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“The Power of Regional Economic Integration”

The past five years have seen the beginnings of an economic and financial renaissance emerging in the GCC with strong growth and structural change based on increased investment. The GCC countries are investing in both national and trans-national regional, massive, infrastructure projects with private sector participation. Eventually, a pan-GCC integrated network is emerging of transport, communications, energy, telecommunications, and a broadband backbone to provide the “info-structure” for an entry of the GCC economies and societies into the digital age and become ‘knowledge economies’. This Trans-GCC infrastructure network can and should be integrated in two strategic directions. One direction is towards the EU and the Trans European network. The second towards Asia to provide China, ASEAN, and Japan with access to the region’s energy supplies. These networks will support strong growth of both trade in goods and services and international integration and openness.

However, this vision requires the development of financial markets. The GCC countries need to prioritize the development of the capital markets, set the basis for their integration, and integrate their payment systems, to establish the payments infrastructure for a common GCC exchange rate and common currency. The recent rapid growth of the equity markets and emergence of regional financial centres and specialised exchanges in the GCC underscores the need to build a robust and secure, world-class payment infrastructure to ensure the future growth and stability of financial systems around the region. A sound and efficient, integrated payment and securities settlement system for the GCC is an essential building block of its financial markets and should be an integral component of a common market and currency. An integrated payment system compliant with international standards will also promote deeper integration of the region with other economic blocks and financial markets of Europe, the US and Asia.

The global trend for payment systems is to integrate and consolidate payment processes across borders such as the case in the European Union, facilitating the development of cross-border trading, transacting, and capital movements, thus contributing to economic and financial expansion.

Given the structural similarities and inter-linkages existing between the GCC countries, the need for such a unified settlement payment system is becoming apparent, especially in light of the declared policy of GCC monetary union and currency unification.

The strategic objective should be for the GCC common currency to emerge as a global currency, alongside the US\$, Euro, Yen and the emerging Chinese Yuan. A strong GCC common currency can become the currency anchor for the economies of Central Asia and MENA. By 2025, we forecast that the GCC bloc can become the fifth or sixth largest economic bloc in the global economy, with an even larger share of global assets. With international integration the GCC, with its accumulated international reserves and rapidly growing financial wealth, will become a global financial and economic power to match its natural resource wealth.

The Heads of State of the GCC have given a strong impulse to GCC regional economic integration by confirming the January 2008 start of Common Market. The resulting breakdown of barriers to trade, physical and financial investment, and the movement of people in the GCC can be the seed and gradually lead to an Arab awakening, an Arab economic and financial renaissance. This awakening can create a market with over three hundred and twenty million consumers and producers, and can allow producers and consumers the benefits of economies of scale and scope through increased diversification of economic activity, leading to sustained economic growth and development and improvement in socio-economic conditions, and to a reduction of unemployment and poverty.

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