Is a Medi-Arab economic union is a solution to take off the region’s trade and economy? 
(a panel cointegration approach)

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Abstract

This paper employs the panel cointegration tests to analyze the long run relationships between the macroeconomic variables in the Arab Mediterranean countries’ to know if an economic integration is possible between these countries or not covering 8 countries: Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Palestine and Syria, using annual data from 1980 to 2017. A panel Cointegration analysis and the cointegration regression are applied result indicated that there is a panel long-run equilibrium relationship among the countries. The regression coefficients of FMOLS indicated that the Medi-Arab countries can really benefit from an economic integration and this can be a good solution to take off the economy in time of unbalanced social situations and to face the oil crisis results and to delete all trade borders.

Keywords: Mediterranean Arab countries, Economic integration, panel cointegration,

Jel classification : F36, C23, F49

I- Introduction :

The consequences of the Arab revolutions in 2011, which vary greatly from country to country, and in particular the eruption of the Syrian conflict, have caused a distinction between a more stable North Africa (including Egypt). Despite the unresolved challenges of political transition, and a Middle East that is undermined by both the Israeli- Palestinian conflict and now by the Syrian civil war. And because of the recent oil crisis 2014 which battered the Mediterranean

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Arab countries while most of them are petroleum exporters especially Algeria, Libya, Egypt and Syria economies at a time of degenerating security conditions in Northern Africa, raising concerns about the ability of the OPEC nation to weather the resulting economic, political, and security shocks.

However, integration has become an urgent necessity for the post-revolutionary countries: they must restore the confidence of domestic and foreign investors, meet the social and economic expectations of their populations by increasing salaries and strengthening social protection – which increases deficits and the wariness of investors – and also find new markets to make up for the Mediterranean Arab countries slowdown. From this point of view, setting up a more integrated market on the borders with Mediterranean Arab countries from Africa and Asia may regenerate the economic fabric and increase cross-border professional opportunities, by increasing activity and employment. Secondly, the deterioration of budget balances (debt, loss of markets, slowdown in external revenue – direct foreign investments, payments from emigrant workers, revenue from tourism) has led to a call on foreign aid. With European and American aid budgets affected by the crisis, and faced with some reluctance in western public opinion with regard to Islamist governments, the Gulf monarchies have become essential partners. The 'Deauville partnership' confirms this situation. Finally, From the beginning, it has favoured the economic route, as economic liberalisation is seen as a precursor to political reform. The purpose of the free trade agreements was to move from preferential treatment for the Arab countries of the Mediterranean to a reciprocal agreement. This was designed to stimulate competition and trade, to encourage investment and technology transfers and, ultimately, to boost the economies of those countries while improving their business climates. Stimulating growth creates employment and increases income per head. So the aim of this study is to answer the question: is a Medi-Arab union can be true? And what can these countries benefit from this economic integration?

• Literature review:

- Hatice Kerra Geldi (2012), quantifies the most likely trade effects of the exceptional cases of the GATT/WTO system, namely, Regional Integration Agreements, on the selected member as well as non-member countries of the EU, NAFTA, MERCOSUR and AFTA. To this end, the gravity model was estimated through fixed effects model and panel cointegration analysis. It was found that the explanatory power of the latter has superseded the former one. For the case of EU, it was found that the intra-union trade-creation effect is approximately six times larger than extra-union effects. In NAFTA, exports to outside countries are significantly diverted.

- Scott L. Baier et al (2014), provides the first evidence using gravity equations of both intensive and extensive (goods) margins being affected by EIAs employing a panel data set with a large number of country pairs, product categories and provides the first evidence of the differential (partial) effects of various “types” of EIAs on these intensive and extensive margins of trade. The results are robust to correcting for potential sample-selection, firm-heterogeneity, and reverse causality biases.

- Fatima Mohamed-Chérif and César Ducruet (2015), studied the possibility of an economic integration in the Maghreb region (Algeria, Morocco, and Tunisia), which is currently responsible for no less than one-third of all African port throughputs, offers a fertile ground to test the possibility for regional integration to occur through maritime linkages despite limited trade integration and land-based transport connectivity. Main results highlight the increase of
trans-Maghreb maritime connectivity but this occurs mostly at the periphery of the system based on transit flows. Logistical integration versus trade integration is discussed in light of the recent evolution of Maghreb ports and of the region in general.

II- Theoritical framework : Economic integration concepts
1- What is economic integration ?

In everyday usage the word "integration" denotes the bringing together of parts into a whole. In the economic literature the term "economic integration" does not have such a dear-cut meaning. Where Jan Tinbergen defined it: “all processes of economic integration include two aspects: Negative integration: the elimination of obstacles and Positive integration: harmonization, coordination of existing instruments”.

According to Allen's (1963) review of Balassa's book: “the basic ingredient of any integration form is the elimination of barriers to trade among two or more countries”. He also stresses the point that although traditional international trade theory has dealt with the effects of reduction of trade barriers, a separate theoretical framework is needed to study issues of economic integration.

From these definition economic integration can be defined as follow :

- a process by which the firms and economies of separate states merge in larger entities.
- The combination of several national economies into a larger territorial unit.
- It implies the elimination of economic boarders between countries. (Economic borders: any obstacle, which limits the mobility of goods services and factors of production between countries).

2- Levels of economic integration:

There are several levels of economic integration shown in figure 01 as follow:

**Figure01. levels of economic integration**

- **Preferential Trade Agreement (PTA)**: A trade pact between countries that reduces tariffs for certain products to the countries who sign the agreement. While the tariffs are not necessarily eliminated, they are lower than countries not party to the agreement. It is a form of economic integration.

- **A Free Trade Agreement (FTA)**: is a PTA in which member countries do not impose any trade barriers (zero tariffs) on goods produced within the union. However, each country keeps its own tariff barriers to trade with non-members. This is usually referred to as "trade integration".

- **Customs union (CU)**: Agreement between two or more (usually neighboring) countries to remove trade barriers, and reduce or eliminate customs duty on mutual trade. A customs union (unlike a free trade area) generally imposes a common external-tariff (CTF) on
imports from non-member countries and (unlike a common market) generally does not allow free movement of capital and labor among member countries.

- **Common market:** A Common Market (CM) is a CU which further allows free movement of labor and capital among member nations. This is usually referred to as "factor integration". At the beginning of 1993, the EU achieved the status of a CM.

**Remarque:** The most advanced type of economic integration is the Economic Union, where the monetary and fiscal policies of member states are harmonized and sometimes even completely unified. This is usually referred to as "policy integration". The extreme case of an Economic Union could be a Monetary Union (MU). A good example for the former is the countries of the EU who use a single currency, the Euro. (Amr Sadek Hosny, 2013)

*Figure02.* integration in Europe and its economic relations


3- **Pre-conditions and key principles for successful regional integration:**

3.1- **Pre-conditions:**
A successful regional integration is premised on a number of pre-conditions. As far as politics is concerned, these relate to the existence of:

- domestic peace/security in countries.
- Political and civic commitment and mutual trust among countries.

With regard to economics, there is a need for a minimum threshold of macro-economic stability and good financial management in countries (price stability, realistic real exchange rates, etc.); and sufficiently broad national reforms to open markets. (Lolette Kritzinger-van Niekerk, 1996)

3.2- **the Key principles:** successful integration has to be guided by principles, which would assure that the subregional and the national programs are compatible and mutually reinforcing. In more details:

- **Openness:** National and regional markets too small: openness to the rest of the world is essential.
- **Open Regionalism:** First, this implies outward-orientations. Second, it implies a market-driven integration process. Third, private sector involvement is implied by the very idea of a well-functioning market.
- **Subsidiarity:** Subsidiarity simply means that regional institutions should be responsible only for those activities that are not better handled at the national level. In return,
government must be selective and parsimonious in creating sub-regional organizations and initiatives

- **Private sector leadership:** Integration must be for the people; private sector is the engine of integration
- **Pragmatism:** Variable geometry (countries join when ready and appropriate); variable speed (not all issues simultaneously); variable depth (degree of supranationality)

**Figure03.** The reasons that can drive economic integration to fail.

**Source:** author’s own

4- **What are the advantages and the disadvantages of economic integration?**

The effects of regional trade agreements on people, jobs, companies, culture, and living standards spark debate and the main negative and positive consequences are represented in table 01:

**Table.01** Economic integration consequences

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>- Trade creation:</strong> where economic integration provides an increase in trade between countries in the region and gives consumers and industrial buyers a wider selection of goods and services not available beforehand with cheaper prices. - Greater Consensus:** by eliminating the trade barriers in smaller groups of countries, it becomes easier to gain</td>
<td><strong>- Creation Of Trading Blocs:</strong> economic integration may increase trade barriers against non-member countries. - Trade Diversion:** Because of trade barriers, trade is diverted from a non-member country to a member country despite the inefficiency in cost. - National Sovereignty:** Requires member countries to give up some degree of control over key policies like trade, monetary and fiscal policies. The higher the</td>
</tr>
</tbody>
</table>
consensus as opposed to working in the far larger WTO.
- **Political Cooperation:**

This integration is an essential strategy to address the effects of conflicts and political instability that may affect the region. It is also useful tool to handle the social and economic challenges associated with globalization.

- **Employment Opportunities:**

Regional integration can expand employment by enabling people to move from country to country for work, or to earn a higher wage.

| Source: author’s own |

| III- A Mediterranean-Arab economic integration (MAEI): can it be a reality? |

Arab economic integration (AEI) has been on the agenda of Arab politicians and intellectuals and of interest to the Arab public at large for some fifty years. However, for so many issues where the most of these agreements have not been effective and many were never fully implemented, resulting in limited intraregional trade compared with other regions. Therefore, we are trying in this paper to test the possibility for a Mediterranean Arabic integration which include the following countries: Morocco, Algeria, Tunisia, Libya, Egypt, Syria, Lebanon and Palestine. Where this regions may regroup many of economic integration’s principles illustrated as follows:

1- **Geographical position**

One of the most obstacles on the path of foreign trade is there geographical position. But for the Mediterranean countries this can’t be considered as an obstacles due to its strategic geographical location. Where this bloc is consisted of coastal countries overlooking the Mediterranean Sea, which is considered as an important trade route for all countries of the world, where the entire globe needs to pass through the Mediterranean to transport goods from East to West. All this facilitates the ease and freedom of movement of goods among the medi-Arab countries, as well as their integration as a unified bloc in the international markets (due to their good economic relations with the EU countries) to reduce the gap between them and among the developed countries.

**Figure.04** the geographical position of the Medi-Arab region

**Source:** Author’s own
2- Adaptation to market economy

One of the major problems that needs to be handled on while examining the efforts of the country referred as Medi-Arab countries (with regard to their geographical position is the integration of countries to the rules of market economy and to get integrated to the global economy from another side. One of the most important indicator of this part is the market’s freedom of each country of Medi-Arab countries is represented in figure 04.

**Figure.05** freedom of market and trade in medi-Arab region (2017)

Source: data processing

The free market is an economic system based on supply and demand with little or no government control. It is a summary description of all voluntary exchanges that take place in a given economic environment. Free markets are characterized by a spontaneous and decentralized order of arrangements through which individuals make economic decisions. Based on its political and legal rules, a country’s free market economy may range between very large or entirely black market.

From figure 4 we can notice that this region have an approximate percentage of the market freedom between 56% in Syria as a lowest percentage and 88% as a highest percentage registered in Palestine. This percentages means that governments still control some of the prices, for example, Algeria with 60% of freedom of the market is due to the price support policy, where Algeria supports the prices of many essential goods (milk, sugar, coffee, tea, Gasoline…) which make prices more stable and under state’s control.

3- Inter-country macroeconomic variation

The similarity of the macroeconomic balances of the Medi-Arab countries is another important condition to create the intended results from the economic integration, in order to have similar levels of welfare.

- One of the most important indicator is the gross domestic product (total and per capita) which is represented in the following graph:
From figure 06 we can notice that most of the region countries have positive growth rate starting with morocco with the highest rate 4.09% to Lebanon with 1.81% except Libya and Syria which registered a big fall in GDP growth rates -12.62% and -11.1% respectively. This fall was because of the civil war known by “Arab spring” that have started in 2010. For Syria’s decline in the GDP in 2012 is explained by the sharp drop in all GDP components: a sharp 75% reduction in public consumption, a considerable 81 percent drop in private consumption, a considerable decline in foreign investments, the flight of large amounts of foreign capital, and the slowing down of foreign trade. This rates continue to decrease until 2016 and 2017 where it starts to raise again but as a war destroyed country may needs to this integration to have more aids and help from the region’s country. The same thing for Libya that suffered from both the civil war, the death of their president that causes a political destruction in addition to the oil crises because it’s a rural country with various naturel resources.

- **Second macroeconomic indicator is personal income represented by the GDP per capita** that shows the income variations between countries

From figure 06 we can notice that Almost all economies have been touched by the last crisis, Algeria registered a decline from 5466$ to 3916$ due to the last oil crisis that began in mid 2014, the same thing for Libya which are both rural economies depending on oil exports. Tunisia has also marked an obvious drop from 4270$ to 3688$ as a consequence of the unstable
social circumstances and political issues (civil war) that causes a decline in Tourism revenues which was an essential resource for the state treasury. However for Morocco, Palestine and Lebanon stood on the same level (approximately) and Egypt have registered a small increase about 150$ from 2014 to 2016. Therefore, what should be noticed is that Lebanon have the highest personal income more than 8000$ this is the result of its small superificies and the smallest population in the region. (Remarque: the personal income presented by the GDP per capita doesn’t reflect the real income of all population, but it represent the average of the total domestic product divided on population). As a final conclusion the Medi-Arab countries have almost the same macroeconomic levels and can be integrated in way that can help damaged economies (Syria, Libya and Palestine) and that can increase cooperation in improving social economic living levels.

- Foreign investment and foreign trade
  1- Foreign investment

Infrastructural development of the countries in the region must vary largely particularly the fact that the sources of raw materials vital for the manufacturing industry also vary among the Medi-Arab countries which make them more attractive to the foreign investment.

**Figure.07 foreign investment in Medi-Arab region**

From figure 07 we notice that in 2015 Algeria records a negative inflow for the first time. Egypt on the contrary sees a strong rise (+49%) marking the return to the pre-revolution FDI levels. Lebanon and Palestine monitor a 37%, 19% and 25% decline respectively. In Libya, after an inflow close to zero in 2014, foreign investors are back. The slight decrease in Morocco (-11%) after a record year in 2014 does not prevent the country from confirming its dominant position in Africa. FDI inflows still remain subdued in 2015 in Tunisia. However UNCTAD report WIR 2016 as well as project announcements detected by the ANIMA-MIPO Observatory suggest that despite the global decrease in investment recorded in this region, but these MED countries will confirm their good performance over the coming years especially. Therefore and because of their imperative natural, touristic and states efforts to take off the economy, where this economic integration may be a solution to get united to get up with these countries from many dimensions, political, economic, social and security to attract more FDI flows.

2- Foreign trade capacity
In economic integration, participating countries are preferred to have completed their industrialization phase and to have different production expertise countries in the region can trade also in the areas where they are weak.

**Table.02 Medi-Arab imports and exports**

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>In 2016 Morocco exported $22.6B, making it the 51st largest exporter in the world.</td>
<td>In 2016 Morocco imported $41.5B, making it the 46th largest importer in the world.</td>
</tr>
<tr>
<td>Algeria</td>
<td>In 2016 Algeria exported $29.9B, making it the 46th largest exporter in the world.</td>
<td>In 2016 Algeria imported $47B, making it the 43rd largest importer in the world.</td>
</tr>
<tr>
<td>Tunisia</td>
<td>In 2016 Tunisia exported $12.9B, making it the 59th largest exporter in the world.</td>
<td>In 2016 Tunisia imported $18.8B, making it the 59th largest importer in the world.</td>
</tr>
<tr>
<td>Libya</td>
<td>In 2015 Libya exported $8.78B, making it the 91st largest exporter in the world.</td>
<td>In 2015 Libya imported $11.4B, making it the 92nd largest importer in the world.</td>
</tr>
<tr>
<td>Egypt</td>
<td>In 2016 Egypt exported $22.4B, making it the 52nd largest exporter in the world.</td>
<td>In 2016 Egypt imported $57.7B, making it the 39th largest importer in the world.</td>
</tr>
<tr>
<td>Palestine</td>
<td>In 2015 Palestine exported $985M, making it the 146th largest exporter in the world.</td>
<td>In 2015 Palestine imported $4.83B, making it the 129th largest importer in the world.</td>
</tr>
<tr>
<td>Lebanon</td>
<td>In 2015 Lebanon exported $2.44B, making it the 125th largest exporter in the world.</td>
<td>In 2015 Lebanon imported $16.7B, making it the 81st largest importer in the world.</td>
</tr>
<tr>
<td>Syria</td>
<td>In 2015 Syria exported $613M, making it the 158th largest exporter in the world.</td>
<td>In 2015 Syria imported $4.68B, making it the 130th largest importer in the world.</td>
</tr>
</tbody>
</table>

**Source:** Standard International Trade Classification

**Figure.08** number of products exported by the Medi-Arab countries
Taking the Medi-Arabs region as a bloc and captivating economic integration in consideration we can say that there is a wild exported product’s base. Where Algeria and Libya are major exporters of energy especially oil and gas in addition to the renewable energies which is considered as a new project in this reach areas but due to its dependence on this energies they have neglected other industries where they export only 20 and 17 products respectively. Egypt as the most various exports base is famous with precious metals exports (especially gold) and 253 products (energy, minerals, chemicals, agriculture…) followed by Lebanon with 237 products (their top exports are jewelry, scrap copper, chocolate…) and Tunisia with 230 product wires exports in the first rank. Palestine exports about 196 products with building stones as a leader, Morocco exports 165 product (cars, wires, minerals…). Finally, Syria even as a destroyed country have a variety of exports where spice seeds is the tops exports.

- **Trade agreements in the region:**
  - the Agadir Agreement between Tunisia, Morocco, Jordan, and Egypt, in force since 2007, remains open to other Arab Mediterranean countries provided full liberalization of trade in industrial and agricultural goods among member countries.
  - Palestine and Jordan have signed a Free Trade Agreement;
  - Egypt, Lebanon, Morocco, the Palestinian Territories, Syria and Tunisia have signed bilateral agreements with Turkey.

Negotiations are underway between other Mediterranean countries to establish similar agreements.

All this indicators and statistics shows all the power and weakness points of each country giving a better image of the possibility of the economic integration, and how can these countries benefit from. This Still only a theoretical view needs an econometric implication to be more supported

**IV- Empirical framework : will the implication of a Panel cointegration supports the MAEI empirically?**

1- **Data and method:**

The sample covers 9 countries : Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Palestine and Syria, where we have used annual data extracted from different international organizations such as FMI, world Bank, UNTCD, African development bank… from 1980 to 2016 which include all structural changes and economic fluctuations under macroeconomic uncertainty in the Medi-Arab countries. These data represents different economic indicators and sectors. [GDP per capita (GDPc), Exports, imports, industrial production, Foreign direct investment (FDI) and real exchange rate index (Reer index)].

To reach the aim of this study, the cointegrated panels, using ordinary least square (OLS) method to estimate the long-run equation leads to biased and inconsistent estimator of the parameters. OLS estimates suffer from asymptotic bias unless the regressors are strictly exogenous, so that the OLS standard errors cannot generally be used for valid inference. We estimate the long-run coefficients by using the fully modified ordinary least square (FMOLS) that have been has been proposed by Pedroni (1999, 2004).

2- **Results**
2.1- Panel unit root test: While these tests are commonly termed “panel unit root” tests, theoretically, they are simply multiple-series unit root tests that have been applied to panel data structures (where the presence of cross-sections generates “multiple series” out of a single series). Moreover, in our study we have used augmented Dickey Fuller (1979)

Table.03 panel ADF unit root test

<table>
<thead>
<tr>
<th>variables</th>
<th>Panel ADF stationarity test (prob)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>level</td>
<td>1st difference</td>
</tr>
<tr>
<td>GDPc</td>
<td>0.0002</td>
<td>-</td>
</tr>
<tr>
<td>exports</td>
<td>0.9982</td>
<td>0.0493</td>
</tr>
<tr>
<td>imports</td>
<td>0.9999</td>
<td>0.0002</td>
</tr>
<tr>
<td>Industrial production</td>
<td>0.6609</td>
<td>0.0000</td>
</tr>
<tr>
<td>FDi</td>
<td>0.3755</td>
<td>0.0000</td>
</tr>
<tr>
<td>Reer index</td>
<td>0.1053</td>
<td>0.0041</td>
</tr>
</tbody>
</table>

Source: data processing

2.2- Fisher’s cointegration test:

Once it is found from the unit root test that the variables are stationary, then the next step is to apply co-integration analysis to examine whether a long run co-integration relationship exists among those variables or not. Fishers method of co-integration allows for heterogeneity across individual members of the panel.

Table.04 Fisher’s cointegration results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>54.48</td>
<td>0.0000</td>
<td>33.73</td>
<td>0.0002</td>
</tr>
<tr>
<td>At most 1</td>
<td>30.09</td>
<td>0.0008</td>
<td>25.33</td>
<td>0.0047</td>
</tr>
<tr>
<td>At most 2</td>
<td>14.11</td>
<td>0.1680</td>
<td>7.036</td>
<td>0.7221</td>
</tr>
<tr>
<td>At most 3</td>
<td>21.73</td>
<td>0.0165</td>
<td>21.73</td>
<td>0.0165</td>
</tr>
</tbody>
</table>

Source: Data processing.

From table 04 we can notice that long run relation between the Medi-Arab region exists since there is two cointegrations. Which means that an economic integration between: Morocco, Algeria, Tunisia, Libya, Palestine, Lebanon and Syria can be a reality even if there are only two cointegrations which means that these countries should work more and fix things so this integration can be more efficient.

2.3- Panel long-run estimates (FMOLS)

After assuming that there is a long run relationship between the Medi-Arab countries, now we move to the panel long run estimation, the variables coefficients are represented in table 05

Table05. FMOLS estimation results
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDPC</td>
<td>0.979933</td>
<td>0.010545</td>
<td>92.92654</td>
<td>0.0000</td>
</tr>
<tr>
<td>IMPORTS</td>
<td>-2.11E-11</td>
<td>5.75E-12</td>
<td>-3.665255</td>
<td>0.0003</td>
</tr>
<tr>
<td>EXPORTS</td>
<td>6.17E-11</td>
<td>9.77E-12</td>
<td>6.319775</td>
<td>0.0000</td>
</tr>
<tr>
<td>FDI</td>
<td>-0.022852</td>
<td>0.008278</td>
<td>-2.760601</td>
<td>0.0064</td>
</tr>
<tr>
<td>INDUSTRIAL_PRODUCIN</td>
<td>0.049830</td>
<td>0.008955</td>
<td>5.564230</td>
<td>0.0000</td>
</tr>
<tr>
<td>REER_INDEX</td>
<td>-0.032017</td>
<td>0.010260</td>
<td>-3.120429</td>
<td>0.0021</td>
</tr>
</tbody>
</table>

**Source**: data processing

From table 5, we notice that all probabilities are less than 5% which means that all our variable are significant, and a long run relationship exists between them. So as a result of an economic integration between the countries under study:

- GDP per capita will increase since its coefficient is positive which means that living level for citizens may increase. As it expands employment by enabling people to move from country to country for work, or to earn a higher wage

- Imports will decrease when these countries cooperate in the field of trade by exchanging raw materials and products that don’t exist in one country since there are no longer tariffs or quotas on trade of industrial goods. and exports will increase between them and to the external market as a unified market. The lower cost structure will also promote the firm's *international competitiveness* outside the trading blocs. “However, elimination of trade barriers also exposes a firm's home market to competition from firms located in other member countries, thus threatening less efficient firms” (Griffin/Pustay 2013, p. 288).

- Foreign direct investment will decline in the region, due to the civil wars in Syria and the Israel colonization in Palestine, but working together by cooperation agreements and by studying the gaps and economic-social problems will certainly bring solutions as an essential strategies to address the effects of conflicts and political instability that may affect the region.

- Industrial production will increase, liberalising trade and foreign direct investment and the different regional alliances eliminating trade barriers, adopting a common external trade policy and allowing factors of production to move freely between members, will lead to new markets with regard to sourcing, and selling and to new sites for production. Firms can reduce their production costs by capturing *economies of scale* when expanding their customer base within the trading bloc.

- Exchange rate registered also a decrease, which means that economic integration will lead to increase the value of currency especially if they unified one common currency as Euro in the European Union.

**Conclusion**

Regional integration agreements have been an important topic in the economic literature that study the motives for their existence, theoretical background and the effects of these agreements on both the individual countries and the overall trading system. This study focuses on the economics of the Mediterranean Arab countries and testing the possibility of integration as Medi-Arab union. The results had approved that these countries can really benefit from the economic Union in various dimensions, social, economic and also in security... however conflicts in Syria, Lebanon and Palestine may cause some problems only if this integration was directed in a manner that may solve this issue. In addition money and trade union may raise
competitiveness of local products and allow the region markets to integrate in the international markets in addition to the raise of currency values.

This study can be done in a better way using more advanced econometric and statistic methods used by the international organizations, because it’s a good idea that can serve the personal and general interests.

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