Abstract (summary):

This Dissertation uses OCA analysis to examine the feasibility and readiness of the GCC countries to form a monetary union. After reviewing and critiquing existing studies on this topic, improving on the analysis of previously examined OCA criteria, and extending our analysis to the criteria of business cycle synchronization and fiscal convergence, we conclude that from traditional OCA analysis perspective, the GCC countries are a major anomaly. They have successfully maintained fixed pegs among themselves for the last two decades despite an environment of relatively high capital mobility and at the same time fail to meet a number of OCA criteria. Most significantly, intra regional trade has not grown in these last two decades and has remained negligible. Moreover, as we document in our study, there is little synchronization of their business cycles or harmonization of their fiscal positions and all member states have faced substantial export instability while their real exchange rates remain closely related. The closely related real exchange rates imply an equilibrium relationship between the different bilateral GCC real exchange rags that are also characterized by relatively low inflation rates that move in similar fashion. To that end, we suggest that the GCC countries could form a monetary union, granted not an optimal one. An additional extension in this dissertation from previous studies includes the analysis of the incipient GCC monetary union from political economy perspective. Specifically, we examine the effects of rentier-like societies on the future this union. Accordingly, we argue that as rentier-like societies, together with the fact that some member states are running out of petroleum reserves, the six member states could face major challenges for the future of their monetary union.