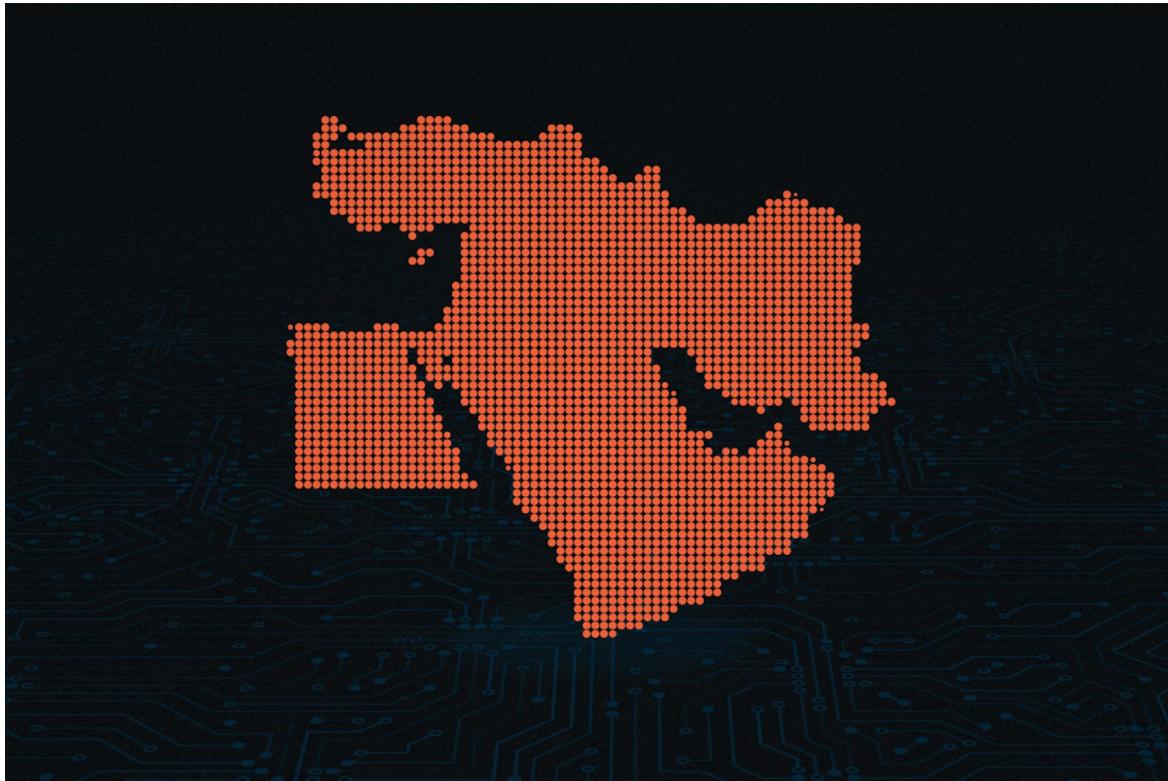


Navigating the US-China AI Race in the Gulf

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Takeaways

- The US strategy to arrest China's AI development may have spillover effects in the Persian Gulf.
- The latest Commerce Department rules appear to deny export licenses for Nvidia and AMD chips to Saudi Arabia and the UAE. These chips are specialized for large language model development used for AI.
- Still, the US and its Gulf partners have experienced occasionally working at cross-purposes without affecting continued security cooperation.
- Nevertheless, maintaining these ties is a delicate balancing act for all parties, and this will require careful diplomacy for the US to avoid incentivizing Gulf states to join China's diplomatic orbit.

The US and Gulf nations find themselves in another complex and fragile diplomatic reality that demands the balancing of domestic economic growth interests, great power posturing, critical strategic partnerships, and ever-advancing

dual-use technologies. This time, it is about chips, as the US-China Tech Cold War has spilled over into other subregions worldwide.

Here's what's happening: The Commerce Department recently expanded ¹ its license requirements for exporting AI chips – even outside China. This underscores the profound repercussions of the current technological landscape.

The US and China remain embroiled in a far-reaching technological rivalry, and both nations have taken measures to safeguard their critical technology resources. China has imposed ² strict export controls on essential metals vital for semiconductor manufacturing. Meanwhile, the US, with its dominant semiconductor industry, plays a central role in shaping the global race toward advancing artificial intelligence (AI). To this end, Washington aims to restrict China and Russia's access to AI-training chips to undermine their strategic AI efforts. And now this is taking place in the Middle East where China is trying to make inroads and America, at least when it comes to chips, is aiming to put up a stop sign.

The US Department of Commerce made it clear that it hasn't imposed a complete ban on chip sales to the Middle East. Instead, it has extended the requirements for export licenses for AMD's MI300 chips and Nvidia's A100 and H100 chips, which are renowned for their efficient performance in machine learning and the development of large language models. AI training chips, or AI accelerators, are specialized hardware for training neural networks and differ fundamentally from the prosaic central processing units (CPUs) and the graphics processing units (GPUs) found in consumer computers and video game consoles. They excel at parallel processing and handle multiple calculations simultaneously, speeding up neural network training. Furthermore, AI accelerators optimize memory access, reduce data retrieval times, and prioritize high throughput and energy efficiency.

The restriction on access to AI training chips is designed to hinder Chinese and Russian companies and government organizations from conducting advanced dual-use computing tasks, which span from consumer to military applications such as image and speech recognition and analyzing satellite images. These AI chips now face more stringent export licensing conditions that extend beyond just China, demonstrating a strategic move by the US to enhance its export control measures. The primary goal is to prevent any potential exploitation of gaps in these controls, which could undermine the broader U.S. technology containment strategy.³

Saudi Arabia and the UAE, two Gulf partners to the US, have dedicated vast resources to their economic and technological transformation, benefiting from their financial clout and their flexible geopolitical position by maintaining security ties to Washington and, more importantly, building extensive economic and technological ties to Beijing and broader Asia. The Commerce Department's export rules, intended to thwart China, may also cut off Saudi Arabia and the UAE and set back their government-led development of AI.⁴ The Commerce Department is neither acknowledging this restriction nor denying it.

Could these possible new restrictions have a significant impact on bilateral relations between the US and Gulf states? Possibly, but remember that Washington plays a major role as the primary security provider for the Gulf region. This is evident from the recent Bahrain⁵ security agreement and the ongoing discussions regarding a security arrangement with Saudi Arabia⁶ in exchange for Riyadh's normalization with Israel.

The US has already normalized the idea that its security agreements with Gulf states are not contingent on and do not imply full political alignment on all issues. From OPEC+ to becoming members of BRICS+,⁷ it is clear that the Gulf states likewise pursue *their* own diplomatic and economic interests, independently of the US's preferences. While the parties never express this explicitly, this flexibility is reciprocal and mutually respected.

While concerns and considerations persist, Gulf states are acutely aware of the necessity for a delicate balancing act⁸ in their relationships with various global powers. This is especially pertinent in an international landscape that increasingly resembles a cold war between the US and China, particularly in the technology realm. As the Gulf states

redouble their efforts in digital transformation, Abu Dhabi and Riyadh will persist in engaging with the US and other global actors – chief among them China – to propel their technological agendas.

Although the US, Saudi Arabia, and the UAE recognize that alignment on every issue is not a precondition for maintaining constructive relations, there is a mutual drive to iron out any problems or disputes that could escalate into major diplomatic challenges. As mentioned above, digital transformation is considered a cornerstone of both countries' highly prioritized economic development strategies, and any US effort to impose stricter export controls on AI chips, without extensive communications with Abu Dhabi and Riyadh explaining the US rationale, may create the impression of the US deliberately impeding Saudi and Emirati national growth potential.

Without careful diplomacy, the situation could deteriorate, and Gulf nations could seek partial technological decoupling from the US if they believe American officials are committed to denying them advanced chips in the long run.

TOPICS

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ENDNOTES

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