2) Wholesale & retail trade 13.7%  
 3) Agriculture & allied 13.2%  
 4) Construction 10.5%  
 5) Mining & Quarrying 9.6%  
 6) Transportation & storage 6.4%  
**National savings:** 30.7.1% of GDP  
**Investments:** 31.4% of GDP  
 \* IMF, CEIC, National statistics. 2024 figures.



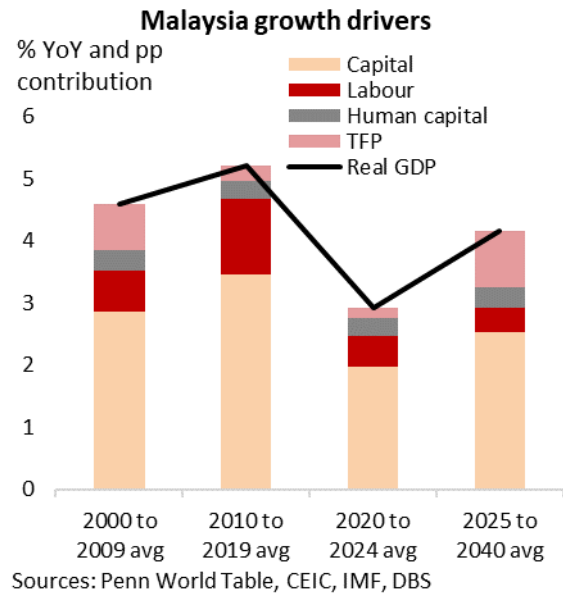
# Malaysia

Malaysia’s economy is diversified, leading in backend chips activities, as well as palm oil and oil & gas commodities. Growing the Johor-Singapore Special Economic Zone and tech investments are balanced with business and fiscal reforms. We forecast average real GDP growth of 4.2% from 2025 to 2040.

**Nominal GDP:** \$420bn  
**Population:** 33.5mn  
**GDP per capita:** \$12,541  
**Top industries (% of GDP, 2024):**

- 1) Manufacturing 22.5%
- 2) Wholesale & retail trade 17.6%
- 3) Agriculture & allied 8.1%
- 4) Mining & quarrying 8.0%
- 5) Information & comm 5.6%
- 6) Finance & insurance 4.5%

**National savings:** 23.6% of GDP  
**Investments:** 21.9% of GDP  
*Source: IMF, CEIC, National statistics. 2024 figures.*



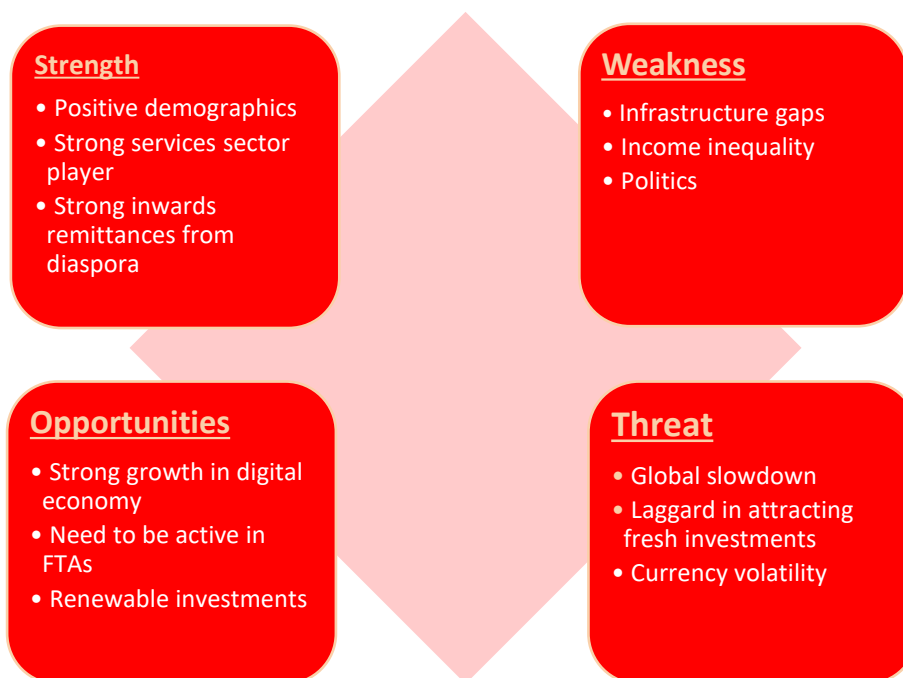
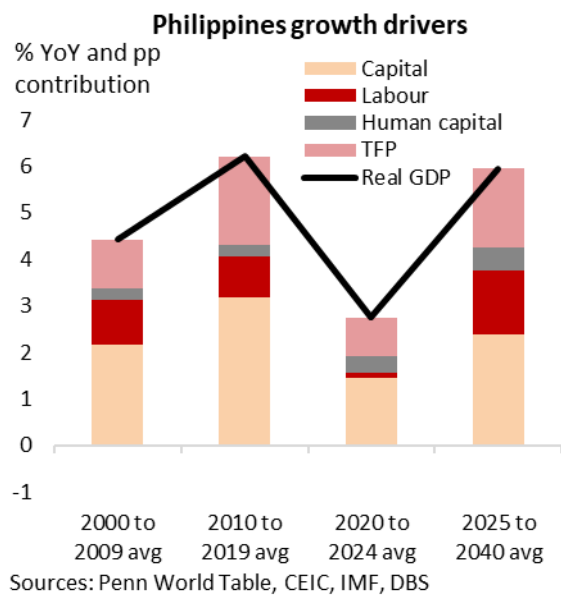
# Philippines

Services are a significant part of the Philippines economy, besides manufacturing activity. Positive demographics, and a young population are few of the country’s medium-term strengths. For the external sector, strong presence in business process outsourcing, and tourism coupled with electronics, are key positives. We expect growth to average 6%, above the aggregate pace for the region.

**Nominal GDP:** \$461bn  
**Population:** 113.2mn  
**GDP per capita:** \$ 4079  
**Top industries (% of GVA, 2024):**

- 1) Wholesale and retail trade 18.4%
- 2) Manufacturing 15.7%
- 3) Financial & insurance 10.9%
- 4) Agri and allied 9.1%
- 5) Construction 7.7%
- 6) Professional and business services 6.2%

**National savings:** 30.7.1% of GDP  
**Investments:** 31.4% of GDP  
*IMF, CEIC, National statistics. 2024 figures.*



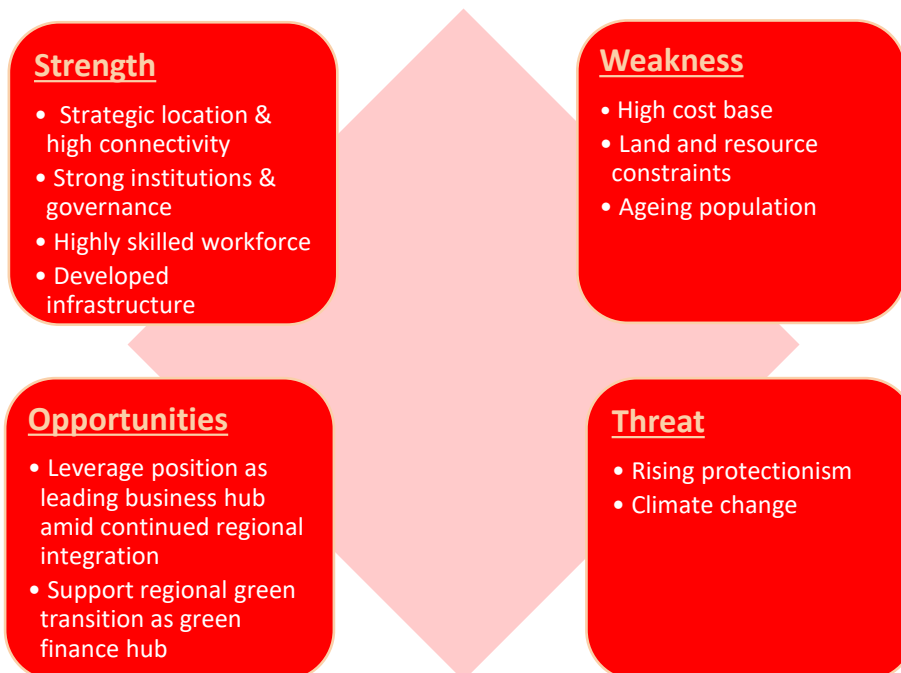
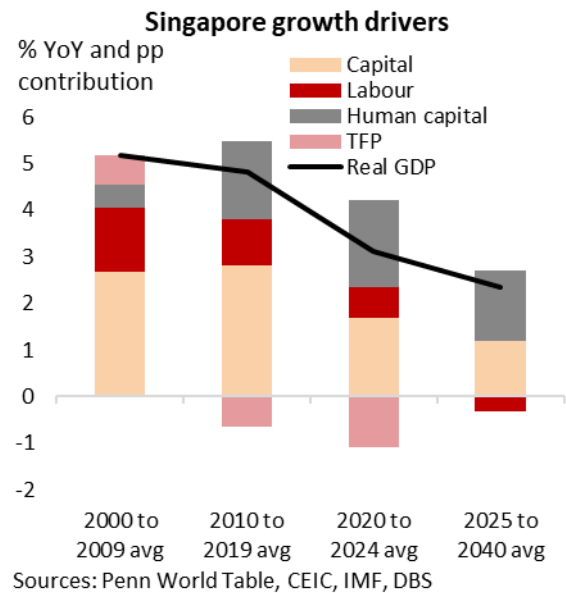
# Singapore

Singapore is ASEAN’s most advanced and competitive economy, excelling as a leading global business hub and international financial centre, despite being an island-nation with no natural resources. We forecast average real GDP growth of 2.3% from 2025 to 2040, decent for a matured country.

**Nominal GDP:** \$547bn  
**Population:** 6.0mn  
**GDP per capita:** \$90,674  
**Top industries (% of GDP, 2024):**

- 1) Wholesale trade 19.2%
- 2) Manufacturing 16.3%
- 3) Finance & insurance 13.5%
- 4) Transport & storage 8.6%
- 5) Information & comm 5.6%
- 6) Professional services 5.2%

**National savings:** 39.7% of GDP  
**Investments:** 22.2% of GDP  
*Source: IMF, CEIC, National statistics. 2024 figures.*



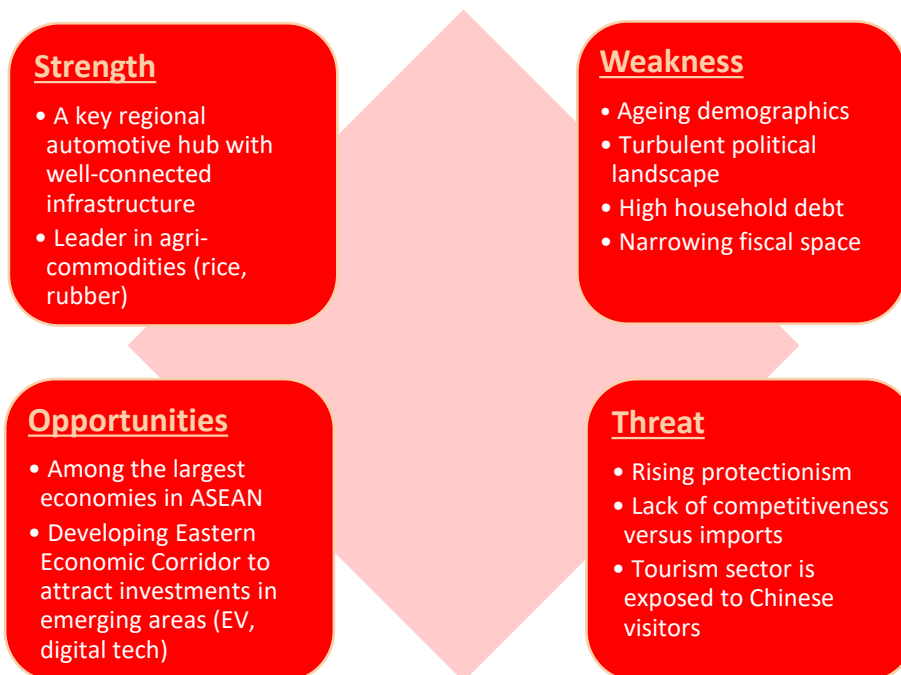
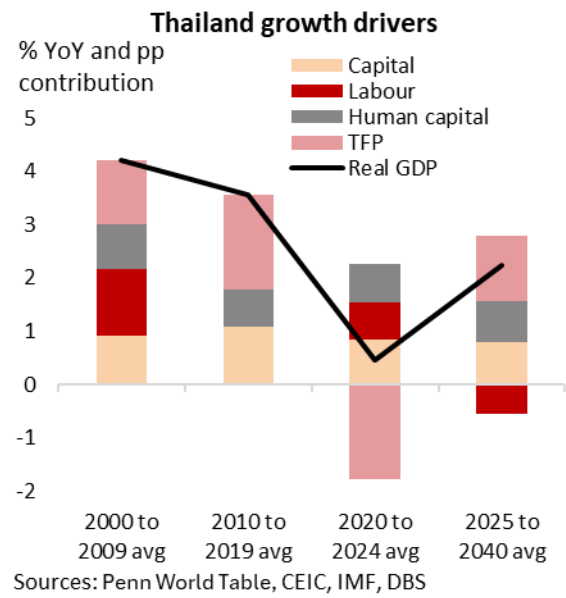
# Thailand

Thailand is a mixed economy, with tourism, autos and electronics manufacturing, and agriculture being key growth contributors. While still a development success, it has lagged significantly since the pandemic amid various challenges. We forecast average real GDP growth of 2.2% from 2025 to 2040.

**Nominal GDP:** \$526bn  
**Population:** 70.3mn  
**GDP per capita:** \$7,492  
**Top industries (% of GDP, 2024):**

- 1) Manufacturing 24.3%
- 2) Wholesale & retail trade 16.0%
- 3) Agriculture & allied 8.7%
- 4) Finance & insurance 8.6%
- 5) Public administration 6.1%
- 6) Accommodation & food 5.9%

**National savings:** 23.7% of GDP  
**Investments:** 21.6% of GDP  
*Source: IMF, CEIC, National statistics. 2024 figures.*



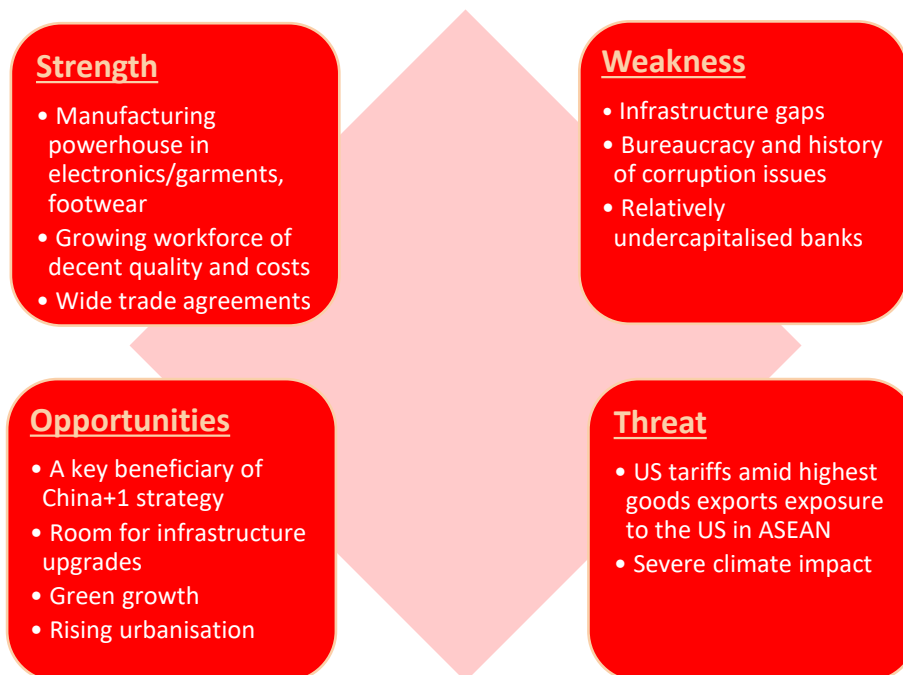
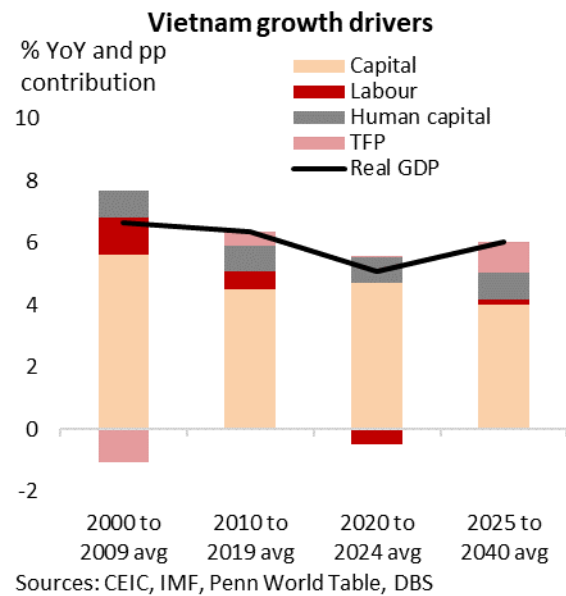
## Vietnam

Vietnam is emerging as a fast-growing manufacturing base, attracting rising foreign investments, amid competitive costs and extensive free trade agreements, with room for infrastructure upgrades. We forecast average real GDP growth of 6.0% from 2025 to 2040, outperforming the region.

**Nominal GDP:** \$459bn  
**Population:** 101.3mn  
**GDP per capita:** \$4,536  
**Top industries (% of GDP, 2024):**

- 1) Manufacturing 24.4%
- 2) Agriculture & allied 11.9%
- 3) Wholesale & retail trade 9.8%
- 4) Construction 6.0%
- 5) Transport & storage 5.2%
- 6) Finance & insurance 4.8%

**National savings:** 36.7% of GDP  
**Investments:** 30.6% of GDP  
*Source: IMF, CEIC, National statistics. 2024 figures.*



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