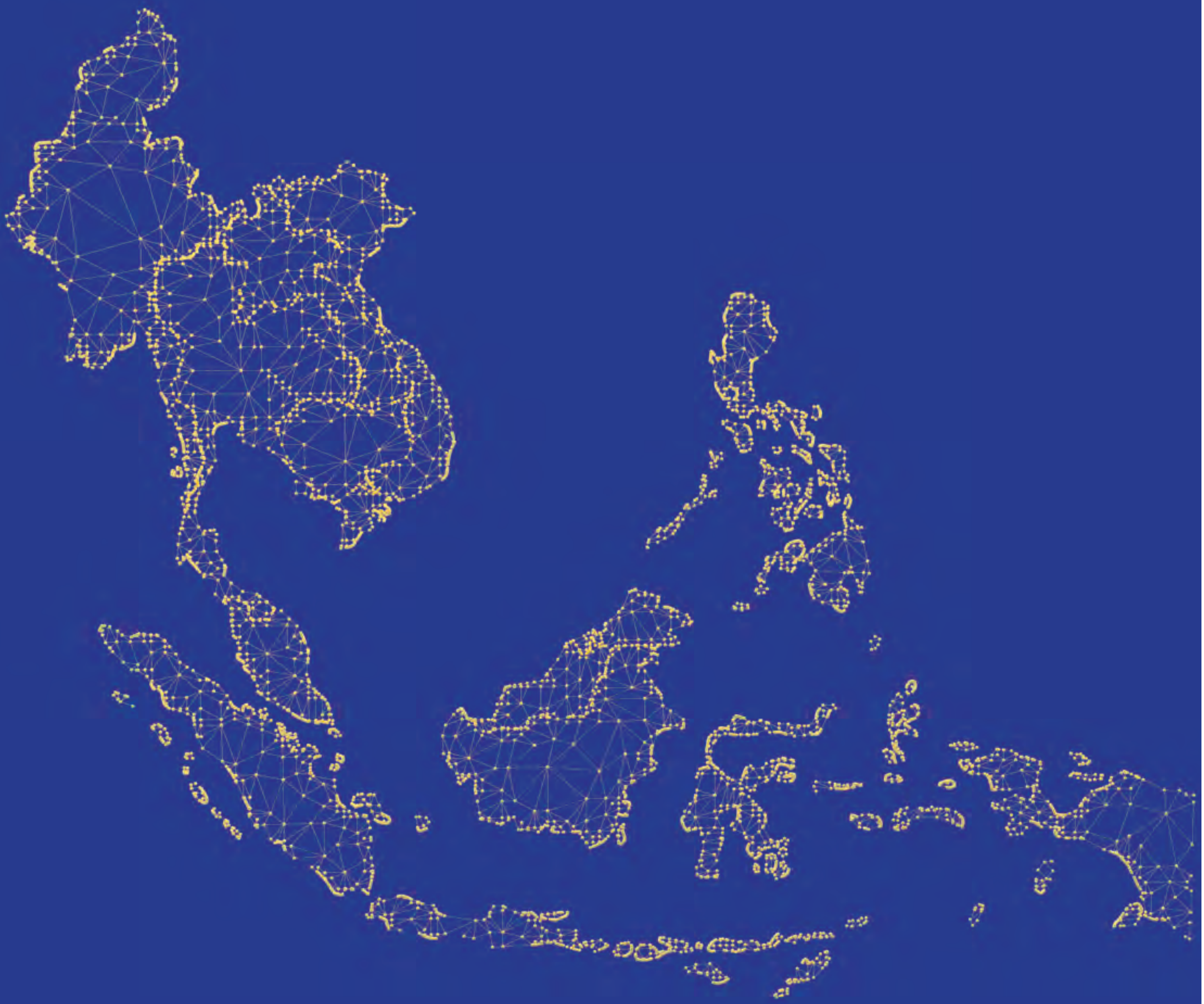
NAVIGATING HIGH WINDS

SOUTHEAST ASIA OUTLOOK 2024–34



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At a Glance

1 Over the last 30 years, Southeast Asia has underachieved its potential. However, the seeds of a resurgence have been sown.

2 Over the next decade, Southeast Asia will likely grow faster than the last decade, with higher GDP growth and higher total FDI than China. Southeast Asia's growth will be driven by stronger domestic economies and a resurgence in investment catalyzed by "China + 1" supply chain shifts.

3 Southeast Asia could exceed these projections if global growth and trading conditions become stronger.

4 Southeast Asia should learn from other fast-growing economies and address economic and business fundamentals. The most important investments are in human capital (education, vocational training, worker health) and good governance.

5 To grow faster than our forecasts, Southeast Asia should pull five levers:

1. Invest in new growth sectors
2. Foster tech-enabled disruptors (TEDs), such as entrepreneurs and aggressive incumbents
3. Expand capital markets' breadth and depth
4. Accelerate green transition
5. Commit to growth-friendly multilateral initiatives, including the Regional Comprehensive Economic Partnership (RCEP), the Belt and Road Initiative (BRI), and a transnational electricity grid.

6 Southeast Asia need not envision itself as a common market. Each country should commit to its own policy upgrades. Coordinated ASEAN initiatives can at most augment growth, but they cannot remedy country-specific fundamental weaknesses.

7 Country strategies are evolving. Vietnam's leadership is less assured, while the Philippines and Malaysia have improved their prospects. Indonesia, Thailand, and Singapore are staying on the path charted out before the pandemic.

Introduction

This report forecasts the expected growth of the six largest Southeast Asian economies, hoping to inspire lively discussions about the region's future.

What do we expect to happen?

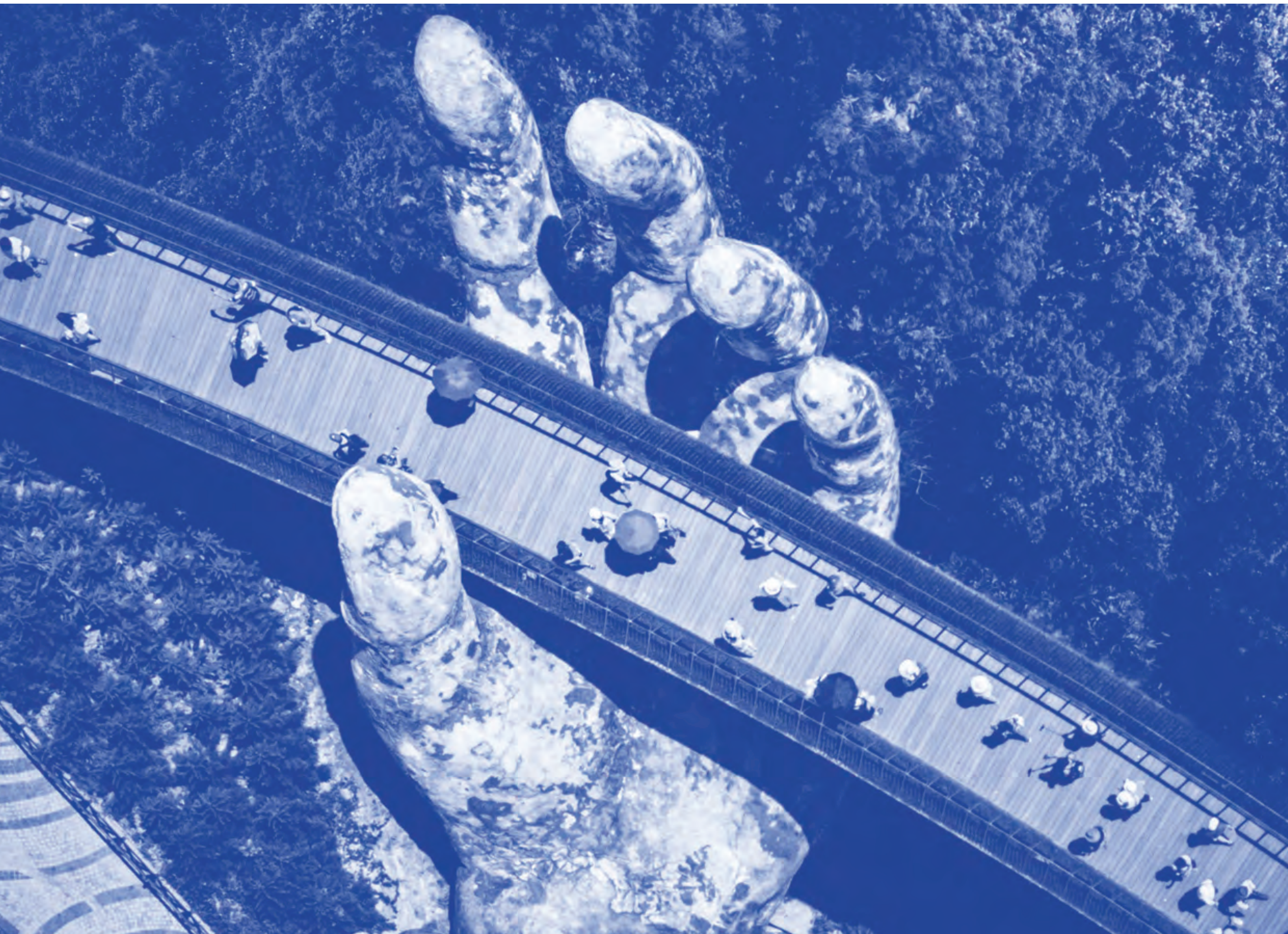
And perhaps more importantly, *what is possible if businesses and governments in Southeast Asia seize the opportunities ahead of them?*

We provide considerable details about the data sources, assumptions, and methodologies used to create the forecasts. We offer this transparency so you can decide whether we are too high, too low, or "about right."

We cannot foresee black swan events, such as the Covid-19 pandemic or unexpected conflict. However, we have adjusted our forecasts from trends based on our insight into global, regional, and country-based political and economic events.

Since the mid-1990s, Southeast Asia has lagged China on many growth measures: real GDP, GDP per capita, trade growth, and the size of foreign and domestic investments. But during that time, the winds supporting a higher growth rate began to shift. Southeast Asia laid the groundwork to accelerate four key growth drivers: a growing workforce, higher labor productivity, higher capital spending, and higher capital productivity.

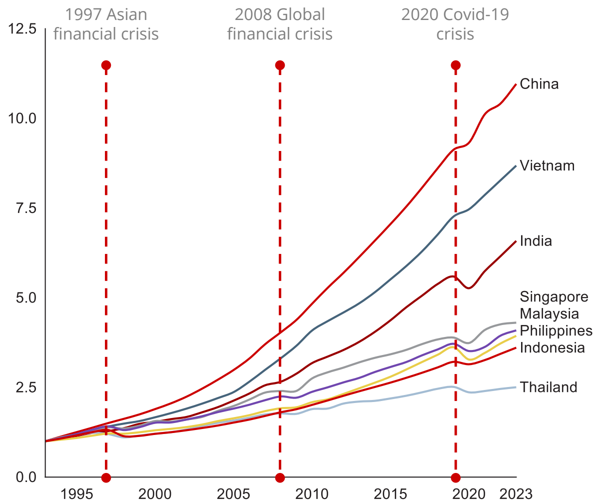
Based on our analysis, Southeast Asia should, in this next decade, outpace China in GDP growth, reversing the trend of the last 30 years.



Southeast Asia's Economic Performance Relative to China's 1993–2023

Over the past 30 years, Southeast Asia's GDP growth has been moderate, with Vietnam succeeding as the regional leader in most metrics. However, the Southeast Asian region grew significantly slower than China or India (see Figure 1).

Real GDP indexed to 1993 (1993–2023, x)



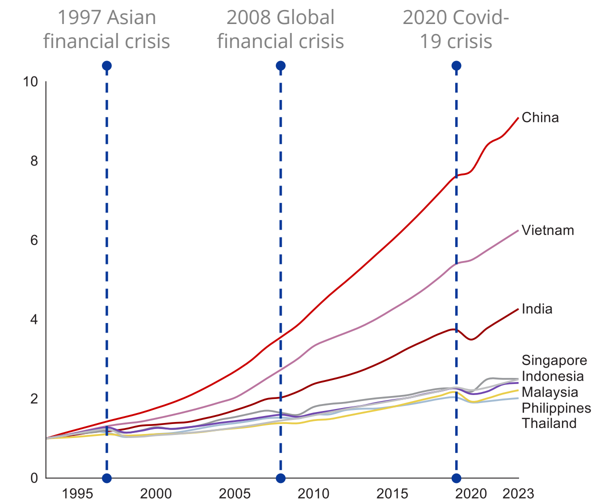
	2023 Real GDP (USD B)	'22–'23 change (USD B)	'93–'03 CAGR	'03–'13 CAGR	'13–'23 CAGR	'93–'23 Multiple
Vietnam	420	~20	7.4%	9.0%	6.0%	**8.7x**
Singapore	501	~5	5.3%	6.7%	3.0%	**4.3x**
Malaysia	400	~14	5.4%	5.0%	4.0%	**4.1x**
Philippines	437	~23	3.9%	5.4%	4.7%	**3.9x**
Indonesia	1,371	~65	3.2%	5.7%	4.2%	**3.6x**
Thailand	515	~9	3.6%	4.0%	1.8%	**2.5x**
SEA-6	3,643	~138	4.1%	5.7%	3.9%	**3.8x**
China	17,795	~888	9.5%	9.5%	6.0%	**11.0x**
India	3,574	~231	6.1%	7.6%	5.7%	**6.6x**

Notes: Real GDP calculated based on constant 2023 USD exchange rates, indexed to 1993; YoY exchange rates likely impacted GDP growth figures given volatility of foreign exchange across countries; China GDP excludes Hong Kong and Macau. Sources: CEIC; IMF

Figure 1 Over the past 30 years, Southeast Asia experienced moderate GDP growth but lagged China and India

Population growth explains much of the difference in outcomes between Southeast Asian countries. Between 1993 and 2023, GDP per capita growth averaged at least 2.2 times in five out of six Southeast Asian countries. During the same timeframe, China saw GDP per capita increase at a multiple of 9.1, and India posted a multiple of 4.3 (see Figure 2).

Real GDP per capita indexed to 1993 (1993–2023)



	1993–03 CAGR	2003–13 CAGR	2013–23 CAGR	1993–2023 Multiple
Vietnam	6.0%	7.9%	5.0%	**6.3x**
Singapore	3.1%	3.8%	2.5%	**2.5x**
Indonesia	1.6%	4.4%	3.2%	**2.5x**
Malaysia	2.9%	3.2%	2.8%	**2.4x**
Philippines	1.6%	3.5%	3.1%	**2.2x**
Thailand	2.4%	3.2%	1.4%	**2.0x**
SEA-6	2.5%	4.3%	2.8%	**2.6x**
China	8.5%	8.9%	5.6%	**9.1x**
India	4.1%	6.1%	4.7%	**4.3x**

Notes: Real GDP calculated based on constant 2023 USD exchange rates, indexed to 1993; YoY exchange rates likely impacted GDP growth figures given volatility of foreign exchange across countries; China GDP excludes Hong Kong and Macau. Sources: CEIC; IMF

Figure 2 Southeast Asian countries more than doubled their GDP per capita between 1993 and 2023; Vietnam posted breakout growth

China's Importance to Our Forecast

For an expanding range of products, China is the lowest cost producer in the world. As companies seek to diversify from China sourcing, it is important to recognize the continuing competitiveness of Chinese sourcing.

Six points underscore China's importance in our forecasts.

1. Among large economies, China's manufacturing value-added as a share of GDP is the highest globally (26%).

2. China invests more than any other country in the world, primarily through domestic capital formation (DCF).

3. In addition to being an export leader, China has a huge domestic market for most products. The scale of China's manufacturing facilities is difficult to replicate in other markets.

4. In China, state-directed "hyper-competition" drives investment, innovation, efficiency, and capacity expansion to levels rarely seen in more mature markets.

5. While China's labor costs are rising, they are still low relative to G7 countries. As manufacturing becomes more capital-intensive/automated, China stands to benefit from having the largest global pool of engineering and research talent.

6. China is primed to maintain command in "sectors of the future," including factory automation, "deep tech," and artificial intelligence.

Southeast Asia Economic Outcomes 1993–2023

Economic growth can be increased by adding more labor, more productive labor, more capital, and more productive capital. Our growth model relies on trend data for these components, modified to reflect our assessment of governments' impact on traditional drivers of economic growth.

Southeast Asia's performance on traditional economic drivers explains why its GDP performance lagged China's over the last 30 years (see Figure 3).

Lowest in SEA ▯▯▯▯▯ Top in SEA

GROWTH DRIVERS		INDICATOR	UNIT	ID	MY	PH	SG	TH	VN
1	**Ease of doing business**	Ease of doing business score by World Bank (2020)[1]	Score 0–100	70	81	63	86	80	70
2	**Increase competition**	Herfindahl-Hirschman market concentration index (2021)[2]	Score 0–1.0	0.09	0.10	0.10	0.07	0.07	0.12
3	**Strengthen institutions**	Average of World Governance Indicator scores by World Bank (2022)	Score -2.5–2.5	-0.1	0.5	-0.3	1.9	-0.1	-0.1
4	**Improve workforce quality and availability**	Average reading, math, science PISA score (2022)	Score 0–600	369	404	353	560	394	468
		Human Capital Index by World Bank (2020)	Score 0–1.0	0.54	0.63	0.55	0.89	0.62	0.69
		Female labor force participation ratio (2023)	% total pop.[4]	53%	52%	47%	62%	59%	69%
		Employment to population ratio (2023)	% total pop.[4]	65%	63%	59%	67%	66%	72%
5	**Build infrastructure**	Public infrastructure investments (2013–19)[3]	% of GDP	3%	8%	3%	5%	5%	5%
		Infrastructure score, Logistics Performance Index by World Bank (2023)	Score 0–5	2.9	3.6	3.2	4.6	3.7	3.2
6	**Increase stability**	Reserves to gross external financing (2022)	Ratio	2.5	1.2	2.2	0.3[5]	1.8	2.3
7	**Facilitate investment**	Cumulative Foreign Direct Investment as percentage of cumulative GNI (2018–22)	%	2.3%	3.6%	2.6%	35.3%	1.9%	6.7%
		Cumulative Gross Fixed Capital Formation as percentage of cumulative GNI (2018–22)	%	38.5%	24.6%	25.3%	27.9%	28.4%	45.3%

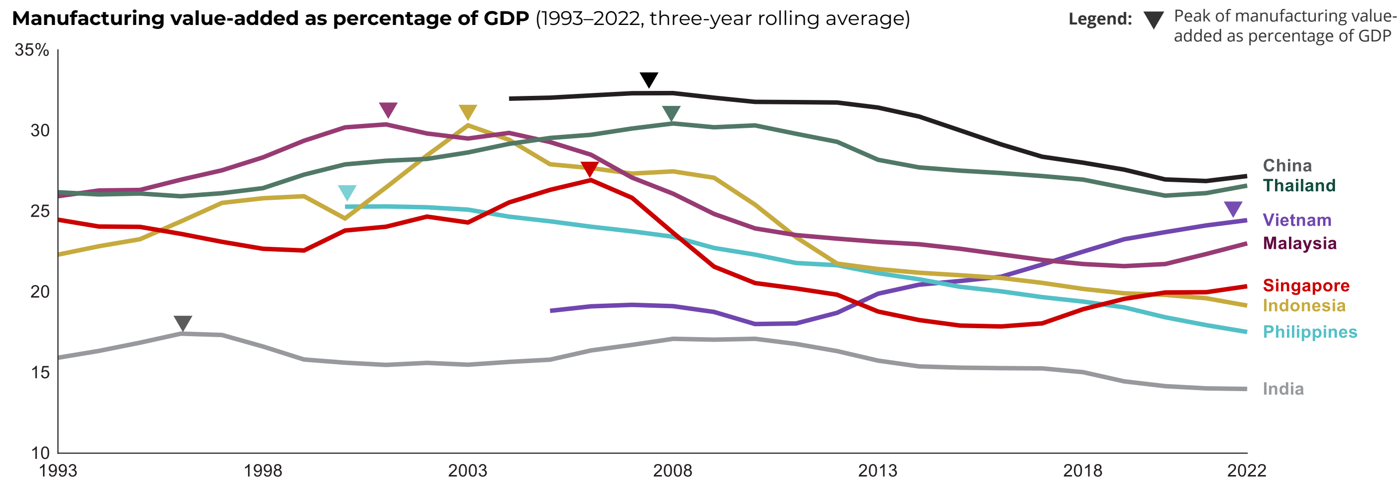
Notes: (1) The World Bank conducted changes to the rank and score calculation methodology for the index after an internal audit in 2020 to ensure consistency and comparability of scores across countries and between year to year; the changes resulted in revision of previously published scores; (2) HH index computed by squaring each company's market share and summing them up respectively; (3) Singapore's low reserves to gross external financing ratio is a result of its high external liabilities from large capital inflows as an international financial center; (4) Percentage of 15+ population; (5) IMF data published in May 2021 with latest year up to 2019 | Sources: World Bank; Euromonitor; Trading Economics; OECD; UNCTAD; UNSD; WTO; IMF

Figure 3 Our forecast for Southeast Asia's economic growth accounts for seven traditional growth drivers

To better understand the value of Southeast Asia's labor and capital and their productivity, several factors are worth illustrating.

Manufacturing Value-Added

China has the highest share of manufacturing value-added in the world. Excluding Vietnam, most of Southeast Asia peaked in value-added before 2010 (see Figure 4). The region "prematurely de-industrialized" as China became more competitive.

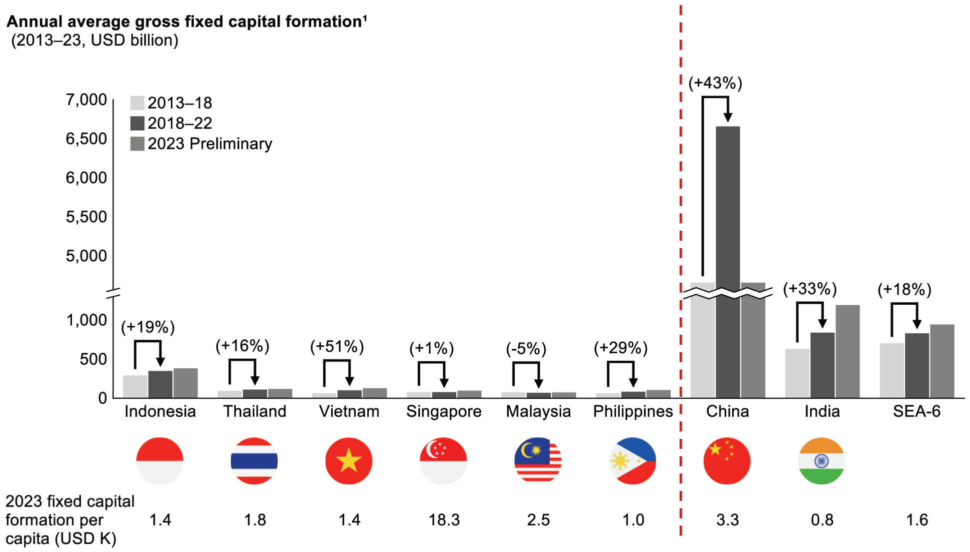


Notes: SEA-6 includes Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam; (1) MVA refers to manufacturing value-added; MVA is the total estimate of net output of all resident manufacturing activity units obtained by adding up outputs and subtracting intermediate consumption. Sources: WTO; World Bank

Figure 4 Manufacturing value-added peaked in Southeast Asia in the 2000s and has not recovered

Domestic Capital Formation

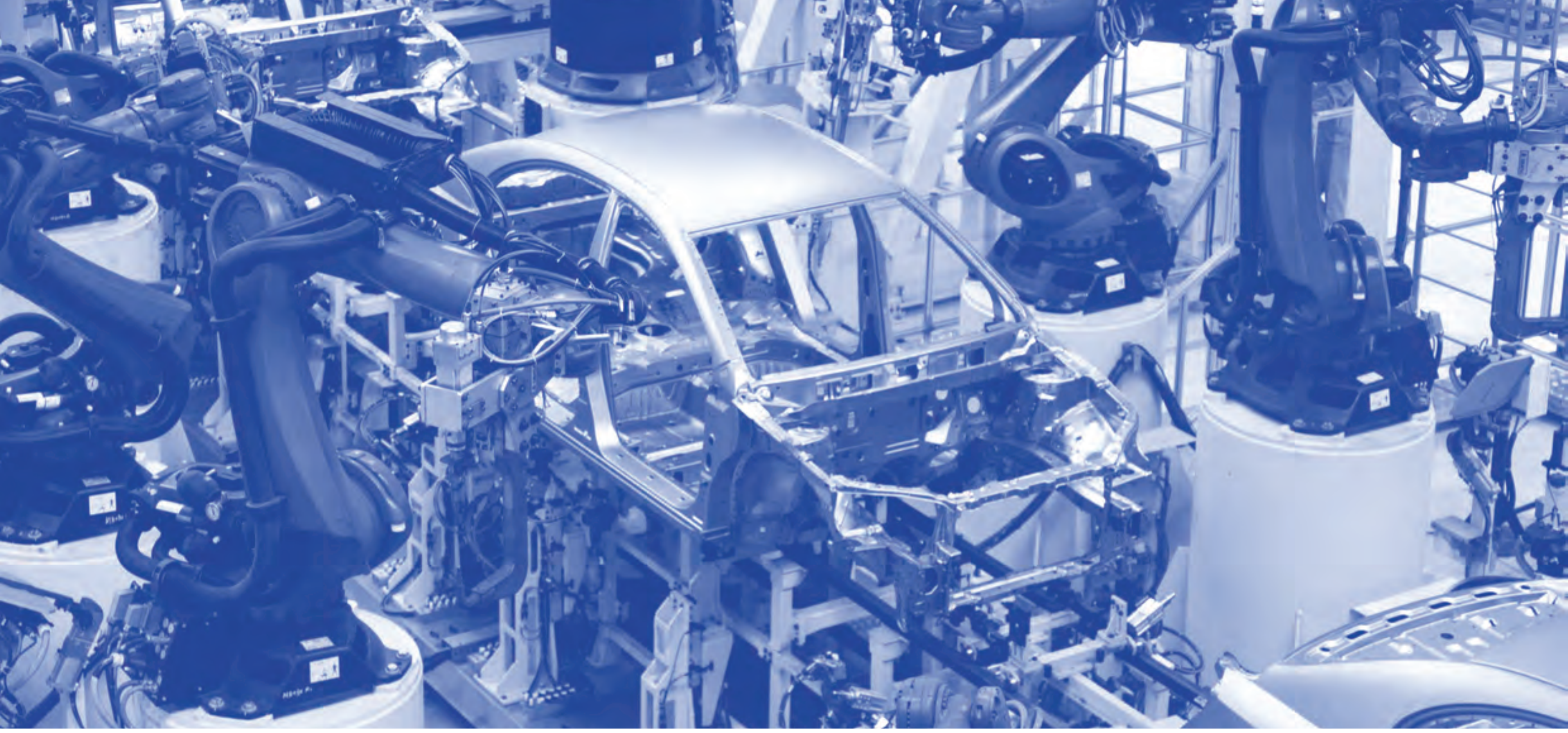
Southeast Asia's DCF is rising steadily, reflecting businesses' confidence in most countries in the region (see Figure 5).



Notes: (1) Gross fixed capital formation (GFCF) is a measure of the total amount of resources invested in either building or renewing fixed assets, such as infrastructure, machinery, and equipment, as well as changes in inventories within an economy over a specified period. It is an indicator of an economy's investment in enhancing its production capacity; 2023 Preliminary is estimated by triangulating across local department sources and historical data from World Bank, to be finalized later this year.
Sources: World Bank; Trading Economics; DOSM; Lit. Search; CEIC

- **Indonesia has the largest domestic investment volume** in SEA-6, supported by policies aimed at developing downstream industries like nickel ore processing for EV batteries and energy storage systems
- **Vietnam and the Philippines saw strong growth** in gross fixed capital formation:
  - **Vietnam**'s growth is anchored in its robust manufacturing base
  - **The Philippines** saw an increased growth in infrastructure
- Malaysia's relatively flat GFCF growth reflects the downturn in the mining and construction sectors during Covid-19, political instability, and a softer macroeconomic outlook
- Both **Singapore and Thailand experienced relatively subdued growth** in GFCF post-Covid-19, with slower private investments across construction and machinery

Figure 5 Strong domestic capital formation in Southeast Asia reflects confidence in local business opportunities

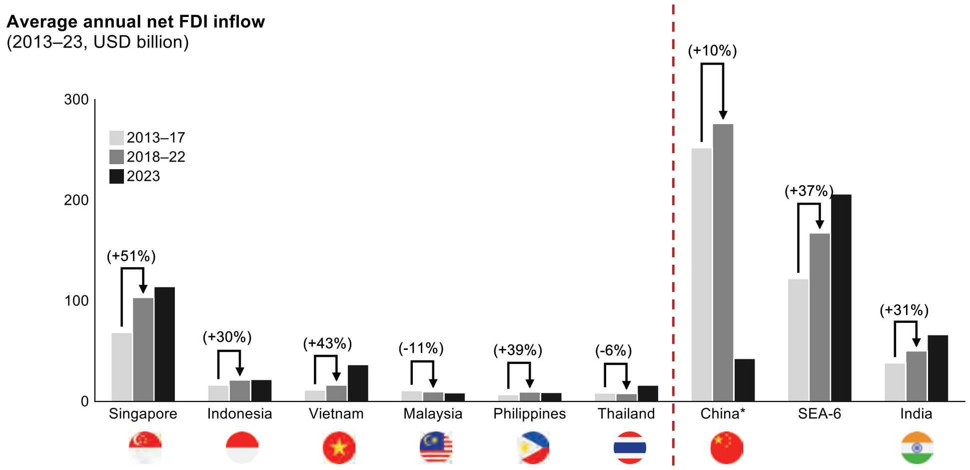


Foreign Direct Investment

Between 2018 and 2022, the pace of FDI growth favored Southeast Asia. On average, Southeast Asia grew FDI by 37%, compared to China's 10% (see Figure 6).

Singapore is a standout in FDI growth. Its share of regional FDI grew from 56% in 2013–2017 to 62% just five years later.

Domestic sources of capital are more important than FDI for overall investment. However, FDI comes with added benefits, such as access to global supply chains, leading-edge technology, and skilled talent. It also carries the potential for upstream and downstream ecosystem investment. The "multiplier effect" on FDI is almost certainly higher than for domestically sourced capital.



	Singapore	Indonesia	Vietnam	Malaysia	Philippines	Thailand	China*	SEA-6	India
2023 FDI per capita (USD)	20,022	79	370	256	76	225	30	341	46
2018-22 avg FDI per capita (USD)	19,357	78	168	350	83	110	169	296	36

Note: (*) Includes Hong Kong, Macau. Sources: UNCTAD; Government sources

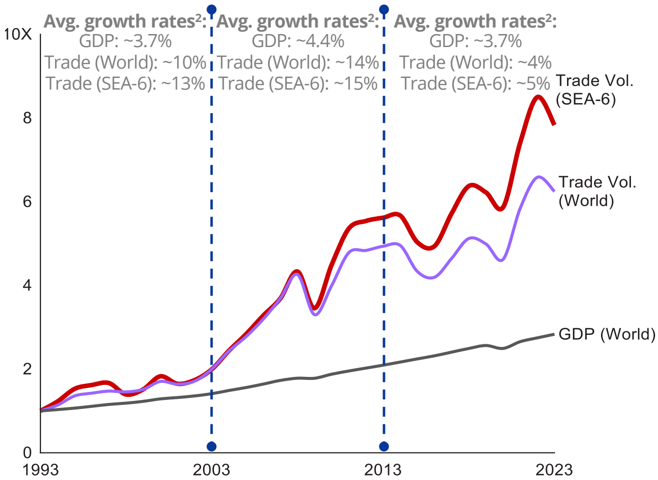
- For the first time in 10 years, **Southeast Asia now attracts more FDI than China**
- While FDI is growing rapidly in India, it is just keeping pace with Southeast Asia
- Within Southeast Asia, **Singapore has gone from 56% (2013–17) to 62% (2018–22) of FDI**
- **FDI is to some degree a lagging indicator**:
  - Vietnam has the highest growth, but our sense is that commitments will slow over the next two years
  - Malaysia shows the slowest growth in FDI, but announced commitments point to a significant increase in FDI over the coming years (semiconductors, electronics, data centers, and other China+1)

Figure 6 FDI growth in Southeast Asia is strong, led by Singapore with over 60% of SEA-6 FDI since 2018

Trade

Southeast Asia is 2–5 times more dependent on trade than other major regions. Trade volume accounted for 89% of Southeast Asia's GDP in the last decade (see Figure 7).

Real GDP and trade volume[1] indexed to 1993 (1993–2023, x)



TRADE AS % OF GDP	1993–2003	2003–2013	2013–2023
World	26%	42%	43%
US	10%	15%	17%
EU[3]	35%	60%	68%
China	14%	35%	34%
India	11%	15%	30%
SEA-6	56%	86%	89%

Notes: (1) Real GDP indexed to constant 2023 prices (based on 2023 USD fixed exchange rate), trade volume includes both imports and exports of total merchandise goods; (2) Represents 10-year average growth rates excluding periods of crises: 1993–2003 excludes 1998 (Asian Financial Crisis) and 2001 (Dot com Bubble and 9/11), 2003–2013 excludes 2009 (trough of the Great Financial Crisis), and 2013–2023 excludes 2020 (Covid-19 pandemic); (3) EU 1993–2003 average only captures data from 2000–2003 period, when the data was published | Source: WTO; Euromonitor

Figure 7 Nearly 90% of Southeast Asia's GDP comes from trade

Forecasting trade growth for Southeast Asia is complicated by two conflicting trends. The G7 markets are becoming more protectionist, negatively affecting trade overall. However, trade within Asia is accelerating, due in part to the Regional Comprehensive Economic Partnership (RCEP) and additional trade liberalization measures.

RCEP is now the world's largest free trade area, covering nearly one-third of the world's population and GDP. Provisions in the RCEP regarding foreign investment and intellectual property rights could draw multinational corporations into Southeast Asia. The agreement also increases the region's collective bargaining power vs. competing against China individually.

Our Forecast for Southeast Asia 2024–34

In the next decade, Southeast Asia can continue to outpace China in FDI and surpass China's GDP growth rate.

Our growth model accounts for situational factors, traditional growth drivers, and five new growth drivers that require policy change and risk-taking.

1 Situational or Contextual Factors That Prompt Policy Change and Benefit Agile Countries

2 Traditional Growth Drivers: The Building Blocks of a High-Growth Economy

1. Ease of doing business
2. Increase competition
3. Strengthen institutions
4. Improve workforce quality and availability
5. Build infrastructure
6. Increase stability
7. Facilitate investment

3 Five New Growth Drivers That Require Strategic Insight, Policy Change, Good Government, and Risk-taking

A. Invest in emerging growth sectors
B. Foster tech-enabled disruptors (TEDs)
C. Strengthen capital markets
D. Accelerate green transition
E. Embrace multilateral initiatives

Situational Factors Affecting Southeast Asia's Growth

Significant "tailwinds" could help Southeast Asia achieve higher growth in the next decade.

1 China +1

Businesses are diversifying away from China for a range of reasons. After experiencing the disruption brought on by Covid-19, they want to avoid over-reliance on one market. Rising tariffs are reducing the competitiveness of China-sourced products, and increased factor costs (labor, land, inputs) undermine China's competitiveness in difficult-to-automate sectors. Political concerns are also a factor.

2 Inter-country "friendly" competition

As with states in the US or provinces in China, individual Southeast Asian countries are now competing for investment and growth.

3 Location

Southeast Asia is a fast-growing, well-located region that benefits from trade, tourism, and investment.

At the same time, we see headwinds. The global environment feels more turbulent and uncertain than in the last three decades. Some challenges include the economic slowdown in China, the US-China rivalry, high global inflation and interest rates, climate change, the risk of conflict over Taiwan, and the opportunities and consequences of artificial intelligence and automation.

In addition, there are critical changes to where the opportunities and constraints lie.

China manufacturing and innovation are ultra competitive, causing premature de-industrialization in many developing countries.	Developed markets are becoming more protectionist; within Asia the RCEP is reducing tariff barriers.
Low-cost labor, subsidized land, and tax holidays do not drive high quality FDI.	• Minimum tax agreement reduces opportunity for tax subsidies • Shift to artificial intelligence and automation reduces value of unskilled labour • Requirement for abundant, low-cost, reliable, green energy and water supplies.
Climate change and green energy will shift investment priorities.	• Investment requirements require deeper capital markets • Ignoring CO_2 invites a protectionist response
Innovation is now dominated by the US and China, with different approaches but leveraging common advantages.	• Large domestic markets • Strong tertiary academic institutions • Massive R&D spend by corporates • Long investment horizons by governments
China-US competition creates opportunities, but also the risk of diplomatic pressure and compliance costs.	In addition to being the largest trading partner, China is likely to become the largest investor in Southeast Asia.

Southeast Asia Can Expect Healthy Growth in the Next Decade

We expect Southeast Asia to grow GDP by 5.1%, on average, in the next decade. Vietnam and the Philippines are expected to be the faster-growing countries, with Vietnam continuing to stay ahead (see Figure 8).

	HISTORICAL AVERAGE			FORECAST		
	2000–09	2010–19	2020–23	2024–34	Positive drivers	Negative drivers
Vietnam	6.9%	6.6%	4.6%	**6.6%**	▪ Export-oriented economy well-positioned to capture "China + 1" opportunities ▪ Highly diverse sources of FDI ▪ Productive inter-provincial competition ▪ High-quality workforce and education levels	▪ Collateral impact of anti-corruption campaign ▪ Cyclical slowdown and credit weakness ▪ Pace of infrastructure spend falling short ▪ Energy and water shortages ▪ Slow movement on green infrastructure
Philippines	4.5%	6.4%	2.3%	**6.1%**	▪ Pro-growth administration ▪ Prioritized infrastructure investments, with renewable projects garnering interest from FDI investors ▪ Growing population and workforce	▪ Traditional growth drivers lagging other Southeast Asian countries (education, infrastructure, government effectiveness) ▪ Geopolitics, especially tensions with China, might escalate, disrupting recovery
Indonesia	5.3%	5.4%	3.0%	**5.7%**	▪ Booming base metal processing, mining, and infrastructure sectors ▪ Increasing infrastructure spend ▪ Leading in entrepreneurial, tech-enabled disruption ▪ Growing population and workforce	▪ Low manufacturing value-added activity, beyond commodities ▪ Declining commodity prices ▪ Potentially more populist stance ▪ May further embrace protectionist slant
Malaysia	4.7%	5.4%	2.5%	**4.5%**	▪ Shifting to pro-growth stance to attract FDI ▪ Past success with electronics, semiconductors and data centers paying off ▪ Willingness to pursue structural reforms, e.g., subsidy cuts ▪ Potential benefits from cooperation with Singapore	▪ Shifting political coalitions, policy shifts and weak government mandates ▪ Slow and steady talent drain ▪ Fallout from not fulfilling long-term investment commitments (e.g. high-speed rail link)
Thailand	4.3%	3.6%	0.0%	**2.8%**	▪ Green shoots in tourism rebound ▪ A key regional automotive hub with well-connected infrastructure ▪ Conglomerates (CP, Central, PTT, Siam Cement, Thai Union) are more regional than Southeast Asian peers	▪ Uncertain and turbulent political landscape ▪ Concerning consolidation in key sectors (retail, telecommunications) ▪ Demographic challenges
Singapore	5.4%	5.0%	2.7%	**2.5%**	▪ Open and diverse economy, with strengths in advanced manufacturing, services, and tourism ▪ World-class talent from every major economy attracted to safe, stable environment ▪ Well-funded government efforts to nurture growth	▪ Demographic challenges; immigration offset faces political hurdles ▪ Land and labor constraints ▪ High business costs vs. SEA-6 peers
SEA-6	5.1%	5.3%	**2.6%**	**5.1%**	▪ Benefitting from China + 1 ▪ Third largest global "market" with 600 million + consumers ▪ Strong historical linkages with major trading economies ▪ Geographic position in Asia, almost half of world population	▪ Needs to be approached as individual country markets ▪ Increased protectionism in developed markets ▪ Gradual de-industrialization due to the changing drivers of competitiveness

Figure 8 On average, Southeast Asia will grow GDP by 5.1% in the next decade, with some countries exceeding 6% GDP growth

Southeast Asia's interdependence with regional and global economies makes it more susceptible to swings in global macro trends. We explore this in three scenarios (see Figure 9).

	LOW GROWTH	EXPECTED GROWTH	HIGHER GROWTH
China Health	China slowdown (growth at 2%–3%)	China maintains steady growth (growth at 3.5%–4.5%)	China rebounds (growth at 5%+)
China-US Competition	US and China demand alignment, splintering ASEAN	US-China relations frosty, compete for favor; Southeast Asia benefits	US-China relations improve as both prioritize domestic challenges
Global Trade	Rising protectionism hits Southeast Asia	Rising protectionism in US and Europe offset by trade growth within Asia	US and Europe back off from raising tariffs
Global Interest Rates	China real estate/banking crisis and US deficits and inflation lead to high real interest rates	Moderate global GNP and trade growth; acceptable real interest rates	Global growth picks up with benign inflation and interest rates
Green Transition	Southeast Asia delays green investing	Green investments accelerate, benefiting from low-cost China manufacturers and BRI	China accelerates investment to Southeast Asia hard infrastructure and green transition
Taiwan	Conflict	Simmering tensions but no conflict	Status quo
Impact of Technology	AI and automation displaces jobs	Productivity gains slightly higher than disruption to affected labor markets	New levels of productivity unlocked, measurable growth

Figure 9 Southeast Asia's growth projections are dependent on macroeconomic trends

Adjustments to Our Prior Forecast

Our 2022 report foretold a slightly different outcome. It's appropriate to revisit our earlier assessment with the wisdom and benefit of hindsight.

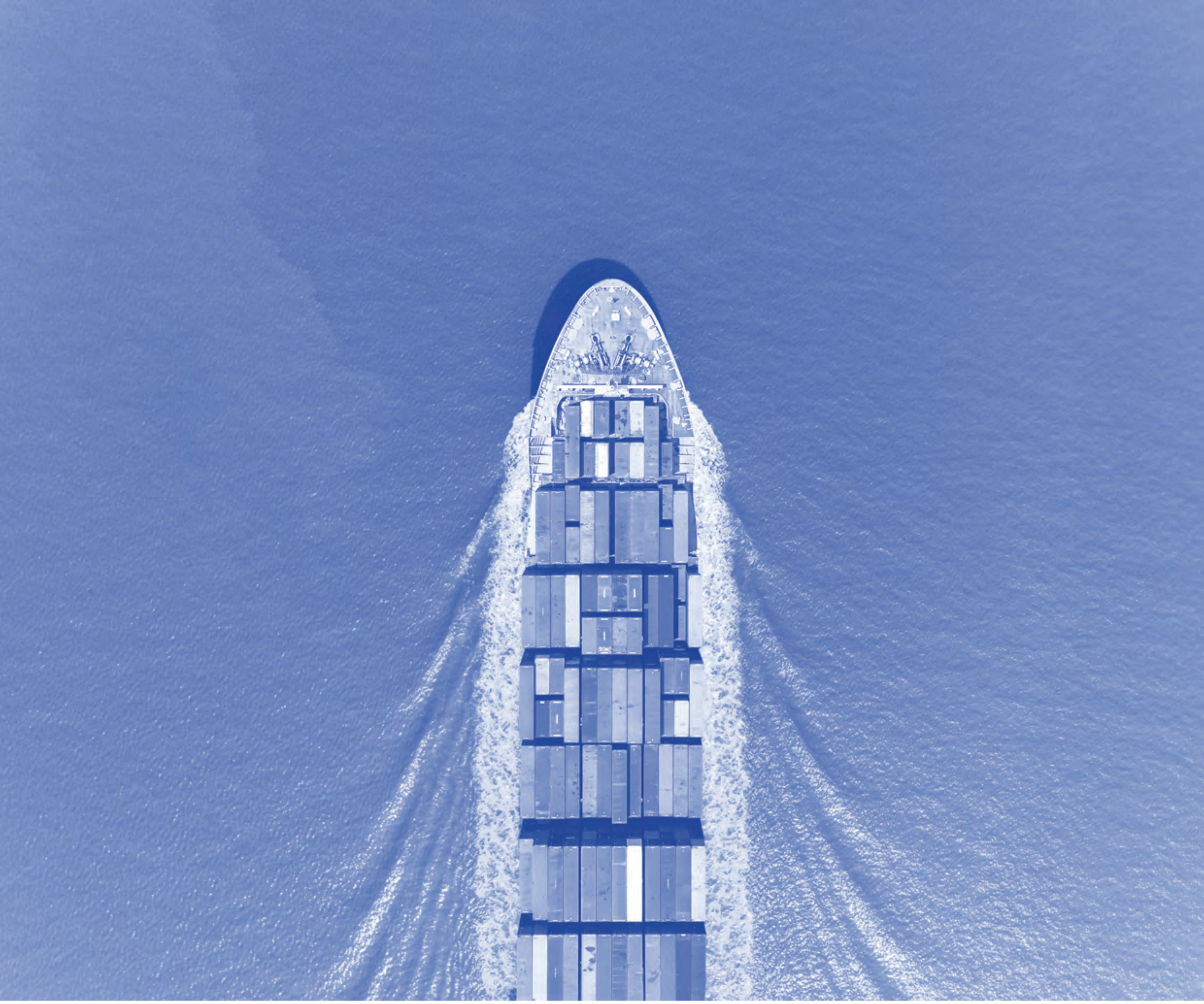
Vietnam's leadership in the region is less assured than we forecast in 2022, but we still expect it to lead the region. Vietnam's prospects have been hampered by the economic fallout of its anti-corruption drive, political uncertainty, and credit weakness.

In 2022, we were confident that Vietnam's "export-oriented/industrial parks-centered" economy was reasonably immune to a domestic slowdown. However, its anti-corruption campaign dampened growth, at least in the short term, by slowing down infrastructure building, and investment approvals and creating challenges with joint ventures. Energy shortages and increased competition from other countries created additional headwinds for Vietnam.

Since 2022, our projections have improved for the Philippines and Malaysia, thanks to significant efforts by the current administrations to become more "pro-investment" and "pro-business." In addition, Malaysia is benefitting from earlier infrastructure investments and supportive policies to grow the semiconductor and data center sub-sectors.

Our expectations for Indonesia, Thailand, and Singapore remain unchanged from our 2022 report.

Five Opportunities to Accelerate Growth in Southeast Asia



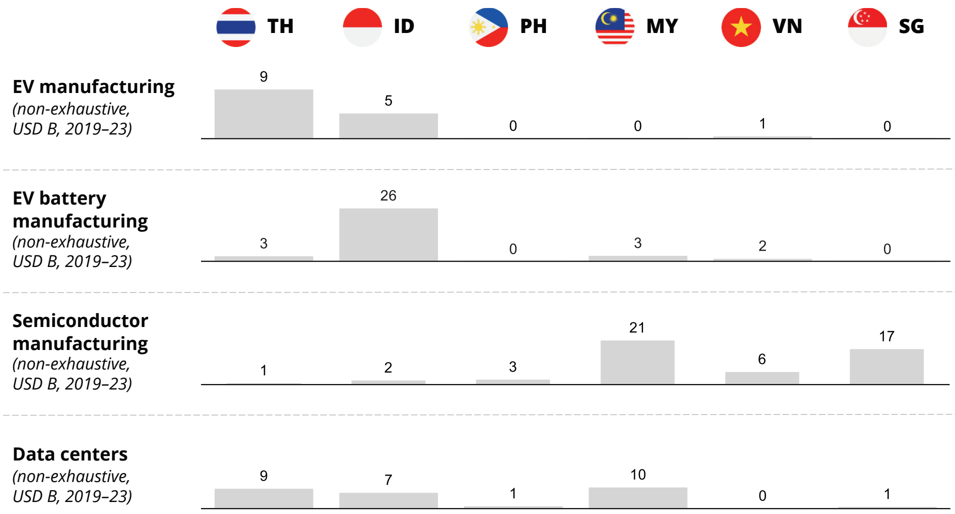
With sustained policy change and a willingness to take risks, Southeast Asia can raise its forecasted growth rates by seizing opportunities from five areas. It needs to:

1. **Invest in emerging growth sectors**
2. **Foster tech-enabled disruptors (TEDs)**
3. **Strengthen capital markets**
4. **Accelerate green transition**
5. **Embrace multilateral initiatives**

1 OPPORTUNITY
Invest in Emerging Growth Sectors

As an export-oriented region, Southeast Asia has the infrastructure, relationships with multinational corporations, and government support it needs to further develop emerging, high-growth sectors (see Figure 10).

Cumulative FDI value committed to SEA for key growth sectors[1]



- **Thailand and Indonesia are likely to emerge as winners,** given their strong OEM base, government support on EV, and market size
- Indonesia"s **EV development** is driven by growth in EV battery sector and government incentives for sales and manufacturing

- **Indonesia is likely to continue outperforming other SEA countries** given its abundant nickel reserves, strict regulations, incentives, and mandates

- **Malaysia and Singapore are leading in different parts of the value chain;** Singapore has competitive edge in wafer fabrication (which requires more advanced skills), while MY leads in packaging and testing

- **Malaysia, Thailand, and Indonesia are attractive**—Malaysia and Thailand for their reliable infrastructure, Indonesia for its growing digital economy and stricter data protection
- **Singapore"s** relatively absent data center investments reflect the 2019–22 moratorium on new data center projects lifted in late 2023

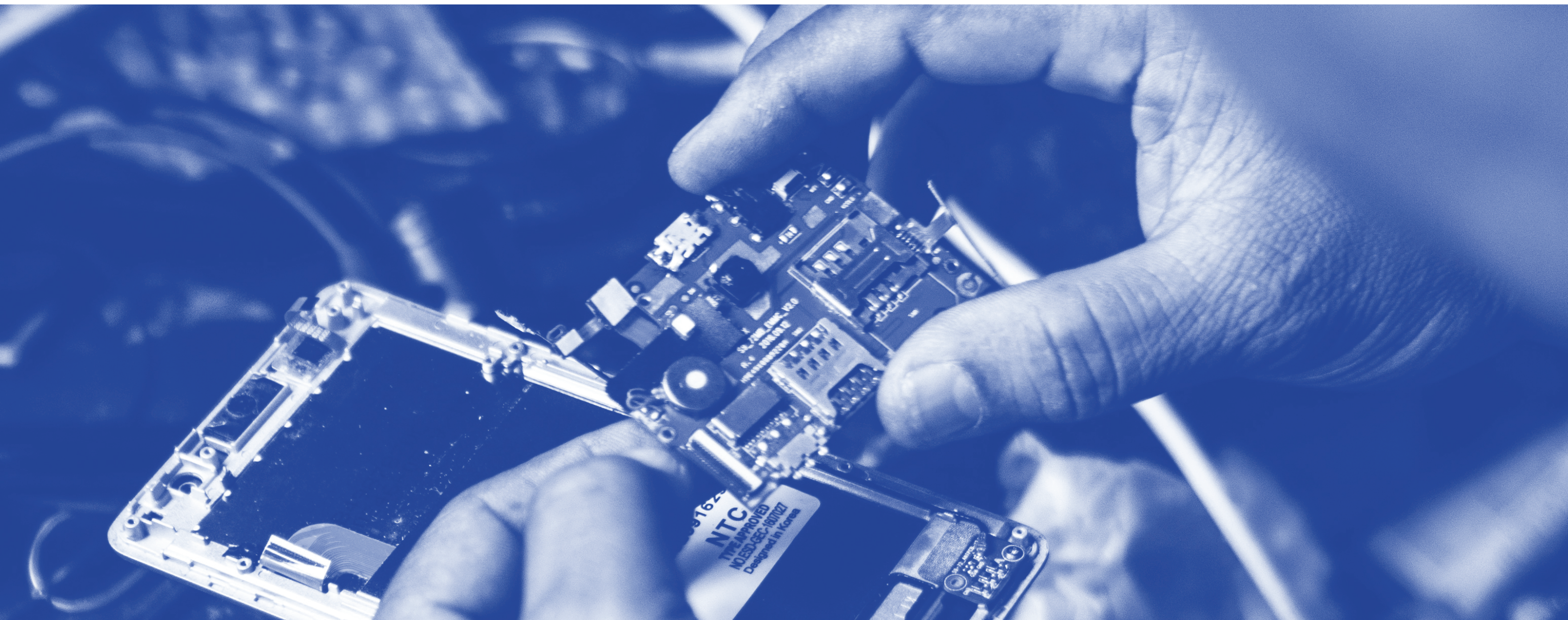
Note: (1) Total value committed, not necessarily fully realized by the indicated year
Sources: ASEAN Investment Report (2019-23); Lit. search

Figure 10 Southeast Asian countries are well-positioned in high-growth, next-generation sectors

While it is tempting to pursue every opportunity, being selective is the smarter strategy. Breaking into new sectors is more difficult than building on past success, which explains some of the challenges the Philippines has faced in attempting to capture investments in these sectors.

Southeast Asia has ample transferable strengths to launch from. Malaysia has reliable infrastructure for data centers and semiconductor manufacturing; Thailand can leverage its experience in combustion-engine vehicles in the electric vehicle market; and Singapore can apply its advanced manufacturing skills to the next generation of semiconductors and pharmaceuticals.

New sectors, such as batteries, are fertile ground for aggressive moves, like Indonesia's efforts to link its nickel supply to downstream operations.



2 OPPORTUNITY
Foster Tech-enabled Disruptors (TEDs)

Historically, countries in North Asia have protected their manufacturing and services sectors. When exporting trends forced the manufacturing industry to compete in global markets, innovation and productivity thrived.

As Southeast Asia often protected local services, the region's services productivity and innovation historically lagged large domestic markets, such as the US, India, and China (even if they also offered some protection against foreign participation).

Encouragingly, the advent of TEDs has sparked investment, innovation, and productivity growth in the services sector, driving higher growth rates overall. Singapore and Indonesia are the biggest winners so far, as measured by investment levels and the number of unicorns.

TEDs are even disrupting sectors that have long been dominated by national champions. They are lowering costs, raising sector growth, and offering multiplier benefits through tech-enabled disruption. Several service sectors have the potential for tech-impacted growth, such as e-commerce, fintech, food, logistics, transportation, and digital media.

To take full advantage of the TED revolution, governments need to foster local venture capital and other small business financing, enable talent-hopping, reduce the consequences of failed business ventures, and lower barriers to entry and competition with established players.

Southeast Asia can lean into these opportunities by supporting tech start-ups, deepening capital markets, supporting research and development, fostering university collaborations, and facilitating the flow of foreign talent and skills.

3 OPPORTUNITY

Strengthen Capital Markets

Economies need a diverse pool of financial markets, products, and participants to grow. Southeast Asia needs to further develop its banking, insurance, private equity, hedge funds, venture capital, and microlending sectors to attract investment and ensure efficient capital allocation.

Southeast Asia must increase household participation in financial markets to use domestic capital efficiently and realize important multiplier benefits. Indonesia has made the greatest strides on this front; its liberal approach to banking regulation and fintech improved citizens' access to financial services by expanding branchless and digital banking into rural areas.

As Southeast Asia develops its capital markets, it needs safeguards to prevent corruption, fraud, and overspeculation. For example, only qualified investors should be able to take on the riskiest investments. Strong protections encourage participation and build confidence; they don't deter qualified investors.

4

OPPORTUNITY

Accelerate Green Transition

Southeast Asia should go on the offensive and aggressively pursue green transition. By doing so, three distinct and mutually compatible benefits are within reach. Investing in green transition can help Southeast Asia:

1. **Achieve climate change targets.**
2. **Increase energy security.**
3. **Create jobs in a capital- and operations-intensive sector.**

The region has ample natural resources to produce low-cost energy. The Philippines and Vietnam have substantial offshore wind potential, and the region has vast untapped solar and hydropower availability. With improved grid infrastructure, government support, and financial incentives, Southeast Asia could deliver climate, economic, and energy security benefits regionally and abroad. Government policies play a crucial role in moving the needle on this, particularly by earmarking investments in grid infrastructure.

Southeast Asia does not have to choose between the economy and the environment. Carbon-neutral energy, when supported with the right infrastructure, need not lead to an increase in costs. It can find economic growth opportunities by focusing on the earliest and easiest 20% of green transition. For example:

- Governments can incentivize industrial parks to encourage renewable energy consumption and production. Industrial park investors are among the most willing to pay for carbon-neutral energy supplies, and these parks generally have more robust local grids.
- Battery charging infrastructure could drive demand for electric scooters, cars, trucks, and buses which are produced in the region.
- Meaningful carbon taxes and purposeful private-public partnerships for capital investment into greener energy could help fund investments in renewable energy infrastructure, such as grid upgrades and regional connectivity.

Despite laudable commitments to net-zero targets, Southeast Asia is currently growing its greenhouse emissions and lagging in investments toward 2030 climate milestones.

One of the most important decisions Southeast Asian countries need to make is how to engage with China to accelerate green transition. With tariffs and other barriers increasing worldwide, Southeast Asia stands to benefit from a windfall of low-priced, high-quality, and highly available Chinese equipment and know-how. We recommend Southeast Asian governments take full advantage of this opportunity.

5

OPPORTUNITY

Embrace Multilateral Initiatives

Given its institutional set-up and diversity, Southeast Asia need not envision itself as a common market. Each country should commit to its own policy upgrades. Coordinated ASEAN initiatives can at most augment growth, but they cannot remedy country-specific fundamental weaknesses.

However, specific multilateral initiatives could meaningfully increase the number of opportunities the region has access to. Multilateral initiatives in three areas could increase economic growth across Southeast Asia:

1 Freer Movement

Southeast Asia would benefit from freer movement of people, capital, and goods in the region and with partners.

2 A Digital Framework

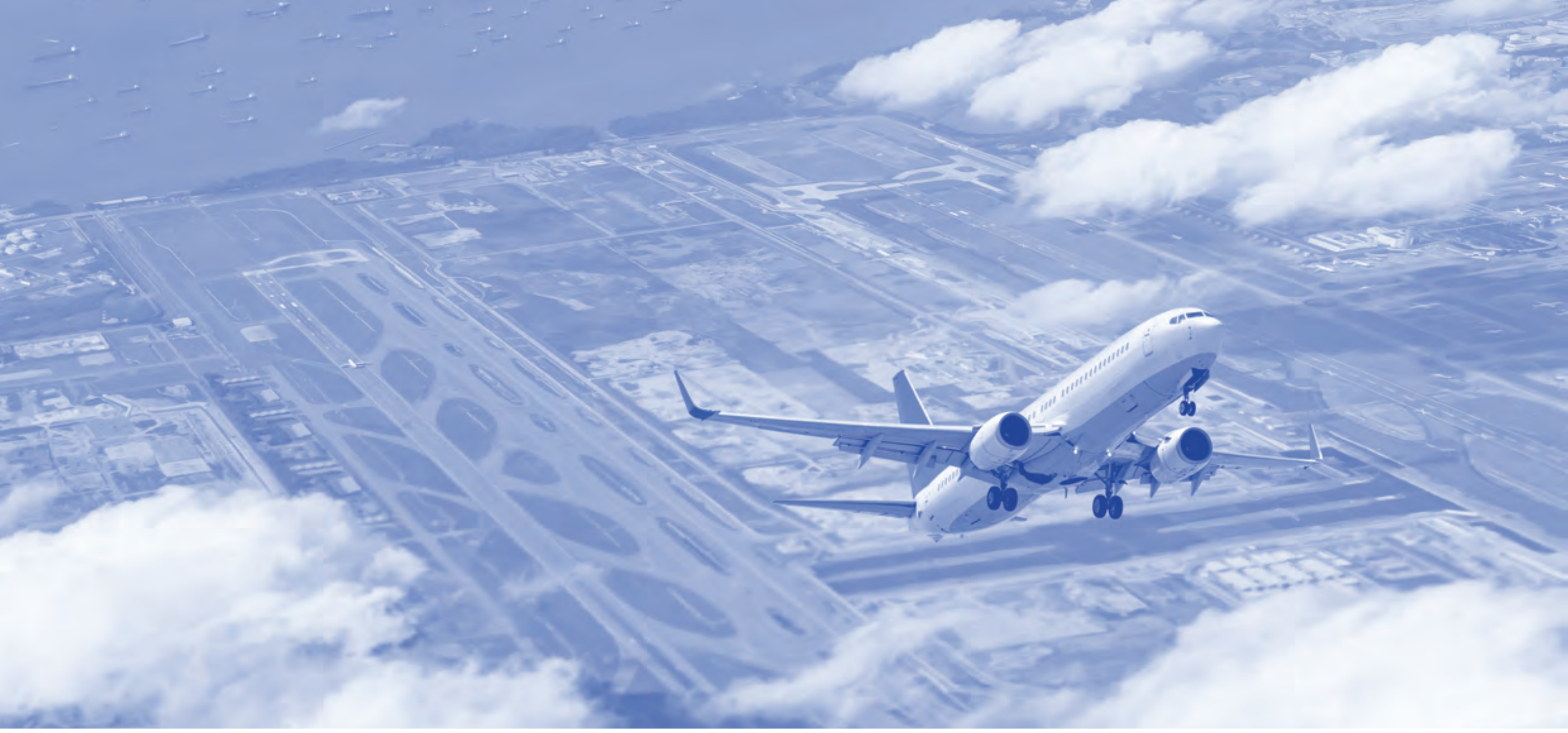
A harmonized digital landscape could boost cross-border trade and innovation. Southeast Asia would benefit from system interoperability and recognized cross-border standards and policies. If successful, current initiatives under the ASEAN, such as the Digital Economy Framework Agreement (DEFA), could improve interoperability for businesses in the region.

3 The Energy Transition

As Southeast Asia looks to attract key investments in growth sectors such as data centers and semiconductors, it faces significant pressures on energy demand, energy costs, and its environment. Enabling green practices will ensure sustainable growth and resilience. The region needs to prioritize renewable integration into its energy grids through the ASEAN Energy Grid. Developing a regional carbon market could help Southeast Asia manage some of these challenges.

To achieve the best outcomes, Southeast Asia must explore all five opportunities—emerging sectors, TEDs, capital markets, green transition, and multilateral initiatives—based on each economy's comparative advantages. As one region, they can pursue five winning strategies and become stronger together.

Conclusion & Methodology



Conclusion

Southeast Asia has grown despite headwinds. Over the last three decades, the region withstood shocks from the Asian financial crisis, the SARS pandemic, a global financial crisis, and the Covid-19 pandemic. And it stayed the course.

Southeast Asia grew, even as the China miracle siphoned manufacturing investment and jobs away from the region.

In recent years, Southeast Asia has become more attractive to investors, but so have India, Mexico, and Eastern European countries. This is the right moment for Southeast Asia to leverage its newly improved investment climate and well-established, dynamic sectors.

Much of the world is bracing for lower growth because of higher interest rates, unsustainable government spending levels, trade protectionism, and the potential fallout from the US-China rivalry. But in Southeast Asia, tailwinds should prevail.

Southeast Asia comprises of six major markets and a handful of smaller ones. While there are important links between markets and opportunities to pursue regional approaches, each country's potential must be addressed individually.

While many economists focus on FDI as the key barometer for confidence in an economy, we assign substantial weight to domestic investment. Most Southeast Asian countries are seeing robust growth of domestic investment, which underscores local confidence in the region's growth prospects relative to alternatives.

Effective government action will play a role in catalyzing growth. The China model involves the state setting priorities and bending funding toward them. Execution occurs at the city and provincial levels through state-enabled "hyper-competition." Entrepreneurism plays a critical role in fully realizing growth potential.

We say, let's unfurl the mainsails.

Methodology

In this report, Southeast Asia refers to Indonesia, Malaysia, Singapore, Thailand, Vietnam, and the Philippines. While not inclusive, these six countries contribute roughly 97% of the region's GDP.

DBS used total factor productivity, capital growth, labor, and human capital to inform the forecasts in this report. Data was derived from CEIC, the International Monetary Fund, and Penn World Table. We also relied on expertise from partners at the Angsana Council, Bain, and DBS.

Our growth framework assessments leaned heavily on external indexes and ratings from Euromonitor, the Organisation for Economic Co-operation and Development, Trading Economics, the United Nations Statistics Division, UN Trade & Development, the World Bank, and the World Trade Organization. We also leveraged the Herfindahl-Hirschman Market Concentration Index and scores from the Program for International Student Assessment.

Please contact the authors for more details about our methodology, forecast, or analysis.

ANGSANA COUNCIL
MONK'S HILL VENTURES

Founded in 2022 by Monk's Hill Ventures, the Angsana Council is a not for profit advisory council that is committed to increasing the growth and prosperity of Southeast Asian businesses and economies. The Angsana Council is led by leaders with a track record of cultivating accelerating economic and societal development in Southeast Asia, including by leveraging technology meaningfully.

Our mission is to shift the world's attention to the thriving region through research, and dialogues with entrepreneurs, policymakers, and change agents. We advocate that steady historical growth can be achieved by raising investment levels, promoting entrepreneurial activity, supporting sustainable growth-friendly policies, and strengthening institutions. A cornerstone of the Angsana Council's work is integrated insights from deep business, government, and social experience and access to comprehensive quantitative and qualitative research.

The Angsana Council is supported by Monk's Hill Ventures, a venture capital firm investing in early-stage tech companies in Southeast Asia. Backed by institutional investors and family offices worldwide, Monk's Hill Ventures works with great entrepreneurs to use technology to improve the lives of millions of people in the region.

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DBS

DBS is a leading financial services group in Asia with a presence in 19 markets. Headquartered and listed in Singapore, DBS is in the three key Asian axes of growth: Greater China, Southeast Asia and South Asia. The bank's "AA-" and "Aa1" credit ratings are among the highest in the world.

Recognised for its global leadership, DBS has been named "World's Best Bank" by Global Finance, "World's Best Bank" by Euromoney and "Global Bank of the Year" by The Banker. The bank is at the forefront of leveraging digital technology to shape the future of banking, having been named "World's Best Digital Bank" by Euromoney and the world's "Most Innovative in Digital Banking" by The Banker. In addition, DBS has been accorded the "Safest Bank in Asia" award by Global Finance for 15 consecutive years from 2009 to 2023.

DBS provides a full range of services in consumer, SME, and corporate banking. As a bank born and bred in Asia, DBS understands the intricacies of doing business in the region's most dynamic markets.

DBS is committed to building lasting relationships with customers, as it banks the Asian way. Through the DBS Foundation, the bank creates impact beyond banking by supporting businesses for impact: enterprises with a double bottom-line of profit and social and/or environmental impact. DBS Foundation also gives back to society in various ways, including equipping underserved communities with future-ready skills and helping them to build food resilience.

With its extensive network of operations in Asia and emphasis on engaging and empowering its staff, DBS presents exciting career opportunities. For more information, please visit www.dbs.com.

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