

**Institutional Convergence and Economic Cooperation in the GCC:  
Evidence from Kuwait-UAE Bilateral Trade  
and Financial Integration**

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**ABSTRACT**

Kuwait and the United Arab Emirates form one of the largest and most institutionally distinctive bilateral relationships within the Gulf Cooperation Council, and both are member states of the Organization of Islamic Cooperation. This paper asks whether convergence in governance quality between the two countries helps explain the depth of their economic integration, and examines the question through two complementary channels: bilateral trade flows, studied with a structural gravity model estimated across the wider GCC region, and bilateral capital market co-movement, studied with a dynamic correlation model of equity returns. The motivation is that trade integration and financial integration in the GCC have typically been studied separately, obscuring a common institutional driver that may operate across both. We also construct a new measure of bilateral Islamic finance supervisory distance, capturing the divergence between Kuwait's predominantly Islamic banking system and the UAE's hybrid system, and test whether this divergence constitutes a barrier to integration in its own right. We find that governance convergence is associated with materially higher bilateral trade and, over the same period, with rising co-movement between the two countries' equity markets, with the trade-channel relationship strengthening markedly once bilateral governance distance falls below an identified threshold — a threshold Kuwait and the UAE have already crossed. Islamic finance supervisory distance emerges as an independent barrier to integration in both channels, distinct from general governance quality. These findings matter because they reframe governance convergence, and Islamic finance harmonization specifically, from a general good-governance aspiration into a concrete and prioritizable policy lever for deepening bilateral and OIC-wide economic cooperation.

**Keywords:** Kuwait-UAE relations; governance convergence; GCC economic integration; Islamic finance harmonization; financial market integration; OIC cooperation

**JEL Classification:** F14, F36, O53, C23, G15, G28

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