



Seoul, South Korea

Asia Projected to Outperform Other Global Regions

Historically, Asia's economies have substantially outperformed their North American and European peers (over 5-, 10-, and 20-year time horizons). Annual real gross domestic product (GDP) growth from 2012 to 2022 was 4.3% in Asia, versus 2.3% in the U.S. and 1.7% in Europe. This growth came during a time of substantial expansion in China's economy, which more than doubled in size during the decade from \$8.5 trillion to \$17.9 trillion – an average annual nominal GDP growth rate of 7.7% (real 6.2%)¹.

As Exhibit 1 illustrates, China contributed to around two-thirds of regional real GDP growth from 2010 to 2019. This enormous and sustained expansion has had significant and positive effects on growth across the entire region. For example, exporters of raw materials (such as Australia and Indonesia) and key manufacturing trade partners (like Japan and South Korea) have all grown and benefited by investing into this once-in-a-generation growth story.

Strong Regional Economic Growth Is Expected to Evolve

The Asia region is projected to maintain its outperformance of global aggregates. In fact, published Oxford Economics data forecasts that Asia's economic growth rate could be more than double that of the U.S. and Europe annually through 2028. As such, Asia will likely continue to drive global growth, with Oxford Economics projecting Asia will contribute more than 50% to global growth from 2024 to 2030.

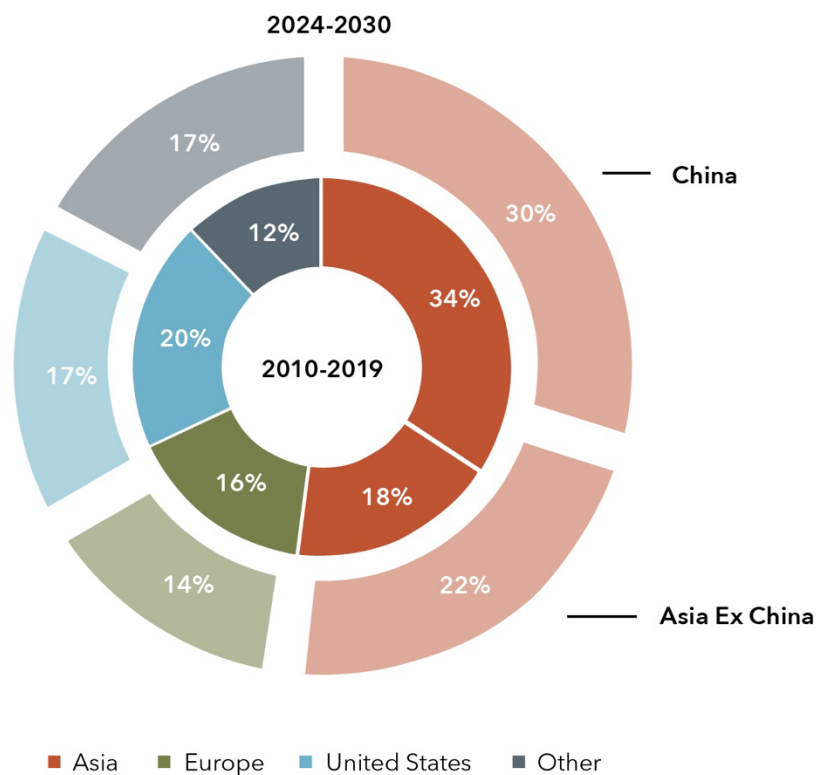
¹ Oxford Economics. As of March 27, 2024.

However, the fundamental forces driving this growth have changed. No longer is Asia’s economic activity centred on manufacturing for and exporting to the Developed World. Rather, Asia’s economy is increasingly intra-regionally driven. As it becomes richer, consumption will, in our view, be a stronger driver of growth.

Furthermore, while China will likely still be an important contributor to regional growth, its relative share is projected to fall as other parts of Asia grow more rapidly. As illustrated in Exhibit 1, Asia ex-China’s share of global growth is projected to rise from 18% in the period from 2010 to 2019, to 22% from 2024 to 2030 – a meaningfully larger contribution to global growth than from either the U.S. or Europe.

Exhibit 1

Regional Contribution to Global Real GDP Growth, 2010-19 vs 2024-30(F)



Source: Oxford Economics, Hines Research. As of Q1 2024.

Regional Trade Patterns Realignment

Geopolitical tensions certainly can have disruptive tendencies, particularly as these pertain to trade. It's no secret that there are major reconfigurations underway in global trade patterns. These shifts are described by different terms – “decoupling”, “derisking”, “friendshoring”, “reshoring”, “nearshoring” – but in essence reflect that trade between countries has shifted as some relationships diversify or realign towards geopolitical partners.

The Asia region has long had integration in regional manufacturing value chains that crisscross national borders. Even with increased geopolitical tensions, regional trade corridors remain strong and, in some cases, bolstered by free trade agreements. Interestingly, it is the U.S. that may appear to be more of an outlier² in its shifts to geographically aligned partners and more diversified supply chains.

As the US increasingly engages with the regional trading bloc represented by the Association of Southeast Asian Nations (ASEAN³), supply chains grow longer and more complex, but not necessarily less ultimately reliant on China. At the same time, Europe's trade with China remains relatively robust, with China exports to the EU as of Q1 2024 tracking around 18% above the 10-year average in RMB terms (Exhibit 2). China continues to grow its trading relationships with developing economies around the world as illustrated in Exhibit 2.

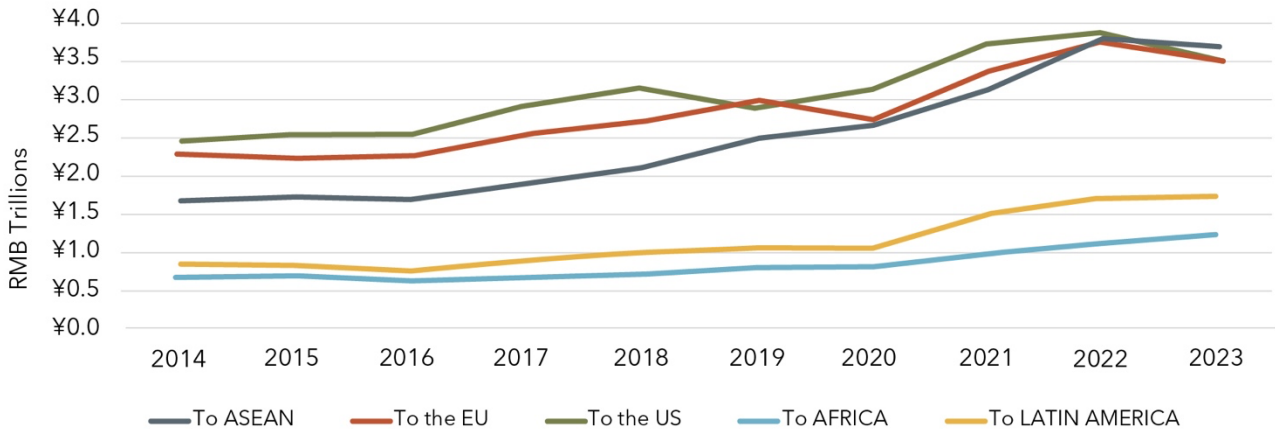


² McKinsey Global Institute, Geopolitics and the Geometry of Global Trade. By Jeongmin Seong, Olivia White, Michael Birshan, Lola Woetzel, Camillo Lamanna, Jeffrey Condon, and Tiago Devesa. January 17, 2024.

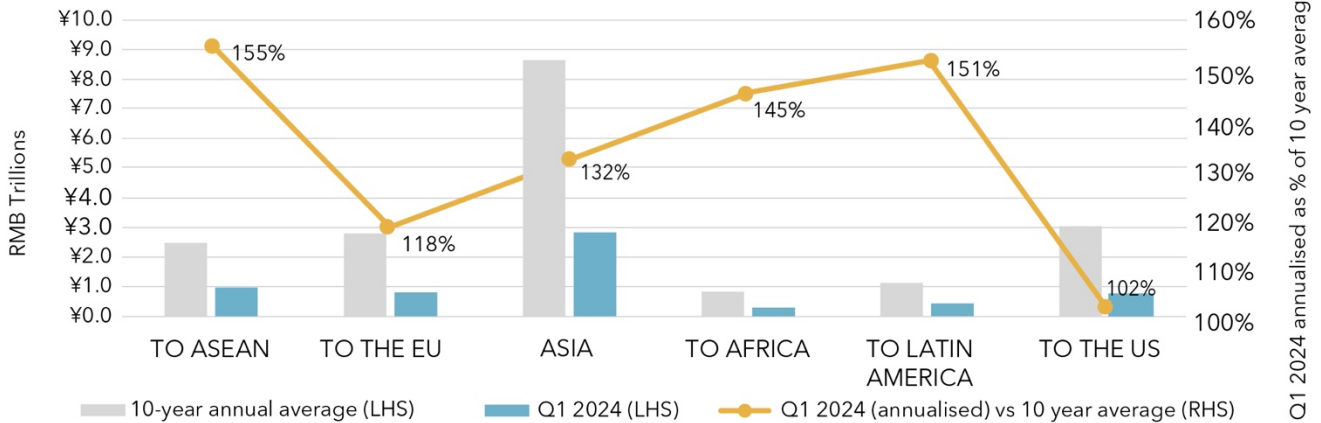
³ The Association of Southeast Asian Nations (ASEAN) is a trading bloc that includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Exhibit 2

More Chinese Exports Remaining in the Region



China's Trade with All Regions Ex-US Running Significantly Above 10-year Average



Source: CEIC, Hines Research. As of Q1 2024.

For the past 20 years through 2022, Chinese exports to the EU, U.S., and the rest of Asia had followed a steadily rising but slowly converging path. However, last year for the first time, the \$524 billion of Chinese exports to the 10-nation ASEAN regional trading bloc exceeded⁴ that of the U.S. and of Europe (Exhibit 2). With “nearshoring,” Asia is less reliant on global trade and more insulated from global trade disruptions (like in the Red Sea). Given the current state of affairs, one could argue that the level of economic disruption potentially dragging on the Chinese and Asian economies is overstated.

⁴ Bloomberg, Shifts in Chinese Exports Show Ties with US Economy Fraying, Bloomberg News. January 15, 2024.

Chinese exports to Mexico in 2023 (through November 2023) were up more than 5%, with some companies likely shipping there for import into the U.S. to avoid tariffs⁵. And with the Chinese economy maturing, there is likely to be more exports to the region (for example, Thailand and Vietnam) to save money during final assembly. Clearly, this is all a reflection of the state of current global relationships, as well as the slowing Chinese economy. While calibrating the economic impacts of these shifts in depth is beyond the scope of this short paper, we believe these forces are positive for Asia's maturing and future growth.

Other Growth Vectors

It is undeniable that (as of Q4 2023) China's growth has slowed, which is to be expected from a maturing economy that continues to move up the economic value chain. As China's economy has developed, it is consuming more of what it produces. In 2022, China's total goods trade was equivalent to 35% of GDP, down from its peak⁵ in 2006 of 64%. Given the relative size of China's economy (more than 50% of total Asia GDP), it will likely continue to be a notable contributor to regional economic growth, supported by positive secular urbanization trends and further growth in the service sector. However, there is much beyond the China story.

China's move away from lower value-add manufacturing, combined with an evolution in global supply chains due to geopolitical trends and the global pandemic, has bolstered and accelerated shifts in market sentiment and growth across the region. We see this particularly in Japan, which after years of economic sluggishness and price deflation has become more cost-competitive and a legitimate manufacturing alternative to China.

With Japan's strong ties to the U.S., it also has a leg up on supplying those products (currently exported to the U.S. by China) directly (this is also true for South Korea). The equity market seems to agree, with the Nikkei recently climbing to over 40,000⁶, breaking a record that had stood since December 1989.

Additionally, Australia's economy is supported by strong population growth, tight labor markets, and healthy consumer spending. According to data released by the Australia Bureau of Statistics in December 2023, population growth in the year to June 2023 was 624,100 (2.4%), the strongest growth rate on record. Net migration accounted for more than 80% of this growth at 518,000.

⁵ McKinsey Global Institute, Geopolitics and the Geometry of Global Trade, By Jeongmin Seong, Olivia White, Michael Birshan, Lola Woetzel, Camillo Lamanna, Jeffrey Condon, and Tiago Devesa. January 17, 2024.

⁶ CNBC, This Analyst Predicted the Nikkei Would Cross 40,000. Lim Hui Jie. March 4, 2024.

Singapore is also a clear beneficiary of ASEAN shifts as companies set up regional headquarters and high-tech manufacturing facilities, while South Korea's economic growth prospects are trending up too, driven by the pick-up in global trade (particularly in higher-end goods). Semiconductor exports and auto exports were up 56.2% and 24.8% y/y respectively as of January 2024⁷. The turnaround in the global semiconductor cycle and surging interest in artificial intelligence (AI) chips will likely bode well for continued strengthening of South Korea's exports.

Outside of Developed Asia, Vietnam has emerged as a beneficiary of the "China Plus-1" strategy, whereby manufacturers are diversifying their production facilities more broadly across the region. India's economy has exhibited a relatively low correlation to China, given its economy is more domestically driven and its positive demographics offer a differing growth profile. Projected annual economic growth of 6.5% - 7.0% over the next 5 years is underpinned by improving employment and robust private consumption⁸.

Key Takeaway:

Strong economic growth in the region is supporting healthy real estate fundamentals. In a global real estate portfolio context, one could view Asia as the growth stock given the correlation between GDP per capita and the value of real estate. Based on our proprietary projections, the total value of investible real estate in Asia is expected to grow from the smallest share relative to the US and Europe (at 30% of the global market, as of end-2023) to the largest share (at 36%) by 2032⁹.

⁷ Source: Oxford Economics - South Korea Country Economic Forecast. As of Jan 2024.

⁸ Source: Oxford Economics - India Country Economic Forecast. As of Mar 2024.

⁹ Sources: Real Capital Analytics, Oxford Economics, Hines Research, using annual data from 2022 to 2032. The property value are estimates by Hines Research for the four major property types (Apartments, Office, Retail and Warehouse).