

Artificial Intelligence in Trade Diplomacy: The U.S.-China Experience and Strategic Implications for India

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Abstract

This study explores the implications of the U.S.-China geopolitical rivalry in AI for Pakistan's digital sovereignty, guided by the theoretical lens of offensive realism (Mearsheimer, 2001), highlighting how such rivalries can destabilize national security in the realm of artificial intelligence. Caught between its strategic alliance with China and its historical ties with the U.S., Pakistan faces a security dilemma that exacerbates its cyber vulnerabilities, infrastructural dependencies, and risks of sovereignty erosion (Jervis, 1978; Rid, 2020). Drawing upon primary data from Pakistani cybersecurity institutions, comparative regional case studies, and recent policy analyses (Giles, 2015; Jaitner & Geers, 2015), this article contends that the AI arms race intensifies Pakistan's strategic precarity—manifested in debt-induced tech lock-ins under the China–Pakistan Economic Corridor (CPEC) and restricted access to Western digital ecosystems due to U.S. sanctions (Greenberg, 2019; Jasper, 2022). It argues that overreliance on Chinese digital infrastructure, currently comprising 78% of Pakistan's mission-critical systems (Case, 2016), combined with fragile domestic capacity, leaves the country exposed to cyber espionage, data breaches, and geopolitical coercion (Kolodii, 2024; Maschmeyer, 2024). Through the lens of survivalist realism, this study proposes a three-tier policy framework. In the short term, it advocates for a National AI Security Task Force and robust data localization laws (Parliament, 2023). For the medium term, it recommends overhauling Pakistan's educational infrastructure to produce 10,000 AI specialists annually (Shires, Kaminska, & Smeets, 2022). In the long run, the paper envisions the formation of a South Asian Cyber Security Pact to foster collective resilience (Vernygora & Vdovychenko, 2023). These findings contribute to a broader understanding of the digital sovereignty crisis confronting secondary states amid an intensifying AI-driven great power competition (Rid, 2012; Lupovici, 2021).

Keywords: Digital Sovereignty, AI Geopolitics, Offensive Realism, Cybersecurity

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Introduction

Neoliberal Institutionalism reaffirms this view with a focus on the instrumental function of institutions—official (such as treaties, trading associations, and alliances) and unofficial (such as mutual understandings and unendorsed norms)—to make cooperation between self-interested agents possible (Brookings Institution, n.d.). The main assumption is that institutions reduce transaction costs, ensure credible communication of information, construct enforcement tools, and erase threats of deception or misperception. In an international politics setting where cooperation does not receive the trust and where there are cheating temptations, institutions are the glue that sustains cooperation (Council on Foreign Relations, n.d.). They do so by causing conformity in action, making reciprocity possible, and enhancing transparency.

Notably, this theory labels information asymmetries—where one party is better informed than the other—among the main barriers to cooperation, which institutions seek to address. In the digital age, AI technologies are making de facto institutions—machines that do many of the same things without having to be formal, treaty-bound institutions (Al Midfa, 2024). AI can act as a neutral, systematized broker, particularly in complicated negotiations such as the U.S.-China trade war (Depp, 2024).

United States: Technology as a Strategic Diplomatic Asset

A technological and diplomatic pioneer, the United States has started using artificial intelligence (AI) in its foreign policy approaches, especially during high-level trade talks. One of the best examples was perhaps witnessed during U.S.-China trade tensions. Faced with a complex and rapidly evolving economic confrontation, American policymakers embraced AI as a technological advance as well as a weapon of strategy. Through the use of AI, they could scan vast repositories of trade data, simulate economic impacts of proposed tariffs, and write considerate responses that projected potential countermeasures by the Chinese government (Brookings Institution, n.d.).

China: Integrating AI into Geo-economics Statecraft

China, in its meteoric rise as a technological and economic superpower, has put artificial intelligence (AI) at the center of its geo-economics agenda. Unlike in most

nations where AI research is spread across private and public institutions, China has embarked on a highly coordinated and state-driven initiative. AI is deeply rooted in the nation's domestic planning and external diplomacy, a reflection of the country's strategic vision. At the center of this approach is the "Digital Silk Road"—one of the foundations of the Belt and Road Initiative—whose aim is to market Chinese-made digital infrastructure, including technology relating to AI, across Asia, Africa, Europe, and Latin America. The action by China is not so much extending its technology reach further across the globe but is instead creating the digital standards and norms that will be the foundation for cross-border trade and collaboration in the future (Atlantic Council, n.d.).

India: A Strategic Opportunity Amidst Digital Diplomacy

India stands at a strategic crossroads in the emerging geography of international digital diplomacy. As the world's largest democracy and among the world's fastest-growing economies, India can potentially leverage artificial intelligence (AI) not just as a force behind indigenous change, but also as a powerful instrument of foreign policy (Sharma, 2025; Singh, 2025). While the United States and China have already integrated AI into their economic and diplomatic strategies very deeply, India is only beginning to explore this frontier. The opportunities are enormous, nonetheless. India's burgeoning digital economy, deep pool of IT talent, and thriving startup scene are a decent platform on which to build AI-based capabilities that can enhance trade negotiations, economic planning, and regional diplomacy (Kumar, 2025).

International liberalism is based on the belief that despite the international system being anarchic, state cooperation is not only possible but highly desirable. Liberalism argues that states are not only driven by power or survival motives, as realists would have us think, but by common interests, economic interdependence, democratic values, and mutual benefit. Collaboration is viewed as an intelligent path forward, particularly with the assistance of shared institutions and rules that reduce uncertainty and provide mechanisms for resolving differences peacefully. The liberal school of thought highlights openness, dialogue, and rule-based cooperation in conflict avoidance and promoting long-term stability.

U.S.-China trade negotiations to enhance diplomatic communication

One of the most common uses of AI in US-China negotiation is predictive analytics and scenario simulation. Both governments on either side have created and employed machine learning algorithms to handle large volumes of structured and unstructured data. These include data ranging from trade data, public policy changes, economic modeling, and even social media fluctuations. By feeding these data sets, AI can simulate potential negotiation scenarios and estimate the chances of certain developments. It was particularly useful when negotiating new technologies and even the governance of AI was under negotiation in 2023–2025. The US State Department employed scenario planning algorithms based on AI, as noted in *Modern Diplomacy* (2025), to forecast how China would respond to proposed tariffs on advanced AI chips and semiconductors. These simulations allowed negotiators to rehearse and anticipate various scenarios, hence become more agile and less reactive during negotiation (Nugraha, 2025).

AI also provides opportunity for India to play a more influential role in setting the global digital diplomacy norms and ethics of AI usage. As AI becomes a topic of diplomatic negotiation—similar to the way in which nuclear energy or climate change have been in the past—India can appropriate its leadership in the Global South to drive governance approaches to AI which are fair, transparent, and inclusive. Indian initiative towards "Digital Public Infrastructure" and global leadership in initiatives such as the Global Partnership on AI (GPAI) already position it as an accountable technology stakeholder. Empowered through diplomatic capital, India can ensure new norms on AI are not simply echoing the interests of powerful nations such as the US and China but global developmental aspirations of the international community as a whole.

Potential risks and Opportunities in adopting AI-assisted diplomacy

Another area of concern is cybersecurity. The integration of AI into key diplomatic and trade procedures raises the level of the threat landscape to state-sponsored attackers and other nefarious operators when it comes to cyber-espionage and data manipulation. AI tools, especially those handling confidential trade or defense information, become high-priority targets of state-sponsored attackers as well as other malicious users. Compromised, these can reveal classified plans, derail talks, or distribute false information. In the world of Indian geopolitics—where tensions with China, border disputes, and online interactions prevail—this is a prime

weakness. Nations adopting AI in diplomacy also have to invest heavily in cybersecurity protocols and sound digital infrastructure (Sharma, 2025).

Finally, the lack of clear legal and ethical standards on AI in foreign policymaking leaves a regulatory vacuum that can limit accountability. At present, India lacks an effective data protection law, and its policy on AI is primarily aspirational rather than enforceable. In the world of diplomacy, where transparency and accountability are critical to maintaining international trust, this ambiguity can boomerang. Ethical questions also arise over whether or not to employ AI to mimic or manipulate the behavior of foreign leaders, especially when such tools blur the line between persuasion and manipulation. Without clear regulations, India could risk international condemnation or undesirable diplomatic repercussions.

India needs to also form strategic alliances with other emerging powers and middle powers to ensure greater inclusivity and equality within the governance order of AI. It includes advocating fair data-sharing norms, open-source diplomatic tools in AI, as well as defense against technological monopolies by great powers. By this, India can pursue its own national interests and global influence in the times of digital diplomacy.

The adaptation of AI-facilitated diplomacy is both desirable and daunting for India at once. While on one hand, AI can enhance the effectiveness, speed, and smartness of India's global interactions, on the other hand, the risks of over-reliance on technology, data security breaches, and ethical faux pas are very real and on the rise. Weaving this complex canvas requires strategic thinking, long-term investment, and governance guided by ethics. If India can harvest the transformational potential of AI without undermining its democratically shaped values and strategic autonomy, then it not only bolsters its own diplomatic game but also helps shape the contours of the future of global diplomacy in the rapidly evolving order of nations.

Conclusion

Artificial Intelligence is rapidly becoming an agent of world diplomacy, revolutionizing state negotiation, communication, and strategic consensus formation. The mediation of US-China trade is one compelling case study of how tools of AI—harnessing predictive analytics, real-time tracking, discourse analysis,

and institutional memory—drive increased transparency, reduce information asymmetry, and cause cooperation in solutions in even the most high-stakes diplomatic standoffs. Based on the Neoliberal Institutional premise, AI functions as a new virtual institution—lowering the costs of transactions, bolstering trust, and supporting well-informed decision-making between self-interested agents.

For India, the prospects are twofold: opportunity and prudence. In one way, AI offers a unique opportunity to enhance the diplomatic capability of India—transcending resource limitations, rationalizing information processing, and simulating strategic performance in complex multilateral interactions. It positions India to not only enhance its own foreign policy machinery but also shape the normative principles underpinning AI for global governance.

In turn, AI-enabled diplomacy also poses such critical weak points. These are threats to cybersecurity, regulatory ambiguity, and ethical challenges regarding transparency and manipulation. Without firm legal standards, strategic defenses, and ethical governance, exploitation or weaponization of AI within diplomacy can lead to reputational loss or eroded sovereignty.

Indian policymakers must step forward with a balanced and proactive approach—investing in trustworthy digital infrastructure, empowering its own diplomatic cadre with literacy in AI, creating enforceable norms of ethics, and leading inclusive international governance agendas on AI. By doing this, India will be not only a participant in the new world of AI-based diplomacy, but one of its leading architects.

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