

Geopolitics and artificial intelligence: a new race for global hegemony

With few developments in the economic and financial environment, besides the latest adjustments in the trade negotiations that have placed the average effective US tariff at 13.8%, the attention in the closing weeks of the year remains focused on the two major themes that will shape the economy's performance in the medium term: geopolitics and investment in artificial intelligence (AI). For Europe, given the importance of the challenges related to demography, the energy transition and competitiveness, the main challenge in the short term is geopolitics (rare earths, economic security, defence, Ukraine, etc.), followed by – and interrelated with – the need to position itself within the AI value chain.

In the geo-economic sphere, with the easing of tensions in Gaza, all attention is now focused on the diplomatic efforts to end the war in Ukraine. A ceasefire would have a slightly downward effect on energy commodity prices, at least in the short term, the intensity of which would depend on the conditions for Russia's return to the markets. The positive impact of the supply shock (and the reduction of uncertainty) on the EU economy would be limited, as Russian crude oil has not been imported since the beginning of the war and natural gas purchases have been significantly reduced in recent years. In fact, the objective is for the EU to be completely decoupled from Russian energy by 2027. Therefore, an end to the conflict would serve to offset the negative effect of US tariffs and underpin European growth in the upper range of the 1%-1.5% band, although the more important factor for medium-term activity would be the reconstruction plan for Ukraine (around 500 billion euros according to World Bank estimates) and how it is funded (currently unclear). On the monetary policy side, the short-term effects on inflation of a low-intensity supply shock would be unlikely to alter the ECB's roadmap, since price expectations seem to be firmly anchored at 2% and rates are in neutral territory, where it is easier to find harmony between the different sensitivities that exist within the Board of the European monetary authority.

However, while the transformative potential of today's geopolitics – subject to both the dictates of a transactional approach and variable geometry in international relations – is highly important, the development of AI is not far behind. As Giuliano da Empoli emphasises in his latest book (*The Hour of the Predator*), if the great dilemma which

we faced in the 20th century was the relationship between the state and the market, in the 21st century the decision is between man and machine and, in particular, which aspects of our lives we should reserve for human intelligence, versus those that should be trusted to AI. In this context, over the past year, while we have been absorbed by Hurricane Trump, we have overlooked an unprecedented acceleration in AI investment, which is emerging as the main driver of growth in the US. Investment in technology in the US – considering software, computer equipment, data centres and power generation facilities to power the entire process – will approach 1.4 trillion dollars this year (almost 5% of GDP), well above the average of 3.1% dedicated to these areas since the seventies. In addition, more than 25% of this investment has been made by the five big hyperscalers. The question is how long it will take for us to see the effects on productivity, and how intense the substitution of the labour factor for capital will be in the short term.

With all the major players accelerating their plans in the fear that the first to the finish line will take all, it is time for Europe to accelerate strategic decisions (InvestIA or Action Plan for AI) in its positioning in the value chain, taking into account its current weakness both in the first stage of the chain (hardware/semiconductors) and in terms of computational capacity. The European response should combine new investment initiatives, improved regulation and a strengthening of skills, with the aim of closing gaps with the US and reducing dependencies.

The reality is that what we are witnessing is not just a technological cycle or a possible valuation bubble, but a great mobilisation of capital in times of conflict. The rise of AI has become the modern Manhattan Project: a race in which computing replaces uranium and power grids replace enrichment plants. Therefore, and despite the financial, ethical or sustainability weaknesses of the process, we are going to witness an acceleration in the short term, since the prize at stake is not merely profits or returns, but hegemony and leadership of the world economy in the medium term. This is indeed a far cry from the dot-com bubble. The time has come to take action, while differentiating between the structural transformation that is underway and mere financial betting.

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