



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

Formidable Fast Followers

China's challenge to US AI leadership

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China's ambition and strategy

“conquer high-end chips and foundational software, building a self-reliant, controllable, interoperable AI hardware-software system”

Xi Jinping, April 25, 2025. Xinhua.

Goals

- Indigenization
- Domestic diffusion:
- International diffusion

AI mentions in China's Five-Year Plans rise from 5 in 2021 to 52 in 2026

Tools

- Investment in AI companies and chip suppliers
- Input cost subsidies
- Coordination: procurement and global governance influence
- Protectionism alongside strong domestic competition
- Support for open weights

Strong capabilities, uneven results

Objective	Assessment
Self-reliance	• Chip production improving, but remains far behind US quantity and quality • Deepseek's Liang Wenfeng: “fourfold plus two years” chip gap — four Huawei chips to match one Nvidia chip from two years earlier (leaked remarks reported July 2026).
Domestic diffusion	• No data supporting greater AI diffusion overall in China • People: China 602m / 43% of population (Dec 2025, CNNIC) • US 49% of adults (Feb 2026, Pew). • Firms: China 25.5% of digitally active small firms (Q1 2026, PKU); • US <20% of firms with ≤4 employees (Dec 2025–May 2026, Census).
International diffusion	Global revenue run rates: Zhipu \$1bn; DeepSeek \$400–500m (reported July 2026), versus Anthropic \$47bn (May 2026). Chinese models dominate downloads, but difficult to assess these data

How much AI model usage and revenue go to US model providers?

1. Frontier gap and tasks

- Which tasks can only frontier US models reliably perform?
 - Unique capabilities sustain pricing power
-

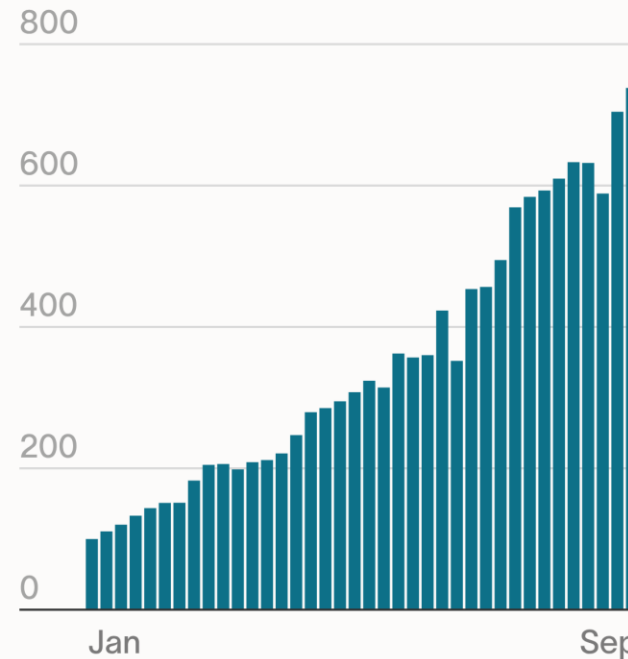
2. Where Chinese models can match: how much commoditizes?

- Trust and package deals favor US providers
- Control of models, data, and access favors Chinese open weights

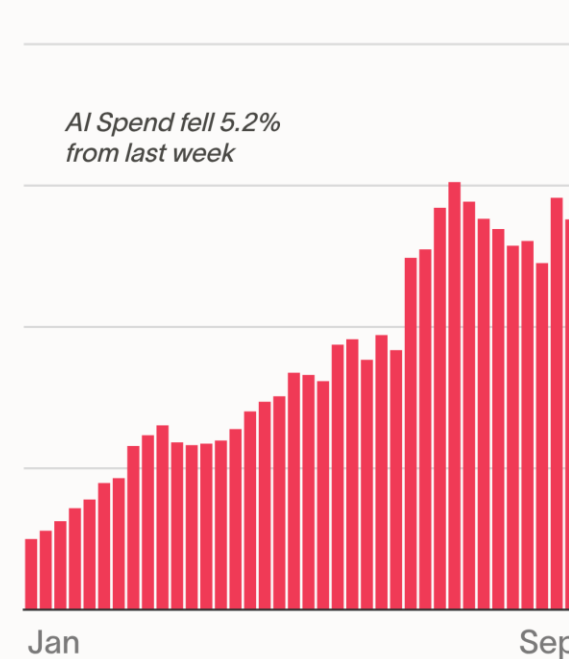
AI **spend** is falling despite rising **usage**

Token spend and volumes across Ramp businesses, indexed

Token Volumes



Token Spend



Source: Ramp AI Index (ramp.com/data), business spend data from Ramp. AI spend includes LLM subscriptions, coding agents, API tokens, and GPU cloud spend.

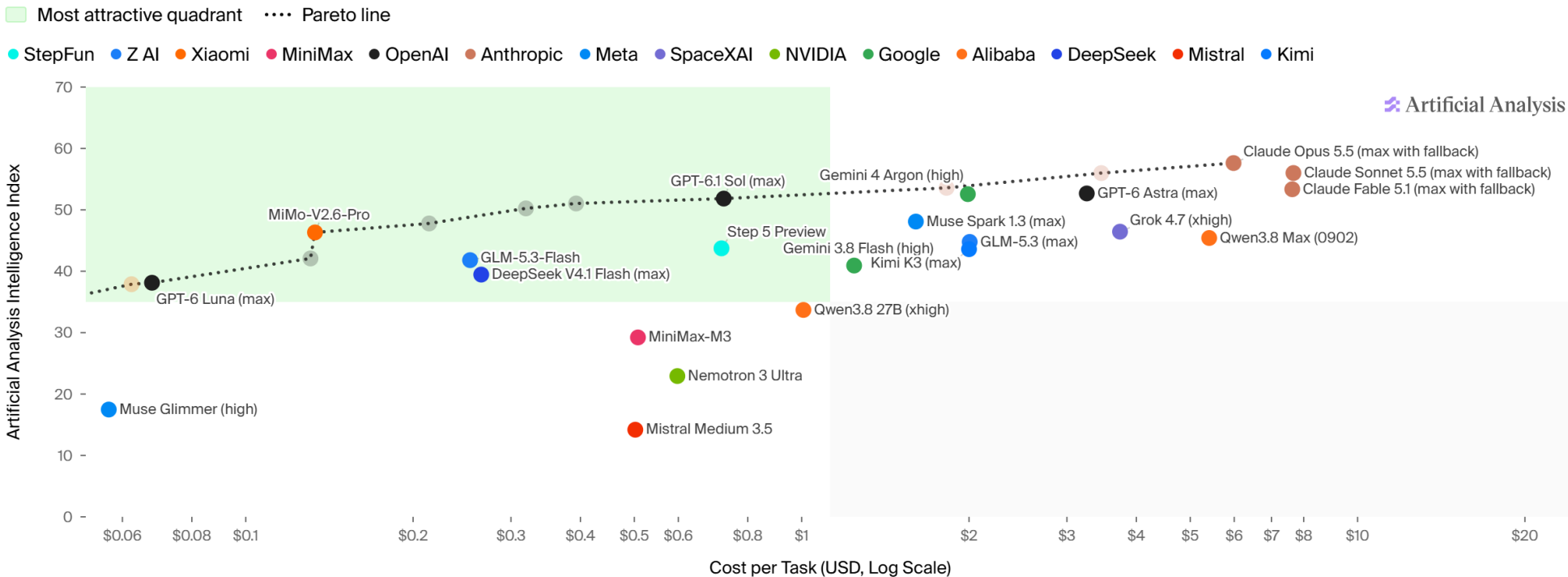


Source: Ramp AI Index, via x.com/arakhrazian/status/2105740752886309163

Chinese models are not always cheaper anymore

Intelligence Index vs. Cost per Intelligence Index Task

Artificial Analysis Intelligence Index - Weighted average cost (USD) per Artificial Analysis Intelligence Index task



Source: Artificial Analysis | Snapshot: October 5, 2026 | artificialanalysis.ai/models

China's main advantage may shift from cost to control

	Open weights	Controlled access
User control	Inspect, adapt, and run locally, subject to license	Provider controls access and available versions
Data	Local deployment can keep data with the user	Data exposure depends on hosting and terms
Leverage	Released weights cannot be withdrawn	Continued service can create dependence
Commercial terms	Separate license may be required for large providers	API or negotiated service fees

Conclusion: China's Fast Followers Will Shape Global AI

- Implications of Chinese competition for US labs
 - More intense model competition can transfer gains to users
 - Lower pricing power is risk for ability to recover frontier development costs
 - Distillation: may contribute to less public releases, incentivizing internal use, branching into applications, or trusted releases.
 - If distillation gives major gains, US slowdown would also slow Chinese labs
- Recommendations
 - Compete across cost/capabilities curve, using better hardware and experiments for efficiency
 - Restore faith in reliability of access
 - Rigorous safety testing of Chinese models—warnings without smoking guns unlikely to work