

Economist article about Dubai Trouble in the United Arab Emirates

The perils of autocracy Jul 9th 2009 | ABU DHABI AND DUBAI From The Economist print edition When things go swimmingly, few people seem to mind being run by benevolent autocrats. When things get sticky, they are less obliging...

IT WAS once hailed as a miracle. New cities, even new islands, were springing out of the desert or the shimmering turquoise sea. Nowadays, ten months after the financial crisis came crashing in on the United Arab Emirates (UAE), nearly destroying its shiniest component, Dubai, hundreds of cranes and dredgers have yet to resume work. The Queen Elizabeth II, once the world's smartest liner, due to become yet another posh Dubai hotel, is a sleeping quayside hulk. Nothing is happening on three of the most recently man-made islands shaped like palm trees off Dubai's coast that were the latest flashy projects of Nakheel, the emirate's shaky real-estate developer. These days, despite defiant protestations of resilience, no one seems to know when the sweet breeze will return.

The UAE is still in the doldrums. For the first time since the seven Gulf statelets joined together as a union in 1971, people are beginning to mutter—rather quietly, for sure—whether there may be something amiss with the autocratic, opaque system that hitherto seemed to work so well behind closed doors. “Nobody really knows what any of the statistics are,” says a Western analyst. “We haven't seen the half of it yet,” says a Western banker, referring to the debt and the possible defaults. It is notable that almost nobody in business or government is prepared to talk publicly. Cohorts of public-relations people surround the bigwigs and shield them from scrutiny.

In the past few weeks it has become clear, nonetheless, that the bottom has yet to be reached. Standard & Poor's (S&P), a credit-rating agency, has issued a string of recent gloomy assessments, downgrading four Dubai-based banks and noting that “the risk to Dubai's economy has increased as the real-estate sector has entered a sharp correction period.” Property values are still about half what they were a year ago. Some foreign building and dredging companies have not been paid for months, and some Dubai companies are offering to pay them only partially. S&P grimly notes the “increased uncertainty regarding the government's willingness to provide support to Nakheel, a key government-related entity with sizeable repayments coming due at the end of this year.” The amount is \$3.5 billion. A visiting British trade minister took the rare step, on July 4th, of publicly declaring, while insisting that Dubai would bounce back, that British contractors and suppliers “need to be paid”. Earlier this year a leading Dubai figure said that the statelet's consolidated debt was around \$80 billion, but no one has issued a detailed breakdown of accounts; only a minority of Dubai companies are listed.



Others say that the true sum of debt may be closer to \$120 billion. In February Dubai 's department of finance issued the first \$10 billion chunk of a bond totalling \$20 billion to help stave off the creditors, open new lines of credit and reschedule debt. Now, at a time when international banks are still loth to lend, it has been reported that the second chunk will be guaranteed by the UAE's government. More may still be needed. It is not clear who is in charge— apart from Sheikh Mohammed bin Rashid al-Maktoum, Dubai's ruler (pictured above), whose big interest is racehorses. He appointed a respected local man, Nasser al-Shaikh, to take over the department of finance and sort out the crisis. It was reckoned that, for a start, he would be empowered to identify the size of the debt, both commercial and government (often one and the same) and the extent of Dubai 's toxic assets. But in May he was summarily and mysteriously sacked. Some think he was blocked from looking too closely into the accounts at Nakheel, among other firms. Otherwise the old-guard management of Dubai —and the UAE—is still pretty intact. No one has been held responsible.

Putting your hands over your ears, The two buzz words in Dubai 's business and media circles are “denial” and “bail-out”. A persistent complaint is that the authorities—in particular, the ruling family of Dubai and its acolytes, led by Sheikh Muhammad— took far too long to recognise the gravity of the crisis when it broke in September. “ They were splashing about in the water when they should have been swimming across the channel,” says another Western banker . In October Nakheel was still parading grandiose development schemes. It was not until January that Sheikh Muhammad summoned Dubai 's top businessmen and ministers to take stock and plan a recovery. For months the Maktoums seemed to be in denial. In the short run, the much richer and more conservative state of Abu Dhabi , with 90% of the UAE's oil reserves, will bail out its miscreant, extravagant neighbour, along with the other five, poorer statelets if they need help too. “In the long run, Dubai has enough assets to tide it over,” says a banker in Abu Dhabi , pointing to Dubai 's huge container trans-shipment business, its airline, aluminium smelter, tourism, and role as a regional services hub. Above all, Dubai and Abu Dhabi are too enmeshed to allow one part to fail. Indeed, the Dubai disaster may prompt Dubai 's Maktoum family and Abu Dhabi 's ruling Nahyans to strengthen the federation and work towards a system of greater accountability and openness. A half-appointed Federal National Council is toothless, though it can now call ministers before it. The legal system, including commercial law, is weak; there is no proper bankruptcy code; there is no real tax base— nobody pays tax on his personal income. Above all, in the words of a longtime adviser to the government,“ you have a confusion between government and commercial operations . There is nobody in Dubai in government who isn't first and foremost a businessman. ”There are “massive conflicts of interest” across the board. “There are no checks and balances...the incentives for saying nothing are great.” Abu Dhabi is ahead of Dubai in terms of government openness and efficiency. But in both the emirates all the big decisions are still taken behind closed doors.



In the mild words of a diplomat, “neither Abu Dhabi nor Dubai are very good at clarity in decision-making.” Vital decisions are often not put in writing . The aim of the two ruling families has been to modernise and open up the economy without modernising or opening up the politics to the extent that the people might one day dispense with their royal rulers. In the short run, there seems little chance of that happening.

The expatriates who manage much of business have little say in the running of the place, but are generally content to live well and ask no questions about delicate matters of state . An English-language newspaper, the National , backed by the Nahyans, has opened a healthy space for discussion, though royal scandals or provocative words like “bail-out” or “in denial” are virtually taboo. The indigenous emiratis, who count for less than a fifth of the 5m people living in the UAE, have hitherto been mollycoddled by benevolent rulers. In a couple of years, a recovery may ensue. A resurgence of oil prices is helping. But if the economy gets stuck, the glory days, at least of the Maktoums, may be numbered.

Regards!

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