

Shifting narratives: How China's AI surge is redefining investor focus

As China's AI ambitions grow increasingly self-reliant, investors are navigating a fast-evolving ecosystem where commoditisation, policy strategy and localised models are redrawing the competitive map.



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Hong Kong-listed Chinese tech stocks have outperformed the market this year, buoyed by attractive valuations and renewed interest following the late-January debut of Chinese AI startup DeepSeek.

The launch of the Chinese large language model (LLM) has quickly influenced portfolio allocations, as prospects of lower development costs suggest the possible end of an investment cycle marked by heavy AI capex spending.

“Cost-efficient AI models are reshaping investment expectations across the tech sector and the broader market,” says Arijit Tiwari, managing associate at Simmons & Simmons, speaking to *FinanceAsia*. “Valuations are being actively reappraised.”

Among other shifts, generative AI is lowering critical entry barriers for startups, drawing investor attention away from foundational models and toward real-world applications that can enhance earnings potential.

Market implications

Technology users are welcoming the competition, as policymakers are looking to AI solutions to unlock new sources of demand.

With Chinese tech stocks experiencing a sector re-rating, AI-related companies are hoping to push their potential valuations higher by illustrating the immediate commercial utility of their underlying technology.

Companies specialising in domestic compute infrastructure, high-performance cloud networks, and sovereign LLMs have managed to draw a wave of early-stage deal flows and secondary market interest, says Steve Alain Lawrence, chief investment officer of Balfour Capital Group, adding that the exit environment has been helped by DeepSeek.

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IPOs on the domestic STAR Market and the Hong Kong Exchange are also gaining momentum, while strategic buyers like Huawei and state funds are showing a growing appetite for frontier AI capabilities, he describes.

Still, despite surging investor interest, experts remain divided over how AI deployment will reshape their industries. Credible reports like [AI 2027](#) and [AI as Normal Technology](#) offer starkly contrasting views on the speed and scale of disruption, from fears of mass job displacement to AI being treated as just another software tool.

Jefferies' Aniket Shah, head of sustainability & transition strategy, suggests that while technological shifts may eliminate some roles, they also create opportunities elsewhere, highlighting Microsoft Excel as an example that opened new employment roles within the finance sector.

The AI evolution, he argues, is more likely to unfold between these two extremes, although sector analysts caution that it remains too early to identify clear winners.

New realities

If sophisticated AI becomes more commoditised and accessible, the competitive advantage of some AI-first companies might diminish, leading to a re-evaluation of their true potential for growth.

"This necessitates a heightened focus on the long-term defensibility of a company's AI strategy, its data moat, and its ability to innovate beyond commoditised AI capabilities," says Tiwari of Simmons & Simmons.

Structural shifts are also emerging, with one of them being the narrowing sophistication gap between China and the US.

"Chinese AI ambitions are no longer dependent on Western infrastructure," asserts Balfour's Lawrence, characterising DeepSeek as less of a technical leap and more of a strategic hedge against US-centric AI dominance.

Lawrence argues that while US firms continue to lead in foundational AI hardware, China is rapidly developing viable alternatives. The US model emphasises open ecosystems and collaboration, while China champions vertical integration, policy alignment, and tech sovereignty.

That can also be seen in the regulatory landscape. US innovation is largely guided by market forces, while China leans on industrial policy instruments like Five-Year Plans and MIIT directives, showing that the AI race is no longer a linear one, but one that is dual tracked, Lawrence remarked.

"Our investment thesis has evolved: the future of AI isn't just big, it's fast, local, and embedded," he says.

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