

Why Beijing Just Bet \$45 Billion on a Quiet AI Lab Called DeepSeek

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1. Reading Passage

For most of its short life, DeepSeek has been the strangest kind of AI company: a frontier research lab that refused to take outside money. Founded by Chinese hedge-fund billionaire Liang Wenfeng, the Hangzhou-based startup shot to global attention in January 2025 with R1, an open-source large language model that matched US rivals like OpenAI while reportedly training on a small fraction of their computing power. Liang owns 89.5% of the company through personal and affiliated holdings, and until recently he saw no reason to sell any of it.

That is now changing — dramatically. According to reporting from the Financial Times, China's biggest state-backed semiconductor investment vehicle, the China Integrated Circuit Industry Investment Fund (universally known as the 'Big Fund'), is in talks to lead DeepSeek's first-ever fundraise at a valuation of roughly \$45 billion. Tencent is also reportedly weighing a stake. The price tag has more than doubled from \$20 billion just weeks earlier, even though the final investor lineup is not yet locked in.

The story behind the deal is more interesting than the headline number. Liang originally wanted to raise only a nominal sum — just enough to set a share price so DeepSeek could offer employees stock options. The motive was defensive: rivals were poaching his researchers with bumper pay packages, and stock options are how AI labs typically keep their best people. But once word got out that DeepSeek was opening its books, investor demand exploded, and the Big Fund — which had assembled \$47 billion in its third funding round in 2024 from the finance ministry, local governments, and state-owned banks — moved to lead.

Here's the catch: the Big Fund was built to bankroll Chinese semiconductor companies like SMIC, the country's most advanced chip foundry. Its mandate is hardware — equipment and materials — and it has not publicly backed any of China's other LLM operators. So an investment in DeepSeek would be a clear departure, signalling that Beijing now sees frontier AI labs as part of the same strategic perimeter as chips. President Xi Jinping has launched the Big Fund across three phases as part of a broader self-sufficiency drive in the face of US efforts to restrict Chinese access to advanced chip-production equipment. State capital flowing into DeepSeek fits that pattern: if you can't import the best chips, fortify the labs that squeeze the most performance out of the chips you do have.

What makes DeepSeek a curious recipient is that, unlike Chinese peers Zhipu (market value \$52 billion) and Moonshot, it has deliberately avoided commercialisation. It is not selling AI services to enterprises or chasing consumer chatbot revenue. Investors are nonetheless striving to back it despite — perhaps because of — that lack of commercial focus, betting that pure model capability will matter more than near-term earnings. Liang himself may invest personally in the new round.

The deal isn't closed, and three questions hang over it. Will Tencent and Alibaba ultimately participate at the new valuation? Will DeepSeek keep releasing its model weights openly once state money is inside the cap table? And how will the Big Fund's stake be structured — does it come with strategic governance rights? The answers will reveal how independent China's frontier AI sector will be allowed to remain. For now, the direction is clear: a lab that prized its independence is

becoming a national champion, whether its founder fully intended it or not.

2. Explanation

A Chinese AI lab that refused outside money for years is suddenly worth \$45 billion – and the lead investor is the same state fund Beijing built to win the chip war.

What's Going On?

DeepSeek, the Hangzhou-based AI lab that stunned the world last year with its R1 model, is in talks for its first-ever fundraise at a roughly \$45 billion valuation. The lead investor is China's 'Big Fund' – formally the China Integrated Circuit Industry Investment Fund – Beijing's main state vehicle for backing the country's chip industry.

Tencent is reportedly weighing a stake too, and founder Liang Wenfeng, who controls 89.5% of DeepSeek through personal and affiliated holdings, may invest his own money. The valuation has more than doubled from \$20 billion just weeks ago, and the final investor list isn't locked in yet.

How To Think About It

This isn't a normal Silicon Valley funding round. It's closer to a government picking a national champion – the way countries once bankrolled flag-carrier airlines or shipyards.

- Imagine if NASA, not Sequoia Capital, led SpaceX's first outside funding round. The capital matters less than the signal: the state has chosen its horse.
- Or think of a top recruit who insisted on staying an unpaid amateur, then signed a pro contract only because rival teams kept trying to poach his teammates – the deal is defensive, not ambitious.

Key Things To Know

- The Big Fund assembled \$47 billion in its third round of funding in 2024 from the finance ministry, local governments, and state-owned banks – and until now had backed chip companies, never an AI lab.
- DeepSeek shot to prominence in January 2025 with R1, an open-source large language model trained on a fraction of the compute used by US rivals like OpenAI.
- Liang Wenfeng originally wanted only a small raise – enough to set a share price so he could offer stock options and stop competitors from poaching his researchers with bumper pay packages.
- DeepSeek deliberately avoids commercialisation; rivals like Zhipu (market value \$52 billion) and Moonshot are chasing revenue, while DeepSeek keeps focusing on frontier model research.
- Most people assume Chinese AI labs are state-controlled from day one. DeepSeek is the opposite: it spent its existence refusing outside money, which is exactly what makes the Big Fund's entry such a big deal.

Why It Matters

If you use ChatGPT, Claude, or any AI tool, the question of who builds the foundation models – and under what flag – shapes everything from what those tools will say about Tiananmen Square to which country sets the safety rules. The US is restricting China's access to advanced chips; China is responding by financially fortifying labs that can squeeze more performance out of the chips it already

has. Careers in AI research, semiconductor engineering, and tech policy are being shaped by exactly this kind of move.

The Bigger Picture

This is the clearest sign yet that Beijing has chosen DeepSeek as a frontier-AI national champion, the way it once anointed Huawei in telecoms or SMIC in chip fabrication. Watch three things: whether DeepSeek keeps releasing open-weight models once state money is inside the cap table, whether Tencent and Alibaba stay in the round at the new price, and whether the Big Fund demands governance rights. Each answer tells you how independent China's AI sector will be allowed to remain.

3. Key Terms Glossary

Valuation

The total dollar value investors assign to a private company, calculated from the price they pay for a slice of it. If someone pays \$4.5bn for 10%, the valuation is \$45bn.

Fundraise / Funding round

When a private company sells new shares to investors in exchange for cash. A 'first round' means the company has never taken outside money before.

Big Fund

Nickname for the China Integrated Circuit Industry Investment Fund — a state-backed vehicle created by Beijing to pour money into Chinese semiconductor companies and reduce reliance on US chip technology.

Large language model (LLM)

An AI system trained on enormous amounts of text to predict and generate human-like language. ChatGPT, Claude, and DeepSeek's R1 are all LLMs.

Open-source (in AI)

Releasing the model's underlying weights or code so anyone can download, inspect, and modify it. The opposite of OpenAI's approach with GPT-5, which is kept proprietary.

Stock options

A form of employee pay that gives workers the right to buy company shares at a fixed price later, so they profit if the company's value rises. Common in tech to retain talent.

Frontier AI model

The most advanced AI systems being built — the ones pushing the limits of capability, as opposed to narrower commercial products.

Self-sufficiency drive

China's national policy push, championed by Xi Jinping, to develop domestic alternatives to foreign technology — especially in chips and AI — in response to US export controls.

4. Reading Comprehension Quiz

Circle the best answer for each question.

- Q1.** The passage primarily argues that DeepSeek's pending fundraiser represents what kind of shift?
- A) A routine venture capital round typical of fast-growing AI startups
 - B) A move from independent research lab toward state-aligned national champion
 - C) A pivot away from open-source models toward proprietary commercial products
 - D) A merger between Chinese chipmakers and Chinese AI developers
- Q2.** Which choice best states the central idea of the passage?
- A) DeepSeek's models outperform every Western competitor on reasoning tasks.
 - B) Liang Wenfeng plans to step back from running DeepSeek after the round closes.
 - C) A state-led fundraiser is reshaping DeepSeek from independent lab into strategic priority.
 - D) Tencent will become DeepSeek's largest shareholder following the funding round.
- Q3.** According to the passage, why did Liang Wenfeng initially want to raise only a small amount of money?
- A) To set a share price for employee stock options and prevent researcher poaching
 - B) To pay down debt accumulated during the training of the R1 model
 - C) To fund the construction of a new headquarters in Hangzhou
 - D) To buy Huawei chips ahead of expected US export restrictions
- Q4.** As used in the passage, the word 'frontier' most nearly means
- A) geographic border between two countries
 - B) rural and sparsely populated region
 - C) most advanced edge of current capability
 - D) unregulated or lawless commercial space
- Q5.** As used in the passage, the word 'champion' most nearly means
- A) tournament winner in a competition
 - B) designated leader backed by powerful interests
 - C) vocal advocate for a particular cause
 - D) underdog who triumphs against expectations
- Q6.** Which statement about the Big Fund can most reasonably be inferred from the passage?
- A) It has historically backed many Chinese consumer chatbot companies.
 - B) It is funded entirely by private Chinese billionaires rather than the state.
 - C) Its investment in an AI lab marks a notable departure from its prior mandate.
 - D) It will require DeepSeek to become profitable within the next year.
- Q7.** The passage suggests that the rapid jump in DeepSeek's valuation from \$20 billion to \$45 billion was driven primarily by
- A) a sudden surge in DeepSeek's commercial revenue from enterprise customers
 - B) investor enthusiasm despite DeepSeek's deliberate lack of commercial focus
 - C) a successful initial public offering on the Hong Kong stock exchange
 - D) DeepSeek's acquisition of a controlling stake in a major chipmaker

Q8. The author's tone throughout the passage is best described as

- A) alarmed and openly critical of Chinese state intervention
- B) celebratory and promotional toward DeepSeek's achievements
- C) measured and analytical, emphasising strategic implications
- D) skeptical and dismissive of the reported valuation figures

Q9. Which inference about DeepSeek's open-source approach is best supported by the passage?

- A) It will likely continue unchanged regardless of who invests in the company.
- B) It is now an open question that observers will watch as state money enters.
- C) It has already been abandoned at the request of the Big Fund's leadership.
- D) It was the primary reason the Big Fund chose DeepSeek over its rivals.

Q10. Which choice provides the best evidence for the answer to the previous question?

- A) 'The Big Fund assembled \$47 billion in its third round of funding in 2024.'
- B) 'Liang Wenfeng controls 89.5% of DeepSeek through personal and affiliated holdings.'
- C) 'Watch... whether DeepSeek keeps releasing open-weight models once state money is inside.'
- D) 'Rivals like Zhipu and Moonshot expect revenues to keep surging.'

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage primarily argues that DeepSeek's pending fundraiser represents what kind of shift?

Answer: B

The passage frames the Big Fund's involvement as Beijing effectively designating DeepSeek a strategic asset, transforming it from a self-funded outlier into a state-backed champion. C is wrong (Trap B): the passage uses 'open-source' and 'commercial' vocabulary but never says DeepSeek is abandoning open weights. SAT Tip: When asked for the 'primary' argument, pick the option that captures the passage's overall framing, not a narrow detail mentioned in only one sentence.

Q2. Which choice best states the central idea of the passage?

Answer: C

The passage's through-line is the strategic significance of state capital entering DeepSeek and the resulting valuation jump. A is wrong (Trap C): the claim about outperforming every Western model is stronger than what the passage actually says, which is only that DeepSeek trained on a fraction of US rivals' compute. SAT Tip: The central idea must be supported across the WHOLE passage, not just a single sentence – eliminate options that match only one paragraph.

Q3. According to the passage, why did Liang Wenfeng initially want to raise only a small amount of money?

Answer: A

The passage states Liang wanted a nominal sum to assign a value to DeepSeek's options so competitors couldn't poach his researchers with bumper pay packages. D is wrong (Trap C): chip restrictions are mentioned as background context but never connected to Liang's fundraising motive. SAT Tip: 'According to the passage' questions reward you for sticking to what is literally stated – resist filling in plausible-sounding reasons from outside knowledge.

Q4. As used in the passage, the word 'frontier' most nearly means

Answer: C

In 'frontier AI model,' the word means the cutting edge of what AI can currently do – the leading capability boundary. A is wrong (Trap B): 'frontier' commonly means a national border in everyday English, but that meaning doesn't fit a sentence about AI research. SAT Tip: On vocab-in-context questions, substitute each option back into the sentence – only the meaning that preserves the original sense is correct.

Q5. As used in the passage, the word 'champion' most nearly means

Answer: B

In 'national champion,' the term refers to a company a government deliberately elevates as its strategic representative in an industry. A is wrong (Trap B): 'champion' often means a sports winner, but that meaning makes no sense applied to a company being chosen by the state. SAT Tip: Watch for words that have a specialised business or policy meaning distinct from their everyday meaning – the passage context tells you which sense applies.

Q6. Which statement about the Big Fund can most reasonably be inferred from the passage?

Answer: C

The passage notes the Big Fund's mandate is to invest in semiconductor equipment and materials and that it has not publicly backed any of China's other LLM operators – making an AI lab investment a clear shift. D is wrong (Trap C): demanding short-term profitability sounds plausible but is not implied anywhere in the passage. SAT Tip: For inference questions, the right answer is what **MUST** be true given the passage – not what could plausibly be true in the real world.

Q7. The passage suggests that the rapid jump in DeepSeek's valuation from \$20 billion to \$45 billion was driven primarily by

Answer: B

The passage states investors are 'striving to bet on DeepSeek's potential despite its lack of focus on commercialisation.' A is wrong (Trap A): the passage explicitly says DeepSeek is **NOT** focused on selling AI to companies, which is the opposite of revenue-driven valuation growth. SAT Tip: Watch for trap answers that reverse the cause and effect described in the passage – they often use the right vocabulary in the wrong direction.

Q8. The author's tone throughout the passage is best described as

Answer: C

The passage reports facts and contextualises them – explaining the Big Fund's role, Liang's motives, and what's at stake – without cheering or condemning. A is wrong (Trap C): while the topic involves geopolitical tension, the author's adjectives and phrasing are neutral, not alarmed. SAT Tip: Tone is about the **AUTHOR's** word choice, not the topic's intensity – a story about war can be told in a calm tone, and a story about cookies can be told in an outraged one.

Q9. Which inference about DeepSeek's open-source approach is best supported by the passage?

Answer: B

The passage frames whether DeepSeek will keep releasing open-weight models as one of the key things to watch once state capital enters – not a settled matter. C is wrong (Trap C): the passage never claims open-source has been abandoned; it raises the issue as uncertain. SAT Tip: Inference answers usually live in the middle of the road – extreme claims ('never,' 'already abandoned,' 'regardless') are usually traps.

Q10. Which choice provides the best evidence for the answer to the previous question?

Answer: C

Option C directly states that the future of DeepSeek's open-weight releases is something to watch – exactly the uncertainty the previous answer described. A is wrong (Trap B): it uses the passage's vocabulary about the Big Fund's size but says nothing about open-source policy. SAT Tip: On evidence-pairing questions, locate the sentence in the passage that supports your previous answer **FIRST**, then match it to the option that quotes that sentence.