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Gulf Cooperation Council to Launch Common Market in January 2008

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Leaders of the six-member Gulf Cooperation Council (GCC) yesterday announced their plan to launch a common market in January 2008 and a currency union by 2010 in addition to maintaining their currencies' peg to the US dollar.

"The Gulf Common Market aims to create one market … raising production efficiency and optimum usage of available resources and improving the GCC's negotiating position among international economic forums," said a final communiqué at the end of the two-day summit.

GCC Secretary-General Abdul Rahman Al-Attiyah called the decision to create the common market "a historic declaration." He told reporters, "We want to have equal opportunities for all GCC citizens." These include the right to work in all government and private institutions in the GCC, buy and sell real estate and make other investments, move freely between the countries, and receive education and health benefits, the communiqué said.

Custodian of the Two Holy Mosques King Abdullah led the Saudi delegation to the summit. The king's presence made the annual gathering a success. Abdullah returned to Riyadh later in the afternoon after a meeting with Qatari Emir Sheikh Hamad ibn Khalifa Al-Thani.

The highlight of the two-day gathering was the presence of Mahmoud Ahmadinejad, the first Iranian president to attend a GCC summit. He offered his GCC neighbors a regional security pact and a 12-point cooperation plan, including free trade and joint investments in oil and gas.

Qatari Prime Minister and Foreign Minister Sheikh Hamad ibn Jassem Al-Thani welcomed Ahmedinejad's proposals and hoped that they would open a new era in GCC-Iran relations.

"We have to collaborate with all our neighbors and not be dragged into (following) foreign strategies. Iran also serves its interests by taking the hand of those countries that extend a friendly hand to it," the premier said. "If we are pulled apart by foreign strategies, it will be dangerous," Hamad said, adding that Qatar had no contact with the International Atomic Energy Agency over Iran's nuclear-enrichment program.

In the summit's opening session Ahmadinejad stressed that the common heritage of Arabs and Persians made their partnership and friendship "inseparable." He also warned against foreign intervention, a reference to the growing US presence in the region.

The leaders of Saudi Arabia, Qatar, Bahrain, Oman, Kuwait and the UAE reiterated the GCC position of demanding a “peaceful solution” to Iran’s nuclear crisis, while it exhorted Tehran to “pursue dialogue with the international community.”

At the news conference, Sheikh Hamad was asked whether the findings of a US intelligence report meant the crisis over Iran’s nuclear work was over. “We don’t have information apart from what we have from the (International) Atomic Energy Agency and our brothers in Iran that this program is peaceful and we hope the program is peaceful,” he said.

The communique said GCC leaders were waiting for “positive steps” to follow a recent Middle East peace conference in the United States aimed at jumpstarting Israeli-Palestinian negotiations.

Qatari Emir Sheikh Hamad opened the two-day gathering urging dialogue among the Gulf states and said the United Nations was the place to resolve regional disputes. “While we realize that the crises in the region have their reasons and backgrounds, and many of them are clear to us, we hope that all those who are concerned with regional and international issues reconsider their positions before it is too late,” said the emir.

Attiyah said the summit leaders decided to stick to a 2010 date to launch their single currency. “The leaders have decided to continue to work toward achieving the monetary union… and confirmed keeping the date of 2010,” he told reporters.

The decision was effectively made ahead of the summit, when GCC foreign and finance ministers decided to stick to the date despite worries over high inflation. Leaders also decided to keep pegging their currencies to the sliding dollar, and not follow Kuwait’s move in linking its dinar to a basket of currencies.

“Right now, the policy is to stick to the dollar … The GCC is concerned about the (weakening) dollar. No decision on the currency for the moment,” Sheikh Hamad said. The premier admitted that any talks on how to cope with the dollar’s decline would have been held in secret. “If they discussed something, we will not tell you…There is a market and you can’t scare the market,” he told reporters.

Kuwait broke ranks with the bloc by dropping its dollar peg in May, and Hamad noted that other countries could do the same.

“These are sovereign countries and can do as they wish,” he said.

Gulf currencies weakened against the dollar as expectations of a near-term change in exchange rate policy waned. The Saudi riyal hit a two-week low.

Gulf policymakers will meet again to try to agree on a common position regarding currencies, Bahrain’s foreign minister said. Asked whether there would be a change in currency regimes, Sheikh Khaled ibn Ahmed Al-Khalifa said: “We don’t have a decision yet; we are going to meet over it.”

Some analysts said a coordinated revaluation against the dollar by Gulf states, rather than more moves to currency basket pegs, could be the most likely compromise for the bloc.

The need to maintain dollar pegs has forced Gulf countries to cut interest rates in tandem with the Federal Reserve even though their economies are booming and inflation spiraling.

Kuwait said yesterday that annual inflation was 6.2 percent in September, the highest on record. Analysts said the rate would have been even higher had Kuwait not revalued its dinar.

The weakness of regional currencies is also stirring discontent among migrant workers who make up the bulk of the labor force in the GCC countries. After South Asian construction workers rioted in Dubai over savings lost due to the dollar's slide, UAE Central Bank Gov. Sultan Nasser Al-Suweidi said he was under growing social and economic pressure to drop the peg.

Since then, many analysts have suspected that the UAE would eventually change currency policy, with or without a consensus among other Gulf countries. Saudi Arabia, however, has strongly resisted pressure to drop the dollar peg.

"There is no change in the policy of the kingdom. And I think that applies to other Gulf states as well," Saudi Finance Minister Ibrahim Al-Assaf told Al-Arabiya channel, warning markets against betting on a change in exchange rate regimes.

"Rumors sometimes provoke those hungry for speculation but as was the case in the past, those who indulge in speculation always lose," the minister observed.

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