

China's DeepSeek Moment



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For a government seeking to reinvigorate its economy and infuse its youth with optimism, DeepSeek's emergence is more than just an artificial intelligence (AI) milestone – it's a timely symbol of China's ambition to claim a leadership role in the tech revolution. DeepSeek's breakthrough will likely inspire a new generation of Chinese talent at a time of renewed nationalism. With China's strengths in consumer technologies and cost efficiency, we believe a new path has opened for emerging market (EM) investors to participate in the AI wave, beyond the supply chain-centric thematic offered by Taiwan and Korea.

In Silicon Valley, the prevailing belief has been that while China excelled at scaling and commercializing emerging technologies, it lagged the U.S. in innovation. This perception was especially strong in AI, where it was assumed that developing cutting-edge models required immense technical expertise, advanced semiconductors and massive financial resources—areas where American tech giants seemingly held the upper hand. However, DeepSeek is challenging that narrative.

DeepSeek R1, a Chinese large language model (LLM), reportedly trained for under \$6 million—compared to the hundreds of millions spent by U.S. firms—has achieved near-parity with top AI models. Its low-cost, high-efficiency approach is already being adopted by Chinese enterprises in telecom and data centers, proving that China can develop competitive AI solutions even without access to the most advanced semiconductor hardware. By optimizing model architecture and leveraging more modest computing resources, DeepSeek's ability to navigate U.S. export restrictions, demonstrated China's resilience and ingenuity in AI. This has sparked fresh enthusiasm in Chinese tech stocks, with the MSCI China Index surging 26% in the month since DeepSeek was unveiled as investors anticipated an AI-driven economic boost (*Display 1*).

DeepSeek is not alone. In March, Chinese startup Butterfly Effect released a demo of the Manus AI agent, claiming that it has surpassed OpenAI model performance. The name Manus, which means hand in Latin, comes from the motto "Mens et

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Manus” meaning “mind and hand,” reflecting its integration of knowledge and application. The company claims Manus is “a general AI agent that turns your thoughts into actions.”

Alibaba has already inked a deal with the startup to develop a Chinese version of the application. The company’s demo AI agents, seen as the next technology evolution, are more advanced than chatbots. These programs can perform various tasks by thinking through a problem using a more complex reasoning abilities without human intervention. Rather than provide responses to prompts from users through chat-style interface, Manus is able to execute tasks such as sorting through resumes or booking travel. As of now, Manus AI is under a closed invitation-only Beta test and not yet available for the public to test the results.

Back in January, OpenAI also announced its AI agent “Operator” and is open for its U.S. based Pro subscribers. AI agents have been widely seen as the next big thing in AI development in 2025 and beyond and are expected to drive more innovative user cases, edge AI adoption and more demand for computing power.

Policy Shift

Beyond financial markets, DeepSeek’s emergence comes at a moment of national pride. The box-office triumph of “Ne Zha 2” and video game “Black Myth: WuKong” have given rise

to a grassroots confidence, rather than a top-down directive from Beijing, reinforcing newfound belief in national identity and tradition. Time will tell if this confidence translates into a structural shift in the collective mindset to abandon currently aspirational Western labels and embrace local brands.

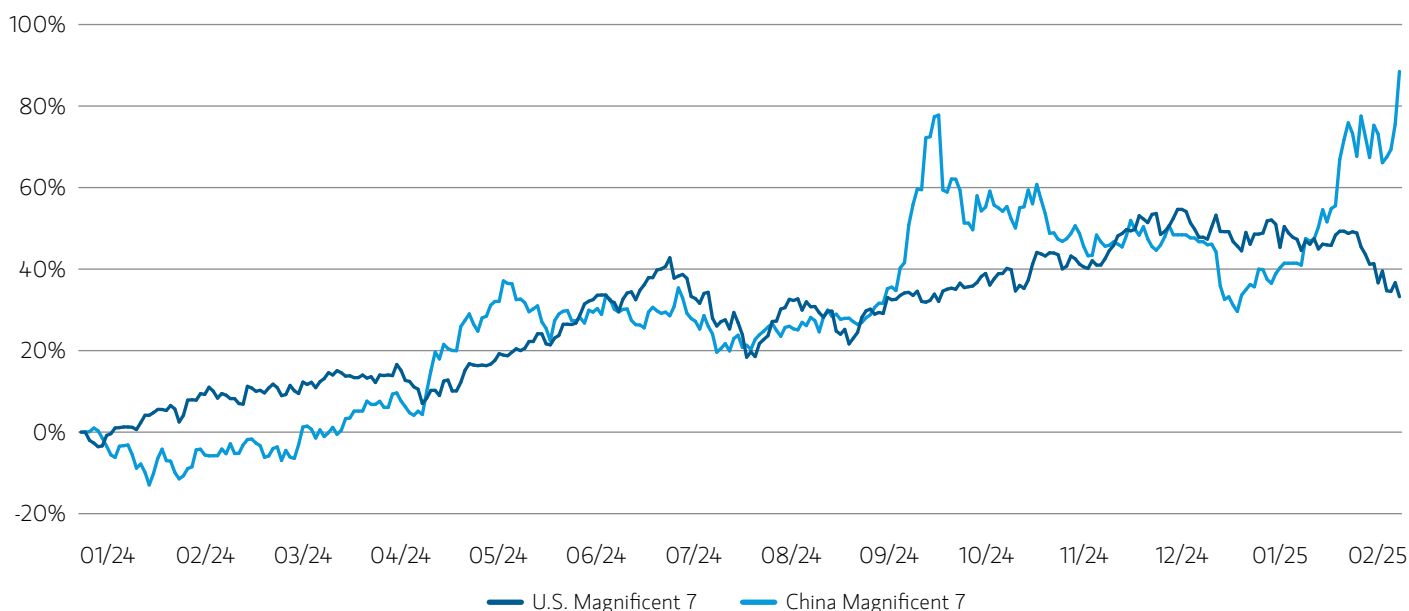
DeepSeek’s breakthrough was also welcomed by the country’s political leadership. President Xi Jinping’s February meeting with top tech executives, including Alibaba’s Jack Ma and DeepSeek’s founder Liang Wenfeng, signals a renewed commitment to fostering private-sector innovation. This policy shift from regulatory crackdowns to a more supportive stance, combined with increased private capital expenditure in the tech sector, should pave the way for long-term investment opportunities.

For EM equity investors, China’s AI ecosystem presents a unique opportunity beyond the semiconductor-driven markets of Korea and Taiwan. Unlike these hardware-focused hubs, China’s strength lies in consumer-facing AI applications, where its massive digital ecosystem and cost efficiencies provide a competitive edge. U.S. downloads of rednote (Xiaohongshu) as an alternative to TikTok highlights the global reach of Chinese consumer tech, further reinforcing its investment potential.

DISPLAY 1

China’s Magnificent 7 Has Outperformed the U.S.’s Magnificent 7

Past performance is no guarantee of future results.



Source: MSIM, Bloomberg. As of Feb 28, 2025. The U.S. Magnificent 7 are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, Tesla. China’s Magnificent 7 are Alibaba, Baidu, BYD, Meituan, SMIC, Tencent, Xiaomi.

The Dual-Track Future of AI

While DeepSeek's success establishes the viability of cost-optimized AI development, premium AI research—requiring vast computing resources—will remain critical for breakthroughs in artificial general intelligence (AGI) and complex multi-modal tasks. This sets the stage for a dual-track AI market: China's efficiency-driven approach versus the capital-intensive, high-performance AI models being developed in the U.S. and other advanced economies. While China refines its ability to build powerful AI with limited resources, firms that are not limited by U.S. chip restrictions

will continue to push the boundaries of AI research through massive cloud investments.

Rather than an “either-or” scenario, we believe both models can thrive. Emerging market investors now have access to a diversified AI opportunity set—one that balances the high-cost, high-performance AI segment with China's more accessible, cost-efficient solution. As Beijing intensifies its tech ambitions, DeepSeek represents more than just an AI milestone—it's a symbol of China's broader resurgence in innovation, investment and global competitiveness.

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The **MSCI China Index** captures large and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips and P-chips. It reflects the Mainland China and Hong Kong opportunity set from an international investor's perspective.

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