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Policy Solution Paper



AI, governance, and economic competitiveness

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A pro-innovation framework for the G20 agenda



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Key points

- Supporting AI innovation and competitiveness in a way that promotes the public good increasingly depends on the quality of regulatory design, not just compute and models. Global private AI investment reached $252.3 billion in 2024, with generative AI alone attracting $33.9 billion.
- United States, EU, and China have adopted increasingly divergent regulatory philosophies, leading to inconsistent requirements and greater uncertainty for companies operating across borders.
- Regulatory fragmentation may fall hardest on SMEs, startups, and emerging economies, which lack the legal and technical capacity to navigate multiple compliance regimes.
- The G20 should pursue regulatory interoperability, and rather than uniformity, through common principles, mutual recognition, and risk-based governance that can enable responsible innovation to scale across borders.
- A voluntary AI Regulatory Readiness Framework, paired with sandboxes and open innovation ecosystems, can help countries move from compliance uncertainty to competitive advantage.

The regulatory divide behind the AI race

Artificial Intelligence (AI) is rapidly moving from a technological breakthrough to a foundation of productivity growth and economic competitiveness. Leading AI providers have expressed increasing concerns about the potential risks of deploying increasingly powerful AI models. AI adoption will therefore depend on algorithms, computing power and a regulatory environment that enables timely deployment. Countries that create conditions for responsible experimentation, investment and scaling will be better positioned to capture productivity gains, attract AI-related investment and strengthen industrial competitiveness.

The scale of the transformation is substantial. Global private investment in AI reached US$252.3 billion in 2024, with generative AI attracting US$33.9 billion. Corporate adoption is also accelerating: 78% of organizations reported using AI in 2024, up from 55% in 2023. McKinsey estimates that generative AI could add US$2.6–4.4 trillion[1] annually to the global economy through productivity gains across industries. Yet these benefits will not be distributed automatically. As AI moves into healthcare, finance, manufacturing, agriculture, and public services, governments face the challenge of protecting citizens from legitimate risks without making experimentation and adoption unnecessarily costly.

The G20, representing around 85% of global GDP, 75% of international trade and two-thirds of the world's population, is uniquely positioned to shape this balance. Divergent regulatory approaches across major economies, however, are creating inconsistent standards and raising uncertainty for firms operating across borders. Smaller companies and emerging economies face particular disadvantages because they often lack the legal, technical, and financial resources required to navigate complex compliance systems. The policy question extends well beyond how governance can address genuine risks while enabling responsible innovation and wider participation in the AI economy.

[1] McKinsey Global Institute, "AI could increase corporate profits by $4 trillion a year, according to new research,"

Co-ordination gap and assessment of existing status quo

Countries have been pursuing distinct regulatory philosophies shaped by their individual economic structures, political priorities, and risk perceptions. The EU has adopted a comprehensive, risk-based approach through the AI Act, establishing tiered obligations for different categories of AI applications; while the framework aims to build trust and accountability, businesses, particularly smaller firms, have raised concerns about compliance complexity and cost[2]. The US follows a flexible, sector-specific approach that prioritizes technological leadership while managing risks through existing institutions and voluntary frameworks. China has developed a state-led governance model that combines industrial policy, security requirements, and regulatory oversight to accelerate domestic AI capabilities while maintaining regulatory control over algorithms, data and AI-generated content. Other G20 member countries have designed their own national AI strategies and regulations.

While each country's approach to AI reflects legitimate national priorities, their divergence can create real costs for global AI development. Multinational companies face complex compliance requirements, while smaller firms and startups face greater barriers due to limited financial and legal capacity. The OECD notes that small firms often lack the financial and technical capacity required to interpret complex digital regulations, making predictable and interoperable frameworks essential for inclusive AI adoption[3].

For emerging economies, the challenge is greater, as many still lack the infrastructure, talent, and institutional capacity needed for AI adoption. Fragmented regulations could further deepen digital inequality by favoring large technology firms and wealthier economies.

Efforts to promote AI interoperability build upon broader standards and principles for AI governance developed by other global initiatives such as the Bletchley Declaration and the International Network of AI Safety Institutes, as well as regional efforts to develop common principles for AI governance, such as the ASEAN Guide on AI Governance and Ethics (2024) and the Expanded ASEAN Guide on AI Governance and Ethics: Generative AI (2025).

Recommendations: A Pro-Innovation AI Regulatory Framework

1. The Importance of AI Governance Interoperability: Liability, Auditability and Mutual Recognition

The G20 should establish voluntary principles for **AI governance interoperability**, centred on common approaches to risk classification, liability, auditability and recognition of appropriate assurance mechanisms. The objective would not be identical AI laws, but predictable conditions under which responsible AI systems can operate across markets.

The framework should encourage:

- **Clear liability and accountability** for demonstrable AI-related harms, drawing where appropriate on established legal principles, court decisions and commercial practices;

- **Transparent audit trails** for high-impact AI systems, allowing regulators, businesses and affected parties to establish how significant decisions were made and what human oversight was exercised;

[2] European Commission, *Regulation (EU) 2024/1689 Laying Down Harmonized Rules on Artificial Intelligence (Artificial Intelligence Act)*, Brussels, 2024.
[3] OECD, *Digital Economy Outlook 2024* (Paris: OECD Publishing, 2024).

- **Common risk classifications and assurance principles** for testing and evidence to facilitate cross-border recognition;

- **Mutual recognition of appropriate compliance and assurance mechanisms**, reducing duplicative assessments for firms operating across G20 markets.

Clear liability and transparent audit trails can support interoperable rules by focusing on demonstrable harm and responsibility, improving predictability while preserving national regulatory discretion.

The approach also connects with insurance and commercial risk management. AI systems that demonstrate, including through regulatory sandboxes, conformity with established trade and financial practices are more likely to meet emerging insurance requirements. As insurance underpins much of international trade and finance, insurability can incentivize firms to adopt common assurance and accountability standards. Clearer liability improves auditability and risk assessment, supporting insurability and wider adoption of interoperable standards.

This would also help address the competitive disadvantage faced by SMEs. If firms can demonstrate compliance through recognized assurance mechanisms rather than navigating multiple entirely separate systems, the cost of entering new markets can fall. The G20 could therefore encourage national regulators to identify areas where testing, certification or assurance results can be mutually recognized without requiring identical national legislation.

2. Enable Responsible Experimentation through Sandboxes and Risk-Based Regulation

The G20 should provide a platform for its members to establish AI cross-border regulatory sandboxes that allow companies, researchers and public institutions to test AI applications under regulatory supervision of multiple countries before wider agreement.

Regulatory sandboxes are a well-established tool for providing a controlled environment in which regulators can observe real-world applications, identify risks and refine regulatory requirements. They are particularly relevant for AI, which is evolving faster than conventional legislative cycles, creating a risk that governments either regulate too late, after harms have occurred, or regulate too early, before sufficient evidence exists about how particular applications perform. An AI cross-border regulatory sandbox could build upon the experience of national regulatory sandboxes.

Priority sectors could include:

- **Healthcare:** Testing AI-assisted diagnostics and clinical tools with safeguards for safety, privacy, and accountability.
- **Agriculture:** Applying AI to precision farming, climate forecasting, crop monitoring, and market intelligence.
- **Education:** Testing AI-enabled learning and teacher-support tools while protecting quality, access, and student data.
- **Financial inclusion:** Using AI for credit assessment, fraud detection, and digital finance with strong consumer protection.
- **Public service delivery:** Applying AI to improve administrative efficiency, citizen services, and government responsiveness.

Sandbox participation will generate evidence on performance, risk, oversight, auditability and compliance. The G20 should promote risk-based rather than technology-based regulation.

The G20 can use its convening power to advance cross-border regulatory sandboxes for its members. It can invite a coalition of willing members to conduct a cross-border AI assurance pilot in a specific sector or sectors. Participating regulators would agree on basic standards, a common evidence package for compliance verification, independently assess the same AI applications, and identify which testing results they could accept from one another and which requirements must remain jurisdiction-specific. This provides a practical pathway from agreeing on principles to piloting interoperability, which would inform the G20 framework for AI governance interoperability.

A balanced assessment of risks and opportunities should subject high-impact AI applications in areas such as healthcare, critical infrastructure and autonomous systems to stronger safeguards than lower-risk applications such as routine chatbots or productivity tools.

The 2026 US G20 Presidency offers a timely platform to advance smart regulation that addresses genuine risks while reducing unnecessary compliance burdens. Hence, the G20 should develop interoperable principles on liability, auditability, risk classification and assurance, while willing members pilot mutual recognition of selected testing and sandbox outcomes. Responsible AI should be able to move from testing to financing, insurance and deployment across markets with greater predictability and lower compliance costs, supported by regulation that safeguards society without unnecessarily constraining innovation.

Short bio of authors

Prof. Syed Munir Khasru (Lead author)



Prof. Khasru is Chairman of the international knowledge outfit, the Institute for Policy, Advocacy, and Governance (IPAG). An MBA from the Wharton School of the University of Pennsylvania, he is well known in the G20 and G7 community for his leading role in writing close to 25 policy briefs on a wide range of issues, which include digital transformation, AI, energy, climate, governance, multilateralism and sustainable development. He brings both policy and implementation perspectives from the Global South into international economic and technology governance.

Prof. Alex Pentland



Prof. Pentland is Professor of Information Technology at the Massachusetts Institute of Technology (MIT). He directs MIT's Human Dynamics research and has been a leading researcher in AI, computational social science, data governance, privacy, and digital systems. He is a member of the US National Academy of Engineering and a Fellow at Stanford's Institute for Human-Centered Artificial Intelligence (HAI). His work has contributed to international discussions on responsible data use, digital governance, and technology policy.

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Dr. Albert F. Park is Chief Economist and Director General of the Economic Research and Development Impact Department at the Asian Development Bank (ADB), where he leads the Bank's work on economic research, development trends, and flagship knowledge products. He has more than two decades of experience as a development economist, with research spanning poverty and inequality, labor markets, the future of work, foreign investment, and the economy of the People's Republic of China. He is also Chair Professor of Economics, Social Science, and Public Policy at the Hong Kong University of Science and Technology (on leave) and previously held faculty positions at the University of Oxford and the University of Michigan. He holds a bachelor's degree in economics from Harvard University and a doctorate in applied economics from Stanford University.

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