

How Chinese AI Models Compete on Cost

Executive Summary

Chinese AI companies are improving very quickly.

Their models are now close to the best US models in quality. At the same time, they are much cheaper to build and use.

As companies focus more on return on investment, this cost advantage could become very important.

What Is Changing?

There are two big trends in AI today.

1. AI is becoming expensive

Many companies are spending much more on AI than expected.

Large companies such as Amazon, Walmart, Uber and Meta have started to limit AI usage or move users to cheaper models.

Management teams are now asking a simple question:

"Does this AI spending create enough value?"

2. Competition is increasing

AI is no longer controlled by a small group of US companies.

Chinese companies are catching up quickly.

This is creating pressure on AI prices.

China's Progress

Chinese AI models have improved a lot.

According to UBS, Chinese frontier models are now around 90% as capable as the leading US models.

A few years ago this was only around 60%.

Leading Chinese players include:

- DeepSeek
- Alibaba (Qwen)
- Zhipu (GLM)
- MiniMax
- Kimi

In some areas, such as video generation, Chinese models are among the best in the world.

Why Are Chinese Models Cheaper?

Lower development costs

Chinese AI companies spend much less on research and development.

UBS estimates that some Chinese AI labs spend only around 10% of what OpenAI or Anthropic spend.

Yet they continue to narrow the performance gap.

More efficient design

Chinese companies focus heavily on efficiency.

They use:

- Smaller models
- Smarter attention mechanisms
- Better use of computing power
- Open source collaboration

This reduces training costs.

Lower operating costs

China also benefits from:

- Lower electricity costs
- Lower GPU rental costs
- Lower infrastructure costs

This creates a structural cost advantage.

Pricing Advantage

Chinese AI models are much cheaper for customers.

UBS estimates that average API prices are less than 20% of comparable US models.

In some cases prices are below 5%.

Despite these low prices, Chinese companies can still earn healthy margins.

This suggests the low pricing comes from efficiency and not only from subsidies.

Why This Matters

Companies are becoming more focused on AI economics.

In the past the goal was:

"Use as much AI as possible."

Today the goal is:

"Use AI where it creates value."

For many business tasks, companies may not need the most advanced model.

A cheaper model that performs almost as well may be enough.

This could benefit Chinese AI providers.

What Could Happen Next?

UBS expects the AI market to become more segmented.

Premium models

The best and most expensive models will be used for:

- Complex reasoning
- Advanced coding
- Research
- High-value business tasks

This is where US companies may remain strongest.

Cost-effective models

Cheaper models will be used for:

- Customer service
- Document processing
- Standard coding
- Routine business tasks

This is where Chinese companies could gain market share.

Conclusion

The AI race is no longer only about building the smartest model.

Cost is becoming increasingly important.

Chinese AI companies are improving quickly while keeping costs low.

If this trend continues, they could win a significant share of global AI usage, especially in large-volume and cost-sensitive applications.

The key question for investors remains:

Will lower AI prices create enough new demand to offset the pressure on profits?