



Insights

# Momentum to invest in Gulf AI data centers tested by widening Middle East conflict

## Key Takeaways

- Strikes on technology and energy infrastructure in the UAE and Bahrain have highlighted the vulnerabilities of data center facilities in the Gulf region for investors.
- Even before the emergence of artificial intelligence, which increased demand for computing power significantly, data centers had become critical infrastructure and potential targets for attack.
- Over the long term, however, U.S.-led investment in Gulf data centers will remain resilient despite heightened levels of conflict in the Middle East; governments and firms in the Gulf region have updated risk management protocols and deepened contingency planning, and most U.S. and Gulf investors will continue to view the geopolitical risk as manageable.
- The Gulf's AI infrastructure maintains commercial appeal, though its operational vulnerabilities — especially regarding power, connectivity, and physical security — will attract intensified scrutiny from corporations, insurers, and governments in the short term.
- In the long term, Gulf countries' ties to China, and the extent to which the region can prevent technology leakage to China, will remain an equally important geopolitical issue.

## In 2026, operational continuity at Gulf AI centers will be tested but technology infrastructure will prove resilient.

On February 28, the U.S. and Israel launched large-scale military strikes against Iran. In the days since, residents of the Middle East have faced an ever-widening war, as Iran and its proxy groups have launched hundreds of missiles and drone attacks on numerous Gulf states, targeting U.S. military bases and technology and energy infrastructure across the region. The week-long war has halted commercial traffic through the Strait of Hormuz to a near-standstill and severely disrupted air traffic in the region.

Following the previous, more limited U.S. and Israeli attacks on Iran's enrichment facility at Fordow in June 2025, and Iran's largely symbolic response thereafter, investors viewed the risks in the region as largely manageable. Iran responded to the U.S. attack on its enrichment facility at Fordow by firing missiles at the U.S. air base in Qatar; while unprecedented, the response was almost entirely symbolic and designed to minimize physical damage and casualties. Iran's leadership had suffered a heavy blow and was eager to preserve the cease-fire, giving the regime space to focus on domestic stability and reconstruction. Today, that paradigm has clearly changed. Nevertheless, **investors should feel confident over the long-term regarding both the Gulf states' ability to maintain security and safety, and to provide resilient infrastructure.**

Since Hamas's October 2023 attacks on Israel sparked a broader regional conflict, the UAE and Saudi Arabia have taken steps to preserve economic stability and investor confidence as the two nations continue advancing their economic diversification agendas and technology partnerships.

UAE equity markets are down from their all-time highs but have begun to rebound from initial declines caused by the outbreak of hostilities. Most Gulf indexes will eventually return to pre-conflict levels, depending on how quickly the conflict can be wound down. Although the conflict is now in its second week, no significant capital flight has taken place. Market activity has to date largely reflected typical risk adjustments rather than panic.

**Nevertheless, the remarkable momentum in data center and related infrastructure investment in the region witnessed over the last 20 months will be tested throughout the rest of this year.**

Data centers depend on reliable electricity and digital infrastructure, both of which cross regions vulnerable to disruption, such as the Strait of Hormuz. AI campuses have so far avoided direct impacts. However, past disturbances to energy transport and shipping — not to mention the direct strikes from Iranian drones on Amazon Web Services data centers in Bahrain and the UAE — highlight the potential for spillover effects from the Middle East conflict.

Recent Iranian threats, Houthi activity, and actions such as GPS jamming of ships in the Red Sea and the Persian Gulf have raised concerns about operational continuity. Even as a complete shutdown of AI and other data centers remains unlikely, regional cyberattacks linked to Iranian groups against critical systems elsewhere reinforce the need for robust contingency measures.

The mobility of skilled labor is essential for AI progress. However, elevated conflict and risk perceptions may deter foreign researchers, engineers, and partners from working in the Gulf. While diplomatic efforts might cushion these effects, long-term challenges cannot be dismissed.

Even after the cessation of military strikes, Gulf-based data centers will continue to be within reach of Iranian missiles and drones, and their geographic concentration and status as U.S.-affiliated assets make them potential targets in both this war and future escalations. The U.S. has invested heavily to protect infrastructure in the region, helping to mitigate some of the risks. Still, firms now recognize that AI campuses carry significant strategic importance beyond their business value.

## **A trillion dollars' worth of U.S.-Gulf deals are at stake.**

Countries of the region have made substantial investments to leverage AI to drive economic diversification efforts and establish themselves as global technology and AI hubs.

The U.S. and Gulf Cooperation Council (GCC) members — with Saudi Arabia, the UAE, and Qatar chief among them — are leveraging powerful synergies to deepen their long-term partnership. U.S.-origin advanced technologies are combining effectively with Gulf financial resources and inexpensive energy resources to produce substantial opportunities for collaboration. GCC states are pursuing domestic and international ambitions, like the Saudi Vision 2030 and the Emirati Artificial Intelligence Vision 2031.

At the same time, the U.S. is seeking to counter increasing Chinese influence in global markets, especially in the high-tech space. These objectives are creating strong incentives for Washington to deepen its cooperation with the GCC countries across AI, strategic technology, mining, and critical minerals. Going forward, the Gulf's dynamism and attractiveness as a trade and

investment partner, coupled with the U.S. security presence, will cement the region's status as an area of prosperity and set it apart from other markets, even amidst war with Iran.

The Trump administration will continue encouraging U.S. technology companies to seek AI deals and partnerships in Saudi Arabia and the UAE. The aim is to cultivate alliances that would prevent China from leveraging ties to the region in efforts to compete more effectively in emerging technologies. Cloud computing requires substantial capital and affordable energy, and Saudi Arabia and the UAE have abundant supplies of both, conflict risk notwithstanding.

The "U.S.-UAE AI Acceleration Partnership," which establishes a government-to-government framework to deepen AI collaboration between the two countries, reflects the Gulf region's unique status. It includes the largest AI infrastructure initiative outside the U.S.: the 5 GW UAE-U.S. AI Campus in Abu Dhabi. The project will be built by Abu Dhabi-based AI group G42 and operated in partnership with several U.S. companies.

## **Gulf AI development maintains a strong outlook over the long-term, but risk will build as volatility persists.**

Going forward, governments in the region will remain committed to diplomacy and reducing tensions, reinforcing global investor confidence. For technology companies, international investors, as well as the White House, interest in project development remains strong. Following the cessation of military activity, the lure of capital, energy, land, and infrastructure in the Gulf is likely to outweigh the geopolitical risk over the long term. Ongoing volatility, however, could eventually prompt investors to reassess their willingness to accept exposure to strategically sensitive sites. Ongoing transparency about security, crisis management, and infrastructure protection will be essential for maintaining capital flows. Over the longer term, the more relevant geopolitical risk for AI investments in the Gulf is the region's close relationships with China.

Abu Dhabi agreed to higher security standards to address Washington's concerns about technology leakage to China. However, apprehensions persist among regulators in Washington over the region's ties to China and the capacity of western partners in the region to effectively implement and sustain monitoring systems governing access to advanced compute resources. The Trump administration is betting that the fast and wide proliferation of U.S. technology will entrench the U.S.-dominated AI ecosystem. But if Gulf projects become a nexus for technology leakage — especially to China — hardline officials within the administration could push to reinstate controls on projects currently in the pipeline that were lifted following the rescission of the Biden administration's AI diffusion rule. The U.S. Commerce Department is currently drafting a replacement for that rule, and we expect the imposition of some computing caps. The debate remains highly contentious in Washington, however, with White House AI Czar David Sacks opposing strict controls, particularly for exports of advanced compute capacity to data centers in the Middle East.

If the current debate results in a less onerous regime around exports of advanced AI compute, then the White House preference for fast and wide adoption of US technology may minimize concerns about Gulf countries; if U.S. AI chips are circulating more widely, then the Gulf connection is not uniquely problematic, though there are few other options for siting large AI datacenters and powering them with lower cost energy sources.

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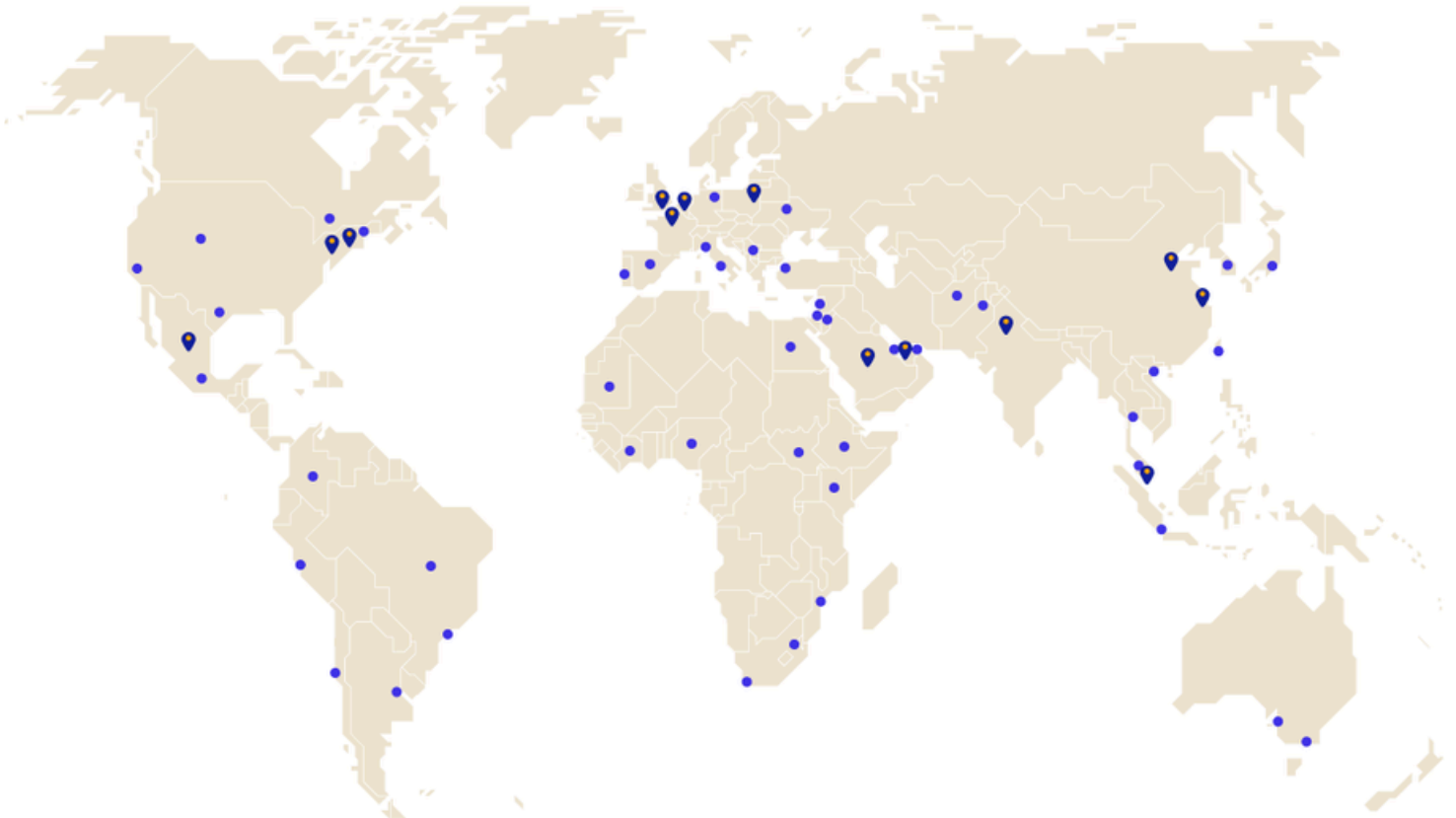
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