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RESEARCH PAPER

The Sleeping Giant: The Arab Common Market

Unlocking the World's Most Underutilised Regional Economy

Trade Integration, Political Resilience, and the Case for a Pan-Arab Free Trade Agreement

May 2026

Executive Summary

The Arab world sits on the threshold of one of the most consequential economic decisions of the twenty-first century: whether to transform the Greater Arab Free Trade Area (GAFTA) from a partial tariff-elimination framework into a fully realised Arab Common Market comparable in ambition and structure to the European common market. With a combined GDP approaching $4 trillion in 2026 and a young, fast-growing population of approximately 470 million, the Arab region possesses the fundamental preconditions for a trading bloc that could rank among the largest and most strategically influential on the planet.

Yet the promise remains largely unfulfilled. Intra-Arab trade accounts for only 12 percent of total Arab exports to the world — a figure that has barely shifted in two decades — compared with more than 60 percent for the European Union and 35 percent for ASEAN. Political tensions, non-tariff barriers, fragmented regulatory environments, and historical mistrust have all conspired to suppress what economists estimate could be double the current levels of regional commerce.

This paper argues three core propositions. First, the Arab Common Market is not a utopian aspiration but an achievable strategic project, grounded in existing treaties, shared legal heritage, and rapidly converging national reform agendas. Second, the experience of every successful trading bloc in modern history — from the EU to ASEAN to MERCOSUR — demonstrates that political disagreements between member states do not prevent, and have historically not prevented, the growth of bilateral and multilateral trade when economic incentives are sufficiently large and institutionally anchored. Third, a fully integrated Pan-Arab Free Trade Agreement (PAFTA) would not merely benefit Arab citizens; it would give Arab nations unprecedented leverage in negotiations with the EU, China, the United States, and other global trading partners,

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transforming the region from a collection of individually small markets into a negotiating power comparable to the world's leading economic blocs.

1. Introduction: The Paradox of Arab Economic Fragmentation

Few regions of the world present such a striking contrast between natural endowments and economic performance as the Arab world. Stretching from the Atlantic coast of Morocco to the Gulf shores of Oman, the twenty-two member states of the Arab League sit astride the world's largest proven oil and gas reserves, control critical maritime chokepoints including the Strait of Hormuz and the Suez Canal, and share a common language, legal tradition, and civilisational history that provides a uniquely powerful foundation for economic integration.

The Greater Arab Free Trade Area, established in 1997 and fully implemented in terms of tariff elimination by 2005, was intended to begin converting this potential into reality. GAFTA brought together 18 Arab countries in an arrangement whose collective economic output now reaches approximately $3.7 trillion, with foreign exchange reserves of close to $1.2 trillion — enough to cover more than eight months of regional imports. The grouping's export performance stands at roughly $1.74 trillion annually. On these numbers alone, a unified Arab market would be the fourth or fifth largest economic bloc in the world.

Yet the paradox persists. Despite shared language, culture, and formal trade agreements, intra-Arab trade as a share of total Arab exports has remained stubbornly static at approximately 12 percent. By contrast, the Arab region accounts for only 1.8 percent of all non-oil global trade, despite representing 3.9 percent of world GDP and 5.5 percent of the world's population. Cross-border transactions within the Arab world cost an average of $442 and 53 hours to complete export formalities — three to four times the cost burden faced by exporters in high-income economies. The region remains one of the most services-trade restrictive in the world.

This paper examines why this gap exists, what lessons can be drawn from other trading blocs, and what a credible roadmap toward a Pan-Arab Free Trade Agreement might look like.

2. The State of the Arab Market: GAFTA and Its Limitations

2.1 GAFTA: Architecture and Achievements

The Greater Arab Free Trade Area represents the most significant step toward Arab economic integration yet taken. Concluded in 1997 among fourteen original member states and expanded to 18 countries, GAFTA achieved the full elimination of tariffs on manufactured goods by January 2005, with special treatment for agricultural products and rules of origin set at 40 percent of value-added. All GAFTA members are also members of the Arab League, creating an institutional overlap that provides political legitimacy.

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The achievements should not be minimised. Jordan, for example, reported that GAFTA became its top trade partner in terms of national exports in the first quarter of 2024, with trade volume between the Kingdom and GAFTA countries reaching JD 1.966 billion — a 9.7 percent year-on-year increase. Individual bilateral relationships within the bloc have deepened considerably, and the Gulf Cooperation Council (GCC), which operates as a customs union and common market within the broader GAFTA framework, has demonstrated that Arab states can successfully pool regulatory sovereignty when the political will exists.

2.2 Structural Weaknesses

Despite these achievements, GAFTA has significant structural limitations that prevent it from functioning as a genuine common market:

- Non-tariff barriers remain pervasive. Divergent product standards, cumbersome documentation requirements, inefficient customs procedures, and inadequate logistics infrastructure continue to raise transaction costs far above those in comparable middle-income regions.
- Services trade is almost entirely excluded. Despite services representing an increasing share of all Arab economies, GAFTA has no meaningful provisions covering financial services, telecommunications, transport, or professional services — precisely the sectors where deeper integration could yield the largest productivity gains.
- Rules of origin are unevenly applied, creating opportunities for trade deflection and disincentivising the development of regional supply chains.
- Investment liberalisation is absent. A genuine common market requires the free movement of capital as well as goods; GAFTA contains no systematic provisions on investment, meaning Arab sovereign wealth funds — among the world's largest — face barriers to intraregional deployment.
- Labour mobility is severely constrained. Despite significant intraregional migration flows, no formal framework governs the movement of skilled workers across Arab borders, leaving human capital allocation highly inefficient.
- Political instability in several member states has disrupted trade relations and undermined confidence in regional supply chains, while varying levels of commitment to liberalisation have produced uneven implementation.

Indicator	Arab Region / GAFTA	European Union	ASEAN	MERCOSUR
Intra-regional trade share of total exports	~12%	>60%	~35%	~15%
Combined GDP (USD trillion, 2024-25)	$3.7 trillion	$19+ trillion	$3.8 trillion	$3.1 trillion
Population	~470 million	~450 million	~690 million	~300 million

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Average export border cost	$442 / 53 hrs	<$150 / <10 hrs	~$200 / ~25 hrs	~$250 / ~30 hrs
Services trade framework	None	Single Market	ASEAN FAS	Partial
Labour mobility framework	Absent	Full freedom	MRAs (skilled)	Partial

Table 1: Comparative Regional Integration Indicators

3. The Geopolitical Paradox: Political Conflict and Trade Resilience

3.1 The Fundamental Lesson from Global Trade History

A persistent misconception in Arab regional politics holds that political disagreements between member states are a precondition for trade integration — that Arab countries must first resolve their geopolitical disputes before they can build a common market. The weight of global evidence argues precisely the opposite: across virtually every successful trading bloc in modern history, political tensions between member states not only persisted during the integration process but often intensified, yet economic interdependence was built nonetheless.

3.2 Case Study: The European Union

The European Union — the world's most deeply integrated common market — was built among nations that had fought two catastrophic world wars within living memory of its founders. France and Germany, the engine of European integration, were bitter military adversaries as recently as 1945. Greece and Turkey, both EU or EU-adjacent powers, fought proxy conflicts in Cyprus. Spain and the United Kingdom contested Gibraltar throughout the entire period of European integration. Yet these political and territorial disputes did not prevent the construction of the world's most sophisticated multilateral trading arrangement. The lesson is not that political disputes do not matter, but that economic integration can proceed as a separate track and can, over time, become a force for political stabilisation.

3.3 Case Study: ASEAN

The Association of Southeast Asian Nations was founded in 1967 at a moment of acute intraregional tension: Indonesia had only recently ended its Konfrontasi military campaign against Malaysia; Vietnam was in the midst of a devastating civil war; and territorial disputes among member states were the rule rather than the exception. The "ASEAN Way" of non-interference in internal affairs, consensus-based decision-making, and gradual, voluntary trade liberalisation allowed the bloc to steadily deepen economic ties without requiring prior political settlement. The results were transformative: intra-ASEAN trade rose from approximately 4 percent of GDP in the mid-1960s to an average of 35 percent of GDP four decades later.

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3.4 Case Study: The Arab World's Own Evidence

The Arab world provides its own compelling evidence for the separability of political and commercial relations. The GCC trade relationship is instructive: despite a geopolitical policy difference between two GCC Countries, their bilateral trade relationship — valued at approximately $30 billion — has proven remarkably resilient. Analysts note that the GCC economies are so deeply enmeshed in trade, investment, and logistics that a full economic rupture would be self-defeating for all GCC members.

The Qatar blockade of 2017–2021 offers a more complex case study. When Saudi Arabia, the UAE, Bahrain, and Egypt severed ties with Qatar, trade and travel links were disrupted overnight. Yet even here, the episode demonstrates a crucial point: Qatar rapidly diversified its supply chains, deepening trade ties with Turkey, Iran, and Pakistan and demonstrating the adaptability of commercially oriented economies under political pressure. The eventual rapprochement, sealed through the Al-Ula Declaration of January 2021, restored collaboration and demonstrated that economic logic ultimately compels even deeply estranged neighbours back toward engagement.

SAARC, despite paralyzing India–Pakistan tensions, still facilitates some bilateral and multilateral cooperation. China and Taiwan maintain substantial indirect trade through third-party markets despite existential political disagreement. The United States and China built the world's largest bilateral trade relationship even as strategic competition intensified. Political and economic logics can and do operate on separate tracks.

4. The Economic Case: Benefits of a Pan-Arab Common Market

4.1 Trade Creation and Economic Growth

Empirical research using gravity models and computable general equilibrium modelling consistently finds that a fully realised Arab common market would generate substantial trade creation effects. Studies suggest that intra-regional trade is currently underexploited by up to 100 percent of current volumes, given existing complementarities and geography. Econometric analysis of thirteen Arab countries over the period 1990–2007 found that intra-regional trade had a significantly greater effect on economic growth than extra-regional trade, pointing to the particular productivity spillovers associated with regional supply chains and market integration.

If Arab intra-regional trade were to reach even 25 percent of total exports — well below ASEAN's current level — this would represent roughly a doubling of current intra-Arab trade flows, potentially adding hundreds of billions of dollars annually to Arab economic output.

4.2 Economic Diversification and Post-Oil Transition

The Arab region's most significant structural challenge is its overwhelming dependence on hydrocarbon revenues. Eight oil-producing economies currently account for over 70 percent of Arab GDP. The International Energy Agency's projections of peak global oil demand make the

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diversification imperative existential rather than merely desirable. Saudi Arabia's Vision 2030, the UAE's national strategy, and analogous programmes in Oman, Qatar, Bahrain, Kuwait, and beyond are all predicated on developing non-oil tradeable sectors in manufacturing, tourism, technology, and financial services.

A common market dramatically accelerates this transition. Larger integrated markets support the minimum scale required for competitive manufacturing industries. Pan-Arab supply chains in sectors such as food processing, pharmaceuticals, electronics assembly, and petrochemical derivatives would allow Arab firms to develop export competitiveness that would be impossible within any single national market. The GCC's experience already demonstrates this: deeper economic integration within the Gulf has supported the development of industries — aluminium, steel, fertilisers, and increasingly technology — that could not have reached competitive scale in any single Gulf state alone.

4.3 Employment and the Youth Dividend

The Arab world has a median age of approximately 25 years, with a demographic bulge of working-age youth that represents either an extraordinary economic opportunity or a source of severe social instability depending on whether sufficient employment is created. The Arab region's average unemployment rate stood at 9.4 percent in 2025 — itself a misleading headline figure that conceals a youth employment crisis of historic proportions. According to the International Labour Organization's 2024 Global Employment Trends for Youth report, the Arab States recorded the world's highest youth unemployment rate at 28 percent, a figure that has remained above 25 percent for over a quarter of a century. Female youth unemployment is far higher still, approaching 38.5 percent across the Arab States, and the NEET rate — the share of young people Not in Education, Employment, or Training — reached 31.2 percent in 2023, among the highest of any global subregion.

The scale of the challenge defies easy comprehension. According to ESCWA and ILO estimates, approximately 2.8 million net new workers enter Arab labour markets every year. The Arab Labour Organization estimates that the funding required to create formal employment for these annual cohorts exceeds $20 billion per year. ESCWA and ILO joint research calculated that the region needed around 33 million additional jobs by 2030 merely to bring the unemployment rate down to 5 percent — and potentially 65 million if female labour force participation were raised to match middle-income country averages. Arab labour forces are growing at 3.5–4.0 percent annually, a pace that far outstrips the formal private sector's current capacity to absorb new entrants: the majority of the 2.8 million annual new entrants currently find jobs in the informal sector or the public sector, with the formal private sector playing a marginal and declining role in job creation.

Country-Level Snapshot: The Depth of the Crisis

The following table captures the youth unemployment situation across major Arab economies, the estimated annual labour force entrants in each country, and the indicative job creation potential from deeper GAFTA integration and a fully realised Pan-Arab Common Market. Country-level data draws on World Bank ILO modelled estimates (2024–2025) and national statistics offices.

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Country	Youth Unemp. Rate (2024–25)	Annual New Labour Entrants	Estimated Jobless Youth (2025)	Indicative Jobs from Full PAFTA Integration	Key Sectors
Egypt	~19%	~600,000	~3.5 million	800,000 – 1.2 million	Manufacturing, agri-processing, tourism, digital services
Saudi Arabia	~14% (nationals)	~400,000	~900,000	500,000 – 700,000	Logistics, tech, green energy, construction
Iraq	~32%	~350,000	~2.8 million	600,000 – 900,000	Oil services, infra, agri, manufacturing
Morocco	~22%	~300,000	~1.5 million	400,000 – 600,000	Automotive, aerospace, tourism, agri-exports
Algeria	~29%	~350,000	~2.1 million	400,000 – 600,000	Energy services, agri, manufacturing
Jordan	~39-42%	~100,000	~700,000	200,000 – 300,000	Services, pharma, ICT, logistics hub
Tunisia	~38%	~120,000	~750,000	180,000 – 280,000	ICT, textiles, tourism, agri
UAE	~4% (nationals)	~80,000	~60,000	200,000 – 400,000*	Fintech, logistics, green

					energy, AI hub
Sudan / Libya / Yemen	25-50%+	~400,000	~3.0 million+	300,000 – 500,000**	Post-conflict reconstruction, agri, energy

*Table 3: Youth Employment Crisis and Job Creation Potential in Key Arab Economies. * UAE figures represent Emirati national employment opportunities; expatriate workforce dynamics differ. ** Subject to post-conflict stabilisation. Sources: World Bank/ILO modelled estimates 2024–25; ESCWA/ILO (2021); ITC (2023); Arab Labour Organization.*

What GAFTA Has Already Demonstrated — and What a Common Market Could Unlock

Even in its present, incomplete form, GAFTA has generated measurable trade creation: regional trade increased by approximately 20 percent in the years following implementation, with countries such as Egypt, Jordan, Lebanon, Syria, and Tunisia recording the strongest intraregional trade growth. The International Trade Centre has estimated that by reducing remaining obstacles to Arab trade, there is potential to increase the total trade of Arab League member states by at least 10 percent and create a minimum of 2 million additional jobs — and this conservative estimate pertains only to incremental improvements within the existing GAFTA framework, not to a fully realised common market.

A fully realised Pan-Arab Free Trade Agreement — covering goods, services, investment, and labour mobility — would operate through five distinct employment channels. First, trade expansion in labour-intensive manufacturing would directly create factory-floor employment, particularly in Egypt, Morocco, Tunisia, and Jordan, which already have nascent industrial export sectors. Second, the development of pan-Arab supply chains in food processing, pharmaceuticals, and light engineering would generate backward-linkage employment in agriculture, raw materials, and components. Third, services trade liberalisation would unlock growth in financial technology, healthcare, education, tourism, and professional services across the region. Fourth, intraregional FDI flows — currently suppressed by investment barriers — would direct Gulf sovereign wealth into labour-abundant Arab economies at scale, creating construction, operational, and managerial employment. Fifth, the formalisation of labour mobility frameworks would allow Arab workers to move legally to where their skills are most needed, raising wages, reducing informality, and improving productivity across the board.

The political stakes could not be higher. The Arab Spring was not primarily a political revolution: it was a jobs revolution. “Employment, Liberty, Dignity” was the slogan of Tunisia’s 2011 Jasmine Revolution. Unemployment and economic exclusion were the igniting forces in Egypt, Libya, Yemen, Syria, and Bahrain. With Arab labour forces continuing to grow at 3.5–4.0 percent annually, and with 17 million unemployed individuals projected for 2030 in the absence of structural change, the choice the Arab world faces is not between integration and the status quo — it is between integration and instability. A common market that generates new industrial clusters, expands services exports, and creates intraregional investment flows is the single most powerful

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mechanism available for absorbing this labour supply productively and transforming the Arab world's demographic burden into a genuine demographic dividend.

4.4 Negotiating Leverage in Global Trade

Perhaps the most strategically significant benefit of a genuine Arab Common Market would be the transformation of the region's negotiating position in global trade diplomacy. Currently, Arab states negotiate individually with the EU, the United States, China, and major emerging markets, with predictably weak results. A unified Arab trading bloc with $4 trillion in GDP, $1.74 trillion in exports, and control of critical energy and logistics infrastructure would be a negotiating counterpart that no major power could afford to ignore.

The EU's trade relationship with ASEAN illustrates this point. In 2024, EU-ASEAN trade in goods reached €258.8 billion, with the EU serving as ASEAN's third-largest trading partner. ASEAN's collective bargaining power — built on a combined GDP of roughly 6.3 percent of world output — has enabled the bloc to negotiate far more favourable terms than any individual ASEAN member could have achieved alone. An Arab Common Market, with energy exports that are indispensable to both Europe and Asia, and with a strategic geographic position linking three continents, would command even greater leverage.

The Arab region currently holds approximately $1.2 trillion in foreign exchange reserves and operates some of the world's largest sovereign wealth funds. Coordinated deployment of these assets in service of a common trade strategy — for instance, conditional investment in partners who grant preferential market access to Arab exports — would constitute a diplomatic instrument of enormous power.

4.5 Infrastructure, Connectivity, and Strategic Geography

The Arab world sits at the intersection of the world's most important trade routes. The Suez Canal facilitates approximately 12–15 percent of global trade by volume. The Strait of Hormuz is the transit point for roughly 20 percent of global oil trade. The emerging Arab Development Road project, championed by Turkey and Iraq, envisions a trade corridor connecting East Asia to the Gulf and Europe through Iraqi ports, with strong backing from Qatar and the UAE. Pan-Arab integration would allow coordinated development of these strategic assets in ways that maximise collective benefit rather than creating competitive duplication.

Benefit Category	Estimated Impact	Time Horizon
Intra-Arab trade increase (to 25% of exports)	+$200-400bn annually	10-15 years
GDP growth uplift from full integration	+1.5-3.0% of Arab GDP	15-20 years
Youth employment from new	3-5 million jobs	10 years

industrial clusters		
FDI inflows (larger integrated market premium)	+30-50% vs. current	5-10 years
Negotiating leverage uplift (trade agreements)	Comparable to EU/ASEAN	10 years
Logistics cost reduction (harmonised standards)	-20-30% per shipment	5-8 years

Table 2: Estimated Benefits of Pan-Arab Common Market Integration (Illustrative)

5. Obstacles and How to Overcome Them

5.1 Political Fragmentation

The Arab world's complex web of bilateral and multilateral political conflicts — from the unresolved Palestinian question to Gulf rivalries, North African border disputes, and the aftermath of the Arab Spring — creates a challenging environment for deepening economic integration. But as argued in Section 3, political conflict and trade growth are not mutually exclusive. The appropriate institutional response is to design integration mechanisms that are explicitly insulated from political fluctuations: binding dispute resolution procedures, automatic tariff schedules that cannot be suspended by executive action, and independent regulatory bodies modelled on the EU's Commission and Court of Justice.

5.2 Heterogeneity of Economies

Arab economies span an extraordinary range, from the ultra-high-income Gulf states to lower-middle-income countries such as Mauritania, Yemen, and Sudan. Managing this heterogeneity is one of the central challenges of integration, but it is not unprecedented. The EU successfully integrated Western European economies with substantially different income levels through mechanisms such as structural funds, cohesion funds, and asymmetric phase-in periods. ASEAN explicitly incorporated different timelines for its wealthier and less developed members. An Arab Common Market framework must include analogous provisions: transition assistance funds, capacity-building programmes, and differentiated implementation schedules.

5.3 Oil Dependency and Structural Complementarity

One argument sometimes made against Arab integration is that the region's economies are fundamentally competitive rather than complementary — they all produce oil, and their non-oil sectors are too underdeveloped to generate meaningful trade. This argument is increasingly outdated. Arab non-oil trade is more diversified today than at any point in history, with manufacturing (particularly in Egypt, Morocco, Jordan, and Tunisia), financial services (UAE, Bahrain), agriculture and food processing (Egypt, Morocco, Sudan), and technology services (UAE, Jordan, Lebanon's diaspora-linked economy) all representing areas of genuine comparative advantage. Moreover, the diversification imperative — driven by the energy transition — is actively creating new tradeable sectors that were absent a decade ago.

5.4 Institutional Capacity

The Arab League, while providing political legitimacy, has not historically been an effective economic governance institution. Building a genuine common market requires institutional infrastructure analogous to the European Commission: a permanent supranational body with the authority to harmonise regulations, adjudicate disputes, administer competition policy, and manage transition funds. The GCC Secretariat offers a partial model within the Gulf; building from this foundation outward to encompass the broader Arab world is a more achievable path than constructing new institutions from scratch.

5.5 The GCC Bloc: Specific Concerns and How to Address Them

The Gulf Cooperation Council occupies a paradoxical position in the Arab integration debate. As the Arab world's wealthiest sub-regional bloc — with a combined GDP of approximately $2.1 trillion — the GCC is simultaneously the most indispensable engine of any viable Pan-Arab Common Market and the member group with the most immediate reservations about deeper integration. Understanding and responding to GCC concerns is not a peripheral matter: it is the central political challenge of building an Arab Common Market. Without GCC participation and, ultimately, GCC leadership, a Pan-Arab Free Trade Agreement would be a body without a heart. The six Gulf states must therefore be treated not as reluctant participants to be persuaded but as co-architects whose specific concerns must be comprehensively addressed at the design stage of any integration framework.

The GCC has in fact achieved more integration among its own members than any other Arab sub-grouping: a functioning customs union, a common external tariff, freedom of movement for nationals across member states, and mutual recognition of professional qualifications. Yet even within the GCC, deep integration remains incomplete. Efforts to create a common currency stalled in 2008 amid sovereignty concerns; the common GCC patent office suspended new applications in 2021; and the 2017–2021 Qatar blockade demonstrated how rapidly political tensions can rupture what appeared to be solid economic architecture. These internal GCC dynamics directly shape the bloc's posture toward broader Arab integration.

5.5.1 Concern 1: Labour Market Disruption and Nationalisation Programmes

The most acutely felt GCC concern about Pan-Arab labour integration is the potential for large-scale inflows of Arab workers from high-unemployment countries — principally Egypt (population 107 million), Iraq, Morocco, and Tunisia — to undermine carefully constructed workforce nationalisation programmes. Saudization, Emiratization, Omanization, Kuwaitization: each GCC state has invested heavily in regulatory frameworks, hiring quotas, and financial incentives designed to increase the participation of nationals in the private sector. Saudi Arabia's Vision 2030 achieved a headline unemployment target five years early, with national unemployment falling to 7 percent in Q4 2024 and female labour force participation reaching 36.2 percent. The UAE's non-oil sector grew by 3.7 percent in 2024 and is projected to be more than double the oil sector's growth by 2030. These achievements are fragile and hard-won; any integration framework that GCC governments perceive as threatening them will not be ratified.

A related concern involves the political economy of the kafala (sponsorship) system. After the oil boom of the 1970s, GCC governments deliberately pivoted toward non-Arab workers — particularly from South Asia — partly because cheaper labour was available but also because of concerns that large Arab expatriate communities could serve as vectors for pan-Arab nationalist ideology that might challenge Gulf monarchies. An open Arab labour market would reverse this historical preference by design, raising genuine concerns about social cohesion and political stability in small-population GCC states where foreigners already constitute between 40 and 88 percent of the resident population.

Recommendation: A Calibrated, Skills-Tiered Labour Mobility Framework

Addressing this concern requires abandoning the idea of immediate free movement of labour across the full Arab Common Market, in favour of a phased, skills-tiered approach modelled on the ASEAN Mutual Recognition Arrangement (MRA) framework. Under this model:

- Phase 1 would cover only highly skilled workers in pre-agreed professional categories: engineers, doctors, accountants, IT specialists, and financial services professionals. Mutual recognition of qualifications would be negotiated profession by profession, giving GCC regulatory bodies full oversight of standards.
- Phase 2 would expand to semi-skilled technical workers in sectors where GCC Vision programmes have identified persistent shortages: construction, logistics, healthcare support, and hospitality.
- Nationalisation programme exemptions would be formally protected in the PAFTA treaty text, guaranteeing that GCC quota requirements for national employees are explicitly carved out from non-discrimination provisions.
- A Pan-Arab Labour Mobility Fund, capitalised primarily by GCC sovereign wealth, would finance vocational training in labour-exporting countries to ensure that workers entering GCC markets meet quality and skills thresholds, directly reducing the "race to the bottom" risk.
- Annual bilateral review mechanisms would allow any GCC state to trigger a "labour safeguard clause" suspending inflows in specific occupational categories if national unemployment in that sector rises above a defined threshold.

5.5.2 Concern 2: Sovereignty Dilution and Institutional Overreach

GCC governments have historically demonstrated deep resistance to any supranational body with binding authority over their domestic regulatory and policy choices. The failure of the GCC common currency project in 2008 was primarily driven by sovereignty concerns: Oman's opt-out,

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and other states' reluctance to subordinate monetary policy to a collective institution. A Carnegie Endowment analysis published in February 2026 identified "the lack of consensus on willingness to pool sovereignty" as a defining structural weakness of GCC integration. The UAE's exit from OPEC+ in May 2026 — driven by the desire for "sovereign flexibility over the collective economic cohesion historically championed by Saudi Arabia" — is the most recent illustration of how GCC states will choose national autonomy over bloc discipline when the stakes feel high enough.

This concern is compounded by the GCC's awareness that a Pan-Arab Common Market would substantially dilute the relative weight of Gulf states within the collective. Within GAFTA, the six GCC states currently represent roughly 56 percent of total Arab GDP. In a deeper union with binding institutions, their financial dominance would translate into an obligation to fund adjustment mechanisms and cohesion funds for poorer members — a "burden-sharing" dynamic that is politically sensitive in states where domestic social contracts already require large public expenditures.

Recommendation: Graduated Sovereignty Architecture with Opt-In Deepening

The institutional design of PAFTA must be explicitly structured to respect GCC sovereignty preferences, while creating meaningful pathways for deepening. Key design principles should include:

- An "ASEAN-style" consensus requirement for all major policy decisions, ensuring that no GCC state can be outvoted on matters of domestic regulatory significance. Unanimity should be required for decisions affecting labour, investment, and monetary frameworks.
- A multi-speed architecture, explicitly modelled on the EU's own experience, where the GCC functions as a "core" that moves faster and deeper on integration while non-GCC members follow a longer track. This prevents less economically advanced members from holding back Gulf-driven ambitions, while keeping the broader framework intact.
- Strict limitations on the PAFTA Secretariat's mandate in its first decade, restricting it to tariff administration, dispute resolution, and standards harmonisation — the areas of greatest economic benefit and least sovereignty sensitivity. Expansions of mandate would require explicit GCC ratification.
- A clear burden-sharing formula that is fair, transparent, and politically defensible: GCC states should contribute to an Arab Development and Cohesion Fund on a GDP-proportional basis, but with explicit conditionality mechanisms ensuring that fund disbursements to recipient countries are linked to measurable reform milestones (rule of law, ease of doing business, anti-corruption metrics), reducing the risk that Gulf contributions flow into ineffective or corrupt public sectors.

5.5.3 Concern 3: Intra-GCC Rivalries and the Fragmented Gulf Voice

A further complexity is that the GCC itself does not speak with one voice on Arab integration. Saudi Arabia and the UAE — the two economies that together account for over 80 percent of GCC GDP — have increasingly divergent strategic ambitions. The UAE has pursued an aggressive bilateral CEPA strategy, signing comprehensive economic partnership agreements with India, Indonesia, Turkey, Morocco, and Israel, and in May 2025 formally launching FTA negotiations

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with the EU. Saudi Arabia has maintained a more multilateral posture, prioritising GCC-level agreements and building investment-led partnerships with Africa and Asia through Vision 2030's Public Investment Fund. This strategic divergence — illustrated by competition over regional corporate headquarters between Dubai and Riyadh — means that any PAFTA design must accommodate two Gulf states with genuinely different trade strategies.

Recommendation: A "GCC Unity Protocol" as Foundation

Before extending the integration architecture to the broader Arab world, PAFTA sponsors should negotiate a "GCC Unity Protocol" — a prior agreement among the six Gulf states to coordinate their individual bilateral FTA strategies, avoid competitive regulatory arbitrage between Gulf financial centres, and present a unified negotiating position in PAFTA governance bodies. This Protocol would:

- Establish a GCC Trade Coordination Committee with a mandate to align (not harmonise) the Gulf states' bilateral FTA portfolios, ensuring that UAE CEPAs and Saudi bilateral deals do not create contradictions within the PAFTA framework.
- Create a joint GCC investment co-financing facility — drawing on Saudi PIF (assets of $941 billion in 2024) and Mubadala, ADIA, and QIA resources — to direct GCC sovereign wealth into Arab Common Market priority sectors on a coordinated rather than competitive basis.
- Resolve the "headquarters rivalry" between Dubai and Riyadh through a negotiated specialisation: Dubai as the bloc's trade finance, logistics, and digital economy hub; Riyadh as the industrial, energy, and infrastructure investment hub. This division of labour would allow both cities to prosper from integration without zero-sum competition.

5.5.4 Concern 4: Non-Oil Sector Competition from Cheaper Arab Neighbours

As GCC economies diversify under Vision 2030 and equivalent programmes, they are actively building new manufacturing, tourism, logistics, and digital services industries that are, in many cases, directly competitive with the non-oil sectors of Egypt, Morocco, Tunisia, and Jordan. Saudi Arabia's Vision 2030 aims to raise non-oil exports from 16 percent to 50 percent of non-oil GDP, and non-oil revenues have already risen 113 percent from the 2016 baseline. Gulf governments are therefore wary of an Arab Common Market that simply becomes a low-cost import pipeline — flooding Gulf markets with cheaper Egyptian food products, Moroccan textiles, Tunisian ICT services, or Jordanian pharmaceuticals — while undermining the infant industries that GCC diversification programmes are trying to build.

This concern is particularly acute in sectors where GCC Vision programmes involve heavy state investment and where labour-cost disadvantages relative to Egypt or Morocco are substantial. A Gulf manufacturer competing against Egyptian counterparts with labour costs three to four times lower, and benefiting from preferential GCC government procurement, faces a genuine competitive threat from unrestricted market opening.

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Recommendation: A Pan-Arab Industrial Specialisation Compact

The resolution to this concern lies not in protecting GCC infant industries from Arab competition indefinitely — which would hollow out the integration project — but in designing a Pan-Arab Industrial Specialisation Compact that turns potential competition into deliberate complementarity. Key elements:

- GCC economies should be designated as "high-technology and capital-intensive hubs" within the Pan-Arab economic space: green hydrogen, advanced manufacturing, financial technology, AI, and premium tourism. Market-opening commitments from non-GCC members in these sectors would be front-loaded.
- Labour-abundant Arab economies (Egypt, Morocco, Tunisia, Jordan, Iraq) should be designated as "labour-intensive manufacturing and agri-processing hubs," with GCC investment directed into building competitive supply chains in these countries rather than replicating capacity domestically.
- A GCC Government Procurement Carve-Out would permit Gulf states to maintain national preferences in public procurement for a defined transitional period (7–10 years), allowing Vision 2030 sectors to reach competitive scale before being exposed to full Arab market competition.
- Sector-specific timelines for market opening — modelled on WTO accession protocols — would give Gulf infant industries longer phase-in periods in sensitive sectors, while non-sensitive sectors are opened immediately.

GCC Concern	Root Cause	Design Response in PAFTA
Labour market disruption / Nationalisation	Large Arab workforce inflows threaten Saudization/Emiratization	Skills-tiered MRA; nationalisation exemptions in treaty; safeguard clauses
Sovereignty dilution	Resistance to binding supranational authority; burden-sharing costs	Consensus voting; multi-speed architecture; conditionality-linked cohesion fund
Intra-GCC strategic divergence	Saudi-UAE competition; fragmented bilateral FTA strategies	GCC Unity Protocol; trade coordination committee; sovereign wealth co-financing
Non-oil sector competition	GCC Vision 2030 infant industries vs cheaper Arab neighbours	Industrial Specialisation Compact; procurement carve-outs; tiered phase-in
Security & political risk contagion	Instability in Egypt, Iraq, Libya, Sudan, Yemen spilling into GCC	PAFTA participation conditional on WTO membership and rule-of-law benchmarks
Pan-Arab ideology / political identity	Historical GCC preference for South Asian over Arab labour	Integration framed as economic modernisation, not political unification; national sovereignty guarantees in treaty preamble

Table 4: GCC Concerns, Root Causes, and PAFTA Design Responses

Addressing GCC concerns is not a concession to the status quo — it is the price of building an integration framework that is durable rather than merely aspirational. The EU itself was not built by ignoring French agricultural protectionism, German industrial anxieties, or British sovereignty concerns; it was built by designing institutions sophisticated enough to accommodate them. An Arab Common Market that takes GCC concerns seriously, embeds them in the treaty architecture, and gives Gulf states genuine co-ownership of the governance framework will not only win their participation — it will mobilise the $4+ trillion in Gulf sovereign wealth, the UAE's trade network, and Saudi Arabia's geopolitical weight in service of a collective Arab economic project of historic ambition.

6. Recommendations: A Roadmap for Pan-Arab Free Trade

Based on the analysis above, this paper sets out the following recommendations, organised into three phases:

Phase 1: Foundations (Years 1-5)

Recommendation 1: Upgrade GAFTA into a Comprehensive Economic Partnership

Arab governments should negotiate a successor agreement to GAFTA that extends coverage to services (financial, telecommunications, transport, professional services), investment protection and facilitation, and government procurement. The model should draw on the UAE's Comprehensive Economic Partnership Agreements (CEPAs) — which have demonstrated that Arab states can negotiate sophisticated bilateral economic partnerships at speed — but apply this framework multilaterally across the Arab world.

1. Launch negotiations for a Pan-Arab Comprehensive Economic Partnership Agreement (PACEPA) under Arab League auspices, with a 5-year target for completion.
2. Extend the GAFTA Secretariat's mandate and capacity to serve as a nascent PACEPA Secretariat, with additional financing from GCC sovereign wealth funds.
3. Establish a dedicated Pan-Arab Trade Facilitation Fund to harmonise customs procedures, reduce documentation requirements, and invest in cross-border logistics infrastructure.

Recommendation 2: Eliminate Non-Tariff Barriers

Tariff elimination alone has proven insufficient to drive trade integration. Arab governments should commit to a binding programme of non-tariff barrier elimination, focusing specifically on:

- Mutual recognition of product standards and conformity assessment procedures, using Gulf Standards Organization frameworks as a template.
- Harmonisation of sanitary and phytosanitary standards for agricultural trade, eliminating the current discretionary exclusions that undermine GAFTA's agricultural provisions.

- Adoption of a pan-Arab “Single Window” electronic customs platform, reducing export compliance costs toward high-income economy benchmarks.
- Elimination of services market restrictions through a “negative list” approach, where all sectors are open to intra-Arab trade unless explicitly excepted.

Recommendation 3: Establish an Arab Common Court of Trade

A credible dispute resolution mechanism is essential to making trade commitments credible. The Arab world currently lacks any binding multilateral trade dispute adjudication. An Arab Common Court of Trade, modelled on the WTO’s Dispute Settlement Body but with expedited procedures and Arab legal expertise at its core, would give businesses the legal certainty needed to make long-term intraregional investments.

Phase 2: Deepening (Years 5-12)

Recommendation 4: Build a Pan-Arab Customs Union

Having achieved deeper services and investment integration under PACEPA, Arab states should move toward a common external tariff — the defining feature of a customs union and the necessary precondition for exercising unified negotiating power in global trade diplomacy. The GCC’s existing common external tariff structure provides a template that could be extended, with appropriate transitional arrangements, to the broader Arab membership.

Recommendation 5: Develop Strategic Arab Value Chains

Governments and the private sector should jointly identify and support the development of five to ten “Arab Champion” industries that can achieve global competitiveness through intraregional scale: renewable energy equipment and technology (leveraging massive Arab solar and wind resources); halal food processing and export; pharmaceutical manufacturing; financial technology (fintech and Islamic finance); and regional logistics and transport. State investment vehicles such as Saudi Aramco’s Prosperity7, Mubadala, and the Egyptian Sovereign Fund should be directed toward cross-border ventures in these sectors.

Recommendation 6: Institutional Strengthening

Arab governments should commission an independent study to design a pan-Arab economic governance institution with genuine regulatory authority — an Arab Economic Commission — modelled on the European Commission’s regulatory and competition functions. This institution should be financed on a formula basis, with GCC states providing the majority of initial capitalisation in exchange for permanent Council seats.

Phase 3: The Arab Common Market (Years 12-20)

Recommendation 7: Move Toward Free Movement of Capital and Labour

A true common market requires the free movement of production factors, not merely goods and services. Arab states should develop, over the longer term, frameworks for the free movement of skilled labour — beginning with mutual recognition of professional qualifications — and for the liberalisation of intraregional capital flows, building on GCC countries' already considerable cross-border investment activity.

Recommendation 8: Deploy the Arab Common Market as a Global Negotiating Platform

Once the institutional architecture is in place, Arab governments should designate the Pan-Arab Secretariat as the sole authorised negotiator for future free trade agreements with external partners: the EU, the United States, China, India, ASEAN, and MERCOSUR. Negotiating as a $4 trillion bloc with energy export dominance and strategic geographic control would transform Arab countries from individually modest negotiating counterparts into a global trade power of the first rank. Priority agreements should include an Arab–EU Association Agreement covering full market access in goods, services, and investment, and an Arab–China Belt and Road Trade Framework that channels Chinese infrastructure investment into Arab value chains rather than merely transit routes.

Recommendation 9: Leverage the Arab Common Market for Climate Transition

The Arab world's extraordinary renewable energy endowment — some of the world's highest solar irradiance and wind resources — positions the region to become a global leader in green hydrogen, solar energy exports, and green ammonia production. A coordinated Arab renewable energy market, connected by pan-Arab grid infrastructure and supported by common investment and regulatory frameworks, would allow the region to export clean energy to Europe and Asia at scale, replacing hydrocarbon revenue streams with green energy revenues and positioning Arab states at the centre of the twenty-first century energy transition rather than its margins.

7. Conclusion

The Arab Common Market is not a dream deferred indefinitely. It is a concrete, technically achievable project with a clear historical precedent, strong economic logic, and an urgent strategic rationale. The Arab world is at an inflection point. The coming decade will see the diversification imperative sharpen as oil demand peaks, the youth demographic bulge intensifies pressure on employment markets, and the global order reshuffles around new trade blocs and supply chain alignments.

The lesson of ASEAN, the EU, and the Arab world's own experience with the Qatar crisis and the Saudi–UAE relationship is unambiguous: political disagreements do not prevent trade, and trade integration does not require prior political harmony. What it requires is the deliberate construction of institutions strong enough to insulate economic relationships from political fluctuations — and the strategic vision to see that a unified Arab economic voice in global trade negotiations is worth more than the sum of its currently fragmented parts.

A $4 trillion Arab Common Market, negotiating as one, anchored by world-class sovereign wealth, endowed with irreplaceable energy resources, and connected by the world's most strategic maritime arteries, would not merely be a regional economic achievement. It would be one of the defining geopolitical reconfigurations of the twenty-first century — a sleeping giant, finally awake.

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