<u>Foreign Direct Investments in Developing Countries</u>

<u>Libya during the Era 2000-2010</u>

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CONTENTS

1- INTRODUCTION

The last decades of the twentieth century have witnessed significant changes in the world economy. These changes such as trade investment and globalisation, which originated in one part of the world, are rapidly diffused to others. The continuous changes in the competitive environment of the world economy are forcing most countries particularly developing countries to adopt new strategies in order to cope with these changes and exploit new emerging opportunities associated with them.

Foreign direct investment (FDI) has been growing rapidly in the last twenty years and it is the most important part of international companies activities in the world's market, where they compete to attract more customers for their products.

This report will provide first, a brief review about Libyan market and focuses upon the marketing environment forces that organisations should consider when they aim to develop their global marketing strategies to enter the Libyan market. This aim will be achieved by analysing the macro environmental forces that organisations need to consider prior to develop a global marketing strategy. In this regard SLEPT (Social, Legal, Economic, Political and Technological) analysis model will be used for this purpose, with providing some examples about the impacts of these forces upon the Libyan market. Then, the report will discuss the investment climate in Libya, including investment incentives that are provided by Libyan government. Finally, the report will evaluate the investment climate in Libya and provide some recommendations.

2- THE MARKET OVERVIEW

2-1 Country Overview

Libya occupies a strategic geopolitical location in North Africa as it links Eastern with Western Africa and Southern Europe with the rest of Africa. It has a shore of approximately two thousand kilometres on the Mediterranean Sea in the north. The country is bordered by Algeria and Tunisia to the west and Northwest, respectively. Libya benefits from this strategic position, which makes the country a crucial link between the Arab world, Europe, and Africa (see appendix for more data about Libya). In 1959,

The discovery of hydrocarbons and their subsequent exploitation transformed the country from an agar-based system to a modern oil-based economy that is one of the most prosperous in Africa. By the late 1980s, Libya had experienced a revival in the non-oil sectors of the economy and has since been pursuing cautious steps toward greater private sector participation. In July 1999, the United Nations announced the suspension of economic and other sanctions against Libya, which had been in place since April 1992. Foreign investors, especially oil companies, are now eager to resume and /or expand their operations in Libya.

2-2 Marketing Environment Overview

For any organisation, the key factor for successful global marketing is to identify and analyse the marketing environment. Therefore, before developing a global marketing strategy, it is very important to analysis the marketing environment. The marketing environment has been defined in a variety of ways by a number of writers. For example, it has been referred to in terms of factors, which are outside the systems control but which determine in part at least, how the system performs. The most useful working definition is one proposed by Kotler (1988:135) who states, *"In general, marketing environment is divided into two sectors macro environment and microenvironment. These issues should be carefully analysed by marketers, and should be consider as a whole".*

2-2-1 Macro Environment

The focus in the current case will on the macro forces, which consist of several factors that have strong impact in developing any marketing strategy within any industry. In this regard, Kotler (2000:155) states that *"Within the rapidly changing global picture, marketers must monitor six major environmental forces: demographic, economic, natural, technological, political-legal, and social-cultural"*. Therefore, there are many possible environmental analysis models. In this report the SLEPT (Social, Legal, Economic, Political and Technological) model will be used.

Social/Cultural Environment: It is very important for any organisation to recognise and understand the main components of the cultural environment forces such as: -

- Language: language differences have strong influences when developing different global strategies such as approaches to advertising campaign planning. Organisations must recognise the similarities and differences of the spoken and the commercial languages in their target markets in order to create and develop strong global strategies.

In Libya, the population's native language, except for a very small minority, is Arabic and thus Libyans consider themselves as Arabs. Three levels of language are distinguishable: classical, the language of the Quran; modern standard, the form used in the present-day press; and the regional colloquial dialects. The commercial languages used in Libya are Arabic, English and Italian.

Therefore, any organisation looking forward to develop its global marketing strategy in Libyan market, must be very selective in choosing its brand name in terms of the native language, this name should be understandable and recognisable by consumers in the Libyan market.

However in some cases, organisations have to translate their brand name to the native language in order to ensure that brand name will reflect the culture conditions, and to attract the majority of consumers as well.

According to Doole and Lowe (1999:86) *" Spoken language is an important means of communication. In various forms, for example plays and poetry, the written word is regarded as part of the culture of a group of people. In the spoken form the actual words spoken and the ways in which the words are pronounced provide clues to the receiver about the type of person who is speaking.''* In terms of spooking language, Libya can be divided into three parts, North West, North East, South. Although all Libyans speak the Arabic language, there are slightly differences in the spoken language between these three regions. Therefore, foreign companies should be aware of these differences in order to avoid the use of any unacceptable words in their strategies. An example for these differences can be noted from the word "see''. This word is pronounced in Arabic as "Andor'' and is written like it is pronounced. This word has different pronunciations in Libya depending on the region. In the South, it is pronounced "ashbah'', in the North West "shof'', where in the North East "hug''. All these words have same meaning.

- *Religion*: religion is a major cultural component in the Libyan environment. It has significant effects on marketing strategy. This effect is not apparent sometimes. Therefore, marketers and organisations must understand and know cultural and religious terms that are forbidden in the target market. These can influence consumer behaviours. Thus it is necessary to be aware of these things and the way in which they can control the behaviour of society members.

Libya is one hundred percent Islamic country. There are some non-Libyan Christians who live in the country. The religious aspect is a very important issue and could be a significant barrier confronting some advertising and product packaging approaches. Therefore, any marketer or organisation wants to enter the Libyan market should carefully take some consideration in terms of religion.

The situation in Libyan market is similar to the situations that exist in most Islamic countries, no violation of religion by advertising and other promotional practices. According to Doole (2000:15) *" The western companies must understand the difference between two key terms; firstly "Haraam'' the subjects or things which are absolutely unlawful and strongly prohibited in Islamic such as, alcohol and cheating, and this has implications for all promotional practices as well. These taboo subjects are totally banned* *in advertising and other promotional activities Saudi, Kuwaiti, and Iranian market. Secondly, " Makruh '' The subjects which are detestable and discouraged in Islam, nevertheless, it is not banned, because dose not lead to a major sin for instance, smoking is not forbidden in Islam as taking alcohol, but it is highly discouraged.*

Major " Haraam '' subjects in Islam, which are totally banned in advertising and other promotional practices in some Islamic markets are listed in the appendix. Some other marketing implications of Islam are noted in appendix.

- *Social Organisation*: refers to the way people relate to other people. This differs somewhat from society to society. For example, the notion of the housewife in Libya is similar to that exist in other Arabic countries. In these societies, men are more responsible for shopping than women.

In general, the social/cultural forces encompass a wide range of issues that should be considered by any organisation looking forward to establish or develop their existing global marketing strategies. In this regard Kotler (2000:155) states that *" in the social-cultural arena, marketers must understand people's view of themselves, others, organizations, society, nature, and the universe. They must market products that correspond to society's core and secondary values, and address the needs of different subcultures within a society.''*

Legal Environment: Legal forces have important impacts on different global marketing strategies such as pricing, advertising and distribution. However, there is a close relationship between the political and legal environments. The international business and legal environment had strong impact upon the country's laws and regulations.

Political Environment: Similar to other macro environment forces, political environment should be taken into consideration. The political environment forces often reflect political or governmental values and attitudes in some countries. The importance of these forces arise form the fact that these attitudes affect finance and economic measurements such as; investment regulation, tariffs, taxes and import/export restrictions.

Therefore, a company must be aware of these facts in order to minimise the risks that might occur as a result of conducting businesses with some countries characterised with unstable political situations, for instance. However, there are no political parties in Libya. The government structure is based on Islamic law (sharia) and the legal system is based on a mixture of Italian civil law and Islamic law.

Libya’s political structure is unique, relying on the concept of Jamahiriya (“state of the masses”). The structure, which is adopted in 1977, is based on the political philosophy presented by Colonel Qadhafi in the Green Book, a guide of socialist, Islamic, and Bedouin theories. It advocates direct representation by people through a network of committees and popular congresses.

Technological Environment: According to Doole and Lowe (1999:25) technology is a major driving force both in international marketing and in the move towards more global market places. The impact of technological enhances can be seen in all aspects of the marketing process. The ability to collect data on different markets, management control capabilities and the practicalities of carrying out businesses internationally over the past few years have been revolutionised with advancement of electronic communications.

The fast development of technological tools such as; Internet, cable satellite and communication facilities, have all changed the way of doing business in both domestic and global markets. They have also changed consumer attitudes in their buying habits.

Libya is a developing country and has relatively good communication facilities. The Internet and World Wide Web have been lunched in Libya few years ago. The majority of Libyans are still trying to improve their capabilities in dealing with such new technology.

The Economic Environment: the starting point in analysing any market involves identifying the level and nature of economic activity. The International marketer needs to develop a clear idea of the economic situation and how it will influence the marketing mix. It is very important for any organisation expanding its activities to the Libyan market to analysis the Libyan market in terms of opportunities, threats, strengths and weaknesses (SWOT Analysis).

Libya Economy Review: two factors characterise the Libyan economy: oil and political changes. Libya began exporting oil in the 1960s, facilitating the country's transformation from one of the poorest nations in the world to one of the wealthiest countries in Africa, with a per capita gross domestic product of $2,220 in 1998.

Libya's economy is dominated by the hydrocarbons sectors, which contributes 95 percent of hard currency earnings and approximately 30 percent of GDP.

Agriculture accounts for around five percent of GDP and employs about 13 percent of the labour force; climatic conditions and poor soil have severely limited agricultural production, causing Libya to become heavily reliant on imported food products. (www.nusacc.org/cntryprofiles).
In July 1999, the United Nation Security Council suspended the sanctions that had been imposed on Libya since 1992. With the lifting of the sanctions and the recovery of oil prices, the economy has shown some improvements and grows by about two percent in 1999 and five percent in 2000 (www.nusacc.org/cntryprofiles).

3- The Investment Climate in Libya

Libya is to attract Foreign Direct Investment (FDI) and is trying to vary its economic sources and to promote itself as an international player after the suspension of the United Nation's sanctions in April 5th 1999 following the handing over for trial of two suspects accused of blowing up an airplane over Scotland in 1988.

Since the country started to capture international attention due to the suspension of UN sanctions, local authorities have started to make the business environment more attractive

For foreign investors. Toward this end, the government passed the Foreign Currency Investment law of 1997 and the Free Trade Act in 1999. The former law includes tax incentives and allows for the transfer of project ownership, the re-export of employed capital, and the hiring of foreign workers. While also creating a specialised agency to promote and supervise the law. As for the Free Trade Act, it enables the establishment of offshore free-trade zones in order to enhance exports, revenue, training, and technology in land, water energy, telecommunications, and manufacturing facilities. The new Foreign Investment Law allows foreigners 100-per cent ownership of the projects, as well as the property required for the project itself or for housing company personnel, while enabling them to retain the same incentives given to national companies. For example, projects that are 100 per cent foreign-owned will be eligible for loans from the Libyan Industrial Development Fund. Investors will also be able to hold investment licenses in more than one type of activity. The new law has brought significant changes to the previous sponsorship regulations. Foreign investors and their non-Libyan employees will be sponsored under the new licensed firm.

The new law also enables companies to carry forward corporate losses for an unspecified number of years. However, the new investment law establishes the following conditions for foreign investors to obtain a license for a business and for investment:

- Foreign investment must be in a development project, or in projects within the framework of the development plan in effect at the time of the investment such as petrochemical, gas, and oil projects.
- Foreign investment must give access to modern technology.
- Foreign investment must be accompanied by foreign technical expertise.
- Foreign investment must plan to train Libyan nationals for technical and managerial positions, and procure them for machinery and other equipment.

(www.wtech.co.uk/world/africa/libya/index.html).

The Libyan market re-opened its doors for foreign investment (more than 270 companies have been invited) following the restoration of diplomatic relations and the suspension of United Nations and EU sanctions in early 1999. In order to apply this, the government has allocated more than $35 billions to apply its long distance plans. Investment opportunities cover the following sectors: -

Agriculture is the most important non-oil sector of the Libyan economy. Most of the agricultural activity takes place in the coastal region though crops are grown at the larger oases and in the highlands of Jebel Nefuse. The main problem in this sector is the shortage of water. Most of the agricultural locations in the coastal regions suffer from the limited availability of enough water to go ahead.

Tourism: Libyan government is trying to find other sources for its revenue. One of the alternative sources is tourism. Libya has historical locations, and almost 1,200 miles of sandy beaches. It is a versatile tourist destination on the rise. Tourism is one of the country’s fastest growing sectors. Many new tour companies have been established and have successfully attracted foreign tourists, mainly from Germany, Italy, Japan, Spain, and Switzerland. The government intends to invest more than $2 billion on this sector.

Oil and Gas: Libya produces extremely high quality, low-sulphur crude oil at a very low cost, which makes it extremely valuable to oil consumers and foreign investors. This in addition to its geographical location as a neighbour country to the main market (Europe), which increase the interest on its oil sector products from both international and European consumers and investors. In this regard the country has decided to spend about $10 billion for its foreign investment in oil and gas in the next few years.

Also the country has decided to improve the investment in the other sectors by offering some opportunities for investors in the service sectors (including Healthcare, Transportation and communications).

Although Libyan government has been trying to find many sources for its revenue by opening its market for foreign investment in all sectors, the petroleum sector is still the main source for revenue. The USA has imposed sanctions on foreign oil companies, which invest more than $40 millions in Libya. The sanctions prevented Libya from importing the

Technology that the other parts of the world enjoy. The socialist orientation of the country's political and economic systems may discourage international firms to start their operations in the Libyan market.

However, though the United Nation's sanctions has been started to ease, but the reason behind these sanction still exist. Therefore and in terms of political issue, this situation might be seen as a threat for some investors especially the American investors. This market might be seen as a risky market for some investors especially those who are non-European. However, investors especially from the south of Europe were still operating and have some activities in this market even during the sanctions.

Investors from neighbouring countries are in a position to reap investing opportunities before other investors from outside the Mediterranean zone have. Also investors must be able to recognise the best sectors in which they are capable to develop and invest, providing the aim that they are looking for.

The biggest beneficiaries of the suspension of UN sanctions are European firms. The US sanctions are expected to remain in place for some time, preventing US companies from entering the Libyan market.
Italy is Libya's biggest trading partner, and its oil company Agip is the country's largest foreign investor. Germany, Spain and the United Kingdom are other main trading partners in oil industry. France is Libya's biggest trading partner in communications. In other sectors such as Agriculture and transportation, the main partners are China and South Korea. However, investment opportunities are still open in different economic sectors particularly those requiring advanced technologies.

3-1 Investment Incentives

The Libyan government provides many incentives for foreign investors who fulfil the requirements of the foreign investment law. These incentives include:

- *Pre-investment Assistance*: The government assists investors in terms of providing them with the information and statistics for investment projects that are within the

- scope of Libya’s development plans to facilitate the preparation of feasibility studies for industrial projects.

- *Services*: The government provides electricity, water, and other fuels to industrial projects at low prices. The industrial parks are equipped with public utilities such as roads, desalinated water, sewage, electricity, and telephone; in addition to central services such as mosques, clinics, fire stations, restaurants, post offices and police stations.

- *Company Tax*: Foreign industrial companies with 25 percent or more Libyan capital and joint non-industrial companies are exempted from paying taxes for the first five years from the start of commercial operations.

- No special performance requirements imposed on foreign investors. Foreign investors and Libyan-owned companies must meet the same requirements and comply with the same environment, safety, health and other labour requirements.

- No restrictions on capital and profit repatriation.

3-2 Strategies for Entering Foreign Markets

Typically, firms start with the low – risk / low – control options and then advance to higher levels of risk and control as they gain experience and build confidence (Dess and Miller, 1993). There are often strategies for entering foreign markets. These strategies can be summarised as follows:

Exporting

Most international firms got their start in international business through exporting. In an export operation, the firm maintains its production facilities at home and transfers its products abroad. Exporting offers the advantage of not requiring a very substantial presence abroad; usually the firm hires foreign agents to act on the exporter’s behalf in arranging contracts. Foreign investment is minimal because the factory is at home and the products can often be shipped directly to foreign agents’ warehouses. The firm might face some difficulties such as transportation costs, government regulations, cultural differences and currency exchange.

Licensing and Franchising

Licensing and Franchising involve a contract between parties in different countries. A licensor in one country makes limited rights and / or resources available to the licensee in a second country. The rights and / or resources may include patents, trademarks, technology, managerial skills, and so on. These allow the licensee to produce and market similar products to those being produced by the licensor in the home country, without requiring the licensor to actually create a new operation abroad. For example, licensors around the world have contracts to produce and sell clothing bearing pictures of Mickey Mouse and other Walt Disney characters.

However, a franchise usually covers a broad 'package' of rights and resources such as trademarks, production, equipment, proven managerial systems, standardised operating procedures and general management assistance. For example, McDonald's is an obvious example of a corporation with franchise contracts around the world.

Joint Ventures and Wholly Owned Subsidiaries

This means that a firm owns assets based in a foreign country, which provides it with a greater level of control than other modes of international expansion. However, foreign investment is the riskiest of the global – entry strategies. To avoid facing all this risk alone, many international firms enter into joint ventures. Joint ventures emerge as companies from different countries join forces to build a jointly owned company. For example, New United Motor Manufacturing, Inc (NUMMI), formed by the Toyota Motor Corporation and General Motors to produce 250,000 subcompacts a year for the Toyota and Chevrolet.

However, another alternative is the wholly owned foreign business over which one company has complete control. This arrangement has the advantages of shortening distribution channels and somewhat simplifying logistics. In addition, managers actually located on site will more quickly perceive changing cultural, economic and political conditions. To acquire or create a business in a foreign country, managers must make financial and managerial investments. This investment is subject to political and economic risks.

4- Evaluating the Investment Climate in Libya

In the light of recent trend in FDI, the Libyan government is reconsidering its attitudes and policies toward FDI and global corporation. The inflows of FDI will give the country additional opportunities to increase investment, modernise technology, raise production and accelerate growth. Furthermore, foreign operation of large multinational firms will also help to transform the economy through transferring technology, introducing new and better management techniques, providing market access to other countries and increasing competition. In addition, Libya has considered FDI as a rational choice for achieving rapid economic development and to diversify their economic resources in order to avoid the risk of producing one product and the over reliance on one source of income. However, international firms might grow stronger and larger in Libyan market. The growth of a firm's size will encourage firms to invest in new intangible assets that could stimulate new FDI.

On the other hand, to increase the attractiveness of the country for foreign investors, additional motives for inward FDI could be offered by the country. These may include:

- The elimination or reduction of trade related investment measures to make investments more profitable for foreign firms.
- Abolishing direct or indirect expropriation of properties facing foreign investors.
- Changing reform decisions from national to international level to create a more credible policy environment.
- Reducing government intervention and political instability and increasing the opportunities for economic and trade interests.
- Reducing investment requirements and imposed taxes as important factors to attract foreign investors.
- Integration into the World Trade Organisation (WTO) to give foreign investors more confidence in the Libyan market.

5- Conclusion

In many developing countries, the attraction of FDI has become an integral part of both import- and export-oriented strategies. For this purpose, many countries have revised their restrictive policies to FDI, particularly ownership requirements and preferential treatment to inward FDI. Libya, which occupies a strategic geopolitical location in North Africa as it links Eastern with Western Africa and Southern Europe with the rest of Africa, has revised their FDI strategy to attract foreign investors in order to reduce dependence on oil and increase income resources. The Libyan government has approved new foreign investment procedures to make the investment climate suitable for foreign investors particularly in petrochemicals, gas industries and tourism. It encourages foreign investors to transfer modern technology, introduce new and better management techniques, provide market access to other countries, increase competition and train and recruit citizens.

However, FDI in Libya needs further impetus to achieve tangible and quick progress. For foreign investors, care should be taken in understanding thoroughly their potential market. For example, the rules for investing with the government and petroleum sector purchases vary considerably throughout the country. These rules may determine the structure through which a foreign investor wishes to operate. In addition, foreign investors should understand and analysis carefully the macro environment elements for their target market.

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APPENDIXES

Table (1) provides some data about Libya.

Official Name	The Great Socialist People's Libyan Arab Jamahiriya
Capital	Tripoli
Legal System	Based on Islamic law and Italian civil law
Language	Arabic, Italian, and English
Population (1998)	About 6million
Currency	Libyan Dinar (LD)
Real GDP Growth(1998)	About –2.0%
Gross Domestic Product (1998 per capita)	$1,433
Consumer Price Inflation(1998)	24.2%
Total Country Exports(1998)	$6.21 billion
Total country Imports(1998)	$8.48 billion

Source: Adapted from: www.libyanet.com.

Figure (1.1) shows the macro environmental influences on international marketing.

Environmental Influences on International Marketing

Social / cultural	Legal	Political	Economic	Technological
Language	Local domestic laws	Operational Restrictions	Developed economics	Satellite Communications
Religion	International law	Discriminatory Restrictions	Emerging economics	ISDN
Aesthetics	Home domestic laws	Physical actions	Less developed Economics	Internet
Values and attributes			Currency movements	WWW
Social organisation				The electronic superhighway
Material culture				

Source: Adapted from: Doole and Lowe (1999:11)

Table (2): Major ‘ Haraam’ Subjects in Islam

Pornography	Cheating	Alcohol
Adultery	Necromancy	Drugs (intoxicants)
Adulteration	Gambling	Pork
False promises	Usury (interest)	Prostitution
Immodest exposure←	Game of chance	Sodomy (homosexuality)
Bribery	Comarative adds	Murder
Backbiting	Abusive language	Arrogance
Idol worship↑	Hoarding	Cruelty towards living beings
Interference in performing religious duties		

←Women must cover whole body except hands and face. Men at least be covered from naval to knees

↑Worshipping anything and body other than the one and only Allah as the supreme power and creator.

Source: Adapted from: Doole and Lowe (1999:86)

Figure (1.2) Islam and Marketing

ISLAMIC ELEMENT	MARKETING IMPLICATION
1. Daily prayers	Consider when planning sales calls, work schedules, Customer traffic, and so forth.
2. Prohibition against usury (Charging Interest)	Avoid direct use of credit as marketing tool.
3. Zakat (compulsory Almsgiving)	Use “excessive” profits for Charitable purposes.
4. Religions Holidays (example: End of Ramadan).	A major selling time for food, Clothing, and gifts
5. Public Separation of Sexes	Access female consumers by Saleswomen, Catalogues, home Demonstration, and women’s Shops.

Source: Adapted from: Terpstra and Swarthy (1994:116).