

Assess the Foreign Investment Climate in Libya

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Abstract: In the late nineties and the beginning of the third millennium, Libya has started numerous attempts to reform the economics and political system, and began to give up control of the State on the economy, as well try pushing the local private sector and foreign to participate in economic activity, the Libyan authorities has adopted numerous actions to benefit from reform policies, in order in try to encourage private sector to gain lion share in the Libyan economy by privatising large number of public institutions, in addition, Libya updated legislation a number of laws to encourage and attracting investors to invest in Libya, despite these attempts, Libya did not achieve the desired goals due to various reasons .

This paper is an attempt to assess the foreign investment climate in libya, through survey of authorities actions to achieve reform's targets, and spotlight to what extend, Libya has benefited from reforms in side of attracting FDI.

Keywords: Libya, FDI, Reform.

1. INTRODUCTION

Foreign direct Investment (FDI) represents an important Indicator of the increasing interdependence of economies among countries of the world. Where (FDI) in its various forms is considered is the artery that maintains the continuity of the life of any economy. Therefore, the all countries aim setting at up programmes and policies to ensure the flow of investment, according to the goals and objectives of the economic system. the history of the foreign direct investment in the developing countries is going back to the nineteenth century, when this investment focused through the periods of colonialism in metals, agriculture and general services, and the beginning of the twentieth century had witnessed a revolution of a big part of the infrastructure in different places in the world through the foreign direct investment, as that the (FDI) is of great significance, especially to developing countries. they require (FDI) as one of the most important factors for financial funding. the variety of financial instruments has led to diversification in a bunch of global financial indicators and the investors began to have difficulty in analyzing which direction they should follow due to continuous updating of several market.(Assoc. prof. Dr. Ulusoy, Tolga. (2011). in addition to its financial value it is a means of acquiring the required knowledge and technology to gain success in economic projects, considered the Libyan economy is among those economies that require this kind of foreign investment to achieve the desired economic goals, timeliness is also important in the presentation of financial statements.(prof. Dr. Erdogan Murat, 2002), which are correlated with the objectives of the Libyan economic system for the subsequent stages. Libya is it has a lot of different natural sources, suitable geographic location, libya it is one of most countries should be benefiting from foreign direct investment, as that the financial assets are allocated to the components of the initial receipts of the financial asset in different forms. to see more,(prof. Dr. Erdoğan Murat). Libya after has gained its independence in early 1950s started to build a base of trade and economic exchange with the rest of the world, in particular with western Europe, this communicate generated economic growth, prevalence of education, deep-root of civil society, and built civilized cities, moreover, oil has been discovered which was a basic element to attract FDI in the beginning. when Libya adopted socialist regime, after the upheaval in 1969 door closed front of foreign investors and local investors. this means that socialism thoughts dominated on all activities in Libya in the second half of 1970s, till prevented the private sector from the post.(sheibani, g. n. 2000 – 2010). As, that in Libya involved in many political problems in 1980s, so Libya has faced sanctions because of political

issues; the USA hurried to impose sanctions on Libya in 1982; (despite the attempts of us business groups, led by oil companies that hold concessions in Libya to persuade the U.S. administration to ease a trade ban that was imposed on Libya during the eighties, the UN Security Council imposed sanctions on Libya in 1992 to press Tripoli to hand over two suspects wanted for the 1988 bombing of a US Pan-American Airways airliner over Lockerbie, Scotland. These sanctions put Libya in severe circumstances, and this led to economic shrinkage in all economic sectors and a developing recession. This harmful economic situation affected the Libyan economy. These difficult circumstances made Libya ask for foreign assistance. Therefore, Libyan authorities take forward steps to attract foreign direct investment, and tried to inflow it into the country to refresh the economy. (Teeb, as 2009) although there are real reforms is that there is a great reluctance of foreign investors to enter Libya. It can be formulated in the following research problem, it had to (do you the Libyan environment current form suitable for foreign investment or need a larger reform)? This paper is an attempt to assess the foreign investment climate in Libya, through a survey of authority's actions to achieve reform's targets, and spotlight to what extent Libya has benefited from reforms in side of attracting (FDI).

2. LITERATURE REVIEW

The Foreign direct investment it's as a conception doesn't go out of 'it is an addition to the product energy or an addition to capital. The Foreign direct investment, means that the increase and growth, as who invests means it develops, as increases money as in its final cash image, (Isa al-Ghazali 2004). Foreign direct investment history in developing countries dates back to the nineteenth century, where he focused this Alastmart during periods of colonialism in minerals, agriculture and public services sectors, and the early twentieth century saw the development of a large part of the infrastructure, in different parts of the world through foreign direct investment, including electric power and telecommunications. (benl tahir ,et. 2013). Foreign direct investment through the historical stages and different degrees in political and economic conditions, which affected the size, and the nature and structure foreign direct investment According to experts and economists, it was divided these developments into four basic stages: the traditional image the so- called style colonial foreign direct investment, this stage lasted until the end of World War II, Then change the pattern of foreign direct investment, after World War II, select the Bretton Woods conference in 1944, the international economic system beyond the war, led to the creation of the International Monetary Fund and the International Bank for reconstruction and development this phase was characterized using financial aid, technical and official grants. At this stage, foreign direct investment was not prevalent, as the external financing for developing countries dependent on official development assistance, while in the mid-fifties was foreign direct investment has witnessed a remarkable development, extended this stage until the year 1973. then Came phase Third. This extended phase of 1973 to 1982, this stage has seen a significant increase in foreign funding destined for developing countries Increased relative importance of foreign direct investment, in terms of funding patterns has evolved into a form commercial loan and reducing foreign aid and grants. Syndicated loans also appeared, which lent commercial banks helped to depart from the rules and norms of banking, commercial banks account for about 65% of all sources of external funding for developing countries to become debt of developing countries has increased ten times. (Duce, M. (2003). The fourth stage during this period, it deteriorated capacity of developing countries to service debt, In general began this stage in 1982, when the declaration of some countries' inability to pay debts owed to them, was hit by commercial banks, shocked, and it was triggered by reducing loans and grants and official aid volume, loans have become subject to certification of the International Monetary Fund to ensure the right of repayment. the funding problem of the fundamental problems facing the developing countries to achieve economic development, and for lack of actual savings achieved economic growth. In the midst of the global debt crisis and the complexity of the procedures for obtaining loans, grants and foreign, had eczema on developing nations to the climate to attract foreign investment, locally or internationally, in the early nineties FDI, new strong growth, through the increase of investment made, This evolution is due to the volume of investment to a number of multinational companies, in addition to technological advances, globalization and research and development . There are many theories that explain the foreign direct investment from developed countries through its multi-nationality flows to search for investment opportunities outside the borders of the mother countries. (Falzoni, Anna M. 2000).

2.1. Political Risk and country Risk:

Political instability discourages inflows of FDI, unexpected modifications of the legalisation and fiscal frame - It works to increase Political risk of the host country, which may give negative results to the investment goals, In general, they conclude that the main factors, which have driven FDI in transition countries, it has been a need to secure market access, opportunity to participate in large- scale privatization processes; and the degree of political and economic stability. Tested

the relative importance of independent variables, including political stability, the results show that foreign investors prefer political stability and a free market system. Makes an attempt to integrate a number of political and other non-traditional economic variables into a standard theory of FDI based on the maximization of expected value.

2.2. Tax Policies:

Taxes are one of the main incentives for the investor to engage in foreign direct investment, as the affected by domestic and foreign tax policies, and the means by which it is financed, identifies a three channels through which tax policies affect the decisions MNCs. First, the tax treatment of income generated abroad has a direct effect on the net return on FDI. Second, the tax treatment of income generated at home affects the net profitability of domestic investment, and the relative profitability of domestic and foreign investment. Third, tax policies affect the relative cost of capital of domestic and foreign investment, that an increase in the domestic corporate tax rate leads to an increase in outflows of FDI, that high tax rates have a significantly negative effect on FDI.

2.3. Trade Barriers:

FDI might be considered as an alternative to trade, and the trade barriers such as tariffs have an inverse relationship with FDI, open economies without much restriction on international trade should receive fewer FDI, this indicates that they use a trade-weighted tariff rate to represent trade barriers that turned out to be an insignificant determinant of FDI, that is then used the same measure of openness and found FDI flows to be related negatively to the degree of openness of the economy; suggesting that FDI may be used to circumvent trade.

2.4. Government Regulations:

Governments differ in policies towards foreign investment, some governments encourage FDI, some discourage FDI, and some remain neutral to FDI, to be Some governments adopt policies Confuses between encouraging and disincentive inward FDI by offering incentives on the one hand and disincentives on the other.

3. THE INCENTIVES OFFERED BY HOST GOVERNMENTS COULD BE ONE OR MORE OF

- 1- Fiscal incentives: such as tax reduction, and exemption from customs duties and accelerated depreciation, and reinvestment, and subsidies, grants, and loan guarantees.
- 2- Market preferences, including monopoly rights, protection from competition arising from imports, and preferential government contracts.
- 3- The quality of infrastructure, fuel and energy, low cost .
- 4- The provision of information by means of agencies located in the capitals of the source countries.
- 5- Put a framework for clear, efficiently implemented stable policies with respect to FDI.
- 6- Lack of militancy in the part of conditions local equity participation.

4. STRATEGIC AND LONG-TERM FACTORS

Strategy to the decision to invest and Long -Term factors factors have suggested list the following as being instrumental in the decision to invest abroad: (1)- The investors' desire to defend existing foreign markets and foreign investment against competitors. (2) -The desire to induce the host country into long term commitments to a particular type of technology. (3)- The desire to gain and maintain a market foothold in a protected market or to gain and maintain a source of supply that in the long run may prove useful. (4)- The need to develop and sustain a parent-subsidiary relationship. (5)- The advantage of complementing another type of investment. (6)- The economies of new product development. (7)- Competition for market share among oligopolists and the concern for strengthening of bargaining positions.

5. TO WHAT EXTENT LIBYA CAN ATTRACT FDI

Despite of attempts Libya has been did to attract foreign direct investment, and the decisive reason for these failures is the lack of confidence by investors, and when evaluating the Libyan experience in attracting foreign direct investment can note the following: (1)- Libya is one of the countries characterized by political stability in the middle east (If we considered period of autocracy is standard of stability) This is before the end of the year 2010, but despite of this situation

administrative organisations being characterised by instability due to the political regime has been dominated since 1977, whereas, official officers in all levels changed in short periods, even ministries Integrated sometimes or Eliminated, therefore foreign investors did not trust in this stability, whereof, made them retreat to enter Libyan market. (2)- Since 2000, Libya announced to reform the Libyan administrative system and improve its economy to provide an appropriate environment to attract FDI, including abandoning socialism, and opening markets to the private sector and encouraging local and foreign investors, But there are a lot of the new characters such as Gaddafi sons', likewise their servants which monopolized all kinds of business, and practiced all kinds of corruption, therefore, bribe predominated. in the same time Gaddafi announcing about his intention to continue his regime, that made foreign investors, afraid to take forward steps to deal with the Libyan government. (3)- Libya has followed new orientations; where it tries to attract FDI, by giving advantages to foreign investors by freeing them of tax for the first five years. Moreover, let possible to transfer losses in the next year. Furthermore, Libya established a new law to reform the tax system completely in a procedure targeted to reform the economy. But this is not enough to promote trust from foreign investors in hazy climate circumstances. This as well as reforming the tax system alone under the wretched economic system does not lead to developing any sector in economy in particular in attracting FDI. (4) - Libya has adopted new commercial policies to reanimate the Libyan economy, such as allowing the private sector to contribute in different economic sectors. but still corruption and bribe play important role in gaining Licenses necessary for the exercise of economic activity, also Libya expressed interest in joining the Organization of GATT, and so when admission to membership in the organization lose this distinctive. (5) - Regarding to government regulations in Libya did not happen where any development to keep up with policies to attract investment, where the infrastructure is poor, and transportation and communications are weak does not meet the requirements of investors, as well did indicate any subsidies or exemptions in the tax production, raw material and prices of energy, as well as the lacking of data and information, and more importantly, the lacking of clear and stable policies that touched FDI. (6)-Concerning to long-term strategies, the regime Family prevailing in Libya and the absence of democracy and instability of government departments, and blurry economic climate, all these things to prevent a long-term strategies, so cannot investors develop strategic plans for their projects, and thus no one take risk to enter the country do not know when and how to get out of them, especially in light mood Gaddafi and his sons, and political tension with Switzerland that led to the severance of relations is sufficient evidence for not entering any foreign investor.

6. RECOMMENDATIONS FOR A BETTER ENVIRONMENT TO ATTRACT FOREIGN INVESTMENT TO THE LIBYAN ECONOMY. (MUSTAFA HAMOUDI, 2009)

1-The importance and the need to develop a comprehensive investment map of exploitable economic resources, and their location and the nature of the projects could be set up by, and with a developmental plans the kind of reserves and projects that the country needs to set up, in the medium and long term in the infrastructure, and the areas of production of goods sectors and open the way for investment term in the activity of exploration metals and other raw materials, non-oil extraction and establishment of projects to be converted into products made.

2- The need to work on strengthening the competitiveness of the national economy, and the removal of bureaucratic restrictions on domestic and foreign private sector in the field of industrial investment, especially restrictions on access to industrial investment licenses, and permits the expansion of the designed production capacity. 3- Improving the infrastructure conditions, as an important element in assessing the degree of investment attractiveness of the state, with the establishment of a stable and transparent institutional structure can be reassuring to them for the purposes of financial and investment planning.

4- Need to work to remove the difficulties imposed on the process of getting the industrial land at competitive prices, and interest in providing housing needs and social services for foreign investors, but the provision of industrial and economic cities and tourist areas for the purpose of investment in various parts of Libya.

5- Provide an element of stability in the economic system, through the use of fiscal and monetary policies, and work to control economic activity after its liberation, to ensure that no abuse of economic freedom, and activate the anti-administrative and financial corruption laws.

6- The need to develop systems of information for all economic sectors, provide periodic statistics, economic, social and demographic activity, to facilitate the economic, social and labor studies from investors to know the nature of the market and consumption patterns, and what is available from the various economic resources of exploitable and workforce size, composition and nature.

7 -construction of administrative and specialized technical personnel necessary to fill the jobs in the investment projects, with the development of the national workforce and raising productivity, efficiency, by connecting the training process real problems for projects in excess of the Libyan workforce, and raise wages ratio within the employment and wage structures in the foreign investment projects Libya.

8- develop the capacities of Wafa upper rooms of the national machinery for the promotion of investment to meet the challenges of competition, to attract foreign direct investment, through the adoption of modern methods to highlight the investment attractiveness of the national economy and the sectors of economic priority, and raise their awareness of techniques to promote the investment opportunities of economic and technical feasibility.

9- organization of conferences, seminars and periodic meetings attended by the relevant national bodies to invest, to exchange views, ideas and experiences and expertise with regard to promoting the flow of foreign capital, and to examine the situation and developments in the field of foreign direct investment, the investment climate in Libya and evaluated in order to identify their looting and yes in elements of the functioning of this area.

10- Doing promotional calls organized by the Investment Promotion Authority to the inside and involving stakeholders promoting projects offered for investment in order to get the best deals on the financing and implementation of these projects.

11 - Facilitate the granting of visas to those who wish to do so from investors and business procedures, both for visits to explore the climate and investment opportunities or to pursue investment projects and flashly Bolivia.

12. Activating the role of the embassies and diplomatic missions Libyan abroad in the definition of the economic activities as provided by the Libyan legislation of the advantages and facilities and guarantees to foreign capital, and encourage them to visit Libya to invest in them, through the promotion of opportunities and projects offered for investment.

7. SUMMARY AND CONCLUSIONS

Finally, as all know, that the foreign investment affects both sides Internal and external In economic life, where FDI enters in projects, many, in different modes of FDI, which more acceptable for most host countries, this gives the opportunity for the host country to benefit from technology transfer, participate in finance of new projects, provide job opportunity for local employment, and benefit from foreign experiences. At the same time the foreign investment will help open new markets that help them to build new relationships with peoples from various cultures, which will support them to take the next step to enter neighbour countries. Moreover, foreign investors will benefit from raw materials, and may be discover new materials in these unprecedented lands. whoever, despite of Libya attempts to attract FDI by announcing its intent to attracting FDI without effective confidence procedures, or reform a part of the economy while the rest of the economy remain suffered. Reforming should cover all economic activities to social and political life.

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