

Research Paper

REGULATING AI ACROSS BORDERS THE EU AI ACT, STAKEHOLDER PERSPECTIVES, AND INDIA'S APPROACH

NOVEMBER, 2025



RESEARCH PAPER

REGULATING AI ACROSS BORDERS: THE EU AI ACT, STAKEHOLDER PERSPECTIVES, AND INDIA'S APPROACH

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Suggested Citation

Agarwal, M. & Jagtap, S. (November, 2025). Research Report: Regulating AI Across Borders: The EU AI Act, Stakeholder Perspectives, and India's Approach. The Dialogue and Friedrich-Ebert-Stiftung.

Catalogue No.

TD/ET/RR/1125/13

Publication Date

November 17, 2025

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LIST OF ABBREVIATIONS

Abbreviation	Full Form
AI	Artificial Intelligence
AESIA	Agencia Española de Supervisión de Inteligencia Artificial (Spanish Artificial Intelligence Supervisory Agency)
AWS	Amazon Web Services
BEUC	The European Consumer Organisation
BSA	Business Software Alliance
CCI	Competition Commission of India
CCIA	Computer and Communications Industry Association
CEO	Corporate Europe Observatory
CEN	European Committee for Standardisation
CENELEC	European Committee for Electrotechnical Standardisation
CSO	Civil Society Organisation
CSOs	Civil Society Organisations
DPIA	Data Protection Impact Assessment
DPIIT	Department for Promotion of Industry and Internal Trade (India)
DPDP Act	Digital Personal Data Protection Act
DSA	Digital Services Act
DSC	Digital Services Coordinator
EC	European Commission
EDF	European Disability Forum
EDRi	European Digital Rights
EU	European Union
EU AI Act	European Union Artificial Intelligence Act
EU AI Office	European Union Artificial Intelligence Office
FRIA	Fundamental Rights Impact Assessment
FREE-AI	Framework for Responsible and Ethical Enablement of Artificial Intelligence
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GPAI	General-Purpose Artificial Intelligence
IEC	International Electrotechnical Commission
ISO	International Organization for Standardization
IT Act	Information Technology Act (India)
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
RBI	Reserve Bank of India
SME	Small and Medium Enterprise
UK	United Kingdom
US	United States

1. INTRODUCTION

The European Union's Artificial Intelligence (AI) Act represents the world's first attempt at a comprehensive, risk-based regulatory framework for AI. As such, it marks a significant step in the global effort to govern emerging technologies. By establishing a unified approach, the Act harmonizes regulations across the EU and sets standards for accountability, risk management, and compliance.

Its early adoption, well ahead of comparable initiatives in other major economies, gives the EU a role in setting reference points that others may look to when considering domestic policy design, innovation strategies, or trade and technology relations. While the extent of its long-term influence remains to be seen, the Act already serves as one of the earliest large-scale

models of AI regulation.

Studying the EU AI Act is therefore important not because it provides ready-made solutions, but because it illustrates the opportunities and challenges of translating high-level regulatory ambitions into enforceable frameworks. It exposes the ongoing tensions between innovation and oversight, legal certainty and flexibility, and protection and competitiveness. Examining its provisions and anticipated socio-economic effects can help policymakers from other jurisdictions, businesses, and researchers to better assess the potential effects of such regulation on markets, investment, labour, and public trust in AI.

2. OBJECTIVE & SCOPE OF THE PAPER

This paper forms the second installment in a two-part series examining the regulatory trajectories of India and the European Union. While the first paper analysed India's approach to AI governance, this paper focuses on the EU's leadership in shaping global AI governance. It presents an in-depth examination of the EU AI Act, incorporates perspectives from key stakeholders, and contrasts the regulatory philosophies of the EU and India. Through this comparative lens, it aims to unpack how stakeholders in both regions conceptualise and implement AI regulation, and what broader lessons emerge from their divergent models. The paper is structured around four interrelated objectives:

2.1. ANALYSIS OF THE EU AI ACT

The paper analyses the EU's Artificial Intelligence Act in depth, unpacking its risk-based categorisation of AI systems, provisions on prohibited practices, transparency and accountability obligations, and extraterritorial reach.

2.2. MAPPING STAKEHOLDER ROLES IN THE EU LANDSCAPE

Beyond the law itself, the study explores how various stakeholder groups, including civil society organisations, think tanks, industry associations, tech companies, researchers, and regulators, have influenced, contested, and adapted to the AI Act. Understanding these dynamics reveals the competing values and interests that shaped the trajectory of European AI governance.

2.3. SOCIO-ECONOMIC IMPLICATIONS

The analysis also examines the broader socio-economic effects of the AI Act, including its impact on innovation ecosystems, investment flows, competitiveness, and the protection of fundamental rights within the EU. It further considers how the Act affects third countries that engage with Europe's regulatory sphere. The paper critically assesses the EU's "Brussels effect" and its potential role in setting global AI standards.

2.4. COMPARATIVE LENS: EU AND INDIA

Finally, the paper places the EU's approach in dialogue with India's evolving AI governance strategy. While the EU prioritises risk regulation and rights protection, India emphasizes responsible innovation, adoption, and scalability as engines of economic growth. By comparing these approaches, the paper critically evaluates how differences in political economy, institutional maturity, and development priorities shape regulatory choices and influence their outcomes.

3. WHAT IS THE EU-AI ACT?

As part of its broader digital strategy, the EU set out to regulate AI with the dual goal of fostering innovation while safeguarding fundamental rights. In April 2021, the European Commission tabled the world's first comprehensive AI law, anchored in a risk-based framework.¹ This initiative resulted in the EU-AI Act, widely recognised as the world's first holistic regulatory regime for AI. The Act classifies AI systems according to the level of risk they pose to users, with compliance obligations increasing in proportion to potential harm.² To prevent adverse outcomes, it emphasises the need for meaningful human oversight instead of delegating decisions entirely to automated systems. Through this legislation, the European Parliament also established a technology-neutral and uniform definition of AI, one designed to remain relevant as the technology continues to evolve.

3.1. SCOPE OF APPLICATION: MULTIPLE ACTORS, MULTIPLE RESPONSIBILITIES

The Act distributes obligations across six key actors: **providers, deployers, product manufacturers, importers, distributors, and authorised representatives.**

- A provider³ is any person who develops an AI system or a GPAI model under their own name or trademark. **Providers** bear the greatest regulatory burden because they play a central role in shaping AI design. They must implement risk and quality management systems,⁴ conduct conformity assessments,⁵ and maintain detailed documentation.⁶ This approach aligns with a risk-control logic, as most systemic harms can be traced back to how an AI system is built.

For high-risk AI systems, other operators will also be deemed providers and must meet the corresponding compliance obligations, if they: (1) Market or operate a high-risk AI system under their own name or trademark; (2) Make a '*substantial modification*' to a high-risk AI system that keeps it within the high risk category; or (3) Change the '*intended purpose*' of an AI system in a way that reclassifies it as high risk.⁷

- **Deployers** are essentially the business users of AI systems. The EU recognises that real-world harms often emerge at the point of deployment, not development, for instance, biased recruitment tools or unsafe decision-support systems in healthcare. Because deployers are uniquely positioned to observe AI systems in action, they are well placed to identify risks that may not have been apparent during the development phase. Accordingly, they must monitor the functioning of high-risk AI systems⁸ and take appropriate technical and organisational measures to ensure their use aligns with the provided instructions.⁹
- **Product manufacturers** are covered when AI is embedded into goods sold under their brand.¹⁰ For example, carmakers using AI for self-driving features are squarely within scope. In such cases, manufacturers must comply with the Act's requirements irrespective of establishment or location.
- **Importers** are those established in the EU who place on the market AI systems made by providers outside the EU¹¹. They act as gatekeepers, ensuring that non-EU AI complies with EU

¹ Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024, laying down harmonised rules on artificial intelligence (Artificial Intelligence Act), Official Journal of the European Union, L 2024/1689 (12 July 2024), entered into force 1 August 2024.

² EU AI Act, entered into force 1 August 2024.

³ EU AI Act, art. 3(3).

⁴ EU AI Act art. 17.

⁵ EU AI Act art. 43.

⁶ EU AI Act, art. 11.

⁷ EU AI Act, art. 25.

⁸ EU AI Act art. 26(5).

⁹ EU AI Act, art. 26(1).

¹⁰ EU AI Act, art. 2(1)(e).

¹¹ EU AI Act art. 3(6).

standards before reaching the market. Importers must verify conformity assessments, CE markings, and documentation before distribution.¹²

- **Distributors** cover all other intermediaries in the supply chain who make AI available in the EU, excluding providers and importers. Their role ensures that obligations do not slip through the cracks.
- **Authorised Representatives** serve as the EU-based point of contact for non-EU providers of both AI systems and GPAI models. They are required for high-risk systems and GPAI models before entry into the EU market.¹³ Their tasks include holding compliance documentation for ten years, verifying conformity assessments, and cooperating with regulators.¹⁴ This role mirrors the representative function in the GDPR¹⁵, reinforcing the EU's strategy of imposing extraterritorial

revised version.¹⁹ This iteration aligned more closely with the OECD's framing, defining AI as a "machine-based system" that operates with varying degrees of autonomy and generates outputs influencing physical or virtual environments. The revision prioritised conciseness, alignment with international standards, and a clear recognition of autonomy as a defining feature of AI.

Finally, the final adopted text under Article 3(1) introduced additional nuance to the definition of AI. The Act defines an AI system as:

*"A machine-based system designed to operate with varying levels of autonomy, which may exhibit adaptiveness after deployment, and which, for explicit or implicit objectives, infers from inputs how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments."*²⁰

3.2. DEFINITION OF AI SYSTEMS

The Draft General Approach of December 6, 2022,¹⁶ defined AI as a system designed to operate with elements of autonomy, using machine and/or human-provided data and inputs to achieve objectives through machine learning or logic- and knowledge-based approaches. This version stood out for explicitly listing the typical outputs of AI systems, such as content, predictions, recommendations, or decisions, and for acknowledging the human role in supplying data.¹⁷

Ahead of the European Parliament's vote on April 26, 2023, lawmakers debated and refined the text. By April 27,¹⁸ negotiators reached a political agreement, and on May 11, parliamentary committees endorsed the

In February 2025,²¹ the European Commission issued guidelines to clarify what qualifies as an "AI system" under the AI Act. These guidelines aim to help providers and other stakeholders determine whether their software falls within the scope of regulation. Simply put, if a system does not meet this definition, it does not fall under the Act's direct regulatory requirements.

The guidelines are non-binding and will evolve over time as new practices, questions, and use cases emerge. They also note that it is impossible to compile a definitive list of all AI systems. Instead, the guidance outlines key interpretive elements and identifies certain excluded systems, such as basic data processing, traditional rule-based software, and simple

¹² EU AI Act, art. 23(1).

¹³ EU AI Act, art. 22(1).

¹⁴ EU AI Act arts. 22, 54.

¹⁵ GDPR, art. 4(1) and art. 27.

¹⁶ Council of the European Union, "Draft General Approach by the Czech Presidency," note (Brussels, 11 November 2022), in Czech Presidency compromise text on the Artificial Intelligence Act, doc. 14336/22, Annex to note 14336/22 LIMITE TELECOM 440 JAI 1411 COPEN 375 CYBER 348 (Brussels, 11 November 2022).

<https://artificialintelligenceact.eu/wp-content/uploads/2022/11/AIA-CZ-Draft-General-Approach-11-Nov-22.pdf>

¹⁷ Ayesha Gulley & Airlie Hilliard, "Lost in Transl(A)t(ion): Differing Definitions of AI" *Holistic AI*, February 19, 2024. <https://www.holistic-ai.com/blog/ai-definition-comparison>

¹⁸ "MEPs seal the deal on Artificial Intelligence Act" Euractiv, April 27, 2023. <https://www.euractiv.com/section/tech/news/meps-seal-the-deal-on-artificial-intelligence-act/>

¹⁹ European Parliament, IMCO–LIBE Joint Committee, "Consolidated Committee Amendments (IMCO–LIBE): Artificial Intelligence Act," note (Brussels, 11 May 2023), PDF (144 pages), https://www.europarl.europa.eu/meetdocs/2014_2019/plmrep/COM-MITTEES/CJ40/DV/2023/05-11/ConsolidatedCA_IMCOLIBE_AI_ACT_EN.pdf.

²⁰ EU AI Act, art. 3(1).

²¹ European Commission, "The Commission Publishes Guidelines on AI System Definition to Facilitate the First AI Act's Rules Application," Shaping Europe's Digital Future (European Commission, 6 February 2025), <https://digital-strategy.ec.europa.eu/en/library/commission-publishes-guidelines-ai-system-definition-facilitate-first-ai-acts-rules-application>.

mathematical optimisation programs.²² The final definition rests on seven core elements.²³

1. **Machine-based system:** Encompasses a wide range of computational systems, from classical software to quantum or even bio-computational platforms, so long as they provide computational capacity.
2. **Varying autonomy:** The system must operate with some degree of independence. Fully manual systems requiring constant human control are excluded, although human oversight or delegated control does not negate autonomy.
3. **Potential adaptiveness:** The system may learn or adapt post-deployment, but adaptiveness is not prerequisite for classification as AI.
4. **Explicit or implicit objectives:** Explicit goals are those programmed by developers, while implicit ones may emerge from training data or interactions with the environment.
5. **Inference from inputs:** The system must derive outputs through inference rather than merely executing fixed, pre-coded instructions.

6. **Outputs (predictions, content, recommendations, decisions):** The system must generate outputs that go beyond mechanical data processing.

7. **Influence on physical or virtual environments:** AI systems may act on tangible objects (e.g., robotics) or affect digital environments (e.g., software ecosystems, data flows).

The Commission frames this definition through a lifecycle perspective, encompassing both the development phase (including design, training, testing) and the use phase (which involves deployment, adaptation, impact assessment).²⁴

3.3. RISK-BASED CATEGORISATION

The AI Act defines a framework to understand the risks associated with AI. It classifies AI systems based on their potential risks and divides them into different categories depending on the data they capture and the decisions or actions taken with that data.²⁵ The following table captures the various risk categories and corresponding obligations:

²² Burges Salmon, "EU Publishes Guidelines on Definition of AI System under AI Act," Burges Salmon, 6 February 2025, <https://www.burges-salmon.com/articles/102jze3/eu-publishes-guidelines-on-definition-of-ai-system-under-ai-act/>.

²³ Orrick, "EU Commission Clarifies Definition of AI Systems," Orrick Insights, 24 April 2025, <https://www.orrick.com/en/Insights/2025/04/EU-Commission-Clarifies-Definition-of-AI-Systems>.

²⁴ Whittaker, "EU Publishes Guidelines on Definition of AI System."

²⁵ KPMG, Decoding the EU AI Act: Understanding the AI Act's Impact and How You Can Respond (February 2024), <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2024/02/decoding-the-eu-artificial-intelligence-act.pdf>

Risk Category	Which AI Systems Are Covered?	Obligations
Unacceptable Risk²⁶	AI systems enabling manipulation, exploitation, or social control. These include: • AI systems that apply subliminal, manipulative or deceptive techniques to distort their behaviour or cause harm • Exploiting vulnerable groups • Carry out Social scoring • Indiscriminate scraping of facial images • Emotion recognition in workplace/education (except where the AI system is intended to be used for medical or safety reasons) • Categorisation based on sensitive traits (race, political opinions, religion) • Predictive policing on individuals • Remote biometric identification (partially banned, exceptions for law enforcement)	Prohibited entirely: use of such systems is banned.
The European Parliament had initially proposed a longer list of prohibited applications, including a complete ban on real-time biometric identification systems in publicly accessible spaces.²⁷ However, upon opposition from the Council, the Parliament eventually dropped the prohibition on using real-time biometric identification in exchange for certain law enforcement exceptions.²⁸		
High Risk	AI systems that negatively affect safety or fundamental rights will be considered high risk and will be divided into two categories: 1) AI systems that are used in products falling under the EU's product safety legislation. This includes toys, aviation, cars, medical devices and elevators.²⁹	High-Risk AI Obligations (by Operator Role)³⁰ 1. Providers: 1.1. Lifecycle Accountability: Must design, develop, and deploy AI with safety, transparency, and

²⁶ EU AI Act, art. 5(1)(a)–(h).

²⁷ EU AI Act, art. 2; European Parliament, "Consolidated Committee Amendments.": Ceyhun Necati Pehlivan and Peggy Valcke, "The EU Artificial Intelligence (AI) Act: An Introduction," in *AI Governance and Liability in Europe: A Primer*, ed. Ceyhun Necati Pehlivan, Nikolaus Forgó, and Peggy Valcke (Kluwer Law International, 2025); Ceyhun Necati Pehlivan, "The EU Artificial Intelligence (AI) Act: An Introduction," *Global Privacy Law Review*, Forthcoming (2024).

²⁸ Luca Bertuzzi, "AI Act: EU Commission Attempts to Revive Tiered Approach Shifting to General Purpose AI," *Euractiv*, November 20, 2023.

²⁹ EU AI Act, art. 6(1)(a).

³⁰ Pehlivan, "The EU Artificial Intelligence (AI) Act."

Risk Category	Which AI Systems Are Covered?	Obligations
	2) The second category of high-risk AI systems refers to standalone AI systems intended to be used in eight specific areas for very specific purposes. They are listed in Annex III of the AI Act³¹: a. Critical infrastructure (systems intended to be used as safety components in the management and operation of critical digital infrastructure, road traffic, or in the supply of water, gas, heating or electricity) b. Biometrics systems (intended to be used for remote identification, categorisation, or emotion recognition) c. Education & vocational training (e.g., automated scoring) d. Employment & recruitment systems e. Access to essential services (healthcare, insurance, credit scoring) f. Law enforcement (risk scoring, deepfake detection, evidence assessment) g. Migration, asylum & border control (document verification, application assessments) h. Justice & democratic processes (legal interpretation tools)	accountability at the core.³² 1.2. Risk Management: Continuous hazard assessment via pre-market checks & post-market surveillance.^{33 34} 1.3. Data Governance: Ensure quality, accuracy, and fairness of training/test datasets; prevent bias & unlawful data use.³⁵ 1.4. Documentation & Traceability: Maintain detailed records of design, development, and algorithms.³⁶ 1.5. Transparency to Users: Provide instructions, safety precautions, intended purpose.³⁷ 1.6. Incident Response: Mechanisms for swift reporting and corrective action.³⁸ 2. Deployers: 2.1. Responsible Use: Operate AI only per provider's instructions; ensure competent human oversight.³⁹

³¹ EU AI Act, Annex III.

³² EU AI Act, arts. 8, 16.

³³ EU AI Act, arts. 9, 17(1)(g).

³⁴ EU AI Act, arts. 9(2), 61.

³⁵ EU AI Act, art. 10(1).

³⁶ EU AI Act, arts. 13, 14.

³⁷ EU AI Act, arts. 13, 14.

³⁸ EU AI Act, arts. 17(1)(i), 73.

³⁹ EU AI Act, art. 26(1).

Risk Category	Which AI Systems Are Covered?	Obligations
		2.2. Data Input Duties: If controlling inputs, ensure relevance & representativeness.⁴⁰ 2.3. Operational Monitoring: Track system performance, log data (≥6 months), and report risks/incidents. 2.4. Transparency to Individuals: Notify workers, affected persons, and disclose decisions made by AI.⁴¹ 2.5. Special Cases: For biometric/emotion recognition AI → notify affected persons explicitly.⁴² 2.6. Risk Assessments: Conduct Fundamental Rights Impact Assessments (FRIA) (alongside DPIA under GDPR when relevant).⁴³ 3. Importers: 3.1. Gatekeeping Role: Verify conformity assessments, CE marking, technical documentation before market entry.⁴⁴ 3.2. Due Diligence: Ensure provider has appointed an EU representative.⁴⁵ 3.3. Market Integrity: Block placement if the system is non-compliant or documentation falsified.⁴⁶

⁴⁰. EU AI Act, art. 26(4)

⁴¹. EU AI Act, Art. 26(7)

⁴². EU AI Act, Art. 26(6).

⁴³. EU AI Act art. 27(1).

⁴⁴. EU AI Act, arts. 23(1)(c), 47.

⁴⁵. EU AI Act, arts 23(1)(d), 22(1).

⁴⁶. EU AI Act, art. 23(2).

Risk Category	Which AI Systems Are Covered?	Obligations
		3.4. Traceability: Affix importer's name, trade mark, contact info on product/docs. 3.5. Recordkeeping: Retain conformity docs & certificates for 10 years.⁴⁷ 3.6. Risk Mitigation: Inform providers/authorities of suspected risks; maintain safe storage/transport. 4. Distributors: 4.1. Verification Duties: Check CE marking, conformity declaration, instructions before making available.⁴⁹ 4.2. Compliance Gatekeeping: Prevent distribution of non-conforming or risky systems.⁵⁰ 4.3. Corrective Actions: If issues arise → ensure recall, withdrawal, or compliance measures. 4.4. Storage & Transport: Maintain compliance integrity during their custody.⁵¹ Maintaining appropriate storage and transport conditions is key to preserving the integrity and functionality of the AI system, thereby upholding its conformity to regulatory standards.

⁴⁷ EU AI Act, art. 23(3)

⁴⁸ EU AI Act, art. 23(5)

⁴⁹ EU AI Act, arts 23(1)(c), 47.

⁵⁰ EU AI Act, art. 23(7)

⁵¹ EU AI Act, art. 23(4).

Risk Category	Which AI Systems Are Covered?	Obligations
		4.5. Transparency & Cooperation: Provide info/documents on request; collaborate with authorities in risk mitigation. ⁵²
Limited Risk ⁵³	Some AI systems intended to interact with natural persons or generate content would not necessarily qualify as high-risk AI systems but may entail risks of impersonation or deception. This includes the outputs of most generative AI systems. In practice, the following AI systems are to be identified in this category: • Chatbots (e.g., ChatGPT-based) • Emotion recognition. • Biometric categorisation systems • Deepfake generation systems	1. Inform users that they are interacting with AI. 2. Disclose the presence of biometric/emotion recognition. 3. Label deepfake or artificially generated content.
Minimal Risk ⁵⁴	The AI Act does not define this category. It includes AI systems not in other categories, like AI-enabled video games or spam filters.	1. Only general product safety standards apply 2. Voluntary codes of conduct encouraged to foster trustworthy AI adoption.

3.4. OBLIGATIONS FOR GPAI MODELS UNDER THE EU AI ACT:

Category	Key Obligations
All GPAI Models ⁵⁵ (without systemic risk)	• Maintain up-to-date technical documentation (training, testing, evaluation). • Include information listed in Annex XI. • Provide documentation & information to downstream AI system providers (Annex XII).

⁵² EU AI Act, art. 23(6).

⁵³ KPMG, *Decoding the EU AI Act*. <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2024/02/decoding-the-eu-artificial-intelligence-act.pdf>

⁵⁴ *ibid.*

⁵⁵ EU AI Act, arts. 53–55; Annex XI; Annex XII.

Category	Key Obligations
	• Ensure compliance with EU copyright and related rights. • Publish a summary of training data (as per AI Office template). • Cooperate with the European Commission & national authorities. • May rely on codes of practice or harmonised standards.
Open-Source GPAI Models⁵⁶	• Exempt from certain obligations (e.g., technical documentation under Article 53) if released under a free/open-source licence (weights, architecture, and parameters publicly available). • Must still comply with copyright obligations. • Must cooperate with the European Commission & relevant authorities. • Exemption does not apply to models with systemic risk.
GPAI Models with Systemic Risk⁵⁷	• Classification based on high-impact capabilities (e.g., training $>10^{25}$ FLOPs, benchmarks, parameters, dataset size, user base). • The Commission may designate models via Annex XIII criteria. • Conduct adversarial testing and evaluations. • Perform systemic risk assessments at the EU level. • Report serious incidents without undue delay. • Implement robust cybersecurity measures. • Maintain ongoing cooperation with the AI Office & other authorities. • May rely on codes of practice or harmonised standards.

3.5. EXTRATERRITORIAL APPLICABILITY

A defining feature of the AI Act is its broad territorial scope. Much like the GDPR, it applies not only to organisations based within the EU but also to non-EU entities whose AI systems are placed on the EU market, put into service there, or produce outputs used within the Union. In effect, this means that a U.S. or Indian company whose AI tools indirectly impact EU users may still fall under the Act's jurisdiction. The intent is clear: to ensure that EU residents receive equal protection from AI-related harms, regardless of where the system originates.⁵⁸

While the logic behind the AI Act's extraterritorial reach is compelling, AI risks indeed transcend geography, the practical implications are significant. Even firms

with minimal exposure to the EU could face substantial compliance burdens, with costs that may outweigh the benefits of market participation. For smaller players, the pragmatic choice may be to avoid the EU market altogether, thereby reducing competition and limiting consumer choice.⁵⁹ Indian developers are particularly exposed to these challenges. A model shared on GitHub or deployed via a global cloud platform could be accessed or used within the EU without the developer's knowledge, still triggering potential liability. Moreover, EU companies, especially those engaged in procurement or public tenders, may be reluctant to collaborate with non-EU providers unless full compliance is demonstrated. This dynamic risks marginalising Indian innovators, not due to technical shortcomings, but because of regulatory friction.

⁵⁶ EU AI Act, art. 53(3)–(5).

⁵⁷ EU AI Act, arts. 51–52, 55–56, 78; Annex XIII

⁵⁸ Olivia Newbold, "Extra-territorial Application of the AI Act: How Will It Impact Australian Organisations?" DLA Piper, February 2, 2024, <https://www.dlapiper.com/en/insights/publications/2024/02/extra-territorial-application-of-the-ai-act-how-will-it-impact-australian-organisations>

⁵⁹ Morgan Lewis, "The EU Artificial Intelligence Act Is Here—With Extraterritorial Reach," *Morgan Lewis*, July 26, 2024, <https://www.morganlewis.com/pubs/2024/07/the-eu-artificial-intelligence-act-is-here-with-extraterritorial-reach>

Unlike the EU, India does not yet have a dedicated AI regulatory framework. Consequently, Indian developers may be compelled to comply with EU rules without having had any opportunity to shape them, echoing the asymmetry witnessed under the GDPR, which similarly curtailed market access. This extraterritorial effect underscores how European regulation can establish de facto global standards, often leaving external stakeholders to adapt retrospectively.

3.6. EXEMPTIONS: BALANCING SAFETY AND INNOVATION

Despite its broad scope, the AI Act introduces several **exemptions** to prevent overregulation. Uses related to national security, defense, and the military are excluded, an unsurprising carve-out given their strategic sensitivity of these domains.⁶⁰ Personal, non-professional use of AI is also exempt, reflecting the EU's intent not to stifle individual experimentation or creative use. Research and development activities, including pre-commercial testing, are largely excluded to preserve space for innovation.

Among the most debated provisions are those concerning **open-source AI**. The Act exempts most free and open-source models unless they are marketed as high-risk, fall into prohibited categories, or are used in transparency-sensitive contexts such as medical devices. This approach recognises the foundational role of open-source development in

advancing AI, while still accounting for instances where associated risks are significant. However, applying these distinctions in practice remains complex. For example, at what point does an open-source model, once integrated into a commercial application, become “high-risk”? Such ambiguities could generate regulatory uncertainty, potentially discouraging open-source contributions and experimentation.⁶¹

Determining whether certain AI systems should be banned is a complex and consequential decision. Prohibitions must be well justified and should only serve as a ultimate resort, invoked when no other mitigation measures are effectively address the associated risks. For a long time, discourse around AI governance emphasised the idea of “building better AI,” rarely considering the possibility of choosing not to build certain systems at all.⁶² However, mounting public concern and cross-sectoral pressure have pushed lawmakers to acknowledge that some AI applications may be fundamentally indefensible, whether in their development, deployment, or use.⁶³

3.7. MAPPING THE DEVELOPMENTS IN EU AI REGULATION

The EU AI Act has moved from legislation into its active implementation phase since entering into force on August 1, 2024. The Act's rollout follows a carefully structured timeline with staggered compliance obligations, allowing stakeholders time to adapt while ensuring progressive enforcement of its provisions.⁶⁴

⁶⁰ Plixavra Vogiatzoglou, “The AI Act National Security Exception,” *Verfassungsblog*, December 9, 2024, <https://verfassungsblog.de/the-ai-act-national-security-exception/>

⁶¹ Cailean Osborne, “What Open Source Developers Need to Know about the EU AI Act,” *Linux Foundation Europe*, April 3, 2025, <https://linux-foundation.eu/newsroom/ai-act-explainer>

⁶² Catharina Rudschies and Ingrid Schneider, “The Long and Winding Road to Bans for Artificial Intelligence: From Public Pressure and Regulatory Initiatives to the EU AI Act,” *Digital Society* 4, no. 57 (July 10, 2025), <https://link.springer.com/article/10.1007/s44206-025-00214-6#ref-CR46>

⁶³ Rudschies and Schneider, “The Long and Winding Road to Bans for Artificial Intelligence,” [https://link.springer.com/article/10.1007/s44206-025-00214-6#:~:text=Civil%20society%20organisations%20\(CSOs\)%20are,red%20lines%20for%20AI%20systems](https://link.springer.com/article/10.1007/s44206-025-00214-6#:~:text=Civil%20society%20organisations%20(CSOs)%20are,red%20lines%20for%20AI%20systems)

⁶⁴ Ernst & Young Global Limited (EY), “The European Union Artificial Intelligence Act: Latest Developments and Key Takeaways,” July 12, 2024, <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/public-policy/documents/ey-gl-eu-ai-act-07-2024.pdf>

3.7.1 Timeline of Key Developments

Date	Development	Description	Category
1 August 2024	EU AI Act enters into force	The Act becomes legally binding 20 days after publication in the Official Journal. Foundational rules and definitions take effect	Legal
2 November 2024	AI regulatory sandboxes preparation	Member States are required to begin establishing regulatory sandboxes under Article 57	National Implementation
2 February 2025	Prohibited AI practices ban	First major enforcement milestone: AI systems with unacceptable risks banned, including social scoring, emotion recognition in workplaces/schools, and behavioral manipulation. AI literacy requirements also apply	Enforcement
10 July 2025	GPAI Code of Practice published	The European Commission publishes a voluntary Code of Practice with three chapters focused on transparency, copyright, and safety & security	Technical Standards
1 August 2025	Code of Practice approved	The Commission and the AI Board formally approve the GPAI Code of Practice	Technical Standards
2 August 2025	GPAI obligations take effect	Second major milestone: General-purpose AI model obligations apply to new models. Member States must designate authorities and governance rules and penalties are activated.	Enforcement

4. MAPPING STAKEHOLDER PERSPECTIVES ON THE EU AI ACT

The evolution of the EU's AI Act has been shaped not only by legislators but also by a wide spectrum of stakeholders, including industry associations, civil society groups, academic experts, and national governments. Each has brought distinct priorities to the debate: businesses emphasising innovation and competitiveness, civil society advocating for stronger rights-based safeguards, and member states seeking to balance national interests with EU-wide harmonisation. Over time, these positions have shifted in response to technological advances, political negotiations, and rising public concerns about risks such as bias, surveillance, and misinformation. Understanding these evolving stances is essential to appreciating both the compromises embedded in the final text and the ongoing contestation surrounding its implementation.

4.1. NATION STATES

The EU AI Act underwent a long, iterative process during which member states took divergent positions, seeking to balance innovation objectives with regulatory safeguards. Today, these differences continue to manifest not only in their regulatory approaches but also in their investment strategies, with some states prioritising stringent oversight and ethical compliance, others focusing on industrial deployment and funding to accelerate AI adoption.

France was among the most vocal in opposing overly restrictive rules on foundation models, advocating

instead for regulation at the application level to safeguard competitiveness.⁶⁵ As the home of Mistral AI, one of Europe's leading GPT developers, France has emphasised the need to "resynchronise with the rest of the world,"⁶⁶ as articulated by President Emmanuel Macron in his call for regulatory simplification. Specially during the later stages of the development of the Act, France led efforts to dilute provisions banning AI surveillance tools, citing national security concerns. Further, it also pushed for a self-certification mechanism allowing companies to declare themselves as high-risk.⁶⁷ Both these positions were ultimately reflected in the final text of the Act.

It is important to note that the AI Action Summit in Paris marked a shift from theoretical discussions on AI safety and governance toward the practical challenges of implementation.⁶⁸ The summit's focus and outcomes underscored AI's vast potential to generate economic and social value, signalling a departure from the risk-centric tone of earlier international AI summits.⁶⁹ By contrast, the UK's Bletchley summit⁷⁰ in November 2023 had centered primarily on AI safety. Simultaneously, France has launched one of Europe's largest AI investments: a €109 billion National AI Plan⁷¹, prioritising infrastructure, semiconductors, talent development, public services, and industrial-scale deployment.

Germany was an early adopter of AI and one of the first nations to establish a national AI strategy.⁷² At that time, Europe was the global leader⁷³ in artificial intelligence research publications, ahead of both the

⁶⁵ Will Henshall, "E.U.'s AI Regulation Could Be Softened After Pushback From Biggest Members," *TIME*, November 22, 2023, <https://time.com/6338602/eu-ai-regulation-foundation-models/>

⁶⁶ <https://www.thehindu.com/sci-tech/technology/seeking-ai-boom-france-and-eu-promise-to-cut-red-tape-on-tech/article69205386.ece>

⁶⁷ <https://euobserver.com/digital/ardc3193c4>

⁶⁸ Megha Shrivastava, "Paris AI Action Summit: A missed opportunity?" *ORF*, February 25, 2025, <https://www.orfonline.org/expert-speak/paris-ai-action-summit-a-missed-opportunity>

⁶⁹ Diane Mullenex and Annabelle Richard, "Paris AI summit signals pivot from safety to adoption" *Pinsent Masons*, February 13, 2025, <https://www.pinsentmasons.com/out-law/analysis/paris-ai-summit-signals-pivot-safety-adoption>

⁷⁰ Sarah Cameron, "Global powers sign Bletchley declaration on AI safety", *Pinsent Masons*, November 2, 2023, <https://www.pinsentmasons.com/out-law/news/global-powers-sign-bletchley-declaration-on-ai-safety>

⁷¹ "Make France an AI Powerhouse" *AI Action Summit*, February 10 & 11, 2025 <https://www.elysee.fr/admin/upload/default/0001/17/d9c1462e7337d353f918aac7d654b896b77c5349.pdf>

⁷² "Strategie Künstliche Intelligenz der Bundesregierung" *National Strategie für Künstliche Intelligenz*, November, 2018 <https://www.publikationen-bundesregierung.de/pp-de/publikationssuche/strategie-kuenstliche-intelligenz-der-bundesregierung-2018-1551264>

⁷³ ZWISCHENBERICHT EIN JAHR KI-STRATEGIE https://www.bmas.de/SharedDocs/Downloads/DE/Pressemitteilung-2019/ki-ein-jahr-zwischenbericht.pdf?__blob=publicationFile&v=2

United States and China. In industry and research, Germany was a leader in Europe, pledging more than double⁷⁴ the public investment in AI as the United Kingdom or France, and serving as the home of more than 100 AI startups.⁷⁵ Then-Chancellor Angela Merkel enacted the 2018 national strategy, which provided a framework to position Germany as a base for trustworthy and sovereign AI.⁷⁶ Germany shared France's concerns about over-regulating AI models, pushing instead for innovation-friendly oversight.⁷⁷ Domestically, it has created a Sovereign Tech Agency with €51 million in funding to advance open-source foundational technologies, showing its preference for technological autonomy and open ecosystems.⁷⁸ The German government has also pledged to spend at least 3.5 percent of its GDP annually over the next five years to bolster critical technologies, including AI, quantum computing, and robotics.⁷⁹

Italy aligned with France and Germany during negotiations, favouring flexible rules over strict prohibitions.⁸⁰ It has since established the AI4I Institute, a holistic AI R&D and innovation hub, and allocated €1.895 billion from EU Recovery Funds for national AI deployment projects across sectors.⁸¹

Spain, by contrast, adopted a stricter regulatory approach, introducing legislation that mandates labelling of AI-generated content (including deepfakes) with steep penalties for non-compliance. It too is investing heavily, channeling €1.2 billion from EU Recovery Funds into national AI initiatives.⁸²

Denmark became the first EU country to enact legislation implementing the EU AI Act provisions, positioning itself as a regulatory pioneer.⁸³ In contrast, the Swedish Prime Minister has called for a pause in Act's implementation, a stance echoed by the Czech Republic and Poland. These countries have voiced concerns that Europe may fall behind technologically and that certain applications may become unavailable in the EU market. They argue that companies should be given more time to comply with the provisions of the Act.⁸⁴

The fact that 19 out of 27 EU member states failed to announce their AI regulators by the August 2, 2025 deadline underscores a broader trend within the Union: a preference for looser AI regulations to support industry and foster the development of indigenous foundational models. This delay, particularly among major nations such as Germany, France, Belgium, Italy, and Austria, suggests a cautious approach to implementation.

A key factor contributing to this hesitation may be the delay in finalising the Codes of Practice for General Purpose AI (GPAI) (the Code), which has been a point of contention particularly for European companies. Many argue that implementing the Code could stifle the growth of the EU's AI ecosystem.⁸⁵

⁷⁴ AI Index Steering Committee, (Yoav Shoham, Raymond Perrault, et al.), "The AI Index 2018 Annual Report", *Human-Centered AI Initiative*, Stanford University, December 2018.

https://hai.stanford.edu/assets/files/ai_index_2018_annual_report.pdf

⁷⁵ Andreas Liebl & Alexander Waldman, "Smartening up with Artificial Intelligence (AI) - What's in it for Germany and its Industrial Sector?" *McKinsey & Company, Inc.*, <https://www.mckinsey.com/~media/mckinsey/industries/semiconductors/our%20insights/smartening%20up%20with%20artificial%20intelligence/smartening-up-with-artificial-intelligence.pdf>

⁷⁶ Zane Davis, "The State of AI in Germany" *American German Institute*, July 31, 2025 <https://americangerman.institute/2025/07/the-state-of-ai-in-germany/>

⁷⁷

⁷⁸ Teuta Toth Mucciariaro, "Funding open source: case study on the Sovereign Tech Fund" *Open Source Observatory*, June 19, 2025, <https://interoperable-europe.ec.europa.eu/collect/open-source-observatory-osor/document/funding-open-source-case-study-sovereign-tech-fund>

⁷⁹ The Federal Ministry of Education and Research, Germany, "Federal Government Report on the High-Tech Strategy 2025- The High-Tech Strategy – a successful model for Germany as a strong country of innovation" https://www.bmbf.de/SharedDocs/Publikationen/DE/FS/657232_Bericht_zur_Hightech-Strategie_2025_en.pdf?__blob=publicationFile&v=2

⁸⁰ Will Henshall, "E.U.'s AI Regulation Could Be Softened After Pushback From Biggest Members" *Time*, November 22, 2023. <https://time.com/6338602/eu-ai-regulation-foundation-models>

⁸¹ The Italian Institute of Artificial Intelligence for Industry, "Transformative Oriented Research" <https://ai4i.it/>

⁸² "Spain to impose massive fines for not labelling AI-generated content" *Reuters*, March 12, 2025. <https://www.reuters.com/technology/artificial-intelligence/spain-impose-massive-fines-not-labelling-ai-generated-content-2025-03-11>

⁸³ Luis Rijo, "Denmark impose massive fines for not labelling AI-generated content" *PPC Land*, July 16, 2025. <https://ppc.land/denmark-sets-precedent-with-early-ai-act-implementation-legislation/>

⁸⁴ Peter Haeck, "Swedish PM calls for a pause of the EU's AI rules", *Politico*, June 23, 2025. <https://www.politico.eu/article/swedish-pm-calls-to-pause-eu-ai-rules/>

⁸⁵ "Delayed EU Code of Practice Provides Compliance Framework for General-Purpose AI Models", *Perkins Coie*, July 22, 2025. <https://perkins-coie.com/insights/update/delayed-eu-code-practice-provides-compliance-framework-general-purpose-ai-models>

4.2. CIVIL SOCIETY ORGANISATIONS

Civil society actors have consistently advocated for a rights-first approach in the AI Act. As AI deployment expanded and evidence of risks and harms, CSOs were among the earliest stakeholders to demand “red lines” for high-risk applications. Many examined AI technologies through petitions, demonstrations, and open letters, urging restrictions where such systems posed unacceptable threats to individuals or society. In January 2021, for instance, 61 CSOs from across Europe signed an open letter to the European Commission, calling for limits on AI systems that “unduly restrict human rights.”⁸⁶ In response to these concerns, CSOs also urged EU institutions to incorporate Fundamental Rights Impact Assessments (FRIAs) as a safeguard to evaluate whether AI systems should be developed, deployed, or used.⁸⁷

Coalitions such as #ProtectNotSurveil,⁸⁸ led by Access Now, EDRI, PICUM, and others, argued that AI regulation must protect the rights of all people, not only EU citizens.³ They campaigned against intrusive applications such as migration control, predictive policing, biometric surveillance, and emotion recognition, insisting these should be explicitly banned rather than merely subject to general safeguards. More recently, in July 2025, 52 CSOs urged the Commission not to reopen or weaken the Act, warning that deregulatory trends risk undermining public trust.⁸⁹ Similarly, groups such as BEUC and the European Disability Forum (EDF) have emphasised the need for strong safeguards for consumers and vulnerable groups, highlighting transparency, redress mechanisms, and enforceable liability provisions to ensure accountability and prevent discriminatory outcomes.

Despite these efforts, CSOs remain sharply critical of the final compromises in the AI Act, particularly the

national security exemptions and surveillance loopholes that emerged in Council negotiations. Diluted restrictions on AI-driven surveillance have granted police and border authorities broad discretion to deploy such tools in public spaces.⁹⁰ Critics argue that these carve-outs allow the monitoring of refugees, political protests, and civic gatherings under the guise of national security, eroding safeguards once central to the Act. Groups such as the Equinox Initiative for Racial Justice and Amnesty International warn that these exemptions undermine constitutional protections and past European Court of Justice rulings, shifting the Act from a human rights–protective framework to a pro-industry, pro-security instrument.⁹¹

4.3. THINK TANKS AND POLICY

Bruegel, a European think tank, has raised concerns that the lack of clarity in the Act could stifle the operations of AI deployers and developers while increasing compliance costs for startups and SMEs. It considers the EU AI Act as only the beginning of a lengthy regulatory process that delegates significant responsibility to the EU AI Office to draft implementation acts and guidelines on issues such as copyright, competition, and the implementation of the GPAI Code of Practice.⁹² This view is echoed by Carnegie Europe, which recommends that the European Commission work with European and international standard-developing organisations such as the European Committee for Standardisation (CEN), the European Committee for Electrotechnical Standardisation (CENELEC), the International Organisation for Standardisation (ISO), and the International Electrotechnical Commission (IEC) to develop detailed guidelines to prevent violations of fundamental rights by AI systems.⁹³

Another think tank, the Center for Data and Innovation, has claimed that implementing the EU AI Act could cost

⁸⁶ Access Now, Amnesty International, European Digital Rights (EDRI), Human Rights Watch, Internet Freedom Foundation (IFF), and Instituto Brasileiro de Defesa do Consumidor (IDEC), “Open letter calling for a global ban on biometric recognition technologies that enable mass and discriminatory surveillance” June 2, 2021.

<https://www.accessnow.org/wp-content/uploads/2022/08/BanBS-Statement-English.pdf>

⁸⁷ “150 Human Rights Organisations Call on EU Institutions To Protect People’s Rights in The EU AI Act” *European Center for Not-for-Profit Law*, July 12, 2023 <https://ecnl.org/news/150-human-rights-organisations-call-eu-institutions-protect-peoples-rights-eu-ai-act>

⁸⁸ “The EU must end the use of surveillance technology on migrants and racialised minorities” *EU #Protect Not Surveil* <https://protectnotsurveil.eu/>

⁸⁹ EDRI, “Open letter: European Commission must champion the AI Act amidst simplification pressure” July 9, 2025

<https://edri.org/our-work/open-letter-european-commission-must-champion-the-ai-act-amidst-simplification-pressure/>

⁹⁰ Maria Maggiore, Leila Minano & Harald Schumann, “France spearheaded successful effort to dilute EU AI regulation” *Euobserver*, January 22, 2025 <https://euobserver.com/digital/ardc3193c4>

⁹¹ *ibid.*

⁹² Bertin Martens, “The European Union AI Act: premature or precocious regulation?” *Bruegel*, March 7, 2024. <https://www.bruegel.org/analysis/european-union-ai-act-premature-or-precocious-regulation>

⁹³ Hadrien Pouget and Ranj Zuhdi, “AI and Product Safety Standards Under the EU AI Act” *Carnegie Endowment for International Peace*, March 5, 2024. <https://carnegieendowment.org/research/2024/03/ai-and-product-safety-standards-under-the-eu-ai-act?lang=en>

stakeholders upwards of €31 billion over the next five years and reduce AI investments by 20%.⁹⁴ The Future of Life Institute has argued that the Act must consider not only the impact on individuals, but also on society at large, recommending that societal-level harms such as widespread disinformation and manipulation by social media algorithms be addressed through mandatory technical documentation assessing the societal impact of AI applications.⁹⁵

Think tanks such as the Corporate Europe Observatory (CEO) and LobbyControl have accused major big tech companies of misusing their influence during the later stages of developing the GPAI Code of Practice, thereby diluting its provisions.⁹⁶

In essence, think tanks have articulated a range of concerns that mirror the broader challenges associated with the EU AI Act.

4.4 MULTINATIONAL TECH ENTERPRISES

The Computer and Communications Industry Association (CCIA) of Europe, representing major technology companies such as Alphabet, Microsoft and Meta, has urged the European Commission to adopt a reasonable timeline for the Act's implementation to ensure that developers and deployers can comply effectively.⁹⁷ The Business Software Alliance (BSA), which represents firms like Amazon Web Services (AWS), IBM and Oracle, has sought greater clarity on issues such as qualification criteria for GPAI models, safeguards for trade secrets and proprietary data, and proportionality in the classification of high-risk systems.⁹⁸ Google has voiced concerns about exposing proprietary information and hindering innovation; Elon Musk's xAI

has only endorsed the chapter on safety and security while opting out of commitments on transparency and copyright; and Meta has declined to sign altogether, calling the Code vague and potentially destabilising for Europe's AI ecosystem.⁹⁹

4.5. EUROPEAN BUSINESSES/STARTUPS

European businesses have shown mixed reactions to the EU AI Act. While many welcome its objective of fostering trust and legal certainty for AI innovation, concerns persist regarding the pace and complexity of its implementation. In mid-2025, over 45 business leaders from the EU AI Champions Initiative, representing startups such as Mistral, Black Forest Labs, alongside established firms such as Mercedes-Benz and Siemens Energy, signed an open letter urging the European Commission to delay enforcement of certain provisions of the Act by two years¹⁰⁰. They argued that unclear rules and divergent interpretations across member states could increase compliance costs and undermine competitiveness.

A key issue raised by companies is the lack of clarity in defining who qualifies as an AI "provider" versus a "deployer."¹⁰¹ Businesses such as Mirakl emphasise that without clear distinctions, compliance becomes uncertain and inconsistent across Europe. Smaller firms, in particular, worry about the high cost of meeting complex obligations compared to larger U.S. players. Executives also warn that if companies such as OpenAI or Anthropic were to withdraw from the EU market, European firms could lose access to advanced models, placing them at a global disadvantage.¹⁰²

Startups such as Mistral and Aleph Alpha take a more optimistic view, stating that the final version of the Act,

⁹⁴ Benjamin Mueller, "How Much Will the Artificial Intelligence Act Cost Europe?" *Center for Data Innovation*, July 2021.

⁹⁵ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12527-Artificial-intelligence-ethical-and-legal-requirements/F2665546_en

⁹⁶ Cynthia Kroet, "Big Tech watered down AI Code of Practice: report" *Euro News*, April 4, 2025. <https://www.euronews.com/next/2025/04/30/big-tech-watered-down-ai-code-of-practice-report>

⁹⁷ "AI Act: EU Leaders Urged to Pause Implementation, Amid Growing Concerns" *Computer & Communications Industry Association*, June 26, 2025. <https://ccianet.org/news/2025/06/ai-act-eu-leaders-urged-to-pause-implementation-amid-growing-concerns/#:~:text=CCIA%20Europe%20stresses%20that%20additional,development%20across%20the%20European%20Union>.

⁹⁸ "EU: BSA Cautions Against Overbroad Classification of High-Risk AI Systems" *Business Software Alliance*, July 18, 2025. <https://www.bsa.org/news-events/news/eu-bsa-cautions-against-overbroad-classification-of-high-risk-ai-systems>

⁹⁹ The AI Track Team, "26 Tech Firms Back EU AI Code As Enforcement Begins, Meta And Belgium Oppose" *the AI Track*, August 2, 2025. <https://theaitrack.com/eu-ai-code-of-practice-2025-signatories/>

¹⁰⁰ Johannes Schildt, Anton Osika, Fredrik Hjelm and others, Europe must hit pause on the AI Act" <https://2sifted.eu/articles/ai-act-pause-opinion-eu-european-startups>

¹⁰¹ Ibid

¹⁰² "Trojan horses: how European startups teamed up with Big Tech to gut the AI Act" *Corporate Europe Observatory*, March 11, 2024. <https://corporateeurope.org/en/2024/03/trojan-horses-how-european-startups-teamed-big-tech-gut-ai-act>

after revisions, is workable and even beneficial for building “European champions.”¹⁰³ Their position reflects a broader divide: while some businesses see the law as a necessary foundation for public trust, others fear it could stifle innovation and make Europe less competitive compared than the U.S. or China.

EU startups have largely echoed broader industry concerns, warning that implementation must not be rushed. They argue that hurried and opaque enforcement could create legal uncertainty and compliance burdens that only large incumbents can bear, leading to market consolidation.¹⁰⁴ In a letter published by Sifted and supported by leading European startups, they called for a pause in the implementation of the EU AI Act, citing fears of consolidation due to prohibitive compliance costs which remain unaffordable for startups.¹⁰⁵ Overall, European businesses are seeking clearer definitions, consistent enforcement across member states, and additional time to adapt, underscoring the delicate balance the EU must strike between ensuring safety and rights protection and sustaining innovation and competitiveness.

4.6. AI RESEARCHERS AND OPEN-SOURCE ADVOCATES

Hugging Face, an open-source AI platform, has argued that the principles of open-source AI can support adherence to the principles of the EU AI Act, as they promote transparency and enable developers to demonstrate compliance with standards of fairness, explainability, and safety.¹⁰⁶ Conversely, other open-source GPAI advocates, such as the Open Source Initiative, have expressed concerns about the implementation of the EU AI Act, contending that the Code restricts the freedom of use traditionally guaranteed by open source. They warn that developers may be forced to choose between remaining open source and complying with the Code, potentially discouraging companies from adopting open-source approaches out of fear of non-compliance.¹⁰⁷

¹⁰³ Joana Soares, “Mistral, OpenAI say will respect EU’s AI Code of Practice” *EU Perspectives*, July 17, 2025 <https://euperspectives.eu-/2025/07/mistral-and-openai-back-eu-ai-code-of-practice/>

¹⁰⁴ <https://www.fintechweekly.com/magazine/articles/eu-ai-act-startups-call-pause>

¹⁰⁵ <https://sifted.eu/articles/ai-act-pause-opinion-eu-european-startups>

¹⁰⁶ Arun Govil, “Hugging Face Advocates Open-Source AI in Regulatory Framework” <https://www.linkedin.com/pulse/hugging-face-advocates-open-source-ai-regulatory-framework-amit-govil-gsraf/>

¹⁰⁷ Jordan Maris, “Ensuring Open Source AI thrives under the EU’s new AI rules” *Open Source Initiative*, March 27, 2025 <https://open-source.org/blog/ensuring-open-source-ai-thrives-under-the-eus-new-ai-rules>

5. SOCIO-ECONOMIC IMPACT OF THE EU-AI ACT

The EU AI Act, with its strong emphasis on compliance and risk mitigation, has generated significant debate about its wider socio-economic consequences. Although the Act is still in its early implementation phase, several studies have already assessed its potential effects on innovation, market competitiveness, and social outcomes. This section explores these anticipated impacts, examining how the legislation may influence technological advancement, business strategies, and the delicate balance between safeguarding citizens and enabling economic growth.

5.1. ECONOMIC IMPLICATIONS

The EU AI Act represents a deliberate trade-off between safeguarding fundamental rights and fostering innovation. While big tech companies, industry stakeholders, and member states pushed back against more stringent provisions of the Act, many Civil Society Organisations (CSOs) have expressed concern¹⁰⁸ that it adopts a pro-enforcement and pro-industry stance, whilst wavering away from the EU's traditional role as a normative leader in technological governance and its historical emphasis on human rights protection.¹⁰⁹

The EU stands at an important juncture: should it maintain its leadership in digital regulation that upholds fundamental rights, or should it move toward deregulation to ease burdens on domestic industries and foster an innovation-friendly environment? This balance is difficult for the EU to strike, given the

number and diversity of stakeholders affected by cross-sectoral AI regulations and guidelines. As highlighted in the previous chapter, all stakeholders bring distinct priorities, with some member states eager to align the Act with national legislation,¹¹⁰ while others remain hesitant, driven by their domestic ambitions for AI development.¹¹¹

Many critics of the EU AI Act base their arguments on economic grounds. They fear that the Act could stifle innovation, increase compliance costs for startups, and hinder indigenous AI development. The EU AI Act is expected to have an immediate economic impact, characterised by high compliance and certification costs. For businesses, specially SMEs and startups, the financial penalties for non-compliance, which can reach up to €35 million or 7% of global turnover, act as a strong deterrent, compelling firms to invest in risk management and robust compliance frameworks.¹¹² Beyond penalties, the estimated annual governance-related cost for a high-risk AI model can exceed €52,000 per year, with additional expenditures required for frequent retraining or updates. Certification expenses, whether through EU-type audits or internal Quality Management Systems, further add to the compliance burden.¹¹³

The cost-intensive regime proposed by the EU AI Act is expected to have varying effects on companies. Established corporations and big tech firms would be in a better position to absorb compliance expenses, giving them a head start in navigating regulation. On

¹⁰⁸ Ness James, "Civil society Statement on Artificial Intelligence (AI) Act guidelines" *European Disability Forum Report Discrimination*, January 20, 2025. <https://www.edf-fehp.org/publications/civil-society-statement-on-artificial-intelligence-ai-act-guidelines/>

¹⁰⁹ Raluca Csernaton, "The EU's AI Power Play: Between Deregulation and Innovation" *Carnegie Endowment for International Peace*, May 20, 2025. <https://carnegieendowment.org/research/2025/05/the-eus-ai-power-play-between-deregulation-and-innovation?lang=en>

¹¹⁰ Team AI Regulation, "EU AI Act Implementation: Denmark Published Its National Law [1/27]" *MIAI Grenoble Alpes*, July 11, 2025. <https://ai-regulation.com/eu-ai-act-implementation-denmark-published-its-national-law/>

¹¹¹ "AI Watch: Global regulatory tracker - France" White & Case, July 16, 2024. [https://www.whitecase.com/insight-our-thinking/ai-watch-global-regulatory-tracker-france#:~:text=As%20noted%20above%2C%20there%20are,September%202023%20\(as%20discussed%20above\)](https://www.whitecase.com/insight-our-thinking/ai-watch-global-regulatory-tracker-france#:~:text=As%20noted%20above%2C%20there%20are,September%202023%20(as%20discussed%20above))

¹¹² Konrad Meier & Roger Spichiger, "The EU AI Act: What it means for your business" *EY*, March 15, 2024. https://www.ey.com/en_ch/insights/forensic-integrity-services/the-eu-ai-act-what-it-means-for-your-business

¹¹³ "Understanding the EU AI Act penalties and achieving regulatory compliance" January 10, 2024, 2021. AI <https://2021.ai/news/understanding-the-eu-ai-act-penalties-and-achieving-regulatory-compliance#:~:text=Overall%20governance%2Drelated%20costs,less%20expensive%20EU%2Dtype%20audit.>

the other hand, startups and smaller innovators would struggle with overheads, which could slow down their growth, and deter innovation as well as stifle competition.¹¹⁴ The normative power enjoyed by the EU over technology regulation, as witnessed previously through the GDPR, gives it considerable geopolitical influence in defining the contours of technological governance in the face of emerging technologies worldwide. However, in the current scenario, the United States and China are dominating AI innovation through supply chain dominance and favourable regulation.¹¹⁵

The fear of being left behind in the AI race has pushed the EU towards deregulation. Only a year ago, Brussels took a firm stance in asserting its regulatory authority in the digital space with the AI Act and promises of codes of practice, technical standards, and an AI Liability Directive that would assign accountability to rogue algorithms.¹¹⁶ All of that seems uncertain now. The DSA has experienced uneven implementation, with several EU member states struggling to meet the February 2024 deadline to designate their Digital Service Coordinators (DSCs).¹¹⁷ Further, the European Commission withdrew the new AI Liability Directive in February 2025 due to a lack of consensus among lawmakers and industry pressure for simplification.

It is therefore clear that the EU is attempting to forge a regulatory regime that upholds the moniker of “Brussels Effect” and maintains its supremacy in technology regulation, while ensuring that innovation is not stifled and industry stakeholder interests are preserved. Many recent moves toward deregulation stem from economic concern, driven by fears of falling further behind the US and China in the technological race, with several countries reluctant to burden their growing industries under a new AI regime.

5.2. SOCIAL IMPLICATIONS

The EU AI Act's social safeguards aim to protect fundamental rights but leave critical gaps for vulnerable groups. Although the Act bans AI systems that exploit characteristics such as age, disability, or socio-economic status, CSOs have expressed concerns that exemptions for law enforcement and national security permit intrusive surveillance practices—biometric recognition, predictive policing, and emotion analysis, that disproportionately target refugees, protesters, and racial minorities.¹¹⁸ Persistent algorithmic bias, documented in cases such as the Dutch childcare-benefit scandal and facial-recognition misidentifications, underscores that “human-oversight” provisions alone cannot prevent discriminatory outcomes.¹¹⁹

In workplaces, high-risk AI tools must meet transparency and notification requirements, yet enforcement mechanisms remain weak. Employees subject to automated hiring, monitoring, or performance evaluation often lack clear avenues for redress when algorithms err or discriminate.¹²⁰ More broadly, the Act's selective bans on social scoring and manipulation contrast with security carve-outs that threaten civic freedoms and public trust.¹²¹

Article 5 of the Act bans AI systems that use subliminal techniques to distort a person's behaviour, causing physical or psychological harm. This provision highlights the Act's recognition of the societal harms that unchecked AI systems can cause. The Future of Life Institute recommends broadening the scope of this clause, noting that individuals may find it difficult to prove a direct causal link between subliminal manipulation and the resulting harm.¹²²

¹¹⁴ Rosalia Mazza, “EU AI Act Faces Backlash from Startup Leaders Demanding Implementation Pause” *Fintech Weekly*, July 1, 2025. <https://www.fintechweekly.com/magazine/articles/eu-ai-act-startups-call-pause>

¹¹⁵ “Announcing the Stargate Project,” *OpenAI*, January 21, 2025, <https://openai.com/index/announcing-the-stargate-project/>; and Graham Webster et al., “Full Translation: China's ‘New Generation Artificial Intelligence Development Plan’ (2017),” *DigiChina* (blog), August 1, 2017, <https://digichina.stanford.edu/work/full-translation-chinas-new-generation-artificial-intelligence-development-plan-2017/>.

¹¹⁶ Tambiama Madiaga, “Artificial Intelligence Liability Directive,” *European Parliamentary Research Service*, February 2023, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/739342/EPRS_BRI\(2023\)739342_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/739342/EPRS_BRI(2023)739342_EN.pdf).

¹¹⁷ Polona Car, “Enforcement of the Digital Services Act at national level is still very limited owing to delayed implementation,” *European Parliament*, November 21, 2024. <https://epthinktank.eu/2024/11/21/enforcing-the-digital-services-act-state-of-play/>

¹¹⁸ Ness James, “Civil society Statement on Artificial Intelligence (AI) Act guidelines” *European Disability Forum Report Discrimination*, January 20, 2025 <https://www.edf-feph.org/publications/civil-society-statement-on-artificial-intelligence-ai-act-guidelines/>

¹¹⁹ “Reframing Minority Rights Amid Global Challenges: The Role of AI and Algorithmic Fairness in Promoting Diversity and Inclusion” *Eurac Research*, May 12, 2025 <https://www.eurac.edu/en/blogs/midas/reframing-minority-rights-amid-global-challenges-the-role-of-ai-and-algorithmic-f>

¹²⁰ Sala Riso, Chiara Litardi, “Employee monitoring: A moving target for regulation” *Eurofound*, July 15, 2024. <https://www.eurofound.europa.eu/en/publications/all/employee-monitoring-moving-target-regulation>

¹²¹ Dr. Srabonty Das Gupta, “The EU AI Act and Its Adherence to the European Convention on Human Rights” *EmildAI*, <https://emildai.eu/the-eu-ai-act-and-its-adherence-to-the-european-convention-on-human-rights/>

¹²² “FLI Position Paper on the EU AI Act” *Future of Life Institute*, August 4, 2021.

<https://futureoflife.org/wp-content/uploads/2021/08/FLI-Position-Paper-on-the-EU-AI-Act.pdf>

A positive societal impact of the EU AI Act can be realised only if its provisions are effectively implemented and supported by national legislation. Under the Act, member states must establish national competent authorities, namely a market surveillance authority to ensure only compliant AI products enter the market and a notifying authority to oversee and monitor conformity assessment bodies. In addition, they must also designate a national public authority responsible for enforcing fundamental rights obligations for high-risk AI systems. These bodies are expected to act independently, possess adequate resources, and cooperate closely with the Commission to ensure consistent and effective enforcement across the Union.¹²³ Hence, the scale of societal impact within each member state depends on how actively a country adopts the Act and aligns it with national legislation. For instance, Spain's draft AI law, already approved by the Council of Ministers, aligns with the EU AI Act and promotes ethical and inclusive AI development. The law establishes the Spanish Artificial Intelligence Supervisory Agency (AESIA) as the central authority. AESIA oversees prohibited AI practices and high-risk systems, while sector-specific regulatory bodies manage specialised areas.¹²⁴

Spain aims to operationalise an AI framework that unlocks economic and social benefits in key sectors such as education, healthcare, and industry while

ensuring that high-risk uses meet the strictest standards of transparency, accountability, fairness, and human oversight.¹²⁵ The EU AI Act expects member states to adopt standards that minimise societal harms caused by AI systems. For instance, reports indicate that AI language models can reflect gender and ethnic bias, and algorithms used in social benefit services may display discriminatory behavior toward certain nationalities and ethnicities due to faulty training data. Similarly, AI in credit scoring can produce biased outcomes and facial recognition technologies are prone to racial profiling and systematic discrimination.¹²⁶ The implementation of the EU AI Act and the Code of Practice for GPAI are expected to address these issues by introducing frameworks, guardrails, and penalties; however, cooperation among member states remains essential to achieve the intended results.

Many CSOs have expressed concerns that law enforcement agencies have received considerable exemptions in adopting remote biometric authentication and predictive policing which may disproportionately affect migrants and the EU AI systems used outside the EU.¹²⁷ Ensuring that AI governance truly serves social justice will require robust enforcement, accessible remedies for affected individuals, and sustained civil-society pressure to

¹²³ "Overview of all AI Act National Implementation Plans" EU Artificial Intelligence Act, November 8, 2024

<https://artificialintelligenceact.eu/national-implementation-plans/>

¹²⁴ "Spain: Understanding the draft AI law" *Data Guidance*, May 20, 2025 <https://www.dataguidance.com/opinion/spain-understanding-draft-ai-law>

¹²⁵ "AI Watch: Global regulatory tracker - Spain" *White & Case*, June 9, 2025. <https://www.whitecase.com/insight-our-thinking/ai-watch-global-regulatory-tracker-spain#:~:text=Spain%20now%20follows%20the%20four,limited%20risk%2C%20with%20mainly%20transparency>

¹²⁶ "Reframing Minority Rights Amid Global Challenges: The Role of AI and Algorithmic Fairness in Promoting Diversity and Inclusion" *Eurac Research*, May 12, 2025. <https://www.eurac.edu/en/blogs/midas/reframing-minority-rights-amid-global-challenges-the-role-of-ai-and-algorithmic-f>

¹²⁷ Ness James, "Civil society Statement on Artificial Intelligence (AI) Act guidelines" European Disability Forum Report Discrimination, January 20, 2025 <https://www.edf-feph.org/publications/civil-society-statement-on-artificial-intelligence-ai-act-guidelines/>

6. COMPARING THE EU AND INDIAN APPROACHES TO AI GOVERNANCE

The European Union's AI Act and India's AI governance approach represent two distinct models for regulating artificial intelligence, reflecting their different priorities, economic contexts, and governance philosophies.

GOVERNANCE PHILOSOPHIES:

The EU's approach is centered on a risk-based framework that classifies AI systems by their potential harms, imposes strict obligations on high-risk and general-purpose AI models, and prioritises citizen safety, fundamental rights, and market harmonisation across member states through omnibus legislation. This compliance-heavy architecture reflects the EU's long tradition of technology regulation, similar to the GDPR model, where protecting individuals and creating legal certainty are paramount. The focus remains on managing risks before scaling innovation, even if that means slower AI adoption. This challenge is evident in adoption data: while the EU has set a target of 75% enterprise adoption of AI by 2030, as of 2024 only 13.5% of enterprises had integrated AI.¹²⁸

Unlike the EU's attempt at a single comprehensive framework, India has opted for an innovation-led, impact-driven approach to AI governance. Rather than creating a standalone AI law, it relies on existing regulatory instruments, such as the Information Technology Act (IT Act) and the Digital Personal Data Protection Act (DPDP Act), while issuing principle-based, sector-specific guidance. User safety is also addressed through these sectoral regimes, many of which already apply to AI systems in practice.

This distinction underscores an important point: regulating AI is not the only way to prioritise user safety. The key question is not whether regulation exists, but how it is structured and implemented. If sectoral laws can adequately address AI-related risks

while allowing space for innovation, then such an approach may be as effective as a single omnibus framework.

A defining feature of this approach is its focus on clarifying how existing regulations apply to AI. This is an ongoing effort led by various regulatory and policy bodies across sectors. For example, the RBI constituted the Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) committee,¹²⁹ which recently released its report proposing seven guiding principles to promote responsible AI use in the financial sector, providing some clarity on AI applications in finance. Similarly, the DPIIT has set up a committee to examine the implications of generative AI on copyright law,¹³⁰ while the Competition Commission of India (CCI) recently released its market study exploring competition and antitrust issues within the AI landscape.¹³¹ The overall strategy is thus incremental: tackle each area individually, provide guidance where possible, assess emerging challenges, and carefully study the issues before moving toward formal regulation. This stepwise, adaptive model seeks to create practical governance pathways that encourage AI adoption while ensuring responsible boundaries for its use. The results are visible in practice: according to a 2024 Boston Consulting Group study, 30% of Indian enterprises are already optimising value through AI, making India a global leader in enterprise adoption.¹³²

The philosophical difference is clear:

- For the EU, governance is about containing risks and maintaining trust in AI before scaling up.
- For India, governance is about maximising opportunities, ensuring inclusion, and positioning itself as a global AI hub while managing risks in a flexible and adaptive way.

¹²⁸ "Usage of AI technologies increasing in EU enterprises" *Eurostat*, January 23, 2025 <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20250123-3>

¹²⁹ Saloni Shukla "RBI announces 'FREE-AI' committee to develop AI framework" *The Economic Times*, December 26, 2024. <https://economictimes.indiatimes.com/news/economy/policy/rbi-announces-free-ai-committee-to-develop-ai-framework/articleshow/116684195.cms?from=mdr>

¹³⁰ "Government of India Constitutes Committee on AI and Copyright" *Intellopedia*, May 9 2025. <https://www.bananaip.com/intellopedia/ai-and-copyright/>

¹³¹ Aakriti Bansal, "India Forms Committee to Study the Intersection of AI and Copyright Law" *Medianama*, May 1, 2025. <https://www.medianama.com/2025/05/223-india-ai-copyright-law-committee/>

¹³² "India Leads in AI Adoption, says BCG Study", *IndiaAI*, November 26, 2024. <https://indiaai.gov.in/news/india-leads-in-ai-adoption-says-bcg-study>

This orientation is reflected in the forthcoming India AI Impact Summit 2026, which aims to move beyond abstract regulatory debates and instead highlight AI as a cornerstone of India's development strategy. The Summit's framework is built around three sutras: People, Planet, and Progress, which emphasise human-centric AI, environmental sustainability, and equitable socio-economic growth. Rather than focusing solely on risk, India's approach embeds AI into its broader development strategy, centering on themes such as human capital, inclusion, resilience, science, democratisation of AI resources, and social good.¹³³

- **People:** This sutra affirms that AI must serve humanity in all its diversity, respecting cultural identities, preserving dignity, and ensuring that no one is left behind. It calls for AI systems that are multilingual, gender-equitable, accessible, and culturally contextualised, while advancing robust frameworks for safety and trust.
- **Planet:** This sutra underscores the dual imperative of making AI development and deployment resource-efficient and environmentally sustainable, while highlighting its applications in areas such as agriculture and climate resilience.
- **Progress:** This sutra captures the vision of harnessing AI to drive inclusive economic growth, foster innovation, and democratise access to resources.

By anchoring AI governance in these sutras, the Summit signals a decisive shift in India's narrative **from regulating AI to showcasing its real-world impact as a driver of inclusive and sustainable development.**

Prime Minister Modi's framing of governance at the Paris AI Action Summit further illustrates India's departure from the EU model. Governance, in his words, is "not just about managing risks and rivalries, but also about promoting innovation and deploying it for global good."¹³⁴ By rooting AI governance in social good, equitable access, and Global South needs, India has shifted the conversation from containing risks to showcasing transformative impact.

This is not to suggest that the EU's approach has remained static. While safety and risk management have long been at the core of its AI strategy, the EU has now begun to pivot toward fostering innovation. In its 2025 Work Programme, the European Commission announced plans for an AI Continent Action Plan aimed at boosting AI uptake and supporting development through initiatives such as AI factories.¹³⁵ It has also scaled up its financial commitments: in February 2025, the Commission launched the InvestAI initiative, designed to mobilise €200 billion in AI investment.¹³⁶ In the broader global AI race, where every major nation is striving to lead in the development of this transformative technology, the EU is actively repositioning itself.

ECONOMIC CONTEXTS:

The economic implications of the two approaches diverge sharply:

- The EU prioritises legal certainty and market harmonisation but risks slowing down AI deployment and innovation due to compliance burdens and fragmented national interpretations.
- India, by contrast, projects AI as a growth engine. Its AI market is projected to reach \$17 billion by 2027, growing at 25–35% annually, with AI expected to contribute up to \$500 billion to GDP by 2025 and nearly \$957 billion by 2035. Job creation is also central, with 1.25 million new AI-driven jobs anticipated by 2027, leveraging India's large pool of AI talent, around 16% of the global workforce.

In sum, while the EU's AI Act positions Europe as the global standard-setter for restrictive AI regulation, India's *IndiaAI* Mission positions the country as a laboratory for AI-driven development, reflecting its domestic imperatives and aspirations for technological leadership. Both approaches embody values of responsibility and inclusion, yet their methods, emphases, and economic outcomes are fundamentally distinct.

¹³³ India AI Impact Summit, 2026 <https://impact.indiaai.gov.in/home>

¹³⁴ "Opening Address by Prime Minister Shri. Narendra Modi at the AI Action Summit, Paris" February 11, 2025. https://www.mea.gov.in/Speeches-Statements.htm?dtl/39020/Opening_Address_by_Prime_Minister_Shri_Narendra_Modi_at_the_AI_Action_Summit_Paris_February_11_2025

¹³⁵ "AI factories" *Think Tank European Parliament*, February 14, 2025. [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2025\)769492](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2025)769492)

¹³⁶ "EU launches InvestAI initiative to mobilise €200 billion of investment in artificial intelligence" Press Release, February 11, 2025 https://ec.europa.eu/commission/presscorner/detail/en/ip_25_467

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