

# 2026

## SEA Global Relations Outlook



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This report, developed by the Southeast Asia Public Policy Institute, is intended to help stakeholders understand key issues shaping Southeast Asia's global relations in 2026.

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# Executive Summary

2026 marks a reset year for Southeast Asia, with the Philippines taking on the ASEAN Chair at a moment of heightened regional and global strain in both the trade and security realms. The transition comes as ASEAN seeks to regain momentum and credibility after years marked by crisis management together with strategic advance. While the ASEAN Chair position offers an opportunity to refocus the bloc's agenda, it also places Manila at the center of a complex landscape shaped by intensifying geopolitical rivalry, internal fractures, and unfinished integration efforts.

Externally, Southeast Asia remains caught between the competing pulls of the U.S. and China. Strategic competition between the two powers continues to define the region's economic and political environment, particularly through trade measures, investment screening, and supply-chain restructuring. As concerns over supply security and critical minerals deepen, Southeast Asia has moved from being a peripheral beneficiary of diversification to a central arena in the contest between major powers. This shift brings opportunities, but it also raises exposure to external pressures, compliance burdens, and policy conditionality.



Internally, ASEAN enters 2026 with persistent vulnerabilities. Political instability in Myanmar remains unresolved, undermining ASEAN's credibility and cohesion. Renewed Thailand-Cambodia border tensions highlight the fragility of intra-ASEAN dispute management, while transnational scam operations continue to adapt and relocate despite stepped-up enforcement. These challenges consume diplomatic bandwidth and complicate the task of advancing longer-term regional initiatives. At the same time, ASEAN faces a growing agenda in areas such as the digital economy and energy transition. The Digital Economy Framework Agreement (DEFA) and the ASEAN Power Grid remain critical tests of whether the bloc can translate ambition into practical integration amid wide disparities in capacity and regulatory readiness.

ASEAN's enlargement further adds to this complexity. Timor-Leste's accession as the bloc's 11<sup>th</sup> member presents both symbolic value and structural challenge. Integrating a less developed economy into ASEAN's institutions will require sustained support and flexibility, but it also offers an opportunity for ASEAN to demonstrate cohesion and developmental purpose at a time when unity is under strain.

Beyond the region, relations with major partners will continue to shape ASEAN's strategic room for maneuver. China and the United States remain the primary reference points, with trade tensions, tariffs, and supply-chain realignment forcing ASEAN states to make increasingly difficult choices. In response, ASEAN is seeking diversification. Japan's renewed economic strategy raises questions about whether it can reclaim a more prominent role as a long-standing partner, while cooperation with South Korea is deepening through trade and technology links. Engagement with the European Union offers access to high-value markets but comes with tighter regulatory demands that may constrain some economies. At the same time, emerging partnerships with India, BRICS, and the Gulf states reflect ASEAN's search for additional growth drivers and strategic balance in a more fragmented global order.

# Part I

## 10 Things to Focus in 2026

Part I examines the key issues that ASEAN will face in 2026, highlighting developments and trends that require close attention. Rather than isolated events, these issues reflect deeper structural pressures shaping ASEAN's political cohesion, economic integration, and strategic positioning amid an increasingly fragmented and uncertain global environment.





## 1. High Stakes as Manila inherits the ASEAN Chair in 2026



The Philippines will assume the role of ASEAN Chair in 2026 after Myanmar's decision to defer its scheduled turn. The transition will also mark the start of the ASEAN Economic Community Strategic Plan 2026–2030. This five-year plan aims to advance a more integrated single market and promote broad-based growth across the region. However, this new phase begins amid a challenging handover, with several persistent issues still unresolved.

A central test will be whether the Philippines can keep momentum on the long-negotiated South China Sea Code of Conduct (CoC) between ASEAN member states and China while managing its own heightened tensions with China. ASEAN and China adopted guidelines in July 2023 to accelerate talks and have since referenced a target of concluding the CoC by or before July 2026<sup>1</sup>, although the pathway to a legally binding outcome remains uncertain. The Philippines has signalled that it will push for its completion this year, but its credibility as an “honest broker” will depend on how it balances national interests with ASEAN's preference for consensus and de-escalation.

Beyond the South China Sea, the chair will inherit a region that is still struggling to align positions on strategic competition and economic fragmentation. ASEAN has repeatedly sought to avoid being forced into binary choices, yet member states continue to diverge in how openly they align with the United States and China. This divergence raises the risk of thinning ASEAN's external messaging, especially when unity is needed to sustain ASEAN centrality.

The Philippines will also need to sustain crisis management on multiple internal fronts. Myanmar remains blocked from high-level political representation in ASEAN meetings due to limited progress on the Five-Point Consensus calling for an end to violence, inclusive dialogue, ASEAN-led mediation, humanitarian access, and a visit by the delegation. The junta's planned election process, beginning on 28 December 2025, is likely to sharpen debates about whether ASEAN's current approach can be maintained. Meanwhile, renewed Thailand-Cambodia border tensions in December 2025 underline the continued sensitivity of intra-ASEAN disputes and the operational burden they place on the chair.

Finally, 2026 will be ASEAN's first full year as an 11-member organization following Timor Leste's formal admission on 26 October 2025, requiring sustained institutional and procedural integration alongside an already crowded political-security agenda.

## 2. Trade War 2.0 and the End of Easy Hedging

For the past decade, ASEAN economies treated U.S.-China decoupling as a managed opportunity. Multinationals reduced dependence on China through "China+1" diversification, resulting in numerous Southeast Asian countries capturing a steady stream of relocation and expansion in export-oriented manufacturing.

China, for its part, is seeking to retain influence by deepening its role in ASEAN production networks. Over the years, Chinese firms accelerated investment and supply-chain presence in many countries such as Vietnam and Thailand in response to U.S. tariff pressure, strengthening China's position in upstream components and intermediate goods even if the final product is made outside China.

For several ASEAN members, this was attractive in the short-term: Chinese investment arrived quickly, often with established supplier ecosystems in sectors such as energy and infrastructure where Chinese firms are globally competitive. The trade-off is that such investments may hard-wire Chinese content into "ASEAN-made" exports, increasing exposure to origin-based enforcement abroad.

However, the U.S. is signaling that it wants to close this hedge. In April 2025 U.S. authorities finalized steep duties on solar cells and modules from Cambodia, Malaysia, Thailand, and Vietnam, with rates reaching as high as 3,521 percent in the most extreme cases, following allegations that these products benefited from Chinese subsidies and were sold below cost<sup>2</sup>. If sustained, such measures are likely to drive geographic churn within Southeast Asia and accelerate the shift from country switching to more substantive changes in ownership, inputs, and documentation.

The situation was further exacerbated by the introduction of reciprocal tariffs on ASEAN countries, with rates reaching up to 40 percent. While this measure is framed as a response to the United States' large trade deficits with Southeast Asian economies, it also implicitly encourages supply-chain diversification away from China. In practice, the tariffs are linked to requirements for higher local content in exporting countries, including Thailand and Vietnam, as a condition for securing lower tariff rates. This dynamic is reflected in accusations by the U.S. government that Vietnam and Thailand have enabled Chinese exporters to circumvent higher tariffs by misrepresenting the origin of finished goods<sup>3</sup>.





As a result, Thailand must prepare a large-scale expansion of certificates-of-origin issuance and compliance capacity under heightened U.S. scrutiny, with goods suspected of origin manipulation potentially facing tariffs as high as 40 percent<sup>4</sup>. Vietnam has similarly moved to clamp down on trade fraud and illegal transshipment linked to exports to the U.S., reflecting the practical compliance pressure this new regime creates for export-dependent economies.

ASEAN governments will inevitably continue trying to balance strategic relationships and economic competitiveness, but an additional source of uncertainty is legal. The U.S. Supreme Court is considering challenges to the reciprocal tariffs, with a judgement expected in early 2026. However, even a ruling that narrows presidential tariff authority would not necessarily ease the pressure, as U.S. officials have signalled that alternative legal tools could still be used. Such an outcome would, nonetheless, reshape the timeline and alter the negotiating leverage that currently frames ASEAN's trade choices.

### **3. Southeast Asia as a transnational crime hub**

The stepped-up crackdowns on scam centers across the Mekong subregion in 2025 did not dismantle the underlying business model, but they did make it more mobile and more politically sensitive. Raids and demolitions in Myanmar's Kayin State, including areas around Myawaddy, have led to mass detentions and ongoing repatriations of foreign nationals. However, this does not signal the end of such operations. Instead, it points to efforts to disperse activities, rotate front entities, or relocate to new, more permissive zones.

The geography of these networks remains remarkably consistent. Scam compounds continue to concentrate in "borderland" areas where governance and enforcement are fragmented, or special economic zones that operate outside routine regulatory scrutiny. Myanmar's civil war is a structural enabler: where Myanmar's army has limited territorial control in the borderlands and some ethnic armed groups compete for revenue, cyber-scam operations can become embedded in local economies, making clean shutdowns difficult and creating incentives for "rebranding" rather than genuine closure.

Beyond shifting to locations that are less regulated and less visible, these operations have also expanded into neighboring countries, including Laos and Cambodia. In Cambodia in particular, enabled by endemic corruption rather than instability, such criminal operations have continued to flourish. External responses to the scam issue in Cambodia have also hardened into measures that raise the legal and financial cost of operating these networks. In mid-October 2025, the United States combined criminal prosecution with disruption tools, including a federal indictment linked to Cambodia-based forced-labor scam compounds, a major crypto seizure and forfeiture action, and coordinated US-UK sanctions and financial restrictions targeting entities and individuals assessed to enable large-scale online fraud.



South Korea escalated in parallel. In response to the death of a young South Korean student. The country dispatched a high-level delegation led by Vice Foreign Minister Kim Jina to Cambodia and issuing its most severe “code black” travel ban for specific high-risk areas associated with scam activity<sup>5</sup>. However, the recent Thailand-Cambodia conflict appears to be altering this landscape, as some military strikes have reportedly targeted casino and hotel complexes suspected of hosting scam operations<sup>6</sup>.

A further watch-point in 2026 is diffusion of risk as ASEAN expands. Timor-Leste’s formal admission as ASEAN’s 11th member in October 2025 opens new opportunities for legitimate investment and connectivity, but it also requires early attention to corporate transparency, licensing oversight, and cross-border financial intelligence, to ensure that shell companies and “special zone”-style arrangements cannot be exploited as new operational cover<sup>7</sup>.

Where domestic capacity to address scams remains weak or uneven, regional tools are limited. ASEAN’s long-standing norm of non-interference constrains collective intervention, leaving enforcement largely to national authorities and ad hoc bilateral cooperation, even when the harms, trafficking flows, and financial channels are transnational by design. Against this backdrop, 2026 warrants close attention as a year in which scam networks are likely to continue adapting, dispersing, and reconstituting themselves across the region.

## 4. Regional digital economy integration and the DEFA test

ASEAN’s Digital Economy Framework Agreement (DEFA) is expected to be concluded and signed in 2026, following a substantial conclusion of negotiations reached in October 2025. The Philippines has indicated that DEFA will be a flagship deliverable during its Chair, with Manila positioned as the venue for signature. If delivered as intended, DEFA would stand out as the first region-wide agreement dedicated specifically to digital economy governance, setting a single regional reference point for rules that currently sit across fragmented initiatives and national regimes.

DEFA has been under active study and negotiation since 2023, with an ambition that goes beyond facilitation measures and into the foundations of a unified digital ecosystem. The agreement is framed around scaling ASEAN's digital economy towards the often-cited USD 2 trillion trajectory by 2030, while lowering frictions in cross-border trade and services through greater interoperability and trust. In practice, this includes common approaches across nine negotiated pillars, covering areas such as digital trade, cross-border e-commerce, digital ID and authentication, payments, online safety and cybersecurity, and cross-border data flows and data protection.

The most immediate gains for ASEAN would come from harmonization that reduces transaction costs. Paperless trade and compatible digital trade rules can shorten clearance times and reduce compliance uncertainty for firms operating across multiple markets. Interoperable payment systems can support SMEs and platform-based exporters by making settlements faster and cheaper. Over time, DEFA could also strengthen ASEAN's competitiveness by making the region easier to serve as a single market, rather than a patchwork of ten separate regulatory environments.

The harder question is the cost of convergence. Moving towards common standards in data protection, cybersecurity, and digital taxation will require domestic legal adjustments and stronger enforcement capacity, and these start from very different baselines. The emphasis on cross-border data flows, in particular, will test countries that retain elements of data localization or security-driven controls.

Vietnam has embedded localization and cross-border transfer conditions across its cybersecurity and personal data protection frameworks, which may not map neatly onto a more open regional model. In the Philippines, the overall posture has been relatively open, but policy debates around data residency and “data sovereignty” have become more visible, creating uncertainty about the medium-term direction of travel<sup>8</sup>.

Finally, even if rules converge, the digital divide will not close automatically. Uneven broadband quality, logistics performance, and digital skills across member states will continue to shape who captures the benefits of a region-wide digital framework in 2026 and beyond.





## 5. Future Regional Energy Connection through ASEAN Power Grid

The ASEAN Power Grid has remained a recurring priority in regional cooperation for decades, but the stakes are rising as member states translate climate pledges into practical energy-transition pathways. As demand continues to rise, domestic power generation in some countries may be insufficient to meet their needs, prompting them to seek energy supplies across borders within the region.

In 2026, this agenda enters a new policy cycle. It will be the first year of the ASEAN Plan of Action for Energy Cooperation (APAEC) 2026-2030, which sets a regional ambition to reach a 45% share of renewable energy in installed power capacity by 2030. The plan is also structured around seven program areas, with grid connectivity and cross-border power trade sitting as a core enabling track rather than a standalone infrastructure project.



The operational reality remains mixed, and that is precisely why 2026 should be watched closely. As of 2024, ASEAN had eight operational interconnections out of 18 identified projects, with around 2.8 GW of operational grid-to-grid interconnection capacity and a planned interconnection pipeline scaling towards 13.7 GW by 2040<sup>9</sup>. These figures point to tangible progress, but also to the gap between pilot-scale links and the level of integration required to support higher renewable penetration across the region.

One concrete proof point is the Lao PDR-Thailand-Malaysia-Singapore Power Integration Project (LTMS-PIP), signaling both a technical and political turning point. By the end of 2024, cumulative cross-border power trade through the LTMS-PIP reached 266 GWh under Phase 1, and subsequent arrangements have expanded the framework to support higher traded volumes and more flexible power flows.

Looking ahead towards 2026, attention will increasingly shift to the next generation of sub-regional integration. The Brunei-Indonesia-Malaysia-Philippines Power Integration Project (BIMP-PIP) has moved through feasibility work and early project scoping, with initial interconnection options and indicative capacity in view. Whether 2026 becomes the year this concept translates into bankable structures, regulatory alignment, and early development decisions will be an important signal of how quickly ASEAN can scale from demonstration projects to a region-wide grid strategy.

## 6. Thailand-Cambodia: Unceasing Fire

The current Thailand-Cambodia conflict is rooted in long-running disputes over overlapping border areas, where each side relies on different map references to justify competing claims. The dispute is not only about landmark sites, but also about which technical basis should anchor demarcation, a gap that repeatedly reopens arguments over small but symbolically charged areas.

Each side continues to frame the other as the initiator, which makes de-escalation politically costly and operationally difficult. The pattern since mid-2025 has been episodes of flare-ups followed by partial measures and contested ceasefires, rather than a clean pathway back to stable border management.

Domestic political incentives add another layer of volatility. In Cambodia, a firm border stance can play well with nationalist sentiment and reinforce public confidence in leadership during periods of heightened tension. In Thailand, hardline postures can also serve internal purposes, including shifting the public narrative away from politically sensitive issues. Allegations and counter-allegations around grey business networks, including scam-linked activity near border areas, have further politicized the conflict and complicated efforts to separate security objectives from domestic agendas.

Economic risks have become a direct extension of the border dispute, affecting both countries. Cambodia has already moved to restrict selected Thai imports, including fruits and vegetables, and the broader dependence is significant. As of 2024, imports from Thailand accounted for around 12 percent of Cambodia's total goods imports, concentrated in fuel, vehicles, food-related products, and electrical machinery<sup>10</sup>. If these restrictions persist, Cambodia will need to find alternative suppliers for these volumes, most likely from China and Vietnam, its two largest trading partners. This shift would inevitably reduce Thai export values.

In contrast, Cambodia also faces a sharp decline in remittance inflows as Cambodian migrant workers return from Thailand. This poses a longer-term challenge for the government, which will need to support affected households as these income losses become more pronounced in the coming year.

In 2026, the further risk is that external powers become more entangled as both countries seek leverage. U.S. President Donald Trump has already been linked to ceasefire efforts, and renewed pressure could spill into trade bargaining with Washington<sup>11</sup>. At the same time, China has strong incentives to discourage prolonged instability given its investments and economic stakes in both countries, which could add another layer of mediation and influence. The result is a more complex regional atmosphere where bilateral tensions intersect with wider strategic competition.

## 7. Myanmar's Political Unrest

Myanmar's long-delayed national election is set to unfold across two phases that straddle the turn of the year, with voting beginning in late December 2025 and a second round scheduled in January 2026. The current situation reflects the limits of state control and the security conditions required to run polling in selected townships, leaving large areas effectively outside the electoral process<sup>12</sup>.

The political playing field has already been shaped by legal and procedural changes introduced well ahead of polling. Amendments to the Political Parties Registration Law in 2023 imposed stringent requirements that prevented several established parties from registering, and the National League for Democracy (NLD) was subsequently dissolved by the junta-appointed election commission. This narrowed the competitive space and ensured that the election is structured around military-aligned parties and permitted proxies rather than a genuine contest for power.

Against this backdrop, the election functions less as a pathway back to civilian rule and more as an attempt to formalize military authority through an elected façade. The country remains in widespread armed conflict, and the practical conditions for free and fair voting are absent, including basic freedoms for campaigning, assembly, and independent scrutiny. Where polling cannot be held, the outcome risks deepening fragmentation by reinforcing the distinction between areas under junta influence and areas governed by resistance forces and ethnic armed organizations.

The likely near-term result is continuity rather than change: a military-backed administration claiming a renewed mandate, alongside a worsening humanitarian crisis driven by displacement, food insecurity, and restricted access for aid operations. Rejection of the election's legitimacy by resistance actors also increases the risk of intensified violence in 2026, especially if post-election narratives are used to justify new offensives or tighter repression.

International criticism will continue, but ASEAN is likely to remain constrained by its non-interference approach, even as it reiterates that violence reduction and inclusive dialogue should precede credible elections. The junta may still present the election as a stabilization milestone to attract investment, yet the continuing civil war and sanctions risk will keep Myanmar a high-cost environment where political claims of normalization do not translate into investable certainty.





## 8. Rare Earths in Myanmar and the Critical Minerals Contest

Apart from its domestic conflict, Myanmar has also become a focal point as a key upstream source of rare earths, with its share of global production expected to reach around 11 percent by 2030. Most rare earths mined in Myanmar currently feed directly into China's industrial supply chain. In 2024, Myanmar shipped around 44,000 tonnes of rare earth elements to China, accounting for roughly 57 percent of China's total rare earth imports<sup>13</sup>. This flow reinforces China's strategic advantage because extraction can sit offshore while most processing, refining, and magnet manufacturing capacity remains concentrated inside China. The result is a supply chain that is geographically diversified in mining but still consolidates market power in downstream processing.

The challenge is that Myanmar's rare earth production is not governed as a conventional national resource sector. Mining is concentrated in Kachin and Shan States, where control is fragmented and armed groups exert decisive influence over access, taxation, and security. In Kachin, the Kachin Independence Army's takeover of key mining areas in late 2024 while in Shan, new mining sites have expanded under the protection of the United Wa State Army, both of which operations reportedly linked to Chinese-speaking operators and routes that move material towards the China border. This combination, contested authority plus cross-border commercial networks, makes rare earths a high-value asset in Myanmar's political economy, and a strategic variable for external actors.

Under Trump's second administration, U.S. efforts to de-risk dependence on Chinese-controlled critical minerals have become more explicit in Southeast Asia. In October 2025, The U.S. government signed a critical minerals MoU with Malaysia that spans the full chain from exploration and resource assessment to processing, recycling, and recovery, and Thailand signed a parallel MoU focused on supply chain cooperation and investment.

Malaysia's sizeable deposits, together with ongoing restrictions on exports of raw rare earths, point to a clear policy preference for downstream value addition rather than simple extraction. Thailand's relevance, by contrast, is deemed to be less about domestic reserves and more about its geographic position next to Myanmar. As many rare earth sites in Shan State lie close to the Thai border, the United States may pay greater attention to Thailand's role in traceability, logistics, and the well-connected supply chains.



A similar dynamic is already evident in India, where the United States has shown interest in accessing rare earth resources in Myanmar's Kachin State<sup>14</sup>. Increased U.S. engagement could mark a significant step in intensifying an already crowded contest over a resource base that largely sits outside the effective control of Myanmar's central government. This issue warrants close attention, as it is likely to shape the economic and strategic environment of at least two influenced economies in the region in the years ahead.



## **9. Malaysia and Indonesia as Rising Muslim-Majority Agenda Setters**

ASEAN's diversity in geography, development levels, and religion has long shaped how the bloc positions itself externally, and Indonesia and Malaysia sit apart as the region's most consequential Muslim-majority states. From 2026 onwards, they are likely to become more influential across Muslim networks, as domestic legitimacy, demographic weight, and institutional capacity translate into greater agenda-setting power.

The first driver is economic scale within the global halal ecosystem. Indonesia, as the world's largest Muslim-majority country with roughly 230 million Muslims, represents an unusually large consumer base for halal products. Its tourism sector is also well positioned to attract Muslim travelers to the market.

Malaysia's influence is more institutionalized, anchored in decades of policy investment in halal standards and certification. Its halal certification ecosystem, led by JAKIM, is widely used as a trust mechanism for exporters and is treated as a credible benchmark across multiple product categories. Malaysia also retained the top position in the Global Islamic Economy Indicator for the 11<sup>th</sup> consecutive year in the 2024-25 reporting cycle<sup>15</sup>, highlighting consistent strength across halal sectors and Islamic finance-linked enablers.

Beyond economics, both countries are increasingly visible as political voices within the wider Muslim community. The 2026 edition of *The World's 500 Most Influential Muslims* places Prime Minister Anwar Ibrahim and President Prabowo Subianto within the top tier of global Muslim leadership, which reinforces their standing as recognizable reference points beyond Southeast Asia.

Their foreign policy messaging has been particularly prominent on the Israel-Palestine conflict, where both governments have taken clear pro-Palestine positions and backed that stance through repeated diplomatic statements and international advocacy. In Malaysia's case, Anwar publicly resisted external pressure to condemn Hamas and openly referred to Malaysia's longstanding relationship with the group's political wing<sup>16</sup>, signaling a firm stance on the issue.

The strategic implication for 2026 is that Indonesia and Malaysia will increasingly shape how ASEAN's external partners interpret the region's political mood on issues where religion, identity, and geopolitics overlap. This can widen ASEAN's engagement space with Muslim-majority partners and halal-linked investment flows, but it can also introduce sharper signaling into regional diplomacy at moments when other ASEAN members prefer ambiguity. Managing that tension, without turning ASEAN into a venue for external polarization, will be a growing test of intra-bloc cohesion.

## **10. Timor-Leste's ASEAN Accession**

Timor-Leste formally became ASEAN's 11<sup>th</sup> member on 26 October 2025, at the 47<sup>th</sup> ASEAN Summit in Kuala Lumpur. The move marks ASEAN's first expansion in decades and carries symbolic weight for the bloc's cohesion, but it also brings a new set of integration and capacity questions into ASEAN's day-to-day work.

To operate as a full member, Timor-Leste must meet requirements across the three ASEAN Community pillars: the ASEAN Political-Security Community (APSC), ASEAN Economic Community (AEC), and ASEAN Socio-Cultural Community (ASCC). In practice, this is less about ceremony than sustained alignment with ASEAN legal instruments, procedures, and meeting participation across the full policy spectrum, from trade and customs to health, education, and security cooperation.

The central challenge is economic structure. Timor-Leste is among Asia's poorest economies and is entering ASEAN at a moment when its oil-and-gas model is under strain. Production at the Bayu-Undan field ceased in June 2025, while the longer-term Greater Sunrise project remains uncertain despite renewed feasibility engagement.





Petroleum revenues have historically financed a large share of the state budget through the Petroleum Fund, and public expenditure averaging around 85 percent of GDP has reinforced the country's heavy dependence on government spending<sup>17</sup>. With fewer inflows, the fiscal path relies increasingly on drawing down accumulated reserves, heightening the urgency of diversification.

Accession is also framed as a development strategy. Membership provides access to a 650-million-person regional market and a route into ASEAN's external economic architecture, potentially lowering trade costs and improving visibility with investors and partners. Yet the transition demands administrative depth: customs systems, regulatory processes, and institutional capacity must keep pace, and one day Timor-Leste will need to chair the bloc and host hundreds of meetings in a single year, which will test logistical readiness.

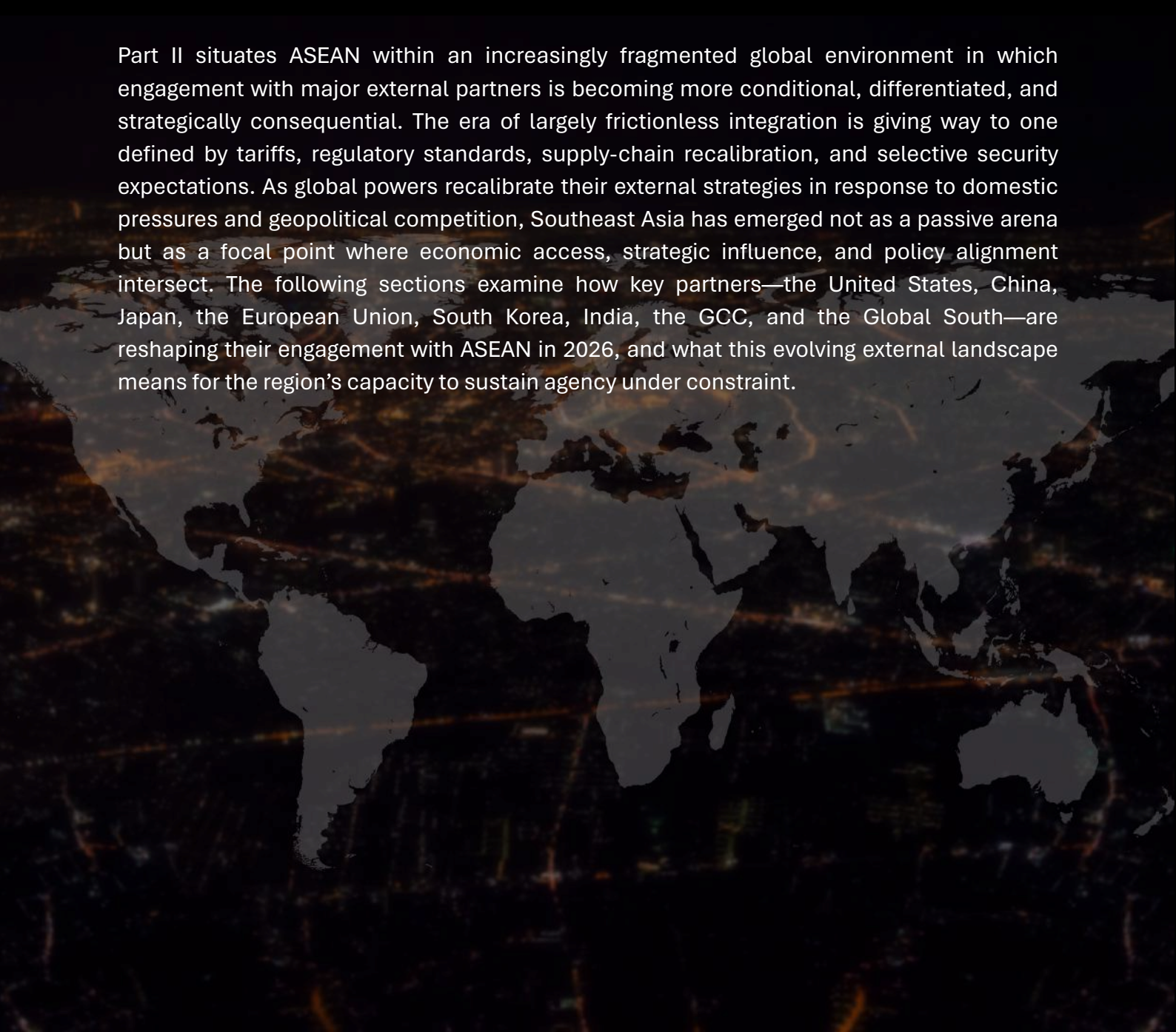
Whether ASEAN membership becomes a genuine economic opportunity will depend on addressing structural constraints. Timor-Leste's export base remains narrow, with oil, gas, coffee, and a small set of services dominating, offering limited complementarity with regional manufacturing networks. Legal and regulatory impediments, weak human capital, infrastructure gaps, and the small domestic market will continue to shape investor perceptions even with ASEAN branding. 2026 will mark Timor-Leste's first full year as part of the ASEAN family and an important test of how the country adapts and advances its long-held goals through this long-awaited partnership.



# Part II

## ASEAN and Global Horizons

Part II situates ASEAN within an increasingly fragmented global environment in which engagement with major external partners is becoming more conditional, differentiated, and strategically consequential. The era of largely frictionless integration is giving way to one defined by tariffs, regulatory standards, supply-chain recalibration, and selective security expectations. As global powers recalibrate their external strategies in response to domestic pressures and geopolitical competition, Southeast Asia has emerged not as a passive arena but as a focal point where economic access, strategic influence, and policy alignment intersect. The following sections examine how key partners—the United States, China, Japan, the European Union, South Korea, India, the GCC, and the Global South—are reshaping their engagement with ASEAN in 2026, and what this evolving external landscape means for the region’s capacity to sustain agency under constraint.





# United States

## Tariffs, Local Content, and Strategic Conditionality

### US Strategic Approach to ASEAN

Developments over 2025 clarified that U.S. engagement with Southeast Asia is being conducted primarily through selective bilateralism rather than ASEAN-centered architecture<sup>18</sup>. Progress in U.S.–ASEAN relations was uneven and concentrated on a narrow set of countries and issue areas, while region-wide economic frameworks remained shallow and politically contingent. Economic initiatives were treated as flexible bargaining instruments rather than durable commitments, reinforcing perceptions among Southeast Asian governments that U.S. engagement is reversible and closely tied to domestic political cycles in Washington<sup>19</sup>.

A defining feature of this approach has been expanded scrutiny of partners' broader policy choices. U.S. engagement increasingly extended beyond trade and security into assessments of domestic regulation affecting American firms, labor and immigration policies, the substance of intra-ASEAN sectoral arrangements, and engagement with alternative groupings such as BRICS. Bilateral relationships were evaluated holistically, with market access, regulatory decisions, and foreign-policy positioning implicitly linked. The central lesson from 2025 is that U.S. engagement with ASEAN now prioritizes leverage and discretion over institutional leadership, setting the context in which economic pressure is applied.

### Tariffs and Economic Leverage

Within this strategic context, tariffs have become the United States' most direct instrument of economic leverage over ASEAN<sup>20</sup>. For 2026, the risk of broad-based or sector-specific tariffs is likely to no longer be treated as a contingent shock but as a standing policy tool that can be applied selectively. Persistent trade surpluses—particularly in Vietnam, and to a lesser extent Malaysia and Thailand—have increased exposure, turning export success into a political vulnerability as trade balances are increasingly framed as evidence of unfairness rather than integration.



Tariffs are reinforced by intensified trade scrutiny. U.S. authorities have expanded investigations into transshipment, rules-of-origin compliance, and the use of Chinese inputs in ASEAN-manufactured exports, particularly in strategic sectors such as electronics, electric vehicles, solar equipment, and steel<sup>21</sup>. Manufacturing relocation from China into Southeast Asia has therefore not insulated ASEAN economies from pressure; instead, it has increased the likelihood of targeted measures. In effect, supply-chain diversification has produced a “success penalty,” where export growth raises, rather than reduces, the risk of U.S. action.

Local and allied content requirements further condition market access. Thresholds of 50–60 percent local or allied content increasingly function as de facto alignment filters, privileging supply chains compatible with U.S. industrial and security priorities<sup>22</sup>. While more industrialized ASEAN economies may partially adapt, these requirements raise costs, narrow sourcing options, and heighten compliance risks, while less developed members face exclusion from higher-value segments of U.S.-oriented production networks. Legal challenges in Washington may constrain specific tariff actions, but they do little to reduce overall uncertainty, reinforcing tariffs and scrutiny as flexible instruments of leverage rather than predictable trade rules<sup>23</sup>.

## Implications for ASEAN

For ASEAN, the cumulative effect of the U.S. approach in 2026 is likely a narrowing—but not elimination—of strategic room for maneuver. Southeast Asian states are not simply reacting to U.S. pressure, nor are they making binary alignment choices. Instead, they are exercising constrained agency, adjusting policies and engagement tactics to manage exposure while preserving flexibility. This has involved carefully sequencing commitments, seeking exemptions or waivers where possible, and avoiding moves that could trigger heightened scrutiny, particularly in sensitive trade and industrial sectors.



A notable adjustment has been the diversification of engagement channels within the United States. ASEAN governments have increasingly invested in outreach beyond the White House, engaging U.S. agencies, Congress, state governments, and non-government stakeholders to navigate a fragmented policymaking environment. While this has enabled tactical gains and issue-specific accommodations, it has also raised transaction costs and underscored the asymmetry of the relationship. Access to the U.S. market and policy space is increasingly negotiated across multiple fronts, favoring actors with greater administrative capacity and political capital.

At the regional level, these dynamics risk weakening ASEAN centrality. The U.S. preference for bilateral engagement, combined with differentiated exposure to tariffs and local content requirements, places uneven pressures on member states and complicates collective positioning. More industrialized economies are better able to adapt, while others face rising risks of marginalization. For ASEAN as a whole, the challenge in 2026 will be to balance pragmatic adaptation to U.S. leverage with efforts to sustain regional cohesion, diversify external partnerships, and prevent conditional engagement from translating into long-term strategic dependence.



# China



## Planning Cycles, Trade Deepening, and Security Friction

### China's Strategic Approach to ASEAN

In contrast to the volatility and policy reversals that increasingly define U.S. engagement, China's approach toward ASEAN in 2026 is likely to be characterized by continuity, predictability, and long-horizon planning. Beijing's regional strategy is anchored in formal planning cycles, institutionalized economic agreements, and sustained diplomatic engagement, allowing ASEAN governments to anticipate policy direction even when frictions persist<sup>24</sup>. This consistency has reinforced China's position as a relatively more reliable economic partner at a time when U.S. commitments are widely perceived as contingent on domestic political cycles.

China emphasizes economic embedding rather than discretionary leverage. Through trade agreements, investment, infrastructure finance, and regulatory coordination, Beijing has deepened ASEAN's integration into China-centric production and consumption networks without demanding explicit political alignment<sup>25</sup>. Engagement is framed in support of ASEAN centrality while influence is exercised through dense bilateral channels. For ASEAN, this model offers planning certainty and material benefits, even as it gradually increases structural dependence and constrains long-term strategic flexibility.

### China's 15<sup>th</sup> Five-Year Plan (2026-2030)

China's 15<sup>th</sup> Five-Year Plan (FYP), commencing in 2026, could signal a new phase of strategic adaptation in response to slower growth, technological containment, and external uncertainty. The Plan places clear emphasis on building a "modern industrial system" anchored in technological self-reliance, large-scale application of frontier technologies, and economic security. Priority sectors include advanced manufacturing, semiconductors, artificial intelligence, new materials, biomanufacturing, and green technologies, with a strong focus on translating innovation into scalable production rather than headline breakthroughs<sup>26</sup>.



At the same time, the Plan reinforces high-quality growth objectives by strengthening domestic demand, upgrading traditional industries, and embedding decarbonization and energy security into industrial policy<sup>27</sup>.

For ASEAN, these priorities will shape both demand patterns and investment flows. China's push for industrial upgrading and green manufacturing will sustain demand for intermediate goods, components, and low-carbon inputs produced in Southeast Asia, particularly in electronics, machinery, and clean-energy supply chains<sup>28</sup>. The emphasis on resilience and "trusted" production networks is also likely to accelerate outward Chinese investment into neighboring economies that can serve as complementary manufacturing bases and supply-chain stabilizers. ASEAN economies with established industrial capacity and infrastructure are best positioned to benefit from this dynamic, while others may struggle to attract higher-value integration.

At the same time, the FYP deepens structural asymmetries. As China reduces reliance on foreign technology while consolidating control over standards, platforms, and capital, ASEAN's role risks becoming increasingly functional rather than autonomous. Greater exposure to China-centric demand cycles, investment decisions, and regulatory norms may limit diversification options over time, even as short-term economic gains accrue. The 15<sup>th</sup> FYP thus reinforces a central trade-off for ASEAN in 2026: closer integration with a stable and predictable economic partner, alongside rising long-term dependence shaped by China's domestic strategic priorities<sup>29</sup>.

## **Deepening Economic Integration: ACFTA 3.0**

The implementation of the ASEAN–China Free Trade Area 3.0 (ACFTA 3.0) reflects a strategic choice by ASEAN governments to manage, rather than resist, an already deep level of economic integration with China. While concerns over the influx of Chinese goods and competitive pressure on domestic industries are widespread across Southeast Asia, ASEAN policymakers judged that disengagement or delay would not meaningfully reduce import penetration. Chinese intermediate goods, capital equipment, digital platforms, and logistics networks are already embedded across ASEAN economies. In this context, ACFTA 3.0 was seen as a way to bring an existing reality into a rules-based framework, giving ASEAN at least some influence over the evolving terms of integration.

ACFTA 3.0 marks a qualitative shift from tariff liberalization toward rule-making in areas such as digital trade, e-commerce facilitation, and green and low-carbon supply chains. These provisions align closely with China's 15<sup>th</sup> Five-Year Plan and open channels for ASEAN firms to access growth areas prioritized by Beijing, including services, agriculture, and low-carbon manufacturing inputs<sup>30</sup>. For export-oriented ASEAN economies facing rising uncertainty in U.S. and EU markets—due to tariffs, local content rules, and regulatory barriers such as CBAM and EUDR—securing predictable access to Chinese demand was viewed as an important hedge, even as import competition intensified at home.

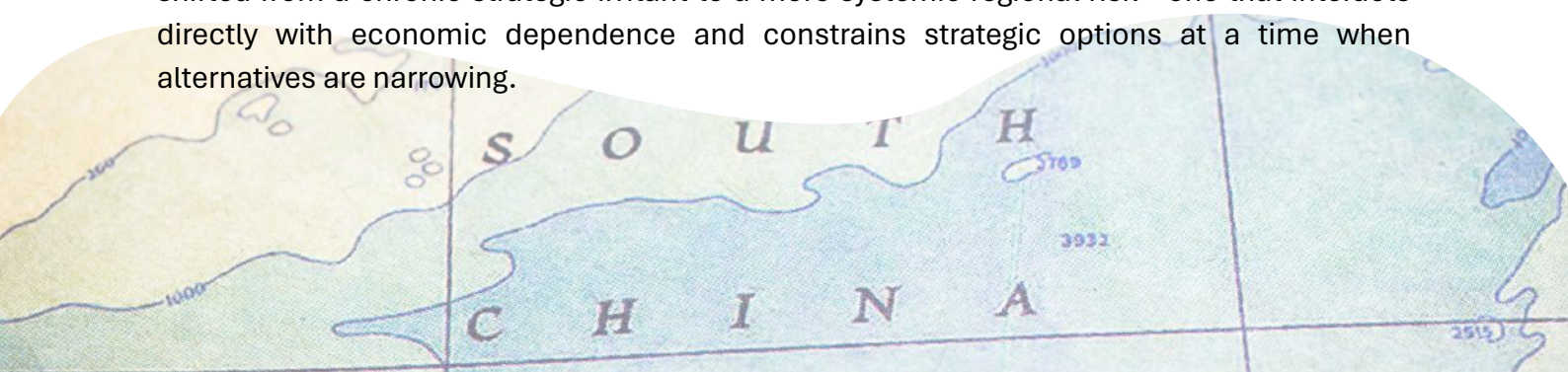
At the same time, ASEAN governments were conscious of the risks. Deeper reliance on Chinese platforms, standards, and financing mechanisms increases the likelihood of regulatory and technological lock-in, particularly in emerging digital and green sectors<sup>31</sup>. ACFTA 3.0 therefore represents a lowest-common-denominator outcome: it preserves ASEAN unity and secures concessions at the regional level, while shifting the burden of adjustment—through safeguards, industrial policy, and SME support—to national governments. The agreement underscores a broader ASEAN strategy in 2026: absorbing pressure through institutionalization rather than confrontation, even as domestic adjustment costs rise and long-term dependence risks deepen.

## South China Sea Escalation Risks

Maritime tensions in the South China Sea are not new, but the strategic context in 2026 has shifted in ways that raise their significance for ASEAN. What distinguishes the current period is the much tighter coupling between security risk and economic integration. As China deepens long-term economic embedding through its 15<sup>th</sup> Five-Year Plan and ACFTA 3.0, grey-zone maritime pressure no longer sits alongside economic engagement as a parallel track—it increasingly coexists within it<sup>32</sup>. This integration–coercion paradox raises the economic costs of disruption and narrows ASEAN’s margin for response compared with earlier phases of tension.

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ASEAN’s collective capacity to manage these risks has weakened relative to previous periods. Greater economic reliance on China, wider divergence in member states’ exposure and threat perceptions, and fewer external actors willing to underwrite ASEAN cohesion have reduced the bloc’s bargaining leverage<sup>33</sup>. In this environment, China enters 2026 with greater confidence and clearer long-term priorities, increasing the likelihood that maritime pressure is sustained and normalized rather than episodic. For ASEAN, the South China Sea has thus shifted from a chronic strategic irritant to a more systemic regional risk—one that interacts directly with economic dependence and constrains strategic options at a time when alternatives are narrowing.







# European Union

## Regulation-Driven Engagement

### **The Brussels Effect and regulation-driven engagement**

The European Union's engagement with ASEAN in 2026 is increasingly defined by the Brussels Effect: the EU's ability to shape global production, supply chains, and digital practices through the extraterritorial reach of its regulatory frameworks<sup>34</sup>. Rather than relying on tariffs, discretionary trade defense, or development assistance, the EU exerts influence by setting rules that firms must follow in order to access its market. Once adopted, these rules diffuse outward through global value chains, effectively exporting European standards without formal negotiation.

In this context, instruments such as the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR) function less as trade barriers than as mechanisms for regulatory alignment. They embed climate, sustainability, and traceability requirements directly into production and certification processes well before goods reach the EU border, reshaping how and where value is created across ASEAN economies.

CBAM enters its full implementation phase in 2026, requiring importers to purchase CBAM certificates to cover the embedded carbon emissions of covered products, including steel, cement, aluminum, fertilizers, and electricity-related goods<sup>35</sup>. For ASEAN exporters in carbon-intensive sectors, this effectively prices carbon at the EU border and raises the cost of market access unless domestic production processes decarbonize or align with EU monitoring, reporting, and verification standards. Although CBAM is framed as non-discriminatory, its impact is uneven, favoring producers with advanced emissions accounting and regulatory capacity.

The EUDR introduces a parallel compliance challenge for agricultural and resource-based exports. Under the current timeline, large and medium-sized companies must demonstrate deforestation-free supply chains by 30 December 2026, while small and micro enterprises face compliance deadlines by 30 June 2027<sup>36</sup>.



The regulation affects commodities central to many ASEAN economies, including palm oil, rubber, coffee, cocoa, timber, and derived products. For ASEAN producers, particularly SMEs embedded in fragmented supply chains, the costs of traceability, geolocation, and due diligence risk becoming prohibitive<sup>37</sup>. As a result, access to the EU market in 2026 increasingly depends not on tariffs or quotas, but on domestic regulatory upgrading and supply-chain consolidation—posing significant adjustment challenges across the region.

The Brussels Effect extends beyond physical goods into the digital economy. The Digital Markets Act (DMA), Digital Services Act (DSA), and forthcoming AI Act increasingly shape platform governance, data practices, and AI deployment far beyond Europe's borders. While formally applicable only within the EU, these regimes influence global product design, compliance systems, and contractual norms, as firms standardize operations to avoid regulatory fragmentation. For ASEAN economies, this means that participation in EU-linked digital markets increasingly requires upstream regulatory alignment, even in the absence of domestic mandates<sup>38</sup>.

## Trade agreements and bilateral momentum

Recent developments in Indonesia and Thailand illustrate a broader shift in the European Union's trade strategy toward ASEAN: away from ambitious region-to-region agreements and toward selective bilateral pathways with regulatory-ready partners. This approach reflects the EU's assessment that divergent regulatory capacity across ASEAN, combined with its own expanding sustainability agenda, makes comprehensive bloc-to-bloc agreements difficult to conclude in the near term.

Against this backdrop, the Indonesia–EU Comprehensive Economic Partnership Agreement (CEPA) is widely expected to be signed in early 2026, following progress on long-standing disputes over commodities, sustainability provisions, and market access<sup>39</sup>. If concluded, the agreement would signal that deepened trade relations with the EU remain attainable for ASEAN economies willing and able to align with EU regulatory and environmental standards. Indonesia's case demonstrates how bilateral agreements can be used to reconcile EU sustainability priorities with strategic engagement in Southeast Asia's largest market<sup>40</sup>.



Thailand's trajectory reinforces this pattern. EU–Thailand FTA negotiations, formally resumed after a prolonged pause, have shown steady progress, reflecting renewed political momentum on both sides. While the negotiations remain complex, their revival underscores the EU's preference for working bilaterally with key ASEAN economies rather than pursuing a single ASEAN-wide framework. Together, Indonesia and Thailand function less as exceptions than as test cases, signaling how the EU is likely to engage ASEAN economically in 2026: deepening ties where regulatory convergence is feasible, while relying on non-tariff measures and unilateral standards elsewhere. For ASEAN, this approach preserves access to the EU's high-value market for some members, but risks further fragmenting the bloc's collective trade posture.

## **Strategic tension**

The EU presents its engagement with ASEAN as values-driven, framing sustainability, climate action, and responsible production as non-negotiable elements of economic partnership. While many ASEAN governments share these objectives, the way EU standards are externalized increasingly generates political friction. The pace and breadth of EU regulation risk being perceived less as cooperation and more as unilateral rule-setting, particularly when compliance expectations outstrip local regulatory capacity or domestic political feasibility.

This tension is most visible in how EU rules reshape production incentives across ASEAN economies. Compliance increasingly favors larger firms and more advanced producers, while smaller exporters and agricultural producers face rising barriers to participation. Over time, this risks accelerating consolidation and exclusion within ASEAN markets, creating domestic distributional effects that extend beyond trade policy into rural livelihoods, SME competitiveness, and political economy concerns. These outcomes complicate ASEAN governments' ability to publicly sustain support for deeper regulatory alignment with the EU.

For ASEAN, the core trade-off in 2026 is therefore strategic rather than technical. Access to the EU's premium market offers higher value and reputational gains, but at the cost of tighter regulatory discipline and reduced policy space. Unlike U.S. tariffs or China-led integration, EU influence is predictable but difficult to negotiate around, placing ASEAN governments in a position where adaptation is often the only viable option. Managing this tension will require balancing long-term upgrading objectives with short-term economic and political constraints, to ensure that values-based engagement does not translate into structural exclusion.

# Japan

## Economic Recovery and Manufacturing Re-Engagement



### **Japan's Strategic Approach to ASEAN**

Japan's approach toward ASEAN in 2026 is characterized by predictability, institutional continuity, and a deliberate avoidance of coercive leverage. Unlike the United States' increasingly discretionary and domestically contingent engagement, and China's scale-driven economic embedding, Japan positions itself as a stabilizing partner that works through established multilateral frameworks and long-term bilateral partnerships<sup>41</sup>. Tokyo consistently affirms ASEAN centrality, supports rules-based regional order, and engages incrementally rather than episodically, giving Southeast Asian governments a high degree of confidence in policy continuity.

Japan's engagement is shaped by risk management rather than strategic competition. While tensions with China form part of the regional backdrop, Japan has avoided framing ASEAN cooperation in confrontational terms or pressing alignment choices. Instead, Tokyo emphasizes economic resilience, connectivity, and capacity-building, reinforcing ASEAN's preference for diversified partnerships and strategic autonomy<sup>42</sup>. This approach allows Japan to deepen influence without triggering resistance, making it a politically low-risk partner for ASEAN states seeking stability amid intensifying major-power competition.

### **"Sanaenomics" and the Revival of Outward Investment**

"Sanaenomics" marks a substantive evolution of Japan's economic strategy rather than a simple cyclical recovery. Unlike Abenomics, which was primarily designed to escape deflation through aggressive monetary easing and demand stimulus, Sanaenomics reflects a shift toward economic security, strategic resilience, and state-supported investment in priority sectors<sup>43</sup>. The policy framework emphasizes expansionary fiscal measures, targeted industrial support, and closer alignment between economic policy and national security objectives, particularly in areas such as semiconductors, advanced manufacturing, energy transition technologies, and defense-related supply chains<sup>44</sup>.



This shift has direct implications for Japan's outward investment behavior. Rather than prioritizing cost minimization or short-term returns, Japanese firms—supported by government policy—are increasingly focused on supply-chain reliability, technological control, and long-term strategic positioning. Southeast Asia features prominently in this recalibration. ASEAN economies offer political stability, manufacturing depth, and geographic proximity that align with Japan's objectives under Sanaenomics to de-risk production while maintaining efficiency. As a result, outward investment is likely to revive in 2026 not as a surge driven by macro recovery alone, but as a structurally anchored redeployment of capital.

Thailand, Vietnam, Indonesia, and Malaysia are well positioned to benefit, particularly in automotive and electric-vehicle components, precision manufacturing, machinery, and logistics and supply-chain services. Japanese investment under Sanaenomics is likely to be gradual and capacity-building in nature, embedding supplier development, skills transfer, and quality control rather than rapid scale-up. For ASEAN, this distinguishes Japan's re-engagement from both U.S. conditional investment and China's scale-driven expansion: it offers fewer headline inflows, but greater durability, industrial upgrading, and alignment with longer-term development objectives.

## **Strategic Implications for ASEAN**

For ASEAN, Japan's role in 2026 lies less in altering the regional balance of power than in preserving strategic space amid intensifying competition. Japan provides ASEAN states with a dependable external partner that supports diversification without imposing alignment costs. This expands ASEAN's ability to manage exposure to U.S. policy volatility and China-centric dependence, particularly for middle-income members seeking alternatives that do not carry heightened political or regulatory risk.

Economically, Japanese investment under Sanaenomics strengthens ASEAN's long-term industrial foundations rather than delivering rapid headline inflows. The emphasis on supply-chain resilience, skills development, and embedded supplier networks supports incremental upgrading in manufacturing, automotive, and logistics ecosystems. For ASEAN, this enhances resilience at a time when global supply chains are being reshaped by strategic competition and regulatory fragmentation, even if Japanese capital does not match the scale or speed of Chinese investment.

At the regional level, Japan's continued reliance on ASEAN-led frameworks reinforces ASEAN centrality at a moment when bilateralism is eroding it elsewhere. While Japan cannot offset all external pressures, its engagement broadens ASEAN's strategic options and reduces the risk that adaptation to major-power competition becomes synonymous with dependence<sup>45</sup>. In this sense, Japan's strategic value for ASEAN in 2026 is not transformational, but stabilizing—and that distinction matters.

# South Korea

## Trade Renewal and Strategic Coordination



### Trade Renewal and Production Resilience

South Korea's engagement with ASEAN in 2026 is anchored in the planned renegotiation of the ASEAN–Korea Free Trade Area (AKFTA), expected to begin in early 2026<sup>46</sup>. Unlike earlier phases of trade liberalization, the renegotiation reflects Seoul's growing focus on production resilience and supply-chain security amid global fragmentation. The objective is less about expanding headline market access and more about securing reliable production bases and inputs for Korea's export-oriented industries.

Key sectors include electronics, batteries, and advanced manufacturing inputs, where Korean firms face rising concentration risks and geopolitical exposure elsewhere. ASEAN economies—particularly Vietnam, Thailand, Malaysia, and Indonesia—are well positioned to serve as complementary manufacturing hubs and upstream suppliers<sup>48</sup>. For ASEAN, the AKFTA update offers opportunities to deepen integration into Korean value chains, especially in higher-value manufacturing segments, though benefits are likely to accrue unevenly to economies with stronger industrial ecosystems and regulatory capacity.

### Strategic Coordination Beyond Trade and Implications for ASEAN

Beyond trade, the ASEAN–Republic of Korea Comprehensive Strategic Partnership and its new Plan of Action (2026–2030) expand cooperation into areas such as digital transformation, defense-adjacent technology, and human capital development. This agenda emphasizes functional cooperation and capacity-building rather than alliance politics, reinforcing Korea's positioning as a technology partner rather than a geopolitical patron. Cooperation in digital skills, industrial upgrading, and applied technology aligns closely with ASEAN's development priorities without imposing heavy political or regulatory conditions<sup>49</sup>.



Source: The ASEAN Secretariat

For ASEAN, South Korea occupies a useful middle space in the regional landscape. Korean engagement offers diversification in technology and manufacturing partnerships without the volatility associated with U.S. trade policy or the scale-driven dependence risks of China-centric integration. At the same time, Korea's economic footprint remains smaller than that of China, the EU, or Japan, limiting its capacity to act as a standalone anchor. In 2026, South Korea's strategic value for ASEAN lies not in transformation, but in complementarity—strengthening resilience and optionality within ASEAN's broader balancing strategy<sup>50</sup>.



# India



## Strategic Expansion without Deep Economic Integration

### **Strategic Partnership with Bounded Economic Ambition**

India's engagement with ASEAN in 2026 is framed by the ASEAN–India Comprehensive Strategic Partnership and its new Plan of Action (2026–2030), which prioritizes connectivity, digital cooperation, and people-to-people ties<sup>51</sup>. These initiatives reflect India's desire to expand its regional footprint and deepen functional cooperation without committing to far-reaching trade liberalization. While digital public infrastructure, fintech cooperation, and connectivity corridors feature prominently, market access and tariff reduction remain secondary, consistent with India's cautious and protectionist trade posture<sup>52</sup>.

This restraint is deliberate. India's domestic political economy remains sensitive to import competition and trade deficits, limiting appetite for deeper economic integration with ASEAN<sup>53</sup>. As a result, India's economic engagement is incremental and selective, focused on cooperation frameworks rather than binding trade commitments. For ASEAN, this means India offers engagement breadth but not depth: opportunities for collaboration in specific sectors and initiatives, but no near-term shift toward India as a major trade or investment anchor<sup>54</sup>.

### **Maritime Cooperation and Strategic Implications for ASEAN**

Where India's role is more pronounced is in the maritime and security domain. India's expanding naval presence in the Indo-Pacific and its emphasis on freedom of navigation align with the concerns of several ASEAN states, particularly those uneasy about China's maritime behavior<sup>55</sup>. Cooperation has focused on naval exercises, capacity-building, information sharing, and defense dialogue—activities that enhance strategic signaling without formal alliances or basing arrangements.



Source: The ASEAN Secretariat

For ASEAN, India thus functions primarily as a strategic hedge rather than an economic counterweight. Its engagement broadens ASEAN's security partnerships and reinforces a multipolar regional order, but it does not fundamentally reshape economic dependencies or supply-chain structures<sup>56</sup>. In 2026, India's value to ASEAN lies in providing additional strategic depth and optionality, not in replacing China, the EU, Japan, or South Korea as pillars of economic engagement. This makes India a useful—but bounded—partner in ASEAN's broader balancing strategy.

# The “Global South” and BRICS

## Diversification or Re-Alignment?



### Expanding Diplomatic and Financial Optionality

Following Indonesia’s accession to the BRICS group in 2025—alongside Saudi Arabia, Iran, the United Arab Emirates, and Egypt—Malaysia and Thailand’s active exploration of closer engagement with BRICS reflects a broader ASEAN response to global fragmentation rather than a decisive geopolitical shift<sup>57</sup>. Interest in BRICS membership or partnership is driven by pragmatic considerations: expanding diplomatic space, signaling autonomy in foreign policy, and accessing alternative sources of finance at a time when engagement with traditional partners is increasingly conditioned by tariffs, regulation, or geopolitical alignment<sup>58</sup>. For middle-income ASEAN economies, BRICS engagement offers symbolic leverage and optionality rather than a wholesale reorientation.

Potential benefits are concentrated in financial and political signaling rather than trade integration. Access to institutions such as the New Development Bank, the possibility of local-currency financing, and participation in Global South-led forums provide ASEAN states with additional tools to hedge against external pressure<sup>59</sup>. In this sense, BRICS engagement complements rather than replaces ties with the United States, the EU, Japan, or China. It allows ASEAN governments to demonstrate diplomatic flexibility and resist binary framing in an increasingly polarized global environment<sup>60</sup>.

### Strategic Interpretation, Risks, and Limits

At the strategic level, ASEAN engagement with BRICS is best understood as diversification, not re-alignment. ASEAN states are not seeking ideological alignment with an alternative bloc, nor are they abandoning existing partnerships. Instead, BRICS functions as a supplementary platform that reinforces ASEAN’s long-standing preference for multi-vector foreign policy and strategic autonomy<sup>61</sup>. This logic mirrors ASEAN’s broader approach to major power competition: widening options to reduce vulnerability rather than shifting allegiance.



However, the limits of BRICS are significant. The grouping remains institutionally weak, internally fragmented, and economically heterogeneous, constraining its ability to deliver coordinated outcomes or large-scale economic transformation. Trade flows within BRICS remain modest relative to ASEAN's engagement with traditional partners, and financial mechanisms are unlikely to substitute meaningfully for established sources of capital. For ASEAN, the risk lies less in over-commitment than in over-expectation. In 2026, BRICS engagement is likely to yield political signaling and incremental financial benefits, but its impact will remain symbolic rather than transformative unless institutional capacity and cohesion deepen substantially.

# Gulf Cooperation Council

## Capital, Energy, and Implementation Phase



### From Summit Diplomacy to Execution

Engagement between ASEAN and the Gulf Cooperation Council (GCC) enters a more operational phase in 2026, following the political signaling achieved at the 2025 ASEAN–GCC Summit<sup>62</sup>. The emphasis is shifting from dialogue and intent toward execution, with cooperation increasingly framed around concrete projects rather than broad strategic declarations. Priority areas include energy security, infrastructure finance, and digital connectivity—sectors where Gulf states possess capital, project experience, and strategic motivation to deploy resources abroad.

This shift reflects complementary interests. For GCC economies, overseas investment supports diversification away from hydrocarbons, monetization of sovereign wealth, and the internationalization of national champions<sup>63</sup>. For ASEAN, Gulf engagement offers access to capital at a time when financing conditions are tightening globally and regulatory or geopolitical constraints complicate engagement with other major partners. Unlike the EU’s regulatory-heavy approach or U.S. conditionality, GCC engagement is pragmatic and commercially oriented, centered on project viability and speed of execution rather than policy alignment<sup>64</sup>.

### Capital Flows and Strategic Implications for ASEAN

Sovereign wealth funds from Saudi Arabia and the United Arab Emirates are expected to play a central role in this next phase, with expanded investments in energy transition infrastructure, logistics hubs, data centers, and digital platforms across Southeast Asia. These investments align with ASEAN’s infrastructure and digitalization needs, while offering Gulf investors exposure to high-growth markets and long-term returns. The scale and velocity of GCC capital deployment distinguish it from other external partners, particularly in capital-intensive sectors where rapid financing decisions are critical<sup>65</sup>.

For ASEAN, GCC engagement presents clear opportunities alongside structural risks. The availability of large-scale capital with limited regulatory conditionality enhances policy flexibility and accelerates project delivery. However, reliance on sovereign wealth financing also raises questions around governance standards, transparency, and long-term debt sustainability, particularly for infrastructure projects with public-sector involvement. In 2026, the strategic challenge for ASEAN is not access to Gulf capital, but the capacity to channel it effectively—ensuring that speed and scale do not come at the expense of accountability, fiscal resilience, or long-term development objectives.



# Cross-Cutting Insights: ASEAN's Agency under Constraint

ASEAN in 2026 is no longer operating as a neutral trade hub sitting comfortably between competing powers. It has become a contested economic and strategic space where external engagement increasingly arrives with embedded conditions that shape domestic policy choices and development pathways. Access to major markets and capital is no longer frictionless; it is mediated through tariffs, regulatory standards, supply-chain positioning, and selective security expectations.

These pressures take different forms. The United States applies leverage through tariffs and discretionary trade policy; the European Union projects influence through standards and sustainability regulation; China offers scale and stability alongside deepening dependence risks; and partners such as Japan and India engage through selective security cooperation and industrial or technological alignment. None of these pressures is dominant on its own, but together they narrow ASEAN's room for maneuver and raise the cost of miscalculation.

In this environment, the central question for ASEAN is no longer who to balance against whom, but how to preserve agency while navigating overlapping and often incompatible external demands. The challenge in 2026 is one of strategic management rather than equilibrium: sequencing commitments, diversifying partnerships, and absorbing pressure without surrendering policy autonomy. ASEAN's success will depend less on maintaining neutrality in principle than on sustaining flexibility in practice.



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