

## Where's The Oil Money?

By David Ignatius

DUBAI -- If you've been wondering what happens to that extra money you're paying at the gas pump, take a stroll amid the skyscrapers and super-luxury hotels of this desert emirate, which is becoming the global economy's biggest boomtown.

The pace of development in Dubai makes you dizzy: This tiny country is planning the world's tallest building, the world's biggest shopping mall, the world's largest fleet of jumbo airplanes. It is building a \$4.3 billion World Trade Center, an \$11 billion Festival City, a \$10 billion theme park known as Dubailand. One measure of the boom here is that the real estate listings in Monday's Gulf News ran to 148 pages.

The hotels are so fancy they're giving themselves extra stars beyond the usual five -- the trademark Burj al Arab, built in the shape of an Arabian dhow's sail, calls itself the world's first seven-star hotel, for example. Giorgio Armani, who's joining the Dubai mania by building his first hotel here, enthused in the local paper this week: "Dubai is the new New York." And that may be an understatement.

The Dubai investment craze helps answer a question that has been puzzling economists over the past few months -- namely, what's happening to the estimated \$400 billion current account surplus harvested this year by oil exporters? Economist Stephen Roach of Morgan Stanley described the issue in a recent commentary as "The Case of the Missing Petro-Dollars." Well, as Roach noted, some of that missing money is right here in Dubai, fueling what's either a development miracle or an Arabian asset bubble, depending on how you look at it.

What's clear is that the current oil boom is leading to different patterns of investment from those of the 1970s. That's the conclusion of the Bank for International Settlements in its December quarterly review. The bank found that a smaller share of the oil windfall is being invested in Western banks this time around -- and that about 70 percent of investable funds generated in the current oil boom can't be tracked by conventional measures.

The BIS speculates that the petrodollars are going into hedge funds, private equity funds and regional stock markets. Certainly far more is being pumped into the stock markets of the Gulf countries themselves. A recent study by the International Monetary Fund calculated that the Qatar stock market's capitalization nearly tripled from 2001 to 2004, the Saudi market's more than tripled and the United Arab Emirates market increased sevenfold.

Who's not sharing in the current petrodollar windfall at the same rate as in the 1970s? If you guessed the United States, you're right. The BIS noted that evidence suggests "a smaller share of investable funds has been channeled into U.S. securities in the most recent cycle." And a recent study found that OPEC holdings of Treasury securities fell from a peak of \$67.6 billion in February to \$54.6 billion in September. For economists, the question isn't "Why do they hate us?" Instead it's "Why don't they invest with us?" The basic reason, surely, is that investors think they'll do better in the booming emerging markets than in a flat U.S. equity market.

Each oil boom seems to carry the seeds of a later financial bust, as funds are recycled into speculative lending and investments that eventually crash. This time the speculative frenzy isn't operating mainly through New York banks but through financial institutions in places such as Dubai, which will be left with the IOUs, Paul Blustein suggested in *The Post* this week.

The Dubai bubble will eventually burst, but that "eventually" may be a way off. One perverse dynamic is what I would call the bin Laden factor. Every Arab investor in Saudi Arabia, Kuwait and Qatar has to worry that Islamic fundamentalists will someday upset the money machine -- and in anticipation of that disaster, they all want somewhere to run. As the Arab world's ultimate gated community, Dubai probably looks like the safest bet in the region. That fear factor is helping sell out the scores of new apartment towers sprouting here.

And then there's the durability of the oil boom itself. Many analysts doubt it will end soon -- without a global economic crash, that is. Fareed Mohamedi of PFC Energy reckons that the new appetite for spending in Dubai and other Gulf states will require producers to maintain oil prices indefinitely at \$50 to \$60 a barrel.

You're paying for the new oil boom, and if you can't beat it, perhaps you should consider a visit to "Ski Dubai," the indoor Alpine resort that just opened here in the scorching desert. It's a snapshot of life in the new fast lane of the global economy.

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