

Business Expectations for a Common Currency in the Arabian Gulf

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Abstract

This paper presents the results of the first survey designed to ascertain the opinions of businesses regarding the proposed Gulf Cooperation Council Monetary Union (GCC MU). Overall, businesses are in favour of the project and expect it to have a positive impact, but they consider non-monetary factors to be more significant to their future growth. Nevertheless, businesses are not prepared for the single currency. Regional institutions have yet to provide any business-centric information regarding a common GCC currency. The paper contends that if participating governments do not start making policy preparations soon – not the least assisting businesses to prepare – then the existing positive sentiment may erode.

توقعات رجال الأعمال حول العملة الموحدة في الخليج العربي

إميليا روتليدج

ملخص

تقدم هذه الورقة نتائج لأول دراسة تهدف لمعرفة آراء رجال الأعمال حول وحدة العملة الخليجية المقترحة. تبين نتائج الدراسة أن رجال الأعمال يؤيدون المشروع ويتوقعون منه تأثيراً إيجابياً، ولكنهم يعتبرون أن هناك عوامل غير نقدية لها أهمية لمستقبل النمو. ومع ذلك، فإنهم ليسوا مستعدين لعملية موحدة، نظراً لعدم تزويد المنشآت الاقتصادية في المنطقة بأية معلومات اقتصادية حول هذه العملة الواحدة. تؤكد هذه الورقة أنه إذا لم تبدأ الحكومات المشاركة بإستعدادات مبكرة، أقلها مساعدة رجال الأعمال للاستعداد لذلك، فإن المشاعر الإيجابية تجاهها ربما تتآكل.

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Introduction

In 2001, the leaders of the six Gulf Cooperation Council (GCC) states⁽¹⁾ agreed upon a timetable of preparations necessary for establishing a single Gulf currency by 2010. Initially some progress was made such as the launch of a GCC Customs Union in 2003 and the joint decision by all states to officially peg their currencies to the US dollar – in order to lock their bilateral rates. Yet recent set backs including Oman's unilateral opt out and Kuwait's move away from the dollar peg indicate that the launch date for the proposed Monetary Union (MU) will be difficult to meet. Nevertheless, anecdotal evidence suggests that the GCC leaders are still committed to establishing an MU.⁽²⁾

In the lead up to the MU among the member states of the GCC, a number of important preparations are considered necessary. These are, among other things: building pan-regional institutions, meeting convergence criteria and harmonizing economic policies. One important aspect which regional policymakers have yet to consider is the potential reaction of the region's business community to the launch of a single currency.

The attitudes and reaction of the business community to the introduction of a single currency could have significant implications for its initial success and long-term sustainability. Theoretically, many of the potential benefits of entering into a monetary union stem from microeconomic mechanisms at the private sector level which eventually translate into macroeconomic effects.

A single currency in the Arabian Gulf would undoubtedly constitute, after the European Monetary Union (EMU), the most important instance of monetary union to date. Despite the small mass of the GCC economies which have an aggregate nominal GDP of \$718 billion, comparable to that of the Netherlands, they have significant economic import – possessing 40.2% of the world's oil reserves;⁽³⁾ \$176 billion in current account surpluses; and since 2002, they have accumulated a stock of overseas assets estimated to be worth \$557 billion.⁽⁴⁾

While the public sector has dominated economic activity in the GCC states in the past, the private sector is of increasing importance to the economic growth of the GCC states. These states have enacted policies to increase private sector investment and have placed strong emphasis on private sector-driven growth in their official economic development plans. Currently, the GCC private sector is the major employer providing work for approximately 83% of the total labour force.

In addition to examining the preparedness of the GCC business community for the single currency, the objective of this research is to assess in advance the opinions and expectations of regional businesses regarding its likely impact on their business activities. A GCC-wide business survey was undertaken and the results provide primary information on business attitudes towards the MU and are of relevance to policymakers in the region, given their stated aim of achieving a monetary union at some point in the future. In order to assess the likely response of the business community to the launch of a Gulf single currency, businesses were asked to consider what they perceive to be the potential costs and benefits of a single currency.

In the case of the European Monetary Union (EMU), the expectations and views of the European business community towards the single currency were an important focus of prior research. In the run up to the EMU, several surveys of European businesses were carried out with the aim of assessing the likely effect of the Euro on private sector activities. For instance, one European-wide business survey was carried out as part of the European Commission's evaluation of the potential costs and benefits of forming the Monetary Union and enabled researchers to assess the potential efficiency gains in advance (Commission of the European Communities, 1990). In addition, KPMG Management Consultancy (1998, 2000) carried out several surveys of European businesses over the period 1996-2000 in order to analyse business expectations towards, and preparedness for the EMU.

Comparisons with EMU can provide an interesting reference point for the GCC states, as the EMU experience can undoubtedly provide some lessons for the GCC as they embark on the proposed MU.

Theoretical Framework

There is no single economic theory which can satisfactorily encapsulate all the effects a monetary union will have on private sector businesses. In order to assess the implications for business therefore, there is a need to draw upon a variety of macroeconomic and microeconomic theories. One such macroeconomic theory of monetary unions which provides part of the theoretical framework to the GCC business survey is the Optimal Currency Area theory initially developed by Mundell (1961) and later by Mckinnon (1963) and Kenen (1969).

According to the Optimal Currency Area theory, economies with significant levels of trade and investment linkages, flexible labour and capital markets and synchronized economic cycles stand to benefit most from joining a monetary union. According to this theory, there is a trade-off between the benefits accruing from sharing a single currency and the main macroeconomic cost involved which is the loss of the exchange rate as an adjustment mechanism for absorbing economic shocks (Mundell, *op. cit.*).

The greater the degree of intra-regional trade and investment between the prospective members of a monetary union, the higher the savings from the removal of transaction costs and exchange rate risk arising from a single currency. These savings are of particular importance for GCC businesses engaged in intra-GCC trade. Indeed, microeconomic efficiency gains arising from the elimination of exchange rate and transaction costs, are considered to constitute one of the most important direct benefits of establishing a monetary union. Removing them can be expected to improve resource allocation across the member states and lead to a permanent increase in output and welfare (Commission of the European Communities, 1990).

In the case of the EMU, these savings for businesses were estimated from aggregated bank data on exchange rate fees and were thought to be equal to 0.4% of the European Community's GDP (Commission of the European Communities, *op. cit.*). Unfortunately in the case of the GCC, it is not possible to come to a quantitative estimate of these gains. However, from examining macroeconomic variables such as intra-GCC trade and investment flows as well as microeconomic information gained from the GCC-wide business survey, it is possible to come to a qualitative assessment of their size.

Some observers have suggested that the benefits arising from the removal of these costs will be low because all of the GCC states, with the exception of Kuwait, have effectively pegged their currencies against the dollar for several decades.⁽⁵⁾ As a consequence, the nominal bi-lateral exchange rates of the GCC national currencies have been very stable historically and there has been little exchange rate risk on intra-GCC transactions.

In addition, a conventional analysis of intra-GCC trade levels also indicates that the direct savings will not be particularly high for the GCC. Intra-regional trade amounts to only 7% of total GCC trade and only 2.6% of GDP, much less than the trade between the EMU countries which equaled 13% of GDP

in 1998 (Bayoumi and Mauro, 1999). Intra-GCC investments have also been low in the past. For example, between 1990 and 2003, intra-GCC Foreign Direct Investment (FDI) formed only 2.9% of total FDI attributable to GCC nationals (Bolbol and Fatheldin, 2006).

However, the exchange rate risk between GCC currencies has not been entirely eliminated because of unanticipated currency realignments which have occurred in several GCC countries over the past two decades.⁽⁶⁾ Moreover, GCC businesses often do not have access to sophisticated hedging instruments to protect themselves against any exchange rate adjustments.

Governments should also be wary of measuring the extent of intra-GCC trade solely by reference to its share of total trade or GDP (including oil). Oil receipts form a significant proportion of the total exports and GDP of the GCC states, on the average accounting for 84% of their exports and 45% of their GDP in 2006.⁽⁷⁾ Consequently, these indicators can be distorted heavily by changes in the oil price.

Given the common resource endowments of these nations, the majority of intra-GCC trade is non-oil related. Consequently, if oil intra-GCC trade is excluded, it shows a considerably higher level of regional trade integration at approximately 16.3% of total non-oil trade in 2003.⁽⁸⁾

As the GCC states continue to pursue economic diversification away from hydrocarbons, it is likely that intra-GCC trade will expand further and will be bolstered by a monetary union as positive feedback develops. Indeed, econometric research suggests that countries joining a monetary union can expect to see their trade levels triple (Rose, 1999), as the removal of exchange rate and transaction costs erodes the remaining barriers to trade. Studies of the EMU have indicated that since forming the Monetary Union, trade between pairs of countries within the Monetary Union has increased by as much as 25% (HM Treasury, 2003).

Intra-GCC investments should also be bolstered by the single currency as cross border risks are removed. The trend of increasing repatriation of GCC capital since 9/11 resulted in a regional stock market boom in 2005 when market capitalization to GDP reached 200% of GDP.⁽⁹⁾ Despite the subsequent decline in the region's stock markets in 2007, intra-GCC portfolio investments are still on the rise.

In addition to these potential gains for businesses arising from a single currency, the formation of a GCC single market – an important prerequisite for a single currency – should also be advantageous to the region's private sector. Operating in a much larger market, GCC businesses will also be able to exploit a much larger market and customer base, offering opportunities for economies of scale in production, sales, distribution and marketing (Cecchini, 1988). While such benefits arise from the formation of a common market rather than the introduction of a single currency itself, without the goal of a single Gulf currency, the GCC states would be unlikely to take steps towards forming a common market. Therefore, GCC businesses are likely to associate any gains from the creation of the single market with those of the single currency project.

Other economic research suggests that the gains from savings on exchange rate transaction costs are, in fact, much larger than the direct costs of bank exchange rate fees themselves (Akerlof and Yelen, 1989). The gains from eliminating transaction costs can be expected to be particularly important to small and medium-sized enterprises (SMEs) to whom transaction costs are more harmful than to large companies (Commission of the European Communities, 1990). The GCC states do not publish industrial censuses, but according to anecdotal evidence, SMEs represent a significant proportion of the business community. In Saudi Arabia, it is estimated that SMEs constitute 93% of total business enterprises (Sajini, 2004).

The potential costs to businesses arising from a monetary union could stem from a variety of sources. At the micro level, there will be short-term adjustment costs during the transitional period. Such one-off costs will involve adapting IT and accounting systems to deal with the new currency. It is also likely that the increased competition which will come about as a result of the single market will be perceived by businesses as an initial threat. Nevertheless, in the long run, greater intra-regional competition should benefit companies as it spurs innovation and strengthens regional corporations through mergers and acquisitions. In the long run, the effect of a monetary union on the region's businesses will depend ultimately upon its perceived success. The credibility of economic policy making in the region will undoubtedly influence the level of confidence in the region and therefore, is likely to be an important determinant of future investment and growth.

Survey Methodology

The survey was carried out between June and September of 2005. Respondents to the survey numbered 307 companies. The sample frame was drawn from GCC companies listed in the GCC National Chambers of Commerce databases and a number of private online business directories. The number of businesses contacted and asked to participate in the survey amounted to more than eleven thousand GCC companies. The number of companies contacted per GCC state depended on whether companies in that state were well represented in its Chamber of Commerce and business directories.

The overall response rate to the survey was low at just 2.7%. However, this was not unexpected, given the infrequency of consultation with the private sector on policy issues in the region. In comparison, the response rate to KPMG's surveys were much higher at 6.1%, probably reflecting the fact that European businesses are much more used to participating in policy debates. In addition, the low response rate may indicate a general indifference with regard to the proposed MU in terms of the priorities of businesses in the region.

The rather low overall number of survey respondents increases the likelihood of sampling error in the survey results. The survey has a margin of error of 5.7% at the 95 confidence level (Aaker et al, 1995). The potential problem of sample bias – where those businesses who responded to the survey may be inherently more interested in and in favour of the GCC MU – must also be taken into consideration. Therefore, the survey results should only be taken as broadly indicative of the perception of GCC private businesses. However, in order to strengthen the reliability of the survey's results, confidence intervals for a number of its findings are provided where feasible.

Characteristics of Respondents

The survey responses can be considered representative of the GCC business community. The responses per GCC state are broadly consistent with the relative economic size and significance of each state. The largest proportion, 37%, was based in Saudi Arabia while Qatar had the smallest proportion of business respondents at only 3%. The largest proportion of businesses surveyed could be classed as SMEs, with 49% having an annual turnover of less than \$10 million and 36% with employees less than 50. More than two thirds of the business respondents had less than 250 employees. Considering the predominance

of family businesses in the GCC states, it is likely that the survey sample is well representative of the size profile of GCC businesses overall.

The largest proportion of businesses surveyed classified themselves as manufacturing companies, followed by construction/real estate and then retail/wholesale. Compared with the GCC average sector composition of GDP, it appeared that construction/real estate companies were somewhat over-represented in the survey sample. Having said this, the oil boom taking place when the survey was carried out had led to a massive increase in real estate investment and construction projects in the GCC states which is likely to have increased the number of businesses operating in this sector.

Survey Findings

Perceived Benefits of the MU

When survey respondents were asked to consider whether there would be potential benefits from the MU and what they would be, the majority (84%) felt that the MU would provide some benefits. When the 95% confidence interval for this proportion was calculated, the confidence limits (84 +/-4%) confirmed that a comfortable majority of businesses hold this view. Businesses felt that the removal of exchange rate -related costs would provide the most benefits. This result suggests that, despite stable nominal bilateral GCC exchange rates, removing exchange rate-related costs could be an important source of savings for GCC businesses.

Businesses chose 'Reducing Exchange Rate Risk' and 'New Business Opportunities' most frequently as the areas with the highest and second highest potential for benefiting their businesses. The two remaining choices of 'Increasing Sales' and 'Reducing Transaction Costs' were more frequently chosen as having the least, or second least potential for benefiting businesses (Table 1). Given the characteristics of the survey sample which showed that a large proportion of business respondents had strong trading links with other GCC states, it is somewhat surprising that businesses, particularly SMEs, do not consider transaction cost savings to be a more important source of benefits.

Table 1. Perceived Benefits of GCC MU (% of respondents)

	Some Benefit				None
	Highest potential	2nd highest potential	3rd highest potential	Least potential	None
Reducing Exchange Rate Risk	31	21	16	16	16
New Business Opportunities	29	20	20	15	16
Reducing Transaction Costs	21	20	19	24	16
Increasing Sales	20	19	19	26	16

The fact that so many businesses chose ‘New Business Opportunities’ as an important benefit of the MU indicates that businesses combine the benefits of forming a common market with those arising from a single currency. This finding indicates that businesses rightly perceive the formation of a common market to be an integral part of the GCC’s plan to launch a single currency. The end goal for the GCC leaders has always been a single currency rather than just establishing a common market. When businesses were asked which GCC state had the greatest potential for new business opportunities following the launch of the MU, Saudi Arabia and the UAE – the two largest GCC economies – were most frequently chosen.

In contrast to the question which prompted businesses to think about the benefits of the MU, when survey participants were asked to consider the obstacles to the growth of their business, the survey results showed that they considered factors unrelated to the MU, to be the most significant. Respondents to this question most frequently chose ‘Restrictive Regulations’ at 34% followed by ‘Lack of Skilled Labour’ at 16%, while only 6.6% of respondents chose ‘Exchange Rate -Related Costs’ (Table 2). These other obstacles largely unrelated to the MU were felt to be more important than exchange rate related costs. This suggests that the MU is likely to have low priority for businesses at present.

Table 2. Business Views on the Obstacles to the Growth of Their Business

Potential Obstacle	Per cent
Restrictive Regulations	33.9
Lack of Skilled Labour	15.9
Lack of Clear Property Rights	14.1
Protective Tariffs and Quotas	14.1
Lack of Access to Credit	14.1
Exchange Rate Related Costs	6.6
Other Obstacles	1.3

Perceived Costs of the MU

The majority of business respondents (57%) felt that the MU would also result in some costs (Table 3). When the 95% confidence interval was calculated for this proportion (57+/-5.5%), it supported the finding that a majority expect some negative consequences to arise from the MU. The mechanisms through which businesses felt that the MU had the greatest potential to harm their businesses were through increasing regional competition and economic uncertainty.

Table 3. Perceived Costs of GCC MU (% of respondents)

	Some Harm			None
	Most Harm	2nd Most Harm	Least Harm	
Increased Competition	30	14	13	43
Changing Payments System	12	23	22	43
Increased Economic Uncertainty	14	21	22	43

Of the potentially negative consequences, 44% of businesses ranked 'Increased Competition' as causing the most harm or second most harm and 35% of businesses felt that 'Increased Economic Uncertainty', had the most harm or second most harm to their business. The responses to this question indicate that concerns over increasing regional competition are uppermost in the minds of GCC businesses but also that the planned MU has created feelings of uncertainty for businesses which may have implications for their investment decisions. In particular, SMEs, rather than larger companies, were concerned about the effect on their businesses of increased regional competition.

Of those businesses ranking the effect of 'Increased Competition' as most harmful to their businesses, the largest share was found to be based in Qatar and Oman, with 50% of Qatari businesses ranking it as potentially being most harmful to their business and 39% of Omani respondents. This suggests that Qatar and Omani businesses feel relatively more threatened by increasing regional competition than businesses in other GCC states such as the UAE and Saudi Arabia, where only 26% and 28% were most concerned about increased competition, respectively. This is not surprising considering the fact that businesses based in Saudi Arabia and the UAE, are already competing in a relatively large market, and so could be expected to have a head start over businesses in the smaller GCC states once the single market and MU are established.

When GCC businesses were asked whether they thought the introduction of the MU would temporarily increase their costs or not, the majority of

respondents (52%) were unsure as to whether it would or not. On the other hand, 37% thought it would not increase their costs and only 12% thought it would. This is somewhat alarming as the experience of the EMU clearly shows that businesses can indeed expect to incur some initial costs from the launch of the single currency. Businesses will be required to adapt their information technology, accounting, marketing, pricing and payroll systems in advance of the launch of the single currency and they must be made aware of this. In the EMU, the costs were not insignificant; the KPMG survey found that for large companies, the estimated mean cost for adapting to the euro was approximately \$25.8 million per company (KPMG, 2000).

Of the GCC business respondents, more than any other size of companies, it was SMEs that felt the MU would increase their costs, with 47% believing so. Unlike larger companies, SMEs will find it harder to absorb any increase in their costs resulting from the MU and therefore, are more likely to be concerned by this. Possibly for this reason, as was the case in the EMU, they are likely to be slow at making preparations and will need to be pushed to do so.

The lack of awareness concerning the costs involved in the transition to a single currency is indicative of the general low level of awareness among the GCC business community with regard to the process of MU. This problem must be addressed by policy makers in the region as soon as possible if the target date of 2010 is to be feasible.

Of those that thought the introduction of the single currency would increase their costs, the overwhelming majority, 67%, said that they would pass their increased costs on to customers. This finding suggests that inflation is likely to rise initially following the introduction of the single currency, as was the case in the EMU (Marini et al., 2004). Induced inflationary pressures by the MU might be ephemeral but they could be damaging to the economic competitiveness of GCC states where inflation is already high, such as in the UAE and Qatar where inflation reached 10% and 11.8% respectively in 2006.⁽¹⁰⁾ GCC institutions will need to provide strict guidelines on the rounding up of prices and closely regulate price conversions in advance of and during the transition to the single currency.

Business Attitudes towards the MU

In spite of the fact that businesses do not rank exchange rate costs very high as an obstacle to the growth of their own business, it is significant that

the results of the GCC-wide business survey indicate a general optimism among the business community regarding the macroeconomic effects of the future MU. When businesses were asked how they felt about the overall effect of a GCC single currency and its likely success, the results were positive on the whole.

The majority of business respondents (76%) felt very optimistic or optimistic about the likely success of the impending MU and only 5% of the businesses sampled were pessimistic or very pessimistic (Table 4). It is possible to say with 95% of certainty that between 71 - 81% of the GCC business population are optimistic or very optimistic about the likely effect and success of the GCC MU.

Table 4. Business Attitudes Regarding the 2010 MU

Likely Success of the MU					
	Very Optimistic	Optimistic	Neutral	Pessimistic	Very Pessimistic
Per cent	20.2	55.7	19.2	3.9	1.0
Effect of the MU on the Business					
	Very Positive	Positive	Neutral	Negative	Very Negative
Per cent	31.9	44.3	21.8	1.3	0.7

Respondents were also optimistic when asked specifically how they thought the single currency would affect their businesses. Again, the majority of businesses (76%) said that they thought the effect of the single currency on their businesses would be positive or very positive. Only 2% of the business respondents thought that the effect of the monetary union would be negative or very negative.

From these results, it would be fair to say that although other factors (e.g. restrictive regulations) have greater priority for GCC businesses, overall, they appear to think that the MU will be a good thing. European business surveys showed similar results to this, where the majority of companies surveyed in 1998 by KPMG (60%) were positive about the long-term impact of a single currency on their growth and only 9% thought that the EMU would have a negative impact (KPMG Consulting, 1998).

Cross tabulating the responses against the GCC state where the businesses are based shows that businesses in the UAE were most likely to be indifferent with regard to the impending MU, with a quarter expecting no effect. Businesses in Qatar and Saudi Arabia are most optimistic and Kuwaiti businesses are least

optimistic about the expected effect of the single currency on their business. The indifference of UAE businesses may be due to the fact that the UAE is successfully integrating into the global economy, becoming an international tourist and investment destination. Therefore, Emirati businesses are likely to be more affected by global economic shocks rather than regional ones and will be less concerned with regional integration. On the other hand, in Kuwait, up until 2003, there had been a more independent exchange rate regime. Compared to the other GCC states, its currency was pegged to an undisclosed trade-weighted basket of currencies. It was felt by many Kuwaitis that the basket peg had served their economy relatively well and may explain the high level of pessimism among Kuwaiti businesses regarding the planned MU.

Business Preparedness for the MU

Adequate preparations for a GCC MU are critical to removing uncertainty and ensuring business confidence in the lead up to and post the launch date. Yet the survey's findings showed that GCC businesses are not at all prepared for the MU. Of the businesses sampled, not a single GCC business said they were currently making preparations for the common currency although just over a quarter of respondents said that they would do so closer to 2010. The absence of any preparations being made by businesses is likely to be due to the fact that they have not received any instructions or any information on how to do so by respective governmental or pan-GCC institutions.

In particular, this research reveals that the region's governments have yet to prepare, or even to launch a major information campaign to inform the private sector with regard to the transition to a single currency, aside from general statements of intention in the Arab region's press.

The majority of business respondents (59%) felt that GCC governments should be assisting and providing information for businesses to prepare for the MU at this time. Even when 95% confidence intervals were calculated, it was confirmed that the true proportion would also form a majority, with confidence limits of between 53 and 64%. Slightly more than one third of business respondents (35%) felt that the GCC governments should provide assistance closer to 2010.

Concerted efforts to inform the European business community and prepare them for the launch of the single currency took place at least three years prior to the introduction of the euro. Earlier still, between 1995 and 1998, communication campaigns were launched to inform businesses of the timetable for switching to

the euro. Dual pricing was also widespread in all member states several years before the introduction of the euro where labels showed both the price in national currency and the euro. It is perhaps surprising therefore, that despite the campaign to inform and prepare the private sector before the launch of the euro, European businesses were still slow to prepare for the single currency.

The findings of a KPMG business survey in 1998 indicated that overall businesses were still not ready for the EMU (KPMG Consulting, 1998). By 2000, SMEs in particular, were falling behind in terms of their preparations, with 30% estimating that it was not yet time to prepare. Some 50% of SMEs estimated that they would not be able to carry out operations in euros until 2002, leading the European Commission to warn of possible bottlenecks emerging in the availability of IT and accounting resources required for the transition (Commission of the European Communities, 2000). In fact, in a 2000 report on the state of play, the European Commission concluded that they needed to impress upon businesses the need to speed up their preparations. The experience of the EMU clearly illustrates that if businesses were left to themselves to make preparations, they may not be ready for the switch to the single currency.

Conclusion and Recommendations

Overall, the survey findings indicate that GCC businesses are reasonably confident about the expected success of the GCC MU and, as was the case in the EMU, are generally optimistic about the long-run effects it will have on their businesses. Although the survey results suggest that companies do not currently rank exchange rate issues as very important, businesses can be expected to respond favourably to the MU. These findings bode well for investment trends and thus growth in the GCC economies during and after the transition to a single currency.

However, businesses are not at all prepared for the MU and more than a third of the business respondents are concerned about increasing economic uncertainty during the run-up to the MU. Therefore, if GCC policy makers are serious about the MU, they need to take action, to inform, educate and help prepare businesses to ensure a smooth transition to the single currency. The continuing confidence and support of businesses in the coming years will be conditional upon the ability of the authorities to adhere to a realistic timetable that is achievable.

The credibility of the process is critical in realizing additional indirect gains from the MU which arise from changes in the expectations and the behaviour of economic agents, in particular, businesses. It is recommended that the GCC states take advantage of the positive attitude of businesses towards the MU as well as the current buoyant economic climate in the region to address the remaining obstacles to establishing a common currency in the Arabian Gulf.

Footnotes

(1) The six GCC states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

(2) For example, in IMF Article IV Consultations with the UAE authorities in late September 2007, it was stated that 'The IMF appreciated the authorities' commitment to work closely with other GCC member countries to reach consensus on the appropriate future exchange rate regime to be adopted as part of the GCC currency union' (IMF, 2007).

(3) Figures for 2006 are from the BP Statistical Review of World Energy, 2007.

(4) Figures are for 2006 from the IMF World Economic Outlook, June 2007.

(5) Up until 2003, Kuwait pegged to an undisclosed trade-weighted basket of currencies. In 2006, Kuwait abandoned the dollar peg to return to its trade-weighted basket peg.

(6) Oman in 1986, devalued its currency by 10% against the dollar, the UAE adjusted its peg in 1997 and Kuwait revalued its currency several times against the dollar peg in 2006 before returning to a trade-weighted basket peg. In 2007, there was also substantial risk that the UAE dirham would be revalued against the dollar.

(7) Figures calculated by the author using data from the Arab Monetary Fund (2006) and IMF World Economic Outlook (2007).

(8) Figures calculated by the author using data from the Economic and Social Commission for Western Asia (2007).

(9) Stock market capitalisation to GDP as of June 2006 according to the Arab Monetary Fund (2006).

(10) Figures from the IMF World Economic Outlook (2007).

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