The Dubai government has announced that it is seeking a restructuring of US$59 billion in debt owed by one of its state-owned companies, Dubai World, including a proposed “standstill” of debt repayments.

The immediate reactions were large declines in global stock markets, downgrades in the investment grades of several Dubai-linked companies and an increase in the cost to insure Middle-eastern issued debt.

On a more personal level, what effect could the news have on your personal wealth? Are some of these fears in the financial markets over-stated?

Impact on Singapore-Listed Companies

The United Arab Emirates (of which Dubai is a constituent) is Singapore’s 19th largest trading partner in 2008, with bilateral worth S$14.8 billion, according to IE Singapore. Exports to UAE account for approximately 40% of trade. Much of Singapore’s exports are in services.

Companies which have links to Dubai’s debt problems could theoretically be hardest hit. Companies could find it difficult to obtain financing for any projects n Dubai, or find that it now costs much more in interests to obtain project financing. However, a quick examination of Singapore companies seem to show that they are relatively insulated.

In Feb 2009, SMRT and Nakheel (a division of Dubai World) announced a contract for the operation and maintenance of Palm Monorail on Nakheel's iconic Palm Jumeirah development in Dubai. SMRT's contract would probably not be immediately impacted by Dubai's credit problems.

In banking, since 2006, DBS Bank has operated an offshore branch in Dubai International Financial Centre. DBS was a joint-underwriter for a US$ Ijarah (Islamic-compliant leasing agreement facility) for Dubai Department of Civil Aviation, but the facility would have expired earlier this year. Singapore banks would otherwise appear to have little exposure to Dubai's debt

Among construction-related companies, Tat Hong would presumably have some crane-leasing business affected by the collapse of construction activities n Dubai, but according to its annual report for FY2009 (ended Mar 31), Tat Hong has just 2.8% of revenues coming from the Middle East as a whole. Several other companies such as Rotary Engineering have businesses in the Middle East, but in countries like Saudi Arabia.

Capitaland has a joint venture with UAE investment company Mubadala, called Capitala, which is however focused on developing real estate in Abu Dhabi, rather than Dubai.

Impact on Global Economy

Western banks again appear to be most vulnerable to the fallout and could probably ill-afford another shock of AIG's proportions. Dubai's top foreign debtor banks include HSBC, Standard Chartered, Barclays, Royal Bank of Scotland, Citigroup, BNP Paribas, Lloyds and Calyon, with a total exposure of about US$36 billion, according to a Wall Street Journal report.

With five British banks in the list, it would appear that Britain's banking system could be one of the largest victims of the fallout from Dubai's woes. Among the world's major currencies, the pound could be under pressure in the coming months. The pound traded down against other major currencies (at US$1.65, 143 yen, S$2.29 and Eur1.10) on 26 Nov, the day that Dubai's problems broke.

On the Singapore front, any fears that Dubai-based companies could hold a fire-sale of their assets here are probably unfounded. Notable investments by Dubai in Singapore include Emirates National Oil Company (ENOC)'s US$330 million Horizon Terminals on Jurong Island, as well as Emaar's takeover of RSH in June 2009. In 2007, Dubai Drydocks, a subsidiary of Dubai World, also acquired Labroy Marine and Pan-United Marine.

Is a Global Collapse Imminent?

Probably not. Dubai has not (yet) defaulted on its debts, in the way that Argentina did in 2001. Dubai might yet receive a bailout of its own. Moreover, the excesses of Dubai should also not be confused with the relative austerity of most of its Middle Eastern neighbours like Abu Dhabi and Qatar. However, the global financial system is still vulnerable from the sub-prime crisis of 2007-08 and if indeed a default occurs, it could send ripples worldwide.

Unless directly invested in some of the European banks, which are Dubai's largest creditors, and currencies such as the UAE dirham or the British pound, Singapore's investing community should not be too much affected by the episode. In fact, the dip in global markets could present opportunities for some bargain hunting.

[Update: 30 Nov2009] DBS announced that its exposure to Dubai-linked entities is S$1.8 billion. In comparison, DBS's total loan portfolio is worth S$131 billion as of Sep 2009.