The politics of integration across sovereign boundaries can be precarious, even fickle, as Brexit illustrates.

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The politics of integration across sovereign boundaries can be precarious, even fickle, as the British referendum to leave the European Union on June 23 illustrated. For the Gulf Cooperation Council, this should be a teachable moment. It is instructive to the GCC in that the EU has actually been very successful at incorporating policy variance and creating procedures for gradual policy convergence. The GCC seeks monetary policy convergence, free trade, and labor movement, as well as a shared security strategy and defense capability. If the EU is its model, there are some important lessons to be learned from last week's referendum. Within the GCC, member states share many of the policy objectives, as well as points of contention, that animated debate within the United Kingdom before the vote. Immigration and foreign labor, national identity projects, rising income inequality, and disparity in credit and debt within the Gulf all will be obstacles to further regional integration. At this time when Gulf states are increasingly interested in deepening their integration in global financial markets and trade partnerships, the stakes will be high should the European model start to unravel.

Since the Maastricht treaty of 1992, there has been a global norm set for rule-based collective economic governance. Shared monetary policy can be especially difficult on poorer members, as they cannot devalue their currencies to make exports cheaper. But the EU found solutions for gradual currency adoption and parallel systems, as the pound coexisted with the euro nearly two decades, while many former Soviet bloc states found the accession process amenable (though difficult) to gradual monetary policy convergence. Much of the tension and delay in a common GCC monetary policy comes from disputes over the physical location of a shared Gulf central bank, and more importantly, over which state might wield the most influence in monetary policy decision making. Saudi Arabia and the United Arab Emirates both have proposed hosting the GCC central bank. Saudi Arabia is the largest economy within the GCC, but its financial center (and institutional framework for financial intermediation) is perhaps the weakest, while the UAE sets a strong example for diversification efforts and building a financial architecture with its free zone courts and dispute mechanisms.

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For those states in financial crisis, there has also been broad support and policy guidance in the EU. Greece has had access to debt facilities of the European Central Bank; while not perfect, these facilities are preferable to a scenario of default in which one country faces international banks and multilaterals without any regional credit support, as Argentina experienced in 2002. The deteriorating fiscal balance, weak credit profile, and likely need for extensive external finance for Bahrain and Oman will pressure the GCC to provide support. Currently, that support is ad hoc; a more integrated GCC would have to provide credit facilities as a lender of last resort for its weaker members. Likewise, in trade the EU has been flexible enough to allow member states to negotiate bilateral agreements with countries outside of the Eurozone. This has been a contentious issue for Gulf states, as some GCC members have negotiated bilateral agreements with trade partners like the United States, to the ire of their bigger neighbors.

Brexit is an opportunity for the GCC to see that even regional organizations with good governance face some problems that can only be resolved at the national level, but require some regional policy coordination. The force behind the Brexit campaign within the United Kingdom relied on two global trends: rising inequality and low growth. Recent work by many economists, including those at the OECD, recommend job training, better access to formal education, and inclusion of women and youth as the best policy response to reducing inequality. The policies of national governments, to distribute wealth through social services, create jobs, and train those with the necessary skills to take on available jobs, are the foundation of economic trust between citizen and state. When that trust is uneasy, because there is lack of economic mobility, unemployment, or a sense of stasis or decline, there is an emergence of a politics of fear, which breeds nationalism, blames outsiders, and thwarts the exchange of ideas and money.

Right now the GCC states are facing a difficult challenge in governance. They are striving to meet social service delivery expectations with less revenue, while supporting growing populations that are not well trained to take on new jobs or build the companies that might generate private sector growth. They have massive immigration challenges that are managed with labor markets that entrench inequality between citizens and migrants, and discourage nationals from entering the private sector. Inequality is rising in the Gulf, while growth has slowed.

The financial fallout of the Brexit referendum and any institutional dismantling of immigration, trade, and security ties are all unknown and unmeasured risks. Right now, the GCC can take a lesson from the British experience and calculate how the current economic climate might have specific political

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effects, especially on integration efforts. The GCC can also reinforce its commitments to its members, anticipating their individual challenges and offering policymaking and financial support. The Brexit experience will likely be a deterrent to further GCC institutional integration, encouraging largely bilateral support mechanisms (as in the support funds launched in 2011) and entrenching the consultative style of the Gulf regional organization. A future Gulf central bank and shared defense apparatus start to look even less likely.

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