

Geography In The News™



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DUBAI'S DEBT

Before 2008, the glitzy desert city of Dubai had been at the top of the global economic boom. At the end of November 2009, however, Dubai's largest state-owned company, Dubai World, asked its creditors for a "standstill" on paying its \$60 billion debt until May 2010. The news sent world stock markets tumbling.

Dubai is one of the seven emirates of the United Arab Emirates (UAE). An *emirate* is territory ruled by an emir, or a prince, chieftain or governor. Dubai is located south of the Persian Gulf on the Arabian Peninsula. With 1,588 square miles (4,114 sq. km), it is UAE's second largest emirate in area behind Abu Dhabi and the first in population with 1.4 million.

Dubai suffers a hot, arid climate. The emirate lies within the Arabian Desert and its landscape is mostly sandy desert. Its summers are extremely hot, windy and dry with an average high temperature of 104 F (40 degrees C) and overnight lows of 86 F (30 degrees C). Winters are warm and short and most of Dubai's days are sunny. Dubai has no permanently flowing freshwater rivers or oases.

Historically, many ancient towns along the southeast Arabian Peninsula were centers of trade between the eastern and western worlds. By 1833, members of UAE's Bani Yas clan had settled the mouth of Dubai Creek. The creek's mouth was a small, natural harbor and Dubai soon became a center for fishing, pearling and sea trade. Dubai separated from Abu Dhabi at

this time, bringing discord between the two emirates that continues today.

Dubai was a very successful port by the beginning of the 20th century. More recently, 8.7 miles (14 km) of the old valley of Dubai Creek was dredged deeply enough for large vessels to pass from the Persian Gulf.

By the 1930s, Dubai's population was almost 20,000, a quarter of who were expatriates. During this time, Dubai's *souk* (Arabic for "market") was the largest on the coast and contained over 350 shops.

When oil was discovered in Dubai in 1966, a huge influx of foreign workers, mainly Indians and Pakistanis, entered the emirate. By some estimates, Dubai's population grew 300 percent between 1968 and 1975. In the end, however, the largest oil reserves proved only to be located in Abu Dhabi. For Dubai, this meant that economic diversification would be necessary. Today,

that time was constructed at Jebel Ali. The area around the port was designated a *free zone*, an area where businesses are taxed very lightly or not at all to encourage economic development.

In the 1990s, Dubai became a global center for luxury tourism and real estate. By 2008, 95 percent of Dubai's gross domestic product was composed of those two sectors. Dubai boasted numerous giant projects including the world's tallest freestanding hotel and a series of manmade islands.

Unfortunately, money borrowed from banks largely funded these mega projects. As the worldwide recession struck in 2008 and 2009, banks began to tighten their credit. With loans due and needing refinancing, Dubai World tried with limited success to find international creditors to refinance a portion of the \$80 billion debt. Now those loans are in default.

Abu Dhabi has provided \$10 million to Dubai, although it seems unwilling to bail Dubai out completely. Without more help from the adjacent emirates or other wealthy Middle East oil-rich countries, Dubai will likely go bankrupt and the full implications are unknown. The world's large banks are watching the situation carefully.

The social impacts of Dubai's crisis also extend far beyond its borders. For example, thousands of migrant workers, mostly from South Asia, remain stranded in Dubai. As more companies and subcontractors fail, most of the foreign workers employed in construction cannot afford to return home and now live in economic limbo.

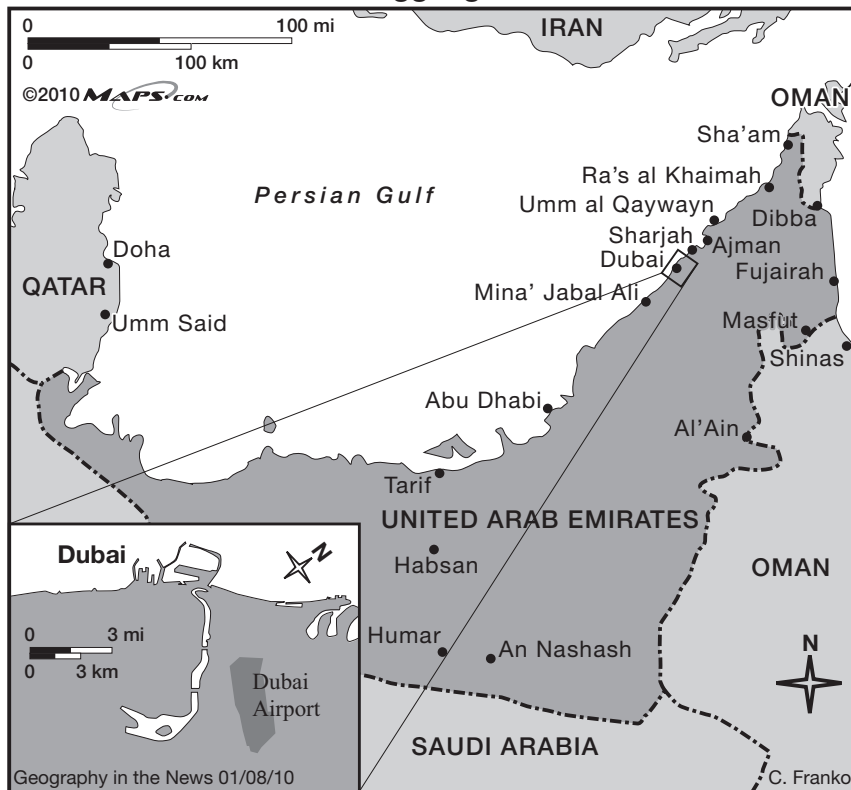
While Abu Dhabi's bailout will ease some of Dubai's economic woes in the short term, many

fear the country's economic bubble will burst.

And that is *Geography in the News*™. January 8, 2010.

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Dubai Struggling with Debt



Sources: http://news.bbc.co.uk/2/hi/middle_east/8382275.stm; and <http://www2.journalnow.com/content/2009/nov/28/dubais-crisis-rattles-markets/>

only 6 percent of Dubai's revenue comes from petroleum.

Infrastructure development projects in the form of schools, hospitals, roads and a modern telecommunications network began at a frenzied pace. Dubai's airport built a new terminal and a runway extension that could accommodate any type of aircraft. The largest manmade port in the world at