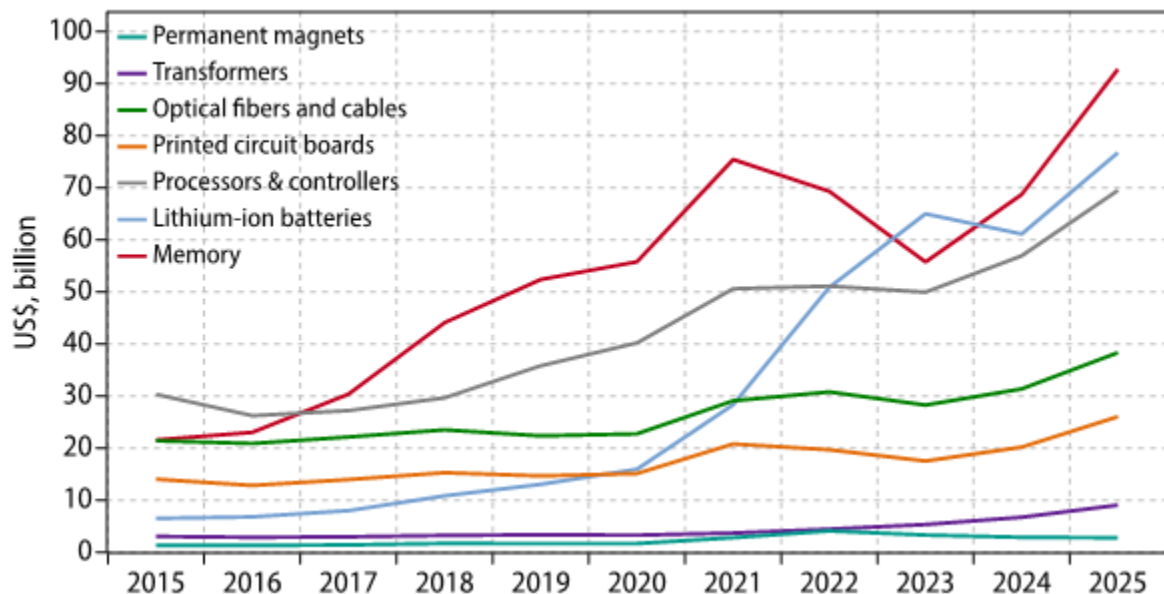


CHART OF THE MONTH

CHINA'S HIDDEN AI ADVANTAGE

CHINA IS A MAJOR EXPORTER OF AI AND ENERGY-RELATED INPUTS

Select list of top AI-related export, annual export value



Source: Gavekal Technologies / Macrobond

CHINA'S HIDDEN AI ADVANTAGE

The artificial intelligence boom is typically viewed through the lens of software companies, advanced semiconductors, and frontier AI models. Yet one of the most underappreciated consequences of the AI revolution is the unprecedented demand for physical infrastructure. As data centers expand and computing requirements increase exponentially, the beneficiaries extend far beyond AI developers themselves. The chart highlights a critical investment theme: the global AI boom is creating substantial opportunities for Chinese manufacturers positioned throughout the infrastructure value chain.

The construction of AI-ready data centers requires enormous quantities of electrical equipment, cooling systems, power infrastructure, networking components, printed circuit boards, batteries, industrial automation systems, and precision manufacturing equipment. Many of these segments are areas where Chinese firms have developed significant production capacity and global market share. As a result, even if China does not dominate the most advanced AI models, it remains well positioned to capture value from the infrastructure buildout that supports them.

This relationship is reflected in current investment trends. According to industry estimates, global spending on AI-related infrastructure is expected to exceed hundreds of billions of dollars over the coming years as hyperscalers including Microsoft, Amazon, Google, and Meta continue investing aggressively in computing capacity. The expansion of data-center infrastructure creates demand for a wide range of industrial products rather than solely for advanced semiconductors. Consequently, manufacturers supplying power distribution systems, cooling technologies, grid equipment, electronics components, and energy solutions stand to benefit alongside technology firms.

A particularly important dimension is energy. AI workloads consume significantly more electricity than traditional computing applications, creating renewed focus on grid upgrades, power transmission, renewable energy assets, and energy storage solutions. China has established leadership positions across several of these industries, including batteries, solar panels, electrical equipment, and power electronics. As governments and corporations invest in supporting AI-driven electricity demand, these sectors could experience sustained growth. The AI investment cycle therefore extends well beyond software and increasingly overlaps with China's industrial strengths.

The chart also illustrates a broader shift in the global technology landscape. Historically, technological leadership generated the greatest benefits for innovation leaders. In the AI era, however, value creation is distributed across a larger ecosystem involving both software and hardware providers. Every new AI model ultimately depends on physical

infrastructure for training, deployment, and operation. This creates what may be considered a second-order AI trade: investing not only in the companies developing artificial intelligence but also in the firms producing the equipment required to power it.

Importantly, this theme remains relatively resilient to uncertainty regarding which AI models ultimately emerge as market leaders. Whether compute demand is captured by OpenAI, Anthropic, Google, xAI, DeepSeek, or future entrants, all participants require expanding infrastructure capacity. The critical common denominator is the need for more servers, more electricity, more cooling, more networking equipment, and more industrial components. Chinese manufacturers occupy strategic positions across many of these supply chains, enabling them to benefit from rising AI adoption regardless of the specific winners among model developers.

Overall, the chart demonstrates that the AI revolution is not solely a software story. Behind every breakthrough model lies a vast industrial ecosystem responsible for building and maintaining the infrastructure that makes artificial intelligence possible. As the next phase of AI development shifts from experimentation to large-scale deployment, manufacturers supplying the physical foundations of the digital economy may emerge as some of the most significant beneficiaries. The global AI race is therefore not just about algorithms and semiconductors; it is increasingly about factories, supply chains, energy systems, and industrial capacity.

Written by Gabriele Casati

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