Arab Monetary Fund Formed; Seen As Opposition To Dollar, IMF

An Arab Monetary Fund was established by the Arab Gulf States April 15, just ten days before the scheduled meeting of the International Monetary Fund in Washington. The political significance of the new Arab Fund was underlined by Saudi Arabia's simultaneous announcement that it has dropped its longstanding opposition to the forming of the AMF to become the Fund's biggest contributor. The second largest contributor is aggressively anti-IMF Algeria.

Headquartered in the United Arab Emirates, the AMF has a capital of $875 million and has 21 Arab states — including the Palestine Liberation Organization — as its members. It was immediately recognized by international financiers as an opposition body to the International Monetary Fund and the New York banks that determine IMF policy.

Informed sources say that Britain, West Germany, and the Soviet Union are watching the Arabs' moves closely and are ready to support this new development, an assessment that coheres closely with discussions now going on in certain European banking and industrialist circles regarding a new international monetary system outside the dollar sphere.

Saudi Arabia has also refused to cooperate with IMF managing director Johannes Witteveen's demand that the Saudis contribute $5 billion to the IMF treasury, funds the IMF desperately needs to prevent the total collapse of the private dollar banking system. As *Business Week* reported April 18, this shift by the IMF's one-time traditional allies shows the Gulf State Arab bankers' determination "to stake out a place for themselves in international finance" and no longer be the "passive suppliers of recycled money to the private banks of the West."

At the beginning of this year four Gulf states — Bahrain, Qatar, the United Arab Emirates, and Kuwait — under the direction of Kuwaiti bankers, announced their decision to unite their currencies in the "Gulf Dinar." This represented the precondition for the creation of the long-discussed "Arab Dinar," and, further, the willingness of Middle East bankers to shape a new regional money market where Arab dinar bonds can be issued to foreign governments for a variety of development projects. The Arabs are demanding "a greater say in how their money is spent," *Business Week* noted, despite tremendous U.S. pressure on them to provide bailout funds to the Third World so that Chase Manhattan Bank, Citibank, and other New York banks can collect on their wildly overextended Third World loans. *Business Week* adds that the Arabs remember how they "got burned in overseas investments in U.S. dollars and British sterling, when these supposedly hard currencies were devalued again and again."

Although the AMF is still in the beginning phase, "it cannot be refuted that the background to this project is political," Arab economist Omar Ismail wrote of "The future role of the proposed AMF" in *Euromoney;* it is a way for the Arab states to protect their economic interests.

Three Years of Organizing

Behind the formation of the AMF and the Arab dinar are years of organizing efforts by the governments of Kuwait and Iraq to develop the preconditions for a non-dollar new world economic order. Under pressure from its secretary-general, Iraq's Abdel-Al-Sakban, the Cairo-based Arab Economic Unity Council prepared the 1974 study for creation of the AMF. The same pressure led the Council to call for an expanded meeting of the governors of the Arab central banks to discuss the AMF plan, which was held in Baghdad in April 1974 and continued in Casblanca the following November.

At those meetings Saudi Arabia, bowing to demands from the United States and the IMF, refused to adopt the Kuwaitis' proposals to establish an AMF and base it on a unified Arab dinar based on gold. The IMF's Mideast Department has revealed that the Saudi governor was advised by IMF "technicians" to insist instead that the Arab financiers adopt the IMF's "funny money" Special Drawing Rights as the unit under which the AMF would operate. In the middle of 1975 the Kuwaiti Finance Ministry offered a compromise: an Arab dinar based on a "basket" of all Gulf currencies. But the Saudis refused this proposal as well.

The result was that the four Gulf states mentioned above agreed to form the Gulf International Bank, for investment in development projects inside the Arab world and for the working out of a formula to unite their currencies. This was the precursor of the just-formed AMF.

Thus the AMF is the result of the efforts of Kuwaiti and Iraqi financiers begun almost three years ago. It is being received very favorably by European governments, who, *Business Week* says, are considering applications for loans denominated in the Arab dinar, loans which carry lower interest rates than those being offered in Eurodollars.