

Why Southeast Asia? And Why ASEA?



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 Authored by:
Paul Dmitriev

Why Southeast Asia?

Growth and Diversity

- **Growth Leadership:** After experiencing gross domestic product (GDP) growth of 4.2% in 2023, the Association of Southeast Asian Nations' (ASEAN) growth rate is forecast to accelerate to 4.6% and 4.8% in 2024 and 2025, respectively.¹ Furthermore, we expect ASEAN to remain one of the world's most dynamic regions, as it is forecast to contribute roughly 60% of global GDP growth this year.² Strong growth in the U.S. and E.U. could provide an additional tailwind for Asia's exporters. We believe that a combination of increasing political stability, a focus on strategic investments, and the strengthening of regional partnerships will likely drive economic growth ahead.
- **Diversity:** The region is home to more than 685mn people in 10 countries.³ Naturally, this brings significant diversity across economic drivers, foreign exchange rates, and economic outlooks. In particular, we have seen Malaysia and Thailand turn into manufacturing powerhouses (e.g., cars, consumer electronics, computer chips), while countries such as Indonesia and the Philippines have started building large, domestic demand led markets. Singapore has become a major financial and trading hub. We believe that exposure to Southeast Asia could provide an opportunity to participate in the next stage of development (across multiple sectors, countries, and economic models) in one of the fastest growing regions of the world.
- **Demographics:** We believe the region offers one of the best demographic dividend stories in the world. The ASEAN bloc has roughly 224mn people in the 15-34 age bracket, which is forecast to keep growing until 2038.⁴ This group of digital natives will likely continue consuming for years ahead. Importantly, education levels have climbed, with all ASEAN members' adult literacy rates standing above 90%, with the exceptions of Myanmar (89.1%) and Cambodia (84.7%).⁵ Labor force participation has also been strong for the group at above 65%.⁶ Importantly, the region has also seen declining levels of poverty, coupled with improving income equality as measured by Gini coefficients.⁷ This signals a broadening out of economic growth, which could support longer-term domestic consumption trends.

Structural Changes

- **Nearshoring:** The growing trade war between the U.S. and China, coupled with the COVID-19 supply-chain crisis, has led companies to re-evaluate their supply chains, resulting in the rapid growth of "nearshoring," the process by which companies reorganize their supply chains to bring manufacturing closer to home. We believe this will be a multi-year trend that could benefit ASEAN countries that can take advantage of their positive demographic trends, ample labor forces, and policy reforms aimed at increasing trade cooperation. We have already seen ASEAN countries grow imports to the U.S. by over 50% from 2018-2021 alone.⁸ Investors are starting to consider ASEAN markets as China alternatives.
- **Rapid and Ongoing Reforms:** The region's market friendly reforms will likely be powerful drivers of stock performance over the medium term. For example, Thailand announced a new State Investment Fund with guaranteed returns that began investing in the Thai Stock Exchange on October 1st.⁹ Malaysia is now offering corporate tax rates of 0-5% for family offices in its Special Financial Zone to boost investment, growth, and economic activities, similar to those in Shenzhen and Dubai.¹⁰ The country also already passed ambitious tax reform, rationalized subsidies while managing civil service costs, and institutionalized a 3% fiscal deficit target in an effort to enhance foreign direct investment (FDI) approvals and improve the ease of doing business, especially in high-value sectors such as semiconductor fabrication and digital technology.¹¹ Indonesia launched an ambitious "Golden Vision 2045" program to transform the country into a more skilled workforce with higher wages as it aims to become a high-income country.
- **Interest Rate Sensitivity:** In general, ASEAN equity markets benefit from lower bond yields. In Indonesia, the market was negatively impacted by high interest rates and a weak rupiah in the second half of 2023 and first half of 2024, which hurt domestic demand and FDI decisions. Domestic inflation has already moderated, however, allowing the country's central bank to cut interest rates ahead of the U.S. Federal Reserve. Banks should also benefit from the rate cuts, given difficulties with high credit costs and thin margins. Thailand is expected to benefit from greater stability in the political sphere coupled with expectations of improved liquidity in equity markets, due to the U.S. rate cut, which has supported flows into the country's capital markets. In Malaysia, lower bond yields and a stronger ringgit should help support earnings for domestic companies and enhance liquidity.

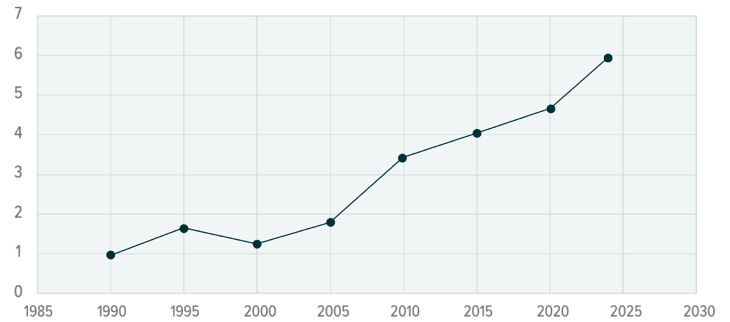


Why ASEA?

- **Leadership:** The Global X FTSE Southeast Asia ETF (ASEA) is the first and only ETF to directly target the ASEAN region.
- **A Client Friendly Structure:** ASEA offers the liquidity and transparency of the ETF structure for a total expense ratio of 0.65%.
- **International Access:** ASEA provides targeted exposure to the five largest Southeast Asian economies while avoiding frontier market risk (as of October 10, 2024, markets are Indonesia, Malaysia, the Philippines, Singapore, and Thailand, but others may be added over time based on the underlying index).
- **Sector Diversification:** ASEA offers exposure to 11 sectors in an effort to reduce concentration risk (as of September 30, 2024).
- **Expertise:** While ASEA is a passive product, Global X's active team of experienced Emerging Market investors provides research and client support.

GDP PER CAPITA IN ASEAN (THOUSANDS OF U.S. DOLLARS)

Source: Global X ETFs with information derived from: International Monetary Fund. (2024, Apr). World Economic Outlook Indicators.



GROWTH IN U.S. IMPORTS FROM ASEAN COUNTRIES THROUGH 2022 (%)

Source: Global X ETFs with information derived from: The World Bank. World Integrated Trade Solution Data. Data accessed on September 30, 2024.



FOOTNOTES

1. International Monetary Fund. (2024, Apr). Regional Economic Outlook: Asia and Pacific.
2. Ibid.
3. International Monetary Fund. (2024, Apr). World Economic Outlook Indicators.
4. Association of Southeast Asian Nations. (2023, Jul). ASEAN Youth Development Index 2022.
5. Association of Southeast Asian Nations. (2023, Dec). ASEAN Key Figures 2023.
6. Ibid.
7. Ibid.
8. U.S. Census Bureau. Percentage Change in U.S. Goods Imports (2018-2021).
9. Bloomberg News. (2024, Sep 15). Thai State Fund Seeks \$4.5 Billion to Help Boost Stock Market.
10. Channel News Asia. (2024, Sep 20). Malaysia Dangles 0% Tax Carrot to Draw Family Offices to Forest City Special Financial Zone, Outlines Other Incentives.
11. Forbes. (2024, Jul 10). Malaysia's Economic Turn Around Under the Leadership of Anwar Ibrahim.

GLOSSARY

Association of Southeast Asian Nations (ASEAN) An intergovernmental organization designed to promote economic, political, and social cooperation between nations in Southeast Asia. There are 10 member countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam).

Gini Coefficient A measure of income inequality ranging from zero to one, where zero indicates perfect equality and one indicates complete inequality.



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