

## GOVERNANCE

# Dubai a wake-up call

Investors will subject Gulf states to far greater scrutiny following Dubai World's debt shock, highlighting more than ever the need for increased transparency and better corporate governance in the region's finance industry

**D**UBAI World's dramatic request for a six-month moratorium on repayment of a \$4 billion Islamic bond has shed an unwelcome light on the business culture and economic prospects of the emirate. It follows in the wake of the \$20 billion debt scandal involving the Saudi groups Saad and Algozaibi and raises a set of profoundly unsettling questions for Dubai's neighbours, both in the United Arab Emirates and the Gulf Co-operation Council (GCC).

Global investor concern over issues of transparency, accountability and good corporate governance have not been reassured by policymakers' response to these developments. This has undermined international confidence in the ability of Gulf businesses to restructure their debts and has caused many observers to wonder just how deep is the extent of the crisis now afflicting the region's financial institutions and investment companies.

As the Dubai World crisis unfolds, regional policy-makers have been notably reluctant to publicise, let alone address, the magnitude of the developments taking place. This cuts to the heart of the ambitious plans for economic diversification and liberalisation that have been integral to the strategic national visions that proliferated during the oil-boom years.

Ruling family legitimacy is intertwined with the ability to redistribute wealth and

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provide services as part of the social contract between state and society. Any breakdown in this ruling bargain threatens the de-linking of economic and political liberalisation that hitherto has limited societal demands for greater participation in decision-making and enabled ruling elites to maintain control of the processes of change.

It is in this context that the UAE and its GCC neighbours must now address the obstacles to good governance and update business practices and bring them into line with their ambitions to play a global role. This goes beyond the mere repayment of Dubai World's outstanding debts, which could easily be settled (at a price) by Abu Dhabi.

At issue is the region's reputation for good governance and the desire to minimise any perception that the problems encountered in Dubai and Saudi Arabia are symptomatic of a deeper trend. It is this skittishness about the possible overspill of negativity that caused a nine per cent fall in the Qatari stock exchange when trading resumed after the Eid al Adha break.

Following the initial fall-out from the shock of Dubai World's announcement, the attention of Gulf policymakers must now turn to reassuring both creditors and potential investors that the fundamentals

of Gulf markets are sound.

One lesson they should heed from both the Dubai World and the Saudi conglomerates' cases is the need for transparency and accountability in the management and release of information. Policies of economic openness and good governance are absolutely crucial in the international, rules-based environment in which these companies operate.

As the GCC states project themselves as regional financial hubs, the danger facing them is that their reputation for sound corporate practices may become tainted by association with the emirate-specific flaws in the Dubai business model.

With this in mind, the reasons for the reluctance of other GCC states to become visibly involved becomes clear, although for security reasons alone it is important that Dubai be stabilised.

To this end, Dubai should be extended such assistance as it requires in order to maintain a functioning economic system while it takes the hard steps necessary to restructuring the bases of its economic development.

Nevertheless, Gulf officials need to take steps to assuage international concern and demonstrate that their own business cultures are more robust. They need to embed global best-practices and promote the concepts of good corporate governance at all political and economic levels. This is vital for unravelling the tangled web of familial ties that have dominated state-business relations in the GCC states and it is a precursor to harmonising with international standards of accountability.

Above all, it is likely that international investors will subject the Gulf states to a far greater level of scrutiny than hitherto was the case, and it will be incumbent upon officials throughout the GCC to adopt stricter standards in their future business dealings. ■

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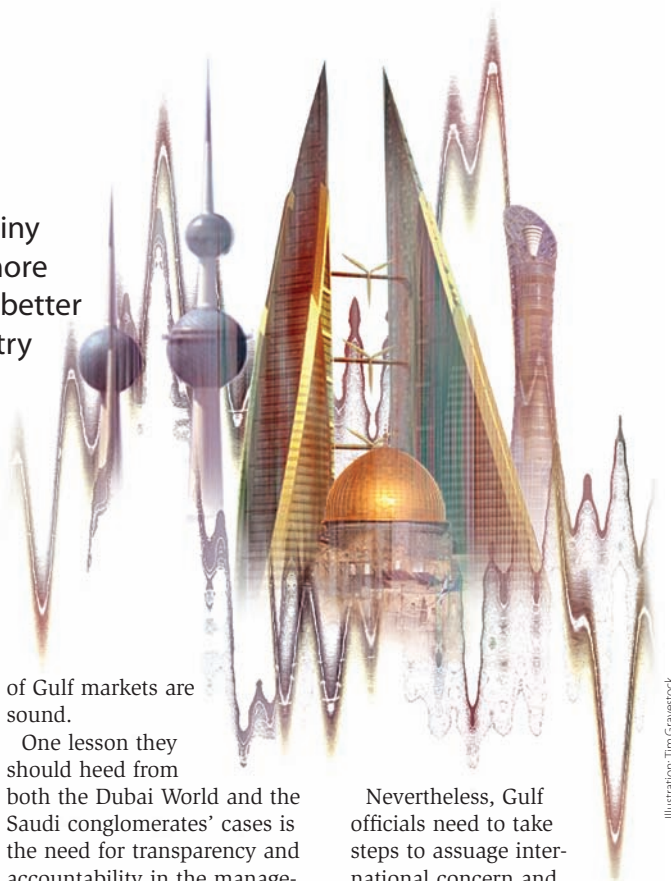


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