

Monthly Macro Letter

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China's Growth Model and the Global Technology Race

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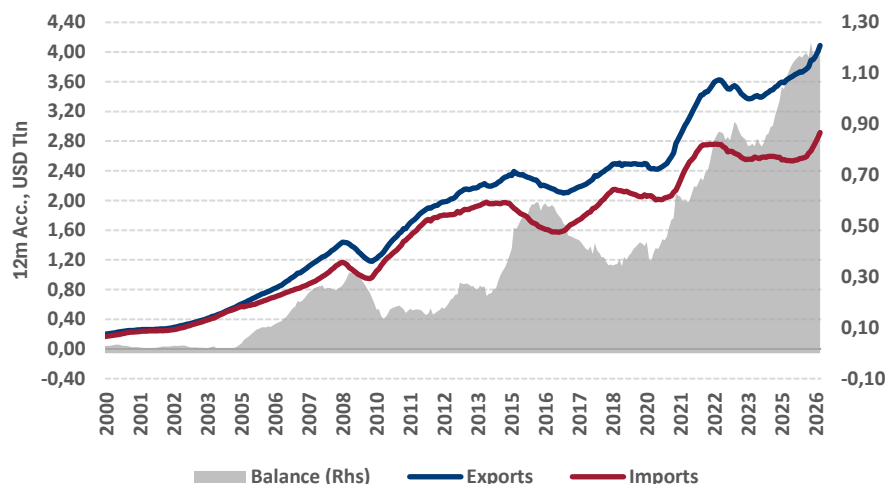
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Since China joined the World Trade Organization in 2001, the external sector has emerged as a key pillar of the country's economic growth. Despite a challenging global geopolitical environment, marked by the imposition of tariffs by the United States and restrictions on trade in products deemed strategic or related to national security, China's trade surplus has remained at a historic high, reaching USD 1.2 trillion over a 12-month period (Figure 1).

Figure 1: China - Trade Balance

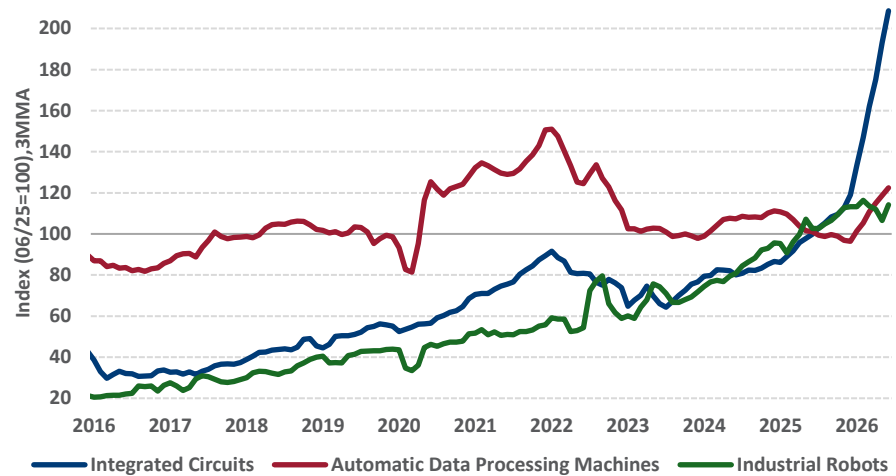


Source: BOCOM BBM, Macrobond, GAC

Over the years, China has sought new trading partners and diversified its production, increasing its prominence in the trade of higher value-added goods, such as electric vehicles. The global technology race may create new opportunities for expansion, not only in the trade of technology-related goods but also in services. The latest Politburo meeting placed particular emphasis on the development of trade in services, which still offers substantial room for growth.

On the goods side, categories linked to the expansion of global AI infrastructure, such as integrated circuits and data-processing equipment, are already posting strong export performance (Figure 2). Within industrial production, it is precisely the advanced technology segments that are exhibiting significantly stronger growth than the rest of the manufacturing sector (Figure 3).

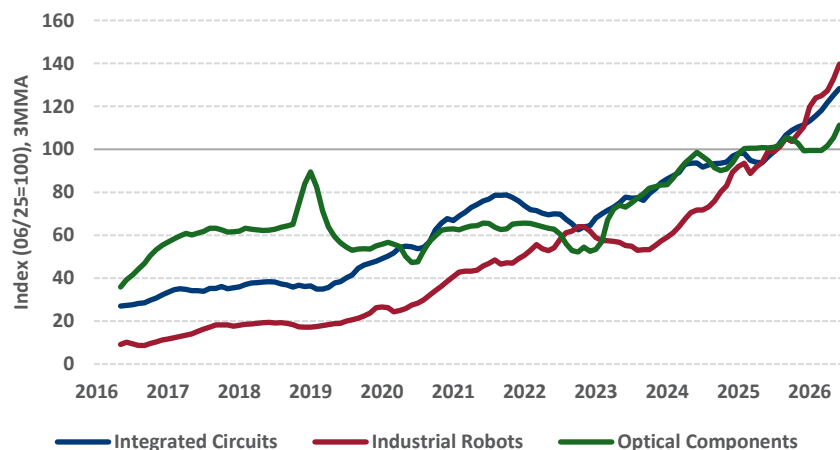
Figure 2: China - Exports: Selected Sectors



Source: BOCOM BBM, Macrobond, GAC

China's "AI+" initiative, promoted by the Chinese government, seeks to accelerate the integration of artificial intelligence across the economy through the expansion of computing infrastructure, the development of domestic AI models, the broader availability of data, and the promotion of innovation. Taken together, these initiatives are intended to strengthen China's technological competitiveness and reduce its reliance on foreign technologies in sectors regarded as strategic.

Figure 3: China - Industrial Production: Selected Sectors



Source: BOCOM BBM, Macrobond, NBS

Some results are already becoming evident: Chinese AI models are rapidly narrowing the gap with the global technological frontier. The recent launch of the Kimi K3 model by startup Moonshot AI reinforced the perception that Chinese companies are now capable of competing with U.S.-developed models across a range of tasks, adding to advances achieved by other domestic platforms such as DeepSeek, Qwen, and MiniMax. China's strategy to strengthen its AI ecosystem extends beyond the

production of hardware and computing infrastructure, with the country also standing out for its ability to develop state-of-the-art foundation models.

China's recent advances in the AI sector have implications that extend well beyond its domestic economy. In recent years, a significant share of U.S. economic performance has been associated with elevated investment in artificial intelligence and expectations of substantial future returns. As Chinese models become increasingly competitive and move closer to the technological frontier, this narrative has become less consensual, prompting investors to reassess their expectations for the sector. This reassessment has contributed to a repricing of financial markets in recent weeks, lowering the expected returns associated with AI-related investments.

In this context, China's progress in the technological race marks the beginning of a new phase in the global competition for innovation. As U.S. technological leadership becomes increasingly contested, the international macroeconomic environment is likely to grow more complex and challenging, requiring a reassessment of business strategies, investment flows, and economic policies. Although artificial intelligence will remain a major driver of transformation and growth, the emergence of new centers of innovation may reduce the concentration of expected returns and contribute to a reconfiguration of the global economic balance in the years ahead.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	2.0%	1.2%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	4.9%	4.4%
Unemployment Rate (eoy, %)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.5%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	13.75%	12.00%
External Accounts								
Trade Balance (US\$ bn)	36	42	52	92	66	60	81	75
Current Account Balance (US\$ bn)	-25	-40	-42	-28	-66	-69	-59	-58
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-2.9%	-2.4%	-2.3%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.4%	-0.3%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	78.7%	83.1%	86.9%