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Investor Presentation | Asia Pacific

Macro Implications of China AI 2.0

MORGAN STANLEY ASIA LIMITED

Robin Xing

Chief China Economist

Robin.Xing@morganstanley.com

+852 2848-6511

Jenny Zheng, CFA

Economist

Jenny.L.Zheng@morganstanley.com

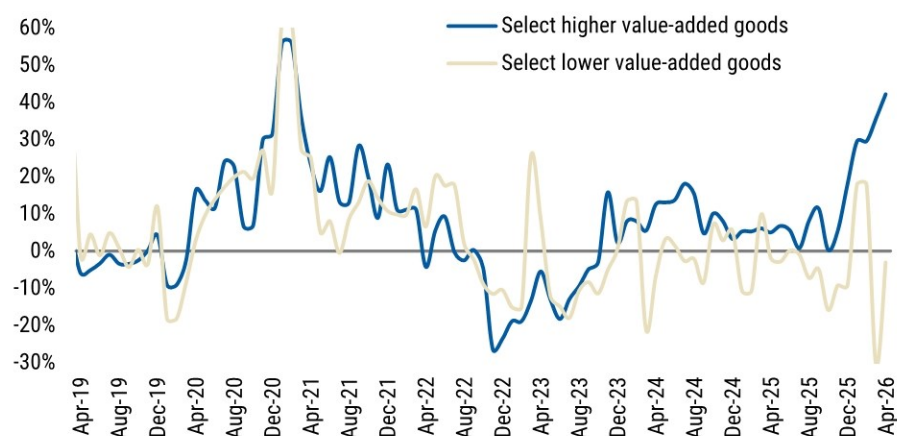
+852 3963-4015

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Tech-led Trade Strength

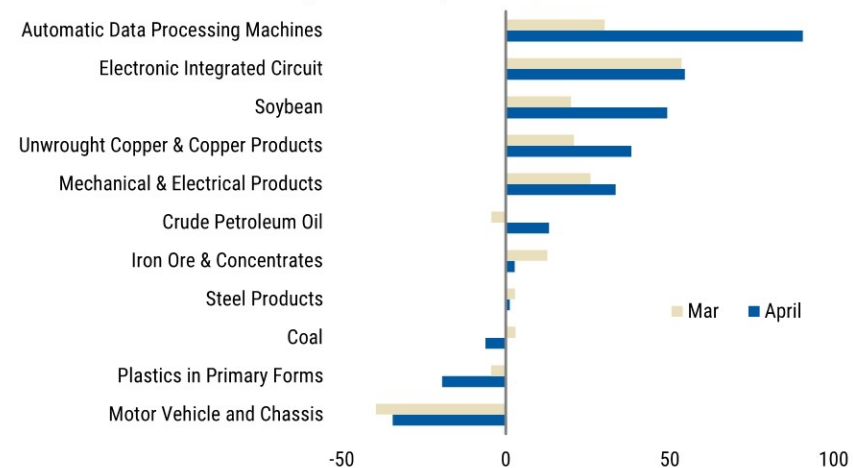
Tech-related demand drove the resilience in both export...

China Export Growth by Product, YoY



...and import growth in April

Import Growth by Product, YoY%

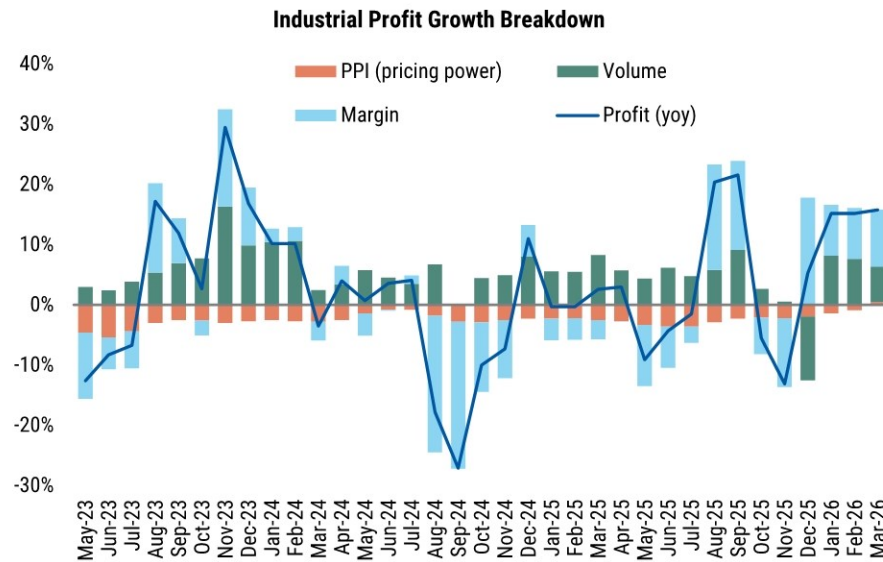


Source: CEIC, Morgan Stanley Research

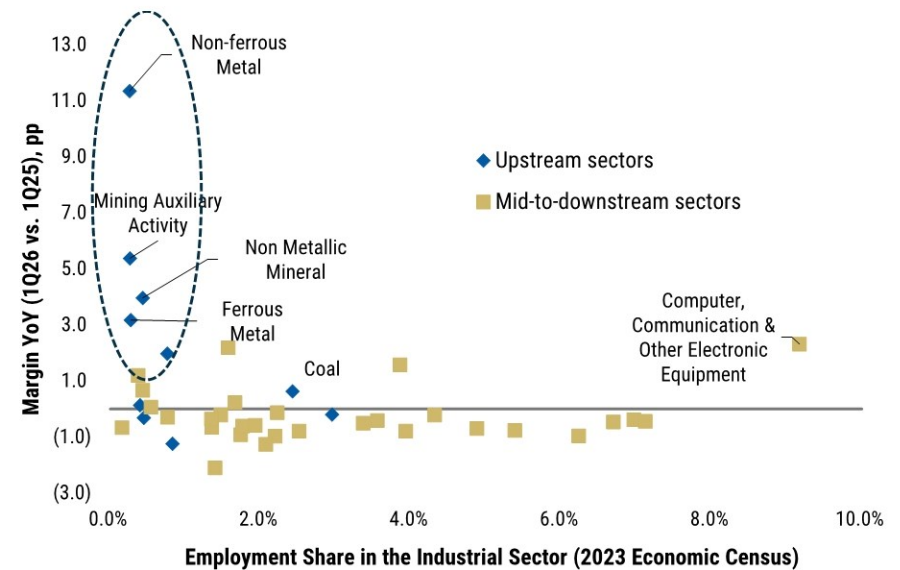


Industrial Profits: Recovery Narrow and Upstream-Led

Industrial profit growth picked up, driven by volume...



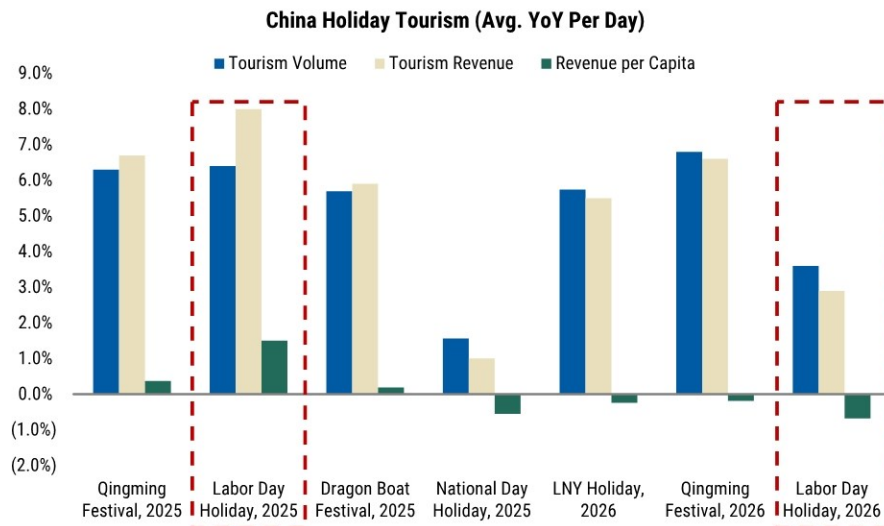
....and margin expansion, which is concentrated in the labor-light upstream sectors



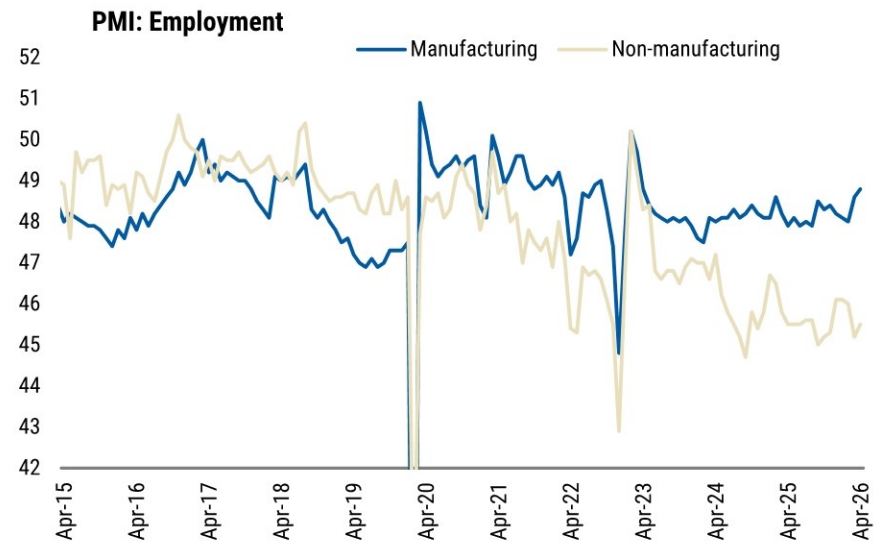
Source: CEIC, Morgan Stanley Research

Consumption Appetite Remains Subdued

Per capita spending softened during Labor Day Holiday, though partly due to a high base last year



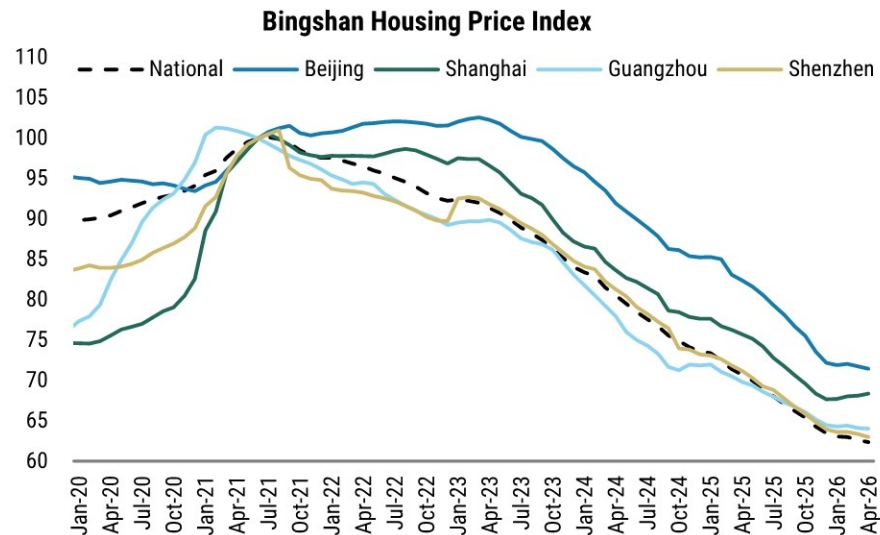
Persistent weakness in the labor market remains the key constraint



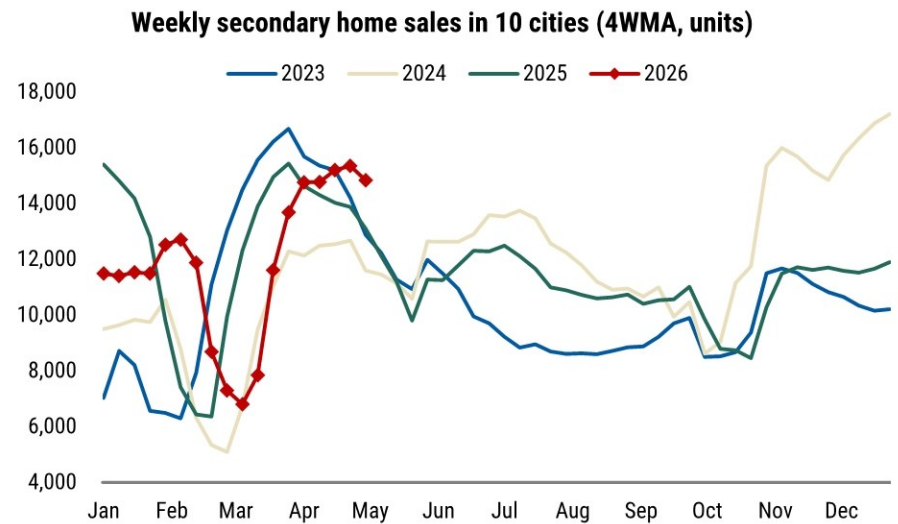
Source: CEIC, Ministry of Culture and Tourism, Morgan Stanley Research

A Sustained Housing Recovery Not In Sight Yet

Improvement in housing prices has concentrated in selected top-tier cities



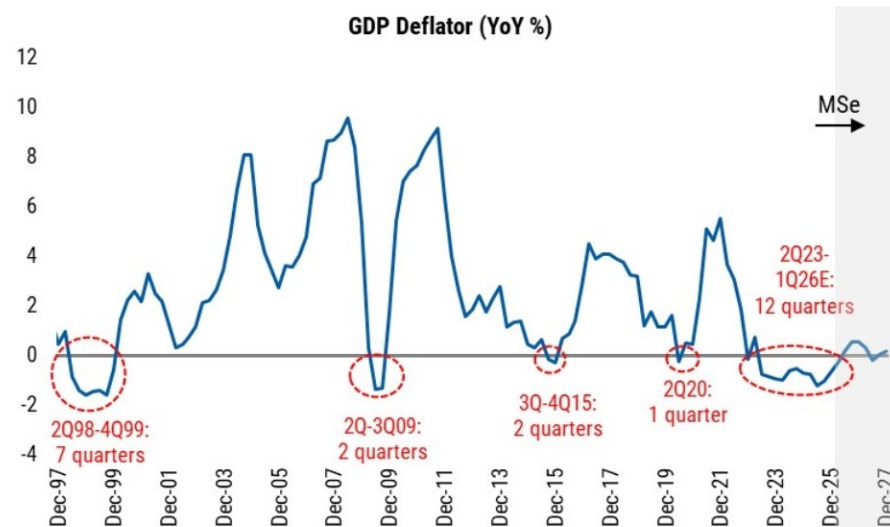
Sequential home sales in major cities has softened again post seasonal uptick



Source: Wind, Bingshan, Morgan Stanley Research

Durable Reflation Requires More Demand Stimulus

GDP deflator steps out of deflation but not out of the woods



China remains halfway in reflation journey, with demand the missing engine

Step 1
Slower investment in
oversupplied sectors

(Investment slowed but
not a slump)

Step 2
**Cutting existing excess
capacity**

(Production curbs, but
not durable capacity
closures)

Step 3
Boosting final demand

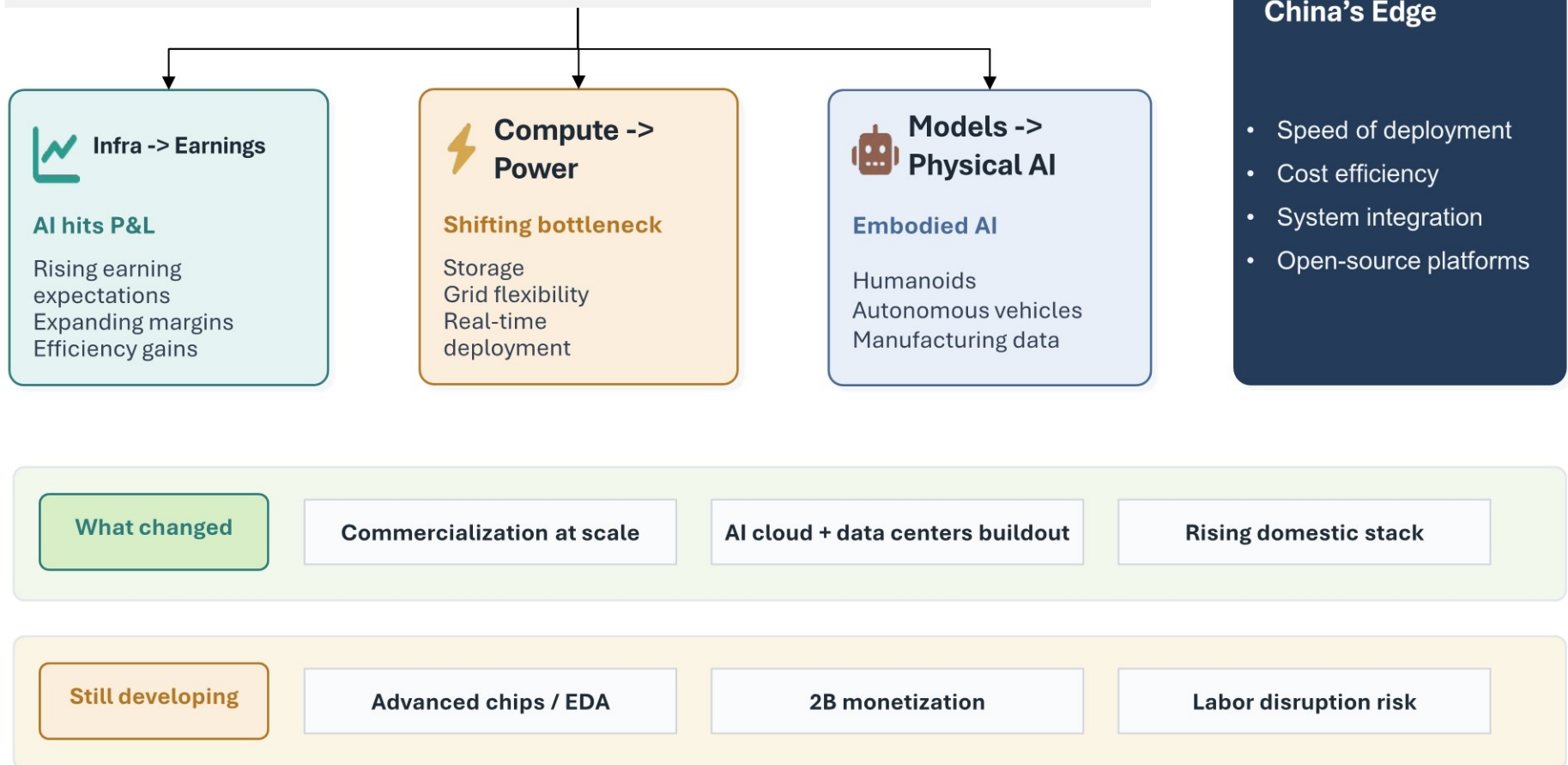
(Still the missing
piece)

Source: CEIC, Morgan Stanley Research estimates

AI Diffusion

China AI 2.0 – Entering a New Phase

AI: A Shift in the Center of Gravity over Past 12 Months

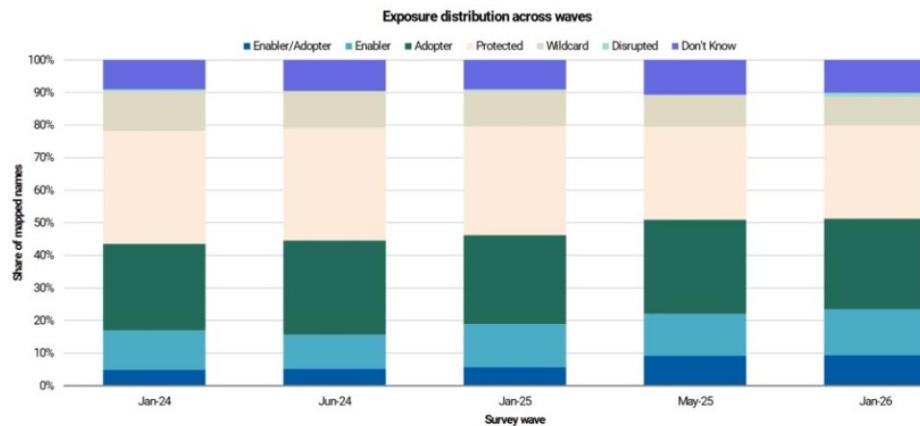


Source: Haver, NBS, UN, government website, Morgan Stanley Research.

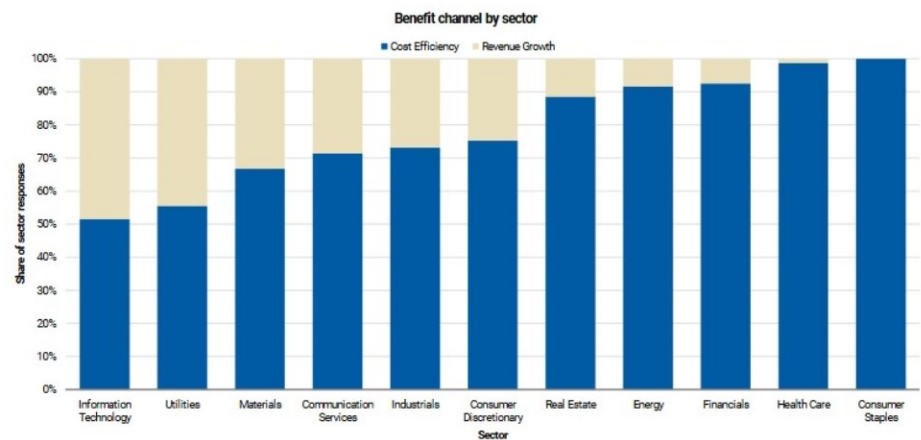
AI Diffusion

China AI Survey – AI Impact Broadening Out

AI adoption broadening – enabler/adopter increased from 43% to 51% in 2 years



IT, Utilities and Materials see the most significant revenue growth from AI

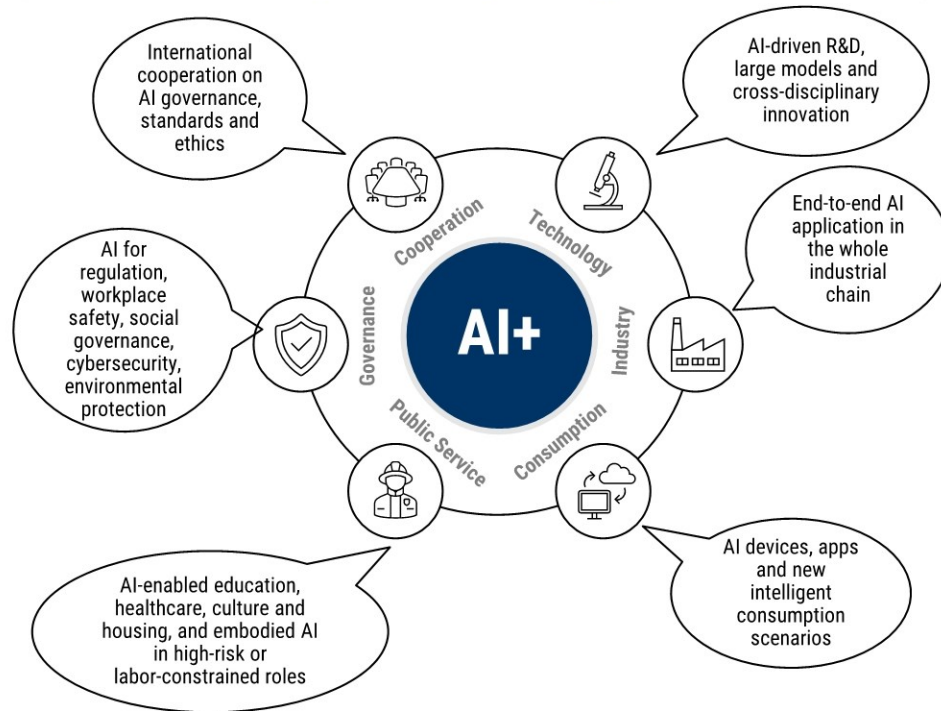


Source: Morgan Stanley Research

AI Diffusion

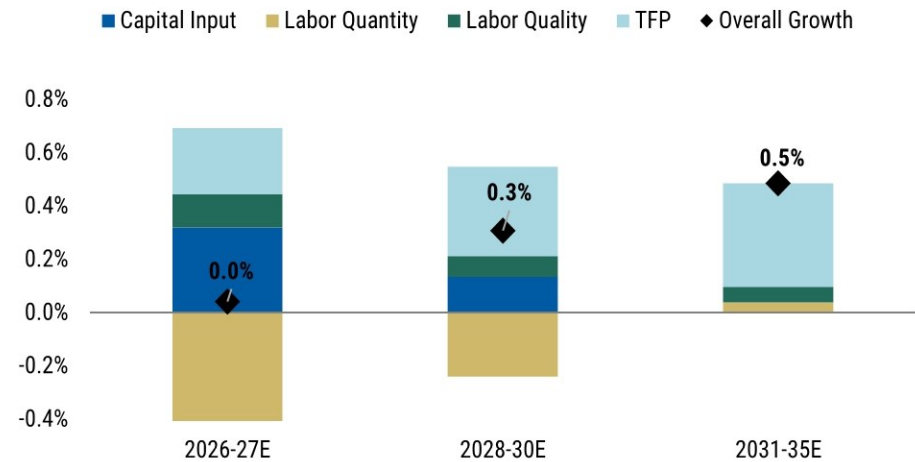
AI To Emerge As China's Medium-term Productivity Lever

The 15th FYP elevated "AI+" as a cross-cutting productivity strategy



AI to lift China's TFP by 3pp cumulatively in 2026-35, with gains skewed toward the latter 5 years

AI Boost to China's Real GDP Growth, ppt

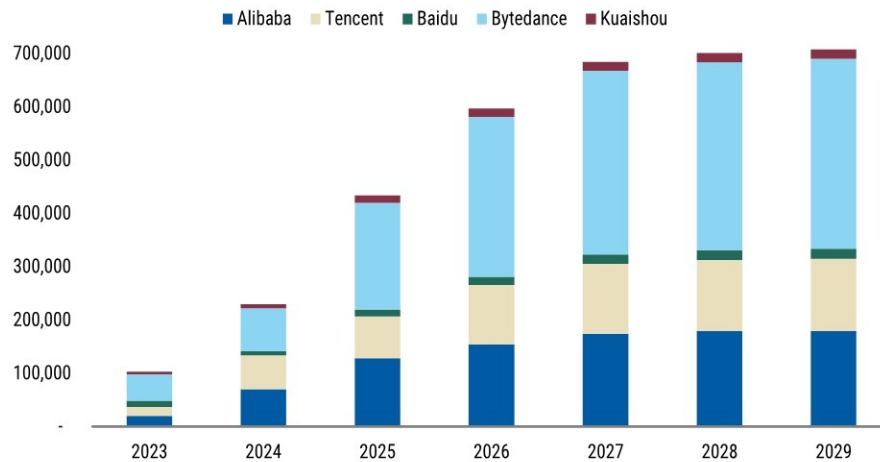


Source: Haver, NBS, UN, government website, Morgan Stanley Research.

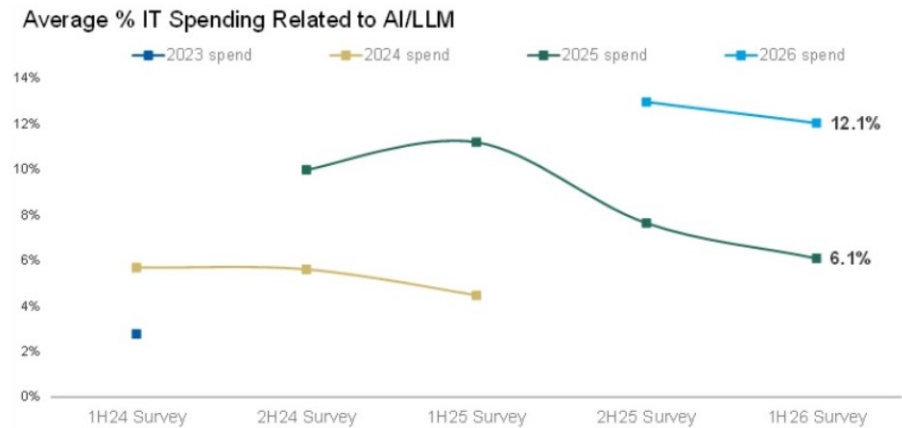
AI Diffusion

AI-driven Capex Boost to Lift GDP Growth by 20-30bps in 2026-27

Hyperscalers to step up AI-related capex spending significantly in next two years



1H26 China CIO Survey: AI share in IT spending budget to remained high at 12.1% this year



Why productivity lags:

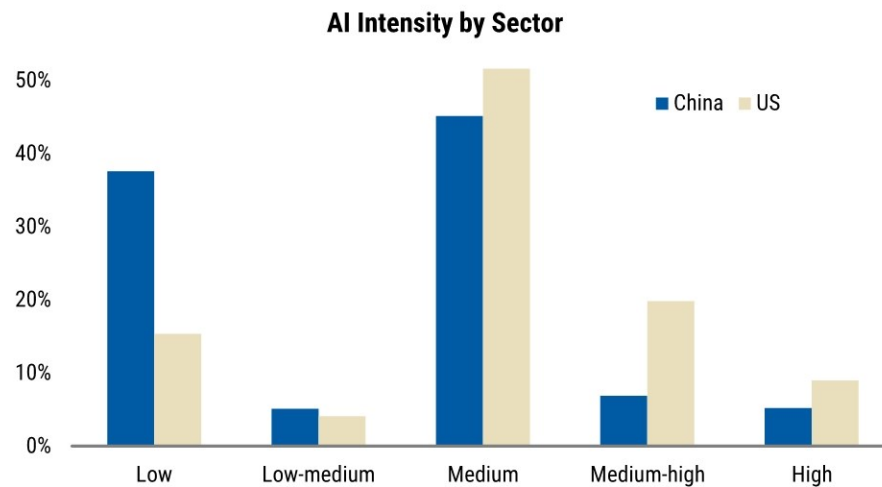
- Learning frictions
- Process disruption
- Investment in capital, skills and organizational change

Source: Company data, CEIC, AlphaWise, Morgan Stanley Research estimates

AI Diffusion

But Positives Could Be Offset By Near-term AI-induced Job Disruptions

China's job market is less exposed to AI diffusion than the US...



...but weaker corporate earnings in China means higher risk of AI-induced labor replacement



Why major technological breakthroughs tend to generate a J-curve in productivity

- Learning frictions
- Process disruption
- Investment in capital, skills and organizational change

Source: Company data, CEIC, AlphaWise, Morgan Stanley Research estimates

AI Diffusion

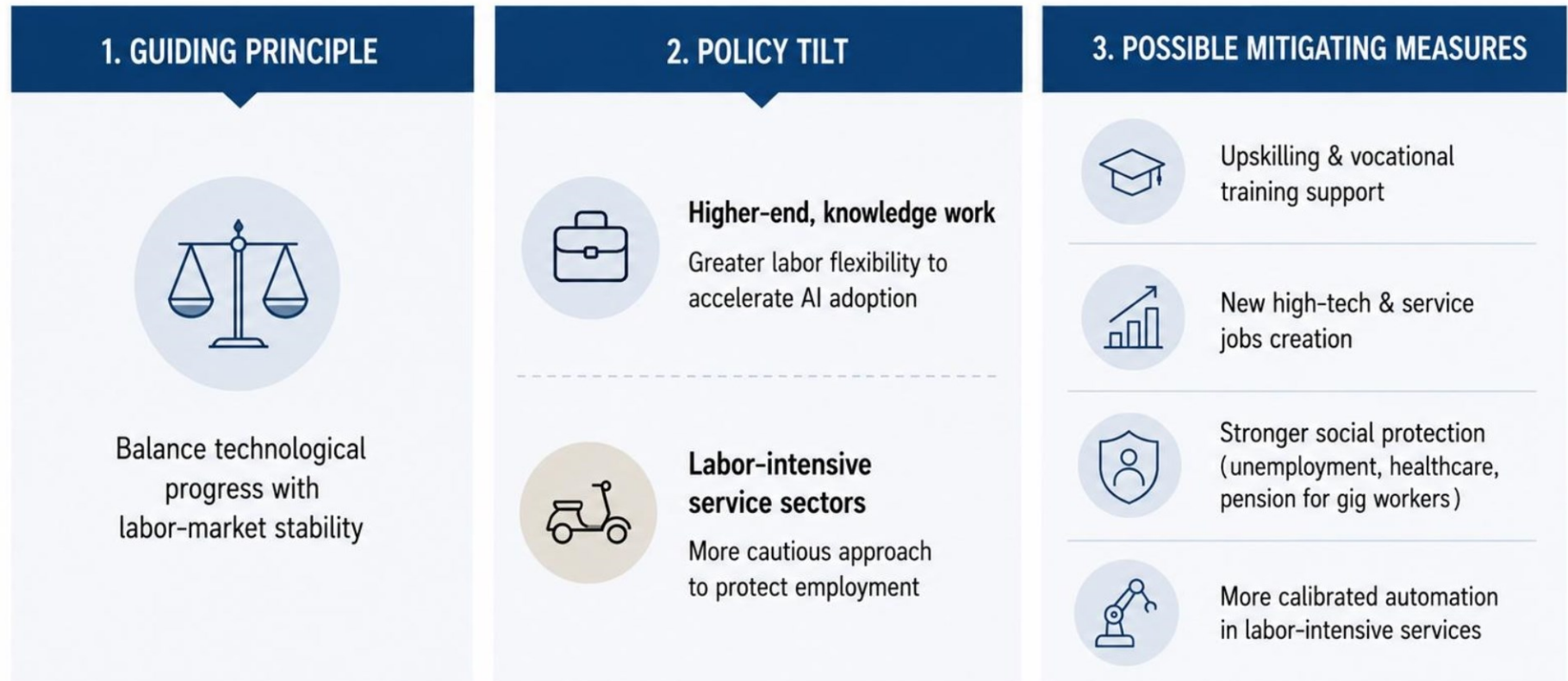
Broad-based AI Job Disruption Risk in China

TYPE OF AI	IMPACTED JOBS	MACRO CONTEXT	IMPLICATIONS
 Generative AI	Displacing junior white-collar roles e.g., data entry, research support, content generation, basic analysis	 China has elevated youth unemployment and rising numbers of university graduates towards 2030	 More entrenched youth unemployment problems
 Agentic AI	Encroaching on mid-level professional functions e.g., financial analysis, legal review, diagnostics, engineering design	 Middle income has been under stress given job and wage pressures and housing downfall	 Erosion of middle-income wage stability, hampering consumption
 Physical AI	Threatens labor-intensive service sector e.g., delivery, transport, retail, warehousing, hospitality	 Low-end service sectors have been the primary absorber of employment losses in recent years	 Higher structural displacement risk in the blue-collar service jobs

Source: Morgan Stanley Research.

AI Diffusion

What to Expect on Policy Mitigation



Source: Morgan Stanley Research

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