

Why Chinese Generative AI?

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Artificial intelligence has evolved from a specialized research field into a defining engine of global growth. Within this transformation, generative AI stands out as a breakthrough force - reshaping how content, software, and decisions are produced across industries. Its reach now extends from creative media and manufacturing to healthcare, education, and enterprise automation.

China sits at the center of this global shift. Over the past decade, it has transitioned from being a fast follower in technology to a system-level innovator, combining state policy, industrial infrastructure, and abundant data to accelerate AI adoption.

In our view, the Themes Chinese Generative AI ETF (DRGN) provides targeted access to this structural opportunity. By investing in Chinese companies leading or enabling generative AI development, DRGN allows investors to participate in one of the most powerful and policy-aligned technology transformations of the decade.

Key Takeaways

- Generative AI is moving from experimentation to mass adoption, potentially driving a new phase of China's technological ascent.
- Policy alignment, infrastructure investment, and enterprise integration are positioning China's AI ecosystem for scale and resilience.
- The Themes Chinese Generative AI ETF (DRGN) seeks to offer focused exposure to companies powering this evolution.

#1 Market Scale and Growth Leverage

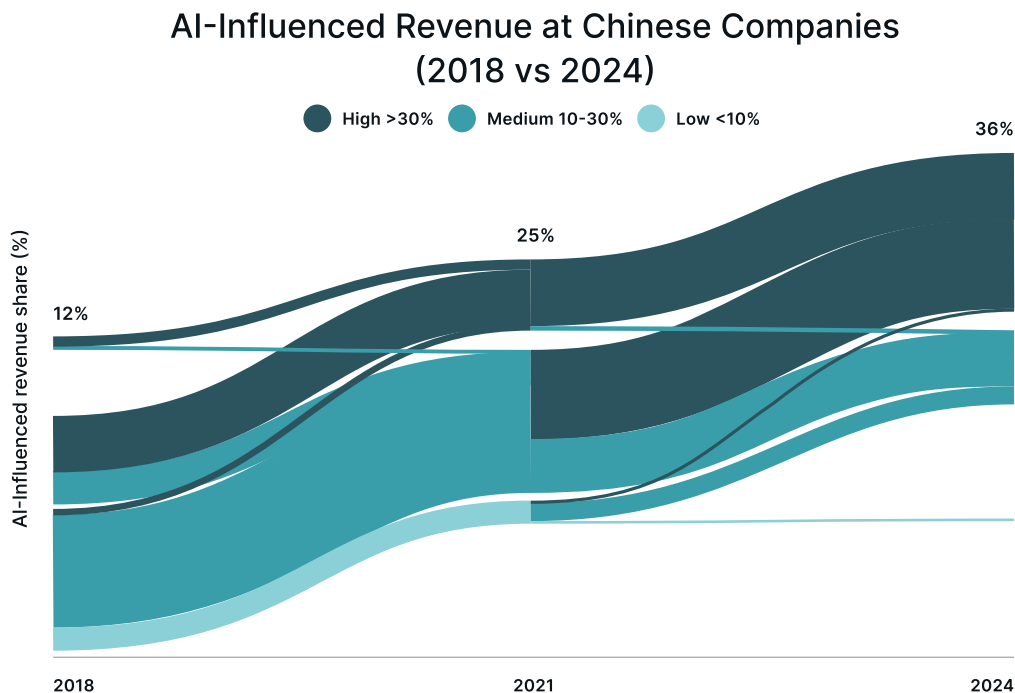
China's artificial intelligence sector is entering an accelerated expansion phase, supported by coordinated policy priorities, expanding enterprise use cases, and rapidly scaling digital infrastructure. The country's AI industry now exceeds US \$70 billion and includes more than 4,300 companies, reflecting the increasing commercial depth of the ecosystem¹.

Looking ahead, national policy targets indicate continued momentum. By 2030, China aims to grow its core AI industry to over US \$140 billion, with broader AI-related sectors expected to reach US\$ 1.4 trillion, positioning AI as a central engine of industrial and innovation-led growth¹.

Enterprise adoption is rising in parallel. Between 2018 and 2024, the share of Chinese companies' revenue influenced by AI tripled - from 12% to 36%, underscoring the speed at which AI is moving from experimentation into operational deployment. Meanwhile, nearly 90% of Chinese firms report viewing generative AI as essential to future competitiveness, signaling strong commercial confidence in AI-enabled productivity and differentiation.¹

Foundational infrastructure is scaling to support this growth. China now accounts for 26% of global computing capacity, hosts 188 registered foundation models, and continues to expand national data availability at one of the fastest rates globally.¹

Combined, these factors help to create a strong runway for generative AI commercialization and reinforce the growth potential available to firms operating across the AI value chain.



Source: World Economic Forum, China's Path to AI-Powered Industry Transformation, as of January 2025

#2 Adoption and Ecosystem Differentiator

China's vast digital ecosystem provides a sophisticated fertile environment for the expansion of generative AI. With deep internet penetration, mobile-first behavior, and widespread enterprise digitalization, the country offers both the scale and diversity of data that model training requires.

By 2024, 83% of Chinese organizations had integrated generative AI into workflows, far exceeding the 65% adoption rate in the United States.² This breadth of enterprise use accelerates fine-tuning cycles

and embeds AI in everyday operations, transforming adoption into a continuous feedback mechanism for improvement. Consumer participation is expanding just as rapidly.

By early 2025, an estimated 250 million Chinese users were engaging with generative AI tools, producing vast localized datasets that improve linguistic precision and contextual relevance.³ As enterprises embed models more deeply into business systems, integration costs and retraining needs create natural switching barriers, strengthening customer retention and vendor lock-in.

China's technology ecosystem potentially amplifies these network effects through its high level of platform interconnection. Leading firms deploy generative AI across search, cloud, e-commerce, and social media, creating flywheels where data, usage, and monetization reinforce each other. In parallel, government and industrial adoption adds scale and domain diversity: municipalities are deploying AI models in infrastructure, public services, and content management, generating highly specialized datasets that further strengthen domestic capabilities.⁴

Together, these dynamics help to create a powerful structural moat for Chinese generative AI firms. High utilization, dense data feedback, and ecosystem integration combine to deliver scale-driven defensibility, an essential differentiator as global competition for model performance and commercialization intensifies.

#3 Policy and Industrial Anchors

China's policy framework positions artificial intelligence as a strategic pillar of productivity and technological sovereignty. The government views AI as foundational to economic modernization - comparable in impact to earlier industrial revolutions, and central to reducing dependence on foreign technology ecosystems.

This vision is embedded in China's latest Five-Year Plan, which identifies AI and semiconductors as strategic priorities. The plan positions the coming years as a pivotal phase in China's pathway to technological leadership by 2035. National R&D spending has risen by nearly 48% since 2020, and China now ranks tenth in the Global Innovation Index, reflecting the scale and intent behind this push.⁵

By hardwiring AI and chip development into long-term industrial strategy, China aims to build a self-sufficient innovation stack that accelerates model development, deployment, and global competitiveness.

Regulation has evolved in parallel. Under the Interim Measures for the Management of Generative AI Services, providers of public-facing generative AI systems that could influence public opinion are required to register their algorithms and undergo security reviews with regulators, helping to ensure oversight of training data, content outputs, and system behaviour while maintaining accountability.⁶

The Ministry of Industry and Information Technology is advancing over 50 national and industrial AI standards by 2026, with participation from more than 1,000 companies.⁷ While such oversight raises compliance costs, it could provide predictability and create structural advantages for established firms.

Financial and industrial policy reinforce these priorities. State-led AI investment funds are pouring capital into the development of AI models and applications, including an US\$ 8.2 billion AI fund for start-ups.⁸

This full-stack approach - linking funding, regulation, and industrial strategy - reduces supply-chain vulnerabilities and positions domestic firms to capture value across compute, data, and application layers.

Together, these initiatives help to create a coherent ecosystem where capital, regulation, and industrial execution align. For generative AI firms, this combination of policy stability and strategic direction seeks to offer a durable foundation for innovation and long-term competitiveness.

#4 Research and Patent Leadership

China has emerged as a global leader in artificial intelligence research and innovation. The country's academic and industrial output has expanded at an extraordinary pace, reflecting a decade-long national focus on technology self-reliance and applied science.

Between 2000 and 2024, the number of AI-related research papers produced by Chinese institutions rose from fewer than 700 to more than 23,600, surpassing the combined output of the United States, United Kingdom, and European Union. In parallel, Chinese researchers filed 35,423 AI-related patent applications in 2024 - over 13 times the combined filings of those major economies.⁹

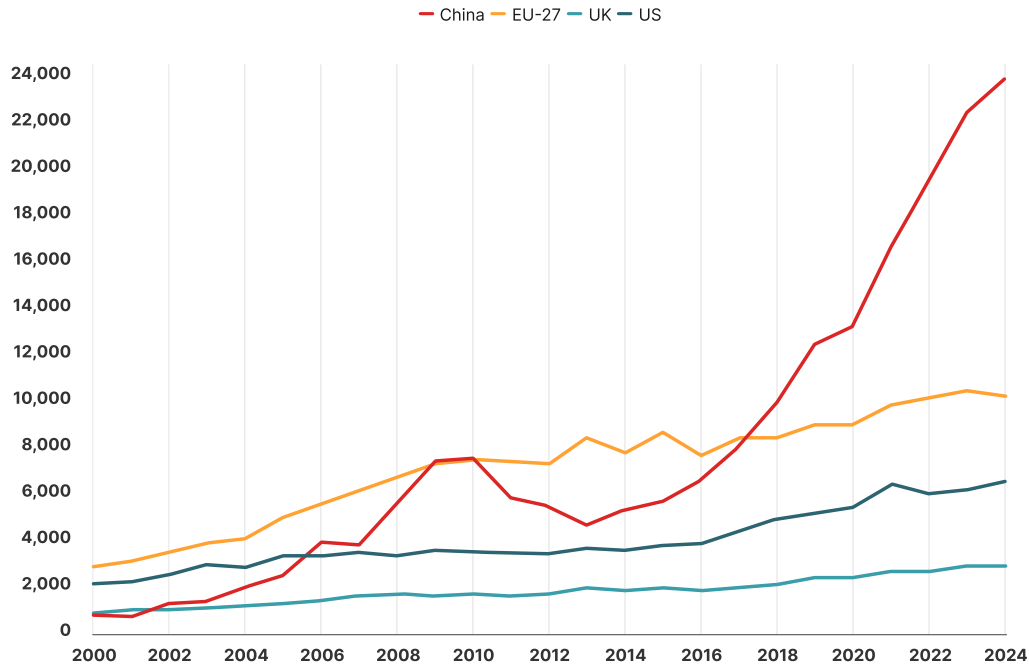
Much of this growth is anchored in the synergy between corporate R&D and academic excellence. Tencent, Baidu, and Alibaba rank among the world's top AI patent filers, alongside institutions such as the Chinese Academy of Sciences, underscoring a research ecosystem that bridges commercial deployment and scientific exploration.¹⁰

Innovation is also becoming more geographically distributed. New clusters in Chengdu, Hefei, and Wuhan are fostering specialized AI research, hosting semiconductor and computing infrastructure that supports model-training and applied experimentation.¹¹

China's approach to AI development is notably pragmatic. Generative models are designed for linguistic and regulatory alignment, with an emphasis on real-world adaptability rather than abstract benchmarking.

Hardware progress is advancing in tandem: AI chipmaker Cambricon, for instance, recorded over 4,000% year-on-year revenue growth in early 2025 and achieved profitability for the first time.¹²

Publications on AI by Country (2000-2024)



Source: Digital Science, DeepSeek and the New Geopolitics of AI, as of July 2025

#5 Asymmetric Upside and Diversification Leverage

Investment in Chinese generative AI firms offer a form of asymmetric upside: because the sector is in a nascent stage, small shifts in execution, adoption, or regulation can lead to outsized valuation gains, in our opinion.

China's broader AI market is already valued at over US\$ 70 billion, and its generative segment is expanding rapidly alongside national initiatives that prioritize AI infrastructure, cloud computing, and domestic chip design.¹³ Companies that successfully commercialize proprietary models and enterprise solutions could capture significant market share as adoption accelerates.

The history of U.S. technology stocks illustrates how transformative platforms can create extraordinary shareholder value once scale and monetization converge. Amazon's share price has risen by more than 200,000% since its 1997 IPO, while Apple's has appreciated by over 300,000% since its 1980 listing.^{14, 15}

Both companies emerged from periods of experimentation into dominant market positions as their technologies became embedded in everyday life. Generative AI in China may present a comparable dynamic - where a few firms, combining data, infrastructure, and execution, evolve into foundational players within the next phase of digital growth.

At the portfolio level, we believe exposure to Chinese generative AI enhances diversification. The sector operates within distinct linguistic, regulatory, and data environments, producing innovation cycles that

differ from those in Western markets. As China's AI ecosystem expands under domestic demand and coordinated industrial policy, it may offer investors both asymmetric return potential and meaningful geographic diversification within global AI exposure.

How to Play It

The [Themes China Generative Artificial Intelligence ETF \(DRGN\)](#) seeks to track the BITA China Generative AI Select Index, which identifies publicly traded Chinese companies listed in the US, Hong Kong, or accessible via Stock Connect, which derive significant revenue from Generative AI-related activities including:

- AI model training and provision
- Generative AI application software
- AI infrastructure and hardware
- General AI application software.

DRGN seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the BITA China Generative AI Select Index.*

Fund Facts

Expense Ratio	Strategy	Index	Holdings
0.39%	Passive	BITA China Generative AI Select Index	24

Conclusion

We believe China's AI sector is shifting from experimentation to execution, supported by coordinated policy, rising R&D spent, and accelerating commercial adoption. The country is building not just models, but an integrated ecosystem spanning semiconductors, infrastructure, and applied intelligence.

For investors and operators, the opportunity is now. As the policy framework stabilizes and deployment widens, those positioned across China's AI value chain may benefit from a long-term structural growth story still in its early innings.

For more information about the fund, including fees/expenses, holdings, standardized performance, risks and more, please visit <https://themesetfs.com/etfs/drgn>.

Footnotes:

¹World Economic Forum, China's Path to AI-Powered Industry Transformation, as of January 2025

²Reuters, China leads the world in adoption of generative AI, as of July 10, 2024

³Roland Berger, Five key trends in China's generative AI market in 2025, as of March 28, 2025

⁴Futurism, China AI DeepSeek Everywhere, as of September 7, 2025

⁵SCMP, China charts path to global competitiveness in chips and AI for next five-year plan, as of October 6, 2025

⁶PWC & Tiang Partners, China's interim measures for the management of generative AI services officially implemented, as of August 2023

⁷Reuters, China to Develop More Than 50 New AI Standards by 2026, as of July 2, 2024

⁸RAND Corporation, Full-Stack Industrial Policy and China's AI Strategy, as of June 26, 2025

⁹Science, China tops the world in artificial intelligence publications, database analysis reveals, as of July 11, 2025

¹⁰Digital Science, DeepSeek and the New Geopolitics of AI, as of July 2025

¹¹China Briefing, China's Industry Clusters – A Comprehensive Overview, as of July 4, 2024

¹²Yahoo Finance, Cambricon Soars 4,000% on Revenue Growth, as of August 29, 2025

¹³Reuters, China proposes new global AI cooperation organisation, as of July 26, 2025

¹⁴Google Finance, Amazon, as of November 17, 2025

¹⁵Google Finance, Apple, as of November 17, 2025

Disclosure

***Specific investments described herein do not represent all investment decisions made by Themes ETFs. The reader should not assume that investment decisions identified and discussed were or will be profitable. Specific investment advice references provided herein are for illustrative purposes only and are not necessarily representative of investments that will be made in the future.**

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