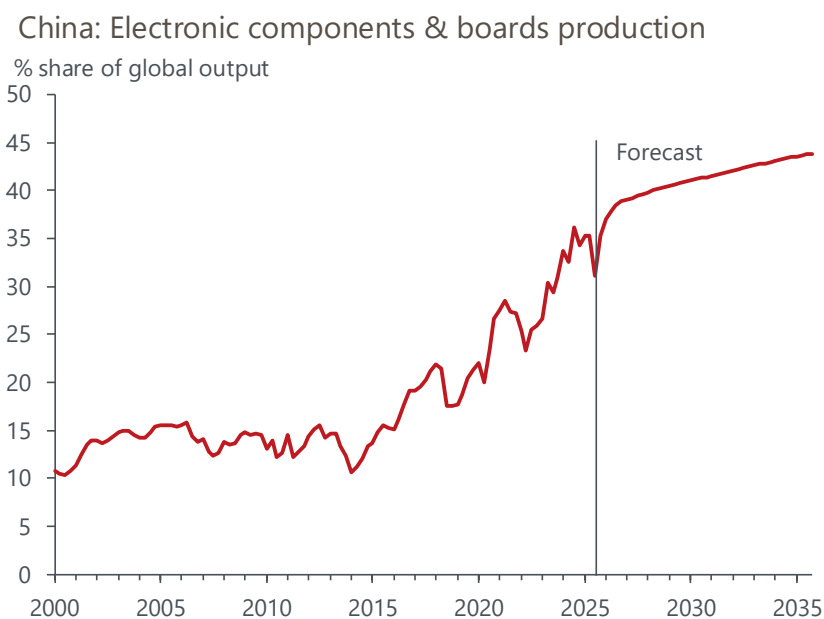


Industry Research Briefing | Global

US chip exports unlikely to derail China's local production push

- The US government's decision to allow exports of Nvidia's H200 chips to China is unlikely to deter China's efforts in achieving chip self-sufficiency. The latest policy pivot indicates that the US now aims to slow China's progress on chip manufacturing by loosening its grip on exports and making China more reliant on US-made chips—a move we think will largely fail.
- Ever since the US started restricting China's access to its chips in 2019, China has accelerated its longstanding efforts to produce cutting-edge chips domestically, supported by government subsidies and top-down guidance. Given their rising strategic importance, on both the economic and defence fronts, we believe China will continue prioritising its pursuit of chip self-sufficiency.
- Hence, we think the new chip imports will be used to enhance China's domestic AI model capacity, while China catches up to the US on chip fabrication. Despite rapid progress, Chinese chips still lag US ones in performance due to weaknesses in parts of its tech supply chain, such as in lithography capabilities. Allowing access to advanced US chips would help bridge this gap.
- That said, access alone is unlikely to be a gamechanger. Top Chinese tech companies reportedly already train their AI models using US chips in overseas data centres. Permitting US imports would do little more than establish a legal mechanism for sourcing them domestically.
- Although the chip imports to China are likely to have an insignificant impact on Chinese chip production, they should provide a boost to Taiwan, as TSMC produces these chips for Nvidia. If China allows full imports, it could potentially boost Taiwan's electronic components and boards production by 5.6% this year. But probable restrictions on import rules and supply-side constraints mean the actual boost will likely be smaller. Meanwhile, high uncertainty and the fast-changing bilateral relationship between the US and China mean supply-side volatility could rise.

Chart 1: China will remain committed to boosting local chip production, particularly for the advanced chips



Sources: Oxford Economics, Haver Analytics

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US policy direction took a turn in 2025

The US' policy on restricting chip exports to China started intensifying in 2019, when the first Trump administration put Huawei and its affiliates on the Entity List, which virtually banned access to the high-end US chip technologies. Such restrictions were initially implemented to limit China's progress on the high-tech front and to ensure that the US maintained its lead. There was bipartisan support behind this move, and when the Biden administration took power, it continued to expand on the scope of restrictions.

However, the second Trump administration has since pivoted in its approach, implementing policy changes that now allow China access to US technologies beyond its own capabilities, while still withholding the most cutting-edge innovations. This shift is exemplified by the US administration's decision to allow exports of Nvidia's H200 chips, which are more advanced than the H10 chips that were initially designed for the Chinese market, but less advanced than the most cutting-edge Blackwell series. The administration has likewise approved exports of AMD's MI325X chips, which are similar in performance to H200 chips. While the aim here has been to slow China's advancement on chip fabrication—where China has been quick to catch up—by making the country dependent on US technologies, we believe that the latest measures will not derail China's resolve on chip fabrication, and that they will only have a limited impact on production (**Chart 1**).

Naturally, the US has also implemented some [guardrail measures](#). Eligibility for exports are reviewed case-by-case, and several conditions are in place: chips need to clear third-party testing lab reviews in the US to confirm their technical capabilities; there needs to be sufficient supply of the same product in the US; and Chinese firms need to implement sufficient security controls. The US administration also requires that 25% of the revenue from sales to China are submitted to the government, effectively aligning with its recent Section 232 25% import tariffs on semiconductors (which specifically includes Nvidia's H200 and AMD's MI325X chips).

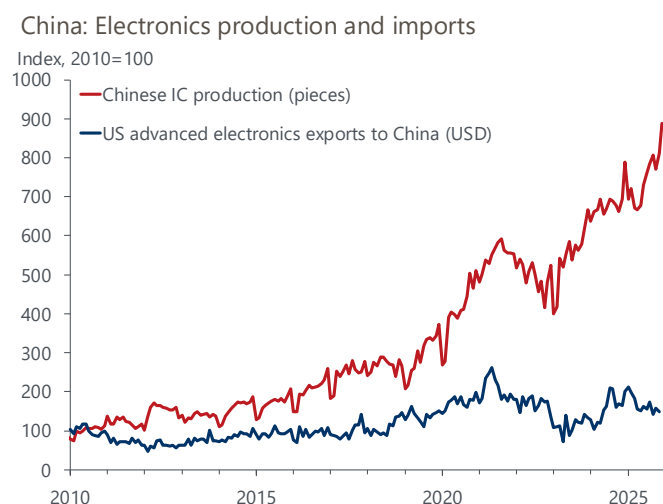
China to allow H200 chip imports, but it will remain committed to its local production push

After briefly blocking H200 chip imports, China reversed course and allowed imports of more than [400,000 chips](#) in its first batch. This is on par with Huawei's most advanced Ascend 910C chip production in 2025, with estimates ranging from 300,000 to 800,000. We expect further imports could come with restrictions in the form of import quotas, end-use-dependent eligibility, and requirements on minimum purchases of domestically produced chips. But, even in the absence of these restrictions, we do not expect imports of more advanced US chips to derail China's target of chip self-sufficiency.

Ever since the US–China chip rivalry intensified in 2019, China has been accelerating its longstanding efforts to be technologically independent from the US (**Chart 2**). Indeed, the National Integrated Circuit Industry Investment Fund—or the so-called Big Fund—has successively been upgraded and now amounts to a total of RMB 687 billion.

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Chart 2: China is increasingly decoupling from the US on technological front



Sources: Oxford Economics, Haver Analytics

While the 14th Five-Year Plan (which started out in 2021) also put emphasis on technological self-reliance amid rising tensions between the US and China, the urgency to achieve technological self-sufficiency [has clearly intensified](#) in the newly released 15th Five-Year Plan. The FYP appears to continue favouring the supply side, focusing heavily on industrial upgrading and tech self-reliance and aiming to strengthen domestic supply chains and reduce China's reliance on foreign inputs in the manufacturing sector.

All these various forms of government support—including fiscal spending and regulatory directives to localise chip production—are unlikely to unwind just because Nvidia's second-most advanced chips are allowed to be imported. If China's recent supply-side policies are any indication, the country will maintain its aggressive local chip production push. As such, we will not be downgrading China's electronics production forecast because of this policy change.

This is also consistent with our read of China's technological ambitions. In our view, Beijing treats the US–China tech race less as a race for single breakthroughs and more as a systemic, behavioural strategy across the technology stack. China seeks upstream leverage in rare-earth processing, tolerates inefficiencies in semiconductors to buy time and learn, and then invests heavily into large-scale AI and cloud deployment to extract value. Over time, this approach builds ecosystems and reduces dependence on foreign technologies.

Chip imports will have a larger impact on Taiwan than China

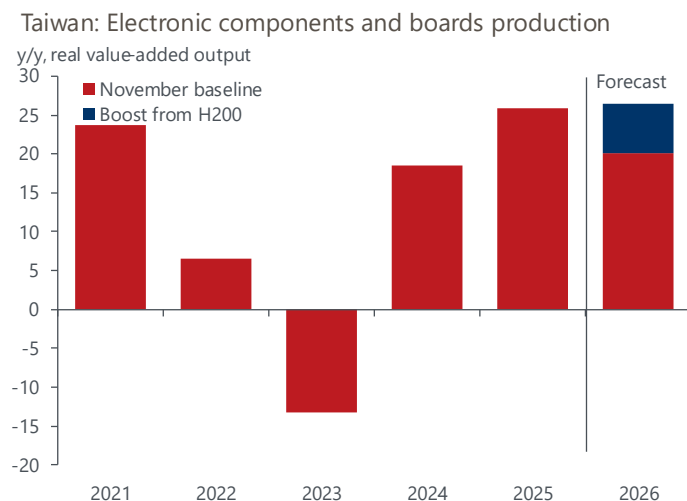
While the H200 chip imports are unlikely to have a material impact on the Chinese production of chips, they could still strengthen downstream Chinese AI model capabilities. Currently, even China's most advanced chips lag H200 chips in terms of performance. One of the major bottlenecks lies in its [lithography machines](#), which are used to print circuit patterns on a wafer. Despite China's [rapid technological catch-up](#), the country does not currently have commercially available local alternatives to the most advanced lithography machines produced by ASML of the Netherlands. Allowing imports of more advanced US chips will help boost Chinese AI model capabilities, while China catches up to the US on chip fabrication.

Still, the new import policy will unlikely be a gamechanger. The regionalisation of China-led tech supply chains means that Chinese firms already have, in practice, access to advanced US chips in overseas data centres, often in Southeast Asia. Top Chinese tech companies are [reportedly](#) training their models using Nvidia chips housed in these data centres. Such circumvention is compliant with US policies, and the "diffusion rule" initially proposed by the Biden administration—which was intended to narrow this loophole—was scrapped by the Trump administration last year. There is also supposedly a domestic black market for Nvidia's chips, including [allegations](#) that smuggled Blackwell chips have been used to develop AI models domestically. All in all, allowing official imports of H200 chips lowers hurdles, but in our view, chip access is an increasingly irrelevant obstacle in China's tech self-sufficiency plans.

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We think the bigger implication for production is on the US allies' side. Taiwan will likely be the primary beneficiary of sales to China, as TSMC manufacturers H200 chips for Nvidia. If Chinese firms order 2 million H200 chips, [as reported by Reuters](#), we estimate this could push up Taiwan's electronic components and boards production by 5.6% this year (**Chart 3**). This is likely an upper-bound estimate, as eligibility requirement and import quotas could limit actual amount of imported chips. On top of this, whether TSMC can meet the production requirement remains to be seen, when demand is already outstripping supply thanks to robust AI investment demand.

Chart 3: Chinese imports could lead to faster growth this year compared to 2025



Sources: Oxford Economics, Haver Analytics

Uncertain China policies, supply–demand imbalances, and fast-changing bilateral relationship between the US and China introduce significant production and inventory correction risks. Back in April 2025, Nvidia had to write off [USD 5.5 billion in inventories](#) because H20 chips were banned for exports to China. While this would not be a problem for H200 chips, since Nvidia can sell them to other consumers—whereas the H20 chips were specifically designed for the Chinese market—unwanted inventory could be a big drag on the balance sheet, especially given the size of potential demand from China.