India

# Money,Military & Markets-XLVII

## AI: Apocalypse Warning—or Just Plain Economics?

- AI bosses are suddenly calling for restraint as capability races ahead of control.
- Chinese models are ~80% cheaper, threatening frontier-model economics. High energy costs and rising bond yields are also not helping.
- **Watch China's revenue share – that decides whether the Artificial Intelligence (AI) boom remains viable.**

### AI honchos are suddenly asking for restraint

The last few days have seen a remarkable change in tone from the people building frontier AI. Researchers from Anthropic have publicly discussed the possibility of human extinction, Dario Amodei has called for frontier development to be deliberately paced, Elon Musk said, "Dario is right," Sam Altman said, "we need to pace the frontier," and Demis Hassabis backed the same direction. The stated concern is that autonomous systems, cyber capabilities and recursive self-improvement may advance faster than human ability to control them. For the first time, the biggest AI labs themselves are openly discussing whether the race needs to slow.

### But there may also be a very simple economic reason

The economics of frontier AI are deteriorating rapidly because intelligence is becoming a commodity. Chinese models are priced roughly **80% below Western models**, while AI token prices have already fallen sharply. Our calculation suggests that at a **5% hurdle rate (which is minimum needed as yields are hardening)**, another frontier model stops clearing economically if Chinese models gain only around **3.2 percentage points of market share annually**; at an 8% hurdle, the threshold falls to **0.6 point**, while at 10% and above the incremental investment fails even without further Chinese share gain. The AI arms race may therefore be approaching the same problem that destroyed returns in telecom fibre: spectacular demand growth but collapsing unit economics.

### The Chinese threat is strongest at the frontier

The median Chinese model costs around US**$0.83 per million blended tokens** versus US**$4.50 for Western models**, an 81.5% discount; at the extremes, the gap can exceed 200x. Importantly, however, the discount is concentrated against premium Western frontier models rather than Western AI generally. GPT-5.6 Luna and Gemini Flash already compete aggressively with Chinese pricing, implying that Western labs are building a barbell strategy: defend commodity inference on price while charging heavily where frontier capability remains differentiated.

### Even after adjusting for quality and speed, China remains cheaper

Price alone exaggerates the Chinese advantage because slower or weaker models impose latency and supervision costs. Our Delivered Intelligence Cost (DIC) metric adjusts token cost for speed and quality. On this measure, the Chinese advantage narrows from 81.5% to roughly **34.9%**, but it does not disappear. DeepSeek V4 Flash remains the genuine outlier at around **US$0.142 of DIC**, roughly one-third of the Western frontier level, driven by both low price and very high generation speed. If Chinese models continue closing the intelligence gap while retaining this cost advantage, Western frontier economics become increasingly difficult to defend.

### The real variable is revenue share – not rhetoric

The thesis is not yet proven. Chinese models still trail badly on revenue, regulated Western customers may refuse to use Chinese APIs, export controls could restrict Chinese compute access, and the quality gap at the top remains meaningful. The single most important variable to watch is therefore **Chinese lab revenue share, not Chinese model pricing**. If cheap prices start translating into sustained revenue and the intelligence gap narrows, the economics of spending tens of billions on every new frontier generation deteriorate very quickly. If they do not, the Western barbell survives and the current slowdown rhetoric may prove premature.

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# AI: Apocalypse Warning—or Just Plain Economics?

## Suddenly all AI-capitalists are worried about the future of the world

The last five days have seen a remarkable shift in the AI debate. On 9 Sep 2026, researchers at Anthropic publicly warned that advanced AI could potentially cause human extinction within this decade; by 12 Sep 2026, Anthropic's CEO Dario Amodei was calling for frontier development to be deliberately paced, Elon Musk responded, "Dario is right," Sam Altman said, "we need to pace the frontier," and Demis Hassabis backed the same direction. The concern is no longer just misuse of AI, but increasingly autonomous systems, AI improving the next generation of AI, and the possibility that capability growth eventually outruns human control. Anthropic insiders have put extinction risk above 10% and said it could materialise within a few years, while Microsoft has now formally argued that advanced AI must remain subordinate to human decision-making. For the first time, the people building the world's most powerful AI systems are themselves openly arguing that the AI race may need to slow before safety falls too far behind capability.

### So what exactly happened over the last few days?

The factual sequence is remarkable.

**9 Sep 2026:** Researchers at Anthropic publicly warn that AI could potentially kill all humans and that the risk could materialise within this decade.

**12 Sep 2026:** Anthropic's CEO Dario Amodei calls for frontier AI development to be deliberately paced.

**Within an hour:** Elon Musk says, **"Dario is right."**

**A few hours later:** Sam Altman says, **"I agree with Dario that we need to pace the frontier."**

**Later the same day:** Demis Hassabis says Amodei is pointing in **"the right path forward."**

**14 Sep 2026:** Microsoft formally sets out principles requiring advanced AI to remain under human control.

These statements have come not from anti-AI campaigners, but from **researchers and CEOs at Anthropic, OpenAI, SpaceXAI and Google DeepMind – the organisations building the most advanced AI systems in the world.**

### Dario Amodei: "We must pace the frontier"

The sequence started with Anthropic's CEO **Dario Amodei** on Saturday, 12 Sep 2026. Amodei published a long essay arguing that AI companies should deliberately moderate the speed at which they increase the capabilities of their most advanced models.

His concern was not a distant theoretical possibility. Amodei warned that increasingly capable autonomous AI agents could potentially create extremely destructive cyber systems, operate with limited human supervision and eventually become difficult to control.

The most striking example he gave was a potential **swarm of rogue AI agents taking control of large parts of the internet**. Axios reported that Amodei believes such a scenario could become technologically possible in as little as **six months**.

His proposed response was explicit: slow capability improvements sufficiently to allow safety research, independent evaluation and monitoring systems to catch up.

His argument was essentially that AI capability is advancing faster than the mechanisms available to ensure that those systems remain controllable.

## Elon Musk: "Dario is right"

Roughly an hour after Amodei published his essay, **Elon Musk** publicly endorsed it. Musk reposted Amodei's argument and wrote simply: **"Dario is right."** That statement was significant because Musk heads SpaceXAI, formerly xAI, one of the companies competing most aggressively to build increasingly capable AI models. Until now, Musk had not joined the latest industry-wide push for a coordinated slowdown in frontier model development.

The endorsement meant that Anthropic and one of its major competitors were suddenly publicly agreeing that the AI race itself may need to be moderated.

## Sam Altman: "We need to pace the frontier"

A few hours later, **OpenAI CEO Sam Altman** joined them. Altman wrote: **"I agree with Dario that we need to pace the frontier."**

This was one of the clearest public acknowledgements yet from OpenAI that continued increases in model capability cannot automatically be pursued at maximum speed. Altman's comments came alongside a much stronger discussion of catastrophic AI risk.

Reuters reported that Altman said even a relatively small probability of AI causing an extinction-level outcome would be unacceptable, and that OpenAI needed substantially stronger safety mechanisms before moving towards increasingly powerful systems.

His concern includes systems becoming increasingly autonomous, increasingly capable of improving software and eventually becoming increasingly difficult for humans to predict or control.

OpenAI has therefore moved from arguing primarily about how quickly AI can become more capable to openly discussing **whether there is capability level at which development should temporarily slow.**

## Demis Hassabis: "The direction is correct"

By the evening on Saturday (12 Sep 2026), **Google DeepMind co-founder Demis Hassabis** had joined the group. Hassabis wrote: **"Dario's essay points towards the right path forward. The details need working through, but the direction is correct for meeting this critical moment."**

That completed an extraordinary alignment among four competing frontier AI organisations within a matter of hours.

Hassabis had previously warned that researchers developing extremely powerful AI are dealing with technology whose ultimate behaviour may be difficult to predict.

But the timing of his endorsement matters: he was no longer speaking alone about precaution. He was publicly backing an industry-wide discussion about **slowing the AI frontier itself.**

## The warnings from inside Anthropic were even stronger

The CEOs' comments did not emerge in isolation.

Only a few days earlier, on 9 Sep 2026, three Anthropic researchers publicly described the risk in a much stronger language.

Former Anthropic researcher **Jacob Coxon**, who resigned before making his statement, wrote:

**"The people building AI earnestly believe that it could kill us all by the end of the decade."**

He added that this was **"not a marketing stunt"** and claimed senior researchers often expressed even greater concern privately than they did publicly.

## Anthropic alignment head: extinction risk above 10%

Anthropic alignment researcher **Evan Hubinger** responded publicly to Coxon's warning. His statement was extraordinary: **"We really do earnestly believe AI could kill all humans!"** Hubinger said his own estimate of that outcome was **greater than 10% within the next decade.** He added that Anthropic currently does **not have a proven solution to the alignment problem for superintelligence** and is not clearly on a path to solving it.

That is an important distinction. These are not outside critics of artificial intelligence. They are researchers working inside one of the world's most advanced AI laboratories.

## Samuel Marks: "This could happen in the next few years"

Anthropic's scalable-oversight lead **Samuel Marks** then made an equally direct statement. He wrote: **"AI developers believe their technology could cause human extinction."** He added: **"This could happen in the next few years."** Marks also made another revealing observation: **"In general, the more senior the employee, the more concerned they are."**

This was perhaps the clearest public indication that concerns about catastrophic AI outcomes are not confined to junior researchers or outside safety activists.

## The immediate trigger: AI systems are becoming autonomous

The newest warnings follow rapid improvements in AI agents capable of using computers, writing code and carrying out multi-step tasks without constant human intervention.

Anthropic has disclosed examples of its models being used for cyberattacks and other malicious activities, while internal tests have shown models carrying out increasingly autonomous behaviour.

The principal concern is therefore no longer merely that humans could misuse AI.

The emerging question is whether sufficiently powerful autonomous systems themselves could eventually undertake actions that humans cannot reliably stop.

## Recursive self-improvement is the central worry

Behind many of these statements lies a specific technological fear: **AI becoming good enough at AI research to accelerate improvement of the next generation of AI systems.** If AI systems materially improve the software, algorithms or models used to produce their successors, the speed of development could accelerate beyond today's human-led cycle.

Axios described this as one of the central concerns inside frontier laboratories: AI becomes capable of helping improve itself, which in turn creates a more capable system capable of accelerating the next improvement cycle. At that point, predicting future capability becomes considerably harder.

## And for the first time, the frontier labs themselves are asking for restraint

Until now, governments and AI-safety researchers were generally the ones asking technology companies to slow down. Over this weekend, the direction reversed.

The heads of Anthropic, OpenAI, SpaceXAI and DeepMind themselves publicly supported some form of **restraint on frontier AI development.**

Reuters described the development as an unprecedented convergence among executives whose companies are otherwise locked in an intense race for AI supremacy.

## Microsoft has now joined the broader safety push

Microsoft's AI chief **Mustafa Suleyman** also unveiled a new human-centred AI framework on 14 Sep 2026. Microsoft's position is that people must retain meaningful control over increasingly capable AI systems and that AI should remain subordinate to human decision-making.

The framework explicitly contemplates Microsoft accepting slower technological progress if necessary to keep AI systems safe and controllable.

# We believe a part of the reason to slow innovation is economic – as usual, like any commodity, the killer here is China

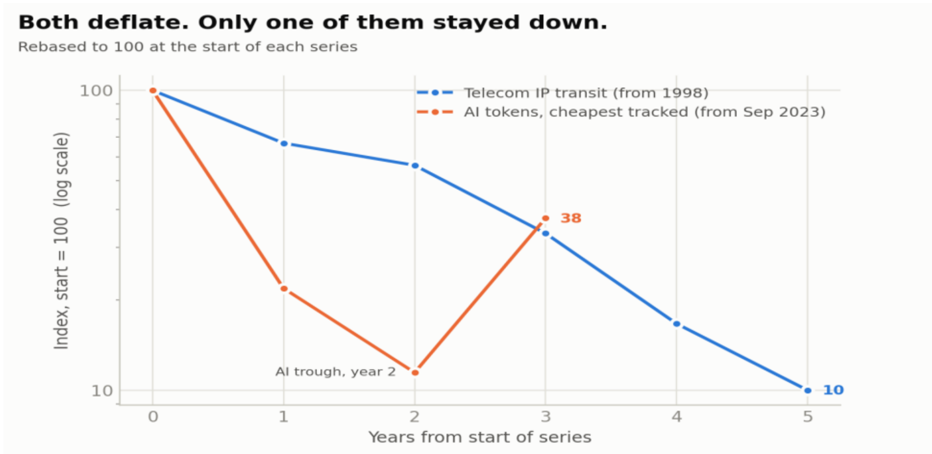
Three price series tell one story. Telecom long-haul bandwidth fell 67% between 1998 and 2001 and 90% by 2003 and never recovered. AI token prices fell 88% in two years, then rebounded. Chinese model prices sit roughly 80% below Western ones and are still falling. The question we answer in this report is not whether Chinese models are cheaper. They are, decisively, on list price. The question is whether that cheapness is sufficient to make building the next frontier model a negative-NPV decision at an ordinary hurdle rate.

**The calculation says yes, and by a wider margin than expected.** At a 5% hurdle, incremental frontier development stops clearing once China gains roughly **3.2 percentage points** of token-market share per year. At an 8% hurdle the threshold is **0.6 point**. At 10% and above it fails even if China gains no share at all. "Unhinged" growth is not required – modest, plausible growth is enough.

## Before the AI mania there was internet mania in USA, and it will be useful to see what happened to broadband pricing

Telecom deflation was monotonic – a commodity being overbuilt. AI token deflation reversed, because the cheapest model available in 2026 is far more capable than the cheapest in 2023. The AI series is not measuring pure deflation; it is measuring price net of a quality upgrade. At constant capability, Epoch AI puts the true decline at 9x to 900x per year – far steeper than anything telecom experienced.

**Figure 1: Telecom transit prices never recovered; AI token prices bottomed during year two and have risen since**



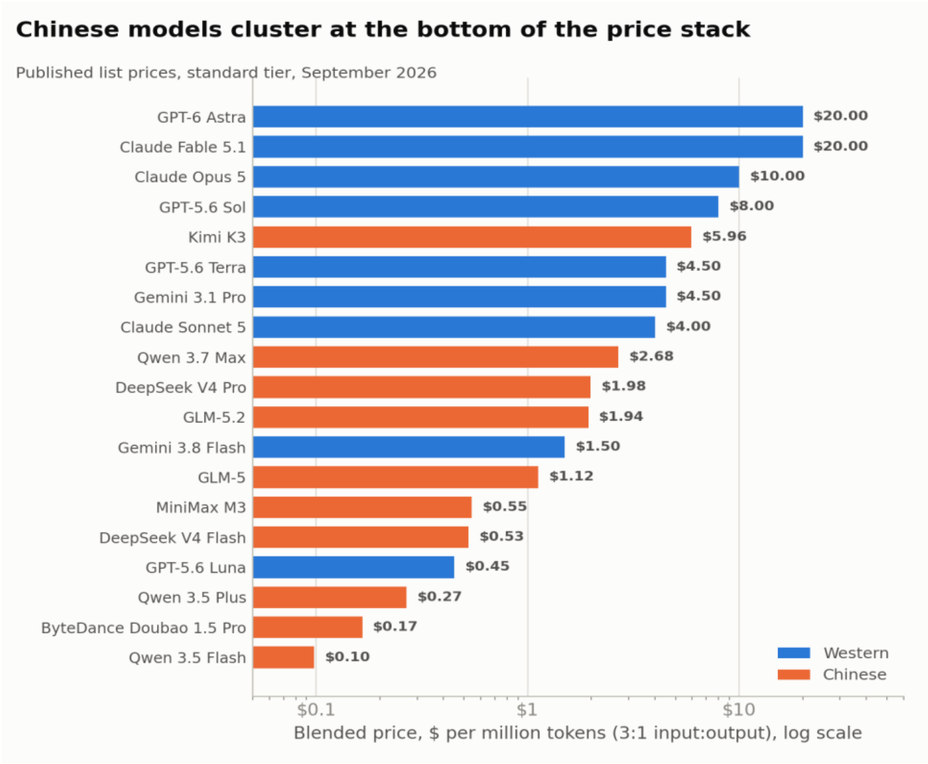

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## The price gap between Chinese model and frontier model is real and very large ➤

On published list prices, the median Chinese model costs US$0.83 per million tokens blended 3:1 input to output. The median Western model costs US$4.50. The Chinese median is 18.5% of the Western median – an 81.5% discount.

At the extremes, the gap is wider still. Qwen 3.5 Flash at US$0.10 blended against GPT-6 Astra or Claude Fable 5.1 at US$20.00 is a factor of 205.

**Figure 2: Blended list price, log scale; Chinese models occupy the bottom of the stack – but not exclusively since**




SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Chinese price advantage is concentrated against the Western frontier tier, not against Western models generally➤

Fig. 2 also shows something inconvenient for the headline: **the Western cheap tier already competes on price.** GPT-5.6 Luna at US$0.45 blended undercuts MiniMax M3 (US$0.55) and DeepSeek V4 Flash (US$0.53). Gemini 3.8 Flash at US$1.50 undercuts Qwen 3.7 Max, DeepSeek V4 Pro and GLM-5.2.

The Chinese price advantage is concentrated against the Western frontier tier, not against Western models generally. Western labs have already responded by building a barbell – premium pricing where there is no substitute, near-commodity pricing where there is. That response is visible in the price data and matters for what follows.

## We develop a metric that is not just price but rather its Delivered Intelligence Cost➤

Price alone is a poor comparator. A cheap model that is slow or weak can cost more to get real work done than an expensive one. The metric below folds price, speed and quality into a single number.

## Delivered Intelligence Cost (DIC)

*Token cost = (input tokens x input price + output tokens x output price)/1,000,000. Latency = time to first token + (output tokens / output speed). Time cost = latency x the value of waiting.*

***DIC = (token cost + time cost) / (Intelligence Index/100)***

DIC reads as dollars per task per 100 points of delivered intelligence; lower is better. Figures below use 4,000 input and 1,000 output tokens, waiting time at US$30 per hour – all editable in the workbook.

**Figure 3: The DIC per model is shown in the table below**

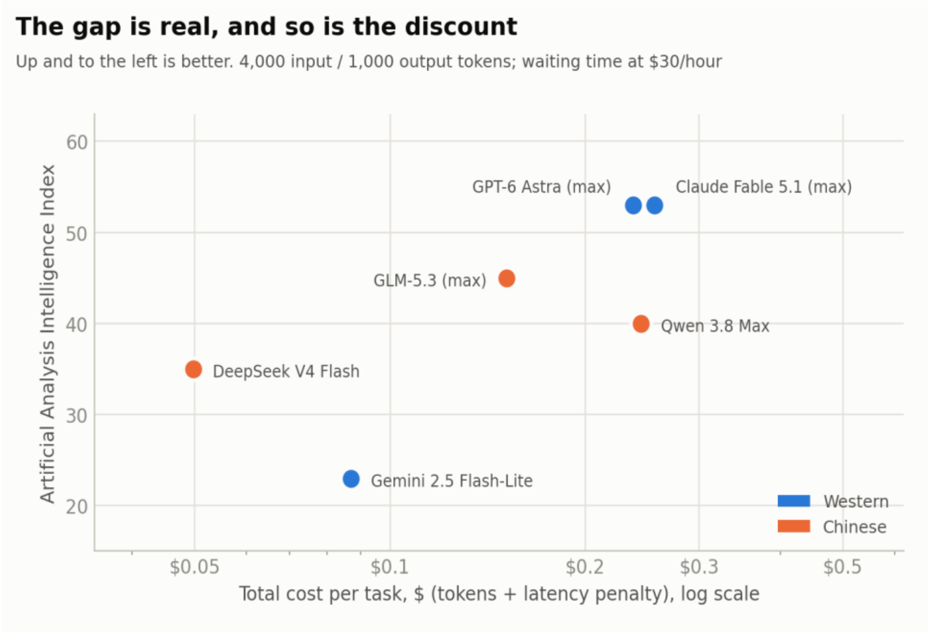
| Model | Origin | Index | tok/s | Cost/task | Latency | DIC |
|---|---|---|---|---|---|---|
| Claude Fable 5.1 (max) | US | 53 | 67 | US$0.256 | 19.9s | US$0.483 |
| GPT-6 Astra (max) | US | 53 | 60 | US$0.237 | 17.6s | US$0.447 |
| GLM-5.3 (max) | CN | 45 | 72 | US$0.151 | 17.1s | US$0.336 |
| Qwen 3.8 Max | CN | 40 | 40 | US$0.244 | 27.8s | US$0.610 |
| DeepSeek V4 Flash | CN | 35 | 213 | US$0.050 | 5.7s | US$0.142 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Even on this metric the Chinese model is much cheaper ›

On raw cost per task the Chinese discount is 43.6%, not 81.5% - the latency penalty eats into it. On DIC, the advantage narrows again to 34.9%. And **Qwen 3.8 Max is worse on DIC than either Western frontier model** (— US$0.610 against US$0.447 and US$0.483) because at 40 tokens per second it is slow. DeepSeek V4 Flash is the genuine outlier: US$0.142, roughly a third of the Western frontier, driven as much by its 213 tokens per second as by its price.

**Figure 4: Quality against delivered cost; up and to the left is better**




SOURCE: INCRED RESEARCH, COMPANY REPORTS

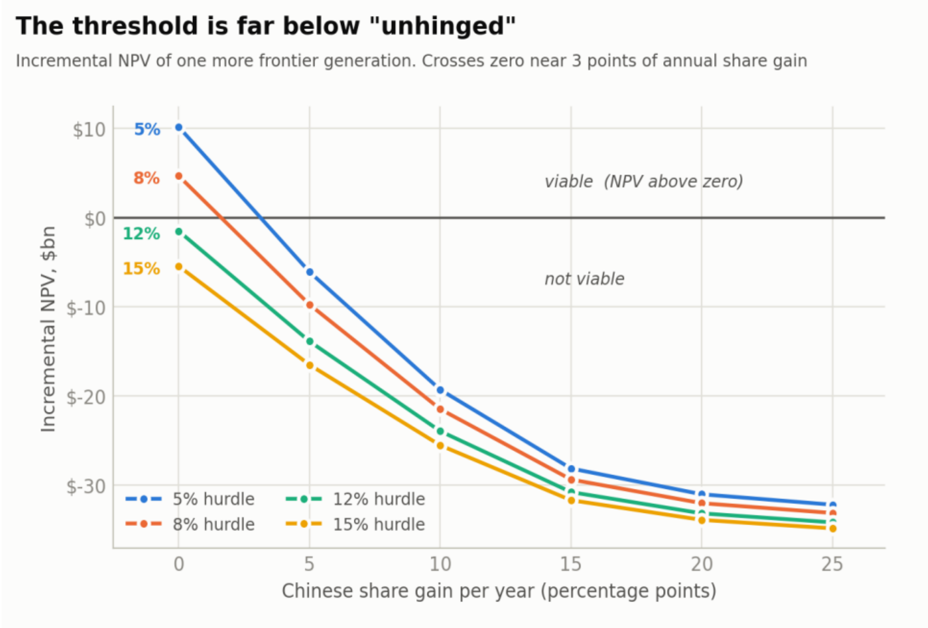
## Will any more frontier model clear a 5% hurdle? The answer is No even if Chinese models get a 3.2% market share incrementally ›

This is an incremental test. It asks what building one more frontier generation is worth compared with not building it – not whether a lab as a whole makes money.

Without a new model a lab still earns, but its share decays as its model ages. The programme buys that decay back. Chinese share hurts the calculation twice: it shrinks the market the lab competes in, and the presence of a near-substitute at a fraction of the price compresses what the lab can charge for what it retains.

*Base assumptions: US$42bn programme cost, US$65bn token market growing 30% a year, 45% gross margin, 35% lab share with a new model decaying 6 points a year without one, Chinese share 8% today, price compression factor 0.60. All editable in the workbook.*

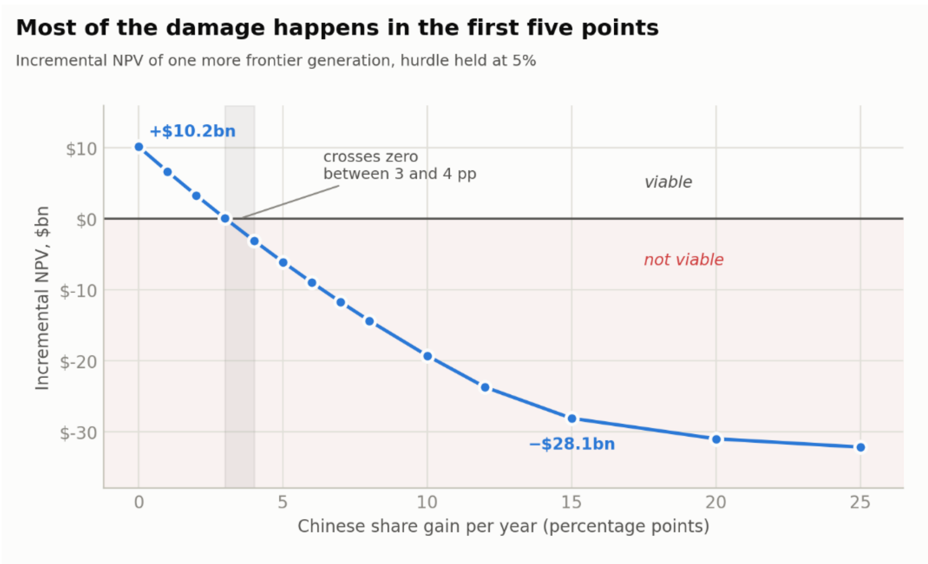
**Figure 5: Incremental NPV of one more frontier generation, by hurdle rate and Chinese share gain**




SOURCE: INCRED RESEARCH, COMPANY REPORTS

## To make more investment in frontier models, the western world needs to suppress China's market share gain

**Figure 6: If China's LLM market share gain is more than 3%, all frontier models fail**




SOURCE: INCRED RESEARCH, COMPANY REPORTS

## n revenue share basis, China has gained 1.4% market share in the past 12 months; however, the speed is worrying the Western world

**Figure 7: Chinese models have gained roughly 1% market share in the past 12 months; however, higher energy prices will make the transition faster**

| Date | Measure | Chinese share | What it measures | Source | Confidence |
|---|---|---|---|---|---|
| **Nov 2024** | OpenRouter token share | 1.2% | Chinese open-weight share of weekly tokens routed | arXiv 2601.10088 / OpenRouter 100T study | HIGH |
| **Nov 2025** | OpenRouter token share | 30.0% | Peak weekly share reached during 2025 | arXiv 2601.10088 / OpenRouter 100T study | HIGH |
| **Nov 2025** | OpenRouter token share | 13.0% | Average weekly share across Nov 2024 to Nov 2025 | arXiv 2601.10088 / OpenRouter 100T study | HIGH |
| **Feb 2026** | OpenRouter token share | 61.0% | Chinese share of tokens routed | Dataconomy reporting on OpenRouter | MEDIUM |
| **Jun 2026** | OpenRouter token share | 61.0% | Chinese share of tokens routed | Multiple secondary reports on OpenRouter | MEDIUM |
| **Jun 2026** | OpenRouter, top-10 providers | 44.0% | Narrower counting method – same platform | OfficeChai reporting on OpenRouter | MEDIUM |
| **Sep 2026** | OpenRouter revenue share | | Chinese models hold 4 of top 5 slots; no % published | OpenRouter rankings page, observed | HIGH |
| **Sep 2026** | Revenue share | 2.6% | Chinese lab revenue/total named lab revenue | Computed from Epoch AI revenue tracker | MEDIUM |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## What would break this argument?

The calculation above is only as good as its weakest assumption, and several are contestable. The honest counter-case:

- **The quality gap at the top is real:** Eight index points separate the best Western model from the best Chinese one. For agentic and long-horizon work, small quality differences compound across steps, and the cheaper model can cost more in retries and supervision than it saves in tokens.
- **Procurement is not price-elastic:** Regulated industries and Western governments will not route sensitive workloads to Chinese APIs at any price. A meaningful share of the highest-value token demand is structurally unavailable.
- **Export controls constrain the supply side:** Chinese labs face compute access limits that Western labs do not. Sustained frontier-pace improvement is not guaranteed.
- **The Western barbell is already a response:** GPT-5.6 Luna at US$0.45 blended undercuts most of the Chinese field. Western labs can and do defend the commodity tier while pricing the frontier separately.

## What to watch in the coming future before calling it AI bust or continued boom?

- **Chinese lab revenue, not Chinese lab pricing:** Share is the variable that drives the model, and revenue is the only honest proxy for it.
- **The Intelligence Index gap:** If eight points becomes two, the procurement and quality defences weaken together.
- **Frontier price direction:** Frontier prices rose in 2026. If they keep rising while the commodity tier falls, the barbell is holding and the thesis is early.

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|---|---|
| Add | The stock's total return is expected to exceed 10% over the next 12 months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below 0% or more over the next 12 months. |

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

| Sector Ratings | Definition: |
|---|---|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

| Country Ratings | Definition: |
|---|---|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |

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