Artificial Intelligence and Geopolitics: Middle Powers in the Age of Algorithmic Power

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Geopolitics has traditionally revolved around the control of physical assets - oil, trade routes, and territory. In the 21st century, however, the locus of power is shifting toward incorporeal assets - data, algorithms, and digital infrastructure. Artificial Intelligence (AI) is becoming central to global strategic competition. This article warns that AI is rapidly rewriting the rules of international relations. There is a fierce, time-sensitive race to secure dominance across four critical fronts: compute infrastructure, data resources, talent and research, and governance standards – states that fail to act now risk falling irreversibly behind. Therefore, Australia and other middle powers will need to continually assess the position and trajectory of their AI ecosystems, adapt public policy accordingly, and engage in global governance initiatives to secure a competitive position within the global AI landscape. By doing so, states can help direct outcomes in an era where technological design increasingly drives economic growth and influences societal cohesion.

Compute Infrastructure

The first domain of competition is control over the layers of the digital 'stack' - the hardware, software, networks, cloud computing and data - that support the development and deployment of AI (Bria, 2025). Political economy, technological determinism and network power theory all support the proposition that states are investing in and building advanced capabilities in this stack to have influence over the digital economy's infrastructure, as seen in the United States (US) and China (Mayer, 2025; Santaniello, 2025; Dafoe, 2025).

In this context, a state's ability to maintain sovereignty over the layers of the stack is becoming increasingly important. For example, Australia's 2024 parliamentary inquiry underscored the importance of sovereign capabilities, including the control, security, and regulatory oversight of the layers of the digital stack (Commonwealth of Australia, 2024). Sovereign AI can therefore be understood as having effective control across the entire AI lifecycle, from data collection to deployment, as well as the protection of intellectual property and adherence to legal jurisdiction. Thus, middle powers in the Indo-Pacific, such as Indonesia, Malaysia, and Singapore, are pursuing sovereign cloud and AI strategies alongside cybersecurity laws and data-protection regimes to strengthen infrastructure control and local data residency, reflecting a broader trend toward digital sovereignty and reduced dependency on foreign technology providers (Lowy Institute, 2025).

Data

Data is the essential fuel for AI systems, driving their ability to learn, adapt, and generate insights. However, as data becomes more strategically valuable, global policy discussions are placing greater emphasis on how data is stored, processed, shared, and protected. The rise of cloud computing adds complexity to these discussions, as user data, derived data, and

system data are often stored across global servers, prompting governments to assess where data resides and who can access it. Measures such as Vietnam's Personal Data Protection Law, and Thailand's cloud-data classification guidelines highlight how regional middle powers are treating local data as a strategic national asset (National Assembly of Vietnam, 2025; Government of Malaysia, (n.d.); DGA, 2025).

Skills, Research, and Development

Building and sustaining substantial human capital is a critical factor for AI competitiveness, and governments play a central role in creating the conditions that enable companies to innovate and compete - by attracting top researchers, investing in education, and fostering local innovation ecosystems. This dynamic has given rise to global 'talent wars', prompting the creation of robust AI R&D pipelines (Cuofano, 2025). Australia's strengths include a strong research base underpinned by world-leading institutions, which play a key role in innovation and technology commercialisation (National Artificial Intelligence Centre, 2025).

However, Australia faces challenges, including the underdevelopment of its domestic semiconductor manufacturing infrastructure (Australian Strategic Policy Institute, 2022). By comparison, middle power South Korea has achieved significant success, commanding around 60% of the global memory-semiconductor market, supported by strong government-industry collaboration and sustained research investment (Invest Korea, 2024). Taiwan has also established itself as a global leader in this field. As of 2025, Taiwanese companies, led by TSMC (Taiwan Semiconductor Manufacturing Co., Ltd.), account for approximately 64% of global contract chip manufacturing and over 90% of the world's most advanced semiconductors used in smartphones and high-performance computing (Najafi, 2025; Davidson, 2024). TSMC's and South Korea's successes both stem from long-term investment in R&D and a relentless focus on manufacturing efficiency.

Governance

Another critical domain of competition involves shaping the rules that govern AI. This includes technical standards, ethical guidelines, and regulations, which are forms of structural power (Strange, 1988). From this perspective, states that shape AI standards, whether unilaterally in the case of great powers, or collectively through coalitions and intergovernmental organisations for middle and small powers, can set global norms and incentives, embedding their preferred forms of governance within the global system.

International efforts to regulate AI vary widely. The EU's AI Act applies a risk-based approach to safeguarding privacy and preventing discrimination in the deployment of AI systems (European Commission, 2025). In contrast, China's recent amendments to its cybersecurity law, set to take effect in 2026, integrate AI governance into national security law to strengthen oversight (DLA Piper, 2025). Meanwhile, approaches such as Singapore's Model AI Governance Framework advocate for responsible deployment through voluntary guidance (OECD, 2025).

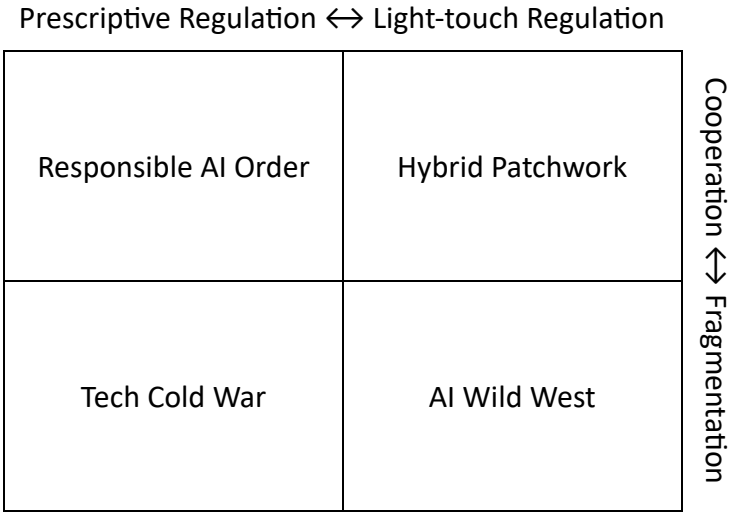
Institutional oversight is also evolving. International bodies, such as the OECD's AI Policy Observatory, coordinate global governance by sharing best practices and insights. However,

regulatory fragmentation and trust deficits remain significant - for example, a recent global study found that although 66% of people use AI regularly, only 46% have trust in AI systems (Gillespie, 2025).

Presently, there are four potential future scenarios envisioned for global AI governance:

- Responsible AI Order: where multilateral frameworks, ethical standards, and shared oversight are paramount;
- Hybrid Patchwork: where there is some coordination but with uneven enforcement across sectors, as states collaborate through international organisations to shape standards;
- Tech Cold War: where tight controls and regional blocs define AI as a geopolitical tool; and
- AI Wild West: where rapid innovation by private companies outpaces public policy, creating high risks of misuse.

Figure 1 – Global AI Governance Scenarios



These scenarios, as illustrated in Figure 1, reflect the tension between cooperation and fragmentation, as well as between prescriptive and light-touch regulatory approaches. Hence, the path ahead depends on whether states prioritise shared values or strategic competition.

If states emphasise shared values such as safety, transparency, human rights, and global public goods, then incentives would align toward building interoperable norms and cooperative risk-mitigation mechanisms. This can foster predictable rule-making and create channels for crisis communication when AI systems introduce cross-border harms. Conversely, if strategic competition dominates, states are more likely to view AI as a source of national power, economic advantage, and security leverage. In this environment, long-term planning on issues such as AI ethics, accountability, and resilience becomes increasingly difficult, resulting in parallel but disconnected policy trajectories that heighten systemic risks, weaken collective response capacities, and create enduring gaps in global oversight.

Australia's Strategic Position

Consequently, middle powers occupy a unique position in the global AI landscape. Australia benefits from rules-based institutions, a world-leading research base, and proximity to key markets in the Indo-Pacific. However, it also faces vulnerabilities, including geopolitical pressures to conform to a US or China-led AI future (KPMG, 2025). Australia thus has an opportunity to strategically navigate alignment pressures by collaborating with other middle powers and prioritising responsible AI development. To maintain and improve its relative position within and have influence over the AI race, Australia could accelerate engagement with Indo-Pacific partners actively shaping regional AI governance and help lead efforts to establish a regional AI governance forum to share best practices, build capacity, and promote ethical guardrails and accountable AI frameworks.

Public Policy Implications

Australia presently regulates AI through a decentralised approach, with responsibilities distributed across various government bodies and sectoral regulators, reflecting AI's impact on areas such as safety, competition, and consumer protection. Each authority applies its own mandate, regulatory culture, and enforcement toolkit. However, in the absence of a unifying mechanism, Australia risks developing a patchwork of AI rules and standards - mirroring the fragmented and reactive approach that has characterised cyberspace regulation (Vaile, 2013).

Compounding this challenge is the growing geopolitical importance of AI. As the great powers pursue divergent regulatory approaches and compete to set technological standards, Australia faces pressure to develop a coherent, outward-facing governance framework. Thus, developing unified AI regulation is not just a domestic policy challenge - it is a critical geopolitical imperative.

Conclusion

AI has become a central pillar of geopolitical strategy. States are competing across multiple domains to define the future of AI, with implications for global power, economic leadership, and national security. Australia, like many other states, must navigate this complex landscape with strategic foresight and effective coordination, striking a balance between the drive for technological advancement and the need for responsible governance. To safeguard its interests and remain competitive, Australia should adopt a comprehensive national AI strategy that fosters innovation, strengthens sovereign capabilities, promotes ethical governance while actively shaping regional norms.

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