ASEAN: Structural trend drives robust long-term trade and FDI projections

Summary

FDI – ASEAN-5 inward FDI remained robust, rising 13.1% y/y in 1Q26, led by Singapore and Malaysia possibly reflecting strong AI- and electronics-related investments. Medium-term FDI prospects continue to be supported by ASEAN-wide investment promotion efforts focused on green industries, digitalization and downstream processing. Heightened geopolitical conflicts, climate-related disruptions and emerging tariff threats continue to strengthen the imperative to diversify production networks and reduce concentration risks, supporting ASEAN's attractiveness as an FDI destination.

Trade - ASEAN-6 merchandise trade growth accelerated to 26.0% y/y in 5M26, exceeding the 12.3% pace recorded in 2025, supported by the electronics upcycle, robust AI-related demand and easing trade uncertainties. Trade outperformance was led by economies with strong exposure to the global semiconductor value chain, particularly Singapore, Malaysia and Vietnam, while Thailand, Indonesia and the Philippines also benefited from positive spillovers.

Outlook – We have revised our long-term ASEAN trade projections higher following the stronger-than-expected growth in 2025, driven by the structural electronics and semiconductor upcycle amidst robust AI-related demand. Total trade is now projected to reach US$6.6tn by 2030 (vs. US$5.3tn prev) and exceed US$9tn by 2035 (vs. US$7.1tn prev). This implies a 2025-2035 CAGR of 7.7%. ASEAN's FDI inflow prospects are expected to remain resilient, with inflows projected to surpass US$360bn by 2030 and exceed US$540bn by 2035. This implies a 2025-2035 CAGR of 8.3%.

Tracking trends on FDI flows YTD

Based on Balance of Payments (BOP) data, inward FDI flows into ASEAN-5 remained resilient, rising 13.1% y/y in 1Q26 to US$62.5bn (4Q25: 28.8% y/y, US$70.9bn). The robust performance in 1Q26 was driven by Singapore and Malaysia, likely reflecting increased investment in AI- and electronics-related sectors, while Thailand and Indonesia recorded y/y declines. Although there may be differences between BOP data and FDI figures reported by UNCTAD or national authorities, BOP data provides a useful indication of the directional trends in FDI inflows (Fig. 2). **As highlighted in our earlier report (link), ASEAN's inward FDI prospects continue to be underpinned by investment promotion strategies that are increasingly coordinated and focused on green industries, digital transformation, and downstream processing activities, supported by the ASEAN Regional FDI Investment Promotion Action Plan 2025-2030.**

Fig. 1: FDI momentum remained resilient in 1Q26, driven by SG and MY, likely reflecting increased investment in AI- and electronics-related sectors

Source: Macrobond, UOB Global Economics & Markets Research

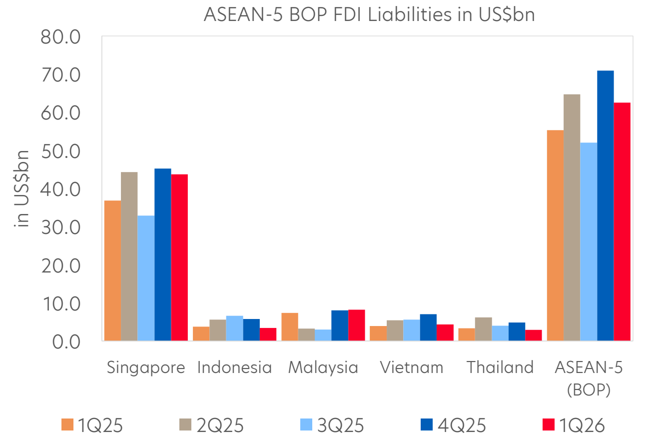
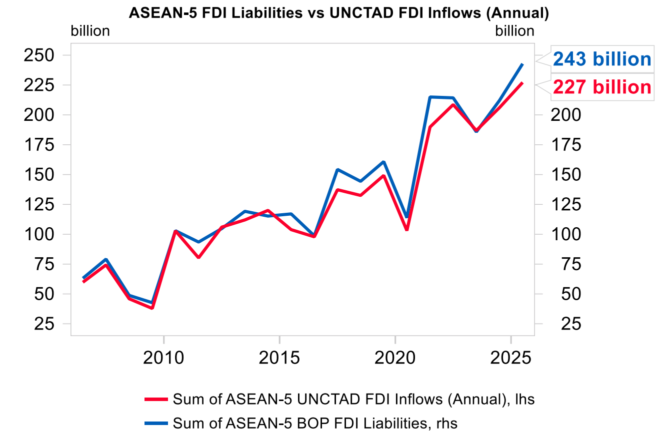


Fig 2: BOP data provides a useful indication of directional trend in FDI inflows

Source: Macrobond, UOB Global Economics & Markets Research



While trade policy uncertainty has eased, as proxied by the Trade Policy Uncertainty Index (Fig. 3), and has fallen below levels seen following Trump's US presidential election victory in Nov 2024, reflecting the gradual de-escalation of tariff tensions since Liberation Day (Apr 2025), sporadic flare-ups in trade tensions remain likely. With China's merchandise trade surplus, a major point of contention with several trading partners, still sizeable at US$576 billion as of Jun 2026 YTD, and the EU signalling potential tariff measures (CNA, 28 May), the need for continued supply chain diversification remains evident.

More recently, the USTR has implemented new tariffs of 10%-12.5% on imports from 60 economies, including China, the EU and several ASEAN economies, largely to replace the temporary 10% Section 122 tariffs which expired on 24 Jul 2026. The measures cite failures to enforce bans on goods manufactured wholly or partly using forced labour (see note), while further tariff risks remain pending Section 301 investigations into 16 economies over alleged structural excess capacity.

Furthermore, heightened geopolitical tensions, including wars and regional conflicts, as well as climate-related events such as earthquakes, heatwaves and tsunamis, have strengthened the imperative to reduce reliance on a single source of production or operational capacity, thereby mitigating concentration risk. This should continue to support de-risking and diversification of supply chains and markets, and ASEAN's inward FDI prospects.

Fig. 3: Trade policy uncertainty has fallen below levels seen following Trump's Nov 2024 U.S. presidential election victory

Source: Macrobond, UOB Global Economics & Markets Research

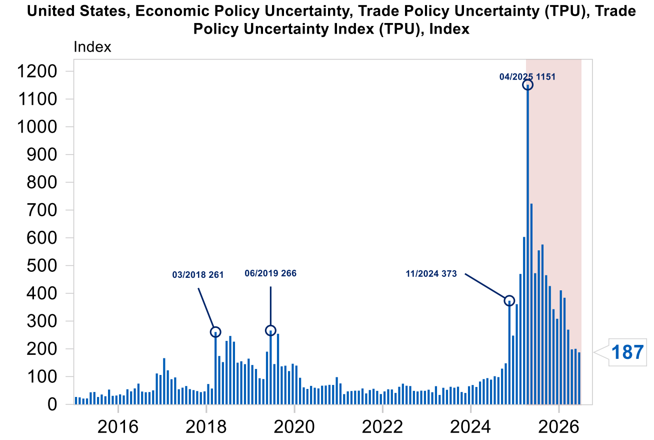


Fig 4: China's persistent merchandise trade surplus continues to fuel trade tensions with the US and EU

Source: Macrobond, UOB Global Economics & Markets Research

Fig 5: Heightened geopolitical conflicts…

Source: Macrobond, UOB Global Economics & Markets Research
*The index captures news flow associated with adverse geopolitical events.

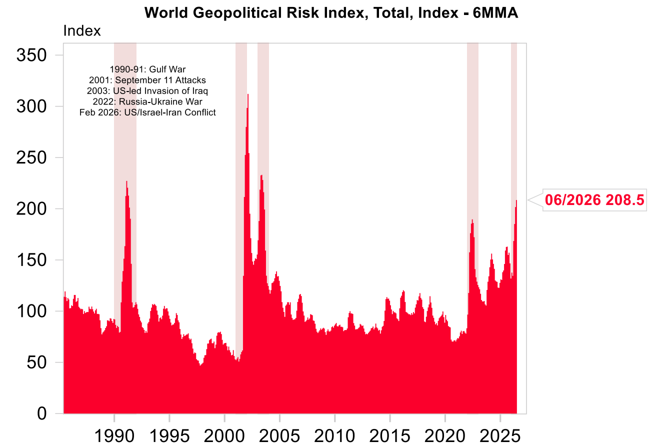
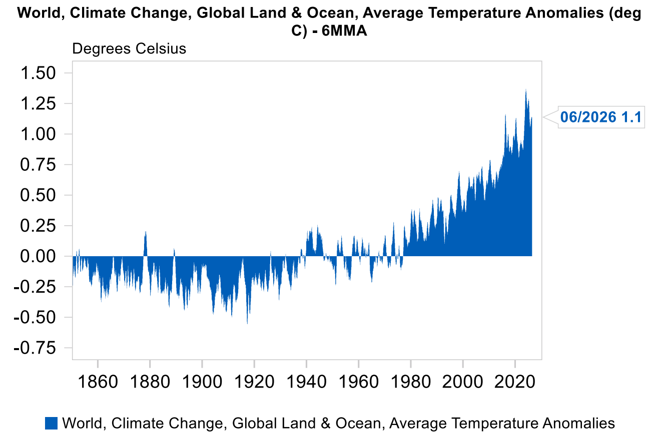


Fig. 6: …and greater climate-related risks reinforce the imperative to reduce single-source operational dependence

Source: Macrobond, UOB Global Economics & Markets Research
*Tracks the difference in temperature (anomaly) of the planet's combined land and ocean surfaces compared to a long-term average



Tracking trends on trade flows YTD

ASEAN-6 merchandise trade growth accelerated further to 26.0% y/y in the first five months of 2026 (5M26), exceeding the full-year 2025 growth rate of 12.3%. The strong performance was driven by sustained momentum in the electronics upcycle, reflecting robust AI-related end demand, while trade-related uncertainties eased. Year-to-date (YTD) trade outperformance was led by economies deeply integrated into the global semiconductor and electronics supply chain, particularly Singapore (1H26: 37.8% y/y vs. 11.2% in 2025) and Malaysia (1H26: 34.5% y/y; 2025: 13.5%), as well as Vietnam (1H26: 26.7% y/y; 2025: 17.9%). Meanwhile, non-AI beneficiary economies such as Indonesia (5M26: 8.7% y/y; 2025: 4.6%) and the Philippines (5M26: 14.0% y/y; 2025: 8.9%) also recorded positive spillovers.

AI-related tailwinds are likely to remain supportive in 2H26, with major hyperscalers announcing stronger capex plans relative to 2025. This should continue to underpin export and import growth in ASEAN's AI beneficiary economies, particularly Singapore, Malaysia and Vietnam. Meanwhile, the recent surge in energy prices stemming from the Middle East conflict could translate into a significantly higher import bill, especially for net energy importers such as Thailand, Singapore, Vietnam and the Philippines.

Fig 7: ASEAN-6 merchandise exports and imports accelerated further in 5M26 YTD…

Source: Macrobond, UOB Global Economics & Markets Research

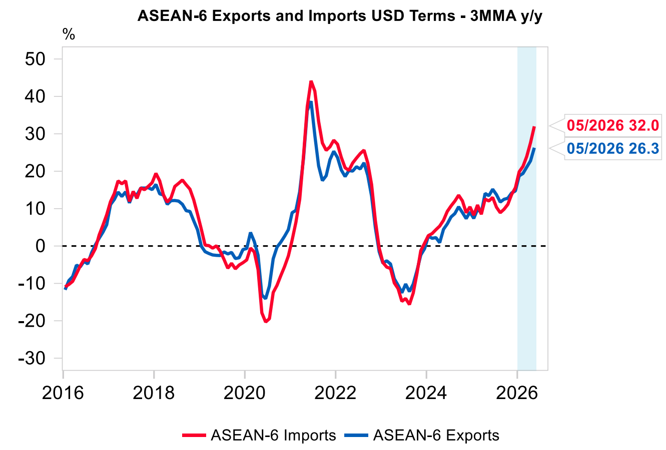


Fig. 8: Trade outperformance was led by economies deeply integrated into the global semiconductor supply chain, particularly SG, MY and VN

Source: Macrobond, UOB Global Economics & Markets Research

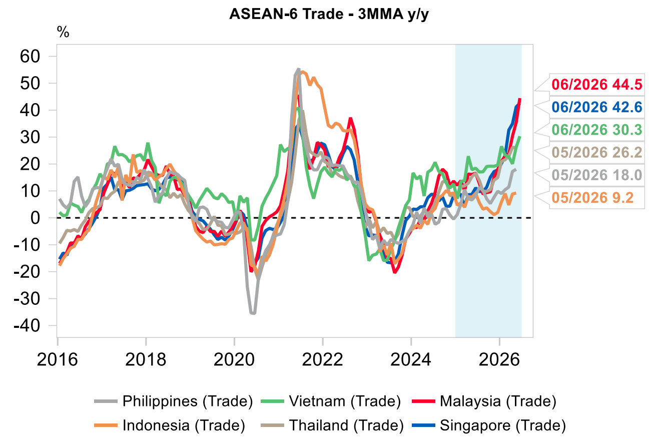


Fig 9: Hyperscaler capex is poised to exceed US$800bn in 2026 (up from US$290bn in 2024)

Source: MTI, Bloomberg Intelligence, UOB Global Economics & Markets Research

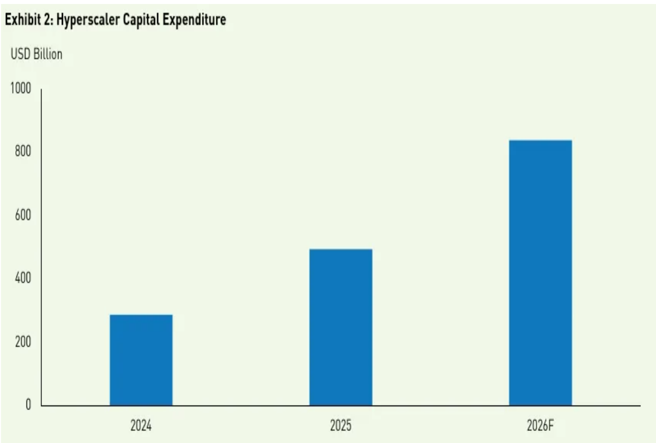
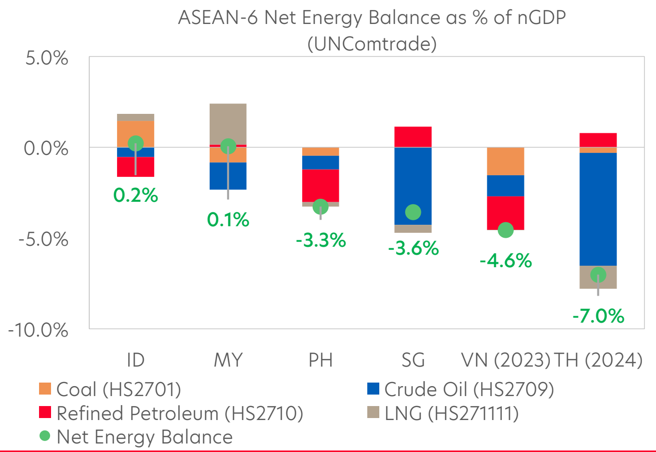


Fig. 10: Higher energy prices from the Middle East conflict could significantly raise import bills, especially for net energy importers

Source: UNComtrade, UOB Global Economics & Markets Research



Constructive trade and investment prospects in the medium-term

In our previous update (see [ASEAN: Constructive trade and investment prospects into 2035]), **we opined that ASEAN's medium-term trade and investment outlook remains constructive, supported by stronger cross-border policy coordination and deeper regional integration.** Initiatives such as the Johor-Singapore Special Economic Zone (JS-SEZ; blueprint slated for launch in 4Q26), upgrades to ATIGA and ACFTA 3.0 (signed in late 2025), ongoing AKFTA upgrade negotiations (targeted for substantial conclusion in 2027), and the ASEAN Digital Economy

Framework Agreement (DEFA; targeted for signing at the 49th ASEAN Summit in Nov 2026) are expected to enhance trade facilitation, strengthen supply chain connectivity and deepen digital integration. ASEAN's attractiveness is further underpinned by its large and growing consumer market of nearly 700 million people.

Rising incomes, favourable demographics and a long runway for population growth should continue to support consumption demand, reinforcing the region's appeal as a destination for trade and investment.

Fig. 11: Most ASEAN-6 economies improved in the 2026 IMD competitiveness scores, while VN ranked 27 in its inaugural assessment

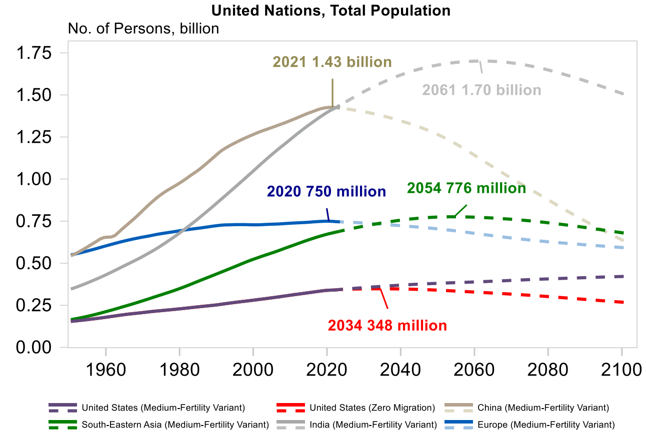
Source: IMD, UOB Global Economics & Markets Research

IMD World Competitiveness Ranking (2026 vs 2025)

	Overall Rank	Economic Performance	Government Efficiency	Business Efficiency	Infrastructure
SG	1 (from 2)	81.3 (82.2)	91.6 (88.1)	100 (88.1)	84.6 (81.0)
MY	15 (from 23)	78.4 (74.1)	71.6 (60.4)	75.4 (55.5)	59.8 (53.5)
TH	26 (from 30)	70.4 (68.5)	58.8 (55.7)	67.3 (62.2)	45.4 (43.1)
VN	27 (first year)	63.4	60.9	70.6	45.2
PH	47 (from 51)	54.7 (54.9)	47.3 (39.3)	60.5 (44.4)	31.2 (25.0)
ID	48 (from 40)	59.9 (58.7)	55.1 (53.5)	40.9 (59.0)	31.9 (30.2)

Fig. 12: Southeast Asia population is projected to peak much later, in the mid-2050s, than in major economies such as the US, China and Europe

Source: Macrobond, UOB Global Economics & Markets Research



These drivers continue to underpin ASEAN's trade growth and FDI prospects, and we take stock of our long-term projections below:

- ASEAN's total FDI inflows (based on UNCTAD data) rose 9.7% in 2025 to US$244bn, broadly in line with our earlier projection of 9.9% growth to US$248bn. **We project FDI inflows into ASEAN to surpass US$360bn by 2030 (similar to our previous projection) and exceed US$540bn by 2035 (vs. US$560bn previously).** This implies a 2025-2035 CAGR of 8.3%.

- ASEAN's total trade surged 13.7% in 2025 to US$4.37tn, significantly outperforming our earlier projection of 6.4% growth to US$4.09tn, driven primarily by the structural electronics and semiconductor upcycle, particularly in 2H25 amid strong AI-related demand. We expect AI-related tailwinds to remain supportive, especially for Singapore, Malaysia and Vietnam, through 2026 and possibly beyond. **Accordingly, we now project ASEAN's total trade to reach US$6.6tn by 2030 (vs. US$5.3tn previously) and exceed US$9tn by 2035 (vs. US$7.1tn previously).** This implies a 2025-2035 CAGR of 7.7%. Assuming stable intra-ASEAN export and import shares (2025: 21.4% and 19.5%, respectively), intra-ASEAN trade could rise to US$1.3tn by 2030 and exceed US$1.8tn by 2035.

- Positive medium- and long-term prospects for ASEAN's trade and FDI inflows should continue to bolster the region's high value-added manufacturing and services activity, supporting job creation, wage growth and consumption, while raising living standards through a virtuous cycle of investment, productivity gains and economic development. **We project**

ASEAN's economy to expand to around US$5.7tn by 2030 and US$7.5tn by 2035, while average per capita income is expected to rise to nearly US$8,000 by 2030 and exceed US$10,000 in 2035, from about US$6,000 presently (2025).

Fig 13: Medium-term FDI Projections (2026-2035)

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Foreign Direct Investment Inflows, Annual

	USD, billion (0 100 200 300 400 500 600)	2025 USD bn	2026F USD bn	2027F USD bn	2028F USD bn	2030F USD bn	2035F USD bn	2016 - 2025 CAGR	2025 - 2035 CAGR
ASEAN		244.2	269.1	291.8	314.8	367.5	544.1	***9.2***	***8.3***
Singapore		150.9	169.0	184.2	201.3	240.5	375.2	***9.3***	***9.5***
Indonesia		21.4	23.1	25.0	25.8	27.4	32.1	***20.8***	***4.1***
Vietnam		20.4	22.2	23.7	25.3	28.9	40.2	***5.5***	***7.0***
Malaysia		15.4	17.5	18.7	19.9	22.5	30.7	***3.5***	***7.1***
Thailand		19.1	20.4	21.8	23.3	26.7	37.2	***25.4***	***6.9***
Philippines		9.0	8.5	8.8	9.0	9.6	11.1	***3.0***	***2.1***

2025 2030 2035

Fig 14: Medium-term Total Merchandise Trade Projections (2026-2035)

Source: Macrobond, UOB Global Economics & Markets Research

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

	US dollar, trillion (0 1 2 3 4 5 6 7 8 9 10)	2025 USD bn	2026F USD bn	2027F USD bn	2028F USD bn	2030F USD bn	2035F USD bn	2016-2025 CAGR	2025-2035 CAGR
ASEAN		4,371	5,178	5,568	5,925	6,688	9,169	***7.7***	***7.7***
Intra-ASEAN		**894**	**1,060**	**1,141**	**1,214**	**1,370**	**1,878**	***6.3***	***7.7***
Singapore		1,070	1,430	1,541	1,606	1,742	2,137	***6.1***	***7.2***
Vietnam		928	1,145	1,289	1,420	1,726	2,808	***11.4***	***11.7***
Malaysia		716	880	931	986	1,107	1,477	***8.0***	***7.5***
Thailand		688	730	755	788	859	1,066	***5.9***	***4.5***
Indonesia		525	547	580	614	690	922	***7.2***	***5.8***
Philippines		219	234	240	252	279	362	***5.0***	***5.2***

2025 2030 2035

Fig 15: Medium-term Exports Projections (2026-2035)

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Merchandise Exports, Annual

	US dollar, trillion (0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0)	2025 USD bn	2026F USD bn	2027F USD bn	2028F USD bn	2030F USD bn	2035F USD bn	2016-2025 CAGR	2025-2035 CAGR
ASEAN		2,226	2,654	2,895	3,077	3,469	4,752	***7.6***	***7.9***
Intra-ASEAN		**476**	**568**	**620**	**659**	**742**	**1,017**	***6.2***	***7.9***
Singapore		566	770	855	888	959	1,161	***5.9***	***7.4***
Vietnam		474	578	665	736	902	1,499	***11.6***	***12.2***
Malaysia		376	471	504	533	596	790	***7.9***	***7.7***
Thailand		339	359	370	385	417	507	***5.2***	***4.1***
Indonesia		283	289	300	320	363	497	***7.7***	***5.8***
Philippines		84	89	91	93	98	111	***4.4***	***2.7***

2025 2030 2035

Fig 16: Medium-term Imports Projections (2026-2035)

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Merchandise Imports, Annual

US dollar, trillion (0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5)

	2025 USD bn	2026F USD bn	2027F USD bn	2028F USD bn	2030F USD bn	2035F USD bn	2016-2025 CAGR	2025-2035 CAGR
ASEAN	2,145	2,524	2,673	2,848	3,219	4,417	***7.9***	***7.5***
Intra-ASEAN	**418**	**492**	**521**	**555**	**628**	**861**	***6.4***	***7.5***
Singapore	504	660	687	718	784	977	***6.3***	***6.8***
Vietnam	454	567	624	685	824	1,309	***11.2***	***11.2***
Thailand	349	371	384	403	442	559	***6.7***	***4.8***
Malaysia	340	409	428	454	511	687	***8.1***	***7.3***
Indonesia	242	259	279	295	327	426	***6.6***	***5.8***
Philippines	134	145	149	159	181	251	***5.3***	***6.5***

2025 2030 2035

Fig 17: Medium-term Nominal GDP Projections (2026-2035)

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Nominal GDP (in US$), Annual

USD, trillion (0 1 2 3 4 5 6 7 8)

	2025 USD bn	2026F USD bn	2027F USD bn	2028F USD bn	2030F USD bn	2035F USD bn	2016 - 2025 CAGR	2025 - 2035 CAGR
ASEAN	4,247	4,558	4,876	5,146	5,730	7,520	***5.4***	***5.9***
Indonesia	1,446	1,557	1,680	1,764	1,945	2,482	***5.0***	***5.6***
Singapore	605	647	680	730	841	1196	***7.3***	***7.1***
Thailand	577	598	618	641	691	833	***3.8***	***3.7***
Philippines	487	531	578	605	665	840	***4.8***	***5.6***
Vietnam	494	548	597	643	746	1081	***7.7***	***8.2***
Malaysia	474	504	538	565	624	800	***5.1***	***5.4***

2025 2030 2035

Fig 18: Medium-term Nominal GDP Per Capita Projections (2026-2035)

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: Nominal GDP Per Capita (in US$), Annual

USD '000s (0 50 100 150 200)

	2025 '000s	2026F '000s	2027F '000s	2028F '000s	2030F '000s	2035F '000s	2016 - 2025 CAGR	2025 - 2035 CAGR
Singapore	103.0	109.5	114.6	122.2	139.4	194.3	***6.7***	***6.6***
Malaysia	13.2	13.9	14.6	15.2	16.4	20.1	***3.7***	***4.3***
Thailand	8.1	8.4	8.6	9.0	9.7	11.8	***3.7***	***3.9***
ASEAN	**6.1**	**6.5**	**6.9**	**7.2**	**7.9**	**10.1**	***4.5***	***5.3***
Indonesia	5.1	5.4	5.8	6.0	6.6	8.2	***4.1***	***4.9***
Vietnam	4.9	5.4	5.8	6.2	7.2	10.1	***6.8***	***7.6***
Philippines	4.2	4.5	4.9	5.1	5.5	6.7	***3.8***	***4.8***

2025 2030 2035

Suan Teck Kin, CFA
Head of Research
Suan.TeckKin@uobgroup.com

Jester Koh
Associate Economist
Jester.Koh@uobgroup.com

Research insights

www.uob.com.sg/research

Contact us

Email: GlobalEcoMktResearch@UOBgroup.com
Bloomberg: NH UOB <GO>

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