China Internet & New Media

China proposes oversight of AI technology exports

Quick Note

Research Analysts

China Internet & New Media

Jialong Shi - NIHK
Jialong.shi@nomura.com
+852 2252 1409

Rachel Guo - NIHK
rachel.guo@nomura.com
+852 2252 1400

China proposes AI technology export controls

On 16 October, China's Ministry of Commerce (MOFCOM) and Ministry of Science and Technology (MST) proposed *expanding the Catalogue of Technologies Prohibited and Restricted from Exports* to cover 40 additional technologies spanning AI, biomedicine and photovoltaics. The consultations will run through 15 November. While a commencement date for the revised catalogue has not been announced, pre-export registration for the specified technologies has already taken effect. We note that the proposal exempts all open-source models or AI technologies that are already published to the market.

The proposal places AI technologies into two categories: (1) sensitive AI technologies prohibited from export; and (2) AI technologies and products subject to export controls.

Proposed export prohibitions focus on sensitive data and security-related technologies. The draft identifies four categories: (1) advanced deep fake-detection technologies designed primarily to safeguard China's cross-border data transfers; (2) certain AI-enabled cyberattack technologies and high-performance agents intended primarily for sensitive national-security applications; (3) foundation models trained on China's "core data," as defined in China's Data Security Law; and (4) high-performance AI agents designed primarily for sensitive applications involving critical infrastructure, defense or core government functions. These prohibitions are tied to specified technologies, data or applications, rather than model size or performance alone.

The proposal also has a separate list of AI technologies subject to export controls (the restricted list). The restricted list covers advanced technologies across the AI industrial chain, spanning foundation models, AI agents, AI chips, and AI computing clusters.

For foundation models, a model would meet the relevant threshold for the restricted list if it satisfies any one of three conditions: (1) accumulated computation of at least 10^26 floating-point operations; (2) at least 2tn parameters; or (3) globally leading capabilities. The last condition includes global top-10 rankings in public assessments across areas such as overall performance, specialized capabilities, usage, and safety or training efficiency. Separately, a model would also fall under the restricted list if it is trained on "important data" in China, as defined in China's Data Security Law. The proposal provides exceptions where: (i) only a minimal amount of important data (less than 0.1% of total data consumed) is used for training, the data does not materially enhance the model's capabilities, and safeguards such as data masking and cleansing prevent the data from being reproduced in model outputs; or (ii) the important data concerned is lawfully available to the public.

According to MOFCOM, its regulation of exports of AI technologies on the restricted list will focus on whether an export involves the transfer of relevant technologies from onshore China to overseas markets. MOFCOM also states that it is committed to building an AI open-source ecosystem to promote common prosperity. In this vein, it states that: (1) open-source foundation models that meet the restricted list threshold would receive automatic export approval upon registration with MOFCOM; (2) models on the restricted list would receive automatic export approval upon registration if deployed on self-operated overseas infrastructure; (3) providing access to models on the restricted list through APIs, apps, web interfaces, SaaS or lightweight on-device deployment (e.g., on smartphones or PCs) falls outside the scope of the proposal; and (4) overseas local deployment involving models on the restricted list would be subject to the proposal. But the proposal states that the restricted models may receive automatic approval upon registration if they are

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deployed on self-operated infrastructure overseas.

The proposal requires advance registration with the regulator for cross-border transactions involving the transfer of technology ownership overseas, the licensing of domestic technology for overseas use, or a change whereby a domestic technology's owner or actual controller becomes an overseas entity.

Nomura's take

We think the near-term impact on the Chinese foundation model industry will be manageable as the proposal exempts the open-source models already published to the market. We think the open-weight models already published by Chinese AI labs will qualify for this exemption. Open-weight models represent the crop of Chinese frontier model family.

But we think the outlook for independent AI labs is relatively complicated. In view of the tight compute resources within China, some of the independent AI labs may seek to put their future models on overseas cloud infrastructures to service overseas users. But this proposal may thwart that effort unless either (1) the future models are recognised by the regulator as being qualified as "open-source" models or (2) the restricted models will be hosted on the overseas cloud directly operated by the model developers, according to the proposal. We think the latter is a high bar for independent AI labs, but is likely an advantage for the three internet platforms, Alibaba (BABA US, Buy), Bytedance (unlisted) and Tencent (700 HK, Buy), which are already operating their data centers overseas.

Furthermore, the proposal appears to target frontier models (e.g., those with over 2tn parameters), which means many of the lightweight models may fall outside its scope. These lightweight models, such as Deepseek V4.1 Flash and Qwen3.8-Flash, typically drive overseas usage volumes through their appealing cost performance.

We do, however, see a few ambiguities in the proposal that may give regulators room to adjust enforcement in the future. For instance, the data used to train a model may place it on the prohibited list if deemed "core data" under China's Data Security Law, or on the restricted list if deemed "important data" rather than core data. The law's definitions of core and important data leave considerable room for interpretation. Furthermore, the proposal cites top rankings by Chinese and overseas model platforms or assessment institutions as a criterion for placing a model on the restricted list, but provides few details on which rankings or institutions regulators would use.

The proposal grants automatic approval for "open-source" models that are not on the prohibited list to be released in overseas markets. But we believe it has stopped short of defining what qualifies as open source, while major Chinese AI labs have mostly made their frontier models open weight rather than technically open source. Based on our assessment and conversations with several AI lab industry participants, we are inclined to believe that Chinese regulators might view current open-weight practices as broadly consistent with open-source principles as long as Chinese frontier models continue to lag leading global AI models. Our assessment is based on the assumption that Chinese authorities adopt a pragmatic approach toward AI policy: while sensitive to AI safety, data security and technology sovereignty, they also want Chinese AI labs to catch up with leading global AI developers despite facing much tighter compute constraints. Overseas markets are critical for Chinese models, both financially and strategically. Based on our estimates, overseas markets contribute 30–50% of model revenue for Chinese independent AI labs, while high-frequency usage among overseas users helps models advance faster. Therefore, we think Chinese regulators could continue to allow Chinese frontier models to compete for global users at this stage.

We prefer Alibaba in our coverage of China internet sector for its strength in China's AI space coupled with stabilising cash flow generated by its ecommerce business.

Appendix A-1

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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Alibaba Group Holding	BABA US	USD 109.11	16-Oct-2026	Buy	N/A	A10

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Alibaba Group Holding (BABA US) **USD 109.11 (16-Oct-2026)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
24-Jun-26		178.00	99.80
14-May-26		207.00	141.12
20-Mar-26		200.00	122.41
23-Jan-26		237.00	173.23
09-Jan-26		193.00	150.96
08-Oct-25		215.00	181.12
01-Sep-25		170.00	135.00
09-Jul-25		152.00	103.83
21-Feb-25		172.00	142.62
18-Nov-24		130.00	88.65
10-Oct-24		135.00	108.42
16-Aug-24		106.00	82.52
09-Apr-24		101.00	71.80
08-Feb-24		103.00	69.63
10-Jan-24		117.00	70.25
17-Nov-23		134.00	76.34

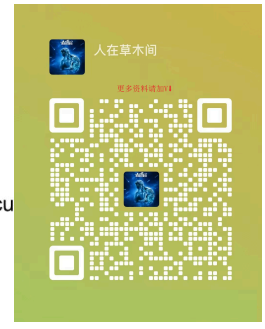
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Alibaba's Ecommerce Group at USD102bn, based on 5x FY28F P/E; its AliCloud (ex T-head chips) business at USD190bn, based on 5x FY28F P/S; its T-head chips business at USD85bn, based on 13x FY28F P/S, and its net valuation of non-core assets at USD28bn. The resulting TP is USD178. The benchmark index for this stock is Nasdaq Composite.
Risks that may impede the achievement of the target price Downside risks include: lower-than-expected Alicloud revenue growth; margin downside due to ramp-up in investments; regulatory risks related to the payment and internet finance industry, which could hurt Alibaba's main business and its value in Ant Group.

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