Assessing Broad Patterns of Economic Development within East and Southeast Asia

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Executive Summary

Economic development in East and Southeast Asia is driven by rapid digitalization, state-led industrial policy, and global value-chain integration, but each region faces distinct opportunities and vulnerabilities. South Korea's growth relies on manufacturing, R&D, and AI adoption, though demographic decline, weak SMEs, and falling foreign investment pose risks. Japan has stabilized inflation and expanded employment, yet shrinking demand, reduced public spending, and geopolitical tensions threaten future growth. Singapore remains resilient through its financial sector and trade networks, but faces rising cybersecurity threats and limited regional coordination. Indonesia benefits from expanding trade and a growing digital economy, though political instability, cybersecurity risks, and uneven infrastructure may hinder long-term progress. This paper provides an overview of these four economies in East and South East Asia, highlighting shared pressures and incentives shaping sustained regional development.

I. Introduction and Background

In the last 75 years, economies in East and Southeast Asia have experienced unprecedented growth. Gross domestic product (GDP) per capita in the East Asia and Pacific region has grown from US$150 in 1960 to US$13,349 in 2024 (World Bank Group, 2024). East Asia is home to major hubs in the global electronics and manufacturing industries, while Southeast Asia's economic influence has expanded steadily. However, sustained economic

development in the region faces mounting challenges, including those associated with digitalization and rising tensions in both international and domestic politics. This paper examines the economies of Japan and South Korea in the East Asia section and those of Singapore and Indonesia in the Southeast Asia section as case studies representative of their respective regions.

II. Escalating, Yet Flawed: Economic Development in East Asia

South Korea

Context. When investigating South Korea's economy following developments of state-sponsored industrialization in the period prior to Park Chung-hee's presidency, together with the ensuing labor-intensive manufacturing patterns later adopted during the 1980s and 1990s, it is imperative to note that South Korea currently exhibits substantial prominence and a high level of integration within manufacturing supply chains as well as its role within the broader global supply of technologies that are increasingly in demand (OECD, 2023; Kim, 2017). Moreover, predominant modern currents of Korean innovation have assumed a particularly critical role within semiconductor manufacturing, with government funding for research and development (R&D) efforts focused on chip production efforts alone comprising expenditures of higher than 36.4B South Korean Won during 2025 (Tsai and Li, 2025).

Emerging Developments and Growth Potential. Beyond an external demand for South Korean manufacturing, which has recently been heightened by challenges of reliability in dependence on technologies developed in Taiwan due to geopolitical challenges, there exists a substantial internal incentive within the South Korean government to prioritize both R&D efforts centered around innovation as well as domestic manufacturing jobs; such an incentive is characterized by government investment in public corporations engaging in such aspects of production steadily rising from 2% in 1999 to over 5% in 2023 (Globalen, 2025; Kim, 2022). Additionally, the existing risk-sharing model of innovation within South Korea has empirically established a striking precedent for corporations, small- and medium-sized enterprises, and would-be innovators to lower upfront capital costs for production, enhancing productive innovation cycles in a manner that has outcompeted nearly all comparable markets in pace (Lee, 2010). From the standpoint of AI adoption, which has been a crucial indicator for the necessity

of economic development in an increasingly digitalized economy, South Korea has been a striking catalyst – over 80% of South Korean workers utilize such technology during their daily occupations, and, conversely, 70% of employers indicate a positive association between AI literacy and hiring rates. Therefore, it appears that South Korea is uniquely positioned to assume a central role in an evolving global economy in which innovation has emerged as a crucial metric for possibilities of success (International Monetary Fund, 2025).

Despite the many indicators pointing to the short-term strength of the South Korean economy, investigators have identified several factors that may comprise the feasibility of the current growth model if modifications are not undertaken. Specifically, South Korea's demographic imbalance is particularly crucial, as fertility rates and aggregate population growth have remained relatively low, with a projected value of 0.77 in 2026 and the lowest value among all OECD member states in 2020 (Lee, 2023). Therefore, the ensuing challenges placed on the shrinking young population of South Korea could be particularly influential in the coming decades provided that societal behavior and government incentives do not undergo significant modifications to reverse current trends (Hwang et al., 2023). Moreover, in a challenge shared by a large fraction of developing and industrialized nations alike, small and medium-scale enterprises (SME's) pale in both revenue and employment considerations when compared to the most powerful chaebols; thus, despite the existence of incentives to spur development from ground-up efforts that progressively increase in scale, such incentives have largely remained ineffective in establishing a sufficiently competitive economic framework from a macroeconomic perspective (Hwang et al., 2023). Additionally, Foreign Direct Investment (FDI) has declined in recent years, from 19.04 billion USD in 2023 to 14.7 billion USD in 2024, indicating that external support for domestic industries might necessitate a bolstered approach towards foreign policy (Lloyds Bank, 2025).

International Ramifications for Economic Development. From the standpoint of South Korea-U.S. relations, the precedent of U.S.-guided Korean FDI through the CHIPS Act, together with numerous R&D partnerships to guide complementarity within innovative policies (Manyin, 2004). Incentives for such partnerships are high, particularly given that a militaristic cooperative plan might allow for increased soft power projection against Chinese influence within Northeast Asia; therefore, the coupled effect of both technological and foreign policy-related incentives could bolster such an alliance (Lee, 2024). Despite the existence of one-off disputes between

U.S. nuclear energy firms and South Korean counterparts, particularly in the context of Westinghouse Electric Company (based in the U.S.) and Korea Hydro and Nuclear Power (KHNP), there exists substantial desire for alignment, particularly given the external incentives for cooperation in regards to technological development (Lee, 2024).

Moreover, it must be noted that South Korea remains within a tug-of-war, particularly since Chinese involvement within exports of South Korean-manufactured technologies; therefore, South Korea's economic viability remains tied to China's continued economic proliferation, albeit on a gradually lessening scale (Chua et al., 2025). Moreover, hedging possibilities could pose substantial challenges given increasing Sino-U.S. diplomatic friction, particularly given the comparatively small economic leverage exerted by South Korea in the broader three-body relationship (Chai and Kim, 2025). Finally, geoeconomic fragmentation and a broader decline in globalization poses a substantial challenge for South Korea in particular, specifically given the central role of exports in driving long-term economic prosperity (Chai and Kim, 2025).

Japan

Context. Japan's inflation rate remaining at a near-zero value during several decades, the International Monetary Fund has recently posited that inflation rates, per the headline Consumer Price Index (CPI), have finally stabilized at the 2% value established as a nominally beneficial value by the Bank of Japan (International Monetary Fund, 2025). Moreover, a rise in the proliferation of the labor market, coupled with an influx of consumer spending and corporate investment that has been strongly correlated with an increase in aggregate inflation rates, is likely to bolster labor opportunities across sectors, together with a particularly high possibility of emerging business growth (International Monetary Fund, 2025; Coface, 2025). It is notable that Japan has substantially outperformed all members of the G7 (except for the United States) when considering the average annual growth rate of real GDP per hour worked, demonstrating that labor productivity and broader efficiency is extremely high (Coface, 2025). Additionally, stabilization of job openings in comparison with job applications, together with a labor market that is substantially more balanced between service and manufacturing-related occupations, is expected to offer possibilities for long-term feasibility of dominant Japanese industries, particularly when placed in a comparative with South Korea (OECD, 2025).

Inhibitory Factors. When considering the challenges faced by the modern Japanese economy, however, it is notable that real GDP projections are nearly uniformly expected to decrease in average annual growth rates over the next few years, particularly due to concerns regarding the possibilities of risk aversion as well as a broad extrapolation of the existing decline in domestic demand (International Monetary Fund, 2025). Additionally, while FDI is expected to substantially increase progressively until 2030, any possible positive impact will likely be offset by a decrease in public expenditures to negligible values, as projected by the IMF. Moreover, substantial economic considerations may involve Taiwan Strait relations, particularly given recent antagonism between Japan and China as well as the intrinsic competitiveness for raw exports from Taiwan among both nations, implying that escalatory retaliatory behaviors may occur with non-negligible probabilities.

III. Strong Potential with Risks: Economic Development in Southeast Asia

Singapore

Context. Singapore has the highest GDP per capita in Southeast Asia (US$87,208.76 in 2023). Singapore's economy is relatively diversified: in 2023, 22% of GDP came from the wholesale sector, 19% from manufacturing, 14% from finance and insurance, 12% from business services, 10% from other services and the remaining from transportation, storage, construction, utilities, and ownership of dwellings (EDB Singapore, 2023). Singapore's GDP growth forecast for 2025 has been upgraded from 1.5%-2.5% to around 4.0% by the Ministry of Trade and Industry in November 2025. This positive economic outlook has not been dampened by Trump's tariffs on the region. In fact, frontloading by businesses gave a temporary boost to economic output in the first and second quarters this year, with private consumption remaining relatively stable due to a steady labor market and moderate inflation (Chang, 2025). FDI has continued to increase in the past few years (Singapore Department of Statistics, 2025): as of 2024, Singapore remains one of the largest sources of FDI into ASEAN, accounting for over US$115 billion in cumulative investment stock across member states (ASEAN Briefing, 2025).

Analysis of Developments: Tariffs, Digitization, and Regional Geopolitics. The Trump Administration has implemented a 10% baseline tariff on goods from Singapore. While this is

lower than tariffs implemented on other ASEAN countries, sectoral tariffs pose potential challenges to Singapore's pharmaceutical and electronics industries, which together constitute 40% of Singapore's exports to the United States (Reuters Staff, 2025). However, Singapore is relatively well positioned to mitigate the impacts of American tariffs for two reasons. First, the financial sector is well equipped to capitalize on heightened volatility in markets. While volatility decreases demand for certain kinds of financial services such as IPO underwriting and M&A advisory (EY, 2023), it also increases demand for foreign exchange hedging, derivatives, and broader risk management instruments. Second, the Trump administration's tariff threats—even if implemented—are unlikely to cause immediate direct impacts on the remainder of Singapore's export sector: Singapore's main export partners in 2024 were China ($170 billion), Malaysia ($138.6 billion), Indonesia ($74.2 billion) and Thailand ($44.5 billion) (Singapore International Trade, 2023). While US tariffs may generate b trickle-down effects such as reduced spending or import capacity for Singapore's export partners, Singapore can partially mitigate these challenges. In fact, Singapore can capitalize on its diversified trade ties and unique position as a mediator: Singapore is an active member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), and more than 25 bilateral free trade agreements (ASEAN Briefing, 2025b). On 16 September 2025, Singapore and 13 other small nations established the Future of Investment and Trade Partnership (FIT) (Ortega, 2025), which serves as a platform for nations to support open and free trade, strengthen supply chains, and promote FDI flows. Singapore's amicable diplomatic relations with many nations and advanced economies also imbues it with the necessary capacity to create new trade relations with markets in the rest of the world, circumventing reduced trade volume with the United States and countries overly reliant on exporting to the United States.

In 2024, the nominal value added of Singapore's digital economy reached S$128.1 billion, accounting for 18.6% of GDP, up from 18.0% of GDP in 2023 (IMDA Singapore, 2025). This is clearly reflected in the deepening of enterprise digitalization and AI adoption across both large firms and SMEs. Singapore faces two main challenges with respect to growing its digital economy. First, inherent to digitalization are cybersecurity threats. 2024 was marked by a surge in global and local cyber incidents, with significant increases across multiple threat categories (Cyber Security Agency of Singapore, 2025). In Q4 of 2024, Singapore was ranked the seventh

most attacked country, reflecting its vulnerability as a major digital hub with dense data center infrastructure (Baker McKenzie, 2024). Second, while cybersecurity threats are transnational, effective regional collaboration has yet to materialize. Scam centers operate from developing nations like Cambodia, Myanmar and Laos (Naing, 2025), which are outside the jurisdiction of Singapore. However, since many developing nations prioritize developing digital infrastructure over protecting advanced systems, their cybersecurity priorities often diverge from those of more economically developed states such as Singapore. This misalignment contributes to uneven responses to cyberthreats and feeds into the broader pattern of geopolitical fragmentation within ASEAN, where countries are generally at different stages of economic development and pursue fundamentally differing strategic priorities. ASEAN as an organization is also not effective in resolving regional disputes and differences in interests; its foundational principles (non-interference, consensus-based decision-making, and informal diplomacy) have historically hindered ASEAN's capacity to take assertive and timely action in responding to internal political turmoil and complex geopolitical disputes. For instance, ASEAN has failed to resolve the Myanmar crisis (Kurlantzick, 2022), restore stability to the Thai-Cambodian border, and put an end to the South China Sea territorial dispute (Serey, 2021), continuing the historical trend of falling short in regional conflict resolution. Given the inherent deviations in interests and priorities, the lack of effective conflict mediation toolkits poses a serious problem for regional unity—a prerequisite for regional economic integration and domestic economic stability.

Indonesia

Context. Indonesia, with a population of approximately 283 million, is Southeast Asia's largest economy, with a GDP of $1.46 trillion USD in 2024 (International Trade Administration, 2022). Indonesia's GDP grew by 5.12% year-on-year in Q2 2025, an improvement from 5.05% recorded in the same quarter of the previous year. Preliminary figures indicated that the manufacturing sector accounted for 18.98% of Indonesia's GDP, making it the largest contributor to the nation's economy. This was followed by wholesale and retail trade (13.07%), agricultural, forestry and fishing (12.61%), construction (10.09%) and mining and quarrying (9.15%) (Statista, 2023). In 2023, the top exports of Indonesia were coal briquettes ($38.8B), palm oil ($24.8B), ferroalloys ($14.8B), lignite ($10.7B), and petroleum gas ($9.26B). The top destinations for its exports were China ($70.7B), United States ($27.9B), India ($24B), Japan

($23.7B), and Singapore ($15.8B) (OEC, 2022). FDI has increased from US$21.54 billion in 2023 to US$24.11 billion in 2024 (World Bank, 2024).

Analysis of Developments: Tariffs, Digitization, Domestic Instability. Indonesian exports to the United States are now subject to 19% reciprocal tariffs, with the exception of goods not produced in the United States such as palm oil, cocoa, and rubber (Strangio, 2025). On the other hand, U.S. exports to Indonesia are to be subject to 0% tariffs. Indonesia has also pledged to purchase US$15 billion of US energy products, US$4.5 billion of agricultural goods, and 50 Boeing jets (Baker McKenzie, 2025). Beyond growing Indonesia's trade deficit with the United States, these agreements risk flooding Indonesia's domestic market with imported products that could threaten local industries, especially SMEs that will struggle to compete with U.S. products with higher quality and lower prices (Yanuar, 2024). With regards to how Indonesia can cope with this shift in trade dynamics, Indonesia's strong trade ties with other countries suggest that the impact of tariffs will not be too crippling: top destinations for Indonesian exports in 2024 were China ($70.7B), United States ($27.9B), India ($24B), Japan ($23.7B), and Singapore ($15.8B). Top import destinations were China ($62.7B), Singapore ($18.2B), Japan ($15.4B), United States ($11B), and Malaysia ($10.9B) (OEC, 2022). Indonesia has also been making progress on new regional trade agreements, including the Indonesia-European Union Comprehensive Economic Partnership Agreement (IEU-CEPA), which has undergone over 19 rounds of talks (International Trade Administration, 2022).

Indonesia's digital economy is projected to exceed US$130 billion by 2025, driven largely by e-commerce and fintech. As of early 2024, internet penetration has reached 79.5% with over 221 million internet users, supported by improved mobile broadband and expanding digital literacy (ITA, 2024). However, Indonesia has to confront two main challenges in its development of the digital economy. First, despite national efforts like the 2019 completion of the Palapa Ring project, internet access remains unevenly available. The digital divide is caused by various factors, including diverse geographical conditions, limited electricity resources, high bandwidth costs outside of Java, inadequate and unaffordable tools, and gender-based disparities. Inadequate infrastructure to support digitalization is especially serious in the 3T (frontier, outermost, and underdeveloped) areas (Indonesia Civil Society of Digital Transformation Task Force, 2022). Second, cybersecurity and data protection remain pressing challenges. In June 2024, Indonesia's National Data Center fell victim to a sophisticated ransomware attack, bringing

critical government services to a standstill. Bank Indonesia (BI) reported over 370 million cybercrime threats targeting Indonesia, alongside a 25% rise in anomalous cyber traffic in 2024 (Razak, 2025). Given that cyberattacks heavily compromise trust in the digital economy and the stability of day-to-day operations of governments and businesses, this remains an urgent issue that must be addressed.

Finally, Indonesia has to contend with the economic effects of domestic political instability. In August 2025, demonstrators took to the streets in many Indonesian cities, with several turning violent. Over 3,000 people have been detained, and at least 10 people have died (Kurlantzick, 2025). In November, thousands of residents in Indonesia's Riau province palm oil belt protested against the takeover of their plantations by the government's forestry task force (Reuters Staff, 2025). Ineffective implementation of populist policies and perceived corruption have fueled public frustration with the Prabowo regime: despite budgeting IDR306 trillion for the Free and Nutritious Meal (MBG) programme, the initiative has been poorly planned, linked to food poisoning outbreaks, and has placed considerable strain on government finances. At the same time, the government has substantially increased the defence budget, which was revised to IDR245.2 trillion by mid-2025, representing a more than 75% increase over 2024 and nearly matching the national social safety net budget (Wijaya & Jayasuriya, 2025). Consequently, the Indonesian rupiah is set to hit record lows, and the value of Indonesian stocks has already fallen (Bao, 2025).

IV. Steps Forward for the Region

a. Indonesia and Singapore

Domestic political stability remains the most important challenge that Indonesia has to overcome, as political stability has a positive and statistically significant impact in attracting foreign capital flow (Faruq, 2023). This has ripple effects on Indonesia’s efforts to digitalize and mitigate the effects of US tariffs and the global trade war: stronger domestic industries and a more even distribution of digitalization would undoubtedly be beneficial for Indonesians, both of which require resources.

The key tenet linking protests in Indonesia in the past few years is distrust in government institutions. While President Prabowo is still largely popular, the populace’s anger has been largely directed at members of the Indonesian National Police, House of Representatives and the

military (Andreyka Natalegawa, 2025). It is no surprise that the set of demands released by a coalition of civil society organizations are focused on state reforms (*17+8 Tuntutan Rakyat - Bijak Memantau*, 2025). Prabowo has so far conceded to some of the demands (Muktita Suhartono & Wee, 2025), even cancelling a trip to China to negotiate with religious and political leaders. If Indonesia wants long term political stability, restoring trust in government institutions instead of violent crackdowns is likely to be the more effective solution (Jaffrey, 2025).

On the other hand, Singapore ranks as one of the most politically stable countries in the world (BTI, 2024). However, given the digitization of many businesses and government services and operations, cybersecurity is the most urgent challenge Singapore has to contend with to protect the integrity of government institutions and the growth of businesses (Cyber Security Agency Singapore, 2023). The strengthening of domestic infrastructure is critical; in this regard, the Singapore government has taken concrete steps to protect state infrastructure and support private businesses in shoring up cybersecurity, such as the Cyber Protect Programme which strengthens Small Medium Enterprises' cybersecurity defence, and the OT Cybersecurity Masterplan (IMDA Singapore, 2025).

The more difficult obstacle to overcome is the lack of regional coordination in tackling cybersecurity issues. Hence far, ASEAN programs have mainly focused on individual state capacity building, creating platforms for regional dialogue and information sharing (Brock, 2024). To tackle cybersecurity threats effectively, however, there needs to be a clear and comprehensive framework on incident response, digital forensics, secure data exchange, and policy harmonisation to minimize the amount of inconsistencies that cyber criminals can exploit in the region (Azmi, 2025). Considering that both Indonesia and Singapore have vested interests in strengthening the cybersecurity space in the region, given Singapore's resources and technological capabilities and Indonesia's political weight in ASEAN, Indonesia and Singapore have the power to jointly champion the development of region-wide standards and lead the establishment of a coordinated incident-response mechanism, serving as the dual anchors of ASEAN's cyber governance architecture.

b. Japan and South Korea

In a functional similarity to the discussion of Indonesian and Singaporean economies in the prior section, a critical tenet of further economic proliferation within Japan and South Korea – particularly given their newfound partnership extending to the executive level – involves the coupled expansion of domestic infrastructure alongside trade resiliency (Hernandez, 2026).

While both nations benefit from mature democratic institutions, trust in economic efficiency, supply-chain resilience, innovation pipelines, and international posturing are simultaneously critical to maintaining foreign investment and domestic innovation. In particular, Research and Development (R&D) and high-tech industries are pivotal drivers of growth (OECD, 2025) For instance, South Korea's semiconductor, biotech, and AI sectors have expanded rapidly, supported by targeted government subsidies and public-private partnerships (Tsai & Li, 2025). By contrast, Japan exhibits strengths across the areas of robotics, sustainable and renewable technology, and precision manufacturing, and therefore would analogously benefit substantially from coordinated R&D strategies and industrial policy frameworks (OECD, 2025). Consequently, such positive consequences extend not only to domestic economic success, particularly in labor force expansion and segmentation, yet simultaneously increased trading incentives due to the international perception of frontier-level Japanese innovation. It is therefore critical for both countries to engage in joint initiatives across industrial R&D, semiconductor supply chain resilience, and standardization of digital innovation (Akcigit *et al.*, 2018).

Such developments may also coevolve with cybersecurity resilience in a parallel to Indonesian innovation, allowing for security efforts to mirror adaptive and autonomous technologies. As machine-learning-based frameworks become increasingly incorporated into cybersecurity capabilities, particularly in the frequency and depth of emergent cyberattacks, such coevolved security development programs are both timely and uniquely critical (de Percy, 2025). Japan is currently engaging in efforts that aspire towards functionally identical objectives: the recent "Society 5.0" initiative seeks to integrate cyberspace and physical systems as a manner of counteracting existing labor shortages and enhance productivity through coupling retraining with expansion of the young workforce (Kawai, 2023). However, structural barriers to the implementation of such programs remain, especially given enduring bureaucratic institutions that stifle innovation in the cybersecurity space, while investment pressures simultaneously remain low. Therefore, the necessity of cooperation amongst South Korea and Japan in fueling such innovation assumes an increasingly essential role. Additionally, the South Korean legislature

ought to consider efforts to improve the final concern of investment, particularly given the necessity of public-private partnerships in fueling cybersecurity defense considerations within analogous nations in the West.

V. Conclusion

Consequently, the detailed case studies of South Korea, Japan, Singapore, and Indonesia presented above demonstrate that East and Southeast Asia are rapidly advancing from industrializing economies to emerging leaders of an increasingly fragmented global order. More specifically, state-led industrialization and digital strategies have provided these countries the opportunity to construct globally competitive manufacturing sectors, develop platform economies, and integrate into global value chains. Nonetheless, the foundations of that success—such as strong export industries and technological concentration—are now under new vulnerabilities as geopolitical tensions, tariffs, cyber insecurity, and other strategic risks reshape the economic environment. The Southeast Asia Policy Recommendations section establishes that managing these pressures in practice requires considerable effort. In Indonesia, for instance, long-run growth is heavily dependent on restoring trust in core state institutions so that foreign capital, domestic investment, and digital infrastructure may readily expand on a stable political foundation. In Singapore, while political stability and high state capacity are present, there is an increasing need for digital ecosystems and defense mechanisms that can keep up with the country's role as a digital hub.

When projecting into future estimates of economic proliferation, the key question remains the possibility of examining how nations in both East Asia and Southeast Asia may transform their digital and industrial capabilities into resilient, more inclusive development models. Turning inward, the next phase of development will depend on how these countries widen access to digital infrastructure and confront demographic and social vulnerabilities at home. As a region, this objective involves pushing ASEAN and related forums toward more concrete frameworks on cybersecurity, data management, and crisis management. In other words, ASEAN is in need of a more structured framework anchored by Singapore and Indonesia to help turn the region's digital capacities into shared security rather than risk. If governments succeed in adapting to cybersecurity risks and an evolving global order with higher geopolitical

tensions, East and Southeast Asian nations are likely to remain global engines of growth, innovation, and production.

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