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A Study of Motives and Determinants of Foreign Direct Investment in the Key Sectors of Libyan Economy

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A Study of Motives and Determinants of Foreign Direct Investment in the Key Sectors of Libyan Economy

Rehab Suod

Abstract

The study analyses the key motives and determinants of FDI in various sectors of the Libyan economy. It compares the results for the different sectors to determine how the policy of the Libyan government could be improved in order to increase the benefits for the government and the country.

A new framework was developed for this research. A qualitative methodology using multiple case studies was employed. The case study companies comprised eight companies from four sectors. The four sectors were compared and contrasted using Porter's five forces model. The analysis of the eight companies had two stages: "within" and "cross-cases" analyses. Data were gathered through in depth, semi-structured interviews with foreign and local company managers, and government policy makers. The study also uses data collected from secondary sources such as company websites, documents and government reports.

The empirical findings reveal the existence of a core of motives and determinants of FDI in Libya that are *common* for all parties across all sectors. This finding is surprising in relation to the similarity *across* sectors. This might be explained by the uniform government policy over a relatively stagnant forty-year period. These factors are: market size and growth, high return on investment and investment incentives, political stability, infrastructure and low transportation costs, business and industrial linkages, progress of privatisation, institutions, culture and attractive geographic location. The *sector-specific* and *actor-specific* determinants are however *less* important than the common ones.

In terms of obstacles to FDI, bureaucratic red tape, infrastructure in terms of Internet, telephone, and the banking system inhibit FDI inflows in all contexts. The findings of this study showed also the critical role of the Libyan government in facilitating the process of FDI. This is probably the first study to incorporate both host government and foreign investors' views about motives and determinants of FDI.

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Dedication

This thesis is dedicated

To my children

Mohamed and Ayahi

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List of Abbreviations

Foreign direct investment	FDI
Multi-national enterprises	MNEs
Ownership advantages, location advantages and Internalisation advantages	OLI
Investment development path theory	IDP

Chapter 1 Introduction

1.1 Research background

One of the key issues in the Libyan economy is the low level of Foreign Direct Investment (FDI) compared to similar economies elsewhere. Libya has not been a major recipient of FDI inflows especially in its non-oil sectors. This is reflected in the facts that the role of MNEs in the Libyan economy has not been substantial. However, when international sanctions were lifted in 2003, and with the start of privatization of public sector activities in Libya, a gradual surge in FDI inflow began.

The subject of the determinants of FDI is one of the most widely researched in the field of FDI and its importance cannot be overstated. There have been notable contributions from scholars such as Maniam (1998), Coskun (2001), Tahir and Larimo (2002), Hellstrom and Sungur (2006), Buckley et al. (2007), and Ismail (2009). The interesting point here is that all these studies and others in the existing literature highlight the determinants of FDI from the foreign investor's point of view. However, participation in an FDI venture not only concerns foreign investors but also the host government and host companies. There is a lack of research shedding light on the motives and determinants of FDI from all three parties' points of view, and on the process of how and when motives become determinants of FDI. Consequently, this study aims to fill the gap identified in the literature.

Osland and Cavusgil (1998) stressed the importance of using multiple party perspectives in studying the processes of FDI and joint ventures. Datta (1988) argues that the relationship between parties involved in joint ventures is determined by their motives. Moreover, Datta (1988) emphasizes the importance of the host government as a party in the FDI process, especially in developing countries. Therefore, the focus of this study will be on FDI in various sectors of the Libyan economy, but especially on the interaction between three parties, namely foreign investors, the Libyan government and Libyan companies. These interactions are examined in terms of their motives, offers, goals and actions, because the successful FDI venture is determined by the

complementary of its parties' motives, offers, goals and actions, (Marinova, 2004). In addition to this, the current study examines the process by which these motives become determinants of FDI. This study argues that before FDI takes place each party has motives for engaging in an FDI venture. The FDI stage is the time for all parties to make their offers and for a contract to be signed. The signing of a contract is a critical event because at this moment motives become determinants of FDI. Post-FDI is the period in which the action of the project takes place.

1.2 Research problem

Libya gained its independence from Italy in 1951. The country was very poor and before the discovery of oil its economy depended primarily on the agricultural sector. The discovery of oil in 1958 and its export subsequent became a source of capital inflow and thus solved the problem of the lack of capital for investment, and the state's budget revenues increased as a result of rising oil returns.

In the years following the discovery of oil and until the early 1990s, inward FDI was only made in the oil sector, while in the 1980s international sanctions were imposed on Libya because of the Lockerbie air crash, and as a consequence, FDI into the country declined.

Since the lifting of economic sanctions, Libya has undertaken economic reforms and put a lot of effort into improving its international standing. For instance, it requested accession to WTO and it has resolved to abolish its Weapons of Mass Destruction programme (WMD) (Political Risk Services, 2005). At a national level it has also adopted an open door policy to attract FDI into the non-oil sectors of the economy.

Libya offered foreign investors incentives under Law 5 (1997), specifying the sectors in which foreign investors could operate. Between 2000 and 2007 the manufacturing sector ranked first in terms of attracting FDI, and it accounted for 44% of the total FDI inflow to Libya. The tourism sector came second, accounting for 27% of total FDI inflow,

followed by the construction sector, services, health, and agriculture – each respectively attracting 19.5%, 6.6%, 2.4%, 0.1% of inward FDI (Alfarsi, 2007).

To attract more FDI, Libya has unified the exchange rate for the dinar and devalued it (Political Risk Services, 2005). Although Libya has taken steps to improve its investment climate, studies, brochures and international reports show a clear decline in the share of investment inflow.

Due to the fact that FDI is new phenomenon in Libya especially in the non oil sector, this study researches the development of Libya's new approach, because the strategy the country is undertaking in terms of opening up to the world, liberalizing policies, and allowing more businesses from various parts of the world to invest in Libya will impact the development of the Libyan economy as a whole. Thus the aim of this study is to analyse and understand how this process of FDI is taking place and how this process can be managed better from the point of view of the Libyan government, and furthermore, how the Libyan government can make a difference to this process. In the context of FDI, the Libyan government has a range of mechanism and instruments it can employ. For example, it can discourage or encourage the FDI process, set taxes high or low, make a difference in terms of export and import conditions, and it can set restrictions in a number of areas. Setting restrictions in terms of the size of a business is very important, because if the business becomes too big, it may be able to challenge the government to the extent that the latter cannot manage the process of business and loses its control of it. The good example of this is the recent global financial crisis, which suggests that allowing private ownership over business does not free governments from their role as protectors of their economies. For Libya, FDI is new, thus the Libyan government has not had the problem of managing the activities of foreign companies, which that have not been allowed previously in Libya. However, now these foreign companies are operating in Libya and this influx of foreign capital has had a substantial impact on the structure of the economy, on the ways in which the economy functions, and on the relative significance different sectors. Thus there is a new task for the Libyan government, which is to deal with something different. So before managing the process

of FDI is it important to know why foreign investors are motivated to invest in Libya and why the Libyan government is motivated to attract FDI. After FDI has taken place it is also important to explore the different impacts of it on economic sectors. The Libyan government is the most important player that can define the interests of the country, and consequently, in order to address the research problem stated above, the present research limits itself mainly to one broad exploratory question, which is:

What are the key motives that turned into determinants in the process of foreign direct investment and their impact on the key sectors of the Libyan economy?

Research sub-questions

1- What are the motives of the Libyan government, foreign investors and Libyan companies?
2- Are there common motives which initiate an FDI project?
3- What is the role of the government in providing the most favourable conditions for FDI?
4- How can any common determinants for FDI provide grounds for the development of an FDI project?
5- How does the specificity of various economic sectors impact the FDI process?
6- What are the most important factors in the process of managing an FDI project?
7- What are the lessons that can be learned for the management of FDI projects in the economic development of the Libyan economy by the Libyan government?

In order to answer the research question and sub-questions and thus address the broad research problem, the main aim of this study is:

To analyse the key motives and determinants of FDI in various sectors of the Libyan economy. To compare the results for the different sectors to determine how the policy of the Libyan government could be improved in order to increase the benefits for the government and the country.

1.3 Research objectives

The objectives of the present study are to identify and empirically investigate the determinants of foreign direct investment in various sectors of the Libyan economy. In order to conduct the current study the first thing needed was theories of FDI. Because these theories provided explanations about the process of FDI and how this process takes place, the FDI process was viewed from different perspectives, for example, foreign investor's perspective, and the host country's perspective. Also, the process of FDI was viewed differently through the stages of development of the world economy. For instance, FDI was seen as a capital inflow before the Second World War, however, after that it was seen as a package that included not just capital but also management, technology transfer and so on. Thus, because of the different perspectives and stages of world development, where conditions such as policy, economy, and technology are changing, this creates a need for a theory to be able to explain the process of FDI at specific periods of time. Thus the first objective of the present study is:

1 - To investigate investment theories and evaluate the applicability of FDI theories to the theoretical foundations of the current study.

In order to address this objective, it is necessary to survey and evaluate the existing literature on theories determining FDI, to evaluate which, theory (if any) can be used for the current study. Clearly there is a need to understand what motivated the FDI process in Libya and how this process can be managed better. According to the author's knowledge there has been no study into this kind of research in Libya before. The FDI theories have been developed in advanced industrialized countries, and it is therefore not surprising that they do not appear to fully explain FDI in the developing world, and emerging markets such as Libya. This suggests that perhaps a new conceptual framework needs to be developed, based on existing theories, to investigate the factors determining FDI in Libya. Such a new conceptual framework needs to look a number of factors. Firstly it needs to identify the motives for engagement in FDI of foreign investors, the Libyan government, and local companies. The framework also needs to establish when these motives become determinants of FDI and from the three parties'

point of view classify these determinants. To create a basis for the development of these determinants, several theories have been used to provide a structural and conceptual basis. These include: IDP theory and macro analyses, used to consider the stage of Libyan economic development, Porter's five forces model and micro analyses of various sectors of the Libyan economy. Thus the second objective is:

2- To integrate various approaches in order to develop a conceptual framework for the present study.

So far it has been said that there are three motivated players engaging in an FDI venture, foreign investors, the host government, and host companies. However, this is not enough for the process of FDI to take place. The literature suggestes that foreign investors' decision to invest in a particular country is associated with the environmental conditions of this country, for example, Porter (1980). Thus, to obtain more knowledge and understanding of the inflow of FDI into Libya, it is necessary to investigate the Libyan environment. The environment of Libya refers to factors such as its geographic location, political and economic systems, legal framework especially insofar as it pertains to FDI institutions, culture, and technology. Studying the Libyan environment is helpful in exploring how these factors have impacted FDI inflow in the country. Thus the third objective is:

3- To critically evaluate the Libyan environment to lay the foundations of the current research.

Research methodology is a procedural framework within which the research is conducted. There are two main methodological approaches to conducting a study, qualitative and quantitative. Also, there are several strategies. For the present study it was believed that a qualitative methodology and comparative case study strategy were the most appropriate approach and strategy, because there are many factors belonging to different parties, which need to be analysed at the same time. The limitation of quantitative methodology is its inability to consider many factors at the same time. With regard to the Libyan case, the choice of studying at a microeconomic level was made to discover the differences, which are typical for each economic sector, which could not

have been achieved if this study had been conducted at a macroeconomic level. The question now is what will be the correct approach to conducting the fieldwork.

It seems to be that Libya is in the early stage of economic development, so it is believed that one questionnaire will be relevant for all sectors of the economy. Also, because the aim of the study is to explore the determinants of FDI from the point of view of three parties in various sectors of the Libyan economy, it was decided to interview the chief executives of Libyan and foreign companies, and some policy makers within the government of Libya. It is also considered acceptable to rely on secondary data. The current study aims to explore determinants of FDI in various sectors of the Libyan economy and compare the results for the different sectors, and it was therefore decided that within case analysis and cross case analysis were the most appropriate techniques for data analysis. Thus the fourth objective is:

4- To develop a methodological approach for conducting this research.

The current study aimed at exploring determinants of FDI in various sectors of the Libyan economy. Each sector is different because it is plays a role and has a different significance in the economy. If various sectors of an economy are more or less the same in size then this economy is unlikely to be over reliant on one sector for its stability. However, if one or two sectors are bigger than others, then this economy is not balanced and more likely to suffer from instability. This is particularly the case in Libya, whose economy is dominated by the oil sector. In order to understand events in various sectors of the Libyan economy and how they have developed over time, and also how they have been impacted by FDI and why Libyan economy is not balanced, there is a need to develop an appropriate theoretical conceptual framework that analyses Libyan economic sectors. Porter's five forces model is considered to be the most appropriate theoretical conceptual framework in analysing Libyan's economic sectors, because it is helpful in analysing the attractiveness and competitive positioning of any industry or sector. Moreover, key strategic issues addressed in this model are relevant to the selected sectors of the Libyan economy. The findings obtained by the application of this model

should be helpful for both policy makers and company managers in their current and future decision-making. Thus the fifth objective is:

5- To conduct theoretical framework analysis of key sectors of the Libyan economy to identify common and specific aspects of FDI in each sector.

The various sectors of the Libyan economy need to be analysed in order to understand the process of FDI in each from the perspectives of the major participants. It is also necessary to explore the common and specific elements of FDI in these various sectors from the perspectives of the different players and identify the reasons behind these common or specific elements. The factors behind FDI inflow into each sector also need investigation. The analysis is based on an understanding of the FDI process and the conceptual framework developed thus far. Thus the sixth objective is:

6- To increase understanding of the process of FDI in various sectors of the Libyan economy from the perspectives of foreign investors and Libyan government.

The findings of the current study showed that there are more similarities than differences between various sectors of the Libyan economy. Based on this, some lessons need to be drawn for the whole economy (because of the similarities) and for each particular sector (because of their differences). In relation to FDI participants, the key theme that emerges is the complementary nature of the motives displayed. The issues identified from the evaluation of the sectors and participants raise import points for the future of successful FDI in Libya. Thus the seventh objective is:

7- To draw lessons and implications about FDI in various economic sectors of the Libyan economy to provide a better way of regulating and managing FDI projects.

Thus, this final objective leads to the development of a series of recommendations, which are presented in the conclusions chapter.

1.4 Rationale for the study

Generally speaking, studying the determining factors of FDI is very important for those involved in FDI. It is helpful for managers to identify and direct future behaviour in alien markets. Moreover, it is useful for governments in terms of developing measures and sending positive signals towards foreign investors about opportunities and the investment climate, in order to attract FDI.

Due to the fact that the structure of the Libyan economy is very much dependent on oil, this means that all the other sectors of the economy are immature in terms of development. Because of this immaturity FDI is perceived as having the ability to provide them with the necessary expertise, technology, and know-how to progress to a more developed state. However, FDI may have negative outcomes, because Libya has no experience with it, and when a country allows outside agencies to develop its economic sectors, it may be developed for the benefits of these agencies and not the country. So the greatest problem for Libya is how the country can manage the process of the development in greater harmony with a more and more balanced economy in terms of the role of various economic sectors, and how FDI can be helpful for balancing the structure of the economy. The starting point in this process is the motives of all parties. For example, if the Libyan government has the motive of restructuring the economy, how is the government going to do this? Clearly there is a need for an understanding of the strategic priorities for the economic development of the country.

As a result of international sanctions and the oil shock in the 1990s, the Libyan government started to think about the diversification of its economy with the help of FDI. Thus, law No 5 of 1997 was established to encourage FDI in the non-oil sector through a wide range of reforms in the country regulatory and institutional framework (Otman, 2007). However, at that time FDI did not take place because of international sanctions. However, at the time of writing FDI is changing in Libya; in the past it was confined to the oil sector, but now there is much FDI in both the oil and non-oil sectors, following the lifting of international sanctions and also because Colonel Qadhafi, the country's leader recognized that the nationalized and centralized system of government

in Libya had failed to deliver its economic goals. He stated publicly at the General People's Congress in Sirte in January 2000, "the system is finished. I have to step in today to stop this wheel from spinning in a rut and wasting fuel".

The role of FDI was recognized by different policy makers in Libya. For example, Abdel Hafidh Zlitni, Secretary, General People's Committee of Planning clarified that foreign investment plays an important role in the development and diversification of the Libyan economy (Oxford Business Group, 2008). Also Hamed Arabi Al Houderi, Chairman, Economic and Social Development Fund concluded that FDI was critical to enable all Libyan economic sectors to be competitive in the international market (Oxford Business Group, 2008). Moreover, Saif Al Islam Al Qaddafi, Chairman, The Qaddafi Foundation, has stressed the role of FDI in boosting privatisation and driving Libya's development (Oxford Business Group, 2008).

The importance of this study derives from the fact that, as was stated above, FDI in Libya, especially in the non-oil sector, is a very new phenomenon, and thus there has been insufficient investigation into FDI in the country. There has been no research conducted into economic sectors at the microeconomic level in Libya, and there has been no study that makes a comparison between various sectors of the economy in terms of FDI processes, how these processes are motivated, how motives have turned into determinants, and how this impacts the whole economy and therefore, how to make this process better managed to improve the process of development through FDI in Libya. This study is also important in terms of revealing the barriers to FDI in the various sectors of Libyan economy. Moreover, conclusions and recommendations that will be extracted from the findings of this study can be useful for Libyan policy makers in terms of future policy development, to stimulate higher levels of FDI inflows.

1.5 Methodology and data

This study is exploratory. There have been no previous studies conducted in this area in Libya. Therefore, to address the first two research objectives, an extensive literature review will be undertaken. In order to achieve the remaining objectives, a qualitative approach based on the use of a case study will be used. The case study approach is determined by the research questions and objectives. The choice of a case study was made to answer questions like what, how, and why. Moreover, it is a more appropriate approach if the phenomenon under investigation is not well explored (Yin, 2009).

Given the research questions ('what and how'), the nature of the research is descriptive rather than prescriptive, which means that the study requires an inductive approach, rather than a deductive one. The focus of this research is on "real-life", which a case study can help to explain. A case study has many advantages: it allows the use of a variety of research methods, which in turn, facilitates the validation of data through triangulation (Denscombe, 2007). In addition, this study, this approach allows the researcher to understand executives' views and their personal experiences clearly. Moreover, this approach has been used widely in studies in the same area, for example, Akhtar (1998) and Barclay (2000).

The core issue of this research concerns the determinants of FDI in various sectors of the Libyan economy, which means that a multiple case study approach will be used. The need for this type of approach is to discover whether the results from one case may occur in sectors elsewhere. In addition, the research outcomes may give a deeper and better understanding of factors that determine FDI in various sectors of the Libyan economy. Moreover, multiple case studies give the opportunity to discover more concerning the research issue and the choice of cases studied will provide a wider range of companies to access (Barclay, 2000).

There are various techniques and sources commonly employed to collect the data for a case study, for instance, documents, questionnaires, observation, structured interviews, semi-structured interviews. It is possible that these techniques can be utilized in

combination (Saunders et al., 2007). In this study, semi-structured interviews supported by the pre-sending of a structured list of questions to interviewees will be used. Documentary analysis will also be conducted. The structured list of questions will be distributed to one or two people from each company selected as a case study. Those selected are foreign nationals working in Libya for multi-national enterprises (MNEs).

The number of cases included in the study will reflect issues of access, the number of available instances, and the relative importance of different sectors of the economy. The plan is to conduct case studies in the manufacturing sector, banking, construction, and oil. The companies will be MNEs operating in Libya using FDI, which may include a range of institutional vehicles, from wholly owned subsidiaries to minority shareholding situations.

1.6 Definitions and terminology

Before proceeding any further, it is important to differentiate between key terms used throughout this study, i.e. motive, motivation, factor, determinant, to motivate, and to drive. Many dictionaries were consulted in order to do this. There were similarities and differences between these dictionaries regarding each definition.

Firstly, definitions for the nouns were investigated. Two of the nouns are often used synonymously in the literature, i.e., motive and motivation. Shorter Oxford English Dictionary (2003) defines "motive" as "an emotion, reason, goal, etc., influencing or tend to influence a person's volition", while motivation is defined as "the need or reason for doing something", according to the Cambridge Advanced Learner's Dictionary (2005).

To sum up, both terms express the idea of a reason to do some thing, which is generally how they are used in the literature. Thus, they will be used synonymously throughout this study. FDI scholars such as Hymer (1960), Knickerbocker (1973), Vernon (1966, 1979), and Dunning (1993) have equated motives for FDI with the reasons for a firm

investing abroad. In the context of Libya, this study will try to explore the motives (reasons) for foreign investors to invest in the country.
The other two nouns are also used synonymously. There are no key differences in the meaning of "factor" and "determinant" in this subject area. The Cambridge Advanced Learner's Dictionary (2005) defines factor as "a fact or situation, which influences the result of something", while the Longman Exams Dictionary defines determinant as "something that strongly influences what you do or how you behave". Thus, this study will use these nouns synonymously, particularly with regard to FDI in Libya. This treatment of the meaning of the words "factor" and "determinant" is consistent with other authors writing on FDI.

On the other hand, the two verbs "to motivate" and "to drive", although they are often used in the literature with similar meanings, will be used in this study to distinguish between internal and external causes. This is in accordance with the definitions of the Cambridge Advanced Learner's Dictionary (2005), which defines to motivate as "to cause someone to behave in a particular way" and defines "to drive" as "to force someone or something to go somewhere or do something". In the case of Libya, this study will investigate internal causes (motivations) such as the desire to obtain access to natural resources, and external causes (drivers), (such as government policies) of FDI inflow into the country. This study emphasizes that motivations of FDI are a necessary condition, but are not sufficient for it to take place. Drivers (for example, government policies) are sufficient conditions for FDI to take place.

1.7 The Outline of the thesis

This thesis has nine chapters. Chapter 1 describes the research questions and objectives, research problems, definitions and terminology, and the structure of the thesis. Chapter 2 presents an extensive and critical review of the literature on the motives for and determinants of FDI. It reviews some of the leading FDI theories explaining the motives of foreign investors and host governments. It appears that because of the diversity of FDI theories and their development in advanced countries, there is no generally accepted theory could explain FDI in Libya. However, the common characteristic

between all these theories is a concentration on the motives of foreign investors. Within the literature there is not much attention given to the motives of host governments and host companies, and there are almost no explanations about when motives become determinants. Thus, Chapter 3 starts with discussion aimed at establishing a new research framework that takes into account this gap identified in the literature.

Chapter 4 describes the context of the study. It gives a historical perspective of Libya, and analyses the development of FDI in Libya. It also addresses various measures and policies undertaken by the Libyan government to encourage FDI inflows. The reason behind this analysis is to explore the reasons that caused inflows of FDI to Libya to be limited, in spite of the efforts of the Libyan government to attract more FDI to the country. It was observed that the existing literature about determinants of FDI uses the same type of methodological approach, which is a quantitative one used in analysing data. However, analysing data using a qualitative approach might throw up new insights and differences, because of the variant nature of the data generated and its analysis. The results might be the same as using a quantitative approach, or they may well differ. So Chapter 5 does not aim at using a *new* methodological approach to answer the main research question, but employs the alternative qualitative approach (that the existing literature does not use). It provides the first study using qualitative analysis as a major part of the approach. Thus Chapter 5 includes a justification of the qualitative research methodology and identifies the importance of case studies and the need to employ multiple case studies in the current research. Then the method of data collection and analysis is described. This chapter clarifies the procedure of sample selection, data collection and processing.

Using Porter's five-force model, Chapter 6 presents an analysis of four Libyan sectors, which have been the recipients of FDI: oil, banking, manufacturing and construction. This chapter will borrow the idea of "within case" and "across case" analyses by applying Porter's model for each sector, then applying analysis across sectors, which is an area that has not been highlighted before. Chapter 7 shows the empirical application of the framework that was developed in Chapter 2. Chapter 7 also presents dissection of

the data that was collected from the selected companies and policy makers. Consequently, the empirical findings presented in this chapter are used to answer the main research question. Thus, Chapters 6 and chapter 7 present empirical findings from the different sectors and from two parties' point of view: the Libyan government and foreign investors'. Chapter 8 concludes by discussing the theoretical and empirical contributions of the study. The limitations of the study and future directions for research are also presented in this chapter.

Chapter 2 Literature Review

2.1 Introduction

A motive is the starting point in the process of FDI. The motive is the driving force that leads the process to start. The importance of looking into the motives of FDI is clear from the literature. For example, Dunning (1993) classified four types of motives, which are: the resource-seeking motive; the market-seeking motive; the efficiency seeking motive; and the strategic asset motive. Also it was observed from the empirical literature (for example, Kinoshita, 2003; Gilmore et al., 2003, Uiboupin and Sorg, 2005; Hellstrom and Sungur, 2006), that in any analyses of the FDI process, these studies investigated the motives.

There are three main parties involved in the process of FDI, foreign investors, the host government and host companies. Motives are the key drivers of each of these parties. Thus, for the process to take place, the motives of the three parties should be in agreement and harmony in terms of intentions and goals. Also the motives of each party should match, and supplement and agree with the motives of other parties, (Marinva, 2004). An FDI process takes place if the motives of each party are made clear to the others. However, if the real motives of some or all parties remain hidden, this may lead to FDI to not taking place.

There are many theories of FDI, because FDI goes through many stages of development, and because of the different structures of countries at different period of time, with different needs and different stages of international economic development. So in actual terms, conditions change, and that is why there is such a great variety of FDI theories. The purpose of this chapter is not to make a historical analysis of FDI theories. Instead, attention will be paid for those studies, which have helped in conducting this research, because the subject of this study is a developing country, and FDI research focuses on developed countries in general. So from this point of view, the theory which needs to be addressed is the one that helps to understand how the process of FDI is taking place and how it is impacting on the economy. So this study is interested to explore theories that

explained motives and determinants of FDI from the points of view of foreign investors and the host government. Attention is paid to the motives of the host government because, as explained above, conditions for FDI are changeable. In the past, existing colonial structures meant that many countries were providers of natural resources, and this did not allow the host governments to play any role. However now these countries are in-dependent and they make their own decisions about their natural resources, and as a result, the role of the government and its motives in attracting FDI become very important.

The remainder of this chapter is structured as follows. Initially, the chapter presents definitions of motives for FDI. Then the motives for FDI are presented from the perspective of foreign firms, the host government and local firms. Then vertical and horizontal FDI are discussed. After that there is a brief analysis of the classical theory of international trade, the theories of MNCs, and the determinants of FDI. Finally, there is a conclusion to the chapter.

2.2 Definition of motives for FDI

As explained in chapter 1 there are several definitions of motives. However, because generally there is no fundamental difference between these definitions, the one which will be used here is defined by Shorter Oxford English Dictionary (2003) as "an emotion, reason, goal, etc., influencing or tend to influence a person's volition".

However, what about the motives, which are they in the process of FDI, and what do they mean? Motives are what makes one of the parties that are involved in this process do something. For example, if this ward is used in the context of host government, it could be used to describe the reason for the government deciding to create better conditions for FDI. If it is applied to a foreign investor, it may describe the reason for the foreign investor deciding to invest in a country. Thus the motive is probably the reason why the parties engage in certain specific activities. However, the motives of the parties are not just a reason for doing some thing, but also they think about what benefit they can they get. For example, a foreign investor may be motivated to engage in FDI to

benefit from access to a virgin market. The host government is motivated to engage in FDI to benefit from new technology, and local companies may be motivated by the goal of enhancing their local competitive advantage.

The next section will start with the motives of FDI. Because motives are not in real terms theoretical, motives are subdivided into the intentions of the parties that participate in FDI. This kind of classification enables a kind of subdivision of conditions under which FDI can take place. However, theories of FDI seek to explain why and how FDI takes place, and the sections below will discuss firstly, foreign investors' motives for FDI; secondly, government motives for FDI; and thirdly, local firms' motives for FDI.

2.3 Foreign firms' motives of FDI

To understand the underlying motives of FDI decisions and the main features of each one, it is very important to differentiate between different motives for undertaking FDI. However, this differentiation does not mean that these motivations are always used separately. Sometimes these motives can act together to drive FDI, (Chorell and Nilsson, 2005, Ziegler & Linden, 2010).

FDI scholars have realized that the FDI decisions of firms depend on different motives, and they have therefore identified several motives for FDI. For example, Eiteman et al. (2001) identified five motives of FDI, as follow: market seeking, raw materials seeking, production efficiency seeking, knowledge seeking and political safety seeking. Nachum and Zaheer (2002) classified motivations for FDI into market seeking, resource seeking, export seeking, efficiency seeking, knowledge seeking, and competitive strategic motivation. Drawing on Dunning's classification of FDI motivations, Franco et al. (2010) distinguished between three motives of FDI; market seeking FDI, resource seeking FDI and non-marketable asset seeking FDI. However, Dunning (1993) categorized four motives of FDI: market seeking, resource seeking, efficiency seeking and strategic asset seeking. In the context of Libya the motives of foreign investors will be studied under Dunning's categorization because all the above mentioned scholars

relied on this categorization and there are no key differences between their categories and Dunning's.

The motives of a firm are not fixed, they change with its experience. If a firm is new, then in the earlier stages it is motivated by market and resource seeking, while with more experience a firm is motivated by efficiency seeking (Dunning, 1993).

The study conducted by Cross and Voss (2008) proved that the motivations of Chinese outward FDI into the UK have changed with the passage of the time between early and late entrant firms. The period of the study was divided into two periods: before 2000 (including 1980s and 1990s) and after 2000. By using a questionnaire, data were collected from 21 Chinese firms involved in FDI in the UK. Cross and Voss found that early entrants firms were motivated by market and resource seeking motives, while late entrance firms were motivated by efficiency seeking FDI. Moreover, they distinguished between defensive and offensive market seeking FDI, and they reported that there was no difference in the defensive market seeking motives between early and late entrants. However offensive market seeking motives were not similar between early and late entrants. The late entrants were motivated by increasing their firm profile in a big market, so the size and potential for growth of the UK market were important factors, and they did not aim to use the UK as an export platform. However, establishing a fresh market overseas motivated the early entrants. The following is a discussion of the most important motives for FDI, according to Dunning's classification.

The discussion above indicates that motives are components of the ways parties get involved in FDI, for the host government, foreign investors, and local companies. The following will consider the motives that are associated with some previous studies. Previous studies (for example, Dunning, 1993; Nachum and Zaheer, 2002) grouped motives for FDI into four categories: resource seeking in the first instance; then market seeking; after that efficiency seeking; and lastly strategic seeking FDI. From the literature it seems that this order is related to a country's stage of development. For example, if a country is at stage one or two of its development then foreign investors

will be motivated by resource and/or market seeking FDI. However, if the country is in a more advanced stage of development, the motives of foreign investors will be efficiency seeking and/or strategic seeking FDI. Empirical studies such as those of Pye, 1998; Altzinger, 1998; Kudina, 1999; Lim, 2001; Streak and Dinkelman, 2002; Campos and Kinoshita, 2003; Bevan and Estrin, 2004; Rossmeissl, 2004; Chorell and Nilsson, 2005; Hannula, 2005; Maloney, 2005; Uiboupin and Sorg, 2005; Hellstrom & Sungur, 2006; Buckley et al, 2007; Marian et al., 2007; Birsan and Buiga, 2008; Yulng and Yuanfei; 2008 and Ismail' 2009, have shown that (although these studies were conducted in different parts of the world albeit all of them in developing and emerging markets countries at different times using different methodologies) the results were similar in that the motives they identified were resource-seeking and market seeking FDI. It seems from these studies that because the countries studied were developing and emerging markets, this suggests that they were in the early stages of their development and that was why resources and market seeking motivated the investors. As Libya is a developing and emerging country, and is rich in oil while also being country in the early stage of its development, thus it is expected that foreign investors will be motivated by resource and market seeking FDI.

2.3.1 Resource seeking motives

The first motive for FDI is resource or asset seeking. The reason for this type of FDI is the unavailability of resources (e.g. raw materials or low cost labour), or high costs in the home country. In this case firms become further rivals in the potential and existing markets, and then decide to go abroad, particularly if exportation is the purpose of investment, because the reduction of their costs is a very important factor. Moreover, the motives for this type of FDI are to increase the firm's profit and to elevate its competitive level in the market served or in the market it wants to serve (Dunning, 1993). This kind of FDI will be attracted to countries with rich natural resources (Campos and Kinoshita, 2003). Sometimes the purpose of this type of FDI is to take advantage of resources in a specific area, and FDI in this case is location-based, for example, in the oil and tourism industries, the motive may also be to serve a third country market, and the home country, but not the host country (Tekin-Koru, 2007). The

main determinants of this resource seeking FDI are: physical infrastructure, openness, unskilled labour, coastal location and the level of agricultural activity.

Resource seeking FDI is conducive to the host country becoming an exporter, and the home country an importer of resources, either because its costs are too high, or because there is a lack of these recourses in the home country. Moreover, it is may be conducive to vertical integration between the input of the host country and the production of the home country. However, the development of local industry has lead to a decrease in this type of FDI, especially since the Second World War, (Akhtar, 1998; Mossa, 2000; Campos and Kinoshita (2003).

In the case of resource seeking FDI, foreign investors are looking at factors like less-expensive labour (unskilled or semi-skilled), infrastructure, and natural resources. However, if any country is abundant in natural resources, this does not necessarily mean FDI will be undertaken. If the country has comparative advantages in natural resources this could lead to trade instead of FDI. However, when a country does not have sufficient capital for exploiting these resources, or does not have the advanced technology to obtain or sell raw materials, and if there are not good infrastructure facilities, in these cases FDI will take place (UNCTAD, 1998).

Labour seeking FDI occurs when the host country has established export zones or free trade areas in which it offers lower labour costs, and this encourages firms, especially service and manufacturing firms who need cheap labour, to invest in this type of country. Moreover, if the cost of labour in the host country is a lot lower than the one in the home country, as is for example in the case in China and the UK, companies may be tempted to move their production overseas, i.e. to China in this example.

Dunning distinguished between three kinds of resource seeking motives. Firstly, there is the search for natural or physical resources. Usually manufacturing and production firms, from developing or developed countries, indulge in this kind of investment. The purpose of this kind is to reduce the costs of input of production or to protect the

required supply of resources for goods. In particular, the resources that are needed to market the complementary capabilities which firms from developed countries can provide, for example, in the case of agricultural products, such as sugar, and tobacco; minerals such as copper and oil. Also, in the service sector, some firms intend to exploit a specific resource location, such as educational services or construction.

The second kind of resource seeking motive is related to cheap, semi-skilled or unskilled labour. This type of FDI generally occurs in the services and manufacturing sectors. If a firm produces goods which are labour intensive, it seeks to reduce its expenses by investing in locations rich with relatively unskilled labour, in order to benefit from cheap labour costs in producing intermediate or finished goods for export. Often a host country encourages this type of FDI by establishing free trade zones. However, if a firm introduces goods which are capital-intensive, then this firm may search for skilled labour through FDI in alien markets if the costs of skilled labour are high in the home country, and by doing this the firm will reduce its marginal expenses and increase its return, namely, because although the capital expenditure will be the same the return will increase (Chorell and Nilsson, 2005).

The third kind of resource seeking motive is related to intangible assets such as technology, organizational skills and marketing expertise. In this kind of FDI, a firm is motivated by its desire to get access to these intangible assets that are not available in its home country. Thus it engages in FDI in a location that has such resources. These three types of resource are not equally distributed and immobile between different locations, and appear from the comparative advantages of locations, (Makino et al., 2002). Makino et al. explained that the main concern of resource seeking motives is to reduce the overall costs of production by reducing the cost of production factors such as labour, and by decreasing the delivery expenses such as tariffs and transportation costs. The high cost of exporting goods to the host country encourages the firm to engage and profit from resource seeking FDI by combining their advanced technology or advantages they possess with low cost of production with the advantages of access to the host country (Makino et al., 2002).

Resource seeking motives also include the desire of a company to get access to infrastructure. This may consist of physical infrastructure such as roads and telecommunications, and institutional infrastructure such as legal system and services.

The relative importance of resource seeking motives as a determinant of FDI is in general decreased over time due to the emergence of new large local firms in developing countries and the primary sector becoming less significant. The developing countries' firms possess the level of technology that enables them to extract, produce and distribute the natural resources of their countries. Moreover, the desire for semi-skilled or unskilled labour, especially by various manufacturing firms, is decreased (Dunning, 1993). Therefore, the resource-seeking FDI motive in developing countries is reduced generally as the country's level of development rises. As a result of this, foreign firms license or sell their ownership advantages to domestic firms. However, the decrease of the relative importance of resource seeking motives, does not mean that their general importance decreases too (Chorell and Nilsson, 2005). So resource-seeking motives are still important and can explain FDI in Libya, especially in terms of its richness in the commodity oil.

Cross and Voss (2008) differentiated between three types of resource seeking motive: the first is natural resource seeking, the aim of which is to exploit local resources gas or oil for example. The second type is technology seeking, in this type a firm conducts FDI in a country owning advanced technology or in the situation of developing technology. The foreign firm can benefit from local knowledge through spill over effects or directly through collaborating with domestic firms. The last type is strategic-assets seeking, whereby firms engage in investing in strategic assets to increase their present stock to gain specific advantages. The purpose of this type is to get better access to distribution channels or the acquisition of brands.

Exploiting natural resources in the host country by foreign firms for the last stages in its production process is the aim of vertical integration, while horizontal integration is introducing goods in a host country that are similar to those in the home country by

setting up subsidiary plants in the host country. To benefit from cheap labour in developing countries or to adapt to the changes in a foreign market are the aim of this type of investment. The relationship between FDI and trade depends on the type of FDI. For example, vertical integration might be conducive to host country becoming an exporter of natural resources to the home country, while horizontal integration might be conducive to a host country becoming an importer of intermediate production goods. Also this type may lead to the host country becoming a main exporter instead of the home country (change in export base) to third markets. Thus, shifts in factor prices are believed to affect horizontal FDI, which in turn is affected by exchange rates (Nakamura and Oyama, 1998).

2.3.2 Market seeking motives

Market-seeking motives lead companies to expand a firm's production facilities in a foreign market. There are many reasons for market seeking motives to affect investor behaviour. The market-seeking motive is influenced by factors such as structure, size and the growth of domestic and foreign markets. For example, if a domestic market is stagnated or has a limited absorption capacity, firms may look for opportunities to invest and reach consumers in foreign high growth markets. Equally, companies may seek market access to new markets and use them as a platform for expansion into neighbouring markets. Alternatively, firms may invest in production facilities overseas in order to access resources or achieve efficiency gains and then access the home market. In addition to factors like transport cost, tariffs, economies of scale, and host government policy towards imports, the potential investor will consider the political and economic stability in the host country in comparison with its neighbouring countries, (Streak and Dinkelman, 2000).

Market seeking motives exist because they can lead to lower costs of marketing and avoiding trade barriers such as import fees. Government regulatory and commercial polices and import barriers are factors that may attract or discourage FDI to the host country. Market seeking strategy was commonly adopted at the end of the 1980s. It is

usually a search for horizontal FDI (Caves, 1971; Akhtar, 1998; Mossa, 2000; Campos and Kinoshita, 2003).

Market seeking motives lead to FDI that are linked to the size and growth of a market are the most important factors that influence a company's choice of a market. New markets give opportunity for the firm to compete, grow and gain economies of scope and scale (UNCTAD, 1998, 107). Conventionally, to protect the local market for manufacturing products from international rivalry, high tariffs or quotas are imposed. However, Franco et al. (2010) explained that when a firm sees opportunities in a foreign market and decides to exploit them, it generally means that the firm has identified either market segments that have been previously left intact by other players in the market, or that growth rate is so high that it can absorb more new entrants due to greater or in some cases fragmented demand. Their study argues that the factors that determine choice of location depend on the purpose of this investment. If the firm is motivated by exploiting the host country's market, then factors such as market size, and the availability and intensity of comparative and absolute advantages, are the most important factors determining the choice of location. On the other hand, if the firm is motivated by using the host country market as an export platform, then the MNE will compare the features of the targeted market and neighbouring countries in order to make an FDI decision.

Market seeking FDI could be classified into offensive and defensive activity. Offensive market seeking FDI is undertaken when the purpose of the firm is to offer services and goods to a new market by using the host country as a platform, due to cheap transport between the host country and the home country, which a firm wants to serve. In this case market-seeking motives lead to trade that follows from FDI. On the other hand, defensive market seeking FDI occurs when barriers are imposed on imports. Therefore the firm, in its attempt to protect a market position that was established through exports, engages in FDI to bypass these barriers. In this case market-seeking motives lead to FDI that follows from trade (Cross and Voss, a2008).

2.3.3 Efficiency seeking motives

The reason for efficiency seeking is the desire to rationalize the structure of production units that already exist in the home country. It is profitable to the firm to have different geographical locations in terms of the scale and scope of its economic activities; i.e., a firm may try to benefits from dissimilarity in expenses of factor endowments and their accessibility in different countries (Nachum and Zaheer, 2002). MNEs try to reduce the cost of their labour through investing in developing countries, for example China, Mexico and Morocco. Several countries encourage FDI by setting up fiscal and physical incentives like tax holidays, import quotas and simple repatriation of profits. In this case, the costs of production and transport are more important than the size of the market (Akhtar, 1998; Campos and Kinoshita 2003).

An efficiency-seeking firm is motivated by benefits from advantages such as institutional arrangements, cultures, policy, market structure, and economic system. Firms focus their activities in a small number of locations and then supply their production to several markets. Good developed and open alien markets will encourage this type of investment to be undertaken. Thus, locations distinguished by regionally integrated markets attract this type of FDI.

According to Dunning (1993) there are two kinds of efficiency-seeking FDI. Firstly, that which is undertaken in countries that have similarity in levels of income and economic structure. This type aims to obtain a benefit from dissimilarity in customer tastes, scale and scope of economic activities, and capabilities of suppliers. The important determinants of this type are factors such as the nature of customer demand, the features of the local competition, and the macro and micro economic policies of governments.

The second type of efficiency seeking is aimed to benefit from different availability and price of factor endowments, and their costs in different locations. That is why firms resort to dividing the process of production, if it needs for example, capital or technology, it will focus its production in a developed country. However, if a firm is motivated by low cost of labour, it will choose a developing country as a location for its

production (Dunning, 1993). The cost of labour is a significant determinant of this type of FDI if the goods are labour intensive. However, in the case of capital intensive, the productivity of labour is a significant determinant of FDI. Thus efficiency seeking FDI is undertaken for reasons that are similar to market and resource-seeking reasons.

2.3.4 Strategic asset-seeking motives

In this kind of investment a firm is motivated by gaining assets in order to help its long-term objective in terms of rivalry in the international market. The firm is motivated to obtain new assets in the foreign market that will be added to existing ones, and to develop new advantages rather than only exploit their specific advantages. In this situation FDI is motivated by the need to acquire strategic assets in a host country, (Makino et al., 2002). Dunning (1993) claims that firm specific advantages derive from both the firm's own proprietary assets and the ability of the firm to own or coordinate complementary assets in the host country. Hence the firm invests in a specific location, which can supply their required strategic assets (Makino et al., 2002). The clarifying issues such as marketing advantages or special cost are not very important in relation to this motive. The new assets, which a firm tries to get, may make their rivals' advantages weaker or make the firm's advantages stronger than rivals in terms of competitive position. There are different causes for this strategy, such as two companies merging to become stronger than others in a market, the aim of the new firm widening its variety of services or goods to its clients. Engaging in this kind of FDI is not necessarily to exploit competitive advantages or ownership advantages in a host country, but rather the reason is often to gain advantages, which help the firm to develop and promote its position in the global market.

To sum up, if a firm is from a developed country, it will aim to engage in FDI to exploit ownership advantages. However if the firm is from a developing country, then the aim is to obtain these advantages (Cross and Voss, 2008). When the market for a product is imperfect, the strategic assets which firms attempt to gain are from common ownership of different economic activities or from similar activities in a different economic

climate. Sometimes the main focus of strategic asset seeking motives is related to managerial of financial assets that are measured in different currencies (Dunning, 1993).

The above categorizations of FDI motives are from the investor's point of view. However, there are also three categories of FDI motives that can be identified from the point of view of a host country. These are known as import-substituting FDI; government-initiated FDI; and export-increasing FDI (Mossa, 2002). Firstly, the choice of encouraging import-substituting FDI is likely to be determined by the host country's market size, trade barriers and transportation costs. In this type of investment, the host country seeks to produce goods instead of importing them, which means that both the host country's imports and the home country's exports will decrease. Secondly, government-initiated FDI could be promoted, for instance, by a government in its effort to address deficit in its balance of payments; in this case a government will encourage foreign investors by offering incentives to them. Thirdly, export-increasing FDI, the reason of this type is the need for new input supply. The aim of export-increasing FDI is for the home country and other countries to increase their imports from the host country (Mossa, 2002).

In the Libyan context, one of the purposes of this study was to investigate the motivations behind FDI decision for investment in Libya. For example, why parties involved in FDI had market seeking motives and; what the reason behind FDI types was. Also it was important to discover the benefits that each type of FDI can bring. Due to the fact that Libya may need to concentrate on specific types of FDI that bring specific benefits, which are needed by this study is intended to help design the policies country, thus design the policy which can help in improving FDI conditions.

In addition to internal motives mentioned earlier (e.g., market seeking, resource seeking) which are in the direct control of firms, Vincze (2004) suggests that there are external drivers that come from the environment, for instance, pressures from a firm's rivals in the form of a response to competitors action. So the firm may engage in overseas activities as a result of the behaviour of other companies (Nachum and Zaheer, 2002).

Willem te Velde (2006), explains external drivers that determine FDI inflow and how their relative importance has changed over time. He classifies these drivers into three groups: firm specific factors (this group is internal for the firm). The second group is macroeconomic factors, such as human capital, infrastructure (supply side) and size and growth of the market (demand side). Willem te Velde clarified how important human resources are in terms of education and training in driving FDI, especially technology intensive investment. Infrastructure is found by several studies to be a very important factor driving and determining FDI inflow, especially in developing countries. Willem te Velde explains that Africa has suffered from problems such as inadequate infrastructure and skills, which discourage FDI into this region. The connection between infrastructure and human resources on one hand, and FDI on the other is a very complex one. The third group of factors driving FDI is policy factors. Policy factors were divided into general policy determinants such as political stability, and particular policies aimed at FDI such as incentives and international trade.

Similarly to Willem te Velde, Giese et al. (1990) divided the factors that drove foreign investors into three groups. The first group comprises of transaction and intangible assets (internal motives). This group include factors such as technology, a well-developed system of communication and transportation, skilled labour, advertising, and marketing. The theoretical background of these factors is referred to, for example, by Caves, (1971) Hymer, (1960) Dunning, (1976). The second group consists of economic factors that drive FDI. These factors include extension of alien market share, reduction of cost of production and input, and trade barriers. Several scholars have explained the theory behind these factors -as will be shown later - such as Heckscher-Ohlin, (1950) Cave, (1971), and Vernon, (1966). The third group is driven by political factors such as stable government and the attitude of policy rather than its actions.

The literature has paid a great deal of attention to the motives of foreign investors and that is why there has been a lot of investigation into this area. However, the participants in an FDI venture are not only the foreign investors, but also the host government and host companies. It could be said that motive is the way to describe the relationship

between foreign investors and the host country's government and companies, which is an area that has not been highlighted in the literature. However, before investigating this relationship, it is important to shed light on the motives of host government and host companies in seeking to attract FDI, and thus to fill a gap in the literature. Because there are few studies that have paid attention to host governments and companies, one of the purposes of the current research is to integrate all of this and give more attention to the host government's motives and how it can regulate and manage the process of FDI, and also to give attention to certain extensions for local companies. The following sections deal with the motives of host governments and host companies in attracting FDI.

2.4 Government motives for seeking FDI

Marinov and Marinova (1999), Marinova et al (2004) outline several motives for a host government to seek to attract FDI, such as to a wish to support economic growth, to enhance privatisation programms, to get access to advanced technology, to acquire managerial skills and job creation, to develop the abilities of firm to create new goods, to facilitate the expectations of knowledge spill-over and to establish sources of funds to help the government in its expenditure. Some of these motives, such as knowledge spill-over, unemployment problems and growth were mentioned also in studies by Blomstrom and Kokko, (2002); and Foder, (2005). However, Fodor, (2005) added to these motives the positive effect on wages and balance of payments.

FDI is viewed as a main deriver of economic growth and development, especially in transition economic and developing countries where governments give priority to the attraction of FDI, due the fact that FDI enhances both domestic capital formation and the quality of capital stock. MNEs are viewed as a means to import better management and technology. Furthermore, they cannot prevent local firms from absorbing (through spillover) technology or any skills they bring with them (Fodor, 2005). Fodor also mentioned the importance of economic climate as a determinant of FDI. Economic climate factors include trade policy, the conditions of domestic labour, infrastructure and macroeconomic stability. However, due to an increase in the competition between governments to attract FDI, and due to the motivations of foreign companies, which

may also include financial or fiscal motives, a government seeking FDI can offer a variety of incentives to attract it. For example, if investment is motivated by budgetary considerations, the government may reduce the tax burden for foreign investors. Therefore, the determinants of FDI in this case are tax allowances, reinvestment allowances, tax refunds and decreases in VAT (Fodor, 2005).

The policies of a government depend on its motivation, for example if the government is motivated by the desire to increase the potential benefit from FDI to the work force, then government policies will focus on education and the training of labour. The demand for skilled labour will increase as a result of growth in FDI, so governments may try to upgrade labour through an increased enrolment in secondary education to offer the necessary requirements of tertiary technical education and vocational training. Therefore, to what extent FDI will be attracted to a country is party determined by the level of education of the available workforce (Fodor, 2005).

However, if the government is motivated by maximizing the potential benefit from FDI on the economy, then a government could try to gain from FDI through encouraging increased efficiency of local companies via spill over effects from foreign firms, in addition to attracting FDI to specific sectors which are most beneficial for the economy (Fodor, 2005). These policies that are undertaken by governments to attracting FDI are viewed as determinants of FDI.

In order to achieve their goals governments around the world have tried to open up more sectors to foreign investors and eliminate entry barriers. They also provide several kinds of investment incentive to attract foreign investors, such as fiscal incentives (tax holidays, low levels of tax), financial incentives (preferential loans to MNCs, grants). In addition governments may provide infrastructure and market preferences, (Blomstrom and Kokko, 2002). The increased emphasis on the role of governments in providing such incentives is due to the regionalization and globalization of international activities, which has led to integration between regions and as a result of this market size as an important determent of FDI location has decreased (Blomstrom and Kokko, 2002).

Dunning (1976; 1993) explained that a firm must possess ownership advantages to engage in overseas activities. These advantages include issues such as management, technology and knowledge. Also a firm has many ways to enter a foreign market, such as licensing, exporting and contracts (management, marketing, franchising contracts). Dunning (1993) stated that the most important location determinants of FDI are level of real income, level of skills, infrastructure, market size, macroeconomic and political stability, and trade policies. However, according to Dunning investment incentives were relatively less important as determinants of FDI. However, recently, due to globalisation, this factor has become a more important tool in attracting FDI. To distinguish between the impacts of different kind of investment incentives on firm conduct and FDI inflow is difficult. However, Blomstrom and Kokko (2002) explained that financial subsidies are one of the most important location determinant factors, whereas fiscal preferences are a determinant of FDI flows. The growing importance of investment incentives has led to a decreased importance of market size as a determinant of FDI, which enables a small country to compete with large countries in attracting FDI. National government can provide investment incentives in order to promote welfare, employment and local production. However, the role of exchange rate and trade policy has decreased as a determinant of FDI.

2.5 The motives of local firms for seeking FDI

Host firms undertake FDI due to several motives, such as strategic assets seeking, such as, for example, acquiring brand names to exploit in local or foreign markets, or to obtain sources of finances to enhance growth in the future (Marinov and Marinova, 1999). Host firms may also be motivated by the strategic restructuring of firms, especially in developing and emerging countries, or by the prospect of spill over technology (Konings, 2000).

The general features of firms in developing and emerging countries are the use of outdated machinery and obsolete production methods. To compete successfully in a market, firms need to engage in strategic restructuring, for example, by acquiring up to date machinery and production methods. Foreign companies have the required finance

and technology know-how, which have the ability to restructure the strategic assets of local firms. Local firms believe that FDI brings technology and know-how, and they benefit from foreign firms through several channels, for instance local firms may benefit from production processes and the introduction of fresh production processes by foreign companies via the accelerated diffusion of fresh technology. This happens through channel such as imitation or labour turnover. However, the positive effect from foreign firms may be offset by negative competition that is a result of a reduction in the production of local companies because of increased rivalry from foreign companies. Konings, (2000) explained that the absorptive capacity of local firms is a very important determinant of the benefit from spill over effects. In other words if a local firm is to benefit from technology spill over, it must have a certain level of knowledge and human capital. If the technology gap between local and foreign companies is not very high, spill over effects can take place in sectors that possess intensive R&D. it can therefore be asserted that the absorptive capacity of local firms, the technology gap between local and foreign companies, the minimum requirement of knowledge and human capital in the host country and the degree of technology spill over (if high) are important determinants of positive spill over effects.

Blomstrom & Kokko (2002) stated that a domestic company can benefit from FDI through forward or backward spillover linkages with an MNC. For example, it can imitate the technology that an MNC brings, or employ workers who were trained by MNCs. The increase in rivalry between local and foreign firms has both positive and negative affect. The positive effect of this competition leads domestic companies to introduce new technology. However, it also has negative effects, because it may lead domestic companies to leave the market due to their inability to compete with foreign firms.

According to Blomstrom & Kokko (2002) the following are ways in which local firms can benefit from a foreign firm: the force and responses of the domestic company will determine the ability of a domestic firm to break into the monopolies of foreign firm and inspire efficiency and competition, or will lead to more monopolistic control by foreign

firms; local firms can learn about new techniques of standardization and quality, and improve their inventory in addition to distribution channels; domestic companies may benefit and utilise marketing and managerial techniques employed by MNEs; and they may break supply obstruction and then contribute to efficiency, local firm thus acquire new know-how through new technology and employing labour who have already been trained by MNCs.

In this context, Gorg and Greenaway (2004) identified four channels in which local firms can benefit from foreign firms' "spill over", these are: competition, acquisition of human capital, imitation, and exports. The first three are as Blomstrom & Kokko (2002) explained however, the last one, namely exports, is different. Gorg and Greenaway (2004) argue that a foreign firm that engages in export activities may have to pay fixed expenses for constructing transport infrastructure, set up distribution networks and accumulate knowledge about customers' tastes. This firm will seek to export from the new host country it invests in. Through co-operation with foreign firms, local firms may be able to learn how to engage in export activities.

From a different prospective Blomstrom & Kokko (2002) and Gorg and Greenaway (2004), as well as Ayanwale (2007) have recognized that local firms can benefit from foreign firms through four ways: labour mobility from foreign to local firm, internationalisation of R&D, vertical linkages between local suppliers and customers and foreign subsidiaries, and horizontal linkages between foreign subsidiaries and companies in the same industry in the host country. Ayanwale (2007) mentioned three important factors in which the technological change in the whole economy will take place. These are the social capabilities of the host country, and the innovative and absorptive capacity of companies within in the host country.

However, spill over may have a negative impact on local firms and the host country. For example, a foreign firm may give limited or the wrong kind of technology to local firms, and if the foreign firm does not maximize its profit from the transfer the technology, it will not permit any transfer. As a result of this local firms may introduce low technology

production, and find themselves unable to compete in the market, and leave it (Ayanwale, 2007).

Wang and Zhao (2008) distinguish between horizontal and vertical spill over. Horizontal spill over occurs when local companies benefit from foreign companies operating in the same industry through channels such as direct competition, labour turnover and demonstration effects. However, vertical FDI occurs across industries. For instance, contact between MNEs as purchasers and their local suppliers of intermediate inputs. This vertical spill over occurs through channels such as the transfer of technology directly from foreign subsidiaries to domestic suppliers in complementary sectors, the increased benefit for domestic suppliers from economies of scale as a result of increasing in MNEs entry that leads to increase a demand for intermediate products.
To save trade costs is the aim of horizontal FDI, through the set up of plants in both of host and home countries. However, in this case the firm cannot benefit from economies of scale (Beugelsdijk et al; 2008). Due the fact that horizontal FDI is capital intensive, the spill over effects from it are larger than that from vertical FDI. However, the impact of vertical FDI on local labour demand is stronger than horizontal FDI impact. In general, if FDI is concentrated on providing goods to the local market then spill over is larger than if the FDI focused on export oriented production, (Beugelsdijk et al., 2008). Thus the effect of FDI on local growth depends on the type of FDI, and the local government can affect economic growth through attracting specific types of FDI.

The type of FDI that will take place depends on the motives discussed above. For example, if foreign investors are motivated by market seeking FDI, then horizontal FDI will take place, while if they are motivated by resource seeking FDI, then vertical FDI will take place. The next section deals with these types of FDI.

2.6 Vertical and horizontal FDI

There are two types of FDI, vertical and horizontal, (Dunning, 2003; Fukao and Wei, 2008). Vertical FDI means that firms choose to locate their human capital (headquarters) in a country that is relatively rich in capital and skilled labour, while at the same time

they locate plants of production in a country with cheap unskilled labour (Yeyati, 2002). This split in the production process leads to trade between plants in host countries and the headquarters situated in another country. The host country will first import intermediate production from its home country and after that export the finished goods back to their own market. Low trade expenses motivate the trade between the host country and the country of the headquarters. The motive of vertical FDI is to benefit from international factor-price differences (Yeyati, 2004; Willem te Velde, 2006; Abreu and Melendez, 2006; Fukao and Wei, 2008).

Another motive of vertical FDI is if an industry or a sector has relatively few sellers. In this case a foreign company is motivated by controlling their input sources and they prevent new competitors from entering the market. This suggests that if a foreign company is motivated by resource seeking then vertical FDI takes place, because in this way they guarantee the functioning of their business and they go for backward integration. They look into resource seeking that is needed in order to stay their business, and they can go for forward integration through the acquisition of distribution outlets. This suggests that vertical FDI creates more stable conditions under which further FDI develops (Caves, 1971).

Vertical FDI could also be motivated by resource seeking, which usually occurs in the primary sector. Resource seeking FDI is viewed as a tool to transfer technology, known-how, capital and obtain foreign exchange. However, just as it has advantages also it has disadvantages; for example, companies undertaking recourse seeking FDI are not strong connected to labour market and local products, which are usually, under the control of foreign affiliates. Moreover, the corruption of local leaders may case negative effects on the macroeconomic benefits that are supposed to come with this type of FDI, thus the host country may not improve its economic growth as was expected by encouraging this type of FDI, (Nunnenkamp and Spatz, 2004).

Horizontal FDI means that firms establish the same activities of production in a host country as exist in the home country. Thus, for horizontal FDI, product differentiation is

the key element of market structure, (Cave, 1971). So the motive of horizontal FDI is market seeking.

Several scholars have mentioned the different benefits that may come from different types of FDI, for example, Dunning (1994), Kumar (1995), Nunnenkamp and Spatz (2004). Dunning (1994), regarding the FDI types, suggested that the productivity of local capabilities and resources may increase as a result of attracting market and resource-seeking FDI, and these types of FDI help to encourage the growth of the host economy. The host country can benefit from efficiency seeking FDI through improving its comparative advantages, which includes increasing the purchasing power of both its customers and firms, and decreased expenses of structural modification. Strategic asset seeking FDI might lead to a combination of the competitive advantages of the firm and those of the acquiring firm, and intensify the competition among local firms. The types of FDI chosen by a country to promote do not depend only on the motivations behind them but also on the host country's characteristics such as size, physical distances, industrial structure and political regime, (Guerin and Manzocchi, 2007). Moreover, Dunning argues that the benefits of FDI inflows differ between different countries. For instance, the benefits from market and resource seeking FDI are determined by the development of the host government's policies and macro-managerial abilities compared with the different countries that compete to attract the same type of FDI.

The hosts (mostly developing countries) can take advantages of FDI in many ways, FDI is motivated by different reasons. For example, host countries can benefit from market-seeking FDI through substituting imports and obtaining advanced technology to goods. Resource-seeking FDI encourages host countries to adopt export policies as a result of the use of their natural resources. Efficiency seeking FDI helps host countries to get access to developed countries markets and knowledge about production techniques (Kumar, 1995).

Nunnenkamp and Spatz (2004) explained that market-seeking FDI occurs in services and manufacturing sectors. The benefit of this type includes, among others, new services

and goods, access to modern tools in marketing and production, and it also can lead to increased competition in the host country. On the other hand, it has disadvantages or costs including, for example, the increase of competition, which may negatively affect domestic firms because they cannot compete with foreign firms, and may have to leave the market. In some cases the repatriation of profits may lead to negative effects on the balance of payments and also market seeking investments do not always generate export revenue.

Resource seeking FDI usually occurs in the primary sectors and is viewed as a tool to transfer technology, known-how, capital and to obtain foreign exchange. However, it has disadvantages, for example, if resource seeking FDI is not strongly connected to the labour market and the local production, it is usually located under the control of foreign affiliates. Moreover, local leaders' corruption may cause a negative effect on the macroeconomic benefits that usually come with this type of FDI, thus the host country is not able to improve its economic growth as is expected by encouraging this type of FDI. Efficiency-seeking FDI usually occurs in the manufacturing sector, and like resource seeking it can bring know-how, technology and access to foreign exchange. It has a strong positive impact on growth industries that attract FDI. Also, the host country, especially domestic suppliers and their rivals, can benefit from foreign technology through adopting or copying it.

Several scholars such as Dunning (1994), Kumar (1995), Nunnenkamp and Spatz (2004) have focused on the benefits of FDI motives. In general, they explain that there are differences in the benefits which each type of FDI can bring to the host country. These benefits are different in terms of each type in the same country and between countries. Also these benefits change with time, due the fact that the motives of FDI are not static, and also change over the time.

From the perspective of sectors, FDI scholars explain that each type of FDI is attracted to specific sectors, for example, resource-seeking FDI usually occurs in primary sectors, whereas market seeking and efficiency seeking FDI occur in manufacturing and service

sectors. Strategic asset seeking FDI, on the other hand, usually occurs in information intensive services and capital and technology intensive manufacturing (Dunning, 1993).

In the context of Libya, policy makers in the country will benefit from investment if they realise FDI motives in terms of the benefit that each type of FDI brings, and its impact on the country. Knowledge and clear understand of different motives, and the drivers of different types of FDI, is helpful to designing efficient policies towards multinational enterprises, because dissimilar motives need discrete policy responses (Nachum and Zaheer, 2002).

It appears that vertical FDI is good for investors because they can increase their power and control, but not so good for the host country, where its will be more difficult for the host government to regulate and manage the process. On the other hand, horizontal FDI is good for the host country, because it can benefit substantially from it, so there is a conflict of interests between two parties in terms of their motives for seeking FDI.

2.7 Theories of foreign direct investment

So far the motives of the three parties intending to engage in the process of FDI have been considered. The need now is to explore how the process is conducted and that is why it is important to look into theories of FDI. An attempt will be made to analyses the various FDI theories that claim to explain the motives of foreign investors, host governments and host companies. The theories that explained the motives of foreign investors are classified under three main perspectives. First, why FDI is undertaken, (Hymer, 1960; Cave, 1970; Kickerbocker, 1973). Second, where FDI 'will go' (Vernon, 1966). Third, which form of entry mode FDI will take, (Coase, 1937; Williamson, 1975; 1981; Buckley and Casson, 1976; Rugman 1980; 1981). Then the theories of FDI, developed further by Dunning, who explained FDI from these three perspectives. Before going any further with FDI theories the interesting question here is why there are so many theories. Therefore the purpose of the next section is to explore this phenomenon.

FDI started to appear in the mid or late nineteenth century. Initially the United Kingdom was the most important source country of FDI, while the United States was the most important host country for FDI because of its abundance of natural resources, large market and high tariffs. The most important motive for FDI during this period was resource-seeking (Dunning, 1983). Due to the existing colonial structure, resource-seeking FDI flows extended outside Europe and North America.

Following the First World War many of the interconnections in the international economy were destroyed and foreign investment declined. However, during the inter-war period direct investment rose, in this period the USA emerged as the major economic and financial power, while Britain lost its position as the world's major creditor.

After the Second World War, FDI witnessed growth for several reasons: firstly, the development of technology. Secondly, many new institutions were established, like the IMF, the World Bank, GATT and the Bretton Woods system, (Moosa, 2002). Thirdly, the improving business climate and increased currencies stability encouraged production and international trade. Fourthly, there was a serious need for some countries to improve their economics after the war.

The development of FDI

In the 1960s, developing countries did not attract FDI. However, developed countries did receive FDI as host countries. The flows of FDI doubled and the importance of primary sector for FDI fell in developed countries (Moosa, 2002).

In the 1970s, the growth of FDI decreased. Developing economic became senders for FDI. The manufacturing industry and services sectors became more attractive for FDI inflows.

The 1980s, FDI increased because of business globalization and the depreciation of the US dollar. The USA became a main lender and recipient of FDI. Japan became a main source of FDI for the USA, Europe and South East Asia.

In the 1990s, there was a change in the FDI main targets for FDI. Central and Eastern Europe became attractive for FDI, and many countries witnessed changes in their policy toward FDI, including the introduction of incentives systems, and the removal of impediments and improved systems of regulations. The importance of Japan as a source of FDI decreased.

In the 2000s, FDI rose in all international areas, but with different levels of increase. Depreciation of the dollar in 2006 reflected the global increase of FDI (UNCTAD, 2007) at the regional level, and economic growth and performance caused rises in FDI flow in many countries in the world (UNCTAD, 2007).

The next section will present FDI theories in a chronological order in terms of the purpose of this study. Ietto-Gillies (1992) explained that the importance of a historical approach for presenting FDI theories. Firstly, it is helpful in assessing how theories evolve and how scholars have developed particular concepts. Secondly, it enhances our understanding about the relationship between each theory and its underlining socio-economic condition at a specific period of time.

2.7.1 Classical view of international trade theory and FDI

The original establishment of the classical approach referred back to the work of Adam Smith, which includes his principle of free trade, specialisation and effective competitive market in his book The Wealth of Nations (1776). Adam Smith's theory of absolute advantages explained that each country would became specialised in production of good and services that are the most efficient, due to natural and acquired advantages, and after that they would trade with other countries.

In 1817 David Ricardo challenged Adam Smith's theory and suggested that the real problem was not the absolute, but the comparative advantages. Ricardo clarified the differences in comparative advantages between countries, referring to the differences in relative labour productivity that were themselves due to differences in technology between countries. According to Ricardo, the goods and services a country produces and exports are determined by comparative cost.

Hecksher-Ohlin extended the theory of comparative advantages further to include relative factor endowment. They argued that the differences in comparative advantages are due to the differences in the relative costs of the individual factors of production. Thus each country would become specialised in producing and trading in goods which have factor endowments in them.

The roles and relative position of countries in the international economy, the changing nature of international trade, and changing nature of industrial's structure and competition, challenged the classical trade theory for many reasons: firstly, the clarification of trade volume was not accurate, especially when most of the international trade was undertaken by advanced countries that were similar in their relative factor endowments. Secondly, international trade showed that countries export and import goods that have similar factor intensity. Lastly, international trade theory could not explain the volume and pattern of intra-firm trade and FDI.

The classical view of international trade did not focus on the behaviour of MNCs and FDI. Trade and FDI were viewed as substitutes by Hecksher-Ohlin. Trade and FDI were driven by differing factor endowments. The hypotheses of classic theory do not provide justification for the increase of FDI. For example, its proponents assume homogenous goods and a perfect market, but these cannot explain the reasons for the rapid increase in trade and FDI that has happened between countries that are similar in factor endowments. However, foreign capital inflows and most modern theories of trade assume that the variety of production and failure of the market drive MNCs activities.

2.7.2 Eleven theories of multinational companies and FDI

The last decades have witnessed a vast body of literature that focuses on clarifying the increased growth of FDI carried out by MNCs. This part of study will evaluate those theories, which that are called the traditional view of FDI and MNCs according to IB literature.

1- The differential rates of return theory

This hypothesis considers FDI as a function of differential rates of return. It assumes that other factors are constant, such as risk for example. This hypothesis assumes that capital flows between countries, which have a low rate of return, to countries which have a high rate of return. This continues until the differential in the rates disappears. According to this hypothesis both local investment and foreign direct investment can be substitutes for each other. However empirical testing in the past has showed that there is no support for this hypothesis (Agarwal, 1980).

This hypothesis has many weaknesses. One is that some countries are both receivers and providers of FDI at the same time, and the hypothesis does not address this situation, it only concentrates on one direction of the inflow of capital. The second weakness is that there are differences between expected profit, actual profit and reported profit. The testing of this hypothesis depends on reported profit, which does not reflect reality and does not allow calculation of to what extent there is a difference between reported profit and actual profit (Bhagwati, 1967). There are many factors, such as inflation accounting, and inventory accounting which impact on the accounting profit as a measure of the rate of return. The third weakness is that profit earned is not the same measured during the investigation period and during a specific time, for example one year. The fourth weaknesses is that this hypothesis does not explain why some firms prefer FDI rather than portfolio investment.

2- The Portfolio diversification theory

If it is assumed that a risk is not neutral, in this case the differential rate of return theory is not enough to explain FDI. In this case the portfolio diversification theory is needed to

explain FDI. So FDI depends on expected rate of return and risk. According to this theory diversification of portfolio is used to decrease this risk.

The testing of this theory is through testing the relationship between the share of FDI inflow to some countries and both the return rate and risk. The results show weak support for this theory (Agarwal, 1980). The following are some of the problems which this theory faces: firstly, return and risk are calculated from reported profit, which does not reflect the actual profit. Secondly, if historical data is taken as a variance risk, this does not measure the risk accurately. Thirdly, the theory is concerned with a balance between estimated return and risk, and actual return and risk. In this case, the researcher can develop a scenario relying on logical assumptions about the expected values of return and risk, including a margin for error (Moosa, 2002). On the other hand it has many advantages. The most significant advantage is that it can be used universally. A second advantage is that it introduces an acceptable explanation for investment between industries and countries (Agarwal, 1980). A third advantage is that it takes into account risks, which are considered an important factor in determining FDI decisions. Neither differential rates of return nor the portfolio diversification theory explains the role of MNCs as contributors to FDI and why firms choose FDI instead of portfolio investment (Moosa, 2002).

3-The industrial organization theory

Hymer (1960, published in 1976) is the first economist who showed that both capital theory and portfolio investment were not capable of explaining FDI, and he was the first who mentioned the link between FDI and market imperfection. In addition, his theory was the first dealing with international production focusing on MNEs themselves. Moreover, he was the first to explain FDI from an industrial organization point of view. In this context, Hymer referred to the difference between portfolio investment and FDI, if the investor can control his investment then it means that he should choose FDI, if not, that indicates a preference for portfolio investment. Portfolio theory assumed that overseas activities are undertaken due to higher interest rates, implying risk is neutral. However, Hymer denotes that interest rate differentials are not the reason for FDI to be

undertaken, but rather the reasons is to protect the investment as the firm wants to utilize the advantage it has in exploiting an alien market (Rayom and Baker 1995).

A firm faces many disadvantages when setting up a subsidiary in a foreign country, in view of competition from domestic firms, for example, a lack of knowledge of local market conditions, the cost of communications or higher wages to local workers, the institutional framework, business and social customs, differences in language, culture and so on.

However, it should possess sufficient advantages to overcome these disadvantages. For instance, brand name, production differentiation, cheaper sources of finance, managerial skills, production technology, patents, and economies of scale and so on. In other words, a firm must possess advantages that allow them to earn more in anther country than at home, and also more than the domestic companies in the host country. Thus, these advantages have to be firm specific and transferable to subsidiaries.

Hymer said that, through the market, firms connect among themselves, although they are in different countries. In Hymer's opinion, it is profitable if there is one firm taking the control and other firms working under this firm. For this to happen there must be barriers to new entrance and there must be competition between firms in the market. Hymer emphasises the advantages of individual firms, which defer between one firm and another.

Several scholars, such as Kindleberger, (1969); Buckley and Casson, (1976); Dunning, (1976); and Caves, (1982) have used Hymer's theory as a base for further developments. Kindleberger (1969) assessed three key areas regarding the transfer of advantages internationally. Firstly, there is an advantage in external and internal economies of scale, including those occurring from vertical integration. Secondly, assuming perfect competition in the market, there is an advantage that comprises special access to capital and management, in the company and patented knowledge. Lastly, there is an advantage to government intervention, especially regarding output or entry restrictions. These

advantages allow the alien company to solve problems such as lack of knowledge about local firms and the host country.

Moreover, Kindleberger suggested that the expenses of FDI are due to three factors. Firstly, the government of the host country. Secondly, the cost of communication and the acquisition of information regarding, for example: political and economic conditions, cultural integration in the host country where a foreign company will operate. Finally, exchange rate risks between countries.

Dunning and Rugman (1985) argued that Hymer's theory ignored transaction costs, which are important in assessing the effect of government policies on FDI. Rugman (1986) claimed that Hymer did not explain information costs as a kind of transaction costs. In addition he did not look at the governance costs of contracting. The focus of Hymer was on the ability of MNCs to utilize monopolistic power such as entry barriers to prevent new entrants to a market.

Hymer and Kindleberger illustrated that for a firm, FDI is favoured over licensing and exporting as a tool to exploit their advantages. This preference derives from the fact that exporting means incurring costs such as transport or tariff barriers (Buckley, 1985). Licensing, on the other hand means bearing the costs of imperfections in the market in terms of knowledge and the dangers of copying these advantages by local competitor. However, Hymer and Kindleberger did not address the issue of globalisation, which was addressed later by Kindleberger (1973) and Dunning (1976).

4- Knickerbocker's theory

Vernon (1966) and Caves (1971) pay attention to the reaction of the firm against its oligopolistic rival's behaviour. However, Knickerbocker (1973) explored this phenomenon in greater detail. According to him, if one firm invested overseas, then "follow the leader" is the preferred strategy of other firms.

Knickerbocker argued that there are two types of investment, aggressive investment and defensive investment. Aggressive investment consists of setting up the first subsidiary in a particular industry and in a particular country. Defensive investment is setting up subsequent subsidiaries to complete with the first one. In an oligopolistic structure the behaviour of a firm leads to a pattern of action and reaction, and the movement of a firm is the result of aggressive policies by its competitors. The determinants of aggressive investment are opportunities to acquire new technology, sources of raw materials and to dominate a market. The advantages that the aggressor might achieve in the long-term present disadvantages to its competitors, who will take defensive policies as a reaction to minimise risks.

Agarwal (1980) argues that the problem with this theory is that it does not explain why a firm engages in overseas activities or why it takes the form of FDI instead of exporting or licensing. Buckley and Casson (1976) criticised Knickerbocker's theory in the following aspects: firstly, the aims of the companies are not known, whether they are managerial risk aversion, profit or growth maximisation or maintenance of market share; secondly, why "follow the leader" is the best strategy under oligopoly; finally, it does not explain the motives of the first-mover.

5- Caves' theory

Caves (1971) contribution to FDI theory was to claim that FDI takes place in only some institutional forms and in not many industries- only in industries in which market structures are oligopolistic in developed countries. Hence, as a result of this, Caves concurs with Hymer and Kindleberger with respect to the industry features of investment and the structure of markets. Moreover, Caves's argument is that, when a company is contemplating FDI the targeted foreign market is tested through exporting, and after this the firm starts to produce locally through its local subsidiary in order to reduce costs or to encourage the domestic market to adopt a particular product, and thereby increase its sales.

Caves argues that due to the fact that there are many types of FDI, different clarification is required. For this reason he developed an approach explaining that in new geographical areas a company could expand horizontally or vertically, or take a conglomerate type of investment. However, according to Caves, the latter type of investment does not often happen.

According to Caves (1971), horizontal investment means that a firm will produce in the host country the same production as in its home market. The motive for horizontal FDI is that a firm possess assets not available to its rivals. Caves referred to these assets as product differentiation, which comprise privileged access to production inputs, and innovative and financial skills. However, vertical integration is undertaken by MNEs to produce inputs, which are used in the production process in their home country. Thus, the motivations of vertical FDI are to avoid oligopolistic uncertainty in price and supply in the term, and to prevent new competitors from entering a market.

Cave suggested that for horizontal FDI, product differentiation is a crucial element of market structure, due to the ability of a firm to transfer and control knowledge about serving a market at little or no expense. Moreover, according to the extent of success in differentiation, product differentiation leads to dissimilar rate of return. This happen whatever the form of differentiation is, for example, it could be trough brand names, patents or advertising campaigns. The success of a marketing campaign in one market may result in the same success for other markets due to spill over of the information between markets, in addition to the acquisition of knowledge of a specific market. Hence, because of these assets, according to Caves horizontal FDI occurs in research-intensive industries.

Caves claims that vertical backward integration FDI occurs when there is a small number of sellers and buyers of raw materials which causes uncertainty in the long run in terms of prices and supplies. However, if the supply of raw materials is controlled by a producer, a new rival entrant in the industry is a danger. Vertical integration can eliminate uncertainty through building barriers to entry. The general result of Caves'

assumption is that FDI does not occur in all industries but in specific ones, and in general the rate of return on equity capital is equal between industries in all countries, but not between industries within the same country (Eren, 1994; Rayome & Baker 1995; Barclay, 2000; Hoenen and Hansen (2009).

In 1974 Caves tried to empirically test the main inter-industry discrepancy in MNCs. The population of his study was manufacturing industries in the UK and Canada. He proposed three hypotheses regarding intangible assets, and suggested that if the MNC was a kind of multi-plant firm then FDI would take place, and completely employ the entrepreneurial resources of the firm through FDI. The result of Caves's test showed that the first hypothesis was supported, while the second was partly supported, namely the multi=plant firm was not found to be significant for UK firms but it was for Canadian firms. To Caves, that is why FDI did not take place in many industries with restrictions entry.

In 1982 Caves modified his approach on the subject of determinants of FDI. For him to clarify vertical FDI, the key characters such as barriers to entry, concentration of sellers and oligopolistic structures in terms of transactional clarification became less important. Instead internalisation of the market for intermediate products indicated vertical FDI, which relies on the division of production processes by locating abroad the stages that depend on labour factor. This means that vertical FDI does not depend on natural resources. Other modification that Caves carried out was that a firm could combine two types in production and sell finished goods to the domestic market. Furthermore, MNCs might operate in different sectors than in their home market, for the purpose of diversification, in order to minimise risks.

Despite its attractiveness, Caves' theories have some drawbacks. For example, Agarwal (1980) argues that Caves undervalues the significance of FDI in product diversification that is carried out by investors to satisfy the requirements of risk diversification and extension. Another drawback is stated by Rugman and Verbeke (1998): in the case of analysing the conflict in aims between government and multinational enterprises in

source and host countries, Caves' theory is helpful. However, more analysis is needed to explain the relationship between governments and MNCs.

6- Vernon's theory

This theory is different from other theories because it deals with direct investment and trade as variants to serve an alien market. Moreover, it clarifies this connection in a dynamic perspective (Andreas, 2005). Vernon (1966) tries to clarify the existence of trade and international production by applying the product life cycle idea to international trade. He explains that because of the changes in a product over the product life cycle, the features of the goods change and as a result of this the best location of production also changes with time.

The vital contribution for Vernon was that he applied the product life-cycle idea to location determinants of FDI (Dicken, 1992) Vernon's theory introduced a helpful framework for explaining the early post-World War II increases in US manufacturing investment in other developed countries (Eren, 1994). The essential notion of Vernon's theory is that the need for innovation derived from the high level of income and demand in the US (Andreas, 2005). Vernon (1971) remarks that this theory is valuable because it gives another explanation of FDI, especially for manufactured goods that feature sophisticated technology and are sold in areas of high-income with elasticity of demand.

The cycle of production consists of three stages, as follow:

In the first stage, firms set up the initial production in their home market, near the customers and because of the requirement for well-organized co-ordination between R&D and production components. In this stage, the firm can control the price due to the demand of the new good is inelastic price. As time goes by, the product develops, based on customers, views (Mossa, 2002). The focus of this stage is on the determinants of the initial location of production (Eren, 1994). Vernon stated that there is no FDI in the first stage, when the product is new and created and served the home market due to, for example, product differentiation, or the monopoly of a firm's innovation (Akhtar, 1998).

In the second stage, the emphasis is put on the way in which alien markets are served, and on the balance between domestic production and export (Eren, 1994). This stage is noticeable by the maturity and greater standardisation of the product. Steadily in this stage the demand increases and become more elastic, and production is less expensive in consequence of economies of scale. At this stage, a decision to export is taken in order to serve a foreign market, and as time passes and there is greater awareness of production and this is more diffused, and there is a rise in international trade, all this leads a company to set up production in the foreign market instead of exporting to it. In addition this investment is rapid to overcome the risk of trade obstacles, and to establish production in alien markets before rivals. In this stage, foreign countries are importers of the goods and the home country is an exporter (Akhtar, 1998; Barclay, 2000; Moosa, 2002).

The third stage features the complete standardization of the product, and it is no longer special possession for the innovating company. Cost advantages become an important concern, so, developing countries are the best location to invest in production facilities. Now the home country becomes the importer and the host countries are exporters of the production (Moosa, 2002). Hence, FDI is a defensive shift to keep the company's competitive situation against its local and alien rivals. Moreover, in this stage unskilled labour is an alternative to skilled labour. In this stage, companies seek a comparative advantage at home and in the host countries (Eren, 1994). According to the product life cycle, the ownership of specific advantages is a most important determinant of FDI. Through FDI technology moves from developed to developing countries (Aktar, 1998). Vernon's theory explains that production start at first in the US, a developed country, and finally moves to developing countries, and during these stages there is a change in supply and demand for the technology, and also in cost concern. This lead MNE's to choose the location of FDI (Barclary, 2000).

Vernon (1971, 1974) modified his theory by concentring on the oligopolistic behaviour of firms. He linked the stages of his theory to innovation-based oligopoly, mature oligopoly and senescent oligopoly. Moreover, he took into his consideration other

factors of cost like land and materials, and concluded that FDI is not restricted to US companies but to other companies from other developed countries as well. Furthermore, he postulates that not only the US market is a supplier of new products. However Vernon keeps the hypothesis that market forces are the reason to create new products. He explains the three stages as follow:

In the first stage the home country is the place of production because of the need to co-ordinate marketing, R&D and production processes. Vernon suggests that after economies of scale in production or marketing grow to be vital, they adjust the innovation factor to prevent other firms from entering the market. In this phase the firm develops to mature oligopoly. Therefore, in the second stage, to protect the firm from new entry it will indulge in defensive investment. The location of FDI is determined by the actions of competitor oligopolists. In the last stage of this theory, the obstacles to entry created by economies of scale decline and costs are viewed as an essential concern, thus the senescent oligopolist will choose the location which has a lowest cost of production, namely, developing countries.

Although Vernon broadens his view to take in his account other factor costs like land and material, his theory is limited to high-level income and that is a simplification of the process of a firm's decision making (Buckley & Casson, 1976). Vernon's theory cannot explain the process of production at the present time. Another limitation of this theory it only explains FDI in innovative products, and not those products which are already on the market (Andreas, 2005).

7- The transaction cost theory

Coase (1937) was the first economist to distinguish between external (market) and internal transactions. This is a gap in economic theory that needs to be bridged by replacing market transactions with internal transactions. According to Coase, this replacement will continue to show that both costs are equal. In doing so, a firm will save some marketing costs.

This theory was extended by Williamson (1975), who explained that market failure leads to the advantages of internalisation as an alternative of market. To analyse the growth of companies, and the assessment of the internal structure of modern firms, ownership and control, Williamson utilizes economising on transaction costs. With regard to economising on transaction costs, Williamson explained the whole of business history combined by internal and external effects.

He also differentiated between the three most important transaction costs; information costs, bargaining costs and enforcement costs. These costs were not included in the classical view of international trade. Moreover, he believes that the transaction costs of a market are affected by three factors: the first is opportunism, which is the incentive for individuals to act out of self-interest, and the opportunities to cheat. Second is bounded rationality, which happens due to the inability of management teams or individuals to absorb all obtainable information. Thus to ease decision-making, some restraints should be imposed. The last factor is asset specificity, which reflects the fixed costs of an asset and the complexity of arranging its liquidation. According to Williamson (1983) all these factors must hold in order to meet the required conditions for hierarchical organisations to change market contracting. If all three factors do not hold at the same time, then hierarchies will not take place.

Williamson (1983) reveals that a company needs to protect its technology against expropriation by others. In doing so it resorts to internalising the market to have power over the supply and distribution of its knowledge advantage. In circumstances like this internal markets are favoured over external markets. However, governments may in general, for reason such as competition, favour an external market.

Rugman (1986) argued that the three transaction costs of Williamson could be circumvented within the construction of a multinational enterprise. For example, the transaction cost of opportunism proposes that managers of companies and individuals will act in their self-interest. This is a problem of unfinished contracting wherein parties concerned are utilizing self seeking strategic conduct. In business this behaviour is

general and MNCs utilize it, in addition to the use of relevant entry and exit barriers to international competitive markets. In that order, bounded rationality supposes that there are expenses in the absorption and acquisition of information. This problem can be solved by agents through safe, relevant information and by systems of information processing that determine the significance of the information obtained. Asset specificity is considered as an entry and exit barrier for MNCs, which often have a propensity to be capital intensive, with great commitment of capital in their stock of human resources and managerial expertise, and also in their plant and equipment. In the short-run these assets are not easy to install once more. However internalisation offers the chance of re-contracting in the long term.

Calvet (1981) explained that Williamson's approach was accepted by followers of the IB literature, in particular Buckley and Casson, and by his student Teece, who in 1985 applied transaction cost theory to US domestic institutions. He explained that the governance costs of licensing are raised by several kinds of contracting costs comprising asymmetries in information and other contingencies, asset specificity, and opportunism. In these circumstances, an MNC will replace internal market transaction for licensing agreements or for exporting that does not account for location cost factors. Rugman (1986) criticises Teece's article in that he overstated the differences between Coase and Willamson's transaction cost theory and Buckley and Casson's internalisation theory.

8- Buckley and Casson's theory

The theory of internalisation outlined above was begun by Coase (1937). This theory was widening by Williamson (1975, 1981). After this internalisation theory was developed further by scholars like Buckley and Casson (1976), and Rugman (1980, 1981).

The internalisation theory provides an explanation for why a firm utilizes FDI instead of other forms, such as exporting and licensing, for example. Moreover, it removes uncertainty. Also, it explains FDI through the firm's attempt to substitute market transactions with internal transactions. Internalisation occurs when a market is in failure,

especially in terms of intermediate products that require for instance knowledge, and management expertise. The benefits of internalisation stem from the avoidance of imperfections in external markets. That is why any firm in the market tries to decrease its costs, which derive from market imperfections and include for example the cost of communication and administrative, as a whole through the collection of different activities under general ownership and control.

This theory deals with markets and firms as a substitute method of systematized production, and that is the key characteristic of internalisation theory. According to the theory, it is the best for the firm to replace a market transaction with an internal one if the following circumstances happen, if the contractual obligations expand in time, if there is opportunistic behaviour in the market, if there is no clear idea about the services or goods traded, if internalised transactions are preferred by the firm. In all of these cases, FDI take place because of market internalisation across national borders. This process will stop when the benefits from and costs of internalisation are equal.

The theories of FDI can be viewed as subsets of internalisation theory, which is a general theory of FDI. Buckley (1988) tried to examine this theory empirically, but he found that it was difficult to test if directly. Petrochilos (1989) suggests that there is no evidence that the motivation of the firm to undertake FDI is to avoid the inefficiency of the external market, although firms do avoid market imperfection by FDI. Instead of this, according to Duninng (1976), the motivation is to protect the innovation which they have created.

Buckley and Casson (1976) were the first researchers to combine Coase's transaction costs and MNCs theory. The basic idea for their approach was that the markets for main intermediate goods such as knowledge, management expertise, and human capital are imperfect. Hence connecting different activities through these markets engages considerable time lags and transaction costs. Thus firms have an incentive to replace these external markets by their ownership and control for these products. Buckley and Casson's idea is in line with the ideas of Hymer, Vernon, and Kindleberger.

There are at least five circumstances of market imperfection from which the advantages of internalisation can stem. Firstly, when the efficient utilization of a market for intermediate goods requires discriminatory pricing of a type not easy or impossible to apply internally. Secondly, when the time lags between rivalry and initiation of the production process are long, and at the same time future markets are unsatisfactory or do not exist. Thirdly, when there is inequality in the knowledge about value, quality and the nature of the product between seller and buyer. Fourthly, when government intervention causes imperfections in international market, such as tariffs, restrictions on capital movements (these kinds of imperfections are clearly present in the Libyan case). Fifthly, when bilateral concentrations of market power appear as a result of imperfections, and hence there is instability of external markets. However, the extent of the benefits of internalisation will depend on its costs. There are many types of cost. The first one is the communication cost that arises from internalisation. Communication cost increases when the geographical distance between markets is large, and also if there are dissimilarities between countries in terms of language and social and business environment. The second is the resource cost of division of market, which depends on the relation between the best scales of the activities related to the market. The third cost is the administrative cost of the internal market, this cost depends on the companies' managers. The managers will continue internalising their market until the marginal costs and marginal benefits are equal. The forth is the cost of political discrimination against foreign owned companies, which may increase if the relationship between countries concerned in an FDI arrangement is unstable.

Buckley and Casson (1976) show that firms have a strong incentive to internalise the market for knowledge, due to its nature as a public good. Thus it is easy to internalise with low cost (Vernon 1966; Caves, 1971; Buckley and Casson 1976). Internalisation is likely to be advantageous in sectors such as agriculture and manufacturing.

The incentive to internalise depends on the interaction between four groups of factors. These are: firstly, firm-specific factors such as the quality of a manager (skills,

education, and experience). Secondly, industry-specific factors such as the nature of goods, the relation between the best scales of the activities connected by the market, and the structure of the external markets. Thirdly, nation-specific factors that relate to fiscal and political relationship between the nations concerned. Lastly, region-specific factors, such as the social and geographic distance between countries. According to this framework, common ownership of standardised production phases comes from the internalisation of transactions in knowledge, which is horizontal integration, while the internalisation of transactions in intermediate products between closest production stages represents vertical integration (Clegg, 1987). Both horizontal and vertical integration across countries will be generated by MNCs (Buckley and Casson 1976).

Internalisation theory explains that it is not due to ownership advantages that firms engage in FDI, but the advantages can be beneficially exploited through internalisation. If there is no benefit a company might engage in exporting or licensing (Chen, 1983).

Safarian (2003) stated that Buckley and Casson's study was the first extensive work on internalisation additionally to its application to MNCs. Also this work was an important achievement as it was based on the profit maximisation approach. Yeung, (2003) stated that Buckley and Casson's approach highlighted issue regarding the process of internalisation and building or acquisition of capabilities. They focus on issues such as the expenses of utilizing a company as an internal market for knowledge-based capabilities, leadings to an examination of company issues, for example, collaboration and coordination of affiliated units. Buckley and Casson's work was conducted to develop studies in areas related to international economics, organisational studies and strategic management.

In spite of its importance this theory has many weaknesses. For example, Agarwal (1980) declared that this theory could not be relevant in the short term, in particular to small companies who undertake FDI in one or two alien states. Petrochilos (1989) claims that although it is obvious that a firm engages in FDI to bypass the market for intermediate goods through FDI, it is not sure that the firm internalises its market

motivated by insufficiency of external markets in terms of longer time lags and transaction costs. Ietto-Gillies (1992) suggests that as a theory of FDI is too general and thus is not easy to directly test. Parry (1985) claims that internalisation is not a comprehensive theory of MNCs. In some cases licensing is favoured over FDI because of joint venture activities and MNCs need not have effective control of organisational structures, which internalisation does not take into its consideration. Rugman (1985) remarks that Parry was not correct in his explanations, due to the fact that the choice between FDI, exporting and licensing is determined by the expenses and benefits derived from these activities. Rugman claims that joint ventures are entirely in line with internalisation theory, and that the MNCs, to build an effective internalisation operation, erect internal governance structures.

Rugman (1985) further points out that internalisation theory could be synthesised with eclectic theory through a combination between Dunning first two components, ownership advantages the purpose of its internalisation is to avoid dissipation. Location advantages are a second determinant of FDI which is at the same time decided with ownership advantages. Buckley and Coase (1976) neglect the analysis of labour, the impact of extending a firm on labour, and the relationship between capital and labour, (Ietto-Gillies, 1992).

9- Aliber's theory

Aliber (1970, 1971) suggests that a strong currency is a determinant for a firm's decision to invest abroad; as a result countries that have strong currencies will become sources of FDI, whereas countries that have weak currencies will become hosts of FDI. Aliber based his view on foreign exchange risk, the preference of a market for holding assets denominated in strong currencies and capital market relationships, he also claims that a local firm cannot compete with foreign firms in borrowing at lower rates in the host country, whereas foreign firms can, due to their reputation and strong currency. This bias in capital market is the main hypothesis, which comes from the fact that income streams select countries with weak currencies, which is related to foreign exchange risks. Thus, a firm from a country with a strong currency might avoid foreign

exchange risk more efficiently. Aliber (1971), to explain FDI claims that it provides the possibility for a source country to possess some advantage in the capital market, so it can pay a high price compared with companies in the host country for the income stream. In 1983, Aliber modified his vision of FDI. He clarified that the main distinguishing feature of a multinational enterprise was not that it indulged in FDI, but rather that it used its currency advantages to finance part of its operations. Thus MNC is viewed as a tool to finance foreign capital (Rayome & Baker, 1995).

This theory has some weaknesses; first, it does not take in consideration FDI between countries which have the same currency. Moreover, together the industrial organization theory and currency theory can explain FDI. However, currency theory cannot be used instead of industrial organization theory to explain FDI.

It is clear from the above theories that FDI is explained from three perspectives. Firstly, it is explained from a "why" question perspective, namely, why does a firm decide to invest abroad? Scholars such as Hymer, Kindleberger, and Caves attempted to clarify the motives of firms for FDI.

As far as capabilities are concerned in Hymer, Knickerbocker and Cave's theories, Hood and Young (1979) argued that while the monopolistic advantages theory explained FDI in developed countries, it cannot completely explain FDI in a developing country. Hood and Young (1979) raised questions about the need of MNEs to possess any advantages before investing in developing countries. It is therefore an open question whether monopolistic advantages theory offers relevant justification for the motivations of multinational enterprises' involvement in Libya. Firstly, the Libyan market is very small, as the population of the country is approximately 5.67 million. Therefore, the idea of MNEs engaging in FDI to use its advantages over Libyan domestic competition appears unlikely. Furthermore, the MNEs are faced with limited domestic competition, due the fact that the country has suffered for many years from international sanctions. For most of the 1990s Libya witnessed economic and political isolation. Thus, the domestic business sector has long been isolated from international competition.

Therefore seems unlikely that monopolistic advantages theory will adequately explain MNCs activities in the Libyan context.

Secondly, FDI can also be explained from a location perspective. Namely, where does a firm locate its foreign activities? Scholars such as Vernon (1966) have attempted to explain firms' decisions about the location of their international production.

Recently, the significance and applicability of Vernon's theory of international trade and production has become redundant, as acknowledged by Vernon himself (1979). He declared that the rising similarities in income level between advanced countries, together with expanded activities of MNEs across the world, have invalidated some of the hypothesises of this theory. However, according to Vernon, this theory is still valid for new MNEs. He emphases that at least this is still helpful perspective in clarifying FDI location in less developed countries. Thus it may explain FDI in Libya. In the current study this theory will be explored in the Libyan context, but only as an integral element within Dunning' theory of FDI.

Thirdly, FDI has been considered from an entry mode perspective. Namely, how (through which form) a firm does enter international markets? Scholars such as Coase (1937), Williamson (1975, 1981), Buckley and Casson (1976), Rugman (1980, 1981) have attempted to explain why a firm chooses FDI instead of other forms of entry mode.

It could be said that it may not easy to apply this theory in the context of Libya, especially at sectoral level. The author of this study believes that the motive for internalisation is perhaps not to replace market transactions with internal transactions in cases where FDI is only the mode of entry such as in the construction sector. Thus, the question that this study raises is the ability of internalisation theory to explain FDI at a sectoral level. It is believed that internalisation theory may explain FDI in some sectors but not others.

However, the interesting point here is that all three perspectives "why", "where" and "how" share the idea of "motive". One perspective tries to explore what the motives are to go abroad, other perspective explores what the motives are for choosing specific location, and what the motives are for choosing a particular entry mode. However, the three perspectives clearly differ in the focus of the motive assumed in each one. In 1976 Dunning developed his theory based on his recognition of the impossibility of formulating one testable theory of FDI. This theory seeks to accommodate most of the partial explanations of FDI, namely, why does a firm decide to go abroad, where does the firm locate its foreign activities and how (through which form) does a firm enter international markets

The Dunning theory seeks to provide sets of factors relevant to the explanation of all perspectives of FDI (i.e., why, where, how). It attempts to offer a general paradigm of the determinants of MNEs activity. Moreover, Dunning clarified FDI, which is undertaken by MNEs in countries with geographical discrepancies, so it will be useful to explore to what extent this theory could explain the motivations for and determinants of FDI undertaken in Libya.

10- Dunning's theory

Dunning (1976; 1981a; 1988; 1993; 2000) developed earlier ideas about FDI. A innovation in Dunning's theory was his combination of two types of market imperfections that are needed for FDI to take place. These are Hymer-type structural market failures and the Coase and Williamson-type transaction cost failures of markets for intermediate products to move goods and services at lower cost compared with hierarchical organisations, (Nestorova, 1997). It is noteworthy that Duninng's theory is not a theory by itself. The contribution of Duninng's theory is that it gives a useful framework for identifying the elements from each individual theory that are most appropriate in clarifying a broad variety of differing kinds of overseas activities and the different climate in which they it are launched: for example, some theories focus on motivations of FDI, others analyse the choice of FDI as an internalisation form, and others study the location of investment. Dunning distinguished between a

microeconomic theory of the firm and a macroeconomic theory of international trade, (Nestorova, 1997). Dunning developed three basic elements to explain FDI: ownership advantages, location advantages and internalisation advantages. The result was the OLI paradigm or eclectic theory of FDI. Dunning argues that these elements answer questions like how, why and where (Galan & Gonzalez-Benito, 2001). The next section deals with these elements.

Ownership advantages (O)

Ownership advantages are based on the earlier ideas of Hymer (1960) and Caves (1971); the theory of firm-specific advantages. Dunning attempted to explain ownership advantages in terms of tangible and intangible assets, which the enterprise own and that are not accessible to other enterprises, (Dunning, 1995). These advantages include patents, technology, monopoly power, managerial skills, and marketing expertise, among others, which make engaging in FDI attractive. Due to the ability of the firm to reduce production costs, it can compete with local firms in foreign markets. Dunning broadened the concept of ownership advantages to embrace those which derive from the ability of the enterprise to co-ordinate and derive benefit from value-added activities across borders. Moreover, the assets, which stem from the capability of the firm to profit from risk diversification, are known as "transaction cost advantages" (Duninng, 1993, p.80). These advantages which Duninng added embrace, for example, increased knowledge about international markets, the capability of the firm to decease risk (Dunning, 1993, p.81), and the benefits that a firm's subsidiary ca attain compared with local reviles. Ownership advantages usually answer the "why" question – namely, why the firm decides to go abroad (Dicken, 1992; Moosa, 2002; Cantwell & Narula, 2003; Andreas, 2005). Also, they can be transferred to other countries, and used in the same time in multiple locations.

Location advantages (L)

Dunning developed Vernon's theory of the product life cycle, which Vernon had tried to apply to international production through international trade. Vernon argued that foreign market demand can be served by direct investment or trading. A significant location

advantages leads to a reduction in the cost of production. Dunning suggests that location advantages include the cultural, political, institutional and legal environment. This means location advantages are not restricted to the natural resources of the host country. Furthermore, he classifies government legislation, policies and the market structure as among the most important advantages to any location. Location advantages usually answer the "where" question (Dicken, 1992; Moosa, 2002; Cantwell and Narula, 2003; Andreas, 2005). And they can be utilized at the same time by different firms, but they cannot move from place to another.

The important feature of OLI theory is that both of location and ownership advantages are essential conditions but are not in themselves adequate for FDI.

Internalisation advantages (I)

This is the earlier idea proposed by Coase (1937) and Casson (1979), which Dunning again developed further. Internalisation avoids the problem of market imperfections and uncertainty in the intermediate stage of production. Coase, Casson and Dunning all tried to explain why enterprises prefer FDI rather than exporting, importing or licensing. Internalisation advantages usually answer the "how" question (Dicken, 1992; Moosa, 2002; Cantwell and Narula, 2003; Andreas, 2005). The three elements of Dunning's theory are needed to explain FDI and how it exploits these advantages.

Dunning (1988) claims that the three main types of FDI, namely, resource seeking, market seeking, and efficiency seeking can be clarified by the OLI theory. In resource-seeking: the motivation of FDI according to this type, the size of the market and other features in both of host and home countries to enable the investor to obtain access to production material. In market seeking: the capability of the firm to exploit its ownership advantages to obtain access to some special market or resource. Market imperfection produces throws risk distribution, the oligopolistic market structure, and various types of market entry obstacles affect location and internalisation. Efficiency seeking is concentrated on taxation, scale and scope economies and diversification of production to avoid risk. In Dunning (1994) another type of FDI was added, which was

asset-seeking strategic FDI. This type looks at sequential FDI. The object of this strategy is to obtain the most important resources to increase the ability and advantages of an investor.

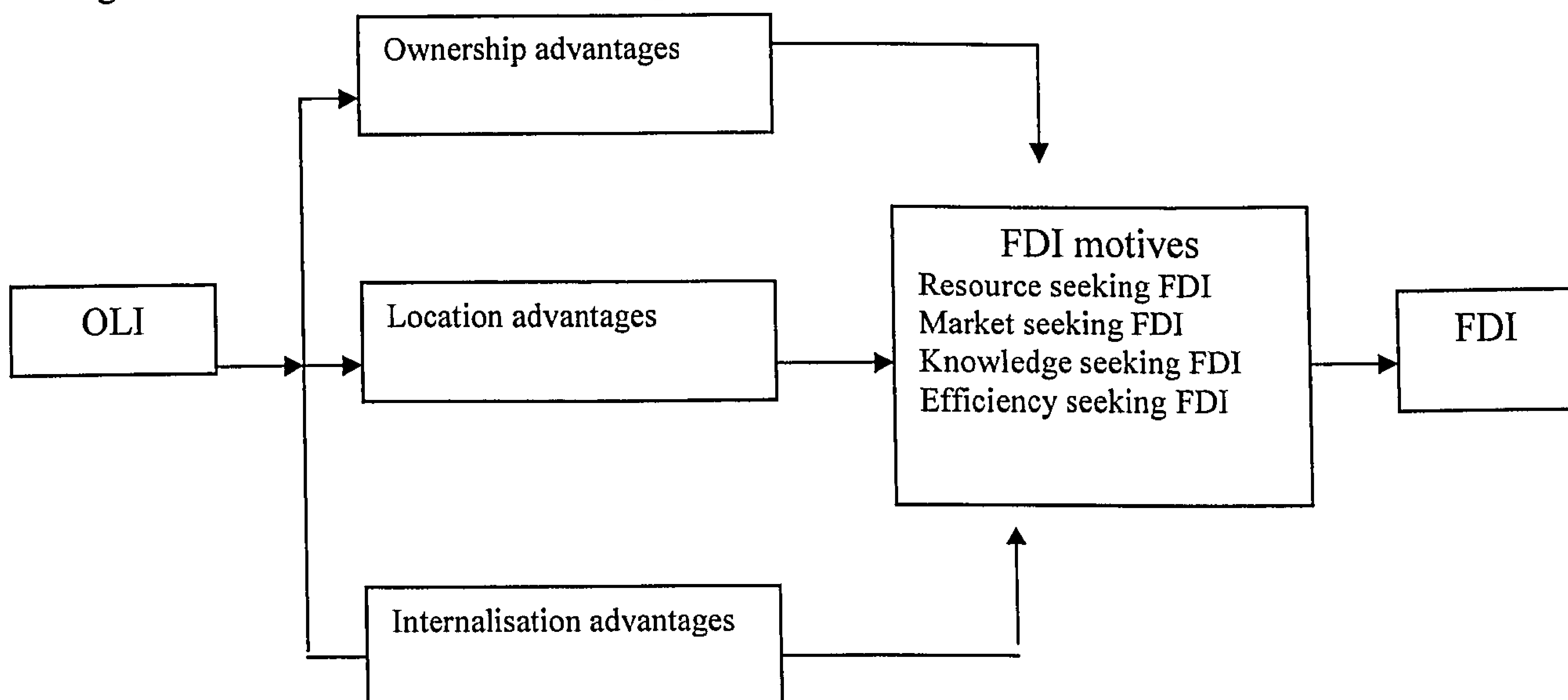
According to Dunning, the way in which demand in an alien market will be served: through exporting, FDI or licensing depends on the advantages a firm has. If the firm only has ownership advantages, then all methods have the same weight. But if it has ownership and internalisation advantages, in this case FDI and exporting are alternative to each other. Finally, if the firm has all advantages FDI will be preferred.

Although the Dunning's theory has been widely used by evolutionary economists, economic geographers, management scholars and others, there have been many criticisms directed to it. First, it includes an immense number of variables, which affect its predictive power. Second, there is criticism that Dunning does not explain the factors determining the internalisation process. The third criticism generally levelled at eclectic paradigm is that it does not give explanation for all types of international production, while the fourth criticism is that there are no clear lines between OLI (Kojima, 1982). Fifth major criticism is that the eclectic paradigm's explanation of the internalisation process for a firm or country is expressed in static terms and does not take dynamics into its consideration. Ietto-Gillies (1992) criticised OLI because of it missed the probable impact of ownership advantages on the macro economy and therefore on location advantages. Moreover, Buckley (1988) and Casson (1987) point out that ownership advantages are already included in view of internalisation, and it therefore does not need to be explicated.

However, the framework of Dunning's theory stills provides the most extensive explanation of overseas activities. Its explain the determinants of FDI and how these determinants are different between companies, industries, and countries with the passage of time, and helps to understand a broad range of other MNC-related issues. Thus the paradigm is not a theory, instead it is a classification of a variety of determinants of FDI.

New determinants of FDI can be freely invented to describe a specific case of FDI, where they fall under one of the three elements of the paradigm.

Figure 2.1 OLI Framework and Foreign Investors' Motives



Sources: adopted by the researcher from the existing literature.

11- Investment Development Path (IDP) Theory

Dunning (1981b; 1986; Dunning and Narula, 1996) has subsequently developed IDP theory. The central idea of the investment development path (IDP) is that the inward and outward direct investment position of a country is associated with its economic development compared to other countries. IDP proposes that there are five stages of development which a country goes through. The order of these stages is determined by the tendency of this country to favour inbound and/or outbound direct investment. The following section gives the main characteristics of these stages.

Stage one

In this stage a country does not have sufficient L advantages to attract FDI; there is low per capita income which reflects inadequate demand levels, unsuitable policies of the government or economic system, insufficient infrastructure, low levels of education and

training of the workforce. In this stage of the IDP there is no or very small outward FDI. Foreign companies do not prefer choose to undertake FDI in this kind of country; instead they prefer trade to take place due the fact that the ownership advantages and technology of local firms are not sufficient or not available. FDI in this stage is undertaken in only natural resources and primary commodities. Regarding the role of government in this stage there are two possibilities: the first is that it may improve infrastructure and develop human resources thought training and education. Second, is that the government will create several social and economic policies to improve the structure of markets such as export subsidies, and import protection. But the role of government is probably inadequate with regard to upgrading the assets of a country at this stage.

Stage two

The features of stage two are an increase in inward FDI, whereas there is no outward FDI or very little. There is a possibility of increasing purchasing power or market size, import substituting, manufacturing investment may take place due to tariff and non-tariff obstacles that are impose by host governments. In this stage, there is some forward vertical integration in light manufactures and labour intensive low technology. Stage two is like stage one in that FDI is in primary commodities and natural resources, and the main factor here is the ability of the host country to supply adequate infrastructure and both skilled and unskilled labour. So a country in this stage should posses some L advantages to encourage inward FDI. Also, O advantages of local firms will increase in this stage, and the role of government is important in accumulating created assets. Primary industries will be supported and production become reliant on semi-skilled labour and is moderately knowledge intensive. Outward FDI starts to appear in this stage motivated by trade-related or market seeking motives in other countries. Outward FDI is determined by government policies, such as subsidies for exports. In this stage, the rate of growth of both of inward and outward FDI will increase.

Stage three

In this stage the growth rate of outward FDI rises while the growth rate of inward FDI gradually decreases. Demand is directed toward high quality goods, partly due to growing competitiveness between the supplying companies. There are increases in local wages, and outward FDI will flow to countries at lower stages in their IDP. O advantages of local firms become strong and compete with foreign firms in the same sectors, due to the rise in spending on training and education that leads to an increasing stock of created assets within the host country. The O advantages of foreign firms start to become relatively less important. However, these advantages change because of new technology, marketing and managerial innovations to compete with local companies. These O advantages have the characteristics of public good nature and intangible knowledge, which leads a firm to exploit them via FDI. In this stage, economies of scale appear due to the innovatory capacity of local firms and the growth of the market that causes increasing L advantages. A country in this stage will attract more technology intensive manufacturing. The motivation of inward FDI will change from import substituting production to efficiency seeking production. Also in this stage, if local companies have competitive advantages this might motivate foreign companies to acquire strategic assets. The role of government will decrease in effecting the O advantages of local firms, and as a result the O advantages of local firms change, in part because local firms become more multinational. On the other hand, the O advantages of foreign companies reveal their capability to coordinate and manage geographically distributed assets and these advantages are similar to those of companies from advanced countries. Outward FDI will increase, especially to countries in stages one and two of their development, and these investments are motivated by export platforms and market seeking FDI. Moreover, outward FDI is directed to countries in stage 4 and 5, in this case FDI is motivated by strategic assets and in part by market seeking. In this stage government encourages inward FDI in resource-incentive industries due to their relative weakness in O advantages, and L advantages are strong. In the mean time, they direct outward FDI toward sectors where L advantages are weak and O advantages are strong. If the country will shift to a subsequent stage in its development, then structural adjustment is needed.

Stage four

In this stage local companies have the ability to compete strongly with foreign companies in their own country, and also in foreign countries. In other words they have the ability to penetrate a foreign country's market. In this stage created assets are very important determinant of L advantages. Inward FDI from stage four are motivated by asset and rationalized seeking FDI in other stage four countries, whereas inward FDI is from countries that are not at a high stage of development.

Outward FDI in this stage will continue due to the desire of companies to preserve their competitive advantage and to avoid trade barriers that are imposed by different countries at different stages of development. Here firms prefer to internalise their O advantages through FDI instead of exports. Intra-industry production will grow before intra-industry trade due to O advantages in general between countries are being similar. But intra-industry production and trade has a tendency to be gradually more conducted within MNEs. In this stage the structural adjustment of technological capabilities and location-bound assets of a country attract government attention. In addition to its role in reducing market imperfections and sustaining competition, reduced transaction expenses of economic activity increase the efficiency of market operations. Government does not intervene directly, instead it make some policies to assist the enhancement of local capabilities and resources, and to reduce the market disfiguring conduct of private economic agents.

Stage five

The motive of internalising overseas activities increases. Also in this stage, the probability is that international direct investment becomes balanced due to the structure of location-bound assets between countries converging. The nature and scope of international production changes from producing dissimilar services and goods to producing very similar goods among countries. Other characteristics of stage five are that created assets are not controlled by a particular country, O advantages of multinational enterprise more on their ability to obtain assets and organise them

efficiently to benefit from the gains of overseas common governance, and less dependent on the natural resources of the MNEs's country.

The development of countries through these stages means that, the economic structures of various advanced economies have become similar. The relative attractiveness of a specific location depends on its ability to create assets, and not very much on the quality, price and availability of natural assets. The motivations of inward FDI in stage five depend on the source of FDI. If it comes from countries at lower stages of IDP, then the motives are knowledge seeking and market seeking FDI, whereas if it comes from countries at advanced stages, then the motive is efficiency seeking FDI, and outward FDI will take place in developing countries, in particular for natural resource. Because of globalisation, strategic asset seeking FDI might increase due to a firm's desire to develop their O advantages by engaging in strategic alliances or acquisitions and mergers. Through these stages the motive of FDI will shift from exploiting O advantages to the acquisition of new ones.

In summary, initially the motive of a foreign investor is "resource seeking" in the primary sector, due the fact that the host country does not have adequate L advantages. Government intervention will lead to stage two where the motive of the foreign investor is still towards natural resources and directed to the primary sector. So government policies, the level of education and training of work force, and infrastructure are important determinants of FDI in this stage.

In stage three the motivations of foreign firms will shift from natural resources in the primary sector to efficiency seeking in the manufacturing sector. In addition to this the foreign investor be might motivated by strategic seeking FDI. The economies of scale, wage costs (if high these will attract technology intensive manufacturing FDI), and the innovatory capacity of local firms are important determinants of FDI. Also in stage four efficiency seeking and strategic seeking FDI motivate foreign investors, if they are from stage four countries. On the other hand, they are motivated by market seeking, asset

seeking and trade-related interests if they are from countries at lower stages. Trade barriers and transaction costs are important determinants of FDI.

In stage five, if inward FDI comes from countries at a lower stage than stage five then the motivations are market seeking and knowledge seeking FDI. However, if it comes from countries at advanced stages, then the motive of foreign investors is efficiency seeking FDI. On the other hand, outward FDI is motivated by natural resource seeking, especially in developing countries. Factors such as integration and created assets are important determinants of FDI.

It is clear from the above theory that there are three groups of motivations which affect inward and outward FDI, these are the motivations of foreign investors, which change from exploiting O advantages to acquiring them through the stages of economic development. Then there are the motivations of governments, which changed through these stages according to development requirement, and reflect the change in its role in attracting FDI. Lastly, there is the motivation of local firms to attract FDI, which changes from acquiring O advantages to exploiting them. Therefore, the determinants of inward/outward FDI will also change according to the motivation changing resulting of developmental progress.

The proponents of the IDP approach explain that there are four main motives for MNEs to engage in an FDI venture (Dunning, 1993): natural resources seeking, market seeking, efficiency seeking and strategic assets seeking, where as there are 5 stages of economic development and the determinants of FDI are determined by its motives. Thus, the relationship between the three parts is as explained in the following figure.

Figure 2.2 Relationship between stage of economic development, fdi motivations and determinants of FDI

* The arrows are not used here to denote causal relationships between the different theoretical concepts.

Source: adopted from Galan et al., 2007

The current study will take the idea of IDP theory down to industry level and use it to explain the stages of FDI. Also it will employ Dunning's theory and the relevant motives as apart of its framework. Chapter 3 will explain this in more details.

2.8 Review of the empirical literature on determinants of FDI

The purpose of this section is to review a selection of the existing empirical literature on determinants of FDI. The selected studies are based on determinants of FDI in developing countries and transition economies, due to the fact that Libya is one of these countries. In addition studies that empirically tested the eclectic paradigm have also been explored.

Chen (1996) seeks to investigate the regional factors, which determine FDI in Mainland China. Mainland China consists of three regions: Eastern region, Middle region and Western region. The author tried to investigate the reason behind the unequal success in attracting FDI among the different regions of Mainland China. The conditional logic model (CLM) was used in this study to investigate the impact of growth of the market, labour costs (wages), allocative efficiency (PTOR), transportation linkage (RAI) and technological filtering (R&D) on FDI inflow.

The results of this study showed that the market variable was positively related to FDI. Labour costs (wage) did not affect FDI. With respect to PTOR, it had the correct sign but was insignificant in the Eastern and Middle regions, on the other hand PTOR in the Western region was not as the expected sign but statistically significant. RAIL has the correct sign in all regions but was only significant in the Middle and Eastern regions. R&D was a significant determinant of FDI in the Eastern and Middle regions and had a negative relationship to FDI. Foreign investors did not prefer to locate behind innovative indigenous Chinese industries in the Middle and the Eastern regions.

The limitation of this study is that it did not take into consideration the effect of tax and other regional incentives, because of the impossibility of including all variables in one model, and the unavailability of data for some provinces in the regions.

Maniam and Chatterjee (1998) aimed to investigate the factors that determined U.S FDI in India, and analyse the trends of U.S, FDI in this country, in addition to the effect of economic reforms on FDI. This study was conducted in India from information covering

the period 1962 to 1994, using quarterly data. OLS and LM tests were employed in this study, to test the hypothesis about the impact of U.S, FDI on the Indian economy, and the possibility of increasing of U.S role in India. The OLS model embraces the most important macroeconomic variables that impact FDI, such as, market size, growth rate of market size, trade balance, and exchange rate.

The results of this study showed that all variables had the correct theoretical sign, except the exchange rate variable. However, they were not significant, except for the F-test. Both OLS and LM had similar results. Also, this study showed that the trend of U.S, FDI in India from 1962-1994 rose, especially in the period from 1991 to 1994. Moreover, this study stressed the role economic reforms had had in attracting FDI to India.

Galan and Gonzalez-Benito (2001) tried to investigate determinant factors of FDI in Span. This study was conducted using Dunning's framework of factors which determine FDI. The survey approach was adopted in this study to gain empirical evidence about factors determining FDI decisions in Spain. The sample of the study consisted of 103 foreign companies, and most of them were wholly owned subsidiaries.

The finding of this study showed that new branches (internal growth) were favoured over acquisitions or co-operation (external growth) by Spanish firms as a mode of entry. Regarding the most important factor determining ownership, in Spain they were specific and intangible assets, in addition to factors such as the experience in national markets, and the availability of technological and innovative capabilities. However, factors such as government incentives were found to be not important. With respect to internationalisation factors, the most important one was the ability to control intangible assets directly, transaction costs, and earlier experience through export. For services firms, the key determinant was proximity to the consumer. Location factors, include the size and growth of the market, were most important, as was cultural factor. However, factors such as infrastructure, transportation costs and political stability came in the second order of importance.

Galan and Gonzalez-Benito's findings in terms of *culture* as a location factor were supported by several other empirical studies. Those of Oded Shenkar (2001), Debanjan and Golder (2002), Gilmore et al (2003), Hsiao and Hsiao (2004), Galan and Gonzalez-Benito (2005), Hellstrom and Sungur (2006), and Buckle et al (2007), Ismail (2009), and Barrios and Benito-Ostolaza (2009) can all be seen as lending support.

The purpose of Coskun's (2001) study was to explain the factors, which determined foreign direct investment in Turkey. Coskun focused on Turkey as an attractive manufacturing location for FDI. To explore the determinants of FDI, a survey approach was adopted. This study relied on the findings of three surveys. The findings of these surveys show that economic performance and growing market size were are the most important determinants of FDI in Turkey. However, factors such as the geographical location of Turkey, cheaper labour and inputs did not appear as very important as Turkish officials suggested, due to the fact that Turkey is located between competitive countries such as ex-Eastern bloc members, with their qualified and cheap labour.

Tahir and Larimo (2004) empirically explored ownership, location, internalisation and strategic motives as determinants for the location of FDI conducted by Finnish manufacturing companies in ten South and Southeast Asian countries. They used Dunning's theory as a framework for their study. Binomial logistic model was employed in this study to examine the effect of different ownership, location, and internalisation on the strategic motives of FDI. The data were collected from 135 manufacturing FDI firm's annual reports in several Asian countries for the years between 1980 and 2000. Also, data were obtained from business journals, and one of the authors obtained information by direct contact with the firms surveyed information.

The findings of this study illustrate that the increased possibility to undertake market seeking and efficiency seeking FDI are determined by larger international experience, large market size, low wage rate, large firm size, and low cultural distance. Regarding the possibility to undertake knowledge seeking, this is determined by the R&D intensity of the investing firm, while to companies seeking risk-reduction, factors such as low

level of risk, low inflation rate, and high level of exchange rate instability affected this type of FDI. This study found that ownership factors, location factors, internalisation factors and strategic motives had an impacted on the location choices of Finnish companies. However, this study had some limitations: Firstly, R&D-intensity was used instead of R&D-intensity firm level, due to the latter not having the ability to clarify the real impact of this factor. Secondly, there was a lack of information regarding free trade zones, labour unionization, absolute and relative size of FDIs, and transportation costs. Thirdly, the sample size was not sufficiently large.

Campos and Kinoshita (2003) studied the value of agglomeration economies and institutions as the most important factors determining the choice of FDI location, compared with initial condition and factor donation. This study was conducted in Central Europe and Eastern Europe (CEE) and the Former Soviet Union (CIS) as examples of transition economies. This paper tried to investigate why the inflow of FDI to these countries was less than expected. It used an exclusive panel data set for 25 transition economies (CEE+CIS) from 1990 to 1998. FDI stock was utilized as a dependent variable and a set of three groups as independent variables. The first group included factors such as low cost labour, a large local market, skilled labour, satisfactory infrastructure and proximity to Western European markets. The next group of factors comprised institutions, and macroeconomic factors such as rule of law and quality of bureaucracy. The last group contained initial conditions, and included factors such as trade dependence and natural resource endowment.

This paper illustrated that there were significant differences among CEE and CIS countries. In CEE, manufacturing sector was the main beneficiary of FDI. Institutions and agglomeration were found to be the most important factors for investors in these countries. However, in the CIS, the resource sector was a vital receiver of FDI. Infrastructure and natural resource richness were found to be the critical factors, and the paper found that three types of FDI generally motivated foreign investors; namely, market seeking, resource seeking and efficiency seeking. However, these types are not important in general in CEE, while resource-seeking FDI was a very important motive

for foreign investors conducting FDI in CIS countries. In addition this study found that bureaucracy related negatively to FDI. The limitation of this paper was that there was lack of data with respect to factors like corruption, and the presence of a fair and expedient judiciary, which hampered assessment.

With regard to *institutions* as a determinant of FDI, support comes from Benassy-Quere et al. (2005), Naude and Krugell (2007), Ali et al (2008), Boermans et al (2009), Katsaitis and Doulos (2009), Boermans et al (2009).

Several empirical studies such as Galan and Gonzalez-Benito (2001), Gilmore et al (2003), and Ismail (2009) also supported *infrastructure* as a determinant for FDI.

Gilmore et al, (2003) explored the main discrepancies and similarities in the motivations and contentment levels related to FDI in Bahrain and Northern Ireland. This study tried to investigate the preferences of the management to FDI to enter alien market and their motivations to invest in a specific location instead of other forms. A questionnaire was adopted in this study to explore the motivation of MNEs for investing in Northern Ireland (IN) or Bahrian as a location for FDI, and the level of contentment related to FDI projects. The sample of study consisted of 42 foreign companies conducting FDI in Bahrain and 40 firms conducting FDI in Northern Ireland, using data covering the period from 1997 to 1999.

The results of this showed that in Bahrain, FDI was predominantly in manufacturing and were joint ventures. In NI, the study investigated 38 production firms, one service firm and one research firm; only, 4 firms were joint ventures, and 36 firms conducted activities without a domestic partner. With regard to motivation and satisfaction levels, in NI, FDI was the preferred way to serve a foreign market, and it was also more profitable than other forms. Factors such as the availability of skilled labour, government and financial incentives were found to be important motives for FDI. In Bahrain the tax structure, low taxation, low inflation, cultural similarity and infrastructure were found to be key motives. Also, this study discovered that investors in

Bahrian were likely to engage in licensing or exporting as a variant to FDI. In both countries the factors size, and growth of the host country and the cost of labour were not important. Instead, export base FDI provided was more important. The main limitation of this study was that the entry mode in Bahrain took a joint venture shape, while in Northern Ireland only four companies adopted this mode, and this may be the reason behind the difference in motivations and the level of contentment among investors in the two countries.

The purpose of a study by Mellahi et al. (2003) was to test empirically why foreign investors were attracted to invest in Oman. They assumed that the relative importance of the host country's location factors would vary depending on the country of origin, and that the incentive preferences of foreign investors would differ depending upon the sector of activities. The data of this study were collected by using a questionnaire, and were tested by Friedman's test and Kendall's coefficient of concordance; the population consisted of 106 foreign equity ventures and wholly owned companies operating in Oman. The factors which were empirically investigated were: market size, access to neighbouring markets, purchasing power of customers, availability of low cost inputs, political stability, repatriation of profits, economic stability, availability of investment incentives, government policy towards FDI, growth rate of Oman economy, geographical proximity, level of infrastructure, availability of tax advantages, transport and communication costs and level of industry competition.

The sectors of activity included eight sectors: wholesale and retail trade, commerce, petroleum, industry and manufacturing, gas and mining, hotels and tourism, construction and real estate, agriculture and fisheries, and financial services. The results of this study showed that the key motives for investing in Oman were political and economic stability. Moreover, factors such as repatriated profit, investment incentives and legal protection were found to be very important motives. However, factors such as market size, purchasing power of customers and availability of low cost inputs were less important motives. The finding also illustrate that the first hypothesis was supported, namely, the origin of country influenced the factors determining FDI location. For

example, the repatriated profit factor was present as motive for EU, US and Asian companies. However, this factor was not a motive for GCC countries. Regarding the second hypothesis, this was rejected, because there was not difference in the factors determining FDI location depending on different sectors, except for market size.

With respect to repatriated profit and investment, *incentives* were found important determinants for FDI by other scholars such as Akhtar (1998), Maniam (1998), Galan, & Gonzalez-Benito (2001), Coskun (2001), Asiedu (2002), Gilmore et al (2003), Banga (2003), Alfarsi, and Almanasory (2006), and Yulng & Yuanfei, (2008).

Also *political stability* was supported by existing literature, for example, Benacek et al (2000), Uiboupin & Sorg (2005), and Buckle et al (2007), and Naude and Krugell (2007).

Nonnemberg and Cardoso de Mendonca (2004) explored the most important determinants of FDI in developing countries. A panel data methodology was adopted in this study to empirically test the determinants of FDI. The population of this study consisted of 38 developing countries, including transition economies. This study was conducted using data covering the period between 1975 and 2000. This model included, as factor determinants of FDI, the average growth rate of GDP in the previous five years (G5GDP), GDP, educational level of the labour force (ESCOL), the degree of openness (OPENNESS), the risk rating (RISK), the rate of inflation, Per energy consumption (ENERCON), the average rate of growth of the largest OECD exports of FDI to developing countries (GGDPOECD), (the relationship between this factor and FDI is not clear) and the Dow Jones index (DOWJONES). All these factors represented independent variables, while FDI was dependent variable.

The findings of this study reveal that the average rate of growth in previous 5 years and the size of the market were strongly significant, while the level of educational and openness were important determinants of FDI. In large sample, inflation was negatively related to FDI, while in small one and with RISK factor the result showed it was not

significant. With respect to RISK factor, it had a negative sign as expected. Regarding DOW JONES, the study illustrated that it was a very important determinant of outward FDI. GGDPOECD was found to be significant if RISK was not included in the equation, and lastly ENERCON was not significant.

Uiboupin and Sorg (2005) sought to investigate the ability of the eclectic paradigm to explain the penetration of foreign banks to the Central and Eastern European (CEE) markets. This theory was amended with the addition of financial liberalization and the time of entry to emerging markets.

To analyse the process of foreign banks entrance to the CEE market a survey was adopted in this study from 2001-2002 in Estonia, Lithuania, Poland and Romania. To study several aspects of bank's internationalisation in the CEE, a particular questionnaire was established drawn from similar studies.

The findings indicated that foreign investors were motivated by a market seeking strategy to enter the CEE banking market, which was explained by eclectic theory. Also this study found factors such as liberal economic policy, political stability, future EU membership, macroeconomic factors, and the possibility of new customers were very important determinants of FDI in all the countries studied. However, factors such as tourism, and industrial development opportunities, were not important factors in all countries. The finding of relative study suggests that the advantages of foreign over indigenous banks are dissimilar in different countries. In crises times the trust in indigenous banks was very low, thus depositors tended to move funds to foreign banks. This helps to explain the increasing ownership and location- specific advantages of foreign bank in OLI theory, and thus clarifies the timing of foreign entry as well. Thus, eclectic theory, with its modifying of financial liberalization and timing, was succeeded in explaining motives for FDI in the banking sector in CEE countries.

Aqeel and Nishat (2005) sought to explore determinants of FDI growth in Pakistan, especially the role of government policies in encouraging or discouraging FDI in Pakistan. Cointegration and error-correction techniques were adopted in this study to clarify the determinants of FDI in Pakistan. This model included GDP (+), WAGE (average annual wages of factory workers (-), TARIF (ratio of custom duties to total value of imports (-), CREDIT (share of credit of the private sector in total credit to public and private sectors +), EX (average annual exchange rate INDEX (log of general share price index (-). This study was conducted employing data covering the period from 1961 to 2003. All data were collected from official sources.

The findings of this study showed the importance of government policy variables in encouraging and determining FDI and its growth in the short and long term in Pakistan. Also, this study illustrated that the important role that policy reforms had on FDI. Moreover, the findings showed that factors like tariff, GDP, exchange rate, tax rate, and credit to private sector were positively related to FDI, and they were capable of explaining it. However, wage rate and share price index did not explain FDI in Pakistan.

There are several studies (Holland and Pain, 1998; Benacek et al., 2000; Mcmillan and Morita, 2003; Merlevede and Schoors, 2005) that stress the importance of *private sector and privatisation* as a determinant of FDI, especially in transition countries.

Chorell and Nilsson (2005) found that in the population of their study the resource seeking FDI predominated. In exploring the key motives of Chinese firms to undertake FDI in the oil sector, they used eclectic theory as a framework. Due to the fact that Chinese firms were state owned, this made the capability of Dunning's theory to explain Chinese FDI was complicated especially as, the purpose of these firms was not necessarily maximize the profit. Chinese firms possess ownership advantages compared with Sudan, Kazakhstan and Canada. Regarding location advantages (political, social and economic) in both Canada and Kazakhstan location advantages can be explained by Dunning's theory, but this was not the case in Sudan. With respect to the internalisation advantages of Chinese FDI in the oil sector, this was is not easy to explain by Dunning's

theory due to a lack of information and also due to the nature of FDI in this sector. So it seems that the Chinese FDI in the oil sector could be explained by the government's policies rather than prevalent theory.

The population of this study consisted of three of China's state-owned oil firms, China National Oil Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec) and China National Offshore Corporation (CNOOC), which conducted FDI in Sudan, Canada and Kazakhstan, which are among the most important and largest recipients of Chinese FDI. The choice of these countries derived from the fact that Sudan is the biggest Africa country, and rich in natural resources, such as oil. However, its problem is an insufficiency of capital to extract the oil, which makes Sudan dependent on foreign investors. In Central Asia, Kazakhstan possesses the largest oil fields in the region, and this has attracted Chinese firms. In contrast, Canada has advanced technology, which Chinese firms need to exploit oil resources in China, and elsewhere. Due to the difficulty in obtaining accurate data, the statistics that were used in this study were approximate numbers, and there was a tendency to generalise.

Hellstrom and Sungur (2006) investigated the determinant of investment, which was conducted by Swedish enterprises in Turkey, and their motivation for investing there. This study was based on the eclectic paradigm as a framework. The survey approach was adopted in this study. The sample of this study was 11 Swedish firms which had conducted FDI in Turkey. To collect data an email survey was used.

With respect to ownership advantages the findings of this study illustrate that both international experience and R&D played an important role in determining ownership advantages. However, firm size was not found to be important. Regarding to location-specific advantages, market growth, geographic location, labour costs, level of education, business climate and economic climate, all were important determinants of FDI. However, infrastructure and culture are not important.

Economic climate is emphasized by several empirical studies as a determinant: for example, Benacek et al (2000), Uiboupin and Sorg (2005) Naude and Krugell (2007), and Ismail (2009).

Alfarsi, and Almanasory (2006) aimed to explore the factors that attracted and discouraged FDI in Libya. They assumed that there were no factors discouraging FDI in Libya and all factors that attracted FDI were equally important. In order to achieve the aims of the study, the questionnaire approach was used to analyse the views of foreign companies that conducted FDI in Libya. a questionnaire was designed according to the Likert Scale.

Alfarsi and Almanasory found that the most important factors that motivated foreign investors were attractive geographical location in the first order; proximity to world markets in the second order; political stability and security in the third order. This mean the first assumption, that the factors were equally important, was rejected. On the other hand, the most important factors that discouraged FDI from investors' point of view were (according to investors' ranking) weak structure of communication and transport, lack of data and information required by investors, absence of a stock market, and lastly lack of labour in terms of both quality and quantity. This ensured that there were factors, which discouraged FDI in Libya. Thus, the second assumption was also rejected.

Dhakal et al, (2007) conducted their study in transition economies, especially those in Eastern and Central European, with the aims of exploring the determinants of FDI. The following determinants were chosen for this study; market size, the growth of the market usually measured by GDP; the rate of inflation; non-high levels of trade and high import barriers; depreciating exchange rate; the current account balance. The data of this study were collected from different sources, for example, Word Development Indicators, World Bank. FDI data was obtained from World Investment Report, UNCTAD, International Financial Statistics (IMF) and the Heritage Foundation. This study was conducted employing data covering the period between 1995 and 2004. A panel data set was adopted in this study to test the impact of the above factors on FDI.

The findings of Dhakel et al. illustrate that the factor market size was not, as expected, in fact insignificant but was positively related to FDI. The depreciating exchange rate and FDI were negatively related. Moreover, the factor of government regulation was negatively related to FDI. Also this study showed that rate of inflation, current account balance, and openness had the right sign and were statistically significant.

Buckley et al (2007) aimed to explore what the determinants of outward foreign direct investment for Chinese companies were. The population of this study consisted of 49 countries in receipt of Chinese ODI between 1984 and 2001. To test the model, two technique were adopted: pooled ordinary least squares (POLS); and random effects (RE) generalised least squares method. In addition, it adopted Lagrangian multiplier (LM) test to discover which of above models would give better results. The authors divided the period of the test into two stages: 1984-1991 and 1992-2001, to see if location determinants of FDI and its motivation differed over time.

The findings of this study showed that market size, cultural proximity, inflation, market openness and geographic distance were important determinants of ODI before 1991. However, after this time factors such as political risk, natural resource, policy liberalisation, exports and imports and again cultural proximity were important determinants of Chinese ODI. Moreover, the study illustrates the important of the institutions of the home country in determining the direction and flow of Chinese ODI. Before in the third period of the test, and near 2001 asset seeking motivated the Chinese firms.

However, the surprising result was that political risk did not discourage Chinese ODI. According to the authors this result may suggest to Chinese state firms get cheaper capital than other firms. Additionally, this study illustrates that there was no positive relation between Chinese ODI and the ethical obligations of the government. The findings of this study showed that Chinese ODI is motivated generally by both market and resources-seeking FDI. However, market seeking basically motivates Chinese ODI,

but this motive changed over time to resource seeking. The following table summarises some of the empirical evidence regarding determinants of FDI examined above:

Table 2-1 Empirical literature regarding determinants of FDI

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
Chen	Regional Determinants of Foreign Direct Investment in Mainland China (1996)	This study seeks to investigate the regional factors, which determined FDI in mainland China.	Dunning (1981; 1988), Plaut and Pluta (1983), Cushman (1987), Bartik, (1985; Helms 1985), Woodward and Glickman (1991).	The conditional logit model (CLM)	Market size, transportation linkages are important determinants of FDI. Labour cost, allocative efficiency are not. R&D is a significant determinant of FDI in Eastern and Middle regions and has a negative relationship to FDI. Alien investors do not prefer to locate behind innovative indigenous Chinese industries in the Middle and the Eastern regions.	This study does not take in its consideration the effect of tax and other regional incentives because it was impossible to take all variables into model and unavailability of the data in some provinces in the regions
Maniam and Chatterjee (1998)	The Determinants of U.S. Foreign Direct Investment in India: implication and policy issues. (1998)	The aims of this study were to investigate the factors that determined U.S, FDI in India, and analyze the present trends of U.S FDI in this country. In addition the	Based on several empirical studies about determinants of FDI such as Caves (1974), Goldberg (1972), Lunn (1980), Lucas (1993), Torris (1995), and Harrison (1993).	OLS and LM test were employed in this study.	Profitability, market size, growth rate of market size, trade balance and exchange rate had the right theoretical sign variable. But they are not significant except the exchange rate. However, F-test was significant. Both of OLS and LM have the similar results. The trend of U.S FDI in India from 1962-1994 rose especially, in period from 1991 to 1994.	

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
		effect of economic reforms on FDI.				
Galan, & Gonzalez-Benito	Determinant Factors of Foreign Direct Investment: some empirical evidence. (2001).	This study tried to investigate determinant factors of FDI in Span. It sought to explore the key ownership, internalisation, and location factors that affect FDI.	Dunning's theory	The survey approach was adopted in this study	Factor determinant ownership in Spanish, specific and intangible assets, innovative capabilities and technology, experience in national markets, government incentives and economies of scale. Internationalisation factors are, to directly control intangible assets, transaction costs, contractual costs and to produce close to the customer. Location factors: present and future growth of the market, infrastructure, availability of labour, political stability, transportation costs and culture. So Dunning's theory was successfully explained FDI in Spain.	
Coskun	Determinants of Direct Foreign Investment in Turkey. (2001)	The purpose of this study was to explain the factors which determined FDI in Turkey as a manufacturing location	Root and Ahmed (1979), Schneider and Frey (1985), Dunning (1993; 1994) and Burrell and Pain (1997), and Tuselmann (1999).	A survey approach was adopted. This study relied on the findings of three surveys	Economic performance and growth of market size were the most important determinants of FDI in Turkey.	
Tahir and Larimo	Determinants of location strategies of the Finnish firms in Asian countries	Empirically explored the ownership, location, internalisation and strategic motives as	Dunning' theory	Binomial logistic model	Market seeking and efficiency seeking FDI are determined by larger international experience, large market size, low wage rate, large firm size, and low cultural distance. Knowledge seeking is determined by high R&D. Risk-reduction seeking was determined by low level of risk, low inflation	Limitation R& D-intensity country instead of firm level. Secondly,

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
	2002	determinants for the location of FDI that was conducted by Finnish manufacturing companies in ten South and Southeast Asian countries.			rate, and high level of exchange rate instability.	lack of information regarding free trade zones, labour unionization, absolute and relative size of FDIs, transportation costs. Thirdly, sample size was not large.
Campos & Kinoshita	Why does FDI go where it goes? New evidence from the transition economies (2003)	This paper studied the value of agglomeration economies and institutions as most important factors determining the choice of FDI location, compared with initial condition and factor donation.	Trade theory, and new trade theory	This study used exclusive panel data set for 25 transition economies (CEE+CIS) from 1990 to 1998.	This paper determined that there were significant differences among CEE countries and CIS countries. Manufacturing sector in CEE is a main receptor of FDI. Institutions and agglomeration are the most important factors for investors. However resource sector in CIS is a vital receiver of FDI. Infrastructure and natural resource richness are the critical factors.	There is lack in data with respect to factors like corruption, and a fair, and expedient judiciary, which hampered assessment of these factors.
Gilmore et al	Factors influencing foreign direct	This study explored the main	Based on extensive empirical studies	A questionnaire was adopted	In Bahrain, FDI was into manufacturers and were joint ventures. In NI only 4 firms were joint ventures. In NI, FDI was motivated by	

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
	investment and international joint ventures A Comparative Study of Northern Ireland and Bahrain (2003)	discrepancies and similarities in the motivations and contentment levels related to FDI in Bahrain and Northern Ireland.	such as Kogut, (1997), Dunning (1971),Rutledge (1996).	in this study. Moreover, t-tests were adopted to determine which factors caused differences in results. The sample of the study consisted of 42 firms in Bahrain and 40 firms in Northern Ireland.	availability of skilled labour, government and financial incentives. In Bahrain tax structure, low taxation, low inflation, cultural closeness and infrastructure were a key motives. In both countries size and growth of host country and the cost of labour were not important. Instead export base was more important	
Mellahi et al	Motives for foreign direct investment in Gulf Cooperation: Case of Oman (2003)	The purpose of this study was to test empirically why foreign investors were attracted to invest in Oman	Extensive empirical studies such as Root and Ahmed (1979), Dunning (1988), Tsai (1994), Schneider and Frey (1985)	The data of this study was collected by utilized a questionnaire and tested by Friedman's test and Kendall's coefficient of concordance	The key motives to invest in Oman were political stability and economic stability. Repatriation of profit, investment incentives and legal protection were very important motives. Factors such as market size, purchasing power of customers and availability of low cost inputs were less important motives.	
Nonnemberg and de Mendoncthe	The determinants of foreign direct investment in developing countries (2004)	Explored the most important determinants of FDI in developing countries.	Hymer (1960), Kindleberger (1969), Caves (1971), Buckley and Casson (1976), Dunning (2002), Nunnenkamp and	Panel data methodology	The average rate of growth in previous five years and the size of the market, and Dow Jones index were strongly significant. Also the level of education and openness were important determinants of FDI. In large sample, inflation was negatively related to FDI, while in small one and with RISK factor the result showed it was not	

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
			Spatz (2002), Holland and others (2000)		significant. The risk rating had a negative sign. GGDPOECD was significant if RISK is not in equation lastly the ENERCON was not significant.	
Uiboupin & Sorg	The entry of Foreign Banks into Emerging Market: an application of the Eclectic Theory (2005)	This study seeks to investigate the ability of the eclectic paradigm to clarify the entrance of foreign banks into the central and Eastern European (CEE) markets. This theory was formulated by adding up financial liberalization and the time of entry to emerging markets.	There are two theories used to explain the internationalisation of banks, eclectic theory and internalisation theory	A survey was adopted in this study. Questionnaire was established drawn on similar studies.	Factors like liberal economic policy, political stability, future EU membership, and possibility of new clients were important determinants of FDI. However, factors such as tourism opportunities to develop the industrial assessed as non important factors in all countries. Market seeking strategy was adopted to enter to CEE banking market, which fits with eclectic theory. Eclectic theory with financial liberalization framework and timing succeeds in clarifying FDI in the banking sector in CEE.	
Aqeel and Nishat	The determinants of foreign direct investment in	Seek to explore determinants of FDI growth in Pakistan,	broad empirical literature review about determinants of FDI, which are consist with	Cointegration and error-correction techniques	The important of government policies variables in encouraging and determining FDI and its growth in the short and long term in Pakistan. The important role of effecting of policies reforms on FDI. Moreover,	

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
	Pakistan (2005)	specially the role of the government policies in encouraging or discouraging FDI in Pakistan.	Dunning theory		factors like tariff, GDP, exchange rate, tax rate, and credit to private sector are positively related to FDI and they can explain it. Wage rate and share price index does not explain FDI in Pakistan.	
Hellstrom and Sungur	Foreign direct investment in Turkey determinant factors and advantages for Swedish firms. (2006)	Investigated the determinants of investment, which was conducted by Swedish enterprises in Turkey and their motivation to invest there	Dunning's theory	The survey approach	Ownership determined by R&D intensity, and international experience. Location determined by geographic position, agglomeration benefits, market potential, external actors, business climate, educational level, economic climate, labour cost.	
Dhakal et al	Foreign direct investment and transition economies: empirical evidence from a panel data estimator (2007)	The aim was to explore the determinants of FDI in Eastern and Central Europe,	Grosse and Trevino (1996), Ajami and Barniv (1984), Root and Ahmed (1979), Schneider and Frey (1998), Froot and Stein (1991)	Panel data set	The market size factor was not as expected in term of significance but was positively related to FDI. The depreciating exchange rate and FDI were negatively related. The factor of government regulation was negatively related to FDI. Both rate of inflation, current account balance and openness had the right sign and were statistically significant.	

Author	and year article	Key idea	Theoretical approach	Methodology approach	Finding	Limitation
Buckle et al	The determinants of Chinese outward foreign direct investment (2007)	To explore what the determinants of outward foreign direct investment for Chinese companies were.	General theory of the multinational firm	Pooled ordinary least squares (POLS) and random effects (RE) generalised least squares method. Lagrangian multiplier (LM) test	Market size, cultural proximity, inflation, market openness and geographic distance were important determinants of ODI before 1991. Political risk, natural resource, policy liberalisation, exports and imports and again cultural proximity were important determinants of Chinese ODI after 1991. Market seeking motivates Chinese ODI, over time resource seeking as a motive	

The following section will discuss the table in terms of key ideas, theoretical approaches, methodology approaches, and findings

It is clear from the above table that all studies had the same main idea which is to explore determinants of FDI from an investor's point of view. In terms of theoretical approaches, generally the same approaches were used by all these studies. The interesting point regards OLI is that if it was used to explain FDI in a developed country, it was successfully to explain it (see results from Galan, and Gonzalez-Benito, 2001). However, it may not be successful in a developing country, such as China (Chorell and Nilsson, 2005). However, OLI after adaptation may explain the determinants of FDI in an emerging and developing country (Uiboupin and Sorg, 2005). This suggests that as Libya is a developing and emerging market,. thus OLI needs to be adapted to provide an appropriate basis for explaining FDI in Libya. However, the main reason for OLI to be adapted is that the all studies in the above table that used OLI as their dominant framework concentrated on the perspective of foreign investor point of view in explaining FDI. This study argues that participation in FDI is not only a decision for foreign investors, but also the host government through its institutions, and the host companies involved in the process. OLI paradigm could fit better for explaining the motives and strategies of foreign investors. However, it is not sufficient to explain the motives of host governments and host companies, which change with the stages of economic development. Thus, this suggests that OLI needs to be adapted.

Regarding methodology approaches, it was observed that all studies in the above table used a quantitative methodology in their data analyses. In spite of these studies having the same main idea, the same theoretical approaches and the same methodological approaches, the findings were not the same and determinants of FDI differ from one country to another. Probably the explanation of why all of these empirical studies reached different findings is that the level of economic development was different in the various parts of the world studied. One group of countries developed very quickly, others very slowly. They are at different stages of their economic development. It is therefore logical to conclude that the investment development path in various parts of

the world is at different stages as well. The stage of economic development was explained by Investment Development Path theory, which was developed by Dunning (1981, 1988). Libya is a developing and transition country; it is expected that motives of FDI in Libya will be similar to those outlined in the above studies.

2.9 Conclusion

This chapter provides a detailed classification of foreign investors' motives, which Dunning (1993, p.56) identified as resource seeking, market seeking, efficiency seeking and strategic asset seeking motives. As an FDI venture involves a number of participants - not only foreign investors, but also the host government and host companies, light was shed on the motives of all parties. Then the chapter provides a critical and extensive review of the theoretical literature on the motives and determinants of FDI. The interesting finding is that theories of FDI mostly concerned with the perspective of the foreign investors. The interests of the host government have been neglected. Therefore, the current study aims to integrate this important party, which sets the rules of the game. Therefore, a gap in the literature has been identified. The next chapter provides a conceptual framework of the current study.

Chapter 3 The Study Framework

3.1 Introduction

The fundamental aim of this thesis is to analyse the key motives and determinants of FDI in various sectors of the Libyan economy. One of the key issues in the Libyan economy is the low level of FDI, compared to similar economies elsewhere. Thus the purpose of this chapter is to develop an analytical framework that can be used to analyse these motives and determinants and address the problem of low inflow of FDI into Libya.

As was explained previously there are an enormous amount of studies into motives and determinants of FDI from perspective of foreign investors. However, the role of the host government has been neglected. The few studies that have paid attention to this, such as Dunning and Narula (1996) shed light on the role of government only from a theoretical point of view. In addition to this there have been some empirical studies, such as Datta (1988), Dyker (1999), Bevan and Estrin (2000), Gorynia et al. (2003), Marinova et al. (2004), Bayulgen (2010), Ferretti and Parmentola (2010). However, the current research considers the role of the government from a different perspective to that of the above studies. So it could be said that this is the first study to concentrate on the motives and determinants of the FDI process from the government point of view and also at the industry level of analyses. It also aims to highlight the role of the government in terms of regulation and managing the process of FDI.

In order for parties to generate motives there are some preconditions. For foreign investors, there must be an attractive location for FDI, then information about the location, after that evaluation of this knowledge that will lead to a strategic decision made in terms of internalisation. From the point of view of the government motive is related to a radical decision associated with changes, such as a critical event. So motives are priorities that the government is identified as part of the development of the economy, such as the transfer of modern technology, or job creation, or diversification of the economy, and so on. So motives are related to improving the economy, and that is

why they make strategic decisions associated with their priorities and with ways through which they can realize these priorities. In the case of companies they look into changing the conditions of the environment and how these conditions can facilitate their intention to expend their international operations. So this FDI decision becomes part of their strategy.

In the light of the literature review in chapter two, and in the above debate new conceptual framework was developed. The theoretical framework of this study is based on theoretical explanations about motives for FDI; Porter five forces model; when these motives turn into determinants, and new classification of determinants of FDI. The different aspects of the theoretical framework will be discussed in more detail in the following sections.

3.2 Theoretical explanations of motives for FDI

As discussed in chapter two, there are several motives for foreign investors to engage in FDI ventures. Different theories have been developed to explain these motives. The first intention that has been given is what motivates a foreign investor into going into the process of investing abroad. These theories are classified under three main perspectives. Firstly, "why" FDI is undertaken (Hymer, 1960; kickerbocker, 1973; Cave, 1970). Secondly, the "where" perspective, which is concerned with where FDI will go (Vernon, 1966). Thirdly the "how" perspective, concerned with which form of entry mode FDI will take (Coase, 1937; Williamson, 1975; 1981; Buckley and Casson, 1976; and Rugman, 1980; 1981). Then these theories of FDI were developed further by Dunning, who explained FDI from these three perspectives.

Scholars of the "why" perspective have explained that the major motive for FDI is the need for building better knowledge of the market. Whereas, scholars of the "where" perspective claim that the character of a specific location is the major motive for FDI. However, scholars of the "how" perspective suppose that a cost-benefit analysis is the major motive for entry mode. Dunning explained that FDI takes place because of all these motives FDI.

The present study will follow these scholars in their explanations of FDI motives. Furthermore, it will utilize the idea of transaction cost theory, and cost-benefit analysis to explain the relationship between the motives of the parties engaging in FDI ventures and the expected outcome.

The most important aspect of transaction theory is that each of the parties in the negotiation process is trying to make some kind of evaluation of what is happening on the basis of the process that they get involved in, such as what kind of benefits they can get and how much it will cost them, making the negotiations similar to a cost-benefit analyses. This is an important idea that was borrowed from transaction theory to the current study. It is the same idea in the process of FDI. For example, each of the parties engaging in an FDI venture is trying to make some kind of evaluation of the out come of this venture. So this is what can motivate their involvement to enter into it. It could be said that government motives are similar to cost for the investor, while the investors motives are like a cost to the government. The outcome is the benefit that each party can obtain, which result from their motives for engaging in a venture.

However, so far all development of FDI theories have been linked to foreign investors and what motivates them to engage in this kind of venture. Thus, all kind of theories and all kind of theoretical development have been provided to explain the process of FDI from a foreign investor's point of view. However, Dunning and Narula (1994) took the government perspective. They looked at the process of a country that gets involved in FDI regardless of whether it is the provider or recipient, and they found that at the very beginning, a country should be a recipient of FDI. Then, after some time, it becomes a provider. So they looked from the point of view of the government as a host that receives investment. From the historical perspective, there have been consistently large providers of investment such as the US, Western Europe, and Japan. These are more developed countries. IDP theory very much depends on the economic and technological development level of countries as we as, for example, the political priorities of

governments. IDP theory explains how countries move from being recipients of FDI to providers.

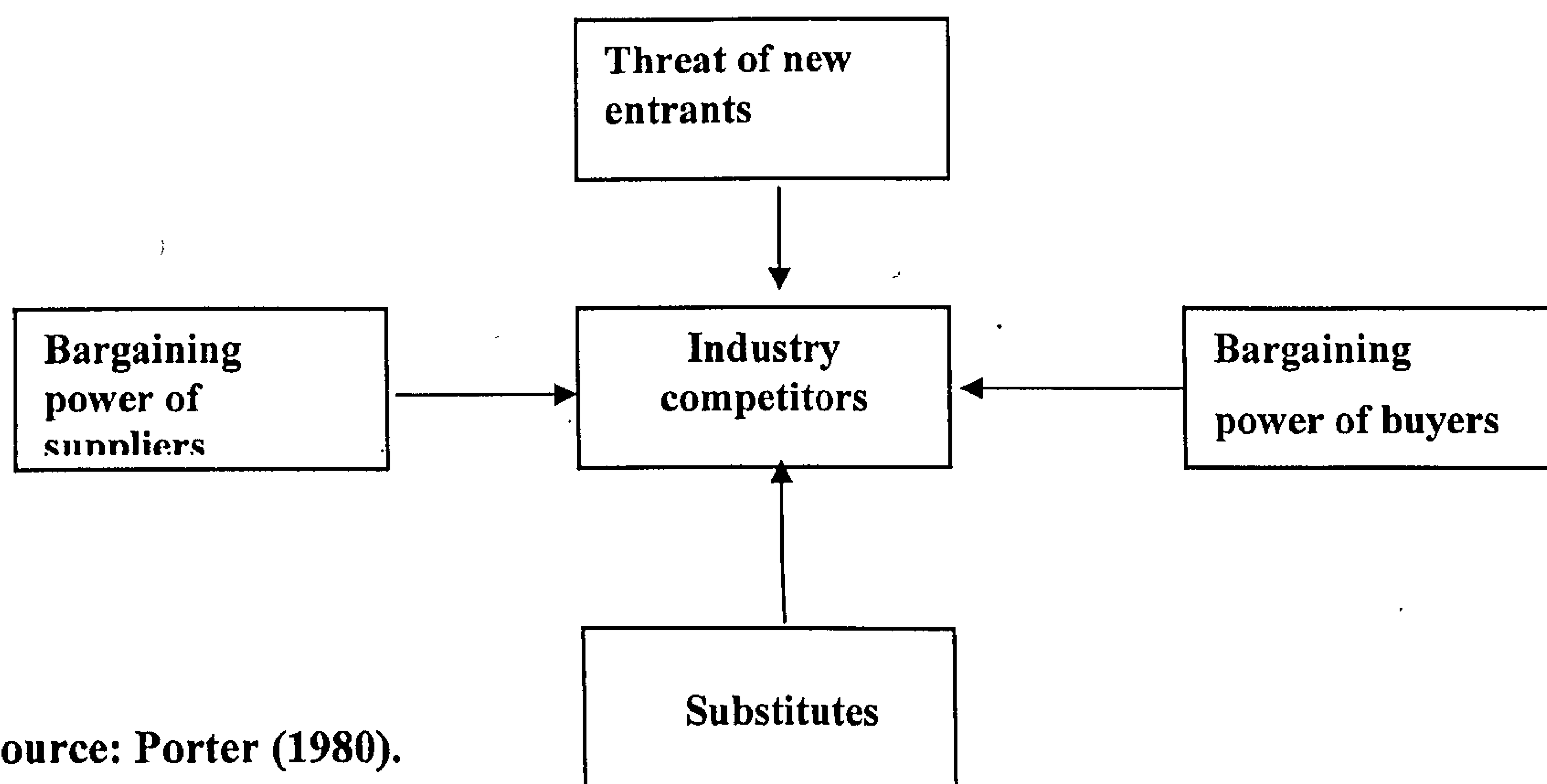
The present study employs the tenets of IDP theory to study the factors that create conditions for the beginning of FDI, not only at a national level but an industry level. So this research will analyse the initial process of FDI in various industrial sectors of the Libyan economy and discover the factors that motivated the process of FDI in each sector, while also examining how this process could be managed better.

There are several techniques for analysing companies and industries that were considered in order to select the appropriate one to serve the purpose of the current study. These techniques, such as the Ansoff matrix (relationship between product and markets), SWOT (external and internal context of environment of the conduct of business, which does not mention the degree of competition specifically), PESTLE (macroeconomic aspects which are associated with the whole country, which may be applied to the *context* of particular industries – but the current study is looking into various economic sectors only and not at general macro-economic elements), Industry Lifecycle (this model is particularly useful in looking into new industries, while the current study looks at existing ones, without regard to potential lifecycle effects; though this may constitute a weakness, it is outweighed by the current nature of FDI in relation to decision making and the potential for respondents to identify lifecycle concerns), Boston Conslting Group (BCG) (relative market share and market growth), and so on.

The main problem with these techniques that they concentrate on the *companies* more than on the *sectors,* and do not take in their accounts the role of the *government* as the most important party affected the company's activities, in terms of its power as a buyer or supplier. Moreover, the issues that addressed by these techniques are not as relevant for some sectors, such as construction sector. Moreover the current research is not interested in studying *companies* in terms of their marketing strategies, but their motives and determinants of FDI. In this respect, Porter's Five Forces model was believed to be the most appropriate framework to analyse Libyan industries. This model helps to

understand what the structure of one particular type of industry is, the degree of the competition, the level of development, the bargaining power of suppliers and buyers, and so on. Porter's five forces model is considered to be helpful in analysing the attractiveness and competitive positioning of any industry or sector. Moreover, key strategic issues addressed in this model are relevant to the selected sectors of the Libyan economy. The findings obtained by the application of this model should be helpful for both policy makers and company managers in their current and future decision-making. The following figure explains Porter's five forces model

Figure 3.1 Porter's Five Forces Model



Source: Porter (1980).

3.3 When does a motive become a determinant?

The interesting question that arises here is when a motive becomes a determinant. The following section deals with the process by which a motive becomes a determinant, and thus addresses the gap that appears to exist in the current literature concerning this important issue.

The basis from which this process is examined is adapted from Marinova et al. (2004), and was applied in their work to the privatization process, which in turn was based on

the work of Ghauri (1996). Marinova et al. (2004) argued that three parties participate in the privatization process; foreign companies, the host government and host companies. They also divided privatization into three stages: pre-privatization, privatization or contractual stage and, post-privatization. The relationship between the three parties is shaped by the stage of privatization being enacted.

The characteristics of the relationship between the three parties in the pre-privatization stage are shaped by information exchange and parties' motives, which are important for the continuation of the initiated relationship. In the privatization or contractual stage, promises are made by all parties to each other about what they will bring to the venture. Then, the evaluation of the other parties' promises occurs, as does the identification of the framework for their future relationship (Marinova et al., 2004). In the post-privatization stage, the parties assess the success of the privatization process. They analyse how their promises were fulfilled. Marinova et al., in taking this perspective on the development of relationships, also explain three main concepts: motives, promises and actions.

Firstly, Marinova et al., (2004) view motives as 'complementary' when they match and supplement each other. Also, they are also seen as 'congruent' when they agree with each other, allowing their harmonious co-existence. These concepts are critical in the formation and enactment of relationships between the three parties, especially in the pre-privatisation stage, as motives may alter within the different stages of privatization.

Secondly, the promise concept clarifies what each party will bring to the venture. The written promises of the three parties are regarded as legally binding in the context of the code of law, although, at times these promises are unwritten. Whether these promises are in a written form or not, they should be congruent and compatible with the other parties' motives to promote the venture's success. Like motives, promises should be congruent, complementary and compatible with each other. Motives and promises for all parties should be consistent.

Finally, actions (as Marinova et al. explained) are the events that happen. Actions again should be complementary, compatible and congruent, between the three parties, and also with other parties' motives and promises.

This research uses the same ideas as above but applies them to the FDI process. However, for the purpose of the current study, the main concepts that will be used are motives, goals, offers and capability. Thus, the participants in an FDI venture are foreign investors, the host government and host companies. An FDI venture can also be divided into three stages: pre-FDI, FDI or contractual stage, and post-FDI. The characteristics of the relationship between the three parties in the FDI stages are similar to those of the three stages of privatisation, proposed by Marinova et al. (2004). The development of the relationship between the three parties through the FDI stages is the process by which motives become determinants.

At the pre-FDI stage, in order to have pre- FDI stage all parties should be motivated to engage in the FDI venture. This is the condition for this stage; if it exists FDI will move to stage II. In the case of Libya is it expected that in the oil sector, for example, foreign investors are motivated by access to Libyan oil (recourse seeking- motive) due to the abundance of Libyan natural resources that are high quality and have a low cost of extraction. On the other hand the Libyan government and Libyan companies' motives are technology transfer and job creation. Thus, in this case, the motives are complementary

In the second stage, the FDI or contractual stage, this relationship develops further. Comparing the motives between parties at this stage is very important due to the fact that, if parties' motives, goals, offers and capability are not complementary the process will not take place, and the relationship will finish: there will be no FDI. However, if there is complementary between parties' motives, goals, offers and capability, FDI moves to stage III. When FDI comes to the contractual stage, negotiations begin development. There is a constant process in which there is acceptance of motives from one party by another party's ordinal. So the more likely it is that other parties will accept

the motives of the parties, it is likely that the motive of this party will become a determinant for the process of FDI. So the more that motives turn into determinants, the more likely it is that a contract will be signed and the process of FDI will start. For example, the willingness of a foreign investor to be treated favourably in terms of taxation can be achieved by the host government providing tax holidays. Another example is that the willingness of the host government to encourage technology transfer maybe be included in the contract by means of a promise that the foreign investor will transfer the latest technology that they have developed into their Libyan subsidiaries. However, the complementary nature of an agreement is not only in terms of the parties' motives, but also in terms of what they can obtain as a result, because if there is a kind of competition in terms of what can they obtain, so this reduces the likelihood of any deal taking place. So it could be said that expectations of what parties can get from the venture is a very important element that may strengthen or weaken the parties' motives.

Then, a contract is signed. The moment when the contact is signed is a critical event because it is at this moment that motives become determinants and assume a formal nature. This moment is important due to the fact that a motive may remain only a motive if FDI does not take place. Thus, it could be said that a motive is a determinant after FDI takes place, and a determinant is a motive before FDI takes place, which is the gap that exists in the current literature. In the process of moving from stage two to stage three, the most important thing that takes place is that motives become determinants, and it is those motives which become determinants that are critical in terms of signing a contract and reaching certain kinds of agreement.

In the third stage, which is the post-FDI stage, a host government acts as an external macroeconomic and industry regulator. This is the stage of high activity for investors and local companies as they set up new projects, especially in the case of joint ventures. In the context of the subject of this study this is the stage when the Libyan government assesses if foreign investors really allow them access to technology, while foreign investors assess to what extent the Libyan government allows them access to resources.

The period of time necessary to move from one stage to another is very important; it may take a long time for this process and it may not. It is also expected that cultural factors, in terms of social relationships and networks, especially in developing countries, will play an important role in this process. For example, in the current study it is expected that personal relationships will facilitate the process regardless of the nationality of investors.

3.4 New classification for determinants of FDI

In the process of motives becoming determinants it is very important to distinguish between two types of motives. For example, there are motives that are specific to one party, such as obtaining first mover advantages for foreign investor, or the transfer of modern technology for the host government, and motives that are common to all parties, such as infrastructure improvements and taxation frameworks. Furthermore, it is also important to classify motives into controllable and uncontrollable motives.

It could be suggested that the motives that are specific to one party do not have a large impact on the process of FDI. Therefore, the attention in this study will be directed primarily to common motives. Moreover, controllable motives are more important than uncontrollable once, because controllable motives represent the capability of a party to improve, strengthen and change them in order to improve their chances that this process will move from stage to another. For example, if the party is a government, it can encourage or discourage the process through its policies. The government can improve infrastructure, or change taxation. Generally, it can provide different conditions to strengthen the motives of foreign investors, and attract them. In addition controllable and common motives are more important than uncontrollable and specific ones, because if the motives can be controlled and they are common to all parties, then this is creates very good pre-conditions for the motives to become determinants, and the possibility of the process moving from stage two to stage three will increase.

Uncontrollable motives are factors in FDI decisions such as the availability of natural resources, and access to ports. These motives no party can do anything about. But a

host country government, if it has a coastline, can develop ports with a high quality of technology, and improve the infrastructure necessary for the extraction of natural resources; these are elements government can control. The importance of this distinction between and classification of motives is to distinguish between and classify determinants of FDI.

For the purpose of this study, the determinants of FDI are divided into two groups: determinants those are specific to one party; and determinants that are common to all parties. Furthermore, the determinants that are specific to one party are sub-divided into two groups; controllable and uncontrollable determinants. The same idea is for common determinants, as explained in figure 3.3

Dunning (1993) classified motives for FDI into four groups, resource seeking, market seeking, efficiency seeking and asset seeking FDI. As mentioned above uncontrollable motives are easily turned into determinants. For example, in Libya a resource-seeking motive turned into a determinant because Libya is rich in high quality and low cost oil and cement due to the country's natural geography.

According to Dunning (1993) FDI is determined by three types of advantages: ownership, location and internalisation advantages. However, all of these advantages are impacted by institutions in both the home and host countries. Since the 1990s, economic development researchers have paid considerable attention to the quality of local institutions as determinants of growth rates and per-capita income, concluding that a low level of corruption, combined with economic and political freedom, efficient protection of civil and property rights, and low levels of bureaucracy are associated with a higher rate of economic growth. Simultaneously, FDI is viewed as a significant determinant of growth, and can also be a vehicle for the transfer of technology through the use and diffusion of improved production techniques, Not surprisingly, several scholars have investigated the link between the quality of institutional environments and FDI inflows at a macro level (Bénassy-Quéré et al 2005; Dumludag et al., 2007; Dunning, 2007; Dunning and Lundan, 2008; Katsaitis and Doulos, 2009).

At the micro level, management scholars have begun to investigate the ways in which MNE subsidiaries seek to gain legitimacy, within the framework of the institutions of the host countries in which they operate, and with respect to their parent companies (Dunning and Lundan, 2008).

According to North, (1990, p. 3) institutions are "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" Institutions can be formal (e.g. constitutions, laws etc.), or informal (e.g. conventions and customs). The purpose of institutions is to create behavioural norms, and to reduce the uncertainty associated with human interaction and exchange. Thus, institutions designed to provide societies with a predictable framework for interaction. North (1990) argued that where institutions provide the structure in which transactions occur, then both institutional theory and transaction cost theory must be integrated together. Thus, North suggested that the link between institution theory and FDI is through transaction and production costs. Furthermore, he argued that good institutions help to reduce the cost of doing business and thus increase profitability and economic activity. He also claimed that transaction costs include risk in terms of property rights and the scale of economic exchange in an economy, which, depends on the institutional quality and the degree of contract enforceability that affect economic activities. Henisz and Williamson (1999) explained why the quality of institutions is important for FDI. They emphasized that MNEs often face expropriation risks in countries where property rights are poorly protected, and an example of this can be found in Libya in the 1970s, when the Libyan government nationalized foreign companies, especially in the downstream oil sector, which discouraged FDI for a considerable period thereafter. However, the Libyan government, in its attempt to encourage FDI, established law No 5 of 1997, which stated that "the project shall not be nationalized, expropriated compulsorily acquired or confiscated or imposing guardianship conservation or freezing" (Law No 5, Article 23, p.10).

Hoskisson et al. (2000) maintain that institutions will be of primary importance in emerging economies, especially in the early stages of market development, because of the strong effect of societal and governmental influences in these countries compared with developed markets. Wan and Hoskisson (2003) claim that the absence of a developed institutional framework for firms means complicated dispute resolution procedures, cumbersome contract negotiation and time consuming processes, and thus increased transaction costs. On the other hand, the presence of developed institutions means transactional efficiency. Moreover, Hoskisson et al. (2005) declare that transaction costs in emerging markets will decrease as a result of improving market institutions, which reflect numerous opportunities and advantages for domestic companies in terms of improving ownership structures, and obtaining greater access to resources and capital, and these advantages therefore increase the likelihood of FDI. Although local firms in emerging markets benefit from developed institutions by reducing their transaction costs, they also face high competition from new entrants as a result of government policies in terms of privatization (Hoskisson et al., 2005). Furthermore, Brouthers (2002) suggested that institutional theory expands transaction costs theory by examining the ability of a company to expand or enhance its competitive advantage.

For the present study, which is concerned with the process of FDI, there are several different kinds of institution that impact the process. The most important institution is the Libyan government and then its various ministries, which are associated with various sectors of the economy. In addition, there are the institutions that regulate the process of FDI, such as banks. It is therefore the Libyan government's role and decision to improve institutions or not. However, it is foreign investors who are the most impacted by these institutions.

The institutional effect can be interpreted not only in terms of the country where FDI takes place, but also in the country from which FDI originates. For the present study, home country institutions are very important, because Libya was under sanctions for a long period before opening up to FDI, and there was therefore no transfer of technology

from the USA to Libya, and trade and business sanctions were imposed on the country. Thus, the decision of an American institution (government) affected FDI inflow into Libya.

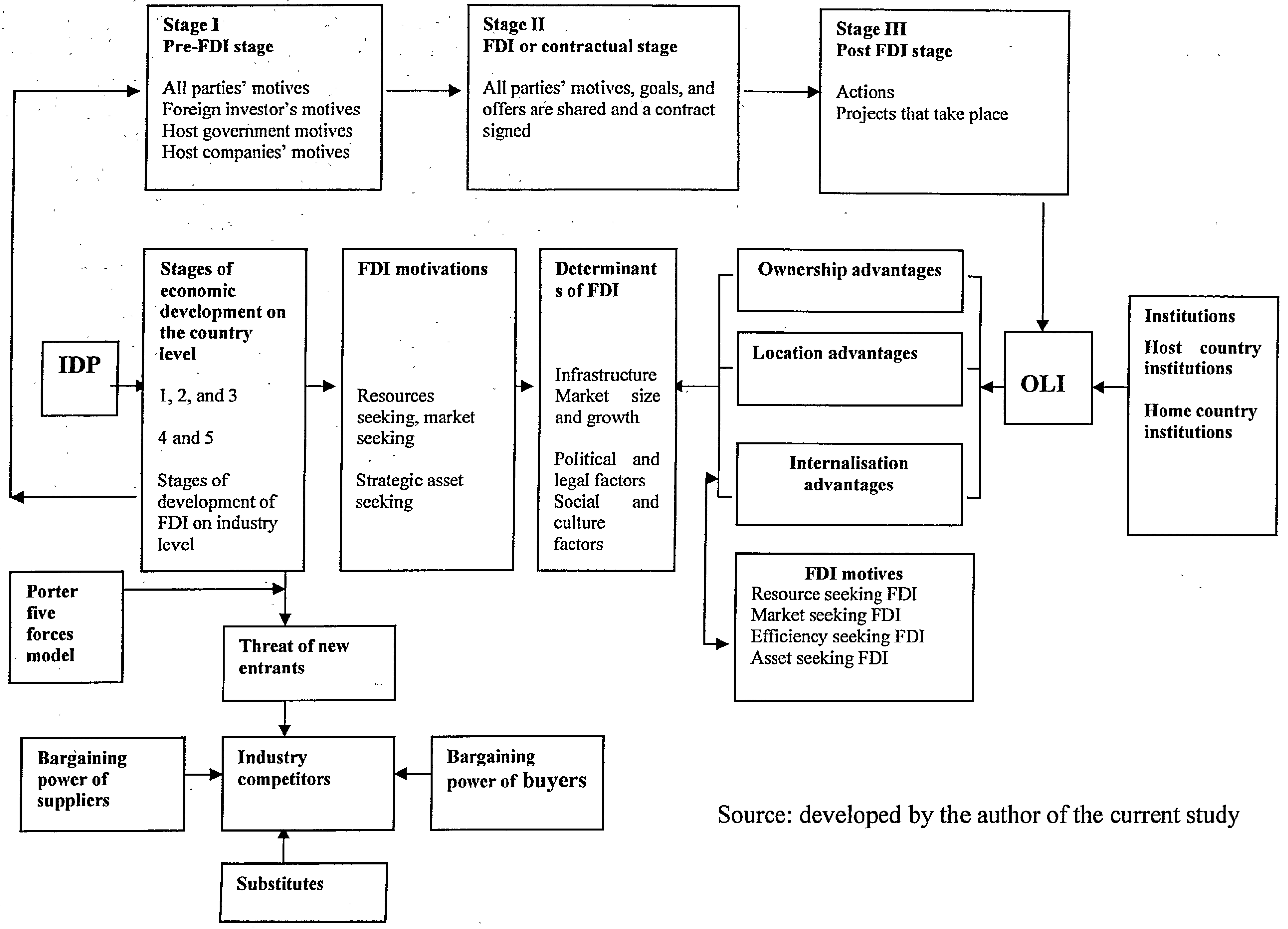
From a foreign investor's point of view, the greatest advantages they can generate are those of (OLI), which result in the profits that they can generate. From a government and national point of view (IDP), the country moves from one stage to another, and in the process of this movement the role of the economy and the significant of the economy changes. So more and more FDI is needed to facilitate the process, and in order to attract more FDI there is a need turn motives into determinants. This happen when the economy develops and moves from one stage to another – including improvements in technology and productivity. In this case, the prospect that a country moves from a low stage to a higher one increases. Moreover, the likelihood of a motive becoming a determinant also increases, and at a certain moment the country is ready to provide investment to other countries, probably first to neighbouring countries, and afterwards elsewhere.

So the most important point for this study is that motives turn into determinants when a country moves from a lower to a higher stage of development, and when a process develops in terms of the investment development path from the point of view of the host country. IDP stages of a country change through the structure of the economy and policies that the government can offer to foreign investors, such as tax holidays and accessibility of finance thought the banking system. When a government improves the whole economy, foreign investors benefit directly or indirectly from improved conditions. This in turn increases the motives and makes them more likely to become determinants.

So far FDI theories, through their development with the pass of time, have been examined in terms of the motives and determinants of FDI from the perspective of two parties, namely foreign investors and the host government. However, host companies' views about FDI motives and determinants have been neglected by FDI scholars.

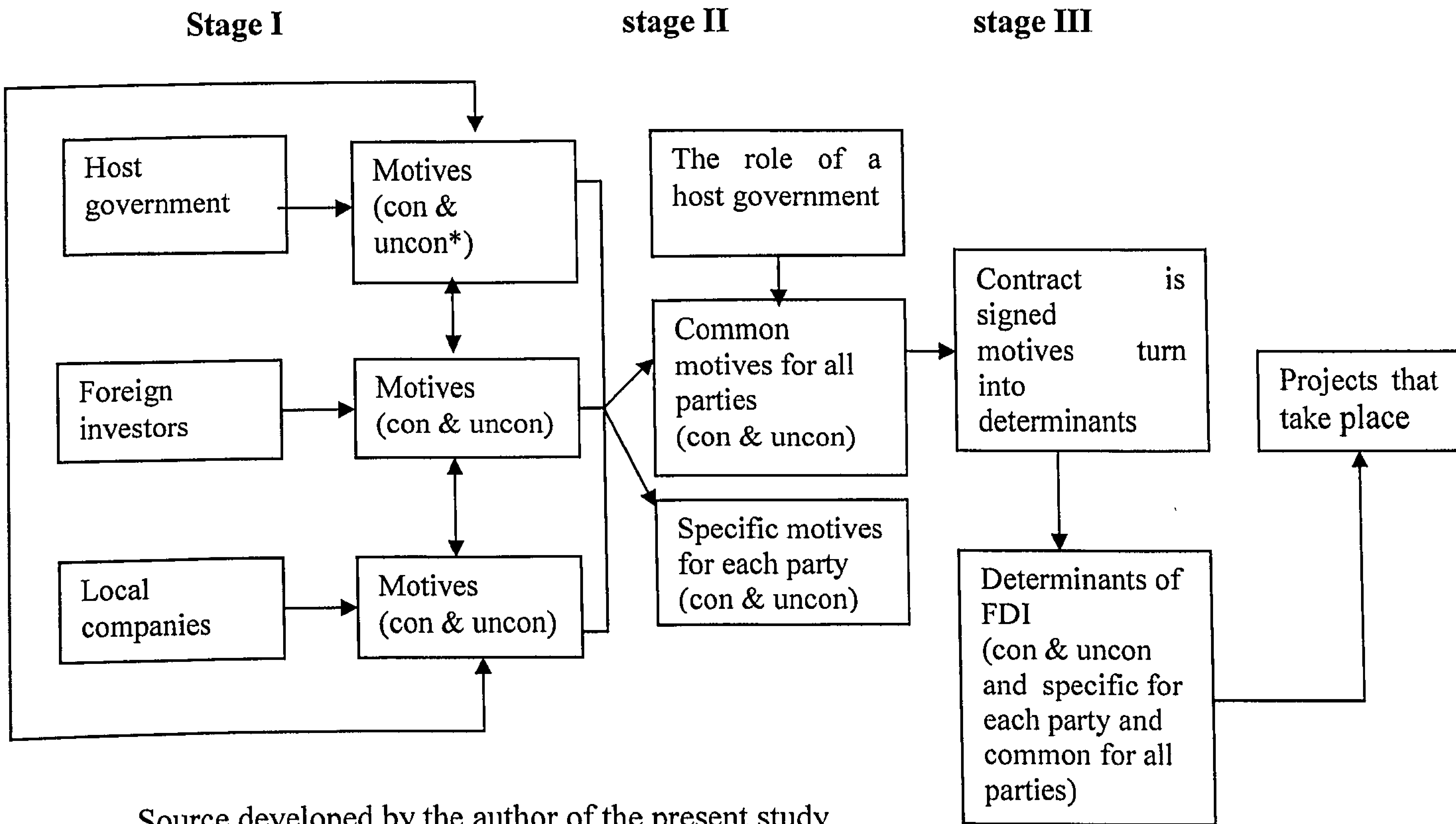
Therefore the present study aims to explore the motives and determinants of FDI from the perspective of Libyan companies in order to fill a gap identified in the literature.

Figure 3-2 The study framework(1) from process point of view



Source: developed by the author of the current study

Figure 3-3 The study framework (2) decision making into the process of FDI



Source developed by the author of the present study
* con means controllable, while uncon means uncontrollable

3.5 Conclusion

The review of the existing literature in Chapter 2 showed that: firstly, major consideration was given to the motives for FDI of foreign investors. However, the host government's motives and host companies' motives were not given the same attention. Secondly, from the literature it appeared that there was no distinction made between *motives* and *determinants* of FDI. Thirdly, the literature does not show the importance of motives and determinant of FDI across sectors and from the three perspectives.

There has been a lack of studies into the determinants of FDI at the microeconomic level of analysis, and also there has been a lack of studies that focused on macroeconomic analysis in terms of the role of government, through its institutions, as a party in an FDI venture (Datta, 1988; Marinova, 2001). Also, there has been a lack of studies that have combined these two levels of analysis in one study, which this study attempts in order to fill the gap identified in the literature. All of these became the foundation for the development of a conceptual framework.

The existing FDI theories have been developed in advanced countries, and it is therefore not surprising that they do not appear to fully explain FDI in the developing world, and emerging markets (such as Libya). There is no one single framework which could adequately clarify determinants of FDI in these countries. Thus, this chapter has established a conceptual framework, which consists of the motives of the three parties involved in FDI. It incorporates: Porter's five forces model; the process through which motives become determinants; and new classification for determinants of FDI, IDP theory, OLI theory, and host government through its institutions. This research is exploratory in nature, as it has employs a complex set of factors, based on a newly developed eclectic framework that incorporates a macroeconomic level of analysis with microeconomic, which are areas that have not been investigated previously in the context of determinants of FDI.

This research contributes to the process of identifying the determinants of FDI literature by developing an eclectic framework for a better understanding of motives and determinants of FDI in various sectors of the Libyan economy. As a result, the framework can be used to explore its relevance to other countries by other researchers who can develop it further. The various sectors of the Libyan economy were analysed by using Porter's Five Forces model. It could be said that this is the first study using Porter's Five Forces model across sectors.

This study argues that the participants in FDI ventures consist of *three* parties and the motives of these *three* parties combine to form the determinants of FDI. By adding the perspective of local companies into the factors determining FDI, the study makes a contribution to the theories of FDI.

Also, it is the first study that tries to shed light on the process by which a motive becomes a determinant of FDI. It provides a new classification of the factors that *determine* FDI, with these factors classified into two groups. Firstly, factors that are specific to one party, and secondly, factors which are common to all parties. Furthermore, these factors are also classified as controllable (such as infrastructure) and uncontrollable (such as geographic location). The study also identifies those motives that are common to all parties and those that are specific to one party. Moreover, this study is the first that has used IDP theory at an industry level.

The impact of institutions on economic growth was examined; however, the role of institutions at the sector level of analysis was not considered. Thus the contribution that is made by the current study in this respect is that it extends institutional theory to include the sector level of analysis.

This research contributes not only to theoretical literature of motives and determinants of FDI, but it will also fill gaps in the empirical literature on the Libyan context. These gaps concern motives and determinants of FDI, how motives turn into determinants, and

who the key players in this process are. The next chapter will explore the Libyan environment as the context within which the study was conducted.

Chapter 4 Libya: The Context of the Study

4.1 Introduction

The purpose of this chapter is to provide an overview of background information on Libya and a preliminary introduction of the FDI environment within the country, including legal guarantees and government policies towards FDI.

4.1.1 Geographic location

Libya lies between latitudes 22 and 32 degrees north of the Equator and longitudes 10 and 25 degrees east of Greenwich. It runs roughly 1,100 kilometres west to east and 800-900 km north to south. It is a very large country and its size gives it some unique characteristics. The landscape is diverse and runs from coastal plains through plateau-land to high mountain ranges.

Administratively the country has long been divided into three separate regions. In many respects they are culturally as well as geographically distinct. In the north-west is Tripolitania, in the south-west the Fezzan and in the east, Cyrenaica.

Libya is situated in North Africa, bordering the Mediterranean Sea, between Egypt to the east, and Tunisia and Algeria to the west, with Chad and Niger to the south. It has an area of 1.8 million square kilometres. This location gives Libya a strategic role it can play in the international trade movement between the various continents of the world, in addition to its importance in terms of its reserves of oil and natural gas. Additionally, it is a connecting link between western and eastern Arabic countries and provides a convenient location to many enclave countries not having access to the sea. Libya has witnessed many civilizations through its history, such as the Phoenicians, Carthaginians, Greeks, Romans, Vandals, and Byzantines. They left inspiring ruins in the some of Libya's cities. These ruins have recently become tourist attraction for foreign visitors

and help to provide an important source of foreign exchange. (Wallace and Wilkinson, 2004; Otman and Bunter, 2005; Vandewalle, 2006; Otman and Karlberg, 2007). Therefore, Libya's location represents good potential for the development of the tourism sector, which is a good precondition for FDI.

Libyan's location on the Mediterranean Sea provides its main strategic advantage, because it links two continents of the world to Africa through international shipping routes. In addition, it borders several densely-populated countries, which could be lucrative markets for Libya's products, which increases the chances of the country attracting capital foreign investment. This is especially following the lifting of international sanctions and the country's entrance the Barcelona process that links the EFTA countries, Mediterranean partner countries and 25 EU countries. The proximity of Libya to Europe and its economic potential give it comparative advantages compared with its neighbours (Wallace and Wilkinson, 2004; Otman and Bunter, 2005; Otman and Karlberg, 2007)

Various economic sectors could benefit from Libyan history and geographic location, thereby helping to diversify Libya's income. They could benefit from the different civilizations, weather, and outstanding beauty of the country, and more importantly the positive attitude of the Libyan community towards foreign people. Thus, in view of all these features, Libya has the potential to develop a significant tourism sector. The development of its trade sector is also possible, due to Libya's geographic location, which in turn could lead to improvement in all economic sectors as a result of spill over effects. It appears that a good location represents certain favourable conditions in terms of economic factors such as, low transportation cost for a country engaged in export activities.

4.1.2 Religion

Islam is the state religion of Libya, and the Malikite rite is predominant. Compared with other Arab countries, Libya is different in that it has only one religion and one rite, while other Arabic countries generally have followers of more than one religion and rite. The country has a homogenous religious structure, although there are also relatively small foreign communities of Christians and Indo-Chinese. Places of worship are available for these religious groups (Wallace and Wilkinson, 2004; Otman and Bunter, 2005; Vandewalle, 2006; Otman and Karlberg, 2007; Oxford Business Group 2008), which demonstrates the inclusive nature of the country's religious integrity. This factor can also be seen as representing a positive precondition for Libya as a location for FDI.

4.1.3 Population

Libya's population is around 6 million people (Oxford Business Group, 2008). It has one of the highest population growth rates in the world and almost 50 per cent of the population is under 20 years of age (Wallace and Wilkinson, 2004; Oxford Business Group, 2008). The vast majority of the population lives on or near the Mediterranean shoreline, especially in the two major cities of Tripoli and Benghazi. There are several ethnic groups in Libya, such as Arabs, the predominant ethnic group, Berber tribes and foreign nationals (Greeks, Maltese, Italian, Egyptians, Turks, Indians and sub-Saharan Africans). It could be said that these population factors impact FDI in opposite directions: one is positive in the sense that the preponderance of young people suggests that there is a high demand for housing, electricity, banking services and so on, which represents a good opportunity for FDI, especially because these sectors have seen little development for around 30 years. However, this small population and youthful demographic profile may be seen as negatively impacting FDI in terms of the availability of a skilled and experienced work force, which is an important precondition of FDI.

4.1.4 Libyan history and civilization

The history of Libya shows that this country was subject to different periods of foreign control, starting from before the 7th century, the country that is now known as Libya witnessed many civilizations through its history, such as the Phoenicians, who built a few coastal trading centres on the western shores, which later became Tripoli, Leptis Magna and Sabratha cities. Then the Carthaginian civilization came, after that Greeks, who lived on the eastern shores. They developed an elaborate system of irrigation, which later on become the basis to develop an agriculture sector. They also built Benghazi and Cerene, which became flourishing trade and cultural centres. The Romans came after the Greeks and ruled the country until the Byzantines took over and ruled Libya until the 7th century. All these civilizations left inspiring ruins in some of Libya's cities.

In the 7th century, Arabs occupied the area, and spread their Islamic religion, language and culture. Between 16th -19th centuries the Ottoman Turks dominated Libya. In the Ottoman period, Tripoli maintained its position as a leading trading and merchant town and became the gateway to three great trading routes into Central Africa. Through Libya, Europe exported manufactured goods and imported from North Africa feathers, ivory, gold, and slaves. From 1911 to 1934, Italy occupied Libya and gives her its present name. Libya was viewed by Italy as an agriculture colony and perceived as a potential source of surplus cheap and available labour (Vandewalle, 2006). In 1939, Italy invested a huge amount of capital and technology into the country's transportation infrastructure and economy, especially in public works projects, port facilities, large-scale agriculture and irrigation, the modernization and extension of cities, and railroad construction. When Libya became independent in 1951, the basic road and infrastructure system existed (Otman and Karlberg, 2007).

In 1947, the Italian role in Libya ended and negotiations between Libya and the UN were started. As a result, Libya gained its independence and King Idrise, who guided the resistance to Italian occupation between the First and Second World Wars, became King

of Libya in 1951. At its independence, Libya was one of the poorest countries in the world. The western powers provided Libya with all the expertise and aid that a country needs during this time (Vandewalle, 2006). The period of King Idrise saw the first discovery of oil in 1958, and by 1961 Libya was exporting oil to the rest of the world. In 1969 Mu'ammar al-Qadhafi became the leader of the country and established a new government. He viewed USSR and Eastern Europe as a preferred source of technology and labour, and he rejected international activities of a capitalist nature, including FDI. In the 1990s international sanctions were imposed on the country, which negatively impacted the oil sector, which was the main source of income in Libya. These sanctions created unfavourable conditions for FDI. However, after sanctions were lifted in 2003, the policy towards FDI within Libya changed, and the Libyan started to create favourable conditions to attract FDI.

4.1.5 Libyan political system

The political system of Libya consists of political (legislative) and executive authorities. At the national level the General People's Congress (GPC) (equivalent to parliament in western systems) is the highest political authority in Libya. It is responsible for all state political issues, affairs and legalisation. The GPC has its own Secretariat, which is responsible for administering the meetings of the GPC. Legislative proposals relating to for example, the budget, regulations and laws are passed from the GPC to the Basic People's Congresses, to be commented and approved by them. After that, the GPC puts budget, regulations and laws into their final form, and issues them.

The executive (Cabinet) authorities include two levels of institutions: a national level which is known as the General People's Committee (Council of Ministers). Its official task is to manage, supervise and implement the national social and economic policies and development plans. The second executive level is that of local government; its responsible is the same as the General People's Committee, but at a local level in the regions.

The country comprises 32 regions called “shabiyat” each shabiyat has a People’s Committee, which is chosen (elected) by a Shabiyat People’s Congress. Both Basic People’s Congresses and People’s Committees are below a Shabiyat People’s Committee and Congress. Due to the shabiyat level of government that is responsible for implementing local social and economic policies and projects, Libya’s political system is unique.

The reason behind this structure of the Libyan political system is that it is based on the political philosophy in Muammar Al-Qadhafi’s Green book, which combines socialist and Islamic theories and rejects parliamentary democracy and political parties. He also rejects capitalism and marxism, and created the Third Universal Theory as an alternative to them. According to this theory, people govern themselves without the intervention of state institutions, and he proclaimed that Libya is a “state of the masses”. He also altered governmental and social structures and called for decentralization, in addition to this, the Third Universal theory includes ideas such as Arab unity, culture authenticity, economic egalitarianism and independence. Religion and nationalism are the main concepts of this theory.

On the international level, Libya has sought to foster relationships with Arabic countries and developing nations. Thus, in 1971 the Arab Socialist Union (ASU) was created. Its aim was to provide the masses with a system that allowed for representation and participation. However, to dealing with the United States and other Western countries was rejected by the Libyan leader due to their support for Israel, and as a result, American and British bases on Libyan territory were closed by Qadhafi after the 1969 coup, while at the same time all foreign oil and commercial interests in Libya were partially nationalized. Moreover, he used oil embargoes to challenge the west. Libya had a strong relationship with the former Soviet Union, from which Libya purchased arms. However, this relationship ceased in 1987. After this, Libya expanded its relations with Europe and East Asia, however these also diminished after international sanctions were imposed. During this time Libya made bilateral ties with North African

neighbours and Sub-Saharan Africa. After international sanctions were lifted, the government changed its policy in favour of encouraging FDI. However the process of FDI has been disturbed and unfavourably impacted because of social unrest in the country, and it could be argued that political risk has been increasing substantially, and now discourages FDI despite the efforts of policy makers.

4.2 Economic overview

4.2.1 Libya prior to liberalization

Libya's history, especially after 1969, has played a large role in the country's limited economic linkages, due to the socialist-style economic framework that exists. Libya's development was actualized in five-year plans that were constrained by government regulation. The development of private enterprises in almost all sectors was restricted. The government controlled foreign investment and it was only allowed in the oil sector, while Libya's inward focused 5-year plans led to a closed economy.

From the early 1970s, the Libyan government, in line with its socialist ideology, has embarked on a programme of state-sponsored economic development and control of the economy. The production targets and productive capacity in Libya are low, and the state's economic plans failed to generate incentives for high productivity. The result was inefficiencies in the use and distribution of resources. Plans tended to stress quantity over quality, and in terms of technical progress the planned economy was unable to foster innovation in Libyan companies. Moreover, the wage system failed to encourage workers to work harder or managers to economize on labour. All these factors impacted negatively on efficiency, productivity, return on investment, international competition, and the diversification of the Libyan economy.

In 1972, a requirement was imposed on foreign companies to share oil production and proceeds with the government. In other words, AL-Qadhafi in part nationalized foreign oil and commercial interests in Libya. In 1977 he changed the name of the state to the

Socialist People's Libyan Arab Jamahiriya. In 1981, the US ended its purchases of oil from Libya by imposing trade sanctions. Between 1982 and 1989, when oil revenues decreased, controls on the transfer of foreign exchange were augmented. A black market in currency and goods appeared due to the overvaluation of the Libyan dinar, which was a result of international sanctions. In 1986, the economic sanctions on Libya were intensified prohibiting the US from doing business in Libya, while in 1988 further and economic sanctions were imposed due to the Lockerbie air crash. In 1992 the United Nations imposed sanctions, economic and other, on Libya. For most the 1990s Libya witnessed economic and political isolation. Thus, economic performance was well below international standards.

In 2000 there were several of events of importance on both a national level and international level. On a national level, a free trade zone was opened by Libya: Libya meet with 50 foreign companies, especially those engaged in oil activities, to encourage foreign technology and FDI to develop and explore new oil fields, and more money was directed to develop infrastructure. To attract FDI Libya established fresh hydrocarbon laws. On the international level, the US government measured the possibility of removing a travel ban (in place for 19 years) between Libyan and US citizens by sending a delegation to visit Libya. In 2001 Libya, with the Arab Maghreb Union (Mauritania, Morocco, Libya, Tunisia, and Algeria) supported intra-regional cooperation on FDI, banking, customs, and trade. Also in this year, the Libyan government, in an attempt to ease the sanctions threat, told US oil companies which had concession rights in Libya that if they did not commence activity at the end of 2001, it would give other foreign investors their concession. Libya expected that US oil companies would apply pressure to the US government to protect their businesses.

In 2002 US oil firms did not obtain authorization to restart their activities in Libya, although permission was given by the US State Department for US oil firms to discuss with Libya their stationary assets in the country. The most important events in 2003 on

an economic level was the government restructuring its plan of economic liberalization, and the UN decision to lift sanctions on Libya following a decision to abandon the development of nuclear, chemical, and biological weapons and support for terrorism. In 2004 economic and educational collaboration between Libya and the UK began, and the US lifted some sanctions on commercial relationships with Libya by allowing US oil firms to do business in the country; also in this year all sanctions were lifted comprising trade and travel restrictions. In the same year, Libya received an invitation to join the Barcelona process. In 2005 Libya was removed from the list of countries regarded as sponsors of terrorism. (North Africa, 2007), and GDP growth (constant prices, national currency) increased from 4.40 % in 2004 to 10.37% in 2010 (www.economywatch.com/economic-statistics/country/libya). All this impacted positively on the Libyan economy. However, recently there have been signs that an unfair in distribution of the country's wealth has created social unrest that has negatively affected FDI.

4.2.2 Liberalization of the Libyan economy

In the period of more than 30 years, which have passed since the Libyan states this massive nationalization programme, it has become apparent that the nationalized and centralized system of government in Libya has failed to deliver its economic goals. As Colonel Qadhafi himself stated publicly at the General People's Congress in Sirte in January 2000, "the system is finished. I have to step in today to stop this wheel from spinning in a rut and wasting fuel", accusing members of the GPC of deliberately wasting the country's resources, saying, "you're holding onto obsolete methods in order to justify wasting oil."

Thus Libya aimed to transform its economic system from a planned economy to a market economy, which represents for Libya both a political and an economic process. An important aspect of the former is the reintegration of Libya into the world, especially after UN and US sanctions were lifted. With respect to the second aim, integration into

the world economy is likely to be achieved primarily, through privatisation and foreign direct investment (FDI), which are key elements of the transition process.

However, several changes are needed as conditions for this progress, such as alterations to the government's laws, regulation, and legislation, and attitude towards public ownership. Privatization is one of the factors that is recognized as an important determinant for transition to a market economy, and for attracting FDI. Thus, in June 2003, Colonel Qadhafi called for the privatization of the oil and the aviation sectors, other public sector companies, and the banking industry. On 24 November 2003 the Libyan Prime Minister, Dr. Shukri Ghanem, announced a comprehensive plan for privatizing state-owned factories and companies, stating that the plan would cover the privatization of mineral industries, especially chemical, iron, and steel facilities, along with state owned farms, shoe companies, and factories to assemble trucks and buses.

The government has stated its motives for moving towards redistributing wealth through private business, transferring state-run businesses to private sector, and widening the ownership base. The steps were taken by the Libyan government to diversify the economy away from its dependence on oil by opening the country to foreign investment across all sectors. Thus, in 1997 Law No. 5 was established to encourage FDI, and the Libyan government stated its motives of attracting FDI, which were the transfer of modern technology; formation of Libyan human resources technologies and job creation; diversification of sources of income; and the promotion of national products to enable them to gain access to international markets.

However, due to the importance of the oil sector, which dominates the Libyan economy and accounted for 90% of government revenue and 70% of GDP in 2007, the Libyan government give it priority in its new policy of attracting FDI. The Libyan government's motives in seeking to attract FDI to the oil sector were in spite of the fact that although it accounts for 70% of GDP, this sector employs only 3% of national manpower, and

unemployment is a challenge throughout the rest of the economy. in this context, job creation is one of the Libyan government's primary motives in attracting FDI. It also seeks the transfer of technology, which Libya lacks, especially as a result of international sanctions. Moreover, the importance of supporting the oil sector and increasing revenue (through increases of production and exporting), which is through the value chain, is expected to support all economic sectors.

In the 1970s the oil sector was nationalized. Through Revolutionary Law No. 69, the importation, selling, and distribution of oil products was restricted to the Libyan National Oil Corporation (NOC). As a result, the facilities of foreign oil marketing firms transferred to the government. After the nationalization of the oil sector, Libya moved towards Exploration and Production Sharing Agreements (EPSAs), which are legal and regulatory frameworks. The key reasons why EPSAs were introduced by the Libyan government were that the increases of oil prices between 1973 and 1974 had lead to excessive profits for foreign companies under the traditional concession type agreements. The second reason was the confidence of the Libyan government in their ability to exercise control over petroleum operations. These two major reasons motivated the Libyan government to require a new kind of agreement that allowed it to control all phases of the oil production cycle, from exploration to selling. A result of this was that in 1974 the first EPSA (EPSA I) was introduced, followed by EPSA II in the 1980s. In both these EPSAs, in the exploration stage the costs were covered by foreign companies. In the production stage the costs was shared between NOC and foreign companies. In general, EPSA I and EPSA II were viewed as risky contractual agreements, and as a result EPSA III was introduced in the 1990s. Although improvements were made to EPSA III, international sanctions negatively affected FDI inflow into the oil sector. Similar to EPSA III, EPSA IV was introduced in 2004, with an addition section about bonuses and the gas industry. As mentioned early, in addition to the oil sector, the Libyan government also has given priority in its new policy to attract FDI to sectors such as banking, manufacturing and construction. The next paragraphs

discuss the perceived importance of these sectors and explore why the Libyan government has chosen to focus its FDI development efforts on them.

The importance of the banking sector derives from the fact that it is widely recognized as one of the main pillars for the development of the private sector in any market economy. Banking system infrastructure is important to all economic sectors, and the lack of development of Libyan banks has the potential to adversely affect the ability of its economy to benefits from FDI (Otman and Karlberg, 2007). The Libyan government motive for attracting FDI was to transfer technology, managerial know how, experience and skills into the banking sector, and also to create sources of income other than the oil sector, according to law No 5. Thus in 2005 laws Nos 1 and 2 were established as a framework of comprehensive legislation designed to encourage FDI in banking sector.

The manufacturing sector is considered important by the Libyan government because there is an abundance of mineral resources within the country, and Libya's location and the low cost of energy make this a particularly attractive market for investors in the extractive industries. The state also recognises the potential of this sector to create jobs.

The government took control of the planning and development of the manufacturing sector from the beginning of the 1970s, and initially priority was given to the development of light industry. The early 1980s brought a shift in focus towards heavy industry, but throughout this period expenditure on industrial development was heavily reliant on oil revenues, which often fell below levels that had been anticipated in the economic plans (General Authority for Information, 2009). This motivated Libya to attract FDI and diversity its economy, and by attracting FDI Libya hopes to become a net exporter instead of importer of manufactured goods (Wallace and Wilkinson, 2004). Moreover, according to law No 5 Libya is motivated by the transfer of technology, managerial know how, and job creation in the manufacturing sector, and as a result Libya has concentrated it efforts to secure FDI on specific industries such as the

petrochemical industry, for exporting purposes. However, the attention that has been paid to the steel, cement and electricity industries is to satisfy the local market firstly.

Since the late 1970s, the construction market in Libya has been largely inactive. The country is suffering from a shortage of high quality housing stock and infrastructure, largely as a result of government restrictions that permeated all industries following the revolution in 1969. The quality of design and construction has been relatively low and construction materials are of secondary quality. For all of these reasons the Libyan government is motivated to attract FDI into the construction sector, to achieve the transfer of technology and training to Libyan national constructors. By improving its infrastructure, Libya hopes to be a transport hub in the African trade zone.

The Libyan government has several motives for attracting FDI, such as the transfer of technology across all sectors of its economy. Since international sanctions were lifted the government has undertaken several policies to liberalize its economy as a step towards preparing the country for FDI. As a result of these policies the GDP growth (constant prices, national currency) increased from 4.40 % in 2004 to 10.37% in 2010. Also the current account balance increased from $7.03 Billion in 2004 to $15.69 Billion in 2010 (www.economywatch.com/economic-statistics/country/libya, 2011) At the level of individual sectors, annual real GDP growth in construction, manufacturing and financial sectors rose from 9.1%, 5.8%, 2.9% in 2004 to 24.9%, 7.6%, 12.7% in 2007 respectively (Oxford Business Group, 2008). All these figures are good preconditions for FDI.

4.3 Legal environment for foreign investment

4.3.1 Legal guarantee for legal exemption

Libya first began to permit FDI in the oil sector following its first discovery through the law No. 25 for the year 1955, and this law was amended in 1961, 1965, and 1971. In 1974 Libya engaged in Exploration and Production Sharing Agreement (EPSAs), under

these agreements foreign investors shared a fixed percentage of output from the highly profitable fields they operated with the NOC.

In the non-oil sector, the process of liberalization began with the passage of Law No. 5 "Encouragement of Investment of Foreign Capital, as Amended by Law No. 7 of 2003". Law No 5 offered package of incentives and exemptions to be enjoyed by the foreign investor for a period of time up to five years. These were: exemption of the necessary machinery, equipment and devices for construction of the project from all customs duties, taxes and fees of similar effect; exemption of furnishings, spare parts and raw materials necessary for operation of the project from all customs duties and taxes imposed on import and other taxes for similar period of five years; exemption of the project from income taxes on its activities for a period of five years from the date of starting production or work, as per the project's nature. This period may be extended to an additional period of three years by authority of the General People's Committee, upon submission to the Secretary of the General People's Committee for Economy, Commerce and Investment. The profits resulting from the project activity also enjoyed exemption, if reinvested. The investor had the right to carry forward the losses incurred by a project during the exemption years to the subsequent period. There was exemption of export-oriented commodities from production tax, and taxes and fees imposed on export, in the event that they were exported, together with exemption of the project from stamp duty on commercial writs and documents necessary for its operation.

4.3.2 Legal guarantee of the legal rights of foreign investors

Law no. 5 also contains provisions on protecting the legal rights of foreign investors. These are re-exports of capital in the following cases: (a) the time of the project is finished. (b) the sale of the project in whole or in part - before a time period of not less than five years. (C) The liquidation of the project. There was also a right to carry losses over from the years of exemption into later years. Foreign businesses were permitted to use foreign employees and expertise for the project in the case of their unavailability

locally. Moreover, it was allowed for these workers to transfer abroad their salaries and wages, and any benefits or rewards given in the framework of the project. Its investor's also had the right to transfer their capital in the same manner within six months from their first entry to the country, in case a project faced any difficulties or circumstances beyond the control of the investor. There was a right for an investor to transfer the ownership of the project in whole or in part to another investor and to open bank accounts and transfer the investor's net profits and interest. Owners could rent land for use and construction; export the products of the project and import of all the needs and requirements of the project from abroad.

4.3.3 No nationalization or requisition of foreign companies

Article 23 of Law No. 5 defines that *"the project shall not be nationalized, expropriated compulsorily acquired or confiscated or imposing guardianship conservation or freezing thereof or subjected to procedures having the same effect unless by law or judiciary verdict against a prompt, adequate and fair compensation, provided that such procedures shall be taken indiscriminately. Compensation shall be calculated on the basis of fair market value for the project in taking the procedure. The value of compensation is allowed for transfer in transferable currency within a period of one year at exchange rates prevailing at the time of transfer".*

4.4 Institutions implementing FDI

In an effort to improve the investment climate and to encourage FDI inflow into Libya, the Libyan government has established several institutions, some of them designed to implement FDI laws and act as a partner for FDI projects such as the National Oil Corporation (NOC), while others act just as implementing institutions for FDI law such as the Privatisation & Investment Board (PIB), and other institutions which act as a partner for foreign investors such as the Economic and Social Development Fund (ESDF).

4.4.1 The National Oil Corporation (NOC)

The National Oil Corporation (NOC) was established under law No. 24 of 1970, replacing the General Libyan Petroleum Corporation, established under Law No. 13 of 1968. The NOC was reorganized under the General People's Committee Decision No. 10 of 1979 to assume additional powers and authorizations, making it more flexible and able to administer the huge and accelerating development of the oil industry. The NOC acts as a supervisory and controlling body and aims at achieving the state's development plans relating to the oil industry by developing and enhancing oil reserves, as well as optimizing the utilization, management and investment of these reserves in order to realize the maximum income for the country.

NOC wholly owns a number of oil service companies, as well as acting in participation with other international and Arab service companies. The Libyan Petroleum Institute is also an affiliate of NOC, and performs technical tests and analysis throughout the phases of oil exploration and production, as well as quality control tests and the issuance of related certificates and similar activities. It also publishes its research and studies in its specialized periodical and through the international scientific and local related media.

Undoubtedly, the oil sector fared better than other sectors during the international sanctions period. To gain more control over its oil production, Libya in the 1970s engaged in agreements with participants in the oil sector, becoming a majority partner in the foreign firms conducting operations in Libya. Both the NOC and foreign firms are subject to the same percentage of tax and royalties. In 1974, the NOC moved towards the Exploration and Production Sharing Agreements (EPSA). These agreements specified that foreign firms obtained a fixed percentage of the output from the fields involved, and this situation is differs between companies. In the 1970s, 1980s, 1990s, and 2000s up to now, EPAS I, EPAS II, EPAS III, and EPSA IV were used, respectively.

4.4.2 Privatization & Investment Board (PIB)

Law No. 5 of 1997, later amended in 2004, is one of the watershed pieces of legislation pertaining to FDI in Libya. The general aim of this law was to encourage FDI inflow into Libya, which led to the establishment of an authority for this purpose. This authority is called the Libyan Foreign Investment Board. It has its own independent legal status, under the jurisdiction of the General People's Committee for Planning, Economy and Commerce.

In 2009, under the jurisdiction of the General People's Congress, the Privatisation & Investment Board (PIB) was established as a result of integration between the Libyan Foreign Investment Board and General Board for Investment and Ownership.

Legislation establishing the work of the PIB

The Board practices its duties through applying the legislation that organiZes privatization and investment activity in Libya, and determines how to privatize economic units. It reaches decisions on the feasibility of the investment projects through documents connected to the potential and technical capabilities of the investor according to the following laws and regulations.

1- Law number 5 of 1997, which was adjusted by law number 7 in 2003.
2- Law number 7 of 2004 regarding the tourism sector and its regulation.
3- Law number 6 of 2007.
4- The regulation for privatizing general companies that was issued according to General Public Committee decision number 118 in 2007.

PIB aims

The principal aim of the PIB is to prepare a suitable environment for national and foreign investment, within the local market, to achieve the transfer of techniques, to diversify income sources and to increase the participation of the domestic private sector in economic development. Moreover, it aims to facilitate the transfer to general

ownership of economic units and companies through foreign and domestic economic, investment activities, with the intention of widening the economy's ownership base and increasing competitive qualification and ability. It also aims to attract foreign capital and to encourage national capital to invest in different fields.

4.4.3 Economic and Social Development Fund (ESDF)

The Economic and Social Development Fund Company was established by the General People Committee's Resolution No. 18 of February 2006, as a financially independent body directed by the Libyan Cabinet. The aim of the fund is to achieve economic and social development by investing in various economic sectors such as financial services, industry, oil services, real estate, general services, the stock market and tourism. A portfolio of development and distribution is one of its important tools, which is managed by the fund for the favour of those people who benefit from the programme of wealth distribution. This programme aims to fulfil justice and equality through investment in developing economic activities in deprived areas, and increasing their profits in the way leading to the enhancement of national wealth.

Article two of this resolution is related to classifying the main activities of this company, as follow: to participate and assist in financing domestic projects for economic and social development; to participate in dealing with the effects of natural disasters occurring both within and outside Libya, and to participate in settling all the external legal commitments of Libya.

Article three of Law No 18 identifies future sources for income to this company as follow: any funds allocated from fees generated by administrative contracts; any income from ESDF deposits held in Libyan domestic banks; any charitable donations or gifts that the Management Committee agrees to accept from Libyan business people; any bonuses derived from agreements signed with foreign companies for hydrocarbon exploration and exploitation in Libya; income generated from the fund's own services

and investments; any unfrozen Libyan assets held abroad in foreign institutions as a result of the lifting of US sanctions in 2004, and any funds allocated from the Post and Communications services.

On the fifth of September 2006, new decision No.210 was issued by GPC regarding the allocation of US $4 billion to the fund to invest in the form of shares for the benefit of underprivileged families, who lost their wealth through illegal appropriation of their property, mainly during the early periods of revolution.

With regard to legislation, there is different legislation for the different sectors of the economy because of the various natures of these sectors, and the different motives of the government in these sectors. For example, EPSAs are a pieces of regulation and an investment incentive for the oil sector. Law No, 5 is aimed at the manufacturing and construction sectors, while Law Nos. 1 and 2 target the banking sector. Thus the government has specific approaches towards the creation of laws that regulate the process of FDI in various sectors of the economy, and has created several institutions to implement these laws and regulations and supervise the process of implementation. So these policies by the government have created preconditions for the FDI process.

4.5 Investment environment in Libya

4.5.1 Infrastructure

Due to the central geographic location of Libya, and its easy proximity to several enclave countries that do not have access to the sea, it is a connecting link between western and eastern Arabic countries, and because it is situated in North Africa, bordering the Mediterranean Sea, Libya has an ideal transport corridor linking all these locations (Arab countries, middle Eastern region, west African countries) in one point. Thus from the transport perspective, the location of Libya plays an important role in trade and transport. So the country has given significant attention to the development of an infrastructure to provide a link between all these locations, with a view to becoming a

key crossing point for transport traffic movement. Infrastructure development is also important is important in terms of encouraging tourism.

The Libyan government, in order to attract FDI, recognized the need to improve infrastructure services across all economic sectors for both firms and households. From the Libyan government's point of view, investment in infrastructure means attracting more FDI, building the foundations for future exports especially since Libya is motivated by export market seeking, therefore the improvement of infrastructure will offer opportunities for employment and job creation, new skills and better wages, and enhance economic growth.

4.5.2 Privatization

Since the early 1970s, the Libyan government, in line with its socialist ideology, embarked on a programme of state-sponsored economic development and control of the economy. Throughout this period the government expanded its role, effectively taking control of the entire Libyan economy as well as nationalizing the key hydrocarbon industry.

After the failure of the economic system in delivering its goals, the Libyan government has participated in the privatization process motivated mainly by the transition of the economy from a centralized system to a market one. The Libyan government believes that to transfer technology from foreign to local investors, joint ventures are a necessary condition for FDI. However, the private sector is not yet sufficiently developed and foreign investors needs a strong local partner who knows the local environment, the political and social situation and the general circumstances very well. Thus, in 2006 the Economic and Social Development Fund (ESDF) institution was established to be a partner to foreign investors, and one of this institution's aims is to accelerate the privatization process.

After 2003 the government started to sell some of its assets to foreign investors, for example, the ESDF played an important role in the privatization process when it bought some facilities of the Libyan Cement Company from the government and then sold them to an Austrian company, making the new venture the first privatized manufacturing joint venture company.

4.5.3 Market size and growth

Following the 1969 revolution, the Libyan economy depended primarily on oil revenues, which represented the main source of foreign exchange. All other economic sectors were neglected and stagnated without development. Then, the situation became worse when international sanctions were imposed, and the oil sector itself suffered from a lack of new equipment and technology needed in exploration and development. The volume of production was below what was required, due to a lack of domestic and foreign investment (African Economic Outlook, 2008). All this currently represents huge opportunities across all sectors for foreign investment.

To diversify its economy and re-enter the international community, Libya has been carrying out a programme of liberalization intended to repair the economic damage caused by the socialist-oriented policies of the government to the economy, and the years of sanctions. The economic program was started in mid-2003, and during the subsequent Libya has undertaken extensive economic reforms, which combined with increases in the price of oil, have resulted in increases in nominal GDP from year to year. For example, in 2003 GDP increased by 12.9%, and rose by 6.1%, 9.9%, 5.9%, 6.8%, and 6.7% in 2004, 2005, 2006, 2007, and 2008, respectively. While real GDP growth by sector, from 2003 to 2007 (%) is explained in the following table:

Table 4-1 Percentage GDP growth by sector

	2003	2004	2005	2006	2007
Construction	-12	9.1	17.5	7.6	24.9
Electricity, gas & water	14.9	4.3	17.4	8.4	13.9
Financial	5.5	2.9	11.3	10.6	12.7
Transport, storage & communications	7.5	10.1	24.2	12.6	12.3
Real estate	3.2	3.6	3.7	3.8	8.3
Manufacturing	15.5	5.8	6.4	4.7	7.6
Health & soc. solidarity	3.5	3.6	3.7	7.2	7.2
Education	3.6	3.5	3.7	7.2	7.2
Other individual & soc. services	3.8	4.3	1	6.5	6.4
Agriculture	4.1	4	8.3	10	4
Oil & natural gas	20	5.5	7.2	4.3	1.7

Source Oxford Business Group (2008)

Usually, GDP growth motivates foreign investors and represents a huge opportunity for investment.

Labour costs and level of education

Level of education is related to labour costs in the sense that a high level of education mean skilled labour and high productivity. However, it also means that high wages are demanded by the well qualified staff. In the mid 1980s, Libya enacted a new education structure by removing English language teaching and foreign teachers, which caused a shortage of qualified teachers and left a generation of Libyan without this vital international communication skill. Furthermore, there was low enrolment in vocational and technical training. In 2000, the Libyan Ministry of Education decided to close the Bright Star University of Technology, a decision which negatively affected labour skills

in the oil sector (Otman and Karlberg, 2007). It could be said that there is inconsistency of laws, for example between the government's encouragement of FDI, which requires a build up of skilled labour, while on the other hand it closed institution like the Bright Star University.

Wage policies aim to equalize local salaries. However, since 1982 wages have not increased. Also the level of wages is low. A large proportion of the labour force in Libya comes from other Arab countries due to the small population of Libya. In spite of high unemployment, many Libyan worker prefer not to do manual or unskilled jobs and foreign labour is engaged in the lower level jobs, especially in construction and the service sectors.

4.6 Conclusion

This chapter has provided an overview of background information on Libya as the context within which to address the broad research question. This information included an overview of the country's geographic location, religion, history and civilization, the political system of Libya prior to and after liberalization, the legal environment for foreign investment, and institutions implementing FDI in Libya. It has found that Libya has advantages in terms of its geographic location, religion, and history, which may have a great positive impact on FDI. In terms of its political system it could be said that there were two significant changes that have influenced FDI inflow into Libya during the forty years. One occurred in the earlier 1970s (Libya Prior to Liberalization), when Libya decided to adopt a centrally planned economy and discouraged FDI. Subsequently, the Libyan government decided to change its economic system from a central planned economy to a free market, and encouraged FDI (liberalization of the economy). The results of these important changes have had the most significant impact on Libya's economic development process. In terms of the legal environment for foreign investment, and institutions implementing FDI, it could be said that the Libyan government has created very positive laws with regard to FDI across different sectors. It

also established several institutions to implement and manage the process of FDI. However, it is clear that there are some problems with these laws. For example Law No 5 does not explain on what basis an extra three years of tax holiday might be provided. In additions, there are problems such as excessive bureaucracy in the implementation of these laws. However, an overall evaluation of Libya as a location for FDI is very attractive, but the current situation has distributed the process and decreased the importance of Libya as a location of FDI. The purpose of this study is to analyse the key motives and determinants of FDI in various sectors of the Libyan economy and to compare the results for the different sectors, to determine how the policy of the Libyan government could be improved, in order to increase the benefits for the government and the country. Thus, the next Chapter focuses on the qualitative research and multiple case studies as the methodology and method used to conduct this research project. The rationale for the choice of methods to achieve the study aims is presented, as are some observations on methods used previously.

Chapter 5 Research Design and Methodology

5.1 Introduction

Chapter 2 presented a thorough review of the relevant literature on the motives and determinants of FDI, while chapter 3 presented the framework of the current study. Based on the gaps identified in the literature, an appropriate research question was designed to solve the research problem. The success of FDI into Libya is based on the desire to have more and more FDI projects, and by facilitating the process of turning motives into determinants. So, the more cases in which motives become determinants, the better for the inflow of FDI. Consequently, this research addresses the core question of:

What are the key motives that turned into determinants in the process of foreign direct investment and their impact on the key sectors of the Libyan economy?

The purpose of this chapter is to provide a detailed account of the method employed in this study. Section 5.2 outlines the appropriate research philosophy (interpretive paradigm), while section 5.3 justifies the research methodology in terms of answering the research question. Section 5.4 highlights the case study research strategy, and section 5.5 details the case study research design (the multiple case study method which includes the number of cases and the process of case selection). Section 5.6 covers data collection, which includes a detailed account of the interviews conducted (the number of interviews, questionnaire instrument, pilot case study) and section 5.7 outlines the data analysis techniques used (within and cross-case analyses). Section 5.8 assesses the quality of the case study research design, and finally section 5.9 outlines the ethical issues considered.

5.2 Research philosophy (realism paradigm)

Patton (1978, p. 203) defined a paradigm as "a world view, a general perspective, a way of breaking down the complexity of the real world. As such, paradigms are deeply embedded in the socialization of adherents and practitioners: paradigms tell them what is important, legitimate, and reasonable." A paradigm, according to Guba and Lincoln (1994) is a system of philosophical beliefs that leads and governs an organisation or individual with regard to their position in that world, with a variety of possible relationships to it and its parts.

Methodologists such as Denzin (1983), Patton (1990), Robson (1993), Pawson and Tilley (1997), Wicks and Freeman (1998), Smith (2000), Easterby-Smit et al. (2002), Van de Ven (2007), Denscombe (2007) have argued that there are several approaches to carrying out research. Guba and Lincoln (1985; 1994) classify paradigms into four categories: positivism; critical theory; constructivism and realism. Quantitative research operates within positivism. However, qualitative research operates within the other three paradigms. The realist paradigm is considered to be the most applicable for the current study since it seeks to understand phenomena through meanings, and allows an understanding of experience from the individual's perspective to drive the study findings and be interpreted in the context of the study's aim.

Realism aims to explain why things behave in a certain way. This philosophy argues that a reality exists and it is independent of human thoughts and beliefs. It stresses the importance of understanding people's socially constructed meaning and interpretations and the nature of people's views and behaviour. Supporters of realism believe that the researcher must be closely connected to the research subjective to explore their perception of reality (Sobh & Perry, 2006).

The use of the realism paradigm and qualitative methodology in the present study was determined by the aim of the research, the nature of its questions, and the accessibility of research resources. In this context, Patton (1990, p.39) observed that " the issue then becomes one of not whether one has uniformly adhered to prescribed canons of either logical positivism or phenomenology but whether one has made sensible method decisions given the purpose of the inquiry, the questions investigated, and the resources available. The paradigm of choices recognizes that different methods are appropriate for different situations. Situational responsiveness means designing a study that is appropriate for a specific inquiry situation."

The research question of the present study is descriptive and not prescriptive (what is), this implies that an inductive approach is required and not deductive, because the present research is concerned with understanding the factors which motivate and determine FDI, rather than providing statistical details about the cause-effect relationship between factors which motivate and determine FDI.

5.3 The qualitative research methodology

The purpose of the current study is to analyse the key motives and determinants of FDI in various sectors of the Libyan economy, and compare the results for the different sectors to suggest how the policy of the Libyan government could be improved in order to increase the economic and social benefits of FDI for Libya. Accordingly, the main broad question which the research was designed to answer with the aim of resolving the research problem was:

What are the key motives that turn into determinants in the process of foreign direct investment, and what is their impact on the key sectors of the Libyan economy?

Based upon the nature of the research problem and research question, this study adopts a qualitative methodology. This methodology was adopted because there are many variables which need to be investigated in terms of motives and determinants, and they

need to be considered from the different perspectives of the three parties involved in the process, with a view to analysing their effect on different sectors of the Libyan economy. This means that a quantitative methodology was inappropriate, because of its inability to take many variables at one and the same time. Also it is more important for this study not to find the most appropriate description of the relationship and to quantify it, but to find a trend in the process of FDI, determine whether it is positive or negative, and also whether this trend is significant or not. So a qualitative methodology allows the researcher to understand the overall process, and then use the outcome of the research for some more specific analyses. Moreover, it was impossible in this study to use quantitative data using statistical measurements for factors determining FDI in the Libyan economic sectors due to the fact that FDI in Libya was a new phenomenon- except for the oil sector- and the number of foreign companies available to study was very small (which was a limitation to this study). FDI has not occurred in all Libyan economic sectors, and in the sectors where there has been FDI, there are only one or two companies at the time of conducting this study.

A qualitative methodology is appropriate when the purpose of the study is to understand the meaning of how people make sense of their lives, their structures of the world and experiences, (Creswell, 1994; Silverman, 2006). According to Hammell et al. (2000), qualitative methodologies must be used to explore questions related to beliefs, values, person-environment interactions, motivations, human behaviour and meaning, especially from the perspectives of the study participants themselves. Hence, in order to gain a deeper insight into the factors influencing the motivations, corporate strategy and investment behaviour of foreign companies operating in Libya, a qualitative research methodology was used. The benefits of using a qualitative methodology are emphasized by Miles and Huberman (1994, p.10) who state that the advantage of qualitative data is that it focuses on "naturally occurring, ordinary events in natural settings". In the present study, the qualitative method is the most useful way to allow the researcher to understand the views and personal experiences of business executives, clearly.

Moreover, it is more relevant when the study objective is to explore deeply the processes and mechanisms of factors determining FDI. Silverman (2000, p.8) argues that qualitative research "can provide a deeper understanding of social phenomena than would be obtained from purely quantitative data". In fact, the qualitative research method was preferred to benefit from advantages associated with the exploratory nature of the current study; in this context Yin (1994; 2003) has argued that qualitative methods are suitable and even vital when the study is exploratory and when the study questions are what, how, or why. Consequently, the type of present study problem (how) and study question (what are) are exploratory, necessitating an in-depth understanding of the factors determining FDI in the Libyan economic sectors. According to Patton (1987), and Denzin and Lincoln (2000), the chosen qualitative approach closely matched these requirements.

Lastly, the qualitative approach has been used in similar exploratory studies in the area of determinants of FDI, such as Williams and Deslandes et al. (2008).

5.4 Case study research strategy

According to Robson (2002), for any empirical investigation of a contemporary phenomenon within its real life context, case studies are appropriate. Case studies have been identified as an appropriate strategy to explore existing theories as well as being a source of new propositions. Yin (1994), as explained in Table 5.1, argues that the selection of research strategy is determined by: the type of research question; whether the research focuses on contemporary events; and whether the researcher has control over the behavioural events.

Table 5-1 Selection of research strategy

Strategy	Form of Research Question	Control Over Behavioural Events?	Focuses on Contemporary Events?
Experiment	How, Why	Yes	Yes
Survey	Who, What, Where, How Many, How Much	No	Yes
Archival Analysis	Who, What, Where, How Many, How Much	No	Yes/No
History	How, Why	No	No
Case Study	How, Why	No	Yes

Source: Yin (1994, p.6)

In the current study, the type of research question is 'what are'; the study focus is on contemporary events, and the researcher had no control over the phenomenon. Thus the case study is an appropriate strategy for this research. The case study approach is recommended to analyse contemporary events, and this particularity make the case study the perfect research strategy as some of the aims of the research are to analyse the factors that determine FDI in the various sectors of the Libyan economy and to draw lessons and implications about FDI policy in Libya at the microeconomic level. The chosen strategy offered the researcher the ability to enter into a topic that has not previously been analysed in Libya. Furthermore, case study and qualitative method terms are commonly used interchangeably in business research, (Burton, 2000). Moreover, the case study strategy has been widely employed by doctoral researchers in the area of determinants of FDI, for example, Akhtar (1998) and Barclay (2000).

Moreover, Yin (2003, p.2) stated that "the case study strategy allows investigators to retain the holistic and meaningful characteristics of real-life events, such as individuals

life cycles, organizational and managerial processes, neighbourhood change, international relations, and the maturation of industries". As mentioned earlier, the researcher seeks to explore the problem: *What are the key motives that turn into determinants in the process of foreign direct investment and their impact on the key sectors of the Libyan economy?* Therefore, the researcher attempted to resolve the problem of the research through getting real and in-depth information from chief executives of the selected companies, in order to gain a rich understanding of the motives and determinants of FDI in various Libyan economic sectors, and how the inflow of FDI into Libya could be improved.

The determinants of FDI for each company are dependent on its motives. Therefore, the process of FDI determinants of each company represents a rich story, which required exploring in a deep and comprehensive mode. In fact, only a case study strategy could offer this feature, (Patton, 1990; Yin, 1994, 2003). Moreover, Stake (1994) argued that the case study method is appropriate for proposing new directions of existing theory for further research, which the case for the present study. Also Denscombe (2007) mentioned that a case study strategy allows the use of a variety of research methods, which in turn, facilitates the validation of data through triangulation. Furthermore, the great advantage of a case study is its flexibility, (Robson, 1993).

However, a case study strategy has some limitations. Yin (2003) argued that there are several limitations in employing this strategy. These includes that it often takes too long and results in lengthy and unreadable documents, and the findings and conclusions of the study are influenced by the biased views of the researcher. Moreover, Denscombe (2007) suggested that the strategy is sometimes accused of lacking the necessary degree of rigor for an academic study.

5.5 Case study research design

The core issue of this research concerns the motives and determinants of FDI in various sectors in the Libyan economy, which means that a multiple case study approach had to be used. The need for this type of approach is to observe whether the results from one case may occur in other sectors elsewhere. In addition, the research outcomes may give a deeper and better understanding of factors that motivate and determine FDI in various sectors of the Libyan economy. Moreover, multiple case studies give the opportunity to discover more concerning the research issue and the choice of cases studied will give a wider range of companies to access (Barclay, 2000).

According to Yin (1994), choosing the suitable case study design is a vital concern when employing this strategy because of the effect of the selected design on the quality of research findings. He proposed four types of case study design: (a) single case study (holistic), (b) single case (embedded), (c) multiple case (holistic) and (d) multiple case (embedded) as shown in the figure 5.2

Figure 5.1 Basic types of case study design

	Single case designs	**Multiple-case designs**
Holistic (Single unit of analysis)	Type 1	Type 3
Embedded (Multiple unit of analysis)	Type 2	Type 4

Source: Yin (1994)

In the current study there was no doubt that the multiple case study design was the most appropriate, because the overall aim of the study was to investigate the factors that motivate and determine FDI in various sectors of the Libyan economy to explore if there

were similarities or differences between motives and determinants of FDI in different sectors. Therefore, it is impossible to rely on one single company case from one sector in order to observe the motives and determinants of FDI in other sectors. Hence the choice of a multiple case design was necessary as it allowed a richer and deeper understanding of determinants of FDI by undertaking several selected cases from different sectors. Moreover, a holistic multiple case study (type 3) was used at first stage (which was within case analyses, as will be explained later). Then an embedded multiple case study (type 4) was used at the second stage (which was a cross-case analysis). The reason for choosing these types was that the aim of the current study was to explore motives and determinants of FDI in various sectors of the Libyan economy. So the unit of analyses is "economic sector" within the first stage, wherein motives and determinants of FDI in each sector need to be explored, indicating a single unit of analysis (type 3). Then motives and determinants of FDI needed to be investigated across sectors. This suggested that a multiple unit of analysis (type 4) would be appropriate to assess several sectors of the economy.

Apart from the importance of a multiple case study design to the answer research question and objectives, multiple case studies have some advantages. For example, compared with a single case study, it provides rigorous ground for good quality research derived from the triangulation of evidence. Also, the use of it strengthens enormously the external generalisability of the research findings, (Yin, 1994; 2003).

5.5.1 The number of cases

In qualitative research there are no general rules for the sample size, (Patton, 1990). Some scholars recommended that the researcher should determine the number of cases studies, while others argue that a researcher should stop conducting more cases and interviews with more respondents when she/he reaches the point of collecting repetitive data and hearing the same stories.

However, a small number of experienced case study researchers such as Yin (2003) has suggested that "a few cases (2 or 3) would produce similar results (literal replication), while, a few other cases (4 or 6) may create contrasting results and different patters (replication logic)". Miles and Huberman (1994) argue that carrying out more than 15 cases in one research leads to the research being unmanageable; they suggest 15 cases as a maximum. Thus, it is argued that the number of cases ranges between 2 as a minimum and 15 as a maximum.

To sum up, this study selected eight cases including the pilot case study from four sectors of the economy; oil, banking, manufacturing and construction. The process and justification for selecting these sectors and cases are discussed in the next sections.

5.5.2 The selection of sectors

As was explained in chapter 2, in the late of 1980s and early of 1990s, there was a change in FDI's main targets. Some emerging and developing countries became attractive for FDI, and many others witnessed changes in their policy toward FDI, including the introduction of incentives systems, and the removal of impediments and improved systems of regulations.

Chapter 4 revealed that, Libya is not immune to these changes. Since the 1997 the door was opened for FDI in the non-oil sector. For several reasons including the decrease in the oil price in the late 1980s, international sanctions that were imposed on Libya in the 1990s, and the nationalized and centralized system of government, Libya has failed to deliver on its economic goals. So attempts were made to diversify Libyan economy away from its dependence on the oil sector.

In the non-oil sector, Article (8), Law No 5 of 1997 specified the sectors that opened to FDI and were given the priority by the Libyan government. These are industry, health, tourism services, agriculture and any other field specified by a decision of the General

People's Committee upon submission of the Secretary. Thus all these sectors were considered for the present study. However, the accessibility to these sectors was limited to the industry sector (electricity and cement), banking and construction. Also the oil sector, because of its linger history of FDI, was considered as a basis to compare and contrast the motives and determinant of FDI in the various newer sectors.

5.5.3 Process of case selection

The selected sample was expected to reflect the following broad characteristics: the research population was confined to foreign companies that had conducted FDI in Libya; to provide a varied industrial coverage and represent MNEs fromacross different source countries were required. Also, in the process of cases selection, Stake (1994) posited that the researcher (in choosing cases for study), should learn towards those that offer the opportunity to learn. Thus the possibilities for learning much more about the phenomenon being studied determine the selection of case studies. The selection of the companies was determined by the possibility of gaining access to the companies which is in Libya, as in many developing countries a particular concern.

The procedures of case selection started with collecting data about foreign companies which had operations or businesses in Libya from two institutions; namely, The National Oil Corporation (NOC) and the Privatization & Investment Board (PIB).

In the oil sector, the NOC provided the researcher with a list including 46 foreign companies working in the Libyan oil sector at different stages of oil. These stages consist of the exploration stage and the production stage. However, some companies were working at both stages. This institution helped the researcher to gain access to two oil companies. These two companies were involved in the exploration and production stages. After initial contact, the companies proved willing to participate in this study, and the researcher met the chief executive of each company for half an hour. During this meeting the foreign investors spoke informally about their motives for investment and

the problems facing them in Libya. At this stage the managers of these companies and the researcher arranged a time to conduct the interviews. Surprisingly, when the date of the interviews arrived, these managers decided not to participate in the study. These two companies were French and Spanish in origin, and they gave their reason for withdrawing their agreement to take part in the study was that their parent companies had asked its subsidiary not to participate. As a result the researcher used her personal network of contacts to gain access to other companies, and finally the researcher agreed access to two oil exploration companies.

In the non-oil sectors, the Privatization & Investment Board (PIB) explained to the researcher that there were many foreign companies which had entered the country. However, not many of these companies had started operations. This institution helped the researcher to get access to three companies (two manufacturing and one construction company). Access to the other three companies included in the study (two banks and one construction) was achieved through the researcher's personal network to contacts, and facilitated meetings with the CEOs of foreign companies.

The researcher also gained access to the only foreign agriculture company operating in the agriculture sector. However, prolonged study of this company was not possible, and although the manger spoke about the company's motives and problems generally, due to the fact that this company ended its operations and another new company was started the contact was ended. In the hotel sector, after initial phone contact with one of the top managers of the hotel company, the researcher met him for half an hour. During this meeting the top manager spoke informally about their motives for investment and the problems facing them in Libya. However, the chief executive of this company later rejected participation in this study.

Table 5.2 demonstrates the characteristics of the selected companies in relation to business activities, their country of origin, and the size and ownership structure of the companies.

Table 5-2 Characteristics of the selected companies

Company name	Business activities	Country of origin	Company size	Company ownership structure
		Oil companies		
A	Exploration oil companies	Indonesia	Large	Wholly owned
B	Exploration oil companies	Turkish	Large	Wholly owned
		Banks companies		
C	B to B and B to C	French	Large	Joint venture
D	B to B	United Arab Emirates (U.A.E)	Large	Joint venture
		Manufacturing companies		
E	Manufacturing (cement)	Austrian	Large	Joint venture
F	Manufacturing (electricity)	Maltese	Medium	Joint venture
		Construction companies		
G	Construction and related services	French	Large	Joint venture
H	Engineering & Construction	Korean	Large	Joint venture

Source: Developed by the researcher for the current study
B to B means businesses to businesses
B to C means businesses to Customers

In conclusion, eight case studies were selected and investigated in-depth. The number of cases was mainly determined by the access it was possible to arrange with them, and

because this number was in the range of cases suggested by methodologists. Moreover, following the investigation of the first company in the oil sector, at the second company the researcher noted that some of the data was repeated, a trend that continued in the non-oil sector, where the collection of repetitive data started with the second company investigated.

5.6 Data collection

There are various techniques of data collection in a case study, for example, documentation, observation, archival records, questionnaires and interviews. However, according to some methodologists such as Patton (1990), Stake (1995) and Yin (1994; 2003) it is not necessary to employ all of these methods. Stake (1995) and Yin (1994; 2003) argued that generally the appropriate method for collecting case study data is determined by the nature of the phenomenon being investigated and the accessibility to and availability of these several data collection methods.

It has been argued (for example, Yin, 1994; Brownell, 1995; Silverman, 2005) that interviews can be used in combination with other method of data collection, or as the main method in qualitative research. Consequently, the present study relied on in-depth interviews as a primary data method, because FDI in the non-oil sector in Libya was a new phenomenon and it was difficult to find documents or archival records related to the research problem: for example, one of the companies that was visited did not have a website, and when they was asked about this, they said it was because the company was so new, and in the same context some of investigated companies reported that documents were not available because they were new companies.

In addition to in-depth interviews, used as a main source of information, questionnaires, Internet sources, field notes, and a review of documents were also used. Further information of these data collection methods is given under the following sub-headings.

5.6.1 Questionnaire instrument

Initially, the researcher intended to rely on in-depth interviews as the study's major source of information. However, when she tried to conduct her first interview, the foreign company involved stated that it would not allow this meeting to take place before knowing what the issues covered by the interview were. They said they wanted to know what the researcher would ask and that after that they would decide if they would meet the researcher or not. From this experience the idea of designing a questionnaire arose. The purpose of the questionnaire was to highlight the areas which the researcher was going to ask about, and to reassure the participating companies that it was not designed for statistical generalisation. Thus, the questionnaire in fact presented the interview questions. It was designed to answer the research sub-questions and then the main broad question, and to reach the research objectives. The questionnaire was sent to each selected company prior to their interview date, and was then collected by the researcher during the interview session.

5.6.2 In-depth interviews

Yin (1994, p85) stated that "overall, interviews are an essential source of case study evidence because most case studies are about human affairs. These human affairs should be reported and interpreted through the eyes of specific interviewees, and well-informed respondents can provide important insights into a situation. They also can provide shortcuts to the prior history of the situation, helping you to identify other relevant sources of evidence."

Yin was in agreement with researchers such as Denzin and Lincoln (2003), and Patton (1987) about the value of interviews as a fundamental technique for gathering data in any qualitative research. Denzin and Lincoln (2003) emphasised that interviews are a fundamental technique for gathering qualitative data because that are concerned with observing and understanding the full picture of the investigated phenomenon, which can be achieved only through an interview technique. Interviews also allow collected data to

be checked for accuracy and relevance while the interview is being conducted, which adds validity to the data, (Denscombe, 2007).

In order to explore the inflow of FDI and the processes of how motivations become factors determining FDI as the subject matter of the present study, qualitative personal interviews were judged to be the most useful method available, because they enabled an understanding of the opinions and decisions of chief executives. Moreover, due to the fact that the overall aim of this study was to explore determinants of FDI in various sectors, the flexibility of approach and access to direct views obtained during personal interviews allowed for a deeper understanding of the factors that determined FDI in various sectors of the Libyan economy.

There are several types of interviews, for example unstructured interviews, structured interviews, and semi structured interviews.

In unstructured interviews, interviewers gather data without a previous arranged structure. In this type of interview there is no need for preparing a list of questions in advance. When these interviews are conducted, the fieldworker is free to select the topics of discussion in any order. The disadvantages of this type of interview are that it requires a greater amount of time to gather systematic information; it also depends on the interviewer skills, and it is difficult to analyse the data collected due to its unsystematic nature, (Patton, 1990).

Structured interviews, in contrast to unstructured interviews, are employed to collect data by utilizing a questionnaire format. Interviewers must read the questions as they appear on the questionnaire. The answers to the questionnaire are usually closed ended, which is one of the disadvantages of structured interviews, (Silverman, 2004).

Semi-structured interviews are a combination between unstructured interviews and structured interviews, (Legard et al., 2003) this means that there is a prepared set of questions (as with structured interviews), but the interview also has the flexibility to ask follow-up questions as issues arise, (similar to unstructured interviews).

In the current study semi-structured interviews were used due to the researcher's belief that this technique would allow her and the interviewees to exchange their thoughts, beliefs, and views freely, and allow a more detailed discussion of the issues. Moreover, it gave the researcher the elasticity and flexibility to change and modify questions when required to gain more accurate, valid and reliable data, to fulfil the study objectives, one of which was to discover the determinants of FDI in various sectors of the Libyan economy, so some questions were relevant to some sectors, but not to others. In addition to this, semi-structured interviews proved their suitability to provide insights into and an understanding of the subject under study. Therefore, in this study the semi structured interview was used as the major data collection tool.

5.6.3 The number of interviews

In the literature, the number of interviews necessary to be conducted was as indeterminate as the number of cases, and there was no common agreement between methodologists about the number of interviews, which should be undertaken by the researcher. Patton (1990) argues that in qualitative research, sample size and the number of interviews conducted depends on the study's aim and the availability of resources and time.

In the current study interviews were conducted with the managers of subsidiaries who better understood the rationale behind the management decisions of the parent companies. Moreover, where it was possible, an interview was sought with an additional person in the organisation, and interviews were conducted with some government employees and policy makers for different economic sectors (these interviews helped in

the analysis of Libyan industries). The interview process, which was carried out during the period July to September 2009, was conducted in Libya, principally in the capital city Tripoli, due to the majority of foreign companies being located there. Thus the number of interviewees was 10 foreign investors, two policy makers in the oil sector and four managers of different departments within the NOC, as well as one manager of an oil production company and three employees. In the non-oil sector one manager from ESDF, which is a major local partner for foreign companies, was interviewed. Also interviewed was one manager of the Organization of Development Administrative Centres (ODAC) in the construction sector, which was a local partner for one of the selected case studies of this research. The foreign managers were approached through their local partners who were also interviewed. The local partners were approached through the researcher's personal network.

5.6.4 Internet sources

The eight selected companies had Internet websites, from which the researcher collected information with regard to company background and history, activities and general information, as a secondary source of data.

5.6.5 Field notes

For the present study, field notes were a common component of the case study database, in conjunction with other sources.

5.6.6 Review of documents

As discussed earlier, it was difficult to find documents relating to the motivations of FDI or its determinants in Libya. However, documents relating to company activities, company reports and so on were available for some of the companies surveyed, and these were collected after the interview phase and reviewed during the data analysis process; they were very useful to the researcher.

5.6.7 Pilot case study

For a piece of research, which employs a multiple case study design, a pilot case study is recommended. The pilot case study was the last stage before collecting the actual research data from the field. Yin (1994, p. 74-75) stated "the pilot case study helps investigators to refine their data collection plans with respect to both the content of the data and the procedures to be followed. In this regard, it is important to note that a *pilot test* is not a *pretest*." According to Yin, a pilot case study is like a training course for the researcher with respect to the data collection plan and the skills required, and it gives the researcher the opportunity to change and modify questions if necessary. He also indicated that there are three main criteria in determining the choice of the pilot study: geographic proximity, access, and convenience. Therefore, the pilot case study in this research was designed according to these criteria. For example, both the pilot case study and the full field study were conducted in the researcher's country, which is close to the country where the researcher was studying; moreover, due to the researcher's personal network of contacts, access was simple and convenient. Permission was obtained from a leading cement manufacturing company in Libya to conduct the pilot case study.

To sum up, the outcomes of the pilot study were fruitful, and no modifications were needed. The questions were clear to the foreign investor and he answered them. However, because of the limited number of foreign companies in Libya, this pilot case study became part of the data of the full field study.

5.7 Data analysis

Spencer, et al (2003) stated that "there are no clearly agreed rules or procedures for analysing qualitative data. Approaches to analysis vary in terms of basic epistemological assumptions about the nature of qualitative enquiry and the status of researcher's accounts. They also indicated that the approaches selected depended on the main focus and aims of the analytical process. For example, Creswell (1994) argued that data analysis is the process of organising, categorising and meaningfully interpreting the data,

while Ticehurst and Veal (2000) suggested that any analysis technique should be based on the conceptual framework and the research questions and hence, the gathered qualitative data must be categorised through and assessed in accordance with identified concepts and the research questions posed.

There are different strategies to analysing case study data. According to Yin (1994) these consist of examining, categorizing, tabulating, and testing. For multiple case studies two core stages of analysis are recommended, these are, according to Patton (1990), Miles and Huberman (1994), Yin (1994) and Creswell (1998), within-case study analysis and cross case analysis. Patton stated "it is appropriate to begin with individual case studies where variations in individuals are the primary focus of the study. This strategy requires writing a case analysis using all the data for each person before doing cross-case analysis"

Because of the nature of the present study, both within-case and cross-case analyses were applied. The aim of this study was to explore determinants of FDI in various sectors in the Libyan economy, thus within case analysis was applied to analyse the gathered data of each one of the eight cases in the current study independently. After this, cross case study analysis was applied to determine the similarities and differences between different sectors of the Libyan economy in terms of the motives and determinants of FDI.

Within a case study, two key analytic strategies were described by Yin, (1994, pp.103-104). The first strategy relies on theoretical propositions. These propositions, which reflect the research questions, are developed based on the literature review, and assist the researcher to concentrate on certain data and to define alternative explanations to be examined. If the research questions are "how" or "why", then this strategy is an appropriate one. The second strategy is to develop a case description. This strategy is relevant in cases where there are no theoretical propositions.

Cross case analysis was suggested as the second stage of data analysis in a multiple case study (Patton, 1990; Miles and Huberman, 1994; Yin, 1994; Creswell, 1998). Scholars such as Miles and Huberman (1994) have suggested different strategies towards cross-case analysis, which implies searching for cross-case patterns. One of the current study's aims is to explore the capability of the existing literature to explain the determents of FDI in various sectors of the Libyan economy. Thus, at the first stage the researcher compared factors which motivated and determined FDI according to the existing literature, and those found by empirical study in each sector of the Libyan economy. Then a comparison was made across all the selected sectors to search for similarities and differences between them.

In terms of within-case and cross-case analyses of the qualitative data in multiple case study research, Miles and Huberman (1984; 1994) suggested a three-phase qualitative data analysis that could be employed. These phases are: data reduction, data display, and conclusion drawing and verification. These phases are outlined below.

Data reduction

Miles and Huberman (1994, p.10) stated that data reduction " refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in written-up field notes or transcriptions." A key element of this phase is summarising and coding the data, and then categories and themes need to be created in line with the predetermined research questions. The data reduction phase is part of analysis and not separate from it, and it is important to reaching the conclusion phase. Miles and Huberman (1994, p. 11) suggested that "data reduction is a form of analysis that sharpens, sorts, focuses, discards, and organizes data in such a way that 'final' conclusions can be drawn and verified."

Data display

Data display, according to Miles and Huberman (1994, p.11) refers to "an organized, compressed assembly of information that permits conclusion drawing and action". Display helps the researcher to understand what is happening and to decide what he/she will do based on this understanding. There are different ways to display; these include charts, networks, graphs, matrices and tables, (Miles and Huberman, 1994).

Conclusion drawing and verification

Miles and Huberman (1994, p. 429) stated that "conclusion drawing and verification involve the researcher in interpretation: drawing meaning from displayed data." Verification refers to the meanings arising from the data that have to be tested for their conformability and sturdiness, which is their validity.

In conclusion, both within-case and cross-case analyses were employed in analysing the data of the present study. Theoretical propositions were used as an analytic strategy for within-case analysis due to its extensive use in previous FDI studies. Also, pattern matching was compared between theoretical propositions (existing literature) and the empirical findings. In cross-case analysis, categorising the case studies based on the type of industry, for example, oil industry, banking industry, manufacturing industry and so on for searching for similarities and differences between these categories was used as an analytic strategy for cross-case pattern forming. Moreover, the three-phase data analysis methodology suggested by Miles and Huberman (1994) was used in analysing the case study data. In the following section, the procedures of data analysis are discussed.

5.7.1 Case study data analysis procedures

The key procedures incorporated in both the within-case and cross-case analysis processes were as follow:

First phase: two high quality digital recorders were used to record all the interviews during the interviews.

Second phase: the researcher started transcribing each interview course directly after it ended. Thus, following the last case study interview, the researcher had finished transcribing all of the previous seven cases. This strategy was useful to avoid missing data. Each interview took approximately two to three hours. Each transcription required approximately one day.

Third phase: there are two ways used to analyse qualitative data, computer software and traditional methods. In academia, the use of computer software in qualitative analysis is widely known and accepted. However, the researcher did not prefer it for the following reasons: firstly and the most importantly, compared with traditional approaches, the application of computer software in qualitative analysis has not demonstrated superior quality of output. Secondly, computer software is viewed as a limit to creativity and sensitivity in interpretation. Thirdly, some scholars, such as Denzin and Lincoln (1998), have argued that computer software puts an unacceptable distance between the researcher and the gathered data. Lastly, the researcher had previously been successfully involved in a research project and decided to maintain the methods employed in her previous research work.

Fourth phase: when the researcher returned from Libya, where the cases were conducted, she listened again to the recorded interviews and read the transcriptions many times, and following this data reduction was applied to extract the main ideas and themes that were linked to the research sub-questions. The process of data reduction started with coding the interview data into categories, and to assist the organization of the data into categories, abbreviated codes of a few letters were used. Afterwards, core categories were established for emerging themes and a name was given to each category, which was later broken into sub-categories where required. For example, the purpose of

this study was to explore whether the motives of FDI in various sectors of the Libyan economy were in accordance with those found in existing literature, especially OLI. Interestingly, OLI itself is like a methodology framework. According to this theory, three groups of factors determine FDI: ownership advantages, location advantages and internalization advantages. In the data analysis of the present study, particular attention was paid to location advantages. Thus the names of these groups became the names of data categories. Many factors determine the location group, such as economic factors, political factors, technology factors and so on. These factors were used as sub-categories. Therefore, the core categories and sub-categories represented one of the groups of factors that determine FDI, and all the groups together answered some of the research sub-questions. The same idea was applied to answering the second research issue, which related to problems facing foreign investors in Libya. Subsequently, the data of within case analysis was displayed using texts. However, the summary of each case was displayed in tabular form, and these tables are provided in appendix B. Later on these summary tables were used in the cross-case analysis to capture the similarities and differences between the cases.

Fifth phase: a report was crated for each selected case. The case study report comprised several themes that described the significant factors determining FDI, and the problems facing it, and thus answered the research questions posed in chapter one. Data reduction and data display were used to develop these themes. However, the process of drawing conclusions and verifications was utilized after the cross-case analysis. However, it was an important step before conducting the company analysis to understand the environment in which each of the selected companies was operating. This environment was industry. Thus industrial analysis was conducted by using the "Porter model." In short, industrial analysis, and the within-case and cross-case analysis findings are displayed and clarified in detail in the next chapters. Conclusion drawing is discussed in Chapter 8, while verification or validity is explained in the following section.

5.8 The quality of case study research designs

Yin (1994) stated that "because a research design is supposed to represent a logical set of statements, you can also judge the quality of any given design according to certain logical tests." He suggested four types of test that have been commonly used to establish the quality of any empirical social research. Thus, since a case study is one of the social research methods, it follows that these tests are also relevant for a case study. These tests are explained in table 5.3 below.

Table 5-3 The quality of case study research designs

Test	Case study tactic	Phase of research in which tactic occurs
Construct validity	- Use multiple sources of evidence - Establish chain of evidence - Have key information review draft case study report	Data collection Data collection Composition
Internal validity	- Do pattern matching - Do explanation-building - Do time series analysis	Data analysis Data analysis Data analysis
External validity	- Use replication logic in multiple case studies	Research design
Reliability	- Use case study protocol - Develop case study database	Data collection Data collection

Source: adopted from Yin (2009, p. 41)

These tests were used in the present study as follow:

5.8.1 Construct validity

According to Yin (1994) construct validity means the link between data collection questions and measures on one hand, and research questions and hypotheses on the other, to establish the correct operational measures for theoretical concepts.

In the present study construct validity was assured by using multiple sources of evidence such as documents, questionnaires, in-depth interviews, government reports, and Internet sources. In addition, a summary of case study reports was sent to participants in order to validate the evidence and for feedback about the research findings.

5.8.2 Internal validity

This refers to the relationship between dependent and independent variables. In spite of Yin's (2009) explanation that internal validity is not required in exploratory research, which is the nature of the present study, the researcher met this type of test by using pattern matching. This was achieved through matching the merged themes with the existing literature, especially OLI theory.

5.8.3 External validity

Yin (1994) indicated that external validity (generalization) refers to extent to which the findings of the case studies conducted are replicated and constant. The researcher satisfied this test by using replication logic in the multiple case design, for example, when the findings of the second case from the oil sector confirmed those of the first one. In the non-oil sector, the second case confirmed the first one, in spite of these two cases being from different sectors (banking and manufacturing). Moreover, the eight case studies represented 50% of the total potential population, which means an enhanced generalizability of the findings of the present study.

5.8.4 Reliability

Yin (1994) stated that reliability means that "if a later investigator followed exactly the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions." It could be said that this study is a reliable one due to the fact that this study was conducted in the various sectors of the Libyan economy, these were the oil, banking, manufacturing, and construction sectors, and two companies from each sector were selected. The same methods of data collection, the same methods of data analysis, the same questionnaire, were applied. Thus each time only the company and the sector were changed, while the procedures for all cases were the same.

5.9 Ethical issues

According to researchers such as Robson (1993), Miles and Huberman (1994), Punch (1994) and Kent (2000), issues related to anonymity, confidentiality, ensuring privacy, avoiding risk and informing the participants of details about their involvement in the research are important to be considered by the researcher. The researcher satisfied these issues. The interviews and questionnaires were conducted using the MRS code of conduct and the University of Gloucestershire ethics handbook. Therefore, interviewees were asked for their informed consent to participate, and the interviews were run using the appropriate methods, while the questionnaires were anonymous and data were aggregated. All data from this research has not and will not be shared with any other parties. Moreover, to protect the confidentiality of the respondents, all company and individual's names have been coded to prevent their identification. Therefore, all the data gathered remained confidential, and anonymous.

5.10 Conclusion

This chapter provides a detailed description of the research methodology, strategy and multi-case design used to in the present study. This includes the number and the selection and descriptions of the cases. Moreover, data collection methods, data analysis

tools and processes are clarified. Also, the chapter highlights the quality of case study research design, and ethical issues. This approach is applicable to the purpose of the current study, because it allows first of all an understanding of each particular sector of the economy, which enables the researcher to conduct a comparative analyses between various sectors of the economy. Also the significance of this methodological approach allows the researcher to obtain external and internal validity of results. It also allows results to be generalized. Next, Chapter 6 presents an analysis of the Libyan economic sectors using Porter's 'five forces' model.

Chapter 6 Analysis of Libyan Industries

6.1 Introduction

An economy in general consists of land resources, capital, labour, and economic organizations. Thus the function of any economy is to produce goods and provide services for local consumption and/or for export, create employment for people and so on. In terms of structure, any economy consists of sectors and industries. Sectors represent a few large segments of the economy, and can describe nearly all of the business activity in that economy. Sectors can be divided into the primary, secondary and tertiary sectors.

The primary sector involves the extraction and production of raw materials, such as oil and cement. The secondary sector manufactures finished goods by transformation of raw or intermediate materials into goods. The tertiary sector of the economy is the service industry. This sector provides services to consumers and businesses, such as financial services in the form of banking.

The range and strength of sectors in an economy depends on what is available in the country in terms of the degree of its economic development, and the degree of interdependence of various parts of the economy; that is why there are economies that are advanced and ones that are not so advanced, and economies that are diversified and economies that depend on only one or a few sectors.

However, the term 'industry' expresses a much more specific group of companies or businesses, with highly similar business activities. For example, the financial sector includes the banking industry, insurance industry, stock market, etc.

Some countries depend on one or two dominant sectors for the bulk of their economic activity, which means that these countries are not diversified economies, while other countries rely on many sectors and these sectors are well developed, this means that these economies are diversified. For example, the Libyan economy is dominated by the oil sector due to its abundance and profitability as a natural resource, which gives Libya some certain competitive advantages that have resulted in motivating and attracting foreign investors to Libya.

For any country, the wealth of a natural resource such as oil is not fully realized simply by the export of crude oil, because more profit is generated if the country exports derivatives of oil such as petroleum, kerosene, and other oil based products. This means that the government of an oil producing country should consider not only oil exploration and extraction, but also refining and the manufacture of oil-derived finished goods. This implies a need for the economy to develop some others of its sectors or industries. So development of one part or sector requires development of other parts. For example, development of the oil sector requires development of the banking industry, because this facilities the process of investment and enables oil companies to gain access to the credit they need to develop their activities. A further requirement of a fully developed oil industry is infrastructure, such as transport networks, pipelines, and seaports to export oil.

Despite the development of the oil industry in Libya having led to development in other industries, the economy is still dominated by one activity, and this economy is strongly dependent on natural resources and lacks diversification. This means that this economy remains exposed to the risk of an international cyclical downswing, economic shocks and the impact of commodity price fluctuations particularly in the export of raw materials, whose prices can fluctuate considerably. All these factors represent reasons for Libya to seek greater diversification.

Diversification is needed due to its major role in the growth and development of an economy. It can contribute to strengthening investment, to improving international competitiveness, increasing the productivity of factors, and stabilizing export revenues.

Generally, diversification of production can be vertical and/or horizontal. Vertical diversification refers to expanding the range of products manufactured in a particular sector, to finally represent an entire field, from commodities to the products or services incorporating higher added value such as manufacture processes to turn oil into petrochemical and refining products. In this example, many industries would be based on the oil industry. Horizontal diversification on the other hand, refers to the emergence of a new sector of activity, or to existing sectors that has been neglected. For example, a country trying to develop an alternative sector, which is not based on oil as a raw material, such as the cement industry, is partaking in horizontal diversification.

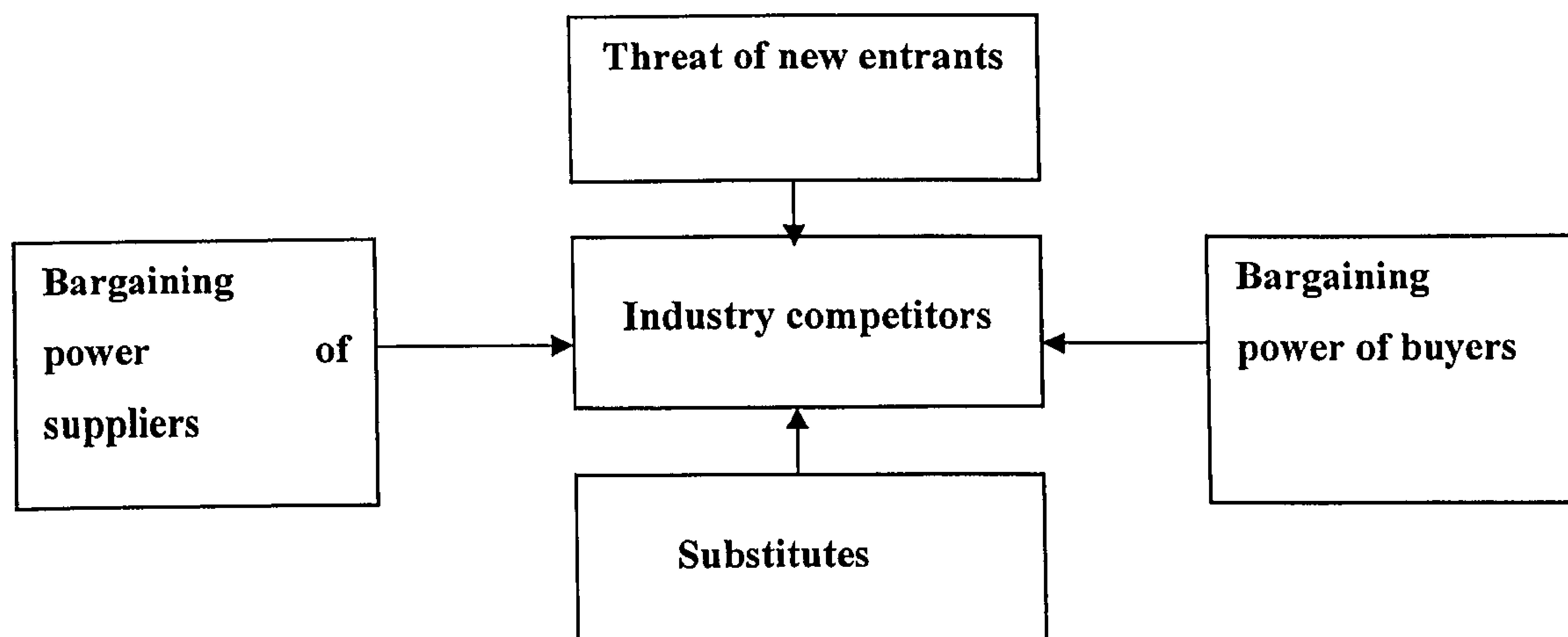
Thus if an economy has a vertical diversification this means that this economy depends primarily on one industry, while if it has horizontal diversification this mean the economy is independent. The degree of development of any economy is related to its vertical and horizontal diversification; the more developed economies those which have horizontal diversification.

The next four sections deal with the analysis of four selected sectors; oil, banking, manufacturing (cement and electricity industries) and construction sector, by applying Porter five forces model to each sector. The analysis consists of two stages. Stage one is within-sector analysis and stage two is cross-sector analysis. However, the motives and regulations of the Libyan government in each sector will be highlighted before applying Porter's five forces model.

Porter five forces model is useful for analysing the change and the structure of these sectors, as well as determining the most and least attractive sectors for FDI. The

purpose of this analysis is to identify the threats and opportunities of industries to help companies to compare these with their capabilities and resources, and gain or increase their competitive advantages. Moreover, key strategic issues are addressed in this model which are relevant to the selected sectors of the Libyan economy. The findings which will be obtained by the application of this model should be helpful for both policy makers and company managers in their decision making for current and future situations.

Figure 6.1 Porter's Five Forces Analysis



Source: Porter (1980)

6.2 Oil sector

As the oil industry is the key sector in the Libyan economy, the Libyan government pays particular attention to it because it represents the only source of the capital needed to develop other economic sectors. The Libyan government has encouraged foreign investors in this sector because of its lack of technology.

To obtain a more clear picture of the oil sector it is important to explore the regulations of this sector and how they have impacted its structure, and the conditions that the government created to attract FDI and how foreign investors have seen these conditions (EPSAs) with the passage of time, before applying Porter's five forces model into this sector.

The Libyan oil sector is regulated by the government. FDI in the upstream oil sector started with the first discovery of oil in the mid 1950s and has continued until the present. Libya has used different types of petroleum agreements: concessions,

Participation and Exploration Production Sharing Agreements (EPSAs). These agreements regulate the relationship between Libya and foreign investors. The following table summarises the changes in Libya's fiscal agreements according to changes to its motives from 1950s to 2004, as adopted from Otman, (2008).

Table 6-1 Libyan petroleum fiscal models and risk factors, 1955-2004

Risk factor	Libyan Concessions	Joint Venture Participation Agreements	Libyan Production Sharing System			
			EPSA I	EPSA II	EPSA III	EPSA IV
Duration	50 years renewable for a total maximum period of 60 years.	Similar terms to the Concessions	35 years with all phases included	25 years with all phases included	30 years with all phases included	Similar terms to EPSA III
Surrender	Percentages of the concession areas reduced gradually during the E xpl. Period if hydrocarbon is not discovered	Similar terms to the Concessions	If no commercial discoveries, the granted area should be surrendered within 5-6 years	Similar terms to EPSA I	Similar terms to EPSA I	If no commercial discoveries, the granted area should be surrendered within 5 years
Exploration Obligations	A unit rate km2 per year	Similar terms to the Concessions	The IOC is obliged to conduct Expl in its bloc in accordance with a schedule of seismic surveys and wildcats for a certain total value. However, if the IOC defaults and withdraws the amount has to be paid to NOC	Similar terms to EPSA I	Similar terms to EPSA II	Similar terms to EPSA III
Management & supervision	By the oil company	A management committee is formed to manage the operating agreement	A management committee is formed to manage the operating agreement	Similar terms to EPSA I	Similar terms to EPSA II	Similar terms to EPSA III
Expenditure	All the expenses	The exploration phase is totally financed by	The exploration phase is totally financed by the oil company, whereas	The exploration phase is totally	The exploration phase is totally financed by the oil company,	Similar terms to EPSA III

	and costs are paid by the oil company	the oil company, whereas the Opex and Capex are shared by both parties in accordance with their equity share.	the Capex is shared in accordance with production sharing. Pex is also shared according to the production share.	financed by the oil company, whereas the Capex are shared equally 50% 50%. Opex is also shared according to the production share.	whereas the Capex are shared equally 50% 50% opex is also shared according to the production share.	
Recompense of capex to LNOC	Not applied	Similar terms to the Concessions	The SP recompense the NOC for its share of Capex when oil production commences	The SP recompense from 50% to 100% of Capex, this depending on the location of the block after three years from the start of the production	Not applied	Not applied
Production allocation	All for the IOC	Cording to Equity share.	Both have a fixed % of the production depending on location	Similar terms to EPSA I	Fixed share of the production is allocated to the NOC, then oil company cost oil recovery from the remaining crude, and the remaining available quantity treated as profit oil, which is split in accordance to the formula of A and B factor	Similar terms to EPSA III
Payments of fees, royalty, and taxes	Paid by the IOC's	Similar terms to the Concessions; however this only applied to the oil company share	NOC pays on behalf of the oil company	NOC pays on behalf of the oil company	NOC pays on behalf of the oil company	NOC pays on behalf of the oil company
Governing law	Law No. 25	Law No. 25 and JV terms	Law No. 25 and EPSA I terms	Law No. 25 and EPSA II terms	Law No. 25 and EPSA III terms	Law No. 25 and EPSA IV terms

Sources: Adopted from Otman (2008)

The next five sections deal with these agreements in some detail.

6.2.2 Concessions in the oil sector

Concessions were used at the end of the 1950s in the form of a tax-royalty system. The reason for using this type of agreement was that Libya gained its independence in 1951, thus it lacked capital, expertise and technology. Another reason was to limit the size of single concessions to prevent a few big companies from dominating this sector, and also to attract FDI to invest in Libya (Otman and Bunter 2005; Vandewalle 2006; Otman and Karlberg, 2007; Otman, 2008; Bassam and Hakim, 2010).

Clearly Law No. 25 was more favourable to foreign investors than to the Libya government in terms of economic and financial benefits. This in turn had a positive impact on the inflow of FDI into Libya. However, the impact of this law on Libya had both positive and negative sides. In terms of the positive side, it increased competition and attracted a variety of small companies, which gave the Libyan government bargaining power. In terms of the negative side, it caused losses in revenues for the country, which seems to be the reason that the Libyan government changed the terms of concessions at the end of the 1960s to Participation Agreements.

6.2.3 Participation Agreement

The rules of the game in the international oil industry have changed. The control of oil and gas resources is becoming increasingly political. Because of the large profit of this industry, countries have become motivated by having control of their own resources. Therefore many countries have nationalized most (if not all) of their oil fields (Aubert & Frigstad, 2007). This is exactly what happened in Libya. In 1969 a new government was established in Libya. The motive of this government was to nationalize the downstream oil sector and new type of agreement was put into place, which was known as a Participation Agreement. A Participation Agreement was a joint venture between the Libyan government and foreign companies. Under these agreements foreign investors financed the exploration phase of oil operations. The operating company established if there was a commercial

discovery, and both partners owned 50% of the shares. According to these agreements the Libyan government obtained up to about 75% of the net profit (Otman and Bunter, 2005; Otman, 2008).

It could be suggested that this type of agreement favoured the Libyan government in terms of the control of its natural resources. Also, as opposed to the concession system, Libya could monitor more effectively the activities of individual agreements. Furthermore, the duration of these agreements was half of the 50-year concession period, which gave Libya more flexibility in renegotiating terms. However, these agreements were complex in terms of their accounting procedures with reference to the calculation of the tax payable to the government. These agreements did little to encourage FDI into Libya due to the fact that foreign investors started to re-evaluate their position in Libya; they felt that their investment and interests in Libya were no longer held on a secure basis. Thus these changes are believed to have had a negative impact on Libyan exploration and production activities in the years that followed.

6.2.4 Exploration Production Sharing Agreements (EPSAs)

There were two key reasons why EPSAs were introduced by the Libyan government. The first was that the increase of oil prices between 1973 and 1974 meant excessive profits for foreign companies under the traditional concession-type agreements. The second reason was the confidence of the Libyan government in their ability to exercise control over petroleum operations, especially in the downstream oil industry. So in 1974, the first EPSA (EPSA I) was introduced, which was developed later on into, EPSA II, EPSA III and EPSA IV over the period from 1974 to 2004. These agreements differed in terms of legal terms, finance, and economic implications. EPSA I and EPSA II had many similarities; however; EPSA III was fundamentally different from it predecessors, but similar to EPSA IV (Otman and Bunter, 2005; Vandewalle, 2006; Otman and Karlberg, 2007; Otman, 2008; Bassam and Hakim, 2010).

EPSA I

In the 1970s, EPSA I was introduced as a means for future involvement of foreign investors in Libya. The production share of a foreign company was exempted from

royalties, income tax or any other government charges. Under this EPSA I, the company acted only as an operator on a no-loss no-profit basis, while the government obtained greater supervisory and management control over operations through the formation of management committees. The NOC reduced foreign company's share to 15% and increased its share to 85% in areas where all exploration, discovery and production took place; also the foreign company had to return to the NOC its share of the development expenses (Otman and Bunter, 2005; Vandewalle, 2006; Otman and Karlberg, 2007; Otman, 2008; Bassam and Hakim, 2010). The most important differences between EPSA I and concessions and participation agreement was that the latter did not mention cost recovery.

The combination of EPSA I terms with low and fluctuating oil prices in the 1970s and 1980s strengthened further the bargaining position of the Libyan government, and represented huge losses for foreign investors, especially if the small or medium fields that required development. Thus, the impact of EPSA I on FDI was negative, and it discouraged FDI.

EPSA II

EPSA II was introduced in the 1980s. The terms of EPSA II were not radically different from those in EPSA I. The reason for introducing EPSA II was that the Libyan government wanted to take advantage of the second oil shock of 1979-1980. The NOC exploited the concerns of foreign companies surrounding oil supplies to obtain more favourable contractual terms. Foreign companies viewed this EPSA as too being heavily weighted in favour of the NOC compared with EPSA I. In general, these two EPSAs, from a foreign investor's point of view, were not attractive, which was borne out by the decline in exploration and production activities during the 1970s and 1980s. The criticism that may directed at the NOC is the non-development of small discovered accumulations of crude oil. These small accumulations were considered by foreign companies to be uneconomical under the terms of EPSA I and II.

Despite the disadvantages of EPSA I and EPSA II, it can be seen from this research that they were relatively successful in attracting new companies to the

Libyan market and opening up unexploited areas. They also strengthened the control of the NOC on the upstream sector.

EPSA III

EPSA III was introduced in the 1990s. There were several reasons at an international and local level for EPSA III to be introduced. At the international level, the radical changes that the international oil industry experienced affected upstream FDI, which led host governments to change their fiscal and legal systems to take into account the risks and benefits of any acreage on offer. The other reason was the steady rises in the oil price until 1981, and the equally marked decrease in the late 1980s, which were the most important factors determining any new ventures in this period; the high development expenses and low oil price led to an increased risk factor and impacted the capability of many foreign companies to finance new ventures. Also, many foreign companies reduced their exploration programmes due to poor returns on investment and decreasing cash flows from existing production. Moreover, the entrance of non-OPEC countries into the international oil market, with the opening up of new productive areas, offered better opportunities for oil exploration and development than in the traditional oil producing countries.

At a local level, the oil industry deficit refers to the impact of UN and US sanction on this sector in the 1990s. The US and UN sanctions had a devastating effect on both the upstream and downstream oil industries in Libya. Production equipment at the wellhead as well as for Libya's rapidly growing petrochemical industries at Ras Lanuf and El Brega were seriously affected, leading to protracted downtime and disruption of normal work schedules. Libyan companies were forced to look elsewhere, in Asia, Europe, and South America, to source spare parts, often of inferior quality but invariably more expensive than the original US parts, frequently by as much as 60% or more. Quality problems led to frequent breakdowns and expensive repairs and the time factor in getting parts and services through third parties invariably led to expensive delays and downtime. Moreover, the withdrawal of the US companies in 1986 had a negative impact on the Libyan oil sector.

All these events at international and local levels motivated the Libyan government to introduce EPSA III, which offered attractive returns and internationally competitive terms. The terms of EPSA III were new and very flexible. In spite of the Libyan government offering attractive terms in EPSA III, it was not well received because international oil market conditions were not good in the late 1980s, and international sanctions were imposed on Libya in the 1990s, which further discouraged foreign companies from investing in Libya.

EPSA IV

After UN and US sanctions were lifted in 2004, and the unfreezing of Libyan assets by US banks, Libya prepared its reintegration into the world political and economical communities. It was crucial for Libya to provide a favourable environment to attract and retain foreign investments, so in September 2004 EPSA IV was introduced.

Basically, the new terms of EPSA IV are similar to those of EPSA III, but were designed to be more attractive. Under this new EPSA, both foreign investors and the NOC shared equally in development costs, the exploration, appraisal, development and production expenses were to be recovered very quickly from a proportion of output, with a split of the profit production shared on a sliding scale. In addition to that the new EPSA covers all sizes of discoveries. Moreover, no rents or fees were levied on the foreign investor's share of production, and there were no income taxes and royalties. Also two bonus payments were introduced, being a signing-on bonus and a predetermined production bonus, and neither bonus could be treated as recoverable costs (Otman and Bunter, 2005; Otman, 2008). The lifting of international sanctions played an important role in attracting FDI from 2004 up to the time of writing. Thus the impact of EPSA IV on FDI inflow was positive.

It is clear that the major trend of moving from concessions to EPSA II was that the conditions that the Libyan government created in the oil sector were not favourable to foreign investors. However, moving from EPSA III to EPSA IV reflected the liberalization of these EPSAs, and they became more attractive. However, even the later ESPAs still retained a number of restrictions, for example,

fluctuations in the oil prices that may happen as a result of crisis or unexpected events (such as the situation in Libya early 2011) need to be discussed between the Libyan government and foreign investors during a negotiation stage. Another restriction is that it takes a long time for foreign companies to recover their expenditure on the exploration of oil. So the NOC needs to allow this recovery of costs to be possible more quickly, and at a sensible level.

6.2.5 Applying Porter's model *within* the oil sector

Industry competitors

The structure of a market refers to the relative size and number of sellers and buyers in a particular market. The Libyan oil market is characterized by perfect competition. The number of oil sellers includes the National Oil Corporation NOC (which is a state owned institution, and acts as the policy-maker, regulator and state operator) and its affiliates (around 10 companies) and around 50 foreign companies (in both stages, exploration and production). The oil sector provides the local market with its requirements of petroleum products and natural gas. The buyers of oil are the local market and international markets, particularly the European Union. International markets and particularly OPEC determine the oil price.

In terms of competition, it is low between local and foreign companies because they are not competing for the same buyers. However, there is high competition between foreign investors to obtain the opportunity to work in Libya, because foreign companies are attracted to Libya for a number of reasons, including the fact that Libyan oil is usually light and sweet crude, which is high quality and easily extractable, the exploration potential within the country, and the low costs of oil recovery. Also the business climate is improving, the country is close to large European markets, and it is an extremely safe country to operate in.

Threat of new entrance

There are many barriers to entrance into the Libyan oil industry. Firstly and most importantly, between the 1970s and 1990s the Libyan government was not willing to allow FDI, especially in the downstream sector. From the 1990s up to 2003

foreign companies were not interested in investing in Libya due to international sanctions. Another barrier was that long-established companies with years of experience in Libya such as Repsol (30 years) and Total (40 years) had established networks of suppliers and distributors and had over time developed technological capabilities that created barriers to entry. This industry also required large capital investment in specialized technology and equipment, and there were few companies which could offer this. Moreover, as access to resources is dependent on government licenses for exploration and extraction, existing companies in the industry are struggling to gain access to new resources. For example, several exploration-bidding rounds were given to existing companies such as Repsol. Moreover, investment often involves sunk costs that are difficult to retrieve. For instance, under the terms of the EPSAs, all of the exploration expenditure is undertaken by the foreign companies. If a company makes a discovery it will be able to retrieve this expenditure, but if does not, the foreign company alone is responsible for this expenditure. It is therefore clear that existing companies will have an advantage compared with new players due to the fact that they already have established a relationship with the Libyan government. All these factors suggest that it is not easy for new companies to enter the oil industry, due to the high entry barriers, which exist. Therefore the threat of new entrants is medium to low.

Threat of substitutes

Alternative energy sources such as hydrogen, hydropower, nuclear energy, coal, wind power, natural gas, tidal power and solar power are substitutes for oil. However, the advantage of oil is that it has multiple usages, for example it can be used to generate electricity, in the production of materials such as plastic, and as petroleum in the running of vehicles, and none of its substitutes can replace it in all its multiple usages. Thus the threat of substitutes is low.

Bargaining power of buyers

The bargaining power of buyers in the oil industry is low, for several reasons. For example, demand for the products of the oil industry is higher than its supply, so buyers have no strong bargaining power. Recently oil prices have reached high levels due to many factors such as its importance as a source of energy for

electricity and transport, and consumers have not had an impact on prices, they are forced to accept the market's price, so the consumer is in a weak position. There are many factors, which influence the demand for oil such as economic growth, weather conditions and the availability of energy substitutes. However, due to the unavailability of comparable substitutes to oil, there is no choice for buyers. Thus it seems likely that there will be continuing increases in the oil price due to the difficulty of replacing oil with other sources of energy for transportation fuel in the next few years. To conclude, the bargaining power of buyers is low.

Bargaining power of suppliers

The main supplier of oil in Libya is the government, especially since it nationalized the oil sector and thus it has stronger bargaining power with international oil companies. It has complete control over the licensing and production of its natural resources, and this has led international companies to cooperate with the Libyan government to improve or maintain their reserves and production levels. However, Libya lacks the necessary infrastructure and technology to operate complex exploration projects on its own, and has thus far relied on foreign investors, and the service suppliers to transfer their knowledge and invest in R&D. For example, the Repsol and Total companies have established networks of suppliers and distributors and have over time developed technological capabilities, so they are not impacted by the power of suppliers. So the overall bargaining power of suppliers in the oil industry is low.

6.3 Banking sector

In terms of regulation, in 2005 the General People's Congress passed Banking law No.1 and law No. 2 as a set of comprehensive banking legislation. Law No.1 specified the framework of the Central Bank of Libya (CBL). According to this law, the role of the CBL is to be an independent regulator of the banking sector, and responsible for monitoring and supervising banking institutions while protect the rights of their customers and depositors, monitoring their performance, and supervising the local system of payments, which includes clearing operations between banks subject to the provisions of this law, and developing regulations to govern the system.

Consequently, the law laid the groundwork for the critical reform efforts that are now under way to divest the CBL from its banking sector holdings. Law No 1 also explained the relationship between CBL and the Libyan government through article 2 of this law, stating that the CBL is responsible to the secretariat of the General People's Congress. It is therefore restricted to carrying out its duties within the framework of the government's general policy. However, freedom has been given to it in terms of establishing rules and regulations related to its function.

Articles 65 and 67 in chapter 2 of law No 1 covered the establishment and supervision of commercial banks, and opened the door for FDI into the banking sector. This part of the law has been useful to the economy due to the fact that new activities have been added to commercial banks in Libya. Also the main point, which seems to be the most useful part of paragraph I of article 67, is that the capital required to establish a commercial bank was set at a minimum of LD10 million, divided into shares. This means that there is a low entry barrier into the banking sector. Following these regulatory changes, in July 2006 the CBL, with the support a number of international financial advisors, started to modernize the Libyan banking system through commercialization and privatization. The partial privatizations of the Sahara and Wahda banks led to increases in competition in the Libyan banking sector and changes in its structure, although these changes have not had major effects in the Libya market due to recent Libyan market conditions. It appears that overall the evaluation of Law No 1 of 2005, and the policies of the CBL have had a positive impact on FDI.

The IMF is modernizing the CBL in terms of research, statistical data and supervision of monetary policy (IMF, 2009). The Governor of the Central Bank of Libya explained: "Libya is committed to use the IMF's General Data Dissemination System as a general framework to continue developing the national statistical system consistent with best international practices. The participation of Libya in the GDDS will also lead to the production and dissemination of more reliable and timely statistics."

6.3.1 Applying Porter's model *within* banking sector

Industry competitors

The banking industry in Libya has enormously changed its dynamics over the last few years. Some local and foreign banks have joined the industry. This has markedly boosted the players in the banking industry to strategically consider their competitive positioning and repositioning.

The Libyan banking sector has various key players. These include; the Central Bank of Libya (CBL), which is state owned, four specialised banks (Al Rifi Bank, the Libyan Development Bank, the Agriculture Bank and Savings and Real Estate Investment Bank), a few private banks, and five commercial banks (Al Oumma (Nation) Bank, which is Libya's biggest state bank in terms of assets, the Sahara Bank, the National Commercial Bank, the Wahda Bank and the Al Joumhouriya (Republic) Bank. In addition, the largest of the state-owned commercial banks, the Libyan Arab Foreign Bank (LAFB), has subsidiaries and affiliates in more than 30 countries. The purpose of this bank is to deal with foreign investment and set up subsidiaries outside Libya.

The existence of the various players does not make the industry so competitive and dynamic, because the structure of the Libyan banking sector is an oligopoly, with five commercial banks dominating the market. The CBL controls all banking activities in Libya. The Libyan government uses banking to finance its development projects and not for profitability purpose. The sector has been tightly regulated by the CBL, which has resulted in low productivity within the banking sector, together with weakness of competition and market conduct. The Libyan government realized the failure of the central planned economy, so it moved towards a market economy and started to encourage the private sector. As a result of this decision, it decided to sell some of the state owned banks to the private sector. However, the private sector does not have sufficient capital and experience, so FDI is required, and to encourage FDI in the banking sector the Libyan government has undertaken a financial sector-restructuring program. Thus, the level of industry competition in this sector is low.

Threat of new entrance

The Central Bank of Libya has set a minimum capital requirement of LD10 million for a bank to be registered. Commercial banks take the form of a joint-stock company. According to law No 1 (article 67), foreign banks can hold shares in local banks and open branches or representational offices. This has encouraged many international banks to enter Libya, such as HSBC. Thus the threat of new entrants to the Libyan banking sector is high, due to the low barriers to entry. These low barriers derive from the fact that in order to improve its banking sector, Libya is encouraging FDI.

Threat of substitutes

There is almost no substitute for money.

Bargaining power of buyers

In the banking sector the buyers are individual and companies. Both of them have low to medium bargaining power. Because the Central Bank of Libya sets the rules, buyers have low bargaining power.

Bargaining power of suppliers

In Libya, the supplier of banking services is in effect the CBL, which has strong bargaining power. It can exert pressure on all banks in the country by influencing the interest rates on deposits, or through other channels due to the centrally planned nature of the Libyan economy, which is still far from completely privatized.

6.4 Manufacturing sector

The structure of the Libyan manufacturing sector is oligopolistic (for example there are only two companies in the cement industry, one company fin the steel industry, one electricity company and so on). In the 1970s the Libyan government nationalized all economic sectors. For each industry sector it took control of the planning and development, and negated the influence of foreign investors. In the past, the government concentrated on light industry, and petrochemicals and food processing were a priority area for the Libyan government, so that the majority of factories built in the 1970s served these two sectors.

The early 1980s brought a shift in government motives more emphasis was given to heavy industry, and several major projects were carried out under the 1981-85 plan. The government relied on revenue from the oil industry to finance this industrial development. However, oil revenue often fell below levels that had been anticipated in the plan, and as a result, the government's drive to enlarge heavy industries was weakened and many projects ran behind schedule. In the 1990s the situation of the industrial sector became worse as a result of international sanctions.

Due to the nature of the Libyan economy, the international sanctions in place from the 1990s up to 2004, negative media, low technology levels, lack of expertise and managerial know how, and Libyan reliance on the oil sector; all these factors led industry to be undynamic, and the Libyan government failed to achieve its intentions. Thus, in 1997, through the enactment of law No 5, the door was opened to foreign investors and collaboration between Libyan and foreign companies. However, law No. 5 and its incentives did not strongly stimulate FDI between 1997 and 2003 because of international sanctions.

In 1999, the General People's Committee, through Resolution No 20, and in order to attract FDI to the industrial sector, established the Misurata Free Zone (MFZ). The aim of the MFZ was to develop four main industries; petrochemicals, food processing, metallurgic industries and cement and other construction materials. (Oxford Business Group, 2008) The free zone seeks to benefit from industries that rely on local raw materials such as hydrocarbons, steel and iron. However, it also seems that this law does not encourage FDI strongly enough.

After international sanctions were lifted, many reforms were undertaken by the Libyan government to attract FDI to the industrial sector, which at international level it improved its international standing. For instance, it attempted to remove Weapons of Mass Destruction (WMD) (Political Risk Services, 2005), which accounts for the increases in the inflow of FDI from 2004 onwards.

The market has recently moved from domination by public companies to private ones through a process of privatization. Thus the big state owned companies have started to be privatized. For example, in the cement industry, this industry has been

entirely opened up to privatization, beginning with the sale of a 60% initial public offering on the previously state-run Arab Cement Company in February 2005. The following section deals with industries such as cement and electricity.

6.4.1 The Cement industry

The characteristic of the cement industry in Libya is that it has the raw materials required to produce cement, which is of very high quality. This allows the country to make cement of excellent quality. This factor alone made the cement business one of the most successful local industries. Moreover, the cost of producing cement is one of the Libyan cement industry's competitive advantages because of the proximity of raw material to the factories, meaning there are low transportation costs. In addition to this, it is easy to extract the raw material, which means it is not expensive. Also Libya's location and the low cost of energy make this a particularly attractive market for investors in the extractive industries.

Until the beginning of a process of privatization, the Libyan cement industry had been under strict government control and government intervention took place both directly and indirectly. Direct intervention took the form of government control over the production, capacity and distribution of cement, while indirect intervention took the form of price control.

Despite government control of the cement price, it did not specify a control price for un-bagged cement. Libyan price regulation did not mention an un-bagged cement price, so one company decided to sell un-bagged cement and set its own price. This company also decided to reduce its quality due to Libyan cement's very high standard. This company thought they could reduce quality to make more profit, and still produce at a legal standard. This opportunism is an example of the weakness of the regulations, thus the regulations needed to be improved.

Libya invites only the best and most reliable international companies to accompany and support the huge and ambitious renewal programme in a close partnership with the Libyan leadership, to upgrade plants and transfer technology that will help to increase plant production, create markets abroad for products, improve the production efficiency of factors, develop national manpower and

facilitate the financial support necessary for developing production lines, and improving the specifications of local products.

6.4.2 Applying Porter's model *within* cement sector

Industry competitors

The structure of the Libyan cement industry is an oligopology, due to the fact that two state-owned companies dominate the market. However, these companies do not compete with each other, because one company, which is the Libyan Cement Company (it has three plants) is located in the East of the country, and the other, which is the Arabian Cement Company (has seven plants) is located in the West of the country.

The Libyan demand for cement is based on a large, young and fast growing population, and the high liquidity that Libyan government has, and also its aim to develop all economic sectors. Therefore the government enacted a tremendous programme of infrastructure development, based on projects such as airports, harbours, housing complexes, hotels, business centres, streets etc., which were due to be refurbished or completely new built over the whole country, which resulted in a shortage in the supply of cement.

However, the shortage in the supply of cement does not only result from the high demand of the government, it is also refers back to the characteristics of a centrally planned economy, the dependence of industrial development on oil revenues, which decreased in the 1980s, the international sanctions in the 1990s up to 2004, and its impact on the import of equipment needed for factories. All these factors led to outdated production lines with obsolete technology, which contributed to a shortage in the supply of cement. These production lines required maintenance, renovation, and replacement. In order to increase cement production capacity and to modernize the country's production lines, the government is seeking the introduction of new technologies and training of human resources. It seems that this industry has low level of competition.

Threat of new entrants

The cement industry is characterized by low entry barriers due to the fact that government's motive is to attract FDI into this industry to improve its performance and create jobs for its local labour. Thus government policy is in favour of foreign investors. Also, the low productivity of the cement industry in Libya attracts new entrants. However, the entry barrier possibly comes from the fact that the cement industry requires high capital investment, which may be deterring some new entrants. However, in general, the threat of new entrants into the cement industry is high.

Threat of substitutes

There are almost no substitutes for cement

Bargaining power of buyers

Due to the fact that there is a low supply of cement and very high demand for it, thus the bargaining power of private buyers is low. However, if the buyer is the Libyan government, the bargaining power is high, especially as the government decided the price of cement.

Bargaining power of suppliers

Despite the ongoing privatisation of this industry, it is still dominated by the Libyan government, which exercises its control over energy and its price, raw material and related activities. Thus the bargaining power of suppliers in the cement industry is high.

6.4.3 The Electricity industry

The electricity industry is an important industry which the Libyan government prioritises, and it has opened it to foreign investors because in addition to the unavailability of advanced technology and managerial know how the government has insufficient capital to continue to subsidise the demand for this sector, according to Omran Ibrahim Abukraa, chairman of General Electric Company of Libya (GECOL).

6.4.4 Applying Porter's model *within* electricity sector

Industry competitors

The electricity industry is characterized by a monopoly structure whereby GECOL is a state owned company. It is solely responsible for the generation, transportation and distribution of electric power in the whole country. It operates more than 30 electricity generation plants.

The demand for electricity in Libya is increasing rapidly, which presents extra stress on the government's capability to generate sufficient electricity. Therefore, intensive efforts are being undertaken by the Libyan government to increase generation capacity and the size of the electricity network. In total, approximately $12.2 bn. has recently been awarded to GECOL for the expansion and construction of electricity infrastructure to satisfy rising demand (General Electric Company of Libya; Oxford Business Group 2008).

In the past the majority of electricity in the country was consumed in homes, but a growing industrial sector will put extra pressure on the government to meet the extra demand this creates. Also the flourishing construction and housing industry in Libya is increasing the demand for electricity. Recently, as the economy has been directed towards a market orientation, much of the construction work is being undertaken by foreign investors. To expand its electricity network GECOL awarded three contracts to foreign investors. This means that the electric industry will become more competitive as the state departs from the natural monopolies to market power.

Threat of new entrants

Because of the need to build a new generation of plants, which would require high fixed costs, new power producers need significant investment capital to enter the market, which can be seen as an entry barrier. In the Libyan electricity industry the threat of new entrants is medium to high because of the government's motive to attract FDI and improve the performance of this sector. Also the demand is much higher than the supply. Thus there are huge opportunities for new entrants.

Threat of substitutes

Natural gas is a key substitute for electric power. However, market dynamics raise switching costs and make switching between the two power sources difficult. Presently there are no possible substitutes for electricity or natural gas. However, there are substitute ways to generate this power. Overall the threat of substitutes is low.

Bargaining power of buyers

The bargaining power of buyers in the industry is not high because of the high costs of switching and protective government regulations. However, deregulation and increases in competition will increase buyer power. However, currently the bargaining power of buyers is low.

Bargaining power of suppliers

The power system which supplies the country is dominated by a handful companies owned or controlled by the Libyan government. Competition is limited and the government is able to exert considerable power over electricity generation. The bargaining power of suppliers is high.

6.5 Construction sector

From 1997, when the door opened to foreign investor in the non-oil sector through Law No. 5, until 2003, when international sanctions were still in place, the inflow of FDI into Libya was low. This low inflow was partly and most importantly due to these international sanctions, and also to the nature of the economic system, which was a planned economy dominated by the public sector and characterized by low performance. During this period, although major efforts were undertaken by the Libyan government to liberalize and diversify the economy, the intervention of the government in the economy was still strong and the economy was not driven by market force, which deterred foreign investors. Therefore, from 1997 to 2003 international sanctions and the economic situation were the most important factors discouraging FDI inflow into Libya.

Since the lifting of sanctions, problems such as a low level of infrastructure development and ignorance of how best to navigate government bureaucracy has

discouraged many potential investors. So to attract FDI, the government has taken new measures to accelerate the registration of foreign companies by the opening of several new institutions such as the ESDF and boards designed to monitor and offer support to the various investment projects. These measures have ensured that easier and faster mechanisms for overseas countries to do business are now in place. The impact of this has been to renew international companies' interest.

For the Libyan government, building codes and regulatory bodies is a relatively new concept, because in the past it was in control of all aspects of construction. To overcome the lack of regulation, the National Consulting Offices have been established to meet this need. One example for these consulting offices is the Association for the Organisation of Development Administrative Centres (ODAC) has was developed in conjunction with the Urban Planning Authority. ODAC is responsible for the development of all government buildings and had a budget of around $6.8 bn in 2008 for state development programmes (according to a manager at Organisation for the Development of Administrative Centres ODAC). which also was one of factors facilitating the process of FDI.

6.5.5 Applying Porter's model *within* construction sector

Industry competitors

The main player in the Libyan construction sector is the Libyan government, which is motivated to attract FDI due to its market structure. Since the late 1970s, the construction market has been largely inactive. Libya is suffering from a deficiency of high quality building stock; because the Libyan government after, the revolution in 1969, restricted free enterprise in all industries. According to this government policy, commercial construction institutions were either eliminated or merged into larger public sector entities, which meant that the Libyan construction market was an oligopolistic structure, while all private property rights were abolished, being deemed as exploitative.

The Libyan construction market now has many key demand drivers, such as the high liquidity the Libyan government enjoys, as well as a large, young and fast growing population, which means that Libya's construction market has

considerable potential, and there are huge opportunities for early investors. One of the Libyan government's motives to attract FDI, is its influence on the sector in terms of raising standards in training. Project management courses from abroad will help the development of the current market, even though industry competition now is low. However, it seems likely that it the construction market is going to increase and the structure of the market has started to change from oligopoly industry to competitive industry.

Threat of new entrants

The barriers to entry into the Libyan construction market are not high due to the fact that the Libyan government is encouraging both local and foreign investors. This means that more and more foreign companies will enter the country. Thus, the threat of new entrants is high in this sector.

Threat of substitutes

There are almost no threats of substitutes.

Bargaining power of buyers

The bargaining power of buyers depends on who is the buyer: if the government is the buyer, it has high bargaining power. However, if individuals are the buyers, then their bargaining power is low.

Bargaining power of suppliers

Building material such as cement, concrete and water are difficult to source due to the dominance of the Libyan government through its large, monopolistic companies. . Thus a small number of large publicly owned companies dominate the majority of the market. This means that the bargaining power of suppliers is high

The following section aims to provide and conclude the cross-sector findings through searching for cross-sectors patterns and highlighting the similarities and differences between the various sectors of the Libyan economy via conducting Porter Five Forces analysis to investigate the degree of sophistication of the relationships between the industrial stakeholders, suppliers and buyers.

6.6 Applying Porter's model *across* sectors

Porter's Five Forces is applied to conduct cross-sector comparison. The purpose of this analysis is to investigate the degree of dependability of every particular sector and how foreign investor can evaluate them. On the basis of industries competitors, the aim is to explore the common and differences features of various industries, which will help policy makers to regulate and manage FDI in various sectors of the economy. The threat of new entrants is important in terms of the mode of market entry by foreign investors across sectors. Cross-sector comparison based on the threat of substitutes is helpful because if there are no substitutes in a sector, this provides beneficial conditions for the development of this particular sector. However, if there are substitutes, the chances of development may decrease. The bargaining power of buyers and suppliers will be very important in terms of identifying the most promising sectors for FDI projects and activities in the future, and how these should be regulated and managed. The following table is Porter's and cross sectors analyses.

Table 6-2 Porter and cross sector analyses

Porter / Sectors	Industry competitors	Threat of new entrants	Threat of Substitutes	Bargaining power of buyers	Bargaining power of suppliers
Oil	High	Medium to low	Low	Low	Low
Banking	Low	High	No threat	Low to medium	High
Manufacturing Cement	Low	High	No threat	Low individual, high government	Medium to High
Electricity	Low	Medium to High	Low	Low Individual, high government	High
Construction	Low	High	No threat	Low individual, high government	Medium to High

Source: developed by the author for the current study

6.6.1 Industry competitors

In the oil sector competition is high due to Libya's richness with regard to oil. Also Libya has high quality oil and the cost of extracting oil is low, which has led foreign companies to compete fiercely to gain access to Libyan oil; this high level of competition means that the oil sector is the most developed sector in the Libyan economy. Also it is sector, which has attracted the most FDI, and probably this is the reason for its development. Inside Libya there is almost no competition, because there is one state company (ONC) with its affiliates supplying the local market with oil. However, because the oil industry has global significance, Libyan oil competes successfully in the international market. Also Libya has two major reserves of oil, one is located within the Sirte Basin where a total of 50bn barrels are estimated to have been found. The second one is located within the Ghadames Basin where approximately 25bn barrels have been found (Oxford Business Group, 2008) which is another factor encouraging FDI. If there were not significant amounts of reserves, foreign investors would have to consider their

recovery costs. Also these reserves of oil have motivated the Libyan government to attract more FDI because of the lack of the technology needed to extract these reserves.

However, the nationalization of the Libyan oil sector in the 1970s depended on only America stranded, also the impact of UN and US sanction on this sector, all this had a devastating effect on both the upstream and downstream oil industry in Libya. For example, this caused the inability to Libya to obtain equipment for the maintenance and upgrading of its refineries. The black market provided Libya with substitute technology and parts, which were more expensive than international market prices. Libya's antiquated infrastructure and lack of pipelines was a serious impediment to meeting the production increase targeted by the government. The Libyan oil industry has significant infrastructural problems. Thus Libya is motivated to attract FDI in order to transfer technology and improve infrastructure. So, in early 2007, Shokri Ghanm, the chairman of the NOC, announced that $9 bn of investment into refineries, petrochemicals plants and fertiliser plants was required to complete the most urgent infrastructure work (NOC).

The Libyan oil sector is the largest contributor to Libyan gross domestic product (GDP 95%). Thus the structure of the Libyan economy is not balanced, it depends almost entirely on one sector. For foreign investors, oil and other resources are the most important motive leading them to invest abroad, and they are also motivated by the market where they can sell these resources.

In the non-oil sector in general the competition across all sectors is low due to the fact that the Libyan economic system is central planned, which means that the government dominates all activities in the economy. As was explained in chapter 4, the Libyan leadership refused to deal with the United States and Western countries due to their support for Israel, so FDI in the non-oil sector was not allowed. In the early 1970s, the Libyan government embarked on a programme of state-sponsored economic development and control of the economy.

However, recently the government has realised the failure of its planned economy in the development of the country, because it was unable to plan the Libyan economy efficiently and achieve the goals that were planned. In terms of technical progress the planned economy prevented Libyan companies from being innovative, which impacted negatively on international competition, and the diversification of the Libyan economy. Because of this the government currently is motivated by attracting foreign investors to various sectors of its economy to achieve the transfer of modern technology, the formation of Libyan human resources technologies and job creation, diversification of sources of income and development of nationally made products to gain access to international markets. So in the manufacturing and construction sectors the door to FDI was opened in 1997. However, significant levels of FDI did not take place until around 2006 because of international sanctions. In the banking sector the door was opened in 2005 and considerable FDI took place in 2007 after the Libyan government started the implementation of its privatisation programmes.

At the time of writing, the structure of the economy is in the process of changing, because Libya is motivated by the transfer of its economy from a centrally planned to a market economy. The most important reason for the encouragement of competition is the inflow of FDI. FDI will bring technology and know-how, and upgrade the level of knowledge and skills in the Libyan workforce. It increases the competitiveness of companies and the economy as a whole. Thus the level of competition is going to be high in the future. Libya is motivated by the diversification of its economy, so the development of one sector will lead to the development of others. In any economy there are sectors linked to each, other such as in petrochemical sector, which develops on the basis of the combined development of the oil and gas industries. Also there are sectors on which the whole economy more or less depends, but are not so much linked, such as banking. Because banking is needed to fund development projects, that is why there is so much interest in the banking sector of Libya. In construction the building of roads and infrastructure is needed to support the development of every other sector of the economy. So Libya is giving priority to developing sectors such as the banking, manufacturing and construction sectors, which are related to each other.

High competition in the oil sector is an indicator of its attractiveness to foreign investors. However, the government should not allow every investor who is interested to join this sector. The government needs to put in place certain rules and criteria under which foreign investor will be chosen. The Libyan government used EPSAs in the past as a piece of regulation and incentives. EPSA I and II were not favourable to foreign investors. However, EPSA III was favourable, but it did not attract many investors because of international sanctions. Because of oil sector is the most important source of income for the country, good regulation through EPSAs are needed for this type of industry so that the benefits from this sector mostly will remain within the country. The government has done a good job so far but for the future the government has to be additionally careful, because there is a need to settle the links, for example, between oil production and electricity production.

Attention is also necessary to the link between cement and electricity production, and the construction industry. If the demand for construction increases the demand for cement and electricity will increase as well. This is what is likely to happen in Libya in the future, where the government is motivated to diversify its economy, this means more and more sectors will be developed, as a result of which more oil, cement, electricity, and construction and banking services will be needed. For production that goes to the export market, such as oil and cement, the government needs to take into account the growth of domestic market while also maintaining its export market. The government needs to think about the balance between domestic and foreign markets and set the rules for export markets. In the manufacturing sector the government can encourage more FDI by facilitating exports. In the construction sector the Libyan government may need to look into the potential of the regional market, and also to consider developing local construction companies to achieve outward FDI after the local market is satisfied. So the government needs to think about preparing local companies now for moving towards outward FDI later. Such companies need several things, such as capability, competitiveness and to the ability to seek market opportunities.

The policy that is required in the banking sector is that since Libya is a Muslim country, it has to develop an Islamic banking system, because this system has

proved resistant in the face of the current economic crisis. In addition, it may be an advantage if the Libyan banking system integrates with those of its regional partners, and not with those which experienced the recent economic crisis.

6.6.2 Threat of new entrants

In the oil sector, the threat of new entrants is medium to low. Barriers to the oil industries include reasons such as the massive capital investment needed, and the fact that access to resources is dependent on government licenses for exploration and extraction. However, the profitability of this industry makes it attractive in spite of any barriers. The threat of new entrants in manufacturing is high because of the availability of resources such as cement, low labour cost, and good market opportunities, and because the Libyan government is motivated by diversifying its economy, so it is reducing barriers to entry. Currently foreign investors are investigating the Libyan market and this is why the threat of new entrants is high, but after a certain period of time when the demand of the Libyan market is satisfied the threat of new entrants will decrease. The threat of new entrants in the cement sector will not persist over the long term. In the electricity sector the market is also a Libyan domestic market for now, with the potential to be an export market in the future. The threat of new entrants is medium to high now, but it will decrease in the future. The situation is similar in banking; now the threat of new entrants is high but in the future it will decrease because the structure of industry needs to be settled. When this is the case, the attractiveness of banks will transfer from the short to medium term.

Recently, the main reason for a high threat of new entrants across sectors has been the Libyan government's motive to move towards a market economy and to achieve the diversification of its economy, especially with the help of foreign investors (due to technology, know-how), so it has been attempting to encourage foreign companies and facilitate the process of this inflow through its regulations and incentives. Thus the threat of new entrants is likely to increase more and more in the near future.

6.6.3 Threat of substitutes

In the near future it does not seem likely that there will be a threat of substitutes for oil, cement, electricity, construction, and banking. For example, in the oil and gas sector, the threat of substitutes is not significant. This means that the future development of this sector is relatively safe; the only worry for investors is the availability of natural endowments and the ways through which they can be exploited. So where threat of substitute is low, this means that the oil industry is very attractive. In manufacturing, is the threat of substitutes depends on the characteristics of individual sub-sectors (what type of production). For example, cement has almost no threat of substitute, which means it is an attractive investment opportunity. Also from the point of view of threat, electricity and construction have no substitutes. In banking there is no substitute for money. Thus it could be said that all these sectors are attractive from the point of view of the threat of substitutes. In fact most of the sectors that Libya has developed operate mostly in the business-to business (B2B) market (e.g., oil, manufacturing), and this fact alone decreases the threat of substitutes. So banking will remain a viable business, because people always need banks. Construction will also be an integral part of any economy, but in the future the focus in Libya will shift from building houses toward building infrastructure in the form of roads, ports, etc. Over all this time people will need cement but the amount and the purpose of this need is not known, so the demand will be high in some times and low at others. The prospects for cement and construction are determined by the demand of the market place, whereas banking and oil depend on whether if there is a crisis or on an economy's position within the business cycle. Electricity is always needed, and has become critical for modern life. The point with manufacturing lies in where investors would like to be and what kind of goods they would like to produce, and in which market they would like to sell. However, more important is what kind of technology level is required. Manufacturing very much depends on a level of technological advancement, so from the point of view of the threat of substitutes, technology, especially high technology, is critical. For example, in the electronic industries there is a high threat of substitutes because these industries depend on technological innovation. It could be said that the need for technological advancement varies between different sectors. In the oil sector, the technology required depends on the type of the oil produced as a raw material; if it is high

quality then it does not need high technology to be refined, but if it is low quality then it requires high technology. However, in general the quality of the oil in Africa and the Middle East is good. The oil sector does not require high technology, so technological advancement is not critical in this sector. However, in the manufacturing sector technological advancement is critical, but the need of the constriction sector is different. It does not need high technology, like manufacturing for example. Also the speed of technological development is less than in manufacturing, where there is improvement every year. The need of electricity for technology is to improve productivity and reduce costs. Banking requires technology in terms of services such as online banking and integration with international banking standards. Therefore, it seems that the manufacturing and banking sectors require technological advancement more then the electricity industry. However, other sectors do not need high technology so much. In general the more high technology an industry requires, the higher the threat of substitutes and the more competition is needed.

6.6.4 Bargaining power of buyers

The bargaining power of buyers can be divided into: firstly, the bargaining power of buyers (customers), which across all Libyan sectors is low, due to the fact that demand is higher than supply, and there are almost no substitutes. Moreover, Libya has a small market size, and low purchasing power. Secondly, there is the bargaining power of the government, which is high. It is also important to differentiate between Libyan buyers and foreign buyers. The importance of this differentiation is to identify which sectors predominately or exclusively serve the domestic market, and which are strongly dependent on foreign markets. The sectors that have foreign markets are more likely to attract FDI in the long run, which in the case of Libya is predominantly the oil sector. The oil sector serves the domestic market, but mostly it exports products to foreign markets. The bargaining power of buyers in the oil sector is low, because the demand is always higher than the supply.

In the cement sector the bargaining power of buyers (customers) is low because the demand is much higher than the supply. However, the bargaining power of the government is high. In the Libyan cement market there are two main companies

producing cement (recently they have become only partially owned by the government, one of them in cooperation with FDI, at the time of conducting this empirical study). The price of cement is decided by the government. Around 80% of their production is assigned to government projects. For example, the Great Man River project alone has consumed around 8m tonnes of clinker. However, in the future this is going to change and the bargaining power of government will decrease when government projects are met, there will be more involvement with foreign investors, and more privatisation. However, at present the profitability of cement depends on the buyers, and most important one is the government. From the bargaining power of buyer point of view, the cement industry is not very attractive to investors.

In terms of electricity, the buyers of electricity are householders, small and large industries and the government. The bargaining power of householders is low, as is of small and large industries, because business activities in Libya were until recently dominated by the government, which also set the electricity price. So from the perspective of the bargaining power of buyers, the electricity sector is not attractive because of a dominant buyer, which is the Libyan government. It may become attractive in the short term when privatisation is implemented in this sector, and the role of the government decreases. So in the near future there will be an increased inflow of FDI because the demand is very high. However, in the long run this will not be the case, and foreign investors will try to find other opportunities.

Construction is also not so attractive as an investment opportunity because the sector is dominated by the government and at present most major construction projects in the country are carried out by the government. As for buyers in the banking sector, whether individuals or businesses, they do not have high bargaining power. So it could be said that in the banking sector is very attractive from a bargaining power of buyers' point of view.

The bargaining power of buyers is related to forward vertical integration, where a company can buy another one in the distribution channel. The advantage of forward vertical integration is the ability it creates for a company to market its own

input. This is a case for the eight companies included in this study, all of which are engaged in forward vertical integration. This suggests that the bargaining power of buyers will increase. However, backward integration is related to suppliers.

6.6.5 Bargaining power of suppliers

In the oil sector, the bargaining power of suppliers is low or zero in some cases, and because the bargaining power of suppliers is low, the oil market is attractive. Buyers in this sector have low bargaining power, so this sector attracts FDI. In manufacturing the bargaining power of suppliers (government) are high, and because of that, this sector is to some extent not attractive. However, because in Libya this sector is very profitable in the short and long terms, as a result it has attracted FDI. Cement and electricity are examples of this sector, and the bargaining power of suppliers in the cement industry is medium to high, because foreign companies are vertically integrated backward, and have secured their input and maybe do not depend on suppliers, especially for raw materials. However, manufacturing companies also depend on their other suppliers, such as the government, in terms of supplying the company with electricity and water, and manufacturers must find buyers, the most important of which is the Libyan government. The electricity industry in Libya is based on oil as a source of production, so oil producers have high bargaining power and the Libyan government is one of these producers. So, the bargaining power of suppliers is high in the electricity industry. The construction industry in Libya depends on cement, and as a result the bargaining power of suppliers is from medium to high. The banking industry is dependent on a supplier of capital, and at present the supplier is the Libyan government through the Central bank of Libya.

Generally, in the future this will change and this bargaining power of the government will decrease. The reason for this decrease is that more involvement by foreign companies into vertical integration, especially into backward integration, can reduce the bargaining power of suppliers. For example in the oil sector, as explained by the literature, one of the most important motives for oil companies to engage in FDI ventures is to secure their oil supply. Thus, companies vertically integrate backward to produce their own inputs. In this case the bargaining power of the supplier, which is the Libyan government, will decrease.

It is idea similar situation for the cement and electricity sectors, and with more FDI inflow the structure of the markets will change. The reason for the backward and forward integration undertaken by foreign investors is to reduce transaction costs, and its advantages include avoiding government taxes and regulation, and the creation of market power for the company instead of suppliers or buyers power. So it appears that the role of suppliers is highly differentiated, whereas the role of buyers is universal, because all companies need markets.

It could be said that backward integration is more important than forward in terms of changing the economic structure of a country. For example, the main idea of backward integration is that the level of competition will be increased across all companies.

Generally the only thing that is will not affect the structure of the Libyan economy in future is the threat of substitutes. However, the number of industrial competitors will increase, the threat of new entrants will increase, the bargaining power of buyers will increase, and the bargaining power of suppliers will decrease.

Thus it could be said this in the non-oil sector, the likelihood of more companies entering the economy is very high. However, it is also high for the oil sector because this sector has suffered from international sanctions, which impacted Libya and had a negative effect on this sector and its development. The discovery of new reserves has motivated the government to attract more companies, and the Libyan government believes that the development of its economy will depend heavily on FDI.

Based on the above analyses the purpose of the following table is to explain the overall attractiveness of industries for FDI.

Table 6-3 Overall attractiveness of industries for FDI

Porter / Sectors	**Industry competitors**	**Threat of new entrants**	**Threat of Substitutes**	**Bargaining power of buyers**	**Bargaining power of suppliers**	**Overall industry attractiveness**	**Companies**
Oil	*****	****	*	*	*****	Very attractive	A +B
Banking	**	*****	-	***	***	Attractive	C +D
Cement	**	*****	-	*****	**	Very attractive	E
Electricity	**	*****	-	*****	***	Very attractive	F
Construction	**	*****	-	****	***	Attractive	G +H

Five stars in industry competitors in oil means high competition, fewer starts equate to less competition across all Porter's forces elements. Source: developed by the author for the current study

In the oil sector the Porter's Five Forces Framework illustrates that this sector is of four stars. This implies that four forces; threat of new entrants, threat of substitutes, bargaining power of buyers and bargaining power of suppliers are favourable to FDI. One force is unfavourable. However, the profitability of this industry made this factor less important. It is therefore concluded from this analysis that on average the oil industry is very attractive for FDI, and that this sector will continue to be the backbone of the Libyan economy while continuing to serve international markets. The banking sector is of three stars; the factors industry competitors, threat of substitutes, and bargaining power of buyers are favourable to FDI. However, it seems to be the case that the banking sector is very attractive only in the short term, and its attractiveness will decrease in the long term.

The Cement sector is of three stars. This suggests that three forces; industry competitors is low which suggested good potential for entering this market, threat of substitutes, and bargaining power of suppliers, are favourable to FDI. It could be said that this sector is less attractiveness than the oil sector. The attractiveness of the electricity industry is more or less the same as cement, partly because they are from the same sector. However, the interesting finding from the above table is that the construction sector is also more or less similar in terms of its attractiveness to the manufacturing sector.

It is clear that all the selected sectors are attractive for FDI. However, oil, cement and electricity are of more attractiveness because they have not only the demand of the local market, but international markets as well, and also the availability of low cost and high quality raw materials for their function. However, for the banking and construction sectors it could be argued that they are attractive, but not over the long term, because when local markets are satisfied there will be no opportunities for export due to the nature of these sectors.

6.7 Conclusion

This chapter has analysed four sectors of the Libyan economy namely, oil, banking, manufacturing and construction sectors. The analysis was carried out using Porters' five forces model. The analysis consists of two stages, within-sector

analyses and cross-sector analyses. It appears that Porter's model is helpful in explaining the structure of the economy and the interdependency between its various sectors. It is also helpful in explaining the most attractive sectors for FDI, which were oil, cement and electricity. It is also helpful from a variety of points of view, because the role of other sectors of the economy in relevant to the analysed sectors. The role of the government in attracting FDI is clearly key, because the government in Libya is a both a supplier and buyer, so it is substantial player. However, the interesting point here is that Porter did not mention the role of government in the FDI process, ownership and who owns what. Because the owner in Libya is either the government or private owners, private owners can be looked at from a different perspective; they can be domestic private or foreign private owner. This differentiation is important because if the government owns a company or an important part of a sector, it can play quite a significant role. However, if the government does not own any thing the only way through which the government can intervene is via regulation. In this case, the government can implement laws, set taxation, and supervise. However, if the government is very a significant owner then it can set various kinds of relevant relationships into process. The next chapter will explore the motives and determinates of FDI across Libyan economic sectors.

Chapter 7 Cross-cases Analysis and Discussion

7.1 Introduction

Chapter 6 presented the analysis and findings of various industries in the Libyan economy, namely the oil, banking, manufacturing and construction industries. Chapter 6 showed that there were differences between the oil sector and non-oil sectors in terms of industry competitors, threat of new entrants, threat of substitutes, and the bargaining power of buyers and suppliers. However, there were no substantial differences between the non-oil sectors in terms of Porter's five forces model. This implies that the motives and determinants of FDI were probably similar across the various sectors of the Libyan economy.

The findings connected to eight companies within the case study analysis showed that there were no significant differences between motives and determinants of FDI in the various sectors of the Libyan economy. Thus to avoid repeating information, it was decided to implement cross-case analysis directly. However, for the reader who is interested in reading about these cases, they are to be found in appendix B.

The present chapter provides and concludes the cross-case findings through a search for cross-case patterns, and highlights the similarities and differences between the eight cases conducted regarding the research issue.

Tables and matrixes are employed in the cross-case analyses to compare and contrast the subheadings and themes from the within-case findings that were developed and put into appendix B. Therefore, the case findings are combined in an attempting to answer the research sub-questions. Lastly, the conclusion to this chapter is presented.

7.2 Company analyses

In order to have FDI, there is a need for different conditions to be achieved. The conditions are that the three parties that were spoken about in previous chapters should identify their motives, and these motives should be complementary to each other. After this all parties are able to negotiate their offers, goals and capabilities for a contract to be signed. Here the Libyan government, through its policies, plays an important role in facilitating this process and turning motives into determinants. The process of negotiation provides grounds for the development of an FDI project. Following this, the role of the Libyan government, common determinants of FDI and economic sectors are the most important factors in the process of managing an FDI project. Thus the major aim of this research is to study the process of starting FDI and the most important motives that turn into determinant. The present study is interested in this because it aims to provide some recommendations concerning the improvement of this particular process through managing it better. However, the present research is not interested in studying the performance after FDI it takes place or the factors that determine this performance, because there is not a long enough history of FDI in Libya.

7.3 Classification of motives for FDI

Due to the fact that participation in an investment venture is not only dependent on the motives of foreign investors, but also on those of both the host country's government and its firms, the classification of motives for FDI in this study is based on the interaction of these three parties.

The findings of this study showed that the motives for FDI were classified into two groups:

The first group includes two sets of motives:

Firstly, those motives which can be classified on the basis of commonality, and are therefore relevant to foreign investors, the host government, and host companies.

Secondly, those that are relevant only for one, two or three of the parties.

The second group comprises two sets of motives:

Firstly, motives that are related to factors that are impossible to change (uncontrollable), such as geographic location. Secondly, factors which can be changed (controllable) but require much investment and time to change, such as infrastructure. The following figure shows these sets of motives for FDI for all parties and for each party: the representation of items in the figure derives from the findings of the present study.

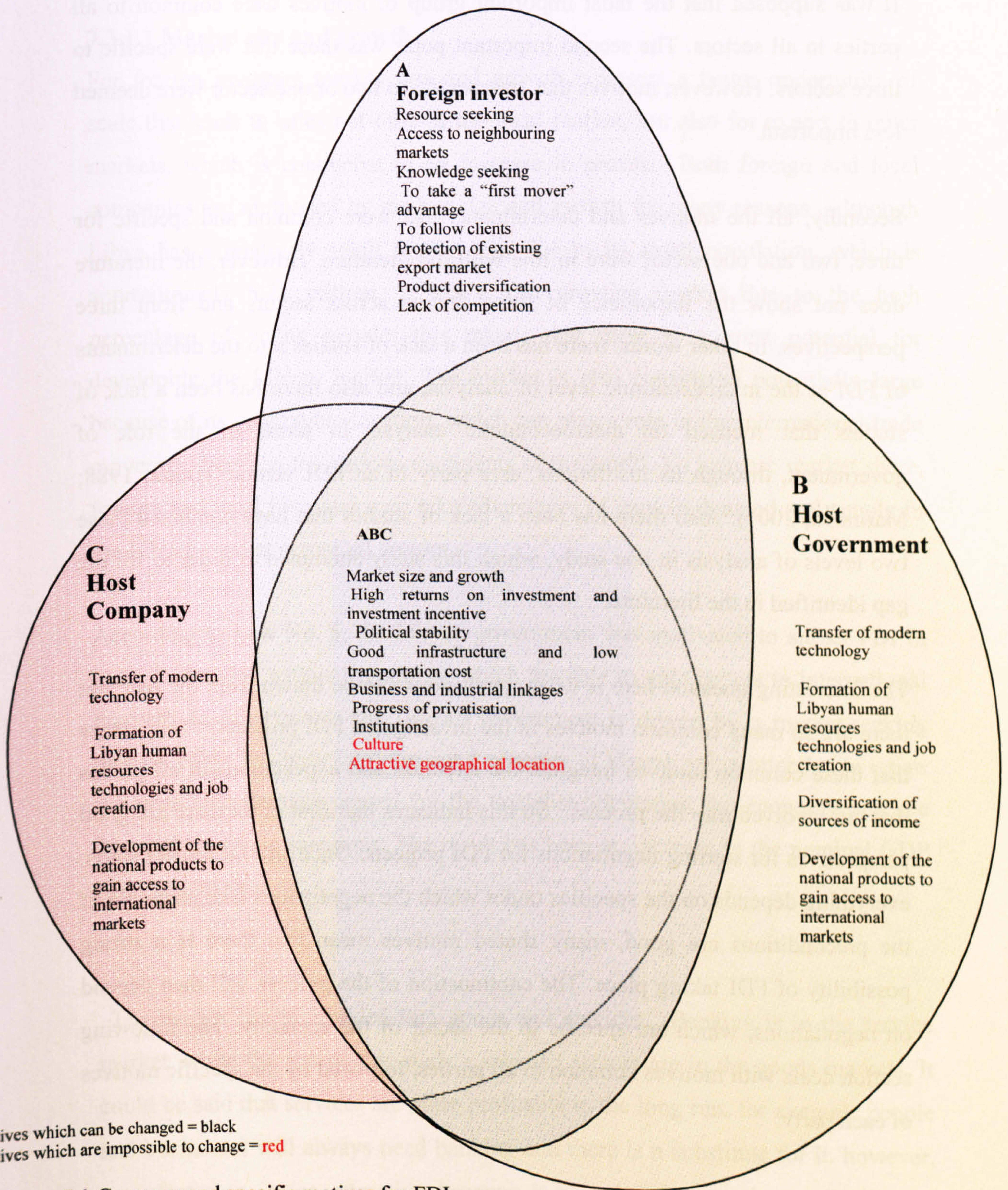


Figure 7.1 Common and specific motives for FDI

In general it was found that, firstly, the findings of the present study emphasized the importance of the three parties' motives for FDI. The importance of these motives was founded on their complementary and commonality between and across all parties, because these were the preconditions for initiating FDI projects. It was supposed that the most important group of motives were common to all parties in all sectors. The second important point was those that were specific to three sectors. However, motives that are specific to two or one sector were deemed less important.

Secondly, all the motives and determinants that were common and specific for three, two and one sector were in line with the literature. However, the literature does not show the importance of these factors across sectors and from three perspectives. In other words, there has been a lack of studies into the determinants of FDI at the microeconomic level of analysis, and also there has been a lack of studies that focused on macroeconomic analysis in terms of the role of government, through its institutions, as a party in an FDI venture (Datta, 1988; Marinova, 2001). Also there has been a lack of studies that have combined these two levels of analysis in one study, which this study attempted in order to fill the gap identified in the literature.

The interesting question here is what conclusions can be drawn from the fact that there are so many common motives in the investigated FDI projects? This means that these common motives integrate the attention and expectations of all parties that are involved into the process. So this indicates that first of all there are good perspectives for starting negotiations for FDI projects. Once an FDI project starts, everything depends on the specifics under which the negotiations take place. So, if the preconditions are good, many shared motives mean that there is a strong possibility of FDI taking place. The continuation of the process will then depend on negotiations, which are specific to the sector of the economy. The following section deals with motives common to all parties, followed by the specific motives of each party.

7.3.1 Motives for FDI that are common to all parties

ABC Foreign investor, host government and host company

The following sections deal with these common motives in terms of how can turn into determinants that define the action of the parties involved.

7.3.1.1 Market size and growth

For foreign investors market size and growth represent a better opportunity of scale that leads to sales not only in the local market, but also for export to other markets, which is conducive to an increase in profits. Both foreign and local companies are motivated by market size and growth for many reasons. Although Libya has a relatively small market size due to its small population, which is approximately 6.21 million, it has a fast growing market due to the high percentage of young people; this means that there is a great potential for developing the Libyan market. The market is also considered potentially large because of its geographic location, which can play a role in the international trade movement between the various continents of the world. To increase market share, foreign and local investors may take advantages of gaps in demand and supply in the Libyan market across all sectors.

According to Law No. 5, the Libyan government was motivated to attract FDI in order to develop national products, which are able to gain access to international markets. In other words the Libyan government is driven by a market-seeking motive. Libya has been carrying out a program of liberalization intended to repair the economic damage caused by the socialist-orientation the economy and the years of economic sanctions. The result has been an increase in the nominal GDP from year to year.

The market can be divided into goods and services. Banking is in the service market, while the rest of this study's selected sectors are in the goods markets. It could be said that services are more profitable in the long run, for example people and businesses will always need banking and there is n substitute for it. however, manufacturing is lee attractive because it is vulnerable to the availability of

substitutes for its products. In terms of domestic and foreign markets, the oil sector serves mostly foreign markets. Manufacturing (cement and electricity) serves both domestic and foreign markets. However, construction and banking serve only the domestic market. In the long run serving foreign markets is more attractive than serving the domestic market, because the domestic one at certain periods of time will be settled, and it will cease to provide further opportunities for growth.

7.3.1.2 High return on investment and investment incentives

For foreign and local companies, investment incentives include benefits such as a low cost of land, tax holidays, favourable customs duties, and low corporate taxes on earnings, which for foreign and local investors mean low operation costs and higher efficiency, which in turn leads to improvement in their competitive advantages, and that is why they are the parties most impacted by this factor.

The investment incentives that Libya offers to attract foreign investors differ between sectors. In the oil sector, in1974 Libya engaged in the Exploration and Production Sharing Agreement (EPSA). Under these agreements foreign investors obtained a high share of the profit they made. In the non-oil sector, especially to attract FDI into the manufacturing and construction sectors, Libya offered packages of incentives and guarantees to foreign investors through law No. 5. These incentives include exemptions on costs such as customs duties, income taxes, stamp duty, and production tax, for a period of time up to five years, which may be extended by an additional period of three years. However, in the banking sector, the market gets the incentive.

The interesting question now is that although this factor may be one of the motives that attracted FDI, what is going to happen after 5 years if a high return has not been achieved? So, there is a time dimension. If foreign investors like the conditions that exist today, they may not like them in the future. So, how is the Libyan government to retain foreign investors? The government needs to create alternatives, for example by allowing investors to create new markets, invest more money and create greater involvement to increase their commitments. Thus, when

the rate of return decreases, the investors will be less willing to cease operations in the country.

7.3.1.3 Political stability

For foreign investors, political stability in Libya is a very important factor. Before 2003, and as a result of international sanctions foreign investors were not motivated to invest in Libya. However, after 2003 the political stability of the country played an important role in motivating foreign investors to invest in Libya. Local companies were not affected by political factors because the country was internally politically stable.

However, for the Libyan government this factor was very important in attracting FDI. Therefore the government to steps to improve its international standing. For instance, Libya undertook to remove its Weapons of Mass Destruction (WMD) and it has requested accession to WTO. This allows Libya to have access to world markets, which increases the attractiveness of investing in the country. So it is not only the availability of natural resources in Libya that has attracted foreign investors, but also the opportunities to exploit international markets. Saif Al Islam Al Qaddafi, Chairman, The Qaddafi Foundation, stressed that the re-establishment of diplomatic relations with the rest of the world was an important achievement in terms of progress in economic growth. In September 2008, Condoleezza Rice, the US secretary of State, visited Libya to discuss with the country's leader the future of relations between Libya and USA. This visit yielded several agreements, one of which was the establishment of a US trade office in Tripoli in October 2008 and bilateral trade agreement with the US, that resulted in a Libyan announcement by Saif Al Islam of plans to invest around $100bn in the US economy (Oxford Business Group, 2008). From the US point of view, Libya was considered as one of the fastest growing markets for US exports.

Although Libya has reached mutually beneficial agreements with the USA and Western Europe, it still needs to form productive relationships with other parts of the world, such as China for example. The government needs to look at the world from all perspectives in order to exploit every opportunity. However, the situation in Libya currently is unpredictable.

7.3.1.4 Infrastructure and low transportation cost

Infrastructure and low transportation cost is an important motive for all parties. However, foreign investors are the party mostly impacted by it. This is because for foreign and local investors the availability of good infrastructure means an ease of operations, moving production materials and products efficiently to designated areas, which in the end affects their costs and profits. Low transportation cost is related to communication costs.

However, the meaning and significance of this motive differs between the different sectors. For example, in the oil sector infrastructure means seaports, pipeline networks, plants, terminals, storage facilities, and so on. In this sector infrastructure is critical in terms of export facilities, and foreign investors will be attracted or discouraged based on this factor because their main aim is to export oil. In the banking sector infrastructure has a different meaning; it is related to telecommunications such as telephone networks, mobile phones, and the Internet. In the manufacturing sector, infrastructure means roads, airports, seaports, plants, equipment, and IT facilities. Export facilities are also very important in this sector. In the construction sector, the concern is mostly with physical infrastructure. Neither export facilities nor telecommunications infrastructures are critical in this sector. If the Libyan government invests extensively in building roads, railways, ports, this will not guarantee good conditions for banking, because it will continue to require a good communications infrastructure.

If the Libyan government wishes to attract FDI, it should recognize the need to improve infrastructure services across all economic sectors for both firms and households. From the Libyan government's point of view investment in infrastructure represents laying the foundations for a future export capability, especially as Libya is motivated by export market seeking. The improvement of infrastructure will offer opportunities for employment and job creation, new skills and better wages and enhance economic growth. To improve the country's infrastructure, the government's national development plans allocated US $14 billion for 2009 alone, representing 60% of the total annual budget (www. Infrastructurelibya.com). Also it had allocated US $40 bn across housing and

infrastructure by 2010. 10.5$ bn of this figure was allocated to infrastructure investment which specifically designed to encourage foreign investors to come to Libya.

Thus, at the time of signing a contract, this motive turned into a determinant, because if the infrastructure and the transportation structure of the country had been underdeveloped and not in a good condition, this would have created substantial problems and discouraged FDI. In terms of infrastructure the Libyan government is an active participant in its improvement. The government needs to improve the infrastructure not only for existing foreign and local companies, but also its should take into account the development of various sectors that need a more developed infrastructure. Although the government gave foreign investors exemptions from tax for 5 years, it can on the other hand impose them in the future in order to build roads or ports, to make foreign investors contribute to the improvement of infrastructure.

7.3.1.5 Business and industrial linkages

In the oil sector this factor was linked with infrastructure (the facilities to explore, produce and export oil) and access to reliable and co-operative suppliers related to oil activities. Thus it was controllable through Libyan government policies in terms of infrastructure. In manufacturing it was linked to product diversification, which in turn was linked to opportunities for new market segments, which was also controllable by the Libyan government. In banking, this factor was linked to companies who entered the Libyan market in order to invest in various sectors of the Libyan economy. In construction it was linked to business inside and outside Libya. Thus in these two sectors, business and industrial linkages were uncontrollable motives.

7.3.1.6 Process of privatization

Foreign investors in Libya are motivated by resource and market seeking FDI, and privatization is therefore an important motive of FDI flow from a foreign investor's point of view. Host firms have been mostly driven by their need to acquire management expertise and transfer technology.

In the period of more than 30 years which have passed since Libya's massive nationalization programme, it has become apparent that the nationalized and centralized system of government in Libya has failed to deliver its economic goals. As Colonel Qadhafi himself stated publicly at the General People's Congress in Sirte in January 2000, "the system is finished. I have to step in today to stop this wheel from spinning in a rut and wasting fuel", accusing members of the GPC of deliberately wasting the country's resources, saying, "you're holding onto obsolete methods in order to justify wasting oil."

In 2003, Qaddafi stated that the country's economic development required the privatization of the public sector and the increased involvement of foreign investors. The Libyan government has participated in a privatization process motivated mainly by widening the economic ownership base, the strategic restructuring of host companies, improvements in business performance, reducing the burden on the national budget and activating the Libyan stock market.

Following the statement quoted above and in the same year, Qaddafi called for the privatization of the oil and aviation sectors, some public sector companies, and banking. On 24 November 2003, the Libyan Prime Minister, Dr. Shukri Ghanem, announced a comprehensive plan for privatizing state-owned factories and companies, stating that the plan would cover the privatization of mineral industries, especially chemical industries, iron, steel, and state owned farms, shoe companies, and factories to assemble trucks and buses.

This announcement by the country's leader concerning the privatization of state owned companies in Libya provided foreign investors with opportunities in the local and foreign markets, for example in the manufacturing sector there were huge opportunities in the cement sector, where demand was very high. Then after local markets are satisfied there will be opportunities in the international markets. For example, the ESDF played an important role in the privatization process when it bought some plants of the Libyan Cement Company from the government then sold them to an Austrian company, enabling it to be the first privatized manufacturing joint venture company. Another example of privatization was the Sahara Bank, which was the first Libyan bank to be sold to a foreign investor.

The government is a provider of opportunities not only by allowing changes of ownership and allowing FDI, but also to as a monitor of the process of activities once a company has been privatized to facilitate FDI. For this reason in 2009 the Privatisation & Investment Board (PIB) was established to supervise the process of privatisation in the non-oil sector.

In the oil sector the government does not allow privatization. It only allows some kind of participation for a certain period of time in the process of oil extraction, but does not allow ownership on productive assets. If the government has control over ownership, the sector is much easer to regulate. The process of privatization does not differ between various economic sectors. In the non-oil sector there is no difference in the process of privatization.

7.3.1.7 Institutions

Foreign investors are motivated by the availability of good institutions that facilitate the FDI process, and key indicators include low levels of corruption, economic and political freedom, efficient protection of civil and property rights, and less bureaucracy, all of which are associated positively with FDI. For foreign investors good institutions mean low transaction cost and high profits. Also institutions affect economic activities via production costs that rise from factors such as bribes or lengthy waiting times, which are required in order to receive certain kinds of public services or permits.

In Libya there are two groups of institutions, one is the General People's Congress (Parliament), which promulgates legislation, while the General People's Committee is responsible for implementing social and economic policies, and plans.

Due to the fact that Libyan policy makers realize the importance of institutions as a key factor in attracting FDI (as was explained in chapter 4) they have established several. In the oil sector, The National Oil Corporation (NOC) was established in 1970. NOC acts as a supervisory and controlling body and aims at achieving development plans related to the oil industry. This institution plays an important role in facilitating the FDI process in the oil sector.

To encourage FDI in the non-oil sector, the Libyan Foreign Investment Board (FIB) was established in 1998 as an authority encouraging foreign capital investment and promotion for investment projects.

The Economic and Social Development Fund Company was established in 2006, as a financially independent body. The aim of the fund is to achieve economic and social development by investing in the country's various economic sectors. This institution played an important role in the process of privatization that encouraged FDI and also as a local partner for foreign investors across Libyan economic sectors.

In 2009, the Privatization & Investment Board (PIB) was established as a result of integration between the Libyan Foreign Investment Board (FIB) and General Board for Investment and Ownership. Its aim is to prepare a suitable environment for foreign investment, within the local market, and to increase the participation of the domestic private sector in economic development.

7.3.1.8 Culture

Culture can be divided into national culture and organizational culture. National culture is very difficult for a government to change, for example it is very difficult to change a country's religion or language. Organizational culture on the other hand can change, for example, ways of thinking can change. But organizational culture can be impacted by national culture.

In 1980 Hofstede conducted a study into international differences in work-related values to compare between the culture of different countries according to his four dimensions (masculinity versus femininity), (individualism versus collectivism), (large or small power distance) and (strong or weak uncertainty avoidance). Libya was one of the countries studied. Hofstede's study regarding Libya showed that the features of Libyan culture include a tendency towards low individualism and high power distance, masculinity, and uncertainty avoidance.

After around 30 years, namely in 2006, Hofstede's work was supported by Twati's study into the influence of societal and organizational culture on the adoption of management information systems in the Arab world, in which Libya was one of his case studies. In line with the above scholars, Abubaker (2008) found the same results from his study, which was into the influence of core cultural values on the communication behaviour of staff in Libyan organizations. One interpretation for all these findings could be that the application of religion to social relations in Libya has led to this result.

Surprisingly, the findings of the present research were opposite to all the above studies. The findings showed that all the case studies had low power distance between Libyan culture and the culture of the companies engaging in FDI. However, for 50% of the companies, the reason for this low distance was that they shared the same languages and religion as Libya. However, the other 50% linked culture to the experience, which is a different point of view from the above mentioned studies, and that is may be why the findings of this study are different from the studies mentioned above. For example, if a foreign investor worked in Arabic countries and after a certain period of time they worked in another Arabic country, they would become experienced and understand this culture, even if their own culture were completely different. So the findings of this study showed that a high power distance was not a hindrance to FDI in Libya.

7.3.1.9 Attractive geographic location

Foreign and local investors are the parties most impacted by the geographic location of Libya as a preferred location for FDI. For example, for resource and market seeking FDI, geographic proximity means low cost of transportation of resources and production to be exported to the investor's home country or to international markets. Also, Libya's location is presented as a large market size for a foreign investor, due the fact that Libya is a door from which a company can enter the African market.

The Libyan government has realized the importance of its geographic location as a factor which attracts FDI. For example, the location of Libya bordering the Mediterranean Sea gives it an important role in international trade movement

between the various continents of the world. Thus in February 2008 Libya began negotiations for a framework agreement with the EU. These negotiations represented a critical role in the reintegration of Libya into the world trading system (Oxford Business Group, 2008). Moreover, law No.9 of 1997 set a plan for establishing a number of free zones and transport to link all of Libya in order to revitalise trade with its neighbouring countries. This started with the construction of the Misurata Free Zone (MFZ) in 1997. So when the Libyan government started to design policies designed to enhance the benefits of its geographic location, this turned a motive into a determinant, because geographic location is one of the uncontrollable factors and the government can't change it. However, it can influence FDI indirectly through its policies as was explained above.

7.3.2 Motives for FDI specific to one party

A- Foreign investor

As illustrated in chapter two, Dunning distinguished between four types of foreign investors' motives to operate abroad, i.e., market seeking, resource seeking, efficiency seeking and strategic asset seeking.

In the literature several empirical studies such as Pye (1998), Altzinger (1998), Kudina (1999), Lim (2001), Marinova (2001), Streak and Dinkelman (2002), Campos and Kinoshita (2003) Eckert and Rossmeissl (2004), Marinova et al. (2004), Chorell and Nilsson (2005), Hannula (2005), Uiboupin and Sorg (2005), Buckley et al. (2007), Marian et al. (2007), Birsan and Buiga (2008) have shown that in developing countries and transition economies, foreign investors are primarily motivated by resource seeking and market seeking FDI.

In the non oil sector the findings of the present study showed that foreign investors were motivated by market size and growth, in order to take a "first mover" advantage, to follow clients, the ensure the protection of an existing export market, product diversification, and lack of competition. This suggested that foreign investors were motivated mainly by market-seeking FDI. From a foreign investor's point of view theses motives are important when starting negotiations. However, the government cannot control these motives through its regulations and policy.

In the oil sector foreign investors are motivated by resource seeking and knowledge seeking FDI. If some investors have specific motives, this may set specific requirement for the regulation and management of FDI projects depending on the sector of the economy. For example, if foreign investors are motivated by resource seeking FDI, the role of the government in this case is by its regulation and management to facilitate this by creating better conditions and priority treatment in terms of duties for exporting oil and manufactured goods from Libya to other countries. Also another policy could be improving export infrastructure. So the government can indirectly control this motive through its policy and regulation.

Because there are few studies which have paid attention to the host governments and national companies, one of the current study's purposes was to integrate all of this and give more attention especially to the host government's motives and how it can regulate and manage the process of FDI. It was also and intention to give attention to certain factors influencing local companies. The finding of this study showed the critical role of the Libyan government in the FDI process.

B-Host government motives for FDI

In dealing with Host Government and Host Company, the literature is sparse (for example, Datta, 1988; Marinova 2001). In the sections that follow, the approach is to adopt the flow of concept used in the "foreign investor" literature. The sections therefore echo the above discussion of foreign investors' motives for FDI.

In the literature some studies such as Marinov and Marinova (1999), Marinova (2001), Blomstrom and Kokko (2002), Fodor (2005), have illustrated that governments of developing and transition economies seeking to attract FDI are motivated by reasons such as job creation, the enhancement of privatisation programs, gaining access to advanced technology, acquiring managerial skills, supporting economic growth, and the strategic restructuring of local companies.

In the context of Libya, the findings showed that according to Law No.5 of 1997, the Libyan government in attracting FDI was motivated by: the transfer of modern technology; the formation of Libyan human resources technologies and job creation; diversification of sources of income; and the development of national products to gain access to international markets.

The Libyan government's specific motives can impact the FDI process in various sectors in the economy in terms of whether these motives are in line with the motives of foreign investors, or not. Because the Libyan government is the stronger party in terms of allowing FDI or not, if foreign investors does not agree with the specific stipulations of the government, then FDI will not take place. For example, if the government's motive is to transfer technology and if the foreign investor agrees to transfer technology to Libya, then FDI will take place. If they do not agree, FDI will not take place. Where the government is the strongest party, it has to know how to play the role very well because it may discourage FDI instead of attracting it. Moreover, all the specific motives of the government have to be in line with the needs of the country and the economy. The Libyan government is motivated by the transfer of modern technology, and by upgrading local labour through job creation across all sectors. However, it is also motivated by the development of national products to gain access to international markets in the manufacturing sector, while in the tourism and manufacturing sectors, it is motivated by diversification of the country's sources of income.

C - Local company motives for FDI

To attract FDI a host company is motivated by factors such as the acquisition of strategic assets like brand names to exploit in local or foreign markets, obtaining sources of finance, marketing and managerial skills, and the transfer of technology (Marinov and Marinova, 1999)

As all local companies in Libya were state-owned, UN and US sanctions impacted negatively on updating technology across all sectors, and the centralized economic system of Libya hampered the development of marketing and managerial skills. This was why Libyan local firm's motives are generally the same as those of the

Libyan government. This is a positive benefit to the process of FDI, because even before negotiations begin two parties have the same motives. Therefore, local companies take government motives as their own priorities of development. Local companies' motives are reinforced by government policy and local companies are motivated by the transfer of modern technology, the formation of high-quality Libyan human resources and the development of national products to gain access to international markets across all sectors.

The following section deals with the second group of motives, both uncontrollable and controllable.

7.4 Uncontrollable and controllable motives

Uncontrollable motives are factors over which the government of the host country is unable to have direct control, such as whether the country has natural resources or access to the sea, or some kind of good environment conditions for the development of infrastructure and so on. The country cannot control such motives because they are given (by God). So these factors are either present in the country or not. These uncontrollable motives can quite easily turn into determinants. Moreover, the country can influence these factors indirectly. For example, in terms of natural resources, the government can improve this as a motive for FDI by improving infrastructure in terms of seaports, pipeline networks, plants, terminals, storage facilities and export duties. All of these measures increase indirectly the attractiveness of this motive. Also, while the country cannot change its geographic location, it can increase its attractiveness by further improving infrastructure and establishing economic free zones.

Controllable motives on the other hand mean the government of a country has control over them. For example, it has control on the development of infrastructure, regulating the process of FDI via laws, national stability, economic structure and so on. The government of a country has this control, but it is foreign investors who are the party most impacted by this control. These controllable motives become determinant only under specific conditions. For example, if the government designed some policy to attract FDI, it could become a determinant if foreign investors agree with the government's motives. For those motives that can

be controlled by the government, there is a need to know how they can be managed better in order to attract FDI. However, attracting FDI is not important in itself, but the positive impact of it on the country is important.

Porter's five forces model was applied in order to analyse various sectors of the Libyan economy in terms of industry competitors, threat of new entrants, threat of substitutes, bargaining power of buyers and bargaining power of suppliers. After applying this model, oil and banking were found to be the most attractive sectors, while manufacturing and construction were less attractive.

The next section explores in each particular case which of these motives started the process of FDI and become a determinant and in which sector.

7.5 Cross case findings concerning research issues

This section compares and contrasts the findings of the eight case studies conducted by searching for similarities and differences between these cases and thereby meeting the major research aim. Firstly, it will compare and contrast what kind of motives brought the parties into the FDI process, and how and which motives turned into determinates. Secondly, it will attempt to integrate motives and determinates of FDI for the Libyan economy as a whole.

7.6 Determinants of FDI for the three parties

Table 7-1 Cross-case findings for motives of three parties

Sectors / Factors	Oil	Banking	Manufacturing	Construction
	A + B	C +D	E+F	G+H
Market size and growth prospects	√	√	√	√
Higher rates on investment and investment incentives	√	√	√	√
Political stability	√	√	√	√
Good infrastructure and low transportation costs	√	√	√	√
Business and industrial linkages	√	√	√	√
Progress of privatization	√	√	√	√
Institutions	√	√	√	√
Culture	√	√	√	√
Attractive geographic location	√	√	√	√
Overall economic climate	√	√	√	
To take a "first mover" advantage		√	√	√
Easy repatriation of profits for investors	√	√	√	
Resource seeking (availability of raw materials)	√		√	
Low cost of raw materials, energy and water and availability and low costs of land			√	√
To follow clients		√	√	
Access to reliable and co-operative suppliers	√			√
Less strict environmental laws	√			√
Banking system and government policies and regulations		√		
Product diversification			√	
Lack of competition				√
Protection of existing export market			√	
International trade agreements	√			

Knowledge seeking	√			
Access to neighbouring markets	√			

Source: developed by the researcher for the present study based on cross-case analysis of the fieldwork.

7.6.1 Common determinants for FDI across all sectors

As mentioned earlier in this chapter, all motives were in line with the literature. However, they were examined from the foreign investor's point of view. Also, neither the process by which motives become determinants of FDI and the perspective and the role of the government in this process have not been highlighted in the existing literature. In spite of some studies which mentioned the role of the government, such as those of Datta, (1988), Dyker (1999), Bevan and Estrin (2000), Gorynia et al. (2003), Marinova et al. (2004), Bayulgen (2010), Ferretti and Parmentola (2010), the current research considers the role of the government from a different perspective to that of the above studies. Thus this study contributes to FDI literature by combining two perspectives, those of the host government and foreign investors, concerning factors which motivate and determine FDI: this will be done in the next sections.

7.6.1.1 Market size and growth prospects

The finding of the present research are in line with studies such as Chen (1996), Pye (1998), Maniam (1998), Coskun (2001), Galan & Gonzalez-Benito (2001), Nonnemberg and de Mendoncthe (2004), Bevan and Estrin (2004), Maloney (2005), Hellstrom & Sungur (2006), Buckly et al. (2007), Yulng & Yuanfei (2008) and Ismail (2009), all of which showed the important of market size and growth as a determinant of the location of FDI inflow.

Foreign investors across sectors indicated market size and growth prospects as the most important determinant for investing in Libya. This result is not surprising, especially for domestic markets which were underdeveloped and protected by the government for almost 30 years. These markets offer opportunities for development, expansion, and the creation of new market segments. However, it seems that market size and growth were viewed differently. For example, investors

in the oil, manufacturing and banking sectors saw the opportunity to build a long-term position in the Libyan market. The economic system of Libya, its low population and power of purchasing were not seen to be a restriction on establishing a long term position in the market. However, in the construction sector the opportunities were viewed as a short-term position.

By 2010 there were not many places in the world where so many major projects were happening at the same time. Due to reasons already discussed, in Libya for around 30 years across all sectors very little economic progress was made, and suddenly in two years several large projects were undertaken including the construction of hotels, department stores, football stadiums, airports and railway stations, which will be built to connect Tunisia, Egypt and Libya. At the time of writing, all these projects are progressing and that is why the Libyan market was viewed as a substantial one. Also the country has one of the highest population growth rates in the world and almost 50 per cent of the population is under 20 years old, (Wallace and Wilkinson, 2004; Oxford Business Group, 2008). All of this means high demand on accommodation, electricity, and banking services, and so on. In addition Libya has other key demand drivers such as the high liquidity the Libyan government enjoys.

Market size and growth is controllable determinant. The Libyan government can impact the attractiveness of its market indirectly. For example, when the government announced its desire to change the economic system from a centrally planned economy to a market one, this transition had implications for the role of private sector, which is very important to investors, especially with regard to policies in terms of export duties. These policies helped in turning motive into determinant. The growth potential in Libya is high across all sectors: for example the chief executive of company E mentioned that "I still believe that the coming years will bring an annual GDP growth rate of 5-6 %."

7.6.1.2 Higher rates on investment and investment incentive

The findings from the cases studied confirm Akhtar (1998), Maniam (1998), Coskun (2001), Asiedu (2002), and Alfarsi, and Almanasory (2006) in that they confirm that higher rates on investment are a location determinant of FDI.

Regarding the investment incentive, this finding is additional support for existing studies about the investment incentive as an important determinant of FDI, for example, Galan, & Gonzalez-Benito (2001), Gilmore et al. (2003), Mellahi et al. (2003), Banga (2003), and Yulng & Yuanfei (2008).

All cases confirmed that Libya as a location for FDI offers a high return on investment. The high return on investment in Libya is a result of natural factors and factors related to the Libyan government's desire to attract FDI. In the oil sector, the return on investment is because: firstly, Libyan oil is usually light and sweet crude, which is high quality and easily extractable, and there is considerable exploration potential and low costs of oil recovery. Secondly in its attempt to encourage FDI the Libyan government offers a high return on investment and investment incentives through the exploration production and sharing agreement (EPSA), wherein the foreign investors (for the purposes of the study companies A and B) have between 11% and 37% as a share of profit, which was seen by them as a high return on investment in Libya. In the non-oil sector, especially in manufacturing and construction, the same natural factors for high return on investment can be found. For example, the cement available in Libya is high quality and easy to extract, and this commodity is used by manufacturing and construction companies (E, G, H) as a raw material for their business. Also company (F), an Electricity Company, uses oil as a raw material and as mentioned earlier, the cost of oil in Libya is low. This implies that a low cost of raw materials has led to high returns. Another reason for the high returns found in the non-oil sector is the stipulation of Law No 5 that gives foreign investors five years exemption from tax, with the possibility to increasing this by another three years. This factor was viewed as an important investment incentive by foreign investors that led to credible amount of profits. These policies by the government turned high return on investment from a motive into a determinant. However, in the banking sector, it seems that foreign banks did not need special incentives to attract them, due to the Libyan market itself playing an important role in attracting these banks, because it is profitable market with potential for expansion.

So it could be suggested that high return on investment and investment incentives are controllable determinants. For example, uncontrollable in terms of the natural

geography of the country and its raw materials, while controllable in terms of the incentives that the government offered in each sector.

7.6.1.3 Political stability

This finding is similar to those of Benacek et al, (2000), Mellahi et al. (2003), Uiboupin & Sorg (2005), Buckle et al. (2007), and Naude and Krugell (2007), who found that political stability was an important determinant of FDI.

Cross case analysis illustrated that Libya is a safe place to live and work in. For example, the Chief executives of companies A and B emphasized their ability to focus and concentrate on running their activities because the Libyan community was controlled by the government and inside the country the situation was 100% stable, with no strikes, and this is was perceived as one of the country's competitive advantages. For companies C and D, Libya is considered to be very stable in terms of political risk because the Libyan government had not changes for 40 years. Companies E, F, G, and H believed that Libya was stable because there was no violence or civil war, or any similar problem. However, the recent situation in Libya now is completely different because of the war between the country's leader and the Libyan people that discourages FDI into Libya at present.

7.6.1.4 Good infrastructure and low transportation costs

All cases confirmed the results which are reported by many studies in the literature, such as those of Galan and Gonzalez-Benito (2001), Campos and Kinoshita (2003), Gilmore et al. (2003), and Ismail, (2009) which showed infrastructure and low transportation costs as being very important determinants of FDI, which have a positive and significant impact on the location decision of foreign investors.

All cases confirmed that the infrastructure of Libya was in an acceptable situation. For example, company A explained that in Libya infrastructure was perceived to be good because the country had already run oil and gas business for a considerable period and also it had low transportation costs. Company B believe that infrastructure in Libya was improving in all industries generally and in oil particularly, and it that this was a benefit because it was easy to keep contact with

all their suppliers, and all service companies. Infrastructure in this industry was seen to be growing very fast. Companies C, D, E, F, G, and H saw that several major construction projects were underway in Libya and that physical infrastructure and transportation within Libya was good and quickly improving. However, all companies in general, and C and D, in particular viewed the IT infrastructure of Libya as poor.

It can be said that infrastructure is a controllable factor. It means the Libyan government the capability to improve, strengthen and change its infrastructure in order to improve its chances that the process of FDI will move from one stage to another. For example, in terms of its merchant navel fleet, the Libyan government had ambitious plan for the refurbishment, purchase and replacement of an additional 36 vessels, (Otman, 2007). Moreover, an international seaport will be built in Sirte, which is intended to deepen Libya's links with the Mediterranean shipping networks and to help establish the country as an international centre for transit shipping (Oxford Business Group, 2008).

7.6.1.5 Business and industrial linkages

The findings showed that across sectors all investors were motivated by business and industrial linkages, which is in line with the findings of Galan & Gonzalez-Benito (2001). However, this determinant was interpreted differently between different sectors. For example, in the oil sector, Libya has a lot experience in running oil and gas businesses, especially in upstream activities. So the facilities to explore, produce, and export oil are all good in Libya. Investors have no issue about finding support for supply the development activities, equipment and so on, because so many supplier companies have been established in Libya for a long time ago. It seems to be that foreign investors linked business and industrial linkages to infrastructure and co-operative suppliers. This is an expected interpretation because the oil industry is an extraction operation and their business is related to these factors. In this sense, business and industrial linkages is a controllable motive in that the government through its policies is able to improve it.

In the manufacturing sector, business and industrial linkages are linked with diversification of the market. For example, investors stated that they came for one specific market, and then they saw opportunities in other segments of the market. This is a controllable determinant because it was the government's decision to provide foreign investors with these opportunities. In the banking and construction sectors there was a similarity between them in their interpretation of business and industrial linkages in terms of linking their operations with other businesses. However the difference is that in the banking sector the idea of business linkage was connected to other business inside the country in terms of other sectors that require banking services. However, in construction it was linked to business outside the country. In these sectors business and industrial linkages were an uncontrollable motive.

7.6.1.6 Progress of privatization

The findings of the study from the majority of cases conform to those of Holland and Pain (1998), Benacek et al. (2000), Mcmillan and Morita (2003), Merlevede and Schoors (2005) in terms of the importance of privatization as a determinant of FDI, especially in transition economies. It was also an important determinant from the Libyan government's point of view.

Cross-case analysis showed the importance of privatization as a location factor across sectors. In the banking sector it can be said that the progress of privtization was one of the most important factors which motivated company C to invest in Libya, and the findings of this study showed that the foreign company heard about the CBL's intention to privatize the banking sector and this encouraged them to consider Libya as a location for FDI. However this motive turned into a determinant only when the CBL privatized the bank by selling it to the Economic and Social Development Fund which later sold (19%) to the French company (C) and selected it as its partner in July 2007, which was a condition that the Libyan government created to facilitate the process of FDI. In the manufacturing sector, it can be said that for company E and its project to take place, privatization was a very important motive. The company began negotiations about entering the Libyan market in 2003. It was eager to purchase cement plants in line with the proposed Libyan privatization programme. It took time for the company to achieve this goal.

It could be suggested that the long time that negotiations took was due to the long time that the government took in implementing privatization programs, in that the government established the ESDF institution first which had the aim of working as a local partner with foreign investors. Company E were glad to have this institution on board with them. The Chief executive stated that:

"It is the partnership with the ESDF that really gave us the chance to take over the companies there. Had we not been partnered with the ESDF, I think this takeover would not have been possible".

The same pattern can be seen for other companies. It is a clear that this motive was a controllable one. It is also clear that in the banking and manufacturing sectors, if there had been no privatization, FDI would not have been possible. However, the importance of this motive in the construction sector was less than in other sectors because FDI projects took place before the implementation of the privatization program. However, the investors emphasized the importance of this factor as a motive which encouraged them to invest in Libya. There was a lower level of importance assigned to this motive in the oil sector; one explanation for this could be that in general the oil sector in developing and some developed countries has a common structure, where there is no private sector and foreign investors have to participate with different percentages of joint ventures. For this reason it may be that privatisation is not critical in this sector, and another reason could be that in spite of the government's control over the sector, it does not intervene in the investors' activities, and does not have bargaining power as a supplier or buyer (as explained in chapter 6).

7.6.1.7 Institutions

The findings with regard to this factor are in line with the majority of studies into the determinants of FDI in transition economies, for example Campos & Kinoshita (2003), Benassy-Quere et al. (2005) Naude and Krugell (2007), Boermans et al. (2009), Katsaitis and Doulos (2009), Boermans et al. (2009) who all made similar conclusions about the importance of institutions as a determinant of FDI.

Across cases findings showed that the importance of institutions as a factor made possible the process of FDI into Libya because the institutions themselves facilitated the process of FDI. In the oil sector, the National Oil Corporation (NOC) is a partner to all foreign and local companies. In the non-oil sector, the Economic and Social Development Fund (ESDF) is a partner for the two banking companies (C and D), one manufacturing company (E) and one construction company (H). For company F, which is an electricity company, its partner is General Electric Company of Libya (GECOL), while for company G its partner is the Organisation for the Development of Administrative Centres (ODAC). The chief executives of all companies recognised that it was Libyan law that foreign companies entered the country as joint ventures, especially in the earlier years of investment, and that after this they were free to remain as a joint venture or to choose to become wholly owned FDI projects. However, although joint ventures are mandated by Libyan law, foreign investors also preferred joint ventures instead of other entry modes, for example, company E was happy to have the ESDF institution on board with it. It was explained that their local partner helped them a lot in overcoming the issues that they faced. For example, in Benghazi, there was an instance regarding clarifying some incorrect information and inherent misperceptions of the local authorities and employees, prior to their cement plants purchase. It was the partnership with the ESDF that really gave them the chance to take over the companies there. It was clarified that if not the ESDF, this take over would not have been possible. The role which was played by ESDF with company E was replicated with C, D, and H companies. This pattern can also be seen in the other companies with their partners. It is clear that this motive is a controllable one, and the policy that the Libyan government took established these institutions. For example company E entered into negotiations with Libya in 2003. However, FDI did not take place until 2007, after the government had established ESDF in 2006.

IB scholars, at the macro level, have examined the role of institutions in economic growth. However, the role of institutions at the sector level of analysis has not been considered. In Libya for example, there were different institutions for different sectors. Thus, the findings of the present study extended institutional

theory to include a sector level of analysis. The study showed that institutions were not equally important for all types of FDI. For example in the oil sector, institutions do not matter for FDI due to the fact that the relationship between foreign investors and the NOC is governed by a contract and foreign investors either accept or reject this contract. Thus there is generally no fundamental negotiation about the shape of the relationship between them. However, banking, manufacturing, and construction were impacted by institutions. For example, in the manufacturing sector for company E the impact of institutions was in terms of the length of the negotiation it took (between 3-4 years) for company E to sign a contract, which did not happen in the oil sector.

7.6.1.8 Culture

The findings of the current study in the area of culture confirmed those of Altzinger (1998), Oded Shenkar (2001), Debanjan and Golder (2002), Gilmore et al. (2003), Hsiao and Hsiao (2004), Galan and Gonzalez-Benito (2005), Hellstrom and Sungur (2006), Buckle et al. (2007), Ismail (2009), and Barrios and Benito-Ostolaza (2009) who proved that close culture links between the home and host country were positively related to FDI.

In all companies it was noted that culture was one of the most important factors. However, the eight cases interpreted culture differently; hence, the companies could be divided into two groups. Group 1 included companies A, B, D, and F. Group 1 interpreted culture in the traditional sense, which means religion, language, and close geographic location etc. For instance, company B had the same religion, and a geographic proximity and historical links with Libya dating back to the period between the16th-19th centuries when the Ottoman Turkish dominated Libya. In addition to that, the two countries have a very old trading relationship. Company D was even closer because it not only shared a religion with Libya but also it was from an Arabic country and had the same language, and was close to Libya geographically. Company F was close geographically and had a similar language in addition to an historical relationship between the two countries. The second group included companies C, E, G, and H. These companies did not share the same religion or language with Libya. However, they linked culture with experience. Oded Shenkar (2001) argued that literature linked

experience with culture. However, he does not explain whether this is international experience per se or experience in the host culture. It can be said that the findings of this study answered Oded Shenkar's (2001) question. The chief executives of four companies (C, E, G, and H) linked culture with experience. For example, company C explained that due to their work in different Arabic countries such as Morocco, Tunisia, Egypt, and Gulf countries, they were familiar with Libyan culture. Other companies put forward the same idea. Company E for instance mentioned that they had worked for a long time in Saudi Arabia, which has a similar culture to Libya. It could be argued that this is an uncontrollable motive and that the government of Libya cannot change its culture in terms of religion or language.

7.6.1.9 Attractive geographic location

The results of the study in terms of this factor are in line with Altzinger (1998), Hsiao and Hsiao (2004), Hellstrom and Sungur (2006), Alfarsi and Almanasory (2006), and Buckle et al. (2007). There is no doubt between all cases about the importance of Libya's geographical location. This location gives Libya an important role it can play in the international trade movement between the various continents of the world. In addition to its strategic importance which derives from its reserves of oil and natural gas, it has a convenient location to many enclave countries not having access to the sea. The geographical location of Libya implies low transportation costs, which is one of the important factors in FDI decision making. Also for some of these eight companies the geographic location of Libya was important due to their activities concentrating in Central, Eastern and Southern Europe, and the Mediterranean coastal regions. For others, Libya's location gives easy access to markets such as Western Europe, the Middle East and African countries. It seems to be that the geographical advantages of Libya's location were a factor that was important to all companies.

This is an uncontrollable determinant because Libya cannot change its geographic location. However, it can maximise the benefit of this location in terms of infrastructure such as seaports, pipeline networks, plants, terminals, and storage facilities. The availability of good infrastructure means greater ease of operations,

and the ability to move production materials and products effortlessly to designated areas.

7.6.2 Specific determinants for FDI in three sectors

7.6.2.1 Overall economic climate

These findings are similar to those of Benacek et al. (2000), Uiboupin and Sorg (2005) Naude and Krugell (2007), and Ismail (2009) concerning the importance of overall economic climate as a determinant of FDI. The findings showed the importance of this factor from the point of view of the Libyan government.

Investors in the oil, banking, and manufacturing sectors agreed about the overall economic climate in Libya. Due to the fact that Libya is a small, rich country with oil reserves, it is well placed in terms of balance of payment, has no budget deficit, its exchange rate is stable and it does not have any external debt. Several indicators reveal that the overall economic climate in Libya has encouraged FDI. Moreover, the findings of the current study show that Libya is very different from Europe in that it will not be facing an economic turndown such as that experienced by Europe, nor is any decrease in economic growth expected. This motive is a controllable one in that the Libyan government can improve it. For example, in 2003 the Central Bank of Libya declared a unified exchange rate for the dinar and its devaluation as a step to the removal of multiple exchange rates and the increased competitiveness of Libyan companies, in order to encourage more FDI inflow. Also in 2003 Libya started its privatization programmes, which took effect in the banking sector in 2007. Moreover, to carry out its economic reforms Libya signed an agreement with the World Bank, a Joint Economic Advisory. The areas of reforms were investment climate assessment, support for Libya's development vision 2025 and for the business and legal environment. Moreover, laws were established to improve the banking sector such as laws No. 1 and 2 of 2005 as a move towards comprehensive banking legislation. It laid the groundwork for the crucial reform efforts that are now starting to divest the CBL from its banking sector holdings. Moreover, through law No 1 of 2005 the door was opened for foreign investors into the banking sector.

Overall the economic climate was not found to motivate construction companies. It could be argued that this factor affected the activities of oil, banking and manufacturing because their work is in the areas B2B and B2C, and if overall economic climate is not good this will impact customers and their abilities to buy goods. However, in the construction sector the Libyan government (as explained in chapter 6 by Porter) is the most important buyer and supplier in this sector. It is also the main client for foreign investors and usually the government has the ability to pay money, so this is probably why this factor was not found to be important in this sector.

7.6.2.2 To take a "first mover" advantage

Nestorova (1997) and Hoeneñ and Hansen (2009) clarified the importance of this determinant of FDI. Cross-case findings showed that the importance of this determinant depended on the economic sector. For example it was not found to be important in the oil sector because the country opened for FDI in this sector in the 1950s. However, in the non-oil sector only recently has the country opened up to FDI. Company C was motivated to be a first mover to take its advantages, when international sanctions were lifted and Libya opened to foreign investors, several projects took place in the area of construction, housing, and hotels etc. Many foreign companies entered the country and all of these companies needed banking services for their activities. Thus to be first mover and take its advantages was one of company C's motives for investing in Libya. For company E its chief executive explained that:

"Libya will be one of the very strong components of the future of our company. We are developing a sustainable business in Libya that is why to take *first mover advantages".*

To take first mover advantages was another reason which motivated company G, whose chief executive explained that:

"This is, before every body else, and when more constriction companies come in Libya we will slow down and move out".

This factor is an uncontrollable motive and specific only to foreign investors. The Libyan government cannot intervene through its policies. Thus, because they are not controllable, they quite easily turn from motives to determinants.

7.6.2.3 Easy repatriation of profit

Easy repatriation of profit as a determinant of FDI was mentioned by several studies such as those of Galan and Gonzalez-Benito (2001), Gilmore et al, (2003), Mellahi et al. (2003), Banga (2003) and Yulng & Yuanfei (2008).

Banking companies (C and D) viewed the issue of investment incentive differently. They explained that the repatriation of profits as an investment incentive that was offered by the Libyan government was very important for them. In the manufacturing sector this determinant was also important: however, even here its importance is less than in the banking sector. The reason could be that in the manufacturing sector there is exemption from tax for 5 years with the possibility of an extra three years, which is more important than the repatriation of profit. Moreover, manufacturing companies were found to be mainly concerned about reinvesting their profit in Libya and not repatriating it. In the oil sector this is also an important motive, however, its importance was less than in the banking sector because Libya offered a high percentage of profit through EPSAs. This motive is controllable by the Libyan government policy in terms of allowing profit to be repatriated or not.

7.6.3 Specific determinant for FDI in two sectors

7.6.3.1 Resource seeking (availability of raw materials)

Perspectives of resource seeking often focus on the location of specific resources. The studies considered reflect this preoccupation. Each in turn is based in a particular geographic area, which is far apart, and the interest is in the extent to which the studies found similar results in these different locations. These empirical studies include those of Streak and Dinkelman (2002), Campos and Kinoshita (2003), Chorell and Nilsson (2005), Buckley et al. (2007), which have shown that resource seeking FDI is motivated by the abundance of natural resources across the world. Since Libya is rich in natural resources, this finding was not surprising.

As can be seen from table 7.1, the motives of foreign companies A and B was resource seeking, because the consumption of oil in their countries of origin was higher than their production, in other words they were net consumers of oil.
For example, the chief executive of company B mentioned that:

"We came to explore, after this we will produce and send our production to Turkey, and this is the major reason for investing in Libya".

However, resource seeking is also important especially in the manufacturing sector. For example the chief executive of company E stated that:

"Libya has abundance of raw material necessary to produce cement; additionally it is low cost and high quality. For the raw materials, you find a very good environment here in Libya".

Resource seeking is an uncontrollable determinant, in the sense that a resource is either to be found in Libya or it is not. Thus it can quite easily turn from a motive to a determinant. However, the Libyan government is able to control this motive to some extent by controlling and improving infrastructure, such as export facilities. For example, Libya has several commercial seaports, and many of these seaports were established a long time ago: some of these ports serve as oil terminals, such as Ras Lanuf and Marsa El Brega. The Libyan government has ambitious plan for the refurbishment purchase and replacement of an additional 36 vessels (Otman, 2007).

As was explained in chapter 6, the primary sector involves the extraction and production of raw materials, such as oil and cement, while the secondary sector manufactures and transfers raw or intermediate materials into goods. That is why resource seeking was found to be a motive in the oil and manufacturing sectors. The tertiary sector is the service industry. This sector provides services to consumers and businesses, such as banking, which does not require raw materials such oil or cement. However, construction depends on raw materials such as cement, but cement is only one element among others needed in this sector, and

also it may be more important to companies considering FDI to find a market for their product than to find resources.

7.6.3.2 Low cost of raw materials, energy and water and availability and low costs of land

This finding was in line with the literature and conforms to the findings of Galan and Gonzalez-Benito (2001). In the oil, manufacturing and construction sectors the supply of energy and water in Libya is supported by the government at a low level of price, for example, electricity is heavily subsidised at around one-third of the market cost. In addition to this, in general land is not expensive, additionally some land is also subsidised by the government and sold by them at very low prices. Moreover, due to nature of Libyan land, the cost of extraction is very low. The Chief executive of company E stated that:

The cost of raw materials, energy and water is low in Libya, also when we bought the factory, the price of the land accounted with the price of the factory, which in the end was very cheap.

The low cost of raw materials is an uncontrollable determinant, in that the nature of the land in Libya makes it easy to extract any kind of materials such as oil or cement with very low cost and high quality. However, the cost of energy, water and availability and low cost of land is a controllable motive. The supply of energy and water in Libya is supported by the government at low price levels.

It was expected that this factor would not be important in the banking sector because banking activities, unlike manufacturing and construction, do not depend on these factors. However, oil and manufacturing do depend on these factors. However, the reason why it was not identified as a determinant for FDI by the oil companies investigated was because they had already linked these factors with the high profit they would be able to make. So it could be that indirectly this factor is important in the oil sector as well.

7.6.3.3 To follow clients

Nestorova (1997), Uiboupin (2005) and Hoenen and Hansen (2009) identified this factor as an important determinant of FDI, especially in the banking sector. The findings of this study showed that this was a determinant for FDI in the banking and manufacturing sectors. The chief executive of company C commented that:

One of our reasons for engaging in FDI is to follow our clients who are from different companies and different countries.

In the manufacturing sector the chief executive of company F stated that their client basically was GECOL. The foreign company, before entering Libya as a joint venture, had been selling substantial amounts of equipment to GECOL for more than 30 years. The motive to follow clients is uncontrollable by the host government and specific to the foreign investor. The Libyan government is not able to intervene through its policies.

7.6.3.4 Access to reliable and co-operative suppliers

The finding with regard to this determnant supports those of Galan and Gonzalez-Benito (2001). For the current study it was found to be an important determinant in the construction sector, where access to reliable and cooperative suppliers means the availability of raw materials such as cement and steel. It means that companies have no problem with cement prices or the arrival of raw materials, which means the work, does not stop because raw materials are late. The same idea applies to the oil sector. It could be suggested that this is a controllable determinant, because the government is able to facilitate this access.

7.6.3.5 Less strict environmental laws

This finding confirmed Galan and Gonzalez-Benito (2001). In the oil sector, the chief executive of company A thought that in other countries, such as in oil operations in the North Sea controlled by UK, environmental laws were very strict and it was difficult to do business. In Libya, government policy protected the operator and it was more favourable to foreign investors than other countries. In the construction sector, the findings showed that the business environment in Libya was better than in Korea and the company was able to do business very

easily. In Korea it was very difficult to do business because the environmental laws were so strict. This motive is controllable by the government. However, it seems to be that the importance of this determinant does not much depend on the type of the sector but on the origin of the investor. For example, the investors who were motivated by this factor were from developing countries. However, it is not likely that investors from advanced countries would be motivated by this factor.

7.6.4 Specific determinants of FDI for one sector

7.6.4.1 Banking system and government policies and regulations

This result showed that the banking system and government policies and regulations were one of the most important determines of FDI inflow into the Libyan banking sector. This finding is in agreement with those of Maniam (1998), Galan and Gonzalez-Benito (2001), Campos and Kinoshita (2003), Gilmore et al. (2003), Banga (2003), Aqeel and Nishat (2005), Naude and Krugell (2007), and Ismail (2009).

In the banking sector, companies C and D conducted research into Libya and it was found that Libyan banks were not undeveloped to a great extent, so it would be possible to develop the sector quickly, and this motivated companies to invest in the country. Also foreign investors were motivated by the advantage of the sanctions that were imposed on Libya, which protected its economy from crisis. In terms of Libyan government policies, in 2003 the Central Bank of Libya declared a unified exchange rate for the dinar and its devaluation as a step to remove multiple exchange rates and as a way to increases the competitiveness of Libyan companies and encourage FDI inflow. In the same year, the dinar was nailed to the IMF's SDR. Exchange regime and currency stability were important factors in attracting FDI from the perspective of the Libyan government. Moreover, the Central Bank of Libya itself witnessed huge and continuing improvements. Then with the support of a number of international financial advisors, the CBL started to modernize the Libyan banking system through commercialization and privatization. In terms of government policies and regulations Libyan laws No.1 and 2 of 2005 were a comprehensive banking legislation. They laid the groundwork for the crucial reform efforts that are now starting to divest the CBL

from its banking sector holdings. Moreover through law No 1 the door was opened for foreign investors to enter the banking sector. The Chief executive of company C mentioned that:

The CBL has tried to modernize the banking sector and it has passed laws to improve banks according to international standards.

These are controllable determinants, and because of the Libyan government policies that were explained above, this motive turned into a determinant in the banking sector.

7.6.4.2 Product diversification

The findings in terms of this determinant are similar to those of Galan and Gonzalez-Benito (2001). In the manufacturing sector, the JV between the Libyan government and company F allowed the company to enter into different market segments. Recently in Libya there have been other growing sectors such as housing, so instead of maintaining one large client the company looked to different markets in which to diversify its products and prevent their only client from controlling the price, as was the case previously, when the Libyan government had high bargaining power. So the foreign investor attempted to limit this power by having different products and different market segments. This is a controllable determinant because if the government had not provided them with these opportunities in the other economic sectors or other segments in the same sector, the company would not have been able to expand

7.6.4.3 Lack of competition

The findings of this study provide extra support for those of Akhtar, (1998) and Gonzalez-Benito, (2001). The chief executive of company G explained that one of the factors which had motivated the company to invest in Libya was the lack of competition in the market. He stated that

" There is a low level of competition in Libya because only now has Libya opened the door for foreign investors".

Company H was also motivated by the lack of competition. In Libya there is no international hotel other than the Corinthia hotel, and many people complained about this hotel, which was perceived to be offering poor levels of service and charging high rates because it is only good hotel for businesspeople in the Libyan market.

This is an uncontrollable determinant because although the government can encourage FDI via a variety of ways, in the end it is the foreign investor's decision to invest or not. Although this factor was chosen only by the construction companies, it was also selected indirectly by other companies in the banking and manufacturing sectors, for example as a means to take first mover advantages due to a lack of competition. So it could not be said that this factor is specific to the construction sector, especially as only now is Libya opening up to FDI and competition is still weak across all sectors.

7.6.4.4 Protection of existing export market

The findings of this study are in agreement with the existing literature about the importance of this factor as a determinant of FDI, for example those of Akhtar (1998). For the present study this determinant is specific to the foreign investor in the manufacturing sector (electricity). Company F was supplying Libya with electricity for 30 years and when Libya opened up to FDI this motivated the company to invest in Libya to protect their market. The Libyan government had no control over this motive.

7.6.4.5 International trade agreements

The findings with regard to this determinant are in agreement with those of Galan and Gonzalez-Benito (2001). However, their study was not into the oil sector, and for the current study this determinant was only found to be present in the oil sector. OPEC is the most important type of international agreement in the oil sector, and the Chief executive of company B commented that:

Agreements such as OPEC are making the trade of oil easer, so this factor is important.

This is an uncontrollable determinant. Libya as an OPEC member may make some suggestions as to how the organisation is run, however, it does not have complete control over this agreement. This factor appeared only in the oil sector because this sector is governed by OPEC and its agreements, which are very important ones in the oil sector. However, in the non-oil sector at the time of writing Libya is starting to reintegrate into international markets and it is in a process of signing such agreements. However, it could be said that the process has been disrupted because of the recent condition in the country and it is now difficult to predict the future.

7.6.4.6 Knowledge seeking

Knowledge seeking was one of the factors that motivated company A to invest in Libya. This result is extra support for empirical literature such as Shige et al. (2002); Dunning, (1993); and Cross and Voss (2008) about knowledge seeking as a determinant for FDI. In this kind of investment the firm is motivated by obtaining fresh assets in the foreign market that will be added to existing ones and develop their advantages rather than just exploiting their specific advantages. This point was emphasized by company A, where the chief executive stated that:

" I think Libya is one of leading producers of oil and gas and one of the OPEC members and then so many big companies operate in Libya such as Shall, Eni and so on. So that is why we have been encouraged getting the opportunity in Libya. So we want to learn from international companies who are in the Libyan market".

This is an interesting finding because although Libya has had experience with FDI since the 1950s, foreign investors were motivated by learning from international companies rather than Libyan companies. This raises the question of why Libya has no ability to attract this type of investment through its own companies.

7.6.4.7 Access to neighbouring markets

The findings of this study confirmed those of Akhtar (1998). Recently this determinant was valid only to the oil sector. For example, company A was motivated by resources especially oil for their home country. However, a further motivation was gas, to be sold to either the Libyan market or more importantly to

Libya's neighbours such as Malta, Egypt and Tunisia. It is important motive for oil companies investing in Libya. This motive could be classified as a controllable one. Also this motive turned into a determinant because the Libyan government gave foreign investors full freedom to do what they wanted regarding their percentage of extracting oil from Libya.

This determinant was not mentioned as a motive in the case of the banking and construction sectors, because the activities of these sectors are not related to export markets. However, in the oil sector, its activities are mostly for international markets. This factor is valid even in the manufacturing sector, but probably it was not selected by companies in this sector because of the high demand in Libya for cement and electricity. It may be that it is a motive in the long run in the manufacturing sector.

7.7 Integrate motives and determinates of FDI for the Libyan economy

It could be argued that common motives are the most important ones for the Libyan economy and that this why these motives should be taken into consideration, especially by the Libyan government. The rest of the motives are less important because they are specific only to some sectors or they are specific only to one party. FDI is the strongest and most important one. The role of the government is not just to create conditions that facilitate the process of FDI but also its role in managing the process. It was seen from the research of this study that in the process of the role of the government there is a constant development evolution, so that the government initially did not encourage FDI. After the lifting of economic sanctions, it changed its policies and started thinking about attracting FDI. Because each particular sector of economy has some kind of specificity, the Libyan government created foundations of regulations of FDI in different sectors of the Libyan economy. For example, in the oil sector EPSAs were the most important piece of regulation and an incentive for FDI. Law No 5 of 1997 was designed to encourage investment in the manufacturing and construction sectors, while in banking law No 1 and 2 of 2005, the government gave freedom for ownership percentage. These percentages ranged from 19% to 90 % across all sectors, including oil in the production stage.

Taxation is an important issue to potential foreign investors, and in the oil sector there was no special taxation for foreign investors; all foreign and local companies pay the same amount and from the foreign investor's point of view the tax is not high, in addition the high percentage of profit share that the government offers, enabling foreign investors to generate high profits. In the non-oil sector, especially in the manufacturing and construction sectors, through law No. 5 the Libyan government offered packages of interesting exemptions. These packages seem to have been very good incentives that were offered to foreign investors through this law. However, the question remains of how all these packages were useful for the county, in the other words what do foreign investors give in return for all these exemptions.

It could be argued that profitability is the major determinant of FDI. Maximizing profitability is affected by ownership structure, regulations and taxation. For example, a high percentage of ownership means high profit. The vast majority of companies operating under FDI conditions in Libya have a high percentage of ownership. Also, as explained above, the Libyan government offered foreign investors very attractive exemptions, which resulted in huge amounts of profit for foreign investors. It is apparent that all the policies undertaken by the Libyan government impacted positively on FDI inflow.

7.8 Conclusion

The main goal of this chapter was to empirically investigate and discuss the framework that was developed in chapter two to study the key motives and determinants of FDI in various sectors of the Libyan economy. The empirical part of the research was based on four sectors of the Libyan economy; oil, banking, manufacturing and construction, and eight companies (two companies from each sector) conducting FDI in Libya. Cross-case analysis was employed to highlight and discuss similarities and differences between eight case in relation to the key motives and determinants of FDI from: firstly, all parties point of view (common motives and determinants) and then from each sector's point of view (specific motives and determinants of FDI in three, two and one sector).

The finding showed that firstly, common motives of FDI across all sectors that turned into determinants were market size and growth prospects, higher rates on investment and investment incentives, political stability, good infrastructure and low transportation costs, business and industrial linkages, progress of privatisation, institutions, culture, and attractive geographic location. Secondly, specific motives of FDI for three sectors were overall economic climate, to take a "first mover" advantage, easy repatriation of profits for investors. Thirdly, specific motives for FDI for two sectors were resource seeking, the low cost of raw materials, energy and water and the availability and low cost of land, to follow clients, access to reliable and co- operative suppliers and less strict environmental laws. Fourthly, specific motives of FDI for one sector were the banking system and government policies and regulations, product diversification, lack of competition, protection of existing export market, international trade agreements, knowledge seeking, and access to neighbouring markets

Regarding controllable and uncontrollable determinants, factors that were common to all parties across all sectors were controllable ones except for culture and the geographic location of Libya. It seems that the main finding of this chapter is that there was no fundamental difference in the motives and determinants of FDI across selected sectors of the Libyan economy. The following chapter highlights the conclusion of the current study in terms of its contributions, implications, limitations, policy recommendations and future research.

Chapter 8 Conclusion

8.1 Introduction

The purpose of this chapter is to highlight the conclusion of the study and to offer directions for future research. The chapter starts by briefly summarizing the key findings of the present study in section 8.2. Section 8.3 details the contributions of the study. Section 8.4 provides the implications of the findings. Section 8.5 outlines the study limitations. Section 8.6 presents policy recommendations. Section 8.7 indicates directions for future research.

8.2 Summary of the key findings

The present study attempted to analyse the key motives and determinants for FDI in various sectors of the Libyan economy and to compare the results for the different sectors, and also to discover how the policy of the Libyan government can be improved in order that the government and the country as a whole can benefit more from the whole process. The present study was conducted with 7 objectives. The specific objectives of the study were:

1 - To investigate investment theories and evaluate the applicability of FDI theories to the theoretical foundations of the current study.

To meet the first objective, as explored in chapter two, the study considered the following implications of the existing literature in this area, and found that: firstly, major consideration was given to the motives for FDI of foreign investors. However, the host government's motives and host companies' motives were not given the same attention. Secondly, from the literature it appeared that there was no distinction made between motives and determinants of FDI. For example, infrastructure was used as a motive in some studies (e.g. Gilmore et al., 2003), while was used as a determinant in another (e.g. Galan and Gonzalez-Benito, 2001). Thus the question of when a motive becomes a determinant was raised and became something the study should investigate. Thirdly, FDI theories were viewed from different perspectives (e.g. why, where and how). However, all of the studies are mainly related to the perspective of foreign investors. Fourthly, it was

found that vertical FDI was favourable for foreign investors, while horizontal FDI was favourable to a host country. Fifthly, the findings of empirical studies showed that determinants of FDI differed from one country to another in spite of these studies having the same main objectives, the same theoretical approaches and the same methodological approaches. The reason for these differences could be the stage of economic development for each country. All of these became the foundation for the development of a conceptual framework (chapter 3) for the current study that was based on integrated various theories in order to develop a conceptual framework.

2- To integrate various approaches in order to develop a conceptual framework for the present study.

Chapter three described the framework of the current study. A review of the extant literature and different theoretical perspectives was conducted, starting from the beginning of the appearance of FDI theories in the late nineteenth century and how these theories were developed, and why there are so many theories of FDI. The chapter then went on to observe that in fact there are three parties motivated to engage in FDI ventures. After that it looked into the process of how motives are turned into determinants, which consists of three stages. The first stage is the existence of motives for all parties. The second stage consists of negotiations between the three parties and the important role of the host government in turning motives into determinants. The most important motives that turn into determinants are those which are common to all parties. The chapter also considered the importance of the role of the government in the further development for FDI projects. At the same time it looked into the specifics of each sector of the economy, and at how because they are located at different positions in the value chain, they have different structure in terms of Porter's Five Forces model. Then the framework was created, which consists of the three parties' motives of FDI, when these motives become determinants, a new classification of motives and determinants of FDI, OLI theory, IDP theory, the effect of the host government through its institutions, and Porter's Five Forces model. The aim of this framework is to study the determinants of FDI in Libya.

3- To critically evaluate the Libyan environment in order to lay the foundations of the current research.

Chapter four investigated Libya as a location for FDI. This investigation was conducted in terms of its environment with regard to its geography, history, population, religion, politics, and economic factors. It was found that the specifics of the Libyan environment could be divided into two groups. One group of factors are those which are not affected by Libyan government policies, such as geographic location, climate, and access to the Mediterranean Sea. The second group of factors are affected by Libyan government policies and are able to be managed, such as infrastructure, institutions, and investment incentives. So consideration was given to the second group and to the role of the Libyan government in managing these factors. Also it was found that Libya has more advantages than disadvantages as a location for FDI.

4- To develop a methodological approach for conducting this research.

Chapter five outlined and justified the research philosophy, qualitative methodology and case study method that were employed to collect and analyse the data to answer the major research question. It was found that qualitative methodology was more appropriate for the purpose of the current study than a quantitative methodology because of the inability of the latter to take into account many of the factors central to FDI decision-making. These factors were taken from three different perspectives with two stages of analysis (micro and macro level). Qualitative research was also selected because FDI in Libya, especially in the non-oil sector, is a new phenomena and there were not many foreign companies to investigate (only one or two companies in some sectors) and they started FDI in the period of time between nine months and two years before the time this empirical study was conducted.

5-To conduct theoretical framework analysis of key sectors of the Libyan economy to identify common and specific aspects of FDI in each sector.

To answer research objective five, chapter six outlined the analysis of various sectors of the Libyan economy by using Porter's Five Forces model. It was found

that this model was helpful in analysing the attractiveness and competitive positioning of all selected sectors. Moreover, key strategic issues were addressed in this model which were relevant to the selected sectors of the Libyan economy. It was also found that in general all sectors were attractive for FDI, and in particular the oil and manufacturing sectors. In terms of specificity of each sector regarding Porter's elements, it was found that Libyan economic sectors could be divided into two larger sectors, an oil sector and a non-oil sector. The oil sector was different from the non-oil sector in terms of Porter's five forces: however, there was a high degree of similarity between the sectors in non-oil in terms of Porter's five forces.

6- To increase understanding of the process of FDI from the perspective of the Libyan government and foreign investors.

To meet this objective chapter seven dealt with motives that turned into determinants of FDI from the perspectives of foreign companies and the Libyan government; the following table summarises the empirical findings related to this issue.

Table 8-1 Common and specific motives that turned into determinates across all sectors

Common motives of FDI for all parties and across all sectors				
Sectors / Factors	**Oil**	**Banking**	**Manufacturing**	**Construction**
	A + B	**C +D**	**E+F**	**G+H**
Market size and growth prospects	√	√	√	√
Higher rates on investment and investment incentives	√	√	√	√
Political stability	√	√	√	√
Good infrastructure and low transportation costs	√	√	√	√
Business and industrial linkages	√	√	√	√
Progress of privatization	√	√	√	√
Institutions	√	√	√	√
Culture	√	√	√	√
Attractive geographic location	√	√	√	√

Specific motives of FDI for three sectors				
Sectors / **Factors**	**Oil**	**Banking**	**Manufacturing**	**Construction**
	A + B	**C +D**	**E+F**	**G+H**
Overall economic climate	√	√	√	
To take a "first mover" advantage		√	√	√
Progress of privatisation		√	√	√
Easy repatriation of profits for investors	√	√	√	

Specific motives of FDI for two sectors				
Sectors / **Factors**	**Oil**	**Banking**	**Manufacturing**	**Construction**
	A + B	**C +D**	**E+F**	**G+H**
Resource seeking (availability of raw materials)	√		√	
Low cost of raw materials, energy and water and availability and low costs of land			√	√
To follow clients		√	√	
Access to reliable and co-operative suppliers	√			√
Less strict environmental laws	√			√

Specific motives of FDI for one sector				
Sectors / **Factors**	**Oil**	**Banking**	**Manufacturing**	**Construction**
	A + B	**C +D**	**E+F**	**G+H**
Banking system and government policies and regulations		√		
Product diversification			√	
Lack of competition				√
Protection of existing export market			√	
International trade agreements	√			
Knowledge seeking	√			
Access to neighbouring markets	√			

Developed by the author of the current study

It could be said that these findings are surprising in relation to the similarity *across* sectors in terms of motives and determinants of FDI. This might be explained by the consistency of government policy over a relatively stagnant forty-year period.

7- To draw lessons and implications about FDI in various economic sectors of the Libyan economy to provide a better way of regulating and managing FDI projects.

This objective will be met under section 8.6 (policy recommendations).

8.3 Contributions of the present study

This research was based on the existing literature and makes the following original theoretical and empirical contributions to the body of knowledge in the area of the motives and determinants of FDI in the context of FDI in various sectors of the Libyan economy.

8.3.1 Theoretical contributions

Firstly, in addition to the motives of foreign investors for FDI, this research has shed the light on the motives of the host government and host companies for FDI. In other words this study argued that the participants in FDI ventures consist of three parties and the motives of these three parties combine to form the determinants of FDI. By adding the perspective of local companies into the factors determining FDI, the study makes a contribution to the theories of FDI. However, this contribution remains only a theoretical one and cannot be proved by this empirical study due to the fact that local companies in Libya are publicly owned and controlled by the government.

The second contribution is that this study tried to shed light on the process by which a motive becomes a determinant of FDI. The third one is that it provides a new classification of the factors which determine FDI, with these factors classified into two groups. Group one includes factors that are specific to one party. The second group includes factors which are common to all parties. Furthermore these factors are classified as controllable (such as infrastructure) and uncontrollable (such as geographic location). Also, the study identified those motives that are

common to all parties and become determinants, and in order that this process can take place the controllable factors which are valid for all parties need more attention because specific motives may have not the same impact on the process. Also the determinants were classified as long term and short term determinants. The fourth contribution is the interaction between the macroeconomic (government) and microeconomic (company) level of analysis of these determinants, which has not been done before.

IB scholars, at the macro level, have examined the role of institutions on economic growth, however, the role of institutions at the sector level of analysis was not considered. Thus the findings of the present study extend institutional theory to include the sector level of analysis, and the findings of this study showed that the importance of the institutions differs between different sectors, for example, the important of institutions in the oil sector is less than their importance in the manufacturing and service sectors.

This study also contributes to the literature of FDI by combining two perspectives, those of the host government and foreign investors, concerning factors which motivate and determine FDI, and also focusing on the important role of the host government through its policies in facilitating this process.

Furthermore, this study is the first that has used IDP theory at an industry level. Moreover, the various sectors of the Libyan economy were analysed by using Porter's Five Forces model. It could be said that this is the first study using Porter's Five Forces model across sectors.

Therefore, a new eclectic framework for determinants of FDI that integrated several theories into one conceptual framework has been created for clarifying motives and determinants of FDI in various sectors of the Libyan economy. This framework combines the motives of the three parties involved in FDI, the process by which motives become determinant, a new classification of determinants of FDI, OLI theory, the influence of the host government through its institutions, IDP theory and Porter's Five Forces model. This framework takes into account not only

the process by which motives become determinants of FDI, but also the functioning of FDI projects after they have started their development.

8.3.2 Empirical contributions

This research contributes not only to theoretical literature of motives and determinants of FDI, but also to overall international business studies, because it increases knowledge of the Libyan context. This work fills gaps in the empirical literature on the Libyan context concerning motives and determinants of FDI, how motives turned into determinants, and who the key player in this process are. In addition, it identifies the opportunities in each economic sector by applying Porter's Five Forces, and the major obstacles constraining FDI in various sectors of the Libyan economy.

Qualitative analyses into four sectors of the Libyan economy and eight case studies were conducted, consisting of two cases from each sector to explore the common and specific motives and determinants. Then these determinants were classified into determinants that were common to all sectors, then those for three, two and specific to one sector. The common motives were the most important because they can be managed in the best possible way. These cases provide the researcher with opportunities to investigate the process of foreign direct investment from the beginning through the process of its implementation. The study also considered the three parties' motives of FDI, which determined the initiation of the process, and when these motives laid a foundation for starting the FDI project and so that they became determinants.

8.4 Implications of the Findings

8.4.1 Theoretical implication

It could be said that due to the characteristics of emerging and developing countries, and due to the fact that FDI theories were developed in advanced countries, there is no one single framework which could adequately clarify determinants of FDI in the context of Libya. This research has contributed to the process of identifying the determinants of FDI literature by developing an eclectic framework for a better understanding of motives and determinants of FDI in various sectors of the Libyan economy. As a result, the framework can be used to

explore its relevance to other countries by other researchers who can develop it further. The authors' belief is that in emerging and developing countries the determinants of FDI need to be explained by incorporated micro and macro (government through its institutions) level of analysis as suggested by Datta (1988), who emphasized the importance of the host government as a party in the FDI process. Thus this study helps in expanding the perspectives of FDI to include those of the host government and local companies. It is hoped that this extended version of the determinants of FDI could enrich the existing literature in this area. The host government through its policies can play an important role in creating the conditions that facilitate *the process of turning motives into* determinants.

8.4.2 Empirical implication

This is an empirical study of the motives and determinants of FDI in Libya. The results of this study tend to support existing literature about the factors, which motivate and determine FDI. The Libyan government through its institutions and political stability is an important contributor to the inflow of FDI. Also the results of this study showed that the framework that was developed by this study was applicable to clarifying the motives and determinants of FDI in the Libyan context, except in terms of the local companies, whose motives reflected government ones due to their ownership structure. Thus the framework was limited to two parties instead of three.

This study has provided a useful piece of information for the Libyan government and policy makers, by conducting in-depth case studies on eight foreign companies to explore their motives and problems, which will help the Libyan government to design policies that attract more FDI and facilitate and manage its process. The study is also useful to foreign investors who wish to make their FDI in Libya, where there is currently a lack of information and studies about Libya in general and its investment environment in particular.

With regard to the Libyan economic sectors, it was found that the oil sector has been regulated through EPSAs, but also that there were problems related to fluctuations in oil prices that may happen as a result of crises or unexpected

events. In addition, it takes a long time for foreign companies to recover their expenditure on the exploration of oil. The banking sector was regulated by laws No. 1 and 2, but the sector needs to be improved in terms of IT infrastructure, bureaucracy and the low productivity of labour. The manufacturing and construction sectors were regulated by law No. 5 but they need to be improved in terms of export and physical infrastructure, low productivity of labour, lack of information technology and bureaucracy.

Regarding the application of Porter's Five Forces, this is expected to be helpful to both policy makers and company managers. In terms of industrial competitors the common and different features of various industries will help policy makers to regulate and manage FDI in various sectors of the economy. The threat of new entrants is important in terms of the preferred mode of entry by foreign investors across sectors. The threat of substitutes is helpful because if there are no substitutes in a sector, this will encourage foreign investors to drive forward the development of this particular sector. The bargaining power of buyers and suppliers will be very important in terms of identifying the most promising sectors for FDI projects.

The findings reported in chapter seven suggest several policy implications for attracting FDI. The finding that the determinants common to all parties and sectors were more important than those which were common to three or two sectors, can help policy makers to realize the significance of these factors to foreign investors, and therefore give them a higher priority when formulating their policy options for attracting FDI.

Also the findings of this chapter suggest that policy makers need to direct their efforts to improving the private sector, all types of infrastructure, and reducing bureaucracy, in order to fully reap the benefits of FDI. Moreover, the finding that the impact of FDI institutions on FDI varies across the selected sectors implies that institutional reform may be an effective policy option in the manufacturing and services sectors but not in the oil sector.

8.5 Limitations of the study

In spite of this study having shown some important findings with regard to factors determining FDI, there are some limitations to this study. Firstly, this study was conducted at a period of time when important reforms were still in progress. Thus it gives insights into the situation at the moment of conducting this study (between July and September 2009). For future study about determinants of FDI in Libya, this framework may need to be adapted to fit with the passage of time that may have been affected the by stage of the country's development, which in turn may affect the motives and determinants of FDI for the two parties. Alternatively, with the passage of time Libyan local companies' motives may differ from government ones, and in this case the whole framework will apply.

Secondly, despite their advantages, case studies have some limitations. For example the use of eight cases in the present study did not allow for statistical generalizations. Thus, the purpose of the present study was not to generalize statistically, but to develop analytical generalisations (Yin, 2003). Despite the fact that no statistical generalisation was able to be made, the findings of this study presented valuable insights into the determinants of FDI from the perspective of two parties, namely, the foreign companies studied and the Libyan government. These findings could help future researchers to develop quantitative measures to allow for statistical generalizations to be made.

Thirdly, another limitation derived from adopting an interpretive philosophy, case study strategy and interviews. These methods of collecting data led to conscious and unconscious bias by interviewees in providing these data and the researcher in gathering, coding and the interpretation of data. To overcome this problem the researcher used multiple sources of data, as explained in chapter 5.

Fourthly, the present study focused only on four sectors of the Libyan economy and did not include any others.

Fifthly, it was no possible to study the impact of FDI on various sectors of the Libyan economy because FDI is a new phenomenon. Also, in spite of it not being new in the oil sector, this study could not cover this issue which means further

research needs to be done in this area, especially when foreign investors mentioned that they were motivated by learning from other players in the market, but not from Libyan companies, which raises the question of why Libya was not able to attract knowledge seeking FDI into the oil sector in spite of the government having managed oil activities since the 1950s.

8.6 Policy recommendations

This section suggests policy recommendations that would help the Libyan government to increase FDI inflow into Libya. The findings of this study illustrated that in the various sectors of the Libyan economy, the intervention of the Libyan government and its economic system has caused the problems that the country faces at the time of writing. The following are the general and specific recommendations for all sectors, and for each individual sector, that are suggested as an attempt to solve the problem of the low inflow of FDI into Libya.

8.6.1 General recommendations for all sectors

R1 Less bureaucracy is a vital requirement to increase FDI inflow.

The quality of the institutional environment in terms of bureaucracy (legal and institutional, and legislative framework) has an important impact on the inflow of FDI. The findings of this study showed that bureaucracy is the most difficult matter facing foreign and local companies. Bureaucracy appeared as an issue at all FDI stages. Libya is now looking to increase foreign investment so it needs to develop its regulations in line with the changes in global economic regulations, especially after establishing links with the World Trade Organization. Also, after the government issued law No. 7, which amended law No. 5 in 1997, there is a need for further development of this law to achieve the desired objectives of attracting foreign investment, in addition to which Libya needs to develop regulations related to, for example, bureaucracy, the system of work and wages and some other activities that are related to the economy in general and foreign investment in particular, need to prepared and studied.

R2 Improving business infrastructure is an important requirement for increasing FDI inflow.

All companies studied confirmed that infrastructure, especially in terms of the banking system and the internet, need to be improved. Currently the huge infrastructure shortage is due to two major reasons: firstly, expenditure on infrastructure is around 25 years out of date. Due to Libya's centralized economy, only the government has had responsibility for maintaining infrastructure, because its owns roads, airports, public buildings, ports, universities, schools, etc. Secondly, the US and UN sanctions which were in place until 2004, were another important factor which had an impact on infrastructure improvement. Thus it is recommended that the Libyan government should seek to improve infrastructure in general, and especially banking and telecommunication infrastructure, by attracting foreign investors to invest in improving the existing infrastructure and building the necessary facilities which will lead to lower transaction costs.

The Libyan government needs to improve infrastructure not only for the benefit of current companies foreign and local, but also it should take into account the development of various other sectors that need more developed infrastructure. Because the government gave foreign investors exemptions from tax for 5 years, it can on the other hand require foreign investors to contribute to improvements in infrastructure by building for example, roads or ports so that the country benefits from FDI as well.

R3 The development of human resource is a necessary condition for increasing FDI inflow.

Libyan labour was mentioned as a major problem facing all the companies studied in terms of their unavailability and low productivity. The findings of this study showed that the local market has difficulties in supplying both skilled and unskilled labour and if there is labour available, their productivity is low. This is due to several reasons such as the policy in the mid 1980s of removing English language teaching and foreign teachers from the state curriculum, which caused a shortage of qualified teachers and left a generation of Libyans without this important international communication skill. Moreover, the Libyan government did not encourage enrolment in vocational and technical training. It seems that the education system, skewed towards a concentration on academic disciplines, caused the problem of unskilled labour.

Thus the Libyan government needs to adopt comprehensive policies to upgrade its labour force and be directly involved in their development. Vital interventions need to be taken by the Libyan government in the education system, to increase enrolment in vocational and technical training. Also the government has to ensure that the skills of graduates students match the needs of the market. In addition to this, specialist institutions for research and development need to be established.

Across sectors the Libyan government has imposed a requirement on foreign companies to train the local labour force, which is a good law. However, the findings of the present study showed that the government has no mechanism to check that the local labour force takes the agreed training, and it is possible that this law is not being implemented. Thus it is recommended that the government must find a way to make sure that this issue is clarified. In addition, the Libyan government needs to enhance the productivity of labour, because the quality of labour is the most important element of a competitive business climate.

R4 More information is important in attracting more FDI

Foreign investors are motivated to invest in a country if its documented information is accurate about the investment climate in this country. Although foreign investors are interested in obtaining accurate and clear information to take investment decisions of whether or not their potential investment is likely to be profitable, Libya's system of information is still below the required level. Therefore Libya, in its attempt to attract foreign investment, should concentrate on this subject by increasing and varying information channels, especially those which have developed from the technological revolution and globalization, and which dominate the world of financial information today.

R5 Strengthening private sector is a crucial requirement of increasing FDI inflow

Foreign direct investment is closely linked to the extent of the ability of the private sector to contribute to the productive process. This sector in Libya has not yet reached the required level. Most investments in the economic sectors are carried out by the public sector. In addition, the lack of experience and expertise in this

sector has not made it a contributor to the FDI process, as it is required to do. Many countries are largely dependent on the private sector for attracting foreign investment. Moreover, the position of some economic institutions in Libya is unknown, and potential investors are uncertain if these institutions will continue, or will cease to operate, or will be privatised. This situation does not encourage foreign investors to invest in Libya. In addition, the Libyan economy has not yet reached the required level of reform to reassure potential investors.

8.6.2 Specific recommendations for each sector

Oil sector

During a negotiation stage, foreign companies and the Libyan government need to take into their consideration fluctuations in the oil price that may happen as a result of crises or unexpected events (such as the situation in Libya in early 2011), especially since crises have already happened in this sector several times. It takes a long time for foreign companies to recover their expenditure on the exploration of oil, so another recommendation is that the NOC needs to allow this recovery of costs to be possible more quickly, and at a sensible level. Also, another important recommendation is that the Libyan government should investigate the reason why foreign investors are motivated by knowledge seeking from international players and not from Libyan companies, in spite of the country having operated oil activities since the 1950s, because after all this time local companies should be engaging in outward FDI, but this is not the case. It seems to be that there are no specific regulations or laws which are required in this sector to attract more FDI: the problem is related to managing it in the best possible way and explore how to maximize the benefit from it.

Banking sector

It was observed that because Libya was isolated from the rest of the world during the sanctions period, it was not significantly affected by crises in the wider world economy and that is why foreign investors were attracted to the Libyan banking sector. Now Libya has started to reintegrate into the world economy and has moved to normalize its relation with USA and Western Europe, which means Libya could be impacted by crises that may happen in the future in these countries. Therefore, policy makers in Libya should think about closer integration with other

parts of the world such as China. Also the country should adopt an Islamic system in its banks because it was observed that Islamic banks were less affected by the recent financial crisis than western banks.

Manufacturing and construction sectors

The industrial sector is one of the key sectors for economic development and diversification of income sources. In spite of the efforts made by the state in the preparation and promotion of some available investment opportunities in the manufacturing sector, there is still a lack of clarity of meaningful opportunities in this area for the foreign investor, which requires further consideration to be paid by policy makers.

Property ownership is not a clear issue for most foreign investors in the manufacturing and construction sectors. According to law No. 5 is not permitted for foreigners to own property or land except if it utilized under the specific investment criteria or for commercial purposes. According to this law, foreign investors may own land for the construction of a specific project and have the right to own or rent buildings for that project. However, the private sector owns large amounts of land that was taken by the government then leased for business purposes. After the partial relaxing of ownership laws, the private sector became the owner of the land. So the problem facing some foreign investors is whether the land is owned by the government or the private sector, and with whom they have to deal. Therefore the government has to clarify this issue.

One of the most important determinants of FDI was found to be the high return on investment as a result of the five years tax holiday offered by the government. In terms of Libya's future, policy makers must ask what the importance of this motive will be after this period, and how the government can prevent foreign investors from leaving the country. Even if the country maximizes the benefit from FDI, the government has to for instance allow foreign investors to invest more money and have more involvement in their projects in order to persuade them to increase their commitments. If this does not happen, when the rate of return decreases, the investors will not be willing to expand or possibly even continue their projects.

8.7 Future research

This research has shed light on several areas of future studies.

1- Future researchers may use a similar framework as a whole or use part of it to explore determinants of FDI in developing and emerging countries. For example future research is needed to explore the motives and determinants of FDI from the points of view of three parties (foreign investors, host governments and host companies).

2- Further research with a much lager sample size would allow statistical analysis, which may provide a high level of explanatory power.

3-The current study was undertaken when Libya was in a transitional period. Thus the similarities in the findings between the eight case studies may become differences if the same study were conducted after the end of this period of time, or when Libya has moved to another stage of its development.

4-This exploratory study involved four economic sectors, which were oil, banking, manufacturing, and construction. Future research into the area of determinants of FDI is recommended to be undertaken to investigate if there are any similarities or differences between determinants of FDI among various types and sizes of the other Libyan sectors.

5- Conducting the same study in different countries and within different industries would enable a comparison to be made. That would help in exploring whether or not there are some special findings related only to Libya.

6- Because the present study was limited to wholly owned companies in the oil sector and joint venture FDI in other sectors, future work is needed to investigate whether if other entry mode strategies such as Greenfield or/and acquisition were adopted, determinants of FDI would change according to entry mode strategy.

7-This study explored determinants of FDI in various sectors of the Libyan economy. Future research is recommended to explore the impact of FDI on the various sectors of the Libyan economy.

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Appendix A
Interview questions

Dear: Ms/Mr

The purpose of this questionnaire is related to the PhD thesis with title "A Study of Motives and Determinants of Foreign Direct Investment in the Key Sectors of Libyan Economy" of Rehab Suod, PhD student at University of Gloucestershire, UK.

In the framework of this research, we kindly request that the questionnaire should be answered by the Chief Executive Officer (CEO) or an appropriate deputy in the firm (for example, director or manager). The successful realization of this study is highly dependent on your support and cooperation, which will be greatly appreciated.

The information that will be provided in this questionnaire will remain **STRICTLY CONFIDENTIAL** and will be published in grouped form, so that the information provided by individual companies remains anonymous, without touching your personal interests.

Thank you for your collaboration.

Name of Subsidiary --
Subsidiary website: www---
Name of the Parent Firm---
Parent Firm website: www--
Respond email address---

1. What are your motives and expectations when you came into Libya?
2. How have you engaged into negotiations for starting the FDI project?
3. What were the major issues that you have discussed into process?
4. How and which particular factors where extremely important into the process of signing a contract?
5. What kind of problems have you faced in the process of functioning of the companies?
6. How can you maximize the benefits from FDI?

Appendix B

Interview transcript

Company A

Q1 What are your motives and expectations when you came into Libya?

Interviewee: First of all our country is not export oil and gas any more because our consumption higher than our production. That is why we need more resource in oil and gas not just this, which come from our country, but also this, which is outside our country. For several years ago we start to enter the overseas countries like Malish, Qatar, Sudden, and then Libya. Libya is one of the country have big resources in oil and gas. So many international companies from outside enter Libya country. And that is why we try to get opportunity to get work in Libya. Based on our information Libya is one of the highest oil and gas resources in the world. So there are many company from outside compete to go to Libya.

Access to neighbouring markets

Actually we got oil in our activities so we would like to export to the our country from Libya, this is our priority because we import from other country from outside Indunsi 300-400 thousand barrels per day. So that is why if we got discovery and then can follow by development and production so we can export or re-export oil from Libya to Indonesia for refine in our country.

Q2 Why you prefer FDI

Because we need more oil due to our production less than our consumption. We import oil from countries like Egypt, Iraq, we still what we called optimistic to get oil and gas in Libya because as you know oil quality in Libya is one of highest quality and gas as well as you know gas production in Libya export to Europe. So this is our opportunity to export oil to our country and export gas to countries around Libya. One reason to prefer FDI is that to secure oil supply. If we conduct FDI directly investment in Libya so I think we control our company. So if we have no exploration and production in another country so we are rely on oil producer who can control the supply price and if price is high we will suffer and that is why we prefer FDI.

Market size and growth

Q3 Do you think Libya market is big?

Yes at less for the gas. If oil no problem because as you know if we compare between supply and demand of oil there is no balance because market demand higher than its supply so that is why price still keep going up. So we have no problem with the market especially we still have problem with the gas market. If we have the gas and to market to other buyer so we still need sufficient sources and have no gas facility like that and sufficient reserve to grantee supply gas.

Q4 Do you think Libyan market need oil and this is your motive

I think yes in Libya as well still grow up especially for the oil consumption every time Libya have more car more energy for supply electricity so consumption is expected time by time will going up. For oil our country but gas for maybe Libyan market and its neighbouring such as Malta, Egypt and Tunisua.

Knowledge seeking

We try to wider our company to get opportunity in Middle East and North Africa. Before we become worldwide company we need to increase our ownership advantages for example to increase experience and more knowledge and this is one of reasons to come to Libya.

Q6 Do you think Libya has good knowledge in oil sector?

I think Libya is one of leader producer in oil and gas and one of the OPEC member and then so many big companies play in the Libyan country such as Shall, Eni and so on. So that is why we has been encourages getting the opportunity in Libya. So we want to learn from international companies who are in the Libyan market.

Q7 You mentioned historical links, how this factor effected the company decision to invest in Libya?

Yes because we are the same in terms of Muslim country we have the same historical links because I think all Asian African countries have historical growing up and to become leading country in the world. Also Libyan leader and Indunsi leader are friend and good relationship between them.

What are the main O advantages?

We have greater cost advantages and also experience because this company founded in 1968 so we have more than 60 years run oil and gas experience especially for exploration and production.

Wide product variety

Our company have activities in up stream and downstream. In up stream we run business and exploration production oil and gas. Downstream activities we have petrochemical product, energy, so we have many product variety.

Greater brand loyalty

Brand loyalty I think because we have lot of experience, especially in our country and in several neighbouring countries like Malaysia, Pakistan, we have already export several product that is why we have high confidence about our brand in the market.

Q What is your entry mode into Libya?

Currently we are joint venture with other company out side Libya, not with Libyan company. But our partner work out side Libya. Currently we are 100% wholly owned but if we discover oil we will be joint venture so in the first stage exploration wholly owned at the second stage production joint venture. So there is different agreement for different stages.

Q Do you have any other motives to invest in Libya?

Yes, high return on investment, we have already made exercise simulation for economy calculation so we have conducted study to identify prospect and calculate the resource. Based on resources so we optimistic that we can get big resources in Libya. So that is why under our input like oil price and operating cost, and commitment. We consider all costs as well split, so we can calculate and get result. So several economic parameters like IR, MTV, international rate of return and so on. So we can get result if we can get discovery in Libya so we can get high rate of return. Cost for oil in Libya is cheap.

Business and industrial linkages

If we got discovery we should consider about infrastructure and then business line related to oil and gas up stream industry like how to get equipment to build oil field, production facility. So I think Libya have a lot experience to run oil and gas business especially for us upstream activities. So I think based on our searching and our research we have no issue about this business link. The facilities to explore, produce and export all are good in Libya.

High industrial concentration

Part of other consideration whole industrial environment especially that related with our activities in the oil and gas upstream we have no issue about supplier finder for support us supply the developing activities, equipment so on, because so many finder are supplier companies already established in Libya in our business (services companies). We rely on the loopy industry and all overseas companies that were established in Libya so we have no issue about supply and provide related to our activities.

A access to reliable and co is related high industrial

Export facilities, almost 70 or 80% crude oil from Libya export to mother country so we have no problem with export facility.

Q What about political condition in Libya?

Libya is a very famous country, which has political issues with US and several Western Europe, but actually if an investor involve in Libya deeply there is no issue regarding political issues. Inside situation 100% Libya country control by the government. If we compare this with other countries Libya very silent situation political no strike this one of competitive advantages for Libya we are focus and concentrate on running our activities because we have stable political. Also I think Libya is country give many donations to other country like Africa and our country as well so many scholar save give by the Libyan government to another countries student. So make high reputation for the Libya.

Government policy and regulation

Our activities are ruled by exploration production agreement so it is very clear regulation every article every phrases in the EPSA. I think we can get

understanding it operator and regulator. So far there is no problem between NOC and any company.

Investment incentive

I think production and sharing agreement one of the part incentives. Like Libyan government have E&P for 80% or 90% and operator has around 11% some thing like that. We see this kind of investment incentive play one of the part incentives from the government.

Less strict environment laws

Another country likes in North Sea is very strict environmental laws. In Libya government policy protected operator the policy of government beside foreign investor in Libya than other countries.

Infrastructure and low transportation cost

Good infrastructure in Libya because already the country run oil and gas business long enough so I think so far we see Libya good in infrastructure. Again because if we got discovery and then big number of oil resources so cost we can reduce it.

Attractive geographic location

Libya one of the countries that have strategic location across to several markets, big market like western Europe to the middle east and African countries so its very strategic location to work.

Why FDI instead of other mode of market entry?

Before we enter Libya we have several experience in other countries like Malaysia, Vietnam, Sudan, Iraq, so we have confident enough to enter Libya, secondly to operate and control the strategic resources internally. You know that because we have experience in domestic business as well our company was established in 1968, so I think we have capabilities to control and operate strategic resources in Libya beside our activities out side. We also prefer FDI to avoid costs of searching for and selecting partners in foreign markets. I think one of the reason to avoid cost if we have external partner I think we will spend a lot of money.

Sometimes Joint venture and partnership have raise as well because partner we choose is may not perform as I expect before so that is why raise our cost that is why we conduct FDI by our self, we do not need partner.

Also another important reason to prefer FDI is that to secure oil supply. If we conduct FDI directly investment in Libya so I think we control our company. So if we have no exploration and production in another country so we are rely on oil producer who can control the supply price and if price is high we will suffer and that is why we prefer FDI.

Currency stability

It is high stable so far there is no problem with currency stability.

Q If we say Libya is stable in terms of political risk, so is there any other kind of risks that may affect your business?

We can classify several risk economic, political operation risk etc, based on our calculation and our study I think except technical prospective Libya one of the country had big resources we can say Libya is a very low risk to get resource. The risk is maybe we do not get resource but this weak possible because Libya has big resources. Libya low risk from exploration point of view, no economic risk, no political risk, if we do not find oil so still have many opportunity to run production business we can offer Libya other kind of services. If we do not find oil we can for example access and supper Libyan national companies to develop several discovery. We can offer operate the field by low cost this is one of our opportunity so we still have chance to continue our activities in Libya and this is one of our advantages

Q What kind of problems have you faced in the process of functioning of the company?

Bureaucratic, most countries growing up and still learn from leading countries, so that is why bureaucratic is problem. Also infrastructure problem because for example banking is not good developed to run business because as you know our or commercial business rely on the banking system to support the other business. Some times we need from bank so some time we cannot buy by cash so maybe

rely on the bank to support. I mean here by infrastructure banking system and telecommunication problems such as phone and Internet.

Labour productivities

Several problems like to get high quality job. Some time we are dealing with local employee their experience and productivities are low. Local employees are not productive because Libya is rich country and people do not work to get more achievement more challenges because they do not used to high competition in environment so some time how to achieve high target. We need to run oil and gas business every body have high skilled high experience, high competition to get more achievement more target. So some time we still have problem issues dealing with local employees.

Q Do you carry any training programmes?

Yes we have many planning programmes to improve labour capability knowledge. We send several local employees to our country to get training technical and managerial then new technology like processing using new software, simulation, modelling, this one of our effort to improve the capability for local employees.

Q Do you see some improvement about employee?

Yes so far based on our programme conducted so we can guess some improvement on local employees. Local employees started to learn after they attended several courses. We are employing 75% local and several parts from our country.

Q In your opinion what action need to be taken by Libyan government?

Improve infrastructure as I said before we need some improvement in telecommunication, banking system, internet but infrastructure related to oil business in terms of road and so on is good.

Q What was your source of information?

Our information are provided by professional organisations outside Libya like American association of petroleum and many professional institutions from Asia and America and Western Europe provide all information about Libyan especially for oil and gas sector so that why we can get information and then we can make

some research and study. Many consultation like Makinsy one of consultation provide many information not only about Libya but also for world wide. Although we have to pay for these information, but more accurate information and useful information. This information about how to work in Libya so we can get several valuable about political situation infrastructure about every thing. We enter into Libya in 2005 as oil Company.

Was your company affected by the global economic downturn?

Yes is affect our parent company in downstream but not so much. Because we have high population more than 2 hundred million people so they have capability to market for local market. We have no problem with our product because activities growing up every thing go well just small impact of global crisis and does not affected our work.

Q How have you engaged into negotiations for starting the FDI project and what were the major issues that you have discussed into process?

Negotiations do not take long because there is an agreement or contract, which is called the Exploration Production Sharing Agreement (EPSA). This is prepared by the NOC who give it to the foreign investor. If the latter agrees, they sign this document. Thus the negotiations process does not take long for any company who would like to engage in FDI in the Libyan oil sector. This agreement or contract is changed from time to time by the NOC.

Q Do you have any thing that you would like to add?

No thanks

Appendix C

Background information on the companies surveyed and within case study analysis

The main aim of this part is to explore the motives of foreign companies for investing in Libya and when these motives become determinants. However, because of the high degree of similarity in terms of company motives, in each case only motives that have not mentioned in previous cases, or were in previous cases but with a different interpretation, will be included.

Case 1 Company A

Company background

Company A is a large Indonesian company, founded as a state owned enterprise in 1968. The company's aim is to engage in oil and gas exploitation, locally and internationally. It is also intended to play a role in improving economic conditions for people's welfare. The company's activities cover areas such as oil, gas, and geothermal energy exploration, production, marketing, and shipping and trading of both fuel and non-fuel products, liquefied petroleum, petrochemical products and lube-based oil. The company has ten joint ventures and twenty subsidiaries in several sectors such as upstream and downstream business support services, airlines, hotels, hospitals, oil drilling insurance, and manufacturing. The business activities of the company are supported by information technology.

The company has a number of profitable activities in Indonesia. Indonesia used to be a member of OPEC, however, when its consumption of oil became higher than its production, it left OPEC. Indonesia has a large population and a relative shortage of oil, and this Indonesian company therefore has a large domestic market of local consumers. It has a large proportion of the domestic market and seeks to alleviate Indonesia's lack of oil commodities. Thus the company needed to look abroad to obtain resources.

Before the company engaged in FDI in Libya in 2005, it could be suggested that it was motivated by resource seeking. The company obtained its information about Libya from professional organisations such as the American Association of Petroleum, and many professional institutions from Asia and Western Europe, and many consultants such as McKinsey. At the same time the Libyan government was motivated to attract FDI to encourage inflows of technology and management skills that were lacking as a result of the international sanctions imposed on the country following events in the 1990s.

Company A; motives for investing in Libya

Motives for FDI
Resource seeking (availability of raw materials)
Access to neighbouring markets
Market size and growth prospects (for gas)
Knowledge seeking
Culture
High returns on investment and investment incentives
Business and industrial linkages
Political stability
Good infrastructure and low transportation costs
Attractive geographic location

When did motives become determinants?

1- Resource seeking

The finding of the present study indicate that resource-seeking FDI was the most important motive for company A's investment in Libya. The company did not export oil and gas anymore because Indonesia's consumption was higher than its production. The chief executive of company A explained that Libya was one of the countries that had significant unexploited resources of oil and gas. Therefore, many international companies from outside the country wanted to enter Libya, and that is why they tried to obtain an opportunity to work in Libya once UN sanctions were lifted. Based on their information, Libya had one of the largest oil and gas reserves in the world. However, resource seeking is a specific motive for foreign investors and not controllable by the Libyan government: it was therefore highly likely that it would turn from a motive to a determinant.

2- Access to neighbouring markets

Company A was motivated by resources, especially oil for their country. However, the access company A gained to gas was relevant only to the Libyan domestic market, and Libya's neighbouring countries such as Malta, Egypt and Tunisia. This motive could be classified as specific to company A, and controllable by the Libyan government. In addition this motive turned into a determinant because the Libyan government gave the foreign investor full freedom to do what they wanted regarding their percentage of extracting oil from Libya.

3- Market size and growth prospects

The findings of this study showed that the Libyan market is large, at least for gas. In terms of the oil market, there is no balance between the supply and demand, and because market demand is higher than its supply that is why the price continues to rise. In Libya oil consumption continues to rise and is expected to do so in the medium term at least. For company A, oil for their country is their priority, but gas for the Libyan market and its neighbouring countries is also an attractive proposition. This motive has not yet turned into a determinant because the company has not yet discovered oil. However, if the company does not discover oil, it still has the opportunity to work in Libya.

4-knowledge seeking (strategic assets-seeking)

The chief executive of company A explained that Libya was one of leading producers of oil and gas and an OPEC member, and that so many big companies play a role in the Libyan economy, such as Shall, Eni and so on, and that this was the reason they were encouraged to take the opportunity in Libya. Company A wanted to learn from the other international companies who were operating in the Libyan market.

In terms of the important idea to this study of why and when motives turn into determinants, it is important to consider the role of Libyan government policies during this process. However, it is clear that in the case of company A, this motive turned from a motive to a determinant without intervention from the Libyan government through its policies. The Indonesia company was motivated to seek knowledge from international companies that work in Libya, but not from Libyan companies. This raises the very important question about why Libya was no able

to attract knowledge-seeking FDI in spite of having run oil activities since the 1950s.

5- Culture

Company A's home country and Libya have similar culture in terms of sharing the same religion, in addition to which the Libyan leader and Indonesia's leader were good friends, and this relationship may have had a positive impact on the inflow of FDI from the home country of company A to Libya. Culture is an uncontrollable motive because the government of a country cannot change its culture in terms of religion or language. This was one of the motives that encouraged the company to invest in Libya and became one of factors which determined FDI in Libya from the Indonesian company's point of view.

6-High returns on investment and investment incentives

The advantages of Libyan oil is that it is light and sweet crude, which is high quality and easily extractable, with considerable exploration potential and low costs of oil recovery, currently ranging from $1-3 per barrel, which contrasts with $15 per barrel in the North Sea (Oxford Business Group, 2008). So investing in Libyan oil is likely to be profitable for any company working in Libya. In addition, a further reason for the likelihood of high returns was the incentive that the Libyan government offered through EPSA. The Chief executive of company A stated that:

I think the exploration production and sharing agreement (EPSA) was one of the main incentives. The Libyan government has E&P for 80% or 90% and the operator has around 11%, something like that. We see this kind of investment incentive that the government offered as the most important factor encouraging us to invest in Libya."

He further explained that oil activities in Libya were controlled by exploration production sharing agreement (EPSAs), which were very transparent regulations. The Libyan government policy protected operators to a greater extent than in other countries.

High returns on investment and investment incentives are a controllable motive. The Libyan government offered investment incentives through EPSA, which was viewed by the Indonesia company as an important motive encouraging them to invest in Libya, as confirmed by this statement by the chef executive:

"We see this kind of investment incentive that the government offered as the most important factor encouraging us to invest in Libya."

The investment incentive that the Libyan government offered in the form of a high share of the project's profit ensured that foreign investors obtained high rates on their investment.

7- Business and industrial linkages

The findings showed that Libya had a lot of experience running oil and gas businesses, especially for upstream activities. So the facilities to explore, produce and export oil are all good in Libya.

Other considerations which company A took into account were the whole industrial environment, especially related to upstream activities: the company had no issues about finding suppliers for support and development activities, equipment and so on, because so many supplier companies were already established in Libya. The company was able to rely on the loop industry and all the overseas companies that were already established in Libya, so there was no problem with access to reliable and co-operative suppliers related to their activities.

This is a controllable motive. This motive was linked by the company to infrastructure in terms of facilities to explore, produce and export oil. Also it was linked to access to reliable and co-operative suppliers related to their activities. Due to the policies of the Libyan government, this motive turned into a determinant.

8- Political stability

The findings indicated that Libya had serious political issues with the US and several Western European countries, but that if the investor built a business in Libya there was no problem regarding political issues. The internal situation was that 100% of the Libyan community was controlled by the government. In Libya the political situation was very stable, with no strikes, and this was one of the competitive advantages for Libya; the company was able to focus and concentrate on running their activities because the country was stable politically.

Political stability is a controllable motive. This motive is a critical one and prevented many foreign companies from investing in Libya, especially during sanction period. After this, Libya took some measures to improve its image and encourage foreign investors. Following the lifting of UN and US sanctions between 2003 and 2004, Libya began the improvement of its relationship with the US, which has lead to a rise in the interest of foreign investors in Libya. Libya committed itself to abandoning the development of nuclear, chemical and biological weapons, and support for terrorism. Libya attempted to remove Weapons of Mass Destruction (WMD) and it requested accession to WTO, and as a result, in 2005 Libya was removed from the list of countries regarded as sponsors of terrorism (North Africa, 2007).

9-Good infrastructure and low transportation costs

Because the country had already run oil and gas businesses for a considerable period, Libya was viewed by company A as good in terms of its infrastructure. Also Libya has low transportation costs because of its geographic location.

It could be said that infrastructure is a controllable motive, which means the Libyan government has the capability to improve, strengthen and change it in order to improve the chances that this process will move from one stage to another. These improvement in infrastructure by the government turned infrastructure from a motive to a determinant. Libya has several commercial seaports but many of these seaports were established a long time ago: some of these ports serve as oil terminals, such as Ras Lanuf and Marsa El Brega. The Libyan government has ambitious plans for the refurbishment, purchase and replacement of an additional 36 vessels, (Otman, 2007). Moreover, an international seaport will be built in Sirte,

which is intended to deepen Libya's links with Mediterranean shipping networks and to help establish the country as an international centre for transit shipping (Oxford Business Group, 2008).

10-Attractive geographic location

As was explained in chapter four, Libya is a country that has a strategic location with several markets, including major markets like Western Europe to the Middle East, and African countries, so its very strategic location to work. Also because of this geographic location it is easier to do business in terms of trading and cheap transportation.

Geographic location is an uncontrollable motive, and the Libyan government cannot change it. But it can improve it in terms of infrastructure such as seaports, pipeline networks, plants, terminals, and storage facilities. The availability of good infrastructure affects the ease of operations, and the movement of production materials and products to designated areas.

In terms of a foreign company seeking to do business in Libya, negotiations do not take long because there is an agreement or contract, which is called the Exploration Production Sharing Agreement (EPSA). This is prepared by the NOC who give it to the foreign investor. If the latter agrees, they sign this document. Thus the negotiations process does not take long for any company who would like to engage in FDI in the Libyan oil sector. This agreement or contract is changed from time to time by the NOC. Thus, there were no long negotiations between the Indonesian company and the NOC. In addition to that the leaders of both countries were friends, which could suggest that this relationship may have facilitated the FDI process. During this stage the Indonesian company goal was to gain access to Libyan oil. It offered the Libyan government to allow them access to their technology and to train Libyan workers. On the other hand it was the Indonesian company's responsibility at the exploration stage to employ one person at a management level. Here the Libyan government played an active role and it could be said that it was in a strong position at this stage, although the Indonesian company was not happy with this requirement and at first rejected it. However, because the Libyan government imposed this as a condition of FDI, the Indonesia

Company accepted it. The reason for accepting this condition by the Indonesia Company could be that the low cost and high quality of Libyan oil resulted in high profits. However, the Libyan government offered the Indonesia Company access to its oil or its gas market in the case that they did not discover oil.

Hence, in 2005 company A was established as a wholly-owned company at the exploration stage. However, the FDI agreement specified that this ownership structure would change to a joint venture if the Indonesian company discovered oil, in which case this joint venture would be 50% for each party. The reason for this structure was that the Libyan government did not have the technology and experience to extract oil; hence they left this to foreign investors. However, they have experience in downstream activities and they prefer joint ventures to gain more knowledge, especially about management know-how.

The post FDI stage is also controlled by the EPSA. The company was happy to work in Libya in spite of the fact that it had not discovered oil at the time of this empirical study (between July and September, 2009). Also the company faced problems such as bureaucracy, and infrastructure in terms of the Internet. However, company A still had opportunities to work in the gas sector or as a "Supervisor Company" for Libyan companies. From company A's point of view Libyan government policies protected operators, and the government worked as a partner to foreign investors more than any other country.

Case 2 Company B
Company background

Company B is a large state-owned Turkish oil Company founded in 1945 by the State Minerals Exploration Institute, which was established by the Turkish government in 1935 after it had made its first major oil discovery. Since then, with the partly help of foreign experts, it has made several further discoveries. However, oil exploration activities under this institute were insignificant, and foreign companies were not permitted to operate in Turkey. Thus this company took over from the State Minerals Exploration Institute. In 1954 the new petroleum law allowed local and foreign companies to operate in the oil sector, and company B as a state-owned Oil Company was founded by the government. It owned more

than 45 oilfields. Between two and three fields were founded between 1994 and 1998. From the second half of 1998 this company did not make any significant oil discoveries in Turkey, and its production was higher than its discovery of reserves. However, in 1996 and 1997 five oil and gas discoveries were made by the company. Company B was involved in activities such as exploration, drilling, well completion, production, refining, marketing and transportation. However, as of 2008 the company limited its activities only to the upstream oil sector. At the time of writing the company is extending its scope to include oil exploration and joint venture projects outside Turkey in area such as the Caspian Region, North Africa and the Middle East, Azerbaijan, Kazakhstan, Libya, Syria, Turkmenistan, Georgia, Iraq, Egypt, Ukraine, Indonesia, Russia, Brazil, Algeria and Sudan. The aim of this expansion is to secure sufficient supplies for the local market.

The company holds a 100% share in each of its subsidiaries, which are principally in areas of pipeline transportation, marine transportation, refining, and marketing. The role of company B is to establish investment policy, whereas the subsidiaries are independently operated under a separate management and board of directors. Due to its size, and favourable government policies especially during 1973-1979, the company enjoyed advantages over its competitors.

At present the company produces 90,000 barrels of oil a day, whereas the country consumes around 600,000 barrels daily. This means that national production is less than its consumption, which reflects huge opportunities for this company in its market, and indicates that this company was motivated by resource seeking FDI in Libya

Before this company engaged in FDI in Libya the main source of its information about the country was its previous work in Libya. The company has had some joint venture projects in Libya since the 1980s in oil marketing but not in exploration. However, after then it was decided to explore oil in Libya around 1995 due to their lack of the oil in the company's home country. The Turkish company at this stage played an active role when it decided to invest in Libya. Technology and management skills were the Libyan government motives in agreeing to this venture.

Company B motives for investing in Libya

Motives for FDI
Resource seeking
Access to neighbouring market
High returns on investment and investment incentives
Attractive geographic location and culture
Overall economic climate
Political stability
International trade agreements
Good infrastructure

When did motives become determinants?

High returns on investment and investment incentives

One Libya's location advantage is a high return on investment. The most important factor is investment incentives such as high share of profit. Company B has two blocks; it shares with NOC 37% in the first block. But for the second block it has 9.7% because the NOC changed the percentage due to the high demand of oil in the world, meaning that price and competition were high. The second incentive was a low rate of customs tax.

Attractive geographic location and culture

Geographical proximity and culture are one of Libya's competitive advantages that encouraged company B to invest in Libya. The cultural link between Libya and Turkey dates back to the period between the16th and 19th centuries when the Ottoman Turkish dominated Libya. In addition to this, the two countries have the same religion and a very ancient trading relationship. The Chief executive of company B commented that:

The choice of Libya was because it is a close country in terms of culture and close geographically to my country, and there are old relationships between Libya and Turkey. In addition to that, the two countries have the same religion. These are the major reasons.

Overall economic climate

The overall economic climate was important. In Libya the economic climate was stable and it was not seriously affected by the economic crisis of 2008. Also in Libya the cost of raw materials, energy and water was low. Moreover, the company expected low costs of extraction for high quality oil, partly because the government subsidises the electricity and water price.

International trade agreements

OPEC is the most important international agreement in the oil sector. The Chief executive commented that:

Agreements such as OPEC are making the trade of oil easer, so this factor is important.

What happened in the negotiations process through this stage was similar to that for the Indonesian company, and it is the case for all oil companies in general. During this stage the Turkish company offered Libyan government access their technology and training for Libyan workers. Also, it was the Turkish company's responsibility at the exploration stage to employ one local worker at a management level.

In 2000 the Libyan government and the Turkish company set up the project and company B was established. Since then the company has been conducting operations in Libya, however when they came they already knew conditions in Libya very well. With respect to the ownership structure, company A is wholly owned by the Turkish company at the exploration phase, but after the discovery of oil the ownership structure will become a joint venture. This joint venture will be with NOC. This company had 2 blocks at first and later on it entered into a relationship with another partner in 2003. One block is shared between NOC and only Turkish company B. The other block is shared between NOC, an Indian company and the Turkish company. The reason for sharing with an Indian Company was to minimise both risk and cost. The joint venture arrangement is for

Libya to hold 63% of the company with 37% for the Turkish company. This 37% is then split between the Indian company, which holds 49%, with 51% for the Turkish company. In terms of negations and the FDI process, it was similar to company A because of, as explained above, the situation within the oil sector.

Company B had the same motives as company A for investing in Libya and the process by which motives turned into determinants was the same. The only differences were the overall economic climate and international trade agreements. OPEC is the most important type of international agreement in the oil sector. This is an uncontrollable motive. Libya, as OPEC member, may make some suggestions, but it does not have complete control over this organisation.

Post FDI, from the foreign investor's point of view, and in spite of the NOC owning all the exploration land and company B not being allowed by law to buy land in Libya, all its business related to oil was well established in Libya, such as exploration production, because the Libya government has been working on this issue for many years. The laws and sharing agreements in the oil industry are very clear. After FDI took place the company was happy with its arrangement and optimistic about making a discovery. However, they had some problems related to banking services and bureaucracy. From the Libyan government's perspective, after the Turkish company accepted the stipulation that it should train a local Libyan employee, they were satisfied with their partner.

Case 3 Company C
French company background

The French company is a large financial services company (a bank). This company is an international bank with roots in Europe, a significant presence in the United State and leading positions in Asia. This bank has a large and increasing presence around the Mediterranean basin through a significantly large number of branches in Morocco (220), Tunisia (97), Egypt (42), the Gulf countries (7) and Turkey (273). It has a staff of 163,000 employees, including 127,000 in Europe. Moreover, it has one of the largest international banking networks, being present in over 85 countries around the world. Furthermore, it has the following substantial businesses: Corporate and Investment Banking (CIB); Asset

Management and Services (AMS); Retail Banking, including French retail Banking (FRB), International Retail Services (IRS), and Bank Commercial in Italy.

Libyan bank background

This Libyan bank was created in 1964 and is recognized as the second largest public bank. It has a network of 48 branches covering all the main regions in the country and 1500 staff. It is one of the leading banks and has developed a large portfolio in both corporate and retail banking. This bank was the first privatised financial institution in Libya in 2007.

It could be said that the motive of the French bank was market seeking. Also, by investing in Libya, this bank will complete its presence in the Mediterranean Basin. The Libyan bank's motives to attract FDI were to reinforce its business growth and customer service, through well-trained staff, efficient processes and organizations supported by state-of-the-art banking operations based on international standards.

In early 2007, the CBL announced its intention to sell a minority stake in the Libyan Bank to foreign investors. However, due to the fact that there was no strong private sector in Libya the CBL sold to the Economic and Social Development Fund, which later sold 19% of it to the French company and selected the latter as the Libyan bank's partner in July 2007, thus bank C was established.

Company C motives for investing in Libya

Motives for FDI
To take a "first mover" advantage
Market size and growth prospects
To follow clients
Attractive geographical location
Higher rates on investment and investment incentives and easy repatriation of profits for investors
Overall economic climate
Business and industrial linkages
Culture
Political stability
Banking system and Government policies and regulations
Progress of privatisation

When did motives become determinants?

1-To take a "first mover" advantage

When international sanctions were lifted and Libya opened to foreign investors, several projects took place in the areas of construction, housing, and hotels etc. Many foreign companies entered the country and all of these companies needed banking services in their activities. Therefore gaining first mover advantages was one of company C's motives for investing in Libya.

2-To follow clients

The tactic of client follower is viewed as a way of reducing the transaction costs of international production and preserve networks. However, in the case of banking, where companies (buyer) have a strong bargaining position vis-à-vis banks (suppliers), banks might be pressured to follow the leading company into new locations to maintain their contract with the leading company in any location. Client following FDI is also viewed as the expansion of collusive relationships between clients and suppliers into new locations to not allow for newcomer companies to enter the market. The chef executive of company C commented that:

One of our reasons for engaging in FDI was to follow our clients who are from different companies.

To take a "first mover" advantage and to follow clients are uncontrollable and specific motives for only foreign investors. The Libyan government cannot intervene in this process through its policies.

3- Market size and growth prospects

The findings showed that the Libyan market is very large and in a continuous growth situation. This motive is in agreement with the first mover motive to benefit from being the first player in a market which opened to FDI in some sectors. For company C, demand in Libya was high due to its openness to foreign investor and the fact that all foreign companies required banking service in addition to Libyan companies and people, especially because the growth of the population of Libya is very fast.

Market size and growth were common and uncontrollable motives for all parties. The parties could not increase the size of the market or speed up its growth. However, the Libyan government was able to impact the attractiveness of its market indirectly: For example when the government announced its desire to change the economic system from a centrally planned economy to a market one. This transition meant an increased role for the private sector, which was a very important determinant to investors. This policy concerning the transition of the economy helped in turning motives into determinants.

4-Attractive geographical location

Geographical proximity is very important. France is not far away from Libya. Also company C wanted to complete their presence in the Mediterranean basin, for example they had a significant number of branches in Morocco, Tunisia, Egypt, the Gulf countries and in Turkey, and this was another reason motivating the company. In addition to that, Libya's role in international trade movement persuaded the company that it would benefit from the strategic location of Libya to enhance its activities.

Geographical location is an uncontrollable motive. However, geographical location as a motive in the banking sector is different from it as a motive in the oil sector, in that geographic location could be improved indirectly in the oil sector through improving infrastructure and reducing transportation costs. However, in the banking sector, investors do not need for example seaports, pipeline networks, plants, or terminals. This suggests that for this motive the Libyan government was able to intervene indirectly in the oil sector but not in the banking sector.

5- Higher rates on investment and investment incentives, and easy repatriation of profits for investors

The Libyan market is profitable due to being a new market and having huge opportunities for work. The easy repatriation of profits was seen as a very important investment incentive that was offered by the Libyan government. Also, foreign banks did not need special incentives to attract them to the Libyan market, because it is a profitable market with considerable growth potential. This is

different from the companies that entered Libya under law No 5 and its incentives, because these companies needed incentive to encourage them to come to Libya, but banks did not need any such kind of investment incentive.

These motives are controllable motives. In the banking sector the government did not need to offer special incentive such as in the oil sector (EPSA) or manufacturing sectors (Law No 5) because the market itself was viewed by foreign investors as an incentive. However, the Libyan government policy regarding easy repatriation of profits for investors was viewed as an important incentive offered by Libyan government to encourage FDI. Thus it could be said that high return on investment and investment incentives and the easy repatriation of profits for investors in the banking sector were important determinant of FDI.

6-Overall economic climate

Due to the fact that Libya is a small rich country with large reserves of oil, it is strong in terms of its balance of payment, has no budget deficit, its exchange rate is stable and it does not have any external debt. Several indicators reveal that the overall economic climate in Libya encouraged FDI.

The overall economic climate is a controllable motive in that Libyan can improve it. For example, in 2003 the Central Bank of Libya declared a unified exchange rate for the dinar and its devaluation as a step to the removal of multiple exchange rates and increased competitiveness of Libyan companies, and as an encouragement to more FDI inflow. Also in this year the dinar was pegged to the IMF's SDR (IMF, 2008). Also in 2003, Libya began its privatisation programmes. Moreover, to carry out its economic reforms, Libya signed an agreement with the World Bank, a Joint Economic Advisory. The areas of reforms were investment climate assessment, with support for Libya's development vision 2025 and the business and legal environment.

7-Business and industrial linkages

Company C has business with several companies which came to Libya as investors, and they have linkages and business with different economic sectors such as the tourism, oil, and industry sectors.

Business and industrial linkages were uncontrollable motives, which was different from business and industrial linkages in the oil sector. In the oil sector motives for FDI were linked to infrastructure and access to reliable and co-operative suppliers related to oil activities. These are controllable motives and the Libyan government was able to improve them through its policies. However, in the banking sector this motive was interpreted differently, and foreign investors looked for business and industrial linkages with the companies who came and invested in various sectors of the Libyan economy, and since all these companies need banking, company C forged business and industrial linkages with them. In this sense the Libyan government had no control over this.

8- Culture

Due to company C having worked in different Arabic countries such as Morocco, Tunisia, Egypt, and Gulf countries, they were familiar with Libyan culture. Culture is an uncontrollable motive. The interesting point here is the link between culture and experience of working in a similar cultural environment. The Chief executive of company C thought they were close to Libyan culture because they had already worked in several Arabic countries.

9-Banking system and government policies and regulations

The company conducted studies into Libya and found that Libyan banks were not undeveloped to a greater extent, and were judged as being able to develop quickly. Moreover the Central Bank of Libya itself witnessed huge and continuing improvements.

Banking system and government policies and regulations are controllable motives and because of Libyan government policies this motive has been turned into a determinant. For example, the CBL, with the support of a number of international financial advisors, started to modernise the Libyan banking system through commercialisation and privatisation. Also the IMF is helping to modernise the CBL in terms of research, statistical data and the supervision of monetary policy. The IMF will support CBL efforts to reorganise its accounting, human resources, auditing and controllers departments. Moreover, in 2005 the General People's

Congress passed banking law No. 1 and law No. 2 as a comprehensive banking legislation. In law No. 1 the door was opened to foreign investors to invest in the Libyan banking sector, whereas law No. 2 is related to the illegal possession of funds inside and outside Libya. The Chief executive mentioned that:

The CBL has tried to modernise the banking sector and it puts in place laws to improve banks according to international standards.

10- Progress of privatisation

The company considered Libya as a location of investment, however the privatisation program of the Libyan government in general and the Central Bank of Libya in particular encouraged the company to invest in Libya.

Privatisation is a controllable motive. In the early part of 2007 the CBL announced its intention to sell a minority stake in this Bank to foreign investors as a means of attracting them. First the CBL sold to the Economic and Social Development Fund which later sold 19% to the French company and selected it as its partner in July 2007. It could be said that the progress of privatisation one of the most important factors which motivated company C to invest in Libya: the findings of this study showed that the foreign company heard about the CBL's intention to privatise the banking sector and this encouraged them to consider Libya as a location in early 2007. However this motive turned into a determinant only when the CBL privatised the bank by selling it to the Economic and Social Development Fund. Thus it could be said that if the bank had not been privatised the FDI would not have taken place, according to the findings of this study.

The negotiation process was not long or complex from the two parties' point of view. Libya offered a deal for several international companies. The French company was chosen due to the fact that it is offered $217.5m for the 19% stake (Oxford Business Group, 2008). It was also a large company and had long experience; it is a leading international financial institution in terms of running such a business.

The next sections detail the offers between the two parties. Libya made three main offers. Firstly, the Libyan party offered the French bank total management control, because a key motive for attracting FDI in the banking sector is to benefit from know-how and managerial and marketing skills. Secondly, The French bank was offered the right to increase its stake to 51% in three to five years. Thirdly, the French bank would have the right to access the Libyan market.

The French bank offered to introduce the necessary technological and management changes needed to adopt the French company's international retail banking platform and retrain employees. Moreover, to allow Libyan banks to benefit from its worldwide network, it set up dedicated trade centres (90) and offered to promote expertise in innovative products. The French company offered to help the Libyan bank to meet its customers' expectations through a modern set up of 3 core businesses, which were:

Institutional Banking: offering a closer relationship with state entities, development funds, banks and insurance companies

Corporate Banking: through specialized organizations and dedicated services

Retail Banking: with new product offers and more sales-oriented branch layouts.

The Libyan bank through its strategic partner hoped to bring a new vision of banking activities to the Libyan market to improve its services to local and international customers.

Post FDI, the French company was happy about its decision to invest in Libya and stated that they considered Libya to have several advantages besides oil. Also the Libyan government was happy with the efforts of the French bank to modernize the Libyan bank. However, there were some problems facing foreign investors related to the Internet, lack of information, and the low productivity of labour.

Case 4 Company D

Company background

This overview of case 4 focuses on one company only: the Emirates Bank. The Libyan partner in this joint venture was established during the FDI process.

The Emirates Bank is a publicly-owned bank and one of the leading and largest banks in the UAE; it has Shareholder Equity of more than AED22 billion. The bank was established in 1979. It provides financial services to various business and industrial areas in the Emirates with a wide distribution network of branches across the country. It also offers a variety of financial services in merchant banking and retail banking services, treasury and investments, and corporate banking. Financial services and solutions are provided to retail customers, as well as high net worth individuals and investors in the country and the region as a whole, and to private and public institutions.

The bank attempts to pursue innovation, explore new opportunities and set standards of excellence. It is acknowledged as a world-class bank committed to maximising employee, customer and shareholder value. In line with its commitment to excellence, the bank continues to raise service standards, while, at the same time, investing in technology, systems and people.

The bank has won the Dubai Quality Award and Sheikh Khalifa Excellence Award. Currently, the bank has ambitious plans to expand its operations into other Gulf countries and into Asia and Africa, as in the case of Libya. It has also within its branches launched an Islamic banking window to service the growing market for Islamic banking customers.

Based on the above overview of the Emirates bank, it could be suggested that this bank is motivated by market-seeking FDI, especially following the global crises affected the banking industry in general. Also it appears that one of the reasons for choosing Libya was that it was not significantly affected by the economic crises as a result of its economic system, which was not open to the global market. The Libyan government on the other hand, was motivated by technology and know-how transfer, and the desire to upgrade their labour force.

Company D motives for investing in Libya

Motives for FDI
To follow clients
To take "first mover" advantages

Market size and growth prospects
High return on investment
Culture
Attractive geographical location

When did motives become determinants?

All these motives are the same ones which motivated company C and the same explanations were given by the two companies. It is clear that the same problems faced these companies as well.

As suggested by Ghauri and Usunier (1996), personal relationships play an important role in the negotiation process in a developing country. It could be said that this is the case with the Emirates bank. Both the UAE and Libya are Arabic Muslim countries. They have the same religion, culture, and language. The personal relationship between the two parties facilitated the process of negotiations. During this stage, the Emirates Bank offered to be a leading provider of corporate banking services in Libya; offering large and medium corporate clients, and a wide range of corporate finance products. Also it offered to provide Libyan companies, foreign companies and joint venture companies with high quality services and tailor- made products. Moreover, it also offered to introduce other banking services, such as electronic banking, and automated retail banking, as well as opening up new branches in other cities of the country. Furthermore, it offered to maintain a strong flexible synergy that would foster sustained growth. On the other hand, the Libyan government offered to allow the Emirates Bank to access the Libyan market and to limit the government role to being simply an external macroeconomic and industry regulator.

Thus, in 2007 the Economic & Social Development Fund (ESDF) and the Emirates bank signed memorandum of understanding (MoU) to establish company D, which was a fully-fledged commercial bank in Tripoli, Libya. In 2008, approval and permission was given for company D to start its operations in Libya. Company D is a joint venture between Libya's Economic & Social Development Fund (ESDF) and the Emirates bank.

The ownership structure of Bank D is that it is equally owned by the ESDF and the Emirates bank with 50% shares for each. The authorized capital is $400 million and the paid up capital is $200 million. The new bank will be fully managed by the Emirates bank.

Post FDI, generally both parties were happy to work together in spite of the mentioned problems.

Case 5 Company E
Company Background

This Austrian company is a family-run enterprise founded in the early 1950s. Due to the ambition and vision of the founders, as well as the favourable opportunities for market development during the 1960s in Austria, the results of their work were soon visible. From the very beginning, the company recognized a high demand for ready-mix concrete, which became a very popular product at that time. The company met the prerequisites necessary for gaining a leadership position within the construction materials industry in the region. The company positioned its business on the international level after the founding of a subsidiary company in Saudi Arabia in 1983. The company undertook further expansion and globalisation when East European countries started to open up as market-oriented economy after 1989. The acquisition of quarries and cement and concrete plants in the Czech Republic, Slovakia, Hungary, Slovenia, Poland, Romania, Bulgaria, Serbia, Bosnia, and Croatia followed.

The organization structure of the top management of the parent company consists of a majority of family members. Despite its small scale in comparison with other European Corporations, this company has an important role in the building materials industry and now operates 154 sites in 19 countries.

The company's activities consist of the exploitation and production of construction materials (gravel and stone); exploitation of limestone and marl in order to produce cement; producing various types of concrete and precast concrete parts; development and operation of mobile concrete plants to produce directly on site; collecting and recycling of demolition waste; tire recycling, collecting and recycling industrial waste and waste from households, as well as the intertisation

of hazardous waste. In addition, this company is also involved in the tourism business and real-estate development. The company's markets are Austria; Central, Eastern, and Southern Europe; the Mediterranean coastal regions; and Saudi Arabia.

Due to the fact that Libya is rich in cement commodities, the Austrian company was motivated to pursue FDI by resource- and market-seeking opportunities.

The Libyan company is a large manufacturing company founded in 1965. It has three cement plants with a total design capacity of 2,800,000 MT per year, employs 2,300 staff and is the only cement producer in eastern Libya. Its first plant was the Benghazi Cement Plant opened in 1972, with a design capacity of 800,000 MT per year. New production lines were erected in this plant in 1974 and 1976, and these were followed by the Hawari Cement Plant, which was the second plant, with a design capacity of 100,000 MT per year, which started production in 1978; and the Al-Fatayah Cement Plant with a design capacity of 100,000 MT per year started operations in 1984. A paper cement bag factory with a design capacity of 53.000.000 bags per year was established in 1975. The current product portfolio comprises Ordinary Portland Cement (OPC), Sulphate Resistant Portland Cement (SRC), and Paper Cement Bags.

Prior to FDI, the company suffered from a low operational period utilizing only 60% of nominal capacity, partly due to the central planned economy and partly due to international sanctions imposed in the 1990s. As a result of the years of neglect, a lack of spare parts and outdated equipment, pollution became very serious both inside the cement factories and in the surrounding area. Thus, the government's motives for attracting FDI included a wish to repair, modernize and upgrade the existing cement plants in order to increase production of cement and reduce pollution. The future of cement demand is poised to be strong, as the Libyan government has set a large fund aside for the development of the country's infrastructure in correlation with increased Libyan GDP through the improved oil and gas sectors. Therefore, as a first step in improving its industries, the Libyan government has introduced an initiative programme to privatise some of its own industries. The companies selected for privatisation required intervention to

become competitive and successful. In 2008, the Libyan company was privatised and became one of the major privatizations in Libya's history. The ESDF purchased the three plants from the Libyan government and sold them to the Austrian company. The Libyan government's motives were transfer of technology, job creation, and the development of national products to enable them to gain access to international markets

Company E motives for investing in Libya

Motives for FDI
Market size and growth prospects
Resource seeking availability of raw materials
Cultural links
Attractive geographical location
Overall economic climate
Low cost of raw materials, energy and water and availability and low costs of land
High returns on investment and investment incentives
Political stability
Progress of privatisation
Good infrastructure and low transportation costs

When did motives become determinants?

1- Market size and growth prospects

The Libyan market for the consumption of cement is sizeable. Libya imports large amount of cement based on the existence of demand. The future of cement demand is poised to be strong, as the Libyan government has set aside a large fund for the development of the country's infrastructure and in correlation with increased GDP of Libya thought the improved oil and gas sector. Company E is working hard on increasing the production of cement and concrete. The Libyan market is very promising with several major construction projects underway, therefore the consumption of cement is going to increase in order to address these needs.

Market size and growth are uncontrollable motives in terms of the local cement market because the government cannot increase the market size. However, it is controllable in terms of the export market. For example, it can control how many countries it wants to export cement to. However, recently there has been no plan to export cement where the demand is higher than the supply. Therefore, the growth

potential in Libya is high. The chief executive of company E mentioned that "I still believe that the coming years will bring an annual GDP growth rate of 5-6%". However, indirectly the government is intervening in the market. The market has recently moved from one dominated by public companies to private ones through the process of privatisation. Thus the big state owned companies have begun to be privatised. Also Misurata Free Zone was established. The aim of MFZ is to develop four main industries; petrochemicals, food processing, metallurgic industries and cement and other construction materials. The free zone seeks to benefit from industries that rely on local raw materials such as hydrocarbons, steel and iron (Otman, 2007; Oxford Business Group 2008).

2-Resource seeking

Libya has an abundance of raw material to produce cement; additionally they are of low cost and high quality. For raw materials though, the environment in Libya is very good. Resources are an uncontrollable motive.

3-Attractive geographical location

Libya has an important strategic location, especially in terms of company E's markets are Central, Eastern and Southern Europe, the Mediterranean coastal regions and Saudi Arabia.

4-Overall economic climate

The findings of the current study showed that Libya is very different from Europe in that it will not be facing an economic turndown like Europe, or experience any decrease in economic growth. Thus the overall economic climate in Libya is good.

The overall economic climate is a controllable factor because it includes factors such as macroeconomic stability. Scholar to measure macroeconomic stability used factors such as balance of payment, inflation, budget deficit, and exchange rate. Overall economic climate also comprises financial health such as the level of external debt. Due to the fact that Libya is a small rich country with plentiful oil reserves, it is good in terms of its balance of payments, has no deficit of budget, its exchange rate is stable and it does not have any external debt. Several indicators reveal that the overall economic climate in Libya has encouraged FDI.

5-Low cost of raw materials, energy and water and availability and low costs of land

The energy and water resources in Libya are supported by the government at low price levels, for example, electricity is heavily subsidised at around one-third of the market cost, and in general the price of land is not expensive. Additionally, some land is also supported by the government and it sells this land at very low prices. Moreover, due to nature of Libyan land, the cost of extraction is very low. The Chief executive stated that:

The cost of raw materials, energy and water is low in Libya, also when we bought the factory, the price of the land accounted with the price of the factory, which in the end was very cheap.

These motives are controllable. The energy and water resources in Libya are supported by the government at low levels of price, for example, electricity is heavily subsidised at around one-third of the market cost also in general land price is not expensive, additionally some land is also supported by the government and it is sold at very low prices, such as the land where the cement factories were built.

6- High returns on investment and Investment incentive

The exemption from tax for five years with a potential for an extra three years by the conditions of law No 5 has contributed to foreign investors making high profits. The Chief executive of company E explained that Law No 5 does indeed give a lot of useful guidelines and serves as a strong basis to solve problems with the authorities. Also it is the most important pieces of legislation with regard to FDI in Libya.

High returns on investment and investment incentives are both uncontrollable and controllable motives. High returns on investment in Libya refers to natural reasons and reasons related to the Libyan government's desire to attract FDI. In the manufacturing and construction industries high return on investment is partly due to natural reason. For example, the cement commodity in Libya is of high quality and easy to extract. This implies that low cost of raw materials lead to high returns.

Another reason for high returns is that Law No. 5 that gives foreign investors five years exemptions from tax with the possibility to increase this by another three years. This factor was viewed as an important investment incentive by foreign investors that lead to financial predictions with credible amount of profits. Also this law was viewed as an important piece of regulation in Libya: these policies turned high return on investment from a motive to a determinant.

7-Progress of privatisation

In Libya the privatisation programme is linked with institutions; for example, the ESDF and how this institution facilities the process of privatisation. Company E needed a strong local partner who knew the local environment, the political and social situation and the general circumstances of Libya very well. This is why the company was very glad to have the ESDF institution on board with it. Their local partner helped them a lot in overcoming the issues they faced. For example, in Benghazi, there was an instance regarding incorrect information and inherent misperceptions of the local authorities and employees, prior to the purchase of their cement plants. It was the partnership with the ESDF that really gave company E the chance to take over the companies there. Had they not been partnering with the ESDF, this takeover would not have been possible.

It could be said that for this project to take place, privatisation was a very important motive. The Austrian company began negotiations about entering the Libyan market in 2003. It was eager to purchase cement plants in line with the proposed Libyan privatisation programme. It took time for the company to achieve this goal. In 2004, following a tender process, the company's offer was accepted. After long negotiations and arduous and lengthy administrative procedures the company entered the Libyan market. It could be suggested that the long time period that negotiations took was due to the time the government took in implementing privatisation programs, whereby when the government established the ESDF, one of its aims was to work as a local partner with foreign investors. The Austrian company were glad to have this institution on board with them. The Chief executive stated that:

"It is the partnership with the ESDF that really gave us the chance to take over the companies here. Had we not been partnering with the ESDF, I think this takeover wouldn't have been possible".

8-Good infrastructure and low transportation costs

Several construction projects are currently underway in Libya, Thus infrastructure is improving. Also one of Libya's competitive advantages is its low transportation cost, this is due to the fact that factories are built on the land where the natural resources are, so there is low transportation cost involved in the transfer of raw materials from their place of extraction to the factory where they are used in manufacturing.

During this stage offers between the two parties were made. The Libyan government offered the foreign company access to the Libyan market and implemented a privatisation programme. The Austrian company's manager stated that "personally, I promised to take aggressive steps to remedy the environmental situation and have the factories meet international standards in all aspects"

In September 2007 company E was established as a joint venture between the Libyan Social and Economic Development Fund (SEDF) and the Austrian company. This joint venture was registered as a private company. After that in 2008, SEDF sold the three plants to the Austrian company.

Post FDI, the two parties were happy working together and as a result of this another company was established; the focus of the new company was on the production of concrete and concrete associated products, including batching plants for concrete, crusher plants for aggregate, and plants for hollow blocks and pavement stones The general manager of ESDF said " this is our first project in building material and we expect to have many other investments in the near future" while the general manager of the Austrian company stated "we have been working very hard for the last four years in Libya until now. This is the second investment we have made in Libya; the other one is the cement plants in Benghazi"

Case 6 Company F
Company background

Originally, Libya bought switchgear from the English Electric Company, known as GEC. When the incident between a British policewomen and the Libya embassy happened in 1987 the company still wanted to sell switchgear to Libya and Libya still want to buy switchgear from the UK. Thus a small company was established as a joint venture between the Maltese government and the Libyan government and Areva, which is a joint venture between a French company and GEC. This company was founded in 1977 as an assembly plant for the distribution of switchgear and transformers under licence from GEC of England to manufactures of low and medium voltage. The purpose of this company was to sell equipment and switchgear to Libya, because they were not able to do this directly. This company was located in Malta, and acted as a conduit to sell goods from the UK into Libya.

It is clear from the above overview of the company was motivated by market seeking. For Libya, after sanctions were lifted, it became motivated by the transfer of technology, the upgrade of its labour force and diversification of its sources of income.

Company F motives for investing in Libya

Motives for FDI
To take "first mover" advantages
Protection of existing export market
To follow clients
Market size and growth prospect
Product diversification
Business and industrial linkages
High return on investment and investment incentive
Easy repatriation of profits for investors
Progress of privatisation
Good infrastructure and low transportation costs
Attractive geographical location
Culture

When did motives become determinants?

1- To take "first mover" advantages

Prior to 1987 the company had 90% of the low and medium voltage market in Libya. But once sanctions had been removed, other MNCs looked at Libya as a potentially strong market because during the ten years of the sanctions period, Libya was growing. Following the lifting of sanctions, there was a high demand for and a low supply of electricity, which was why MNCs came to the Libyan market very aggressively. They included very large multinational companies who were able to reduce their prices, so in order for company F to secure their position they had to make barriers to prevent other competitors from entering the market. So in this case the ideal situation was to make a joint venture company with Libya. So basically that is why this company was a first mover, because obviously if this work had not gone to company F then the Libyan government would have chosen one of its competitors.

2-Protection of existing export market

Company F had been supplying Libya with electricity generating components for 30 years, and when Libya opened for FDI this motivated the company to invest in Libya to protect their market share.

3-To follow clients

Company F's client was the General Electricity Company of Libya (GECOL) which was the other shareholder. Quite a substantial amount of equipment was sold to them over a period of more than 30 years before engaging in FDI.

To take "first mover" advantages, protection of existing export markets, and to follow clients are uncontrollable motives by the Libyan government. They are specific motives for foreign investors.

4-Market size and growth prospect

Libya is still in its growth stage and its electricity market is growing at 10% every year. This growth is the result of people's needs, the life style has changed from old years, so today for example there is a TV in every home, so naturally demand is still growing.

Also, apart from that the development of the oil sector, additional development of the construction sector in areas such as infrastructure and housing along with development in other sectors has created high demand for electricity.

5-Product diversification

The JV between the Libyan government and company F allowed the company to enter into different market segments. Recently in Libya, other sectors like housing have been growing, so instead of maintaining one large client the company sought to enter different markets in which to diversify their product and prevent their only client from controlling the prices as was the case before, where the Libyan government had bargaining power. So the company tried to limit this power by having different products, sold to different market segments. This motive is controllable, in that the Libyan government allowed the company to enter new market segments through JV. This policy turned this motive into a determinant.

6-Business and industrial linkages is a controllable motive, whereby a foreign investor combines FDI with product diversification, which in turn is linked to obtaining opportunities to enter new market segments. The Libyan government controls this motive by providing access to new market segments.

7-Progress of privatisation

More privatisation means less government influence. Private firms can only operate in a market economy, in which the government has little direct influenece. So a free market indicates what kinds of products are needed, and increased privatisation means a better economic condition for a country to attract FDI. The Chief executive of company F mentioned that:

I encourage and hope the privatisation takes place.

8-Culture

The two countries (Libya and Malta) are close geographically and have similar languages, in addition to a long historical relationship between them.

Negotiations were not long. The foreign company described negotiations as friendly and straightforward. Due to the fact that this investment was outward FDI from Libya to Malta, and when Libya opened its door to FDI, this company moved to protect its market position and also because a long time ago this company worked with the Libyan government, it was given priority. In the other words the Libyan government invited the Maltese company to participate in this venture. The company agreed because, according to the company, if they had not done so, another competitor would have taken their place. During this stage the Maltese company offered to transfer technology to Libya, including; the manufacturing of all types of switchgears, including: switchgear 12 KV- MVI2, SF6 Ring Main Units, low voltage boards, L T Distribution Pillars and boxes; erection and commissioning of sub-stations and associated services; training the clients employees and after sale services. The Libyan government in return offered to allow them access to the domestic electricity market.

Thus Company F was established in 2006 as a joint venture between the Libyan government (the General Electricity Company of Libya [GECOL]) and the Maltese company (which is a joint venture company between a Libyan shareholding, the Maltese government and Areva.

The Maltese company is a supplier of the electrical distribution equipment in Malta and to international contractors. It is also an accredited supplier of electrical equipment to the Libyan electricity sector and has been given a number of large contracts for erection and commissioning of 30/11kV sub-stations, the supply of 11kV sub-stations and major turnkey projects for the supply of electricity. It has customers in Dubai, Yemen, Jordan and Tunisia.

The ownership structure of company F consists of 49% for the foreign company and 51% for GECOL, and the company is managed by the foreign company. However, all staff are Libyan.

Post FDI, the Maltese company faced problems in terms of visas, bureaucratic, legal and institutional issues. However, generally they were satisfied about their decision to invest in Libya. They hope to keep growing in Libya.

Case 7 Company G

Foreign company background

The parent company was founded in 1899 by French engineers, and it has become one of the largest companies in construction and related services worldwide. It has 158,000 employees and has worked in over than 90 countries. In 2007 its revenue was 30.4 billion Euros and the number of its projects was 260,000. This company had four business lines: Construction, Concessions, Energy and Eurovia companies.

The **Construction Company** brings together a combination of capabilities in building, civil engineering, services, hydraulic engineering, and maintenance and facilities management. With strong roots in its local markets in France and the rest of Europe through its networks of subsidiaries, the company also plays a leading role in the world market for major projects.

Concessions Company: this part of the parent company finances, designs, builds and operates transport infrastructure and public facilities under public-private partnership (PPP) contracts. Concessions Company is the world's largest operator of private-sector motorway and car park concessions, and is also Europe's leading operator of transport infrastructure concessions such as motorways, tunnels, and rail links and the world's biggest private operator of motorway concessions.

The Energy Company is a market leader in France and a major player in Europe in energy and information technology services such as maintenance, design, and installation. Its activity extends into sectors such as manufacturing, industry, infrastructure, the service sector and telecommunications.

Eurovia company is one of the world's leading players in road works, refurbishing and maintaining transport infrastructure, building roads, railways, airports, and retail development projects, and it is expanding into complementary maintenance and service business activities. It also holds significant positions in the United States and Canada.

Overview of the Libyan company

The Organization for Development of Administrative Centres (ODAC) was established in 1989. It executes a wide range of public projects in the area of engineering and construction in general and infrastructure in particular across the country. ODAC establishes the required specifications/description of a project, and provides project management/phasing and implementation. Moreover, it contracts with local (152 local companies), international (60) and multinational construction companies (13) and national and multinational consulting firms (86) to carry out research, conceptual and design phases, supervision and project management.

The main activities of the company are designing and building service projects such as sports parks, hospitals, and university campuses; residential complexes, administrative buildings and several other projects. In addition to that it carries out the renovation and refurbishment of historical buildings. Moreover, it provides government institutions, executive firms and administrative departments with equipment and furniture. Generally it is responsible for the development of all government buildings.

The construction sector is a high priority sector for Libya due to its being underdeveloped for almost 40 years, Saif Al Islam, Al Qaddafi's son emphasised that Libya is set to become a " construction centre where hundreds of hotels are to be built, roads constructed and office buildings to rise up into the sky" (Oxford Business Group 2008).

It is seems that the foreign company in this particular example of FDI was motivated to enter Libya market by market seeking. The Libyan government realised that as a result of an inactive market, and a centrally planned economy, the quality of design and construction was low, and construction materials were of secondary quality, and international sanctions had negatively affected the sector. The government was therefore motivated by the transfer of technology, know-how and the prospect of job creation. To assure the transfer of technology it was established in law that a foreign company had to enter the country as a joint

venture. Its motive was to develop local construction companies to carry out projects.

Company G motives for investing in Libya

Motives for FDI
Lack of competition
Market size and growth prospects
To take a "first mover" advantage
Attractive geographical location
High return on investment and investment incentives
Political stability
Good infrastructure and low transportation costs
Culture
Business and industrial linkages

When did motives become determinants?

1-Lack of competition

The low level of competition is a result of many factors mentioned above, and the fact that only now is Libya opening the door to foreign investors. Lack of competition is an uncontrollable motive and specific to foreign investors

2-Market size and growth prospects

There are many projects in Libya. The foreign company came here for one main project and when that was finished they decided to stay because there were so many future projects. So at the moment the size of the Libyan construction market is large. At the time of writing there were few places in the world where there were so many major projects happening at the same time. Also nothing happened in Libya for 20 years and suddenly in two years major projects were begun in hotels, department stores, football stadiums, and airport and railway station will be built to connect Tunisia, Egypt and Libya. All these projects are forthcoming, so the Libyan market is potentially very large.

3-Business and industrial linkages

Company G is a very large corporation. It has many subsidiaries, some of them working in Libya, in addition to linkages with business associated with other parts of the world as well. They do not operate alone in Libya, but continue to cooperate

with people who they worked with in the past, so it was one of the reasons for building business between Libya and outside world. In this sense, this motive was not controllable by the Libyan government.

Negotiations were not easy and took some time. Post FDI, generally the two parties were happy, in spite of some problems facing the foreign investor with regard to legal, institutional, and bureaucratic issues, and with the Libyan business infrastructure in terms of banking.

Case 8 Company H

Company background

This Korean company is a large company (4,787 employees) which was founded in 1973. It is one of the largest construction companies in South Korea and is active in Asia & Oceania, the Middle East, Europe, Africa and America. The company's core business divisions are power and industrial plants, civil engineering and housing, LNG facilities, architecture and large-scale overseas projects. Recently it has implemented reforms and innovations to enhance its competitiveness.

The Korean company's portfolio includes gas pipelines and storage tanks in the Middle East, Africa and Asia; bridge projects and more than 130 local and international highways. The company's aim is to realize the highest profitability and soundest financial structure in the industry in Korea.

It could be suggested that the Korean company's motive for investing in Libya was market-seeking FDI, while the Libyan government's motive was to transform the hotel sector from its nascent state to a mature one. Also it was motivated by diversification of its sources of income. The Libyan government did have money but did not have the necessary experience in developing projects.

Company H motives for investing in Libya

Motives for FDI
Market size and growth
Attractive geographic location

To take "first mover" advantage and lack of competition
Access to reliable and co-operative suppliers
Progress of privatisation
High return on investment and investment incentive
Less strict environmental laws
Low transportation costs
Culture

When did motives become determinants?

1-Market size and growth

The Libyan market is new and there are significant opportunities for businesses in the country. Increased economic activity means a lot of the demand for hotel rooms because for almost 40 years there were no projects of this kind and this was due to the centrally planned economy and then because of international sanctions.

2-Access to reliable and co-operative suppliers

Access to reliable and cooperative suppliers meant the supply of raw materials such as cement and steel was very stable and reliable. The company had had no problems in terms of cement price or the arrival of raw materials, which means the work was not delayed because of late raw materials. This is a controllable motive because the investor linked this motive with the raw materials (cement and steel) in terms of price and supply. In Libya the price of these materials is determined by the Libyan government.

3- Less strict environmental laws

The findings showed that **the** business environment in Libya was more favourable than in Korea and the company was able to do business very easily. In Korea it is a very difficult to do business because the environmental laws are strict and it is difficult to do gain approval for projects. This motive is a controllable motive and the Libyan government can improve the environment for FDI through its laws.

In spite of this company having worked in Libya for 32 years as a contractor, negotiations over the new contract took two years, because at first the Korean company did not want a partner and they wanted to work as a wholly owned

subsidiary. However, this was not allowed by Libyan law, which stated that all foreign companies should enter the market as a joint venture to enable Libya to benefit from technology spill-over, which is an important motive for the Libyan government to attract FDI. Also it took time to find a relevant partner.

The Korean company offered to build of an international standard five star hotel to increase the boarding capacity of Libya, and to encourage the bipartisan technical and economical cooperation for the adoption of advanced and appropriate technology and scientific methodology of management in the building and running of the hotel in the city of Tripoli in Libya. It also undertook to provide facilities for the upgrading and development of the local and foreign economic trade, international finance, tourism and participation in exhibitions, symposia and debates pertinent to the company's activity. In return, the Libyan government offered to allow the company access to the Libyan market.

Thus in 2007 company H was established as a joint venture between Libya's Economic and Social Development Fund and the Korean Company. The ownership structure of company H is 60% for the Korean company and 40% for ESDF, and the management is the responsibility of the Korean company.

The functions of company H are developing, owning and operating hotels in Libya; having the right to own land in order to rent it, to own or rent the estates to build or operate these hotels and tourism facilities; organizing different tourist trips, to sell tickets and book places on the different means of transportation; transporting the baggage of travellers, booking and issuing tickets for sporting occasions and the different cultural tourist activities, reserving rooms in tourist hotels and providing all the services to travellers inside and outside Libya; including providing services for tourists such as obtaining visas, currency exchange, insurance formalities, owning and renting civil transport means, hiring cruise ships and tourist aviation; supplying tourists with guides and organizing shows, forums, and conferences; and sharing facilities with companies or authorities in order to achieve its objectives inside and outside Libya.

Post FDI, the company expressed itself happy to have a local partner, although at first it had rejected this idea. Generally all parties were satisfied and they delivered what they had promised.