

AI: US Premium Provider, China Mass Market Provider?

The AI Story Is Changing

The AI story may be changing. For the last few years, investors focused mainly on one question: who can build the smartest AI model? A new question is becoming more important: who can provide AI at the lowest cost? This is where China is becoming a serious competitor.

China Is Closing The Gap

Chinese AI companies are improving very quickly. Their models are now close to the best US models in quality. According to UBS, leading Chinese models have reached around 90% of the capability of the best US models. A few years ago, this was only around 60%. Leading players include DeepSeek, Alibaba (Qwen), Zhipu (GLM), MiniMax and Kimi.

Why Chinese AI Is Cheaper

Chinese AI labs spend significantly less on research and development than OpenAI or Anthropic. They use smaller and more efficient models, better use of computing power, open source collaboration, and benefit from lower infrastructure, electricity and GPU costs. As a result, Chinese AI models are often much cheaper while still maintaining healthy margins.

The Market Is Becoming More Cost Sensitive

Many companies are discovering that AI is more expensive than expected. Amazon, Walmart, Uber and Meta have all started to introduce controls on AI usage or encourage employees to use cheaper models. The focus is moving from maximum AI usage to maximum return on investment.

US Premium AI, China Mass Market AI

For many business applications, companies may not need the best model. They may simply need a model that is good enough and much cheaper. The US may remain strongest in advanced reasoning, research, scientific applications and complex enterprise workflows. China may become the preferred choice for customer service, document processing, standard coding, AI assistants and high-volume enterprise workloads.

What This Means For The AI Industry

This could create a market similar to other industries. The US provides the premium product. China provides the good quality, lower cost alternative for the mass market. This does not mean the US loses, but it does mean that pricing power may become weaker than investors currently expect.

Implications For Investors

Today a very large part of the S&P 500's value is linked directly or indirectly to AI. The market assumes that US technology companies will capture most of the economic value created by AI. That assumption may prove too optimistic. If Chinese competition continues to improve quality while pushing prices lower, AI could become increasingly commoditized. In that world, value may shift away from the companies building the models. The winners may instead be companies that use AI effectively, software companies that improve productivity, cloud platforms with strong distribution, semiconductor equipment companies, memory and advanced packaging suppliers, and AI routing platforms. The key question is no longer who builds the best AI model. The more important question may become: who makes money when AI becomes cheap? If AI becomes a lower margin and more competitive industry, future profits could be distributed much more broadly than the market currently expects. That is why the rise of Chinese AI may become one of the most important investment themes of the coming decade.