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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 experiencing impressive economic growth. For example, GCC oil earnings averaged US$146 billion per year in the 1997–2002 period, which more than doubled to US$327 billion per year in the 2002–06 period.[3] Oil prices have risen from US$20 per barrel in 2001, to US$60 per barrel in 2006 and US$130 per barrel in mid-2008. If Goldman Sachs analysts' predictions of US$200 per barrel by

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Notes

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