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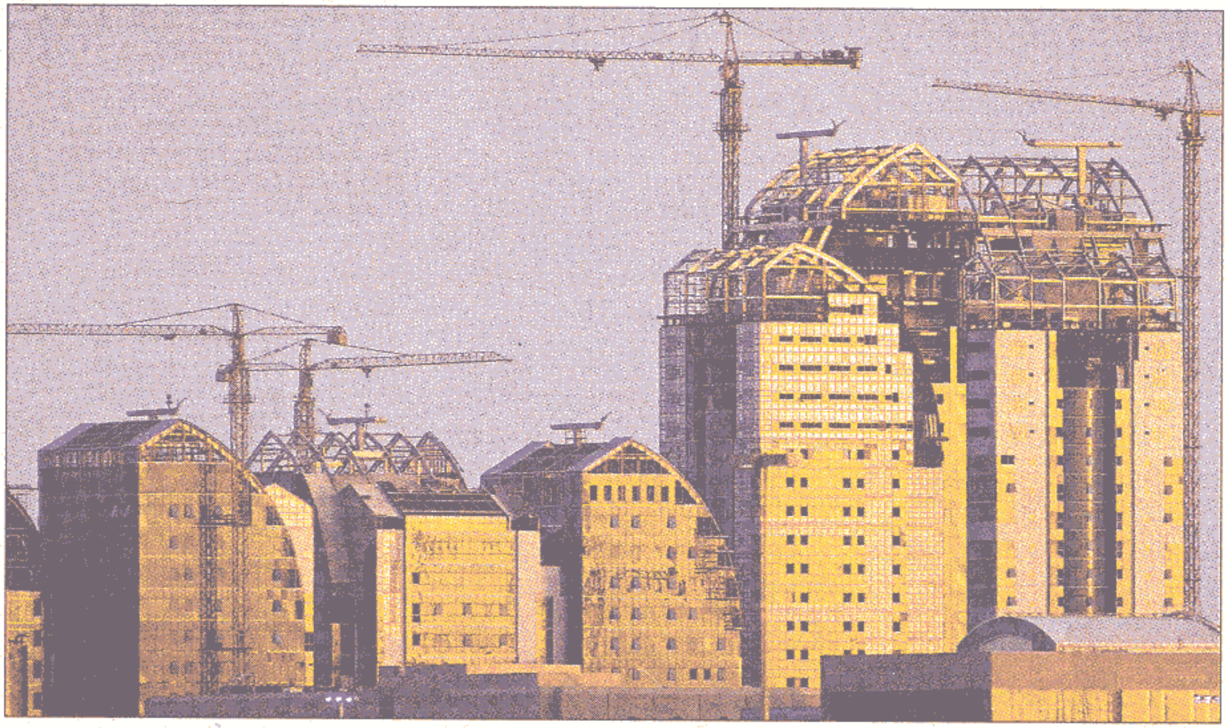
Gulf dream: building on quicksand

Ambrose Evans-Pritchard reports from Dubai that developers are too busy making fistfuls of dirhams and dinars to dwell on risks.



Up, up and away . . . skyscrapers go up in Abu Dhabi. Photo: BLOOMBERG

A fifth of the world's high-tower cranes are mounted on a 48-kilometre strip of the Persian Gulf from Dubai to Abu Dhabi, each serving teams of migrant workers toiling through the night by spotlight on 12-hour shifts.

It takes nine months to knock up a 50-storey block of luxury flats, sold out instantly – at least for now – to Arabs flush with petrodollars, Europe's tax exiles, and, lately, Iranians in need of a bolt-hole.

Indian workers crawl over the half-constructed Burj Dubai, soon to spiral up 800m in glimmering layers.

From the Burj, you look past rising skyscrapers to the Jebel Ali International Airport, where work is under way on the hub of all hubs, boasting six runways and eight concourses for 146 million passengers a year, as much as Heathrow, Frankfurt and Paris combined.

This is on top of Dubai's other airport, already vaulting into the top tier with 60 million capacity by 2012.

"I can see $US200 billion [$260 billion] of projects from my window," says Edmund O'Sullivan, editor of the *Middle East Economic Digest*. "Go to Saudi Arabia, Kuwait, Qatar, Jordan, they're all copying Dubai. If they see a piece of desert, they think it would look a lot better with concrete on it. With oil at $US70 a barrel, this region is cooking, and the consensus is that this will go on for another five years. What happens after that is the big question."

In the 1970s, petrodollar billions spread across the globe, mostly wasted on luxuries or recycled into Third World booms and busts.

"They have learnt their lesson. This time the money is going on infrastructure at home," says Motaz Ibrahim, an economist at SHUAA bank in Dubai.

The International Monetary Fund forecasts that oil nations will rack up a current account surplus of $US480 billion in 2006, three times China's. A chunk is going into US bonds, keeping the US housing bubble afloat, or into global companies. Dubai – the clearing house for the Gulf's huge share of this wealth – has bought P&O, Madame Tussauds, CSX World Terminals, and a slice of Euronext.

Yet a staggering sum is being spent planting skyscrapers like poplars along both coasts of Arabia. The past few weeks alone produced a fresh crop of eye-watering ventures. The Saudis unveiled the $US27 billion King Abdullah Economic City, a Paris-sized monster rising from the dust beside the Red Sea, with a port to match Rotterdam and a "Square Mile" of banking towers on a reclaimed island. The builder is the Binladin, Osama's more respectable kin.

Abu Dhabi upped the ante with its $US28 billion spree, led by plans for a 150,000-strong city with 29 hotels on Saadiyat island.

Kuwait is to spend $US150 billion on its "Silk City" for 700,000 people, with a tower topping 1 km, twice as high as any building now in existence.

A hop away, the gas sheikdom of Qatar is spending $US130 billion on a smelting and industrial hub. Disdainful of brasher Dubai, it aims to capture the seriously rich at its Pearl islands complex in Doha.

There are more than $US1 trillion in projects under way in the Gulf region, quadruple that of 18 months ago, according to a *Middle East Economic Digest* survey. Oil, gas, and petrochemicals take $US316 billion, but the lion's share of $US540 billion is being spent on construction, hotels and real estate.

Who will occupy the property? The population of the six states of the Gulf Co-operation Council (Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Bahrain and Oman) is just 36 million.

"It's obviously a bubble," says a financial expert. "There will never be enough tourists to make all this work, but you can't quote my name – I have to live here."

Most are exuberant, swept along by the intoxicating boom, too busy making fistfuls of dirhams and dinars to dwell on the immense risk posed to this hyper-investment by rising global interest rates.

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