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China's AI Sovereignty: A $10 Trillion Inflection Point

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I.The Four Pillars of China's AI Sovereignty

1. Policy: "All-In" Government Backing

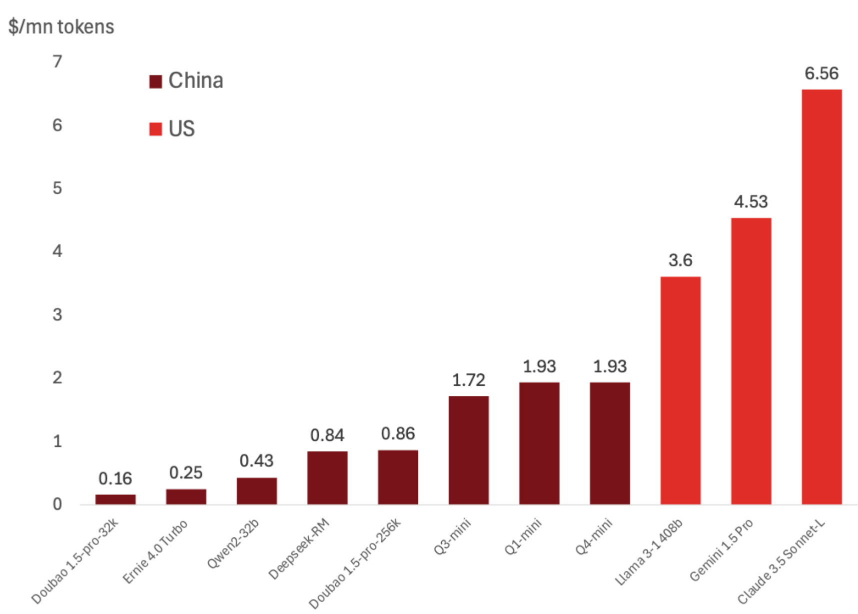
Beijing's commitment to AI is unprecedented in both size and speed. The government has established a $140 billion AI and digital infrastructure fund. This capital injection aims to rewire China's economic backbone by shifting from a real estate-driven model toward deep tech and data-driven services. While Western Media remains fixated on China's property slump, the reality is that policy and capital are moving in the opposite direction: toward innovation.

2. Tokens: Inference at a Tipping Point

The explosion of inference workloads in China represents a step-function increase in computational demand. Leading AI labs now dominate China's innovation landscape, and even Jensen Huang (CEO, Nvidia) recently acknowledged that "50% of the world's top AI researchers are in China", with many of the rest being Chinese American.

- Model adoption is dual track: surging among both consumer super apps and enterprise B2B applications.
- Chinese tech platforms are aggressively commoditizing foundational models, often offering them for free, a stark contrast to $20/month consumer pricing in the U.S.
- The second generation of models (DeepSeek 2.0) is expected imminently, signalling China's entry into the multimodal AI era.

Chinese AI Models Input/Output cost 95%+ cheaper than US peers



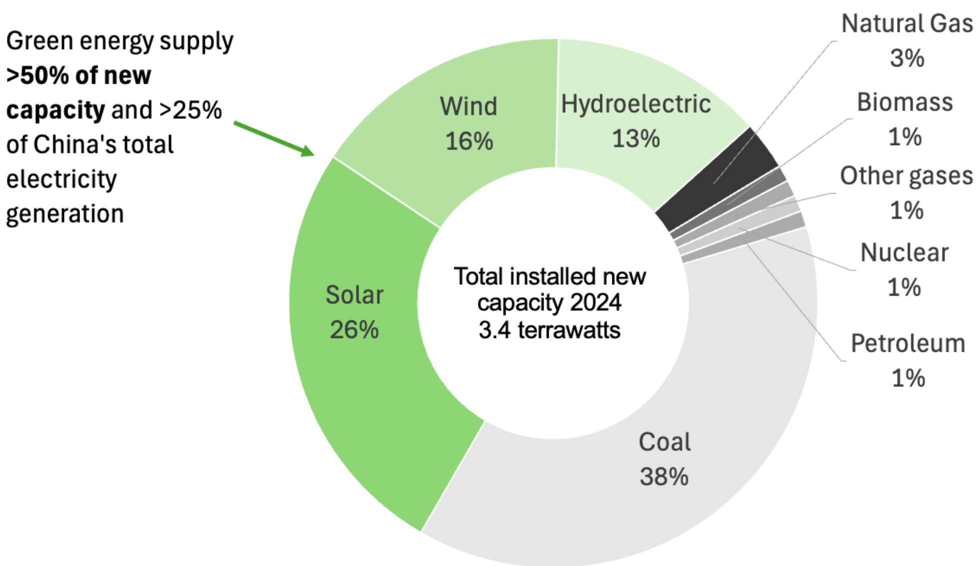
	Launch Date	Vendor/ Product	Pricing	Usage Limits for DR Queries
US	2-Feb-25	Open AI ChatGPT Plus/Team	US$20/30 per month	25 full DR runs + lightweight fallback
	16-Apr-25	Anthropic Claude Pro	US$20 per month	5x daily Claude 3 Opus context resets
	11-Dec-24	Google Gemini Pro plan	US$19.99 per month	Unlimited on Gemini 2.5 pro
	9-Mar-25	Perplexity Pro	US$20 per month	Unlimited
China	13-Feb-25	Baidu Wenxin DR	Free (paywall removed Apr-1st)	Unlimited
	5-Mar-25	Tencent Yuanbao	Free	Unlimited
	28-Mar-25	ByteDance Doubao DR	Free (beta)	Unlimited
	13-May-25	Alibaba Qwen DR	Free	Unlimited

3. Power: China's Strategic Edge in Electricity

AI is hungry for energy, and this is where China has a structural advantage. It generates nearly 3x more electricity than the U.S. and Europe combined and is adding green capacity faster than any other region.

- Over 50% of new capacity is renewable, with green energy now making up 25% of total power generation.
- China's centralized governance enables faster infrastructure deployment than democracies bogged down by regulatory friction.
- IDC (Internet data centre) power activations in China are surging at triple-digit month-on-month growth, while the U.S. faces load backlog issues. For example, the Electric Reliability Council of Texas has publicly warned of potential disconnection risks due to grid stress and long approval backlogs.

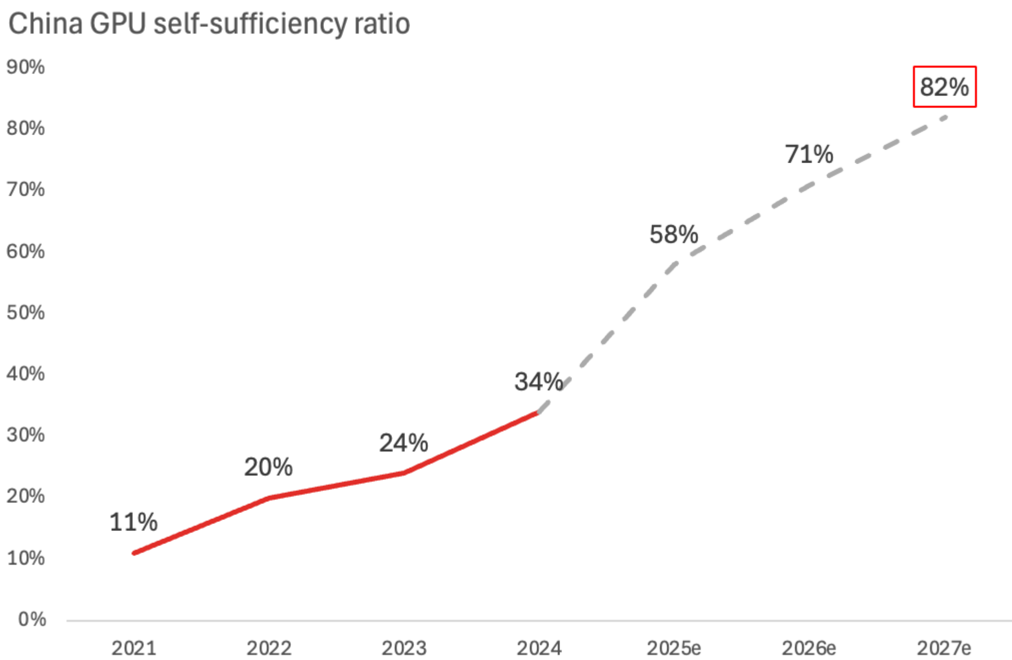
China Total Installed Generation Capacity by Source 2024



4. Chips: Towards Nvidia-Free Sovereignty

Despite recent geopolitical headwinds, China is rapidly progressing toward semiconductor independence:

- Number of Chinese chip design firms has grown from 500 to 5,000 in the last 15 years.
- Domestic GPU players are preparing for IPO waves starting this year.
- Nvidia's H20 may be the last major chip line exported to China, as both local and global companies (e.g., Anthropic, Google) transition away from Nvidia for inference workloads.
- China's top foundry, SMIC, is ramping advanced-node wafer production to fill the estimated 1.2 billion GPU shortfall.



Performance gaps still exist (e.g. power efficiency), but given China's abundant electricity, this trade-off is manageable and not a constraint.

II. China’s AI Ecosystem: From Innovation to Diffusion

China excels in scaling innovations from “1 to 100”, where real economic impact is created. While the U.S. historically dominates the “zero to one” phase, China has repeatedly proven its strenght in scaling from solars panels and EVs to battery manufacturing,. China is now poised to do the same with AI.

- Super apps like WeChat, Taobao, and Douyin are integrating generative AI at a rate far beyond their Western peers, leveraging massive user bases and cross-platform integration. This enables near-instantaneuos user adoption across commerce, payments, social media, and entertainment ecosystems.
- China's model is now focused on exporting an "AI stack-in-a-box", bundling GPUs, server racks, and LLMs, to the Global South, much like it did with 5G and EVs.

This suggests not just sovereignty but AI export leadership, reshaping influence in LATAM, Southeast Asia, and Africa.

III. Investment Outlook: Pricing the $10 Trillion Prize

Wall Street consensus underestimates China’s AI CapEx trajectory, especially on the B2B side. The real monetization is likely to occur via infrastructure and services, not just software.

- The market value gap between U.S. and China AI firms could approach $10 trillion if China achieves full-stack AI sovereignty.
- As AI adoption and infrastructure reach critical mass, forward-looking investors could benefit from asymmetric risk/reward.

Conclusion: The Path to Sovereignty is the Prize

China’s AI strategy is no longer reactive but decisive, coordinated, and accelerating. The combination of top-down state support, infrastructure scale, domestic talent, and maturing chip supply chains make the prospect of AI sovereignty not just plausible, but imminent.

In an age where computational capacity = geopolitical power, China’s alignment across policy, power, and production makes it a contender for AI leadership, not merely a follower.

The race is no longer just about innovation.
It’s about independence at scale.

To discuss this theme in more depth and review our top equity picks in the space, please reach out.

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