

FORTRESS AMERICA AND THE FUTURE OF THE GLOBAL TECH STACK

*Policy drivers, emerging risks, and company
strategies for a new era of technology statecraft*

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Contents

Introduction	3
From “small yard, high fence” to Fortress America	5
The US technology statecraft toolkit	8
Trade weaponization	11
AI dominance and diffusion	14
De-risking for strategic autonomy	16
Defense tech revolution	17
Contingency planning for companies	18
Scanning the geotech horizon	19



Introduction

The technology sector is on the front line of the biggest geopolitical shift in generations. The idea of an interconnected world where multinational companies and consumers participate in a global tech stack is under pressure as the Trump administration attempts to rewire decades of established trade and security arrangements. As the “rules-based international order” gives way to a new order defined by national sovereignty and geopolitical power blocs, the tech sector will change with it.

This paper explains how the tools of technology statecraft have evolved over successive US administrations, and how they may be applied and expanded by a new US administration intent on disrupting the global order. It also provides a framework for multinational companies’ strategic options in this new and uncertain environment.

Over the past two decades, a global technology boom driven primarily by US and Chinese companies has revolutionized the way billions of people live, work, and communicate. At the same time, the entire technology stack has become politicized. Governments increasingly see leadership in semiconductors, artificial intelligence, high-performance computing, cloud services, the internet of things (IoT), data analytics, and other technologies as vital for their economic and national security interests. As a result, they are increasingly engaging in “technology statecraft,” applying levers of national power to the technology sector in pursuit of domestic and foreign policy objectives.

Eager to maintain its technology advantages in a world where lines between economic and national security have become increasingly blurred, the US government under multiple administrations has expanded and refined its technology statecraft toolkit, primarily focused

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on geopolitical competition with China. A key driver of this shift is a concern that China's growing technological capabilities and influence in the global marketplace could erode American economic and military advantages.

To address this concern, the first Trump administration and the Biden administration sought to de-risk technology supply chains. They retooled and expanded export controls, investment screening frameworks, and other policy tools, some of which were originally created for the Cold War confrontation with the Soviet Union, for a new age of technology competition. They also created new policy levers to control the flow of cutting-edge digital technologies, data, and capital to China and other "adversary" countries.

In applying these tools, policymakers in Washington accepted some decoupling between the US and China in critical technologies, while seeking to avoid major disruptions to trade flows. While this created challenges for some businesses that had come to rely on the Chinese market as a source of revenue growth, it was seen as a needed step to bolster US competitive advantages, including in the military domain, and also to reduce the risk communications networks and other critical infrastructure could be subject to cyber-espionage or sabotage.

“ As the US increasingly uses a hard-power strategy to pursue a new vision of its role in the world, and as key trading partners respond, the ripple effects will affect entire value chains, from critical minerals and other raw material inputs to cloud services, and the AI applications that run on top of them. ”

The rapid upending of global trade and security relationships by the Trump administration, which gathered pace in April 2025, threatens to accelerate the fragmentation of the global tech stack. The Biden administration sought to limit restrictive technology measures to a relatively small sub-set of technologies, while strengthening US alliances and partnerships. The second Trump administration is attempting to fundamentally rewire the rules of governance, both within the US and abroad. To do this, it has adopted a hard-power strategy, threatening steep tariffs on allies and adversaries alike, while also forcing a fundamental re-think of longstanding US security guarantees.

While the Trump administration's actions to date suggest it is taking a maximalist approach, implementation of its agenda has been uneven and subject to reversal, reflecting a hurried policy process, a potential lack of consensus on policy goals, and a predilection for seeking leverage to engage in dealmaking. Mass layoffs pursued by the new Department of Government Efficiency (DOGE) have also reduced capacity inside US government agencies, such as the Department of Commerce and the Office of the US Trade Representative (USTR), that play a key role in providing critical information and managing implementation of US technology statecraft priorities.

As the US increasingly uses a hard-power strategy to pursue a new vision of its role in the world, and as key trading partners respond, the ripple effects will affect entire value chains, from critical minerals and other raw material inputs to cloud services, and the AI applications that run on top of them. In this new environment, business leaders will face difficult choices about where and how to invest to maximize long-term growth and shareholder value.

In this paper, we examine how technology statecraft is likely to evolve in this new and uncertain geopolitical era and outline a framework for how business leaders can respond.

From “small yard, high fence” to Fortress America

Jake Sullivan, who served as National Security Advisor under President Biden, used the metaphor of a “small yard, high fence” to describe the US’s technology statecraft strategy during the previous administration. To prevent US-origin technologies from being used to support China’s military modernization and to extend America’s competitive advantages in fields like semiconductors and AI, the US imposed new restrictions on a small number of “foundational” technologies.

The October 7th, 2022 semiconductor export control package was an example of this doctrine in action. The controls sought to stop China from gaining access to US-origin technology important for advancing cutting-edge chip capabilities by restricting shipments of semiconductors above a set performance threshold. The policy abandoned an informal goal of keeping the US one or two generations ahead of China in semiconductor technology. Instead, it sought to establish an absolute ceiling on China’s capabilities.

Although this represented a major shift in US policy, by putting tough controls (high fence) on a small sub-set of the most advanced chips (small yard), the Biden administration hoped to further its national security objectives while minimizing disruptions for global businesses and supply chains.

In reality, the size of the yard grew steadily and the fences erected by US policymakers proved less effective than initially thought. The Biden administration had to expand and refine its restrictions as Chinese companies found ways around the US tech controls. Suppliers of controlled technologies also launched new products that enabled Chinese companies to continue to innovate while complying with the revised rules.



By early 2025, the Biden administration had enacted two further rounds of semiconductor export controls to close off loopholes and workarounds. It also developed a new “Export Control Framework for AI Diffusion,” establishing a global licensing requirement for exports of advanced semiconductors and powerful closed-weight AI models. This was another significant escalation of US technology statecraft, designed in part to address concerns that Chinese companies pursuing frontier AI might gain access to diverted shipments of powerful chips or rent access to powerful overseas computing clusters in other countries.

Since Donald Trump began his second term in office in January 2025, the Biden administration’s “small yard, high fence” strategy has been replaced by

a new doctrine that some Washington observers describe as Fortress America (see box).

A core component of the Trump administration's Fortress America strategy is creating a North American sphere of influence stretching from Canada and Greenland to the Panama Canal Zone. Goals include securing new sources for energy and critical minerals, while reducing imports and expanding domestic manufacturing. This includes pursuing a security-driven approach to foreign policy, focused on a) expanding foreign direct investment in the US; b) loosening regulatory restrictions on US businesses; c) using tariffs as a means of obtaining security and trade concessions; and d) reimagining fiscal support for US technology capabilities.

The Trump administration's approach reflects a deep securitization of economics, whereby trade, investment, and technology policy is driven primarily by national security objectives, and where lines between economic and more traditional national security issues are blurred or non-existent. While some of the foundational ideas of previous administrations on US-China tech competition are likely to remain in place, such as the focus on semiconductors, AI, and quantum technologies, and security risks from connected devices, the second Trump administration's early

moves suggest it is likely to pursue a maximalist approach to technology statecraft.

Aggressive use of tariffs is a critical part of this strategy. The Trump administration wants to promote reindustrialization and greater self-sufficiency within a Western Hemisphere sphere of influence. This includes using tariffs as leverage to promote re-shoring of manufacturing and other investments in industries that it views as necessary for building a prosperous, technology-based economy.

“ Companies whose businesses developed during an era of increasing interconnectedness and globalization of manufacturing are highly exposed to the shift towards Fortress America. ”

Beyond tariffs, the Trump administration will likely look for ways to gain additional leverage from existing technology statecraft tools. This will include an attempt to close loopholes and reduce exceptions to export controls and other restrictive technology policies. It will also likely create new policy levers to promote US technology "dominance" in fields such as defense tech and artificial intelligence.

FORTRESS AMERICA

Fortress America refers to a policy approach where the US emphasizes national sovereignty and economic self-interest above international cooperation. Key tenets of Fortress America include a focus on economic protectionism; restrictive immigration practices to protect American workers and culture; military self-reliance, focused on defending US territory over maintaining a global presence; and reduced international commitments, including a skeptical approach to agreements, alliances, and organizations not regarded as directly benefitting the US.

In the 1980s, a strategy board game called Fortress America imagined the US being invaded by foreign armies. The term gained new resonance beginning in the first Trump administration, which pursued America First policies, including economic protectionism, stricter immigration enforcement, and a more isolationist foreign policy. Early in the second Trump administration, the White House has accelerated its embrace of Fortress America policies, shifting away from internationalist approaches that have characterized the post-World War II era.

Companies whose businesses developed during an era of increasing interconnectedness and globalization of manufacturing are highly exposed to the shift towards Fortress America. Companies face risks not only from the direct impact of US actions, but also from the ripple effects of how other countries respond.

For example, in response to the Trump administration's changes in security posture and trade policy, traditional US allies are accelerating efforts to develop autonomous technology and defense capabilities. This includes a growing interest in pursuing de-risking from critical US technologies that support fighter jets, air defense systems, and naval vessels. US moves to suspend Ukraine's access to satellite imagery and threats to suspend access to satellite-based communications services vital to its defense against Russia have stoked concerns in Europe and elsewhere that the US might similarly seek to leverage other countries' dependence on a broader set of US technologies, including cloud services, to further economic and political objectives.

The reciprocal tariffs announced by the Trump administration on April 2 have introduced further uncertainty, adding to the risk of a more serious fragmentation of the global tech stack and related supply chains. Even if a 90-day pause on most reciprocal tariffs holds, an escalating US-China trade war could have dramatic effects on the ability of companies to source components that help power key technology infrastructure. Although the Trump administration has exempted certain categories of phones, computers, and semiconductors imported from China from reciprocal tariffs, the 10% overall tariff rate on overseas imports and high tariffs on other Chinese technology goods are likely to have significant, disruptive impacts on supply chains.

How businesses position for this new era of technology statecraft will depend on a number of factors. These

include their revenue dependence on the US market, their reliance on Chinese and third-country inputs, and their financial ability to scale up US investments in exchange for tariff relief. Each company has unique resources and different choices to make about how to seize opportunities and mitigate risks in this fast-evolving and uncertain landscape.

“ Whatever strategy they pursue, company leaders will need to develop a detailed picture of supply chain dependencies and embed geopolitical and policy foresight capabilities throughout their organizations to manage uncertain times ahead. ”

Companies face 5 main options as they consider risk exposure:

- 1. Maintain the status quo;*
- 2. Comply with policy demands;*
- 3. Push back in attempts to revert;*
- 4. De-risk and diversify from specific markets; or*
- 5. Pursue a combination of these across various parts of supply chains.*

Companies whose sales are highly dependent on the US market may be best served by doubling down on the United States. Other firms with complex global supply chains, a high degree of foreign trade exposure, and stronger long-term growth prospects overseas may conclude that they are better served by diversifying and de-risking from the US. Whatever strategy they pursue, company leaders will need to develop a detailed picture of supply chain dependencies and embed geopolitical and policy foresight capabilities throughout their organizations to manage uncertain times ahead.

The US technology statecraft toolkit

The policy levers the US uses to control access to critical and emerging technologies have expanded dramatically over the past decade. The growing willingness to intervene in the tech sector to address risks posed by China was already evident during the waning months of the Obama administration, when it blocked the proposed Chinese acquisition of a controlling stake in Aixton, a German chipmaker with significant US operations, on national security grounds. The trend intensified under the first Trump administration as the US launched a broader effort to shore up its technology advantages.

Under the first Trump administration, the US reformed the Committee on Foreign Investment in the US (CFIUS) and other Cold War-era policy tools for the digital age. It tightened government review of foreign investments and passed the Export Control Reform Act of 2018, to strengthen oversight of shipments of advanced technologies to China and other adversary countries.

The Trump administration targeted Chinese mobile networking equipment leaders Huawei and ZTE with technology restrictions, with the explicit goal of excluding them from US and other global 5G network deployments, citing cybersecurity concerns.

Under President Biden, the technology statecraft toolkit expanded further, through multiple rounds of chip controls, know-your-customer requirements for cloud providers, more than \$50 billion of subsidies for domestic semiconductor manufacturing, and a novel import-based restriction, known as the ICTS supply chain rule, designed to limit the use of “adversary” nation hardware and software inside connected devices.

The steady ratchet of policy pressure across multiple administrations reflected a hardening bipartisan consensus in Washington that China’s growing technology capabilities pose national security risks to the United States.

It is likely that the second Trump administration will expand its use of the following instruments as it builds the next chapter of geotech statecraft policy:

ICTS actions:

Under the first Trump administration, the Clean Network initiative sought to “rip and replace” Huawei and other Chinese technology from US network infrastructure, while pressuring US allies to do the same. While the initiative did not fully succeed, recent rulemaking on IoT devices has taken a significant additional step in that direction, with the creation of the Office of Information and Communication Technologies (OICTS) within the Commerce Department. OICTS was launched under the first Trump administration, but was built out under Biden. Given ongoing concerns about the potential for cyber espionage and exfiltration of personal or other sensitive data through IoT devices, particularly following the targeting of sensitive US telecom infrastructure by state-backed Chinese hacking teams, it is likely that the US ICTS toolkit will expand



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significantly during the Trump administration. This will likely include targeting a growing array of connected devices beyond cars, including drones, port cranes, and routers. Expanded ICTS authorities also complement new instruments to govern the export of national security critical data flows, a policy pursued jointly under Biden's Department of Justice, Department of Commerce, and the National Security Council.

Outbound investment rules:

This "reverse CFIUS" tool, put in place by the Biden administration, applies to certain covered transactions, such as venture capital investments or intangible knowledge transfers. The goal is to ensure that US capital is not supporting the export of US "know-how" that could advance foreign adversaries' military, intelligence, surveillance, and cyber capabilities. The Biden administration's initial outbound investment rule, which evolved out of discussions parallel to the Export Control Reform Act in 2018, ultimately applied to just three sectors: artificial intelligence, semiconductors, and quantum technologies. It is likely that the Trump administration will widen the scope of outbound investment rules to cover biotechnology.

Inbound investment restrictions:

In 2018, the Foreign Investment Risk Review Modernization Act (FIRRMA) upgraded CFIUS, an interagency committee headed by the US Treasury Department that assesses national security risks of foreign acquisitions of US companies or other assets. FIRRMA allows the president to block transactions deemed a threat to national security. The scope of transactions reviewed by CFIUS will likely expand during the Trump administration in areas such as agriculture, but could be relaxed in others, including a possible TikTok deal.

Industrial policy:

The Biden administration recognized that companies and countries face steep costs when de-risking from geopolitical threats and attempted to provide "affirmative inducements" or positive incentives, to promote onshoring

Geotech Policy Instruments The US Toolkit

Clean Networks

A framework for secure and reliable networks

ICT Restrictions

Import restrictions on connected devices deemed critical to national security

Outbound Investment Rules

Rules governing investments made abroad that advance foreign military capabilities

Inbound Investment Rules

National-security based screening of foreign investments entering the country

Industrial Policy

Large spending packages to promote industrial growth and innovation

Restriction Lists

Lists detailing prohibited commercial activities that pose national security threats

Export Controls

Regulations on the export of goods and technology critical to national security

Sovereign Capital

Investments made in the national interest and to advance geopolitical objectives

to the United States. Under Biden, this took the form of industrial policies such as the Inflation Reduction Act (IRA) and CHIPS and Science Act. So far, the Trump administration has not indicated a willingness to fund similar investments, suggesting that major subsidy packages aimed at technology are unlikely.

Restriction lists:

The US also maintains a set of lists aimed at highlighting companies engaged in restricted commercial and military activity. This includes the Commerce Department's Entity List and other lists, including the Defense Department's list identifying Chinese military affiliates, and the Treasury Department's SDN list and Chinese Military-Industrial Complex Company (CMIC) list. The consequences of being added to these lists vary, but they can cause serious financial and reputational consequences.

Export controls:

Restrictions on exports of sensitive technologies were a major tool in the Biden administration's technology statecraft toolkit. The Foreign Direct Product Rule is a key component of export controls. The FDPR permits the US government to control items that it deems as having sufficient US content to warrant control, wherever in the world they originate. Importantly, Biden-era restrictions expanded to cover not only technology components themselves, but assistance from US persons in installing and maintaining covered technologies. By covering US persons in this way, the Biden administration made it much harder for both US and foreign companies that leverage sensitive technologies, such as advanced semiconductor lithography equipment, to work with Chinese and other "adversary" nation companies. This more expansive and aggressive use of export controls and the FDPR is likely to continue under the Trump administration.

Sovereign capital:

Under President Trump, the US is pursuing the creation of a sovereign wealth fund, which the Departments of Commerce and Treasury will jointly oversee. One idea

evolving in tandem with a sovereign wealth fund is the idea that countries could obtain exemptions from tariffs if they invest a similar amount in critical public infrastructure projects outside the US, such as subsea cables or other infrastructure that supports foreign policy objectives while boosting the digital economy. This would place a financing burden on middle economies, but could provide tariff relief while making up for a reduced US foreign aid budget. It would also induce additional investments in critical technologies.

Despite this growing technology and statecraft toolkit, China's capabilities have continued to advance. In the semiconductor and AI domains, technologies like Huawei's Ascend line of AI chips and AI systems such as DeepSeek have shown impressive performance and contributed to China's advancing capabilities despite US restrictions.

In January 2025, DeepSeek, a Chinese AI startup spun out of a quant hedge fund, garnered international attention with its AI model, R1. R1 delivers performance broadly comparable to advanced models produced by US AI labs but at significantly lower costs. While the precise details of the infrastructure used to train R1 remains a matter of debate, with some analysts claiming that DeepSeek might have had access to more powerful chips than it has publicly disclosed, the model has challenged the idea that advanced AI development requires large numbers of expensive, cutting-edge chips.

DeepSeek has also invited discussion about digital dumping, whereby a large language model can undercut competition to achieve statecraft objectives. DeepSeek's success is a reminder that disputes over intellectual property, commodity flows, and the provision of services - issues typically associated with the traditional trade toolkit - are spilling into the advanced technology domain.

As China continues to accelerate in AI, it has also made progress in chip manufacturing. It has stretched its existing capabilities through techniques like multiple

patterning, enabling it to get more performance out of older deep ultraviolet lithography, or DUV technology. It has also been pursuing new chipmaking technologies.

For example, Huawei has reportedly begun testing alternative laser technologies that could enable it to produce extreme ultraviolet (EUV) light needed to etch finer features onto Silicon wafers, despite US export restrictions that prohibit access to ASML machines built in the Netherlands. At present, only ASML is capable of producing lithography machines that use EUV technology to produce cutting-edge semiconductors at commercially viable yields.

The fact that China has been able to advance and indigenize core technologies serves as a reminder to the US that no statecraft tool is completely airtight. Some commentators have argued that US restrictions have paradoxically provided a boost to the Chinese semiconductor sector, by forcing companies across the domestic value chain that previously had few incentives to cooperate to work together.

In addition to these technology-forward instruments, the Trump administration is likely to pursue a mix of novel and traditional policies. Chief among them is a favorite mainstay of the Fortress America playbook: tariffs.

Trade weaponization

President Trump's senior trade counselor, Peter Navarro, argued in Project 2025 that "America gets fleeced every day in the global marketplace both by a predatory Communist China and by an institutionally unfair and nonreciprocal WTO." This sentiment is driving the Trump administration's trade policy. The seismic tariffs announced on April 2 are likely just the initial phase of a broader attempt to dismantle the existing global trade order.

White House-watchers are increasingly convinced that the US will withdraw from the World Trade Organization (WTO) in 2025, potentially in response to foreign litigation against US trade measures. Leaving behind Most Favored Nation (MFN) status, the bedrock of WTO membership, in which countries must treat each other's imports no less favorably than those of other MFN countries, would produce significant changes throughout the technology stack. Among other things, it would likely make many technology inputs and services significantly more expensive, slowing deployment.

Regardless of whether the US formally withdraws from the WTO, the Trump administration is likely to explore sectoral arrangements for tariff relief.

These could take the form of tariff schemes for particular sectors and supply chains. For example, the US could pursue a semiconductor sector deal that would exempt certain types of chips or related manufacturing equipment from import duties.

To drive the rapid changes in trade policy it has put in place since taking office, the Trump administration has relied heavily on the International Economic Emergency Powers Act (IEEPA), a Cold War-era law originally used for Iran sanctions, in addition to more traditional trade investigations such as Section 301 or 232 tariffs. For example, the reciprocal tariffs announced on April 2 invoked IEEPA, effectively declaring persistent, structural trade deficits to be a national emergency requiring presidential action. While this move has attracted legal challenges, courts generally have given presidents broad leeway in national security matters. Whether the judiciary will intervene to roll back IEEPA-based tariffs remains uncertain.

The rollout of the reciprocal tariff policy included mixed messages about the effort's goals. One primary goal repeated by President Trump and

senior US officials is to encourage re-shoring of US manufacturing. President Trump has also stated he wants countries to try to negotiate and strike deals favorable to the US. Additionally, administration officials have said that a goal of tariffs is to generate revenue for the US government, to help fund anticipated tax cuts.

Other attempts to reshape global trade arrangements using other levers beyond tariffs and a potential withdrawal from the WTO may include revocation of Permanent Normal Trade Relations (PNTR) with China, expanded scrutiny of Chinese investments, and a potential withdrawal from other key trade and economic institutions, including the Organization for Economic Cooperation and Development (OECD).

These changes signal that the executive branch increasingly views international commercial and technology diplomacy as falling outside of



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Congressional oversight. Secretary of State Marco Rubio affirmed this publicly in a March 2025 Federal Register notice that deemed “the transfer of goods, services, data, technology, and other items across the borders of the United States” as a core function of the executive branch.

One of the early executive actions of the Trump administration outlined its emerging approach to foreign direct investment (FDI). Building on Biden-era changes to investment rules, Trump’s America First Investment Policy executive order aims to prevent China from acquiring key stakes in critical infrastructure, while simultaneously providing foreign partners with incentives to invest in the US and de-risk from China. The order argues that Chinese investors continue to target the “crown jewels of United States technology,” along with natural resources, agricultural land, ports, and shipping.

To induce foreign investment in the US, the order establishes fast-track authority for US government approval of sensitive transactions. It stated that restrictions on foreign investors’ ability to invest in US businesses involved in critical technology, critical infrastructure, personal data, and other sensitive areas would “ease in proportion to their verifiable distance and independence from the predatory investment and technology-acquisition practices of the PRC and other foreign adversaries or threat actors.” This stance aligns with the administration’s core philosophy that “world-leading private and public capital markets will be a key part of America’s Golden Age.”

While the order aims to get foreign countries and companies to double-down on US markets, the unfolding dynamics between the Trump administration, Taiwan Semiconductor Manufacturing Company (TSMC), and the government of Taiwan illustrate the opportunities and risks that foreign actors will face in deciding whether to deepen investments in the US in this environment. In part to preempt possible tariffs on Taiwanese chips, TSMC in early March unveiled a new \$100 billion dollar

investment to create five new fabrication facilities in Arizona, bringing total TSMC investments in the US to over \$165 billion. Despite this major investment, the administration applied a 32 percent tariff to Taiwan as part of the reciprocal tariff package, only to exempt chips the following week and also to pause the implementation of reciprocal tariffs, meaning Taiwan faces just 10% in tariffs as of mid-April.

“ Another tool the Trump administration is likely to employ is a comprehensive rewrite of the US posture on imports of goods and potentially services that could impact national security. ”

The idea of bringing more cutting edge chip manufacturing capabilities to the US has faced a backlash in Taiwan and other countries, which fear an overall weakening of Taiwan’s “Silicon Shield.” This refers to the idea that maintaining foreign reliance on advanced semiconductors manufactured on Taiwan provides Taiwan with a form of security umbrella, by giving other countries an incentive to keep the island safe. Moreover, because TSMC maintains leading-edge capabilities but lacks sufficient production capacity, the Trump administration is asking TSMC to acquire the struggling US chipmaker Intel’s manufacturing facilities. This is another indication that the White House is pursuing a maximalist approach to trade and investment.

This dynamic, where companies need to decide how much to invest and under what conditions, will play out differently across industries. For example, the French shipping company CMA CGM recently unveiled plans to invest \$20 billion in the US. This followed the Trump administration’s announcement that it would create a shipbuilding office in the White House to more directly incentivize investment in a sector where the US wants to make up ground with international competitors.

Companies in industries that have not been the subject of similar announcements, which for now includes cloud service providers and telecoms, will need to assess whether doubling down on US opportunities is the safest bet and, if so, how to pair that with an increasingly assertive European market that is looking for opportunities to decrease its reliance on US technology.

Another tool the Trump administration is likely to employ is a comprehensive rewrite of the US posture on imports of goods and potentially services that could impact national security. This will likely leverage a mix of tools, including ICTS authorities. One outcome could be an import list that mirrors the existing, export-oriented Commerce Control List (CCL). This list covers licensing requirements for the export of commodities, software, and technology leaving the US. Depending on the scope and sectoral coverage of this putative import whitelist, an import restriction list could profoundly affect US trade with allies and partners if the US designates imports - for example of commercial routers - as endangering US national security.

One key question is whether the administration will be willing to cut deals on inbound investments with China. It is possible that the Trump administration could expand parts of the national security framework for trade and investment with China, while creating a “green” or “yellow” list of sectors approved for business expansion. This could cover sectors where the US clearly lags behind China, such as battery technology, where Chinese entities like CATL maintain a clear advantage. Working out the details of these deals will be challenging, especially since any deals will need political buy-in from US national security hawks. It will also be challenging for the administration to determine where expansion is viable, particularly amid growing calls for greater scrutiny in areas such as land acquisition, agriculture, and automobiles.

AI dominance and diffusion

In its final days, the Biden administration introduced the AI Diffusion Rule, imposing licensing requirements on the export, reexport, and transfer of advanced computing ICs and AI model weights, along with security measures to prevent misuse. The Biden administration also put forth the AI Infrastructure Executive Order to incentivize domestic AI value chains.

A key barometer of the Trump administration approach will be how the administration moves forward with or away from the Biden-era AI approach to AI. The Biden administration pursued a series of initiatives on AI

governance, including voluntary safety commitments for developers of frontier AI models, the launch of a US AI Safety Institute, and proposed rules requiring companies engaged in frontier AI development to report when they are training models above a certain compute threshold.

The Trump administration has taken a very different posture, saying it is the policy of the US to “sustain and enhance America’s global AI dominance in order to promote human flourishing, economic competitiveness, and national security.” At the Munich Security Conference in February 2025, Vice President JD Vance criticized the European Union’s approach to technology regulation. That same week, he called for Europe to join the US in building a light-touch regulatory regime focused on promoting AI innovation. More recently, Vance said that the future of AI “is not going to be won by hand-wringing about safety” but instead by “building - from reliable power plants to the manufacturing facilities that can produce the chips of the future.”

While one of the Trump administration’s first executive orders directed agencies to review Biden-era AI policies, the AI Diffusion Rule and key elements of the AI Infrastructure Executive Order are likely to be retained in some form. To sustain US “AI dominance,” the Trump administration wants to spur investment and uptake of AI and clear hurdles to the construction of new datacenters and other AI computing infrastructure. The Trump administration is also hoping to entice foreign enterprises to scale up investment throughout the US AI sector.

Immediately following President Trump’s inauguration in January, Softbank CEO Masayoshi Son, Oracle co-founder Larry Ellison, and OpenAI CEO Sam Altman unveiled plans to invest \$500 billion in AI infrastructure over a four year period, including an immediate deployment of \$100 billion to advance and maintain

AI Diffusion Rule

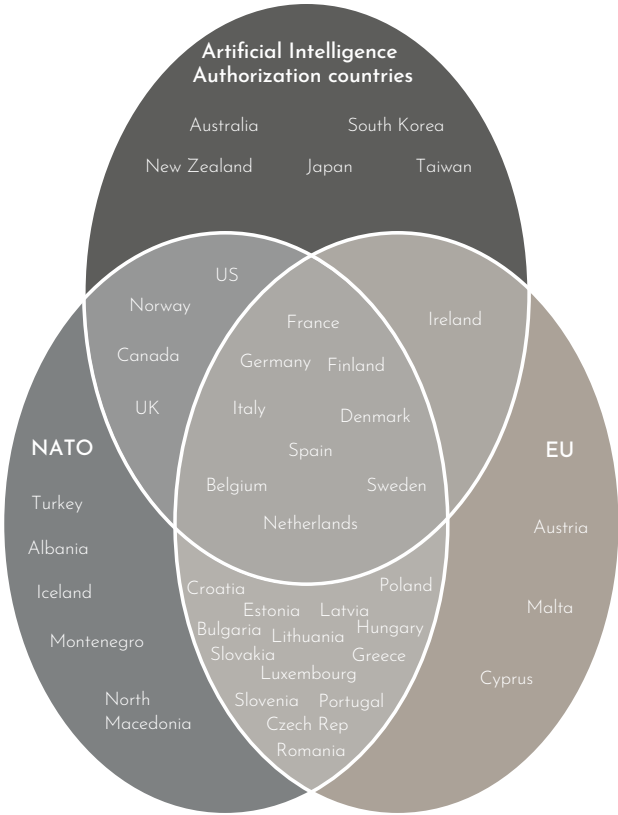


Fig. 1: The Biden-era AI diffusion rule, currently under review by the Trump administration, created three tiers of countries with different levels of access to large clusters of advanced chips useful for training frontier AI systems. The figure above shows which “Artificial Intelligence Authorization” (Tier 1) countries are also members of the EU and NATO.

US global AI leadership. While the project was already underway before the inauguration, President Trump hailed the investment as a “monumental undertaking” and claimed it would drive the creation of “colossal data centers,” generate jobs, and secure the future of US technology in the competition with China for AI leadership. Notably, along with Softbank of Japan, the UK chip company Arm and MGX, an AI-focused investment company based in the United Arab Emirates were listed as partners in the project, alongside US companies like NVIDIA and Microsoft. This underscores global interest in supporting large-scale AI infrastructure investments.

The Trump administration is likely to encourage faster uptake of AI technologies to boost innovation and economic growth, while moving away from what some of Trump’s supporters in Silicon Valley see as premature or misguided attempts to regulate AI models. This is unlikely to mean abandoning AI oversight completely, however. The Trump administration’s Office of Management and Budget in April released two memoranda directing US government agencies to accelerate AI use, while offering guidance on uses of AI that could impact safety and rights.

It is possible that the US AI Safety Institute could be retooled to focus on a narrower set of hard national security risks that were also priorities during the previous administration, such as the risk that AI systems could be used by bad actors to help create weapons of mass destruction, or cyber risks. In February, the Trump administration solicited public input on an Artificial Intelligence Action Plan. Details of the plan should provide a clearer indication of how the administration will pursue its AI goals amid a growing European push for digital sovereignty and ongoing AI advances by Chinese companies.

The Trump administration is also considering retooling and potentially strengthening the AI diffusion rule. At present, the framework places few restrictions on the export of advanced chips to a select group of US allies and partner countries deemed to have sufficiently

strong export controls and other safeguards. Most other countries, including India, some NATO allies, and some EU member states, fall into a second tier that is subject to tougher controls.

The framework developed by the Biden administration is intended to encourage most other countries to access advanced computing power useful for frontier AI development primarily through US hyperscalers and other trusted companies that follow strict security criteria. The rule forbids China, Russia, and other arms-embargoed countries from accessing advanced GPUs or frontier model weights.

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The rule is intended to induce countries to align with US technology policies, and to safeguard US long-term interests against China by pressuring countries to pick sides in the evolving AI competition. However, the rule assumes that China lacks the capacity to export enough chips to compete in third countries at the cutting edge. This could be tested if China’s domestic semiconductor industry continues to make progress producing more capable chips.

While some Silicon Valley companies were fiercely opposed to the diffusion rule, it could also create new opportunities for leverage, particularly with governments that want to avoid caps on the number of advanced GPUs that companies can import. The Trump administration continues to seek feedback on the rule, with an eye towards making substantial changes. Although timelines and specifics remain unclear, retaining the rule could prove appealing as it seeks leverage for AI dominance.

De-risking for strategic autonomy

The Trump administration's different stance towards Europe has forced the EU, key member states, and European NATO allies to fundamentally re-think their security posture. At the Munich Security Conference in February 2025, Secretary of Defense Hegseth urged Europe to "step into the arena and take ownership of conventional security on the continent." He said that "stark strategic realities prevent the United States of America from being primarily focused on the security of Europe."

Shortly after, the US joined Russia in voting against an EU-backed resolution on Ukraine at the United Nations. The subsequent US decision to halt intelligence-sharing with Ukraine, including satellite imagery, and a threat to disrupt Starlink access during critical moments in Ukraine's war effort, have reinforced concerns that the US may leverage digital technologies as a tool in political disputes, even with traditional allies.

These developments have fuelled concerns that the US could potentially exploit "kill switches" or leverage other technological dependencies for economic and foreign policy advantage. This has prompted allies to reassess their exposure to US technology in critical infrastructure and defense. Governments in Europe and elsewhere are increasingly seeking alternative solutions to US tech dependencies, while trying to move towards strategic autonomy. In recent weeks, a number of governments have gone on record questioning F-35 fighter jet acquisitions over concerns about US control

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over critical software updates being leveraged as potential kill switches, for example.

European countries have also moved to clear barriers to defense financing and to ramp up arms production. In March, European Commission President Ursula von der Leyen made a proposal for an \$866 billion plan to "ReArm Europe." The German parliament has likewise approved landmark spending reforms, exempting defense spending above 1 percent of GDP from the country's long-standing "debt brake." This could unlock billions of dollars of new funding for European re-armament. A lasting realignment would accelerate foreign de-risking from the US.

Despite early attempts at scaling up a more sovereign defense ecosystem, the EU will remain subject to the Trump administration's maximalist approach. Breaking Europe's dependence on advanced US technologies will not be easy, particularly in domains where US companies occupy key positions in the technology ecosystem and benefit from network effects, such as cloud computing and semiconductors. The US may further seek to take advantage of technology dependencies as it pursues its Fortress America strategy. This could result in new pressure for the EU to drop tech regulation in exchange for reciprocal tariff relief and more assertive use of extraterritorial policy tools.

The EU faces a dilemma in how to respond to US policies. In early April 2025, the EU attempted tariff negotiations with the Trump administration, but was rebuffed immediately. The stark reality is that negotiations may not be tenable and that weaponization of technology independencies is likely to increase. A concerted effort to de-risk from the US would require the EU to stand up new fiscal instruments, strengthen the single market (particularly on defense production), and identify alternative markets for goods and services.

Defense tech revolution

A key feature of Fortress America is retooling of the defense sector to be more technology-forward. This is based on the changing nature of warfare itself, including the fact that the US faces a rising economic and technology competitor in China, with growing capabilities, including in drone warfare, cyberspace, and other high-tech domains.

In response, the Trump administration is pursuing a large-scale technological makeover of the Department of Defense (DOD), easier access to foreign military sales, and targeted increases in spending across DOD while aiming for overall cuts of 8 percent over the next five years. This includes a possible 90,000-person reduction in force in the army, underscoring the seriousness of the Pentagon's new approach. An April 2025 executive order on spurring innovation in the defense industrial base argues that "America must deliver state-of-the-art capabilities at speed and scale through a comprehensive overhaul of this system."

An integral part of this strategy is to revolutionize and upgrade the defense tech ecosystem. The DOD is already reforming procurement to focus increasingly on advanced technology and software. It likewise wants to refocus antitrust reform to incentivize growth among smaller and more innovative defense firms, reducing reliance on a handful of large defense "primes." This could have far-reaching effects that spur a new generation of American tech innovation, but could also put significant new competitive pressure on the "Big Five" US defense companies.

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The US government is unlikely to fund additional, multi-billion-dollar spending packages like the CHIPS and Science Act to promote domestic technology investment. Instead, the Trump administration is hoping to induce the defense sector to push the innovation envelope. This means that non-defense oriented technology companies will need to contend with more restrained federal government spending in most sectors that the US does

not regard as advancing the cutting edge of dual-use or military technology. Legacy technology companies exposed to this trend will either have to find new sources of funding to make up for reduced public spending, or integrate more deeply with the defense sector.

In an environment where the US government is not politically able to continue spending at the same level, it will need to identify ways to incentivize production and innovation in other ways that bear on the civilian and military economy. Deputy Secretary of Defense nominee Stephen Feinberg has called on US auto producers such as Ford and General Motors to begin weapons production, with an eye towards boosting competition within the defense industrial base. This change in DOD posture also coincides with what is likely to be a significant rewrite of the Defense Production Act (DPA), which expires in September 2025. The DPA enables the US government to commandeer industry production, including intellectual property, in cases of national emergency.

Another incentive under consideration is a significant relaxation of arms control regulations. Substantial changes to the International Traffic in Arms Regulations (ITAR), which the State Department oversees, could

make it easier for allies and partners to obtain US weapons. However, deepening allied anxiety about the US ability to invoke kill-switches is likely to impact arms and defense-tech spending negatively without more overt US assurances about the reliability of its security umbrella.

To the extent that the US government does continue to provide funding for advanced technologies, that funding is likely to flow from new fiscal authorities. This might include the Office of Strategic Capital, the DOD's in-house tech incubator. It could also include funding from entirely new sources, such as a proposed US Sovereign Wealth Fund, which the White House directed the Treasury and Commerce Departments to oversee.

Contingency planning for companies

Technology companies were already struggling to navigate widening geopolitical divides. The Trump administration's opening weeks suggest an even more complicated period lies ahead. Each company's unique supply chains and their exposure to foreign markets will guide how they invest to offset growing geopolitical risks to supply chains and

business models. The calculus will be particularly complex if the US expands its technology statecraft toolkit to increase pressure on other countries to decouple from China. Maximalist US aims, combined with hit and miss implementation and a focus on dealmaking, will further complicate assessments of costs and benefits.

Companies attempting to navigate this environment can pursue the following options:

Scenario 1: Wait

Not rushing to make major business decisions could reduce a company's risk, especially since it reduces the likelihood of immediate attention and retaliation. Doing nothing for the time being could also pay off in the event that a significant political reversal for the Republican party in the 2026 midterms slows or reverses implementation of the Trump administration's Fortress America agenda. However, maintaining business as-is reduces the likelihood of securing potential benefits from a global reshuffle, while leaving in place exposure to a rapidly changing tariff schedule, foreign de-risking from the US tech stack, and reputational damage for not choosing sides.

Scenario 2: Play Ball

Doubling down may be most desirable for companies with high revenue dependencies on the US or companies that provide unique services that would allow them to operate in both the US and foreign markets. For foreign companies seeking to invest in the US, acquisitions and other investments may come at steep discounts if tariff policy negatively impacts the US economy, creating a more favorable environment for long-term commitments in complex sectors.

Scenario 3: Push Back

Using legal or political approaches to pushing back on the evolving US toolkit is a high-risk, binary option that could reap major benefits or invite significant downsides for companies. For example, the auto industry pushback against the Trump administration's February 25% tariffs on Canada and Mexico resulted in a temporary reprieve. However, the administration has signaled a willingness to exert pressure on firms that are seen to be contravening the White House's agenda. The sharp escalation of US tariffs on China following Beijing's decision to retaliate against US reciprocal tariffs is another example of pushback inviting retaliation.

Scenario 4: Derisk From The US

De-risking from the US would invite upfront costs, although it could provide more stability for companies in certain sectors, ranging from machine tooling to textile production. Decisions about whether to pursue this strategy will depend on the overall supply chain exposure of each company and the industry in which the company operates, and the company's ultimate end-users. US-headquartered companies will need to determine whether to pursue a diversification strategy that maintains the US as its primary customer base, while hedging for a period of prolonged uncertainty throughout the US market and a more robust set of trade and tech instruments that could force foreign firms to choose between the US and China.

Scenario 5: Diversify

Pursuing a combination of these options across various parts of supply chains could produce more long-term resiliency, depending on the nature of the technology and nature of risk. Supply chain forensics can illuminate the different geographies and suppliers that play key roles in company and industry value chains, providing insights about alternative suppliers and markets, possible avenues for retaliation, and overall exposure to geopolitical risk.

Scanning the geotech horizon

While the application of tariffs, particularly on close trading partners, has dominated headlines in the Trump administration's first 100 days, other long-term and systemic shifts are beginning to come into view. Companies need to begin contingency planning for an array of geopolitical and trade disruptions that could significantly impact plans for capital investment, including technology deployment. These disruptions range from practical questions, such as the likely impact of specific tariffs, to harder-to-measure issues, such as the impact of de-risking and digital sovereignty on company operations, corporate reputations, and growth strategies.

One key question for the near to medium-term will be where the new Trump administration draws the line on China-related technology risks and how it uses both existing and new policy tools to enforce that line. Another will be how the administration thinks about "affirmative inducements" for trading partners as a means of offsetting costs from a major departure from global trading rules. A third question is whether the Trump administration can pursue a maximalist approach on trade while still achieving its other core technology policy objectives. Allies and trading partners of the US will increasingly need to confront what a maximalist technology agenda looks like. This includes assessing specific risk scenarios for various parts of the tech stack, while also accounting for uncertainties that are likely to stem from implementation problems, contradictory policy aims, unpredictable dealmaking, and a possible shift in political power following the 2026 midterm elections.

Whether related to the future of government contracts following deep DOGE-induced cuts, or surprise follow-through on tariff threats against allies, countries and companies alike must proceed with the assumption that a disruptive approach to policymaking is unlikely to subside

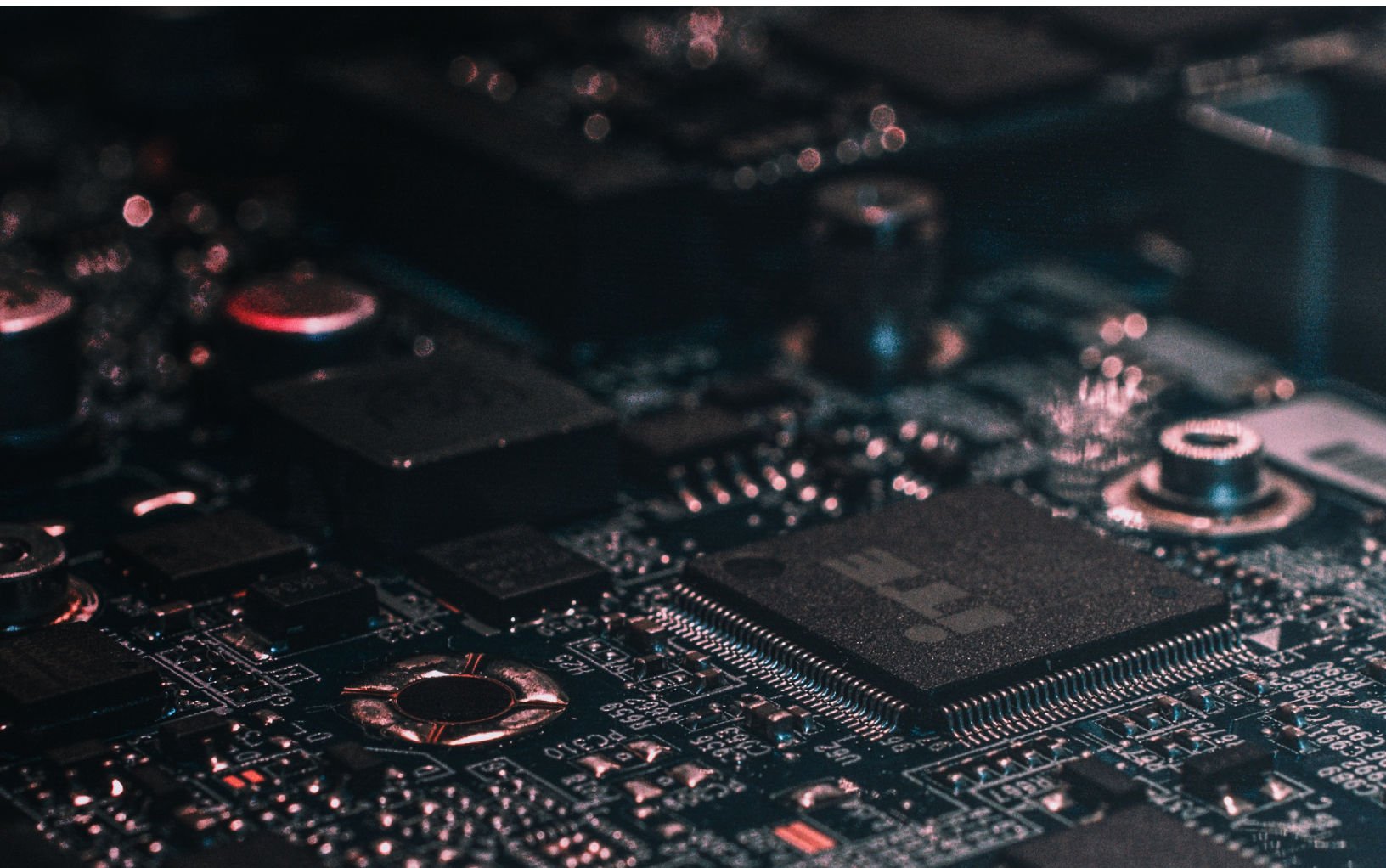
in the near future. The disruptive aspects of these policies reflect a more realist approach, leveraging trade and technology tools to advance hard security objectives.

While the Biden administration prioritized a "lattice-work" of alliances and partnerships that were intended, at least in part, to offset costs incurred from an otherwise restrictive security agenda, the Trump administration is rewiring the architecture of the international order.

Ongoing evolution of the technology ecosystem will add a further layer of complexity to both governments' and companies' decisions about how to respond. Key questions include whether China's domestic semiconductor ecosystem will continue to make progress designing out US-origin technologies, the trajectory of frontier AI development, and the stability of US policies that affect the global exchange of goods and services needed to develop and deploy cutting-edge technologies.

Over the next four years, the Trump administration will build on and expand the US technology statecraft toolkit, with implications for the trajectory of US-China competition and the evolution of the global technology sector. As geopolitical dynamics intensify, the world must brace for a period of strategic recalibration, one in which technological power, not just economic and military strength, will define global influence.

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