Dubai Rising

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The World Economic Forum is no stranger to rock stars. The Geneva-based organization famous for its exclusive Davos gathering of the world's business and political elite usually attracts a smattering of Hollywood stars—and the likes of Bono, the legendary U2 lead singer and global activist—who turn more heads than the political big wigs. In the 2004 World Economic Forum regional meeting in Jordan, an unlikely "rock star" emerged: Sheikh Mohammad bin Rashid al-Maktoum, the crown prince of Dubai and widely touted draftsman of the Dubai economic miracle. "He drew crowds like Bono does in Davos," said one observer. "He was the rock star of the meetings."

Sheikh Mohammad, as he is widely known in the region, has won plaudits for charting the meteoric rise of Dubai to what it is today: a dynamic regional business hub; a high-tech center that has attracted the likes of Microsoft and Oracle; a world-class leisure destination; a shopping mecca that attracts consumers from around the world; a major conference site that hosted the 2003 World Bank/IMF annual meetings to much praise; and a global, cosmopolitan city in the making, where people from more than 180 nationalities live and work.

In the process, Dubai has emerged as a regional model–a place to be emulated, envied, trumped, and even scorned. As one Jordanian businessman told me, "Most of us have Dubai envy. We wish our own leadership had the same vision and efficiency." Or as one Lebanese businessman put it, "The men of the desert are teaching some of us, the old urban traders of the region, some new tricks. It's exasperating really." Persian Gulf neighbor Qatar has self-consciously sought to challenge Dubai as a regional hub and Arab intellectuals occasionally heap scorn on Dubai as a place of empty consumerism run rampant—"Las Vegas in Arabia," as one put it.

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But Dubai does something fundamentally important: it shatters the myth that the Arab and Muslim world cannot be dynamic and successful in the modern, globalized economy and it shames the Middle East "excuse mafia" in the old commercial capitals of Cairo, Damascus, and Tehran who blame outsiders or the Palestine-Israeli conflict or legacies of colonialism or neo-liberalism for their economic ills. As most of the Arab world was erecting protectionist barriers in the 1950s and 1960s, Dubai was urging the world to invest and trade in their port city. Meanwhile, it was creating the first infrastructure projects that have helped launch the city hurtling forward into the twenty-first century global economy.

Observing the rise of Dubai in the past few years is not unlike observing the rise of New York, Amsterdam, Venice, Hong Kong, and Singapore—cities that simultaneously transcended and lifted their regions by unleashing the entrepreneurial and trade talents of their nationals and the foreigners whom they attracted with liberal business policies. Indeed, one of the key architects of Dubai's development, the businessman and government advisor Mohammad Al Abbar, refers to Dubai regularly as "the New York of the region." And when Dubayans talk about "the region," they are not just referring to the Arab world, but the larger market of nearly 2 billion people that includes the Indian sub-continent and east Africa.

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All across the Arab world and beyond, countries are adopting aspects of the "Dubai model" from the use of free trade zones to attract businesses to the creation of grandiose leisure and tourist developments. Even the famous Dubai airport duty-free weekly car raffle has caught on, with imitators in Jordan, Iran, Bahrain, Oman, and Qatar.

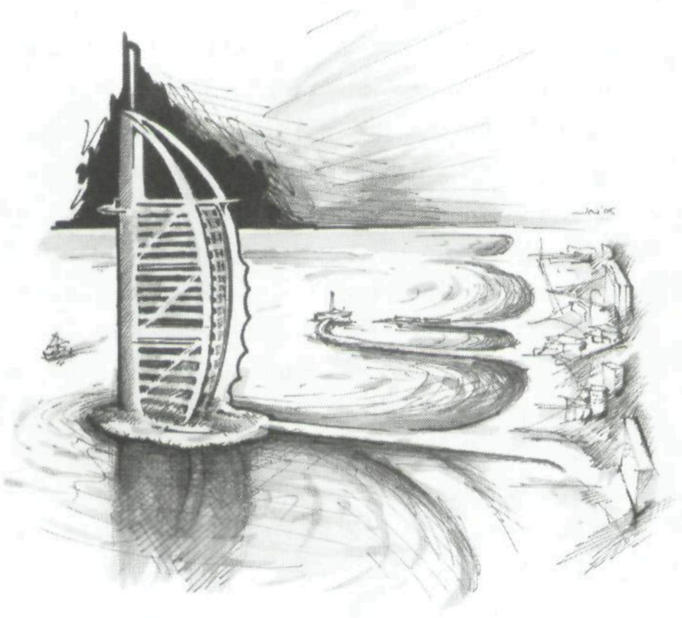
As the Bush Administration pushes for regional democratization, Dubai presents an unlikely—and unwitting—challenge to Washington's desires: an economic success story fueled by liberal trade policies, visionary leadership, and modernized education, with little or no popular political participation and no visible desire for greater democracy among Emiratis. In some senses, Dubai has become a competing lodestar to the democracy model in much the same way Lee Kwan Yew's Singapore did in Asia. The arguments can be heard over and over again at Middle East conferences: "Look at Dubai," people say. "If it were democratic, it never could have succeeded the way it has." In the early growth stages, a visionary autocrat—or in Dubai's case a CEO-like Sheikh—the argument goes, beats a messy democracy.

Of course, the Middle East has plenty of autocrats with too little vision. And the secret to Dubai's success is an intangible that cannot necessarily be replicated: good leadership and good governance at critical moments in her history. What's more, any comparisons between Dubai, a small city-state dominated by foreign skilled and unskilled labor (80 percent of Dubai residents are foreign nationals) and, say, populous nation-states like Egypt or Iran or Morocco, must be made carefully. After all, the challenges, cultural context, and historical political development differ greatly. Iranian and Egyptian intellectuals and political activists have been agitating for greater political participation for more than 100 years, long before Dubai was even a sovereign entity, let alone a major trading center.

Still, putting aside the obvious cultural, historical, and political differences, Dubai does indeed offer some lessons for the rest of the Arab and Muslim world. The simple Dubai lessons are these: a world-class infrastructure, a business-friendly environment that abhors red tape, a willingness to take risks, and a business culture of innovation and change can unleash the natural talents of a region that is punching far below its weight.

Despite the relative economic success in East Asian Muslim states like Malaysia and Indonesia, the total GDP of the Muslim world—a swath of lands encompassing 1.2 billion people—is less than half of Germany's and a quarter of Japan's. What's more, the 1.2 billion people of the Muslim world in recent years have received only a fraction more foreign investment than Sweden, with a population of 10 million people.

Ironically, for nearly 800 years after the advent of Islam, the Muslim world was the center of global commerce. As early as the tenth century, a trader from Samarkand could draw credit from a merchant in Cairo. Medieval Baghdad and Damascus were the financial locus equivalents of modern day New York and London. Arab traders, more than missionaries, contributed to the spread of Islam throughout Southeast Asia.



The Muslim world's past economic success should disarm the nay-sayers who posit cultural impediments to capitalist economic development (after all, this argument is particularly foreign to the Muslim world, where the Prophet Muhammad was a merchant). It should also shame current rulers who have presided over an age of extraordinary economic stagnation. But the past is rarely as strong an argument as a model from the present, and Arab businessmen and political elites are either enthusiastically or grudgingly looking to Dubai as a model. As prominent Saudi journalist Abdul Rahman al-Rashed satirically wrote, "Dubai is making the rest of the Arab world look bad. We need to go to Dubai's leadership and ask them, in the interests of Arab solidarity, to fail more."

The Muslim world has failed for too long. These underperforming economies stifle generations of Muslims, especially women, whose widespread economic exclusion perpetuates the region's sluggish growth. These failing economies also spawn a range of social and political problems that curb the healthy development of civil society and politics and ensure the continuation of the autocratic regimes that control and jealously guard the national wealth. Ominously, economic failure in authoritarian polities also spurs popular attraction to radical Islamist groups who prey on discontent and weave populist narratives of economic redemption in their calls to resistance.

The Muslim world faces another problem: a massive youth bulge. While Europe is graying, the Muslim world is entering adolescence. The western Muslim world is particularly young. In places like Saudi Arabia, Pakistan, Iraq, and Yemen, two-thirds of the population are under the age of 25. All told, some 130 million Arabs and Iranians are under the age of 15. If we add Pakistan to the mix, the number exceeds 200 million. The demographic trends of the broader Muslim world, including large Muslim minorities in India and the highly populated East Asian states of Malyasia and Indonesia, also skew young. The Muslim world's under-25 population nears 600 million. The employment implications of those numbers are overwhelming.

The World Bank estimates that the Middle East/North Africa region will need to create 100 million jobs by the year 2020 just to keep up with current levels of unemployment. They described the situation as the "most intense pressure on labor markets observed anywhere in the post World War II period."

Dubai, in its dazzling ambition, has raised the regional bar on success, creating a buzz across the region. It has also, one hopes, laid to the rest the idea that the Arab world is fated to stew in its economic malaise. As Mohammad Gergawi, a leading Dubai businessman and advisor to the crown prince, put it in the 2005 World Economic Forum meetings in Jordan, "Some see 100 million people entering the job market as a threat. I see 100 million opportunities."

The Dubai Model

Encompassing about 1,000 square miles of land, Dubai is part of the United Arab Emirates, seven city-states that form the nation founded as a union in 1971. Abu

Dhabi, the capital, possesses far more natural wealth in the form of oil and gas but is less commercially dynamic than Dubai. In the arrangement that formed the United Arab Emirates three years after the 1968 British withdrawal from the Persian Gulf, the seven emirates agreed to maintain relative autonomy to conduct their own economic and trade policies, while the center, Abu Dhabi, would conduct security and foreign policy. Abu Dhabi shares its oil revenue with some of the other emirates but gives far less to Dubai.

Most Abu Dhabi money that makes its way into Dubai comes in the form of investment in one of Dubai's dazzling projects—such as the Burj al-Arab, the world's tallest hotel and seven star luxury resort; the new Palm Island projects that create a string of man-made islands in the shape of palm trees with resorts, hotels, and apartments; the new Dubai Marina residential towers; or the dozens of free trade zone "cities" such as Internet City, Media City, Healthcare City, or Knowledge Village that attract world-class companies and institutions to set up operations in Dubai by providing them tax incentives, excellent infrastructure, and access to global markets through Dubai International Airport which has flights to more than 200 destinations. Dubai also possesses some of the largest and most efficient ports in the world—a boon for traders, the original lifeblood of Dubai's economy.

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But Dubai understood early on that it needed to move beyond trade to become a world-class global hub. It now is seeking to challenge Bahrain as the region's banking center, setting up Dubai International Financial Center, which has already attracted a stream of global banks. It is moving toward that ultimate urbanist goal of the twenty-first century: to become a postindustrial, modern, high-tech city full of knowledge workers and service industries.

Over the past few years, Dubai has managed to attract more and more of the knowledge workers and creative classes that define today's great cities. Take Anil Bhoyrul, for example. A successful journalist in London, he decided to move to Dubai to edit a business magazine because he saw "tremendous growth opportunities in Dubai media." American Elizabeth Drachman, another journalist, and her film-maker husband also found their way to Dubai in the last year. "There are opportunities here that you can't find elsewhere in the Middle East," Drachman, who lived in Egypt for two years, told me. Abdulhamid M. Juma, the director of the sprawling Media City campus, which hosts companies ranging from CNN and Reuters to public relations firms, film production companies, and free-lance writers, says he is constantly turning down applications until he builds more room. The same goes for Internet City, the high-tech center that is expanding to meet high demand.

"Our philosophy is simple," Sultan bin Sulayem, the Chairman of Nakheel Pproperty and the Ports, Customs and Free Zone Corporation, explained to me. "We build world-class infrastructure, we cut out the red tape, we offer a business-friendly environment, and we encourage productive investment and productive human capital. We also prize innovation and talent."

Joel Kotkin, in his magisterial work *The City: A Global History*, astutely notes that Dubai's welcoming embrace of talent and its cosmopolitanism have helped it grow. Meanwhile, the old civilizational cities have been unable to keep up with Dubai. He writes, "In the Middle East, megacities like Cairo and Tehran have suffered trying to keep pace with their exploding populations, while smaller, more compact centers such as Dubai and Abu Dhabi have flourished. Dubai, a dusty settlement of 25,000 in 1948, saw its population approach one million by the end of the century, yet it has avoided the economic stagnation that afflicts most of the Arab world. Cosmopolitan attitudes, such as those in Dubai, continue to have a major impact in determining the success of cities. In the past, openness to varied cultures and the clever employment of talent helped relatively small cities such as Tyre, Florence, and Amsterdam play outsize roles. Similarly, in the twenty-first century, a small cosmopolitan city such as Luxembourg, Singapore, or Tel Aviv often wields more economic influence than a sprawling megacity."

Dubai's most important success might be its ability to avoid the "oil curse." Though its oil deposits are smaller than those of neighboring Abu Dhabi, they could still have provided a comfortable life for most Emirati nationals. Today, Dubai earns less than 10 percent of its GDP from oil income, owing to a highly successful diversification plan that began in earnest in the late 1950s under the leadership of Sheikh Rashid al-Maktoum, the then ruler of Dubai. At the time, he realized that his city-state could not grow as a trade center unless he expanded local infrastructure for shipping. Raising money through a bond offering bought up by local trading families and a loan from the Kuwaiti government, Dubai dredged the creek that ran through the city, allowing for larger ships to make ports of call. The plan—though widely panned at the time— proved to be a success, making Dubai an important new transshipment center for light goods traded throughout the Persian Gulf, east Africa, and the Indian sub-continent.

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That model would stick. Dubai leaders over the years would make heavy bets on large infrastructure projects aimed at attracting business. They would do it right: state of the art, free of corruption, and world-class. In such fashion, Sheikh Rashid and later the triumvirate of his sons who today rule Dubai—Sheikhs Maktoum, Hamdan, and Mohammad (the "rock star" who manages day-to-day operations and is widely touted as the visionary)—would build major shipping ports, airports, free trade zones, telecommunications, internet bandwith, and roads that today form the backbone of the emirate's infrastructure. Another member of the ruling family, Sheikh Saeed bin Rashid al Maktoum, has guided Emirates Airlines from a small cargo carrier with a handful of planes in 1985 to one of the world's most celebrated and profitable airlines, flying to more than 70 destinations.

Of course, with members of the ruling family involved in key businesses, the lines between the public and the private in the world of Dubai, Inc. are thin. Leading real estate development companies like Nakheel and Emaar that are building some of the most striking projects like the Palm Island, the World (hundreds of islands shaped loosely like the world, for sale to global investors), and the Burj (the world's tallest tower), are led by advisors to the crown prince. Another key advisor, Mohammad Gergawi, runs a group of public-private projects under the banner of Dubai Holding that is, according to a press statement, "tasked with the management of various mega projects in Dubai that were created over the past five years" and to "research, identify and execute future major projects that will benefit the emirate and the region."

There is no apology for this corporatized development led by the state. Many Dubai officials think it works better this way. Two leading observers of the Dubai model, London Business School Professors Saeb Aigner and Jeffrey Sampler, agree, but they say it is not just the state driving the economic change. They argue that the Dubai model lies somewhere between Singapore and Silicon Valley. In their fine book, *From Sand to Silicon: Achieving Rapid Growth Lessons from Dubai*, they note that Dubai emulates the Singapore model of state-directed infrastructure projects and corporatized development but, like Silicon Valley, also encourages the bottom-up process of private companies competing fairly to utilize that infrastructure once it is in place.

In its bid to attract the best companies to set up and tourists to visit, the city-state has emerged as a world-class marketer of itself. At trade shows and exhibitions across the world, chances are a Dubai booth will be found with the latest high-tech presentation gadgetry and a young Emirati speaking decent English alongside a foreign national—from one of the 183 nationalities that live and work in Dubai—manning the site. On CNN International, the BBC World, and international channels across the globe, Dubai presents slick ads inviting visitors to its annual winter Shopping Festival—a dizzying month of prize raffles, shopping marathons in one of Dubai's more than thirty malls, cultural events, music concerts, and outdoor activities for kids.

While most of the Arab states of the Persian Gulf region lie dormant in the summer months, with elites retreating to Europe amid sweltering temperatures routinely above 100 degrees Fahrenheit, Dubai puts on "the Summer Surprises" event, a family-oriented vacation revolving around the many air-conditioned shopping malls and outdoor water parks of the city, attracting many other Gulf residents to Dubai for the summer—and keeping many Dubai executives home.

One of those executives, Sultan bin Sulayem, a member of Sheikh Mohammad's inner circle who runs a dizzying array of public and public-private entities, recounted to me a story about Dubai's summer holidays. He had just returned from a long vacation with his family in the 1980s and Sheikh Mohammad wondered where he had been. When he told him of his vacation in America, Sheikh Mohammad replied, "One day, we will have everything in Dubai, and people will come vacation here."

His prophecy turned out to be right. Last year, Dubai—a city-state of just over a million—attracted nearly as many tourists as Egypt. As one Dubai tourism official joked, "Imagine what we would do if we had the Pyramids?"