Arabic (& Asian) Currency Union Plans

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Possible Arabic & Asian Currency Unions

1) GCC
   (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates)
   ⇒ 2010

2) ASEAN + 3 (+ 4?)
   (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines,
    Singapore, Thailand, Vietnam + Japan, South Korea, and China (+ India?))
   ⇒ 2030 (???)
Milestones in the GCC Monetary Union & latest assessment of the Convergence Criteria

On June 9, 2008, the Governors’ Committee agreed on a draft text which will be submitted for approval to the GCC Finance and Economic Co-operation Committee on September 17. The final step will take place at the end of 2008 when the final document is signed by the Heads of States of the GCC at their annual Summit.

Source: Dubai International Financial Centre (August 2008): “An Assessment of the Progress towards GCC Monetary Union”
The Golf Cooperation Council (GCC) is a fairly small region dominated by Saudi Arabia.

**Nominal GDP 2007**
- United Arab Emirates: 23.9%
- Kuwait: 13.8%
- Bahrain: 2.4%
- Oman: 5.0%
- Qatar: 8.4%
- Saudi Arabia: 46.6%

**Population 2007**
- United Arab Emirates: 2.1%
- Kuwait: 9.1%
- Bahrain: 2.4%
- Oman: 7.1%
- Qatar: 2.6%
- Saudi Arabia: 66.8%

Source: International Monetary Fund, World Economic Outlook Database
GCC Countries dominate oil & gas markets

Geographic distribution of proven oil and gas reserves

Source: BP Statistical Review of World Energy June 2008
USD exchange rate peg requires a quasi USD interest rate peg

Kuwait gives up USD peg on 19 May 2007

Source: Datastream, Bloomberg, BHF-BANK
A weak currency & low interest rates lead to loose monetary conditions

Nominal Monetary Conditions Indices

\[
NMCI = -\alpha \left( 100 \left( \frac{w^t}{w^s} - 1 \right) \right) + (1 - \alpha) (i^t - i^s)
\]

w: Tradeweightd SAR / KWD
i: 3M Depo Rate
\alpha: 0.5
\bar{x}: Period Average

Source: Datastream, Bloomberg, BHF-BANK
Most GCC Countries seem to be overheating => external plus internal inflation pressure

Source: International Monetary Fund, World Economic Outlook Database, Bloomberg. * Latest available data or IMF estimates
It would make sense for the GCC Countries to include the oil price in a possible currency basket.
One chart on the Asian Monetary Unit (RIETI): Significant under- and overvaluation has to diminish before creating a common currency.

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