Asia Viewpoint

AI export boom: who are the spillover winners and how should policy respond?

One export boom, three spillover stories: TW, KR, and CH

The AI export boom has become a major growth pillar for Asian economies like Taiwan, Korea, and China. The key macro question is why the same external shock is producing different domestic effects, and how fiscal and monetary policy will respond. We find that tech sector size, capacity constraints and the broader business cycle favor stronger spillovers in Taiwan, followed by Korea. China also benefits, though domestic headwinds temper these gains. Fiscal revenue gains support spending and rate hikes in Taiwan and Korea, but increase their exposure to a reversal in the AI boom. China remains more insulated, with weaker exports likely to trigger additional policy easing.

The capex multiplier favors Taiwan and Korea

Taiwan and Korea stand out on the conditions that favor stronger capex spillovers: a sizeable AI-exposed sector relative to the economy, tight tech production capacity, and a positive aggregate output gap. AI-exposed exports are equivalent to around 67% of Taiwan's nominal GDP and 20% of Korea's, and semiconductor shortages are forcing producers to expand domestic capacity. In China, the comparable export exposure is roughly 5% of GDP and stronger tech demand is primarily lifting manufacturing utilization from declining levels rather than driving capacity expansion. Broader investment remains dominated by cyclical and structural headwinds: weak domestic demand, local-government funding pressures, and the prolonged property downturn.

Tech income and wealth determine consumer spillover

Household spillovers are generally smaller than the capex boost, but their strength also varies across economies, reflecting differences in tech employment, equity exposure and broader wealth trends. Electronics-related manufacturing accounts for around 11% of employment in Taiwan, versus 3% in Korea and 1.8% in China, while bonus rather than broad-based wage growth has been the main income channel. Taiwan sees the strongest wealth effect due to its larger equity rally and greater household exposure to stocks. In China, falling property values, lower savings returns and weak income expectations offset direct tech income gains, leaving the consumption recovery more fragile.

Diverging domestic effects drive policy divergence

The export boom is lifting fiscal revenues in all three economies. That said, tax windfalls are funding transfers and investments in Taiwan and Korea, while China has not seen a comparable spending boost partly due to local-government fiscal constraints. Domestic spillovers and positive output gaps add to inflation pressures in Korea and Taiwan, supporting further rate hikes, while softer demand in China still warrant more policy easing.

Risks: Tech concentration is a double-edged sword

That said, the same channels amplifying today's technology upcycle could deepen a future downturn. In Taiwan and Korea, a correction in AI demand could reverse capex, bonuses, equity wealth effects and fiscal windfalls, leaving both economies more exposed to the technology cycle. China's more diversified economy limits these direct reversal risks. If Chinese export growth weakens materially, we would expect policymakers to respond more proactively with fiscal and monetary easing.

20 October 2026

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One export boom, three degrees of spillovers

The ongoing AI-led export cycle has been an important source of growth for China, Korea and Taiwan this year. Year to date, exports have risen 20% yoy in China, 57% in Korea and 44% in Taiwan (Exhibit 1).

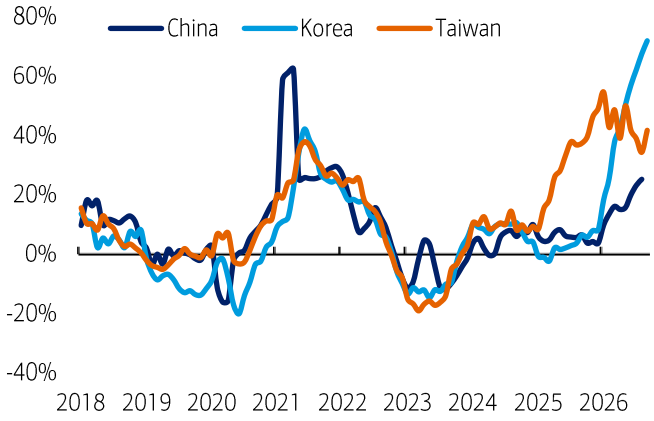
In Korea and Taiwan, the upswing has been propelled by strong demand for advanced semiconductors as investment in AI infrastructure continues to expand. China's export strength has also been supported by technology products, particularly electronic integrated circuits and automatic data-processing machines. These products form part of the broader AI supply chain, even though China does not produce the most advanced chips.

The key macro question is why one export boom produces different domestic effects and policy responses. Spillovers are strongest in Taiwan, followed by Korea, where sizeable AI-exposed sectors, tight capacity and positive output gaps favor capex. China benefits through higher manufacturing utilization and tax revenues, though domestic headwinds constrain broader gains. Household spillovers are smaller, varying with tech income, equity exposure and wealth trends.

Fiscal gains support greater spending in Taiwan and Korea, while local-government constraints limit China's response. Stronger spillovers support further rate hikes in Taiwan and Korea; softer demand should keep the PBoC on hold alongside targeted easing. Yet stronger transmission also leaves Taiwan and Korea more exposed to reversals in capex, bonuses, equity wealth and fiscal windfalls. China's diversification limits these risks, while materially weaker exports would prompt more proactive fiscal and monetary easing.

In this report we examine these spillover channels, their policy implications and exposure to a tech downturn in turn.

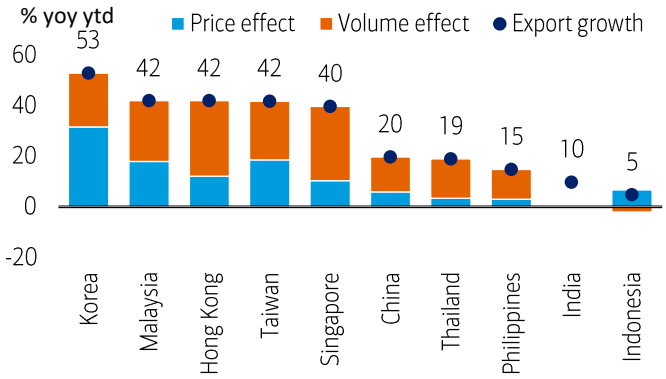
Exhibit 1: Export strength sustains in all three economies this year
Export growth in USD terms (3-month moving average)



Source: Haver, BofA Global Research

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Exhibit 2: Higher electronic prices support nominal export growth in Korea and Taiwan, but less so in China
Export growth by economy (% yoy ytd) by volume and price



Source: Haver, BofA Global Research estimates

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The capex multiplier favors Taiwan and Korea

The first major spillover from an export boom is stronger domestic capex. The response should be largest when the booming sector is sizeable relative to the economy, existing capacity is constrained, and producers have sufficient pricing power to make new capacity profitable. The additional capacity must also be built domestically, while the broader business cycle determines whether the sectoral boost is reinforced or offset elsewhere. Taiwan and Korea stand out on these conditions.

A bigger shock relative to the economy

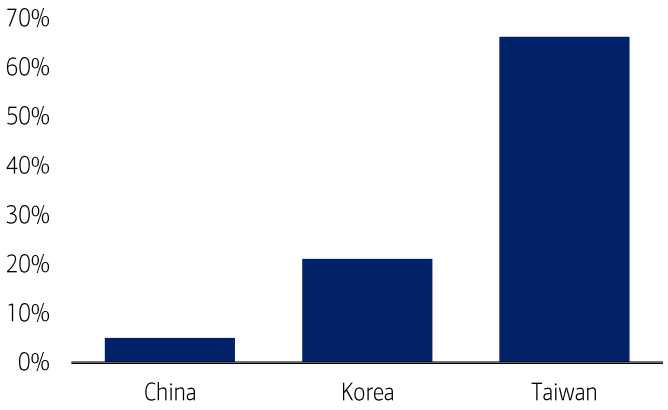
tion more clearly than China. As a proxy for the AI-exposed technology sector's relative size, we compare exports of

semiconductors and related computer and ICT products with nominal GDP. These exports are equivalent to around 67% of GDP in Taiwan, 20% in Korea and 5% in China (Exhibit 3). Although gross exports overstate domestic value added, the comparison illustrates the sharply different macroeconomic scale of the AI shock. The AI shock is therefore large enough to move aggregate investment in Taiwan and Korea, but more easily diluted across China's much larger and more diversified economy.

Tight capacity forces investment, not just higher output

Second, existing capacity is more binding in Taiwan and Korea. Their export booms are concentrated in advanced semiconductor segments where supply has struggled to keep pace with demand. This is reflected in company guidance from TSMC, Samsung Electronics and SK Hynix, as well as the sharp rise in memory-chip prices. With limited scope to raise output from existing facilities, producers must add equipment and build new capacity. Our sector analysts expect combined capex by Samsung Electronics and SK Hynix to rise 63% in 2026 and a further 26% in 2027 (Exhibit 4), while TSMC's capex is projected to increase 29% in 2027.

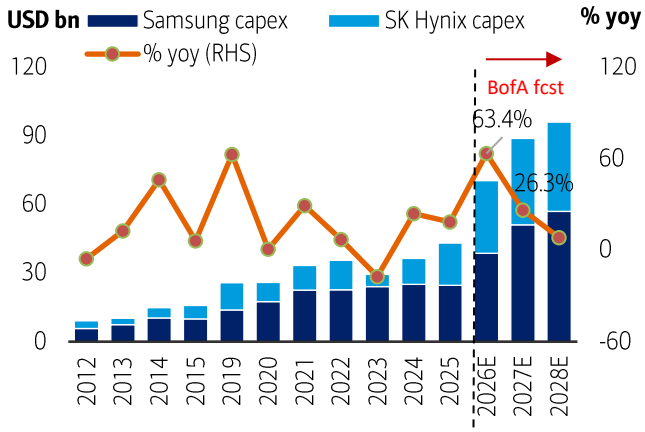
Exhibit 3: AI-exposed exports account for around 67% of GDP in Taiwan, 20% in Korea and 5% in China
Exports of semiconductors and related computer and ICT products with nominal GDP



Source: Each economy's customs data via Haver Analytics

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Exhibit 4: In Korea, we expect Samsung Electronics and SK Hynix to drive facility investment growth in the coming years
Estimated capex growth by SK Hynix and Samsung Electronics

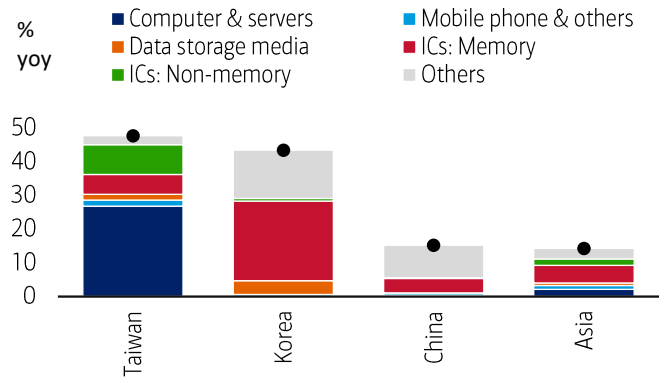


Source: BofA Global Research estimates

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China has more room to meet export demand through existing capacity. Utilization in computer, communications and electronic-equipment manufacturing reached 78.7% in 2Q26, well above the 73.5% rate for manufacturing overall, suggesting that strong technology exports are absorbing spare capacity. However, utilization remains below earlier peaks, while China's export gains are spread across a broader manufacturing base and are less concentrated in the most supply-constrained parts of the AI chip chain. Stronger exports are therefore lifting output and utilization before triggering the scale of capacity expansion seen in Taiwan and Korea.

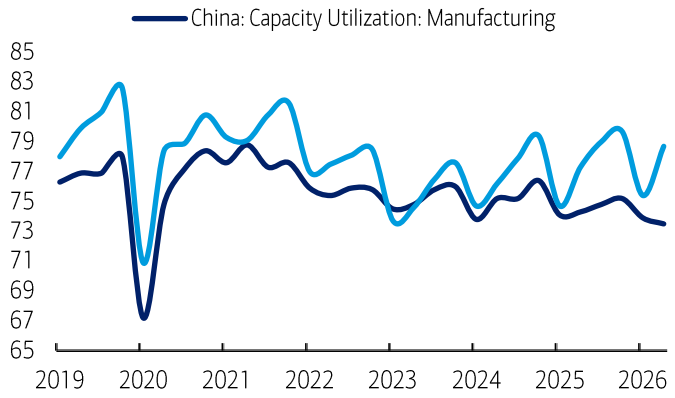
Exhibit 5: Exports are skewed towards scarce and advanced tech components in Korea and Taiwan, generating investment demand for capacity expansion
Export contribution by major export items (% yoy ytd growth)



Source: ITC Trade Map, BofA Global Research estimates

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Exhibit 6: Strong tech exports have lifted China's utilization without triggering a large scale of capacity expansion
Capacity utilization rate in China (%)



Source: National Bureau of Statistics

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China's broader investment downturn masks tech boost

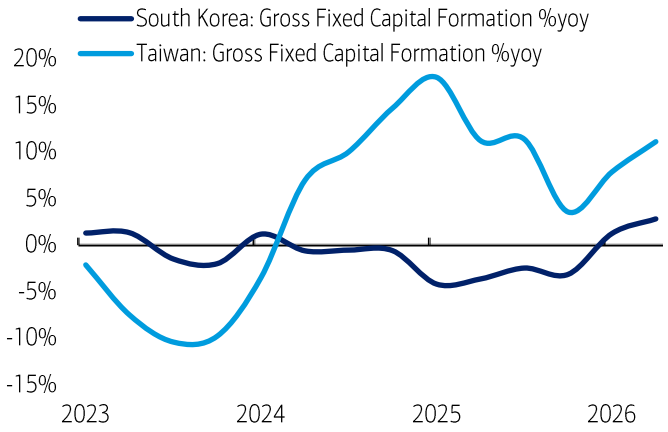
Finally, the broader business cycle, or aggregate output gap, also matters for the second-round investment response beyond technology. Stronger AI exports can lift supplier orders and household spending, but whether this translates into broader capex depends on the spare capacity available elsewhere in the economy. Businesses with unused capacity can meet additional demand using existing equipment, while those operating closer to capacity have a stronger incentive to expand.

This distinction helps frame the differences across economies. Estimates from the IMF and domestic official sources suggest China's output gap remains negative, while Korea's is projected to be slightly positive in 2026. Taiwan's is substantially positive, with DGBAS estimating a gap of around 4% in 2Q26. These estimates suggest that stronger AI-related demand may initially lift utilization in China, while creating a greater need for capacity expansion beyond technology in Korea and, particularly, Taiwan.

In China, investment gains remain concentrated in selected high-tech segments. Capacity is expanding at individual chipmakers, including CXMT's new DRAM facilities in Shanghai and Hefei and Yangtze Memory Technologies' third memory-chip plant in Wuhan. These pockets of expansion sit within a broader investment downturn, limiting the scope for second-round capex gains.

Total FAI fell 7.2% yoy in the first eight months of the year. Infrastructure investment is constrained by local-government liquidity pressures, weak land sales, debt-resolution priorities and tighter LGFV financing conditions, while manufacturing investment faces weak domestic demand and persistent demand-supply imbalances. Property adds another drag: the housing reform measures introduced in late August are likely to pressure investment and prolong the adjustment in housing starts amid tighter developer funding conditions. Together, these cyclical and structural headwinds outweigh the concentrated AI-related boost (see China Viewpoint: Demystify China's investment downturn: placing hope on 'Six Networks').

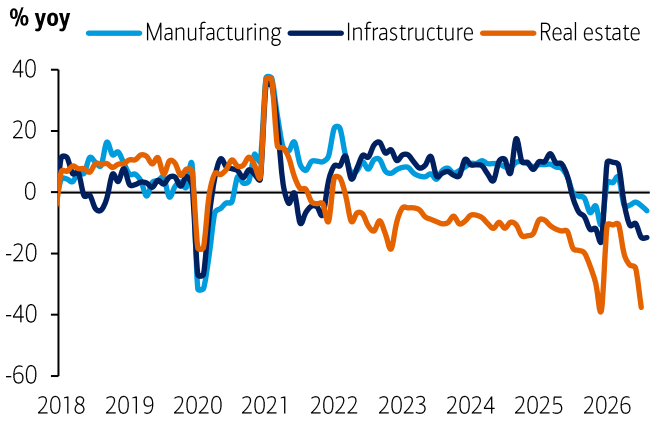
Exhibit 7: Real gross fixed capital formation has accelerated in Korea and Taiwan this year
%yoy rate in real gross fixed capital formation



Source: Haver Analytics

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Exhibit 8: Weakness in property and traditional infrastructure weigh on economy wide investments
Fixed asset investment in China by sector (%yoy)



Source: National Bureau of Statistics of China

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Household gains are smaller and more concentrated

Export earnings reach households much less directly than they reach corporate investment. Firms can recycle higher profits into capex fairly rapidly, but household gains depend on whether the boom creates jobs, raises compensation or increases the value of assets households own. These channels are inherently narrower in the capital-intensive semiconductor industry, leaving the household boost smaller than the investment effect and concentrated among technology workers and equity holders.

Among the three economies, the household spillover appears strongest in Taiwan, followed by Korea. Three-month average retail-sales growth reached nearly 8% yoy in Taiwan through August, compared with 4% in Korea and just under 1% in China (Exhibit 9). In China, the benefits of the AI upcycle remain outweighed by broader cyclical headwinds. Falling home prices continue to weaken household balance sheets, while subdued income expectations and declining returns on savings further constrain consumption.

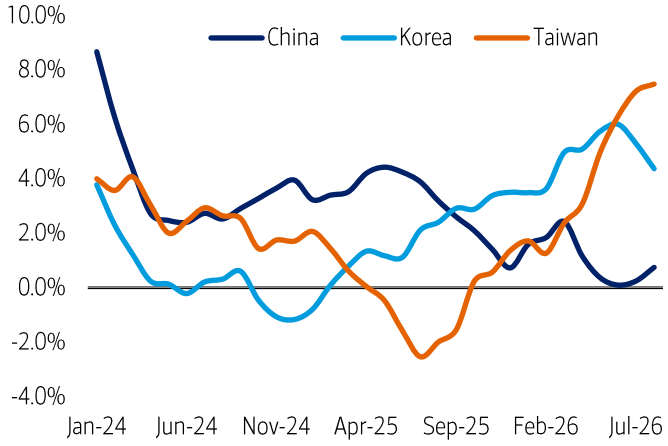
Labor gains are narrow and bonus-led

The income effect depends on both the share of workers exposed to the upcycle and the extent to which corporate profits reach them. We estimate that electronics-related manufacturing accounts for around 11% of employment in Taiwan, compared with roughly 3% in Korea and 1.8% in China (Exhibit 10). These are upper bounds, as they include non-AI and domestically oriented production.

Despite this exposure, the boost to aggregate wages remains modest in Taiwan and is barely visible in Korea. China lacks a comparable high-frequency wage series, while the NBS consumer survey shows little improvement in income sub-index. This is consistent with the AI supply chain's capital intensity: strong output and profits need not generate proportionate gains in economy-wide employment or base wages.

Income transmission is more visible through bonuses and profit sharing. TSMC's employee bonus and profit-sharing pool more than doubled from NT$100bn in 2023 to NT$206bn in 2025. In Korea, SK hynix employees covered by its domestic wage agreement are estimated to receive an average 2026 bonus of KRW779mn (US$547,000), while eligible Samsung Electronics semiconductor employees could receive KRW509mn (US$432,000). These payouts are substantial for directly exposed

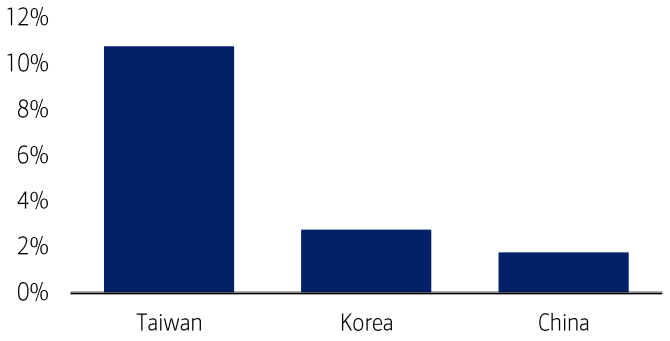
Exhibit 9: Retail-sales growth has been the strongest in Taiwan
Retail sales growth (%yoy, 3-month moving average)



Source: Haver Analytics

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Exhibit 10: Electronics-related manufacturing accounts for around 11% of employment in TW, vs. roughly 3% in KR and 1.8% in CH
Estimated share of total employment in AI-related manufacturing



Source: DGBASY, China's Fifth National Economic Census, Bank of Korea. In TW, tech employment includes electronic components and computers, electronic and optical products manufacturing as of 2026; in KR, tech employment includes electronics, ICT equipment, precision instruments and electrical equipment manufacturing as of end 2024; in Ch, we use digital-product manufacturing as of end 2023 as proxy for tech employment

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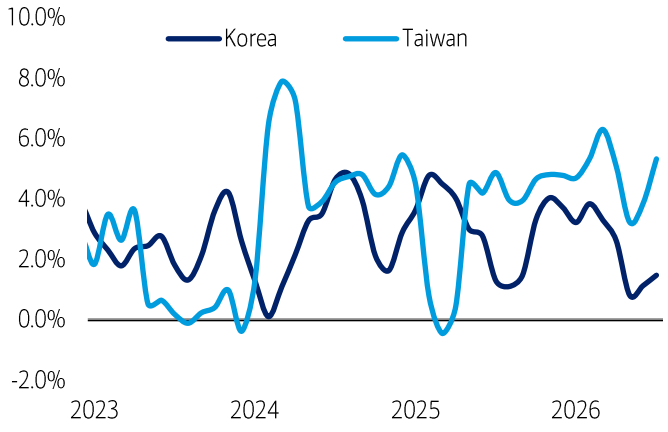
Equity wealth effects are highly concentrated

The wealth channel appears strongest in Taiwan but it is also concentrated among equity owners. As of early October, the TAIEX had risen around 70% year to date, marginally ahead of the KOSPI at 60%, while the Shanghai Composite was down about 3%.

Household holdings of financial assets reinforce the difference. At end-2024, Taiwanese households held 28% of their financial assets in domestic securities and another 30% in life-insurance and pension products. Securities accounted for only around 15% of Korean household financial assets at end-2025. Taiwan's household securities holdings rose 21.8% in 2024, partly reflecting gains in AI-related technology shares.

The effect is much weaker in China. The PBoC's 2019 urban-household survey found that financial assets accounted for only 20.4% of household assets, with stocks and funds together equivalent to around 2% of total assets. While selected Chinese AI stocks have rallied, the gains have not translated into a broader market upswing.

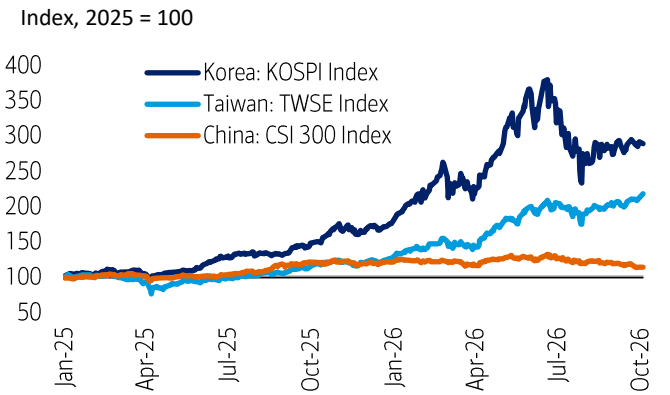
Exhibit 11: The boost to aggregate wages remains modest in Taiwan and is barely visible in Korea
Average monthly earnings for all employees (%yoy)



Source: Haver Analytics

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Exhibit 12: Equity wealth effect is substantially stronger in Korea and Taiwan compared to China, thanks to the mega market cap of the semi manufacturers
Stock market index performance in China, Taiwan and Korea



Source: Bloomberg, BofA Global Research

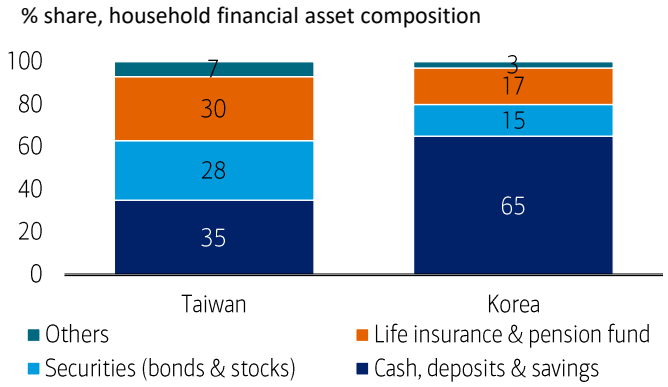
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Cyclical headwinds weigh more heavily on Chinese consumers

China's weaker household spillover reflects not only narrower gains from the technology upcycle, but also broader headwinds that are less pronounced in Korea and Taiwan. Taiwanese home prices have risen around 30-40% since early 2021, while Korean prices have remained broadly stable after their 2021-22 surge (Exhibit 15). China's housing market, by contrast, is in its fifth year of correction, with nationwide price stabilization yet to take hold. Given housing's dominant role in Chinese household wealth, falling property values continue to weigh on balance sheets, confidence and spending.

Returns on safer assets are also moving in different directions. Lower deposit rates and the reduced availability of higher-yielding deposits and wealth-management products are compressing savings income in China. The decline in China's 10-year bond yield to around 1.67% illustrates the broader fall in domestic fixed-income returns. By contrast, 10-year yields have risen more visibly in Korea (Exhibit 16). The combination of weaker property wealth, lower savings returns and subdued income expectations therefore drag more heavily on Chinese households.

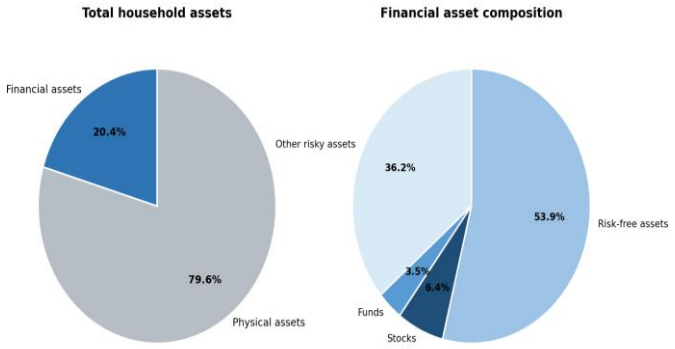
Exhibit 13: Compared to Korea, households in Taiwan are more risk-taking in general
Household financial asset composition in Taiwan and Korea



Source: CNC (as of 2024), BoK (as of 2025), BofA Global Research
Note: "Securities" refer to only domestic securities for Taiwan; "Cash, deposits & savings" include deposit for a lease in Korea

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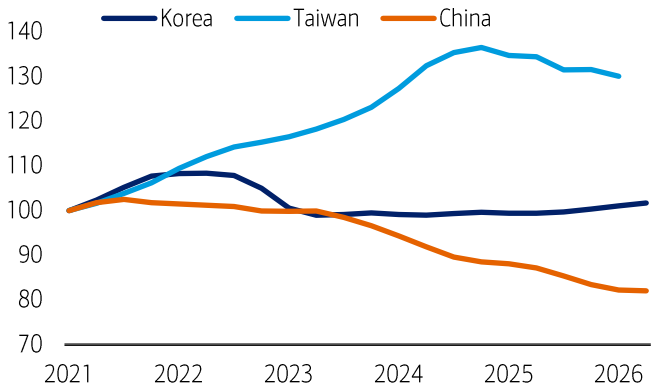
Exhibit 14: China's urban household wealth is concentrated in physical assets
Share of household assets and financial assets, 2019 (%)



Source: People's Bank of China Survey and Statistics Department, 2019 Survey of Assets and Liabilities of Urban Households. Survey of 30,000 urban households. "Other risky assets" is the residual after risk-free assets, stocks and funds.

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Exhibit 15: Home prices continue to decline in China, weighing on household wealth
Residential home prices index (1Q18=100)



Source: Haver, CEIC

Exhibit 16: Returns on safer assets are also moving in different directions in China and Korea
10 year Treasury yield in China and Korea (%)



Source: Bloomberg

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Diverging domestic effects are driving policy divergence

The differing strength of domestic spillovers is producing increasingly divergent fiscal and monetary policy settings.

Fiscal policy: higher fiscal windfall universally but different spending responses

Stronger exports have generated positive fiscal windfall for all three economies. In Taiwan, stronger technology profits have lifted corporate income-tax receipts, while the proposed 2027 budget includes a universal NT$10,000 (US$315) "AI dividend" for households. Korea's larger corporate-tax windfall is being recycled through technology and infrastructure investment, regional development and targeted household support. In both economies, higher revenue is therefore feeding back into domestic demand, adding to the monetary-policy case for tighter rates.

In China, general public budget revenue rose 5.7% yoy in the first eight months of 2026, reversing the contraction seen at the end of last year. However, much of the increase has accrued to the central government, while weak land-sale receipts continue to constrain local-government finances and overall fiscal spending. Part of the revenue increase also reflects tighter tax administration, a higher effective corporate tax burden and targeted reductions in export VAT rebates. These measures raise firms' tax costs and compress margins, raising the risks of fiscal policy turning procyclical instead of being "more proactive" as designated by the Central Economic Working conference and National People's Congress.

Monetary policy: further tightening in Korea and Taiwan, the PBoC on hold

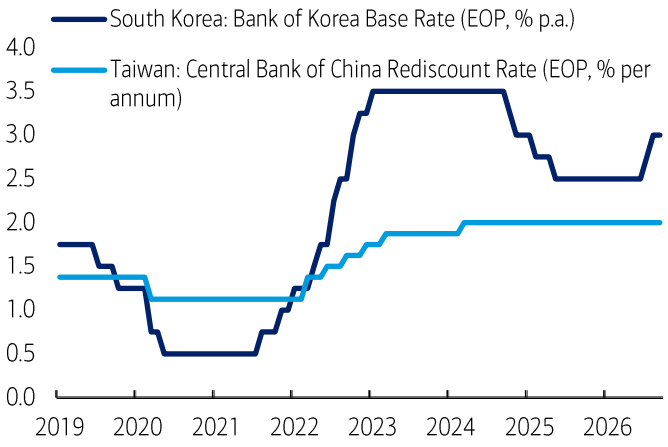
For monetary policy, stronger domestic spillovers and positive aggregate output gaps are adding to inflation pressures in Korea and Taiwan. In Korea, headline CPI rose 2.9% yoy in September, with core inflation at 2.7%. In Taiwan, core CPI reached 2.52% yoy in September, its fourth consecutive month of above 2%. These conditions underpin our expectation of further tightening in both economies

The Bank of Korea raised its policy rate by 25bp in both July and August, taking it to 3.0%, and has explicitly identified the semiconductor boom's pass-through to domestic demand and inflation as a key consideration for further tightening. We expect two further 25bp hikes, Nov and Feb, taking the terminal rate to 3.5%.

Taiwan's CBC kept its policy rate at 2% in September. Governor Yang argued that Taiwan had maintained a relatively tight stance since 2024, including through liquidity management and credit controls, even while other economies eased, giving the central bank more time to assess inflation and domestic demand (Exhibit 17). However, our analysis suggests that the spillover is becoming broader and therefore think the CBC may have less room to wait than its guidance implies and expect a 12.5bp hike in December, taking the discount rate to 2.125%.

The PBoC requires a different policy mix. With export gains generating a more limited domestic spillover and overall demand remaining soft, the question is not whether the central bank will tighten, but how much easing is still required. The PBoC recently introduced targeted measures, including PSL rate cuts and mortgage subsidies. In our view, policymakers are taking initial steps to stabilize growth, but are likely to refrain from a more aggressive stimulus package unless export growth corrects meaningfully or fiscal conditions deteriorate further.

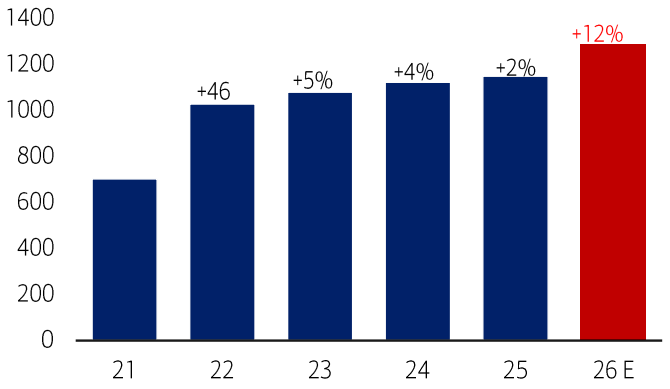
Exhibit 17: Taiwan didn't cut policy rates in 2024 like Korea
Policy rates in South Korea and Taiwan



Source: Haver Analytics

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Exhibit 18: The MoF projects a strong 12% yoy increase in enterprise income tax revenue in 2026
Profit-seeking enterprise income tax revenue (TWD bn)



Source: Taiwan Ministry of Finance. Note: 2021-25 figures are actual collections; 2026 is the budget proposal

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Risks: Tech concentration is a double edge sword

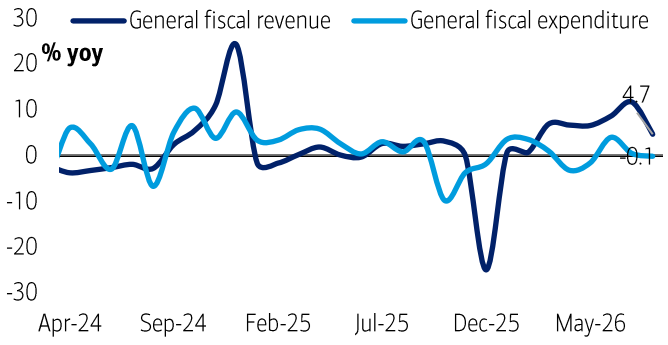
The same channels amplifying today's upcycle could deepen a future downturn. In Taiwan and Korea, tight semiconductor capacity is driving large investments, while rising profits support bonuses, equity wealth and fiscal revenue. This broadens the AI boom's domestic benefits but increases exposure to a global tech correction.

If AI investment slows, capex, variable compensation and tax receipts could weaken, while equity wealth effects could reverse. Taiwan appears most exposed given its broader spillovers, while Korea's growing reliance on semiconductor profits increases fiscal sensitivity to the tech cycle

China faces a different risk profile. Its broader export mix, spare manufacturing capacity and lower household exposure to tech equities limit both domestic upside and direct reversal risks. Still, materially weaker exports would remove an important offset to weak domestic demand, potentially requiring stronger fiscal and monetary support.

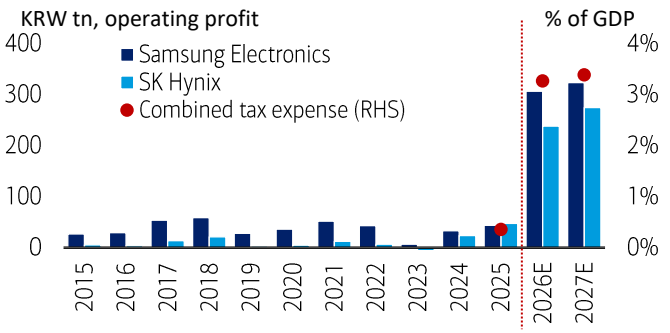
A downturn is not our base case: capacity constraints, firm chip pricing and announced investment plans suggest the AI upcycle has further to run. But as investment, household income and fiscal revenue become more tech-dependent, today's spillover winners may face the sharpest adjustment when the cycle turns.

Exhibit 19: General public budget revenue rose 5.7% yoy Jan-Aug but expenditure only grew 1.2%
General fiscal revenue and expenditure in China (central +local): %yoy



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Exhibit 20: We expect the jump in operating profit to lead to a >3% of GDP equivalent jump in tax revenue in Korea in the coming year
Estimates of operating profit and tax expense by Samsung and SK Hynix



Source: BofA Global Research estimates; **Note:** the actual tax payment is subject to the payment period. A fraction of the tax expense illustrated in 2026-27 may be realized in the subsequent year's government tax revenue

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