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Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

AI Tokens Explained: Cost Driving Global Competition

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What are AI tokens?

AI tokens = smallest units of data that an AI reads and writes.

They can be:

Words

Parts of words

Characters or code

Example:

Sentence ? “AI is powerful”

Tokens ? “AI” | “is” | “powerful”

Key idea:

AI does not understand full sentences directly — it works using tokens.

Why tokens are important

Tokens are not just technical, they are also economic units.

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AI companies charge users based on number of tokens used.

So:

More input (prompt) = more tokens

More output (response) = more tokens

? More cost

Conclusion:

Tokens act like a “currency of AI”.

How AI pricing works

AI services (like chatbots, APIs) are priced as:

Cost per 1,000 or 1 million tokens

This makes:

Every question measurable

Every response billable

Analogy:

Electricity ? units

Internet ? data usage

AI ? tokens

Why tokens matter in global competition

Earlier competition = who has the best AI model

Now competition = who provides cheapest tokens

Because:

AI usage is increasing rapidly

Businesses use AI at large scale (agents, automation, coding)

So:

Lower token cost = more users + more adoption

Why China is winning the pricing race

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Much cheaper token pricing

Chinese AI models are:

10–20 times cheaper than US models in some cases

Efficient technology

Use advanced architectures like:

“Mixture-of-Experts”

These reduce computing cost

Lower infrastructure cost

Cheaper:

Electricity

Data centers

Strong government support

Forced innovation

Due to US restrictions on chips:

China focused on efficiency instead of brute power

Rise of AI agents increases token demand

New trend: AI agents (autonomous systems)

They:

Perform multi-step tasks

Run continuously

Result:

Massive increase in token consumption

Cost becomes even more critical

China's strategic advantage

China is focusing on:

High-volume usage

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Low-cost AI access

This helps:

Developers

Startups

Global adoption

Chinese models are now:

Leading in token usage globally

Big shift in AI industry

Earlier:

Quality and performance mattered most

Now:

Cost efficiency (per token) is becoming key

? The race is shifting from:

“Best AI” ? “Most affordable AI”

Final takeaway

AI tokens are the basic unit of AI usage and pricing, and China is gaining global advantage by making these tokens much cheaper.