Gcc common currency

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GCC Common Currency: To Expedite or To Postpone Adoption In the succeeding discussion, PRO are arguments favouring expediting the GCC common currency, and CON are arguments favouring postponement of its adoption. Both positions take the viewpoint that a unified currency will succeed; the argument is on when such unification will best take place to ensure success.

Trade enhancement

PRO: The countries in the GCC area are principally involved in the export of oil, and command more than half of the world’s known oil reserves. This high dependence on one industry presents a risky situation for these countries; the creation of a unified economic system having a unified currency will do much to stabilize this situation for them and the oil importing market (Al-Jasser & Al-Hamidy 116).

The requisites for establishing a unified currency area necessitates the free movement of national goods, labour and capital across borders within the area, greatly enhancing trade among the member countries. Full customs union, a precursor to trade liberalization, is expected to increase inter-GCC trade to 20% in 2015 and 25% in 2020 (Kawach).

CON: There presently exists a great disparity in the size of the economy of Saudi Arabia as compared to the other member countries, so there should be a more careful and gradual integration of movements of resources so as not to cause destabilization among the smaller economies. Furthermore, the customs union began in 2005 is not yet fully implemented with many reservations still in place at present. Also, boosting regional trade requires diversifying away from oil, which still accounts for 90 percent of export revenues (Hancock).

Safeguard assets

PRO: The integration of the individual economies should be carefully managed so that the valuation of assets would not be unduly distorted. Measures have been initiated to interlink the countries' stock markets in order to accommodate cross listing and trading of equities and other securities. The common currency also eliminates foreign exchange risk within the GCC area, because the need to convert from one currency to another would have been eliminated.

CON: In the process of unification, financial assets which are denominated in national currencies should not suffer in valuation in the new currency. Financial asset valuation depends to an extent on the future return on investment in comparison with inflation, nominal interest rates, and foreign exchange rates (Al-Jasser & Al-Hamidy 116). The efforts to unify the customs and markets operations that began in 2003 to 2005 are still to be completed (Mohamed & Irandoust 1).

Challenges facing international currencies

PRO: The uncertainties in international currencies (US dollar and the UK pound), as well as the successful launching of the euro, tend to support speeding up the creation of the GCC regional currency. There have been speculations that there will have to be a replacement for the U. S. dollar in light of the global currency crisis of 2008, which has greatly destabilized the underlying economy supporting the dollar. The fact that the GCC currencies have been pegged against the dollar has been cited as a critical weakness, but this is not exclusively the problem of the GCC. Worldwide, the dollar has been the dominant reserve currency, thus the weak dollar has not severely disadvantaged the GCC area over and above other currencies (Schenk, 2010, p. 28). The GCC may be said to be a step better off than other countries which have not formed currency unions or regimes leading to one, because within the GCC region there is a measure of regional stability despite international instability. The risk posed by a weaker pound sterling or Euro for that matter has even less negative effect on the proposed GCC currency, since the value of GCC currencies are not pegged to them.

CON: Oman dropped out of the monetary union in 2006, and the UAE in 2009. Kuwait abandoned its dollar peg in 2007, preferring to link its dinar to the IMF SDRs (Special Drawing Rights) which are in turn based on a basket of currencies. These developments have thrown " convergence efforts into disarray in a region where currencies have long been pegged to the US dollar" (Reuters). Furthermore, there is disagreement as to the currency regime (fixed or floating rate, in relation to which currency) which the new currency should adopt (Mohamed & Irandoust 2-3).

Conclusion

There is no doubt, from the foregoing discussion, that a common GCC currency will contribute much to the economic and monetary stability of the region in light of foreign currency weakness. Monetary unification was originally scheduled for 2010; obviously, this initial deadline had not been met, and there is no new deadline set to date. There have been many legal, economic, and financial structural changes which have been adopted by the four remaining member-states of the monetary union (Saudi Arabia, Kuwait, Bahrain and Qatar) which have already taken place. There has already been many benefits achieved such as more robust intra-regional trade, more disciplined fiscal supervision, and more stable economies at a time of global economic crisis. The likely eventual success of a new regional currency unit is high, but only in due time, and definitely nowhere near the original deadline of 2010 (Siddiqi 51). There is definitely a need to postpone or prolong the unified currency adoption process.

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