

The power and the glitz / Zvi Bar'el

Abu Dhabi resurgent over the irresponsible kid

"This strategy embodies our ambitious vision to take our policy to new heights," Caliph bin Zayed Al Nahyan, ruler of the United Arab Emirates, declared grandly in 2007. But while aiming to lead the people to new horizons, the values on which the nation had been founded would be preserved, he said.

The caliph's words accompanied a Power-Point presentation by Sheikh Mohammad bin Rashed al Maktoum, vice-president of the UAE and Emir of Dubai.

Maktoum hoped to broaden cooperation among the seven emirates comprising the UAE in education, economics, environment, infrastructure and law, empowering the federal government and blurring differences between the emirates.

This week, after Dubai World admitted to difficulty repaying about \$59 billion in debt, Maktoum's strategy faces one of its stiffest tests: Will the federal government agree to guarantee the debts or pay part of them? Or will it leave Dubai to lose its assets?

The answer came on Sunday: Abu Dhabi clarified that it would help Dubai on a "case by case" basis.

In the UAE, Dubai is the world's amusement park and Abu Dhabi has always been the responsible adult. But who actually is going to help Dubai: the joint resources of the seven emirates or the private pockets of Abu Dhabi's ruling family? They are believed – real figures are not available – to be worth about \$750 billion. They could buy Dubai World's entire debt in a second.

The Maktoum family left Abu Dhabi 176 years ago and conquered Dubai. This started a tribal border dispute between two parts of the large Bani Yas clan, one of which ruled in Abu Dhabi and the other in Dubai. To this day the Maktoum and Nahyan families remember history, which is one reason why the Nahanys of



Dubai's problems are straining the economic cooperation among the seven emirates that has been the backbone of the UAE for 38 years.

Abu Dhabi would "love" to help Dubai. They'd gain control of part of the emirate's glittering assets.

In 1971, nine years after the first shipment of oil left Abu Dhabi, Abu Dhabi's ruler Sheikh Ziad bin Sultan proposed to the ruler of Dubai unification between them, and suggested inviting the five other emirates to join the union. Four of the emirates, Sharja, Ajman, Fujaira and Umm al-Qaiwain joined immediately. Ras al-Khaima joined a year later.

Each emirate pursues independent domestic

policy based on the values of local tribal leadership. Decisions in the UAE constitutionally rely on the Supreme Federal Council consisting of the rulers of all seven emirates. The council chooses the president of the UAE and the prime minister. But there is a historical agreement that the president will be from the Nahyan family and the prime minister from the Maktoum family. Abu Dhabi and Dubai have the right to veto important decisions concerning all the emirates.

The Supreme Federal Council shapes for-

ign policy and the joint budget, and names ministers to the federal government. Beneath it is an advisory council of 40 members, half of whom are appointed by the emirs. The other half are elected.

The advisory council cannot pass laws or veto laws proposed by the Supreme Federal Council. It can, however, criticize the laws and the ministers' functioning.

This formal structure depends on a system of personal relations among the rulers and the understanding that it is impossible to force de-

isions without agreement, even if the constitution allows decisions to pass by a majority. The emirs take care to demonstrate unity and cling to the slogan "We are all one state."

Most disagreements are between the ruling family of Abu Dhabi and the smaller emirates, whose part in the federal budget, as well as their contribution to it, is relatively small. Once the Emirate of Ras al-Khaima accused the ruler of Abu Dhabi of fomenting a coup. In March, Dubai suspected that the Nahyan family was planning to take control of companies in Dubai, in return for financial aid amounting to \$10 billion granted to the emirate by the federal bank. The leadership went to great lengths to refute these claims, but the suspicion is surfacing following Abu Dhabi's aid to Dubai.

The two largest and wealthiest emirates also disagree on values. The leader of Abu Dhabi for nearly 40 years until his death in 2004 was not keen on the permissive Western character of the Emirate of Dubai. On several occasions he obliquely criticized his colleague's ostentation and extravagance. Dubai's ruler explained that his emirate couldn't compete with the wealth of Abu Dhabi, which has most of the oil in the UAE. It had to diversify its sources, he said.

Each emirate controls its own income and expenditure. They do not share resources. Hence, while Abu Dhabi relies on oil, Dubai became a kingdom of real estate and international commerce. Possibly following the meltdown in Dubai, Abu Dhabi's emir will assume more power. The UAE as a whole would benefit: It would be run more centrally and conservatively, restoring the trust of investors.

Parrying Abu Dhabi's aspirations, the ruler of Dubai shook up the management of Dubai World. He appointed family to the top management, to avert a hostile takeover. However, he may prove unable to stop change in the political structure of the UAE.

Faith in the sheikh

Dubai's financial system is in tatters, yet the shopping malls are still crowded. People admit the leaders made mistakes but believe they will rescue them

By Nathan Lipson

DUBAI CITY – Traffic is bumper-to-bumper and the shopping malls are full. It's Wednesday, and columns of smoke rise from barbecues in the public parks. No, this isn't how the people of Dubai are coping with the worst financial crisis they've ever known. It's a national holiday.

It has been 38 years since British rule ended and the seven Gulf emirates – Abu Dhabi and Dubai are the largest being – formed a single federal political entity, the United Arab Emirates.

Just one week earlier Dubai World, the country's biggest investments firm, dropped a bombshell: It needed to reschedule \$60 billion in debt. The announcement shocked the investment world out of its complacency and the belief that the worst of the global economic crisis was over. The news caused a downturn, but only briefly. Markets quickly resumed their northward trend, in most places. Not in Dubai, though.

The people of Dubai must be feeling the pain, but those who spoke recently to a foreign journalist – whether Dubai nationals or the many foreigners living in the emirate – did not seem particularly upset. They're shopping on.

"I don't feel anything in particular, nor do the people who work with me or the people I know," said John (all the names in this piece have been changed), a Western businessman who

has been in Dubai for 10 years. He has a business selling industrial products. John had heard about the financial crisis and the debt moratorium, but did not know the details.

Mark, another long-term Western expatriate, is much more involved in the local business community. He says members are aware of the trouble but are not worried. "People are pretty confident that the situation can be handled. They trust the leadership to deliver. There's no reason for it not to – the local government has tremendous resources. It's recruiting the best brains to help – economists, bankers and consultants," Mark said.

Build till you drop

Behind the general sense of optimism is the obvious fact that the boundaries of the crisis are very clear. It's confined to the real estate sector; commerce is untouched. Also, for all the jaws dropping worldwide at Dubai World's sudden refusal to service its debt for six months, the local business community was not surprised.

Mark related that a year ago people told him that real estate prices were out of control. They knew that at some point it would all come falling down, after which a new balance would be achieved, he said.

Even if Mark's confidence is a tad premature, it's possible that people are

downplaying the problems Dubai faces simply because it's early days yet. Even in New York of October 2008, the month of the great financial meltdown, confidence still prevailed. The layoffs, the sharp drop in consumer spending, the uncertainty and the depression only hit later.

In either case, the people of Dubai seem to be unconcerned. They celebrated Id al-Adha, the Muslim feast of the sacrifice, early last week and immediately afterward, without blinking an eye, set off to celebrate their independence from Britain. Of course, when they wake up this week reality will come a-knocking again.

Meet the sheikh

Steven works at the local office of an international company. He spreads a tourist map of Dubai on the table. "You see? Ten years ago, almost all this you see here south of Dubai creek didn't exist," he said, pointing.

"All this" apparently refers to what may be the most ambitious, expensive, impressive and modern property development on the planet. And "all this" happened in a narrow strip of desert, no more than 15 kilometers in length.

Inside that tiny area is the biggest mall in the world, Dubai Mall, with more than 1,000 stores and the world's biggest aquarium. It cost \$20 billion to build. The mall is just part of a large commercial project, the crown jewel of which is the tallest building in the world, the Burj Dubai ("Dubai's fortress"). How tall is it? Well, if you pile the three Azrieli Towers in Tel Aviv on top of one another, you aren't there yet. Dominating the landscape, the Burj is 818 meters tall, almost five times the average height of one Azrieli tower. Its construction is almost complete.

To the south is the Burj Al Arab, at 322 meters including its antenna. The hotel was completed in 2000 but it's on the shore, sitting on land reclaimed for its construction. It is just as eye-catching, being shaped like a sail. Its vast interior and perhaps the insane prices it charges, from \$1,000 to \$30,000 a night, have made it immensely popular. But most tourists have to settle for taking its picture from 100 meters away, which is where the security guards will politely stop them.

The great development and present difficulties can all be attributed to one man: Sheikh Mohammed bin Rashid Al Maktoum, also known as simply Sheikh Mohammed, the Emir of Dubai and the Prime Minister and Vice President of the UAE. Since 1995, when his older brother, Sheikh Maktoum bin Rashid Al Maktoum, declared him crown prince, he has built dozens of skyscrapers around the historic port of Dubai and beyond. He built wide streets that today buzz with costly, ostentatious cars. At the feet of the towers, restaurants, cafes and stores serve the wealthy people working above.

As if all that wasn't eye-catching enough, there are the four artificial islands. Not like the tiny strip on which the Burj Al Arab sits: These are sprawling things being built for homes, hotels and commerce. One such project looks like a map of Earth, while three are shaped like palm trees.

Secrets of success: Vision, and tax breaks

The scope of the businesses owned by the ruling Maktoum family is not public knowledge. They include three vast investment companies – Emaar, Dubai Holdings and the crown jewel, Dubai World, which owns the development company Nakheel.

Nakheel ("Palms") is the worm in the apple. It triggered the panic when nearly two weeks ago it announced that it cannot meet its next bond payment. Nakheel is the company that builds the land reclamation projects.

The Maktoum family has controlled Dubai since 1833. But the ambitious vision, far beyond petrodollars, originated with Sheikh Mohammed's father, Sheikh Rashid bin Saeed Al Maktoum. Fifty years ago Dubai was a trading hub, but Sheikh Rashid saw greater things and built the great Jebel Ali port, which was inaugurated after his death in 1977. Sheikh Mohammed saw beyond mere trade, however: He saw a future

in which merchants, bankers, businessmen and tourists would come to the emirate, with their business.

Sheikh Mohammed's vision was based on a model developed by Michael Porter of Harvard University, which advocated clustering similar or complementary businesses close together. The idea was to attract businesses from around the world to a specific locale, along the lines of California's Silicon Valley.

Dubai didn't have top-notch universities, but it could offer tax breaks and low operating costs. Sheikh Mohammed set up a free trade zone in Dubai that became a huge success, luring in giants such as Oracle, Microsoft, IBM, CNN and Reuters. They brought with them Western standards and norms of construction, public services, entertainment, communications and spending.

Not only Dubai's skyline but also its demographics changed

beyond recognition. By 2005 only 17% of Dubai's 2.3-million residents were locals; a whopping 42% were Indian, and 13% were Pakistani. Living standards in the emirate soared: According to the International Monetary Fund GDP per capita was \$55,000 in 2008, double that of Israel.

Where did Sheikh Mohammed get it wrong? It's hard to pinpoint, given the sheer scope of his vision, but two things come to mind.

The first is megalomania: the biggest mall, the tallest tower, giant artificial islands. Sheikh Mohammed is also the world's biggest single investor in horses. The second is the real estate market, such as a grandiose project in Las Vegas that became the first of Dubai World's projects to seek an arrangement with creditors, six months ago.

But Dubai World's biggest problems are at home. "Half a year ago you couldn't find a place to live here," Karen, a Westerner working in Dubai, said. Show a blueprint and you'd sell out a project before a single brick was laid. That's how Dubai's real estate market was: fast construction, rising prices and cheap credit.

Now prices are 50% lower and you'll have to prove you can afford the house you buy. How times change.

Dubai is still full of construction sites, some working around the clock. But there are more "For Sale" signs up, say locals.

Is Dubai going to collapse? The sheikh's image is bruised. Dubai World fed the bubble and is now victim to it, too. But Dubai is no Iceland. Its economy is more diversified and has one foot firmly planted in the stable world of trade. Barring a much worse global recession, there's no reason for the giants that moved to Dubai to leave. The madness has passed, leaving scars. But business rolls on.

An Israeli in Dubai

From the moment I accepted the assignment – because I had a foreign passport – until I landed in Dubai on Sunday night, I veered between excitement and, well, apprehension. My concern spiked upon noting the travel alert regarding Dubai, until I realized the same applied to Jordan and Egypt. Then I relaxed, a little.

Landing in Dubai, I didn't know what to expect. Would the Passport Control officer discover I'd been born in Jerusalem? Or suspect that I was Israeli? Would he ask where I live and what would I say? (In the end I was just asked where I'd come from. I truthfully answered, "Amman.")

At the hotel I looked at the faces around me. Might one be security? Would I be arrested and if I was, how would I get word out? Scenes from "Midnight Express" raced through my mind.

Okay, that's overdoing it, but I was tense. At least that night. By morning I'd calmed down, especially after a tour of the town and a steak. I stopped using my eyes to look for trouble and started using them to learn. I started to feel more like a tourist and less like a spy.

I did adhere to the rules: not telling all and sundry that I'm Israeli, not speaking over the phone in Hebrew unless alone. Nobody at the hotel knew from whence I hailed.

The local currency is the dirham, which was set 12 years ago at 3.67 per dollar. Meaning one dirham is roughly the same as one shekel. You can use an international credit card issued in Israel in Dubai, as long as it doesn't have any Hebrew on it. Israeli SIM cards don't work here, though. My service provider gave me a British one, so I could get calls at my usual number, but not call Israel. In any case, I bought a local disposable phone for 99 dirhams, including 50 dirhams' worth of calls.

After four days in this wonderful place, I want to go home. Talking with the people has taught me respect for the ruler, Sheikh Mohammed bin Rashid Al Maktoum, his vision and resolve. He developed the emirate from a beach to the top of the international glitterati scene with hardly any oil revenue, which made me think unhappy things about the leadership in Jerusalem.

I learned about the order the local government preserves, the paucity of crime, the openness to strangers, and the political pragmatism of the emirs. I also feel uncomfortable about the hordes of foreign workers, who have a majority but no political power.

I write this on my last night in Dubai. I hope I haven't gotten carried away, and that tomorrow morning the Dubai internal security won't arrest me, torture me and cast me into the sea, leaving behind just a SIM card and a mystery. So I'm e-mailing this off right now, to be on the safe side.

(Nathan Lipson)

sudoku

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The game board is divided into 81 squares, with nine horizontal rows and nine vertical columns. A few numbers already appear in some of the squares. The aim is to fill in numerals 1 to 9 in each of the empty squares, so that every row and column and every box (a group of nine squares outlined in boldface) contains all of the numerals 1 to 9. None of the numerals may recur in the same row, column or box.

Solution to the previous puzzle:

4	9	5	7	8	6	3	2	1
7	3	1	5	2	9	8	6	4
8	6	2	4	3	1	5	7	9
5	4	7	1	6	8	2	9	3
9	8	3	2	4	5	6	1	7
1	2	6	3	9	7	4	5	8
3	7	4	6	1	2	9	8	5
6	1	8	9	5	4	7	3	2
2	5	9	8	7	3	1	4	6

Tips and a computerized version of Sudoku can be found at www.sudoku.com

1	7	2	6	3	8			
		3	4	8	2			
9								1
	8		5	3		1		
		6	7	1			4	
5								6
		6	1	2	9			
7	3		9	5		2	4	

Difficulty: Easy