Perspectives
Emerging markets

Q3 2026

Key takeaways

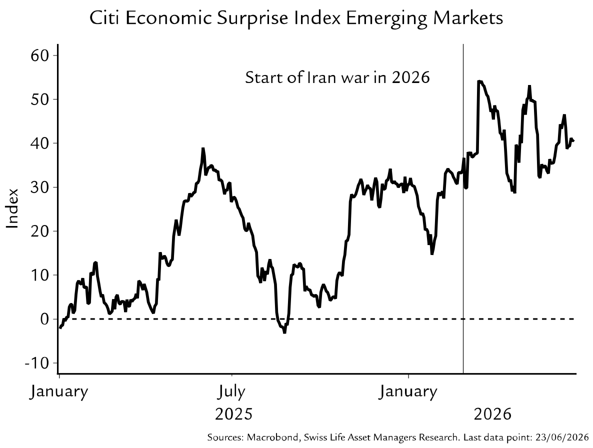
- Oil importers breathe a sigh of relief due to the gradual recovery of the oil supply, especially in South Asia
- Emerging markets are growing more strongly than expected, supported by commodity and tech exporters
- China: High-tech expansion consolidates, domestic economy waiting for real estate sector to stabilise

Number in focus

14.6%

The Taiwanese economy grew by 14.6% year-on-year in the first quarter – the strongest increase since the second quarter of 1987. This was driven by exceptionally high demand for AI-related hardware, which boosted exports by more than 30% and consolidated their role as a key growth driver. The short-term outlook remains positive, while risks are building up in the medium term: a strong export focus on semiconductors, industrial production's growing reliance on AI sectors, and ongoing weakness in non-AI-related industries. A similar picture is emerging in South Korea; more on page 2.

Chart in focus



Emerging markets were considered particularly vulnerable at the start of the Iran war, but – as the chart in focus shows – they have repeatedly surprised on the upside. Commodity-exporting economies benefited from improved terms of trade and a more stable current account balance, while the AI boom in the US is driving hardware produced in Asia. With the signing of the Memorandum of Understanding between the US and Iran and the gradual opening of the Strait of Hormuz, the prospects for countries that were previously especially vulnerable (India and the Philippines, in particular) are brightening.

South Asia breathes a sigh of relief

The temporary disruption of oil supplies due to the blockade of the Strait of Hormuz posed challenges for emerging markets, but these challenges proved to be less severe than initially feared. This resilience was supported by effects that offset the disruption: commodity exporters benefited from improved terms of trade, while the AI boom in the US boosted demand for Asian-made tech (see chart in focus). Following the signing of the Memorandum of Understanding between the US and Iran and the gradual opening of the Strait of Hormuz, the picture is now brightening. This is particularly true for net energy importers (see Chart 1), which are predominantly based in Asia. These economies are benefiting from easing inflationary pressure and lower import bills, which is improving their current account balances. There is also some fiscal relief, especially in countries that have tried to cushion the burden on households through subsidies. The fall in oil prices should also reduce the restrictive pressure on many central banks in emerging markets. Nevertheless, monetary policy paths remain highly divergent, driven by differing growth and inflation dynamics. Countries such as the Philippines and South Africa continue to face the need for tightening due to energy price-driven inflationary pressure, while higher interest rates in South Korea and the Czech Republic are mainly being supported by a robust economy. By contrast, some central banks, such as Brazil, Mexico and soon Hungary, are in an interest rate-cutting cycle.

North Asia continues to be driven by AI

Taiwan and South Korea are currently at the centre of the positive growth momentum in the emerging markets and surprised significantly on the upside in the first quarter. The main driver of this development is their pivotal role in global semiconductor value chains, making them key beneficiaries of the ongoing AI boom. In both economies, this is reflected in record trade surpluses, which are likely to be further increased with the normalisation of oil flows and falling energy prices. Moreover, dynamics in the tech sector are spilling over to other parts of the economy, for example in the form of a gradual revival in consumption. Several factors suggest that AI-driven demand is likely to remain high in the short term: first, large US tech companies' plans to make major investments in AI infrastructure this year and next point to continued strong demand for AI hardware. Second, the ratio of inventories to shipments in South Korea's semiconductor sector has fallen to a record low, signalling significant over-demand and rapidly declining inventories. Third, sharply rising prices for memory chips underscore suppliers' high price-setting power and the tight supply situation. A similar picture is emerging for Taiwan: at TSMC, the world's largest contract manufacturer of semiconductors, production capacities for the most advanced chips have already been pre-sold well into 2028. At the same time, this strong specialisation increases its vulnerability. Economic momentum is increasingly becoming disproportionately dependent on the AI sector, while other industrial sectors are stagnating (see Chart 2). In addition to crowding-out effects

Chart 1: Gradual normalisation of oil flows benefits net oil importers

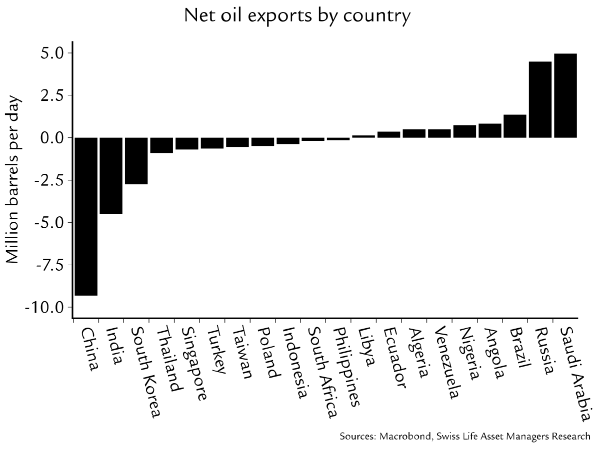
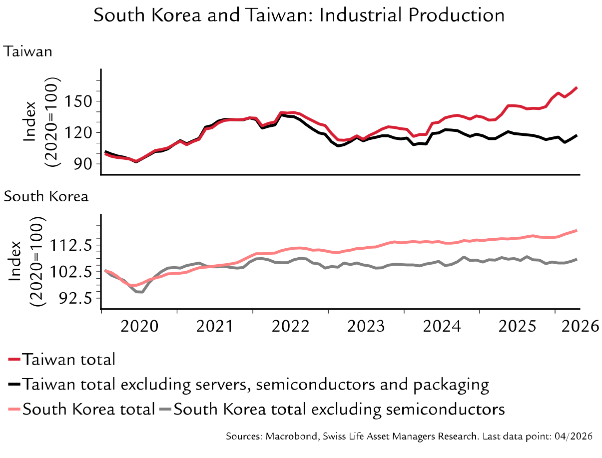


Chart 2: South Korea and Taiwan's economies are being significantly driven by the AI boom.



within manufacturing, weaker demand from China and increasing Chinese competition in traditional export segments are also playing a role.

China: High-tech expansion continues

There is currently a clear split in China's economic development, reflecting both cyclical and structural factors. In cyclical terms, the economy has recently been weighed down by a temporary decline in the demand for oil: in the second quarter of 2026, China significantly reduced its oil imports due to global disruptions around the Strait of Hormuz, and so knowingly accepted a temporary slowdown in domestic activity. This dampened production in energy-intensive sectors such as refineries and chemicals in particular, but at the same time dampened prices on global crude oil markets. When oil supplies normalise, this effect should ease in the second half of the year and industrial activity should again pick up somewhat. Beyond this short-term impact, the real estate sector remains the key structural factor weighing on the domestic economy. The main reason for the ongoing weakness in real estate is the persistently significant oversupply, especially in tier-2 and tier-3 cities, where property stocks are only being reduced very slowly and prices remain correspondingly under pressure. At the same time, however, an important differentiation is emerging. In tier-1 cities, the imbalance between supply and demand is much less pronounced, so it seems possi-ble that the situation will stabilise sooner; this is already reflected in a positive price development (see Chart 3).

While this partial stabilisation would not yet constitute a fundamental turning point for the macroeconomic outlook – as tier 1 cities account for only 5% of total population and 10% of total GDP – at the sectoral level, however, there may be a selective recovery, particularly in areas such as high-end consumer goods, services, tourism and high-end electronics, which are more driven by wealthier households in these regions. On the other hand, the high-tech sector is increasingly acting as a key growth driver. A glance at the objectives of the current five-year plan reveals a clear strategic direction: the focus is on expanding its technological self-sufficiency, industrial upgrading towards higher-value production and the broad integration of artificial intelligence ("AI+") into traditional industries. At the same time, the country will aim to transition from research to commercial application, particularly in promising areas such as biotechnology. These strategic priorities are increasingly reflected in the dynamics of the real economy: for example, sectors such as robotics, semiconductors, precision engineering and electric vehicles continue to record high double-digit growth rates. Against this backdrop, China is expected to further increase its global market shares in these key industries (see Chart 4). Overall, the high-tech sector should therefore continue to make a key contribution to growth going forward and at least partially offset the structural weakness of the domestic economy.

Chart 3: Real estate sector will initially stabilise in tier-1 cities

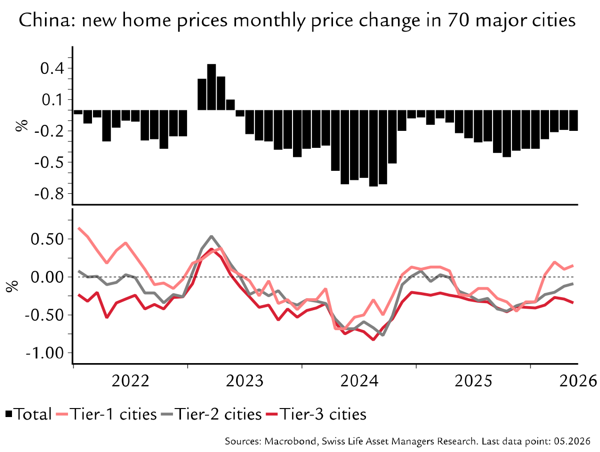
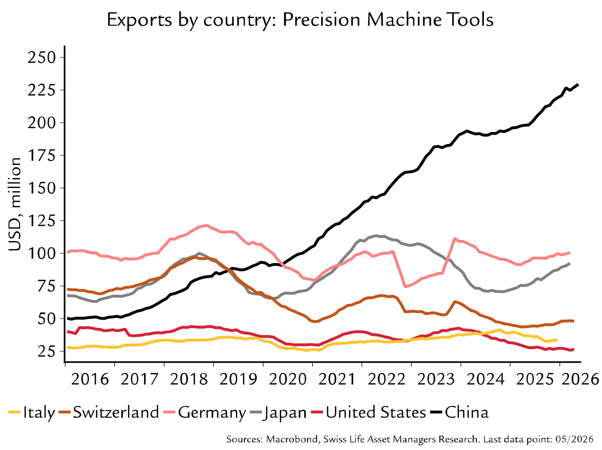


Chart 4: China's high-tech expansion likely to further consolidate



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