

From Tailwinds to Trade-Offs

Southeast Asia Outlook

2026–2035

A collaboration between

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At a Glance

- 01** | Southeast Asian economies have held up remarkably well despite recent turbulence, but structural differences across countries are widening the quality and concentration of growth.
- 02** | Our base case forecast for 2026 to 2035 remains broadly intact at 4.8%. For comparison, our 2024 forecast called for 5.1% over the 2024 to 2034 period.
- 03** | Vietnam remains the regional growth leader while Thailand lags its counterparts.
- 04** | However, broader global economic, technological, and geopolitical contexts force us to consider a wider fan of potential outcomes across different scenarios.
- 05** | Each country possesses a markedly different ability to capture upside and build resilience against the downside. In a downside scenario, Indonesia, the Philippines, and Thailand are most exposed; in more favorable conditions, Malaysia, Singapore, and Vietnam capture disproportionate upside.
- 06** | When it comes to policy, the core levers for growth identified in our prior *Southeast Asia Outlook* report remain valid; however, the environment now places greater weight on institutional resilience, AI adoption, and energy security.
- 07** | Ongoing shifts in geo-economics, technology, and domestic political trends make the current juncture a sensitive one. These 10-year forecasts hinge acutely on near-term policy choices and growth outcomes in the early years.



Introduction

The *Southeast Asia Outlook* is an ongoing collaboration between Bain & Company, DBS, and Vriens & Partners. In this third edition, the headline is reassuring: On average, SEA-6 nations grew 5.1% in 2024 and 2025, mirroring our projection.

This performance is remarkable given recent turbulent conditions. However, the aggregate figure masks a sharp, structural divergence between nations. For example, Vietnam achieved a 7.5% growth rate, whereas Thailand delivered just 2.7% growth.

Geopolitical, technological, and trade shifts will continue to influence outcomes. However, performance over the next decade will be notably influenced by near-term choices and domestic policy actions. Accordingly, this year's

report includes an expanded range of outcomes, demonstrating the upside and downside possibilities for each country as a "fan" of potential trajectories. It also suggests country-specific priorities to accelerate growth and create durable advantages.

Viewed broadly, all Southeast Asian countries have the capacity for growth. In the coming years, the global economic and political context, domestic policy choices, and implementation effectiveness in each country will determine how successful they are in realizing their inherent potential.

1996–2025

Performance Recap

Over the past three decades, Southeast Asia has demonstrated a quiet durability.

The region has grown steadily through financial crises, a global pandemic, and intensifying competition from its larger neighbors.

All SEA-6 economies grew faster in the 2024 to 2025 period than in the prior decade. Since 1996, Vietnam has consistently led the region, while Thailand has remained the laggard for the last two decades (see Figure 1).

Figure 1 Over the past 30 years, Southeast Asia has experienced healthy GDP growth

Real GDP Indexed to 1996 (1996–2025, x)



Economy	2025 Real GDP (USD B)	'96-'05 Avg GDP Growth	'06-'15 Avg GDP Growth	'16-'25 Avg GDP Growth	'24-'25 Avg GDP Growth
Indonesia	824	2.9%	5.6%	4.2%	5.1%
Malaysia	405	4.8%	4.9%	4.0%	5.2%
Philippines	404	4.2%	5.5%	4.6%	5.1%
Singapore	454	5.3%	5.7%	3.5%	5.2%
Thailand	351	3.2%	3.4%	2.0%	2.7%
Vietnam	271	7.2%	6.3%	6.3%	7.5%
SEA-6	2,710	3.9%	5.2%	4.1%	5.1%
China	16,840	9.3%	9.6%	5.6%	5.0%
India	3,704	6.3%	6.8%	5.9%	7.4%

Notes: 2025 real GDP is derived from constant-price GDP (local currency units) and converted to 2025 USD using average 2025 exchange rates; China GDP excludes Hong Kong and Macau.
Sources: CEIC; IMF; World Bank; government sources





Manufacturing value-added has declined, except in Vietnam

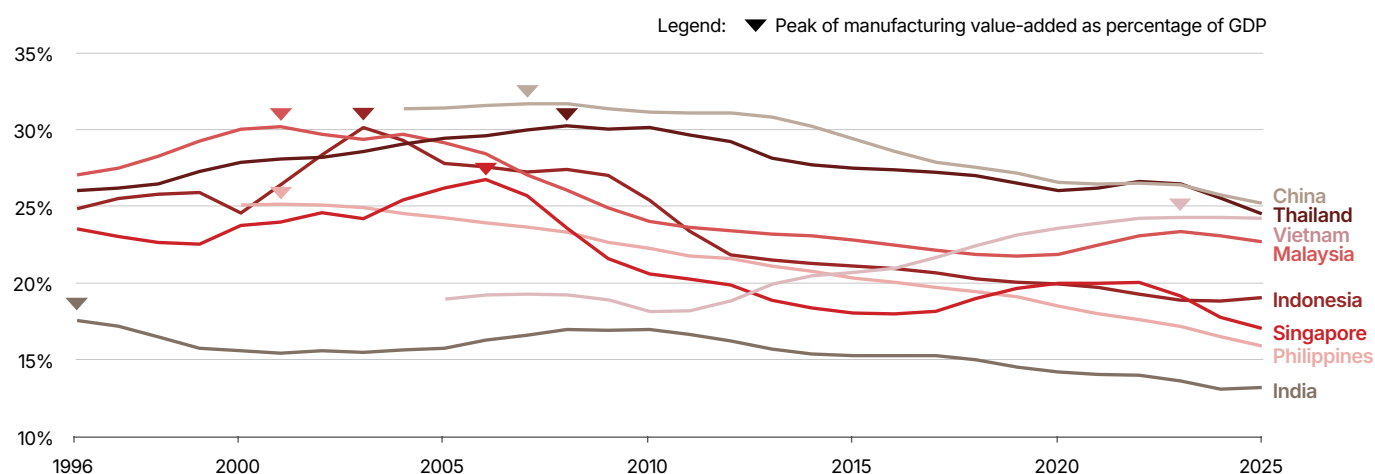
Manufacturing value-added as a share of GDP has declined from its mid-2000s peak across nearly the entire region (see Figure 2). Vietnam is the singular exception to this trend. Its manufacturing activity was notably higher, underpinned by China Plus One investments in electronics and machinery.

The decline in manufacturing's share of GDP is notable, and is consistent with patterns worldwide as incomes have risen. An innovative services

sector can generate substantial employment, as seen in many middle- and high-income countries. Southeast Asian nations can build strong economies through this shift in sectoral concentration. Even so, manufacturing employment has often served as a strong force propelling lower income families into the middle class, and continued emphasis on the creation and retention of manufacturing jobs will serve this region well.

Figure 2 Excluding Vietnam, manufacturing's share of GDP has been declining since the early 2000s

Manufacturing Value-Added as Percentage of GDP (1996–2025, three-year rolling average)



Source: World Bank

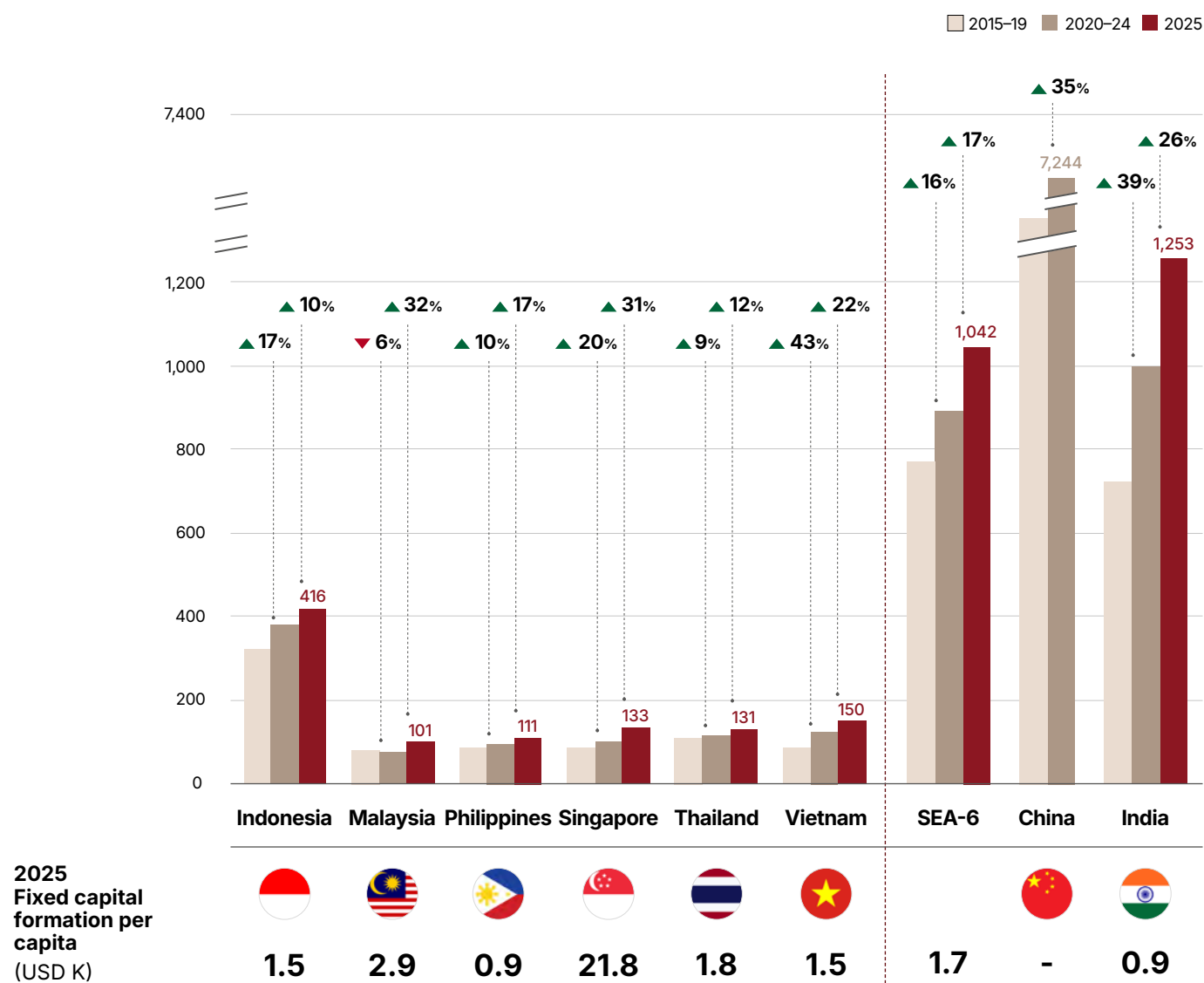
Domestic capital formation remains strong, led by Indonesia, Singapore, and Vietnam

Domestic capital formation remains robust, reflecting confidence in the region's growth prospects. Collectively, the SEA-6 increased gross fixed capital formation by 16% between the 2015 to 2019 and 2020 to 2024 periods, and by an additional 17% in 2025 (see Figure 3).

The underlying drivers are country specific. Vietnam achieved standout growth through export manufacturing recovery and strong public infrastructure investments. Singapore's growth was driven by public-led construction and semiconductor expansion, while Indonesia's growth reflected continued investment in downstream industries.

Figure 3 Overall, domestic capital formation remains strong, reflecting confidence in the region

Average Annual Gross Fixed Capital Formation (2015–2025, USD Billion)



Note: Reported in current USD
Sources: World Bank; Euromonitor

Foreign direct investment has surged and partner mix has shifted, reflecting global supply chain realignment

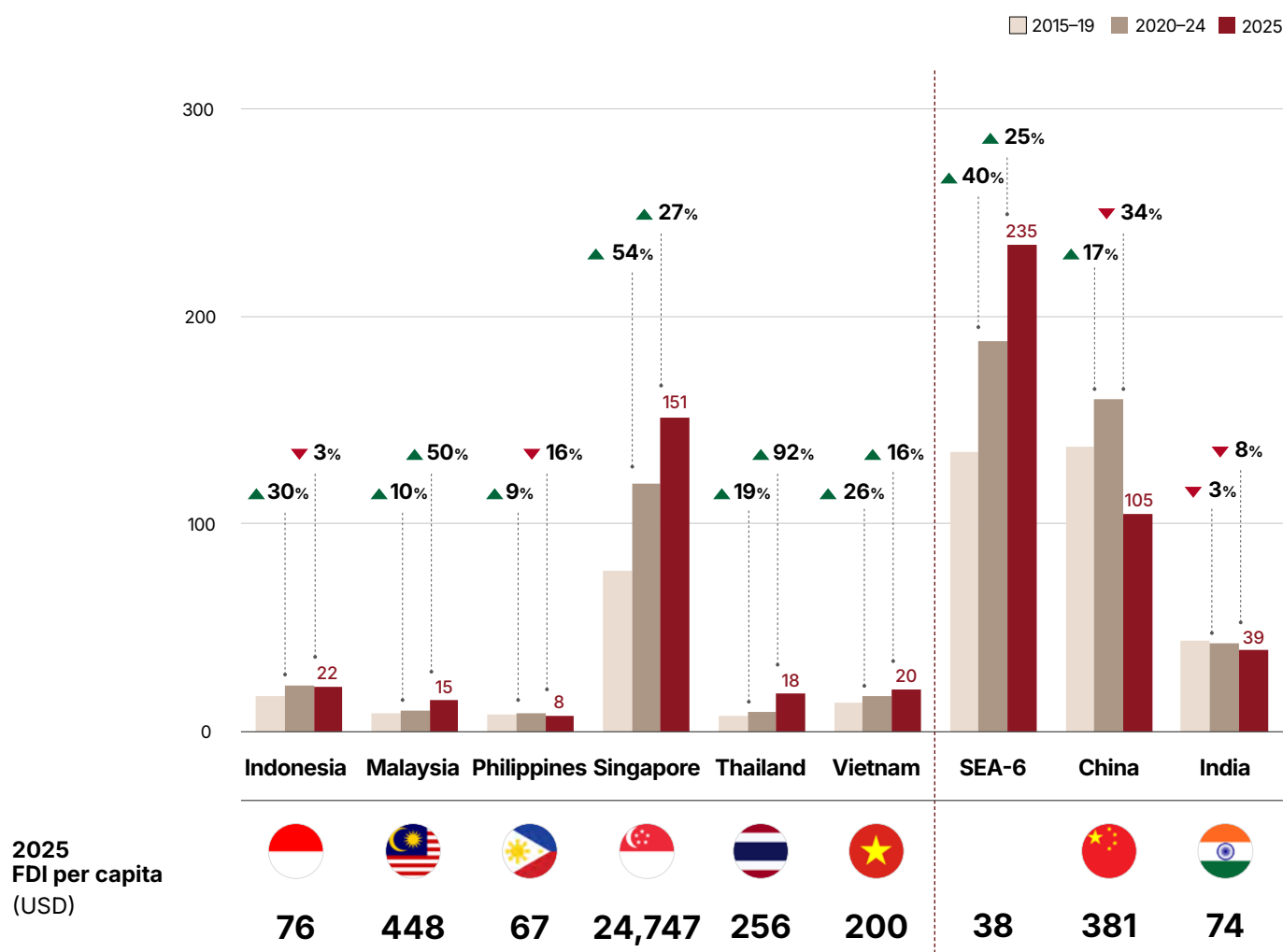
Foreign direct investment (FDI) inflows surged, although investments are increasingly concentrated in a few hubs. Singapore alone captured more than 60% of total regional FDI, leveraging its role as a hub for finance, semiconductors, and biomedical manufacturing. Indonesia and Vietnam were also beneficiaries, while Thailand's inflows materially improved via digital infrastructure and advanced electronics investments. Malaysia's semiconductor

and data center commitments could signal a stronger pipeline ahead, although they have lagged historically.

The source mix for FDI has shifted, matching global supply chain realignments. In 2025, the SEA-6's upward trajectory continued, with net FDI inflows surging 25% while China's contracted by 34% (see Figure 4).

Figure 4 FDI inflow has increased across Southeast Asia, led by Singapore

Average Annual Net FDI Inflow (2015–2025, USD Billion)



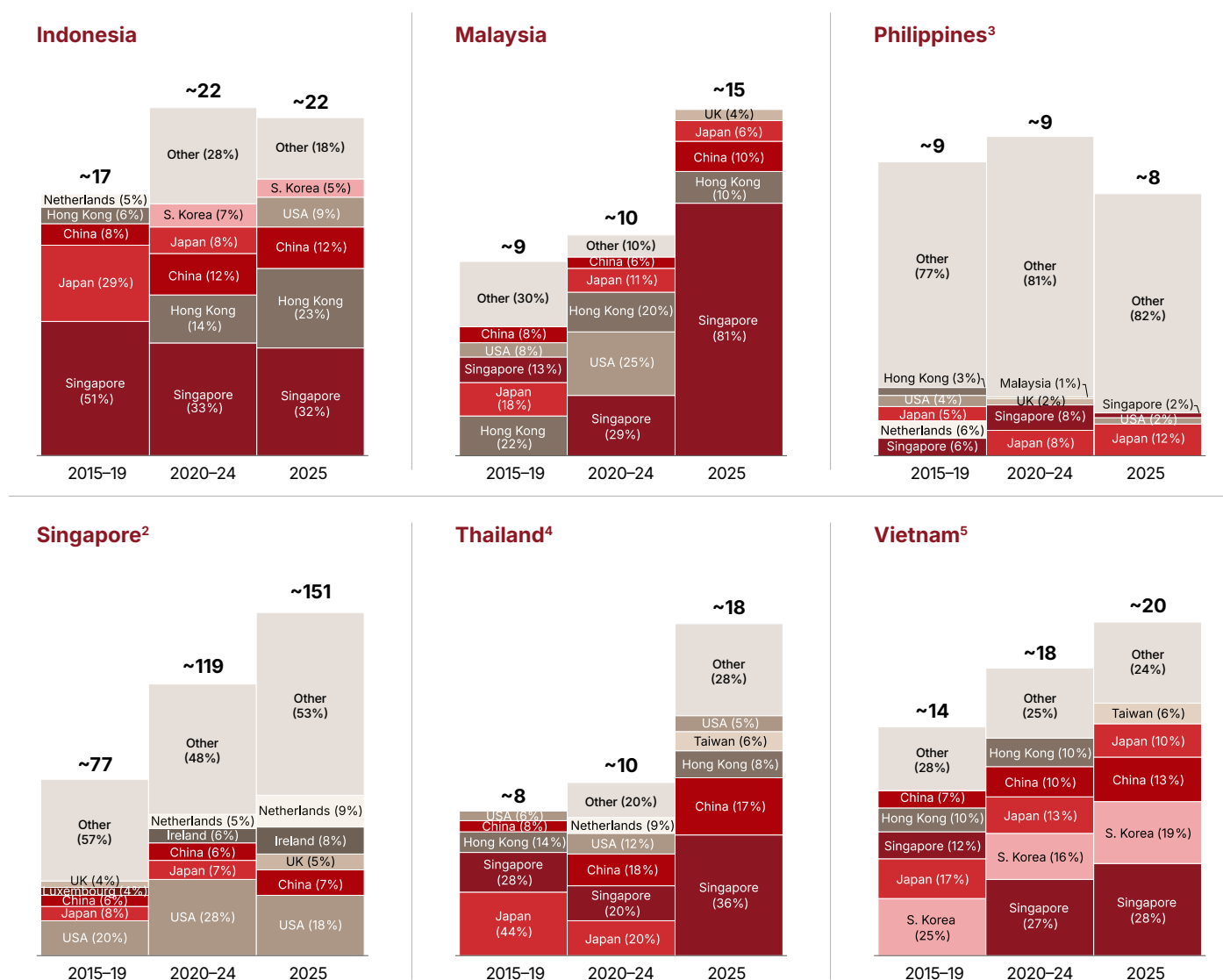
Sources: CEIC; World Bank; government sources; Euromonitor

Singapore is increasingly emerging as ASEAN's regional capital hub and is now the largest FDI source into Indonesia, Malaysia, Thailand, and Vietnam. The US share of regional investment nearly doubled, climbing from 11% in the 2015 to 2019 period to 20% in 2020 to 2024 (see Figure 5). The US is the top FDI source in Singapore and is expanding its presence in Malaysia through investments in cloud infrastructure, AI, and data centers.

Meanwhile, Chinese FDI has also grown in selected markets, reflecting supply chain diversification and manufacturing relocation trends. The strongest gains were visible in Indonesia's nickel downstreaming and electric vehicle (EV) battery supply chains, Thailand's EV and electronics industries, and Vietnam's export-oriented manufacturing base.

Figure 5 FDI is becoming more diversified, with fewer legacy concentrations and a stronger US-China tilt

Average Annual FDI by Source Country¹ (USD Billion)



Notes: (1) Differences vs. total FDI figures reflect source/methodology differences; (2) "Other" includes South and Central America and the Caribbean, which cannot be separately identified; (3) Country breakdown is available only for equity capital; reinvested earnings and debt instruments are not allocated by country, resulting in a larger "Other" bucket; (4) Country-level shares are based on gross FDI inflows and applied proportionally to estimate the country breakdown of net FDI inflows; (5) 2025 country-level allocation is based on January–April data, with the same allocation applied to the remainder of the year. Partner-country allocation based on CEIC-registered FDI capital and applied proportionally to Total Net FDI inflows from the World Bank
Sources: CEIC; World Bank; government sources

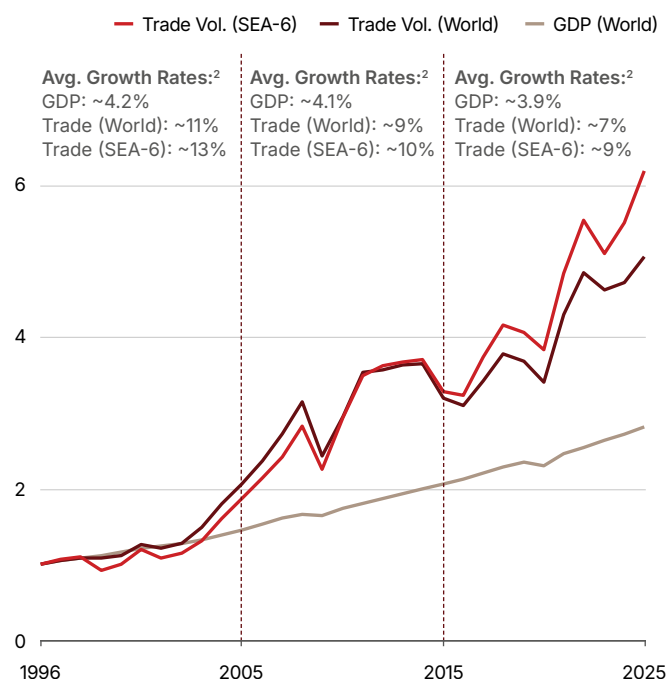
Trade dependence remains Southeast Asia's greatest strength and most significant vulnerability

Trade remains one of Southeast Asia's greatest strengths and, perhaps, a potential vulnerability. Trade intensity hovers around 90% of regional GDP—more than double the global average—making the region exposed to external friction (see Figure 6).

Exports performed strongly in 2024 and 2025. The SEA-6 benefited from front-loading ahead of US tariff changes in early 2025, supply chain reconfigurations, and a recovery in global electronics demand led by the AI super-cycle.

Figure 6 Southeast Asia is one of the most trade-exposed regions in the world

Real GDP and Trade Volume¹ Indexed to 1996 (1996–2025)



TRADE AS % OF GDP	1996–2005	2006–15	2016–25
World	27%	44%	41%
US	11%	16%	17%
EU ³	36%	58%	63%
China	18%	39%	33%
India	13%	34%	29%
SEA-6	60%	90%	89%

Southeast Asia's growth remains tightly linked to external demand, with trade consistently outpacing GDP over the long run.

Notes: (1) Real GDP indexed to constant 2025 prices (based on 2025 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: 1995–2005 excludes 1998 (Asian Financial Crisis) and 2001 (Dot com Bubble and 9/11), 2005–2015 excludes 2009 (trough of the Great Financial Crisis), and 2015–2025 excludes 2020 (Covid-19 pandemic); (3) EU 1995–2005 average only captures data from 2000–2005 period, when the data was published
Sources: World Trade Organization; Euromonitor

Looking ahead, the region will need to navigate tensions and trade vulnerabilities created by protectionist policies in the US and an economically assertive China.

The destination mix confirms Southeast Asia's growing role in global supply chains and illustrates the linkage between imports and exports (see Figure 7). Vietnam's inputs track to its electronics build-outs, while Malaysia's reflect its semiconductor-heavy economy. Singapore's diversified import mix reflects both its role as an intermediary and its higher-value manufacturing activity.

China has become the dominant source country, with its share of imports rising across the region. As regional manufacturing has expanded, the SEA-6 have shown a greater reliance on Chinese components and machinery.

Southeast Asia's shipments to the US increased across the board, most notably from Vietnam, where FDI-led manufacturing surged. US tariffs on Chinese goods also expanded the range of products that Vietnam sends to the US market.

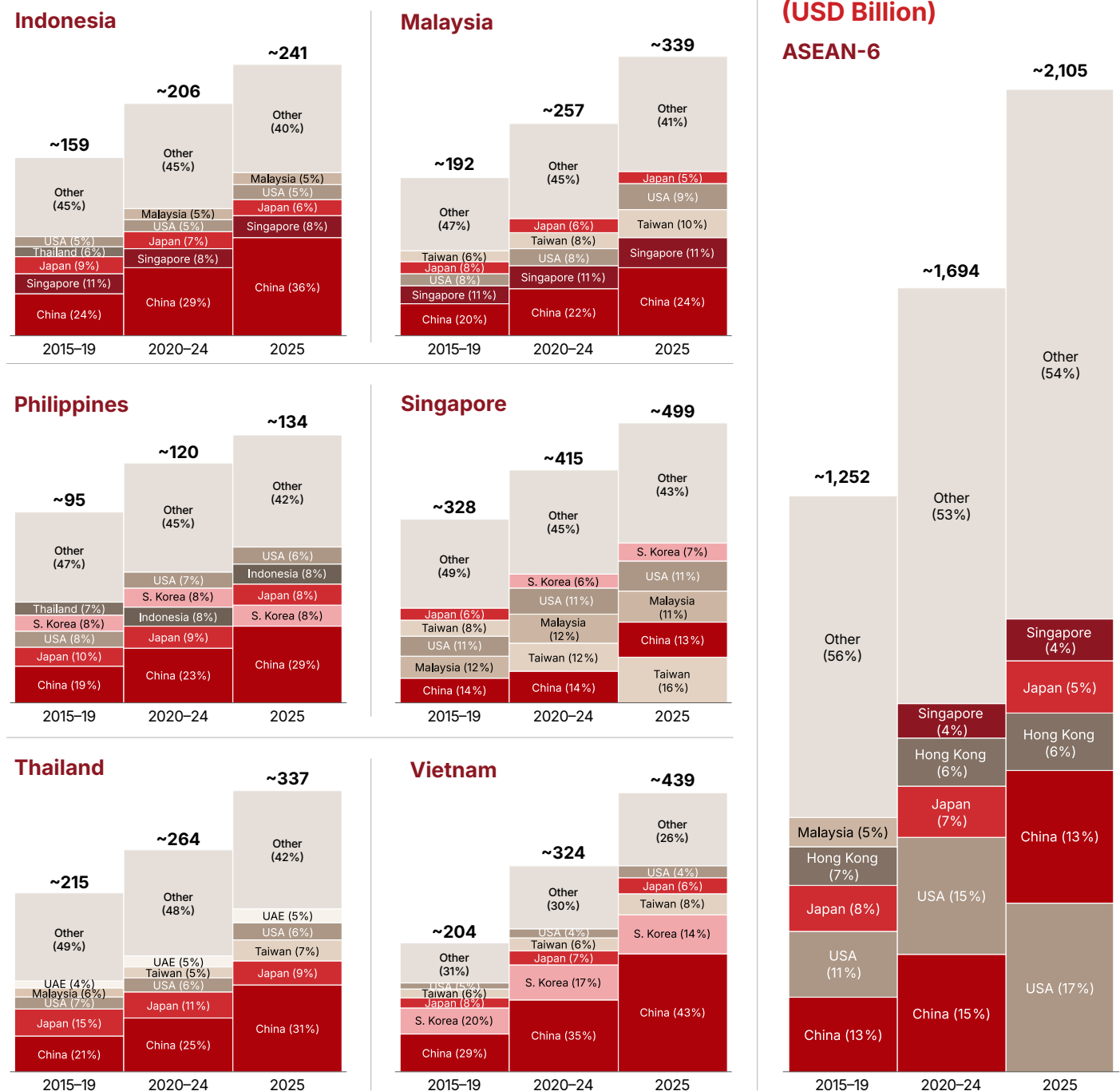
Recent export gains have been sector-driven rather than broad-based. Because these cycles are tied to demand spikes in electronics and AI infrastructure, they have not yet translated into economy-wide productivity improvements.

Moving forward, domestic structural policies will determine whether a country can convert temporary inflows into sustainable growth.

Figure 7

Average Annual Imports by Partner Countries (USD Billion)

Total Annual Exports by Partner Countries (USD Billion)



Sources: CEIC; literature search

Revisiting the 2024 to 2034 Forecast

Two years into our 10-year forecast, Southeast Asia's aggregate GDP is tracking with our 5.1% projection (see Figure 8). This performance is notable given the challenging environment, marked by intensifying US-China rivalries, rising protectionism, global shocks, and disruptive technology shifts.

Beneath the aggregate, however, country-specific outcomes have diverged more sharply than anticipated. Singapore's growth exceeded our forecast, in part riding a wave of AI-linked demand for its semiconductors. Vietnam and Malaysia also outperformed the regional average. Vietnam was

propelled by manufacturing exports and electronics- and semiconductor-related FDI, while Malaysia benefited from robust domestic demand, including strong investment momentum and exports tailwinds.

Conversely, Thailand, Indonesia, and the Philippines fell short. Thailand's performance reflected deeply entrenched structural issues; Indonesia was constrained by institutional uncertainty and uneven policy execution; and the Philippines saw growth impeded by weaker investment and public sector execution.

Figure 8 Regional growth matched projections but was uneven across countries

Real GDP Growth and Performance across Growth Drivers

Country	Real GDP Growth		Traditional Growth Drivers							New Growth Drivers				
	2024–34F	2024–25A	1. Ease of doing business	2. Diversify trade partners	3. Strengthen institutions	4. Improve workforce	5. Build infrastructure	6. Increase stability	7. Facilitate investment	1. Invest in new growth sectors	2. Foster tech-enabled disruptors	3. Strengthen capital markets	4. Accelerate green transition	5. Embrace multilateral initiatives
 Indonesia	5.7%	▼ 5.1%	▶	▶	▼	▶	▲	▶	▶	▶	▼	▶	▶	▲
 Malaysia	4.5%	▲ 5.2%	▲	▶	▲	▶	▲	▶	▶	▲	▼	▶	▼	▲
 Philippines	6.1%	▼ 5.1%	▲	▲	▶	▲	▶	▶	▶	▲	▼	▼	▼	▼
 Singapore	2.5%	▲ 5.2%	▲	▶	▶	▲	▶	▶	▶	▲	▶	▶	▶	▲
 Thailand	2.8%	▼ 2.7%	▶	▶	▼	▼	▶	▲	▶	▶	▼	▼	▶	▼
 Vietnam	6.6%	▲ 7.5%	▶	▲	▶	▶	▶	▲	▶	▲	▼	▲	▼	▶
SEA-6	5.1%	▶ 5.1%												

Sources: Bain analysis; literature search



Divergence is linked to growth frameworks

In our previous report, we narrowed in on 12 drivers that build a country's structural and policy foundations for growth, ranging from ease of doing business to political stability, workforce readiness, and progress on the green transition. As the external environment becomes more challenging, the domestic response to each driver bears more weight.

Across traditional growth drivers, differences in execution and institutional strength are becoming more pronounced. Singapore serves as the benchmark: Its progress is mainly constrained by demographic limits, though migration has kept the labor market stable. Malaysia has made the greatest improvements, adopting a pro-investment posture and improving both governance and infrastructure (e.g., ports, power connectivity). Progress in Indonesia remains mixed; substantial infrastructure progress has been offset by lagging workforce development and policy inconsistency. Thailand faces the most restrictive constraints, caught between a tightening labor supply and softer institutional momentum.

A clear tiering is also visible across new growth drivers. Singapore, Malaysia, and Vietnam have strengthened their positions. Singapore has the most advanced growth platform overall, leading in capital, technology, and ecosystem depth. Vietnam achieved the biggest gains over the past two years, significantly upgrading its manufacturing and investment capacity. However, the country's early-stage innovation ecosystem remains nascent.

Meanwhile, progress in the rest of the region is uneven or stalled. Indonesia has strong scale and downstreaming but weaker start-up momentum, shallower capital markets, and a slower green transition. In Thailand, selective investment inflows in data centers have not been matched by innovation scaling or capital market depth. The Philippines' gains in tech services have been capped by structural constraints, such as power grid limitations.

**There is a critical correlation:
The countries that systematically
improved across these growth
frameworks also outperformed
our forecasts. Their divergence is
both structural and widening.**

The 2026 to 2035 Forecast

Our updated baseline forecast expects the SEA-6 to grow at 4.8% on average between 2026 and 2035.

That is slightly below our previous forecast (5.1% for the 2024 to 2034 period) but faster than the region's growth rate over the prior decade (4.1%) (see Figure 9).

Figure 9 The SEA-6 are projected to average 4.8% annual growth between 2026 and 2035

SEA Projected Average Annual Growth (2026–2035, %)

Country	Historical Average			Forecast
	1996–2005	2006–15	2016–25	2026–35
 Indonesia	2.9	5.6	4.2	5.4
 Malaysia	4.8	4.9	4.0	4.3
 Philippines	4.2	5.5	4.6	5.8
 Singapore	5.3	5.7	3.5	2.7
 Thailand	3.2	3.4	2.0	2.2
 Vietnam	7.2	6.3	6.3	6.2
SEA-6	3.9	5.2	4.1	4.8

Sources: DBS projections; CEIC; IMF; World Bank; government sources

The revised forecast reflects a complex and volatile external environment offset by steady progress among current growth leaders. We expect Vietnam to retain the regional lead, holding an average annual growth rate of 6.2% through sustained FDI and productivity gains. By maintaining its pro-growth stance and fiscal discipline, Malaysia can achieve a 4.3% growth rate.

The Philippines and Indonesia both have the potential to substantially accelerate growth. The Philippines, which has a favorable demographic tailwind, could grow at a 5.8% average annual rate

as consumption, infrastructure, and governance reforms unlock investment. Similarly, Indonesia could reach a 5.4% growth rate by boosting domestic consumption and further industrializing its nickel and EV value chains.

As a mature economy, Singapore's growth rate is expected to stabilize around 2.7%, leveraging AI-driven productivity gains to offset demographic constraints. Thailand will anchor the SEA-6 with a 2.2% growth rate, held back by an aging population and fragmented politics.

Accounting for Global Uncertainty

Actual outcomes depend on a broad range of global economic, technological, and geopolitical contexts.

Southeast Asia's high trade intensity and reliance on FDI make it particularly sensitive to shifts in global conditions. Therefore, we've expanded this year's forecast to account for three scenarios that could evolve over the next decade (*see Figure 10*).

Figure 10 The 10-year growth outlook hinges on three plausible global scenarios

10-Year Growth Outlook Scenarios

	Downside Scenario Acrimonious rivalry and split world order	Base Scenario Heated rivalry and deteriorating world order	Upside Scenario Managed rivalry with repaired world order
Globalization and trade	- China-US rivalry hardens into bloc competition - Trade, finance, and institutions weaken or fragment	- US disruption continues and China remains mercantilist - Fiscal and populist pressures mount	- US, China, and other major powers step back from confrontation - US re-engages on trade and alliances
Tech and industrial competition	- Bifurcation of Chinese and US tech stacks and trading ecosystems - AI shock widens gaps between winners and laggards	- Parallel China and US AI development; SEA negotiates mixed access and selective decoupling - AI, robotics, and automation drive productivity gains	- Tech ecosystems remain competitive but connected - SEA becomes increasingly critical to both Chinese and US AI ecosystems
Conflict and escalation	- Conflicts disrupt energy, trade, and chokepoints - Proxy conflicts trigger market shocks	- Proxy conflicts persist but avoid major war - Energy, food, and FX buffers cushion external shocks	- Fewer proxy conflicts and lower military posture - Flashpoints remain unresolved but stable

Source: Bain analysis

Downside Scenario (further fragmentation)

Global political and economic rivalries accelerate, decoupling markets into incompatible technology stacks and hardened trade blocs. This environment would disrupt supply chains, curtail FDI, and force Southeast Asian nations to pick sides.

Base Scenario (continued erosion)

Rivalries persist, institutions gradually erode, and multilateral frameworks weaken—but the system largely remains intact. Southeast Asia retains the room to maneuver, capturing flows from supply chain diversification while effectively managing pressure from competing blocs.

Upside Scenario (improved coordination)

Geopolitical relationships are stabilized and multilateral coordination is restored, aiding trade flows. Southeast Asia is able to position itself as an indispensable node in global technology and innovation systems, capturing a disproportionate share of redirected trade, capital, and supply chain infrastructure.

Whichever scenario comes to pass will shape the ceiling and floor of what is achievable for the region; however, it will not be the primary determinant of success. Each country can (and likely will) make deliberate choices across trade, growth architecture, and resilience that together greatly impact its own economic performance.

Upside Potential and Resilience Vary by Country

While baseline growth is expected to remain relatively stable across the region, each country possesses a materially different capacity to capture upside growth and minimize downside exposure. We estimated the growth potential for each country across fans of possible outcomes (see Figure 11).

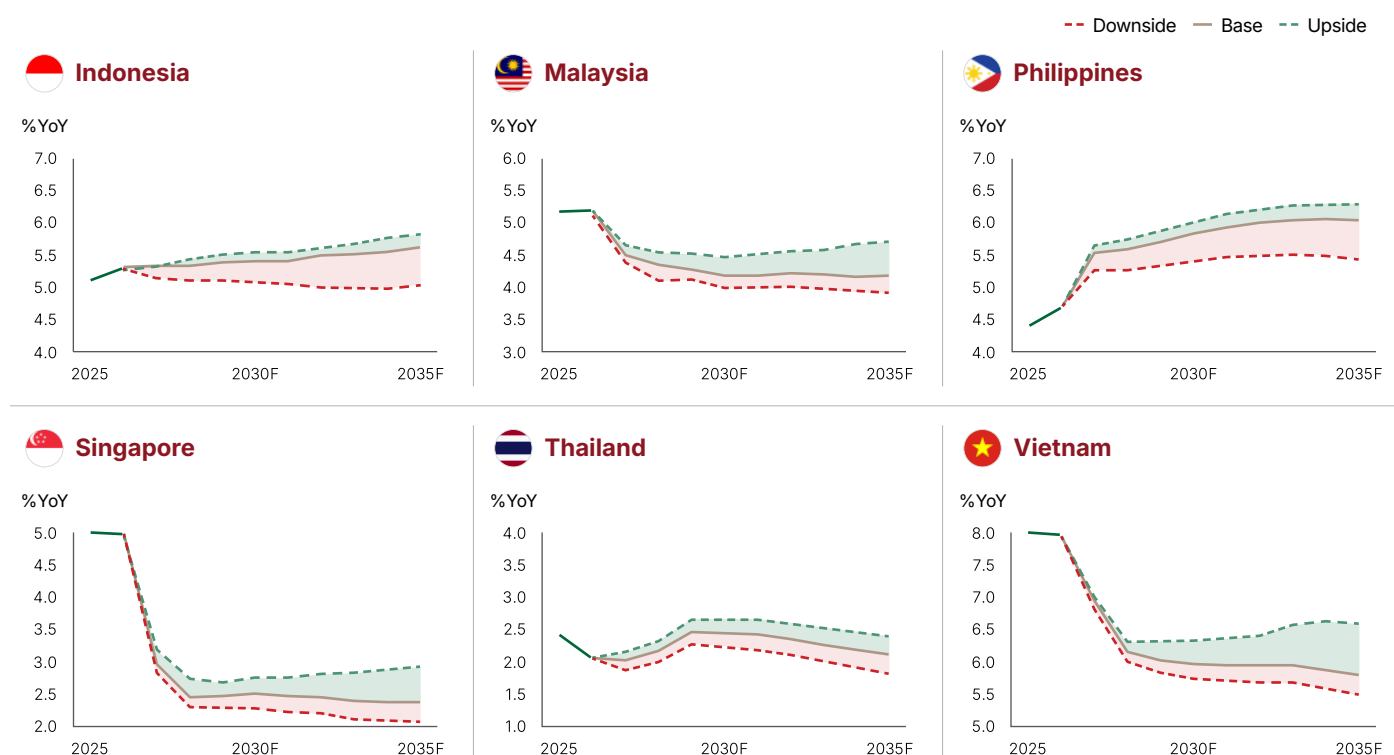
In a downside scenario, Indonesia, the Philippines, and Thailand are most exposed given their capital-flow sensitivities, energy dependence, political uncertainty, and weaker structural momentum. Vietnam and Malaysia are more moderately exposed; both retain strong industrial relevance, but their open, export-linked economies remain vulnerable to demand and supply-chain shocks. Singapore is the most resilient, supported by safe-haven status, deep markets, fiscal buffers, and its trusted-hub credibility.

In more favorable conditions, the pattern shifts. Malaysia, Singapore, and Vietnam capture disproportionate upside, leveraging their roles in capital intermediation and global manufacturing supply chains. Indonesia, Thailand, and the Philippines see more limited benefit, as persistent structural constraints limit their ability to translate an improved external environment into stronger growth.

Ultimately, global conditions establish the boundaries for each scenario, but domestic actions dictate whether a country converts opportunities into sustained growth.

Figure 11 Each country faces a distinct outcome range, where resilience sets the floor and structural advantages define the ceiling

Real GDP Growth (2025A–2035F¹, %)



Note: (1) 2025A reflects actual data; all years from 2026 onward are forecasts (F)
Source: DBS projections



Indonesia

Structural scale cannot offset institutional erosion

Indonesia has the most downside-skewed fan in the region. Its baseline floor is well supported by its domestic market and insulated by resource downstreaming in nickel and minerals. However, its upside ceiling is constrained by institutional vulnerabilities, populist fiscal policies, and spending pressures that risk accelerating investment outflows and weakening sovereign credit credibility.

In our projection, Indonesia will continue to attract selective FDI where natural resources and market scale matter, but translating this into broader productivity growth will be hampered by uneven execution and a lack of policy consistency.

Malaysia

Capturing more upside requires moving up the value chain

Malaysia's structural advantages limit its downside. It has a strong trade position, with exposure across US semiconductor supply chains and Chinese infrastructure investments, and is supported by resource buffers in palm oil, liquefied natural gas, and petroleum.

Upside capture is underpinned by substantial commitments in data centers, semiconductors, and AI-linked manufacturing. However, its ceiling is

capped by two structural gaps: Its semiconductor footprint is concentrated in lower-margin, back-end assembly, testing, and packaging segments rather than sticky, high-margin design or fabrication. Also, the country's talent pipeline is under severe strain. Until these gaps narrow, the investment pipeline will continue to outpace Malaysia's capacity to convert it.

The Philippines

Energy dependence and governance risks skew outcomes toward the downside

The Philippines has a wide downside-skewed fan. In its favor, attractive demographics, steady remittance inflows, and a consumption-led model insulate it from global trade disruption.

However, its growth architecture is vulnerable. Dependence on imported energy quickly turns external price shocks into household inflation, while

weak policy implementation hinders the conversion of investment commitment into actual deployment. Additionally, AI-driven automation creates longer-term risk to the business process outsourcing (BPO) sector. Without stronger energy security and governance consistency, growth could be capped below the Philippines' potential.

Singapore

Safe-haven depth anchors the floor, while hub status drives the upside

Singapore's trajectory is a picture of structural resilience: A contained downside is matched with meaningful upside potential.

The country's safe-haven status means capital and talent will flow toward Singapore in periods of stress rather than away, giving it a well-defended floor. In upside scenarios, Singapore's status as a trusted hub translates into deeper regional intermediation, expanded AI and advanced manufacturing activity, and broader capital flows.

Singapore is bound by energy dependence and demographic constraints. To sustain the base scenario, it will need to attract talent and make continued productivity gains through AI and automation. While Singapore's baseline growth projection is moderate, its track record suggests its ceiling may have room to rise.



Thailand

Structural headwinds compress the range in every scenario

Thailand's fan is the most compressed across the region, reflecting structural constraints that are equally binding in both directions. Its trajectory is also shaped more by domestic constraints than by the external environment.

The growth floor has genuine support that holds across most conditions: an established EV, electronics, and automotive manufacturing base;

broad trade and capital ties; and strong tourism. Yet domestic challenges restrict growth. Demographic decline, high household debt, and political fragmentation suppress the upside ceiling. These domestic constraints are unlikely to ease in any scenario. Furthermore, balancing alignment between Chinese supply chains and Western market access remains an ongoing challenge.

Vietnam

The region's highest upside story is supported by FDI attractiveness and its capacity to address constraints

Vietnam has the most upside-heavy fan across the SEA-6. Decades of reform have embedded it in the global electronics and semiconductor supply chains, establishing a baseline floor that cannot be quickly undone, and the country's broad trade relationships could cushion the impact if exports became more challenging.

While its floor is strong, Vietnam's ceiling sets it apart. Unlike other SEA-6 economies, Vietnam captures FDI from both US- and Chinese-aligned

supply chains. Under optimal conditions, this allows higher-value investments to scale across logistics, industrial parks, and upstream electronics, meaningfully compounding the base scenario.

Vietnam's constraints—power grid disruptions and shallow domestic capital markets—are solvable infrastructure and financial development challenges rather than structural deficits. Both are within Vietnam's capacity to address over the next decade.



Priorities to Accelerate Growth

Our 2024 report identified operational levers for building durable economic advantages.

While these levers remain unchanged, the current global climate has elevated three specific priorities: strengthening institutional resilience, fortifying energy systems, and capturing the AI dividend.

01 Strengthening Institutional Resilience

Institutions set the foundation for investor confidence, capital retention, and a government's capacity for consistent policy execution. In a volatile and fragmented global economy, institutional credibility is a major differentiator. Achieving it requires progress across three dimensions:

- **Governance and the rule of law** anchors investor confidence and reduces the cost of doing business.
- **Fiscal stability** absorbs external shocks and funds productive long-term investments.
- **Capital market depth** efficiently mobilizes domestic savings and foreign capital into growth opportunities.

Improvement across these three areas is self-reinforcing: Institutional credibility deepens domestic capital markets and attracts investments, which fund the infrastructure and innovation needed to sustain growth. The reverse is equally true: Institutional erosion quickly undermines progress on every other priority.

02 Fortifying Energy Systems

Energy has transformed from a basic utility into a binding growth constraint for many SEA-6 countries. Grid capacity and reliability determine whether an economy can expand its industrial base and support power-intensive AI infrastructure. Energy security is also a lever for managing cost and security risks as energy supply chains become more volatile. That makes energy infrastructure a strategic priority rather than a regulatory challenge. Fortifying energy systems calls for:

- **Reliability:** Achieving a consistent, uninterrupted power supply is the most immediate priority. This requires rapid grid modernization, expanded

storage capacity, and secure dispatchable generation capable of absorbing a variety of renewables.

- **Sustainability:** Renewable energy assets must become bankable through reformed procurement frameworks, payment certainty, and credible carbon commitments. These aren't simply climate gestures; they are prerequisites for attracting high-quality investments.
- **Security:** Import sources must be diversified to mitigate exposure to external supply shocks. Countries need to build strategic reserves while accelerating domestic baseload alternatives.

03 Capturing the AI Dividend

AI is emerging as the primary productivity lever of the decade, offering the potential to reshape industries and offset labor constraints. But value capture is not guaranteed. Economic returns will only accrue in countries that move beyond initial adoption and surface-level integration to deploy AI at enterprise-scale. To benefit from AI, countries must build a talent pipeline and establish policy conditions that make enterprise adoption commercially viable now.

Capturing the dividend requires action across three interconnected areas:

- **Policy and infrastructure:** Sovereign AI strategies, data governance frameworks, and domestically governed compute capacity will set the foundation for scaled deployment.
- **Enterprise adoption:** This means scaling beyond pilots into full operational integration and embedding AI into core business processes with measurable productivity outcomes. Tools also need to be accessible to benefit the broader economy, not just large firms.
- **Workforce skills and development:** Workforce readiness requires building AI capabilities in education systems while retraining the existing workforce for AI's labor impacts.

The Future Will Reflect Near-Term Policy Choices

Ongoing shifts in geo-economics, technology, and domestic policy trends make the current juncture a sensitive one.

But the sizable variance between regional growth floors and ceilings confirms that Southeast Asia's trajectory depends more on domestic policy decisions than external forces.

Institutional resilience, fortified energy systems, and AI integration are universal regional priorities, even though their relative importance varies based on each country's structural position.

Indonesia

The defining test is institutional credibility.

Without governance credibility and fiscal discipline, Indonesia will not scale to meet the energy or AI opportunity. Both require stronger investor confidence and disciplined execution.

Malaysia

The key question is conversion. Malaysia's strengths in AI infrastructure, energy systems, and institutional fundamentals give the country a distinct head start. The next phase depends on converting this foundation into deep ecosystem value through talent development, enterprise-level AI adoption, and productivity gains. In turn, this also requires policy continuity and consistent execution through the next electoral cycle.

The Philippines

The challenge is transition. Progress on energy and institutional resilience will enable the AI transition, but the more immediate priority is upgrading the BPO sector to mitigate automation pressures. The next few years will be critical; the Philippines must move into higher-value services while sustaining reform momentum through its next leadership transition.

Singapore

The priority is diffusion. Singapore's platform is exceptionally strong. Energy diversification is underway, institutional strengths are intact, and the country has the most advanced AI ecosystem. The priority now is converting AI leadership into broad productivity gains across mid-market firms and non-technology workers to offset the tightening labor supply.

Thailand

The critical variable is restoring institutional momentum. Structural reforms are needed to overcome declining growth and political fragmentation. In addition, because EV transition and Chinese competition are reshaping Thailand's core manufacturing landscape, quickly embedding AI and advanced manufacturing capabilities into the industrial base is a critical near-term move.

Vietnam

The primary constraint is execution. Power grid limitations and infrastructure bottlenecks threaten to cap the next phase of growth. To maintain its outperformer trajectory, the near-term priority is twofold: resolving energy reliability shortfalls that constrain high-value manufacturing and implementing strategic AI-led value chain upgrades before its low-cost assembly advantage erodes.



Conclusion

Southeast Asia is growing, with considerable structural divergence.

Countries with diversified industrial bases, a thriving services economy, stable institutional foundations, and strong fiscal management are more likely to weather downside risks and capture upside growth in a recovery. Conversely, those with narrower growth models or more constrained policy frameworks are likely to struggle in any scenario.

In the decade ahead, countries must continuously demonstrate institutional credibility, enhance energy security, and absorb advanced technological

capabilities. Nations that build and fortify these foundations will find the region's long-term tailwinds working in their favor.

The forecasts detailed in this report are entirely achievable. Performance over the next two to three years will decide which nations live up to their full potential.

Methodology

In this report, “Southeast Asia” and the “SEA-6” refer to Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. While not exhaustive, these six countries contribute to more than 95% 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 (IMF), and Penn World Table. We also relied on expertise from our partners at Bain & Company, DBS, and Vriens & Partners.

Our growth framework assessments drew from external indexes, databases, and ratings from the Association of Southeast Asian Nations Statistics Division (ASEANstats), CEIC, Euromonitor, the IMF, the United Nations Conference on Trade and Development, the World Bank, World Integrated Trade Solutions, and the World Trade Organization.

We also used selected benchmark indicators, including the Herfindahl-Hirschman Market Concentration Index, the World Bank’s Ease of Doing Business score, Human Capital Index, Logistics Performance Index, and Worldwide Governance Indicators. For our analysis of new growth drivers, we drew on the Global Innovation Index from the World Intellectual Property Organization; private technology investment and venture capital data from PitchBook and Tracxn; capital markets data from DBS; and energy, reliability, and emissions data from Wood Mackenzie and the Emissions Database for Global Atmospheric Research.

Please contact the authors for details regarding our methodology, forecasts, or analysis.

