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Libya and Foreign Investments: Using SWOT Model to Evaluate the Libyan Business Environment

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Abstract

This paper aims to investigate whether or not the Libyan business environment is appropriate to attract foreign companies, particularly in the non-hydrocarbon sectors. The research method used in this paper is based on qualitative research techniques, and summarise the PhD thesis findings of both methods and categorising them as variables, to create SWOT model to evaluate the Libyan business environment in relation to attracting foreign direct investment (FDI). The paper reveals clear that the weaknesses outnumber the strengths. . It discovered, moreover, that there are many challenges facing Libyan senior officials in order to reform the business environment in order to make it more attractive for FDI. It recommends that Libyan government has to undertake the delayed economic, financial, legal, administrative and political reforms to create the base for efficient resource creation and utilisation in order to boost economic development. This will provide the opportunity for the development of a market economy and also integration into the global economy thereby engaging with multinational companies in order to attract further FDI.

Keywords: Foreign Investments; Libyan Business Environment

1. Introduction

Lying in the middle of the North African region Libya is going a new democracy state. It has a significant geographical location. The vast Libyan land extends from the middle of the northern coast of Africa to the central African highlands. The Libyan boarders occupy 1900 kilometres or otherwise extend 12 knots along the southern Mediterranean coast, separated from the southern European coast by the Mediterranean. Moreover, the Libyan land extends between 1900 to 2000 kilometre into the African main land whereby a number of caravan routes link it to the Sudan and West Africa. These routes had played a major role in the past regards transport and trade activities between the Mediterranean and the northern Sahara (Shernanna and Abdulla, 2007). Furthermore Libya has numerous resources of oil and gas besides other natural resources such as the vast arable land, water resources, the climate, animal and marine resources not to mention its tourism potentials and the various mineral resources.

The Libya, as is the case with other developing countries, suffers from numerous financial and economic problems such as a dependency on the oil and gas sector as the main source of the national income. In addition, the limited capacity of its local market given its relatively small population of not more than 5.7 million according to the latest census in 2006 (Population Census, 2006) acts as a constraint on economic growth. However, the huge potential of the hydrocarbon sector, the high levels of financial flows generated from these resources that can provide a reliable source of capital, and the need to develop the country's infrastructure should make Libya a target for foreign direct investment (FDI). Such investment is promising for the simple reason that the use of the associated modern technology provides the ideal investment for the local natural resources.

Foreign investment, particularly FDI, is not a new phenomenon in Libya. The first law in relation to FDI came into force in Libya on 30 January 1958. This was followed by Law No. 37 of 1968, which was amended by Law No. 5 of 1997 with regard to the encouragement of the foreign capital, and which came to force on 29 May 1997, sometime before the enforcement of its executive regulations. A further limited amendment was implemented by Law No. 7 of 2003, which made it possible for local business using capital in Libyan Dinars (LD) to participate in joint ventures with the foreign companies. This law is mainly concerned at encouraging foreign capital, particularly in relation to projects which benefit from the introduction of new technology, training of local staff, diversification of income, the development of local products to meet international standards or otherwise contributing to local development (Article One of Law No. 7). Moreover, the idea of attracting the FDI into the Libyan economy is not new as it started as early as the 1950s. Thereafter FDI played a major role in the discovery of the huge oil and gas reserves which has contributed to increasing the foreign earnings for the state. These earnings have made it possible for the state to push ahead with its programmes of social and economic development across the economy for almost half a century.

However, despite the aforementioned advantages FDI in areas other than the hydrocarbon sector has rarely been attracted to Libya. Furthermore, FDI has made little contribution towards increasing the rate of capital accumulation in the Libyan economy. FDI has not exceeded 1.99% of total investment in the 1980s and 1990s. In other words that ratio would indicate that only US$199 would become available for every US$10,000 of the total investment required for economic development in Libya. But as yet most of the FDI in Libya has been directed towards the oil and gas sector (Abdulla, 2013).

The Libyan Investment Board (LIB) was established at the end of 1998 at a time when the business environment was particularly weak. A result, FDI inflows in its early years were slow. However, with the positive political developments in the Libyan-Western relationships since the suspension of UN sanctions in 1999 and the government's policy to improve the business environment FDI flows into the non-oil sector started from mid-2003.

2. Method

The paper methods used in this study are based on my PhD thesis data. The PhD data was depended on qualitative research techniques, and consists of two modes of data collection. The first was a questionnaire through which primary data from the representatives of the foreign and joint companies were assembled with the objective of establishing their attitudes towards Libyan business environment. The second method of data collection was structured interviews, which were conducted with the senior Libyan officials.

After summarising the PhD thesis findings of both methods and categorising them as variables, the paper used the variables in creating SWOT model to evaluate the Libyan business environment in relation to attracting FDI.

3. Results and Discussion

The SWOT matrix for Libya is constructed in table below the top row highlights the strengths and weaknesses of the Libyan business environment while the bottom row demonstrates opportunities and the threats facing both foreign investors and Libyan senior officials. Thus, table below shows the SWOT matrix of FDI and the Libyan business environment.

Strengths	**Weaknesses**
A young person's country High performance in human development Well developed in social justice and the contribution of women 61.8% of foreign investors are using local natural resources An attractive location A wealth of high quality fish Relative wealth of non-oil mineral resources Wealth of archaeological resources and nature tourism Transport and telecommunication services are improving Stock market launched in 2006 Good relations with the most countries especially in Africa and Europe A high level of social stability A strong financial position Strong GDP growth in recent years Bureaucracy is becoming less complicated Limited FDI projects licensed, only 128 companies during 2003-2008 Encouraging the local private sector from 1986	The most important difficulty in relation to the labour market is importing foreign labour because of the scarcity of skilled local labour Unorganised labour market Arable land at rate of 3%, invested in agriculture is 1% Low performance in the agricultural sector: 3.5% of GDP in 2007 Low performance in the industrial sector: 5.0% of GDP in 2007 Weak in tourism sector infrastructure Organisational and administrative problems in the tourism sector Lack of coordination between the public bodies to provide the infrastructure required for establishing industrial zones There is no clearly defined industrial strategy Lack of exploration studies Lack of coordination between the public bodies to formulate the investment strategy Problems of land ownership along the coastal strip Densely populated counties are suffer more than the rural counties from poor quality of infrastructure services except in water and sewage, and telecommunication services Deterioration of the financial sector Water sewage, disposal and solid waste services are deteriorating Weakness in the Libya bank system but steps taken to reform it Weakness in the electricity network Poor quality of public water Poor quality of waste disposal services Postage and delivery services are based on PO boxes without using street names and GPS does not exist Average quality of land transport with organisational problems of using roads Weakness in airports' capacities and facilities Weakness in ports' capacities and facilities Highly dependent on oil and gas sector OSS is not activated, Weakness in promotional campaigns There is no a constitution, Multiplicity of laws and regulations
Opportunities	**Threats**
Respondents have a positive attitude towards the quality of human resources High performance in human development Well developed in social justice and the contribution of women Foreign investors are satisfied with the specifications of human resources An attractive location Arable land at rate of 3%, invested in agriculture is 1% Climate is a relatively diverse A wealth of high quality fish The capacity of the MMRP is still limited and intangible Relative wealth of non-oil mineral resources Wealth of archaeological resources and nature tourism Representatives of foreign and joint companies are satisfied with telecommunication and transport services Transports and telecommunication services are developing Stock market launched in 2006 Reasonable development in mobile services Representatives of foreign and joint companies are satisfied with crime rate and entry and exit visas Good relations with the most countries especially in Africa and Europe Representatives of foreign and joint companies are satisfied with importing capital and accounting procedures Economic activities are based on private SMEs Bureaucracy is becoming less complicated Representatives of foreign and joint companies are satisfied with tax exemptions and transfer of profit Encouraging the local private sector from 1986 Encouraging FDI from 1998 with the establishment of the LIB, and in 2003 Libya returned to the international community There is a strategy for attracting FDI but it is not formalised	Lack of experience in dealing with multinational companies Limited material supplies and high prices A very limited water supply in areas which are suitable for agriculture There is no a clearly defined industrial strategy Problems of land ownership along the coastal strip Representatives of foreign and joint companies are not satisfied with financial, electricity, water and sewage, and disposal and solid waste services The agricultural and industrial companies suffer the most from poor quality of infrastructure Financial sector, water sewage, disposal and solid waste services are deteriorating Weakness in the banking system but steps have been taken to reform the system Weakness in capital and investment tools of insurance companies Poor quality of waste disposal services Poor infrastructure in the area of information exchange: limited number of internet users and subscribers Average quality of land transport with organisational problems of using roads Delays in the implementation of the railway project Weakness in airports' capacities and facilities Weakness in ports' capacities and facilities Representatives of foreign and joint companies are not satisfied with institutional and legislation stability Institutional and legislation instability is deteriorating Idea of tribalism still exists Representatives of foreign and joint companies are not satisfied with exporting funds and the audit system Instability in political institutions Representatives of foreign and joint companies are not satisfied with application procedures Bureaucracy is the most significant obstacle in the Libyan business environment Foreign companies suffer more from bureaucracy than other companies Instability in the administrative system OSS is not activated 30 projects worth LD11.3bn (UK£6.0bn) were cancelled between 2003 and 2008 Representatives of foreign and joint companies are not satisfied with land ownership and nationalisation guarantees Multiplicity of laws and regulations

4. Conclusion

The paper examines whether or not the Libyan business environment is appropriate to attract foreign companies, particularly in the non-hydrocarbon sectors. From the SWOT matrix, it is clear that the weaknesses outnumber the strengths. The most important points of strength, which are considered as opportunities, are the strategic geographic location and other natural resources such as fisheries, tourism sites and the non-oil mineral resources which have not been used effectively. Also, in the past decade Libya has altered its policies constructively to put the country on a positive track, including: most importantly, improving political relations with the majority of Western countries; liberalising the national economy from the previous domination of the public sector; encouraging local and foreign investment; and establishing a stock market as part of the process of liberalisation in order to facilitate the entrance of multinational companies to help build the Libyan economy.

The points of weakness, which are considered a threat to FDI, include: the lack of a clear cut industrial strategy; problems associated with land ownership on the coast which interfere with tourism planning; poor infrastructure; the failure to establish a one-stop-shop (OSS); and the multiplicity of laws and regulations.

The following recommendations can be made to improve the Libyan business environment in order to attract further FDI inflows:

(i) Libya must be transformed into a constitutional state. Accordingly, a modern state would be established to match the advanced revolutionary era in Libya.

(ii) Protection of investors' rights and the establishment of private property are essential elements of a market economy which can attract FDI.

(iii) A new vision and strategy has to be developed to make Libya an important financial and economic hub for Africa (Libya the gateway to Africa).

(iv) Integrated infrastructure development should be the main aim of the new development strategy.

(v) The introduction of one stop shop (OSS) to act as a mediator between the investor and the different government bodies must be considered.

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