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Monday, Feb. 22, 2010

The Lessons of Dubai

By Andrew Lee Butters / Doha

If the rulers of Dubai cringe at the bad publicity the emirate city-state has copped since its go-go economy burst in 2008, they have only themselves to blame. After all, it was they who courted the media glare in the first place. Little more than empty desert a generation ago, Dubai had no logical reason to build a Manhattan-style skyline, let alone the world's tallest building. No reason, that is, except the kind of grandiose ambition that turned what was a backwater into one of the world's most dynamic cities.

When construction began on the Burj Dubai — as the record-breaking tower was originally called — Dubai was in the midst of an epic boom, fueled by foreign speculators and one luxury development project after another. By the time the tower opened on Jan. 4 with a lavish fireworks display, though, the showmanship had faded. Weeks earlier, Dubai's biggest state-owned development company had declared it was unable to pay its debts. Officially, Dubai owes its creditors \$80 billion, though a recent report by regional investment bank EFG-Hermes estimates that the city may be in the hole for as much as \$170 billion. After Sheik Khalifa al-Nahyan, the oil-rich ruler of neighboring Abu Dhabi, stepped in with \$10 billion to stave off an embarrassing default, the skyscraper's owners changed the building's name to Burj Khalifa. For a city used to grand statements, it was a remarkable comedown. ([See pictures of the world's tallest building.](#))

In all the panic, finger-pointing and schadenfreude that has ensued, though, it's easy to forget that the gulf is more than just Dubai. Neighborhood rivals — some of them much wealthier than Dubai thanks to much bigger oil and gas deposits — have emerged from the financial crisis in better shape than their badly bruised neighbor. The gulf region is poised not only to recover from the global slump this year, but could become the second most important center of world economic growth after the economies of east and south Asia, according to John Sfakianakis, chief economist for Banque Saudi Fransi in Riyadh and Crédit Agricole in Paris. "The world has always been too focused on Dubai, but Dubai is not the GCC," he says, referring to the Gulf Cooperation Council, a loose political

and economic union of gulf nations. "In the short term, Dubai's problems may impact how the world sees the region. But over the long term, the region has and will show a tremendous amount of growth."

Among those best placed to profit from the recovery — and from Dubai's mistakes — is Qatar. While Europe and the U.S. are still struggling for growth, it's almost business as usual in Doha, the capital. Just ask Kevin Lamb, assistant dean of Carnegie Mellon Qatar. Located in Education City, a gleaming new complex under construction on the outskirts of the capital, his school is one of six American universities that have set up shop in the country over the past few years. Thanks to the deep pockets of the Qatari government, Lamb has more space in the college's new building than he knows how to use. "It's an administrator's dream," he says. Or ask Oliver Watson, director of Doha's new Museum of Islamic Art. Unlike most museum heads around the world, Watson hasn't had to ask for a penny to build or run the magnificent I.M. Pei-designed museum on Doha's waterfront. "We haven't felt the financial crisis at all," he says. ([Read: "More Than a Mall: Inside Dubai's Growing Art Scene."](#))

It helps that Qatar sits on a massive natural gas field. The country is the world's third largest producer of natural gas, behind Russia and Iran and, with a population of just 1.5 million, has one of the highest per capita incomes in the world. That wealth has allowed Qatar's rulers to chart a pragmatic and flexible foreign policy that has them making friendly with Iran and Syria while hosting American military forces. Now the country wants to become a regional cultural and media hub. Last year Qatar hosted a version of the Tribeca Film Festival, while private investors put together a \$200 million fund to jump-start the local film industry. While there have been some cutbacks on salaries and benefits at state-run news network al-Jazeera, according to disgruntled employees, the operation continues to set the news agenda across the Middle East.

Some of Qatar's development playbook — eye-catching modern architecture, a well-run state-owned airline — has clearly been copied from Dubai. Qatar also benefits from a pool of skilled foreign workers, many of whom moved there after first working in its glitzier rival. ([See 10 Things to Do in Dubai.](#))

Still, Qatar insists it is not trying to become the next Dubai. Emir Hamad bin Khalifa al-Thani, Qatar's ruler, doesn't want to make his country a global capital, so much as use his nation's gas resources to move what was once a tribal, Bedouin society into the modern world with Muslim culture and values intact. Qatar, say state officials, will never try to do the kind of high-volume business that put Dubai on the map but also made it so vulnerable to a speculative bubble. "Dubai is all about numbers and bringing in huge infrastructure projects," says Stuart Pearce, head of the Qatar Financial Centre. "When investors look at Qatar they see stability. Doha doesn't have a whole lot of office buildings that it needs to fill."

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Other countries in the gulf are spinning the same line: cherry-picking the best of Dubai while avoiding the worst. Saudi Arabia, the region's behemoth, has ambitious plans for new development, and Riyadh, its capital and biggest city, is bound to host the central bank for a proposed future gulf single currency. But for all its shopping malls and skyscrapers, Riyadh will never be the region's financial center so long as there is no place for investment bankers to celebrate their deals by popping champagne corks. Most global professionals don't want to live in a country where alcohol is illegal and women can't drive. Despite its present problems, they're more likely to stick with Dubai, which launched a \$1 billion financial-services center in 2004, and where you can openly practice whatever faith you choose, including nightclubbing.

Kuwait may be less conservative than Saudi Arabia, but its ban on alcohol is also a major stumbling block to becoming a tourism and professional services hub. Bahrain — another of Dubai's challengers in financial services — has a thriving banking industry and the most ethnically and religiously diverse local population in the gulf. But its tolerant feel is threatened by tensions between the élite Sunni minority and the less powerful Shi'ite majority, as well as Islamist political parties that have benefited from the kingdom's tentative experiments with democratic elections. ([See 10 Things to Do in Dubai.](#))

And then there's Abu Dhabi, capital of the United Arab Emirates. Dubai's staid big brother has re-exerted political and financial control over its profligate sibling, mostly because it has an interest in Dubai's success. Dubai's port and airport are among the largest in the world, and serve the UAE's economic needs without Abu Dhabi — a 45-minute drive away — having to expand its own infrastructure.

The truth is, the unelected leaders of the Middle East have been happy to learn from Dubai's successes and failures without having to take such risks themselves. In part, that's because Dubai is not more but less politically free than other places in the region. Sheik Mohammed al-Maktoum, the Emir of Dubai, is able to take daring risks not just because he is a hereditary ruler, but because he is unaccountable to the vast majority of Dubai residents, 95% of whom are foreign and who live in Dubai subject to his favor. Other places in the gulf have larger native populations, or more active national assemblies than Dubai. While rulers in those places are no doubt authoritarian, they still have to tread more carefully with public opinion, or at least the opinion of the conservative religious, military and business circles that keep them in power. ([See pictures of Dubai.](#))

But Dubai's rulers know change is coming. No longer wowed by shopping malls with indoor ski slopes or hotels with gigantic aquariums, investors have begun to demand transparency. Last month, Barclays won the city's first foreclosure case. That could open the door to a flood of legal cases and

more financial turbulence, but will also reassure investors that Dubai is learning from its mistakes. To keep attracting foreign residents with the skills to run a modern economy — and to better educate its own citizens so they can play a bigger role in that economy — the gulf's cities will also have to open up more. Dubai could well lead the way. "Dubai has been proving naysayers wrong for so long that I'm wary of being pessimistic," says Jim Krane, author of *City of Gold: Dubai and the Dream of Capitalism*. "It's certainly in a deep hole. [But] the entire world has a stake in its success."

Progress will be slow. A recent government reshuffle has moved power away from technocratic experts and outside consultants, and back into the hands of the royal family, especially the crown prince, Sheik Hamdan. But without oil money of its own, Dubai has little choice but to listen to its foreign creditors and stakeholders. And wealthy as they are, the leaders of the gulf countries also know their societies have to eventually change too, says economist Sfakianakis. Oil generates wealth, but the oil industry doesn't generate many jobs. Even in rich Saudi Arabia, unemployment is officially 11.6% — and that's among men only. Some 65% of the population in the broader Middle East is younger than 30. For the region's governments to create jobs for all those young people, they will have to continue opening up to the private sector, foreign investment, and perhaps edge toward democracy. "The attraction of Dubai to the other Middle Eastern countries was a state model of development without democracy, but that's not sustainable anymore," says Krane. "You may see some kind of compromise in Dubai, a renegotiation in the relationship between the ruler and the people, where the government develops some kind of tax, in exchange for giving the people a larger voice."

That won't happen easily. This week the owners of Burj Khalifa indefinitely closed its observation deck, the highest in the world, due to unspecified electrical problems. Like Dubai itself, the problem will, eventually, be solved. And the view then, say the city's boosters, will be fantastic.

— *With reporting by Maria Abi-Habib / Dubai*

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