

Technology sector

'Strings attached': Saudi Arabia steps up demands in tech deals with China

Alibaba and SenseTime secure huge joint ventures in Gulf kingdom but agreements come with stringent requirements



Saudi Arabia's Crown Prince Mohammed bin Salman. The kingdom is granting market access in exchange for training local teams and investment © FT montage/Getty Images/Reuters

Eleanor Olcott in Hong Kong 8 HOURS AGO



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Saudi Arabia is mandating that leading Chinese technology companies invest in the Gulf kingdom in return for huge deals, as it leverages its petrodollar wealth to boost its domestic tech industry.

Alibaba and SenseTime are among the top Chinese groups to have secured deals worth hundreds of millions of dollars with Saudi Arabia over the past three years, in exchange for setting up joint ventures in the country.

According to five industry insiders, including fund managers, tech entrepreneurs and consultants working on the agreements, Saudi investors are applying increasingly stringent requirements to fund deals.

In some cases, Chinese companies have to share technical expertise with their new Saudi partners.

“They want your company and engineers to train their own talent,” said one Chinese consultant advising local tech companies on how to raise money from the kingdom. “It comes with strings attached.”

The kingdom’s hunt for global tech companies to help upgrade its economy and diversify away from oil has coincided with a funding crunch and weak domestic sales for Chinese tech companies, which have turned to the Middle East for investment and new revenue streams.

The Saudi strategy echoes the tactics of local governments in China towards foreign companies decades ago, granting market access in exchange for training local teams and investment.

Artificial intelligence group SenseTime has also won a contract for the kingdom’s ambitious project to build a futuristic megacity Neom, according to two people with knowledge of the deal.

This comes as SenseTime battles a slumping share price and [falling revenues](#) from its core domestic surveillance business. SenseTime said it “has been actively engaged in Neom”.

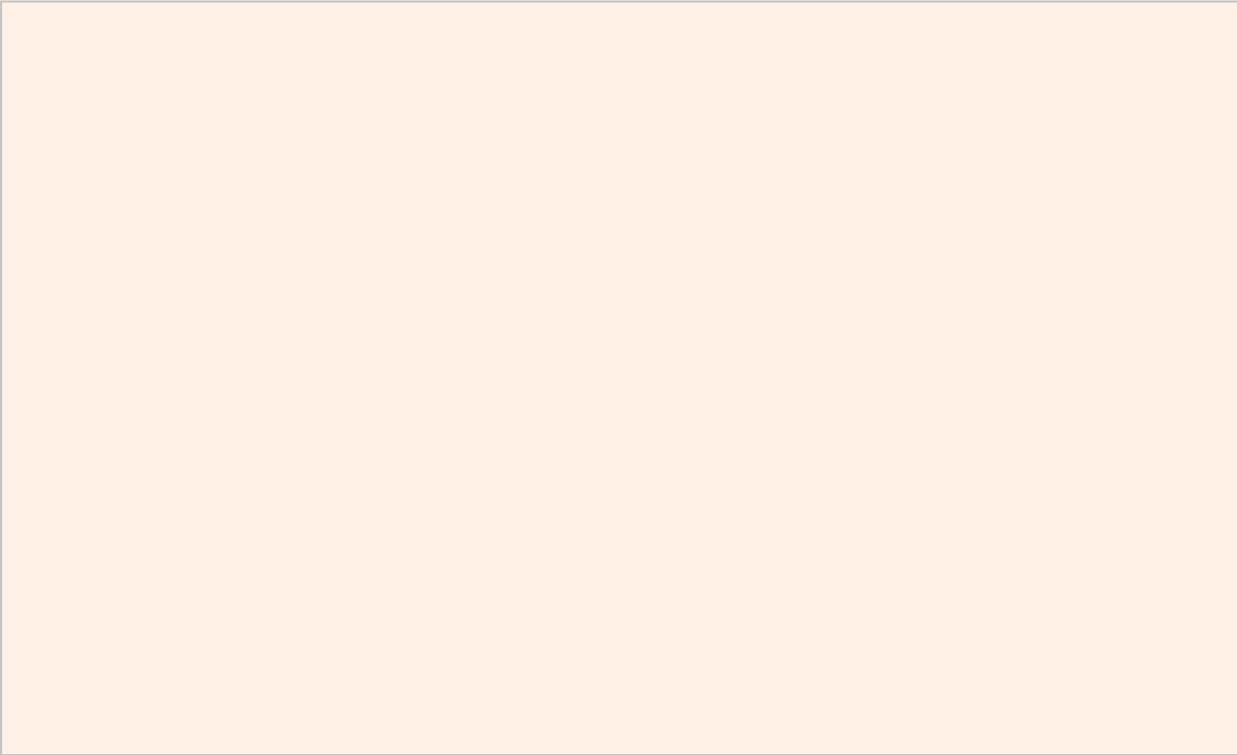
Chinese autonomous driving group Pony.ai raised \$100mn in October from the Neom Investment Fund, with the agreement the company would establish regional research and development, and manufacturing headquarters in the country.

Alibaba Cloud entered the Saudi market in 2022 through a joint venture with the Saudi Telecom Group, which has also partnered with Huawei on 5G projects and pledged to “strengthen the co-operation” in technology research.

Saudi deals with Chinese tech groups come with other provisions designed to protect their investment.

In 2022, SenseTime raised \$207mn from Saudi Company for Artificial Intelligence, owned by the kingdom’s sovereign wealth fund Public Investment Fund, to form a joint venture to develop AI solutions in the Middle East. SenseTime said the partnership was “empowering the local youth talent, transferring knowledge and driving AI innovations”.

Under the terms of the deal, SenseTime would have to buy out SCAI’s stake if it failed to go public or a buyer could not be found after seven years.



Saudi Arabia's Oxagon, a floating industrial city to be part of its planned megacity Neom © Neom

Several Chinese investors said when raising new venture funds, their Saudi counterparts would only invest if 30 per cent of the new fund was spent on projects in the kingdom.

According to three Chinese fund managers, these measures contrast with the attitude a decade ago.

“Before, Chinese venture capitalists with no name or track record would walk away with a blank cheque,” said one Chinese VC investor who has explored raising a Middle East fund. “It’s much harder now.”

Saudi Arabia is also courting foreign tech companies to develop its nascent AI industry, “cherry-picking” between the best companies from Silicon Valley or Shenzhen, said several industry insiders.

One AI entrepreneur said US companies might be wary of working with the kingdom, fearing rebuke from Washington, or acquiescing to political demands that generative AI models be censored to remove any content critical to the Crown Prince Mohammed bin Salman.

“Oil-rich states in the Middle East are eager to develop their own AI capabilities, via platforms like Arabic heavy large language models,” said Paul Triolo, an expert on China tech at consultancy Albright Stonebridge. “But, in most cases, they lack the capacity to do this on their own. Hence enter China.”

Late last year, the King Abdullah University of Science and Technology released AceGPT, an Arabic-focused large language model built in collaboration with the Chinese University of Hong Kong, Shenzhen and the Shenzhen Research Institute of Big Data.

The approach to tech investing matches Saudi strategy more broadly. PIF-backed US electric vehicle maker Lucid is establishing the kingdom's first car manufacturing facility in Jeddah, while the British Rocco Forte Hotels group is looking for locations in the country following PIF investment late last year

In November, Saudi Arabia also signed a local currency swap agreement with China worth about \$7bn. China is the largest customer of Saudi oil, purchasing 86mn tonnes of the fuel last year, part of which observers estimate, based on data from the People's Bank of China, is settled in renminbi.

“There is a hidden motivation for the increased investment relationship between China and Saudi Arabia,” said Chris Vassallo, a researcher at the Asia Society Policy Institute's Center for China Analysis. “The kingdom is maybe sitting on a large pile of renminbi from selling oil to China, the uses of which are not manifold. One way is to spend on Chinese goods and services.”

Chinese entrepreneurs said they might have another edge in winning contracts and investments over western competitors also rushing to the Middle East: a willingness to hand over valuable intellectual property.

“Chinese companies are usually more open to intellectual property transfer than European and US companies, which have very strict policies on this,” said one venture capital investor, who financed a joint venture between a Chinese tech company and a Saudi counterparty.

The marriage between the nations on tech deals carries risks for the kingdom, particularly in the field of AI, however. “There is concern that collaboration with Chinese researchers could lead to some US restrictions on the export of advanced chips to support projects there,” said Triolo.

Additional reporting by Chloe Cornish in Dubai

