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### Monetary Union in the Gulf: Prospects for a Single Currency in the Arabian Peninsula

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## **Monetary Union in the Gulf: Prospects for a Single Currency in the Arabian Peninsula**

Emilie J. Rutledge

*London & New York, Routledge, 2009, 144pp.,*

This short and succinct, yet perceptive, piece of work is perhaps one of the few systematic analyses of the issue of monetary union and economic integration of the Arab Gulf States. Rutledge's study, based on primary research and analysis of the regional economies for the period between 1980 and 2006, provides a clear and detailed picture of the possible challenges confronting the Gulf Cooperation Council (GCC) monetary union (MU). Published in 2009, Rutledge's predictions that the 2010 date set for monetary union and common currency was premature have been proven correct. In fact the time horizon for the expected implementation of the project was tentatively extended to 2015, given that many obstacles still stand in the face of deeper integration. The main purpose of this book, as Rutledge puts it, is to give an account of the GCC's longstanding efforts to become a MU (p. 2), to determine the appropriateness of such a MU for the region as a whole (p. 106) and to assess the costs and benefits of the whole project (p. 9). The analysis proceeds to do so, by evaluating integration and MU policies against both the optimal currency area (OCA) criteria, as well as those of the European Union (EU).

The book comprises eight chapters. The short introductory chapter provides a brief overview of the formation of the GCC in 1980 by the six Gulf States of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE), and underscores the significance of the EU as an inspiring model for those members (p. 5). Rutledge also points out that despite the GCC Secretariat (situated in Saudi Arabia) as the main supranational institution in the Gulf, all 'binding decision making powers rest with the region's rulers' (p. 7). This reflects the institutional problem in the whole region as well as other Arab countries where the whole decision-making process is rather individualistic and personal rather than institutional.

Chapter 2 provides a macroeconomic discussion regarding similarities and differences between member states and starts by outlining the dominant role played by oil in the economies of all these states. This is followed by an examination of the bloc's economic performance and observing the structure of GDP, monetary policy, trade patterns and investment flows. The chapter also looks at the dominant role of the public sector, the labour market and diversification strategies (pp. 12–13). It concludes that high oil prices contribute to putting the necessary process of diversification on the back burner and that being capital rather than labour intensive does not contribute much to employment. The public sector was judged as inefficient and overstaffed. Rutledge also emphasises the need for more foreign direct investment, not due to any lack of internal capital but due to the need for technical and managerial expertise, as well as their 'spill-over' effects (pp. 33–34).

Chapter 3 assesses the GCC bloc against the OCA criteria as a useful benchmark for evaluating the appropriateness of a given region for MU. These criteria include the level and importance of intra-regional trade, intra-regional mobility of labour and capital, economic diversification and economic synchronisation (p. 35). The chapter concludes that despite efforts to meet these criteria, much more needs to be done. While many right moves have been made regarding labour and capital

mobility, as barriers were being reduced or abolished, and the GCC states' economies appear to be reasonably synchronised, these economies still lack sufficient diversification (pp. 58–59).

All this, however, would still not matter much if strong political commitment was lacking. Chapter 4 thus critically assesses the progress made towards MU along the lines of the European criteria. These criteria include the institutional and supranational aspects of setting up a common market, establishing a GCC central bank and a regional statistical body. The chapter further looks at whether the GCC economies are likely to be able to meet the fiscal and monetary convergence targets and the extent to which the private sector is being prepared for MU. All this is evaluated within the framework of political commitment to the whole process (pp. 60–61). Rutledge concludes that the GCC fares better in terms of its suitability for MU along the OCA criteria than along those of the European counterparts. She suggests that GCC states should emulate the independent supranational institutions of the EU such as the European Central Bank (ECB), even when taking local and regional economic specificities into consideration. Rutledge also observes that much of the political commitment to the MU was dependent on altering oil prices. As oil prices increased, commitment tended to falter as the costs and benefits of the entire project fluctuated (pp. 77–78).

Costs and benefits of the MU are the main focus of chapters 5 and 6. Costs, according to Rutledge, tend to be economic as well as political. Economically speaking this involves loss of sovereign control over monetary policy and potential costs arising from divergence of macroeconomic policies, including those caused by the imposition of 'Maastricht-style' fiscal rules (pp. 9–10). On the political side, costs comprise reduced control by the elites over the levers of the state, increased transparency and liberalisation requirements, possibly contagious socio-political instabilities (particularly as far as Saudi Arabia is concerned) as well as issues of regional power and geo-strategic dominance (Saudi Big Brother syndrome) (pp. 87–91). As for the benefits, they tend to be more of a microeconomic nature due to increased efficiencies associated with reduced transaction costs, exchange rate risks, increased price transparency as well as trade and capital market growth (p. 10). Gains also fall within the realm of the geopolitical in terms of increased balancing power in the face of Iranian and/or Iraqi 'influence' or 'domination' (p. 105).

Finally chapters 7 and 8 present the conclusions of the study, and the prospects and implications of a MU respectively. The study concludes that there is enough evidence to support expectations of net economic benefits to all GCC countries although costs from the ruling elites' perspective in terms of greater budgetary disclosure and fiscal accountability are harder to gauge. Adding to the latter is the extent of each member's willingness to 'devolve' a degree of national decision-making power to supranational institutions (p. 116). In any case, should the GCC choose to pursue the road towards an independent exchange rate regime, this would likely have serious geopolitical implications, especially if the MU leads to some form of regional currency that could serve as an anchorage and reserve currency for other neighbouring Middle Eastern and Islamic states— i.e., an Islamic currency (pp. 122–123). Such a move, however, was considered to be politically risky as it was expected to provoke serious US hostility in ways deemed by some Gulf analysts to outweigh any possible economic gains (p. 123).

This is an important book which critically examines and analyses the prospects of an interesting case of regional Arab integration, and by all means does a commendable job at that. While not ignoring policy recommendations, the book nevertheless falls short in this respect. Frequently it points out a problem but fails to offer or suggest policy alternatives. For instance, if the problem of unemployment in those states is structural, in many ways rendering monetary policy useless (p. xi), how could such a problem be tackled, when at the same time these same states are described as ‘resource rich, labour poor’ (p. 11)? What could be done to both alleviate unemployment and develop domestic labour skills, instead of simply depending on cheap expatriate labour, while staffing the public sector with national employees as a means of the rentier state to distribute oil income? To what extent can the whole process of integration and MU proceed in the face of US possible objections to, for example, the issuance of a ‘*Gulf dinar*’ which would both eventually allow GCC states to ‘de-peg from the dollar’ and together with the Euro could become an alternative world common currency (p. 1)? The linkage between the whole process of integration and independent decision making and the implications for future prospects, even when touched upon, is not adequately discussed. It is not clear whether vacillating political commitment to the MU was a function of oil prices or of geopolitical considerations linked to the position of members of the GCC as American protectorates. Such are questions that a reader may have wished to see addressed in more detail. Nevertheless, the book remains a lucid, enjoyable and informative introduction for anyone interested in familiarising themselves with this topic.

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