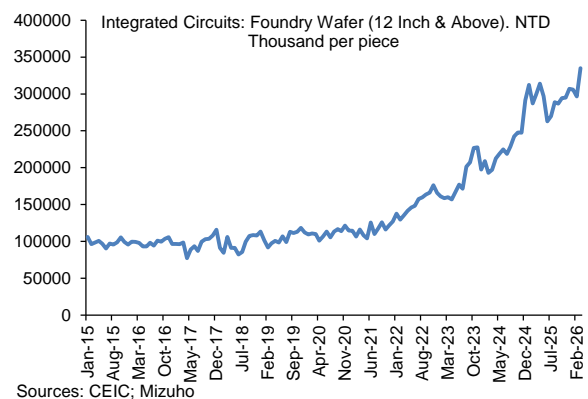
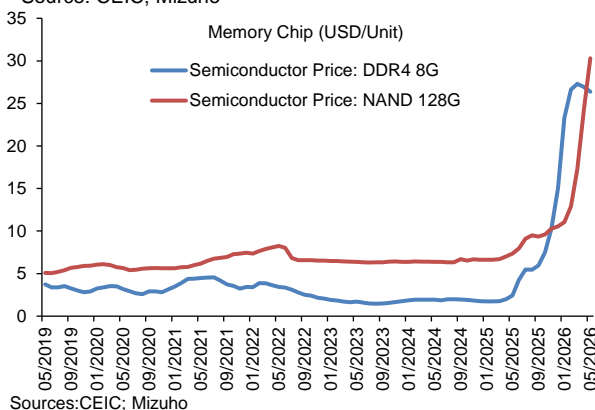
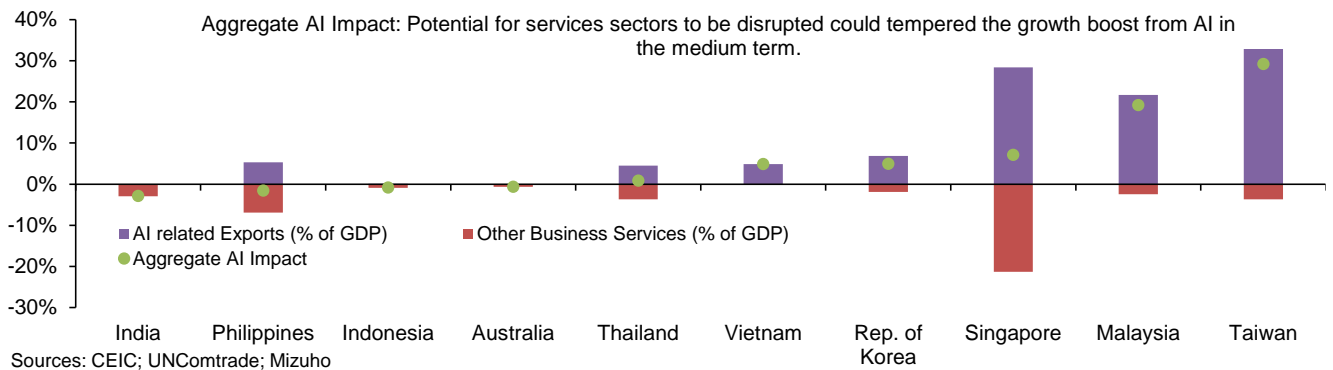
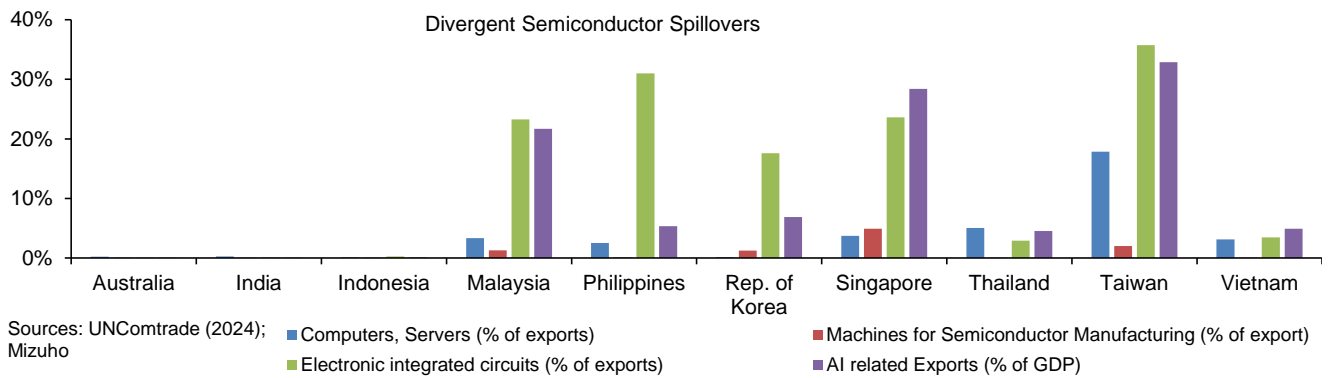


EM-Asia: Divergent AI tailwinds and Restrained Reversions

In a Nutshell:

- While the stellar run-up in North Asian equities is familiar to many, the **divergent equities-growth performance** within North Asia as well as in comparison to Southeast Asia remains noteworthy.
- These differences are primarily driven by **differences in comparative advantage, export composition and positioning along the semiconductor supply chain.**
- While a much sharper surge in memory chip prices drove KOSPI outperformance, GDP growth outturns in Korea falls short of Taiwan with both server and semiconductor dominance as well as Malaysia and Singapore with heavier skew toward AI-related exports relative to a more diversified industrial export base in Korea.
- Meanwhile, India, Indonesia and Australia, may see limited export tailwinds though Indonesia and Australia may benefit from the consequent resource demand on material and energy needs.
- Into the medium term, business services exports exposure may see **risk of potential AI-led disruption to receipts** in economies such as Philippines, Singapore, India while Malaysia and Taiwan are relatively insulated.
- On balance, the **varying AI led semiconductor growth fillip** may be keeping central banks vigilant despite US-Iran MoU and softer oil prices.
- Consequently, short end rates in EM-Asia are buoyed while longer end yields may also face **limited reversion amid hysteresis in energy hit fiscal deficits.**
- As for EM-Asia FX, the AI-led boost is tempered by substantial import needs from data center build-out and tendencies to retain USD proceeds amid medium term efforts to diversify supply chains and US friendshoring.
- Lastly, potential reweighting **shifts in US-EM-Asia risks sentiments** from on-going euphoria around frontier AI research companies could also continue to **prop up the Greenback despite a backdrop of softer oil prices.**





Differentiated Valuations and Demand

- The AI led semiconductor cycle has seen the Nasdaq (+11.4% YTD) outpaced the Dow (+6.5% YTD) and propelled the likes of KOSPI (+102.8% YTD) to surge past the TAIEX (+56.7% YTD).
- That said, the **macroeconomic growth impact is far from being analogous to equities performance, with differences in comparative advantage compounding onto contrasting export orientation and supply chain positioning.**
- For one, even in North Asia, the **demand pick-up from the semiconductor upcycle has been evidently differentiated and lagged.** Prices of memory chips only picked up in mid-2025 with a more discernible acceleration in 2026 whereas wafer prices needed for top high semi-conductor chips embarked on a steady accelerating growth since 2023.
- The consequent growth spillover is also highly uneven across economies with projected 2026 GDP growth in Korea of 2.6% paling in comparison to Taiwan’s 10%.

Comparative Advantage and Export Orientation

- Growth differences are mainly driven by the **interaction of underlying comparative advantage and the AI-semiconductor oriented export structure of various economies¹.**
- Taiwan has a **dominant position in advanced chip fabrication and AI server production** alongside an outsized skew of its economy towards AI exports.
- On aggregate, AI-related exports² comprise a third of Taiwan’s GDP relative to 7% in Korea.
- On a similar note, Korea’s current account surplus reach lofty record highs of US\$38bn in March 2026 surpasses Southeast Asian peers such as Singapore and Malaysia.
- Nonetheless, Korea’s GDP growth will fall short of Singapore and Malaysia’s estimates at 3.6% and 4.5% respectively as AI related exports hold a larger share of their overall economy value add.

¹ HS code 8471 8486 and 8542 are used to proxy AI-related exports. HS code 8471 covers automatic data processing machines (laptops, desktop, servers, machines that process coded data). HS Code 8486 covers industrial machinery and apparatus used solely or principally for manufacturing and assembly of semiconductors. HS code 8542 covers electronic integrated circuits including memory chips.

² Data used from UNcomtrade in 2024 while dated, it nevertheless provides an overview of the export structure of the economy.

- To be clear, the relatively smaller AI-related growth exposure also reflects a more diversified industrial base in Korea with a wider range of exports ranging from automobiles, petroleum products, consumer electronics to materials such as iron and steel.
- Meanwhile, even as **Philippines'** position as a **downstream** hub for assembly, testing and packaging also imply discernible exports tailwinds, the household consumption driven economy implies that the aggregate growth impact from trade was rather moderate.
- At the other end, India, Indonesia and Australia are unable to ride onto direct semiconductor production tailwinds though **indirect channels of energy and raw material demand** from AI needs may boost the resource sector in Indonesia and Australia.

AI Services Disruptions

- While first order effect of AI led demand may be rather hardware driven, **second order impact may emerge from structural disruptions to global services trade.**
- This might come in the form of reshaping services exports as AI may potentially reduce offshoring in areas such as customer services, legal, accounting, advertising, and consultancy services.
- Countries such as Philippines and India with significant export receipts from business services³ may face further drags should the envisaged transformation shifts play out.
- Even for countries such as Singapore, its export-oriented nature for professional services could also dampen the impact of semiconductor tailwinds.
- **Taiwan and Malaysia** with relatively muted business services exports could be relatively more insulated from a growth perspective.
- To be clear, the trade data analysis is limited as it does not involve the impact on the current investment cycle in each country which remains strong though unfortunately lumpy and difficult to disentangle given varying stages of numerous data center build-outs.

Rates and the USD – Restrained Reversion

- On balance, at this juncture, even as the US-Iran deal may be checking upside risks to inflation, the **on-going AI led semiconductor cycle may provide a growth fillip for most of EM-Asia** to keep central banks vigilant especially with an inflation impulse still in transmission.
- Consequently, the reversion of short end rates is likely to be restrained despite weaker oil prices from the US-Iran MoU.
- Furthermore, the **fiscal account damage from energy-related subsidies** are certainly face potential **hysteresis** with governments straining in their fiscal consolidation even prior to the onset of the US-Iran war which would keep longer end yields buoyant.
- As for FX, export tailwinds from the AI-led boost are tempered by **substantial import needs** from data center build-out especially for economies further downstream in the supply chain with lower value added.
- Furthermore, even for those with significant revenues, there may be underlying preferences and practical tendencies to **retain USD proceeds** amid medium term efforts to diversify supply chains and extractive friendshoring from substantial capex commitments into the US.
- Lastly, potential reweighting **shifts in US-EM-Asia risks sentiments** from on-going euphoria around frontier AI research companies could also continue to **prop up the Greenback despite a backdrop of softer oil prices.**

³ Balance of payments: Other Business Services categories is used to approximate these services.

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