

Six months after DeepSeek's breakthrough, China speeds on with AI

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The mecca for China's boom in artificial intelligence is Liangzhu, a leafy suburb of Hangzhou, the tech-heavy capital. Now Liangzhu, with its myriad AI startups, represents the future. Investors from all over China flock there to meet growing numbers of founders, app engineers and other AI developers and dreamers. It is six months since a barely known AI startup, DeepSeek, caused a huge stir by releasing an impressive open-source model trained for a sliver of the cost of fancier Western ones. Its founder studied at Zhejiang University, a tech mothership not far from Liangzhu. The area is at the heart of an AI ecosystem which China hopes will soon rival America's.

The signs are promising. Last month three Chinese labs introduced stellar large-language models that are reckoned to be among the world's best.

Morgan Stanley, a bank, predicts that China's AI industry will grow from \$3.2bn last year to \$140bn by 2030. In June last year some 8% of Greater China firms surveyed by Gartner, a consultancy, were using generative AI. Less than a year later the figure had leapt to 43%.

The question now is how to keep the industry steaming along. Some of the early frenzy around DeepSeek has passed, and plenty of users still grumble about how models can "hallucinate". But DeepSeek's breakthrough has helped shift China's approach to AI in profound ways. It has lowered costs and moved the emphasis away from cutting-edge development and cut-throat competition among developers of AI models towards explorations of how AI can be applied across business, industry, the public sector and society itself. The importance of AI for China—and indeed the way it can outdo America, its promoters increasingly argue—is through its adoption, adaptation and diffusion, that is, spreading the use of AI more broadly. It helps greatly that China's leadership believes the same thing, and is offering state backing.

Now, the focus is on identifying applications for specific industries and putting AI capabilities to pragmatic use. Companies appear to be adopting a more can-do attitude by experimenting with the technology. There is still room for improvement. Accenture, a consultancy, found that 46% of Chinese firms have broadly integrated generative AI, but only 9% saw real benefit in productivity or profit growth.

A big question is how much AI products can improve. A lot, say China's techno-optimists. Chinese efforts to train new models have been complicated by America's ban on exports of its most advanced AI chips. In April President Donald Trump's administration banned shipments to China of Nvidia's H20 chip, which is deliberately hobbled to make it less effective for training. In July America reversed course. Yet the political uncertainty and risk remains.

The state is playing a big role, not only by supporting AI development, but also in creating demand. President Xi talked about making the most of China's *juguo tizhi youshi*—its systematic, state-led advantage in mobilising the whole country. The state is also an important customer. (492 words)