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UPDATE

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China AI Foundation Models | Asia Pacific

Our Read on Proposed AI Export Restrictions

We see a limited impact on Chinese LLMs' R&D, open-source/ open-weight ecosystem development and overseas commercialization, as the policy appears designed to safeguard sensitive technologies rather than restrict international AI collaboration and expansion.

Restricting AI exports? On October 16, China's Ministry of Commerce (MOFCOM) and Ministry of Science and Technology (MOST) proposed adding 23 AI-related technologies – covering foundation models, agents, computing clusters and information processing – to its export control list, citing national security and technology misuse risks. AI models trained with core data are restricted from export. The officials said such restrictions target cross-border technology transfers rather than AI services: overseas API access, SaaS, AI applications and lightweight on-device deployment are explicitly exempt, while overseas deployment of restricted models may require export licenses. Open-source technologies and deployments on self-operated overseas clouds would benefit from exemptions or streamlined automatic licensing.

Our understanding of export controls: We see a limited impact on Chinese LLMs' R&D, open-source/open-weight ecosystem development and overseas commercialization, as the policy appears designed to safeguard sensitive technologies rather than restrict international AI collaboration and expansion.

- **Targeted restrictions on sensitive data:** We believe the controls primarily target sensitive core data, such as military-related information, which is unlikely to be involved in most Chinese LLM training activities.
- **Open-source models largely exempt:** Technologies already in the public domain through open-source/open-weight releases or academic publications are expected to be exempt from export controls. We expect limited incremental compliance requirements, potentially involving post-release registration to establish open-source/open-weight status.
- **Streamlined licensing for overseas deployment:** Model licensing to overseas third parties may qualify for automatic or simplified export approvals. The policy also explicitly supports overseas self-operated compute centers, international R&D collaboration and chip manufacturing, with expedited approvals on a near-immediate basis.

MORGAN STANLEY ASIA LIMITED+

Gary Yu
Equity Analyst
Gary.Yu@morganstanley.com +852 2848-6918

Lydia Lin
Equity Analyst
Lydia.Lin@morganstanley.com +852 2239-1572

Yang Liu
Equity Analyst
Yang.Liu@morganstanley.com +852 2239-1911

GREATER CHINA IT SERVICES AND SOFTWARE
Asia Pacific
Industry View **In-Line**

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Our Take in One Table

Exhibit 1: Our read on proposed AI export restrictions

Overseas business model	Export-control applicability	Policy treatment / facilitation	Our read / business implications	Policy basis
Cross-border API access	**Explicitly outside scope**	No model-technology export license required	Uninterrupted global API access supports continued token monetization and scalable overseas ARR growth.	MOFCOM Q&A
Overseas AI apps / web / SaaS	**Explicitly outside scope**	No model-technology export license required	AI apps, web products and SaaS retain flexibility to scale internationally without new model export licensing.	MOFCOM Q&A
Lightweight on-device deployment overseas	**Explicitly outside scope**	Lightweight edge deployment expressly carved out	Preserves overseas edge-AI product distribution and device-level commercialization.	MOFCOM Q&A
Previously open-sourced model weights	**Generally outside scope**	Technology already in the public domain excluded under proposal	Protects the global adoption flywheel for publicly available Chinese open-weight models.	Announcement No. 48 / Q&A
First-time open-source model release	**Facilitated pathway, if covered**	Automatic licensing and streamlined measures contemplated	Policy explicitly encourages open-source innovation, supporting continued global model reach with manageable procedures.	MOFCOM Q&A
Own / self-operated overseas cloud or compute center	**Facilitated pathway, if covered**	Automatic licensing / near-immediate expedited processing contemplated	Express support for self-built, self-operated overseas compute centers reinforces scalable global inference capacity.	MOFCOM Q&A
Third-party overseas cloud hosting (e.g., CSP)	**Depends on transfer structure**	Determine whether controlled technology / weights are transferred; appropriate license may apply	Overseas CSP partnerships remain viable; licensing treatment hinges on deployment and technology-control arrangements.	MOFCOM Q&A + analysis
License unpublished model weights to foreign partner	**License if covered**	Export authorization may apply; automatic route not expressly assured	Third-party distribution and monetization remain possible, subject to incremental review for controlled unpublished technology.	Announcement No. 48 / Q&A
Enterprise on-premise deployment overseas (proprietary model)	**License if covered**	Export authorization may be required for controlled model technology	Enterprise deployments are not categorically prohibited; case-by-case approvals enable compliant global expansion.	MOFCOM Q&A
Transfer ownership / core model IP overseas	**Controlled if listed**	Restricted technology: approval required; prohibited technology: no export	Focused safeguards for listed core IP, distinct from the broader API and AI-application export opportunity.	Announcement No. 48 / draft annex
Overseas joint R&D / chip tape-out / standards	**Facilitated pathway, if covered**	Automatic licensing / near-immediate expedited processing contemplated	Explicit support for overseas R&D, chip tape-out and standards participation reinforces international AI collaboration.	MOFCOM Q&A

Regulatory scope | Draft catalog: restricted model technology includes (i) models trained on Chinese “important data”; or (ii) core technologies of models meeting any of: >=10^26 training FLOPs, >=2tn parameters, or global top-10 on specified public evaluations. Models trained on Chinese “core data” for service provision fall under the proposed prohibited category.

As of Oct 18, 2026, the catalog revision is a consultation draft, while temporary pre-export registration applies to specified transactions from Oct 16. Automatic licensing is not blanket exemption; eligibility for independent third-party model deployment remains subject to clarification.

Source: MOFCOM / MOST Announcement No. 48 (Oct 16, 2026); MOFCOM spokesperson Q&A (Oct 16, 2026); consultation draft Annex 1 (user-provided). “Our read” denotes Morgan Stanley Research analytical interpretation, not legal advice.

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Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

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Z.AI CO., LTD. (2513.HK)	O (02/20/2026)	HK$518.00
Lydia Lin		
Beisen Holding Limited (9669.HK)	O (06/23/2025)	HK$3.33
Chinasoft International Ltd (0354.HK)	U (05/04/2026)	HK$3.62
Glodon Co. Ltd. (002410.SZ)	E (08/23/2023)	Rmb8.27
Hundsun Technologies Inc. (600570.SS)	U (04/07/2025)	Rmb19.95
Meitu Inc (1357.HK)	O (10/01/2024)	HK$3.58
Yang Liu		
Beijing Kingsoft Office Software Inc (688111.SS)	U (08/26/2024)	Rmb231.44
Kingdee International Software Group (0268.HK)	O (08/03/2026)	HK$8.37
Kingsoft Cloud Holdings (KC.O)	O (07/07/2026)	US$8.47
Kingsoft Corp Ltd (3888.HK)	E (07/21/2025)	HK$25.54
Sangfor Technologies Inc (300454.SZ)	O (08/24/2026)	Rmb125.12
Tuya Inc. (TUYA.N)	O (11/29/2023)	US$1.65
Wangsu Science & Technology (300017.SZ)	U (11/12/2024)	Rmb12.78
Yonyou Network Technology Co Ltd (600588.SS)	U (11/12/2024)	Rmb9.25

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

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