2. Global setting and outlook

2.1 Advanced economies

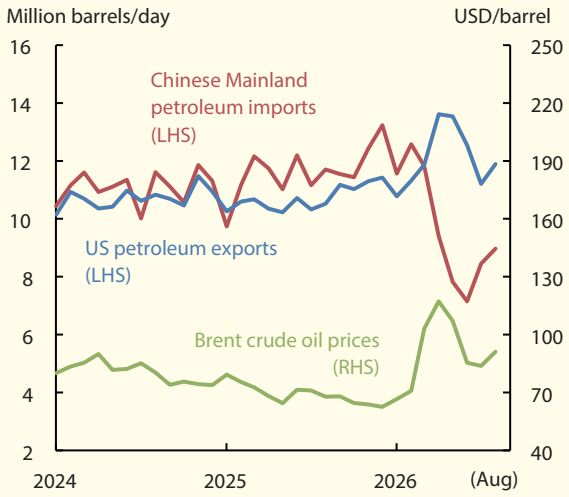
Two overarching forces have shaped the global macro-financial environment in the first half of 2026: the energy supply shock stemming from the ongoing Middle East conflict and the boom in artificial intelligence (A.I.)-related investment. With the ongoing stalemate in US-Iran negotiations, the full restoration of navigation through the Strait of Hormuz (SOH) remains uncertain. Disruptions to energy supply chains continue to exert widespread impacts, including higher energy and fertiliser prices, supply-chain frictions and elevated risk premia. These factors are likely to add inflationary pressures and weigh on global growth prospects.

Meanwhile, the A.I. investment boom has continued to support global demand. Economies that are more integrated into the A.I. supply chain have generally benefited more from this upturn on the growth front. However, the surge in investment has also contributed to price pressures by increasing demand for chips, electricity, and skilled labour.

Taken together, the energy shock and the A.I. investment boom are both inflationary. Yet, their divergent implications for growth — the former acting as a headwind and the latter providing support — have contributed to divergence across economies.

During the period under review, the energy shock led to a significant increase in energy prices and headline inflation. However, the damage proved less severe than initially feared for several reasons. First, the geopolitical tensions fluctuated without escalating into a full-scale conflict, causing short-term volatility rather than a persistent upward trend in energy prices. Second, part of the reduction in oil shipping via the SOH was offset by the deployment of commercial and strategic oil reserves. In addition, an increase in US oil exports and a significant reduction of Chinese Mainland's oil imports helped contain the demand-supply imbalance (Chart 2.1). That said, the impact has differed across jurisdictions, depending on the energy intensity of the economy, reliance on oil imports (particularly exposure to the SOH), inventory levels, and the scope for fiscal policy response. Meanwhile, each economy's position in the technology value chain has contributed to divergent performance in economic activity and growth.

Chart 2.1
Crude oil prices, petroleum exports from the US and imports by the Chinese Mainland

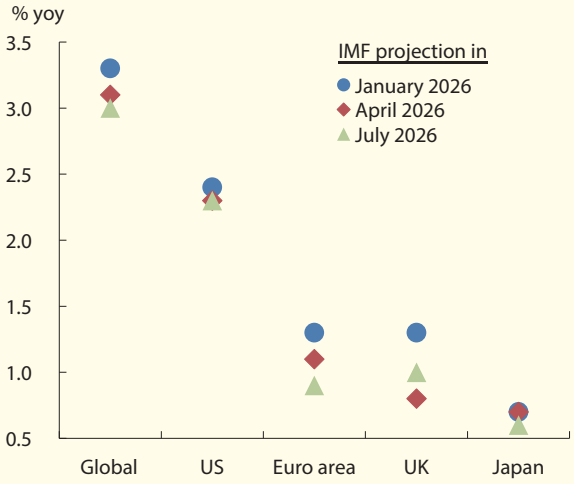


Sources: CEIC, China Customs and US Energy Information Administration.

In the US, disruptions to the energy supply chain have fuelled inflation. Brent oil prices reached a three-year high in April 2026, contributing to an increase in US headline inflation to 4.2% in May before easing to 3.4% in August 2026. Nevertheless, the US economy has remained relatively resilient, supported by increased oil exports, the A.I.-led investment boom, accommodative fiscal policy, and easing financial conditions earlier in the year. The latest International Monetary Fund (IMF) projections suggest that US gross domestic product (GDP) growth is likely to remain solid despite the

impact of the Middle East conflict, with the smallest downward revision in growth forecasts among advanced economies (Chart 2.2).

Chart 2.2
Real GDP growth projections for 2026 in major advanced economies



Source: IMF.

Due to upside inflation risk, the US Federal Reserve (Fed) increased the federal funds target rate by 25 basis points in September. Relative to the June projection, most Federal Open Market Committee participants shifted in a more hawkish direction. The latest dot plot indicated an additional tightening of 25 basis points by the end of 2026 compared with September, broadly inline with market pricing.

In the euro area, economic activity moderated in the first quarter of 2026 amid the energy shock stemming from the Middle East conflict, before rebounding in the second quarter. While broader financial conditions remained supportive by historical standards, bank lending conditions tightened following a cumulative 50-basis-point policy rate hike of the European Central Bank (ECB) in June and September. Following the ECB's policy rate increase, the growth outlook remained subdued, and the IMF revised down its GDP growth projection (Chart 2.2). Similar headwinds are facing the UK economy. Meanwhile, the Japanese economy experienced moderated growth with sustained inflationary pressure. This situation was compounded by the Japanese yen's depreciation to a four-decade low before the joint market intervention by the US and Japan in late July 2026. Although this depreciation supports exporters, it increases import costs and inflation risks, prompting the Bank of Japan to raise its policy rate by 25 basis points in September.

More recently, global financial conditions have tightened. Global bond markets came under intense pressure in August amid heavy sovereign issuance, reduced official absorption and uncertainty over energy-related inflation. 30-year sovereign bond yields in the US, the UK and Japan reached their highest since 2007. In Europe, fiscal loosening in Germany has added to Bund supply and elevated gilt yields have squeezed the UK's fiscal headroom, while in Japan the BoJ's hawkish turn has flattened the yield curve. In the US, higher term premia have pushed up the long-dated Treasury yields. Although the US Treasury expanded its liquidity-support buyback operations from September, yields remained elevated. Together with more hawkish stance by major central banks, global financial conditions are likely to tighten further in the near term.

Looking ahead, the global economy will likely bend but not break. The global economic outlook remains affected by multiple headwinds. In particular, geopolitical tension and consequent uncertainties will persist. The ongoing Middle East conflict could prolong commodity price volatility, continue to disrupt supply chains, exacerbate inflationary pressures, and tighten financial conditions. The risk is likely to intensify if the SOH blockade persists, given that declining inventory levels have diminished the buffer and the room for adjusting demand and supply has become more limited. Meanwhile, trade uncertainty stemming from the US will not ease off, despite the invalidation of the executive tariffs under the International Emergency

Economic Powers Act and the expiration of Section 122 temporary tariffs. Average US tariffs have remained at an elevated level with the introduction of Section 301 tariffs on 60 economies, which set additional duty rates of 10% or 12.5%.[1] Tariff escalation with Canada and the expiry of the US-China trade truce in November add to the uncertainty. Separately, trade tensions between China and Europe have risen amid a record bilateral trade imbalance, leading to tariff hikes in certain sectors;[2] an escalation could disrupt global supply chains and further weigh on Europe's already subdued growth outlook.

While the A.I. investment boom continues to support the global economy, it has also generated increasing concerns in financial markets. As major tech firms sustain massive investments in A.I. infrastructure, global demand for semiconductors has reached record highs. Leading chipmakers have reported robust earnings growth, though it is still too early to determine whether and how A.I. deployment will increase productivity in the economy and the earnings in other sectors. Concerns about financial vulnerabilities arise from a shift in funding sources from cash flows to debt financing, especially via private credit or circuit financing; increasing concentration risk in the equity market;[3] and rising relevance of cross-border derivatives and margin financing. A sudden market correction could have an amplified negative feedback loop that may precipitate broader macro-financial instability.

The economic and financial market outlook is also complicated by a potential shift in the monetary policy frameworks of major central banks. Higher inflation and inflation expectations have reversed the monetary easing cycle into hikes, yet the path and strategy remain uncertain. The new Fed Chairman has launched external task forces to overhaul the Fed's monetary policy framework, focusing on communication, balance sheet policy and inflation frameworks. Meanwhile, the ECB has also shifted its strategy back to basics, relying on conventional interest rate tools and dropping long-term forward guidance. How these changes will affect monetary policy decisions and the interactions between financial markets and monetary authorities remains to be seen.

Meanwhile, fiscal sustainability risks in major advanced economies remain a source of concern, amid high public debt levels, persistent fiscal deficits and limited progress in fiscal consolidation. In the US, elevated debt levels, together with the possibility of high-for-longer interest rates in the face of renewed inflationary pressures, could lead to a further increase in debt servicing burdens over time. Continued sizeable issuance of US Treasuries to meet financing needs may also place upward pressure on global borrowing costs and global financial conditions could be further tightened.

2.2 Asia Pacific economies

In the first half of 2026, APAC economies registered solid growth despite the Middle East conflict and the associated energy shock. The region's resilience was largely underpinned by the ongoing global A.I. investment boom, which boosted tech exports and spurred growth in related manufacturing activities and infrastructure investment. Meanwhile, beneath the general resilience lies a notable "K-shaped"

[1] The investigation concluded that all 60 economies failed to impose and effectively enforce a forced labour import prohibition. Although 14 economies (e.g. Canada, Mexico and the European Union (EU)) faced the same tariff rate as a temporary measure under Section 122 (i.e. 10%) imposed in February 2026, the other economies (e.g. China, Japan and South Korea) faced a higher tariff rate of 12.5%. In addition, the US administration imposed a 25% tariff on certain imports from Brazil and a 50% tariff on selected imports from Canada in late July.

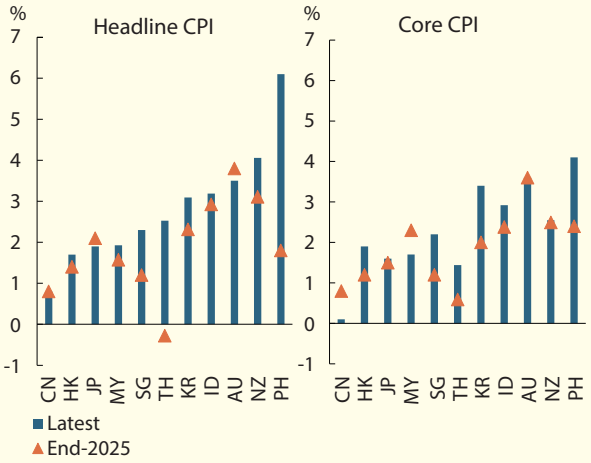
[2] The EU implemented anti-subsidy tariffs ranging from 17% to 35% on Chinese electric vehicles, prompting counter-probes from Beijing on European dairy, pork and brandy

[3] This risk is particularly pronounced in East Asian economies, where a limited number of chipmakers constitute a significant portion of market indices.

divergence across economies, depending on their exposure to the global energy shock and their position in the technology value chain.

The divergence in economic performance is in part due to the uneven impact of the energy shock. At the global level, the impact of the Middle East conflict proved more benign than initially feared, cushioned by adjustment in oil supply and demand in major economies. Still, APAC is among the most vulnerable to the energy shock, with some economies having high exposure to oil imports from the SOH (e.g. Japan, South Korea and Taiwan). Large strategic oil reserves were helpful to cushion the shock. In addition, various policy measures deployed by regional governments, such as fiscal subsidies, purchase limits, supply rationing, and more diversified oil procurement strategies, helped stabilise domestic demand and sustain operations in critical sectors. Nonetheless, inflationary pressures intensified across the region, with the impact varying depending on the exposure of each economy and the size of their cushion factors (Chart 2.3).

Chart 2.3
Asia Pacific: Headline and core consumer price index inflation

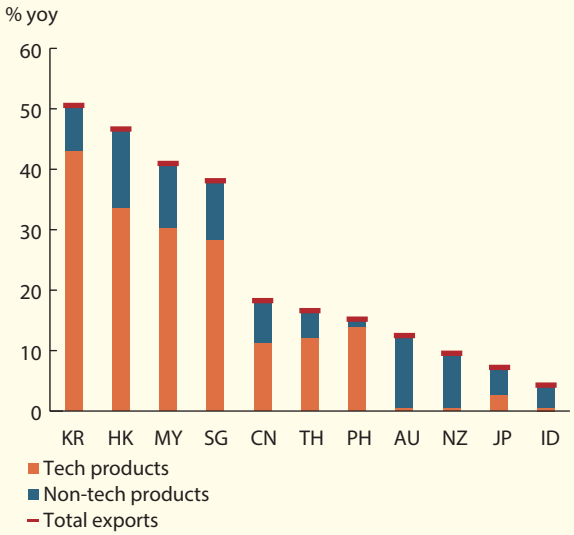


Notes:
1. CPI = Consumer price index, AU = Australia, CN = Chinese Mainland, HK = Hong Kong, ID = Indonesia, JP = Japan, KR = South Korea, MY = Malaysia, NZ = New Zealand, PH = The Philippines, SG = Singapore, TH = Thailand
2. The latest observation refers to Q2 2026 for NZ, July 2026 for AU, and Aug 2026 for all other economies.

Source: CEIC.

Divergent performance also reflects the position of each economy in the global A.I. supply chain. South Korea and China (including the Chinese Mainland, Hong Kong and Taiwan) are deeply tied to the A.I. supply chain and have captured outsized gains, leading to sharp increases in exports (Chart 2.4) and equity valuations (in South Korea and Taiwan). By contrast, those economies with little connection with the A.I. supply chain have generally experienced subdued performance.

Chart 2.4
Asia Pacific: 2026 export growth with breakdown by product type



Notes:
1. AU = Australia, CN = Chinese Mainland, HK = Hong Kong, ID = Indonesia, JP = Japan, KR = South Korea, MY = Malaysia, NZ = New Zealand, PH = The Philippines, SG = Singapore, TH = Thailand
2. Figures are January–June for PH and SG, and January–July for all other economies.
3. "Tech products" refer to products falling under Harmonized System codes 8419, 8470–8473, and 85.

Sources: CEIC, International Trade Centre (ITC) and HKMA staff calculations.

While the ongoing strength in global tech demand may continue to support the resilience of APAC economies, significant near-term vulnerabilities remain, given the risks and uncertainties outlined in preceding paragraphs.

In particular, regional inflation faces substantial upside pressure from two key catalysts. First, the ongoing Middle East conflict may continue to elevate prices for fuel-sensitive consumer price index (CPI) items, with risks of these pressures transmitting to broader CPI through second-round effects. Second, the emerging super El Niño phenomenon poses additional risks through weather disruptions, which, combined with fertiliser supply constraints, will ripple through food supply chains and exert upward pressure on food prices.

In addition, prolonged volatility in commodity prices and further increase in long-term yields across major advanced economies may weigh on regional capital flows and foreign exchange stability. This, coupled with rising inflationary pressures, could prompt central banks across the region to adopt a more aggressive tightening stance (Chart 2.5), potentially slowing economic growth, particularly in economies that have limited exposure to the technology sector, larger external financing needs, and higher inflation pass-through. Moreover, although the US has raised tariff rates on several regional economies following its Section 301 investigation, uncertainty over US trade policy remains heightened, further complicating the region's growth outlook.

Chart 2.5
Asia Pacific: Policy interest rate moves since 2025

	Number of rate cuts / hikes in 2025	2026									Current rate (%)
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
AU	3 cuts	-	hike	hike	-	hike	hold	-	hold	-	4.35
CN	1 cut	-	-	-	-	-	-	-	-	-	1.40
ID	5 cuts	hold	hold	hold	hold	hike	2 hikes	hold	hold	hold	5.75
JP	2 hikes	hold	-	hold	hold	-	hike	hold	-	hike	1.25
KR	2 cuts	hold	hold	-	hold	hold	-	hike	hike	-	3.00
MY	1 cut	hold	-	hold	-	hold	-	hold	-	hold	2.75
NZ	6 cuts	-	hold	-	hold	hold	-	hike	-	hike	2.75
PH	5 cuts	-	cut	hold	hike	-	hike	-	hike	-	5.00
TH	4 cuts	-	cut	-	hold	-	hold	-	hold	-	1.00

Notes:

1. AU = Australia, CN = Chinese Mainland, ID = Indonesia, JP = Japan, KR = South Korea, MY = Malaysia, NZ = New Zealand, PH = The Philippines, TH = Thailand
2. "-" indicates months with no monetary policy meeting or policy interest rate decision.
3. Based on data as of 23 September 2026.

Sources: CEIC, central bank websites and HKMA staff calculation.

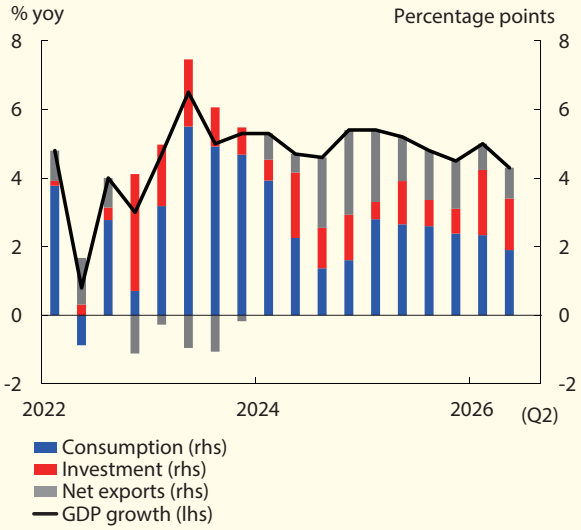
2.3 Chinese Mainland

Economic performance

Real GDP growth in the Chinese Mainland eased to 4.3% year on year in the second quarter of 2026, down from 5.0% in the first quarter. This deceleration primarily reflected softer domestic demand, while net exports remained resilient (Chart 2.6). Consumption growth moderated, due to the scaling back of the trade-in programme and the payback effect from front-loaded spending in the previous year; however, services outperformed goods. Fixed asset investment contracted in the second quarter, weighed down by a property market consolidation and a reversal in infrastructure investment amid weaker fiscal support. The contribution of net exports to GDP growth increased slightly in the second quarter despite having narrowed from 2025. In nominal terms, both merchandise exports and imports accelerated, supported by buoyant global demand for technology and A.I.-related products. Box 1 examines these A.I.-related trade in greater detail, suggesting its strength stemmed primarily from price increases rather than volume growth. In addition, the energy shock arising from the Middle East conflict boosted the Chinese Mainland's green exports, such as electric vehicles.

Taken together, the real economy expanded by 4.7% year on year in the first half of 2026, still within the official growth target range of 4.5%–5.0% for the year. However, various activity and sectoral indicators revealed an underlying "K-shaped" divergence — strong supply versus weak demand, resilient exports versus soft domestic consumption, and vibrant new-economy sectors versus shrinking traditional sectors such as housing.

Chart 2.6
Chinese Mainland: Contribution to GDP growth by demand component



Sources: National Bureau of Statistics of China (NBS), CEIC Data (CEIC) and HKMA staff estimates.

Outlook and risks

The economy is expected to remain on track to meet its annual growth target amid continued policy support.[4] The authorities have pledged to strengthen counter-cyclical adjustments through prioritising faster deployment of existing fiscal resources, while the People's Bank of China (PBoC) is set to maintain a moderately loose monetary policy stance.

In a challenging external environment, the economy has demonstrated strong resilience, and advanced from a large to a strong manufacturing power. Bright spots in the economy include A.I. models, humanoid robots, semiconductors, new energy and green transition, and the list continues to expand. Sustained innovations, industrial upgrading, and the expansion of new-economy sectors are expected to underpin stable growth.

However, the growth outlook is affected by several uncertainties and risks. These include the evolving conflict in the Middle East, the sustainability of the A.I. boom, uncertainties surrounding US tariffs[5] and policy interest rates, potential trade tensions with the EU, and the headwinds from property market. Current market consensus forecasts a growth rate of 4.6% for the year.

Driven by global energy shocks and the A.I. super cycle, inflation dynamics improved in the first half of 2026 (Chart 2.7), although reflation remained narrow. Producer price index (PPI) inflation rose to a recent high in June, fuelled by higher prices in energy, chemicals and certain A.I.-related industrial metals. However, weak consumer demand generally limited downstream pass-through,[6] potentially pressuring corporate margins. Headline consumer price index (CPI) inflation ticked up from 2025 but remained relatively soft at around 1.0% year on year in the first eight months of 2026, as lower food prices partially offset the impact of higher gasoline prices. After declining for 12 consecutive quarters, the GDP deflator turned positive in the second quarter of 2026. Meanwhile, the headline unemployment rate edged up to 5.3% in August 2026, with the youth unemployment rate for the 16–24 age group picking up to 18.9% amid the traditional graduation season.

Importantly, while the global energy shock and the A.I. boom have affected the Chinese Mainland, the economic and policy cycle in the

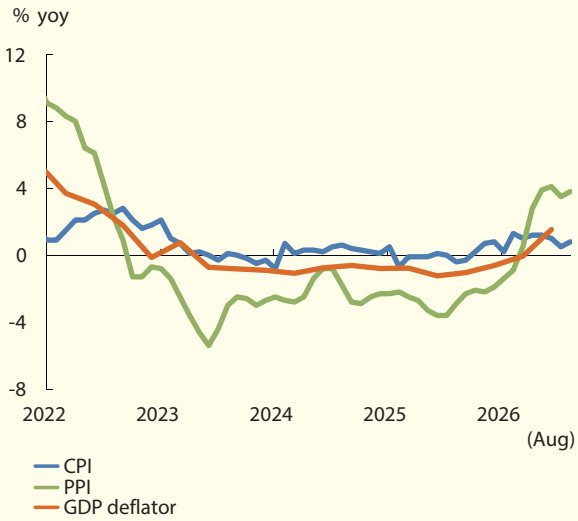
[4] For example, the Central Government announced new consumption and tourism plans for the National 15th Five-Year Plan (FYP) period, targeting total retail sales of RMB 60 trillion and domestic tourism spending of RMB 7.7 trillion by 2030. Other ongoing measures include the "Six Networks" investment and "A.I. plus" initiatives.

[5] The China-US tariff truce agreed in October 2025 is due to expire on 10 November 2026. Separately, the US Trade Representative has imposed a new 12.5% tariff on several economies, including the Chinese Mainland, following Section 301 investigations. Meanwhile, China and the US are seeking to reduce tariffs on certain agricultural products following the Xi-Trump summit held in mid-May. Overall, the China-US trade relationship will not deteriorate in a baseline scenario, as the top leaders agreed on a framework of a constructive relationship of strategic stability.

[6] There are exceptions, such as vehicle fuels and IT devices like mobile phones.

Chinese Mainland remains largely domestically driven. Despite the jump in PPI inflation, the pass-through to consumer prices has been limited. Consequently, the PBoC has maintained its monetary policy stance, and government bond yields have remained stable — in contrast to the upward trend in advanced economies. The low correlation between the Chinese Mainland and advanced economies is not a new phenomenon; it reflects structural economic differences, distinct financial market divergence, and policy-driven cycles.

Chart 2.7
Chinese Mainland: Inflation and GDP deflator



Note: The GDP deflator is reported on a quarterly basis, while CPI and PPI are monthly series.

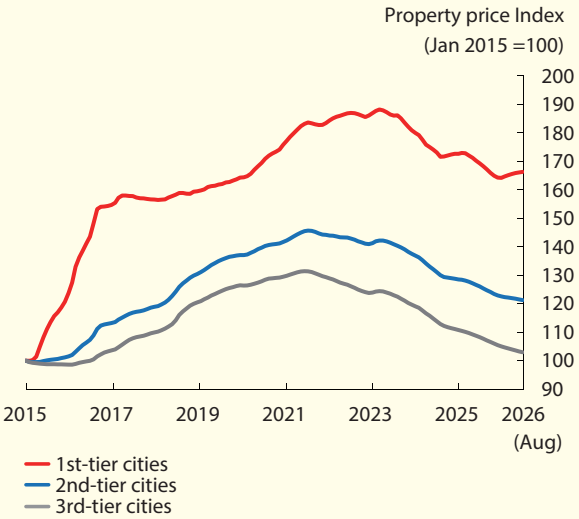
Sources: NBS, Wind and CEIC.

Property and credit markets

The housing market remained soft overall in the first eight months of 2026, though top-tier cities performed relatively better. Housing prices in first-tier cities continued to record positive sequential growth from March to August, recovering tentatively from recent low, while prices in second- and third-tier cities remained soft (Chart 2.8). At the national level, property market activities, including sales, investment, construction and land sales revenue, contracted further (Chart 2.9).

The authorities have maintained a supportive policy stance, emphasising housing market stabilisation. Local governments have rolled out a series of incremental easing measures. New policy measures[7] increasingly focused on urban renewal, affordable housing, "quality homes", property-related services, the relaxation of restrictions, refinements to the housing provident fund system and a shift from pre-sale to completed property sales. This reflects the property sector's ongoing transition towards improving housing quality and people's living standards, alongside its recognised role in supporting households and the broader economy. Overall, policy support remains incremental and city specific.

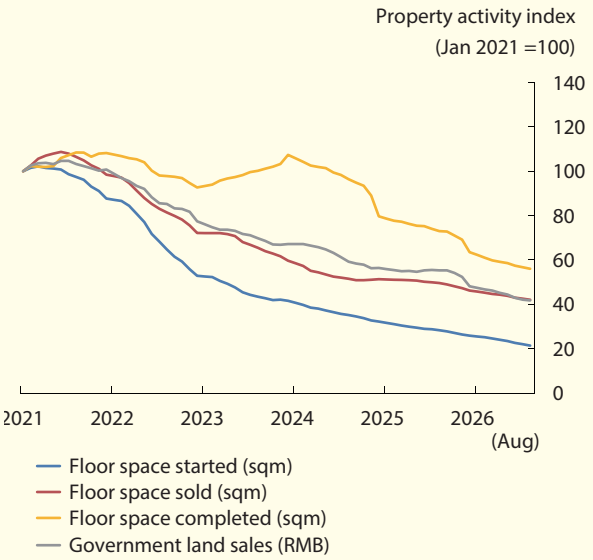
Chart 2.8
Chinese Mainland: Residential property prices by tier of cities



Sources: CEIC and HKMA staff estimates.

[7] Specific measures included the release of the Urban Renewal Plan for the 15th FYP period and related investment plans, a revised regulation on Housing Provident Fund management, and calls for stronger support for housing-related consumption under the broader consumption expansion plan for the 15th FYP period. In addition, top-tier cities such as Beijing, Shanghai, Shenzhen and Guangzhou further relaxed their home purchase restrictions. On 22 May 2026, the State Council issued guidelines to provide basic public services based on habitual residence rather than household registration, in support of the people-centred new urbanisation.

Chart 2.9
Chinese Mainland: Property market activities



Note: The property activity indices are calculated as 12-month rolling sums.
Sources: CEIC and HKMA staff calculations.

In the near term, the housing market outlook remains challenging amid soft economic growth momentum and weak domestic demand. While top-tier cities show signs of stabilisation, lower-tier cities continue to face downward pressures. The nature of current challenges seems to differ from previous years. First, the demand-supply imbalance is no longer driven primarily by oversupply, but by weak household confidence and falling housing demand. Second, while the direct drag from the housing market correction has weakened as the sector's share of the economy has diminished, the indirect impact has become more significant. This includes the pressure on local governments' fiscal conditions and households' balance sheets.

Credit growth remained moderate in the first eight months of 2026, partly reflecting continued weakness in private-sector credit demand. Growth in both outstanding loans and aggregate financing hovered at historically low levels. However, overall risk in the banking sector remained largely contained, with non-performing loan ratios staying low. At the June 2026 Lujiazui Forum, the PBoC fine-tuned interest rate-based operations by specifying a narrower, symmetric interest rate corridor for ad hoc overnight repo and reverse repo rates, and further de-emphasised quantitative indicators.

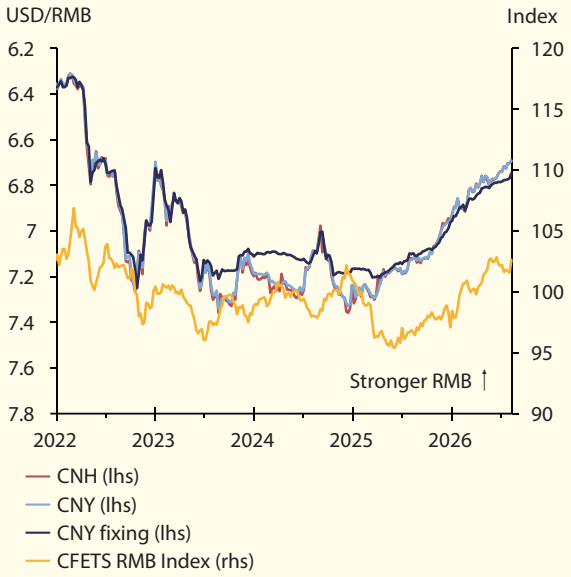
Exchange rate and fund flows

Both the official fixing and market renminbi (RMB) exchange rates strengthened further during the review period, with the onshore market rate firming beyond 6.7 per USD in mid-September (Chart 2.10). Concurrently, the RMB appreciated against the currency basket and outperformed most regional peers, with the China Foreign Exchange Trade System (CFETS) RMB Index reaching a four-year high. This appreciation largely reflected the Chinese Mainland's export competitiveness, the ongoing internationalisation of the RMB, and the resilience of the domestic economy to external shocks. The PBoC signalled a preference for flexible, two-way exchange rate movements and reiterated its commitment to keeping the RMB basically stable. In addition, the PBoC introduced fresh measures to promote RMB internationalisation.[8]

Regarding cross-border bond flows, the onshore Mainland bond market recorded moderate net inflows under various schemes in the first seven months of 2026. However, outstanding foreign holdings of Mainland bonds in the interbank market continued to decline, albeit at a slower pace (Table 2.A). In June 2026, the authorities rolled out new measures to facilitate compliant cross-border capital flows, including an increase in the Qualified Domestic Institutional Investor (QDII) quota, following strengthened enforcement against illegal cross-border stock trading in May.

[8] On 17 June 2026, the PBoC announced a new set of initiatives at the 2026 Lujiazui Forum to further advance RMB internationalisation, including (i) the launch of the Foreign and International Monetary Authorities RMB Repurchase Facility, which provides RMB liquidity to overseas central bank-type institutions against high-grade Chinese bonds as collateral, and (ii) approval for six major domestic banks to conduct offshore RMB transactions in the Shanghai Free Trade Zone. On 7 July, the PBoC announced (i) an increase in the annual quota for Southbound Bond Connect to RMB 800 billion and (ii) an expansion of the HKMA's RMB Business Facility to RMB 500 billion.

Chart 2.10
Chinese Mainland: Onshore and offshore renminbi exchange rates and CFETS RMB Index



Note: "CNY" and "CNH" refer to onshore and offshore renminbi exchange rates respectively.

Sources: Bloomberg and HKMA staff estimates.

Table 2.A
Chinese Mainland: Cross-border bond flow indicators

(RMB bn)	2025	H1 2026	Mar 26	Apr 26	May 26	Jun 26	Jul 26
Northbound Bond Connect	233	139	26	46	41	28	23
CIBM Direct and QFI	1,051	543	89	94	117	116	135
Change in foreign holdings in the interbank market	–698	–264	–134	–67	87	–13	11

Notes: Bond flows are measured by net buying flows for the Northbound Bond Connect and the China Interbank Bond Market Direct Scheme (CIBM Direct) and Qualified Foreign Investor Scheme (QFI).

Sources: Wind, CFETS and HKMA staff estimates.

Box 1
Chinese Mainland's merchandise trade in artificial intelligence-related products

How to classify A.I.-related trade?

After a resilient 2025 amid the China-US trade tensions, merchandise trade growth in the Chinese Mainland unexpectedly accelerated in 2026. From January to August 2026, nominal exports (in USD terms) surged by 19.3% year on year, while imports rose even more sharply by 27.0%. The A.I. boom was widely cited as the primary driver behind this trade surge.

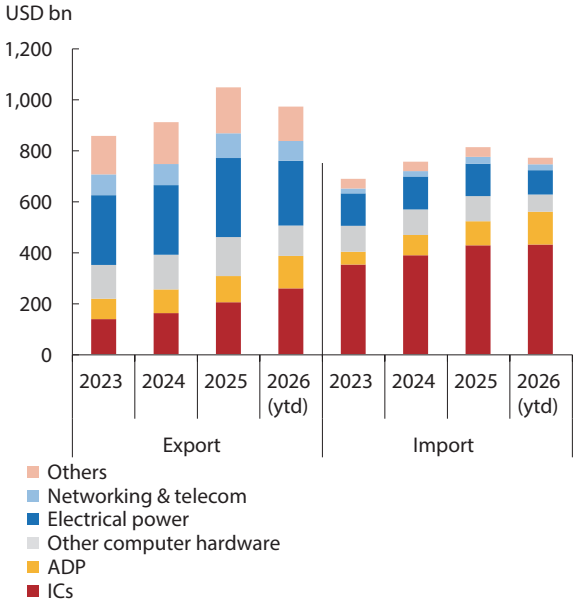
We utilise a recent research paper[9] that employs a large language model (LLM) classification tool to map product codes in US trade data to A.I.-related goods. To ensure comparability, we consolidate the paper's A.I.-related Harmonized System (HS) 10-digit codes into HS six-digit codes to classify trade from the Chinese Mainland.[10] Given the coarser granularity of HS six-digit codes, our classification may include some non-A.I. goods, meaning that our estimates should be interpreted as an upper-bound approximation of the economy's A.I.-related trade.

Compared to the World Trade Organization (WTO) or market analysts, this framework captures a wider range of goods essential to A.I. infrastructure development and operation. It comprises seven categories: (1) computer hardware; (2) electrical power; (3) networking and telecom; (4) heating, ventilation, and air conditioning systems; (5) building and structural materials; (6) fire safety and security systems; and (7) specialty materials. Category (1) is widely regarded as the core A.I. product category, and includes two segments: (1a) integrated circuits (ICs), such as memory chips; and (1b) automated data processing (ADP) equipment and components, such as computers and memory modules. Despite some overlaps, products unique to the WTO's definition of "A.I.-enabling goods" focus more on upstream manufacturing, particularly the semiconductor production chain. Some market analysts adopt an even narrower, data-driven approach, focusing solely on A.I. hardware segments (1a) and (1b).

Our analysis on A.I.-related trade

Our estimates suggest that the Chinese Mainland's A.I.-related trade has increased notably over the past one or two years, reaching 33% of exports and 36% of imports by August 2026 (Chart B1.1).[11] For the first eight months of 2026, the above-mentioned category (1) computer hardware, particularly IC products and ADP machines, constituted the most important product category for both exports and imports. Notably, the importance of computer hardware has generally grown over time.

Chart B1.1
A.I.-related exports and imports by product



Notes: Data for 2026 are up to August. Category (1) computer hardware consists of ADP machines, IC products and other computer hardware.
Sources: China Customs and HKMA staff calculation.

[9] See Michael E. Waugh (2026), "Trade in A.I.-related products", NBER Working Paper 35053.

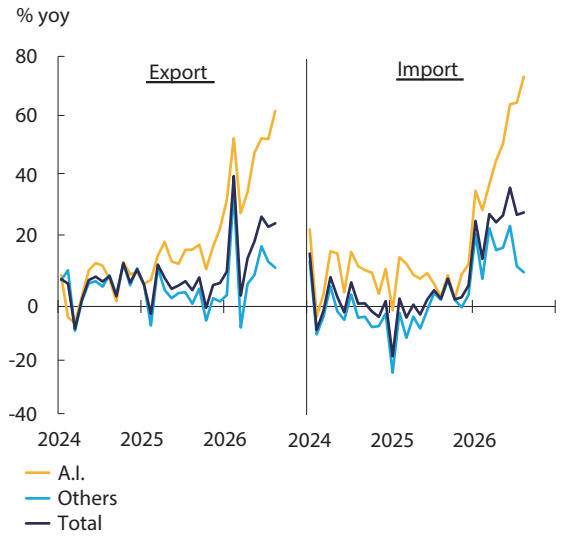
[10] The HS code is a standardised six-digit numerical system which classifies over 5,000 product groups in international trade. Some countries append extra digits for localised data collection or tariff enforcement, so that these extra digits do not refer to the same product.

[11] For comparison, based on the WTO definition of "A.I.-enabling goods", A.I.-related goods are estimated to make up 23% of total exports and 32% of total imports over the same period. Under a narrower definition that includes only IC and ADP products, these goods account for 19% of total exports and 28% of total imports.

Meanwhile, (2) electrical power equipment, such as high-capacity diesel generators for data centres, also played a major role, especially in exports, partly reflecting the Chinese Mainland's entrenched supply chain advantages.[12] Consequently, while the Chinese Mainland runs a trade deficit in core A.I. hardware (Chart B1.1), it records a trade surplus in overall A.I. trade based on a broader classification.

From a broader perspective, A.I.-related trade has been the main driver of total trade growth since early 2026, if not earlier. Year-on-year growth in A.I.-related trade has accelerated sharply since the second half of 2025 (Chart B1.2), fuelled by strong A.I. capital expenditure and the rapid deployment of A.I. models and data centre capacity. A clear divergence has emerged: in terms of trade value, A.I.-related goods are growing much faster than non-A.I. products.

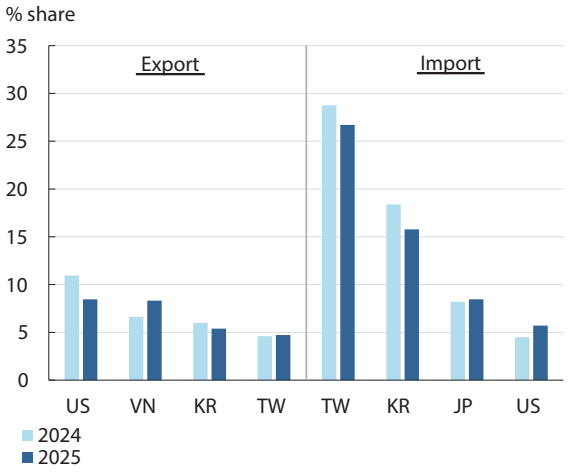
Chart B1.2
Growth in exports and imports by product



Note: Data for 2026 are up to August.
Sources: China Customs and HKMA staff calculation.

By destination, key trading partners include the US, South Korea and Taiwan, while the export markets are relatively more diversified than the import markets (Chart B1.3). Within A.I.-related trade, memory chips and modules have emerged as a standout segment, driven by a global A.I. supply chain centred on a few tech-savvy economies.[13] For instance, the Chinese Mainland imports high-end memory chips from South Korea, performs packaging, testing, and assembly, and then either re-exports the resulting memory modules to South Korea or integrates them into servers for export to the US.[14]

Chart B1.3
A.I.-related trade by major destinations



Note: VN stands for Vietnam; KR for South Korea; TW for Taiwan; and JP for Japan.
Sources: China Customs and HKMA staff calculation.

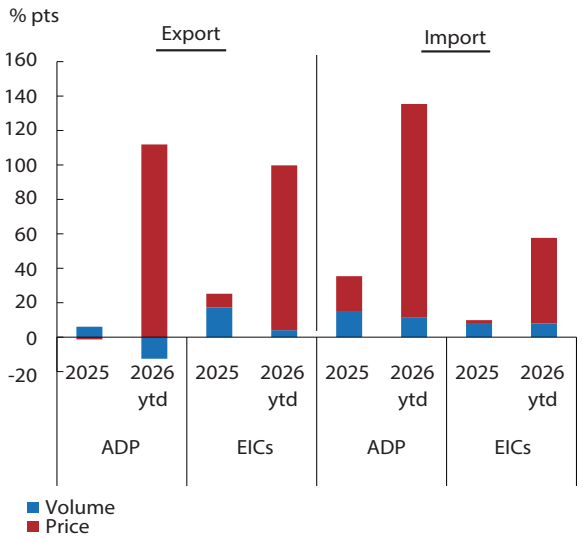
[12] According to news media, import demand from Germany and Southeast Asia has increased recently.

[13] For example, the US, South Korea, the Chinese Mainland, and Taiwan.

[14] The rapid development of A.I. on the Chinese Mainland, driven by initiatives such as the "A.I. plus", has helped drive investment demand, thereby boosting import growth. Amid the global A.I. boom and strong demand, top chipmakers chose to focus on high-end chips, which are more profitable, leaving the market (e.g. mature chips) to Mainland chipmakers. The Chinese Mainland is also an emerging innovator in the semiconductor industry, with a massive chip market.

Market data indicate that, despite variations in specifications and price ranges, memory prices have generally risen by more than 100% since the second half of 2025, driven by strong demand and tight supply. To assess the impact of unit price on trade value, and in the absence of more granular official data, we use China Customs' product categories — (i) electronic IC and (ii) ADP products — as proxies for trade in memory chips and modules. Our analysis shows that the outperformance in memory trade is primarily driven by price increases, especially from 2026 onward (Charts B1.4).[15]

Chart B1.4
Export and import value decomposition for selected A.I. products



Notes: Data for 2026 are up to August. EIC refers to electronic integrated circuit. The y-axis refers to the contribution to year-on-year growth in trade value.
Sources: China Customs and HKMA staff calculation.

The trade outlook and other implications

Looking ahead, A.I.-related products will likely continue to drive the Chinese Mainland's trade growth, with the sustainability of the A.I. boom, memory prices, and A.I. trade relations between China and the US serving as key swing factors. Fundamentally, the Chinese Mainland's strength lies in orchestrating A.I. supply chains and manufacturing certain A.I.-related products, such as data centre power systems,[16] while increasingly focusing on A.I. innovation and technological self-reliance.

The implications for real economic growth warrant close monitoring, as A.I.-related trade has been price led rather than volume driven. The surge in imports does not appear to be driven by a broad-based recovery in domestic demand. Indeed, despite faster growth in merchandise trade value this year, the contribution of net exports to real GDP growth has moderated compared to the previous year.

Furthermore, we are mindful of the "K-shaped" developments associated with A.I.-related trade, where trade benefits concentrate among the "haves", including core A.I. product suppliers, high-tech firms, A.I. talent, and tech-savvy cities both domestically and globally. By contrast, the "have-nots" may fall behind, potentially exacerbating inequality and restricting the positive spillover effects on broader consumption, income, and employment. To address these issues, policymakers may need to implement targeted fiscal and monetary measures and play a stronger role as both an enabler and a redistributor.

[15] This is different from the Chinese Mainland's export resilience in 2024 and 2025, when volume increase was the primary driver and the price effect was generally small or negative.

[16] Some also mentioned the Chinese Mainland's strength in printed circuit boards and optical interconnects.