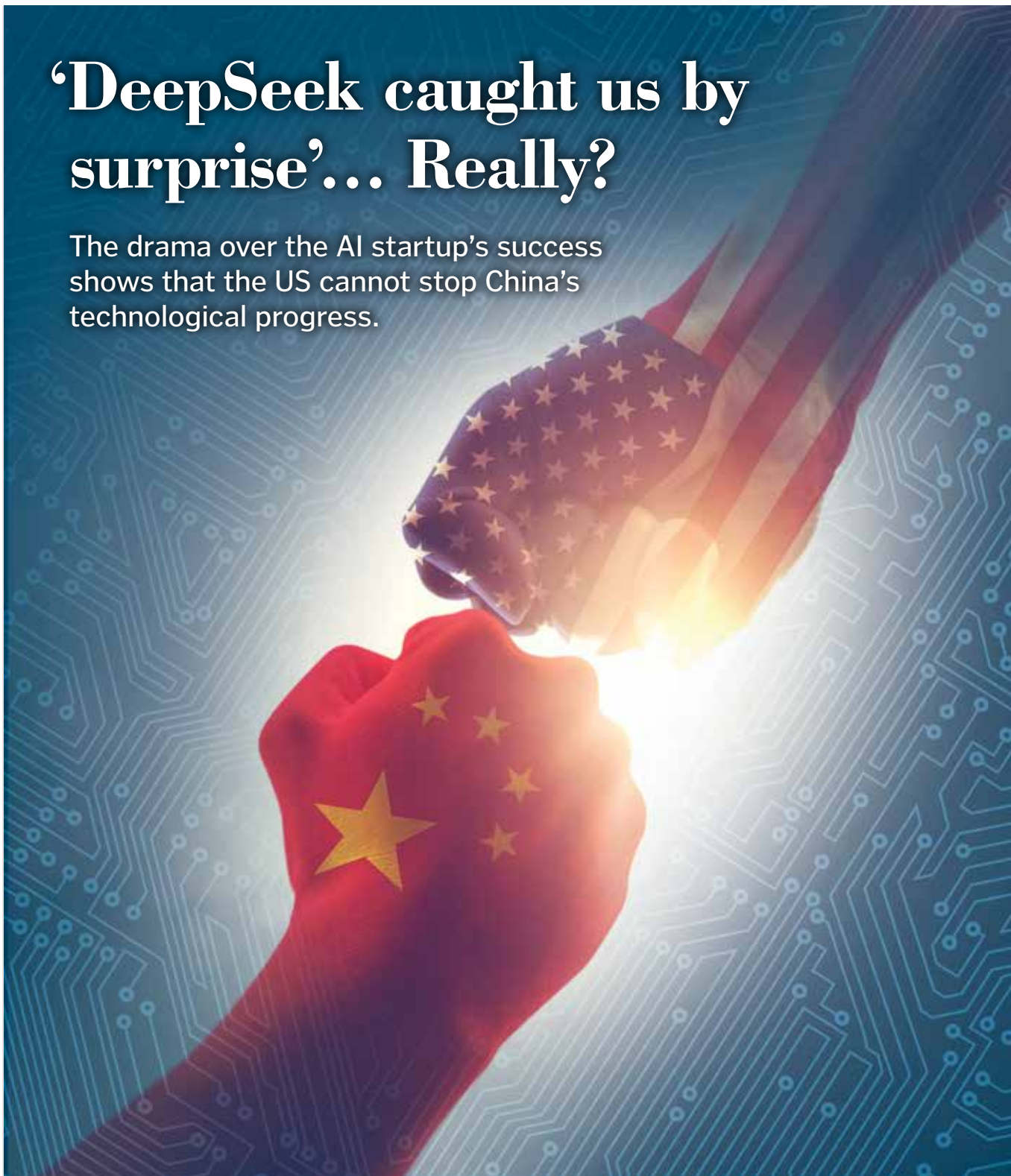


‘DeepSeek caught us by surprise’... Really?

The drama over the AI startup’s success shows that the US cannot stop China’s technological progress.



The Chinese AI startup DeepSeek – which, mind you, is a little over one year old – has caused a massive stir in global financial markets and led to a material de-rating in US technology stocks. In short, the startup is providing comparable performance to US competitors at a fraction of the development cost.

Before we get into what DeepSeek is all about, I must say I am a little surprised at comments from some investors such as “DeepSeek came out of nowhere” or “it has caught us by surprise”.

While I am not for one moment suggesting we personally had advanced insights into the imminent release of a very competitive AI model by any Chinese startup, what we can say with confidence is that we have been stating for some time now that any global effort led by the US to interrupt innovation and progress in China will be futile.

Restrictions on selling advanced semiconductors and critical minerals to China, of course, moderates the speed with which it can compete with the US on AI. However, it cannot stop China’s progress, as some have expressed to us. Our view has been validated by DeepSeek sending a shock across global markets and destroying billions of dollars in market capitalisation off US-listed AI companies, although they bounced back after the initial sell-off.

What is DeepSeek?

DeepSeek develops open-source models (open to anyone to inspect and build on) and is like OpenAI’s ChatGPT and Meta AI (Facebook). DeepSeek’s reasoning model, which attempts to replicate human thinking, allows individuals developing chatbots to use its technology at a price that is below what OpenAI charges.

According to reports, DeepSeek’s R1 performance is on par with, or exceeds, that of rival models on industry benchmarks such as AIME 2024 for mathematical tasks and AlpacaEval 2.0 for question-and-answer performance. Further, the cost to train and develop DeepSeek’s models is materially less than that of OpenAI and Meta Platforms.

Why has it caused such a stir?

There are few elements to this. First, it brings into question all the effort exerted by the US to try to curb China’s technological advancements over the past two or three years – aimed at stopping China from releasing something like DeepSeek. In our view, the Chinese government is probably involved at some level with providing resources and

technology. For example, technology companies such as Microsoft and Meta Platforms have reportedly committed more than \$US65 billion (\$105 billion) each this year, largely focused on AI infrastructure. The flow-on from companies potentially not having to spend as much on AI infrastructure could mean lower demand for chipmakers such as Nvidia and lower energy consumption.

Third, AI represents an important growth frontier in the battle for global supremacy between China and the US. We have long argued that China has the human capital and intellect to compete with the US. Which is why the background of DeepSeek’s founder

3 FUNDS TO WATCH

Global X Artificial Intelligence ETF (ASX: GXAI)

Designed to track the performance of companies listed or incorporated in developed markets that are positioned to benefit from the development and utilisation of AI in their products and services, as well as companies that produce hardware used in AI applied for the analysis of big data.

Global X Global Robotics & Automation ETF (ROBO)

Provides investors with a comprehensive, transparent and diversified benchmark that represents the global value chain of robotics, automation and AI-related companies.

Betashares Asia Technology Tigers ETF (ASIA)

Aims to track the performance of an index (before fees and expenses) comprising the 50 largest technology and online retail stocks in Asia (ex-Japan), including Alibaba, Tencent, Baidu and JD.com.

AI represents an important frontier in the battle for supremacy between China and the US.

is worth mentioning. Liang Wenfeng founded DeepSeek in 2023 and is an engineering graduate who has never studied or worked outside China.

What are the consequences?

Over the long term, the emergence of new and cheaper options will be a positive for economic growth, in our view. DeepSeek indicates to us that more credible competitors to US AI companies are likely to emerge.

This is positive for at least two reasons: more competition makes existing players lift their performance and could lead to faster adoption rates, which invariably should drive productivity gains. ■

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funding to DeepSeek. This possibility has prompted the Australian government to ban DeepSeek on all Federal government systems and devices “to protect Australia’s national security and national interest”.

Second, and importantly, the fact that DeepSeek is much cheaper brings into question the large capital expenditure numbers touted by Wall Street analysts and companies to acquire powerful AI