

New Political Economy >
Volume 13, 2008 - Issue 3

982 Views | 31 CrossRef citations to date | 4 Altmetric

Articles

Gulf Cooperation Council Oil Exporters and the Future of the Dollar

Bessma Momani

Pages 293-314 | Published online: 11 Sep 2008

🗨️ Cite this article <https://doi.org/10.1080/13563460802302594>

Sample our
Politics & International
Relations Journals

>> **Sign in here** to start your access
to the latest two volumes for 14 days

📄 Full Article

📊 Figures & data

🗨️ Citations

📊 Metrics

📄 Reprints & Permissions

Read this article

We Care About Your Privacy

We and our 843 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

I Accept

Essential Only

Show Purpose



Gulf Cooperation Council Oil Exporters and the Future of the Dollar

BESSMA MOMANI

Since the mid-1970s, the value of the United States' dollar has been upheld by a number of domestic and international factors. An often underestimated factor is that oil is sold and traded in US dollars. Arguably, having the dollar used as the 'main invoice currency' for oil makes the trade of this vital resource the new post-Bretton Woods' Fort Knox guarantee of the dollar.¹ The world's continued confidence in dollar-denominated and US government debt is further supported by the use of petrodollars in oil trade and petrodollar recycling in the global financial system. It is argued that states have partial faith in the value of the dollar because the world's lifeline of fuel and production is purchased and sold using petrodollars. After all, whether measured by value or volume, oil is the most traded good around the world. Consider that, in 2006, the world spent US\$5.5 billion per day buying crude oil.² In effect, the world's oil-consuming states sustain a continued and diversified demand for dollars.

The Gulf Cooperation Council's (GCC) members – Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates (UAE) and Saudi Arabia – have the largest proven oil reserves in the world and are among the world's largest oil-exporting states (see Table 1). The GCC has historically supported oil pricing in dollars and helped to reassert the strength of the dollar in the post-Bretton Woods era. Over many years, the Gulf states have accumulated large dollar-based foreign exchange reserves. They have also recycled their petrodollar wealth through purchasing US debt and securities, which kept the US dollar less vulnerable to fiscal and inflationary pressures. As oil exporters continued to accumulate dollars in their reserves and recycle their petrodollars into dollar-based securities, they would have less interest in switching the dollar-based invoicing of oil trade and also have less interest in diversifying their official reserves with non-dollars.

With record high oil prices since 2004, the GCC oil exporters have been experi-



I would like to thank Andrew Baker, Eric Helleiner, Jonathan Kirchner, Hubert Zimmerman, Paul Bowles and the anonymous reviewers for their comments on earlier drafts.

See Ronald I. McKinnon, 'The Euro Threat is Exaggerated', *The International Economy*, Vol.12, No. 60 (1998), pp. 32-3.

Ed Blanche, 'Iran takes on US but at what cost?', *The Middle East*, March 2006, p. 23.

International Institute for Finance, *Regional Briefing Gulf Cooperation Council*, 31 May 2007, <http://iif.com/emr/emr-af>

See Louise Story, 'An Oracle of Oil Predicts \$200-a-Barrel Crude', *The New York Times*, 21 May 2008.

IMF, *Regional Economic Outlook: Middle East and Central Asia* (International Monetary Fund, 2008), p. 44.

<http://www.imf.org/external/pubs/ft/reo/2008/MCD/eng/mreo0508.pdf>

IMF, *Regional Economic Outlook*, 2008, p. 61.

International Institute for Finance, *Regional Briefing Gulf Cooperation Council*.

George Magnus, 'Petrodollars: Where are they and do they matter?', *UBS Investment Research*, 19 July 2006, p. 5.

Siddiqi Moin, 'Gulf Cooperation Council Goes for Growth', *The Middle East*, 1 December 2006.

McKinsey, *Global Equity and Private Equity*, and *Private Equity*, October 2007, <http://www.mckinsey.com>

International Institute for Finance, *Regional Briefing Gulf Cooperation Council*, 31 May 2007, p. 23. 5/153, IMF, 2008, p. 44.

Eric Helleiner, *The US Dollar and the World*, pp. 354-78.



See Danske Bank, 'Will the decline in USD become disorderly?', FX Crossroads, 14 November 2007.

The IMF has also argued that the high oil prices cannot be explained by the 'fundamentals' and points to market speculators as a key factor in higher prices. See IMF, Regional Economic Outlook, p. 27.

Musa Essayad & Ibrahim Algahtani, 'Policy Issues Related to Substitution of the US Dollar in Oil Pricing', International Journal of Global Energy Issues, Vol. 23, No. 1 (2005), p. 75.

Government Accounting Office (GAO), The US-Saudi Arabian Joint Commission on Economic Cooperation', GAO, ID 79-7, 22 March 1979.

Edward Morse, 'A New Political Economy of Oil?', Journal of International Affairs, Vol. 53, No. 1 (1999), p. 4.

David E. Spiro, The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets (Cornell University Press, 1999), pp. 105-26.

Musa Essayad & Donald Marx, 'OPEC and optimal currency portfolios', Oil, Gas, and Energy Quarterly, Vol. 49, No. 2 (2001), pp. 363-84. See also Oystein Noreng, 'Oil, the Euro, and the Dollar', Journal of Energy and Development Vol. 30, No.1 (2004), pp. 53-80.

See Bessma Momani, 'Reacting to Global Forces: Economic and Political Integration of the GCC', International Journal of Global Energy Issues, Vol. 23, No. 1 (2005), pp. 46-66.

Oystein Noreng, 'Oil, the Euro, and the Dollar', Journal of Energy and Development Vol. 30, No.1 (2004), pp. 53-80.

Gregory D. Sisk, 'The United States and the Gulf States', International Journal of Global Energy Issues, Vol. 23, No. 1 (2005), pp. 67-78.

Simon B. Willmet, 'The United States and the Gulf States', International Journal of Global Energy Issues, Vol. 23, No. 1 (2005), pp. 79-90.

Essayad



Essayad & Algahtani, 'Policy Issues Related to Substitution of the US Dollar in Oil Pricing', p. 72.

See Noreng, 'Oil, the Euro, and the Dollar'.

Benjamin Cohen, 'The Geopolitics of Currencies and the Future of the International System', Paper prepared for a conference on The Geopolitics of Currencies and Oil, Madrid, 7 November 2003, pp. 18-9.

Russian President Putin first alluded to the idea of using petroeuros instead of petrodollars in 1999 during an EU meeting in Helsinki, and again in a news conference with the German Chancellor in Yekaternburg in 2003. In the later meeting, Putin remarked: 'We do not rule out that it [petroeuro] is possible. That would be interesting for our European partners ... but this does not depend solely on us. We do not want to hurt prices on the market.' Quoted from Catherine Belton, 'Putin: Why not price oil in Euro?,' Moscow Times, 10 October 2003, p. 1.

William Clark, Petrodollar Warfare: Oil, Iraq and the Future of the Dollar (New Society Publishers, 2005), p. 31.

As US rationales for war in Iraq have continued to be exposed for naught - weapons of mass destruction, Iraqi connection to 9/11, spreading democratisation in the Middle East - radical critics have charged that the real motivation behind the war in Iraq was to prevent other OPEC members from also selling oil in euros. See Clark, Petrodollar Warfare, p. 31.

'Iran Enc...

Gause, '...ted States', pp. 17-8

Morse, '...

Kam...rd S. Katz (eds), ...

Morse, '...

Elitza Mi...the Choice of Curren...nk, 2007.



See Katherine Stephan, 'Oil Companies and the International Oil Market', in Svetlana Tsalik & Anya Schiffrin (eds), *Covering Oil: A Reporter's Guide to Energy and Development* (Open Society Institute, 2005), pp. 47-60.

Robert Looney, 'A Euro-Denominated Oil Bourse in Iran: Potential Major Force In International System?', Gulf Research Centre, Dubai, 2006, p. 8; Noreng, 'Oil, the Euro, and the Dollar', p. 40.

Javad Yarjani, Head of the Petroleum Market Analysis Department, OPEC, 'The Choice of Currency for the Denomination of the Oil Bill', Speech given at Oviedo, Spain at a meeting on The International Role of the Euro, convened by the Spanish Minister of Economic Affairs, 14 April 2002.

Mark Irvine, 'Long Shot: The prospects for a Conversion to Euro Pricing in Oil Markets', *Elements*, Vol. 1, No. 1 (2005), pp. 63-8.

Mark Irvine, 'Long Shot'.

Yarjani, 'The Choice of Currency for the Denomination of the Oil Bill'.

Iran has already started to trade oil in euros in bilateral contracts with the EU and has a US\$70 billion gas deal with China (the second largest oil consumer), but pricing remained set in US dollars. In December 2006, Iran also announced that its Central Bank would replace all dollar assets and future foreign transactions with euros.

Looney, 'A Euro-Denominated Oil Bourse in Iran?', p. 8.

Ibid., p.

It should be noted that the use of state-owned oil companies as bargaining chips are more vulnerable to price fluctuations can lead to steep increases in oil prices.

Irvine, 'L

Spiro, Th

Spiro, Th



Government Accounting Office (GAO), 'Are OPEC Financial Holdings A Danger to the US Banks or the Economy?', GAO, ID 79-45, 11 June 1979.

See Looney, A Euro-Denominated Oil Bourse in Iran, p. 8.

See GAO, The US-Saudi Arabian Joint Commission on Economic Cooperation.

Ibid., p. 36.

Ibid., p. 48.

See 'Saudi Arabia: Current Issues and U.S. Relations', Congressional Research Service, Library of Congress, 2006.

Don De Marino, 'How Can the U.S. Reopen For Business To The Arab World?', Middle East Policy, Vol. 13, No. 2 (2006).

Heather Timmons, 'Asia finding rich partners in Mideast', The New York Times, 1 December 2006.

Lawrence Summers, 'Funds that shake capitalist logic', The Financial Times, 29 July 2007.

See Henry Paulson, 'Paulson Remarks On Open Investment Before the US-UAE Business Council', US Department of Treasury, 2 June 2008,

<http://www.ustreas.gov/press/releases/hp1001.htm>

'The Petrodollar Puzzle' The Economist 9 June 2007 p. 86

Moin, 'G

Christiar

Adjustm

Economi

See

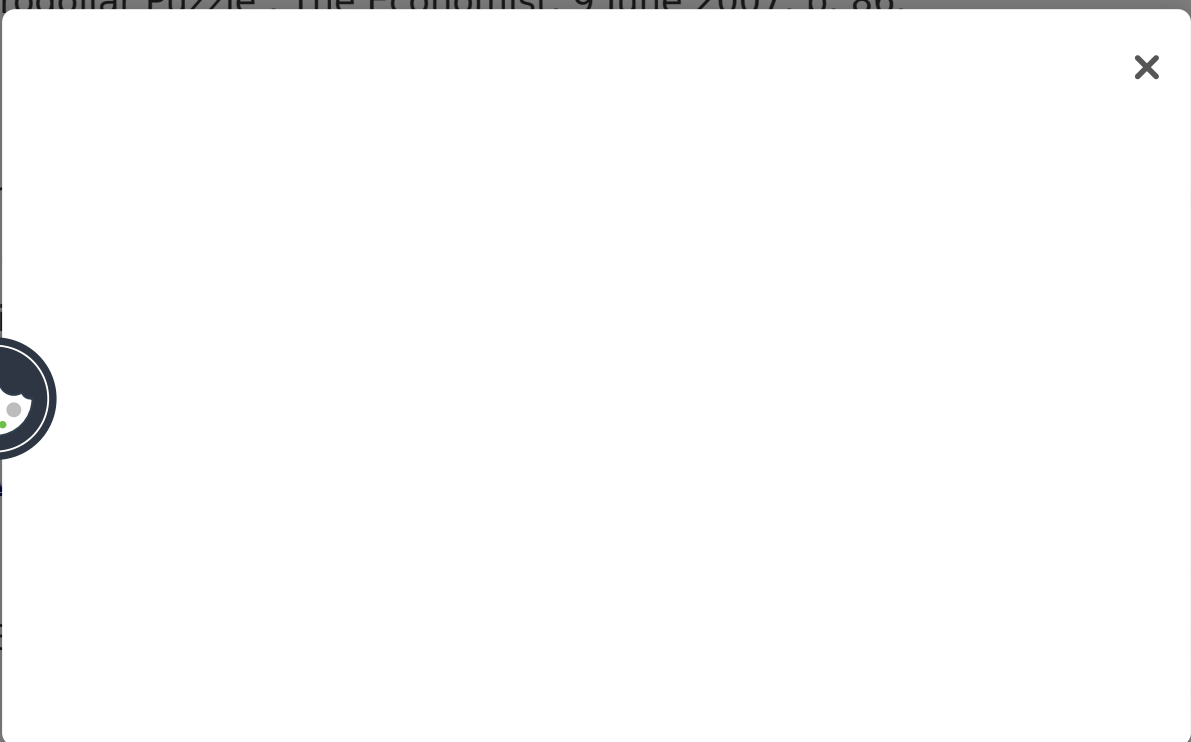
<http://w>

See And

Middle E

Embedd

Annual Conference, San Francisco, 26-29 March 2008.



See Matteo Legrenzi, 'Did the GCC Make a Difference? Institutional Realities and (Un)Intended Consequences', in Cilja Harders & Matteo Legrenzi (eds), *Beyond Regionalism? Regional Cooperation, Regionalism and Regionalization in the Middle East* (Ashgate, 2008), pp. 107-24.

IMF, *Regional Economic Outlook*, p. 8.

Moin, 'Gulf Cooperation Council Goes for Growth'.

Economics Intelligent Unit (EIU), 'Near East meets Far East: the rise of Gulf investment in Asia', September 2007.

Ibid., p. 5.

Ibid., p. 7.

Ramin Toloui, 'Petrodollars, Asset Prices, and the Global Financial System' *Capital Perspectives*, PIMCO, January 2007, p. 6.

Institute of International Finance, 'Regional Briefing Gulf Cooperation Council', p. 4.

Ibid., p. 4.

Ugo Fasano & Zubair Iqbal, 'Common Currency', *Finance and Development*, Vol. 39, No. 4 (2002), pp. 1-7, are optimistic that with added institutionalisation, like the creation of a regional central bank, the GCC's currency unification should produce positive results. For GCC currency unification to succeed, as some economists have argued, the GCC

needs to... es, and
have a f... Currency,'
Middle E...

See Bra... onomies',
Policy Br...

Kuwa... the dollar
in prepa... currency in
2007.

'The Dol

IMF, Reg



Jeffrey Frankel, 'A Proposed Monetary Regime for Small Commodity Exporters: Peg to the Export Price', *International Finance*, Vol. 6, No. 1 (March 2003), pp. 61-88.

See 'UAE Rejects calls to drop the dollar', *Khaleej Times*, 29 February 2008.

See 'Countdown to lift-off', *The Economist*, 22 November 2007.

Outside the GCC, moreover, Syria also announced that it would use euros in government transactions as opposed to dollars and a number of other Middle East central banks hinted of adopting similar policies in reaction to the failed ports deal. See Philip Thornton, 'Arab central banks move assets out of dollar', *The Independent*, 14 March 2006.

Veronica Brown, 'DIFC CEO sees more Gulf FX moves away from dollar', *Reuters*, 25 March 2007.

See Sester, 'The Case for Exchange Rate Flexibility in Oil-Exporting Economies'; Gerard Lyons, 'Middle East must loosen ties to the dollar,' *The Financial Times*, 6 December 2007.

The name for the proposed currency has yet to be decided upon. Some media reports have referred to it as the Khaleej Dinar, although this will be a contested term.

'Regional Currency Areas and the use of Foreign Currencies', *BIS Papers*, No. 17 (2003), available at <http://www.bis.org/publ/bppdf/bispap17.pdf>

Emilie Rutledge, 'Gulf Monetary Union is a cracking project?', *Gulf News*, 16 December 2006; see also [this link](#) to Global

Adjustm

Gaurav G. Gopinath, 'The Gulf Monetary Union: A New Chapter in the History of the Middle East'; see also

Rutledge

Mohamed El-Agiza, 'The Gulf Monetary Union: A New Chapter in the History of the Middle East', *Gulf News*, 16 December

2007.

Andrew Ross, 'UAE Rejects calls to drop the dollar', *Khaleej Times*, 29 February 2008.

Simeon D. Dar, 'The Gulf Monetary Union: A New Chapter in the History of the Middle East', *Gulf News*, 16 January

2008.



Noreng, 'Oil, the Euro, and the Dollar'.

Henner Furtig, 'GCC-EU Political Cooperation: Myth or Reality?', *British Journal of Middle Eastern Studies*, Vol. 31, No. 1 (2004), p. 30.

Furtig, 'GCC-EU Political Cooperation', p. 30.

Bessma Momani, 'A Middle East Free Trade Area: Economic Interdependence and Peace Considered', *The World Economy*, Vol. 30, No. 11 (2007), pp. 1682-700.

Bessma Momani, 'Reacting to Global Forces: Economic and Political Integration of the GCC', *Journal of the Gulf and Arabian Peninsula Studies*, Vol. 38, No. 128 (2008), pp. 46-66.

Agata Antkiewicz & Bessma Momani, 'Pursuing Geopolitical Stability through Interregional Trade: The EU's Motives for Negotiating with the Gulf Cooperation Council (GCC)', CIGI Working Paper 31, Centre for International Governance and Innovation, 2007.

Daniel Hanna, 'A New Fiscal Framework for GCC Countries Ahead of Monetary Union', *International Economics Programme*, Vol. 6, No. 2 (2006), p. 7.

See Marc O'Reilly & Wesley Renfro, 'Evolving Empire: America's 'Emirates' Strategy in the Persian Gulf', *International Studies Perspectives*, Vol. 8, No. 2 (2007), pp. 137-51.

Furtig, 'GCC-EU Political Cooperation', p. 30.

Eckart W... h Centre,
Dubai, 2

Relat



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



✕