

## Dubai's desert dream demolished by debt



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The latest crisis in Dubai has hit hard the financial credibility of the UAE

THE Dubai desert dream now stands shattered.

Dubai World Group, a public enterprise of Dubai, was building a paradise with artificial indoor ski slopes, similar to the Swiss Alps.

Dubai World owns an iconic palm-shaped island on the reclaimed islands of Palm Jumeirah with the world's tallest tower. Another wing, DP World, runs 44 port operations around the world.

The bubble burst when its estate division, Nakheel, found out it cannot meet a US \$3.52billion bond due December 14.

### **The sun sets on Dubai**

Along with it, the famous slogan "The sun never sets on Dubai World" became a vain boast.

Dubai World has US \$59billion of liabilities, out of Dubai's total debt of \$80billion.

On December 2, the emirate of Dubai announced it would ask creditors of Dubai World and Nakheel, builder of its palm-shaped islands, to "standstill and extend maturities until May 30, 2010."

That was enough to shake confidence among Western investors who had expected the oil-exporting Gulf region to rescue the battered rich nations during the global financial crisis.

The asset prices of the rich and famous, who own luxurious villas on Palm Jumeirah plummeted. The reported owners are movie stars including Bollywood's Shah Rukh Khan, Hollywood's Brad Pitt and Denzel Washington, soccer star David Beckham and Afghan President Hamid Karzai.

The list may also include the "ugly rich", the unreported money laundering ones.

The debts of public enterprises are known as contingent liabilities. Creditors were hoping the Dubai Government would meet them.

On Sunday, Dubai's Finance Minister, Mr al-Saleh dropped the bombshell that Dubai would not guarantee the debt of Dubai World, as it is not part of government. He warned: "Creditors need to take part of the responsibility for their decision to lend to the companies."

### **Next step**

Dubai is one of seven states of a federation called the United Arab Emirates (UAE). The other six are Abu Dhabi, Ajman, Fujairah, Ras al Khaimah, Sharjah and Umm al Qaiwain. The UAE is administered by a Supreme Council of Rulers made up of the seven emirs, who appoint the prime minister and the cabinet.

Before oil was discovered in the 1950s, the UAE's economy was dependent on fishing. But ever since 1962, when Abu Dhabi started exporting oil, the UAE became rich. The oil industry attracted foreign construction workers and expat professionals who are 75 per cent of its population with per capita income of US \$23,770.

Dubai has no oil. Its main economic activities are real estate business funded through borrowing from international and domestic lending institutions. External debt of an emirate has not been a threat so far, as UAE's standing in financial markets was high.

However, the latest crisis has really hit the financial credibility of UAE hard.

So, the oil rich emirate Abu Dhabi has decided to bail out Dubai. The UAE central bank has promised to stand by foreign and domestic banks with holdings in the country. The negotiations are on.

If creditors reject proposals for postponement until May 2010, there will be a fire sale of international real estate.

Dubai will have to switch to another model of development away from heavy real estate investment.

### **Weapons of Massive Debt**

The International Monetary Fund (IMF) gives advice to member countries. Last month, the IMF team, at the end of its visit, reminded Fiji that its debt level at over 50 per cent of GDP is "high by regional standards."

IMF's harsh "conditionalities" attached to structural adjustment loans to troubled nations are well known. Known as the Washington Consensus, conditionalities require tightening of the belt and low level of public debt.

Of course, IMF knows some nations are more equal than others. The Washington Consensus does not apply to Washington D.C. Its failure to detect and forewarn US of trade deficits and effects of reckless bank lending cannot be forgotten.

It was left to Communist China to dish out advice to capitalist USA to keep its current public debt and budget deficits low. That is to promote its own interest: the dollar value of its dollar holdings should not go down.

The global financial instability was caused by "weapons of massive debt (WMD)".The latest case is Dubai.

There are many WMDs lurking around.

The reports are that Greece, Latvia and Russia are heavily indebted to foreigners.

Debt has humbled the superpowers. Now even opulent sheikhs can go "broke." Debt, like death, is the "leveller". Taking liberty of James Shirley's famous poem, we get this:

*'Debt' lays his icy hand on kings;*

*Sceptre and Crown*

*Must Tumble Down,*

*And in the dust be equal made*

*With the poor crooked scythe and spade.*

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