

Contagion is spreading

By David Marsh

The European debt crisis has claimed its latest victim -- not in Frankfurt, but a six-hour plane journey away from the headquarters of the European Central Bank.

The long-mooted plan to introduce a single currency for the states of the six-nation Gulf Cooperation Council has been put on hold. The reason: disruptive currents from the Mediterranean have washed through to the balmy waters of the Gulf.

Foreign ministers at a Gulf Cooperation Council meeting in Jeddah at the end of last month expressed caution about plans for a single currency -- at one stage envisaged as being implemented in 2010, then put back to 2015.

"There are a lot of lessons" to be drawn from euro area problems centred on countries like Greece and Spain, according to Kuwait's deputy premier and foreign minister, Sheikh Mohammed Sabah al Salim al Sabah, who chaired the meeting. The idea is now to bring about a "pause" in single currency enactment. Although Arab ministers say this stops short of a downright postponement, the outcome is more or less the same.

Kuwait has previously been one of the most enthusiastic proponents of the Middle East monetary plans, so signs of concern about Greece are certainly a sign of the internal and external hurdles now building up.

Yet Arab states' wish to digest the lesson of the upheavals in Europe before proceeding further with the single currency blueprint does have some positive side effects. It defuses, at least for the time being, divisions building up between the two biggest economies in the region, Saudi Arabia and the United Arab Emirates (UAE). The UAE withdrew from the project last year, following the earlier decision by Oman that it would not be ready to join a Gulf single currency.

Although much attention has been drawn to the UAE's hostility to the Saudi desire to place the GCC central bank in Riyadh, opposition from the Emirates seems to run much deeper than that. UAE officials echo traditional German views during the long years of preparation for economic and monetary union in Europe. They say that rushing ahead with a single currency before harmonization of economies, greater trade integration and preparation of adequate statistical material in areas like inflation amounts to putting the cart before the horse.

Sheikh Mohammed appears to have taken such concerns on board, announcing after last month's meeting that all six GCC countries agreed on a set of policies focused on greater integration of Gulf economies. The ministers formed a committee to implement an economic treaty in fields such as integration of stock markets, and unification of financial policies. Despite disparities in growth -- according to IMF projections, Saudi Arabia will show GDP growth of 3.7% this year, against 1.3% for the UAE, 3.1% for Kuwait, 18% for Qatar, 4.7% for Oman, and 3.5% for Bahrain -- GCC economies show greater underlying convergence than those in Europe. In particular, the dollar peg for Gulf currencies is a powerful unifying force.

In terms of economic structure, there is much divergence -- but some broad similarity, too, with European patterns. Saudi Arabia makes up 43% of GCC GDP and has 20 times the economic weight of the smallest economy, Bahrain. But such disparities are also a feature of the euro, where Germany makes up 30% of the GDP of the top six EMU states (and 26% of the 16-member region).

Germany's economy is 400 times larger than the smallest, Malta, and is 25 times larger than the combined total of the bottom four euro economies (Slovenia, Luxembourg, Cyprus and Malta). The richest GCC state measured by GDP per capita, Qatar, is five times wealthier than the poorest, Saudi Arabia, while the wealthiest euro state, Luxembourg, has six times the GDP per capita of the Slovak republic.

Middle East ministers' minds have recently been concentrated on the strains besetting the euro, underlining what can go wrong when economic disparities increase across a fixed rate system - and the limits on political solidarity.

In the case of Europe, even democratically-elected leaders of states that have been economically and politically bound together since the 1950s have been having second thoughts on whether they really have the cohesion to weather the pressures of monetary union.

How much greater must be the doubts and soul-searching among non-elected rulers of Arab states still bound together more by traditional tribal and family loyalties than any overriding political ties.