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Gulf SWFs look to AI investments in diversification, competitiveness push

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In February 2025, OpenAI CEO Sam Altman was set to visit Abu Dhabi for talks with MGX, the Emirate's key AI-oriented fund, over a fresh investment round for the ChatGPT maker. It was a sign of how in a relatively short space of time, the Gulf's Sovereign Wealth Funds (SWFs) have put themselves at the centre of global AI financing and are harnessing their capital for a competitive advantage at home.

Our second piece on regional SWFs will look at how and why the major players in the Middle East have been actively prioritizing AI, both in terms of outbound overseas investment and in attracting tech firms into the region.

Significant capital from Gulf funds has flowed into AI-related businesses in recent years, across generative AI start-ups, semiconductors, chips, infrastructure, data centres and more. In parallel, global giants such as Amazon, Microsoft, Google and others have announced multi-billion dollar partnership deals with the United Arab Emirates (UAE), Saudi Arabia and others, seeking to benefit from low-cost energy resources, available land, a growing market and an attractive regulatory environment.

While the SWFs lack the global reach and innovation to compete directly with US or Chinese tech giants themselves, or achieve the scale required for chip or semiconductor production, they have invested in partnership with others and looked at more niche areas where they can add value or acquire new technology to use at home.

Yet this strategy is not without risk, given the rapidly-changing nature of the sector, unexpected technical breakthroughs, heady valuations and the ongoing geopolitical decoupling around the world which is making technology and data access more sensitive.

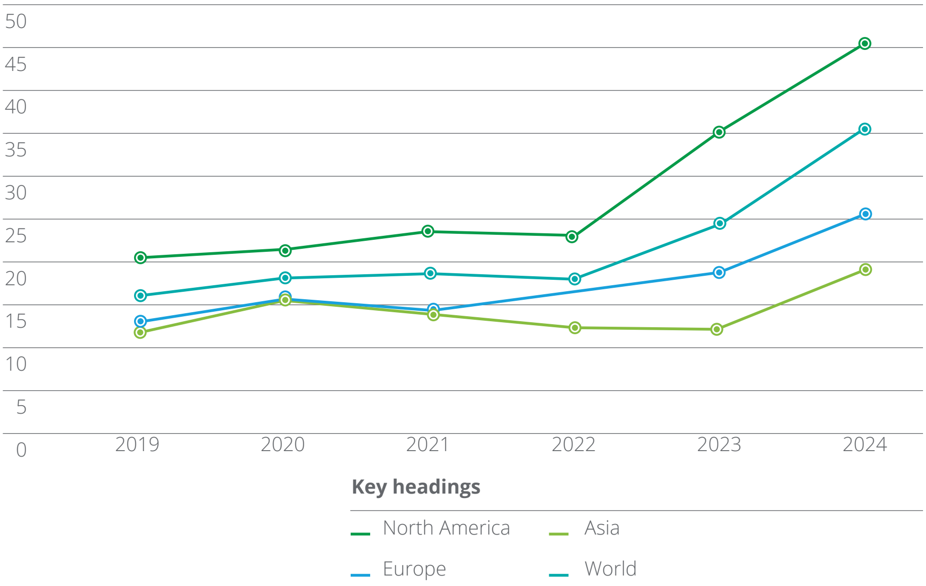

Figure 1: Share of AI and machine learning investment in total VC funding, per region

Source: PitchFork

AI deals gather momentum

Gulf governments have long included AI in their strategic plans, seeing the wider tech sector as a means of economic diversification and a valid investment opportunity. Qatar, for example, launched a National Artificial Intelligence Strategy back in 2019, setting out six pillars of development for 2030. In the same year the UAE released its National AI Strategy 2031, perhaps the most ambitious in the region, which aims to position the country as a global AI leader and generate 40% of GDP from the sector.

Riyadh, meanwhile, wants AI to contribute 12% to GDP by the end of the decade. It is recently said to have earmarked up to $100bn for a major new initiative, reportedly called Project Transcendence, and aims to overtake the UAE as the region's leading AI hub. This would fit with last year's pivot by the Public Investment Fund (PIF) towards domestic development rather than outbound investment.

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The SWFs have become key vehicles for executing these plans, willing to take big bets on high-risk AI companies while underpinning efforts to bring cutting-edge technology into the Gulf. The past two years in particular have seen a marked increase in the number and profile of announcements by SWFs, especially from the Qatar Investment Authority (QIA), the Saudi PIF and the various state-controlled funds in Abu Dhabi linked to Mubadala and the Abu Dhabi Investment Authority (ADIA).

The QIA, for example, led a $125m funding round in November for Cresta, a San Francisco-based generative AI platform used for customer workflows. It also took part in a December funding round for Elon Musk's xAI, alongside the Oman Investment Authority (OIA), and owns a sizable stake in Databricks, a Silicon Valley data and AI platform firm.

Saudi Arabia has recently announced a flurry of AI agreements, many backed by the PIF and its affiliates including the Saudi Company for Artificial Intelligence (SCAI). In early 2025 the PIF inked a partnership with Google to build a major data centre near Dammam that will market Google Cloud services in the region and create an AI hub, while Amazon Web Services (AWS) announced plans last year to spend $5.3bn on data centres and cloud infrastructure in the Kingdom.

Numerous deals were also agreed at the recent LEAP conference in Riyadh, including a $5bn, 1.5GW-capacity data centre at the Neom mega-project with local firm DataVolt, a new Lenovo plant with PIF subsidiary Alat, a $75m AI investment from US-based Zoom, and other infrastructure roll-outs by local groups Mobily and Alfanar.

Arguably the highest-profile Gulf player on AI, however, has been Abu Dhabi. In 2018 it set up an investment vehicle called G42, now part-owned by Mubadala and one of several AI-focused entities in the Emirate. G42 has agreed various high-profile partnerships and acquisitions in recent years, both domestically and overseas, and last year announced a $1.5bn investment from Microsoft, the terms of which were still under negotiation at the time of writing.

G42 and Mubadala have also established a new entity called MGX, which has partnered with BlackRock and Microsoft on a venture called the Global AI Infrastructure Investment Partnership. With a focus on infrastructure, core technologies and their supply chains, it aims to spend up to $100bn in the coming years, mainly in the US. In early 2025 MGX then announced it would take part in the US government's ambitious Stargate project, along with SoftBank, OpenAI and Oracle, which has a headline figure of $500bn on AI infrastructure investment by 2029.

ADIA, meanwhile, has partnered with Singapore's SC Capital Partners to target data centre deals in Asia-Pacific, and has set up an institution called ADIA Lab to study machine learning, data and computational research. Abu Dhabi's Mohamed Bin Zayed University for Artificial Intelligence (MBZAI), established in 2019, now offers a range of higher education and research programmes in the field.

That academic approach has borne fruit in the development of an Arabic large language model (LLM) called JAIS, led by a G42 company called Inception. Its latest version was released in August 2024 and claims to deliver Arabic-English bilingual capabilities at an "unprecedented size and scale". G42 also plans to roll out a Hindi LLM called NANDA, which is being developed jointly by Inception, the MBZAI and a California-based firm called Cerebras.

More broadly, the Gulf funds are now giving greater weight to their Chief Technology Officers (CTOs) in decision-making, whether shaping RFPs issued to consultants, identifying KPIs or assessing the AI angle of other investments and initiatives. There is also an awareness of the need to build up in-house expertise on AI, especially in such a fast-changing field.

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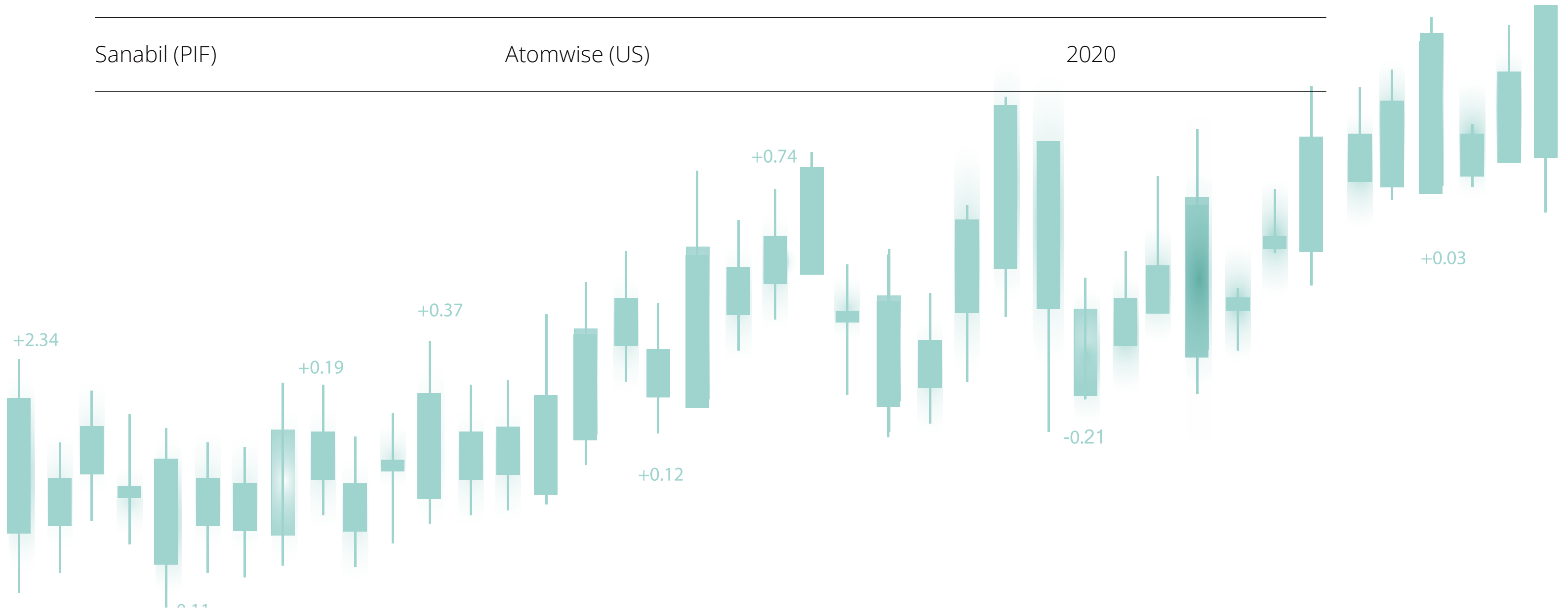
Selected AI investments and announcements by Gulf SWFs

Entity	Target/partner	Date
QIA	Databricks (US)	2023 / 2025
QIA	Kokusai Electric Corporation (Japan)	2023
QIA	Ardian Semiconductor (France)	2024
QIA	Cresta (US)	2024
QIA/OIA	xAI (US)	2024
MGX	Stargate (US)	2025
MGX	Global AI Infrastructure Investment Partnership (BlackRock/Microsoft)	2024
G42	Khazna (UAE)	2025
Mubadala	OpenAI (US)	2024
Mubadala	AppliedAI (UAE)	2025
Mubadala	Yondr (UK)	2024
Mubadala	Aligned Data Centers (US)	2023
Sanabil (PIF)	Atomwise (US)	2020



Rationale and risks

The push into AI by Gulf SWFs has clearly been enabled by capital, but also by a willingness to move rapidly on what could be a once-in-a-generation technological and societal shift. At home, the funds have benefitted from a supportive regulatory environment for new technology, as well as the prospect of lower-cost production to support infrastructure – although this will still require significant investment in generation capacity.

Various motives lie behind the strategy. The first is financial: SWFs are willing to bet that some AI players will achieve major technological or commercial breakthroughs, just as a handful of social media players emerged as dominant after the mid-late 2000s. Consolidation or flotations are likely in the coming years, which may present more tangible exit opportunities than have so far been evident.

A second rationale is domestic economic diversification, with AI being one strand of a wider long-term plan to reduce reliance on hydrocarbons. Qatar, the UAE and Saudi Arabia all believe that AI and tech can be major contributors to GDP in a post-oil era, just as sports, tourism, aviation, financial services and others are also being targeted for investment.

Saudi Arabia in particular has focused on a local element to its AI push, with much of the state investment being chaneled into home-grown, private-sector firms with a mostly local workforce, whereas the UAE – with its much smaller population of nationals – has worked largely with international companies and talent.

A third motive is the opportunity to acquire new technology to use at home. Through SWF investments in cutting-edge AI firms overseas, Gulf states can gain early access to technology or infrastructure that might otherwise be unavailable, benefitting areas as diverse as the automation of government services, oilfield efficiency or medical screening. With AI so newly-emerging, the GCC feels it can leapfrog established, legacy economies where change is slower and more complicated to implement.

This ties in with plans by the UAE, Saudi and Qatar to increase populations and consumer market size by attracting more overseas nationals. Having efficient, cost-effective services powered by AI is a competitive advantage, as is a skilled workforce specialized in the sector. A security and privacy angle is also at play: Gulf states can seek to build the infrastructure to retain data inside their own borders, rather than relying on overseas storage.

The push into AI is not without potential risks, however. The technology involved is moving faster than most people had contemplated and can become obsolete in a matter of months, despite attracting extremely high valuations. The launch of China's DeepSeek chatbot in early 2025 wiped almost $600bn in a single day from the value of chipmaker Nvidia, in which several Gulf SWFs own stakes, illustrating the potential for sharp changes in market sentiment.

Some of the earlier-stage AI firms that have attracted SWF investment will simply fail or be overtaken by competitors, while past performance in the tech sector has been mixed: both Mubadala and the PIF were major investors in Softbank's first VisionFund, for example, which according to estimates has delivered a negative return since being set up in 2016.

A further complication is geopolitics, particularly against the backdrop of US-China competition to develop new technology and secure supply chains. US officials have raised specific concerns over GCC links to China, for example over the G42 and Microsoft partnership. A raising of trade barriers to protect technology being leaked could therefore leave some SWF investments isolated, although US tech firms are aware of the potential Gulf demand for AI infrastructure and have urged the relaxation of export controls.

Whatever happens on specific partnerships, Gulf SWFs have clearly identified AI as a major financial and strategic opportunity. As the sector matures and consolidates in the coming years, a clearer differentiation of strategies and a more selective approach to deals is likely – ironically enabled by AI itself – as funds tighten their focus on delivering tangible benefits to the domestic economy.

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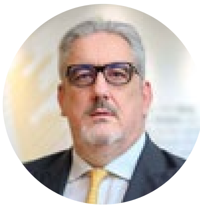
Key contacts

Julie Kassab | Partner
jkassab@deloitte.com

Julie Kassab is the European and MENA Sovereign wealth fund leader, which includes a number of globally prominent and GCC market leading SWF's, where the region is recognized as a center of SWF concentration, in number, diversity and AUM.

Julie is responsible of bringing the best of Deloitte global networks, to a highly knowledgeable client base, from the Investment management community, leading a team dedicated to the SWF community.

Julie is a Partner within Deloitte's Financial Service practice and has an experience of more than 25 years in providing services to clients in this industry as well as other industries.



James Hewitt| Director
jhewitt@deloitte.com

James Hewitt is a dedicated SWF financial services sector expert, working in both the investment industry & consultancy roles totalling 35 years working across Sovereign Wealth Funds & their subsidiaries. Working with the MENA SWF community since 1991 and being based in GCC for 17 years.

Focused upon the investments, the investment process, Governance Risk and Compliance to support the C suite SWF ambitions, bringing knowledge from the global SWF.

Muzzi Ebrahim l Partner
muebrahim@deloitte.com

Muzzi is a Partner in the Deloitte Middle East Consulting practice focusing on AI & Data within the Financial Services Industry.

He is a seasoned practitioner with over 20 years of experience in both corporate and consulting roles and has global experience including end-end technology, data, analytics and AI transformation and specialized advisory across a wide range of topics primarily within the financial services industry, as well as within Public Sector, Energy, Technology and Telecommunications. Muzzi specifically leads the AI & Data focus at SWF clients for the Middle East practice.

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