AllianceBernstein®

AB on the Ground

Insights from Grassroots Research Trip to Hangzhou and Shaoxing

July 2026

Source: AB. All figures and/or company information cited as of end-May 2026, unless specified.

Key Takeaways:

- **China's Macroeconomic Backdrop Remains Uneven**

  Exports continue to hold up well, but domestic demand and property activity remain soft. This pattern echoes the multi-year adjustment paths seen in other North Asian economies following their own debt-driven property cycles.

- **AI and Geopolitics are Reshaping Chinese Industry**

  Surging AI-related infrastructure demand, combined with US sanctions and tariff pressures, is pushing companies to localize supply chains, invest in automation, and move toward higher-value products — often faster than the market expects.

- **Geopolitical Risk is Broadening Beyond the Usual Suspects**

  Companies from petrochemicals and specialty chemicals to textiles flagged energy and trade disruptions as a growing risk, pushing costs higher and shifting demand patterns.

Source: AB. All figures and/or company information cited as of end-May 2026, unless specified.

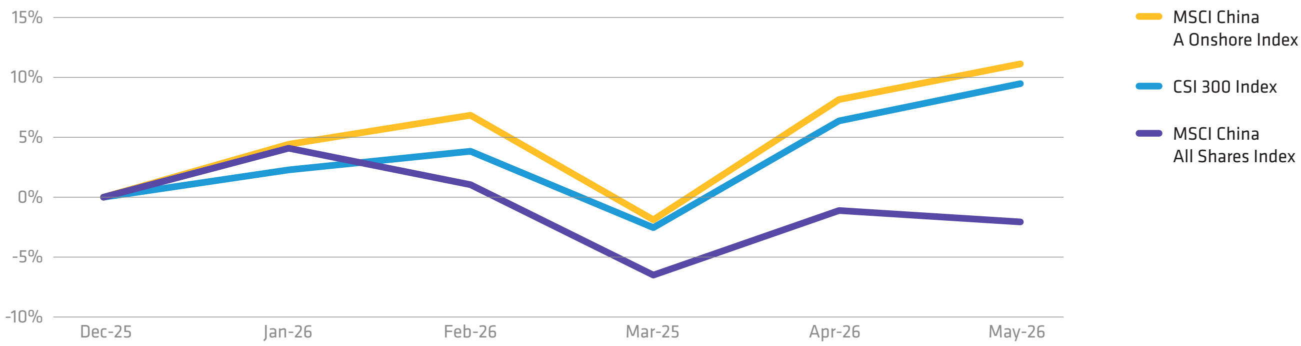
Back on the China Trail

China's economy and financial markets have entered 2026 in a better shape than a year ago. Despite recent signs of weakness in the broader economy, GDP growth of 5% year-on-year in the first quarter of 2026 exceeded both the previous quarter's pace and consensus expectations. Robust industrial output and buoyant exports boosted growth.*

The global AI investment boom has provided a powerful tailwind for China, helping cushion the impact of broader economic uncertainties, including the conflict in the Middle East, and tepid domestic consumption.

In equity markets, the picture is slightly divergent: onshore markets proved more resilient, with the MSCI China All Shares Index and CSI 300 Index (the Chinese equivalent of the S&P 500) rising 11.2% and 9.6% respectively, for the year to end-May 2026, lifted by domestic policy support and improving fundamentals. Conversely, the MSCI China All Shares Index, which includes both onshore and offshore names, slid 2% over the same period, partly owing to a regional selloff in AI and tech stocks, and geopolitical tensions.

Index Year-to-Date Total Return (rebased)

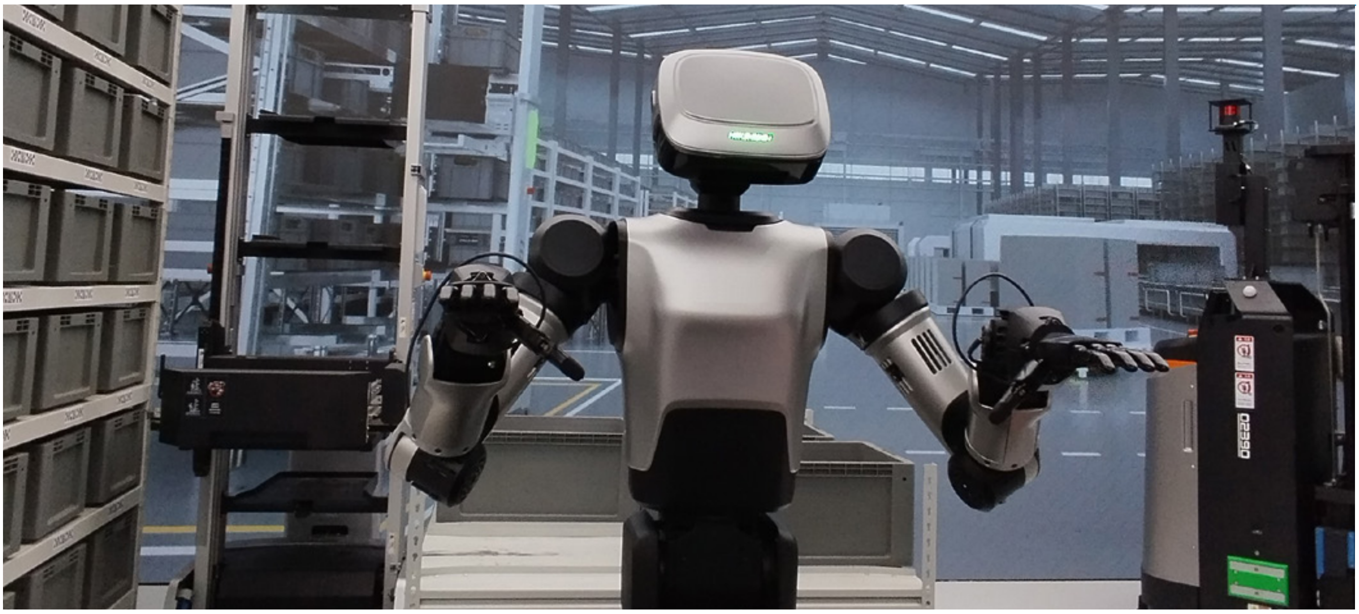


Source: Bloomberg and AB. As of end May 2026.

It is against this complex and fast-evolving backdrop that our entire research team traveled to Hangzhou and Shaoxing to assess conditions on the ground. These are two of the most economically important cities in Zhejiang province on China's prosperous east coast — a region that sits at the heart of China's evolution toward higher value-added, technology-driven growth.

The cities feel economically alive — traffic-clogged, busy, and commercially active — even if the conspicuous consumption and frenetic energy of the pre-Covid era were absent. Consumer confidence remains fragile, credit demand is soft, and the property market, while showing tentative signs of stabilization in stronger coastal cities, has not fully bottomed. Across sectors, management teams struck a consistent macroeconomic tone: the recovery is slow and uneven, reflecting a gradual normalization rather than a robust cyclical recovery.

* Source: CNA. As of 16 April 2026



What was most striking, however, was the breadth and depth of industrial activity across Zhejiang province. From petrochemicals and textile dyes to industrial automation, semiconductor foundries, copper processing, and consumer beverages, the region has accumulated an extraordinary concentration of manufacturing and technology capabilities.

Many companies that would once have been characterized as traditional “old economy” businesses — copper tubing, dye production, specialty chemicals — are now being reshaped by automation, localization of supply chains, and in several cases direct exposure to AI infrastructure demand. Factory floors visited during the trip were notable for how few workers were visible, with robotic systems and automated processes handling the bulk of production. Rising labor costs, sanctions-driven import substitution, and now AI-related capital expenditure are all reinforcing the same long-term trend toward more capital-intensive, technologically sophisticated manufacturing.

Geopolitics emerged as another persistent theme. Companies under US sanctions have adapted faster and better than expected, diversifying away from US components, pivoting toward non-Western export markets, and deepening relationships with domestic technology ecosystems — including China’s growing AI model and semiconductor supply chains. In the meantime, the ongoing Middle East conflict and energy market disruptions are pushing up input costs and injecting uncertainty into purchasing behavior across various industries.

To put all this into perspective, look no further than the economic evolution of South Korea and Taiwan. Both went through painful periods of property and industrial over-investment, only to emerge with globally dominant companies at the heart of the world’s technology supply chains. China appears to be tracing a similar trajectory — messy and uncomfortable in the near term, but with meaningful potential for globally competitive champions to emerge in areas ranging from EVs and renewable energy to AI infrastructure and advanced manufacturing. The old growth model is clearly behind it, while the shape of the new one is coming into focus.

> “Companies under US sanctions have adapted faster and better than expected, diversifying away from US components, pivoting toward non-Western export markets, and deepening relationships with domestic technology ecosystems”

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Hitting the Ground Once More

Hangzhou, the capital of Zhejiang province, is globally renowned for its UNESCO World Heritage-listed West Lake. But its modern identity is firmly rooted in tech and innovation, earning it a reputation as China's "Silicon Valley". As the birthplace of tech giants Alibaba and Ant Group, it stands firmly as the nerve center for China's digital and fintech ambitions. The city's core digital industries, spanning artificial intelligence, cloud computing, and e-commerce, drive nearly 30% of its total economic output[#] and continue to outpace Hangzhou's overall growth rate.

For many people outside China, **Shaoxing** immediately brings to mind its legendary *Huangjiu* (traditional yellow rice wine) aged in earthenware vats. Yet beyond its historic canals, textiles, and legacy as the hometown of literary writer Lu Xun, modern Shaoxing has established itself as an industrial heavyweight and one of the region's largest prefecture-level economies. Today, the city is a thriving hub for advanced manufacturing, chemicals, pharmaceuticals, and high-value industrial supply chains. In many ways, Shaoxing mirrors the broader evolution of Zhejiang province itself—entrepreneurial, export-oriented, and steadily climbing the manfuacturing value chain as China's economy matures.

Economically, these two adjacent cities complement each other perfectly: Hangzhou acts as the digital brain, driving finance, software, and artificial intelligence, while Shaoxing acts as the industrial brawn, mastering advanced manufacturing, materials, and global trade logistics.

Over the course of three days, we walked the factory floors, met with management teams across more than a dozen companies spanning petrochemicals, industrial automation, surveillance technology, consumer beverages, and specialty chemicals, among many others. What follows are our observations from the ground.

3 Days of On-the-Ground Research

2 Cities in Eastern China

8 Sectors Covered

13 Companies Visited

[#] Source: China Daily. As of June 2023

Energy

Rongsheng Petrochemical (荣盛石化)

Our visit to Rongsheng Petrochemical, a major Chinese integrated refining and chemicals company, highlighted a central debate in China industrials: whether aggressive capacity additions over the 13th and 14th Five-Year Plans have created structural oversupply across the petrochemical chain. Encouragingly, management noted that regulators have effectively halted major new capacity approvals since 2025, with policymakers more focused on controlling and consolidating growth.

On geopolitics, Rongsheng's deliberately flexible refining system — capable of processing a wide range of crude grades from the Americas and beyond — has allowed it to reduce its dependence on Middle Eastern feedstocks amid the Strait of Hormuz closure risks. Utilisation has held around 70% even during a scheduled maintenance cycle, and tighter product markets since March drove a material improvement in first-quarter profitability vs a year ago. Management expects some moderation in the months ahead, although conditions are expected to remain better than 2025 if oil prices stay relatively stable.

AB team meeting Rongsheng's management

Source: AB. All figures and/or company information cited as of end-May 2026, unless specified.

Consumer Discretionary

Alibaba (阿里巴巴)

While Alibaba is still primarily associated with Taobao and Tmall, the company today operates across e-commerce, logistics, cloud infrastructure, local services and increasingly AI. In many ways, Alibaba sits at the intersection of the two most important debates in China today: the health of the domestic consumer, and the development of China's AI ecosystem.

On consumption, management acknowledged that trends remain soft, with activity slowing sequentially after a strong Chinese New Year period, partly reflecting demand pulled forward by earlier government stimulus. Competition in e-commerce remains intense, with the fiercely contested "instant retail" segment — ultra-fast local delivery — continuing to weigh on profitability, and industry break-even likely still several years away.

On AI, management struck a pragmatic tone. While conceding that leading US models retain an advantage in overall capability, Alibaba sees China's AI application landscape evolving differently — with broader deployment across practical, lower-cost commercial applications rather than highly specialised tasks. Notably, domestically produced chips are proving increasingly competitive in handling inference workloads, and local semiconductor market share is expected to continue rising, partially offsetting China's lack of access to the most advanced compute infrastructure.

Team on the ground at one of Alibaba's sprawling campuses in Hangzhou

Communication Services

NetEase (网易)

NetEase is one of China's largest gaming companies and a growing global publisher, with titles ranging from long-running domestic franchises to international hits such as *Marvel Rivals*. The central debate we explored was whether AI ultimately benefits incumbent developers through efficiency gains, or lowers barriers to entry and intensifies competition — a question that has weighed on gaming valuations globally.

Management was constructive, noting that AI has been integrated throughout the development process, from content creation and coding to quality assurance, where it can run gameplay simulations far more efficiently than human testers. The company sees AI as accelerating the cadence of game updates and improving productivity rather than undermining its core strengths.

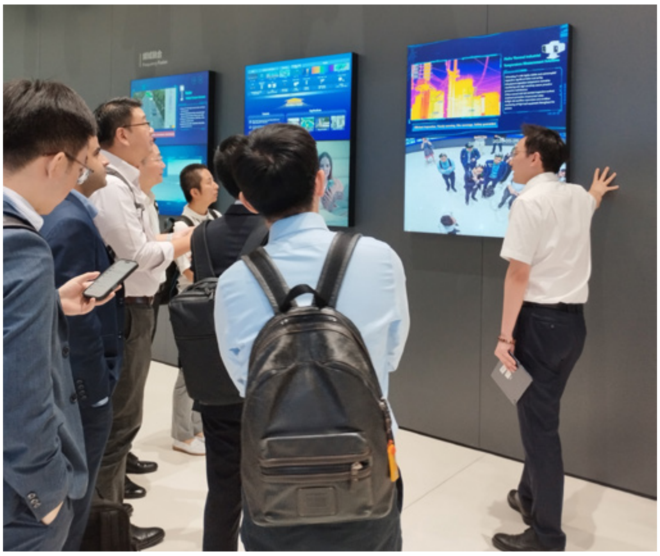
On strategy, NetEase acknowledged that player engagement is increasingly concentrating around a smaller number of blockbuster titles with strong community ecosystems and long gameplay longevity. In response, the company is becoming more selective internally — deliberately launching fewer but higher-quality games, focusing resources on titles with the best chance of achieving sustained, large-scale engagement.

John Lin, CIO of Emerging Markets Value Equities & China Equities, with NetEase's IR representative

Technology

Dahua Technology (大华股份)

Dahua Technology is one of the China's largest video surveillance and smart-vision companies, producing cameras, access-control systems, and AI-powered monitoring solutions for cities, factories, transport, and retail. The company faced significant disruptions to chip access and its export business after being placed on the US Commerce Department entity list, but it has since adapted substantially — management confirmed that there are no US-sourced components in its supply chain, while exports have grown to roughly half of revenues with strong geographic diversification.



The team observing their own images captured from camera to screen in real-time....

Despite domestic economic weakness, Dahua spent the past year cleaning up inventories, receivables, and bad debts, refocusing on profitability, though rising DRAM prices are now pushing costs downstream. On AI, Dahua is training its own large language models on China's open-source ecosystems, leasing compute primarily from China Mobile — evidence that China's domestic AI infrastructure can support meaningful innovation even under sanctions pressure. Notably, when Dahua exited the US market, the vacuum was filled not just by Korean competitors but by white-label Chinese manufacturers unaffected by sanctions, a reminder that competitive dynamics and supply chains often adapt far faster than policymakers expect.

... and seeing how an extensive surveillance set-up works in a classroom environment

Technology

Hikvision (海康威视)

Hikvision, compared to Dahua Technology, has a larger footprint. It is the world's largest video surveillance and security equipment company ^, with a business spanning cameras, monitoring systems, industrial vision, and AI-driven security across cities, factories, transportation, and enterprise environments. Though historically hardware-focused, it has shifted toward AI-powered digitalization covering industrial automation, logistics, robotics, and smart infrastructure.

Domestically, the business went through a rough patch over the past two years but is stabilizing, with profits recovering over recent quarters. Margins remain under pressure from rising memory and component costs — a ripple effect of AI-driven demand hitting the broader tech supply chain.

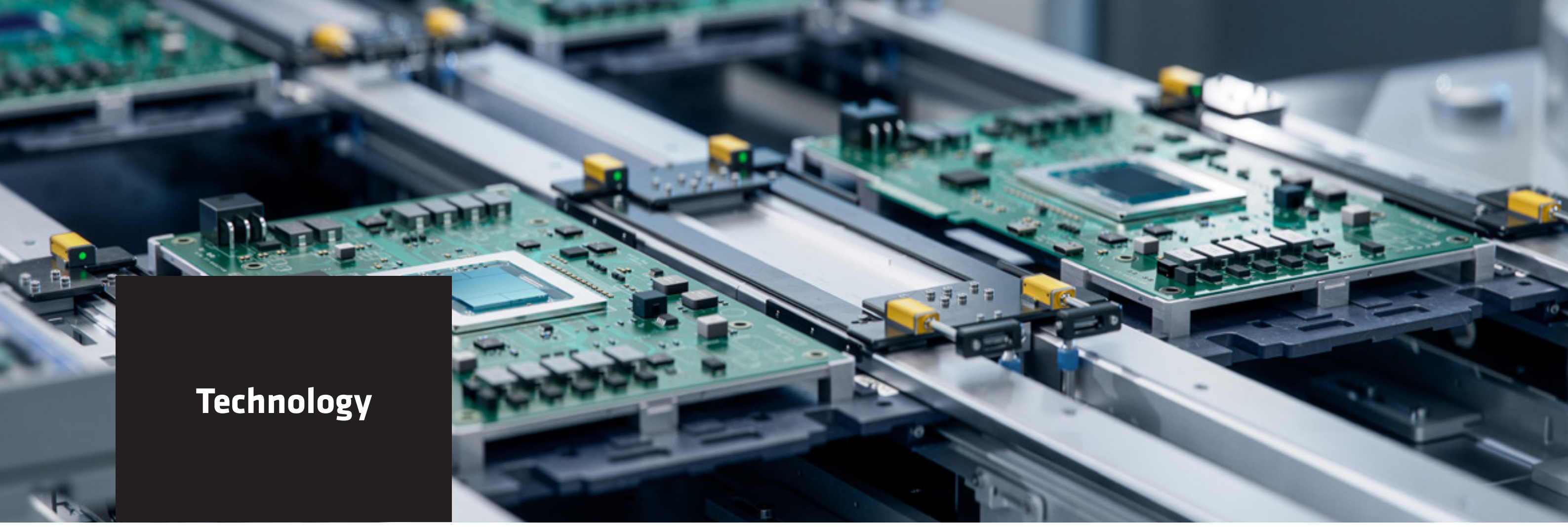
Nothing escapes the cameras… the team zooming in on surveilled subjects a few miles away

John, and Wang Yawei, quantitative research analyst, testing Hikvision's equipment

Like its competitor, exports are a key growth driver, especially in emerging markets. Hikvision has faced US sanctions since 2019, limiting its presence in North America and pushing its global strategy toward non-Western markets.

AI plays a growing role on both ends of the business: it raises hardware costs through higher-performance components, but also enables higher-value software and analytics offerings. Similar to Dahua, Hikvision also builds application-layer AI solutions for enterprise and industrial customers on top of open-source large language models such as DeepSeek and Alibaba's Qwen.

^ Source: WSJ. As of 21 May 2021. Ranking is subject to changes.



Technology

United Nova Technology (芯联集成)

United Nova Technology (UNT) is a Shaoxing-based semiconductor foundry focused on non-leading-edge chips — MEMS, power semiconductors, MOSFETs, and silicon carbide. It serves as a clear illustration that the AI capex cycle is lifting far more than just cutting-edge chipmakers.

Demand is tightening across the foundry and power semiconductor ecosystem, driven by AI infrastructure, EVs, industrial automation, and sophisticated power management, making AI-related revenues the fastest-growing part of its business. Capacity tightness in silicon carbide and MOSFETs is also beginning to push prices higher. Management views this as the start of a new industry upcycle following years of oversupply and inventory correction.

UNT also reflects China's rapidly evolving domestic semiconductor ecosystem under geopolitical pressure. Domestic equipment suppliers already account for 30–40% of certain production lines, particularly in non-leading-edge processes where substitution is more feasible. The company's Shaoxing fabs, operational since 2018, are running at high utilization with plans to roughly double parts of capacity over the next few years.
A factory tour underscored a broader trend: the facilities were strikingly automated, with entire production lines running with very few workers. Rising labor costs, geopolitical pressure, and AI-driven demand are all accelerating the same shift — even traditional Chinese manufacturing is becoming more automated, capital-intensive, and technologically sophisticated.

Vivian Chen, senior research analyst and portfolio manager, surveying UNT's chips

The customary team photo

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Real Estate

Greentown China (绿城中国)

One of the country's premier residential property developers, Greentown's exposure is mostly focused in Hangzhou and the broader Zhejiang region. Having avoided the aggressive overexpansion of the boom years, the company survived China's massive real estate downturn relatively well, supported by its strong State-Owned Enterprise (SOE) backing through China Communications Construction Group.

The developer's performance reflects a broader, unprecedented correction in China's property sector, where nationwide residential sales plummeted from a 2021 peak of 1.6 billion square meters to just over 700 million square meters by 2025. This correction brings the market much closer to the estimated sustainable long-term annual demand of 400–600 million square meters. While the severity of the bubble varies by region, economically vibrant areas like the Yangtze River Delta and Hangzhou appear closest to stabilization.

According to management, recent property market rebounds—marked by strong visitation and conversion growth during the March and May holidays—are being driven by genuine end-demand from first-time homebuyers looking for smaller units rather than speculation. Furthermore, supply-side restrictions on new land under the "Document No. 38" [x] framework have been more effective at stabilizing stronger cities than demand-side easing measures.

Greentown was the only company on the trip that made no mention of AI — a reminder that China's property market, given its outsized role in the economy and in household wealth, arguably remains far more critical to the people's livelihoods than the AI boom.

The team meeting Greentown's management...

and posing for a group photo at their premises

[x] The so-called "Document No. 38" refers to a sweeping policy framework released by the Ministry of Natural Resources (formerly the Ministry of Land and Resources). This framework restricts newly added construction land from being used for commercial real estate development and focuses on revitalizing existing land stock.
Source: [Hong Kong Economic Journal](). As of March 2007.

Financials

Bank of Hangzhou (杭州银行)

Bank of Hangzhou is a leading city commercial bank in the Yangtze River Delta with strong ties to Zhejiang's private-sector manufacturing economy. Its macro outlook aligned with the broader theme of the trip: China is slowly recovering but not yet in a strong rebound. Loan demand remains soft across both corporate and retail borrowers through the first quarter, with cautious consumer sentiment and subdued private-sector investment appetite. Manufacturing and tech lending in Zhejiang is holding up better than most other regions, but overall credit demand is weak. The bank also doesn't anticipate significant further cuts to policy rates or reserve requirements — in other words, the economy is stabilizing, albeit still sluggish.

Despite the muted economic environment, the lender stands out for its conservative risk management and stronger asset quality than many regional peers, partly due to lower exposure to troubled property developers. Although bad debt formation has ticked up modestly, it remains relatively contained. On property, management maintains a cautious wait-and-see stance despite tentative signs of stabilization in major cities.

AI came up here too—the bank highlighted lending relationships with regional tech companies benefiting from rising AI infrastructure and capex spending, showing how the AI investment cycle is filtering through, even into regional bank loan books.

On governance and shareholder returns, the conversation drew parallels to Japanese and Korean banking reforms that lifted ROEs and valuations. Management pushed back somewhat, arguing that China's development stage and the capital needs of its banking system mean that maximizing shareholder payouts is not yet the immediate priority.

Team meeting with Bank of Hangzhou ...

... at their premises

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Consumer Staples

Nongfu Spring (农夫山泉)

If there was one constant companion throughout our meetings in Hangzhou, it was probably a Nongfu Spring bottled water sitting on virtually every conference table.

Nongfu Spring, founded in 1996, pivoted from producing purified to natural spring water in 2000 and has since become one of China's strongest consumer brands built around a "natural and healthy" identity. Over time it expanded into tea drinks, functional beverages, electrolyte drinks, and sugar-free teas — with tea beverages now reportedly its largest category.

A key theme from management was the importance of long-term product incubation over chasing short-term trends. Oriental Leaf, its sugar-free tea brand launched in 2011, is a prime example—it took nearly a decade to gain real traction but is now a major contributor. This patient approach mirrors a broader consumption trend observed throughout the trip: Chinese consumers are increasingly prioritizing health, quality, and value over conspicuous spending.

Despite sharply intensifying competition since 2018 — and even more so after the 2023 economic slowdown — Nongfu has stayed disciplined, focusing on healthy distributor relationships, and steady rather than aggressive growth. Channel management appears to be a deliberate competitive advantage rather than an afterthought.

On international expansion, the company has started exploring markets including Hong Kong, Malaysia, and Singapore, but management framed this very much as a gradual, long-term process rather than an imminent growth driver.

The team on the ground at Nongfu Spring's laboratory

Source: AB. All figures and/or company information cited as of end-May 2026, unless specified.

Consumer Staples

Guyuelongshan (古越龙山)

Guyuelongshan is a producer of *huangjiu* (yellow rice wine), one of China's oldest alcoholic beverages, fermented from glutinous rice. The team visited its aging cellars — rows of mud-sealed clay vats in dimly lit warehouses — and sampled an 18-year-old vintage, which made for a very restful bus ride afterward.

The core investment question is whether *huangjiu* can successfully elevate the brand and expand beyond its traditionally older consumer base. Management is pursuing a multi-layered strategy to do exactly that: by introducing *huangjiu*-flavored ice cream, milk tea, and coffee, all aimed at introducing younger consumers to the category; lower-sugar alcoholic drinks target younger drinkers more directly; and premium aged *huangjiu* sits at the top of the range for more serious buyers.

Underpinning this strategy is a broader thesis that Chinese consumers are gradually shifting away from high-alcohol *baijiu* toward lower-alcohol beverages with health and wellness associations — a trend that would naturally benefit *huangjiu*. This aligns with the health-conscious consumption theme observed throughout the trip. Whether the trend proves durable is still an open question, but the category's combination of cultural heritage, premiumization potential, and changing drinking habits made it one of the more compelling — and certainly the most enjoyable — conversations of the trip.

John assessing the earthenware vats, in which the *huangjiu* are being fermented …

… and walking the factory floor

The proof of the pudding is in the eating… or drinking in this case

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Materials

Hailiang (海亮股份)

Hailiang is one of the world's largest manufacturers of copper tubes and copper-processing products, and it sits at an interesting intersection of several major investment themes.

On demand, management described current conditions as a clear industry upcycle, driven by AI infrastructure, power-grid investment, and broad electrification trends — including EVs and AI servers, which require increasing volumes of fine copper foils, conductive materials, and cooling products. Even a traditionally industrial business such as copper processing is being swept up in AI enthusiasm.

Geopolitics is also playing in Hailiang's favor. Following US tariff hikes, processing fees for copper tube products reportedly spiked sharply. Hailiang is well-positioned to benefit, given its manufacturing presence in both China and the US—a dual footprint that gives it flexibility most pure-China competitors lack.

The factory tour reinforced a theme seen repeatedly throughout the trip: near-total automation. Over roughly half an hour on the production floor, the team could barely spot any workers, with machines and robotic systems running continuously in the background. Rising labor costs and efficiency pressures are driving this shift across Chinese industry—from traditional manufacturing all the way up to advanced technology—and Hailiang is a clear example of how deep that transformation has gone even in older industrial sectors.

The team examining Hailiang's products used in compressors...

... and the massive drums holding the copper tubes

Source: AB. All figures and/or company information cited as of end-May 2026, unless specified.

Materials

Zhejiang Longsheng (浙江龙盛)

As one of the world's largest producers of textile dyes and specialty chemical intermediates, Longsheng sits at the heart of Zhejiang's traditional industrial base — a reminder that the province's wealth was built on textiles and chemicals long before AI and semiconductors entered the picture.

The core investment case hinges on pricing power. Years of environmental tightening and consolidation have left the global textile dye market dominated by just two major players—one of which is Longsheng—accounting for over half of the global market share. Such consolidation would normally translate into strong pricing power and profitability.

Team meeting with Longsheng's management over lunch

But the current environment is complicating that picture. The conflict in the Middle East and energy market disruptions are pushing up polyester and fiber input costs, while weak end-demand for apparel is making downstream customers cautious about restocking dyes and intermediates. So despite an improved industry structure, customers are sitting on their hands due to poor visibility and fluctuating costs. On the positive side, downstream inventories are lean; this means restocking demand could emerge once confidence stabilizes.

The meeting also reinforced a recurring theme from the trip: the Middle East conflict is generating broad, often non-obvious ripple effects across industrial supply chains — in this case, feeding through energy and raw material costs into a business as seemingly removed from geopolitics as textile dyes.

Source: AB. All figures and/or company information cited as of end-May 2026, unless specified.

Materials

Zhejiang NHU (新和成)

Zhejiang NHU is one of the leading Chinese specialty chemical and nutrition additive companies, producing vitamins, amino acids, fragrance ingredients, pharmaceutical intermediates, and advanced materials. It has evolved from a traditional chemical producer into a broader platform integrating chemical engineering, biotechnology, and advanced materials R&D—another example of Zhejiang's remarkable industrial depth. Much of the discussion centered on the Iran conflict's impact on chemical markets. Supply disruptions among overseas competitors have tightened markets and pushed up prices for products like methionine and certain vitamins, though higher raw material costs are simultaneously feeding through the supply chain. Customer behavior remains cautious and inventory-driven given uncertain end-demand — a pattern consistent with what was heard across many of the meetings we had.

The team at NHU's showroom

Xu Xiaolan, research analyst, trying out one of NHU's newer products

On the longer-term outlook, NHU sees steady structural growth in nutrition products, supported by increasingly industrialized farming and consumption upgrading in China. Beyond nutrition, the company is investing aggressively in newer materials tied to EVs, energy storage, and industrial upgrading — positioning itself at the intersection of several major themes shaping China's economy: supply-chain localization, industrial upgrading, and the steady advancement of domestic manufacturing capabilities.

As the final meeting of the trip, NHU served as a fitting conclusion — a company that, like many others visited, defies easy categorization and reflects how China's industrial base is becoming steadily more sophisticated, diversified, and strategically self-reliant.

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