AI, Economic Security and Strategic Negotiation

Game Theory and Public Policy for a Multipolar World

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The opening puzzle: Who captures the gains from AI?

- **Suppose AI dramatically increases productivity across Saudi Arabia.**
- Will workers necessarily earn higher wages?
- Will Saudi businesses capture more profits?
- Will the Kingdom retain the value created?
- Creating value is not the same as capturing it.

Three transformations reshaping our world

- **Artificial intelligence**: knowledge, skills, productivity and capabilities
- **Geopolitical fragmentation**: trade, technology, investment and cooperation
- **Economic security**: resilience, strategic autonomy and public policy

- **The challenge**: create prosperity while anticipating others' responses

AI is changing the economics of knowledge

- AI changes how knowledge is created, accessed and transferred.
- Some expertise becomes more accessible; other capabilities become more valuable.
- Codifiable versus tacit knowledge matters.
- Implications for skills, education, firms and public policy

- **Saudi question**: which domestic AI and human-capital capabilities should be built?

Value creation ≠ value capture

- AI can expand the economic pie; but who gets which slice?
- Higher productivity does not automatically determine wages or profits.
- Outside options and bargaining power influence the distribution of gains.
- AI may strengthen some actors' alternatives while weakening others'.
- Technology changes what we can produce, and what we can negotiate.

Economic security in a multipolar world

- Trade and investment create gains, and strategic dependencies.
- Technology, supply chains and resources can become sources of leverage.
- Countries seek resilience, diversification and strategic autonomy.
- Too much fragmentation can undermine prosperity.
- How can countries strengthen security while preserving cooperation?

Game theory: Thinking strategically

- Governments, firms and investors respond to one another.
- Incentives, credibility, commitment, information and reputation matter.
- Conventional question: What is the best policy?
- Strategic question: What is the best policy, given how others will respond?
- Good policy anticipates strategic reactions.

An interactive Saudi negotiation challenge

- **Hypothetical**: Saudi Arabia negotiates a major AI investment with a global technology company.
- Saudi priorities: investment, knowledge transfer, skills and long-term value.
- Company priorities: commercial returns, market access and IP protection.

- **What most strengthens Saudi Arabia's position**?:

A. Financial incentives

B. Credible alternative partners

C. Local capability commitments

D. Credible willingness to walk away

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Saudi Arabia, Vision 2030 and strategic advantage

- **Economic diversification**: new capabilities and competitive advantage
- **AI and human capital**: skills complementary to technological change
- **Investment:** attracting capital while building domestic value capture
- **Economic security**: resilience without retreat from global markets
- **Partnerships:** credibility, alternatives and negotiating capability

Three takeaways, and what comes next

- **AI** changes capabilities, outside options and bargaining power.
- **Economic security** requires managing interdependence, not simply ending it.
- **Game theory** helps us anticipate responses and make better decisions.

Selected Further Reading

AI, productivity and the economics of knowledge

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Game theory, bargaining power and strategic negotiation

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5. Schelling, T. C. (1960). The Strategy of Conflict. Harvard University Press. *A classic analysis of strategic interdependence, credible commitments and bargaining.*

Economic security and geopolitics

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7. Rodrik, D. (2011). The Globalization Paradox: Democracy and the Future of the World Economy. W. W. Norton. *The tensions between global economic integration, national policy autonomy and domestic priorities.*

Saudi Arabia and Vision 2030

8. Kingdom of Saudi Arabia. Saudi Vision 2030 Annual Report 2024. *Economic diversification, investment, human capital development and national transformation*

Thank you.

Any questions or thoughts or suggestions, please free to email me:

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