ASEAN Connect
By Global Economics & Markets Research

ASEAN: Positive trade and investment outlook to 2030 and beyond

Summary

As ASEAN experienced three consecutive years of record inflows of foreign direct investments (FDI) and total trade, prospects for the bloc remain positive as it heads into its 60th year of establishment in 2027. These data further reaffirm ASEAN as a bright star in global economy.

Other than a large and young population base, three key factors contribute to a favourable outlook for ASEAN in the coming years: 1. Increasing cross-border policy coordination; 2. deepening integration across various economic sectors among its members; 3. a peaceful environment coupled with generally stable domestic political conditions. In addition, supply chain shifts and risk diversification in response to geopolitical tensions will further channel investments and trade flows into ASEAN.

Outlook – ASEAN's trade and investment prospects remain bright, with projections indicating sustained growth in the coming years. FDI inflows into ASEAN hit US$226 billion in 2023, and we forecast the inflows to rise by 38% to US$312 billion by 2027 and further to US$373 billion by 2030. Moreover, total trade flows in ASEAN are expected to accelerate, reaching US$4.7 trillion by 2027, representing a 34% increase from US$3.5 trillion in 2023.

ASEAN: Bright prospects into 2027 and Beyond

The prospects for ASEAN[1] remain positive as it heads into its 60th year of celebration in 2027 and beyond. Growth momentum and investors' enthusiasm in the past few years look to remain intact. At the same time, increasing cross-border policy coordination and cooperation, deepening integration within ASEAN, a peaceful environment coupled with stable domestic political conditions will further enhance the region's competitiveness and investor confidence. Despite top leadership changes in four ASEAN countries this year—Singapore, Vietnam, Thailand, and Indonesia—the transitions have been smooth, and policy continuity is expected to persist. In addition, supply chain shifts and diversification in response to geopolitical tensions will likely continue to channel investments and trade flows into ASEAN.

[1] ASEAN (The Association of Southeast Asian Nations) consists of Brunei Darussalam, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam. ASEAN-6 refers to the founding members Indonesia, Malaysia, Philippines, Singapore, and Thailand, plus Vietnam.
For more information and background on ASEAN, please visit UOB's ASEAN Connect portal https://www.uobgroup.com/research/asean-connect.page

Opportunities in ASEAN

Looking further ahead to 2027 and beyond, we remain constructive on trade and FDI inflows in ASEAN as the following factors will greatly facilitate business activities and boost confidence.

1) **Greater cross-border policy coordination and cooperation** – The Johor-Singapore Special Economic Zone (JS-SEZ) is one example where Malaysia and Singapore governments coordinate policy concerning the special economic zone. According to news reports, the Malaysian government is also working with Thailand on further coordination with the special economic zones (SEZ) that are already in operation. Another example is the construction of the Funan Techo Canal in Cambodia, which was welcomed by the Vietnamese government due to the collective common interests in the Mekong Delta. Increased adoption of cross-border payments and funds flows via QR and digital channels, are other examples of closer policy coordination.

2) **Prevalence of the ASEAN spirit and the deepening integration** of regional economies. In addition to the JS-SEZ, increased integration of the region is reflected in some recent developments, including the entering into force of the Regional Comprehensive Economic Partnership (RCEP) in 2022 (link), the sizeable intra-ASEAN flows of trade and FDI, and the ASEAN DEFA (Digital Economy Framework Agreement) negotiations which were launched in September 2023, and targeted for conclusion by 2025, to improve digital rules in key areas such as digital trade facilitation, payments, standards and data, as well as emerging issues such as artificial intelligence.

3) **Peace and domestic political stability** – Since the establishment of ASEAN, there has not been any armed conflict among its members, unlike other parts of the world. This fosters a calm and peaceful environment for businesses and investors and reduces significantly risk premiums and uncertainty. In addition, power transitions after recent elections in Indonesia (2024), Malaysia (2023) and Thailand (2023/24) have largely been smooth and uneventful, demonstrating the increased maturity of these countries, which ensure policy continuity and stability in these key ASEAN members at least in the next three to five years.

4) **Large market size** – With a population of nearly 700 million in 2023, ASEAN is the third largest grouping after India and China. This large and growing consumer market with rising income is a key factor attracting investments from globally.

Based on the factors mentioned above and our observations of the data flows and trends, and with the combination of bottom up and top down approaches, the UOB's team of economists across the region assesses that the pace of FDI inflows into ASEAN is set to rise to US$312 billion by 2027, and further to US$373 billion by 2030, from US$226 billion in 2023. Moreover, total trade flows in ASEAN are poised to accelerate further, reaching US$4.7 trillion by 2027, representing a 34% increase from US$3.5 trillion in 2023, with Vietnam playing an increasingly large role compared to other ASEAN members.

Taking the pulse: Record FDI and trade flows

Record FDI inflows into ASEAN for the third year amid global macro challenges

Despite facing global challenges such as high interest rates, US-China tensions and ongoing military conflicts in eastern Europe and the Middle East, ASEAN registered its third straight year of record high FDI inflows and trade values.

According to the latest FDI data released in the World Investment Report (link) by the United Nations Trade and Development (UNCTAD), ASEAN retained its position as the world's top destination of FDI inflows in 2023 after the US. This marks the third year of record inflows for the region.

Global FDI inflows totalled US$1.33 trillion in 2023 and dropped 2% from 2022. UNCTAD attributed the "wild swings" in a small number of European conduit economies, partly due to the global minimum tax (GMT) for large multinational enterprises (MNEs) as well as "a big drop" in the value of cross-border M&As in developed markets. **Excluding the effect of these conduits, the headline global FDI inflows in 2023 experienced a far larger decline, down by more than 10% y/y,** while inflows to developing markets shrank by 7%, led by Developing Asia[2], the largest FDI recipient, which dropped by 8%, according to UNCTAD.

Similar to the headline figure, FDI flows to Developing Asia receded in 2023 but remained elevated, at US$621 billion, and the region stayed as the largest destination of FDI, accounting for nearly half of global inflows. **Within Developing Asia, inflows to China fell by 14% to US$163.3 billion** and to India plunged by 43% to US$28.2 billion.

While inflows to East Asia declined due to a significant drop in China after a decade-long growth trend, inflows to ASEAN remained stable supported by robust economic growth and extensive global value chain (GVC) linkages, as highlighted in the World Investment Report (WIR).

Against a backdrop of global economic challenges, **inflows to ASEAN rose 1.2% to US$226.3 billion in 2023**, although the distributions were uneven. **Among ASEAN members, Singapore, with its position as a regional hub, remained the largest recipient and accounted for nearly US$160 billion for a gain of 13%,** while Vietnam saw a smaller increase of 3.4% to US$18.5 billion. In contrast, Indonesia, Malaysia and Thailand reported y/y declines of 15% to 59% in 2023, following the broader trends globally during the year as economic activities slowed in response to tight monetary policy stance by various central banks. UNCTAD noted that about half of the developing economies experienced declines in FDI inflows in 2023.

[2] Developing Asia consists of East Asia (China, HK SAR, Taiwan region), Southeast Asia, South Asia (Bangladesh, India, Pakistan), West Asia (Saudi Arabia, Türkiye, United Arab Emirates), and Central Asia (Kazakhstan, Uzbekistan).

ASEAN: The US remains the largest source of FDI inflows

Separately, ASEANstats also updated its database of FDI concurrently with UNCTAD's release. The latest data from ASEANstats show that the US remained the largest contributor of FDI inflows to ASEAN, since at least 2019.

The US accounted for 32% share of total inflows to ASEAN in 2023, more than doubled from the 13% share in 2022 and the average value of 12% from 2010 to2019, suggesting that rising US-China tensions, the shifting of supply chains and de-risking/"friend-shoring" continue to be the main motivating factors.

Similar to the US but at a much smaller scale, inflows originated from Europe have increased significantly compared to historical average. For example, inflows from Switzerland and Germany saw multiple times of increases compared with the 2010 to 2019 period.

Merchandise trade flows: Record highs for ASEAN's exports and import

Similar to the trends observed in FDI data, exports and imports activities also reflect the realities of rising geopolitical tensions, and the shifting of supply chains in response to the need to diversify and de-risk.

Merchandise trade activities (i.e. exports and imports) in ASEAN maintained its momentum in 2023, although the pace was dented somewhat by the aggressive central bank policy tightening globally. The value of global total trade in merchandise declined by about 5% in 2023 to US$48 trillion from US$50.6 trillion in 2022.

In 2023, total merchandise trade (exports + imports) value in ASEAN fell by about 8%, after 2 years of double-digit gains from the post-COVID-19 rebound. Despite the decline, ASEAN's total trade value stood at the second highest on record, at US$3.5 trillion. These mark the third year of record highs in ASEAN's exports, imports, and total trade activities. As a group, ASEAN accounts for 7.4% of world's total trade value.

All the ASEAN-6 member states suffered declines in their trade activities in 2023, particularly in the second half of the year when unfavorable base effects coupled with weakened external demand pressured on exports performances. For example, Malaysia's exports declined y/y for a 10th straight month while Singapore's exports (non-oil) registered only one month of y/y gain in 2023. Vietnam, another export powerhouse in ASEAN, reported only 4 months of increases in both its exports and imports in 2023 as trade with major trade partners including the US, China, South Korea, and Japan declined throughout 2023.

The shifts of ASEAN's trade patterns as a result of the rise in US-China contestation are clear from the trends since around 2018 when then-US President Trump began to impose trade tariffs on China's exports. From ASEAN's perspective, China remained the largest market with a share of 16% in 2023, up from about 14% in 2017. Even more remarkable, ASEAN's exports to the second largest market, the US, rose from less than 11% share to 15% in 2023. In contrast, exports to the third largest market, European Union, declined steadily, by nearly 2% pt to 8.6% share in the same period. Exports to the various ASEAN markets ("intra-regional" exports) remained substantial at more than 20%, underpinned by demand among the grouping's members for their own consumers and producers that are scattered throughout the region.

With the base effects turning more promising, the US Fed poised to start easing its policy stance from September, and China's economic growth stabilising at around 5% this year and beyond, near-term outlook for external trade in ASEAN is expected to stay positive. ASEAN's trade and FDI inflows will be supported by the ongoing shifts in the global supply chain as well as risks diversification.

Challenges and risks to the outlook

On the flip side, some key challenges and risks need to be considered.

Challenges and Risks

1. Global geopolitical tensions are unlikely to abate in the future as rivalry among the superpowers intensifies on territorial claims, technological advances, access and use of resources, among other things. ASEAN must remain united to defend its own interests and to withstand pressures from superpowers. As such, disunity within the grouping could lead to instability and uncertainty that may deter foreign investors.

2. The global demand for actions to meet environment and sustainability targets, as well as the advent of artificial intelligence (AI) and digitalisation could impact the competitiveness of some industries and member states.

3. Political challenges and internal issues such as Myanmar could test ASEAN's resolve and unity, which potentially could lead to discord among members and therefore jeopardise economic cooperation and business environment.

Remain optimistic overall

We are optimistic that ASEAN will be able to overcome its challenges, and to remain as the bright spot in a troubled world.

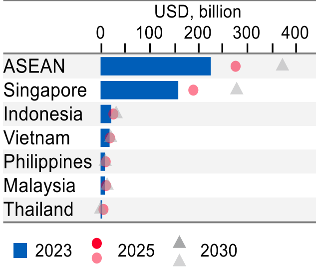
From the standpoint of an investor, a place with greater degree of economic integration and coordination, political stability, and lower frictions (including smoother movements of people, goods, and services) would certainly be conducive and reassuring to deployment of tens or even hundreds of millions of dollars' worth of investment projects.

As such, the outlook and momentum for ASEAN will remain favourable in the years ahead and as a bright spot in a troubled world.

ASEAN: Prospects are bright for FDI inflows

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Foreign Direct Investment Inflows, Annual

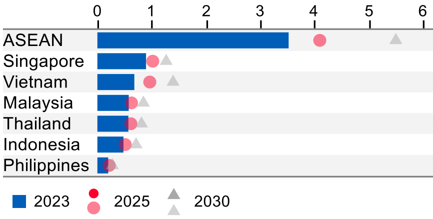


	2023 USD bn	2024F USD bn	2025F USD bn	2027F USD bn	2030F USD bn	2015 - 2023 % chg p.a.	2024 - 2030 % chg p.a.
ASEAN	226.3	251.0	277.4	312.8	373.7	***8.4***	***6.9***
Singapore	159.6	170.0	190.6	225.3	279.7	***13.1***	***8.6***
Indonesia	22.0	24.7	26.3	28.8	32.0	***3.6***	***4.4***
Vietnam	18.5	19.1	19.4	19.0	20.8	***5.8***	***1.4***
Philippines	8.9	9.5	10.5	9.5	9.5	***5.8***	***0.0***
Malaysia	8.9	10.9	11.3	12.2	13.5	***-1.6***	***3.6***
Thailand	3.0	4.7	6.0	2.8	0.2	***-12.9***	***-39.8***

ASEAN: Overall trade activities to rise further along with supply chain shifts

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Total Merchandise Trade (Exports+Imports), Annual

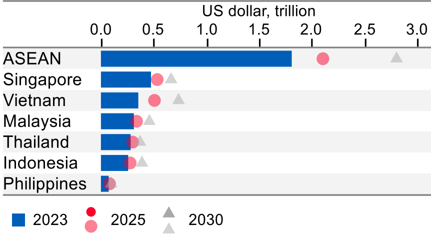


	2023 USD tn	2024F USD tn	2025F USD tn	2027F USD tn	2030F USD tn	2024 - 2030 % chg p.a.
ASEAN	3.53	3.82	4.10	4.67	5.50	***6.3***
Singapore	0.90	0.97	1.02	1.10	1.27	***4.6***
Vietnam	0.68	0.83	0.97	1.19	1.40	***9.1***
Malaysia	0.58	0.60	0.63	0.71	0.85	***5.9***
Thailand	0.57	0.59	0.62	0.68	0.81	***5.5***
Indonesia	0.48	0.50	0.51	0.59	0.71	***6.3***
Philippines	0.20	0.21	0.22	0.24	0.28	***5.0***

ASEAN: Singapore and Vietnam continue to lead regional exports

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Merchandise Exports, Annual

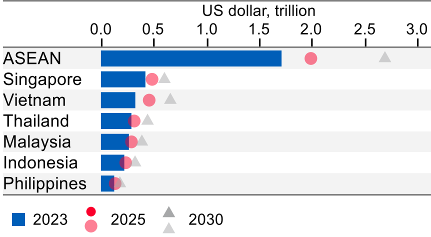


	2023 USD tn	2024F USD tn	2025F USD tn	2027F USD tn	2030F USD tn	2024 - 2030 % chg p.a.
ASEAN	1.81	1.96	2.11	2.40	2.81	***6.2***
Singapore	0.48	0.51	0.53	0.58	0.67	***4.6***
Vietnam	0.35	0.43	0.51	0.63	0.74	***9.3***
Malaysia	0.31	0.32	0.34	0.38	0.46	***6.0***
Thailand	0.28	0.29	0.30	0.32	0.37	***4.2***
Indonesia	0.26	0.27	0.28	0.32	0.39	***6.5***
Philippines	0.07	0.08	0.08	0.09	0.10	***3.8***

ASEAN: Import values to rise on increased value add activities and domestic demand

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Merchandise Imports, Annual



	2023 USD tn	2024F USD tn	2025F USD tn	2027F USD tn	2030F USD tn	2024 - 2030 % chg p.a.
ASEAN	1.71	1.86	1.99	2.27	2.70	***6.4***
Singapore	0.42	0.46	0.49	0.52	0.60	***4.5***
Vietnam	0.33	0.40	0.46	0.56	0.66	***8.8***
Thailand	0.29	0.30	0.32	0.36	0.44	***6.7***
Malaysia	0.27	0.28	0.29	0.33	0.39	***5.9***
Indonesia	0.22	0.23	0.24	0.27	0.32	***6.0***
Philippines	0.13	0.13	0.14	0.15	0.18	***5.7***

FDI: Global declines in 2023 but increased flows to ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

Top Foreign Direct Investment (FDI), Inflows destinations

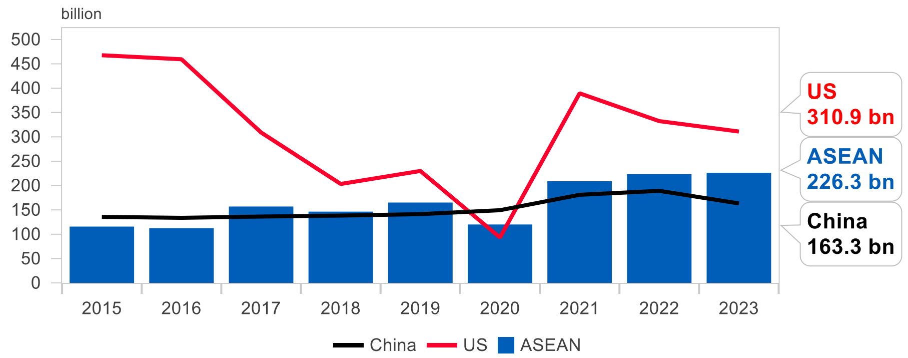
UNCTAD Last: 20 Jun 2024	Annual, USD, trillion (0.0 – 1.5)	2023 USD bn	y/y % chg 2023	2022 USD bn	2019 USD bn
World		1,331.8	-1.8	1,355.7	1,729.2
United States		310.9	-6.4	332.4	229.9
ASEAN		**226.3**	1.2	223.5	165.1
China		163.3	-13.7	189.1	141.2
Singapore		159.7	13.1	141.1	97.5
Hong Kong		112.7	2.7	109.7	73.7
Brazil		65.9	-10.2	73.4	65.4
EU		58.6	169.1	-84.8	627.3
Canada		50.3	9.0	46.2	50.5
France		42.0	-44.7	76.0	20.4
Germany		36.7	33.9	27.4	52.7
Mexico		36.1	-0.7	36.3	34.6
Spain		35.9	-20.0	44.9	17.8
United Arab Emirates		30.7	35.0	22.7	17.9
Australia		29.9	-52.9	63.4	38.5

■ 2023 ● 2022

FDI: ASEAN is the world's largest destination after the US

Source: Macrobond, UOB Global Economics & Markets Research

Global FDI Flows: Top Three Destinations (latest: 2023)



FDI: Singapore remained the top destination in ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Foreign Direct Investment (FDI), Annual inflows, (latest: 2023)

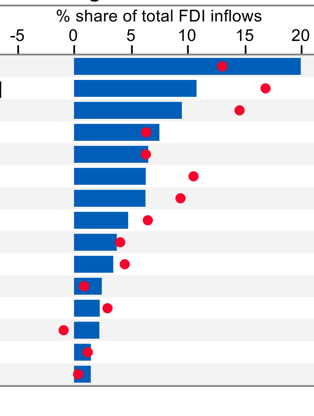
UNCTAD Last: 20 Jun 2024	USD, billion (-25 – 225)	Latest USD bn	y/y % chg Latest-2022	2022 USD bn	2019 USD bn
ASEAN		226.3	1.2	223.5	165.1
Singapore		159.7	13.1	141.1	97.5
Indonesia		21.6	-14.8	25.4	23.9
Vietnam		18.5	3.4	17.9	16.1
Malaysia		8.7	-48.9	16.9	7.8
Philippines		6.2	4.6	5.9	8.7
Thailand		4.5	-59.0	11.1	3.8
Cambodia		4.0	10.6	3.6	3.7
Laos		1.7	162.4	0.6	0.8
Myanmar		1.5	22.7	1.2	2.5
Brunei		-0.1	82.5	-0.3	0.4

■ Latest ● 2022

ASEAN: Supply chain shifts to boost FDI inflows

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Foreign Direct Investments Inflows (Major sources)

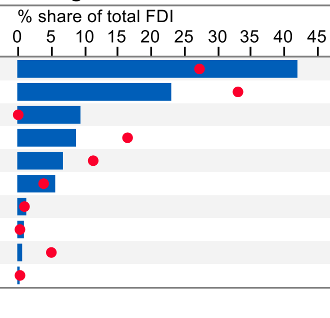


Source: ASEANstats Annual	Latest 2023	2022 % share	2019 % share	2010-19 % share	2016-19 % share
United states [US]	32.4	13.1	27.3	12.3	9.5
Unspecified country [QU]	10.8	16.9	17.0	18.5	22.8
Total Intra-ASEAN	9.5	14.6	12.9	17.1	17.0
China [CN]	7.5	6.4	5.5	6.7	8.1
HK SAR [HK]	6.5	6.3	7.5	5.4	7.1
Japan [JP]	6.3	10.5	13.3	13.3	14.4
Singapore [SG]	6.3	9.4	9.4	11.0	11.2
Korea [KP]	4.8	6.5	4.7	1.7	2.2
Netherlands [NL]	3.8	4.1	-4.2	3.1	1.2
Taiwan region [TW]	3.5	4.5	1.7	1.8	1.9
India [IN]	2.5	0.9	0.9	1.4	0.7
Switzerland [CH]	2.3	3.0	1.8	0.5	0.4
Luxembourg [LU]	2.2	-0.9	-1.4	3.8	3.5
Germany [DE]	1.5	1.2	-0.5	0.0	0.5
Canada [CA]	1.5	0.4	3.0	1.5	1.5

Financial and manufacturing sectors attracted the most FDI inflows in ASEAN

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN Foreign Direct Investments Inflows (by sectors), % share

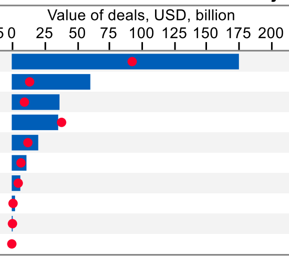


ASEANstats Last release: 2024-07-17	Latest 2023	2022 % share	2020 % share	2019 % share	2016 % share
Financial & Insurance	42.1	27.4	45.0	29.0	33.7
Manufacturing	23.1	33.1	7.8	32.3	22.0
Prof & Tech Svs	9.5	0.1	2.8	16.7	4.3
Wholesale & Retail	8.8	16.6	21.7	9.7	16.9
Tpt & Storage	6.9	11.4	8.0	0.7	0.3
Real Estate Activities	5.7	4.0	7.8	6.3	9.8
Electricity, Gas	1.4	1.1	3.4	1.0	1.0
Mining & Quarrying	1.0	0.4	1.6	1.4	3.7
Information & Comm	0.7	5.1	-0.1	-1.0	2.4
Construction	0.4	0.4	0.0	1.9	1.3

ASEAN: Indonesia saw the biggest jump in deal values

Source: Macrobond, UOB Global Economics & Markets Research

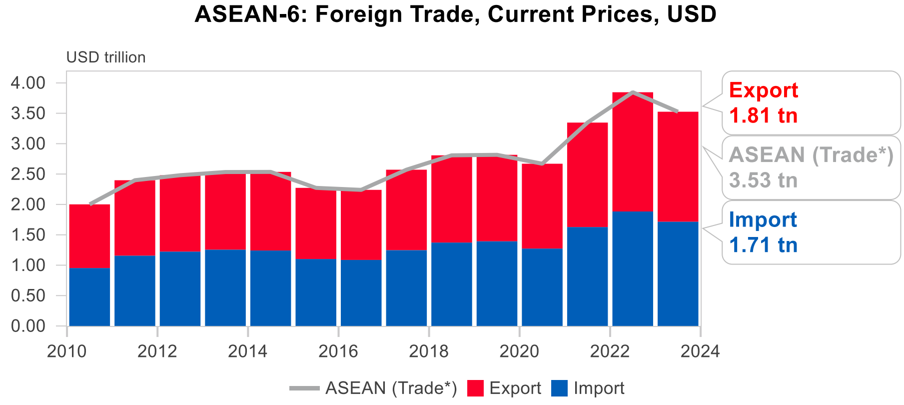
FDI: Announced Greenfield FDI Projects, By Destination (ASEAN), in USD



Source: UNCTAD Last release: 2024-06-25	2022 - 2023 % change	Latest USD bn	2022 USD bn	2021 USD bn	2020 USD bn	2019 USD bn
ASEAN	55.1	175.2	113.0	67.9	69.8	92.9
Indonesia	149.5	60.6	24.3	9.2	20.4	13.8
Malaysia	56.5	36.8	23.5	27.4	8.2	9.8
Vietnam	36.9	35.8	26.2	11.6	10.9	38.4
Philippines	458.7	20.4	3.7	1.5	1.7	12.5
Singapore	-37.9	11.4	18.3	13.3	6.9	7.1
Thailand	-56.7	6.6	15.3	4.0	2.0	5.0
Cambodia	143.2	2.6	1.1	0.4	1.6	1.0
Lao PDR	35.3	0.7	0.5	0.2	0.1	0.6
Brunei	113.3	0.0	0.0	0.2	13.7	0.0

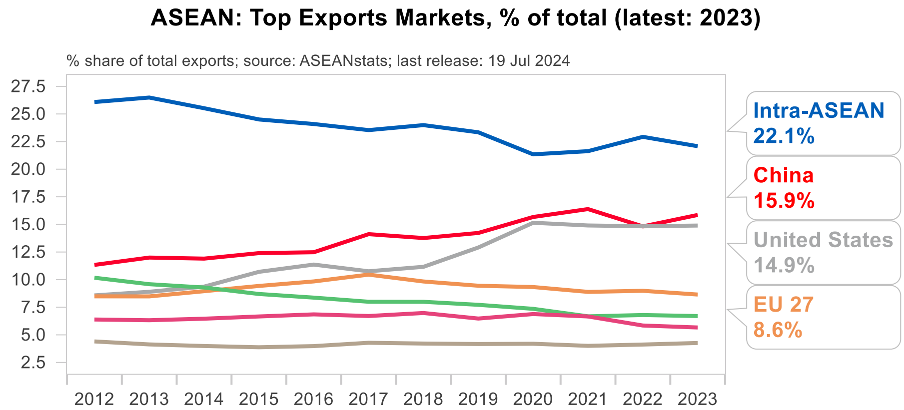
ASEAN: Total trade fell about 6% in 2023 after 2 years of double digit growth

Source: Macrobond, UOB Global Economics & Markets Research



ASEAN: China and the US are top exports destinations

Source: Macrobond, UOB Global Economics & Markets Research



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