17 November 2026

China in Focus

Economics
China

China's AI investment: Smaller, broader and more resilient

- China's AI investment is smaller than that of the US but spread across more sectors and infrastructure providers
- A more coordinated national infrastructure model means funding is less reliant on borrowing
- This could make China's AI capital spending more resilient in a downturn, although chip access and utilisation remain risks

China data review (October 2026)[1]

- **Retail sales** slowed to 0.4% y-o-y in October, from 1.1% in September, with broad-based weakness. Autos sales fell 21.4%, reflecting the payback from earlier trade-in purchases and cautious household spending. Jewellery sales also fell notably, declining 28.7% as the correction in global gold prices in October weighed on sales.
- **Fixed Asset Investment** continued to drag, declining 16.9% y-o-y in October. Infrastructure investment fell 17.6%, possibly reflecting a lack of high-quality projects that can be launched quickly, while manufacturing investment declined 9.3%, despite relative strength in selected high-tech sectors. Property investment contracted 33%, alongside still weak national sales and new starts.
- **Industrial Production** rose 4.8% y-o-y in October, with a clear divergence across sectors. High-tech and export-oriented manufacturing led growth: computers and communication equipment accelerated to 19.4%, supported by AI-related demand and the domestic policy push for computing power. However, weakness in domestic demand sectors and higher oil-related input costs continued to squeeze manufacturers' margins.
- October inflation data continued to reflect the impact of higher global oil prices, as **PPI inflation** accelerated to 5.7%, while energy components remained the key contributor to headline **CPI inflation**, which rose 0.7% y-o-y. Price gains were concentrated in commodity and AI-related sectors, while pricing across consumer-facing sectors and food items remained subdued.
- China's trade sector remained a bright spot in October, with **exports** up 35.2% y-o-y and **imports** rising 41.6%. However, the underlying growth drivers were largely unchanged: AI demand continued to lift two-way trade, while consumer goods and autos provided additional export support. The recent announcement of the "30-for-30" US-China tariff cuts and the easing of near-term tensions with the EU should help sustain the momentum.

[1] Source: Wind, HSBC

HSBC

China's AI Investment: Smaller, broader and more resilient

A wider investment base

China's AI investment intensity is similar to that of the US

China's AI investment is smaller than that of the US when measured by hyperscaler spending, with estimates indicating a gap of approximately six to seven times.[2] However, headline comparisons understate the scale of China's broader buildout. **Investment relative to cloud revenue is broadly comparable**, suggesting that the difference reflects the smaller international reach and commercial base of Chinese providers rather than weaker investment appetite.

Lower construction and electricity costs also **support greater physical capacity per dollar**. Datacentre construction in the US costs approximately USD12.1 per watt, around twice the level in Shanghai[3]. Western regions of China additionally benefit from low-cost green power. Physical capacity, however, is not equivalent to usable AI compute: hardware capability, power density, utilisation and energy efficiency remain critical.

A coordinated infrastructure model

AI is part of a broader infrastructure strategy

China's AI buildout combines private investment with spending by state-owned telecom carriers, grid operators, independent datacentre providers and inland computing hubs. Under the "Six Networks" framework, the **computing pillar is expected to attract approximately RMB4trn during the 15th Five-Year Plan**, while investment across the wider priority infrastructure programme is expected to exceed RMB7trn in 2026.[4]

Telecom carriers play three roles: capital providers, network operators and system integrators. AI-related spending represents approximately 36% of their total capital expenditure based on company disclosures. In the first half of 2026, the sector generated around RMB217bn of operating cash flow against RMB121bn of total capital expenditure, indicating that **investment can be funded internally** without substantial reliance on new debt or equity.

More disciplined financing

Expansion is increasingly phased and demand-led

The independent datacentre sector has become more cautious following earlier overbuilding and falling utilisation. Operators increasingly favour **anchor tenants, phased construction and established cash flows**. Securitisation is mainly being used to recycle capital from mature, operational assets rather than finance unfinished developments. Since 2025, approximately RMB18bn has been raised through asset-backed financing for datacentre development.[5]

This structure **should reduce the risk of a sudden, leverage-driven reversal**. It doesn't eliminate downside: weak utilisation, price pressure and local overcapacity could still depress returns and prolong capital misallocation.

The strategic trade-off

AI investment appears more resilient in China

Physical AI – including robotics, autonomous vehicles, smart factories and industrial automation – **could broaden demand beyond cloud infrastructure**, although much of this investment is recorded under manufacturing or research and development. The principal constraint remains access to advanced chips. China may achieve lower facility and energy costs, but it is likely to remain behind the US at the hardware frontier.

Overall, **China's AI investment appears more resilient** because funding is diversified, leverage is lower and policy support is stronger. Yet its focus on strategic objectives over immediate returns may cause it to lag behind the cutting edge of compute power during periods of rapid growth. The decisive test is not simply how much capital is deployed, but how effectively it becomes usable compute, productivity and sustainable economic value.

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[2] Source: Bloomberg consensus estimates (as of 4 November 2026), HSBC
[3] Turner & Townsend
[4] Xinhua, 11 March 2026
[5] Wind, Shanghai Stock Exchange, Shenzhen Stock Exchange

Key upcoming China economic data

Date	Indicator	Prior
20 Nov	Loan Prime Rate 1Y	3.00%
20 Nov	Loan Prime Rate 5Y	3.50%
30 Nov	NBS Manufacturing PMI	49.3
1 Dec	RatingDog Manufacturing PMI Final	52.0
3 Dec	RatingDog Services PMI	50.8
8 Dec	Exports y-o-y	35.2%
8 Dec	Imports y-o-y	41.6%
9 Dec	Producer Price Index (PPI) y-o-y	5.7%
9 Dec	Consumer Price Index (CPI) y-o-y	0.7%
15 Dec	Retail Sales y-o-y	0.4%

Source: LSEG Eikon

Performance of key A-share indexes*

	Current	Year-to-Date	Last 1yr
Shanghai Composite	3,634	-8.43%	-9.81%
Shenzhen Composite	2,103	-16.90%	-17.39%
CSI 300	4,016	-13.25%	-14.58%

* Past performance is not an indication of future returns
Source: LSEG Eikon. As of 13 November 2026, market close

Disclosure appendix

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