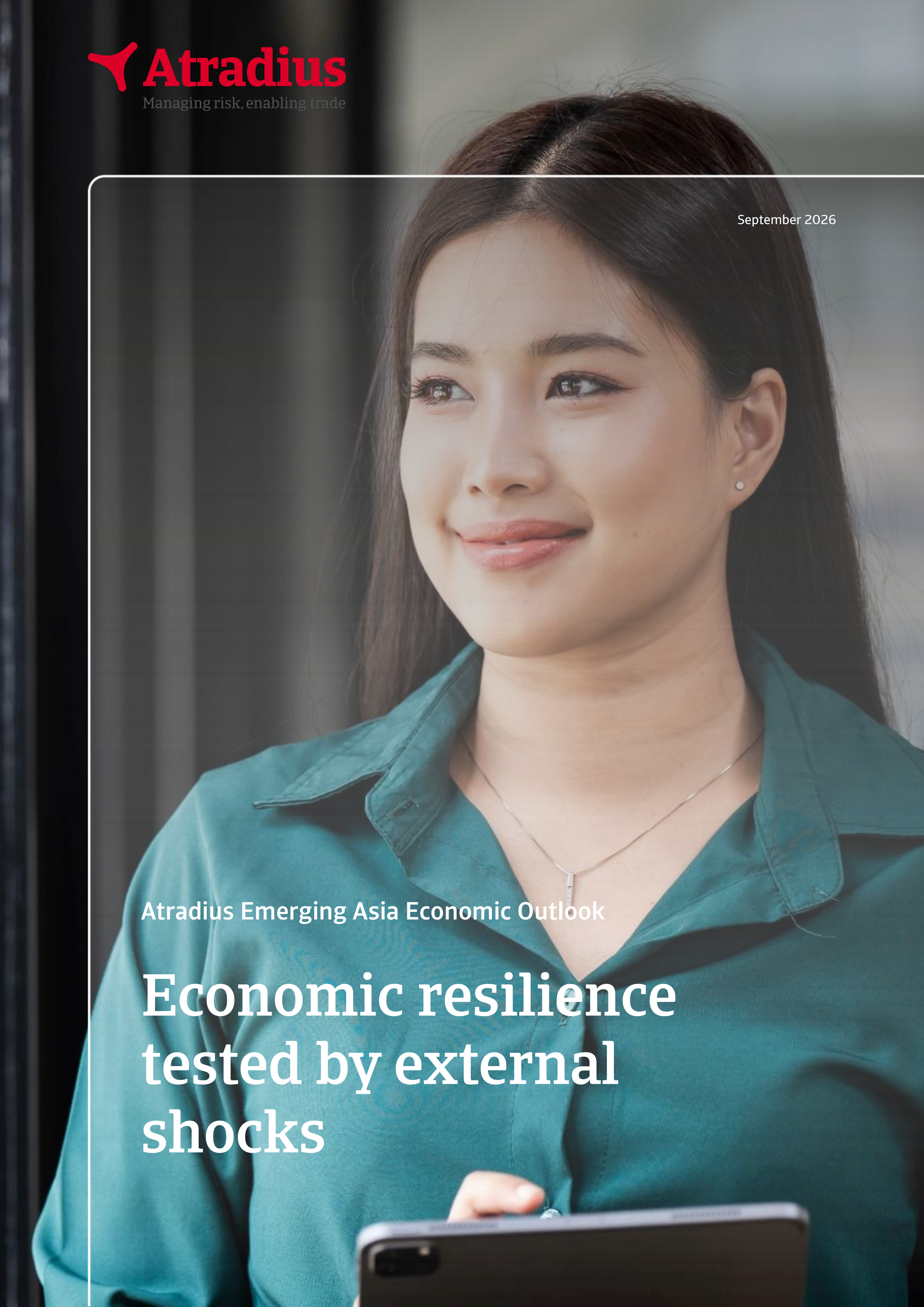

Atradius
Managing risk, enabling trade

September 2026

Atradius Emerging Asia Economic Outlook

Economic resilience tested by external shocks

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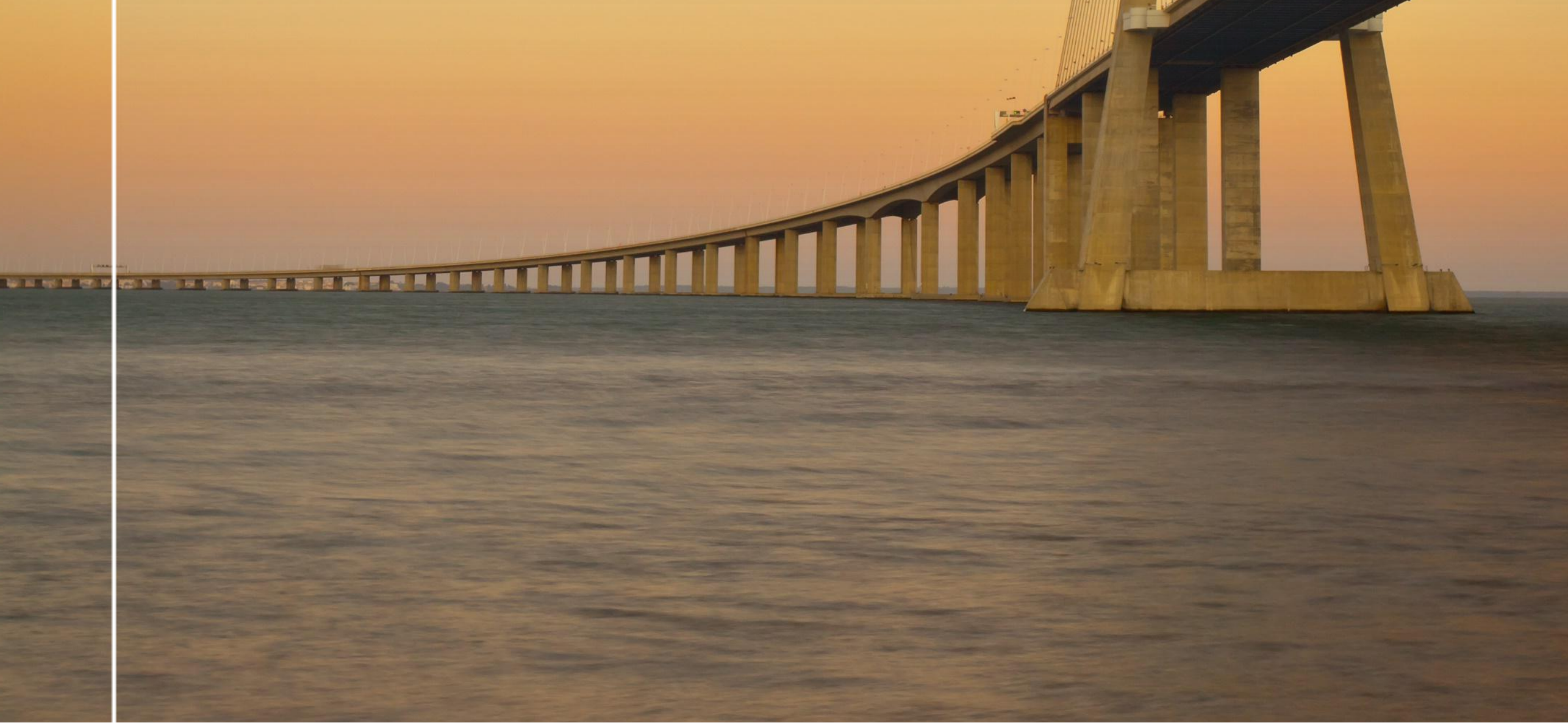


Summary

Asian economies affected differently by energy and trade shocks

The global economy faces renewed pressure from two shocks: rising energy prices driven by the prolonged Middle East conflict and a deterioration in the global trade environment. Higher energy costs have increased inflation, transport expenses and business uncertainty, while trade is increasingly shaped by tariffs, export controls and geopolitical considerations rather than efficiency. Emerging Asia remains the world's main growth engine, supported by stronger external positions, deeper domestic markets and improved policy frameworks. However, resilience differs significantly across countries. Energy-importing economies such as India, Thailand, the Philippines and Vietnam are more exposed to higher fuel costs, while China and Malaysia are better positioned to absorb the shock. Trade fragmentation creates opportunities through supply-chain diversification, particularly for Vietnam, Malaysia and India, but success increasingly depends on compliance, transparency and institutional strength. Ultimately, countries with strong domestic demand, credible policies and effective institutions are best placed to withstand external shocks, while those facing inflation, debt, political uncertainty or weak confidence remain more vulnerable.

Asian trade flows are shifting, not shrinking

Focusing on the countries' trade positions and their associated opportunities and vulnerabilities, we conclude that trade remains a key driver of Emerging Asia's growth, but is becoming more geopolitical, selective and compliance-driven. US-China rivalry is redirecting rather than reducing trade flows through tariffs, export controls, rules-of-origin requirements and supply-chain scrutiny. China remains central to global manufacturing, particularly in high-tech, clean-energy and electronics sectors. However, its export strength also reflects weak domestic demand and fuels tensions over overcapacity and subsidies. China-plus-one strategies continue to benefit Vietnam, Malaysia and India, but investment increasingly depends on infrastructure, policy stability and regulatory compliance. AI-related demand supports regional exports, while adding concentration risk. Meanwhile, the US offers market scale but policy uncertainty, while Europe provides more predictable access but stricter standards. Overall, trade is becoming more regionalised, regulated and shaped by geopolitical considerations rather than pure economic efficiency.

Growth outlook: resilience diverges

Emerging Asia is expected to remain a strong growth region in 2026-27, but economic performance is becoming increasingly uneven. Vietnam is the outperformer, with GDP growth driven by investment and electronics exports, though rising inflation and financial stability risks point to overheating pressures. India also shows robust growth, supported by strong domestic demand, infrastructure spending and investment, but also faces persistent inflation challenges. Malaysia benefits from AI-related demand, electronics exports and data-centre investment, although its outlook is increasingly tied to the global technology cycle. China remains a key growth anchor, but external demand cannot continue to compensate for weak household consumption and investment. Indonesia maintains stable growth, though policy credibility is under closer scrutiny. Thailand remains constrained by weak domestic demand and high household debt, while the Philippines faces the most difficult near-term mix of high inflation and weak growth. Overall, resilience remains strong but differs significantly across economies.

Economic resilience tested by external shocks

Global economy pressured by energy and trade shocks

The global economy has come under renewed pressure since the start of the year. The most visible source of stress is the protracted war in the Middle East, which has triggered an energy shock with far-reaching consequences for inflation, external balances, shipping costs and business confidence. Many economies rely heavily on imported energy and seaborne logistics. Higher oil and gas prices therefore have raised production and transport costs, while disruptions to key maritime routes have increased freight and insurance costs. For companies that export to vulnerable economies or are active there, the consequences are not limited to the energy bill, but are also visible in margins and delivery times.

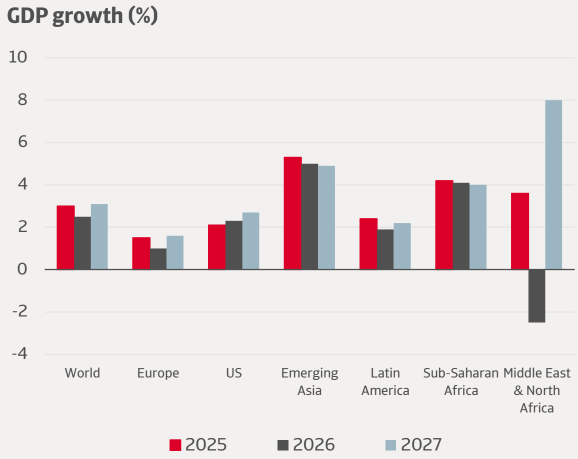
This energy shock comes on top of a deterioration in the global trade environment that started eight years ago and is unlikely to reverse soon. The rivalry between the world's two largest economies, the United States and China, has shifted trade policy away from economic logic based on efficiency, trust and cooperation. Instead, trade decisions are increasingly shaped by geopolitical considerations, the pursuit of strategic autonomy, and national self-interest. What started as a tariff conflict has evolved into a broader and more lasting trade shock, in which tariffs, export controls, industrial policy, rules-of-origin requirements and scrutiny of transshipment have become structural features of the trading system rather than temporary disruptions.

Stronger resilience, but uneven buffers

Emerging Asia – which in this report refers to China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam – is directly exposed to both the energy and the trade shock. The region is deeply integrated into global trade and production networks, while many economies rely heavily on imported energy and seaborne logistics. At the same time, Asian economies in general have become more resilient over the past decades, supported by stronger external positions, deeper domestic markets and more diversified sources of growth. This also explains why the region, as it was in previous years, is still the most important growth engine of the global economy. And yet, despite increased resilience, most economies in the region still have their specific vulnerabilities, and economies are affected differently by the energy and trade shocks. The key question for 2026 and 2027 is therefore not whether Emerging Asia can continue to grow at a strong pace, but rather which economies can absorb the shocks better than others and which factors play a decisive role in this.

In this regional economic outlook, we first examine how Emerging Asia is responding to the energy and trade shocks and to what extent domestic buffers provide a counterbalance. Subsequently, we delve deeper into Asian foreign trade, even apart from the trade shock, focusing on the countries' trade positions and their associated opportunities and vulnerabilities. Building on the preceding sections, the final part of this publication discusses growth and inflation expectations for the individual economies over the next year and a half.

Figure 1: Emerging Asia remains the main engine of global growth



Source: Oxford Economics, Atradius

Asian economies affected unevenly

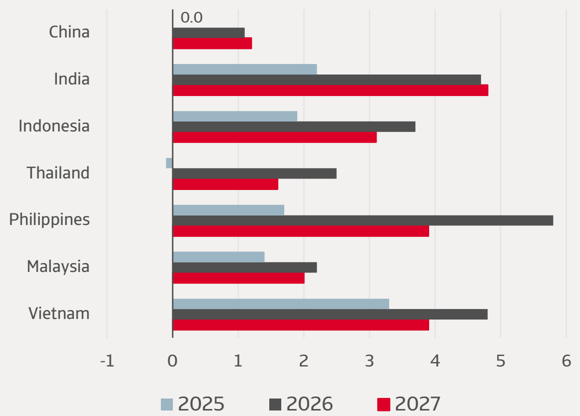
Energy shock impact differs substantially across countries

The energy shock affects the region primarily due to higher import costs, associated inflationary pressure, and declining confidence, factors whose impact varies by country. Energy-importing economies such as India, Thailand, the Philippines and Vietnam are more directly exposed to higher oil and transport costs. In India, the main risk is that higher fuel and food prices feed into inflation expectations and constrain household spending. In the Philippines, the shock is more severe because the economy depends heavily on imported energy, while high inflation is already weighing on consumers and forcing the central bank to tighten policy despite weaker growth. Thailand is affected through higher fuel and transport costs, weaker tourism sentiment and pressure on household purchasing power, while high household debt and cautious lending limit the economy's ability to absorb the shock through stronger domestic demand. Vietnam remains a growth outperformer, but higher energy imports have narrowed its external buffer and pushed inflation higher.

China and Malaysia are better positioned to absorb the energy shock, although not fully insulated from it. China has benefited from strategic energy reserves, access to alternative suppliers and a strong export performance, particularly in high-tech and AI-related products. This has helped the economy withstand the energy shock better than most regional peers. However, higher input costs still matter for producer prices, industrial margins and energy-intensive sectors. Malaysia's economy is partly protected by its position as an LNG exporter and strong electronics exports, while AI-related demand and data-centre investment provide additional support. Yet higher freight, energy and input costs are still affecting weaker sectors, including logistics, plantations and consumer-facing businesses. The energy shock clearly does not have a uniform impact on the region's growth prospects.

Figure 2: Inflation pressure peaks in 2026, remaining relatively high in 2027

Consumer prices, % y/y



Source: Oxford Economics, Atradius

Trade shock creates opportunities, but selectively

The trade shock is more structural than the energy shock and is potentially more important for Emerging Asia's medium-term outlook. The region's growth model remains closely tied to global trade, but trade integration is becoming more conditional. As we will discuss in the next section, global trade is no longer simply a source of growth, efficiency and scale. It has become a channel through which geopolitical rivalry, tariffs, export controls, rules of origin and transshipment scrutiny shape investment decisions and growth prospects.

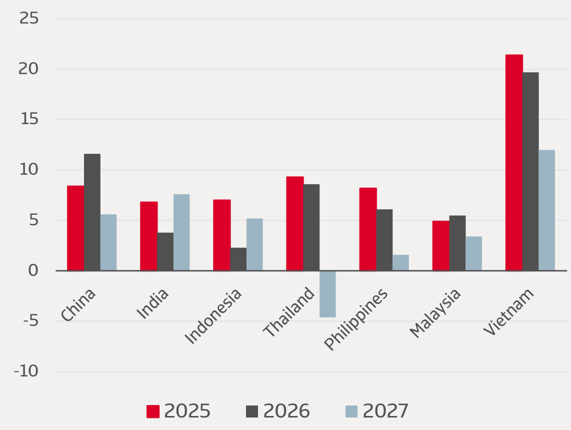
This does not mean that trade is collapsing. For most of Emerging Asia, the trade shock creates a mix of opportunities and vulnerabilities. Supply-chain diversification, AI-related demand and the search for alternative production locations continue to support investment and exports in parts of the region. But the gains are increasingly selective. Countries no longer benefit automatically from being low-cost manufacturing locations or geographically close to China. Market access increasingly depends on credible local value added, documentation, regulatory compliance, infrastructure quality, policy stability and the ability to withstand scrutiny over China-linked inputs.

China is central to this shift. Its export strength supports regional trade, especially through electronics, clean technology, electric vehicles, batteries and critical minerals. But it also intensifies global trade tensions because strong exports increasingly compensate for weak domestic demand, property-sector stress and pressure on private investment. This reinforces China's role as both a stabilising force in Asian supply chains and a source of friction for trading partners concerned about overcapacity, subsidies and market access.

Trade resilience is therefore becoming more selective. Countries that combine competitive production with institutional credibility, transparent supply chains and diversified market access will be better positioned. Countries that rely mainly on rerouting, low-cost assembly or narrow sectoral demand will face more volatile opportunities and greater regulatory risk. In these cases, export gains can disappear quickly if authorities tighten origin checks, if tariff rules change or if demand in one dominant sector such as electronics weakens. But exposure to the trade shock is only part of the story; the extent to which countries can absorb these pressures ultimately depends on the strength of their domestic buffers.

Figure 3: Trade shock: strong export momentum, but not everywhere

Export of goods & services, % y/y



Source: Oxford Economics, Atradius

Domestic buffers determine capacity to absorb external shocks

Emerging Asia enters this period of external stress from a position of relative strength, but resilience differs sharply across countries. Over the past two decades, most economies in the region have built stronger external positions, deeper domestic markets and more credible macroeconomic policy frameworks. This helps explain why Asia remains the main engine of global growth, even as the world economy is being hit by energy and trade shocks. The region is not simply absorbing these shocks passively. Governments are using fiscal support, subsidies, monetary tools, trade diversification and investment policy to cushion the impact. But the effectiveness of these responses depends on the quality of domestic buffers such as household demand, fiscal space, low inflation, exchange-rate stability, investor confidence and the strength of economic institutions.

Institutional quality is becoming a more important dividing line between stronger and weaker performers. In a more volatile external environment, resilience depends not only on headline growth or public debt ratios, but also on whether governments can act predictably, maintain credible policy frameworks and implement reforms without undermining confidence. Central-bank independence, fiscal transparency, regulatory consistency and the ability to execute public investment are all part of the resilience equation. Countries with stronger institutions can absorb shocks with less damage to exchange rates, inflation expectations and investor sentiment. Countries where policymaking becomes less predictable can see external shocks amplified through capital outflows, currency weakness or delayed investment.

Figure 4: Ability to absorb external shocks differs sharply across countries*

	Energy shock absorption	Trade shock absorption	Domestic resilience
China	Strong	Moderate	Moderate
India	Moderate	Moderate	Strong
Indonesia	Moderate	Moderate	Moderate
Thailand	Weak	Moderate	Weak
Philippines	Weak	Moderate	Weak
Malaysia	Moderate	Strong	Moderate
Vietnam	Moderate	Moderate	Strong

Source: Atradius

*: The matrix provides a qualitative assessment of how the seven economies compare in their ability to absorb the shocks. Low/medium/high indicates the relative absorption and resilience capacity of the countries, not an absolute level.

India is the clearest example where strong domestic demand, improving infrastructure and a gradually more attractive business environment can offset external pressure. Its large consumer market, public infrastructure push, healthy corporate balance sheets and resilient credit growth give the economy a strong internal growth engine. The country also benefits from favourable demographics, expanding logistics networks and policy support for value-added manufacturing. Digitalisation is an increasingly important part of this resilience. India's digital public infrastructure, widespread digital ID, fast-growing digital payments ecosystem and expanding internet user base are improving market access, lowering transaction costs and supporting new business models. The business sentiment remains broadly positive, with many international firms reporting profitability, expansion plans and expanded local sales networks, service operations, manufacturing capacity and R&D activities. At the same time, India remains institutionally complex. Customs procedures, licences, permits, approvals and product certification requirements continue to create uncertainty, longer lead times and higher compliance costs. India's resilience is therefore increasing, but further gains depend on continued reform progress, regulatory predictability and more efficient institutions.

Vietnam is another strong performer, but its resilience depends on managing the side effects of rapid expansion. Growth is supported by an exceptional investment surge, strong electronics exports and Vietnam's continued appeal as a China-plus-one manufacturing base. Under this strategy, companies retain operations in China while adding capacity elsewhere to reduce concentration, tariff and geopolitical risks. The policy environment is also supportive for foreign investors. Recent reforms aim to simplify investment approvals, reduce conditional business lines and shift parts of the system from licensing towards registration and post-inspection. At the same time, anti-corruption and administrative-accountability reforms are intended to improve transparency, strengthen asset-declaration rules and reduce opaque administrative practices. These steps should support FDI inflows and reinforce confidence in Vietnam's reform trajectory. However, rapid credit growth is already outpacing deposit growth, tightening banking-sector liquidity and raising funding pressures, as reflected in elevated interbank rates. Strong investment-related imports are narrowing the current-account surplus, while higher fuel prices and domestic demand pressures are lifting inflation. Vietnam's resilience is therefore strong, but increasingly dependent on careful macroeconomic management.

China remains highly resilient in external terms, but its domestic and institutional resilience is more ambiguous. Strategic energy preparations have helped cushion the energy shock. China built large strategic and commercial fuel reserves, diversified energy suppliers, increased access to discounted Russian and other alternative crude flows, and accelerated the shift towards electricity, coal and renewable energy. Its position in global supply chains is also unusually strong. China remains deeply embedded in electronics, AI-related hardware, clean energy, electric vehicles, batteries, solar panels and critical minerals. As a result, it plays a central role in both regional trade and the global energy transition. Additionally, this strong position helped curb US trade measures against China. Yet this external strength masks to a certain extent domestic weakness as well. Household consumption is subdued, property-sector stress weighs on wealth, private investment is under pressure, and inventories are rising despite strong exports. Furthermore, political centralisation adds both strength and risk. Policy decisions are formulated and implemented quickly, but weak checks and balances, local over-enforcement, rising bureaucratic caution and blurred state-business boundaries can reduce feedback and worsen the quality of government policies.

Malaysia and Indonesia show moderate resilience, but for different reasons. Malaysia's resilience has improved but remains concentrated in strategic sectors. Strong exports of electrical and electronic products, AI-related demand and data-centre investment have lifted the growth outlook, while contained inflation and strong exports as reflected in a current-account surplus provide additional support. Malaysia is also gaining strategic relevance in critical supply chains, including rare earths, where processing capacity outside China could support higher-value manufacturing over time. However, this resilience is not broad-based. Higher energy, freight and input costs weigh on logistics, aviation, plantations and consumer-facing sectors, while high household debt and uneven wage growth limit domestic demand. Rare-earth and data-centre opportunities also depend on regulatory clarity, environmental safeguards, energy and water availability, and foreign technology partnerships. Malaysia is therefore relatively resilient, but its outlook remains tied to the global technology cycle and policy execution.

Indonesia's growth remains stable, but policy credibility has become a more important vulnerability. Concerns are no longer limited to the external shock from higher oil prices and rupiah weakness. Investors are also watching signs of a more interventionist policy direction, including state-led financing through sovereign wealth fund Danantara, ambiguity around export controls for strategic commodities and the governance of off-budget investment. The unexpected resignation of Bank Indonesia's governor added to concerns about monetary-policy independence, while fuel subsidies, the free meals programme and the 3% fiscal deficit ceiling keep fiscal discipline under scrutiny. Indonesia still has important buffers, but confidence now depends more heavily on regulatory predictability, transparent governance and a credible policy mix.

Thailand and the Philippines show where economic resilience is more limited. **Thailand** has macroeconomic buffers, but high household debt, close to 90% of GDP, weakens the transmission from stability to growth. The economy benefits from a strong external position, moderate inflation and still-important support from tourism and selected export sectors. Yet domestic demand remains structurally weak. Household debt remains very high, which limits discretionary spending because a large share of income is absorbed by debt servicing rather than consumption. It also makes households more sensitive to higher interest rates, tighter credit conditions or income shocks. Banks therefore remain cautious, weighing on consumer lending and small-business activity. Weak consumer confidence reinforces this dynamic, as households postpone larger purchases and firms hesitate to invest. Thailand's economic resilience is therefore constrained not by a lack of macro buffers, but by the limited ability of private demand to turn those buffers into stronger growth.

The **Philippines** has stronger medium-term potential, but political tensions are weakening near-term resilience. Demographics, remittances and consumption still provide structural support, while public infrastructure spending should help the economy recover gradually. However, high inflation, energy-import dependence and weak private investment are already weighing on households and businesses. Political uncertainty adds another constraint. The rivalry between President Ferdinand Marcos Jr and Vice President Sara Duterte has developed into a broader institutional power struggle, including impeachment proceedings, Senate maneuvering and competing street mobilisation. This absorbs policy attention at a time when the economy needs coherent responses to inflation, fiscal pressure and investment weakness. For businesses, the result is a less predictable operating environment, weaker sentiment and delayed investment decisions. The economy remains resilient over the medium term, but its short-term shock absorption capacity is materially weakened.

The overall picture for the region is one of resilience, but not uniform resilience. Emerging Asia will continue to grow faster than most other regions, but the gap between stronger and weaker performers is widening. Countries with strong domestic demand, credible policy frameworks, competitive export sectors and reliable institutions are better placed to absorb the energy and trade shocks. Countries where inflation, debt, political uncertainty, weak confidence or policy unpredictability constrain domestic demand will remain more vulnerable, even if headline regional growth remains robust.

Asian trade flows are shifting, not shrinking

The trade shock described above is now visible in the direction of trade flows. Emerging Asia remains deeply integrated into global trade, but supply chains are being reorganised rather than simply reduced. Market access is becoming more conditional, companies are reassessing sourcing decisions, and governments are using trade policy more explicitly as an instrument of strategic competition. For Emerging Asia, this creates both opportunities and risks: the region can benefit from supply-chain diversification, but it also faces more complex rules, higher compliance costs and greater exposure to sudden changes in trade policy.

The most important change is that trade is becoming more layered. Some production is moving away from China, but China is not disappearing from supply chains. Instead, Chinese components, machinery and intermediate inputs are increasingly feeding production hubs elsewhere in Asia. Southeast Asia is therefore becoming more important not only as an alternative production base, but also as a connector between Chinese inputs, regional assembly and final demand in the US, Europe and other markets. This makes regional supply chains more resilient in some respects, but also more exposed to scrutiny over rules of origin and China-linked inputs. Authorities are paying closer attention to transshipment, where goods are routed through a third country without sufficient local value added to qualify as originating there.

China's export strength creates friction, but is expected to slow

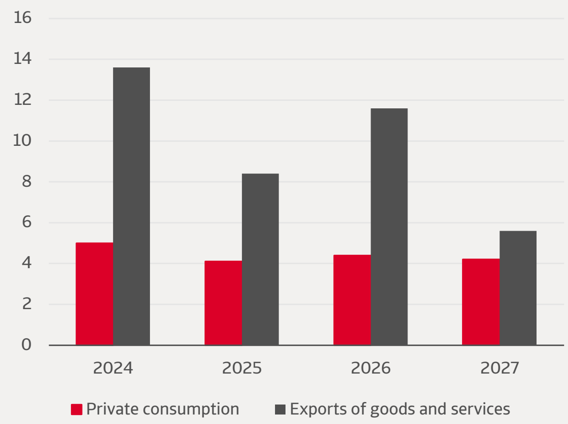
China remains central to the changing trade landscape. Despite years of tariffs, export controls and efforts by multinationals to diversify production, China is still deeply embedded in global manufacturing. Its scale advantages, supplier ecosystem, industrial clusters, infrastructure and logistics networks are difficult to replicate. This is particularly visible in electronics, clean-energy products, electric vehicles, batteries, solar panels and critical minerals. China is therefore not simply losing trade share to alternative production locations. In several strategic sectors, it remains the dominant source of scale, components and cost efficiency.

The problem is that China's export strength increasingly reflects weakness in its domestic growth model. High-tech manufacturing and competitive exports are impressive achievements, but they also mask deeper imbalances. Household consumption remains subdued, as property-sector stress weighs on household wealth and limited social welfare provision encourages households to save rather than spend. Private investment is also under pressure. As domestic demand fails to absorb the output of China's industrial system, exports fill part of the gap. This makes China a stabilising force for global goods supply and regional production networks, but it also increases external pressure from trading partners concerned about overcapacity, subsidies, market access and industrial displacement.

This creates a paradox for the rest of the world. China's low-cost, high-quality products benefit consumers and support the global energy transition, especially in solar panels, batteries and electric vehicles. At the same time, the scale of Chinese production puts pressure on competitors and increases the likelihood of anti-dumping measures, anti-subsidy investigations and tariff responses. China is therefore both a source of trade resilience and a source of trade disruption.

Meanwhile, China's export strength is unlikely to continue at the exceptional pace seen in 2026. Export growth is expected to slow sharply in 2027 and 2028, because the current export impulse is partly cyclical and unlikely to become a new normal. This does not mean that China is losing its competitive edge. Its scale, cost advantages and position in high-tech and clean-energy supply chains remain strong. But the expected slowdown underlines that China cannot rely indefinitely on external demand to compensate for weak household consumption, property-sector stress and falling private investment. Rising trade barriers and more active trade-defence measures abroad add to this constraint, even if they are unlikely to fully derail China's export strength.

Figure 5: Chinese export strength masks subdued domestic demand, but momentum set to slow



Source: Oxford Economics, Atradius

China-plus-one strategy remains relevant, but more selective

The China-plus-one strategy remains relevant, but the benefits are becoming more conditional. Under this strategy, companies retain a production base in China while adding capacity in at least one other country to reduce concentration, tariff and geopolitical risks. This continues to support investment and trade flows into alternative production locations in Emerging Asia. Yet multinationals are no longer looking only for low wages or proximity to China. They increasingly assess infrastructure, energy security, policy stability, customs procedures, supplier depth, skills, rules of origin and the ability to comply with US and European standards.

The most successful destinations are those that combine cost competitiveness with credible market access. A country can attract production by offering lower costs, but it can only retain export momentum if the goods produced there are accepted as genuinely local and compliant with trade rules. This is becoming especially important as the US increases scrutiny of transshipment and China-linked inputs. The risk is that some production shifts may be viewed less as genuine diversification and more as rerouting. That would expose exporters to higher tariffs, customs checks, documentation requirements and supplier audits. For companies, supply-chain diversification still reduces risks, but it also creates new compliance demands around documentation, traceability, supplier audits and proof of genuine local value added.

AI demand supports trade, but raises concentration risks

The rise of AI-related demand is a welcome tailwind in a period of shifting trade flows and more restrictive trade conditions. Demand for semiconductors, electronic components, data-centre equipment and AI-related infrastructure supports exports across parts of the region. This is one reason the trade outlook has remained more resilient than might have been expected in such a difficult geopolitical environment. The technology cycle is lifting demand for high-value components, machinery and electronics, while also encouraging investment in data centres, digital infrastructure and advanced manufacturing capacity.

This technology-driven trade momentum is positive, but it also creates concentration risk.[1] AI-related demand is not a broad-based substitute for a healthy global trade environment. It is concentrated in specific products, companies and supply-chain segments. Some economies benefit strongly from electronics and semiconductor demand, while others play a more limited role or remain concentrated in lower-value-added assembly, testing and packaging. A prolonged AI investment boom would support exports and investment for longer. But a slowdown in global tech capital expenditure would affect both external demand and domestic investment plans in countries that have become closely tied to the same technology cycle. The AI boom is therefore a powerful tailwind, but not a guarantee of broader trade resilience.[2]

Market access is being renegotiated through US tariffs and EU trade agreements

Market access is being renegotiated in both the US and Europe, but in different ways. The US remains an indispensable market for Asian countries because of its scale, purchasing power and importance for high-value goods and technology-related products. However, access to the US market has become less predictable. Tariffs, Section 301 investigations, forced-labour concerns, intellectual property enforcement, origin verification and scrutiny of China-linked supply chains all increase uncertainty. For exporters, the US offers large commercial opportunities, but also a higher risk of sudden policy changes.

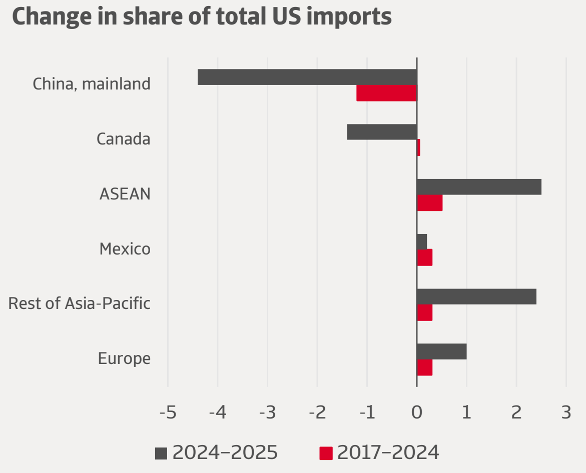
Europe offers a different type of opportunity. The European Union is a more predictable trade partner, but access to the European market comes with stricter regulatory requirements. Sustainability standards, labour rules, product standards, procurement rules, carbon reporting and rules of origin are becoming more important. For Emerging Asian economies, EU trade agreements can provide a stable framework for market access and export upgrading. They can also help countries reduce excessive dependence on the US and China. However, the benefits are not immediate and require firms to invest in compliance, certification, standards and traceability.

This distinction between the US and Europe is becoming more important for Asian trade strategy. The US offers scale, but also policy volatility. Europe offers predictability, but with higher compliance requirements. Governments and companies in Emerging Asia are increasingly trying to manage both. They want to preserve access to the US market, benefit from supply-chain diversification and deepen links with Europe where trade agreements can support longer-term upgrading. This is not a move away from global trade. It is a shift towards a more diversified and rules-intensive form of trade integration.

Redirected trade flows make supply chains more complex

The contrast between the US and Europe matters not only for market access, but also for the direction of trade flows. As market access becomes more conditional, companies are redirecting supply chains through new suppliers, regional production hubs and more layered production networks. Rather than shrinking, trade is being redirected. The clearest shift is that US-China trade has weakened, while other Asian economies have become more important as suppliers to the US and as intermediate production hubs. US-China trade fell sharply in recent years, while the US replaced part of the gap with imports from other suppliers and ASEAN increased trade with both the US and China.

Figure 6: US import sourcing shifted away from China, especially in 2024–2025



Source: US Census Bureau, McKinsey Global Institute analysis

This suggests that supply chains are not simply moving out of China, but are becoming more layered, with Southeast Asia increasingly acting as a connector between Chinese inputs,

[1] More about this type of risk in: T. Smid, Concentration risks in the global AI supply chain, Atradius Economic Research Note, August 2026.

[2] Our view on the sustainability of the AI boom can be found in J. Lorié, D. Bodnar and T. Smid, Atradius Economic Outlook: Stagflation contained, July 2026.

regional assembly and final demand in advanced economies. China's role is also changing rather than disappearing. Instead of only exporting final consumer goods to the US and Europe, China is increasingly supplying machinery, industrial components and intermediate inputs to other manufacturing hubs. This reinforces intra-Asian trade but also raises scrutiny over rules of origin and transshipment when goods assembled elsewhere still rely heavily on Chinese inputs.

At the same time, regional integration within Asia is deepening. Trade remains the strongest driver of Asia-Pacific integration, with economies adapting to shifting policies and supply chains. This supports the view that fragmentation does not necessarily mean less trade, but more regionalised and rules-intensive trade. The result is a more complex trade geography. The US remains a key final-demand market, Europe offers a more predictable but compliance-heavy alternative, and intra-Asian trade is becoming more important as firms diversify production while preserving links to China's supplier base. Trade diversification is also increasingly about routes, not only markets. The war in the Middle East has shown how vulnerable trade flows can be when key maritime corridors become more expensive or less reliable. Disruptions around the Strait of Hormuz and the Red Sea have increased freight costs, insurance premiums and delivery uncertainty. Alternative corridors are therefore gaining strategic importance, even if they are not quick substitutes for existing routes.

The broader picture is that trade flows are being reorganised, not reversed. Emerging Asia remains essential to global trade because the region offers manufacturing scale, supplier depth, infrastructure and growing domestic markets. But the next phase of trade integration will be more selective, more regulated, and more geopolitical. Cost competitiveness will still matter, but it will no longer be enough. Countries and firms will need to demonstrate compliance, origin transparency, policy credibility and resilience to logistics disruptions.

For Emerging Asia, this creates a more differentiated outlook. Economies with strong technology clusters, credible trade agreements, reliable logistics and deeper domestic markets will be better positioned. Economies that depend heavily on a narrow export base, weak compliance systems or rerouting of China-linked trade will face greater scrutiny. China will remain central to regional trade, but its domestic imbalances will continue to feed external tensions. The rest of the region will continue to benefit from diversification, but only where production shifts are supported by genuine local value added, stable market access and operational resilience.

The next phase of Emerging Asia's trade story will therefore not be defined by deglobalisation, but by a more selective form of globalisation. Trade will continue to grow, but it will be shaped more by geopolitical alignment, technology demand, compliance requirements and logistics security.

Figure 7: Emerging Asia's trade positioning is becoming more differentiated

Country	Main trade position	Key opportunity	Main vulnerability
China	Dominant exporter but facing pushback	Scale, cost advantages, high-tech manufacturing	Overcapacity and weak domestic demand fuelling trade tensions
India	Strategic trade hedger	EU market access, manufacturing diversification	Execution and logistics constraints
Indonesia	Commodity and battery-chain player	Nickel and other commodities, domestic market scale	Policy uncertainty, weakening investor confidence
Thailand	Manufacturing hub seeking diversification	Electronics, EU trade negotiations, tourism	Weakening competitiveness, high household debt
Philippines	Consumption-led economy, selective export strengths	Semiconductors, EU FTA, remittances-supported demand	Lower-value-added tech role, inflation, political uncertainty
Malaysia	AI/E&E producer and strategic supply-chain platform	Semiconductors, data centres, rare earths, E&E exports	Dependence on tech cycle, energy/logistics costs, regulatory issues
Vietnam	China-plus-one beneficiary	Electronics, FDI, supply-chain diversification	US scrutiny and transshipment risks, China-linked inputs

Source: Atradius

Growth outlook: resilience diverges

Emerging Asia will remain a strong growth region in 2026 and 2027, but the outlook has become more differentiated. The energy and trade shocks discussed in the previous chapters are not derailing the region's expansion, but they are exposing important differences in economic resilience.

China: external demand compensating for domestic weakness

China continues to post solid growth, but the quality of growth is weakening. GDP growth is expected to moderate to 4.8% in 2026 and 4.6% in 2027, suggesting that China remains an important anchor for regional growth. Yet the composition of growth is increasingly unbalanced. Industrial momentum remains concentrated in AI, electronics and advanced manufacturing, while household consumption, private investment and broader domestic demand remain weak. Export growth is still strong, but is expected to slow in 2027 and 2028 as the current export impulse fades, base effects become less favourable and trading partners respond more actively to China's rising surpluses. That suggests China cannot rely indefinitely on external demand to compensate for domestic weakness. Rising inventories alongside strong exports point to a domestic-demand shortfall, while external trade-policy responses, including trade-defence measures and tighter enforcement against transshipment, could reduce the scale of export outperformance. China is not facing a growth collapse, but it needs a more balanced growth model.

India: strong domestic demand resilience, rising inflation risks

India's outlook has improved because domestic demand has remained more resilient than expected. GDP growth is expected to reach 6.7% in 2026 and 6.8% in 2027, making India one of the strongest performers in the region. The main support comes from robust credit growth, healthy corporate balance sheets, infrastructure spending and favourable investment conditions. India is also less exposed to goods-export volatility than many other Asian economies, given its large domestic market and the importance of services. However, inflation remains the main constraint. Consumer price inflation is expected to average 4.7% in 2026 and 4.8% in 2027. Food prices, energy-price volatility, monsoon risks and pressure on the rupee could still force the central bank to tighten policy. India's resilience is therefore real, but it depends on keeping inflation expectations contained while sustaining investment momentum.

Indonesia: stable growth, policy credibility in focus

Indonesia remains one of the more stable economies in the region, but policy credibility has become a more important part of the outlook. GDP growth is expected to remain at 5.0% in both 2026 and 2027, reflecting Indonesia's large domestic market, steady consumption and commodity base. Inflation, however, is expected to rise to 3.7% in 2026 before easing to 3.1% in 2027. Higher food and fuel prices, a weaker rupiah and firmer core inflation all weigh on household spending. Concerns about monetary-policy independence add an institutional risk, especially while the rupiah remains under pressure. Fiscal policy is another constraint. The government remains committed to keeping the deficit close to the 3% of GDP ceiling, but subsidy costs, fuel-price caps and state-led investment ambitions will require careful expenditure management. Indonesia's growth outlook is steady, but not risk-free.

Thailand: important buffers but private consumption lacking momentum

Thailand remains the weakest growth performer in the group, with energy and trade shocks reinforcing pre-existing domestic weakness. GDP growth is expected to remain subdued at 2.0% in 2026 and 1.7% in 2027. Inflation is expected to rise to 2.5% in 2026 before easing to 1.6% in 2027. Thailand has important macroeconomic buffers, including a strong external position and low exchange-rate risk, but the economy lacks momentum. High household debt, cautious bank lending, weak consumer confidence and low capacity utilisation limit the ability of domestic demand to absorb shocks. Tourism and electronics exports provide support, but not enough to generate a stronger recovery. Thailand's outlook is therefore one of stabilisation rather than acceleration.

Table 1: Emerging Asian economies remain strong, but with diverging growth prospects

GDP growth forecast, % y/y

Country	2025	2026*	2027*
China	5.0	4.8	4.6
India	7.5	6.7	6.8
Indonesia	5.1	5.0	5.0
Thailand	2.4	2.0	1.7
Philippines	4.4	3.5	5.9
Malaysia	5.2	5.2	4.6
Vietnam	7.8	8.3	7.7

Source: Oxford Economics, Atradius (* forecast)

Philippines: gradual recovery, fragile foundations

The Philippines is likely to recover gradually, but from a weak starting point and with unusually high inflation pressure. GDP growth is expected to slow to 3.5% in 2026, followed by a rebound to 5.9% in 2027. Inflation is expected to average 5.8% in 2026, still well above the central bank's target ceiling, before easing to 3.9% in 2027. High food prices, energy costs, El Niño risks and second-round effects continue to squeeze households' purchasing power. Private consumption is soft, remittance growth has slowed because of the Middle East conflict, and private investment remains weak amid political uncertainty, tighter lending standards and low FDI inflows. Public infrastructure spending should support a gradual recovery in the second half of the year, but this does not remove the short-term fragility. The Philippines remains structurally attractive over the medium term, but the outlook over the next one and a half years is vulnerable.

Malaysia: AI-related demand supports exports, but concentration risk looms

Malaysia has moved up in the regional growth ranking, supported by export strength rather than broad-based domestic acceleration. GDP growth is expected to reach 5.2% in 2026, matching last year's pace. Stronger-than-expected exports, especially in electrical and electronic products, are the main reason for the improved outlook. Malaysia is benefiting from AI-related demand, data-centre investment and its established position in regional electronics supply chains. Inflation is expected to remain contained at 2.2% in 2026 and 2.0% in 2027, helped by government intervention and anchored inflation expectations. The main vulnerability is concentration. If the AI-related investment cycle remains strong, Malaysia's export and investment outlook could continue to surprise positively. If global technology capital expenditure weakens, electronics exports and data-centre investment could slow at the same time. Domestic demand is resilient, but not as dynamic as the export figures suggest.

Vietnam: regional outperformer benefitting from supply-chain diversification

Vietnam is the clear regional outperformer, but the pace of growth is also creating new macroeconomic pressures. GDP growth is expected to accelerate to 8.3% in 2026, supported by an exceptionally strong investment cycle and resilient electronics exports. The investment surge is no longer driven only by the public sector; state-owned enterprises and private-sector capital expenditure are also playing a larger role. This confirms Vietnam's position as one of the main beneficiaries of AI-related demand. Yet the strength of headline growth also brings risks. Inflation is expected to rise to 4.8% in 2026, credit growth is strong, financing conditions remain tight, and the current-account surplus is narrowing as investment-related imports rise. Vietnam therefore combines the strongest growth outlook with a growing need to manage overheating, external-balance pressure and financial-stability risks.

Inflation pressure reveals uneven resilience

Inflation dynamics show why the energy shock matters even in a region that continues to grow. The strongest inflation pressure is concentrated in the Philippines, Vietnam and India. In all three cases, food and energy prices are important transmission channels, although the macroeconomic context differs. The Philippines faces the most difficult inflation-growth trade-off because price pressures are high while growth is weak in a historical perspective. India faces a more manageable trade-off because growth remains strong, but food prices and inflation expectations remain important risks. Vietnam's inflation reflects both higher fuel prices and strong domestic demand, which is consistent with an overheating risk rather than simple imported inflation. By contrast, China and Malaysia have contained consumer-price inflation. In China, weak domestic demand limits the pass-through from producer prices to consumer prices. In Malaysia, subsidies and government intervention help contain inflation, although this comes at a fiscal cost.

Table 2: Some Emerging Asian economies are better insulated against the inflation shock than others

Inflation forecast, % y/y

Country	2025	2026*	2027*
China	0.0	1.1	1.2
India	2.2	4.7	4.8
Indonesia	1.9	3.7	3.1
Thailand	-0.1	2.5	1.6
Philippines	1.7	5.8	3.9
Malaysia	1.4	2.2	2.0
Vietnam	3.3	4.8	3.9

Source: Oxford Economics, Atradius (* forecast)

The broad regional picture is therefore one of growth resilience, but not uniform strength. Vietnam, India and Malaysia have the most favourable momentum, although each faces a different vulnerability: overheating and external-balance pressure in Vietnam, inflation in India, and technology-cycle concentration in Malaysia. China remains solid but unbalanced, with exports and advanced manufacturing doing too much of the work. Indonesia remains stable but more sensitive to policy credibility. Thailand is constrained by weak domestic demand, while the Philippines faces the most difficult short-term mix of low growth and high inflation.

For businesses, Emerging Asia remains one of the most attractive growth regions, but the regional story can no longer be read as a single growth narrative. Opportunities are becoming more selective, and resilience depends increasingly on trade positioning, policy credibility, domestic demand and the ability to comply with a more rules-intensive global trading system.

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