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A desert miracle under strain

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The Iran war puts Dubai's success story to its sternest test yet

Last week I wrote here about China, probably THE growth story of recent decades. This week's subject is another success story, which is also coming under pressure, though for very different reasons: Dubai. Of the places around the Persian Gulf, from Qatar to Bahrain, from Abu Dhabi to Kuwait, none has transformed itself as dramatically as the emirate of Dubai. That transformation was partly born of necessity. Dubai is one of the United Arab Emirates, but most of the federation's oil lies elsewhere, above all in Abu Dhabi. Its leaders therefore had to build an economic vision of their own. They did so with remarkable flair, despite the occasional stumble along the way. More on that in a moment.

Dubai's rise as a global city

The Iran war calls Dubai's appeal into question

Over recent decades, this desert emirate has turned itself into a magnet for tourists, migrant workers, logistics firms and global capital. Stroll through Dubai's old quarter, on the far side of Dubai Creek, and it is still possible to imagine how sleepy the place must have been in the early 1960s. Since then, the emirate has become one of the world's most important hubs. In 2025, with almost 100 million passengers, Dubai International Airport (DXB) handled more travelers than any other airport on earth except Atlanta's Hartsfield-Jackson airport in the U.S.

Today, the Dubai model itself is under greater strain than ever. For decades, the emirate traded on stability and predictability in a volatile region. The absence of income tax surely helped as well, luring millionaires and billionaires from all over the world. Since the start of the Iran war, those advantages have begun to look far less secure, at least for now. Shortly after the U.S.-Israeli attacks began, Iran struck Dubai with drones and missiles. By

Dubai as a haven of stability: that era is over.

early May, the UAE had come under attack 2,800 times, more than any other Gulf state and even more than Israel. Symbolic sites such as the luxury hotels Burj al Arab and Fairmont The Palm, as well as the airport, were targeted, too. Few Gulf states are as close to Iran, and therefore as exposed, as the UAE, which is also a strategic partner of the U.S. The physical damage may be limited. Yet the psychological scars are likely to last much longer than the war itself.

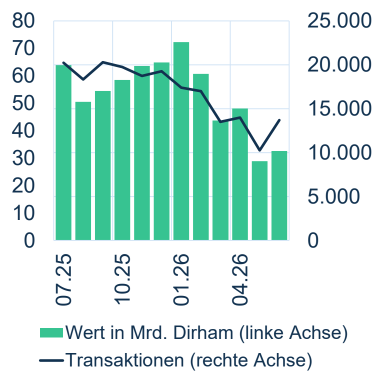
Expats head for the exits

Of Dubai's 3.5 million residents, more than 90% are foreigners. Migrants from South Asia and Egypt in particular take many of the low-skilled jobs and now face fewer, worse-paid opportunities. Unemployment is rising and wages are being cut across the board. Many highly skilled expats, too, have switched to working remotely from safer countries. People I know who work in Dubai have returned to Europe with their families, at least temporarily. The U.S. State Department was not alone in urging its citizens to leave. Anecdotal evidence suggests that wealthy Asians in particular are heading for the exits – mainly toward Hong Kong and Singapore.

It is too early for a requiem

Make no mistake: the Iran war is the biggest shock Dubai has ever faced. Tourism, logistics and financial services have all been badly hit. Current data that might offer a clearer picture of the crisis remain patchy. But judging by the once-booming property market, which has now stalled, the likely economic fallout looks severe (see fig. 1).

Fig. 1: Dubai Real Estate Turnover



Source: DXB Analytics, LBBW Research

Still, "Dubai is finished" may be selling newspapers and catering to schadenfreude among the less wealthy. But I believe it goes too far. The emirate has risen from the ashes before. Most notably after the financial crisis, when it was drowning in debt and stood on the brink of bankruptcy. Its wealthy neighbor Abu Dhabi rescued it with a $10 billion cash injection. That, incidentally, is why the world's tallest skyscraper is not called Burj Dubai, as originally planned, but Burj Khalifa, after Abu Dhabi's emir at the time. Memories fade faster than people tend to assume in the heat of the moment – especially when a tax-free life beckons. Despite all the anecdotes now making the rounds, there is, as yet, no full-on exodus of foreign professionals from Dubai. I firmly expect Dubai to bounce back from the fallout of the war. Whether the rampant growth rates of the past can be repeated is another matter. Especially the logistics around the huge Jebel Ali port will depend on the ease with which ships can enter and exit the Strait of Hormuz.

Another challenge looms

In the long run, climate change may prove the bigger threat to Dubai's appeal as a place to live and do business. Even today, summer temperatures regularly exceed 40°C, with humidity of up to 90%. Not everyone will relish that. Between 1975 and 2013, the average temperature rose by 2.8°C. It is still rising. I vividly remember retreating to the indoor ski slope during my last stay in Dubai to cool down from the sweltering heat.

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