Mapping out Asia ...

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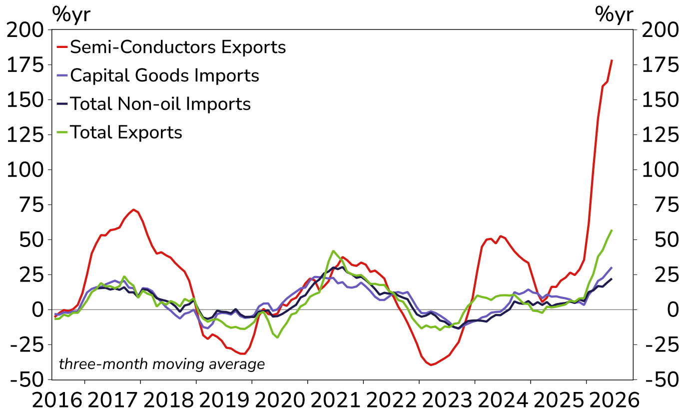
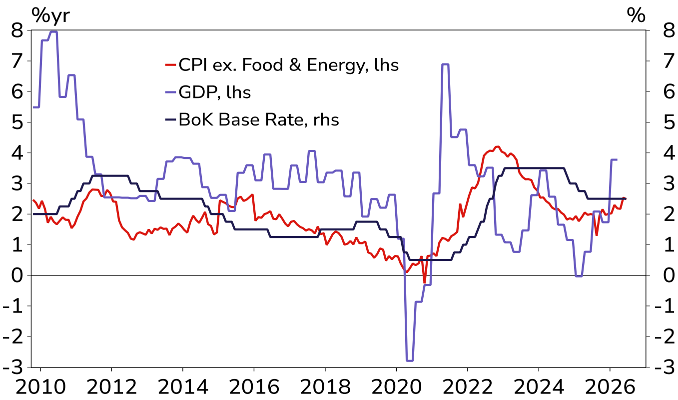
- Korea's technology sector is no longer only passively benefiting from the AI cycle; firms are pro-actively investing to accelerate capacity growth.
- Announced investment plans of US$500bn, spearheaded by Samsung and SK Hynix, together with the government's KRW105trn (US$71bn) National Growth Fund suggests this investment cycle has a lot further to run.
- Warranting this, semiconductor exports have surged 197%yr, highlighting the scale of global technology demand.
- Capital goods imports also increased 35%yr, emphasising that Korea is just one part of the Asian production system.
- The key question is whether today's technology boom can translate into a sustained increase in aggregate growth or just a one-off level shift for industrial activity.

South Korea is just getting started



Source: KCS, Macrobond, Westpac Economics

Tech is turbocharging Korean growth

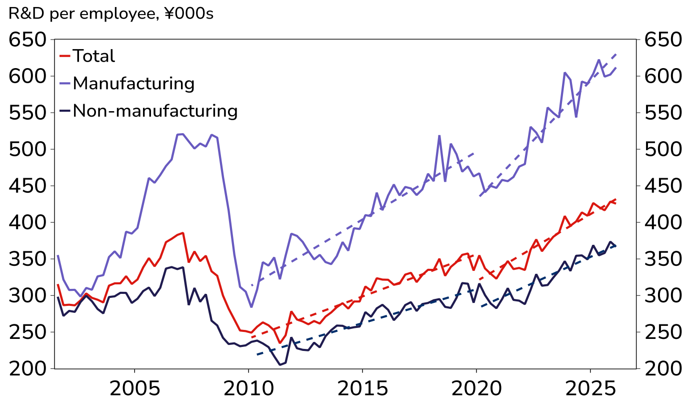


Source: MODS, BOK, Macrobond, Westpac Economics

- The BoK increasingly appears to view the AI investment cycle as a durable source of aggregate economic growth rather than a temporary export boom.
- Large-scale investment in semiconductors and AI infrastructure should increasingly support other business investment, construction activity and productivity growth.
- The BoK has acknowledged these factors, revising its 2026 forecast up to 2.6%yr from 2.0%yr.
- Stronger medium-term growth prospects help explain the BoK's willingness to maintain a tighter policy stance despite soft conditions in other sectors.
- Exports and future income generation should also aid Korea's external position and the won in time.

- Over in Japan, the Q2 Tankan survey provided mixed investment signals. Expected R&D spending slowed to 4.1% in FY26 from 6.5% in FY25, pointing to some moderation in manufacturing investment. Non-manufacturing firms meanwhile expect investment growth to accelerate to 9.2% from 7.0%.
- Justifying an acceleration in investment by non-manufacturers are widespread, structural labour shortages, unable to be fully offset by rising participation amongst women and older workers.
- Until at-target consumer inflation is firmly entrenched in day-to-day life, manufacturers and service firms alike also need greater investment to manage margins through productivity and efficiency.

Labour saving investment is accelerating

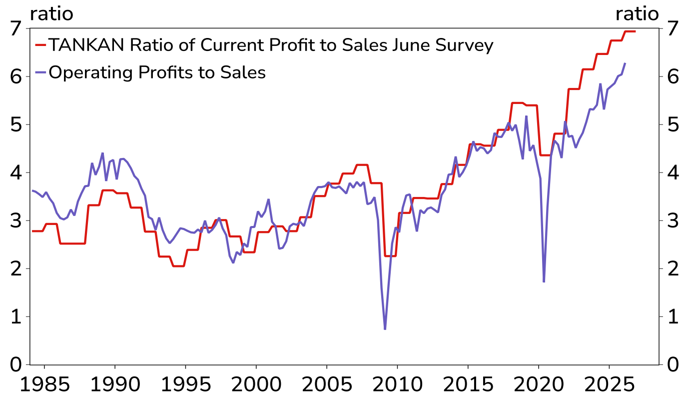


Source: MOF, Macrobond, Westpac Economics

... in charts

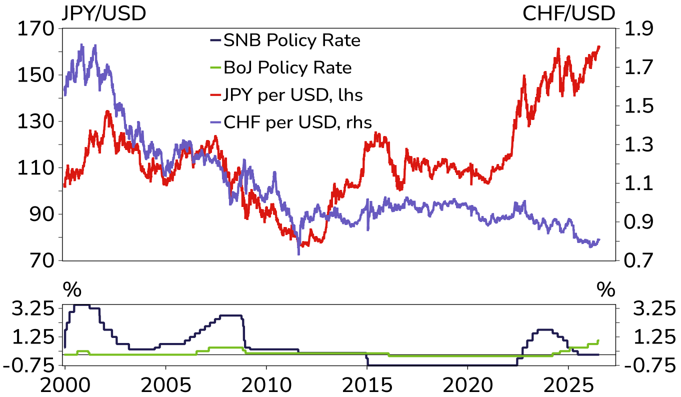
- Japanese services inflation remains well above its pre-pandemic average.
- The missing piece in the virtuous cycle has been real wages, with household purchasing power improving more slowly than expected.
- Corporate profits continue to provide firms with scope to grow investment and wages sustainably, however.
- Future real wage gains should boost discretionary consumption and inflation, giving durability to the inflation mindset.
- Profits and investment are therefore anticpate to build a foundation for persistent consumer and wage inflation, while also offering greater confidence in medium-term aggregate activity growth, warranting further policy normalisation.

Stronger profit to support wage growth



Source: BOJ, MOF, Macrobond, Westpac Economics

Lower policy rates aren't the whole story

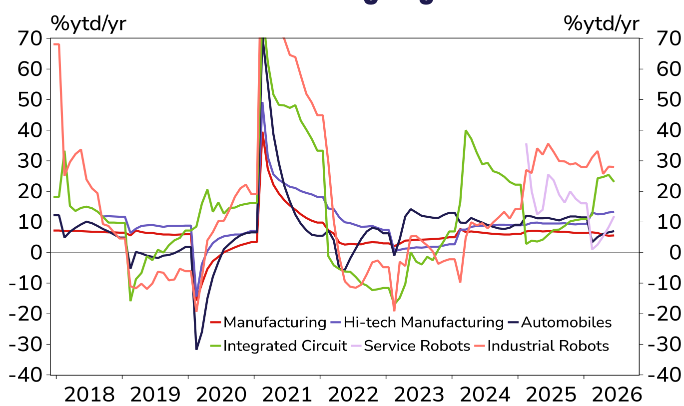


Source: Macrobond, SNB, BOJ, Macrobond, Westpac Economics

- Despite lower interest rates than Japan for much of the past decade, CHF has strengthened as the yen weakened. This suggests the market cares about more than just policy rates.
- Switzerland attracts safe-haven and reserve inflows while Japan remains a net exporter of savings.
- For Japan, a growing share of income earned abroad is also retained there, compounding foreign asset holdings instead of current yen demand.
- Raising policy rates to the level we expect (1.50% from mid-2027) will not reverse this dynamic. But what could?
- A change in capital flows via the repatriation of stockpiled foreign assets and income back to Japan and/or reduced new foreign investment by Japanese investors and/or greater foreign appetite for yen-denominated assets.

- Chinese industrial capacity remains a key source of growth, production rising 5.4%ytd in June.
- Notably, growth is increasingly concentrated in high-tech industries, including integrated circuits (+19%yr), industrial robots (+28%yr) and new energy vehicles (+29%yr).
- These sectors are more capital-intensive and automated than the labour-intensive industries which drove earlier industrial cycles.
- Strong output and export growth may therefore generate fewer and fewer gains in employment and household income compared to the past.
- This helps explain why [household demand continues to lag](#) China's industrial and trade performance.

Chinese manufacturers are going dark



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