The geopolitics shaping AI

A boardroom perspective

September 2025

Navigating the geopolitical haze and uncertainties around tariffs has given many business leaders and boards a crash course on the complicated intersection of geopolitics and trade. Geotechnology is running a close second, with artificial intelligence (AI) joining the global technology issues—including data privacy, IP, cybersecurity, 5G/6G infrastructure, and standards—that are demanding attention from multinational businesses and boards as tech and geopolitics become more intertwined.

ChatGPT's explosive global penetration—from 1 million users in its first five days in late 2022 to 700 million users by mid-2025 across 200 countries—serves as a bellwether of AI's rapid progress.[1] AI continues to outpace regulators' ability to keep up despite myriad new rules and regulations, and geopolitical competition has hampered efforts to establish a global approach to governing the technology. Still, the pressures on businesses to forge ahead with AI continue to mount.

As companies grapple with the practical implications of AI's rapid advance—regulatory, strategic, operational, reputational, and organizational—the geopolitical forces shaping its evolution provide an important backdrop for boardroom conversations.

AI's current capabilities and rate of adoption are already remaking traditional business models, changing labor force dynamics, and influencing strategic competition between countries. Corporate leaders must not only understand and plan for the potential impact of AI on their businesses, but also the broader evolution of the policy landscape and geopolitical impact of AI.

Of all the macro disruptors—such as climate and the energy transition, war and geopolitical fragmentation, and global pandemics—AI may prove to be the most transformative and lasting global disruption yet.

A fragmented and fast-evolving regulatory landscape

The policy response to the rapid emergence of AI has been a wide range of regulatory and global governance approaches, from the EU's AI Act to a still-developing, matrixed approach in the US, to the now-annual international summits first launched by the UK in 2023. As of 2024, 39 countries have enacted at least one AI-related law, according to the Stanford AI Index report, with 40 AI-related laws passed last year alone. In the US, the number of AI-related federal regulations introduced doubled in 2024, and state-level activity more than doubled as well.[2]

[1] "OpenAI's ChatGPT to hit 700 million weekly users, up 4x from last year," CNBC, August 4, 2025.
[2] "Artificial Intelligence Index Report 2025," Stanford Institute for Human-Centered Artificial Intelligence, Stanford University, April 2025.

AI safety-ism reached a peak in 2023, when a group of international researchers called for a six-month pause in AI development.[3] Yet many governments are treating AI primarily as an economic and strategic opportunity rather than a threat, prioritizing encouraging innovation and facilitating inward investment by AI firms, versus introducing stringent new regulations.[4] In this sense, the EU is a relative outlier with its AI Act, which regulates AI applications according to their level of risk, with only a handful of countries taking inspiration from Brussels' approach (including **Brazil**). Countries such as **India**, **Japan**, and the **UK**, on the other hand, are taking a notably more pro-innovation approach to regulating AI.

The result is a global policy landscape characterized by limited global coordination (already diminishing from its 2023-2024 peak) and varied priorities. These include ensuring AI is deployed safely, responsibly, and without bias; averting doomsday scenarios in which AI becomes too powerful to control; and avoiding overregulation, which could hamper a country's competitiveness or national security interests.

For businesses, this uncertain and fragmented regulatory environment poses challenges, such as navigating a patchwork of rules on transparency, bias mitigation, and model oversight. As with data privacy, compliance risks are compounded by rapid technical change and rising public scrutiny.

This applies to nontech businesses using these platforms as much as AI developers themselves. Users (or "deployers") of AI systems can, in some circumstances and jurisdictions, become liable for their output, particularly in high-risk use cases. Stricter regulatory and liability rules in some jurisdictions (such as the EU) may hinder adoption rates relative to elsewhere; for example, some tech companies have had to delay the release of their AI products in the EU. Nontech companies may be more reticent to adopt AI solutions in business processes such as finance or HR in jurisdictions with stricter liability rules, putting them at a disadvantage in the global marketplace compared to competitors facing less stringent rules. On the other hand, legislation such as the AI Act can provide valuable legal certainty.

In the **US**, President Donald Trump's administration, pursuing a policy of ensuring US AI dominance, recently released its "AI Action Plan" to promote rapid deployment of the technology. Trump revoked former President Joe Biden's Executive Order on AI and is reducing regulatory obstacles to increasing energy production to power more advanced and energy-intensive AI training, such as the Stargate initiative. Of note for corporates is the endorsement of an approach that favors regulatory sandboxes for AI (i.e., allowing innovators to conduct live experiments under regulatory supervision, typically with temporary exemptions from certain rules). This could be especially useful in regulated industries that are apprehensive about introducing AI without rigorous understanding of its ramifications on complex systems.

The White House has also revoked Biden-era restrictions on selling advanced chips abroad and struck multibillion-dollar AI deals with the Gulf countries. And while many restrictions on China remain in place, the administration has started to allow the export of some advanced older-generation AI chips to the US's main competition in this space now as well. As a result of these changes, AI's development is now likely to be faster,[5] more energy-consuming, and thus less controlled compared to its prior trajectory.

However, policy and regulatory uncertainty in the US will persist; both Biden and Trump have grounded their policies in executive actions, which are easily reversible. As with tech more generally, only very narrow AI-related legislation has passed in Congress, leaving the bulk of US AI regulation to the states. There are two primary resulting risks:

1. A patchwork of policy and regulation at the state level increases compliance costs.
2. Wide variance in state laws leads companies to take a conservative approach to innovation.

This also means that in many cases, sectoral regulators may seek to fill the void for their respective fields. This type of rulemaking is likelier to look at outcomes (e.g., consumer safety) rather than process, which may be easier for application-level compliance.

[3] "Pause Giant AI Experiments: An Open Letter," Future of Life Institute, March 2023.
[4] "AI: A Roadmap for Governments," World Governments Summit 2025, with OliverWyman, 2025.
[5] "Artificial Intelligence Index Report 2025," Stanford Institute for Human-Centered AI, 2025.

Although **China** has adopted rules on recommender systems, deepfakes, and generative AI, its strict regulations have not prevented the emergence of AI champions such as DeepSeek (which has been controversial in the US).

With varying approaches and competition between great powers, a unified global governance model remains elusive, despite multiple overlapping attempts over the past several years. The **G7's** Hiroshima AI Process and the **OECD's** AI Principles offer soft law frameworks that many countries, especially democratic ones, use as guiding reference points. The **UN** also adopted a report in 2024 that recommended the establishment of a new scientific panel on AI, which China is now supporting as it attempts to fill the void in global AI safety leadership left by the US.

Still, there are tensions even between allies (e.g., the US and EU), that were already apparent even before Trump took office. Fragmentation is evident even at the level of technical standards, with the EU AI Act going much further than existing international standards on AI (such as ISO 42001) which has led to stalled progress among participants in standard-setting bodies. The Trump administration, meanwhile, has accused Brussels of using regulations such as the AI Act to disadvantage US companies.

Uncertainty is likely to persist in the longer term, which will likely weigh on AI developers and deployers alike. Some of the thorniest issues surrounding AI—such as regarding copyright, competition, and privacy—are only beginning to receive attention from policymakers and regulators. The outcome of debates on these topics could profoundly shape the evolution of AI and its deployment by businesses.

Striving for AI sovereignty (or leverage)

Given the strategic importance of AI, many countries aspire to control its main elements–computing power, data, energy and water, as well as talent. Legislation targeting companies that supply major AI inputs may also affect users who rely on those companies. For example, if a supplier faces regulatory restrictions on data usage, water or energy consumption, or chip exports, it can have implications for AI users, affecting costs, availability, and compliance. Those utilizing AI need to monitor these legal and regulatory developments so they can pivot when necessary, switching suppliers, or changing AI usage.

Strategic competition over AI largely revolves around control of the technology's fundamental inputs: computing, data, energy, and talent. Given the immense costs and barriers to those inputs, most countries are not attempting to compete across the whole supply chain or stack but deploy their competitive advantage.

The broader rivalry over AI leadership is principally unfolding between the US and China. Here, the interplay includes both positive and negative dimensions and takes two main forms. First, governments pursue industrial policy and provide subsidies to create, secure, or maintain sovereign capabilities, such as advanced chipmaking. Second, they impose restrictions—such as export controls and outbound investment rules—to regulate or deny the transfer of technologies or key inputs to other states, especially competitors.

Computational power has been the primary battleground for AI competition. US industrial policy has sought to boost access to AI semiconductors by subsidizing the reshoring of advanced chip manufacturing while (until recently) depriving China of similar advanced chips through extensive export controls on chips, chipmaking equipment and raw materials, and software. China has had less scope to retaliate but has done so by placing restrictions on critical minerals needed for both chipmaking and other technologies.

The EU, the UK, Japan, South Korea, and other countries/regions have also devoted resources to building up their advanced chipmaking industries, while Japan, Taiwan, and the Netherlands joined the US in blocking advanced semiconductor equipment and components from China. Although this has delivered setbacks for China, it has also provided an incentive for Beijing to devote significant resources to chipmaking, prompting its technology companies to innovate (for example, with DeepSeek's open source models); even if China's solutions do not yet rise to those of US companies, a "good-enough" model at a lower price point may prove sufficient to capture market share in large parts of the world. The US response has included facilitating the spread of US-sourced AI technology to as much of the world as possible.

As the importance of data centers has grown, the US and other countries have devoted substantial resources to building them as well. The Trump administration has brokered several major investments in the US along these lines, as well as joint ventures with the UAE and Saudi Arabia to build data centers in the Gulf.

Data is both ubiquitous and highly valuable. US policymaking has been focused on blocking Chinese access to data and ensuring free cross-border data flows that will help US technology companies. Because countries often generate and store data locally, less powerful states see it as a form of leverage. Many increasingly use data management to express sovereignty, enforce domestic laws and norms, enable censorship or repression, generate profit, or gain better access to AI and other technologies. Countries with more permissive data laws therefore have some advantages when it comes to attracting data center investment.

Decisions regarding proprietary data are among the most important AI-related questions for most corporates. While in most cases, considerations of how companies work with AI firms and share their data are primarily commercial (for instance, whether a media company allows an AI firm to train a model on its IP), those decisions may be informed by political considerations. Data flow policy is long-established, but companies will be caught in the middle as they navigate efforts by governments to tighten or loosen data flows related to AI or broader efforts around digital sovereignty. Companies that want to consolidate internal datasets may find policy barriers in place, especially in regulated or protected industries.

Energy and water demand to support computing for both AI model training and inference has made access to cheap, reliable energy and water a major factor in AI geopolitics. In a single day, the average AI-oriented data center consumes as much electricity as 100,000 households, with the largest centers under construction set to consume twenty times more. Globally, data center electricity demand is expected to more than double—to 3 percent of global demand—by 2030, with AI as the key driver.[6]

Motivated by financial, reputational, and policy incentives, key players are likely to seek ways to reduce their emissions intensity (i.e., emissions generated per unit of computing output) in large part by prioritizing cleaner power grids and installing on-site assets such as batteries or solar to supplement grid-supplied power. Countries and regional grids investing in significant renewables growth will be attractive locations for new facilities, although power availability will ultimately win out over other concerns (regardless of fuel).

This is particularly the case in the US, where a growing share of data center developers view power provision as their most important strategic constraint. Chinese data centers, on the other hand, will be forced to grapple with much stricter rules to reconcile their power consumption with renewable energy sources and other low-carbon priorities. Emerging markets currently account for less than 10 percent of global data center capacity—a share likely to remain low over the next decade as power infrastructure in these countries continues to develop and as data center demand remains concentrated in markets such as the US, China, and the EU.

Growing energy demands from AI-driven data centers are also prompting renewed interest in nuclear power as a reliable, carbon-free solution capable of providing the consistent, large-scale electricity supply these facilities require.[7] Major technology companies have recently announced significant deals and investments to directly support, develop, and purchase energy from nuclear power facilities. In an era marked by corporate decarbonization commitments, companies encounter significant environmental, social, and governance (ESG) risks linked to expanding environmental footprints. A June report by the UN and the World Benchmarking Alliance showed that from 2020 to 2023, despite broad climate commitments, the indirect emissions of four major tech companies surged by 150 percent.[8] As these companies and others expand their AI operations, they expose themselves to potential environmental litigation and jeopardize their ESG standing. This risk may extend to corporates availing themselves of AI-related services.

In the US, a single 100-megawatt data center can consume as much water daily as 6,500 households. As new facilities expand into water-stressed regions, developers will increasingly confront scrutiny of their water rights acquisitions and transparency around water consumption, a trend already being seen across the US. Globally, the growing demand for water by data centers—for on-site cooling, and for electricity generation, energy supply, and upstream manufacturing of semiconductors and microchips—is likely to exacerbate local tensions. Data centers that operate with relatively low average water use still have the potential to disrupt local infrastructure given their high peak water demands. Expect a continued focus by policymakers on regulation and incentives that promote the most efficient cooling techniques.

---

[6] "Energy and AI" 2024–2025 Special Report, International Energy Agency.
[7] "Is Nuclear Energy the Answer to AI Data Centers' Power Consumption?" Goldman Sachs, January 23, 2025.
[8] ITU and WBA. 2025. Greening Digital Companies 2025. Geneva and Amsterdam.

Talent has become one of the most important inputs for AI. At the top of the supply chain, AI firms are poaching engineers with salary offers in the tens of millions of dollars. This makes it clear that while AI itself is automating much coding, the human talent driving progress is still rare and in high demand. The recent crackdowns on immigration and tightening of student visa issuances in the US is likely to benefit other countries competing for AI expertise—including Canada, the UK, and the EU—as that talent flows outward.

Implications for board oversight

In **Shifting Geopolitics and the Role of the Board**, we discuss ways the board can help ensure that management has robust processes in place to identify the key geopolitical risks and their potential impacts on the business, including:

Establishing clear responsibilities and accountability for key geopolitical risks

Providing robust, periodic reporting to the board, including current risks, future scenarios, and crisis readiness plans

Obtaining a diversity of views and third-party perspectives

Considering the board's own geopolitical acumen and oversight framework.

The heightened regulatory and compliance risks, as well as increased strategic and operational risks, posed by the geopolitical environment may require particular focus by the board, including:

Compliance and related reputational risks – How management is monitoring global legislative and regulatory developments related to AI and data privacy that may impact the company's compliance obligations and reputational risks

Third-party compliance risks posed by major AI component providers – For AI users that rely on major AI component providers, how is management managing the third-party risks posed by its reliance on third-party AI technologies, models, and data pipelines, particularly when proprietary data may be shared with AI component providers? How is management monitoring the AI component providers' compliance with global AI and data privacy laws and regulations?

Strategic and operational risks, including business continuity – As discussed above, given the strategic importance of AI, many countries aspire to control its main elements—computing power, data, energy and water, as well as talent. Legislation and export controls targeting companies that supply major AI inputs may also affect AI users who rely on those companies. For example, if a supplier faces regulatory restrictions on data usage, water or energy consumption, or chip exports, it can have implications for AI users, affecting cost, availability, and compliance. How is management monitoring legislation and export controls targeting the providers of major AI components that may disrupt the business of the component provider and, indirectly, the AI user?

Applying this geopolitical lens to boardroom discussions of AI can provide essential context and a fuller picture of the issues shaping how this transformative technology is unfolding around the world and the implications for the business. More broadly, the evolving nature of AI raises key strategic issues for board members to stress test with management teams, including:

Assessing the impact of AI on business models and global competition to better position for strategic defensibility, growth, and cost-savings

Identifying gaps related to talent and workforce development, specific to both AI development and adoption, as well as nontechnical capabilities in an evolving workforce

Developing risk mitigation strategies related to policy changes and externalities stemming from the rapid growth of the AI sector, such as potential labor disruption or rising energy prices

About the KPMG Board Leadership Center

The KPMG BLC champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and sustainability to data governance, artificial intelligence, audit quality, proxy trends, and more. Learn more at **kpmg.com/us/blc**.

About Eurasia Group

Eurasia Group is the world's leading global political risk research and consulting firm. By providing information and insight on how political developments move markets, we help clients anticipate and respond to instability and opportunities everywhere they invest or do business. Our expertise includes developed and developing countries in every region of the world, specific economic sectors, and the business and investment playing fields of the future. Headquartered in New York, we have offices in Washington, DC, London, San Francisco, Sao Paulo, Singapore, and Tokyo, as well as on-the-ground experts and resources in more than a hundred countries. "Politics first" grounds our work: Politics is the lens through which we view the world, and we are committed to analysis that is free of political bias and the influence of private interests. **www.eurasiagroup.net**.

Contact

kpmg.com/us/blc

T: 800-808-5764
E: us-kpmgmktblc@kpmg.com

Learn about us: **kpmg.com**