



Regulating the AI Revolution: What Investors Need to Know



Competition with China and consumer safety are key themes.

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The disruptive potential of generative artificial intelligence, or AI that can create new content, has captivated the public, markets, and corporate executives. It also figures prominently among the technology issues on the minds of Washington policymakers.

So far, much of the emphasis has been on strategic competition with China. Domestic AI policies, on the other hand, are still taking shape, with an initial focus on security and consumer safety.

Here is what investors need to know about the U.S. policy response on these two fronts.

Strategic Competition With China

Congress increasingly views technology leadership, including advanced AI, as critical to national security and U.S. economic competitiveness with China.

The proof has been in the policy.

The U.S. first went its own way in restricting exports of advanced semiconductors and chipmaking equipment to China. These technologies are critical to deep learning models and next-generation AI. The U.S. then persuaded Japan and the Netherlands to join the effort.



Gil Fortgang

Washington Associate Analyst
U.S. Equity Division

Chips developed to skirt these rules may prompt the U.S. to update its existing limits on semiconductor exports. Similar restrictions could be extended to other AI-enabling technologies. Developments on this front bear watching.

More recently, the Treasury Department, in conjunction with an executive order from President Joe Biden, proposed prohibiting certain U.S. investments in China's AI, chipmaking, and quantum computing industries.

The goal appears not so much to stem access to capital but, rather, to prevent the transfer of "intangible benefits," especially the technical and managerial expertise that may accompany these investments.

Responses to U.S. efforts to maintain its edge in key technologies could cause further disruption

Congress increasingly views technology leadership, including advanced AI, as critical to national security and U.S. economic competitiveness with China.

“The gradual decoupling of U.S. and China technology sectors appears likely to continue....”

and uncertainty. China’s recently announced restrictions on exports of gallium and germanium—metals used in semiconductors and telecommunications equipment—underscore this point.

Bottom Line: The gradual decoupling of U.S. and China technology sectors appears likely to continue, in our view. That could create uncertainty and headline risk for companies involved in chipmaking and other next-generation technologies related to AI.

Domestic Regulation of AI

So far, regulatory developments in the U.S. have involved little that would hamper AI adoption and innovation significantly, in our view—at least anytime soon.

The Biden administration in July secured agreements from seven prominent AI developers to follow a broad set of principles. These voluntary commitments include:

- Model testing and security,
- Creating markers that identify AI-generated content, and
- Publicly disclosing a model’s capabilities and limitations.

None of these measures appears overly burdensome. However, the agreement suggests that safety, security, and transparency are emerging as key themes for AI regulation in the U.S.

What could be coming down the pike?

This fall, the Senate will host a series of expert panels on these themes and other thorny issues related to AI, including copyright, privacy, and potential job losses.

The complexity of these issues and congressional gridlock should make

meaningful legislation of AI an uphill battle in the near to medium term. However, these policy discussions may set the agenda for the federal agencies that are likely to devise and implement rules governing the use of advanced AI in the areas that they oversee.

Some agencies are already starting to respond. The Federal Trade Commission (FTC), for example, is exploring rules to limit data tracking and prevent discriminatory practices from being embedded into algorithms. The agency has also launched an investigation into whether a popular generative AI platform has harmed individuals by producing false or misleading information about them.

The Department of Defense, while not a technology regulator, is also an important stakeholder in the AI policy debate, given the focus on national security.

We’ll keep an eye out for comments from agency leaders and rulemaking proposals to get a sense of what might be coming and to gauge how the territorial battle among regulators may shake out.

What We’re Watching Next

The AI revolution is in its early stages. So is the regulatory response.

The principles guiding the U.S. approach to China’s efforts in AI and enabling technologies are better understood at this juncture, even if the tensions between these two powers create uncertainty.

Domestic policy, on the other hand, is still taking shape. We will be paying close attention to how the situation evolves as well as its implications for Big Tech and other companies developing and deploying generative AI.

“...safety, security, and transparency are emerging as key themes for AI regulation in the U.S.”

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