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Chapter 4

War Returns Development to GCC Sovereign Wealth Funds —and Green Industry Is the Sector That Fits

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Iranian strikes on the Gulf Cooperation Council (GCC) countries during the US–Israeli war on Iran have shaken the perception of stability that attracted low-cost foreign capital into new sectors across the six members. Economic diversification remains a key imperative given growing national population and the need for employment and local value added. But the source of investment may now have to shift from foreign investors to sovereign wealth funds (SWFs), amounting to a fundamental change in industrial policy.

That change is unlikely to alter domestic renewable energy trajectories. It will, however, affect economic planners' sectoral selection criteria, moving green industrialization up the ranking—particularly because the same sovereign actor that funds a green industry can also buy what it produces. The shift will also increase the potential for GCC industrial policy to drive meaningful development.

The Model the War Has Interrupted

The war on Iran disrupts GCC states' most important project: diversifying the economic base. This is an economic rather than climate imperative. National populations are young and growing, while traditional absorbers of national labor—the security apparatus and the hydrocarbon sector—are largely saturated. New sectors must therefore deliver employment and local value to sustain the region's social model. The ambition to cement the GCC's role as a bloc of dominant regional middle powers, positioned as a supply-chain hub and a source of critical goods, reinforces the case.

Implementation of these plans typically runs through two channels of industrial policy. The first is sovereign wealth capital: funds that store and invest a share of hydrocarbon earnings for future generations, and that either generate knowledge transfer through strategic stakes in technology companies or directly build national champions for new sectors. Saudi Arabia's Public Investment Fund (PIF), for example, invested in US electric-vehicle (EV) maker Lucid and created the domestic brand CEER to develop a national EV industry.[1] Yet sovereign wealth fund (SWF) mandates overlap, and financial objectives can outweigh, in part or in full, a developmental perspective. The Abu Dhabi Investment Authority (ADIA), for instance, names economic objectives and long-term financial returns as its sole objectives.[2]

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1. Dawud Ansari, Abdulrahman Baboraik, and Wassim Brahim. "Developing Clean Energy Industries and Workforce: Case Study Insights." (2025) Oman Labour Market Intelligence Analysis Report Series. https://www.ssoar.info/ssoar/handle/document/108737

2. Rawi Abdelal, 'Sovereign Wealth in Abu Dhabi.' Geopolitics 14, no. 2 (2009): 317-327.

Focusing on profitability was possible because many SWFs could outsource development to a second channel. Rather than industrial policy proper—deliberate and publicly desirable market interventions intended to transform the economic structure[3]—they relied on investment promotion, setting targets and conditions to attract foreign conglomerates and capital.

This was the route for artificial intelligence (AI), where the UAE brought Oracle, Amazon, and others to open large-scale data centers.[4] It was also the route for Oman's green hydrogen program, which auctioned land blocks and set production targets to bring in foreign consortia while sovereign equity remained confined to minority stakes.[5] The combination of the two channels promised the best of both worlds: a large share of sovereign wealth was profitably invested abroad, largely in real estate and stakes in foreign enterprises, while foreign capital paid for domestic development.

SWFs Could Steer Development

Part of this calculus may now break. Economic diversification through foreign direct investment (FDI) rested on near-certain bankability and low risk, and the war has tainted that picture.

For instance, after Iranian strikes damaged operating data centers in the UAE and Bahrain, financiers paused or slowed investment decisions on new Gulf facilities.[6]

AI, like many sectors of the new economy, is bound by few resources and can move elsewhere. Building new sectors is as important as it has ever been, but the war has eroded the channel implicitly entrusted with building them. Future FDI will concentrate where the business case remains strong even under uncertainty—and the developmental mandate will return to the SWFs. That may ultimately be a boon. Recent studies show that the benefit of FDI depends less on volume than on type: it often targets value-chain segments with low developmental potential, such as assembly rather than product development, and requires

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3. Réka Juhász et al., 'The New Economics of Industrial Policy', Annual Review of Economics 16, no. Volume 16, 2024 (2024): 213–42, https://doi.org/10.1146/annurev-economics-081023-024638.

4. Amazon, "AWS Launches Region in the United Arab Emirates," August 30, 2022, https://press.aboutamazon.com/2022/8/aws-launches-region-in-the-united-arab-emirates.

5. Dawud Ansari, "Omani Hydrogen for Germany and the EU: Not Just a Matter of Energy Policy," SWP Comment 2023/C 18, March 2023, https://doi.org/10.18449/2023C18; Oman Ministry of Energy and Minerals, Oman Green Hydrogen Strategy, October 23, 2022, https://hydrom.om/events/hydromlaunch/221023_MEM_En.pdf

6. Fortune, "Iranian Attacks on Amazon Data Centers in UAE, Bahrain Signal a New Kind of War," March 9, 2026, https://fortune.com/2026/03/09/irans-attacks-on-amazon-data-centers-in-uae-bahrain-signal-a-new-kind-of-war-as-ai-plays-an-increasingly-strategic-role-analysts-say.

significant steering by host states before benefits materialize.[7] On this evidence, FDI is arguably the channel least suited to deliver development. This is where the green economy comes into play.

Why Green Industrialization

Progress on green industrialization has lagged initial expectations,[8] but in the new Gulf finance calculus, the decisive question is where SWFs can combine business and development case. Whether a sector deserves scarce capital can be judged through three lenses. The business case asks whether the project can pay for itself. The climate case asks whether it cuts emissions.

The development case asks whether it builds employment, capabilities, and value added across the wider economy, and whether it carries strategic value for the GCC's position as a bloc of regional powers. The development case is no less economic than the others—its surplus is real—but its returns arrive indirectly and over decades, which is why patient, cross-sectoral SWFs are best suited to make these investment decisions.

For green industry, the business case relies on cost and legacy industries more than on climate. In the Gulf, heavy industry already operates the process routes that green production requires, and infrastructure and know-how are available. Green industrialization therefore requires an upgrade of installed capacity rather than the building of all new facilities, and converted plants run on some of the world's cheapest renewable energy.

Green industrialization also relies on immobile assets—renewable resources, ports, and heavy industry—and cannot relocate as easily as data centers and AI can. It is one of the few sectors that offers both a workable business case and a genuine development case. Producing hydrogen or assembling imported components, the traditional realm of FDI, upgrades little. Sovereign investors deploying their own capital can instead choose which value-chain segments to build and can deliberately select those where capabilities, employment, and developmental upgrading happen.

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7. Reda Cherif and Fuad Hasanov, 'Industrial Policy, Asian Miracle Style', *Journal of Economic Perspectives* 39, no. 4 (2025): 101–26, https://doi.org/10.1257/jep.20251448; Reda Cherif and Fuad Hasanov, 'Principles of True Industrial Policy', *Journal of Globalization and Development* 10, no. 1 (2019), https://doi.org/10.1515/jgd-2019-0034.

8. See, e.g., IRENA, *Renewable Energy Markets: GCC 2023* (2023); IEA, *Global Hydrogen Review 2025* (2025).

The Demand Question

A central issue for green components and fuels such as hydrogen has been the externalization of demand. Although the climate case is real, both public and private actors in the GCC have limited willingness to pay a premium for green products.

Most hydrogen projects were intended to serve promised European or East Asian demand, which handed those markets agency over the sector's development. Finished products, such as green steel or green cement, share that orientation as they target markets abroad for which the climate case carries enough weight to support a premium, such as Europe and East Asia.

But they differ in one decisive respect. They have a domestic fallback market. The premium for green steel is modest on its own and almost invisible when diluted across the GCC's large-scale civil engineering projects. Green industrialization is at minimum a valid and inexpensive development case, and at best, a strong business case. In the Gulf, moreover, the guarantor and the buyer are the same actor: the state, whose construction programs are demand centers large enough to move global materials prices. Even where FDI rather than SWF investment remains the focus, these industrial policy instruments—quotas for domestic green steel, sovereign offtake guarantees—can enhance bankability and pull in private capital. Green procurement rules used successfully in Germany and elsewhere provide another low-cost lever.

The Exception: Power-Sector Decarbonization

These dynamics are unlikely to increase renewables deployment for the public grid. GCC sovereign capital does flow into renewable energy projects but typically through state utilities, in joint ventures with foreign partners, or on a highly leveraged basis. SWFs themselves hold only around a quarter of the equity behind installed capacity, most of it through PIF's program in Saudi Arabia.[9]

Renewables make a strong economic case in the GCC as they save money by freeing up natural gas for export, but they sit heavily on public balance sheets and have rates of return less than typical SWF thresholds require. Scarcer capital following the war will not improve that calculus.

9. Author's calculation from published shareholding structures of installed utility-scale projects, capacity-weighted; counts PIF/Badeel, PIF's stake in ACWA Power, Masdar and OQ as SWF equity, and treats DEWA, EWEC/TAQA and QatarEnergy as state utilities.

FDI into hydrocarbons, meanwhile, may increase. In April 2026, Oman launched a bidding round for five new oil and gas concession blocks, and UAE crude output reached near-record levels after the country's exit from OPEC.[10]

One Switch, Three Trajectories

The sovereign channel is nothing new in parts of the Gulf, but its status quo and starting points differ across the GCC. Where the six members converge on the same sectors, the region's long-standing problem of intra-GCC industrial competition—each state building the same capital-intensive export industries side by side, with no mechanism to sequence, apportion, or meaningfully interlink them across the bloc[11]—sharpens rather than recedes.

In Saudi Arabia, the sovereign development channel was relevant well before the current war, and green industry already sits inside it: the NEOM green hydrogen venture reached its investment decision in 2023, and its foreign partner has stayed through the war, cancelling a comparable complex in Louisiana while retaining its Saudi commitment.[12] For the Kingdom, the switch likely means intensified crowding and a more systematic approach to the development case, as new projects must compete with a large portfolio already weighing on the sovereign balance sheet.

The UAE went furthest into the AI stream and may thus face the most genuine reappraisal. Yet its plural fund ecosystem has proven adept at managing diverse mandates—and while the Emirates may not pivot back toward green energy as such, the reappraisal may well support a shift into climate technologies more widely, including carbon capture and storage, which connects directly to the petroleum sector. Oman, sitting mostly outside Gulf waters, has been relatively less exposed to the war than its neighbors, though the erosion of stability perception has hit the Sultanate too. The Oman Investment Authority has arguably been the Gulf SWF most focused on financial returns. Green industries attracted strong foreign interest before the war but realized FDI remained limited,

10. Oman Ministry of Energy and Minerals, 12 April 2026; Reuters, "UAE crude output nears record following OPEC exit," 6 July 2026.

11. Martin Hvidt, "Economic Diversification in GCC Countries: Past Record and Future Trends," Kuwait Programme on Development, Governance and Globalisation in the Gulf States, Research Paper 27 (London: London School of Economics, 2013), https://researchonline.lse.ac.uk/id/eprint/55252/1/Hvidt%20final%20paper%2020.11.17_v0.2.pdf.

12. NEOM Green Hydrogen Company, "NEOM Green Hydrogen Company Completes Financial Close at a Total Investment Value of US$ US$8.4 Billion," May 22, 2023, https://www.neom.com/en-us/newsroom/neom-green-hydrogen-investment; Air Products, "Air Products Will Not Proceed with Louisiana Clean Energy (LCEC) Project; Finalizing Agreement with Yara for Renewable Ammonia from NEOM Green Hydrogen Project in Saudi Arabia," June 30, 2026, https://www.prnewswire.com/news-releases/air-products-will-not-proceed-with-louisiana-clean-energy-lcec-project-company-will-record-pre-tax-charge-in-fiscal-third-quarter-finalizing-agreement-with-yara-for-renewable-ammonia-from-neom-green-hydrogen-project-in-saudi-a-302814443.html.

and attention is increasingly shifting toward green steel and ammonia ventures at Duqm, Salalah, and Sohar—precisely the demand-solvable sectors this piece describes. For Oman, the mechanism shift is likely to require the biggest adjustment, but one with potentially substantial developmental payoff.

Conclusion: What to Watch

The war on Iran does not compel the Gulf states to complete their unfinished plans for a green economy, but it nudges governments toward reinventing their approach to industrial policy and development, and it changes the calculus of which sectors are desirable. If embraced by economic planners and budget controllers, the developmental mandate can move into the center and redefine the roles of the region's SWFs.

Complex green products such as green steel or green cement carry the decisive advantage that, even if target markets abroad fail to materialize, they have an alternative buyer the GCC states control: themselves.

Several developments will indicate whether the shift is underway: revisions to SWF mandates; a rising number of investment decisions; a more dominant state role; whether states come to judge green industrialization primarily by its developmental benefit; and whether low-cost regulation such as buyer's guarantees and green procurement enters post-war fiscal frameworks.

If these shifts occur across the Gulf, they will sharpen a problem already visible: SWFs converging on the same sectors would intensify industrial duplication within the bloc.

The task ahead is therefore twofold: to place development, and green industrialization within it, at the center, and to do so in a regionally coordinated fashion.


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