Dubai: A Different Perspective

Politicians and the media have been in a frenzy over the past two weeks because a company owned by a Middle Eastern emirate, Dubai, has agreed to purchase a British company that manages terminal facilities in six U.S. ports – New York, New Jersey, Philadelphia, Baltimore, Miami, and New Orleans. They fear that management by a company owned by an Arab government might open America’s ports to terrorists. Unfortunately, terrorism and entrepreneurial activity are being confused. Actually, Dubai is an amazing, colorful, bustling sheikdom, with its own highly-developed Travel & Tourism industry. The purchase of an overseas port facilities management company is just another one of a number of initiatives designed to make Dubai the premier center for commerce, finance, technology, communications, and tourism in the Arab world.

Dubai is one of six emirates along the Persian Gulf that merged in 1971 (a seventh joined in 1972) to form the United Arab Emirates (UAE). The UAE economy is based on oil and gas production, which comprises about 30 percent of the gross domestic product. Unfortunately, the gas and oil reserves are unevenly spread around the UAE, with Dubai having only a small portion of that wealth. Accordingly, several years ago, Dubai’s sheik, Muhammad bin Rashid al-Maktum, who is also the UAE’s prime minister, devised a plan to make his country a global commercial powerhouse long before its meager supplies of oil and gas run out. He is succeeding magnificently, and Dubai’s economic output has tripled in the past decade.

I visited Dubai two years ago and have never seen so much construction going on at once. Hotels, shopping centers, condominiums, and office towers were being worked on around the clock. Around 11 p.m., after a late dinner, our taxi took a wrong turn and we found ourselves in the middle of a construction site with a concrete pour underway. Nearby, excavation of another lot was in progress, and high on the steel skeleton of a rising office tower on an adjacent parcel we could see the piercing blue light and showers of sparks produced by teams of welders. I will never forget that moment.

Travel & Tourism is booming in Dubai, which recorded over six million visitors in 2005. The goal is to reach 15 million visitors annually by 2015. Most major international hotel chains are represented in Dubai, and the list is growing.

In addition, Dubai has several homegrown hotel chains that are expanding to other countries, including the United States. Jumeirah Hotels recently purchased the historic Essex House Hotel in New York City for a reported $440 million, and the company’s Irish-born CEO, Gerald Lawless, has plans to expand his chain from 20 to 40 luxury hotels worldwide by the end of 2009.

Dubai’s Emaar Development is building the world’s tallest building, the Burj Dubai, with estimated completion in 2008. The complex will include the Dubai Armani Hotel, styled by the Italian fashion designer, Giorgio Armani, which is planned as the flagship property of another ultra-deluxe hotel chain.

In spite of massive additions to its inventory in the past few years, vacant hotel rooms are hard to find in Dubai. In 2005, Dubai’s hotels recorded an occupancy rate of 86 percent. This put the emirate at the top of the world league for hotel occupancy, followed by New York with 83 percent, and Singapore at 80 percent, according to Khaleej Times Online. Deloitte and Smith Travel Research report that Dubai hotels generated the world’s highest RevPAR (Revenue Per Available Room) in the fourth quarter of 2005, ahead of Paris and New York City.

Dubai-based firms are investing in a wide range of other projects around the globe, including London’s famous Madame Tussaud’s Wax Museum. With a $1 billion investment, they are the third-largest shareholder in automaker Daimler-Chrysler. According to Forbes magazine, they have placed money in leading U.S. private equity funds such as Kohlberg Kravis Roberts, the Carlyle

Does this all add up to a country that would do anything to jeopardize the security of the United States? It hardly seems likely. At least not as long as its current regime – admittedly, not an elected one – remains in place. I also believe that one of the most effective deterrents to terrorism is economic opportunity and the benefits of participation in the global community from a position of strength and self-respect, rather than as a self-perceived victim.

It strikes me that the Dubai ports issue has as much to do with election-year politics as with security. It offers congressmen and senators great sound-bite opportunities. If the deal is killed, it could send out an unintended message: “If a U.S. ally is treated badly, what’s the point of supporting America?”

The United States has benefited greatly from the global economy. Foreign investment is what financed the growth of the American economy into a global powerhouse in the second half of the 19th century. Today, American companies are investing billions of dollars all over the world, and American shareholders are reaping the rewards. However, a global economy has to be a two-way street. Foreign companies must also be free to invest in U.S. assets. This has essentially been the case until the Dubai issue cast it into doubt. The Wall Street Journal reports that 60 percent of the container terminals at the ten busiest U.S. ports are at least partly managed by foreign companies, including firms from China, Denmark, Japan, Singapore, and South Korea.

Perhaps the solution to the Dubai Ports World deal is to ensure that appropriate legislation is on the books that would allow the United States to nationalize the port facilities in case there was an overthrow of the government in Dubai or the UAE and its replacement by an unfriendly regime, something that does happen from time to time in the Arab world. The United States has done this in the past. During World War I, for example, right here in Hawaii, the German-owned Hackfeld company was seized and sold to U.S. owners, who patriotically renamed it American Factors (which later became Amfac).

All this may be moot. This past Thursday, The Wall Street Journal reported that Dubai Ports World tried to defuse the situation by agreeing to “transfer fully the U.S. operations” to “a United States entity” with “the understanding that DP World will have time to effect that transfer in an orderly fashion and that DP World will not suffer economic loss.”

Dubai’s international shopping spree reminds me of the 1980s and early 1990s when Japanese companies were buying up assets all over the U.S., including many of the hotels in Hawaii, New York City’s Rockefeller Center, and the Pebble Beach Golf Resort. That generated an uproar in Congress and the media. That bubble passed, and most of the properties the Japanese purchased are now back in the hands of American corporations and investors. I think the Dubai bubble will pass too.

In the meantime, whether the port deal goes through or not, one thing is sure: Dubai will remain one of the most exciting centers of Travel & Tourism in the world.