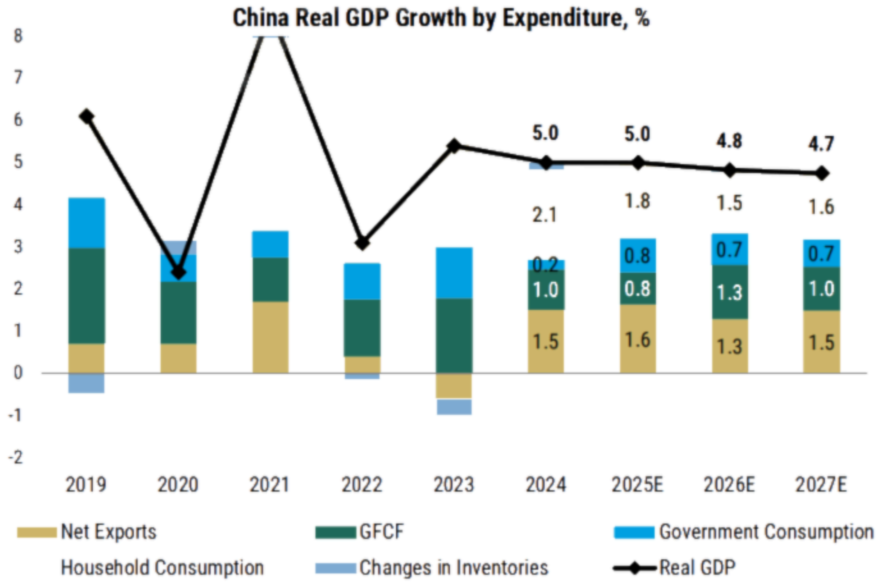
May 22, 2026 10:04 AM GMT

Investor Presentation | Asia Pacific

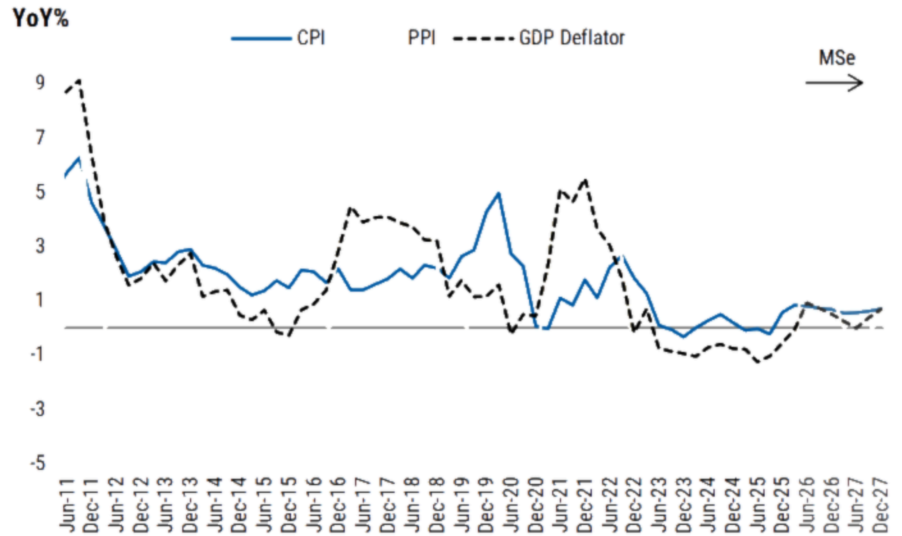
China Outlook Amid AI And Energy Super Cycle

A Two-Speed Economy, Stable in Aggregate

Exports driving growth amid AI and energy capex super-cycle



Inflation is rising but reflation is narrow

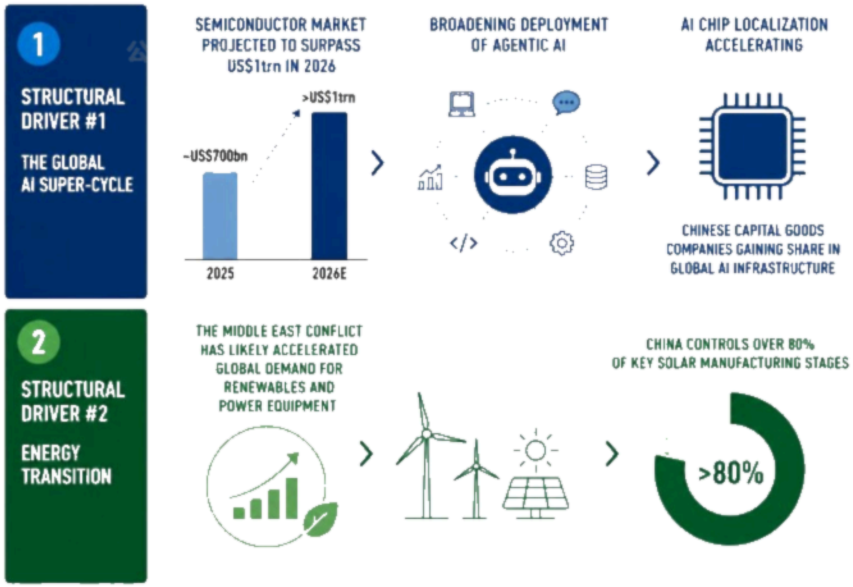


Source: CEIC, Morgan Stanley Research estimates

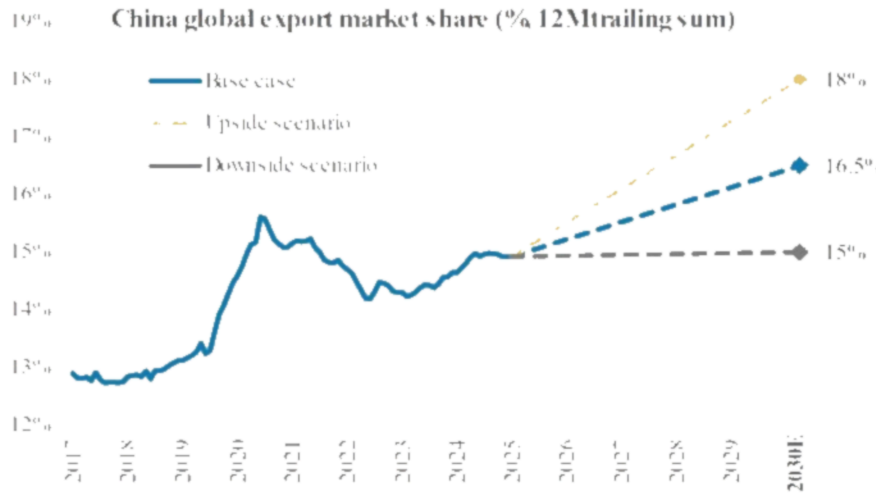
Economic Outlook

Exports Anchor Cyclical Growth Momentum

Structural drivers for export growth



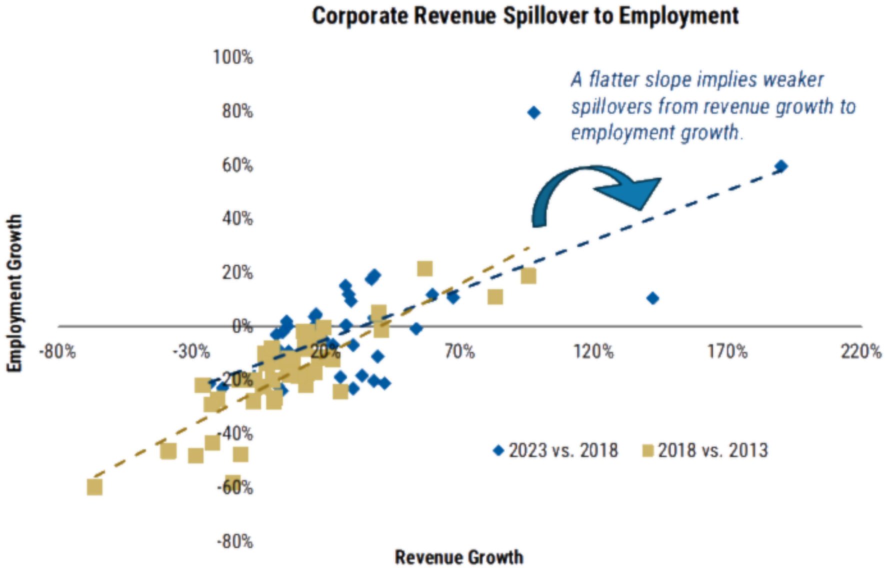
China's global export share may rise from 15% now to 16.5% by 2030



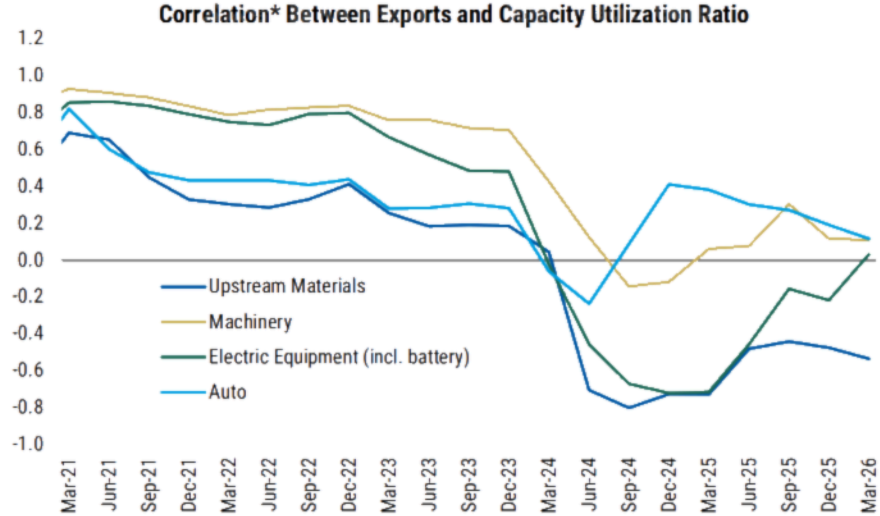
Source: CEIC, Morgan Stanley Research estimates. For more details, see [Asia Economics: Why China will widen its lead in global manufacturing exports] (7 Dec 2025)

That Said, the Positive Spillover to Broader Economy Could Be Milder This Time

Employment may get less boost as the industrial sector becomes more capital incentive and automated



Reduced transmission effect of export strength to capex given pervasive excess capacity



Source: NBS, Economic Census, Morgan Stanley Research. RHS: 3-year rolling correlation.

US-China Presidential Meeting: Relationship Management vs. Tangible Progress

1 Limited Deliverables

Outcomes here skewed more toward "Phase One" deal-style commitments.

Key Deliverables

- U.S. tariff level on China capped at the Kuala Lumpur agreement level
- Launch framework talks on reciprocal tariff reductions (each side: USD 30 billion or more)
- Expand agricultural market access and purchases
- Advance Boeing aircraft purchases and aviation cooperation
- Establish board of trade and investment

2 Three Key Areas of Focus

- Export Controls
- Arms Sales to Taiwan
- US–Iran Relations

3 Chips/Rare Earths Equilibrium

The U.S. lags China by several years in the rare earths value chain.

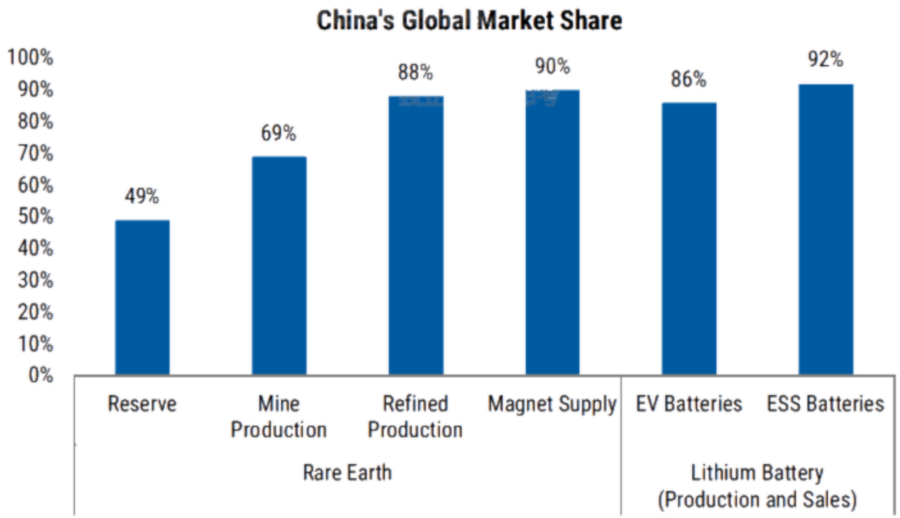
Similarly, China's capabilities in the AI supply chain lag the U.S. by several years.

→ Mirrored dependencies disincentivize either side from material escalation in the near term.

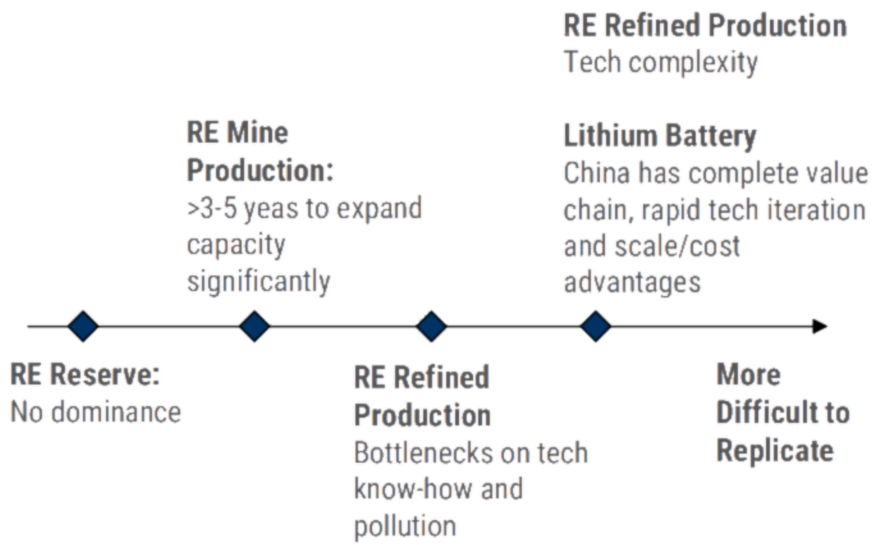
Source: Government website, Morgan Stanley Research. For more details, see US/China Summit: Managing the Relationship (18 May 2026)

Strategic Stability Underpinned by Chips/Rare Earths Equilibrium

China's global dominance in rare earths and lithium batteries



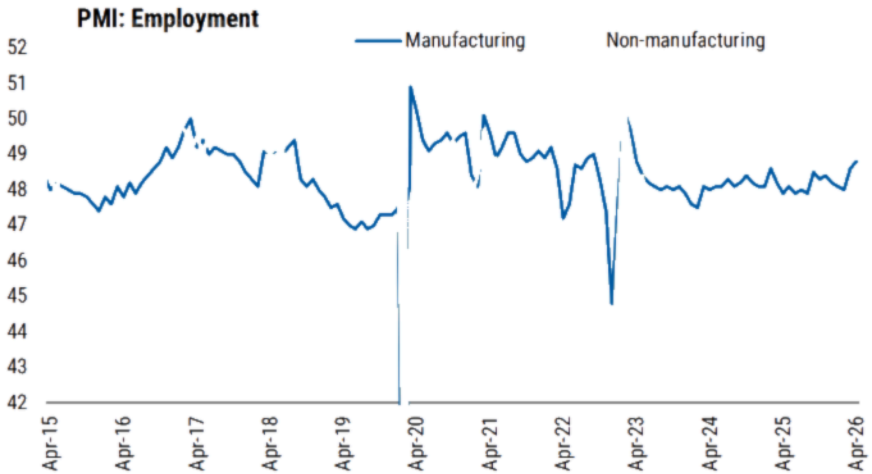
How durable is China's dominance?



Source: US Department of Energy, company data, EV tank, SNE, Morgan Stanley Research.

Domestic Demand Is Still Lagging

Labor market slack is the key binding constraint



AI diffusion may add to the labor market stress

Generative AI

More entrenched youth unemployment

Agentic AI

Erosion of middle-income wage stability

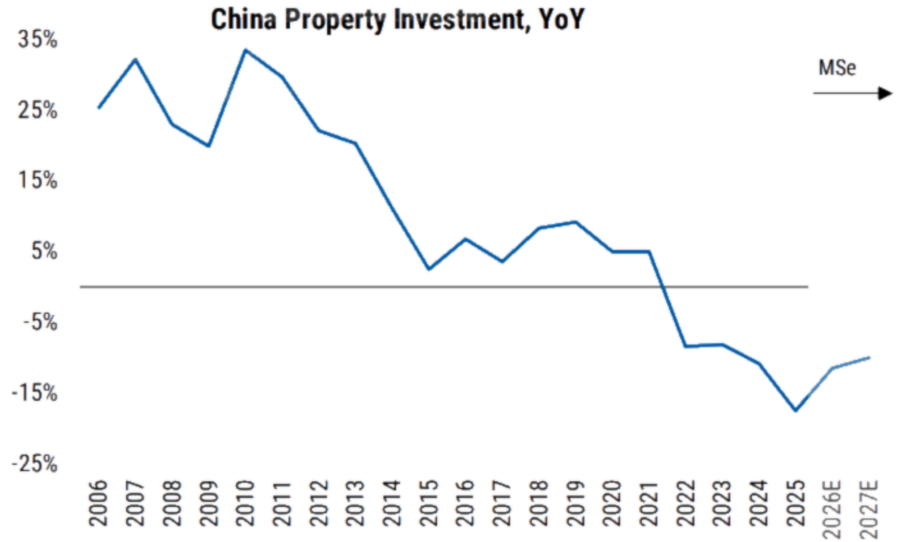
Physical AI

Higher structural displacement risk in the blue-collar service jobs

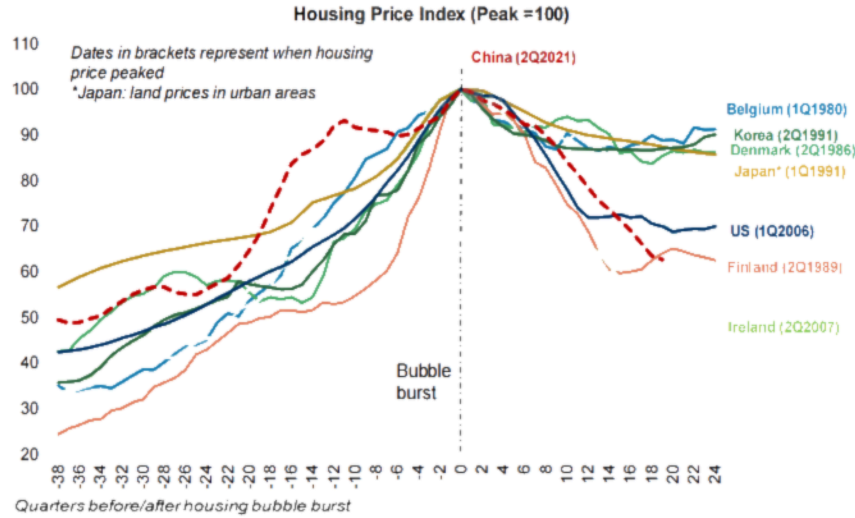
Source: CEIC, Morgan Stanley Research

Ongoing Housing Adjustment

Years of declining new starts have depleted the construction pipeline



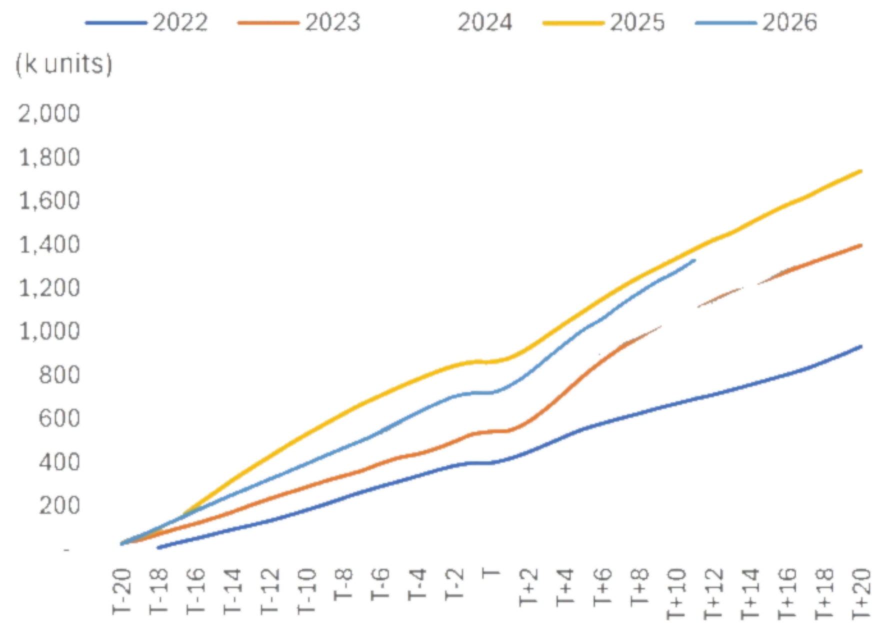
Broad housing prices still face headwinds



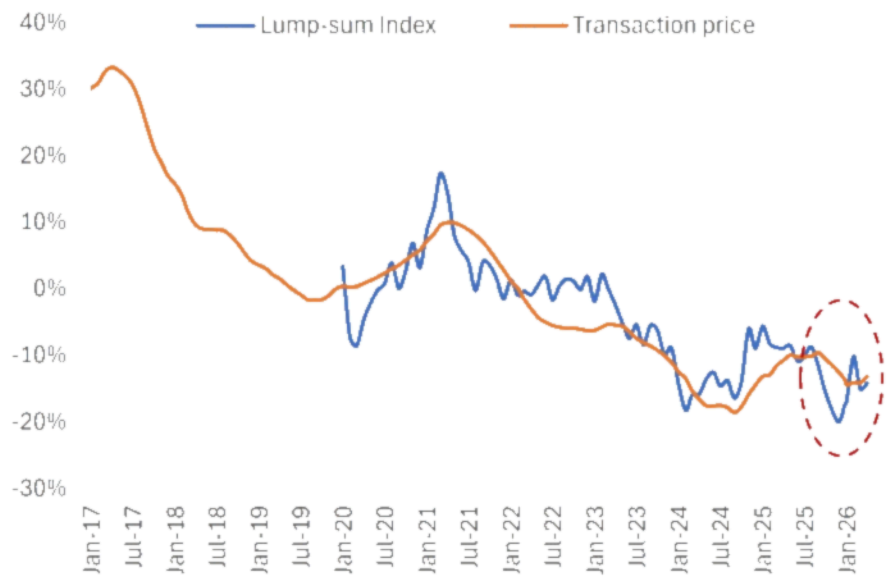
Source: CEIC, Bingshan, BIS, Morgan Stanley Research estimates

An Inflection or Another False Start?

Post–LNY rebound in housing sales may partly reflect the release of previously pent-up demand



A shift toward smaller lump-sum housing



Source: CEIC, Morgan Stanley Research. Note: T stands for Chinese New Year week. For more details, see China Property: An Inflection or Another False Start? (18 May 2026)

Economic Outlook

Majority of the housing market indicators show limited improvement

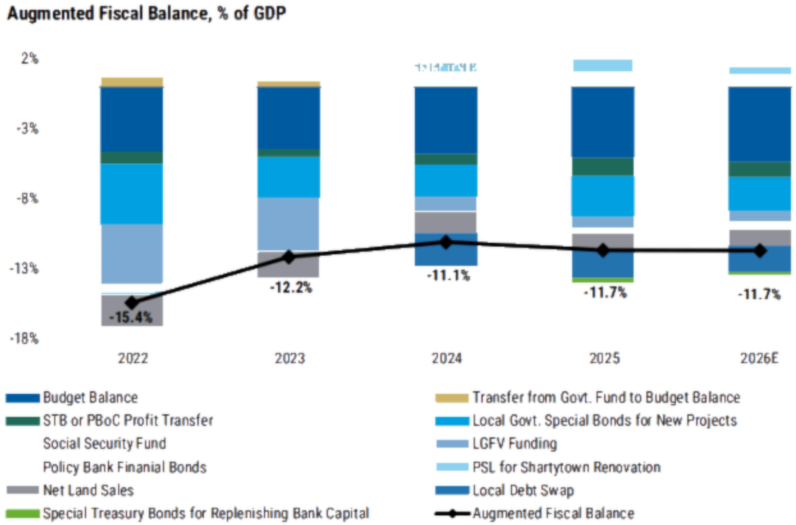
	Indicators	March 2025	April 2026	Change	Note
Resident sentiment (% of respondents in AlphaWise survey)	**Home price outlook of residents**				
	- T1 cities	Net 39% expected decline	Net 46% expected decline	↓	
	- T2 cities	Net 45% expected decline	Net 48% expected decline	↓	
	Home purchase plans				
	- T1 cities	14% respondents	13% respondents	↓	
	- T2 cities	17% respondents	15% respondents	↓	
	Home disposal plan				
	- T1 cities	n/a	35% respondents		
	- T2 cities	n/a	39% respondents		
Housing market health	**Primary inventory level**				
	- T1 cities (4 cities)	~18 months	>23 months	↓	
	- T2 cities (27 cities)	~23 months	>30 months	↓	
	Secondary listing volume				
	- T1 cities (4 cities)	457k units	435k units	↑	BJ / SH / GZ witnessed lower
	- T2 cities (27 cities)	2.95mn units	2.98mn units	↓	63% cities witnessed higher
	Cumulative home prices decline				
	- T1 cities (4 cities)	27%	37%	↑	
	- T2 cities (29 cities)	37%	45%	↑	
	Affordability (price to income ratio)				
	- T1 cities	~15x	~14x	↑	
	- T2 cities	~8x	~7x	↑	
	Rental rate index				
	- T1 cities (4 cities)	82.3	80.5	↓	
	- T2 cities (31 cities)	29.6	28.4	↓	
	Rental yields				
	- T1 cities (4 cities)	1.80%	1.95%	↑	
	- T2 cities (31 cities)	2.42%	2.62%	↑	
	Commercial mortgage rates				
	- T1 cities	3%+	3%+	→	
	- T2 cities	3%+	3%+	→	
	Minimum downpayment ratio				
	- T1 cities	15%	15%	→	
	- T2 cities	15%	15%	→	

Source: CEIC, Morgan Stanley Research. For more details, see China Property: An Inflection or Another False Start? (18 May 2026)

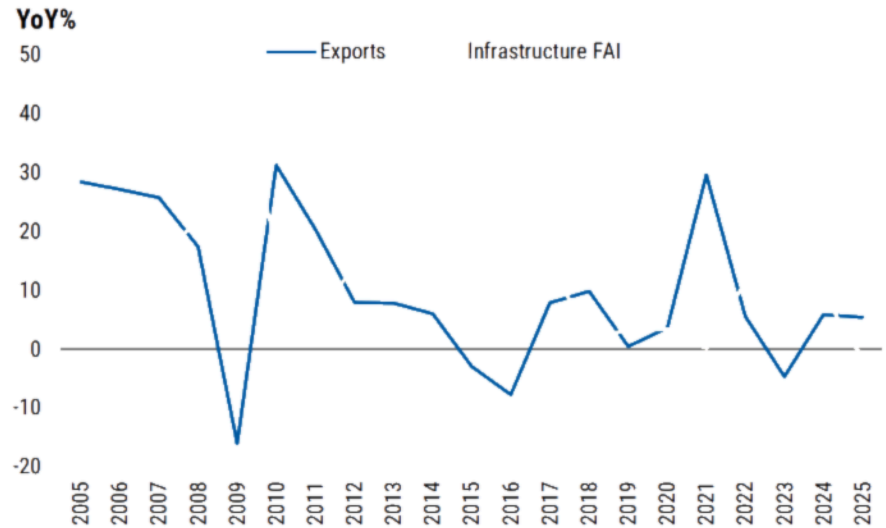
Economic Outlook

Policy on Cruise Control

Augmented fiscal deficit will likely stay flat at 11.7% of GDP this year, with no supplementary budget in 2H



Export resilience reduces urgency for additional countercyclical easing



Source: CEIC, Wind, Morgan Stanley Research estimates

Economic Outlook

Geopolitical Tensions May Reinforce A Supply-Centric Bias

Five-year plan remains supply-centric

Growth Target

- Not Specified

Consumption

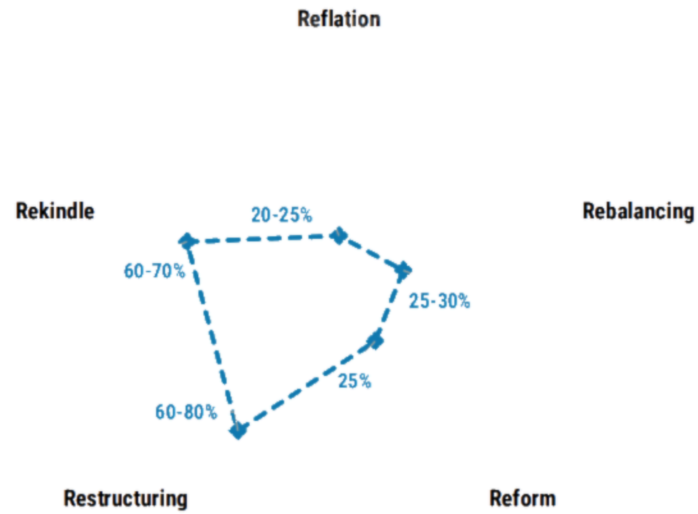
- Commitments to boost consumption/GDP ratio

Tech & Green Transition

Clear numerical targets:

- R&D (5Y CAGR: >7%)
- Labor productivity growth (>GDP growth)
- Digital economy (↑2.5ppt of GDP by 2030)
- CO_2 emissions per unit of GDP (↓17% by 2030 vs. 2025)
- Additional target on non-fossil fuel consumption

Economic rebalancing at a calibrated pace

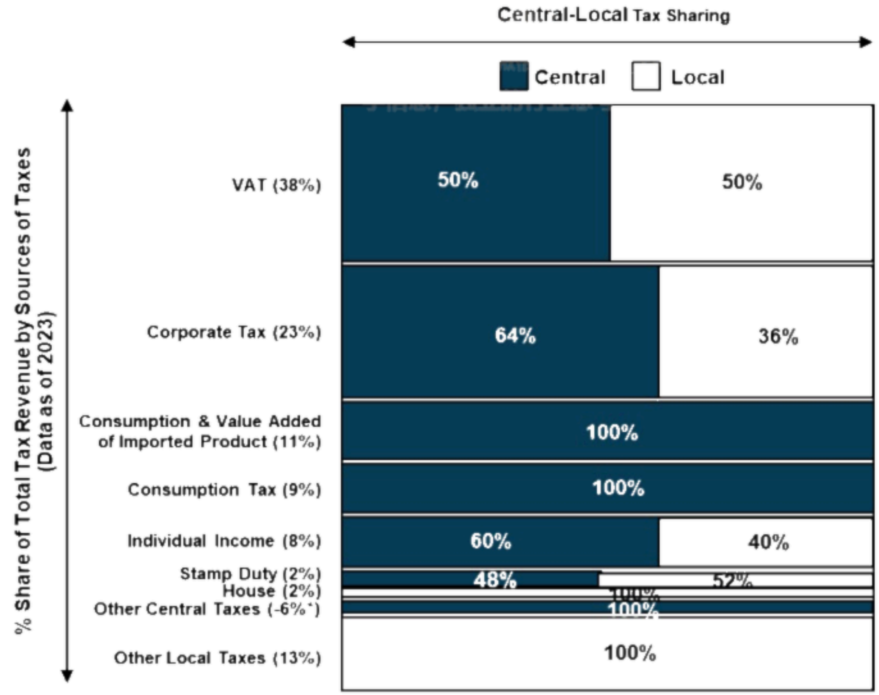


Source: CEIC, Morgan Stanley Research (E) estimates

How to Rebalance the Economy?

Local government incentives should be reoriented towards consumption

Tax reforms in need to reduce overreliance on indirect tax

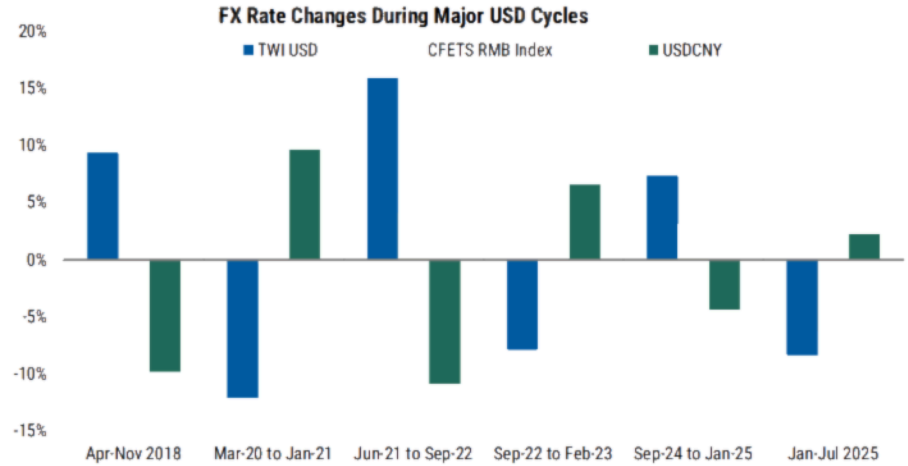


Source: CEIC, Morgan Stanley Research.

PBoC Unlikely to Rely on RMB Appreciation to Address Economic Imbalances

Modest CFETS RMB upside, USDCNY a function of USD moves

How PBoC managed RMB moves in the past



Source: Bloomberg, CEIC, Morgan Stanley Research estimates

Structural Opportunities

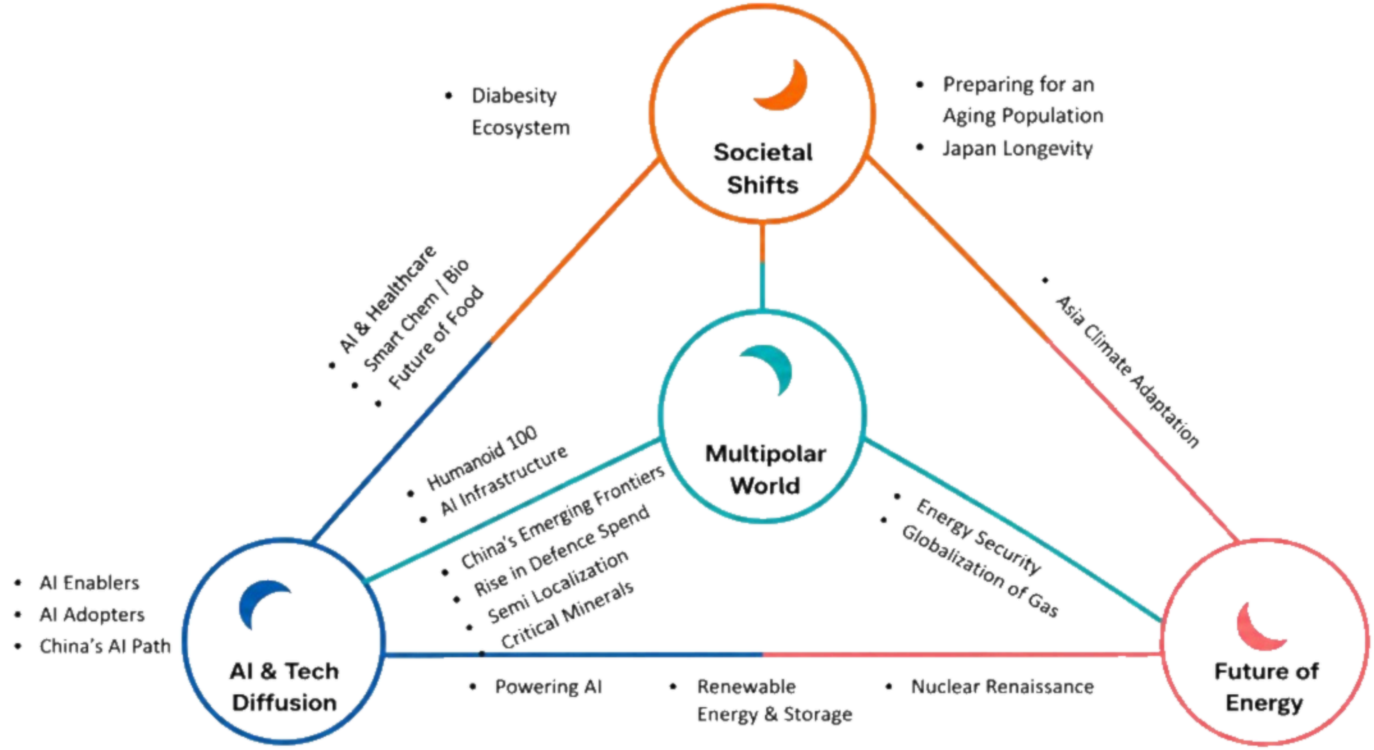
Mapping Out Morgan Stanley's Four Global Themes and Investible Sub-Themes

Multipolar World	AI & Tech Diffusion	Future of Energy	Societal Shifts
The Rise in Defense Spending	AI Enablers	Powering AI	Diabesity Ecosystem
Semiconductor Localization	AI Adopters	Nuclear Renaissance	AI & Health Care
Critical Minerals	AI Infrastructure	Europe's 'Low Decarb Diet'	Smart Chemo
	Humanoids	Power Grid Growth & Evolution	Preparing for an Aging Pop'n
	China's AI Path	Clean Energy & Storage	Japan Longevity
	China's Emerging Frontiers	Energy Security	Future of Food & Beverages
	Asia AI Adoption Leaders	Globalization of Natural Gas	AI Job Displacement & Re-Skilling
		Asia Climate Adaptation	

Source: Morgan Stanley Research. For more details, see Asia Thematic Strategy: Investor Presentation: Playing Asia's Investment Super-Cycle and Competitive Reinvention (17 May 2026)

Structural Opportunities

Asia's Competitive Reinvention: Core Themes and Thematic Opportunity



Asia's Capital Market and Governance Reforms

- Japan ROE & Productivity Journey
- Korea Reform Renaissance
- China Anti-Involution Initiative
- Singapore Capital Market Reforms
- New India and IndiaStack
- Asia Financial Acceleration

Source: Morgan Stanley Research. For more details, see Asia Thematic Strategy: Investor Presentation: Playing Asia's Investment Super-Cycle and Competitive Reinvention (17 May 2026)

China AI 2.0 – Entering a New Phase

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

Infra -> Earnings

AI hits P&L

Rising earnings expectations
Expanding margins
Efficiency gains

Compute -> Power

Shifting bottleneck

Storage
Grid flexibility
Real-time deployment

Models -> Physical AI

Embodied AI

Humanoids
Autonomous vehicles
Manufacturing data

China's Edge

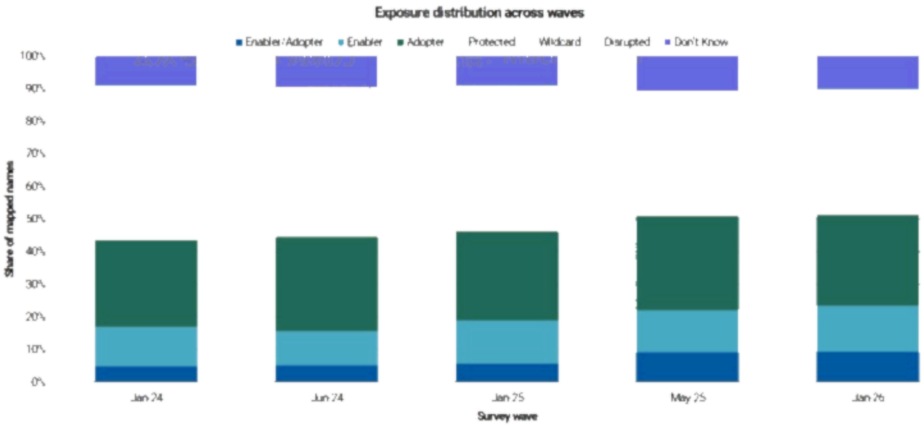
- Speed of deployment
- Cost efficiency
- System integration
- Open-source platforms

What changed	**Commercialization at scale**	**AI cloud + data center buildout**	**Rising domestic stack**
Still developing	**Advanced chips / EDA**	**2B monetization**	**Labor disruption risk**

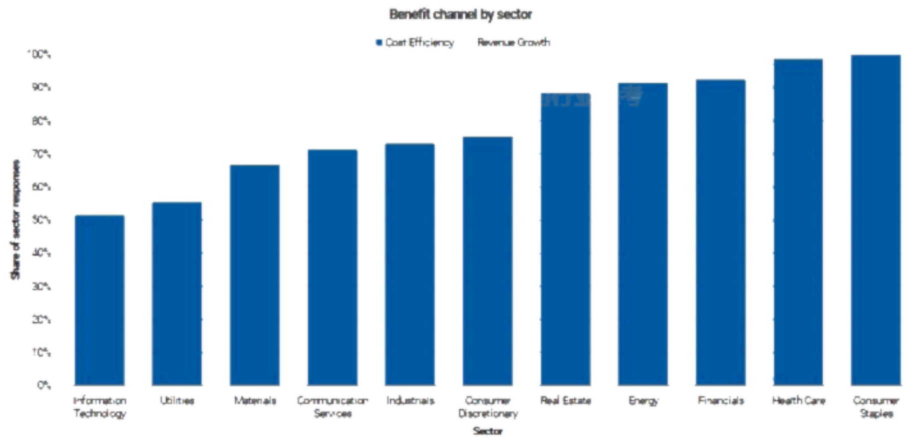
Source: Morgan Stanley Research.

AI Impact Broadening Out

51% of surveyed corporates are now AI enablers/adopters



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

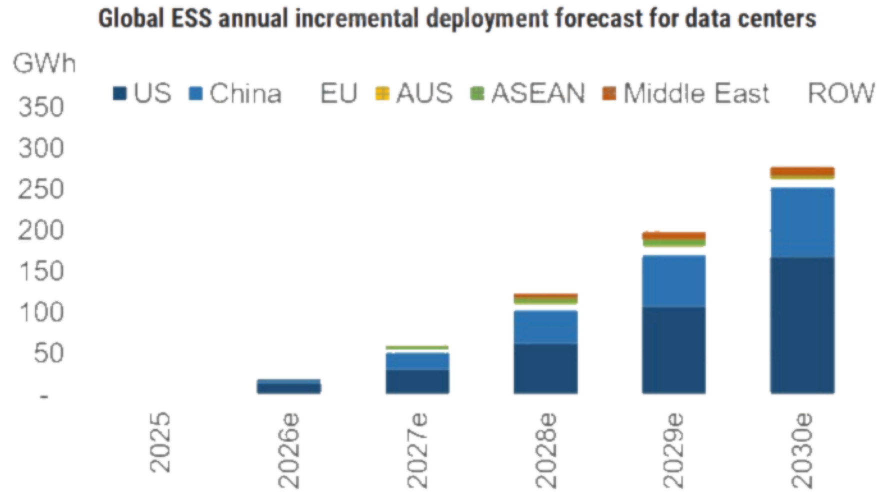


Source: Morgan Stanley Research

Key Developments in Strength #1: Power

Power consumption shifting from training workload to inference...

...making opportunities for the energy storage system



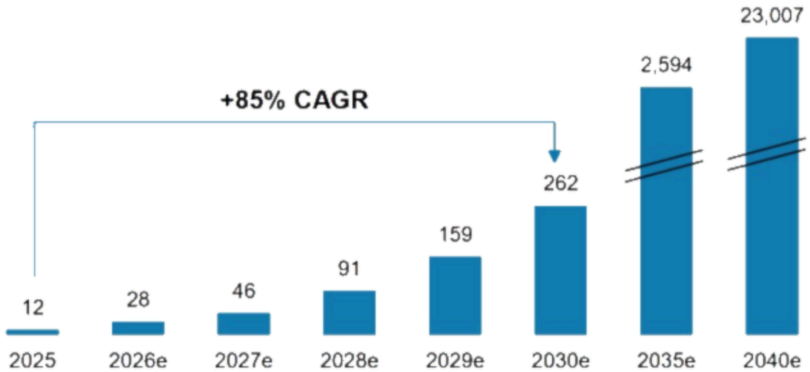
Source: Rystad, Morgan Stanley Research estimates. For more details, see China AI 2.0 – Entering a New Phase (10 May 2026)

Key Developments in Strength #2: Humanoids

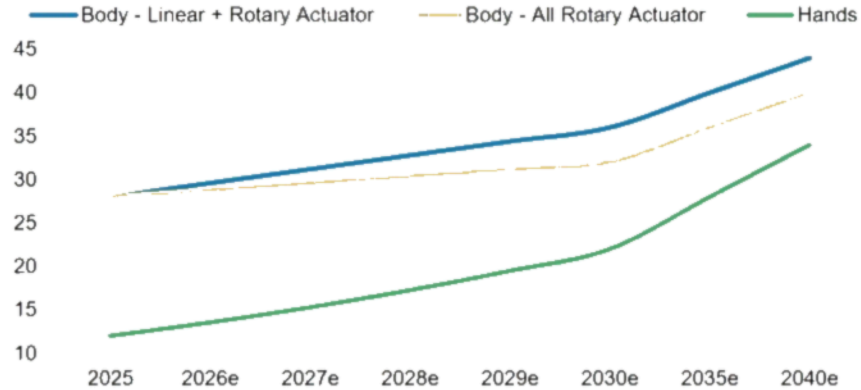
Our China Industrials team has revised humanoid sales estimate to 28k units for 2026...

...and expects humanoids to be eventually more capable, accomplished by an increasing degree of freedom

China Humanoid Sales ('k unit)



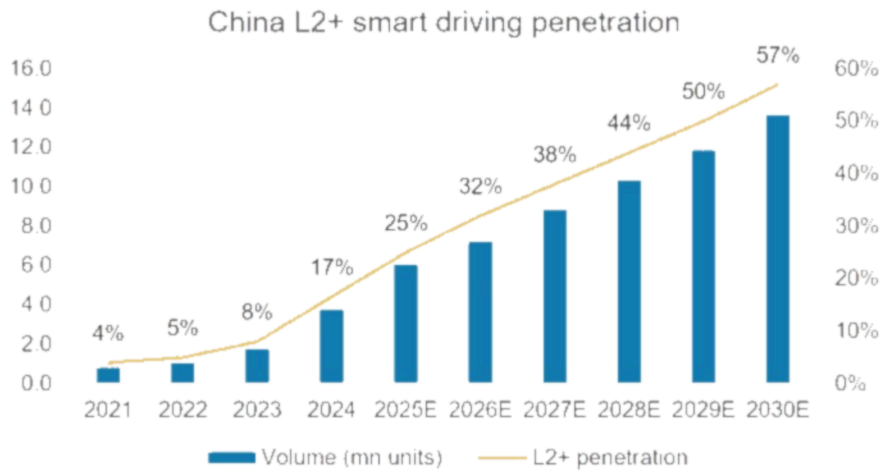
Humanoid Degree of Freedom (DoF) Trend



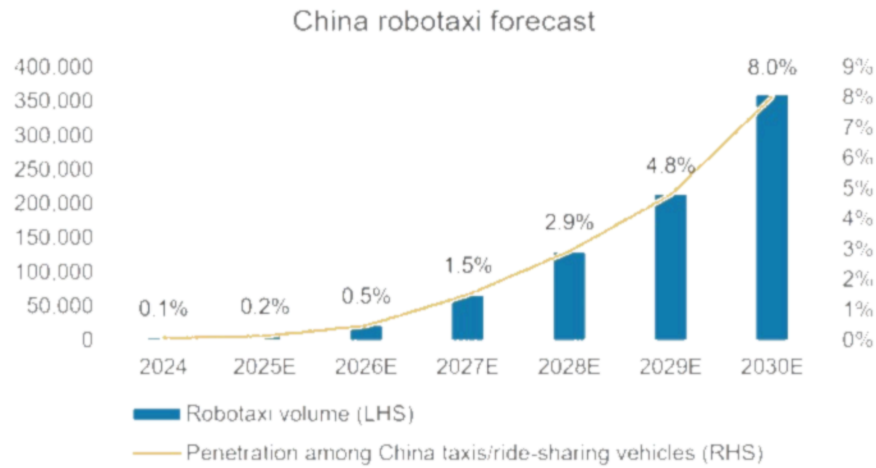
Source: Morgan Stanley Research estimates. For more details, see [2026 Outlook – Humanoids: Commercialization (21 January 2026)]

Key Developments in Strength #3: Autonomous Driving

Our Auto team expects L2+ smart driving penetration to reach 32% in 2026 and 50%+ in 2030 (vs. 25% in 2025)



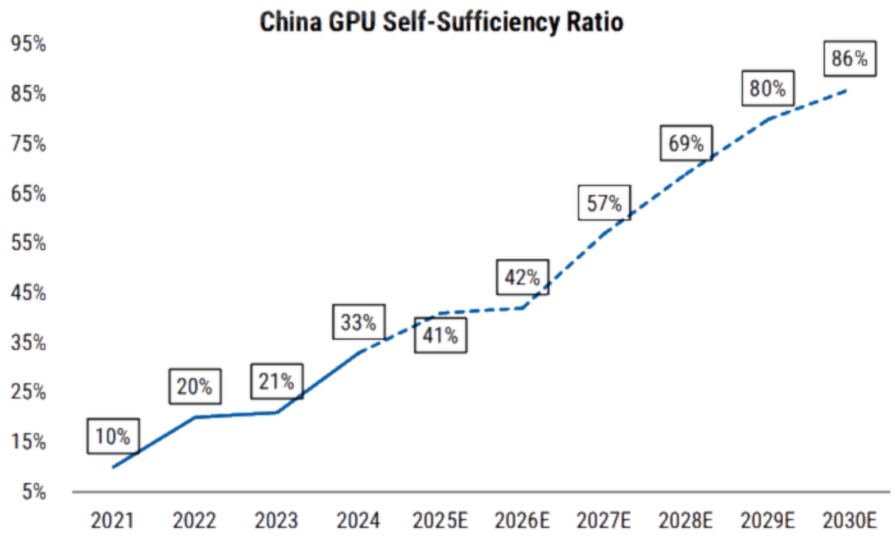
China's robotaxi fleet size to reach 360-400k units by 2030, accounting for 8% of total taxi/ride-sharing fleet size



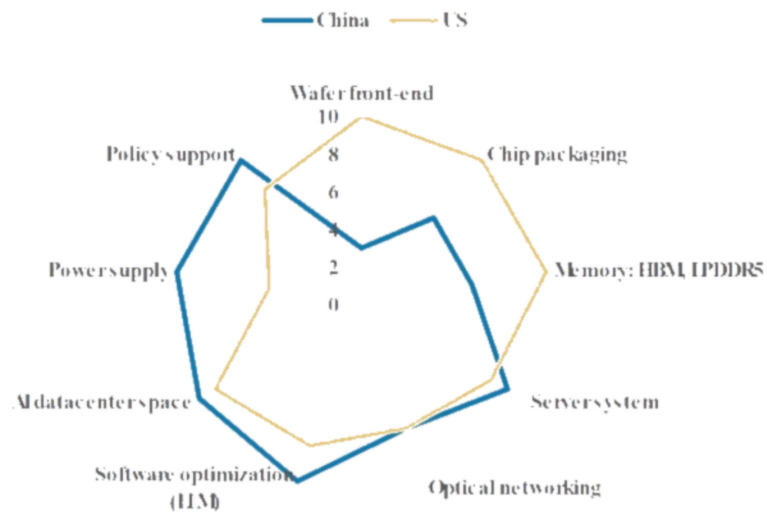
Source: NT Times, Morgan Stanley Research estimates. For more details, see China AI 2.0 – Entering a New Phase (10 May 2026)

China AI Enabler

China AI chip self-sufficiency is likely to reach 86% in 2030

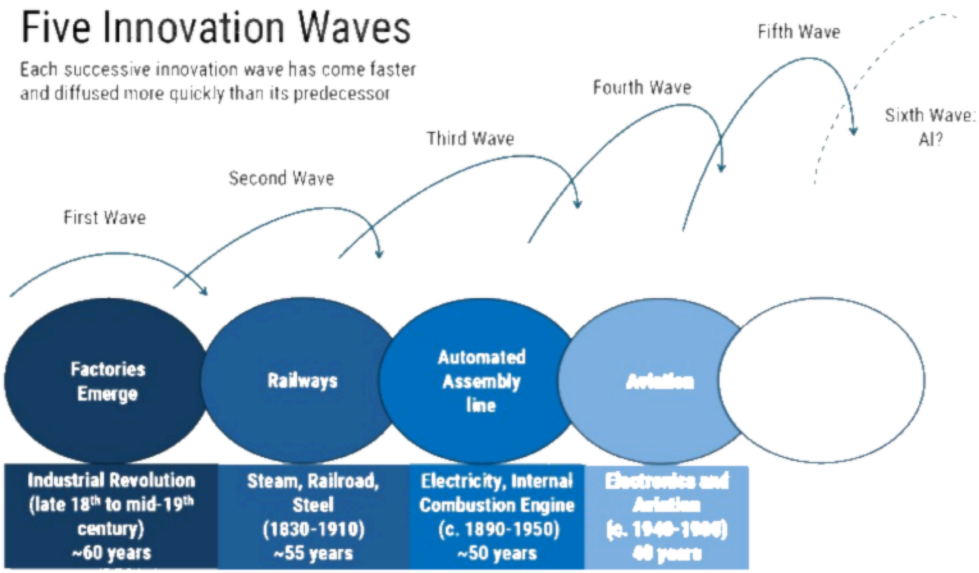


Relative strengths of US and China AI industries



Source: Company data, Morgan Stanley Research estimates. For more details, see China AI 2.0 – Entering a New Phase (10 May 2026)

AI Impact: Lessons from the Five Innovation Waves



01 Productivity gains are likely

02 Labor Displacement Is Transitional

03 Boom-Bust Cycles Are Probable

04 Inequality Risks Are Elevated

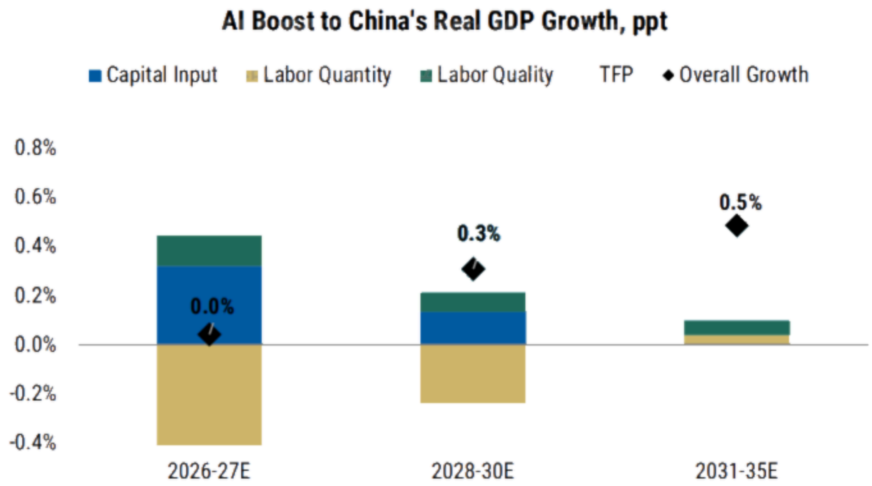
05 Education and Re-skilling Will Be Decisive

06 Policy Matters

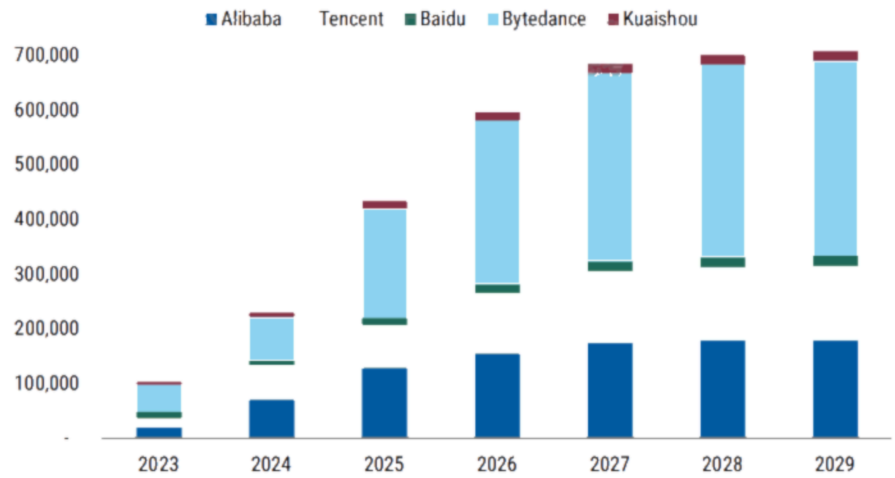
Source: Morgan Stanley Research. For more details, kindly see Lessons from the Five Innovation Waves That Preceded AI (6 April 2026)

What Rapid AI Diffusion Means for China's Economy

AI's impact on China's GDP growth: near-term neutral, long-term positive



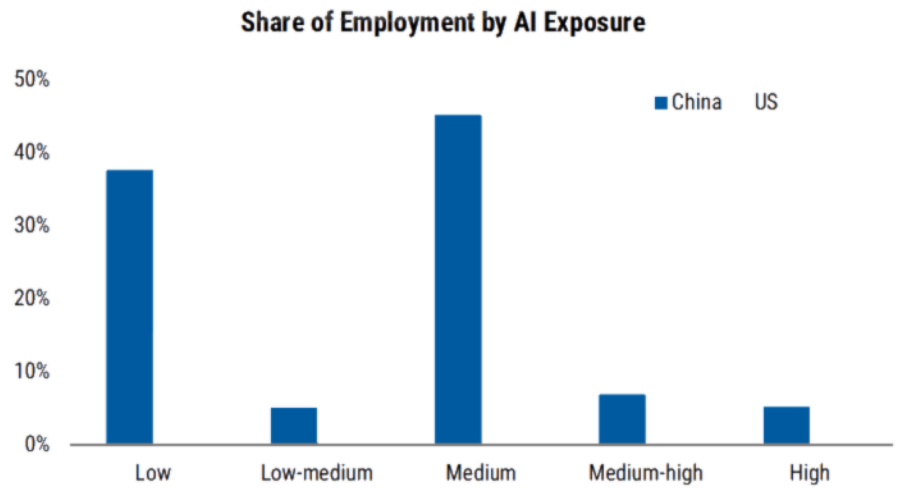
Hyperscalers to step up AI-related capex significantly in next two years



Source: CEIC, company data, Morgan Stanley Research estimates

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 mean higher risk of AI-induced labor replacement

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

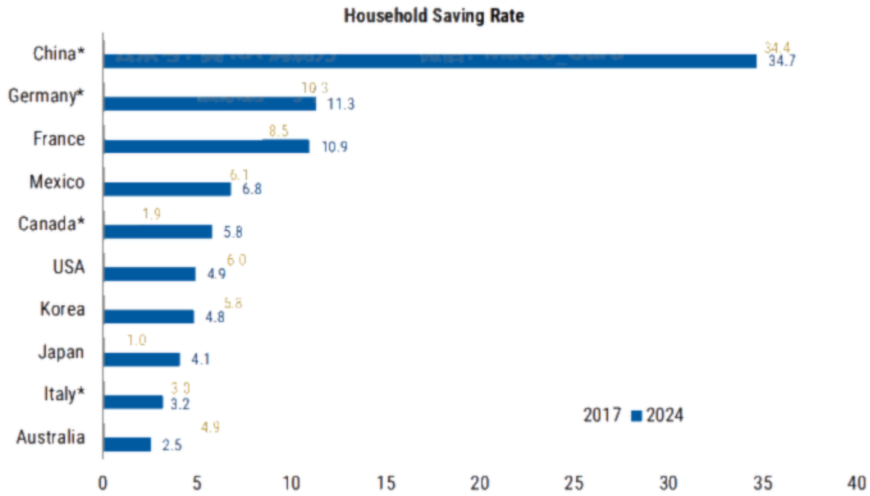
- Learning frictions
- Process disruption
- Investment in capital, skills and organizational change

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

Gradual Rebalancing

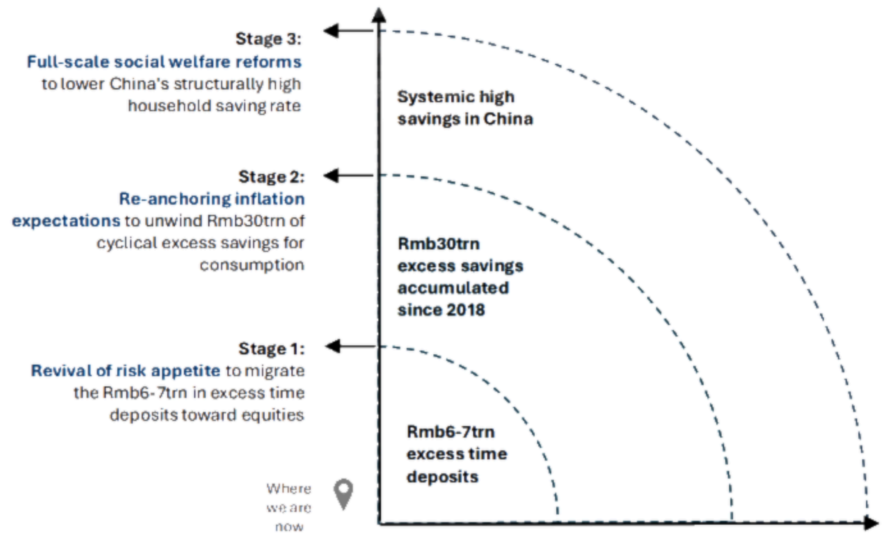
Unlock China’s Household Savings…

China’s household saving rate remains elevated



*2024 data for China, Germany, Canada and Italy. 2023 data for the others

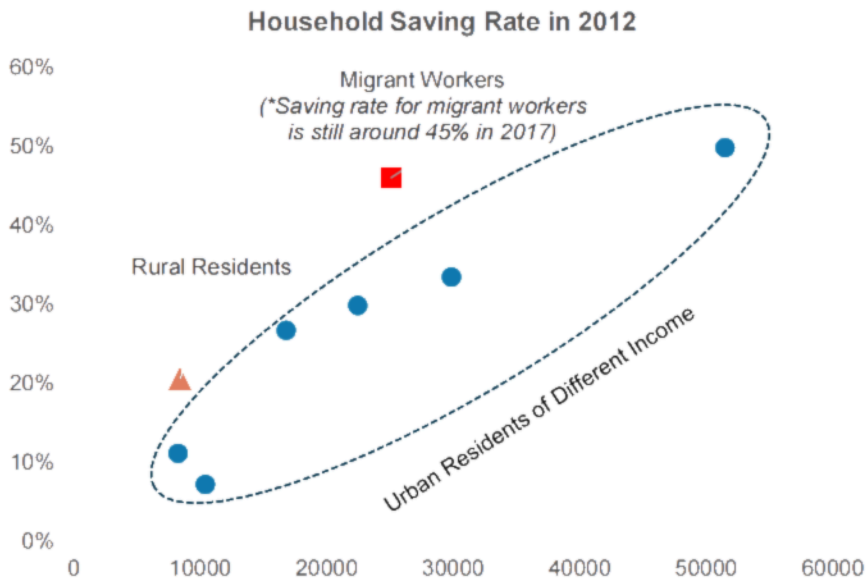
A three-stage roadmap to unwind household savings



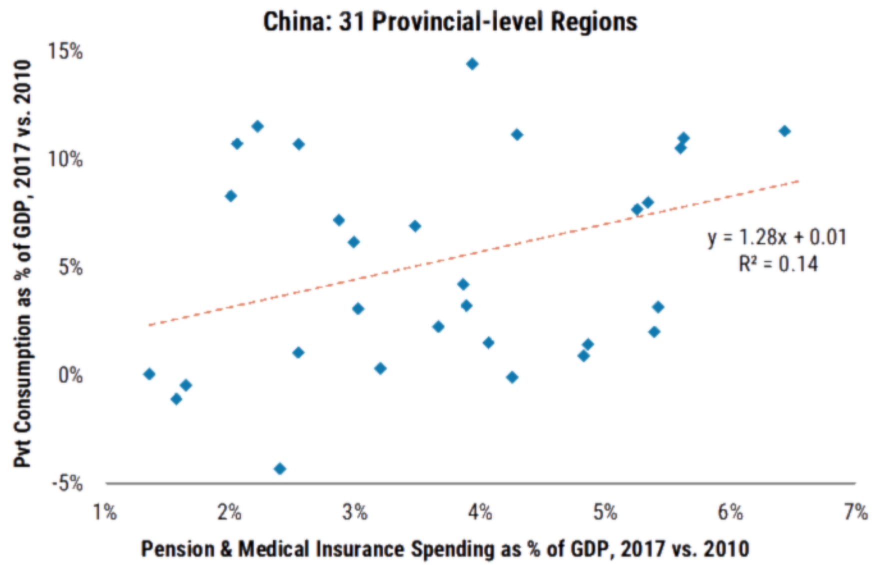
Source: Haver, OECD, Morgan Stanley Research.

Gradual Rebalancing
…with Social Welfare Reform

Income redistribution toward lower-income households that exhibit a higher marginal propensity to consume



Provincial data show rising social welfare spending associated with higher consumption share in GDP



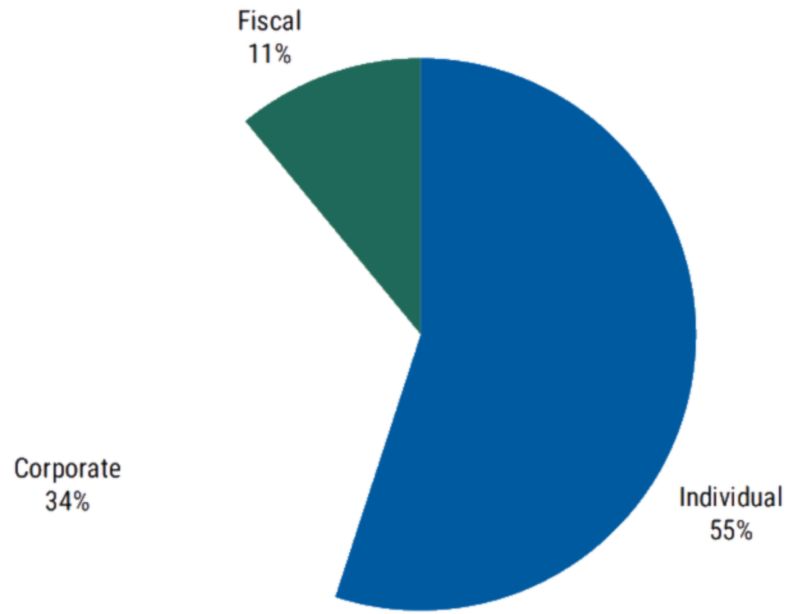
Source: CEIC, Morgan Stanley Research.

Gradual Rebalancing

Long-term Care Insurance to Enhance Social Security

- **Employees:** 0.3% (of salary), employers/employees: 50/50
- **Retirees:** 0.15% (of pension income).
- **Unemployed:** ~0.15% (of local disposable income) at launch, ~0.3% in five years, partly subsidized by government.

Long-term Care Insurance Contribution Breakdown (% Share)



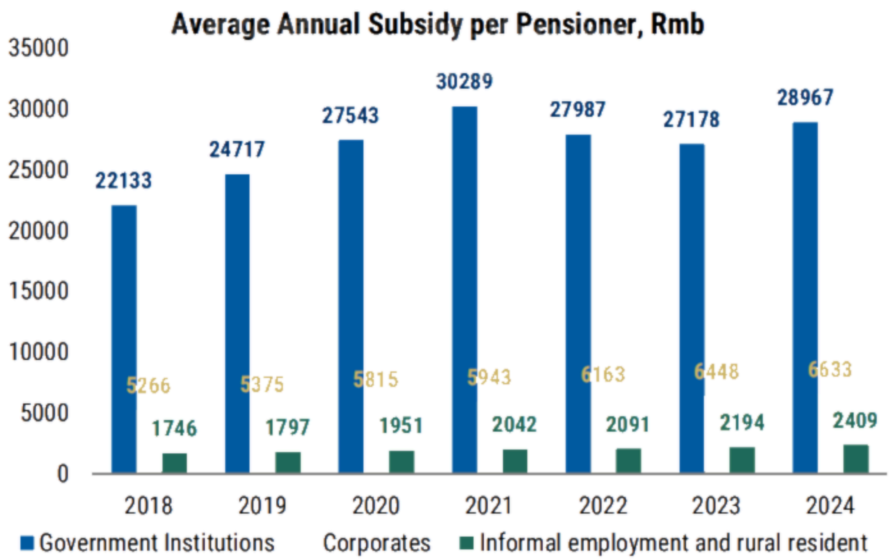
Annual Total Contribution: ~Rmb100bn

Source: Government website, Morgan Stanley Research

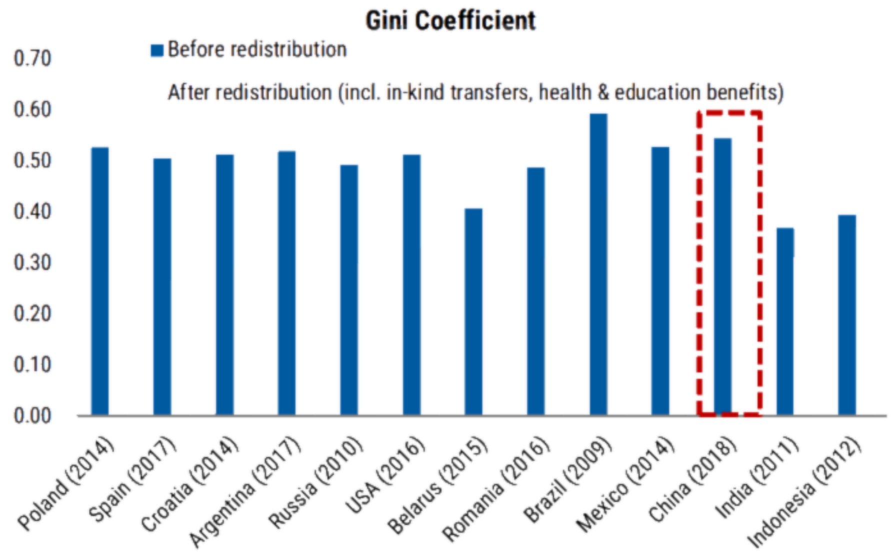
Gradual Rebalancing

Fragmented Social Welfare System

Wide benefit gaps across social groups



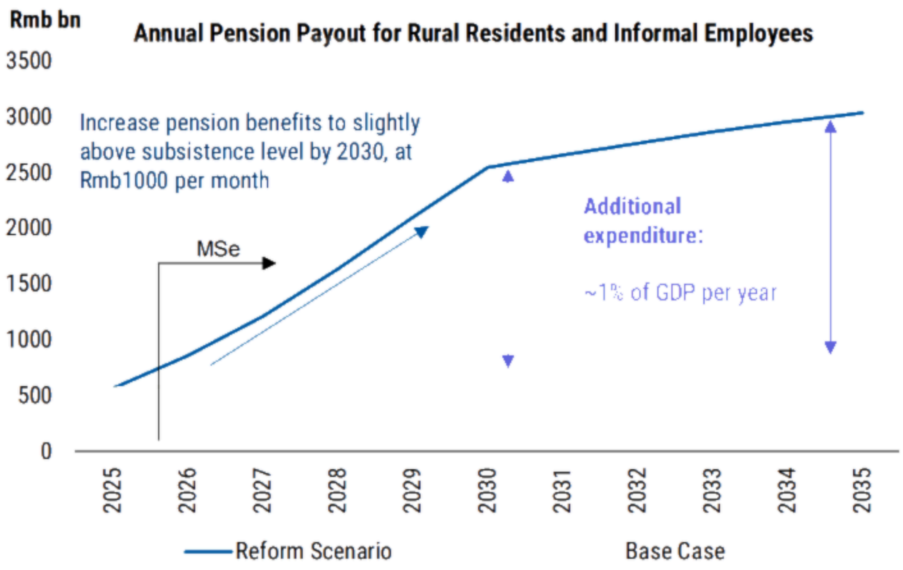
Inequality reduced, yet redistributive power lags peers



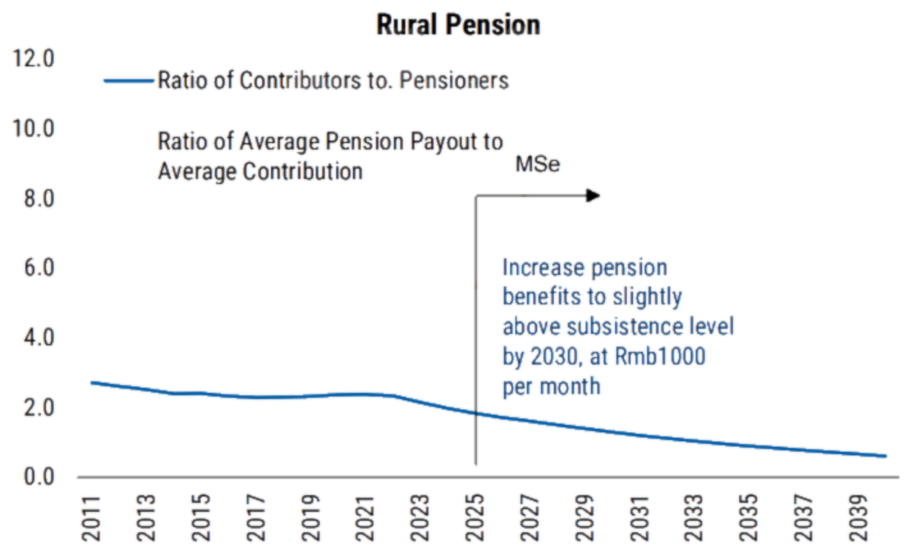
Source: CEIC, World Bank, CEQ Institute, Morgan Stanley Research

Is Social Welfare Reform Financially Sustainable?

Reasonably lifting rural pension benefits would incur modest additional fiscal burden…



…but the system would become more underfunded over the long run



Source: CEIC, Morgan Stanley Research estimates.