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Tips For US Investors Eyeing Middle East Data Centers

By **Haykel Hajjaji** (July 28, 2025, 3:54 PM EDT)

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The Middle East's data center map is being redrawn significantly, with Saudi Arabia targeting 2 gigawatts of capacity by 2030, through its newly launched AI outfit Humain, and the United Arab Emirates racing to build Stargate UAE, which could be the world's largest artificial intelligence campus.

President Donald Trump's visit to Riyadh, Saudi Arabia, Doha, Qatar, and Abu Dhabi, United Arab Emirates, in May unlocked headline-making chip deals, most notably a framework allowing the UAE to import up to 500,000 Nvidia graphics processing units a year, and smaller — but still record-breaking — shipments to Saudi Arabia.

This framework has reversed Biden-era curbs that had treated the entire Persian Gulf as a high-risk reexport zone, triggering significant interest from investors, including hyperscale operators and sovereign wealth funds, in data centers in the region.

Yet, the May deal announcements also emphasize the ways Middle East data center deals diverge — sometimes dramatically — from U.S. or European market practice. These differences affect every stage of a transaction, from due diligence to deal structuring, contract negotiation, execution and operations.

Ownership Structures

One of the most fundamental distinctions in the Middle East concerns foreign ownership. Although several jurisdictions have liberalized their investment regimes, restrictions persist, particularly outside of designated free zones. For example, full foreign ownership of onshore entities in the UAE may be restricted in specific sectors,[1] and Saudi Arabia may impose minimum capital requirements to allow foreign investors to own 100% of onshore assets.[2]

Additionally, land ownership in certain areas remains prohibited to non-Gulf nationals. The UAE permits 100% foreign ownership when the entity is established within economic free zones such as the Abu Dhabi Global Market or the Dubai International Financial Centre, which are popular jurisdictions for hosting holding companies owning data centers in the Middle East.[3]

These constraints require careful upfront analysis of land rights, corporate structures and licensing vehicles. Most data center developments operate on long-term land use rights — typically musataha or usufruct arrangements — rather than freehold titles. Ensuring that these rights are properly registered and transferable is essential, particularly when they serve as security in project finance structures.

Additionally, contractual protections for international investors, such as enhanced governance rights or protective provisions for minority shareholders, are frequently necessary.

Data Sovereignty Requirements

Middle Eastern jurisdictions have also adopted a stringent approach to data sovereignty. Although modeled in part on the European Union's General Data Protection Regulation, laws such as Saudi Arabia's Personal Data Protection Law[4] and the UAE's federal data protection law[5] impose conditions on the cross-border transfer of data.

Certain categories of data — especially those involving health, financial services or government entities — may be required to be stored and processed locally. This affects both the technical design of data center infrastructure and the commercial viability of multijurisdictional models.

Investors must assess whether facilities intended to serve a regional client base may instead be required to operate as country-specific availability zones. Contractual arrangements — particularly service-level agreements and cross-connect terms — should include clear provisions for data localization costs, and include mechanisms to address changes in applicable law.

Licensing and Regulatory Frameworks

In contrast to the U.S. or European Union, data center operations in the Middle East often fall under the supervision of telecommunications or information and communication technologies regulators. In Saudi Arabia, for instance, operators must register with the Communications, Space and Technology Commission under regulations specific to data center services.[6] These regulatory regimes may entail various compliance requirements, including periodic cybersecurity audits, power usage disclosures and minimum physical security standards.

Legal due diligence must verify whether licensing and regulatory requirements are triggered by the project's architecture, ownership structure or service model. Delays or omissions in licensing processes can have material consequences on delivery timelines and operational continuity of the data centers.

Local Government Participation

Sovereign investors, such as the Public Investment Fund in Saudi Arabia, are prominent actors in the data infrastructure sector. Their involvement can provide strategic and financial benefits, but also introduces public law considerations and unique governance expectations. These may include state consent rights over key operational decisions, and requirements to structure joint ventures under local law.[7]

The presence of a sovereign counterparty may necessitate modifications to the investor's approach to dispute resolution, financing arrangements and exit strategy. For example, the choice of governing law and dispute resolution forum may need to account for state immunity principles and the enforceability of arbitral awards in domestic courts.

Localization Programs

Middle Eastern governments have adopted increasingly assertive labor nationalization policies.

Saudization[8] and Emiratization[9] rules require companies to employ local nationals, including in a growing number of technical and managerial roles.

At the same time, high-value contracts — particularly those involving defense, AI or cloud services — may trigger economic offset obligations under the Saudi Economic Participation Program, requiring a portion of the investment or contract value to be reinvested locally.[10]

These policies affect project cost modeling, workforce planning and compliance monitoring. Long-term service and operations contracts must include obligations for the collection and reporting of localization metrics. Penalties for noncompliance can include exclusion from public procurement, fines, and, in some cases, suspension of business licenses.

Export Controls and Technology Transfer

U.S. policy shifts in May have eased some restrictions on the export of advanced semiconductors to Gulf countries on a negotiated framework basis.[11] However, many high-performance computing components — including Nvidia's H100 and similar GPUs — remain subject to U.S. export control laws, particularly under the Export Administration Regulations.

Middle Eastern jurisdictions, including the UAE and Saudi Arabia, remain seen as destinations of concern for diversion and reexport risk. [12]

This raises significant diligence and structuring concerns. Investors must assess end-user certifications, licensing requirements and the potential for policy reversals. Investors must pay particular attention to supply contracts, which increasingly include force majeure-style protections addressing licensing delays, and to chip procurement, which may be isolated in U.S.-based parent entities to retain control over compliance.

Dispute Resolution and Enforcement

Contract enforcement in the Middle East can differ significantly from Western standards. While arbitration is widely accepted and both the UAE and Saudi Arabia are parties to the 1958 New York Convention, the reliability and efficiency of local enforcement mechanisms vary.

Investors often choose arbitration seat in the Abu Dhabi Global Market or Dubai International Financial Centre, which operate under English common law and offer relatively autonomous enforcement mechanisms through their own courts.[13]

To ensure enforceability, parties must pay particular attention to the drafting of dispute resolution clauses, waiver of sovereign immunity where applicable, and the treatment of liquidated damages, which may not be fully recognized under local law.

Environmental Regulation and ESG Integration

Although environmental, social and governance regulation in the Middle East is still developing, initiatives since 2024 signal an increasing emphasis on sustainability in data center development.

Saudi Arabia's new sustainability rules for data centers require regular energy efficiency reporting and local authorities may, on a case-by-case basis, require adherence to minimum energy efficiency ratios and renewable energy sourcing where possible.[14] The UAE is pursuing similar reporting policies.

ESG considerations are beginning to influence both contractual obligations and financing conditions. These requirements must be anticipated early in design and procurement planning.

Tax Position and Fiscal Incentives

While the UAE implemented a 9% federal corporate tax in 2023,[15] the country does not have a comprehensive tax treaty with the U.S. This means that U.S. investors cannot rely on treaty-based relief from potential double taxation, nor can they benefit from reduced withholding tax rates on dividends, interest or royalties flowing from UAE operations.

Although the UAE does not currently impose withholding tax on most cross-border payments, the lack of a treaty may still affect the U.S. investor's ability to credit UAE taxes against U.S. tax liability.

Jurisdictions within the Gulf Cooperation Council increasingly compete to attract foreign investment in data infrastructure through tax holidays, regulatory benefits and fast-track licensing. Saudi Arabia's Regional Headquarters program, for example, offers a 30-year corporate tax exemption for companies that base their regional leadership in Saudi Arabia.[16]

Investors must assess the trade-offs between jurisdictions, including the availability of skilled labor, legal infrastructure, tax regimes and the reliability of dispute resolution mechanisms. These choices directly affect the structuring of holding companies, the residency of directors and the location of key operational teams.

Conclusion

Data center investment in the Middle East presents a compelling opportunity, particularly in light of renewed U.S.-Gulf cooperation on AI and critical technologies. However, these projects require a nuanced understanding of regional legal and regulatory regimes.

Issues of foreign ownership, data localization, licensing, state partnership, localization obligations, export controls, dispute resolution and sustainability must be addressed not only during initial due diligence, but also throughout deal structuring, documentation and execution.

U.S. investors should approach these transactions with jurisdiction-specific planning, as those who assume equivalence with U.S. or European norms may encounter unforeseen complexities that undermine project economics or delay operational readiness, in particular in a region where law and policy are evolving rapidly.

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