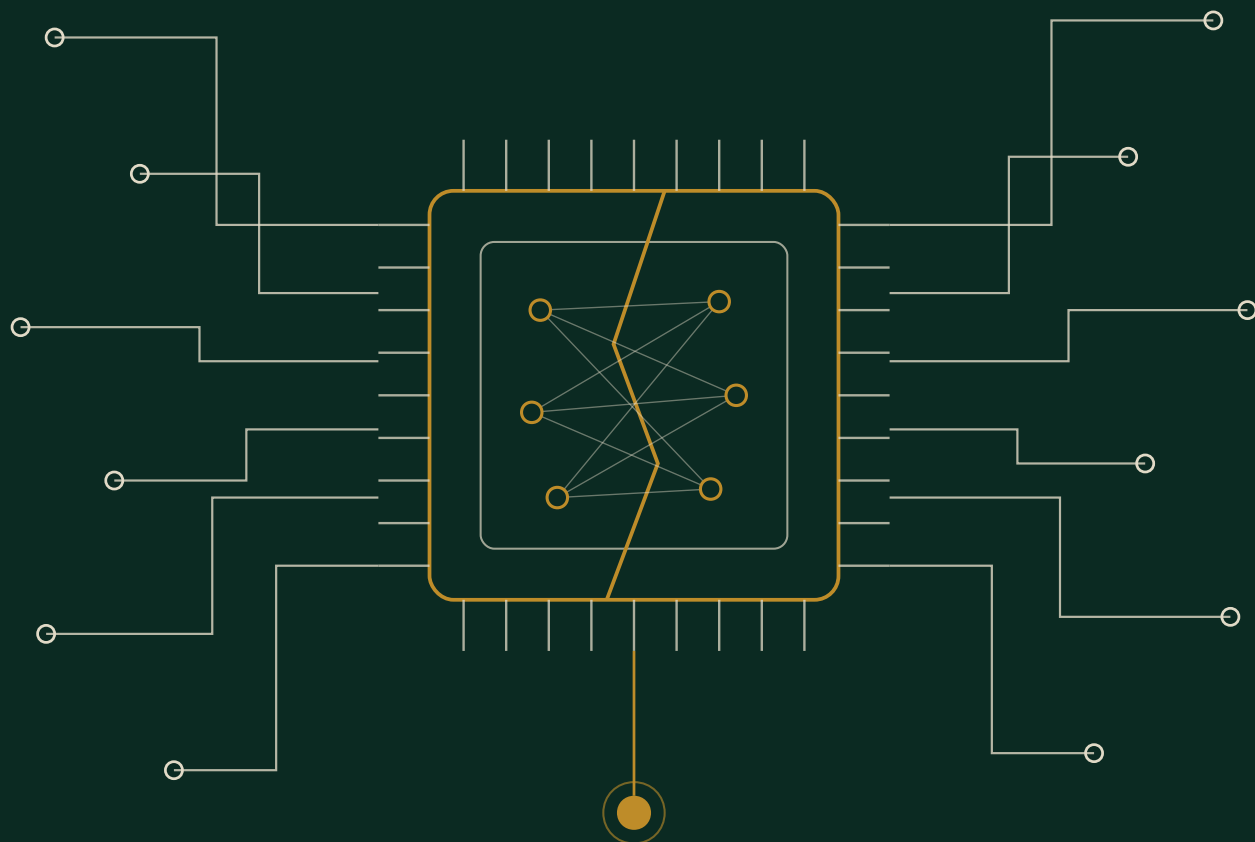




TECHNOLOGY AND GEOPOLITICS

The US–China AI Race

Managed Fragmentation of the Global Technology Order and Pakistan's Choices

Sumaiyya Kainat · Edited by SAT Research Desk



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Key Argument

The disparity between the quality of top AI systems in China and the United States is no longer significant. In March 2026, the best artificial intelligence (AI) model from the United States (US) led the best Chinese model by about 2.7 percent, down from 9.3 percent in January 2024.^{1,2} The contest has therefore moved from models to inputs. Washington retains a commanding lead in computing power, chips and capital; Beijing leads in open models, research volume, patents and industrial deployment. Both powers are now institutionalizing these advantages in rival clubs: the US-led Pax Silica supply-chain coalition and the China-led World AI Cooperation Organization (WAICO). The result is not one dominant leader but a managed fragmentation of the global technology order, in which middle powers such as Pakistan must keep access to both stacks while building sovereign capability of their own.

WHAT THIS BRIEF ARGUES

1. The competition is closer in models than in inputs. The US leads in compute and capital, and China in open-weight diffusion, patents and industrial deployment.
2. Controls are becoming transactional, with licensing, levies and volume caps on one side and rare-earth leverage on the other.
3. The two stacks are hardening into clubs, with US full-stack packages for trusted partners and Chinese open models and capacity building for the Global South.

WHAT IT DOES NOT ARGUE

The brief does not claim that China is winning, or that the US lead in compute and capital has disappeared. Downloading a Chinese model does not amount to an alliance with China. Nor does it suggest that neutrality means passivity: hedging is an active and costly strategy that requires capacity, finance and clear triggers.

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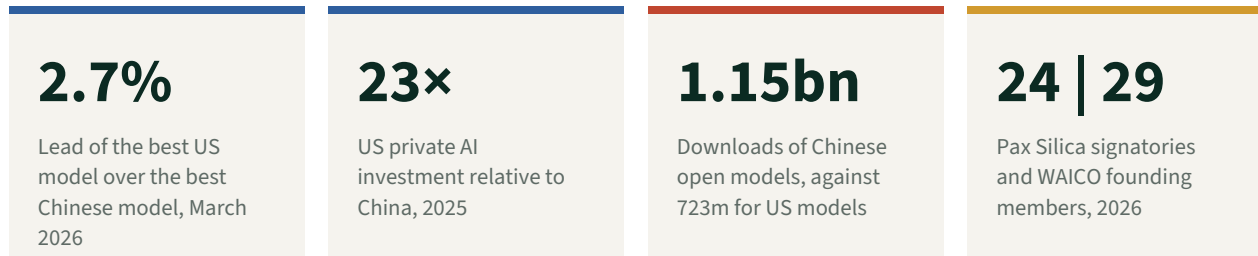
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SUMMARY

Executive Summary

Figure 1 | Key numbers at a glance



Four indicators that summarize the state of the US–China AI competition in 2026.

Source: Stanford HAI, AI Index 2026; ATOM Report; US Department of State; Shanghai Municipal Government.

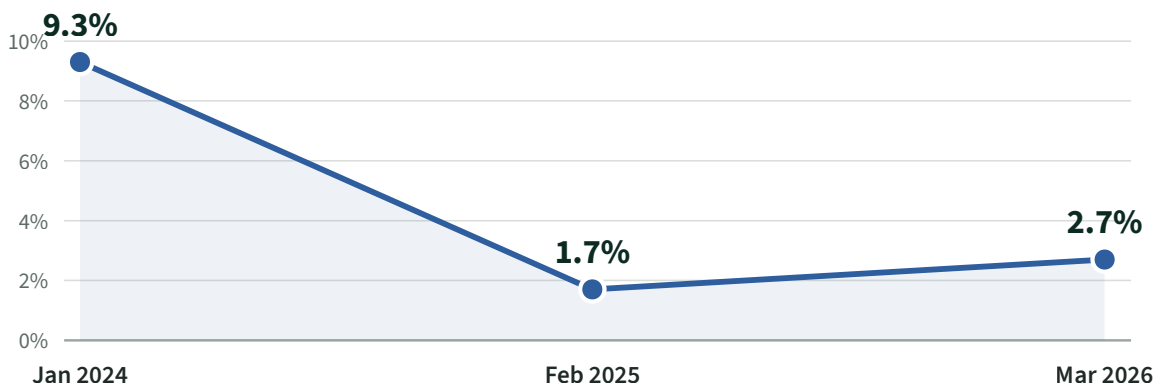
- **The frontier gap has narrowed.** The best US model led the best Chinese model by 9.3 percent on the Arena benchmark in January 2024 and by about 2.7 percent in March 2026.^{1,2}
- **Inputs remain unequal.** US private AI investment of \$285.9 billion in 2025 was 23 times that of China, and the US hosts about three-quarters of all tracked AI-supercomputer capacity.^{3,4} China leads in AI publications, granted patents and industrial robot installations.^{5,6}
- **Controls have become transactional.** Washington has moved from denial to licensed, capped and taxed sales of advanced chips, while Beijing’s share of about 91 percent of refined rare earths gives it a counter-lever.^{7,8}
- **Two stacks compete for adopters.** US firms export closed, full-stack packages, while Chinese open-weight models overtook US open models in cumulative downloads in mid-2025.^{9,10}
- **Rival clubs overlap.** Pax Silica had 24 signatories by June 2026 and WAICO 29 founding members in July 2026, including Pakistan; Kazakhstan belongs to both.^{11,12}
- **Pakistan should pursue dual access.** Consistent with its National Security Policy, which rejects “camp politics,” Pakistan should convert its founding membership of WAICO and its ties with Washington into compute, skills and influence. This brief proposes a three-phase strategy anchored in sovereign capacity and in inclusive governance centered on the United Nations.¹³

A Race with No Clear Leader

Competition at the technological frontier is now very close. The Stanford Institute for Human-Centered Artificial Intelligence (HAI) reports that, by March 2026, the top US model scored 1,503 on the Arena leaderboard against 1,464 for the top Chinese model, a margin of about 2.7 percent.^{1,14} The margin has fluctuated rather than narrowed steadily. It stood at 9.3 percent in January 2024 and briefly fell to 1.7 percent in February 2025.² The comfortable lead of the early generative AI period has therefore disappeared.

Figure 2 | The frontier gap: lead of the best US model over the best Chinese model

US lead over the best Chinese model on the Arena leaderboard



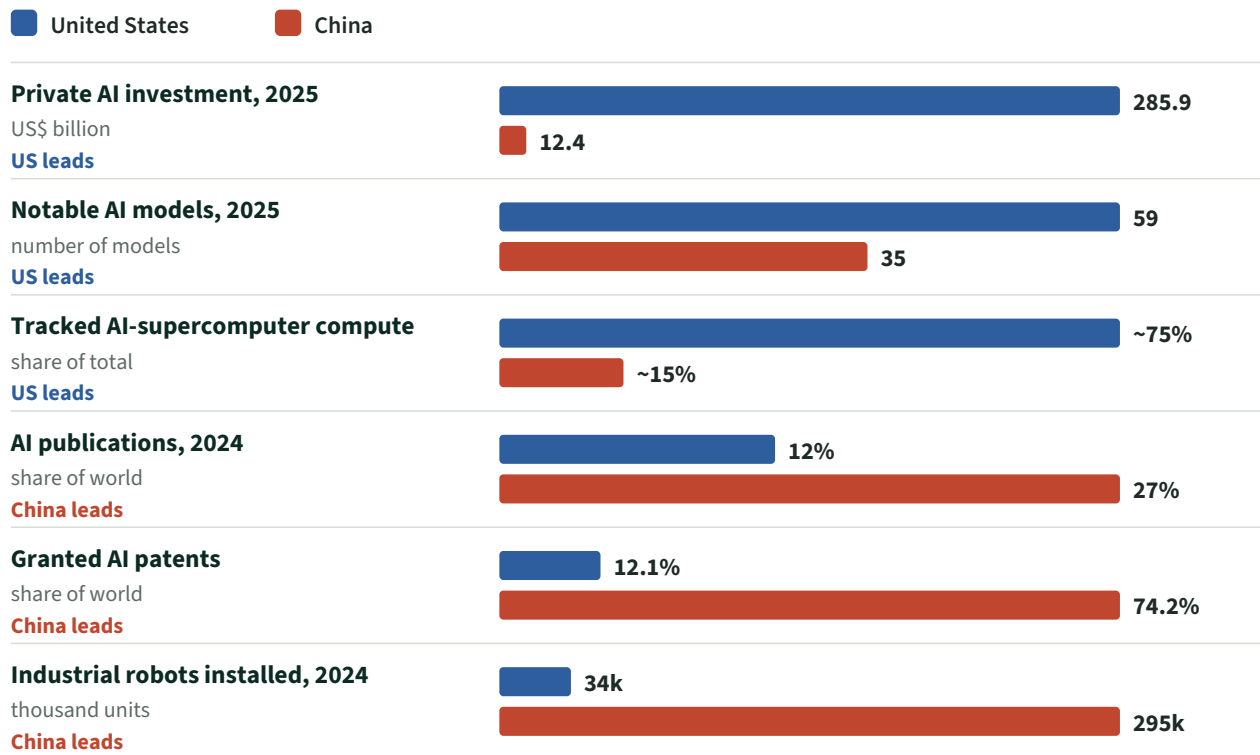
Percentage lead on the Arena (LMSYS Chatbot Arena) leaderboard at three points in time. The lead has narrowed sharply since 2024 but fluctuates.

Source: Stanford HAI, AI Index 2025 and 2026.

The volume of frontier work has also converged. According to the AI Index, the US released 59 notable AI models in 2025 and China 35, against 40 and 15 respectively in 2024.^{6,15} Investment, however, remains far higher in the US than in China. US private investment reached \$285.9 billion in 2025, 23.1 times China's \$12.4 billion.³ The comparison understates Chinese spending, however, because it excludes government guidance funds and state-directed capital, which carry much of China's AI financing.

In terms of infrastructure, the US is undeniably ahead. It hosts 5,427 data centers, the most in the world, and Nvidia chips account for more than 60 percent of total AI compute.⁶ China leads on other measures. It produced more than 27 percent of global AI publications in 2024 against 12 percent for the US, held 74.2 percent of granted AI patents, and installed 295,000 industrial robots in 2024, against 34,000 in the US.^{3,5,6}

Figure 3 | Who leads where: a scorecard, not a ranking



Six indicators of AI strength. The US leads in capital, models and infrastructure; China leads in publications, patents and industrial robots.

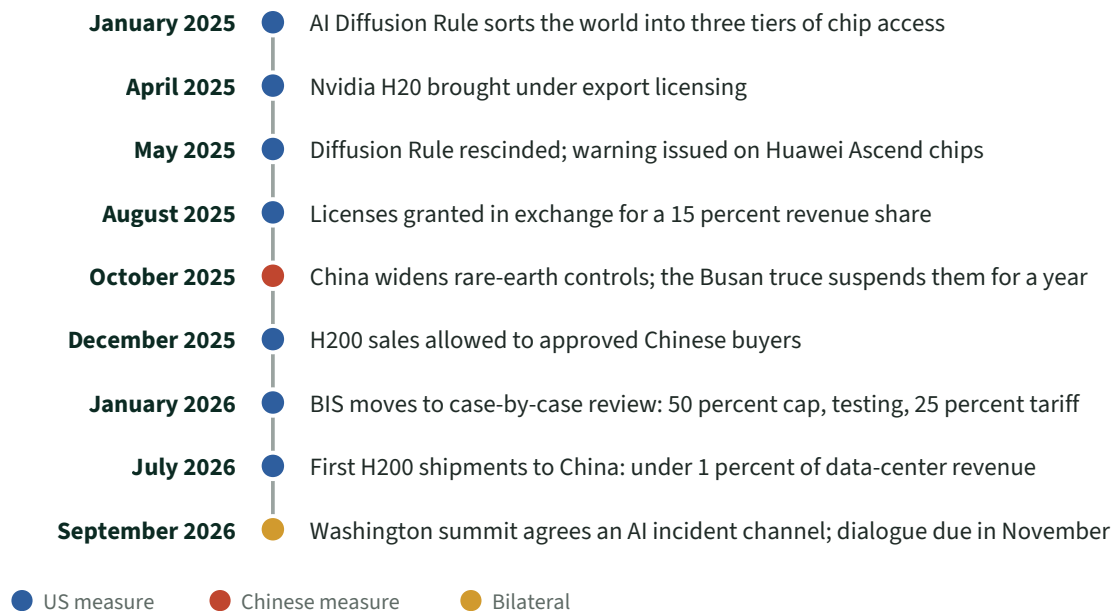
Source: Stanford HAI, AI Index 2026 (investment, models, patents, robots); Epoch AI, June 2025 (compute); CSET via Al Jazeera (publications, 2024).

Therefore, the outcome of the competition is not predetermined by one figure. The US leads on the scarce physical inputs; China leads in volume, diffusion and deployment; and the boundary between them is moving quickly. Graham Allison’s warning about the “Thucydides Trap” captures the risk of such a power transition, but the AI contest is better described as a race of systems than a race to a single finish line.¹⁶

The Chip Chokepoint and the Policy Reversal

For three years, US policy treated advanced chips as a chokepoint. Licenses for cutting-edge accelerators to China were reviewed under a presumption of denial. In January 2025, the outgoing administration's Framework for AI Diffusion went further, sorting the world into three tiers: unrestricted access for the US and 18 close partners, effective exclusion for arms-embargoed states including China, and capped access for everyone else, a middle tier that would have included Pakistan.¹⁷ The incoming administration rescinded the rule on 13 May 2025, while warning that using Huawei's Ascend chips anywhere risked violating US export controls.¹⁸ In April 2025, Nvidia's H20, a chip designed to comply with earlier rules, was also brought under licensing.¹⁹

Figure 4 | From chokepoint to licensing: selected milestones, 2025–26



Key US export-control decisions and Chinese countermeasures on chips and rare earths.

Source: BIS; Federal Register; NVIDIA filings; Morgan Lewis; Korea JoongAng Daily; PBS NewsHour.

What followed was a shift from denial to pricing. In August 2025, Nvidia and AMD agreed to pay the US government 15 percent of their China revenues in exchange for licenses.²⁰ On 8 December 2025, President Trump announced that the H200 could be sold to approved Chinese customers.²¹ A Bureau of Industry and Security (BIS) rule on 15 January 2026 moved such chips to case-by-case review, capped shipments to China at

50 percent of each product’s US sales, and required independent testing before each shipment; a separate 25 percent tariff applied.⁷ In practice, shipments remained limited. Nvidia’s first H200 shipments to China, in the quarter to 26 July 2026, were below 1 percent of its \$89 billion data-center revenue, and its guidance assumed no further China data-center revenue.²²

This case also sheds light on the problems that both parties face. Beijing holds its own chokepoint. China produced about 91 percent of the world’s refined rare earths in 2024.⁸ Its October 2025 controls reached foreign products containing as little as 0.1 percent Chinese-origin rare earths, before the Busan meeting of 30 October 2025 suspended them for a year.^{23,24} Reporting cited by the German Marshall Fund suggests Beijing has honored only about two-thirds of its commitments on metal flows.²⁵ The September 2026 Washington summit extended the truce and created an AI incident channel, with a formal AI dialogue scheduled for November, but produced only a pledge to keep working on rare earths.²⁶

Both sides retain capability gaps. Huawei launched its Ascend 950PR in March 2026 with in-house memory, but a global shortage of high-bandwidth memory (HBM) has pushed Chinese accelerator prices up by 20 to 50 percent.²⁷ Henry Farrell and Abraham Newman’s concept of “weaponized interdependence” explains this dynamic. A state that controls a network hub can coerce others, but each use of that leverage accelerates the other side’s search for substitutes.²⁸

Figure 5 | Where the world’s tracked AI compute sits



In H100-equivalent chips: United States about 850,000 · China about 110,000 · European Union about 50,000

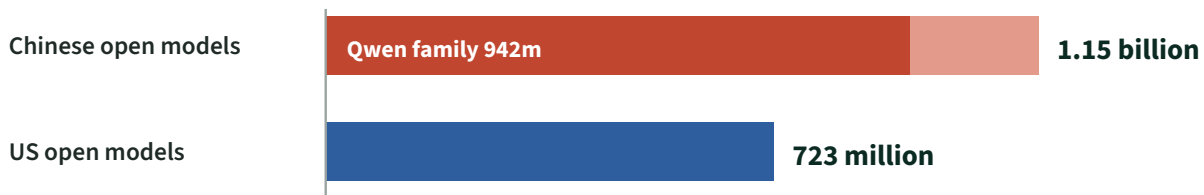
Share of performance in Epoch AI’s dataset of AI supercomputers, as of May 2025. The dataset covers an estimated 10 to 20 percent of global AI compute.

Source: Epoch AI, Data Insight, 5 June 2025; Pilz et al., 2025.

Two Stacks: Closed Frontier, Open Diffusion

Both powers are monetizing their strengths in different ways. US companies favor closed, paid business models; Chinese labs use open weights to enter global markets. According to the ATOM Report, cumulative downloads of Chinese open models overtook those of US models in mid-2025 and reached 1.15 billion by March 2026, against 723 million for US models. Alibaba’s Qwen family alone accounted for 942 million.⁹ Alibaba has since said that Qwen models passed 3 billion downloads.²⁹

Figure 6 | Open-model downloads: China overtakes the US



China overtook the US in cumulative open-model downloads in mid-2025.

Cumulative downloads of open language models by country of origin as of March 2026, with Alibaba’s Qwen family shown within the Chinese total.

Source: Lambert and Brand, The ATOM Report, arXiv:2604.07190, 2026.

Open weights lower the cost of adoption for developing countries, which is why Chinese offers are framed as “capacity building” for the Global South. On 17 July 2026, President Xi Jinping offered 5,000 AI training places to developing countries over five years, AI application cooperation centers with regional organizations including the Shanghai Cooperation Organisation (SCO) and the African Union, and access to the MAZU early-warning system for 30 countries.³⁰ Jeffrey Ding’s work on technology diffusion explains why this matters. Great-power advantage has historically rested less on who invents a technology than on who spreads it fastest through the economy.³¹

Washington has responded by promoting exports of its full technology stack. America’s AI Action Plan of July 2025 and Executive Order 14320 directed the Department of Commerce to promote exports of the “American AI technology stack.”^{32,33} The resulting American AI Exports Program invites consortia to offer packages across five layers,

from chips and data centers to models, security and applications, with at least 51 percent US content in hardware, Chinese firms excluded, and faster licensing and priority federal financing for approved packages.¹⁰

The two offers target different clients. The American package suits governments and firms seeking premium performance and security assurance, at a high price and with license conditions. The Chinese offer is flexible and cheaper, and is presented as less political, although it carries its own dependencies. Both offers rest on long-standing strategies: China's 2017 New Generation Artificial Intelligence Development Plan set the goal of making the country the world's primary AI innovation center by 2030.³⁴

Figure 7 | The strategy documents behind the stacks

CHINA New Generation Artificial Intelligence Development Plan State Council July 2017 <i>World-leading AI center by 2030</i>	CHINA Global AI Governance Action Plan World AI Conference, Shanghai 26 July 2025 <i>13 points; proposes a global AI body</i>	UNITED STATES Winning the Race: America's AI Action Plan The White House July 2025 <i>Deregulation, infrastructure, exports</i>
UNITED STATES Executive Order 14320 on AI Technology Stack Exports The White House 23 July 2025 <i>Creates the AI Exports Program</i>	PAKISTAN National Artificial Intelligence Policy 2025 Ministry of IT and Telecom Approved 30 July 2025 <i>National AI Fund; 7 Centers of Excellence</i>	UNITED NATIONS Resolution 79/325 on AI Governance General Assembly 26 August 2025 <i>Scientific Panel and Global Dialogue</i>

Key national strategies and international instruments that frame the competition, with their issuing bodies and dates.

Source: State Council of China; The White House; Ministry of IT and Telecommunication, Pakistan; United Nations General Assembly.

Blocs in Formation: Pax Silica and WAICO

At present, both groups have institutions. Pax Silica, a non-binding declaration on secure supply chains for chips, AI and critical minerals, was signed in Washington on 12 December 2025 by the US, the United Kingdom, Japan, the Republic of Korea, Singapore, Australia and Israel.³⁵ Qatar, the United Arab Emirates, India, Sweden, Finland, the Philippines and Norway joined in early 2026, and ten more, including Germany, the Netherlands, the European Union (EU), Kazakhstan and Argentina, signed at the second summit in June 2026, taking the total to 24. A separate Joint Statement on AI Opportunity was signed by 35 economies, including India and Türkiye.¹¹

WAICO was proposed by Premier Li Qiang in July 2025 and founded in Shanghai on 16 July 2026 by 29 countries, including Pakistan, Russia, Indonesia, Malaysia, Brazil, South Africa and the Central Asian republics. Eight more, including Iran and Vietnam, joined afterwards.^{12,36}

Figure 8 | Two clubs, one overlap



Members of each club by region; Pakistan is a founding member of WAICO and Kazakhstan the only state in both.

Source: US Department of State, Outcomes of the Second Pax Silica Summit (June 2026); Shanghai Municipal Government; SESEC (August 2026).

Table 1 | Comparison of the two clubs

	PAX SILICA	WAICO
Convenor	US Department of State	China (headquarters in Shanghai)
Launched	12 December 2025	Founding agreement signed 16 July 2026
Membership	24 signatories (June 2026); 35 on the AI Opportunity Statement	29 founding members; 37 by August 2026
Core offer	Trusted supply chains, finance, procurement support	Training, cooperation centers, open models
Legal form	Declaration, not a treaty	Intergovernmental organization
Pakistan	Not a party	Founding member

Source: US Department of State; Shanghai Municipal Government; SESEC; Associated Press of Pakistan.

The blocs are not watertight. Kazakhstan has joined both, and India is a member of Pax Silica while remaining outside WAICO. Membership signals preference, not exclusivity, which is the opening that middle powers can use. India's integration into US-trusted supply chains is nonetheless significant for South Asia, since advanced computing has military as well as civilian uses and its spread can shift the regional balance, a risk that Pakistan's National Security Policy identifies when it warns against the introduction of destabilizing technologies in the region.¹³

The Thin Governance Layer

Capabilities are outpacing rules. Washington’s AI Action Plan prioritizes rapid diffusion and deregulation, and is skeptical of centralized, binding global governance of AI.³² China, by contrast, has positioned itself as a champion of multilateral rules through its 13-point Global AI Governance Action Plan of July 2025 and a further action plan on AI cooperation issued in July 2026.^{37,38} At the United Nations (UN), General Assembly resolution 79/325 of August 2025 created a 40-member Independent International Scientific Panel on AI and a Global Dialogue on AI Governance, which held its first session in Geneva on 6–7 July 2026.^{39,40} The EU has delayed its AI Act rules for high-risk systems to December 2027 and August 2028,⁴¹ and the New Delhi Declaration of February 2026, endorsed by 88 countries and organizations including the US and China, remains non-binding.⁴² Bilaterally, the September 2026 summit agreed an AI incident channel.²⁶

Table 2 | Where AI rules are being made

ARENA	STATUS IN 2026	BINDING?
UN Global Dialogue and Scientific Panel	First session Geneva, 6–7 July 2026; next session New York, May 2027	No
EU AI Act	High-risk rules delayed to December 2027 and August 2028	Yes, for the EU market
US–China channel	AI incident channel agreed September 2026; dialogue due November	No
WAICO	Founded July 2026	Rules not yet defined
New Delhi Declaration	Endorsed by 88 countries and organizations, February 2026	No

Source: United Nations; White & Case; PBS NewsHour; Fortune; Shanghai Municipal Government.

The result resembles what Robert Keohane and David Victor called a “regime complex”: loosely coupled, overlapping and mostly voluntary arrangements, rather than a single regime.⁴³ Such a system suits the largest powers, which can export their standards through their own clubs. It serves smaller states less well, leaving them exposed to divergent requirements. This is why Pakistan has consistently backed inclusive, UN-centered governance: it was an original sponsor of the 2024 General Assembly resolution on AI capacity-building, and at the Geneva Dialogue its Minister for Information Technology and Telecommunication called for closing the capability gap through shared computing, open-source models and UN-led governance.^{44,45} Pakistan has likewise supported a legally binding instrument on lethal autonomous weapons systems, voting for the General Assembly’s December 2025 resolution.⁴⁶

Pakistan and the Middle Powers

Resource-constrained and mid-sized countries face different constraints from the great powers. Pakistan's position combines close strategic ties with China and a long, pragmatic relationship with the US. During Prime Minister Shehbaz Sharif's visit to China on 23–26 May 2026, the two governments' joint statement recorded Pakistan's support for WAICO, and agreements were signed with Alibaba Cloud and the DAMO Academy on sovereign cloud and AI.^{47,48} On 16 July 2026, Deputy Prime Minister and Foreign Minister Ishaq Dar signed WAICO's founding agreement in Shanghai.⁴⁹ The second phase of the China–Pakistan Economic Corridor (CPEC 2.0) includes joint AI laboratories under its innovation corridor.⁵⁰

Pakistan's ties with Washington have also deepened. A critical-minerals memorandum worth about \$500 million in its first phase was signed with US Strategic Metals in September 2025, and the US Embassy has signaled interest in an AI investment relationship.^{51,52} Pakistan is not a party to Pax Silica, but its minerals, its young digital workforce and its geography give it relevance to both supply chains.

This balance is a matter of doctrine, not convenience. Pakistan's first National Security Policy, covering 2022 to 2026, adopts a comprehensive concept of security built on economic security, human welfare and defense capability, and states that Pakistan does not believe in “camp politics.” It affirms the continued need for cooperation with the US while describing relations with China as a strategic convergence.¹³ A January 2026 review convened by the Institute for Strategic Studies, Research and Analysis (ISSRA) of the National Defence University recommended that the successor policy give greater weight to emerging technologies, including AI, data protection and cybersecurity, and pursue issue-based partnerships amid China–US competition.⁵³

At home, the building blocks are in place. The federal cabinet approved the National Artificial Intelligence Policy on 30 July 2025, establishing a National AI Fund of at least 30 percent of Ignite's research and development fund, seven Centers of Excellence and targets of 3,000 postgraduate scholarships a year.⁵⁴ In February 2026, the Prime Minister pledged \$1 billion for AI by 2030.⁵⁵ The government earmarked 2,000 megawatts of surplus power for AI data centers and digital-asset mining in 2025, and the country's largest data center, Karakoram One, opened in Islamabad in July 2026.^{56,57} The Digital

Nation Pakistan Act 2025 created a National Digital Commission, chaired by the Prime Minister, to steer the digital economy.⁵⁸ Information technology (IT) exports reached a record \$4.6 billion in fiscal year 2026.⁵⁹

Figure 9 | Pakistan's AI foundations at a glance

POLICY COMMITMENTS



CAPACITY AND ECONOMY

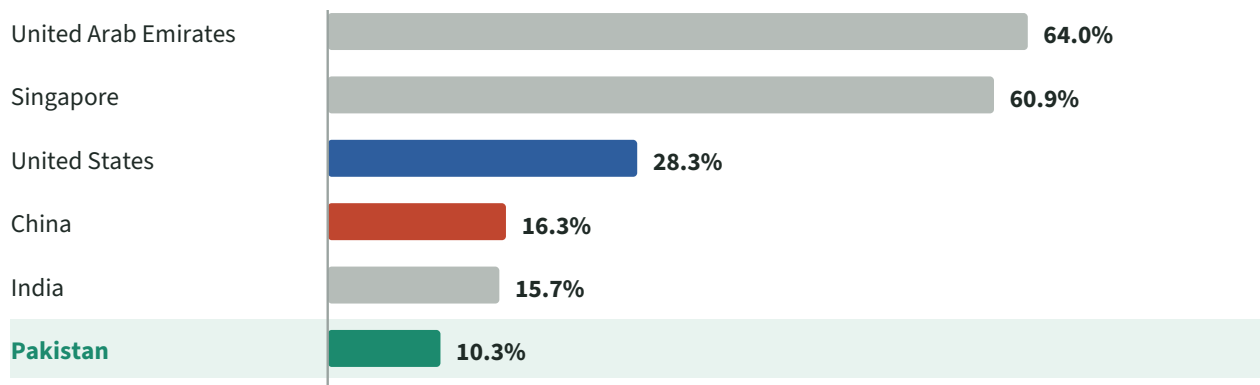


Selected commitments and indicators from Pakistan's National AI Policy and digital economy.

Source: MoITT, National AI Policy 2025; The News; Profit; Aaj English; The Express Tribune; DataReportal.

The constraints are equally clear. Only about 10.3 percent of Pakistan's working-age population used AI tools in the second half of 2025, against 15.7 percent in India and 28.3 percent in the US.⁶⁰ Internet penetration stands at about 46 percent.⁶¹ The International Monetary Fund (IMF) has also questioned subsidized power tariffs for data centers, so the 2,000-megawatt plan must be priced transparently.⁵⁶ The Pakistan Institute of Development Economics (PIDE) argues that Pakistan should be a "selective leader" within WAICO, leading on Urdu and regional-language AI and low-compute applications rather than competing at the frontier.⁶²

Figure 10 | The adoption gap: share of working-age population using AI



Share of the working-age population using generative AI tools, second half of 2025.

Source: Microsoft AI Economy Institute, AI Diffusion Report 2025 H2, January 2026.

Table 3 | Pakistan's options (not mutually exclusive)

OPTION	WHAT IT OFFERS	MAIN RISK
Align with a US-led stack	Licensed compute, finance, procurement support	License conditions; policy reversals
Deepen WAICO and CPEC 2.0	Training, cooperation centers, open models	Dependence; scrutiny of joint hardware
Hedge with open weights on sovereign compute	Control of data and models; multi-vendor flexibility	Needs power, skills and sustained funding

Source: SAT Research Desk analysis.

Counterarguments and Risks

1. “Fragmentation is overstated: Nvidia still sells to China, and Kazakhstan sits in both clubs.”

This is correct, but that is why the brief speaks of managed fragmentation. Interdependence has not been eliminated; it has been priced, capped and licensed. A market with a 25 percent tariff, volume caps and pre-shipment testing is not an open market.

2. “Downloads mean nothing.”

Adoption does not mean loyalty, and fully open weights can be operated locally. Diffusion nevertheless shapes ecosystems, because the derivative models, tools and skills built on a model family create path dependence over time.

3. “The US compute advantage is decisive.”

Compute is China’s binding constraint, and the HBM shortage shows it. However, efficient training methods and Beijing’s drive to localize chips have narrowed the effect of controls. Compute affects the speed of the race more than the results.

4. “Small states cannot afford to wait for pressure to arrive.”

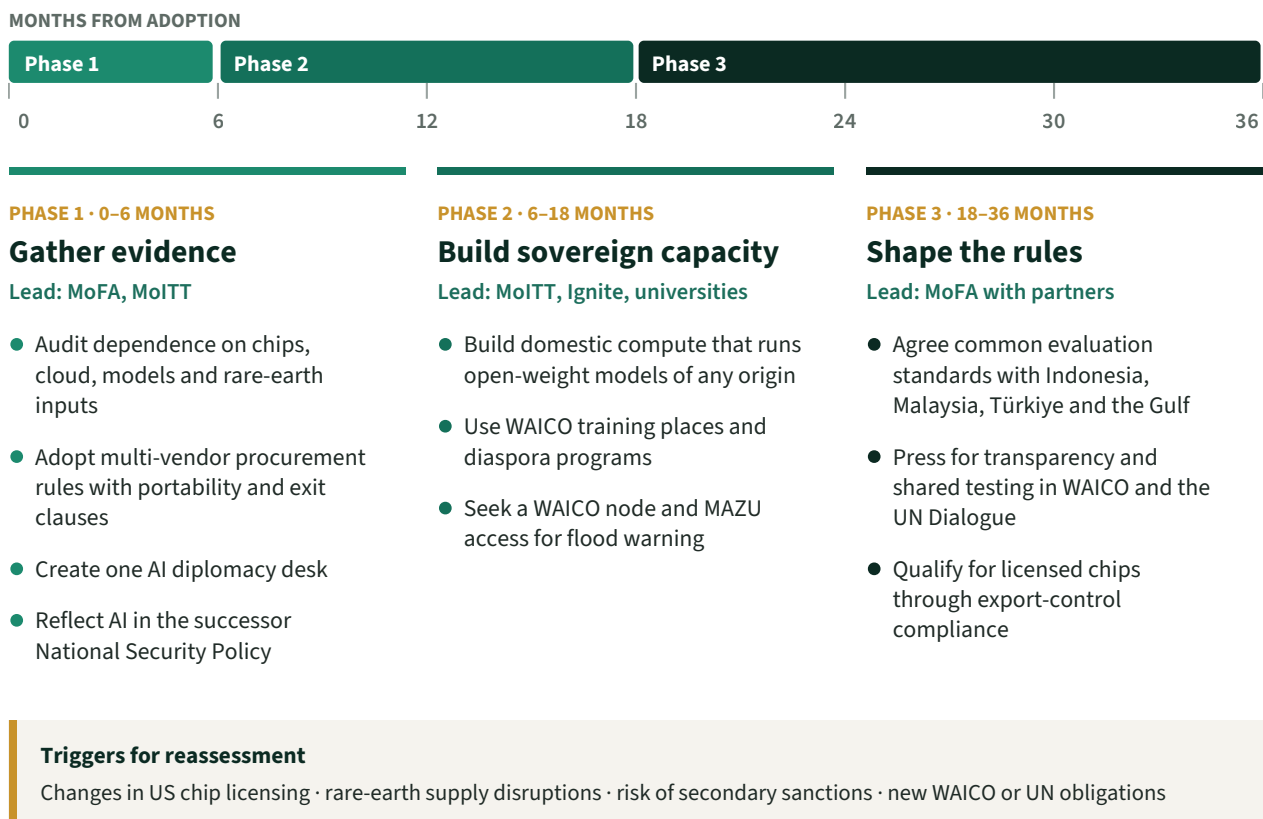
Evidence is conflicting. Kazakhstan and India show that overlapping commitments are possible, but hedging works only where a state has the capability to sustain it. Policy should therefore be built around triggers for reassessment, not assumptions of stability.

Policy Recommendations for Pakistan

Pakistan's interest lies in neither isolation nor exclusive alignment, but in a dual-access strategy that preserves openings to both stacks while building capacity that no single partner can withdraw. The sequence matters: Pakistan should build capacity and gather information before entering new commitments.

Core recommendation: Pakistan should treat the US–China AI rivalry as a strategic environment to manage, not a contest to join, building its own compute and skills, keeping access to all stacks, and using its voice in WAICO and the UN to keep the system interoperable.

Figure 11 | A phased roadmap for Pakistan



Three phases of a dual-access strategy, with triggers for reassessment.

Source: SAT Research Desk.

8.1 Make WAICO membership deliver

As a founding member, Pakistan should seek to host a WAICO regional cooperation node or a center linked to the SCO, and claim a share of the 5,000 training places for public-sector and university staff. MAZU early-warning access should be prioritized for climate and flood forecasting, where Pakistan's needs are acute.³⁰ Within WAICO, Pakistan should press for transparency and shared testing results rather than bloc certification.

8.2 Keep the US channel open

Pakistan should encourage Pakistani firms to partner with consortia under the American AI Exports Program, and build an export-control compliance framework, with end-use checks and customer verification, that makes the country eligible for licensed advanced chips. The critical-minerals partnership offers a basis for a broader technology dialogue with Washington.^{10,51}

8.3 Build sovereign, multi-vendor compute

Investment under the National AI Policy should go to domestic computing capacity that can run open-weight models from any origin, with procurement rules that require model portability, open interfaces and exit clauses. Power for data centers should be priced transparently, in line with Pakistan's commitments to the IMF.^{54,56}

Pakistan's objective should be access to every technology stack and dependence on none. Success should be measured by the options it retains, not by the club it joins.

8.4 Close the adoption gap

Raising AI use from about 10 percent of working-age adults should be a measurable goal. Pakistan should prioritize Urdu and regional-language models, AI in public services and the training of freelancers, whose earnings already exceed \$1 billion a year.^{59,60,62}

8.5 Anchor AI in the next National Security Policy

The successor to the National Security Policy 2022–2026 should include a dedicated chapter on AI and emerging technologies, treating compute, data, skills and supply-chain resilience as elements of comprehensive national security, and setting out the issue-based, non-bloc approach to technology partnerships described in this brief.^{13,53}

8.6 Shape the rules

Pakistan should coordinate with like-minded middle powers, such as Indonesia, Malaysia, Türkiye and the Gulf states, on common evaluation standards, and continue to champion capacity-building, shared compute and limits on military AI in the UN Global Dialogue and Scientific Panel. A single AI diplomacy desk, jointly run by the Ministry of Foreign Affairs (MoFA) and the Ministry of Information Technology and Telecommunication (MoITT), should coordinate offers from WAICO, Pax Silica partners and UN processes.^{44,45}

Conclusion

The race for AI is indeed a real race, but the term “race” suggests fixed rules, a single track and a winner. In fact, the picture is more complex: the leading models are close, the US holds the advantage in compute and capital, China in diffusion and deployment, and two clubs now compete for the rest of the world. Governance, the weakest layer, will decide whether this fragmentation remains managed.

This is not a cause for fatalism, but it is a reason for strategic care. Simple export bans have given way to licensing, memberships overlap, and open models cross borders freely. Only states that build capability can turn this fluid environment to their advantage. For Pakistan, the task is to preserve the freedom to make non-exclusive choices, and to back those choices with skills, compute and a consistent voice for inclusive rules.

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