H2 2026 Political and Policy Forecast

Vriens & Partners

NAVIGATING THE POLITICS OF BUSINESS

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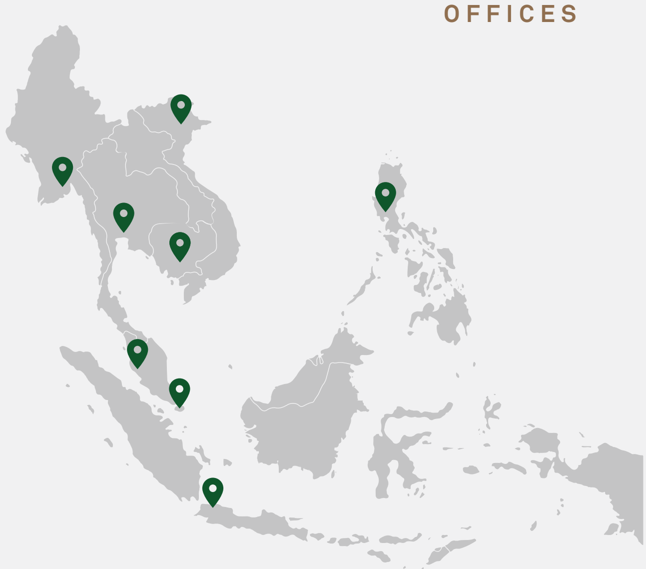

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Executive Summary

Vietnam

- Only Vietnam's ambitions are outstripping its growth. It had a strong first half politically and economically, weathering both external crisis and the (planned) introduction of new Prime Minister & ministers.

- This new era is enabled by a consolidated Party leadership under To Lam that has a singular focus on rapid growth.

- Driving the Party's agenda, Vietnam's new government has had three months to settle in and is showing improved capabilities. The new Prime Minister is proving a deft manager.

- Economically, the new Government continues to aggressively push rapid implementation of infrastructure projects. At the same time, government support to major private local conglomerates continues at pace.

- Since securing the Presidency, To Lam prioritized Asian leader engagements; he is likely to look further afield in the second half.

- The leadership clearly vies its 2027 APEC Chairmanship as a coming out party for Vietnam, presenting the country as a globally attractive destination for financial investment, talent, and innovation. 10 years since it last hosted APEC, Vietnam is preparing for its next phase.

Singapore

- Singapore's political landscape in H2 2026 will be defined by continuity, with PM Lawrence Wong's second year likely to look similar to his first.

- PM Wong has built his leadership around moderation and consultation. The more difficult question is whether his governing style will remain an advantage in a volatile world where stability is prized, or whether it will constrain his ability to make bold choices when they are needed.

- Both politically and economically, Singapore's strategy is to turn reliability into a source of competitive advantage. On competitiveness, AI is positioned as the organizing principle of economic policy.

- Singapore's foreign policy in H2 2026 will be shaped by preparations for its 2027 ASEAN Chairmanship and the increasingly difficult task of preserving strategic autonomy amid intensifying U.S.-China rivalry.

Indonesia

- H1 2026 revealed a dual-track economy: resilient real-sector growth on one side, and persistent capital-market volatility on the other.

- Restoring market confidence will be a key priority for economic ministers in H2, particularly as Indonesia seeks to shield its economy from global headwinds.

- The administration is likely to maintain its populist and centralized policymaking approach, while carefully managing public dissatisfaction as economic pressures build. However, there are limited signs of deeper policy reforms to address underlying grievances.

- The Prabowo administration's most politically-salient priorities will continue to be welfare programs aimed at broad cross-sections of the electorate: the flagship Free Meals Program, Re-White Cooperates (essential goods for rural communities), and Free Health Checkups.

Thailand

- The emphatic February 2026 win by the Bhumjaithai party gives Thailand something the country has lacked since 2023 – continuity at the top of elected government. Bhumjaithai's government brings new certainty for investors.

- One to watch is Bangkok's recently re-elected Governor Chadchart Sittipunt. Although he does not yet have a political apparatus that extends beyond Bangkok, he has shown the rare ability to build a transcendent aura in an age defined by machine politicians.

- The new Thai government is increasingly interested in securing a long-term peace with Cambodia, though the potential for flare-ups remain.

- The Thai policymaking establishment is tiring of the vicissitudes of American policy in the region, and is noticeably favouring engagement with the European Union.

- Thailand's much discussed economic malaise is showing signs of improving, and policymakers are deeply attuned to business needs and open to working toward solutions.

Malaysia

- Malaysia's H2 2026 outlook is stable but increasingly politicized as the country enters elections season.

- Fundamentally, the key risk in Malaysia is a more contested political environment where fiscal reform, cost-of-living management, and political positioning inform decisions on key policies and regulations.

- This political pressure will matter most where it intersects with attempts to manage both cost-of-living pressures and fiscal consolidation.

- As such, companies that will gain are ones that can demonstrate spillovers in technology transfer, local talent development, and SME participation, thus standing apart from investments which are perceived as primarily driven by tax or incentiv.

- Businesses should consider a more sensitive political filter around jobs, prices, local participation, and social licence in scrutinised sectors such as data centres.

Philippines

- The Philippines' outlook for 2026 is defined by strong ambition tempered by domestic headwinds.

- The Philippines' geopolitical posture will continue to be defined by closer economic alignment with the United States and its allies, potentially at the cost of greater friction with China.

- As ASEAN Chair, the Philippines has focused on economic integration and near-term stability, with limited traction on politically sensitive issues—a trajectory that is likely to continue.

- Domestically, the political landscape will remain shaped by Marcos-Duterte polarization and the political economy of pre-election infrastructure spending, as preparations for 2028 begin.

- Economically, the Philippines is entering a period of managed deceleration, as external shocks and fiscal pressures constrain growth and force a rethink of revenue strategy.

Cambodia

- Cambodia is working to jumpstart its disappointing economic growth, as it tries to encourage progress in light manufacturing and turn around its persistent weakness in tourism. Still, growth may be less than 5% in 2026.

- Prime Minister Hun Manet has pledged to downsize the size of government, though it remains to be seen if promised reform materializes.

- Cambodia is trying to show the world it is addressing its scam center problem, though the program's effectiveness is an open question. Still, both China and the U.S. are pushing for continued clampdown.

- Cambodian policymakers are making deliberate overtures to the United States, as it seeks to course-correct after being seen as too close to China. Many dormant American G2G programs are restarting.

Myanmar

- Myanmar's government may have changed from army uniforms into civilian clothes in April, but the military mindset remains. Its focus continues to be on winning more territory from rebel groups.

- Despite Myanmar's ongoing conflict and challenging business environment, it is quietly becoming a market again for corporate expansion.
- Foreign currency remains a key problem for investors, though many businesses are finding ways to mitigate the challenge.
- Economic growth remains weak, with most projections placing Myanmar's 2026-27 GDP growth at around 2%.

Regional Policy Trends

Technology

Major questions of AI policy will remain central to Southeast Asian governments' thinking for H2 2026 and beyond. Their decisions in the next months and years, and the geopolitical and technological constraints on those decisions, will have a broad and directional impact on Southeast Asian economies as they take part in a global and generational transformation.

As a first-order dynamic, governments seek their own balance of sovereignty with speed of adoption and its promise of innovation-led productivity growth. Early AI policymaking is also uncovering a need to determine the degree to which national AI plans should encompass and direct adjacent digital policy frameworks, particularly those related to cross-border data flows and risk and harm.

We see distinct and familiar national instincts shaping policymakers' early thinking on AI policy: Singapore has rapidly published policy that positions AI as the organizing principle of its economic policy, champions a role immediately downstream of U.S. and Chinese frontier models, and seeks opportunity in developing governance and standards in industry deployment. In contrast, Vietnamese policymakers are more carefully balancing state security, digital sovereignty, and drawing from the EU AI Act in its use of risk-based classifications. In Malaysia and Indonesia, differing views within and between key line ministries on the cost/benefit of sovereign models can complicate policymaking signals. Across the region, policymakers are searching for proof points on AI's actual capabilities and economic impact, and grappling with copyright concerns familiar to debates in the EU, U.S., and Australia.

Governments are acutely aware of the safety and security of their citizens online, driven by both rising online harm and scam issues. Scams, in particular, have become an inherently political issue in markets such as Singapore, where mounting financial losses are driving more interventionist government approaches that raise compliance and engagement expectations for the industry. Across the region, policymakers and law enforcement are turning to each other and the U.S. and China to develop the complex and high-trust cross-border collaboration required to develop effective solutions. Quicker and more politically-powerful responses — especially social media bans as pioneered by Australia — are increasingly on the menu. Stakeholders are also increasingly aware of AI's potential to accelerate both cyber threats and scams, especially by non-state actors.

Looking forward, we see governments only partially prepared for increasingly difficult choices. To the downside, domestic political pressures driven by economic dislocation may quickly influence the otherwise technocratic AI policy realm. Bifurcating U.S. and Chinese hardware and software stacks may threaten Southeast Asia's access to innovation ecosystems. Yet as U.S. and Chinese players push frontiers in parallel, our base case is that SEA will find opportunity to become increasingly critical to both.

Healthcare

Rapid-ageing and the growing burden of Non-Communicable Diseases (NCDs) is one of the most significant challenges facing Southeast Asia. While people are generally living longer, rising rates of chronic conditions such as cardiovascular disease, cancer and obesity threaten the survivability of ageing populations, driving healthcare expenditure upwards. This puts significant pressure on hospitals and healthcare workers, although there is presently some appetite amongst policymakers in shifting their energies from a reactive approach (treating illnesses) to prioritizing early detection, awareness and population health strategies.

Ensuring long-term healthcare sustainability for the public amid growing fiscal constraints and medicine access challenges are problems that continue to permeate across countries in the region. As governments continue to adopt broader healthcare, they do so by inserting more dominance and granularity over public procurements and pricing, and the development of value-based purchasing mechanisms in their respective countries, essentially creating a delicate balancing act between improving access and maintaining affordability. This in turn has led to growing interest in health technology assessment (HTA), reimbursement reforms, public-private partnerships, and alternative financing mechanisms, alongside greater use of biosimilars, generics, preventive healthcare, and outcomes-based care models. In some healthcare systems, there appears to be growing acceptance and adoption of more innovative drugs such as GLP-1 inhibitors, as evidenced in their recent inclusion as part of clinical practice guidelines to treat obesity.

Policymakers across the region are investing heavily in digital health infrastructure while addressing severe healthcare work shortages, as there is a prevailing view of digital technologies having the potential to expand healthcare access and improve efficiency without proportionately increasing manpower requirements. Consequently, governments now emphasize data governance standards and technology adoption within the sector, resulting in the continued live development of a series of overarching regulatory frameworks covering artificial intelligence (AI), cybersecurity, and data protection. Governments' approach to the advancement of these prioritized remain nuanced but deploy similar strategies; for example, integration and interoperability of digital health records across the health systems are currently being implemented in countries such as Singapore, Malaysia and Indonesia.

Energy

Across Southeast Asia, the energy sector is grappling with two fundamental issues: the impact of the Middle East crisis and rapidly expanding local power demand. While these issues present unique dynamics within each market—and each government is tackling them in its own ways—they are consistent across the region.

The US-Iran conflict has had both short- and long-term impacts on political and policy approaches to energy across Southeast Asia. For countries that import significant LNG (e.g. Thailand, Singapore) or rely on Middle East oil to fuel refining capacity (Vietnam, Philippines), the short-term price and supply uncertainty has been acute. Prices spiked in the early days of the conflict and have remained high, albeit cooled, while governments and refineries have scrambled to secure alternative supply. While a return to imports has calmed nerves, consumers and businesses across the region will continue to face higher prices throughout the second half of the year.

The longer-term impact is a rethinking of reliance on external suppliers for power generation and an emerging focus on energy security. Perhaps most visible in Vietnam, these sentiments are driving rethinking the current focus on LNG-to-power as a medium-term solution to power needs given vulnerability of supply to geopolitical shocks.

The other regional driver is increasing demand for power, reflecting both climate change impacts and the expansion of power-hungry investor sectors across the region. The sharp increase in advanced manufacturing and data center investment is driving up power demand for the commercial sector. Power demand growth will significantly outstrip economic growth across most Southeast Asian market and H2 will likely see this trend continue to accelerate given the focus on data centers (Malaysia, Thailand) and advanced manufacturing (Malaysia, Vietnam).

Fast-Moving Consumer Goods

High in Fat, Salt, and Sugar (HFSS)-related regulation continues to be the most direct FMCG policy pressure for H2 2026 and beyond. Governments are increasingly giving regulatory form to nutrient profiling models, front-of-pack labelling and marketing-to-children restrictions to address NCDs, child obesity and the development of healthier food environments. This is visible in the Philippines' recent adoption of its Nutrient Profile Model, Thailand's continued push for a restrictive M2K framework, as well as Indonesia and Malaysia's advancement of labelling frameworks modelled broadly on Singapore's Nutri-Grade rating system. For FMCG companies, these measures directly affect product classification, labelling, claims, marketing and reformulation strategy. The key challenge is that they are being developed through market-specific frameworks, increasing compliance complexity around the region.

Sustainability remains a regulatory priority, particularly around packaging waste, but it is competing with more immediate political and economic pressures, including energy security and domestic industrial interests. Governments continue to advance extended producer responsibility (EPR) and circular economy frameworks, but many regimes remain unclear on fee levels, compliance pathways, collection and recycling obligations, and the respective roles of government, producers, recyclers and producer responsibility organizations. Packaging waste regulation is clearly moving forward, but companies still lack reliable visibility on what compliance will cost, when obligations will crystallize, and how market level schemes will function.

A less mature but notable third theme is the gradual tightening of product governance. Several governments are reviewing more technical requirements relating to food safety, risk classification, traceability, halal, labelling and import controls. While many measures remain subject to revision, regulatory data readiness and internal compliance systems are likely to become a more important part of FMCG market access over time.

U.S. SEA Policy

November's midterm elections will be the major U.S. domestic political story in the second half of 2026. Historically, the opposition party has tended to make gains in the mid-terms. Yet given the small number of competitive seats, the winning party is likely to secure only a narrow majority, making significant legislative progress on the international security and economic issues most relevant to Southeast Asia unlikely. President Trump's preferred means of governing through executive orders and direct relationships with business and world leaders will remain the driver of U.S. engagement with the world.

Given this, the 2026 midterm elections are unlikely to materially alter the Trump administration's approach to tariffs. A Democratic gain in Congress would see increased scrutiny of presidential tariff authority but would be unlikely to meaningfully constrain the administration's efforts. Conversely, a strong Republican performance could be interpreted by the administration as electoral validation of its trade agenda. Either way, tariffs will remain a primary tool of the administration as it seeks to (re-)build its tariff wall.

The U.S. economic approach to Southeast Asia will continue to center on addressing trade imbalances. Important signposts for the direction of trade policy will be the renegotiation of USMCA as well as the outcome of several likely Trump-Xi meetings, where the Board of Trade, tariff levels, and export controls will be on the agenda.

Trade enforcement will increasingly serve as a principal tool of U.S. economic engagement in the region. The Trump administration's agenda of rectifying trade imbalances will be advanced by three primary initiatives: conclude trade agreements with Vietnam and Thailand which account for the two largest trade deficits in the region, implementation of existing Agreements on Reciprocal Trade (ART), and expanding Section 301 investigations and tariff actions, particularly as the Section 122 authorities expire on July 24. If governments in Southeast Asia are perceived to be slow-walking ART implementation, Washington will respond with growing pressure, including the threat of expanded 301 tariffs, stricter rules of origin enforcement, and the withdrawal of tariff exemptions or exclusions.

U.S. economic engagement in Southeast Asia will also be defined by a strategic effort to counter China's dominance in global supply chains, with critical minerals and technology emerging as the central pillars of this agenda. Although forceful efforts to "decouple" the U.S. and Chinese economies appear to be off the table, momentum generated by recent diplomatic initiatives will continue through the second half of 2026. These initiatives include the Critical Minerals Ministerial, bilateral critical minerals agreements, the Quad Critical Minerals Initiative Framework, and technology partnerships such as Pax Silica. The United States will seek to align Southeast Asian production networks and regulatory frameworks more closely with U.S. economic security priorities.

U.S. engagement in the region will deepen in H2 2026, led by a push to finalize ARTs, operationalize economic security frameworks related to critical minerals and

tech supply chains, and participation in the APEC and ASEAN Summits. The return of U.S. ambassadorial representation to several Southeast Asian countries and to the Association of Southeast Asian Nations (ASEAN) in Q2-2026 helps provide institutional leadership and capacity to drive Washington's efforts heading into the second half of 2026. This includes the recent nomination of Ambassadors for Cambodia and Indonesia and the confirmation of ambassadors to ASEAN, Vietnam and the Philippines. For U.S. businesses, stronger diplomatic representation is likely to translate into more active embassy-level commercial advocacy, even if outcomes are still largely dependent on domestic political dynamics and regulatory capacity in Southeast Asian markets, requiring complementary nuanced government affairs strategies.

Vietnam

Only Vietnam's ambitions are outstripping its growth. It had a strong first half politically and economically, weathering both external crisis and the (planned) introduction of new Prime Minister & ministers. With political stability and 8+% growth in the first months of the year Vietnam's leadership is broadly on track to meet their target and is going all out deliver in H2 2026. The drive and openness are broadly good for investors, though the entire business community continues to grapple with what Vietnam's 'new era' means for them.

This new era is enabled by a consolidated Party leadership under To Lam that has a singular focus on rapid growth. The second half of 2026 will see continued rapid top-down decision-making as the structural, policy, and procedural decisions needed for Vietnam's upward economic mobility are implemented. To Lam's consolidation of power concluded in early April when he was named President alongside his Party title of General Secretary. He becomes the first leader since Ho Chi Minh himself to be both head of state and head of the Party for a full term. The entire leadership structure is working overtime to prove it is worthy of that legacy.

Driving the Party's agenda, Vietnam's new government has had three months to settle in and is showing improved capabilities. The new Prime Minister is proving a deft manager, empowering his Deputies and Ministers to lead within their mandates and oversee rapid policy development. A more systematic government is good news for business, though the pace of regulatory change is proving challenging to keep track of, especially when not all the details are thought all the way through. These dynamics will continue through end-2026: the government has put as many as 70 pieces of legislation on the National Assembly's second half agenda.

Economically, the new Government continues to aggressively push rapid implementation of infrastructure projects. A newfound 'if you build it, they will come' approach to global investor interest is leading to new bridges in Hanoi, new urban and regional railroads, new ports, and new airports – many of which are targeted for completion within the next 12 months. At the same time, a revised FDI attraction strategy seeks to gradually phase out investment that uses Vietnam only as a final assembly point. For example, new sets of incentives will only be available to investors that contribute to improved skills and deeper domestic supply chain.

At the same time, government support to major private local conglomerates continues at pace, with the country's 'land bank' being leveraged to support their participation in logistics infrastructure and the Government's strategic priorities. These strategies are already revealing real winners of Vietnam's new era – and these companies see the sky as the limit over the next few years.

Since securing the Presidency, To Lam prioritized Asian leader engagements; he is likely to look further afield in the second half. In April and early May Vietnam welcomed the Korean President and the Japanese Prime Minister to Hanoi; he also visited Beijing, Delhi, Bangkok, Singapore, and Manila all between mid-April and early June. In these meetings, and as the first Vietnamese leader address to Singapore's Shangri La dialogue, he made a case for the rules-based order and sought to tighten relations with Vietnam's most important regional partners. The priority granted to these engagements is a reflection of superpower uncertainty, and investment from North Asia combined with Vietnam's comparatively under-developed trading relations with South Asia and ASEAN.

To Lam is likely to attend the UNGA in New York in Q3 and visit Europe either later in Q3 or Q4; a state visit to Washington, D.C. is also a possibility. The latter expend on the status of the US trade negotiations; perhaps the single largest near-term question mark for Vietnam. With US pressure rising, and rumors of a July deadline, ensuring Vietnam's largest export market remains open will be top of To Lam's to do list.

Finally, looking forward to 2027, Vietnam will host APEC at brand new facilities in the southern island of Phu Quoc. Preparations and massive infrastructure projects linked to the conference are underway. The leadership clearly view that moment as a coming out party for Vietnam, presenting the country as a globally attractive destination for financial investment, talent, and innovation. 10 years since it last hosted APEC, Vietnam is preparing for its next phase.

Singapore

Singapore's political landscape in H2 2026 will be defined by continuity, with PM Lawrence Wong's second year likely to look similar to his first. Faced with the presence of more senior leaders in his cabinet and an electorate that values political competition alongside stability, PM Wong appears to have concluded that credibility is best built through moderation and consultation. This is reflected in his preference for collective decision-making, his measured posture towards the opposition, and the "We-First" social compact of partnership and consultation. The absence of a Cabinet reshuffle or promotions during the traditional April/May window in 2026 illustrates his conservative instinct not to force change and to give his Cabinet more time to prove themselves before making longer-term leadership decisions, consistent with his previous reshuffles which were widely seen as incremental. The more difficult question is whether PM Wong's governing style will remain an advantage in a volatile world where stability is prized, or whether it will constrain his ability to make bold choices when they are needed.

Singapore's economic strategy in H2 2026 will focus on translating the Economic Strategy Review (ESR) from recommendations into concrete programs. On competitiveness, AI is positioned as the organizing principle of economic policy. Recognizing that it is unlikely to compete in frontier AI models or compute, Singapore instead aims to become the trusted hub where AI solutions are developed, tested and deployed across sectors such as advanced manufacturing, financial services, healthcare, logistics and the public sector. The semiconductor push is inseparable from this AI ambition, with global demand shifting towards AI-critical capabilities in advanced packaging, high-bandwidth memory and mature-node manufacturing. This is likely to translate into further targeted incentives aimed at anchoring the highest-value segments of the value chain.

However, the challenge now lies in translating strategy to execution. Enterprise AI adoption requires organizational redesign, data readiness and workforce transformation, while the institutional architecture behind initiatives such as the National AI Impact Programme, National AI Council and AI Missions remains under development. At the same time, Singapore's ability to secure semiconductor investments will depend on overcoming structural constraints around land, power availability and skilled talent, making energy and infrastructure integral to industrial policy. These implementation gaps create opportunities for companies with proven sectoral expertise to help shape Singapore's AI and semiconductor agenda.

Resilience is the ESR's second defining theme, reflecting Singapore's strategy of turning reliability into a source of competitive advantage in a world where businesses increasingly pay a premium for predictability. Singapore is strengthening energy and digital infrastructure as strategic national capabilities that underpin both economic competitiveness and national security. The proposed Digital Infrastructure Bill and refreshed Cybersecurity Act will move regulation towards broader operational resilience, reinforcing Singapore's ambition as a trusted digital infrastructure hub amid growing geopolitical and cyber risks.

On energy, Singapore's strategy reflects the realities of being a resource-constrained nation with limited renewable potential. It adopts a deliberate diversification strategy, combining LNG resilience through GasCo with regional power imports, hydrogen and potential small modular reactors to reduce long-term dependence on natural gas. Developing these pathways in parallel acknowledges that no single technology can deliver Singapore's energy transition quickly or at scale, while preserving optionality as technologies, economics and geopolitics evolve. The government's consultative and experimental approach creates opportunities for businesses to participate in pilots, sandboxes, and partnerships. Success, however, will require navigating geopolitical exposure associated with cross-border energy, the high cost of low-carbon solutions, and uncertain commercial demand.

Singapore's foreign policy in H2 2026 will be shaped by preparations for its 2027 ASEAN Chairmanship and the increasingly difficult task of preserving strategic autonomy amid intensifying U.S.-China rivalry. Singapore's response has been to build greater strategic optionality through deeper trade diversification, regional integration and partnerships with like-minded economies. ASEAN is central to this strategy, providing a platform not only to deepen regional integration but also to amplify the bloc's collective influence with major powers. Preparations for the 2027 Chairmanship will therefore focus on advancing regional priorities such as AI adoption, cross-border digital connectivity, trusted technology governance and energy interconnection, while reinforcing ASEAN's external economic partnerships. That said, diversification and regional integration cannot fully insulate Singapore from geopolitical uncertainties. Potential U.S. tariffs on strategic sectors, growing technology alignment pressures and the commercial and regulatory complexities of regional initiatives will continue to constrain Singapore's room for maneuver.

Indonesia

H1 2026 revealed a dual-track economy: resilient real-sector growth on one side, and persistent capital-market volatility on the other. Strong domestic demand and frontloaded government spending helped lift H1 growth to 5.61%, supported by controlled inflation of around 3% and a recovery in the Purchasing Managers' Index (PMI) to the 50.0 expansion threshold in May. While economists continue to view a recession as unlikely, standalone H2 growth is expected to moderate to the 4.7–5.2% range as the government reins in spending to comply with fiscal deficit limits. This relatively solid real-sector performance, however, is increasingly overshadowed by negative public and investor perceptions of the administration's governance style, policy consistency, and fiscal priorities.

Restoring market confidence will be a key priority for economic ministers in H2, particularly as Indonesia seeks to shield its economy from global headwinds. Indonesia's capital market is facing a confidence squeeze that began with February assessments by major rating and index agencies, including S&P, Fitch, Moody's, and MSCI, which highlighted rising fiscal risks, governance concerns, and opaque policymaking under the new administration. These concerns contributed to foreign equity outflows of more than IDR 70 trillion, or approximately USD 3.9 billion, by late June, with market anxiety further intensified by the government's delayed response to geopolitical tensions in the Middle East. Investor sentiment has also been weighed down by the introduction of export controls through Danantara Sumberdaya Indonesia (DSI) and the new export-earnings rule, contributing to pressure on the rupiah, which briefly slid past IDR 18,000 per USD in June. Economic ministers and agencies have responded through stronger fiscal-monetary coordination, including unscheduled rate moves, liquidity support, a debottlenecking task force, and the proposed Danantara bond. These measures may help stabilize sentiment, but they are costly and will need to be accompanied by clearer policy direction, credible fiscal management, and more structured business engagement. For companies, opportunities may still emerge from the government's push to sustain growth and revenue, but engagement should remain selective and risk-aware amid slower growth and persistent market-confidence concerns.

The administration is likely to maintain its populist and centralized policymaking approach, while carefully managing public dissatisfaction as economic pressures build. The government has indicated that it will continue implementing its expensive and politically important flagship programs, including the free meal program (MBG) and Red-White Cooperative (Kopdes), despite calls from civil society groups for postponement or deeper evaluation. At the same time, it has adopted a cautious crisis-management approach toward rising dissatisfaction among labor groups and the middle class. This has included appointing activists to official positions, deploying unarmed troops during demonstrations, and using co-optation tactics to prevent protests from escalating.

However, there are limited signs of deeper policy reforms to address underlying grievances, including the hollowing out of the middle class and limited formal job creation. The government may also rely more on bilateral political engagement with companies considering relocation or operational reductions, including by allowing workscheme adjustments while framing business difficulties as part of the global economic downturn. Whether this will lead to more open economic policies remains uncertain. In this environment, policy advocacy through multiple channels remains the most practical route for companies.

Indonesia's foreign policy agenda will remain connected to domestic economic priorities, focused on converting economic diplomacy into concrete market outcomes. Although Prabowo's international engagements often appear disconnected from domestic policy priorities, economic ministers continue to seek international agreements. This is illustrated by Indonesia's relative success in pursuing the US-Indonesia Agreement on Reciprocal Trade, the Indonesia-EU CEPA, and the Indonesia-Canada CEPA. The next step is implementing them in a way that benefit both Indonesian exports and foreign investment in the country. The government is preparing these agreements for ratification and execution. For businesses, continued engagement with economic ministries and local chambers will be important to align commercial priorities with Indonesia's economic diplomacy agenda.

Thailand

The emphatic February 2026 win by the Bhumjaithai party gives Thailand something the country has lacked since 2023 – continuity at the top of elected government. With four Prime Ministers in the four years since 2023, policy consistency has been severely lacking. Even the most powerful Ministers have changed frequently, while the civil servants had too often survived the political turmoil by ducking and hiding, instead of pursuing reform.

Bhumjaithai's government brings new certainty for investors. Although Prime Minister Anutin Charnvirakul is unlikely to lead a bold, reformist administration, his party will probably hold power either until the next election scheduled for 2030, or beforehand if it calls an early vote. With leadership here to stay, it will be able to execute on complex or difficult policy. While the government does not yet have the certainty required for drastic action, it is well aware of the need to showcase results and return the country to economic growth, and will be drawn to more extensive measures as it becomes more sure of its position in power.

Uniquely among recent governments, Bhumjaithai has obtained a majority of support in the lower and the upper houses of Parliament. It is also clear that it has the tacit backing of many of the major institutions that keep Thailand humming, including much of the business establishment. Meanwhile, the opposition is on the back foot. If Bhumjaithai faces challenges to its political dominance, they will mainly come from balancing various internal factions from within its own party, and not the opposition parties.

One to watch is Bangkok's recently re-elected Governor Chadchart Sittipunt. Nominally an independent, in reality he is aligned with a rival party, the Pheu Thai party of former Prime Minister Thaksin Shinawatra. Chadchart romped to victory in Bangkok's June election with over 66% of the vote by projecting a technocratic, down-to-earth image. Although he does not yet have a political apparatus that extends beyond Bangkok, he has shown the rare ability to build a transcendent aura in an age defined by machine politicians. It is an open secret he has aspirations beyond Bangkok, and will keep an eye on opportunities in the next nationwide election.

The new Thai government is increasingly interested in securing a long-term peace with Cambodia, though the potential for flare-ups remain. Bhumjaithai rode a strongly nationalistic stance on the 2025 border conflict as a key part of its electoral victory. But it has milked the conflict for most of what it is worth, politically. The overland Thai-Cambodia border remains closed, and Thailand holds the upper hand. Cambodia's bellicosity crumbled in the face of 2025's Thai F-16 and Gripen airstrikes, and its voice appears to be for peace. Cambodia has also launched a process at a UN body that could even end the contentious offshore oil and gas overlapping area. Most signs point to Prime Minister Anutin continuing to pursue a policy of peace – though this could always be upended by freelancing soldiers at the border.

The Thai policymaking establishment is tiring of the vicissitudes of American policy in the region, and is noticeably favouring engagement with the European Union. Much of the Thai government, as well as the monarchy, spent a week in France recently. For the government, it was an attempt to show Thailand has options beyond its long-standing alliance with the U.S. But an oft-promised free trade agreement with the EU is showing no signs of swift resolution. Beyond the government's hopes to join the OECD by 2028, it is hard to say what advantages Thailand has received from its wooing of Europe. Still, Thai policymakers see little need to rush to placate the U.S. on trade issues, particularly given the repeated change in focus of the Trump administration, and the likelihood that all economies in the region are simply lumped into one tariff rate. Thailand wishes for no tariff, but it will live with a tariff that is the same level as its competitors such as Vietnam and Malaysia.

Thailand's much-discussed economic malaise is showing signs of improving. Since the founding of ASEAN, Thailand had been the bloc's second-largest economy, behind only Indonesia – until 2025, when Thailand was passed by Singapore, becoming ASEAN's third-largest economy. Thailand's GDP growth was pegged at 2.4% in 2025. Preliminary data from the National Economic and Social Development Council showed Q1 2026 growth picking up to 2.8%, on the back of growing trade and investment. Challenges such as an aging population, weak upskilling, and a difficult process for securing licenses are evident. But Thailand has a strong and resilient manufacturing base, with committed international investors. It has quietly built a world-leading position in businesses like Printed Circuit Boards (PCBs) and hard drives. There is much that can go right for Thailand's economy.

Policymakers are deeply attuned to business needs and open to working toward solutions. There is a slightly nationalistic bent to the current government, but overall it is keenly interested in securing investment and building a competitive edge. The government is approachable on critical policy issues – and unlike the last few years, it is probable that much of the government will remain in place for the next few years.

Malaysia

Malaysia's H2 2026 outlook is stable but increasingly politicized as the country enters elections season. Growth remains supportive, with Bank Negara Malaysia projecting a 4–5% GDP growth for the year, favorably comparing to the 5.2% rate in 2025. Concerns over slowing consumer demand due to the West Asia crisis is buffered by relatively strong domestic and inbound tourism numbers in conjunction with Visit Malaysia Year 2026. Q1 2026 investment activity performance also almost matches the same period in 2025, underpinned key sectors such as digital infrastructure and semiconductors.

Fundamentally, the key risk in Malaysia is a more contested political environment where fiscal reform, cost-of-living management, and political positioning inform decisions on key policies and regulations. State-level elections will increase the political temperature, even if federal-level stability remains for the time being. Johor and Negeri Sembilan states go to the polls on July 11th and August 1st respectively, with both contests framed as a test of the balance between PM Anwar's Pakatan Harapan coalition and its federal partner Barisan Nasional. The situation could increase the urgency for the PM to call for an earlier general election.

This political pressure will matter most where it intersects with attempts to manage both cost-of-living pressures and fiscal consolidation. Malaysia's petroleum subsidy bill could rise to nearly MYR 40 billion (USD 10 billion) in 2026 if energy prices remain elevated, compared with an initial allocation of about MYR 15 billion (USD 3.75 billion). The implication is a difficult policy trade-off as the government needs to rationalize subsidies, manage fiscal space, and maintain social welfare programs and cash transfers, all while avoiding triggering voter backlash.

As such, companies that will gain are ones that can demonstrate spillovers in technology transfer, local talent development, and SME participation, thus standing apart from investments which are perceived as primarily tax- or incentive-driven. The situation is especially more acute as political stakeholders and policymakers are increasingly scrutinized to show their report card and prove that investments are job-creating. However, the upside for businesses in this situation is that Malaysia's investment proposition remains strong where companies align with government priorities under the New Incentive Framework.

Businesses should consider a more sensitive political filter around jobs, prices, local participation, and social licence in scrutinised sectors such as data centres. Taking stock and assessing decision-making dynamics in politically important and investment-heavy states such as Johor, Selangor, Penang, Negeri Sembilan, Melaka, Sabah, and Sarawak is crucial. Companies can also proactively frame their Malaysia story around jobs, affordability, sustainability, cybersecurity, vendor development, and skills transfer.

Philippines

The Philippines' outlook for 2026 is defined by strong ambition tempered by domestic headwinds, with continued pushes for foreign investment, trade diversification, and regional integration creating new openings, but hampered by political instability, economic slowdown, and fiscal pressure.

The Philippines' geopolitical posture will continue to be defined by closer economic alignment with the United States and its allies, potentially at the cost of greater friction with China. As part of the administration's aggressive pursuit to diversify its trade and investment partners, it is aiming to finalize free trade agreements with the European Union, Chile, and Canada within the year. Simultaneously, the government is advancing efforts to move up manufacturing and digital value chains through the U.S.-led Pax Silica and the expanded partnerships under the Luzon Economic Corridor focused on transport, energy, and digital connectivity.

For the second half of the year, this may translate to more government messaging aimed at attracting global investments, industrial capacity-building, and diversification away from overreliance on any single market, especially on critical minerals and technology-linked sectors. Managing relations with Beijing will remain a key consideration, as the Philippines balances new partnerships against continued commercial dependence on China in select areas.

As ASEAN Chair, the Philippines has focused on economic integration and near-term stability, with limited traction on politically sensitive issues—a trajectory that is likely to continue. While adjustments driven by the Middle East conflict have not derailed the broader ASEAN agenda, they have pushed the Chairmanship towards a stronger emphasis on stability, integration, and people-centered deliverables. The conclusion of negotiations for the Digital Economy Framework Agreement (DEFA) stands as the principal deliverable to date, consistent with earlier commitments to deepen regional integration and modernize trade frameworks. Continued efforts to upgrade the ASEAN Trade in Goods Agreement (ATIGA) are also expected to progress in the second half.

A breakthrough on a legally binding South China Sea Code of Conduct, however, remains unlikely in 2026, as negotiations continue to be constrained by unresolved questions on scope, enforcement, and broader political sensitivities between ASEAN member states and China.

Domestically, the political landscape will remain shaped by Marcos-Duterte polarization and the political economy of pre-election infrastructure spending, as preparations for 2028 begin. Against this backdrop, the administration is likely to emphasize stability and control, even as political divisions—such as the impeachment proceedings against Vice President Sara Duterte—weigh on legislative predictability.

The administration is expected to ramp up infrastructure spending in the second half to shore up growth after the GDP downgrade, positioning itself to deliver visible, high-impact projects ahead of the 2028 elections. However, heightened scrutiny from the flood control corruption controversy will continue to weigh on public spending decisions, tempering the pace and scale of new commitments.

Economically, the Philippines is entering a period of managed deceleration, as external shocks and fiscal pressures constrain growth and force a rethink of revenue strategy. Growth slowed markedly in early 2026, with 2.8% in Q1—well below the government’s 4.4% target and the weakest since the pandemic recovery. This is consistent with a broader slowdown driven in part by the Middle East conflict, which likewise tightened fiscal space due to crisis-response subsidies. In response, the Bangko Sentral ng Pilipinas has raised the policy rate twice this year to 4.75% — its first tightening cycle in two years. The World Bank's July confirmation of the Philippines' upper-middle-income status, while a positive signal to markets, also implies a gradual tapering of concessional development financing.

In light of these pressures, the administration is moving away from its earlier statement to avoid new tax measures for the remainder of Marcos’ term and is now actively considering eight new or revised tax measures for congressional deliberation, including an OECD-aligned minimum tax on large multinationals.

Cambodia

Cambodia is working to jumpstart its disappointing economic growth, as it tries to encourage progress in light manufacturing and turn around its persistent weakness in tourism. Most GDP growth forecasts are around 3.9% to 4.5% for 2026, and hovered around 5% for the last decade, disappointingly low figures as Cambodia seeks to graduate from Least Developed Country status by 2029.

Light manufacturing – traditionally the cut, make, trim parts of the garment trade, as well as ancillary industries like shoe and luggage-making – are consistent areas of strength. World Bank data shows goods exports increased over 17% in Q1 2026, with the U.S. as the most important overseas market. Investment approvals are also strong, with a total of USD 5.1 billion approved in 2025, a 15% on-year increase.

While manufacturing is performing strongly, Cambodia's important tourism sector is not doing well. Only 1.01 million international tourists visited in Q1 2026, a 44.8% on-year decline – and this was before the Middle East crisis began to bite. The weakness stems from Thailand's closing of the shared land border, but also an image problem, as Cambodia faces persistent safety concerns particularly among regional tourists over scam compounds and the mid-2025 border conflict with Thailand.

Prime Minister Hun Manet has pledged to downsize the size of government, as his administration moves to address bureaucratic inefficiency and improve public spending. Streamlined processes for business would be welcomed, though it remains to be seen if promised reform materializes. The move to downsize government is a departure from his father Hun Sen's approach to governing, where he often prized inclusivity of potential rivals over effectiveness. Hun Manet has called his new approach "shrinking the head and expanding the body". His strategy also appears to broadly mirror reform efforts in other regional countries, such as Vietnam's model of government restructuring.

Cambodia is trying to show the world it is addressing its scam center problem, as the issue dominates both Chinese and American thinking toward the Kingdom. Cambodia's Ministry of Interior claims to have shut down over 200 scam centers since 2023, rescuing tens of thousands of workers and causing even more to leave the country voluntary. But whether the crackdown is enough to change foreign perceptions is uncertain. In a case of Schrödinger's scam centers, Cambodia has both done enough and not enough, depending on who is asked. What is clear is that clamping down on scam centers is a key concern both in Beijing and Washington, making it a rare issue that unites policymaker opinion in the U.S. and China.

Cambodian policymakers are making deliberate overtures to the United States, as it seeks to course-correct after being seen as too close to China. The threat of Trump tariffs has made Cambodian policymakers aware of the need to preserve American market access, as the U.S. is by far its biggest export market. Prime Minister Hun Manet holds a British PhD and is also a graduate of the American military academy West Point. His crackdown on scam centers and the release of prominent opposition figure Kem Sokha are both moves aimed at assuaging U.S. concerns. He is also buying Boeing aircraft, restarting the frozen Angkor Sentinel military exercise with the U.S., and granting the U.S. navy permission to dock at a

Chinese-funded port. And American policymakers appear keen to reciprocate, partly to pry away one of China's foremost allies in the region, for instance filling the Ambassador position after a two-year vacancy.

Myanmar

Myanmar's government may have changed from army uniforms into civilian clothes, but it is still the same people calling the shots. As part of a prolonged election and then an April handover to the elected government, former Commander-in-Chief Min Aung Hlaing has transitioned to becoming President. He has brought many of his colleagues with him. Of the 30 current Cabinet ministers, a total of 22 are former generals, underscoring the extent to which a military mindset dominates Myanmar government thinking.

Despite Myanmar's ongoing conflict and challenging business environment, it is quietly becoming a market again for corporate expansion. Like it or not, the military-backed government is gradually extending its authority, bringing a degree of predictability across much of the country. It has at least 55 million people, with significant growth potential. Myanmar is not a suitable market for all companies, but some international businesses are gradually looking at in-country opportunity.

The military regime's priority in 2026 is to continue to extend its control over rebel-held territory. While ethnic armed groups hold many key areas mainly along Myanmar's international borders, and Burmese-majority groups control some pockets in the country's center, the military has gradually been gaining ground. The army is better resourced than the rebel groups, with greater access to recruits from its conscription policy. While the annual May to November monsoons dampen fighting, it is clear that the Myanmar military is on the front foot in most of its conflicts around the country.

China will continue to be more visible in Myanmar's foreign policy moving forward. President Min Aung Hlaing's state visit to China in June, which followed Foreign Minister Wang Yi's Myanmar visit shortly after Min Aung Hlaing's inauguration as President, confirms the direction of travel, marking the highest-level bilateral meetings between the two countries since the 2021 coup. China is keen on mega-infrastructure projects in Myanmar, but implementation would require an end to fighting in key areas, making the plans aspirational for now.

Russia and even India have recognized the government put in place in April. ASEAN is so far withholding full recognition. The U.S. may also gradually rethink its posture toward Myanmar, as the military-backed regime looks increasingly secure and unavoidable.

Economic growth remains weak, with most projections placing Myanmar's 2026-27 GDP growth at around 2%. Myanmar was smacked hard by this year's energy crisis, pushing up transport, production and distribution costs. Inflation has been as high as 24.6%. Despite hopes that the increasingly bold civilian government would relax rules around foreign currency, it has continued to control dollar allocations to importers, and prioritized defense spending, making it difficult for many international companies to do business.

Myanmar's economic growth industries are hard to spot, but there some opportunity emerging. Demand for consumer goods is slowly increasing, although the sector is particularly hard-hit by foreign currency restrictions. The government is keen on infrastructure projects, as well as electric vehicles and even looking at restarting moribund energy projects. While the April 2026 political transition from a military to a civilian government does not reshape Myanmar’s market fundamentals, it does show the path forward for the country.

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