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The Economic Agreement between the Gulf Countries Council

Economic Integration in Developing Countries

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Abstract:

This paper will provide information about the Economic Agreement between the Gulf Countries Council, through monetary union, a common market and custom union. The first section will reveal the GCC charter, and look at methods of enhancing and strengthening economic ties among member states and harmonizing their economic, financial and monetary policies. The second section, will discuss the GCC Monetary union, including what a GCC currency union looks like in 2010 for the four GCC members that have one, as well as examining a dollar-peg in the long-term interests. Finally, the common market and custom union will be looked at. In this section, they will be examined through the legality of the economic Agreement between the GCC states, adopted by the GCC Supreme Council (22nd Session; 31 December 2001) in the City of Muscat, Sultanate of Oman.

Contents

Introduction:

The Gulf Cooperation Council is considered to be one of the oldest and most important regional economic agreements. It consists of six states; the biggest is Saudi Arabia which represents more than 60% of the GCC total local products and 70% of its population, and Bahrain, Oman, Qatar, Kuwait and the United Arab Emirates. These countries own nearly 40% of the world's oil reserves. They have in common, security interests, religion, language, and culture which are regarded as a means of success and permanency.[1]

The trading cycle between GCC states is only 7% of the their total trading; such a figure appears limited when it is compared to the trading cycle among the European Union states, and or among the members of North American Free Trade.[2] However, the low volume in the trading cycle between the members of the GCC can be traced to many elements, such as the small population of these states, the limited number of members, and the small market in the region. By adjusting the market or making parallels between the size of the GCC market and the size of the EU market, the conclusion can be reached that trade among GCC countries is actually comparable, and the member states trade is higher than trade among EU member states.

In order to make the trading cycle between the Gulf States easier, the GCC has introduced a number of measures. The GCC is an international economic organisation whose objectives and goals are variable, as it seeks a connection and integration between its members states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. It is an integrated organisation that joins within itself political, social, security and regional organisation. in addition to its main economic activities. It was founded on May 25th 1981

[1] The Cooperation Council for the Arab states of the Gulf. *Areas of Cooperation Achievments*.
[2] Carnegie Endowment for International Peace. *Regional Arrangements in the Arabian Gulf.*

and is based on two main issues: the first is that they have to establish the objectives, regulations and the structure of the organisation, and the second is to carry out what is known as a unified economic agreement toward building up a Single Market, which is the main topic of the current study.[3]

The achievement of a unified economic agreement is not a matter of luck, but is a question of hard effort exerted by all the member states, which results from long term planning. This has involved applying up-to date economic know-how, honest and sincere cooperation among the member states, and following the American and European more advanced economic model as an example and for guidance.

The Free trade Area (FTA):

At the start, the GCC members established a Free Trade Area (FTA) in 1983, which removed the tariffs imposed on goods coming from any member state. Between the early 1980s and early 1990s, efforts were made to achieve united tariffs for implementing the GCC Custom Union (Cu).[4] After great effort and lengthy talks among the member states that went on for decades, the member states agreed that the customs duties imposed on all foreign goods imported from outside shall be 5%. Such a step helped establish the pillars of GCC SM.

Article three in the new economic agreement shows the areas in which equality shall be executed entirely for achieving economic unification. These areas are as follows: "residence and movement of GCC nationals and granting them equal treatment in any of GCC member states; work in private and government sectors, social insurance and pension schemes, education, health and social services; exercises of all professions and crafts; exercise of all

[3] The Cooperation Council for the Arab states of the Gulf. *Areas of Cooperation Achievments.*
[4] The same above mentioned source.

economic, investment and services activities; real estate ownership; movement of capital; tax treatment; and incorporation and purchase and sale of shares".[5]

In fact, the building up of the economic agreement and its enforcement has involved several different steps, which cannot be achieved at the same time; however, they can be gradually achieved. Up to now, there are still unfinished steps required for the achievement of economic integration.

The Currency Union within the Framework of the Agreement:

After presenting the chapters and articles of the Unified Agreement, it is necessary to shed some light onto the possibility of the dominance of the currency union for the member states of such an agreement. As can be seen, the agreement has stipulated broad and clear guidelines for achieving real coordination, integration and cooperation in various branches of knowledge among the member states. The council has applied the necessary steps for building up the various stages for full economic integration as follows: free trade area, a custom union, a common market and economic union. To reinforce cooperation among the member states, different organisational bodies have been constituted, such as the Supreme Council, Ministerial Council the Secretariat General.

The first real step toward building up real and strong economic integration among the member states was the establishment of a Free Trade Zone in 1983. In the Riyadh summit of the Leaders of GCC countries, the second move of integration has been achieved via the establishment of a Customs Union. They determined that the Customs Union would be established by the year 2005. According to Winson (2008) the leaders of GCC agreed, in the

[5] Zayed University. *The GCC Economic Agreement. Article 3.*

Bahrain Summit of 2000, to start planning to adopt a single currency, which will be considered to be the cornerstone for realising the desired economic integration.

In the summit held in Muscat on 30-31-2001, the GCC countries agreed to apply a common customs tariff, estimated to be five percent, by the year 2003. They have also voted to create a single currency by the year 2010 which has not yet been achieved. According to Wincoop (2001), the GCC counties had resorted to using the American dollar as a common peg for their currencies before the end of the year 2002.

Peterson (1988) states that the GCC countries attempted to realise monetary integration and the common currency via believing in the elimination of costs incurred by transactions, and the uncertainties related to the availability of separate currencies. Indeed, Kenen (1997) developed the theory of Optimum Currency Areas, which means that that the value of creating a common currency shall be fit for the values and criteria of the Optimum Currency Areas. The theory means "a geographical region in which it would maximize economic efficiency to have the entire region share a single currency. It describes the optimal characteristics for the merger of currencies or the creation of a new currency. The theory is used often to argue whether or not a certain region is ready to become a monetary union, one of the final stages in economic integration."[6] Further theories have recently been developed which help provide a deeper analysis and assessment of the experience of currency union.

The Optimum Currency Area:

It is important to define an Optimum Currency Area, and to connect it with a unified agreement and unified monetary fund. According to Eichengreen (1996), OCA can be defined as " a region for which it is optimal to have its own currency and its own monetary

[6] Kenen, B. (1997) *International trade and Finance*: New frontiers for research. Cambridge University Press. Cambridge.

policy."[7] Thus, it is possible to identify OCA Monetary or Currency Union. The monetary or currency union is based on the same currency. Monetary integration is controlled by a unified central bank, whose function is to organise the pool of foreign exchange reserves, and to manage the monetary policy for reaching the union.

According to Tavlas (1993), monetary integration should be based on the same exchange rate; the absolute potentiality of converting the currencies; the unification and the integration of the financial market, which can be carried out through setting up certain measures for freeing the capital transactions and coordinating the national economic rules and regulations; the full freedom of the present business transactions, and applying a common monetary system. Therefore, currency union can refer to the arrangement and preparations carried out by the GCC countries to achieve it.

The Optimality of a Currency Union, or what is known as the ability to prevail with the same currency, can be obtained in connection with a certain set of standards and criteria. Such criteria can be summed up as how to create economic and commercial unity among the countries aspiring to achieve the currency union.

However there is a question concerning the importance of OCA. OCA is considered to be very important as it helps to fix the Exchange Rate, which results in diminishing the ER uncertainty that hinders trade and investment progress. In addition, it helps to reduce the costs of the transaction related to multiple exchange rates. Such costs are connected to watching the fluctuations of ER. Furthermore, they are related to the costs resulting from collecting data that helps to predicate Exchange rate movement, and the cost of conversion of the currency and related issues for managing the reserves of intra-regional trade. In addition,

[7] Eichengreen, B. (1996) *Ever Closer to heaven? An optimum-currency – area index for European countries.* Princetion University press. Princetion. New Jersey.

OCA helps to free the idle and unused reserves, supporting the role of money as a unit of account and means of payment. According to Ishiyama (1975), the OCA can diminish the probability that the speculators may affect the price and disturb the running of the monetary policy.

In addition, OCA strengthens credibility and confidence in the monetary policy, especially in inflation-prone countries. This credibility can be achieved on the basis of attaching the latter to a low-inflation anchor currency. Such a phenomenon was reflected clearly in the example of high inflation in the European Countries of Italy, Spain and Portugal in 1970, which requested linking their respective Exchange Rates to the Germany Exchange Rate due to its ability to resist inflation.[8]

Even so, there are some disadvantages to the OCA policy; the most important one of which is the lack of independence of monetary and exchange policies because the exchange rates have a fixed rate against one another. The interest rates are linked to foreign rates; thus, the increase in the stock will lead to a balance of payment deficits. Accordingly, it can be said that the monetary and exchange rate can be described as the stabilizer of the economy.[9]

Indeed, the most important benefit incurred due to CU results from the expansion and the enhancement of mutual trade among the countries of the Union.

The elements of the currency union:

There are several elements that can show whether the introduction of a currency union for GCC countries is acceptable or not. These elements or factors can be described as follows:

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[8] Arab planning institute. *Are GCC Countries Ready for Currency Union?*
[9] Forum on Debt and Development. *Exchange Rate Policies in Devevloping Countries form ; New Challenges of Crisis prevention.*

1- Openness: Any small state which is dependent on international trade to a greater extent is likely to be affected by exchange rate change and uncertainty, as a great deal of its goods are subject to trading. According to some economists, for example, McKinnon (1963), the exchange rate becomes too much and abundant in the case of a small open-economy. The variation in the Exchange rate is inextricably connected with the variation of ER which is subsequently turned into variation of cost. Thus, ER plays an important role in developing and enhancing competitiveness. Therefore, it is better for a small open economy to enter into a currency union.

2- Factor Mobility: If the labour and the capital of two countries are merged into one country, making them easily moved from one country to another, the use of ER after an economic shock is easier and has no problems. As the result, the movement of capital and labour from one country to another, or what is known as the mobility factor, can replace the ER or the monetary policy; applying the adjustment mechanism to the shock occurrence. Accordingly, the countries that have more movement and more mobility factors for production are more suitable candidates for currency union.

3- Degree of Commodity Diversification: If the economy is more variable and diverse, then it is less likely to use the exchange rate to diminish the impact of a shock. Thus, countries with diverse and various types of economies are better candidates for currency union.

4- Similarity of Production Structure: Countries that have similar or the same production structure can face economic shocks more effectively as they reflect a high variation in economic activities. Thus, they are less likely to use their exchange rate as a way for adjusting to the trading shock; thus, they are the best candidates for currency union.

5- Price and Wage Flexibility: The flexibility of prices and wages diminishes the need for changing the exchange rate in case of shock. Accordingly, countries which are based on flexible prices and wages can better engage in CU arrangements.

6- Similarity of Inflation Rates: A similarity in inflation rates also means a similarity in the economic structure, and in the running techniques of the economic policies. Accordingly, it is more desirable for the countries that need to improve and harmonize their economy to fulfil the requirements of a CU.

7- Degree of Policy Integration: Applying the same policy attitudes can be considered as an important indicator for the success of the policy harmony needed to achieve full monetary integration.

8- Political factors: The sound application of a currency union is based on the political will exerted by the countries for achieving the goal of CU. Indeed, experience has reflected that political factors are more important than economic conditions.[10]

A case study of the elements of currency union for the GCC:

Thus, the important question here is whether the aforementioned criteria qualify the GCC for a currency union or not.

Openness:

The GCC countries are regarded as the most open economies in the Middle East. Openness can be defined via knowing the rate of trade to the gross domestic product. The ratio of trade to the gross domestic product in the GCC is considered high which is reflected clearly in their being as oil exporting countries. In addition, these countries highly depended on the imports of the consumption material and capital goods because

[10] Arab planning institute. *Are GCC Countries Ready for Currency Union?*.

the rarity of their domestic alternatives. Such factors make the role of ER in the improvement of competitiveness very limited and narrow.

Factor Mobility:

Concerning the Mobility factor, articles eight and nine of the unified agreement between the GCC countries have stipulated that, member states shall cooperate among themselves for coordinating their commercial polices and relations with different states, and they shall aspire to cooperate with the regional economic groupings and economic blocks. Moreover, they shall have a vision for creating well-balanced trade relations and more suitable circumstances, and better trading terms with neighbouring states[11]. For carrying out such objectives, Member States have to ensure that they will cooperate among themselves for coordinating their commercial polices and relations with different states, and that they shall aspire to cooperate with the regional economic groupings and economic blocks. They shall have a vision for creating well-balanced trade relations and more suitable circumstances, and better trading terms with neighbouring states. For carrying out such objectives, they have to ensure the following arrangements:

1- Coordination of import and export rules and regulations and policies.
2- Constituting policies for the strategic food stocks.
3- Holding collective economic agreements in order to ensure the guarantee of benefits for all the member states.

[11] Zayed University. *The GCC Economic Agreement. Article 8&9.*

4- Start creating a more collective negotiating force to support their negotiating position to face foreign partners in the field of importing basic needs and exporting major products.

The member States shall agree to executive procedures that ensure that the citizens of each member state shall receive the same treatment and respect which is granted by the country or the member state to its own citizens, without any discrimination or any type of differentiation, as stipulated in the following:

1- Freedom of having a job, living and movement.
2- They shall have the right of ownership, inheritance and bequest.
3- They shall have complete freedom for practicing their economic activities and business dealings.
4- They shall enjoy the freedom of capital.

According to articles 8 and 9, the economic agreement between the GCC countries has permitted the free movement of capital and individuals across GCC countries, and the freedom to practice business and trade. Although articles 9 and 8 stipulate very clear procedures for facilitating the mobility of trade between the GCC states, the mobility factor cannot be considered as an alternative adjustment mechanism to the ER, and this can be traced to the restrictions of ownership and the limited types of business activities practiced by the GCC. In addition, the labour market rules and the conditions of the institutions are different.[12]

Degree of Commodity Diversification:

With regard to Degree of Commodity Diversification, the commodities of the GCC are not diverse or variable, as the GCC is based mainly on oil. The oil business represents more than

[12] Zayed University. *The GCC Economic Agreement. Article 8&9.*

80% of exports and budget revenues.[13] Indeed, owing to the higher focus of GCC on the exportation of oil, it has a very limited scale of diversification; thus, they are more vulnerable to external shocks. Furthermore, the economy of the GCC is dependent on the prices of oil in the international market, which may expose them to different external shocks. Therefore, these countries resort to not using ER as an adjustment policy instrument in case of oil shocks, rather, the adjustment is made by the government expenditures instrument.

Similarity of production structure:

It is evident that GCC countries own the same production structure based mainly on the oil sector, but other than oil, the production structure is very limited. Accordingly, the unified production structure makes the economy of such states vulnerable to shocks which require a common policy strategy to be followed among these states.

Price and wage flexibility:

prices and wages cannot adapt themselves to frequent oil shocks. Thus, if there is any recession affecting the oil market, the government must intervene to provide stability. Indeed, the flexibility of prices and wages in GCC countries does not affect their ability to apply the currency union among themselves.

Similarity with inflation rates:

The GCC is not made up of states which are subject to inflation; however, they may suffer from conditions of inflation when the price of oil falls. Also, inflation rates are not the same for all of the GCC countries- despite their seemingly being a unified business system, including the same fiscal, monetary and ER polices.

[13] International Monetary Fund. *Monetary union Among member countries of the Gulf cooperation council.*

degree of policy Integration:

The GCC countries have carried out many efforts to support their commonalities and sameness, and to harmonize several economic levels, as stipulated in Article 4 which states that: The member states shall constitute the official minimum limit to the customs tariff which is valid for the products of countries outside the GCC member states.

Article 4 of the GCC charter calls for the building up of similar regulations and financial affairs. The main policies for harmony in the context of CU have the same characteristics as the countries of the region. For example, the monetary and exchange rate policies are all based on maintaining a connection between domestic and foreign interest rates for stabilizing the ER, and stem capital outflows, or portfolio reallocation in favour of foreign assets.[14]

Political factors:

The leaders of the GCC have implemented greater cooperation and a sincere desire toward the establishment of GCC for the benefit of their people. Such a commitment has resulted from the common features shared by all the GCC countries, as they share a common political, social, demographic, religious, historical and cultural structure. Despite the minor drawbacks caused by such economic integration, the will of the GCC leaders to enhance and strengthen their cooperation has not been broken as they move ahead to create their economic and political integration. Though such integration is moving extremely slowly, the GCC countries should be praised and thanked for their shrewd and pragmatic desire for economic integration among themselves.

Considering the aforementioned factors as criteria for the eligibility of the GCC countries for a currency union, the following conclusions can be reached:

[14] Zayed University. *The GCC Economic Agreement. Article 4.*

Openness: This is considered to be a favourable asset for enhancing the GCC economic agreement for the currency union.

Mobility factor: This is considered as an unfavourable element for enhancing the GCC unified economic agreement, particularly with regard to the currency union.

Commodity diversification: Is to be regarded as a favourable condition for enchaining the GCC economic agreement, particularly in relation to the currency union.

Production structure: This can be regarded as favourable conditions for enhancing the GCC economic agreement, particularly in relation to the currency union.

Price and wage flexibility: These can be regarded as providing favourable conditions for enhancing the GCC economic agreement, particularly in relation to the currency union.

Similarity of inflation rates: This factor is to be regarded as favourable for enhancing the GCC economic agreement, particularly with regard to the currency union

Degree of policy integration: This is to be regarded as ensuring favourable conditions for enhancing the GCC economic agreement, particularly for the currency union

Political factors: These can be considered as providing favourable conditions for enhancing the GCC economic agreement, particularly in relation to the currency union

Therefore, it is clear that the GCC countries can apply the currency union due the eligibility of the aforementioned conditions, thereby ensuring the best future for the GCC countries to cooperate in different areas.

The GCC Custom union within the Unified Economic agreement:

Concerning the GCC Custom Union within the Unified Economic Agreement, it is evident that the establishment of a common external tariff was undebatable among the GCC countries. At the beginning, it was planned that the application of the custom union would be in 2005; however, the decision was taken at the GCC summit session held in Oman to advance the date of implementing the Custom Union to January 2003. At the summit, the presidents of the GCC countries agreed to coordinate the external tariffs at a fixed rate of 5%.[15]

The World Bank had introduced an important report in 1999 to help the GCC secretariat regarding the structure and the standard of the common external tariffs.

Once the agreement between the member states of the GGC countries had been signed, the trade between such states became duty-free, and the nationals of each country became free to build and seek employment in other GCC countries. The member states spent a longer time on identifying a mutually common external tariff CET, and they reached agreement regarding CET in December 2001 at 5% for imported goods.

The GCC Ministers of Finance agreed to apply two levels of CET structure; a zero percent rate was imposed on the imports of 53tariff lines at the HS6-digit level, which are classified as basic essential goods, and 5 % is applied to other goods which are classified as non-basic items. They took further steps regarding the finalising of the custom union. The member states reached an improved agreement on a list of the prohibited products and another list of restricted products. They were able to settle the problems arising from the imports of alcohol, immoral material and pork products.

The custom union agreement has considered the protection of the local industry of each member state. Thus, the member states agreed on granting tariff exemption on the imports of intermediate inputs and equipments for local production and export industries. They have proposed joint procedures for giving such exemptions. In addition, the member states have entitled the Customs Authority in each member country to collect the revenues of the tariff at their port entry. Then, the national authorities of each member state will transfer such revenues to a common account, and this transfer shall be made on a monthly basis. As soon as the funds are made and collected, they will be distributed to the member states in terms of an allocation agreement formula. It is evident that the allocation formula of collected tariff revenues shall be based on a set of criteria such as the imports share, the total share of GDOP and the total population share, which is to be calculated on the basis of the last five years. The results of the initial agreement have shown that the revenue shares have ranged from 45to 47% for Saudi Arabia, and 20 to

[15] The Cooperation Council for the Arab states of the Gulf. *Areas of Cooperation Achievments.*

23% for UAE. The remaining ratio has been allocated as follows: 12% for Kuwait, 9% for Bahrain, 7% for Oman and 6% for Qatar.[16]

In fact, the application of the customs union requires certain actions that should be taken for its implementation. Such actions include, in the first place, the coordination of customs procedures, especially those related to the external customs frontier; the abolition of the internal customs frontiers; the reduction of reliance on trade taxes and developing the domestic taxes, and the implementation of strict procedures against imports from non-GCC countries.

Indeed, the implementation of free trade among the GCC countries is not only based on the conditions of the GCC countries, but it is also based on other international considerations that are related to the global policy that has to be taken into account, which are as follows:

1- The average tariffs have recently been decreased significantly over the last two decades; for example, the average tariffs for the OECD countries are less than 5%.[17] The low ration of Tariffs has become dominant in most developing countries.
2- The permanent and non-stop international trade liberalization attempts will have a clear impact on the GCC countries both directly and indirectly. Thus, the implementation of a currency union should be compatible with the developments occurring in the world economy.

Indeed, the principle economic effects of forming the custom union are very clear and known by all. However, its impact on the economic progress of the union as a whole can be reflected clearly in terms of the trade between the union and the rest of the world. There are classic variables that allow an evaluation of the progress effect of the implementation of the customs union on the member states; such values can be known as trade diversion and trade creation. Trade diversion aims at showing a situation of abolishing of tariffs in the intra- regional trading, allowing the producers of certain commodities residing in a member country to delete more efficient non-member producers because the member producer, disregards his efficiency because the former are given a superficial competitive edge , which is the abolishment of tariff on their exports.

[16] Arab planning institute. *Development Bridge.*
[17] Organisation For Economic Co-operation and Development. *Aid of Trade.*

Such a rule is to be applied to the countries based on the imports, not the exports, as it would raise the price paid for the imports above the world level. However, trade creation is more consistent with the countries that consist of inefficient producers in the importing country; thus, they have to be displaced by more efficient, lesser costly producers residing in another member country.

Accordingly, the members of a free trade agreement, or customs union, have to apply low external tariffs to the imports from around the world. The regional trade should be combined with international trade. Thus, the implementation of a custom union necessitates certain measurements to be adopted, such as the coordination of customs rules and procedures, including the process of classification, valuation, origin determination, temporary entry and drawback, and so on. In addition, another measure is that of regulation for collecting and distributing the revenues of the tariff across the members, and the creating of institutions and procedures governing the common commercial policy of the union. Indeed, the members of GCC countries aspire to have full cooperation and to achieve the customs union, but there are certain concerns that affect the implementation of CET at 5%:

1- The economic welfare effects: some member states are worried that in case of applying the CET with a rate higher than the common tariff levels, the consumers, traders and exporters of such countries will suffer from a higher rate of costs because of the increasing rate of the products they will import.
2- Tax Revenue: some countries that depend on the customs tariffs for their income are worried that the implementation of a CET that is less than the currently applied tariffs will result in cutting their revenues.[18]
3- Industry adjustment costs: it is clear that in the countries that use the tariff to protect their local industry, if CET is lower than the level of the currently applied CET, then it will cause greater harm to their industry.

A customs union is defined as imposing a common unified tariff applied to the member states; thus it requires new procedures in order to protect itself from the pressures resulting from the import-competing industries; pressures for liberalization by the private sector such

[18] The World Bank Group. *The word bank completing the GCC Customs Union.*

as exporters, service producers and consumers, and it must establish and build up the union position through international commercial negotiations. The scope of the customs union has become wider and more important than it was in the past, due to the hard work and sincere intention of the GCC member states for possible enlargement of membership in order to add a new neighbour, Yemen, to the union.

For applying the customs union among GCC countries certain rules and definite regulations must be considered, which are as follows:

Collection of customs and enforcement of the common customs law: In order to make it more legal and perform its job properly, the concerned authorities of each state should make sure that the CET has been accurately collected as agreed, and that a race to the bottom does not occur.[19]

The second necessity for applying the custom union is overcoming the technical barriers and regulatory regimes, which means that the internal customs borders among the member states should be abolished; requiring the establishment of an external customs frontier based on a set of joint procedures necessary for the reinforcement of CET.

The third necessity is a trade policy institution, which means that the custom union should have its own trading policy institution whose main goal is that it goes beyond tariffs and quotas to instruments of contingent or administered protection such as anti-dumping, countervailing duties, and emergency protection, to address balance payments disequilibria or guard an industry from import competition.

Finally, for the actual application of a common currency union and a common market to be completed.[20]

Conclusion:

The implementation of the Unified Economic Agreement between the GCC countries is not a matter of luck or accident; rather, it is the result of long and hard efforts and cooperative plans, as well as the strong political will of the leaders of the GCC countries. In addition, there are different factors and elements that can help with the success of such an economic agreement in the GCC countries due to various common elements shared by them, such as

[19] The World Bank Group. *The word bank completing the GCC Customs Union.*
[20] The same above mentioned source..

geographical unity, and the cultural, social, historical and religious values that are shared by the members states.

The GCC countries have travelled a long way toward the establishment of the unified agreement, and they have taken very effective steps for doing so. Regarding the currency union, the cultural, historical and social similarities among the member states represents a great motivation for its implementation. In addition, the similarity in the economic conditions of such states also plays a major role in pushing it towards a good and bright future; however, there are still several obstacles that member states must deal with for the achievement of their dream.

Indeed, despite the progress on many levels, there are still important elements that need to be established. For example, the economic structure of the GCC countries is still dominated by the oil industry, and the intra regional trade among these states is still very weak, limited and less than expected. In addition, there is no clear evidence of the convergence in their main macroeconomic fundamentals, nor synchronization of their business cycle.

However, the implicit commitment of the GCC countries can be considered as the most suitable condition for a currency union to arrange for a fixed exchange rate, due to the strong political desire and sincere will for political integration. Furthermore, despite the entire dependence of the GCC on the oil trade as the main income source, the introduction of a currency union, and the implementation of a custom union and common market, will help create a bigger market for new products and new businesses, which should result in breaking the condition of dependence on one item or one product. Furthermore, the positive implementation of unified economic trade can help to harmonise the business cycles and help achieve the convergence in the economic structure, polices and regulations. The achievement of the common market requires alleviating all the barriers and restrictions imposed on the free movement of goods and factors.

In addition, the common market can be achieved through the political integration and the establishment of an intra-national authority concerned with the economic interests of the region. Such common goals can be achieved if the member countries are ready to surrender some of their political authority. Indeed, the recent European experience represents a clear example of how political will can achieve a union. In my view, the ties between the members of the GCC countries are even stronger than its counterpart in the European world, as we enjoy the unity of culture, language, religion and race. Furthermore, the economic level among the member states is almost equal; unlike the European Union which has accepted the joining of poor countries such as those in Eastern Europe.[21]

[21] Arab planning institute. *Are GCC Countries Ready for Currency Union?*.

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