

Fear of the fast lane

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When the world Formula One carnival pulled into Abu Dhabi this month – bringing with it names such as entrepreneur Sir Richard Branson, actor Hugh Grant and footballer Patrick Vieira – the wealthy capital of the United Arab Emirates seized the opportunity to dazzle visitors with its showcase infrastructure. Latest additions include a Ferrari theme park boasting the world's fastest rollercoaster and the futuristic Yas hotel, which loops over the grand prix track.

Beyond the glitz, however, the mood in Abu Dhabi is more sober. The buzzwords these days are “discipline” and “priorities” as the city-state tries to heed the lessons of the debt crisis encountered by Dubai, the sister emirate an hour and a half's drive away. As one long-time observer says only half-jokingly, “Abu Dhabi is feeling poor.”

On the face of it, that seems a ridiculous statement. The emirate is home to 92bn barrels of oil – 7 per cent of the world's proved oil reserves – and one of the world's largest sovereign wealth funds, the Abu Dhabi Investment Authority (Adia). Last year, per capita income among its 1.6m-plus total population stood at \$90,500, the fourth highest in the world.

The UAE heavyweight has been on a development spree, with more than \$300bn worth of infrastructure and property projects announced in recent years. It has also spent heavily on foreign investments, including stakes in western banks such as Citigroup of the US and Italy's Unicredit, in industrial companies including Daimler of Germany, and in Virgin Galactic, the Branson space tourism venture.

All this is driving a dream in which Abu Dhabi is transformed into a global city pitched between the developed north-western hemisphere and the high-growth economies of Asia. If that becomes reality, a better educated population would sustain a diversified high-value economy that no longer rested mainly on the oil beneath the sands or the patronage of government. It would be emblematic of a modern, moderate Arab society integrated into worldwide progress and prosperity.

But the global financial crisis and the travails of neighbouring Dubai, the brash regional business hub where boom painfully turned to bust, have made Abu Dhabi pause for thought, as it reviews not the objective itself but how fast it should run to reach it. For outsiders who saw Abu Dhabi as an easy source of cash, this means the emirate is likely to be more selective in its domestic ventures and international dealmaking, scrutinising much more closely the financial implications of transactions.

EDUCATION

An attempt to import smarter schooling raises questions of its own

Reforming a poorly performing education system has been identified as a critical component of Abu Dhabi's grand plans, with its intended transformation into a leading global city dependent on its ability to produce graduates whose skills match its ambitions, writes Andrew England. For years, schools have been dogged by underqualified teachers and outdated methods and curriculums. To improve standards, the government set up the Abu Dhabi Education Council in 2005.

ADEC's own research makes grim reading. A 2009 report said fewer than one in 10 tested English teachers in public schools met minimum requirements for proficiency in the language. It added that 74 per cent of 12 to 13-year-old grade seven pupils were two years or more below the target level in English writing; in mathematics the figure was 55 per cent. Of students entering UAE University, based in the emirate, 91 per cent require foundation programmes to prepare them, the report said.

The council last year brought in 456 licensed teachers from North America, the UK and Australia, and nearly 1,000 more this year, as it begins educating pupils to be proficient in

speaking and writing English and Arabic. The bilingual programme has started in primary grades one to three, with plans to install it in all primary and secondary schools by 2016. There are also efforts to improve infrastructure and move away from rote teaching.

On the higher education front, Abu Dhabi has lured the Sorbonne; Insead, the international business school; and New York University to the emirate. Local institutions are being encouraged to put more emphasis on engineering and research programmes. Increasing numbers of women are graduating, though a question for many is whether they are able to continue working after marrying, given the conservative nature of the society.

But Abu Dhabi's wealth is no guarantee of success in tackling a longstanding problem. Over the years, governments across the Arab world have talked of reform and thrown money at education without producing the required results.

Bankers say Abu Dhabi, and nearby Qatar, are the two places in the Gulf where they expect the most significant regional business in coming years, but they also report a slowdown over the past year. "People lending money to Abu Dhabi should be relieved that it is becoming more prudent – but those looking for advisory fees and cross-border mergers and acquisitions are going to be disappointed," says a UAE-based banker.

The emirate coughed up \$20bn in direct and indirect bail-out loans to its neighbour but it also suffered a wave of contagion as real estate prices, largely driven by Dubai-style speculative off-plan sales, slumped and the emirate's cost of financing increased. "The economic crisis was a good wake-up call," says a senior Emirati official. "It has meant that you have to revisit and do what's sensible and economical . . . and complete projects over a longer period of time."

One danger was that Abu Dhabi would be swept away with the hype of the boom years, particularly an over-reliance on property, as it carried out the vision of a new generation of leaders who took power after the death in 2004 of Zayed bin Sultan al-Nahyan, the nation's founding father.

The conservative late sheikh preferred to tuck away the emirate's petrodollar surpluses in Adia to save for future generations. But while Adia grew powerful, Abu Dhabi remained a backwater, its people watching the relatively oil-poor Dubai grab headlines with a strategy that established it as the regional trade and finance hub.

The first two years after the sheikh's death saw an explosion in ambition and planning led by the 49-year-old Sheikh Mohammed, the crown prince, with the approval of Sheikh Khalifa, the UAE president and Zayed's successor as Abu Dhabi ruler, who controls the purse strings.

The ascendancy of the half-brothers, who want to see Emiratis involved in skilled, productive jobs rather than sitting behind their desks in idle government positions, coincided with the 2003-08 oil boom. Petrodollars were deployed to lure international brands to Abu Dhabi's shores, from the Sorbonne and New York universities to a deal with Boeing to make aircraft components.

On a sandy island just off the coast lie some of Abu Dhabi's most ambitious projects. The foundations for two world-class museums – the Jean Nouvel-designed Louvre with a floating dome and the Frank Gehry-devised Guggenheim – have been laid; officials say the venues are on schedule to open within four years.

Stuart Magee, a manager from Scotland and one of the many expatriates involved in the projects, proudly declares that the two museums alone will require several times more steel than was used to build the Eiffel Tower. Commitment to the museums in the first phase of the estimated \$27bn development of Saadiyat island remains, but some of the commercial space and residential buildings around them are being reviewed. "It will depend on market requirements," says Mr Magee.

Importing culture, both to draw in tourists and enlighten residents, is one aspect of the grand plan. A more audacious bet is Advanced Technology Investment Company, which has been developing a global business in a highly competitive and cyclical semi-conductor industry.

Founded in 2008, Atic has invested \$6bn so far, including the acquisition of Chartered

Semiconductor Manufacturing of Singapore, and plans to spend another \$5bn. Within a few years, say ATIC officials, the company will have Emiratis making chips in Abu Dhabi.

“This is hard, this is bold, this is risky . . . it is as sophisticated as it can get,” says Ibrahim Ajami, ATIC’s chief executive. Though he admits that Abu Dhabi has to be disciplined or “we will build some white elephants”, he says the emirate is right to take up the challenge of creating a complex industry, particularly given its ability to deploy capital.

Doubts about Abu Dhabi’s ability to deliver on some of its more ambitious projects existed even before the financial crisis. The vast amount of money spent on projects was accompanied by murmurings about whether the emirate was punching well beyond what local capabilities could or wanted to handle. Financial turmoil, however, has instilled a greater sense of realism, particularly as the emirate did not escape unscathed. Last year, Adia was called on to help plug a gap in the emirate’s budget. Aldar, its main developer, is expected to need government support as it struggles to deal with its debts and a stagnant property market.

Masdar, which intends to develop a carbon-neutral city that has become a branding tool for Abu Dhabi, says meanwhile that it is delaying by two years the first phase of construction and is scaling back plans for a high-tech transport system that envisioned automated vehicles whizzing under elevated buildings. Bankers say budgets of ministries and state-backed companies have been tightened across the board.

The emirate’s investment vehicles – entities such as Mubadala, whose mandate includes investing in overseas companies that can set up businesses in Abu Dhabi – have also been quieter than usual.

In a clear nod to the lessons learnt from Dubai, where the government lost sight of the borrowings of entities it owned, Abu Dhabi set up a high-level committee this year to tighten oversight of government-backed companies and complement a newly established management office to co-ordinate debt issuance.

The spirit of discipline will not, however, prevent Abu Dhabi from throwing its financial weight behind promising ventures. One project that has yet to be officially announced is a government-backed commodities trading house that will aim to compete with long-established operators such as Cargill of the US and France’s Louis Dreyfus.

Khadem al-Qubaisi is chairman of Aabar, the investment vehicle seen as closest to Sheikh Mansour, an influential member of the ruling family who bought Manchester City Football Club in 2008 and also invested in the UK’s Barclays, says the recession in western economies is an opportunity. He has been looking for further investments.

Room to borrow still exists for the emirate. Moody’s, the ratings agency, puts the debts of the government and the entities it rates at around \$60bn in an economy with a nominal gross domestic product of \$150bn.

Analysts also argue that Abu Dhabi has some immunity against the excesses that afflicted Dubai. While Dubai is in effect a one-man show, run by Sheikh Mohammed bin Rashid al-Maktoum, several members of the ruling family in Abu Dhabi carry weight and influence, creating some checks and balances.

For Abu Dhabi’s rulers, however, success will not be measured by physical infrastructure alone. The developments are also a gamble on an educational and social overhaul, shifting the mindset of a population that has lived comfortably under a system of patronage where government jobs and generous benefits are the norm.

For now, it is not clear how much the leaders are carrying nationals with them. Some of its people – the emirate is home to the bulk of national Emiratis in the UAE – fret about a loss of national identity with the influx of foreigners in a union in which locals are outnumbered by at least five to one. Will conservative nationals flock to an exhibition of modern art at the Louvre? Will the emirate’s finite pool of human resources develop the skills, productivity and mindset to make it in the cut and thrust of the private sector?

Abu Dhabi officials say they are aware of the magnitude of their task and its pitfalls. But they argue that it is best to take any knocks and setbacks today, while cushioned by the emirate's wealth, rather than sit back on those riches unprepared for the future. Emiratis, they say, have to learn to prove themselves in a more competitive environment.

Mubarak al-Muhairi, managing director of TDIC, the government company developing Saadiyat island, dismisses critics who say there are much cheaper ways of developing an economy and teaching creativity. "We wouldn't have the Pyramids of Egypt in this case," he responds "Survival is [achieved] by being a player in this world," says Mr Muhairi. "Fifty years from now, a nation cannot survive without a creative population and a younger generation connected with the world."

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