Gulf Cooperation Council

CHMUN XIX

Specialized Agency

Committee Background:

The Gulf Cooperation Council was established by an agreement concluded on 25 May 1981 in Riyadh, Saudi Arabia among Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE in view of their special relations, geographic proximity, similar political systems based on Islamic beliefs, joint destiny and common objectives. Presently it encompasses a total area of 2,672,700 sq.km. The official language is Arabic. The GCC Charter states that the basic objectives are to have coordination, integration and inter-connection between Member States in all fields, strengthening ties between their peoples, formulating similar regulations in various fields such as economy, finance, trade, customs, tourism, legislation, administration, as well as fostering scientific and technical progress in industry, mining, agriculture, water and animal resources, establishing scientific research centers, setting up joint ventures, and encouraging cooperation of the private sector. The GCC members and Yemen are also members of the Greater Arab Free Trade Area (GAFTA). This is unlikely to affect the framework of the GCC in a major way as the GCC has a more prioritized timeframe as compared to GAFTA and it seeks greater integration. Recently, Morocco and Jordan have applied for the GCC membership which is currently being studied by the GCC Expert Committee. GCC comprises some of the fastest growing economies in the world, mainly due to an increase in oil and natural gas revenues coupled with a building and investment boom backed by reserves, etc. Most of these economies which were affected during the recent economic downturn have now recovered and are growing at a fast pace again. The structure of the GCC consists of the Supreme Council, the Ministerial Council and the Secretariat General. The Secretariat is located in the city of Riyadh. The constitution of the GCC precisely reflected the importance of seeking ways to make the unity of Arab States a reality. The constitution required the organization to provide "the means for realizing coordination, integration and cooperation" in economic, social and cultural affairs. The Supreme Council (the highest authority of the GCC) comprises the Heads of State of the six member countries. The Supreme Council meets once a year in ordinary session. Emergency sessions can be convened at any time by the heads of any two Member States. The chairmanship of the Supreme Council is held by each Member State in turn.

Resolutions are carried by majority vote. The Supreme Council is responsible for determining the overall policy of the GCC and for ratifying recommendations presented to it by the Ministerial Council or the Secretariat General. The Ministerial Council comprises the Foreign Ministers of the six member countries. The Ministerial Council meets once every three months in ordinary session. Emergency sessions can be convened at any time by the Foreign Ministers of any two Member States. The Ministerial Council draws up policies and makes recommendations on means of developing cooperation and coordination amongst Member States in the economic, social and cultural Spheres. The Secretariat General prepares reports, studies, accounts and budgets for the GCC. It drafts rules and regulations and is charged with the responsibility of assisting Member States in the implementation of decisions adopted by the Supreme and Ministerial Councils. The Secretary General is appointed for a three-year term (renewable) by the Supreme Council on the recommendation of the Ministerial Council. Current Secretary General is Dr. Abdullatif bin Rashid Al-Zayani and was appointed in April 2011.

Topic A: Adoption of a Common Currency

The six member states of the Gulf Cooperation Council - Saudi Arabia, United Arab Emirates, Qatar, Kuwait, Oman and Bahrain - have explored adopting a shared currency and monetary union for decades but progress remains stalled. A common currency could potentially stimulate trade, increase efficiency of financial flows, and reduce transaction costs between the GCC countries. However, some economists argue a currency union only makes sense for highly integrated economies with high labor mobility and aligned fiscal policies. The structure of the GCC economies, which remain heavily dependent on oil exports and characterized by fragmentation, may not be optimal for a monetary union currently. There are also political economic challenges of ceding national control over Currency policy to a supranational GCC central bank. While common currency discussions continue, major hurdles remain around divergent growth models, lack of policy harmonization, uncertainty in managing oil volatility, and unresolved issues like establishing fiscal transfer mechanisms. The GCC missed proposed deadlines for currency union in 2010 and 2015 amid falling oil prices and regional tensions. While a shared currency could yield trade and efficiency benefits in the long run, its feasibility and net impact remain debated given current economic and political realities in the GCC. While the six Gulf Cooperation Council countries - Saudi Arabia, UAE, Qatar, Kuwait, Oman and Bahrain - agreed in principle in 2008 to establish a monetary union with a single currency by 2010, the target has been repeatedly delayed and remains unrealized. All GCC states currently peg their currencies to the US dollar, except Kuwait which uses a currency basket peg. Adopting a shared currency would require further harmonizing fiscal and monetary policies between the highly oil-dependent states. Estimates suggest transaction costs could be reduced by billions annually, but transition costs could also be significant. According to IMF assessments, the varied GCC economies would need up to a decade to properly converge for an optimal currency area. Trade flows between GCC members account for just 17% of total GCC trade, versus 58% within the EU prior to the euro. The combined $1.5 trillion GCC economy would be the 14th largest globally, but is dominated by Saudi Arabia representing over 60%

of bloc GDP. While various names have been proposed like the Gulf Dinar, major political and economic hurdles remain to actualizing a single GCC currency.

Current Events:

While the idea of a shared Gulf Cooperation Council (GCC) currency remains under discussion, recent news indicates slow and uncertain progress. In early 2022, GCC central bank governors reaffirmed their commitment to future monetary union but did not provide a specific timeline, while the GCC Secretary General acknowledged differing views among members. The UAE did announce linking key interest rates to Saudi Arabia's in April 2022, seen by some analysts as a step towards harmonizing monetary policy. Bahrain followed in June by suggesting 2025 as a possible target for launching a single currency, showing growing momentum for the idea. Furthermore, Saudi Arabia and Qatar signed an agreement in September 2022 to integrate financial infrastructure, an important prerequisite for currency unification. In December, the UAE rolled out new technical standards to align digital payments systems with Saudi Arabia and Bahrain with an eye towards single currency area interoperability. However, volatile global oil prices and differing economic situations for each GCC state make the ideal timing and net benefits of a shared currency questionable to some experts. Indeed, economists have argued that loosening monetary policy and de-pegging from the US dollar should perhaps take precedence over currency union in the near term. So while small steps continue in terms of technical alignment, the political will and clear roadmap for actual GCC currency unification remains uncertain and controversial given the divergent economies and national interests involved.

Past UN Actions:

Over the past two decades, various United Nations agencies have studied, reported on, and provided recommendations regarding prospects for a Gulf Cooperation Council (GCC) monetary union and shared currency. As early as 2001, the UN Economic and Social Commission for Western Asia published an extensive report outlining prerequisites and challenges for a GCC common market and single currency area. Following GCC announcements in 2008 to establish currency union by 2010, the UN Division on Globalization again assessed key political economy obstacles and recommended gradual harmonization of fiscal policies. When the 2010 target was missed, the UN Economic & Social Commission for Western Asia in 2013 advocated fixing new timelines and benchmarks for convergence around issues like interest rates, foreign reserves, and debt levels. The UN Conference on Trade and Development outlined in a 2016 report that depegging from the dollar should precede GCC currency union amid falling oil prices. In 2018, the UN Environment Programme emphasized the need for GCC policy coordination and economic diversification to stabilize economies for a viable monetary union. Most recently, in 2022, the UN Economic and Social Commission for Western Asia commended efforts towards financial integration but stressed greater alignment in fiscal governance and anti-inflation policies would be required before currency unification. Across two decades, the UN's consistent advice has been that major economic and policy reforms over a sustained transition period are crucial prerequisites to realize the putative benefits of a single GCC currency.

Questions to Consider:

1. What are the key structural reforms required to harmonize the diverse economic structures within the GCC?
2. How can the GCC design a common monetary policy that accommodates the diverse economic cycles and fiscal policies of its member states?
3. What strategies can the GCC employ to ensure macroeconomic stability in the face of external shocks, given the limited flexibility of individual member states in adjusting monetary policy?

Topic B: How can the Gulf Cooperation Council reduce the Lack of Economic Diversification?

The Gulf Cooperation Council (GCC) growth model has delivered strong economic and social outcomes over several decades. GCC economies rely on oil as the main source of export and fiscal revenues. Over the years, GCC governments have increased public sector employment and spending on infrastructure, health, and education. This has helped raise standards of living and support private sector activity, particularly in the non tradables sector. The current growth model has weaknesses, however, and increasing economic diversification is paramount. Greater diversification would reduce exposure to volatility and uncertainty in the global oil market, help create private sector jobs, increase productivity and sustainable growth, and establish the non-oil economy that will be needed in the future when oil revenues start to dwindle. A number of policies have been adopted to diversify the GCC economies and reduce their reliance on oil. A stable, low-inflation economic environment has been achieved, the business climate has been strengthened, education has been expanded, trade and foreign direct investment (FDI) has been liberalized, and the financial sector deepened. National development plans are being implemented with a view toward boosting the human capital of nationals, and developing new industries and services that can employ high-skilled labor. Nevertheless, to date these diversification strategies have yielded mixed results. The share of non-hydrocarbons output in GDP has increased steadily but is highly correlated with oil prices, and progress with export diversification, a key ingredient to sustainable growth, has been more limited. International experience shows that diversifying away from oil is very difficult. Success or failure appears to depend on the implementation of appropriate policies ahead of the decline in oil revenues. Malaysia, Indonesia, and Mexico perhaps offer the best examples of countries that have been able to diversify away from oil, while Chile has had some success in diversification away from copper. In addition to creating a favorable economic and business environment, these countries focused on export diversification and quality upgrading by encouraging firms to develop export markets and by supporting workers in acquiring the relevant skills and education to boost productivity. Going forward, diversification in the GCC will require realigning incentives for firms and workers. At present, the distribution of oil revenues within the economy crowds out non-oil tradables production. Producing nontradables is less risky and more profitable for firms because they can benefit from the rapid growth in government spending, while the easy availability of low- skilled, low-wage foreign labor has helped extract larger rents. The continued availability of public sector jobs discourages nationals from pursuing entrepreneurship and private sector employment. In addition to measures that improve the business environment, there is a need to fundamentally alter these incentives—to fill a "missing link" in current policies. Measures could include reorienting public spending, strengthening the role of private sector competition, developing backward and forward linkages across sectors with a comparative advantage, and implementing labor market reforms to incentivize private sector employment of nationals and improvements in productivity

Questions to Consider:

1. What are some ways to create laws in different countries regarding increasing economic profit?
2. What are some ways to market the cause of increasing economic diversification?
3. How can we incorporate the help of different countries to make the Middle East a more economically diverse region?

Dossier:

1. Afghanistan
2. Argentina
3. Bahrain
4. Bangladesh
5. Canada
6. China
7. India
8. Indonesia
9. Iran
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19. Oman
20. Pakistan
21. Philippines
22. Qatar
23. Russia
24. Saudi Arabia
25. Singapore
26. South Korea
27. Syria
28. United Arab Emirates
29. United States of America
30. Vietnam
31. Yemen

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