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Dubai 2.0

Trade, tourism and industry can put the city back on its feet

In my column after the collapse of Dubai's real estate markets, I had indicated that the worst was still to come. As I had expected, it did get worse and the scale of Dubai's financial woes of \$80 billion-plus are there for the world to see. Despite the significant Abu Dhabi short-term assistance, investors and others are concerned about Dubai's future.

The story so far is straightforward. In an era of excess global liquidity, Dubai and its various entities were able to borrow money relatively easily. So short-term money was used for long-term assets, over-priced global assets, or over-priced local real estate assets. When the wheels came off global markets, liquidity and real estate speculators dried up, the capital and interest were called in and the rest is history.

The short-term result has been that the real estate market has disappeared, some of the expat community and workers have had to exit the country, select banks have some issues, the lawyers are having a field day, and Abu Dhabi has helped out with some support. But what happens next, in terms of financial restructuring and a future economic model?

From a financial standpoint, some of the short term action that Dubai is taking is appropriate, though in hindsight it could have been done a bit earlier, more transparently, and in a more structured way. Dubai has positioned itself as a company, and when a company has financial trouble, one of the first things it does is to look at its assets, and decide unemotionally which assets don't deserve funding, and which do. That call was not made on a timely basis. Once it is made, the bankers are brought in, and in hard negotiations moratoriums are sought, payment sizes are reduced, some are converted to equity, and some are defaulted on.

Dubai is not the first to go through this and it will not be the last. There are multiple case studies of how such a situation has been managed in the past by setting up Asset Reconstruction Companies (ARCS) as all of the Asian Tigers did when they had a financial crisis – Malaysia, Taiwan, to name a few. This play sheet has been executed successfully in the past, and Dubai must live to fight another day.

So what does it live to fight another day for? Dubai's original economic model was spot on, and it's time to go back to those basics. Dubai was known as a centre of Middle East and

regional trade. Over the past 10 years, trade was overshadowed by real estate development and building infrastructure. But along the way, Dubai became expensive to the point of being uncompetitive. It has made major investments in ports, airports, and infrastructure. Now, it has to incentivise the trading community so they can get going again by lowering cost debt and eliminating a host of indirect and direct taxes and lowering costs, like rents. Abu Dhabi and the region are still investing and do not have the trade infrastructure to match Dubai.

Returning to three-five star tourism, not seven-star tourism, will also help. Dubai was, and can be, a significant tourist hub for the MENA, and South Asia, which was its original target base. Over the past seven years, it pursued European opportunity more aggressively, and created hospitality assets and cost structures that suited only the life styles of the rich and famous. Even shopping became expensive because of the estate costs. That's okay to do, if volume is not part of your business model and you have not built a world-class airline to deliver volume. Dubai is surrounded by great tourism demand. Hong Kong offers tourism opportunities at all income levels. Dubai must do the same.

Irrespective of the renewable energy hype, the importance of oil will continue for the next 30-40 years and, therefore, the Middle East will continue to be important for this period. Dubai's infrastructure, world connectivity and lifestyle, made it a great location for regional headquarters of global companies (*a la* Singapore). But then again cost went out of control, and you know how sensitive companies are to cost. So, progress in this area slowed. Getting cost and indirect cost structures under control will help rapidly recover Dubai's position in this area. Lastly, related to this was its core competency in light manufacturing – pharma, build materials, etc. Again, regional demand exists. If costs are brought under control, Dubai businessmen are still some of the best in the region, and can make it happen.

So a three-legged model of Trade, Tourism and Industry can make Dubai rock again. A select set of government actions are immediately needed. As one senior Emarati said, when things were beginning to unwind: "Well, at least we build a world class city." I think it can be more than just that. ♦