Is the European Union a Viable Model for Arab Integration?

BLOMINVEST BANK

January 24, 2025

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2024:

EU	Arab World
GDP: 19.5 trillion USD	GDP: 3.5 trillion USD
GDP per-capita: 43,194 USD	GDP per-capita: 7,458 USD
Population: 450 million	Population: 470 million
Biggest GDP: Germany 5.8 trillion USD	Biggest GDP: KSA 1.1 trillion USD
Intra-trade: 70%	Intra-trade: 12%
Intra-FDI: 50%	Intra-FDI: 27%
Gini Coefficient: 29%	Gini Coefficient: 70%

EU Timeline:

Treaties	Enlargements
Treaty of Paris 1951: European Coal and Steel Community (Free Trade)	Original six 1951: Belgium, France, Italy, Luxembourg, Netherlands, West Germany
Treaty of Rome 1958: European Economic Community (Customs Union)	1st Enlargement 1973: Denmark, Ireland, United kingdom (exited in 2020)
Single Market Act 1986 (Common Market)	2nd Enlargement: Spain and Portugal 1977; Greece 1981
Maastricht Treaty 1992: European Union (Economic and Monetary Union)	3rd Enlargement 1994: Austria, Sweden, and Finland
Lisbon Treaty 2009: New EU constitution, encompassing move from unanimity to qualified majority voting, legal personality for the EU, and Charter of Fundamental Rights.	4th Enlargement: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia 2004; Bulgaria and Romania 2007
Launch of the Euro and Establishment of the European Central Bank (ECB) 1999; Full circulation of the Euro 2002	5th Enlargement: Malta and Cyprus 2008; Croatia 2013

The European Union (EU) is a political and economic union of Member States that are located primarily in Europe. It is the result of a process that was initiated in the aftermath of World War II. It grew gradually, treaty after treaty: from six countries in the 1950s, the EU has grown into a union of 27 countries. The purpose of this article is to see how well the EU can fit as a model for Arab integration. We will start by looking in some details at the origin, working, and achievements of the EU model and then assess how useful it can be for an Arab union.

The EU started, in the main, as a security arrangement, its aim was to help end war in Europe by tying together 'coal and steel', the two industries essential for making war.

But as the specter of war receded, it was desired for its economic benefits, as integration moved by stages from free trade area to customs union to single market and, finally, to monetary union. But that is not all. In the 1980s, EU membership of Spain, Portugal, and Greece aimed at shedding away the authoritarian past of these countries and to buttress their democratic credentials. Also, in the early 2000s, membership of the East European and Baltic states aimed at consolidating Eastern Europe away from its Soviet past and conferred security, democracy, good governance, and market economy to these states. Last but not least, the EU served as a huge economic block at par with the North American bloc (USA, Canada, and Mexico) and, of course, the rising heft of China.

As important, the EU treaties were rooted in one criterion and two principles. To accede, a state must fulfil the economic and political requirements known as the Copenhagen criteria, which require a candidate to have a democratic government and free-market economy, together with the corresponding freedoms and institutions, and respect for the rule of law. As such, the EU is composed today of 21 *republics* – 16 of them *parliamentary republics* – and 6 *constitutional monarchies*. In addition, the EU is defined by the *Principle of Attribution of Powers,* whereby the EU has legal competence for those areas where member states have chosen to transfer powers to the European level, and these are legally binding and supreme on all the member states. Another founding principle of the union is the *Principle of Subsidiarity*, meaning that decisions are taken collectively if and only if they cannot realistically be taken individually, and in case problems cannot be solved more efficiently at the national level so EU action will be needed to bring added value.

Another important feature of the EU is *Multi-Speed Integration*. What this means is that EU integration is not always symmetrical, as there are several different forms of closer integration within the EU's normal framework. For instance, some states can proceed with integration ahead of hold-outs; while others can use EU structures to progress in a field that not all states are willing to partake in. There are even cases where states have gained an opt-out in the founding treaties from participating in certain policy areas. Perhaps a good example of this multi-tier integration process is the Euro. There are currently 20 countries who have adopted the Euro, and 7 countries which haven't, making the EU home to 8 currencies[1]. Those which haven't have opted-out (Denmark and Sweden), have decided not to currently partake in (Poland and Czech), and have yet to qualify (Bulgaria and Romania).

As to governance structure, the EU is made up, first, of the EU 'Government', which is actually the *European Commission*, an independent executive body whose leadership is appointed by the member states, but it is politically answerable to the EU Parliament. Second is the *European Parliament*, which is the only democratically and directly elected EU institution and is thus the most sensitive to public opinion. It is composed of 704 members who are elected by European citizens every five years. Third is the 'Presidency' as captured by the *European Council*, which represents the national governments of the member states. The Council approves laws passed by Parliament, coordinates broad economic policy, and develops the EU's common foreign and security policies. And, crucially, every six months, one member state takes the role of Presidency of the Council; this makes them the driving force in the EU legislative and political decision-making process.

It might look like the EU has become an 'empire' of liberal economies and states, but the fact is the EU project is a truly remarkable feat in terms of its effects, reach, and durability. It is no wonder then that the EU received the *Noble Peace Prize in 2012* for having contributed to the advancement of peace and reconciliation, democracy and human rights, and economic growth and well-being. But that is not the whole story, for the EU has also been about setbacks, as we will briefly elaborate below.

Economically, the EU is estimated to have added 0.8% in annul cumulative growth, and it has been particularly beneficial to the Eastern European and Baltic countries whose GDP per-capita has increased by more than a third[2]. In other words, the EU has been an instrument of convergence between the rich and not-so rich European states, and that

[1] Euro countries are: Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. The 7 other currencies are: Bulgarian Lev, Czech Koruna, Danish Krone, Hungarian Forint, Polish Zloty, Romanian Leu, and Swedish Krone.

[2] This was helped by cohesion funds from the "have to the have nots" countries within the EU.

explains the EU's low Gini coefficient at 29% (note: a Gini coefficient of 0% implies prefect income *equality*; whereas a coefficient of 100% means perfect income *inequality*). But the EU has failed in improving steadily efficiency or Total Factor Productivity (TFP)[3], as TFP seems to have stopped growing since around 2000. And that explains the EU's lagging behind the US in terms information and communications technology. The culprit is most likely excessive regulation. In addition, though the Euro is the second largest reserve currency and second largest traded currency in the world, it seems that it hasn't added noticeable benefits to the countries which have adopted it, primarily because it denied them the full use of monetary policy, especially that fiscal policy was also restricted by the limits imposed on the debt-to-GDP ratio and the deficit-to-GDP ratio not to exceed 60% and 3% respectively. Moreover, the EU succeeded in integrating trade and FDI within its countries, as their intra flows reached 70% and 50% respectively; however, it failed in integrating capital and financial markets, for EU capital markets remain largely segregated, and no better proof for that than the fact that the two biggest financial centers in Europe – London and Zurich – are outside the EU.

In terms of cohesion, the EU is still an incomplete project. This is particularly seen in defense and foreign policy issues where less sovereignty is transferred and issues are dealt with by unanimity and co-operation, not by qualified majority[4]. Also, the question of whether EU law is superior to State law is subject to some debate, as the treaties do not give a judgement on the matter, though court judgements have established EU's law superiority over national law, but that is not recognized in all EU states. All this came to a head with Russia's invasion of Ukraine as EU countries differed on condemnation, sanctions, and ending trade in, or reliance on, Russian energy supplies.

Lastly, and perhaps more important, in terms of identity, the EU still leaves a lot to be desired. Despite deep levels of integration, and unlike federal countries, there is a weak common European identity. Although people vote directly for Members of the European Parliament and about 30% of national law comes from EU law[5], European citizens still feel quite distant

[3] TFP growth is the growth in income attributed to higher efficiency or technological development, after accounting for the growth of labor and capital.
[4] Qualified majority is mostly expressed as involving 55% of Member States encompassing 65% of the EU population.
[5] The EU has sole competence for policies that are linked to the EU market: customs, rules around the functioning of the common market, monetary policy for countries using the Euro, and trade agreements. The EU and Member States share competences on the following policies: employment and social affairs, economic, social and territorial cohesion, agriculture, fisheries, environment, consumer protection, transport, energy, security and justice, research, and space. Policies that are

from the EU. Therefore, when analyzing European politics, one has to keep in mind that it will be more defined by national interests than an EU-wide public interest.

All of that said, where does the Arab world stand in terms of integration? And, more important, is the EU model a viable model for Arab economic and political integration? Concerning the first question, talks of Arab integration goes back to 1964 when the League of Arab States established the Arab Common Market (ACM). But the ACM remained largely a 'pipe dream'. It was only in 1998 with the formation of the Greater Arab Free Trade Area (GAFTA) that Arab economic integration received a new impetus, as it helped to double Arab intra-trade to 12%, more than half of it in manufactured goods. But GAFTA did nothing to enhance economic convergence: the Arab Gini coefficient remained at a high 70% and income gaps remained wide apart – for instance, GDP per capita for Qatar stood at more than $100,000 against less than $1,000 for Syria! Interestingly, though revived talks failed to establish an Arab customs union in 2015 to be followed by an ACM later on, Arab factor movements is actually not bad, with Arab intra-FDI at 27% and with more than 12 million Arabs working in the GCC alone. And speaking of the GCC, and despite its imperfections, it is the most successful Arab integration project so far, having been established in 1981 and became a common market in 2009 – nothing at the pan Arab level is really like it.

Moving to the second question raised above, whether the EU is potentially a good model for the Arabs to emulate, it is good to recall that, from a motivational point of view, the EU was established to enhance European security, global influence, democracy, and economic growth. As such, we will address the question by tackling each of the motivations in turn.

In terms of security, Arab integration makes perfect sense. It would pool together the resources of 22 Arab countries and the muscle of 470 million people and enable the Arab world to become a regional 'hegemon'. It will also allow the Arab world to confront, if not overcome, interventions by regional powers such as Iran or Israel or Turkey, and to become a power to be reckoned with even on the global stage. In this sense, it will naturally increase the global influence of the Arabs, and perhaps enable them to taste real independence after all their bitter setbacks since the mid-20th century and help them end their internal conflicts that still plague them to this day.

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the sole competence of Member States (and where the EU can support not directly regulate) include: public health, industry, culture, tourism, education and training, youth, and sport.

As to democracy, this is perhaps the thorniest of issues. Though Arab counties constitute 16 republics, 4 monarchies, 3 emirates, and 1 sultanate, it is widely believed that all of them are under authoritarian political systems (that includes even Lebanon, which in its post-civil war period it was ruled authoritatively first by Syria from 1990 to 2005 and then by Hizballah from 2006 to 2024). And it is a thorny issue because, as the EU experience has shown, *democracy facilitates integration and enables it to become wider and deeper.* Besides, democracy itself is supportive of economic growth in a mutually inclusive way. But that doesn't necessarily mean that authoritarian regimes can't integrate: look at the Association of Southeast Asian Nations (ASEAN)[6], or even China as it is an integrative vehicle for wide and disparate regions. And there is always the hope that if Arab integration succeeds and helps Arab countries to grow and to converge, *democracy itself can take root and further more integration*. In fact, this is actually more than a hope, as almost all integration endeavors – the EU of course included – accelerate economic growth and primarily to the "have nots" countries; and Arab economic integration in this respect will be no exception, especially given the resource complementarities between Arab countries (labor rich vs capital rich).

But how best to go about Arab integration? And to go about it in a way that departs from the failures of the past and in light of the EU experience? We propose a 4 steps process.

First, it makes most sense to start where success is, and that is the GCC. As the economic and political weight in the Arab world has moved to the Gulf from the Levant, it is the GCC that has to be the nucleus of Arab integration; and besides, the GCC is the bloc that has gone the furthest in integration – common market – and has both the technical and institutional experience in effecting integration. It is also the richest group in the Arab world and can thus afford to transfer cohesion/development funds to poorer Arab countries so as to cement integration. And, structurally, the GCC is no longer strictly an oil economy, as it is successfully diversifying into services, industry, and tech, especially in its two power houses, the KSA and UAE (e.g. KSA's GDP reached 1.1 trillion in 2024).

Second, enlargement should proceed in stages just as in the EU. As a start, the GCC could extend an FTA/customs union agreement to Iraq and Jordan and perhaps Lebanon. Based on the success of this enlargement, it could go further by upgrading this arrangement to a common market, in addition to extending an FTA/customs union to Tunisia and Morocco and

[6] ASEAN comprises Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

perhaps Egypt. And so on. The idea being that integration has *to get deeper before getting wider, and multi-speed integration can ensure that.*

Third, political integration has to proceed at a slower pace than economic integration[7]. As the EU experience vividly shows, putting political integration in the back seat avoids issues/conflicts relating to sovereignty, to precedence of 'union' over state law, and to foreign alliances and relations, or in a nutshell to matters relating to the 'attribution of power' (see footnote 1). In addition, in terms of governance structure, the League of Arab States would be relieved of its economic duties. Instead, a structure similar to that of the EU in terms of the European Commission and the European Council (excluding the European Parliament) would be erected, but in a simplified format, and it would be located in the KSA/UAE.

Fourth, what also can take a back seat is a monetary union. The EU seems to have benefited little from this arrangement without a compensating fiscal union, since it has denied member countries an independent monetary policy, and the Arab world can skip this arrangement for the longest time possible. It is true that most Arab countries – including the GCC -- peg their exchange rates to the USD and thereby, de facto, don't have an independent monetary policy either[8], but that has been done voluntarily because the current make up of their economies necessitates that. However, as integration proceeds and gains momentum, a monetary union with its own currency would involuntarily take the front seat, but that should be part of a fiscal and political union that would crown Arab integration in the very long run. Moreover, that doesn't preclude moving ahead with financial and capital market integration within the ACM, enabling in the process the consolidation of Dubai or Riyadh as an emerging Arab financial center.

Two additional points are worth mentioning, the first is a cautionary one and the second is a favorable one. First, integration should proceed with a *light regulatory touch* so as not to stifle innovation and create roadblocks for business, as has been most likely the case with the EU in relation to technological growth; however, that doesn't by any chance mean *lax regulatory enforcement*. Second, unlike the EU's lack of a common identity, the Arab world has one aplenty. The Arab people share the same language, mostly the same religion, and largely the same history, so this

[7] Note that all Arab attempts at political unity from the late 1950s to the late 1970s were awkward and failed drastically.
[8] That is because of the 'Impossible Trinity': with perfect capital mobility and fixed exchange rates, central banks forfeit an independent monetary policy.

cultural convergence should be a favorable ingredient in integration, as it helps to lubricate the process and to solidify its achievements.

Lastly, the Arab integration process is by no means easy otherwise it wouldn't have failed in the past. The western European countries have had notable milestones over the last 500 years -- renaissance, enlightenment, industrial and technological revolutions, and of course an abusive colonial history – to benefit from when they initiated their EU project in the 1950s. That made them, despite the two World Wars, heirs to a rich heritage that enabled them to build formidable economies and ultimately liberal democracies which made integration easier, especially as *integration is usually more successful among economies of more or less equal strength.* The Arab world, unfortunately, didn't have such a 'heritage' when it emerged from its colonial past and embarked on its independent path in the 1950s[9]. So for integration to succeed -- in fact a sufficient condition for it -- is that Arab countries have to work harder and become more developed, through a process of genuine structural reforms and habits of thought and practice that favor good governance, productive human capital, meaningful technological change, and an open, liberal economy and society. And the outcome will not only be great for deep integration but also for sustainable Arab well-being and prosperity.

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[9] That is not to say that the Arabs lack a veritable heritage; of course, they do and it is a remarkable one. But the point is that since the 11th century, the Arab world had been ruled by non-Arab dynasties: first the Turkish Seljuks, then the Crusades, then the Kurdish Ayyubis, then the Central Asian Mamluks, then the Ottomans, and then western Europeans (the French and English). That denied the Arab heritage the ability to flower and grow, especially during the 500-years rule of the Ottomans Empire, which was aptly named by the late 18th century the 'sick man of Europe'.