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Good-bye to Dubai

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by Joshua Hammer

Dubai: Gilded Cage
by Syed Ali
Yale University Press, 240 pp., $20.00 (paper)

Dubai: The Vulnerability of Success
by Christopher M. Davidson
Columbia University Press, 376 pp., $32.50; $19.50 (paper)

City of Gold: Dubai and the Dream of Capitalism
by Jim Krane
St. Martin's, 356 pp., $27.99

In mid-May, with Dubai reeling from the effects of the global financial crisis, I flew into town and took a taxi down the Sheikh Zayed Road, Dubai's main thoroughfare, which runs parallel to the Persian Gulf. The evening rush hour had not ended, but the road was clear of traffic; during previous visits to Dubai I'd encountered gridlock day and night all along this highway. As we approached downtown Dubai, we ran a long gauntlet of illuminated skyscrapers, all built during the past few years. Covered with garish architectural flourishes, many were unfinished, with exposed steel girders and cranes frozen above them; almost all displayed TOLET signs in their windows.

Just beyond this cluster I could see the Burj Khalifa, a tapering cylinder of aluminum and glass that rises 2,500 feet above the city—the tallest skyscraper in the world. Emaar, the government-owned real estate empire that built it, had conferred upon it the slogan "I am the power that lifts the world's head proudly skyward, surpassing limits and expectations." But the Burj will also be linked forever to Dubai's recent setbacks. The tower was originally called the Burj Dubai, but the name had been changed before its January 2010 opening to honor the president of the United Arab Emirates and emir of Abu Dhabi, Sheikh Khalifa bin Zayed al-Nahyan. Dubai, with a population of some two million people, is one of the seven federated emirates on the Persian Gulf, each run by a sheikh, and oil-rich Abu Dhabi is Dubai's largest neighbor. Its sheikh had come to Dubai's rescue last year with a total of $25 billion in emergency loans. "Sheikh Khalifa saved Dubai," my taxi driver, a Pakistani, told me; but still "many people have been forced to leave," he said. "The situation is very bad."

We turned off Sheikh Zayed Road and entered Jumeirah, one of the city's oldest and richest neighborhoods, the land of "Jumeirah Janes," the emirate's wealthy expatriates. Here were villas hidden behind high walls—including the late Benazir Bhutto's home in exile—and quiet lanes lined with date palm trees. Just off the beach, the Burj al-Arab, a white, sail-shaped hotel, rose on a small artificial island, with $30,000-a-night suites, a fifty-sixth-floor helicopter pad, and Rolls-Royces shuttling guests down the causeway to the hotel entrance. Its image is much used to promote Dubai. When the hotel opened, in 1999, the *Guardian*'s architecture critic described it as "fabulous, hideous, and the very pinnacle of tackiness—like Vegas after a serious, no-expense-spared, sheik-over." The world's only "seven-star hotel"—which reportedly has never made a profit—competes with several other hugely expensive hotel-resorts, many of them now short of customers.

My destination was far more modest: an $80-a-night bed-and-breakfast near Jumeirah Beach. Dubai's sheikhs have discouraged such guesthouses, apparently to divert foreign visitors to its pricey resorts. But the owners had managed to stay in business by cultivating a powerful patron in Dubai's ruling family. "We should be able to operate for the next five years," I was told by the co-owner, a South African, who predicted that her business would grow as Dubai downsized its ambitions. She led me to an outdoor bar, where a dozen expatriates were downing shots of aquavit, tequila, and vodka at a birthday party.

The partygoers, well into their third hour of boozing, seemed to be typical of the Western set in Dubai: a Russian couple who had left Moscow a decade ago and had built successful careers planning "events" for property openings; a thirty-seven-year-old English ad man whose marriage had collapsed and who was cruising the nightclubs in Dubai's Creek neighborhood in a search for female companionship. The birthday boy, a half-British, half- Palestinian Christian, was selling condominiums for a real estate firm.

He admitted that he was an endangered species. At the peak of the bubble, in 2007, he told me, "about twenty-five hundred" property brokerage firms had operated in Dubai. Many of these firms had collapsed when property prices began to plummet in late 2008. Now, he said, only a few hundred such companies were left. He and his twenty-four-year-old British girlfriend lived in a condo on one of the "fronds" of Palm Jumeirah—a configuration of artificial islands shaped like a palm tree, and the only one of three Palm projects to be completed—and prided themselves on having survived the shakeout. Dozens of acquaintances had lost their jobs, had their visas revoked, and been forced to leave. An unfortunate few had been thrown in jail for failing to pay their debts. "It's the survival of the fittest now," he told me.

Deserted highways, empty hotel rooms, miles of unsold residential and office space. These were not the images that Sheikh Mohammed bin Rashid al-Makhtoum, Dubai's ruler, had in mind when he wrote his book about the emirate, *My Vision: Challenges in the Race for Excellence*, which was published in April 2006. "Dubai's proving to be one of the most successful development stories in the world, and is being viewed increasingly in the Arab and Muslim worlds as a source of pride," a gushing press release issued by the publisher declared. In the book, al-Makhtoum explained how Dubai had been transformed in the course of two generations from a desert backwater into the ultimate global city. He compared Dubai to Córdoba, the medieval capital of Arab Spain, and praised its melting pot of nations and creeds that enhanced, the release proclaimed, "human interaction and understanding."

There was always much hokum in al-Makhtoum's vision—a sense that his edifice was as fragile as the dredged sand on which the Palms and the project called the World—260 artificial islands shaped like the globe—were constructed. Built on the easy cash of foreign lenders, Dubai has purveyed a bland, everywhere-and-nowhere culture, spiced up with gaudy theme-park attractions that defy the desert environment: elaborate water parks, dolphin petting zoos, gigantic shopping malls done in *faux* medieval Arabian style. One of the emirate's most popular novelties is Ski Dubai, a fake Alpine wonderland, complete with snow-dusted pine trees and an après-ski restaurant occupying a corner of the Mall of the Emirates.

Through tax breaks, gigantesque architecture, a well-trained security force, and spectacularly wasteful air conditioning, al-Makhtoum and his "Brand Dubai" team managed to create a buzz and turn Dubai into a seemingly safe, secure, friendly place to live. The Dubai fantasy peaked with the creation of Dubai's housing bubble in 2002, when al-Makhtoum encouraged foreigners to buy property in the emirate. This unleashed a giant Ponzi scheme, fueled by money launderers and speculators who typically "flipped" properties after making a 10 percent down payment, driving up prices to absurd heights, and leaving the final investor catastrophically exposed when the bubble, inevitably, burst.

Moreover, the real estate boom was kept going by a Dickensian labor system that was bound at some point to self- destruct. At the height of the boom, tens of thousands of Southeast Asian laborers, banned by Dubai's labor laws from forming unions, were put to work for eighty hours a week to build the Dubai fantasy and obliged to live in squalid residential camps in the desert. There, according to a report in the *Guardian*, they were packed "twelve men to a room, forced to wash themselves in filthy brown water and cook in kitchens next to overflowing toilets." Before the crash, workers had begun to agitate for reforms; one target has been the *kafala* system, which requires foreign workers to have "sponsors" to obtain a visa and mandates their immediate deportation if they lose their jobs. A Kuwaiti government minister called this system "human slavery."

In late 2008, Dubai's leaders clung to the hope that the emirate would escape the widening financial crisis. The shift of some capital from the West to the emergent economies of the Middle East and East—summed up by the formula "Shanghai, Mumbai, and Dubai"—wrongly convinced many of them that Dubai would keep riding high while Europe and America tumbled. By late 2008, bankers had stopped lending money to Dubai's heavily indebted real estate firms, and the steep fall of property prices made it difficult for them to continue servicing their debt. In February 2009, The *New York Times* reported that real estate prices had dropped 30 percent in three months, and that three thousand cars had been abandoned at Dubai International Airport by fleeing expats. (Dubai officials disputed this figure.) In November 2009, Dubai World, the gigantic investment company that runs a portfolio of businesses and projects for the Dubai government, announced that it would be unable to make a $10 billion payment on its $59 billion debt, roughly three quarters of Dubai's total debt of $80 billion. After global stock markets fell the company laid off 10,500 employees worldwide, or nearly 20 percent of its workforce. Only the last-minute intervention of oil-rich Abu Dhabi saved Dubai from a potentially catastrophic default.

The emirate still has considerable resources, thanks to its strategic position in the Persian Gulf, its well-developed tourism, and its companies engaged in international trade. Emirates Airlines, Dubai's carrier, recently ordered thirty-two new A380 airbuses for its fleet, and it reportedly grew by double digits last year. Dubai still has a sheen of glamour. It remains a center for breeding and racing horses, many of which run at tracks in Europe or in the Dubai World Cup, the world's richest series of horse races. Sheikh al-Makhtoum is an avid horse breeder, along with his second son, Sheikh Hamdan, while one of his wives, Princess Haya bint al-Hussein, daughter of King Hussein, participated in the 2000 Summer Olympics in Sydney representing Jordan in horse jumping. Still, Dubai may have lost "25 percent of its economic activity" with the collapse of its real estate industry, a British financial writer told me, and has plunged into a deep recession that could linger for many years.

Dubai has long made claim to being a "world city," a meeting place of East and West, a bastion of moderation in a region prone to extremism. The collision of nationalities—Iranians and Americans, French and Yemenis—in its shopping malls and amusement parks can be exhilarating. But this *souk*-like air of openness has a dark side. The desert entrepôt is a Mecca for illicit enterprises ranging from human trafficking to arms smuggling. The term "five khandred," uttered in a mock Eastern European accent, is one of the classic examples of Dubai-speak, referring to the going rate for the Russian prostitutes who frequent hotel bars and shopping malls.

In 2001 a World Customs Organization report confirmed that Dubai was a major smuggling route into Europe, and the US government accused Dubai the same year of serving as a conduit for Taliban gold. (The UAE was one of only three nations—the others were Saudi Arabia and Pakistan—to recognize the Islamic fundamentalist government in Afghanistan.) The rogue Pakistani nuclear scientist A.Q. Khan used Dubai to pass on nuclear components to Libya and North Korea; the notorious Russian arms trafficker Viktor Bout, the "Merchant of Death," operated a large cargo company in Dubai's next-door neighbor, Sharjah, and used it to funnel weapons to *génocidaires* in Rwanda, Marxist guerrillas in Colombia, and, allegedly, al-Qaeda.

One alleged arms buyer was Mahmoud al-Mabhouh, a fifty-year-old Hamas operative based in Damascus who arrived in Dubai on January 19, allegedly seeking to buy weapons from Iranian dealers. Whatever his mission, Mabhouh checked into the five-star Al Bustan Rotana Dubai Hotel near the airport. Twenty-four hours later, he was discovered dead in his room by members of the hotel staff.

A murder investigation, ordered by Dubai's veteran police chief, Dahi Khalfan al-Tamim, revealed an elaborate plot. Al-Tamim's team culled thousands of hours of footage from Dubai's security cameras, tracing an assassination squad as it followed al-Mabhouh to his hotel, put on clumsy disguises, murdered him (by suffocation, forensic tests revealed), then slipped back out of the country. Using face recognition software, al-Tamim was able to identify twenty-seven men and women who had participated in the plot and name them, or at least name the Europeans whose passports had been stolen—in Israel—and duplicated in a sophisticated case of identity theft. Al-Tamim left little doubt that the murder was the work of Mossad, Israeli's counterterrorism and intelligence agency.

Al-Tamim is known as a crack investigator. Last year, he arrested the killers of another well-known political figure, Sulim Yamadayev, a Chechen exile and a former close aide to Chechen President Ramzan Kadyrov, who was gunned down in the parking lot of the luxury Jumeirah Beach Residence on March 30, 2009. "The security services here, despite lots of attempts to discredit them and turn them into Keystone Kops, are damned good," I was told by a British correspondent who has lived for nine years in Dubai.

Al-Tamim is also an Arab nationalist and a foe of Israel. But Dubai has always been quietly open to doing business with Israel (as has Abu Dhabi), allowing many Israeli entrepreneurs to set up shop here. These include a diamond import-export firm, run by the Israeli jewelry magnate Lev Leviev, that distributes gems to many nations in the Middle East. In fact, Israeli companies have also struck major deals with the UAE to strengthen their security facilities. One such firm is Asia Global Technologies, with offices in Zurich and Abu Dhabi. Founded by Mati Kochavi, a US-based Israeli who made a fortune in real estate before diversifying into security after September 11, the company also has a management team made up of retired Israeli generals and Mossad agents, according to a recent article in *Le Figaro*. AGT has built a series of "smart" security walls—equipped with sensors, facial recognition software, and other advanced technology—to protect fifteen oil installations in the UAE and the Emirates' border with Oman. The reported price tag: $3 billion. Abu Dhabi also acquired, according to *Le Figaro*, two surveillance aircraft from Radom Aviation Systems in Petah Tikva, a suburb of Tel Aviv, apparently to allow it to eavesdrop on communications on three islands seized by Iran in the Persian Gulf.
Al-Mabhouh's murder threatened to unravel a delicate and mutually bene- ficial relationship with Israel. After two weeks of daily press conferences—during which he called for Prime Minister Benjamin Netanyahu's arrest—al-Tamim was apparently told by higher-ups to stop talking. He has hardly spoken with the Western press since, though in a recent interview with the emirati newspaper *Gulf News* he said that Meir Kagan was being pressed to leave his job as Mossad chief because "the Mossad certainly does not accept losers."

Syed Ali's *Dubai: The Gilded Cage*, one of three books that have recently been published about Dubai, reveals the often ugly reality behind its façade. Ali minces no words in criticizing Dubai's "plastic" culture: its "grotesque grandiosity"; its environmentally wasteful architecture; its abusive treatment of the "socially degraded" workers who made possible its growth; its repressive, antidemocratic regime that has banned critical bloggers and jailed opponents; and its transient population that makes a "Faustian bargain," giving up

democratic freedoms (the right to vote, free speech, the right to criticize the government), for a standard of living one might not get in Arab or South Asia countries, or even in the UK or US.

Ali, who was deported from Dubai apparently after asking too many questions, and whose book is the only one of the three under review to deal at length with the current financial crisis, accuses Western journalists of buying too easily into the Dubai myth, largely smitten with “the idea of Dubai as an open playground for Westerners and as the land of opportunity for third-world migrants.”

Associated Press correspondent Jim Krane’s *City of Gold: Dubai and the Dream of Capitalism* occasionally falls victim to such credulity. Krane is particularly taken with Mohammed bin Rashid al-Makhtoum, or “Sheikh Mo,” as he is known in Dubai, the man who became ruler on January 4, 2006, upon the death of his elder brother, and the same year was appointed prime minister and vice-president of the United Arab Emirates. He has, Krane writes, “the entrepreneurship bravado of Richard Branson, the city-building prowess of Robert Moses, and the social engineering ambition of Ataturk.” Others, including Syed Ali, have portrayed the sheikh as a megalomaniac who seduced the Western press while tolerating human trafficking and organized crime—and ignoring Dubai’s ballooning debt. In recent years, Mohammed became fond of taking fellow billionaires such as Bill Gates around Dubai, boasting that the mini-cities that were springing up before their eyes—on landfill dumped in the sea—represented only “10 percent” of what he planned to accomplish. It was a seductive pitch, and it set off one of the greatest speculative binges in history.

Independent Dubai came into being in 1833, when eight hundred members of the al-Bu Falasah section of the ruling Bani Yas family of Abu Dhabi split off to settle alongside the Creek—a saltwater inlet from the Persian Gulf. As laid out in rich detail by Christopher Davidson in his careful study, *Dubai: The Vulnerability of Success*, the most prominent members of this clan were the al-Makhtoum family, which took control of the desert backwater. Thanks to their support of a lucrative gold-smuggling trade, the backing of the British colonial rulers, and the immigration of sizable numbers of Iranian and Indian merchants, they developed their domain into a modest trading hub by the middle of the twentieth century. Yet Dubai remained almost completely undeveloped. In *City of Gold* Krane provides a portrait of the place through the eyes of George Chapman, an English soldier and adventurer who was hired by a Dubai-based trading firm, Gray Mackenzie, in 1951:

Lurching into Dubai village, Chapman could see the orange light of kerosene lamps. The flickering glow revealed the ragged outlines of palm-thatch *barasti* shacks and adobe houses sprouting vents like oversized chimneys. Men in beards and rough turbans led camels through the sandy lanes. The air smelled of smoke and dung…. Dubai…sat in darkness. Literally. At night the town gave off so little light that it couldn’t be seen by those aboard a plane flying overhead or a ship passing offshore.

This began to change after 1966, when Dubai struck oil, fifteen miles offshore, giving Sheikh Rashid al-Makhtoum, father of the current leader, the resources to undertake a sweeping transformation. Sheikh Rashid, a self-educated man who spoke only Arabic, and whose most prominent features were “a crooked hawk’s nose and beady eyes,” was skeptical of modernization, Krane writes, but also “openly disdainful of the stagnant past.” Rashid ordered Dubai’s Creek dredged in 1961, making it the most accessible port in the Middle East; he gave the city electricity, built the first luxury hotels and dry dock facilities, and turned Dubai into an international shipping center. He also joined with neighboring emirates to form a loose federation.

Rashid died in 1990; his son Mohammed, a Western-educated military pilot and horse-racing enthusiast, became the emirate’s *de facto* leader, and accelerated Dubai’s growth. One measure of the city’s transformation under his leadership was the expansion of Dubai’s airport, “a flyblown patch with an open concrete shed where sweaty officials hand-stamped passports” in 1969, according to Krane. It grew in two generations into the world’s eighth-largest airport, with 118 carriers serving 202 destinations and nearly forty million passengers. Many of those passengers were expatriates who had been seduced by

Mohammed's promises of near-limitless growth, and who became gullible participants in the real estate bubble. Krane is particularly good at capturing the hysteria that accompanied the building boom:

Developers sold tens of thou- sands [of properties] by brandishing drawings of dream neighborhoods with homes, trees, elevated trains, and European families strolling with ice cream cones. It took a leap of faith to trust that empty desert would be converted into the renderings on display. But the theoretical homes sold out in hours, years before structures would be built. Values shot into orbit. In the speculative secondary market, prices on luxury homes quintupled in five years, with properties sold repeatedly before completion. Blocky three-bedroom homes overlooking an artificial lake in The Meadows launched for around $350,000 in 2003. Five years later, they cost $1.8 million.

Today, a large number of similar real estate projects have been canceled, and many stand half or one-quarter filled. Last year Nakheel—the most aggressive and risk-prone of Dubai's government-owned real estate entities—announced plans for a kilometer-high skyscraper that would surpass the Burj Khalifa, but that, too has apparently been shelved, as has Sheikh Mohammed's bid to host the 2016 or 2020 Olympics. (This was always a long shot since from June through August the average daily temperature in Dubai hovers around 125 degrees.) The government's World project may be the most spectacular example of Dubai's failures: 70 percent of its islands have been sold at prices between $20 and $65 million apiece, but many developers have gone bust and virtually no building has taken place. One veteran journalist assured me, "the World will never be built."

In May, Dubai World reached an agreement with most of its lenders to restructure debt worth $23.5 billion, leaving it with debts of $14.4 billion, racked up through such ill-advised acquisitions as the struggling clothing chain Barneys and the *Queen Elizabeth 2* luxury liner. Last November, the chairmen of Dubai World and of Emaar were removed from the board of the Investment Corporation of Dubai, the emirate's principal investment arm. Other top executives in half a dozen companies have been forced to resign.

Even so, Dubai's slick public relations machine insists that all is business-as-usual: a press man took me to the 126th-floor observation deck of the Burj Khalifa, from which I could gaze upon half-finished skyscrapers and the empty islands of the World. He told me that all 160 floors had been sold long ago, though the place was still eerily deserted. At the Hotel Atlantis, a grotesque, *faux* palazzo that dominates the outer crescent of the Palm Jumeirah, my escort assured me that the 1,539-room hotel has enjoyed an average occupancy rate of "92 percent" since its opening. After touring the $7,000-a-night Neptune and Poseidon suites (each bedroom faces a giant, shark-filled aquarium) and its $35,000, seven-bedroom Presidential Suite, I was given a free pass to "Aquaventure"—a huge water park where tourists are propelled on inner tubes through artificial rapids and channels through a man-made jungle.

As I floated down a fake river with a concrete ziggurat looming over the scene, I took note of the heterogeneous makeup of both the hotel staff and tourists. Lifeguards from Kenya and China chatted up tourists from the Palestinian territories, Turkey, France, and the United States. Dubai welcomes everyone, its admirers say, building bridges between people. In fact, a longtime friend, an Egyptian-American who has lived in Dubai for several years, told me: "Here, Americans stick with Americans, Brits stick with Brits, Indians with Indians. Everyone keeps to his own kind."

Bankers, journalists, real estate brokers, and others I spoke with believe that it will take five years for building to begin anew in Dubai, and they question whether the city can retain its allure meanwhile. Many doubt that Dubai's financial problems have been fully revealed. "What is the extent of the debt, and what is the ability to service it while the economy recovers?" a South African businessman who's lived here for years asked me. "People are terrified that it's been papered over." And if Dubai's "formula of tax-free economic zones and mass tourism doesn't work," a long-time resident told me, "people who have been emulating it throughout the Middle East will say, ‘What the hell do we do now?’ There are a lot of angry young people out there, and the whole region will go up in smoke in ten years if they can’t find employment for them.”

During the past few months, I was told, Sheikh Mohammed has been trying to confront his dream’s collapse. He has said little publicly about the economic meltdown, other than issuing a handful of sunny pronouncements about Dubai. “Sheikh Mo is an angry man,” I was told by a source who knows him well; he feels “betrayed” by the real estate promoters who had assured him to the end that their ventures were healthy. According to my source, the sheikh has been taking long solo drives in his Mercedes at night, stopping in front of construction sites, and gazing pensively at the many vacant and half-built skyscrapers. Mohammed recently completed his autobiography for a US publisher with the assistance of a ghostwriter, but, a source in publishing said, he had refused to add a chapter about the bursting of the real estate bubble, the debt crisis, and the bailout by Abu Dhabi. He saw no reason to discuss these sources of humiliation. As a result, I was told, the book will never see the light of day.
—July 20, 2010