The slow bleed: Dubai is losing its shine as a Middle East haven

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Ever since the first gleaming towers sprang out of the desert, Dubai has gotten used to rapid change. It’s no stranger to boom-and-bust. What’s happening now is different: a slow bleed.

The city’s iconic builders are moving ahead. Cranes are everywhere. But no one is sure who’ll occupy all that new retail and office space. Already, Dubai’s malls are noticeably less full of stores and restaurants than they once were. Expatriates, the lifeblood of the economy, have started to pack up and go home – or at least talk about it, as the cost of living and doing business surges. Corporate mainstays, from Emirates airline to developer Emaar Properties, just reported disappointing third-quarter profits. The stock market is having its worst year since 2008.

Business unease was already apparent in April, when Sheikh

Mohamed bin Rashid al-Maktoum convened a meeting with more than 100 executives in his palace overlooking the Gulf. The bosses raised issues including hefty government fees — which are eroding the comparative advantage of tax-free Dubai — to strict visa rules that push foreigners out when they lose their jobs. The conclave was followed by a flurry of decisions, still working their way through the system.
But a fix for what's ailing Dubai may be beyond the powers of its ruler. Sheikh Mohammed and his predecessors built a fishing village into a hub for finance, trade and tourism in the region — but now that region is changing, perhaps for good.
The oil slump since 2014 hit big spenders from neighbouring Gulf states who used to flock to Dubai (tourists from China and India are filling the gap, but they're more price-conscious). Saudis, in particular, are feeling the pinch, as their own government imposes fiscal austerity and confiscates private wealth. The city's role as a trading post is being undermined by a global tariff war — and in particular by the US drive to shut down commerce with nearby Iran.
There's a deeper problem. Dubai prospered as a kind of Switzerland in the Gulf, a place to do business walled off from the often violent rivalries of the Middle East, says Jim Krane, author of the 2009 book City of Gold: Dubai and the Dream of Capitalism.
Now the state is that the UAE has become an active player in those conflicts, fighting in civil wars from Libya to Yemen and joining the Saudi-led boycott of Qatar.
"It's a situation that Dubai finds itself in mostly through no fault of its own,'' says Krane. "You can go to war with your neighbours, or you can trade with them. It's really hard to do both.''
Stories of Qatari citizens being ordered to leave the UAE shocked businesses that serviced the region from headquarters in Dubai. American executives were especially concerned about the prospect of being forced to pick sides, says Barbara Leaf, who was US ambassador in the UAE until March.

“It has cast a shadow,’’ she says. “It was a very unpleasant surprise when UAE-based companies found out they could no longer fly or ship goods directly to Doha.’’ The dispute rumbles on, even though the US is applying renewed pressure for a settlement.

That’s not the only blowback from siding with the Saudis. When Crown Prince Mohamed bin Salman rounded up dozens of leading Saudi royals and businessmen at the Ritz-Carlton hotel in a supposed crackdown on corruption, the UAE central bank asked the country’s financial institutions to provide information on the accounts of some of those held.

Investors are rightly worried, says Krane. Governments “shouldn’t be able to access accounts in other countries based on a simple request.’’

Dubai also faces consequences of its own success. Lacking energy resources of its own, the city had little choice but to build a non-oil economy. The 2014 crash jolted other Gulf countries into following suit. They’re all planning for a post-crude era, and trying to emulate their thriving neighbour by marketing their own capitals as regional hubs.

Dubai remains pre-eminent in that role. But it’s an increasingly high-cost base. In 2013, it ranked as the 90th most expensive place for expats to live, according to New York-based consultant Mercer. It’s now vaulted to 26th on the list.

It was the cost of living that persuaded Donovan Schram, a 38-year-old bond trader, to call time on his eight years in Dubai a few months ago. He’d already moved his wife and children back to his native Cape Town in 2014, after being forced to take a salary cut in a new job, and now he’s followed them.

“Dubai is very expensive when you have a family,” and there’s “a culture of paying upfront for everything from rent to school,’’ says Schram. He says at least three friends have made a similar decision.

Jobs became scarcer after companies from financial services to retail and energy enacted “massive layoffs’’ in 2015 and 2016 as profits slumped, says Nuno Gomes, head of Middle East business at Mercer. When the consultant surveyed 500 firms two years later, it found that half of them have no plans to boost hiring and don't expect growth to return to 2013 levels.

Fahad al-Gergawi, head of investment agency Dubai FDI, says the city's seen lean times before – and bounced back. "This is a market cycle that we have to accept," he says. The government is doing what it did in past slumps, says al-Gergawi: Sitting down with business to figure out solutions. "It's about how you become creative."

When the upturn does arrive, Dubai's companies will emerge leaner and more competitive, according to Khatija Haque, head of regional research at local lender Emirates NBD. Meanwhile, many areas of the economy are holding up fairly well, she says.

The big problem is in wholesale and retail trade. "It's a third of the economy, basically flatlining over the past two years, which is a big drag,'' says Haque, who thinks government spending may have to fill the gap.

The government of neighbouring Abu Dhabi has promised almost $14bn of stimulus over three years. Sheikh Mohamed in Dubai, after his meeting with the fretful bosses, is working on a raft of measures that should help: Freezing school charges, relaxing curbs on foreign ownership of business, and scrapping billions of dollars of government fees. The visa regime is also being loosened, to make it easier for expatriates – 80% of the population – to come, stay longer, and spend more.

One thing the government isn't doing is reining in the builders. That's a mistake, according to Craig Plumb, head of Middle East research at broker Jones Lang Lasalle.

Prices and rents are plunging across the board, as new capacity outpaces population growth and consumer spending.

Authorities are reluctant to stabilise the market by restricting permits, because land sales are a source of revenue. Retail space will expand 50% in the next three years, according to real estate adviser CBRE Inc.

Plumb says it's not really needed – and he says some of Dubai's premium builders are to blame. "We're not talking about Mickey Mouse second-tier developers,’’ he says, citing state-run firms like Emaar and Nakheel PJSC. “They’re all established companies, and they should know better.’’

Government, builders and business alike are all looking to one event on the horizon that may come to the rescue.

Dubai will host the World Expo fair in 2020. Meant to showcase the city’s future prospects, it’s become almost an end in itself, a reason to keep the cranes at work. “The biggest saving grace,’’ Haque calls it.