Obstacles to Foreign Direct Investment in the Libyan Hotel Sector. A case study of the Corinthia Company.

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Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

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ABSTRACT

Tourism in Libya is considered to be the best long-term alternative as a source of national income to the oil industry upon which the country's economy has long been heavily dependent. Hotels are a key element of the tourism industry. This study focuses on obstacles to foreign direct investment (FDI) in the Libyan hotel sector, because FDI is a necessary element to support the development of Libya as an internationally competitive tourism destination. Specifically, the objectives of this study are developed on page five.

This study was carried out in four main stages. The first stage involved an extensive literature review to generate a background and develop a theoretical framework for the research. This study adopted a case study approach (Yin, 2003), incorporating semi-structured interviews and a questionnaire, with a sample population consisting initially of foreign hotel managers, and government officials as a second stage. The third stage involved conducting a further questionnaire and a series of semi-structured interviews with hotel managers, Corinthia hotel staff and government officials to identify key FDI issues within the Libyan hotel sector. The fourth stage provides recommendations intended to help solve the existing foreign investor problems facing the hotel sector and Libya's tourism implementation strategy.

The study concludes that there are some major FDI issues facing the Libyan hotel sector, including: economic, administrative, and legal and institutional barriers in areas such as recruitment and selection; skills gaps; inadequate practical training; minimum opportunities given to foreign companies; restriction on the role of the public and private sector in the development of the Libyan Tourism Master Plan (LTMP); shortage of qualified academic staff; outdated curricula; inadequacy of the

LTMP; lack of funding of Libyan tourism education; and the lack of co-operation between the hotel sector, tourism education and the government's LTMP.

The main contributions of this study include: an understanding of the obstacles that confront FDI in the Libyan hotel sector; the application of factor analyses to build consensus on the essential elements of FDI obstacles within the Libyan hotel sector and the development of a best practice LTMP model.

Note:

It is important to note that the field work for this thesis, as well as the data analysis and conclusion, was carried out prior to the popular uprising in Libya which began on February 17th, 2011.

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ABBREVIATIONS

BPC ……………….	Basic People's Congress (in various districts).
CBL ……………….	Central Bank of Libya.
CSF ……………….	Critical Success Factors.
DLCB …… ……….	Department of Loaning in Commercial Banks.
DLSREIB. . ……….	Department of Loaning in Saving and Real Estate Investment Bank.
LTMP…………….	Libyan Tourism Master Plan.
FDI ………………….	Foreign Direct Investment
GAAT …….. ……….	General Agreement on Tariffs and Trade
HEI…………………	Hospitality Education Institution.
GCP………………..	General Council of Planning.
GCPS………………	General Councils of Planning in various. Shabiat (Administrative areas).
GDP ……… ……..	Gross Domestic Product.
GPC ………………	General Planning Council.
GPCTUS ………….	General People's Committee of Tourism and. Utilities in Various Shabiat.
GPCP …………….	General People's Committee of Planning.
GUID ……… ………	Grand Unified Debugger.
IFAD ………………	International Fund for Agricultural Development.
IMF….. ……………..	International Monetary Fund.
J. V……………. …..	Joint Ventures.
LPCG …….. ……….	Local Planning Councils in Governorates.
M&As ………………	Mergers and acquisitions.

MNCs................	Multi-National Companies.
NDS	National Design Specification.
ODI	Office of Defects Investigation.
OECD.	Organisation for Economic Cooperation and Development.
PITS	Provider of Information Technology Services.
R&D	Research and Development.
TNCs	Transactional Corporation.
UK	United Kingdom.
UN	United Nations.
UNCHS	United Nations Centre for Human Settlements (Habitat).
UNCTAD	United Nations Conference on Trade and Development.
UPS	Urban Planning in various Shabiat.
USA	United States of America.

CHAPTER ONE: INTRODUCTION

1.1 Motivation

In spite of the large oil revenues generated by Libya during recent decades many national problems have emerged in different sectors in the Libyan economy. One of these problems is the huge shortage of accommodation available nationally, especially in terms of hotels in the tourism sector. Although Libya in its recent economic plans has tried various initiatives to solve the hotel problem, and has been giving political attention to the provision of hotels, particularly in the tourism sector, several problems still face the government, such as providing infrastructure, tourism education and training, administrative systems and financial services (Dnas, 2005).

There are two important difficulties in Libya's tourism policy. The first difficulty, which manifests itself in a shortage of hotels, is, amongst other things, a result of insufficient finance: for example, in terms of total Government spending on tourism, accommodation and hospitality decreased from 25.7% in 1970 to 9.1% in 1992 (General Committee of Planning, 1997). These figures should be viewed in the context of the government's almost total control over economic activity in Libya, which has a weak and underfunded private sector, no secondary stock market and very limited sources of finance available to any enterprise which is not initiated and managed by the state. Another difficulty relates to tourism education, therefore the internal knowledge and expertise required for success are lacking. The general council of planning report of 2002 highlights the financial difficulties faced by the education sector. The opening up of the Libyan economy provides the opportunity for Libya to grow an international tourism sector. The aim of attracting FDI shoulf not only be to gain financial investment but also to increase tourism expertise and to bring internationally renowned hotel brand names into the country.

Foreign direct investment (FDI) is one of the vehicles through which the Libyan government can develop its tourism sector; but the dynamics of FDI and its implications to this growing sector have been related to certain obstacles faced by foreign investors, especially those operating in the accommodation industry, (Sheibani, 2008.) Because tourism is an industry which needs to be managed carefully, with or without FDI, and because FDI in this activity presents special challenges and concerns, this research aims to provide information and analysis that should help policy-makers to take account of these obstacles in designing future initiatives designed to accentuate the positive effects of FDI and minimize the negative effects.

Hospitality is the very essence of tourism, involving the consumption of food, drink and accommodation in an environment away from the consumer's normal home environment. As a result accommodation provides the base from which tourists can engage in the process of consuming the attractions of a tourism destination. It is an element of the wider hospitality sector that is used by tourists (Page, 2005). It is the scope and significance of the accommodation sector which is of interest to tourism analysts, not least because it often comprises the largest element of tourist expenditure during a trip (excluding visits to friends and relatives). Furthermore, hotels also provide a base for business travel, meetings and conferences, and these are also lucrative, high-yielding business (Page, 2005).

1.2 Background to the Research

In presenting detailed background information to the research project, the next sections will consider a range of factors, including Libya's physical geography, climate and population, and its existing and potential tourist attractions.

1.2.1 Physical Geography

Libya is a North African country, within the Arab and Muslim world, which has Egypt and Sudan as neighbours in the east, borders with Algeria and Tunisia to the west, and with Chad and Niger to the south. To the north, Libya has a long coastline to the Mediterranean Sea, extending for 1,900 km. It occupies an area of 1,775,500 square kilometres (685,500 square miles), being a large country the size of France, Italy, Spain and Germany combined (eBizguide, 2006). In terms of its terrain, Libya has its coastal plains, northern mountains, the northern plateau, and in the south the extensive Sahara Desert. The climate varies according to its regions, with the Green Mountains and part of the Gafara Plain enjoying a Mediterranean climate, and the remainder of the country experiencing a semiarid or arid climate. Much of Libya is desert (45%, with 25% consisting of sand dunes), the rest being arable land (19%), permanent crops (17%), pasture (20%) and forest (4%). Libya is rich in natural resources, having plentiful supplies of oil and natural gas, and other deposits of iron ore, Sebkha salts and pastures. Agriculture and fishing are its main industries outside the oil sector.

1.2.2 Population and Climate

Libya is bordered to the north by the Mediterranean, having a coastline of approximately 1,900 km, and a total area of 1,760,000 sq km. Although a large country, it has a small population, and since the mid-twentieth century important changes have occurred, in which it has developed from being a relatively poor desert land with one of the lowest standards of living worldwide, to becoming one of the world's foremost oil producing nations.

This research deals with the obstacles to FDI in the hotel industry in Libya in general, and discusses, in particular, the Corinthia Company as a case study in the hotel sector in Libya. It surveys the attempts which Libya has made to attract FDI in the hotel industry and to reduce the barriers to FDI. It evaluates these attempts and analyses their results, and consequently makes a survey of the procedures adopted by Libya to attract international investment into this important part of the tourism industry.

The survey is conducted taking into consideration Libya's legal statutes, political movements, economic procedures, and the circulation of foreign investment.

1.2.3 Research aims:

Aim of the Study

This research aims to investigate how to Libya can attract international investment into its hotel sector. To achieve the study aims, the following objectives were developed:

Research Objectives

The main objectives of this research are:

1– To identify the advantages foreign direct investors (FDIs) bring to the Libyan tourism sector, using Corinthia as a case study.

2– To investigate the main risks which foreign investors may face in the Libyan hotel sector.

3– To determine the ability of current levels of foreign direct investment in the Libyan tourism sector to meet the needs of the Libyan economy.

1.2.4 Research Questions

There are some fundamental questions that emerge from this research, the answers to which will help to develop the structure of the analytical approach:

In order to achieve the main aim, the study will focus on answering these questions:

1-Which barriers to foreign direct investment do the hotel industry face, and how do they impact on investment in further direct growth?

2-What advantages related to foreign direct investment can the Libyan tourism hotel sector gain?

3-Is there sufficient information available for foreign direct investors to appraise the risks of foreign direct investment in the hotel sector, and how can these risks be avoided in the future?

The study concludes that there are some barriers facing foreign investors in the Libyan tourism sector, especially in the hotel industry; these problems include: recruitment and selection; skills gaps; inadequate practical training; minimum opportunities given to overseas workers; role of public and private sector in HR development; shortage of qualified academic staff; outdated curricula; inadequacy of LTMP; funding of Libyan Hospitality Education Institution (HEIs); lack of co-operation between the hotel sector, HEIs and the government; leakage of graduates and academic staff to other disciplines and the poor image of the hospitality industry as a career. To tackle these HR issues, this study proposes a best practice FDI model for the Libyan hotel sector. The Corinthia hotel as a case study comprises seven elements: the government of the host country; the hotel sector (demand side); the Libyan tourism master plan or LTMP (supply side); gap analysis; obstacles of FDI in the hotel sector; implementation strategy; and evaluation.

The main contributions of this study include: an understanding of the main obstacles to FDI in the Libyan hotel industry, investment law issues confronting the Libyan hotel sector; the application of investment strategy to building a consensus on the essential elements of an FDI model for the Libyan hotel sector and the development of a best practice FDI model.

1.2.5 Research methodology

According to Adam (2000) a research methodology is the overall approach to investigating the issue of concern, and within that, the individual research methods and tools used to meet the given research objective .

The stages of the research process include the research philosophy, research approaches, research strategies, and data collection methods. Having considered the nature of research it is necessary to consider a research philosophy, and in this respect the two main philosophies are referred to as positivist and phenomenological, or quantitative and qualitative (Ryan, 2003). However, these can also be referred to as being positivist and interpretive, and they define a perspective about the way in which knowledge is developed and judged as being acceptable (Saunders, 2000)

The choice of a method for this particular study was important in order to achieve the objective of the research, and as Collis and Hussey (2003) note, the choice of method helps to determine the types of tool which can be used to collect the research data.

In deciding whether to use a quantitative or qualitative approach, it is necessary to explore these alternatives in more depth. Qualitative research is a source of well-grounded rich description and explanations of processes in identifiable local contexts (Adam, 2000)

The use of both quantitative and qualitative methods in the same study is known as triangulation, which refers to the use of different data collection methods within a study in order to ensure that the data from different collection methods agrees. For example, semi-structured group interviews may be a valuable way of triangulating data collected by quantitative methods, and in this study such a method will be employed to evaluate and measure the opinions of foreign investors in the tourism sector in Libya. A full discussion of the methodology adopted by the study can be found in chapter four.

Yin (2003) states that research can use six sources of evidence: interviews, documents, direct observation, archival records, participant observation and physical artefacts. Yin (2003, p. 85) also points out that "*the various methods are highly complementary and a good case study will therefore want to use as many sources as possible* "In this research the field study was conducted in Libya, and questionnaires and interviews were the main methods adopted as primary data collection techniques to collect the data required by the study.

According to Walters (1996), it is important to ensure that a questionnaire is capable of providing all the detail needed, and in order to achieve this it is necessary that the questions within the questionnaire should be worded precisely and unequivocally.

Despite the importance of the problem of the hotel crisis affecting the whole Libyan economy, especially the tourism sector, its cause has not been clearly specified prior to this study, which has as one of its goals to highlight the existence of the problem and identify its dimensions, which in itself is a contribution to scientific knowledge. As a further contribution it also suggests the causes of the barriers, in addition to assessing previous attempts to remove these barriers while also identifying the reasons that have prevented this from happening. The opportunities of attracting foreign direct investment into the hotel industry are a new contribution for a developing country in transition from a closed economy to a more liberal economic system and bidding to attract investors. The preparations required for this transition, and the potential benefits that may accrue from this openness are also explicitly identified. Libya in this new era needs to be a studied as a whole society.

The past three decades have been characterized by a lack of studies examining the problems which the Libyan tourism sector has been suffering, which include economic, political and social problems. Trying to find solutions to these problems, and making the economic and political issues facing Libyan society explicit is one of the major contributions of this thesis. The merging of both issues in one study and the attempt to reduce the obstacles to FDI in the hotel industry in the Libyan economy through solutions of the problem of how to attract foreign direct investment is a new contribution in this regard.

1.3 Structure of the Thesis

Chapter One:

This chapter provides a general introduction to the current study. It starts by giving a background to Libyan society, and then gives a broad overview of Libya's resources and tourism attractions. The chapter proceeds to offer a statement of the problem facing Libya and a justification for the research. From there, it identifies the research questions, aims and objectives, indicates the research methodology to be used, and the envisaged contribution to knowledge from the study, before outlining the thesis structure.

Chapter Two:

This chapter presents a definition of FDI definition and identifies the different types of FDI, and provides specifics on FDI in the Libyan hotel industry and its impact on Tourism. This chapter highlights the effects of tourism development on sustaining the national economy and social development in certain countries, including Libya. It identifies the nature of Libya's economy before and after the discovery of oil, which contributes the country's major source of income. The country's overdependence on oil and the resulting shortcomings are discussed within the context of the need for economic diversification, and the potential impact of tourism in this respect is addressed. Finally, the underestimation of the potential of the tourism sector's contribution to GDP is discussed. In discussing the effects of tourism developments in other countries, the cases of Cyprus, Portugal, Brazil and Egypt are used.

Chapter Three:

Global Foreign Direct Investment is presented in this chapter, which also offers a theoretical debate on planning and policy formulation. The reasons for and the importance of planning are considered, as are the role of government and local communities in tourism planning. Strategies adopted to encourage FDI in the hotel industry in Libya to achieve tourism growth are introduced, and by the consideration of the cases of individual country in this respect, approaches to tourism planning and marketing that can assist in the formulation of future directions for the improvement of FDI in the Libyan hotel and tourism sector and lead towards sustainable tourism development are highlighted and discussed.

Chapter Four:

Chapter four provides a review of the relevant literature, employing it to outline the resources required for the development of a successful tourism industry. It considers issues relating to the foreign direct investment required for tourism development, and as in chapter three, account is taken of approaches used by a number of African and Asian nations countries in their moves towards establishing tourism industries. In this respect, the cases of South Africa, Sub-Saharan Africa, locations with similar religious influences to Libya such as Iran, Pakistan, Saudi Arabia, India and Nepal, and China are used.

Chapter Five:

Chapter five discusses the overall methodological approach used to collect the data for the study, and introduces the case study as a means to do this. It refers to the research questions, aims and objectives, and provides a rationale for the case study approach, and the methods and techniques adopted within it. It indicates how the research instruments were constructed and how the research was conducted in Libya, before indicating the methods of data analysis.

Chapter Six:

Chapter six presents the data collection questionnaire survey conducted with international tourists in Libya. This is followed by the data analyses, which is presented in four different sections, showing demographic details, developing tourist trends, levels of tourist satisfaction over a range of dimensions, and the overall impressions of international tourists, from which indications of their expectations as compared to their experience are given.

Chapter Seven:

Chapter seven provides an analysis of the fieldwork findings and interprets these in light of the literature reviewed earlier in the thesis. It discusses levels of satisfaction reported by foreign companies with their operations in Libya.

Chapter Two: FDI

2.1 FDI:

Foreign Direct Investment (FDI) is one of most salient features of, and the most powerful sources for, the social, economic, and political transition of developing countries (Adam, 2000; Sun, 2002; UN, 2005) FDI is both a consequence of, and a reason for, social and economic transformation. Developing countries that attempt to reinvigorate their economies are in heavy need of capital resources. The necessity of foreign capital has been a function of the economic situation in which these countries, particularly the poorest ones, start their transition: that is to say with generally inefficient industries, and agriculture and service sectors that have to be modernised in order to become internationally competitive.

Economic modernisation, however, requires enormous amounts of capital, which is simply not available in these economies. FDI offers an alternative to a dependence on aid and loans, but it also has both benevolent and dangerous impacts on the development of the host country. Foreign investments, on the one hand, generally bring with them capital, technology, know-how and new management techniques. They integrate the operations of local firms into the networks of foreign investors, helping to place local production on international markets and integrating the national economies of FDI recipients into worldwide production and distribution systems. FDI can considerably increase economic growth and boost the export activity of the host economy. On the other hand, foreign investments can deliver rather controversial effects as well. Foreign firms are able to out-compete local producers, reduce local production capacities, cut personnel, close down research and development units, break up traditional subcontractor relationships and substitute them with imported goods, and repatriate profits, thus deteriorating the balance of payments position of the host economy. From the authors personal knowledge, examples of such effects in the Libyan context in recent years have included foreign competitors establishing themselves in the small-scale plastics and horticultural industries, and producing goods of a quality Libyan companies are not able to match. Similarly, the Lebanese fast-food company Harown has established itself in the large cities and caused the closure of many independent local food outlets.

2.1.1 Definition of FDI

Having considered a wide range of the available definitions of FDI, the definition adopted in this thesis is that of the World Investment Report:

"foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)".

FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates; both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities". (UNCTAD, 2004, p. 345).

2.1.2 Types of FDI

FDI can be considered from the perspective of the investor (the source country) or the from the perspective of the host country. In terms of the perspective of the investor, Caves, (1971) distinguishes between horizontal FDI, vertical FDI and conglomerate FDI. Horizontal FDI is undertaken for the purpose of horizontal expansion to produce the same or similar kinds of the goods abroad (in the host country) as in the home country. Hence, product differentiation is a critical element of market structure for horizontal FDI. Vertical FDI, on the other hand, is undertaken for the purpose of exploiting raw materials (backward vertical FDI) or to be nearer to consumers through the acquisition of outlets (forward vertical FDI). The third type of FDI is known as conglomerate FDI, and involves both horizontal and vertical FDI. In 1999 horizontal, vertical and conglomerate mergers and acquisition (which is one of two forms of FDI) accounted for 71.2 per cent, 1.8 per cent and 27 per cent, respectively, of the total value of mergers and acquisition worldwide(UNCTAD, 2001, p.8).

2.1.3 FDI in Libya:

Libya is a developing country, and its financial markets are imperfect and rudimentary. At the same time, the companies within Libya which have been offered for sale to foreign investors were originally state-owned companies suffering from many drawbacks, especially problems associated with surplus employment and low profitability, which discouraged foreign investors from diversifying their portfolios in Libya. Despite Libyan attempts to attract this type of investment, foreign investors are still hesitant, and it is one of the purposes of this study to investigate the reasons for this hesitancy and what Libya can do to overcome it.

2.1.4 FDI in the Libyan hotel industry.

Multinational hotel companies have played a significant role in the development and continuity of the travel and tourism industry around the world. The importance of these companies in the accommodation sector continues to increase. In some countries, multinational hotel companies represent 70% out of the total number of hotel companies, (Dnas, 2005). However, the presence of FDI hotel companies in Libya is less than 1% out of the total number of Libyan hotel companies. To increase the presence of multinational hotel companies in Libya, this research represents part of an ongoing movement in research study which have resulted in national initiatives such as The Libyan Tourism Master Plan up to 2018, and the government accommodation projects (see page 105). In addition the work of the Libyan researchers Naemee (2008) and Khalifa (2010) are having an influence in this area. This movement in research attempts to establish on the one hand, the benefits that Libya may obtain from the involvement of multinational hotel companies in its economy, and on the other hand, what the requirements and needs are of multinational hotel companies that the Libyan government must fulfil to encourage these companies to expand their activities to Libya. This thesis also tries to presents the benefits beyond the merely economic that Libya may obtain from the involvement of multinational hotel companies in Libya. The motivation behind the choice of the hotel industry as a vehicle to investgate FDI in Libya is two-fold: first, the Corinthia Hotel represented one of the few major FDI projects in Libya functioning as a productive business at the start of the study period, and secondly, the chronic shortage of hotel accommodation in Libya represents a barrier to the government's ambition to use tourism as a means of diversifying the Libyan economy.

Abusaı, Argüello and Ruddock (2008) state that the hotel industry is a part of a large business activity known as the travel and tourism industry. The travel and tourism industry is a huge group of businesses with one aim in common: providing essential or preferred products or services to travelers. It is one of the largest industries in the world (Kasavana and Brooks, 1991). With the growth of international travel and of the hotel industry in developing countries, there has been a parallel growth in multinational hotel operations (Medlik and Ingram, 2000). Libya has about 226 hotels or other forms of tourist accommodation: 34% of them are located in the urban areas of Tripoli, Benghazi, Sabha and Misurata, offering nearly 12,704 rooms. However, only about 1,200 of these rooms attain acceptable international standards. In order to develop sufficient rooms to meet the anticipated demand, it will cost the Libyan government about US$187 million. Despite the significant role which multinational hotel companies play in the development of the tourism industry in less-developed countries, the presence of multinational hotel companies in Libya is less than 1% out of the total number of Libyan hotel companies. The Corinthia Hotel in Tripoli is a unique hotel in the Libyan accommodation sector in that it is the first to be built and managed by a multinational company through FDI. At the time of writing other similar projects are under construction, but none have yet reached the operational stage. The Libyan government holds 49% of the shares in the Corinthia hotel, Tripoli. According to the Libyan Tourism Master Plan (2006-2010) the Libyan government expected that the total number of tourist arrivals to the country from 2006 to 2011 would be 4,523,112. This number has been translated into room requirements as showed in table 1.1.

Table 1.1: Libyan room requirements

Years	2006	2007	2008	2009	2010	2011
Number of tourists	142,097	193,576	444,676	961,919	1,344,136	1,436,703
Number of rooms	1,603	6,291	10,753	15,704	17,204	18,704

Resource: Abusa, Argüello and Ruddock (2008), p (16).

As can be seen in Table 1, the room requirements projected by Abusa et al (2008) increases from 1,603 to 18,704 over a six year period. Such a growth in demand requires significant new investment, both internally and by FDIs in order to meet the level of anticipated growth in the market.

In recent years, the Libyan government has concentrated its effort of encouraging local and foreign companies to invest in the tourism sector. Multinational hotel companies are one category of foreign investors that the Libyan authority has been seeking to encourage to expand their activities in Libya, in order to cope with the lack of hotel rooms for current and future tourist arrivals.

As discussed in detail later in this chapter, Libya has many historic sites of international importance, however, tourism investment, including FDIs, is required to capitalize on this tourism potential for Libya.

Kusluvan et al. (2001) stated seven benefits that a developing country may obtain from the presence of multinational hotel companies in their economy:

1) Capital provision;

2) Transfer of technical and managerial know-how;

3) Provision of market ties;

4) Increased efficiency;

5) A high degree of security and quality of service;

6) High competition among companies and elimination of monopolies; and

7) Demonstration effect for local investors.

In the interests of increasing the presence of multinational hotel companies in Libya, this study attempts to establish on the one hand, the benefits that Libya may obtain from the involvement of multinational hotel companies in its economy, and on the other hand, what the obstacles of FDI are in the hotel industry in Libya, and how the Libyan government can remove the obstacles to encourage these companies to expand their activities to Libya.

2.2 A Definition of Tourism.

The word "tourism" has been associated with leisure, recreational activities, spare-time and travelling; therefore, many definitions of tourism are based on these activities. Furthermore, the terms "travel" and "tourism" are sometimes used synonymously. Such an approach does not offer an accurate definition of tourism. Theorists have provided both a conceptual (technical) and an operational (statistical) definition of tourism. One of the earliest definitions was provided by Hunziker and Krapf (1942) who stated that tourism is the entire experience, phenomenon and relation that is acquired through displacement (travelling), and involves residing in another geographical region that is not the individual's permanent residence, and that such travelling is unconnected with employment or other income generating activities. However, theorists have provided numerous shortcomings of this definition. For example, under this definition, someone temporarily visiting a hospital or relatives in another region may be termed a tourist, but this is certainly not true. Secondly the definition refers to foreigners explicitly, but ignores local, national or internal tourism. Burkart and Medlik, (1974, p. 5) define tourism as "the short term movement of people outside of places where they normally live". This definition is very similar to the one given by Mathieson and Wall (1982, p.1) who describe tourism as 'the temporary movement of people to a destination outside their normal places of work and residence, the activities undertaken during their stay in those destinations and facilities created to care to their needs.' According to Graburn, (1989) and Judd and

Fainstein (1999) tourism encapsulates all movement to another region for at least a night but for less than one year from the individual's place of residence. O'Reilly (2000) and Spear (2003) contend that these definition are not appropriate as they fail to encapsulate the broader spectrum of the numerous attributes of tourism.

Weaver and Opperman (2000, p.3) provide perhaps the most competent definition which encompasses the full facets of tourism. They define tourism thus:

"Tourism is the sum of the phenomena and relationships arising from the interaction among tourists, business suppliers, host government, host communities, origin government, universities, community colleges, and non- governmental organisations, in the process of attracting, transporting, hosting and managing these tourists and other visitors".

The main advantage of this definition is that it considers the contribution of all stakeholders involved in the tourism process, including the contribution of colleges and cultural groups etc. According to Pearce (1994) and Leiper (1995), tourism will also interact with and impact on the socio-cultural, environmental and economic circumstances of a place. So FDI in the tourism sector has the potential to internationalise the Libyan economy, by bringing socio-cultural, environmental and economic benefits to Libya.

2.2.1Introduction

The new millennium has witnessed the continued growth of interest in how people spend their spare time, especially their leisure and non-work time. The expansion of tourism studies reflects a growing interest in what people consume in this leisure time periods, particularly times that are dedicated to travel and holidays, which are more concentrated periods of leisure time. This interest is becoming an international phenomenon known as tourism; the use of this leisure time to visit different places, destinations and localities which often feature in holidays and the trips people take .In 2005 the World Travel and Tourism Council (WTTC) estimated that travel and tourism as an economic activity generated US$6201 billion, which is expected to grow to US$10678.5 billion by 2015. This equates to a 4.6 percent growth in the demand for travel and tourism per annum, which is far in excess of the scale and pace of growth in the economies of most countries. At the global scale, the economic effects of travel and tourism are estimated by the WTTC to be responsible for 214,000,000 jobs; this is equivalent to 8.3 percent of world employment. In 2005 tourism represented 10.4 percent of total personal consumption, while it accounted for over 9 percent of all global capital investment and 10 percent of world GDP. Therefore, the growing international significance of tourism can be explained in many ways, but it is obviously of prime concern to any state seeking to grow its economy.

Although Libya gained UNESCO World Heritage status for its renowned tourists attractions like the Roman cities of Sabratha, Leptis Magna and Hadrianic Bath, and the former Greek site of Cyrene, the nation's tourism industry was not ambitiously developed during the last two decades of the twentieth century (Berlitz, 2009; Mclaren, 2006; Scott 2004). Such attempts as there were to boost tourism were further constrained as a result of political and economic sanctions imposed on the country by the United States and the United Nations Organisation during the period 1986 to 2003 (Farrall 2007; Smith 2008; St. John, 2008; Clarence & Martin, 2010). The inflow of foreign direct investment and tourists was hampered as a result of these embargoes. The sanction worsened in 1988 following the incident of the Pan American aircraft crash over Lockerbie in Scotland (Niblock, 2001; Clarke, 2008; Romaniuk, 2010).

Subsequent to the abolition of these sanctions on 23 April 2004, Libya has taken major steps to reinvigorate its tourism industry. However, a total of only 180,000 tourists visited Libya in 2007 and contributed less than one percent (1%) of the country's gross domestic product. However, in 2009, this figure rose to 500,000 tourists. The government entered into joint partnerships with international investors to make significant developments in this industry. For example, Gruppo Norman, the Italian property company, in partnership with the Libyan government contributed FDI towards a US$268 million contract to develop a holiday resort in Farwa Island (Romaniuk, 2010; Berlitz, 2009; Insight World Encyclopaedia, 2007).

2.2.2 Global Tourism

Tourism is the world's largest industry and it has become a very significant foreign exchange earning sector (Youell, 1998; UNCTAD, 2008; Cooper, 2008). The rise of global tourism has its origin in the earliest days of regional trading, medieval pilgrimages and aristocratic trips to famous regions around the world in the eighteenth and nineteenth centuries. Global tourism took root in the twentieth century as a result of sophisticated communication networks and the improved economic conditions of Western countries, various countries within Asia, the Middle East, Latin America and parts of Africa (Mouforth and Munt, 2008). Although domestic tourism is still the largest part of the sector (around 80% of the world's tourism), global tourism is growing rapidly and may soon become the dominant form (Page, 2009).

In the established tourism sectors of European countries and America, forecasts shows that the rate of growth is smaller than for developing countries, although Europe is likely to remain the strongest tourist destination for the next twenty years (Middleton, Fyall, Morgan and Ranchhod, 2009). Although developing countries have a smaller tourist base as compared with western countries, tourism undoubtedly plays a significant role in the foreign exchange earnings of many of these countries. For instance, Ashley, Roe and Goodwin (2001) contend that in the countries inhabited by the 80% of the world's population who live below the official poverty line (earn less than US$10 a day), tourism is a very major sector of their economies. One of the key reasons for the rising growth of tourism in developing countries is that tourists are attracted to these 'unspoilt' lands and to meeting local people in order to experience new cultures and traditions. However, this trend towards a more diverse choice of tourism destinations is not without its drawbacks, and according to Albuquerque and McElroy (1995) an increasing number of tourists to some developing countries tend to put their poor indigenous inhabitants at risk due to exploitation.

Akama (1997, 1999) argues that the availability of pre-booking tour packages, backed by a greater number of inbound and outbound flights, has contributed to the massive rise in global tourism. McCarthy and Carter (1995) contend that "push factors" like high population density in western and emerging economies are likely to expedite the growth of tourism. Furthermore, an improvement in efficiency and the influx of foreign direct investment to some countries has led to the creation of better infrastructure and service quality, which offer tourists a better experience and play an important role in attracting them (Middleton et al., 2009). Cooper (1994), Mouforth Richter (1989) and Munt (2008) suggest that reductions in international trade barriers such as the cancellation of Libyan sanctions and the offering of individualised service have both helped to stimulate global tourism. Emerging markets, possibly in an effort to benefit from FDI and grow their tourism industries quickly, tend to ignore the potential of domestic tourism and instead focus on the international tourism arena, although the former could stimulate their economy in the long run.

Although global tourism has gained strength, it is seen as a very fragile industry that could be distorted by a number of negative occurrences. For instance, the growth rate in the combined tourism industries of the Asian Pacific region from 1995 to 1996 was

9.7% but this figure dropped to just 0.01 % during the period of 1996 and 1997 as a result of the Asian financial crises (Nanto, 1998). Furthermore, the September 11th, 2001 terror attacks in the United States led to an average decline of 11% in global tourism that year. In addition, some Arab countries reported up to a 30% decline in tourism activities, whilst a drop of 24% was reported for South Asia (Schifferes, 2007). According to the WTO (1998), growth in tourism has a huge potential for the future, although there are likely to be some sporadic shocks. Furthermore, the WTO contends that if just 8% of world population gets involved in participating as consumers of tourism, it is likely to have a huge impact on global tourism growth.

2.2.3 Impact of Tourism

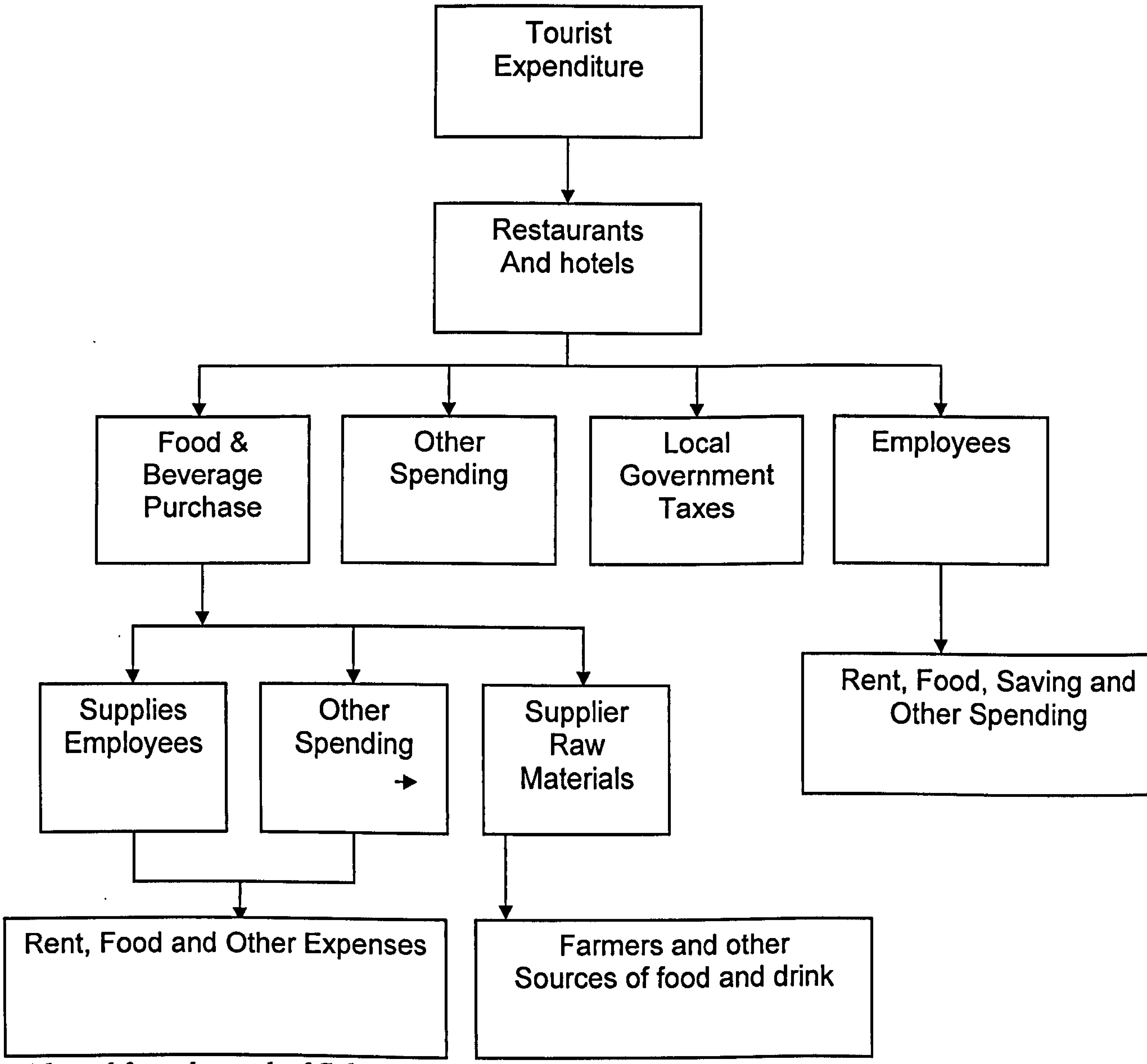
The impact of tourism can be categorised as economical, ecological, socio-cultural, and political. These factors have both negative and positive attributes and may differ from one region to another due to resource availability and numerous other circumstances such as the tolerance of the indigenous people to tourism, planning policy, landscape or topography etc. (Evans, Campbell & Stonehouse, 2002; Wall & Mathieson, 2005).

The impact of tourism certainly depends on a number of important factors such as the duration of the visit, the type of transportation employed, and the travelling schedule of the tourist. Crick (1989) contends that although a lot of negative attributes have been associated with tourism, these alleged attributes have not always reflected reality. According to this theorist, tourism is often used as a scapegoat for certain negative circumstances facing a society just because it is easy to do so. For instance, the degradation of an environment may be the result of the incompetent management of resources, bad farming practices or overpopulation, but is more likely to be attributed to tourism. Middleton and Hawkins (1998) contend that better resources must be provided to understand the impact of tourism in developing countries instead of placing the blame for all of the ills in these societies on tourism. Due to the negative connotations associated with tourism, especially in the context of emerging economies, many countries have concluded that tourism causes a lot more damage compared to the benefits attributed to it. Marchand and Parpart (1995) contend that after tourism has been given much credit for its possible potential for contributing to the global economy, it is not fair that so much blame for environmental problems be put on the industry. Instead, more research needs to be done into understanding the needs of emerging economies, and then setting up mechanisms to mitigate potential problems that may arise. Although global tourism has a huge potential for strategic growth in the foreseeable future, there needs to be better cooperation regarding the underlying problems that constrain this industry. For example, countries may need to consider their ability to cope with a given number of tourists within a certain time frame (i.e. carrying capacity) and then put into place mechanisms to cope with the situation. Another way of improving the sustainability of tourism is to have a general consensus with all stakeholders on the implementation of effective policies that will provide a good return on investment without degrading or destroying the resources upon which tourism products depend, (Page and Connell, 2006; Holland and Youell, 2008).

2.2.4 The Impact of Tourism on an Economy

When tourists spend money in a given country, it generates growth by stimulating a lot of economic activities. For example, money received by hotels may be used to pay employees, government tax, buy furniture, maintenance etc. This creates a chain of economic activities that provides direct and indirect benefits. The impact of these aggregate earnings can be much larger than the initial amount spent by a tourist. It is vital for all these other activities to be evaluated when determining the economic impact of tourism. Tourism contributes to the development of more hotels, restaurants, arts and crafts shops, tour operations etc. Some services such as fire, medical and travel insurance, and the number of law enforcement officers could also be upgraded as a result of tourism, furthermore, income revenue gained from tourism can provide further stimulus to an economy. For example, restaurants buy vegetables and other groceries, thereby directly generating income for this sector. Employees pay rent, hence providing a landlord with income, (Middleton et al., 2009; Wall & Mathieson, 2005; Cooper, 2008; Coltman 1989.) This chain of wealth creation is illustrated in the diagram below.

Figure 2.1 Multiplier Effect the distribution of tourist expenditure.



Adapted from the work of Coltman (1989)

According to Frechtling (1994) these economic impacts are best analysed through multiplier theory. To execute such analysis, data needs to be collected from sources like national statistical bureaux, and surveys regarding the amount of money spent by tourists. This multiplier effect is given by the formula:

Economic Impact of Tourism = Visitors Number X Average Spending Per Visitor X Multiplier. The multiplier effect formalises is how money injections into an economy (by tourism, for example) increases consumption beyond the value of money introduced. A visitor may on average spend £100 per night on accommodation, but this apart from leading to the satisfaction of a supply valued at £100, leads to spending of £100 less any withdrawal through taxation by the hotel on its supplies and so on down through the supply chain. In this way the economic impact of tourism spending impacts on the economy can be considerably more than the initial spend by the tourist, this is known as the tourism economic multiplier effect.

However, in some cases, the impact of tourism may be that traditional services not of substantial gain to the tourist sector may be closed down or forced to relocate. In some emerging economies, scarcity of water, electricity, fuel and other key resources can result in these being diverted to the tourism sector, whilst the indigenous people are left with minimal support. Due to increased business activities, government receives more revenues in the form of taxes. However, if the public infrastructure is not capable of coping with the influx of a large number of tourists, the government is likely to increase the level of taxes in order to cater for future expansion of tourism infrastructure (Wall & Mathieson, 2005).

2.2.5 Political impact

Theorists like Litvin (1998) and Leitner (1999) portray tourism as a contribution to peace and mutual understanding; however, this is not normally the case. As the result of global tourism, diverse number of people with different attitudes, socio-cultural, economical, and demographic back rounds intermixes accordingly. This could be a good experience for both the indigenous people and the tourists provided that all goes well. However, there have been numerous examples in which government has had to intervene in cases that seem to be contrary to the interests of the state. Furthermore, Hall (1994) and Hall and Jenkins (1995) contend that global tourism has resulted in the formation of a neo-colonial system by diverting powers to multinational enterprises. Some of these institutions tend to offer less than favourable policies to some developing countries and if these countries protest, they are threatened with project withdrawals. In addition, in many emerging economies, expatriates are given the most senior employment whilst the indigenous people are left to do the menial work at lower rates of pay. Such discrimination can result in resentment towards the multinational companies. Terrorists and other individuals wishing to give a platform to their political agenda often use tourists as a target to make their voice heard. The killings of innocent tourists for political motives have had a strong impact on global tourism, especially in terms of the number of visitors to Middle Eastern countries.

2.2.6 Socio-cultural Impact

According to Tekin, (1994) as individuals travel between nations, and even within given regions of the same country, there is usually a change within the socio-cultural landscape. In some countries, cultural structure forms a very important value of the life of the people. This strong cultural identity can be threatened by tourists with little understanding of the culture of the place being visited. Issues such as modes of dress, visitors' behaviour expectations, eye contact etc. of the indigenous people may not be in conformity to that of the tourists. In some communities such disparities are redressed at once by the locals. This could result in discomfort for the tourists and possibly embarrassment. Brunet et al. (2001) contend that in certain instances, tourists may request to see a traditional style of dance or displays of other historical and cultural skills. Such demands can encourage local people to reinvigorate their culture by doing extensive research into their traditions, possibly once neglected. This could prove useful for the upcoming generation and the survival of the local heritage.

However, in some countries such as Brazil, the presence of tourists is highly resented by the indigenous people, who may relocate due to regular visits by tourists. In order to limit possible inconvenience to such local inhabitants some local governments have set up codes and rules that tourists must observe upon their exposure to the new cultural environment. In addition, the promotion of certain wild life attraction tours in Africa and other parts of the world can be very disruptive to the traditional lifestyles of indigenous peoples. Furthermore, tourism has been linked to the spread of various social vices such as drug trafficking, child abuse, gambling, prostitution and promiscuous behaviour. In some cases, these items are imported into holiday areas to attract tourists. This has the potential to become a serious issue, especially in certain religious communities that that are intolerant to such culture (Lindber and Johnson, 1997).

2.2.7 Overcrowding

According to Perdue, Long, and Kang (1999) in some regions, tourist infrastructure may the congregated in specific areas which provide growth opportunity. Furthermore, certain archaeological buildings are normally of interest to tourists and these are often revived and enhanced to cater for tourist's needs, which constitutes a way of preserving heritage buildings and tourism infrastructure.

If care is not taken to control crowd aggregation, there could be a decline in morale as a result of stress and intolerance. Large number of tourists concentrated in samll areas could cause some business to experience sales decline due to unwillingness on the part of locals to contend with overcrowding. Some construction projects done to suit tourists may be on a very different in scale when compared to local ones, and this could be intolerable to some indigenous people, who may respond negatively which could result in further conflicts. Some of these huge infrastructure projects could be buildings which require very large areas of land such as sports arenas, and so may result in limiting the land available for residential settlements. The consequences of this could be overcrowding and congestion (Wall and Mathieson, 2005; Page, 2009).

2.2.8 The Ecological Impact of Tourism

The extent to which tourism may affect the ecological system depends on the number of tourists visiting the area, their attitude towards wildlife and the natural environment as well as the competency of the management and planning policies of governing authorities (Holloway, Davidson & Humphrey 2009; Leitner, 1999; Obua, 1997; Omurgonulsen, 1990). According to Pirnar, (1993); and Ritchie, (1998), the extent of some of the damage caused by tourism may not be imagined at the initial planning stage. For instance, in some places local fishing marshland and marine environments have declined due to hotels and restaurants being built on the land in the name of promoting tourism. Sometimes even the forests and agricultural land of the locals are turned into sport arenas for tourists. In some parts of the world, rivers and other water bodies have undergone diversion thus making the life of the indigenous people harder. Skiing sites have been poorly developed in some mountainous regions against the will of the local people. Unfortunately, some of these worsen the level of soil erosion and as such lead to serious agricultural damage which in some cases were not foreseen by the local government (Omurgonulsen, 1990). Hillery et al., (2001) advocate that some tourists are directly involved in activities that lead to the deterioration of the environment. For example, in regions that receive large numbers of visits by tourists, there have been reports of littering with plastic materials and other forms of rubbish that pose serious environmental issues. Tourists that are ignorant in some cases spoil crops and scare away wildlife. For example, a mountain side in the United Kingdom may generate at least a ton of rubbish during the summer period, which may be comprised of disposable food plates or bowls (WTO, 2005). In other parts of the world, coral reef has been depleted and species of plants not suitable for a given area have been introduced indirectly by tourists into delicate ecosystems.

On the other hand, global tourism has also been credited with promoting wildlife and environmental conservation initiatives, especially in holiday resorts. Local government and communities have set up zoos and nature reserve parks that house endangered species, partly to satisfy tourists' wish to experience the local wildlife in a controlled setting, but also to provide jobs for local inhabitants. Additionally, with the growing popularity of 'green tourism' there have been global campaigns to raise awareness of the threat of environmental degradation which have been heeded by tourists visiting many parts of the globe. Tourists need to be further educated on issues that will benefit the visiting environment and also enhance their tour experience. For example, in Kenya's nature reserves, some of the revenue generated through entrance fees is ploughed back into mountain side in the United Kingdom may managing the wildlife, a scheme which has proven to be successful. Furthermore, because tourists are attracted by certain things such as local wildlife, landscape, the beauty of the scenery, archaeology, and artefacts, this has led some governments to create a strategy of protecting and reviving natural heritage which could have been given less attention or minimal investment for upkeep if not for the global tourist demand for such attractions (Butler, 2000; Hall, 1994).

2.2.9 The Environmental Impact of Tourism

Theorists like Holden (2000), Butler (2000) and Obua, (1997) argue that the environmental impact of tourism needs to be further researched through a multidisciplinary approach. Butler (2000) suggests that further study needs to be conducted to better highlight the various factors that link tourism quality and environmental attractiveness, with more integrated research between the natural sciences and environmental planning departments in terms of the causes of issues instead of only focussing on the effects. Finally, longitudinal studies should be conducted to analyse the link between environmental, socio-cultural and economic issues. Governments need to provide funding for better environmental auditing and sustainable tourism. For instance, the evaluation of environmental impact could be done by means of cost-benefit analysis, and by the establishment of standards that are observed and monitored. Manning (1999) devised an early warning system that helps to indicate defects in the sustainable management of tourism.

Planning related to tourism should be done using a holistic approach that harmonises the socio-cultural, economical and political relationships of all stakeholders. However, most of the latter are aware of the impact of planning on sustainable tourism; some of the problems faced in planning stem from barriers imposed on the planning bodies. Butler (2000) and Obua (1997) indicate that planning authorities should be motivated to implement the various environmental policies available for effective results to be attained. Hardy and Beeton, (2001) contend that those responsible for the planning and management of tourism should incorporate the interests of stakeholders into their main plan. This will help to prevent stakeholder conflicts and promote harmony. Manning (1999) indicated the need for more scientific studies on the impact of tourism on the environment and ecosystems, the results of which could be incorporated into the main plans through collaboration with local residents.

2.3 The Libyan Tourism Context

Libya has thirty major archaeological sites and holds UNESCO World Heritage Status for many of its renowned tourist attractions such as beautiful beaches, the ancient Roman cities of Sabratha, Leptis Magna, and Hadrianic Bath and the former Greek city of Cyrene. However, the Libyan tourism industry remains relatively small and 80% of international tourists are from other Arab and Middle Eastern states. The industry also accounts for the lowest national income from tourism and minimum length of tourist stay in the whole of North Africa. However, the country has the potential to receive year-round tourist visits due to its warm Mediterranean climate, (Berlitz, 2009; Mclaren, 2006; Scott, 2004; Insight World Encyclopaedia, 2007).

Figure 2.2 Leptis Magna

Source: Chooselibya.com, (2005)

The Libyan tourism industry dates back to the Italian colonial era. Under the leadership of the Italian governor, Italo Balbo, tourism was promoted to the rest of the world. He constructed major road projects and hotels were built to cater for the needs of the tourism industry (Mclaren, 2006). The Balbo administration had built seven international airstrips by 1929, and the colonial government also attracted cruise ship operators into Libya. As a result of the Balbo administration's endeavours about 30,000 tourists visited Libya in 1929. The tourism effort gained ground as a result of numerous tourist programmes that were designed by this colonial government, with the most important being the annual Tripoli Trade Fair, (Scott, 2004).

This same administration formed the Libyan Tourism Commission in 1933 to provide a centralised system for managing tourism activities. However, in 1934 this body was replaced by the Council of Libyan Tourism Commissions. Unlike its predecessor, this group was run by corporations that had a large stake in the Libyan tourism industry at that time (Scott, 2004). This body promoted Libyan tourism to the rest of Europe in addition to Italy, and also oversaw the smooth co-ordination of the various tourism sub-sectors' activities. However, due to a conflict of interests of policies between the large stakeholders that ran the Council of Libyan Tourism Commissions, the Baldo administration decided to replace it. For example, it was difficult to get different corporations or sectors within the tourism industry to agree on issues like pricing, promotional activities, and taxation. The Libyan Tourism and Hotel Association (LTHA) were therefore formed in 1935 to act as a neutral body overseeing the management of the tourism sector (Niblock, 2001). However, it is worth mentioning that these bodies represented the interests of large Italian corporations and political groups rather than those of the indigenous people.

Following independence in 1951, the Libyan tourism sector was not ambitiously developed. With the introduction of Royal Act Number 44 (1951), the Libyan government formed the first Ministry of Tourism to design and implement policies for the promotion and stimulation of the tourism sector. The key objectives of these initiatives were to create an integrated policy that would be welcoming to tourists, thereby encouraging their visits; to provide a standard of classification for hotels, restaurants, and motels; and to facilitate the implementation and monitoring of strategic government projects through collaboration with other governmental departments (Niblock, 2001).

Royal Act Number 44 also gave potential direct foreign investors into the tourism industry capital assets ownership in Libya, establishing licensing regulations managing the tourism industry employment procedures, and granting approval for pricing policies within the tourism sector. The Libyan General Board for Tourism, known as the LGBT, was established in 1989 under the ministry of tourism to manage the implementation of Libya's National Tourism Development Plan (NTDP) which was introduced in February, 1997. The NTDP contained full information of the tourism industry's projects and details of the public sector's responsibilities for implementing these projects over the short and long term. This project plan covered issues such as the development of effective marketing and infrastructure strategy, as well as human resources goals in terms of capacity building. Furthermore, the NTDP contained details for the establishment of the Tourism Investment and Promotion Board, (TIPB); this body's main purpose was to cater for the marketing of the tourism industry by promoting Libya as a nation with a rich archaeological and cultural heritage to the global tourism market. However, the NTDP document did not include plans for collaborations with stakeholders of small to medium size enterprises. As a consequence of this, there were several negative responses from private Libyan companies operating in the tourism sector towards this policy. However, in 2003, this body was subsequently replaced by the General People's Committee for Tourism (GPTC); however the main duty of this body remains the same as its predecessor (Scott, 2004).

2.4 Tourism Industry Service Structure

The services provided by the tourism industry could be classified as: Hotels, motels and guesthouses; archaeological sites; museums; sports and recreation facilities; nature reserves; tour operators; travel agents; and cafes and restaurants. At present restaurants and cafes account for almost 88% of all tourism service provision whilst the local tourist authority remains the least, to just about 0.1%. Libyan currently has over 3600 restaurants and about 230 travel agents. The latter account for 5.6 % of the tourism industry provision and is the third highest after hotels and guesthouses. The GPTC controls these businesses either directly or indirectly, under Law No.5 (1997).

2.5 Libya Tourism Industry Challenges

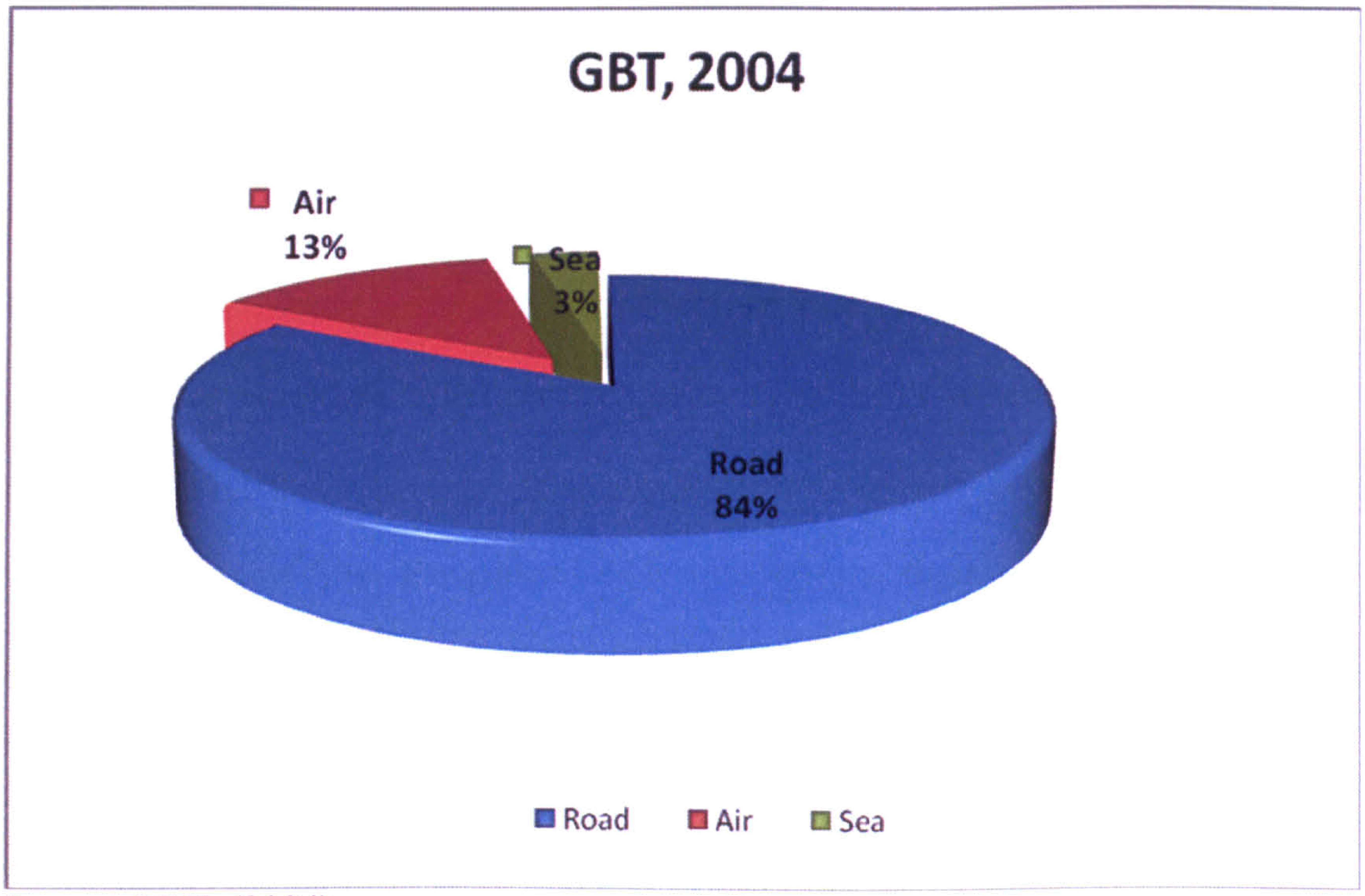
As the government endeavours to diversify the sources of revenue to the economy into the non-oil sector, it has been confronted by numerous challenges in recent years, mainly due to the minimal investment in these sectors over previous decades. The challenges that have resulted from these years are varied and range from political issues, a lack of building capacity, infrastructure limitations and lack of foreign direct investment FDI- to mention just a few. Libya is no different from most developing countries and emerging economies which experience similar circumstances. The specific shortcomings of the Libyan tourism industry are discussed below:

2.5.1Political Factors

An issue that has significantly affected the fabric of the entire Libyan economy stems from the sanctions imposed on it by the UK, the United States and the United Nations Organisation between 1986 and 2003. This affected both the tourism and oil industries in terms of national reputation with regard to tourists' security, foreign direct investment and air travel and telecommunications and other infrastructural developments. In 1984, diplomacy between Libya and the West was strained when Yvonne Joyce Fletcher, a British policewoman, was shot in front of the Libyan Embassy in London while overseeing a demonstration organised by a Libyan dissident. As a result of this, economic and diplomatic relations between the two countries were stalled. The sanctions worsened in 1992 due to the alleged bombing of a Pan American airliner over Lockerbie in Scotland. The most important effect of these factors on the tourism industry was the banning of air travel between Libya and the West, the restrictions placed on the role of Libyan diplomats by UN member states, and the halt to Libyan international airline operations. However, as Libya refused to further cooperate with the terms of the sanctions which included the extradition of the Lockerbie bomber for trial in Britain, further sanctions were imposed in November 1992, with Security Council resolution 883 which provided further restriction on the Libyan aviation industry and froze Libya's overseas deposit funds. Subsequent to the abolition of the sanctions on 23rd April, 2004 there have been major improvements in the Libyan economy and tourism industry. British Airways has once again begun air travel to Libya, mainly to gain from the tourism sector of the economy. Various international airline and tour operators now work in Libya (Niblock, 2001; Bizan, 2007; Clarke, 2008; Tang & Jones 2008). The main route used by tourists during the sanction period was by land (84%) across the Tunisia border. The diagram below illustrates the modes of transport employed to enter Libya in the sanctions period:

Figure 2.3

Modes of transport for tourist arrivals to Libya, 1993-1997



Source: GBT, (2004)

A total of 85,000 international tourists visited the country in 1995; this can be compared to the 105,000 who visited in 2006 when sanctions were lifted, followed by 180,000 in 2007. Despite these significant rises in tourism numbers, the tourism industry by 2007 was still contributing less than one percent (1%) of the country's gross domestic product. However, in 2008 the figure for visitor numbers rose to 500,000 and the country's strategic position and close proximity to Europe has contributed to the steady rise in tourists visits over the subsequent years (Bizan, 2007; Tim, 2010). Despite these improvements, the industry has been undergoing other challenges which are typical for most emerging economies. Below is a discussion of these challenges.

2.5.2 Lack of Capacity Building Initiatives

Due to limited training and awareness of the economic potential of tourism, insufficient attention has been paid to this sector of the economy. The people of Libya need be educated and informed by local authorities about the importance of tourism in terms of investment opportunities, as well as the environmental challenges it poses. By offering relevant training and skills to artists, craftsmen, tour operators and other service sector providers, better service quality could be delivered. This in turn offers the potential of reinforcing the competitiveness of the country as a tourism destination. Apart from the general education system, there needs to be specialise training for potential employees who wish to seek a useful job in the tourism sector.

2.5.3 Limited Infrastructure

Libya needs more infrastructure development to cater for the influx of larger number of tourists that are visiting the state annually. This does not refer only to hotels but other improvements such as better feeder roads to link sites, so that transportation facilities like rail networks and major road networks need to be built. There is also a need to upgrade some of the existing infrastructure that has gradually deteriorated over the years; this is necessary in telecommunications and energy for example. There needs to be proper coordination between the various elements of tourism promotion activities. There is no point in promoting tourism without putting the necessary infrastructure in place to cope with the carrying capacity likely to be generated, and a failure to provide new facilities subsequently puts more strain on existing facilities, thereby resulting in their early deterioration. Limited investment-intangible services are considered to be highly risky by many people and as a result of this, as such, entrepreneurs, national and especially global companies require major assurances from the state regarding the security of their investments in these fields (Porter, 2006).

Issues of expropriation, legal structures, security and dividend repatriation bottlenecks are all of concern to potential foreign investors and need to be addressed in order to win investors' confidence. In addition, some potential individuals and companies with the skills to undertake an entrepreneurial endeavour find securing a loan especially challenging in Libya. For example, in many cases loans are given out according to personal connections between individuals rather than as a result of a proposition based on a proper business plan. Furthermore, due to religious reasons, some Libyan people feel reluctant to work in certain areas of the tourism sector. For instance, most Libyans will avoid working in industries connected to the sale or consumption of alcohol, and in places where the sexes interact freely.

2.5.4 Inadequate Marketing Campaigns

Although many nations have an awareness of the significant role that tourism offers in terms of foreign exchange, job creation etc, some emerging economies like Libya have not invested in substantial marketing campaigns to promote themselves as a tourism destination, as for example Egypt has done. Most of the basic promotional literature available on Libya is the result of international tour operators who provide travel advice to potential tourists seeking to visit Africa. With the abolition of sanctions, Libya enjoyed a free publicity campaign from Western and other international media which contributed significantly to the number of tourists visiting the country. However, the nation needs to embark on a more rigorous campaign to attract more tourists to the country. For instance Libya could set up specialised marketing offices in Western and Asian countries with significant tourism outflows to promote the countries' heritage abroad and within Africa.

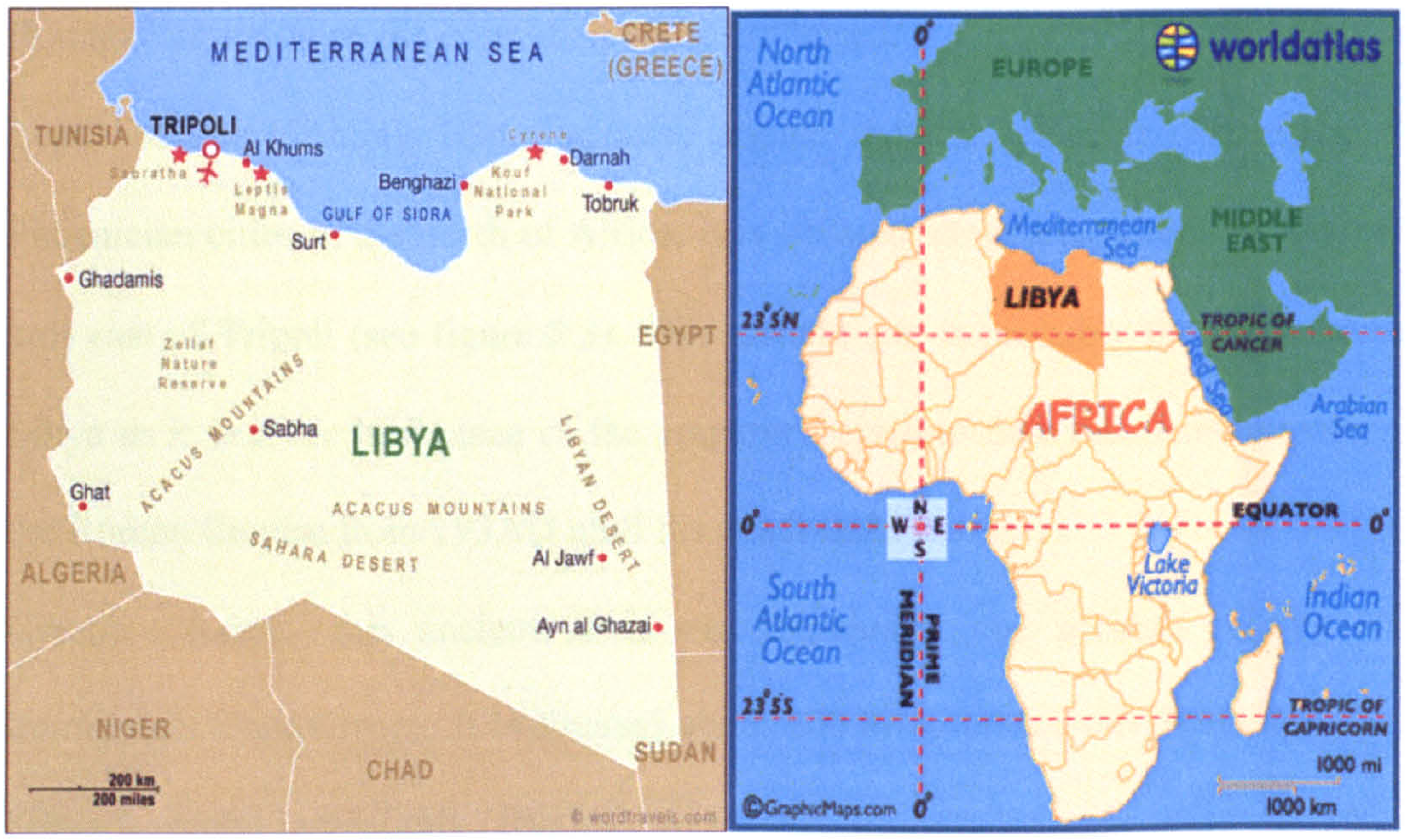
2.6 The Potential of the Libyan Tourism Industry

The tourism industry of Libya has huge potential for growth as a result of the numerous tourist attractions available within the country. The full potential of these attractions retains untapped in economic terms. Below is a discussion of some of these major attractions. Libya has a welcoming climatic condition that is sunny and warns with beautiful scenery and a rich cultural heritage. The long Mediterranean coastline gives it the potential for providing tourist activities such as scuba diving and other water sports, beach sunbathing, and also the opportunity to establish good seaports to receive the many cruise ships that travel the Mediterranean. The country is also rich in archaeological cities of ancient civilisations of the Greek, Roman, Islamic and Phoenician eras. Various historical mosques, churches and museums with outstanding architectural merit are still available to view today. The desert areas are also rich in history, legend and folklore, and contain artefacts of human habitation dating back thousands of years. The main tourist attractions of this nation are discussed below:

2.6.1 Desert Land

The Libyan Desert forms 90% of the country total land area and it is the home of numerous pre-historic artworks. It contains some igneous agricultural systems that surround the oases and lakes of the desert. In the southern region of Libya, these oases are a common site and well known for their folklore.

Figure 2.4 Libyan Locator maps



Rescores: www. World details, Libya locator map

2.6.2 Archaeology

In a Mediterranean region like Libya, archaeology has often played an important role in attracting tourists into the countries in this area. Some of the world's very best preserved classical antiquities are available to view in Libya. Most of these are situated within the eastern and western regions of the country near to the coast and they date back to the Roman, Greek and Phoenician eras. Some of the most famous cities are discussed below:

Sabratha, also spelt as Sabrata, is situated about seventy kilometres from the capital, Tripoli. This historical Phoenician city was founded around 600 BC and was subsequently discovered under the ruins of the Roman town which was erected over it between 139 and 180 AD. Some of the remnants or ruins are currently beneath the sea. In addition, the major trading post of this ancient settlement has also been found. When Carthage, the main city of Sabrata was destroyed in 146 BC, the Numidian people gained controlled of Sabrata. This city was subsequently annexed to the Roman Empire when the Numidian's rule collapsed.

Leptis Magna (Lebda)- Historian have argued that this place is one of the oldest Phoenician cities in the north of Africa. It is situated about a hundred kilometres (100 km) east of Tripoli (see figure 2.3). This ancient site is probably the most famous in Libya as it was the birthplace of the emperor Septimus Severus. This emperor ruled the Roman Empire from 193AD until his death in 211.

Cyrene (Shahat)- this ancient town was founded in the seventh century BC by immigrants from Greece. It is situated about 200 kilometres from Benghazi, which is Libya's second largest city. This city was a very important Greek colony and became a kingdom that was for a time second in importance only to Athens. Today, Cyrene is the most ancient Greek site outside Greece (see figure 2.3). When this settlement was subsequently taken over by the Romans, it underwent further development and advancement and its one of the highest regarded sites on the UNESCO world heritage lists.

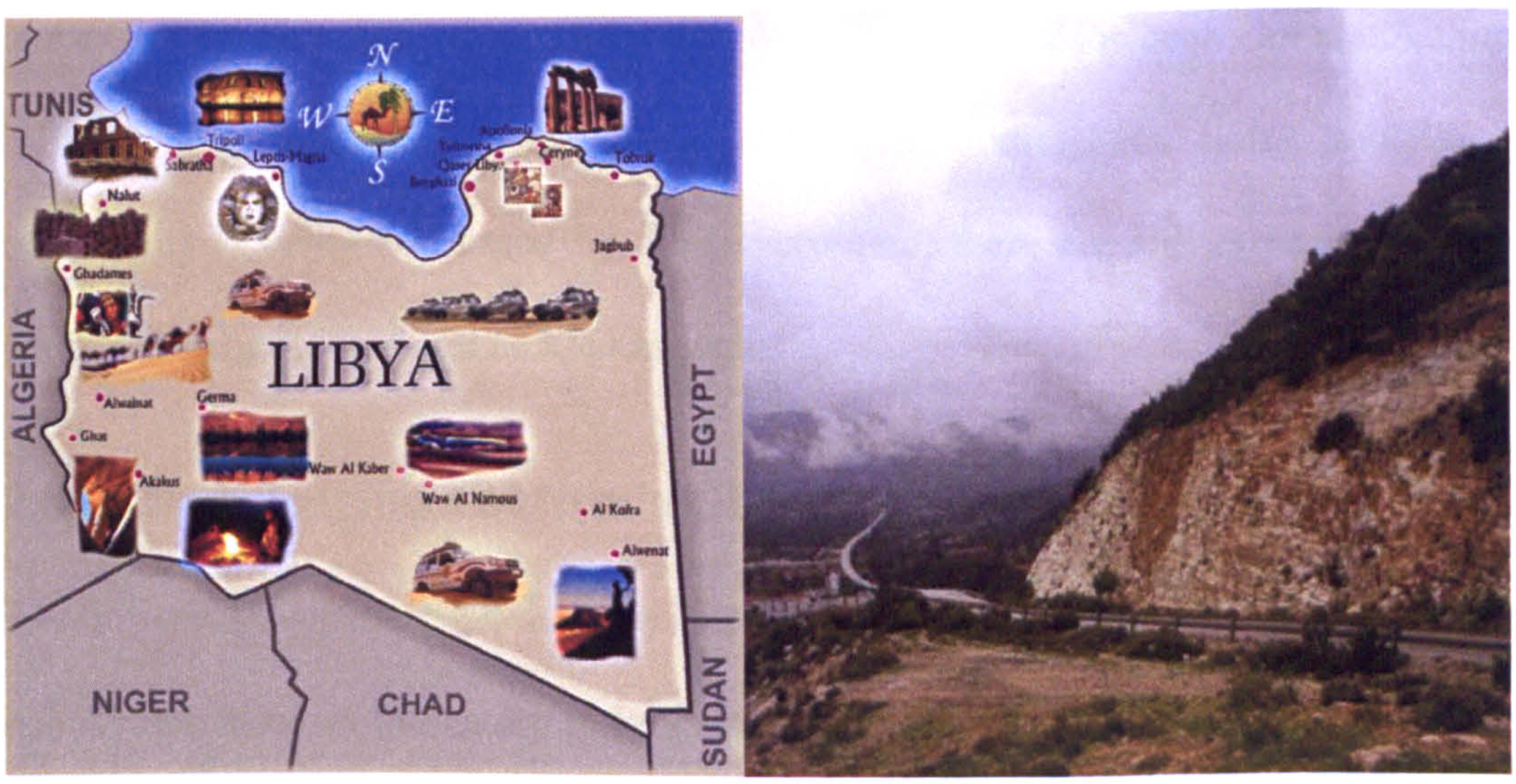
Apollonia (Sousa)- This was an ancient port that is situated 15 kilometres north of Shahat or Cyrene. During the Byzantine era it was a very important city as its port provided a means of transportation to major trade routes during both the Greek and Roman rule of Byzantium.

Cydamae (Ghadames)- This is a desert oasis and it is situated about 600 kilometres south west of Tripoli. This settlement exhibits both the Garamants and Muslim ancient civilisations. Great artefacts and other artworks can be seen in caves, dunes and in residential homes. It was a very important trading centre in the region during its hay day.

2.6.3 Mountains

Six hundred kilometres (600km) of mountainous areas covered by green grassland is situated in the eastern region of the state. Some of these mountains are located along the coast and afford remarkable scenic views. The area also has deep valleys and not very broad wades which could prove challenging for mountaineers. Towards the western region, many ancient settlements are to be found within a 400 kilometre stretch of mountainous landscape which is a popular attraction for tourists.

Figure 2.5: Libya's tourism attractions, Mountains



Source: Chooselibya.com (2005)

2.7 Future Potential

During the sanctions period, limited research was conducted into tourism potential except the Tourism Master Plan research which made projections for the years from 1999 to 2018, and which was conducted in conjunction with the World Tourism Organisation (WTO). However, since the abolition of sanctions, many things have changed. There are many more European tourists visiting Libya now from countries such as Switzerland, Germany, France and Italy, and they are seeking new forms of exotic vacation and a good view of the ancient ruins of Greece and Rome, so they are naturally attracted to the country.

The Libyan economy at the time of writing is much more stable now than in the past, and with GDP rising at an annual rate of 6.5% according to Takeyh, (2001), the government has successfully offered thirty licenses to numerous multinational corporations to exploit the country's rich oil and natural gas sectors. As a result, there has been considerable amount of foreign direct investment into the oil sector which amounts to billions of dollars and has generated over 5,500 jobs for the Libyan people since 2005, although some migrant workers have also been hired. Although infrastructure progress in the areas of telecommunications, hotel, motels, and restaurants is being addressed by the government, there are still other issues which need to be highlighted and tackled as well.

2.8 Acknowledging Tourism's GDP Contribution

The Libyan government should pay particular attention to the tourism industry as it contributes a lot to the catering, hotel, tour operators, museums, archaeological and cultural heritage of the country. As a result of the lack of comprehensive financial information systems to monitor and provide insight into the contribution made by tourists, the government has so far failed to appreciate the full potential impact of tourism on the economy. Another factor that makes such financial monitoring difficult is the fact that most of the restaurant, hotels, tour operators etc are owned by different companies without any means of easily generating an aggregate account of all their earnings and revenues. In some developed countries, there has been progress in this area, as indicated by Tohamy and Swinscoe, (2000).

Government intervention into the Libya tourism industry has generally focussed mainly on issues regarding hotels and restaurants, without a holistic approach to addressing the system of providing accommodation and activities to visitors. Hence hotels and restaurants are just a portion of all the foreign earnings that are injected into the country as a result of tourism, and there needs to be better way of evaluating the aggregate contribution of tourism to the economy (Naeem, 2006).

Major studies have been carried out in Libya in the area of sustainable tourism over recent years, with good results. These studies have looked at the impact of tourism on the socio-cultural, economic, and ecological and environmental impact of tourism on the country. The country has sunny beaches, and desert sand, but it could benefit from diversifying its tourism sectors to include other areas like the organising of business fairs, medical tourism, scuba diving, mountain trekking, and desert racing could all be introduced as a boost to the tourism sector. This could further result in better infrastructure development in other cities or suburbs in order to cope with extra tourist carrying capacity that such developments would encourage. Improved facilities might help to reduce the trend of rural-urban migration which is common in emerging and developing economies by creating jobs and the provision of basic amenities in areas not currently visited by tourists.

The government has been trying to improve the state of Libya's infrastructure in order to cope with additional carrying capacity, and April 2005 witnessed the opening of a two-hundred and ninety nine (299) room luxury hotel in Tripoli. Then in 2010, the government awarded Gruppo Norman, the Italian property company, a US$268 million contract to develop a holiday resort on Farwa Island (Flanagan, 2006). These and similar developments are seen as the vanguard of a major expansion in tourist capacity designed to cope with expected rises in visitor numbers brought about by a number of factors, not least Libya's successful bid to host the African Cup of Nations football tournament in 2013.

Chapter 3: Global FDI

3-1 Foreign Direct Investment

Foreign direct investment (FDI) refers to the process whereby individuals or corporations of a particular nation attain asset ownership in a foreign country with the right to undertake business ventures through investment in production, distribution, advertising, human resources etc. According to the definition given by the International Monetary Funds' Balance of Payment Manual(1992, p. 8), FDI is "an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investors' purpose being to have an effective voice in the management of the enterprise". Similarly, a study conducted in 1999 by the United Nations entitled World Investment Report (UNCTAD, 1998, p. 18) defines foreign direct investment as "an investment in a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (foreign direct investor's enterprise, affiliate enterprise or foreign affiliates)".

It is worth noting that a number of authors and organisations estimate FDI data internationally, not all these reports therefore give directly comparable figures. The discussion below gives the views from these various reports, fully referenced. Given the differences between the reporting agencies we can only consider these estimates as indicative of the magnitude and growth of FDI and that the data maybe somewhat unreliable.

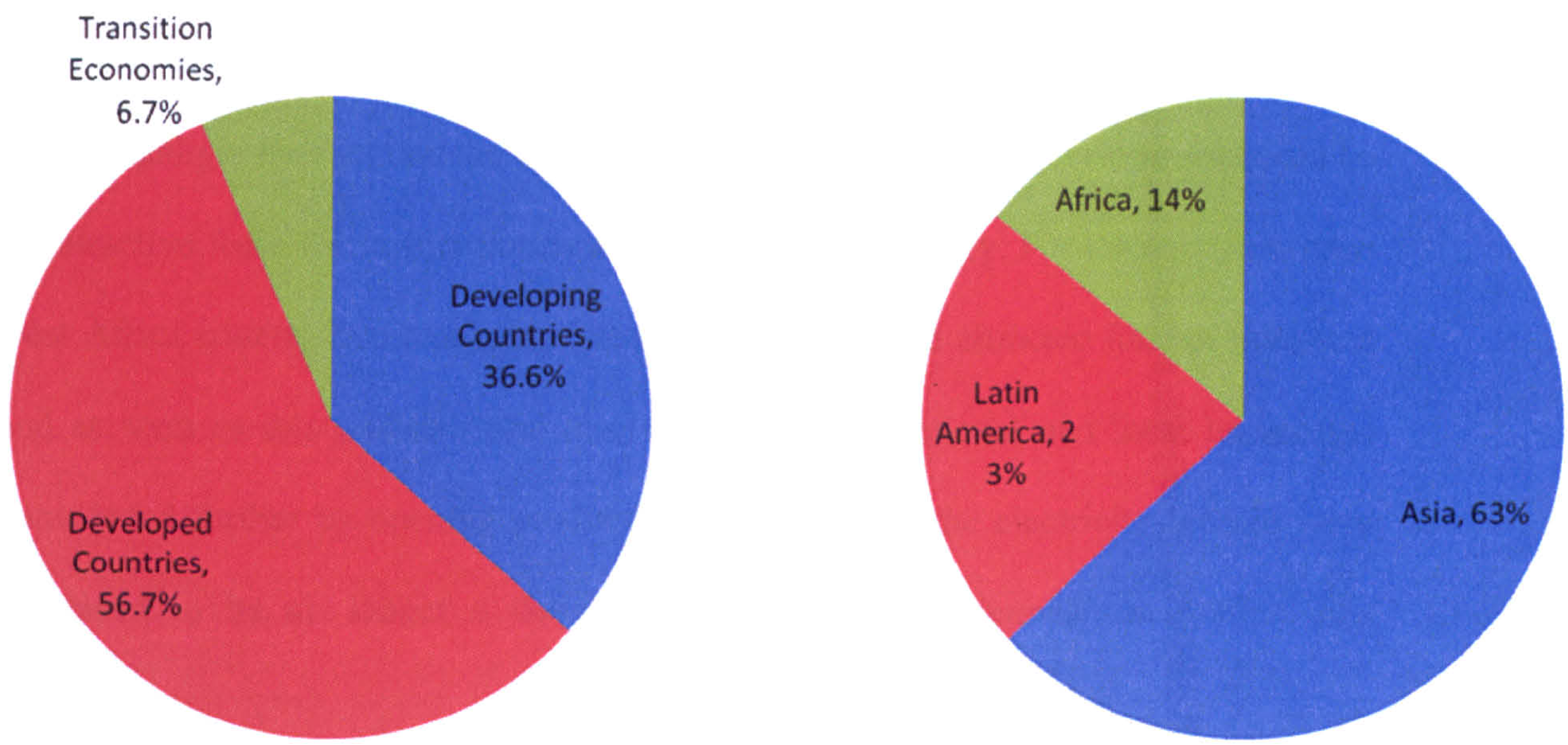
From 2003 to 2007 there was a gradual increased in global FDI without much interruption. 2007 witnessed the highest level of global FDI so far with a total amount of US$232 billion. However, 2008 saw a drop of about 15% as a result of the financial crisis that originated from the United States.

In 2009, there was further drop of 44% when compared to the values invested in 2008; this fall was most likely caused by a lack of consumer confidence in the developed economies during that time and a credit squeeze caused by major international banking institutions facing huge losses on previous investments. Although mergers and acquisition are steadily recovering, there was also a drop in this type of business investment in 2009 (Khalifa, 2010).

Asian nations have so far received the largest amounts of foreign direct investment directed to developing countries: in 2008 the total FDI inflow to Asian nations amounted to US$350 billion, which represented about 63% of all FDI reaching developing countries. At the same time, African nations received the smallest amount of FDI share for developing nations at 14%. The diagram below showed the total value of global FDI for 2008 and the percentage received by regions around the world.

Figure 3.1

FDI inflows in 2008



A conser ıists highlights the fact that FDI plays in expanding the economy of many developing countries (Akinlo, 2004; De Mello, 1997: 1998). FDI stimulates economic growth by the provision of much needed capital that necessary for infrastructure development, job creation, and better training of appropriate skills in recipient countries (De Gregorio, 1992). Although the actual impact of FDI has a high theoretical advantage, some economists still question the actual positive impact of FDI on international economies in empirical terms. However, according to theorists like Nair-Reichert and Weinhold, (2001) and Choe (2003) the main reason for this contention is the incorrect methodologies applied in other studies. According to them, earlier theorists ignored the significant differences in technological potential amongst countries. Additionally, production level and other facets of socio-economic development were also not given close attention in those earlier studies which questioned the extent of the positive impact of FDI in growing foreign economies. As a result of this, Nair-Reichert and Weinhold (2001), Choe (2003) and Bende-Nabende et al. (2003) contend that the methodological flaws of previous studies outlined above could be corrected by the use of panel data to produce accurate and consistent results. Furthermore Choe (2003) indicates that many studies fail to highlight the fact that the impact of FDI on infrastructure development could be an attractive force for further potential FDI in a given country. For instance, a certain west Africa country that had intermittent electricity outage attracted foreign investors and as soon as this problem was resolved, more international and local businesses contributed further by opening production lines because the electricity hitches were perceived to be no longer a deterrent. This concept is termed the market size hypothesis.

Foreign direct investment has been very instrumental in the transfer of required technology and human resource skills from advanced nations to emerging and developing economies (Borensztein, De-Gregorio and Lee, 1998). These technologies and other resources can be utilised as a springboard to generate better products and services in order to improve the manufacturing and service sectors. According to Agosin and Mayer, (2000) foreign direct invest also has the potential of encouraging local industries to take part in the major industrial sectors through the provision of complimentary services that serve to meet customers' requirement along the value chain. Jansen (1995) indicate that as the inflow of foreign direct investment grows, local entrepreneur normally take the initiative of investing in a small to medium size enterprise (SMEs) which offers goods or services to the large capital investment projects which usually characterise FDI. As indicated by the theory of the multiplier effect, all these investments will subsequently generate substantial economic output for the host nation. Borensztein, De-Gregorio and Lee (1998) argue that many national based enterprises attain efficiency through business process re-engineering, a skill they quire either by learning directly from the large investors or indirectly through observation and by working in some of these investors' corporations.

Furthermore, theorists like Noorbakhsh, Paloni and Youssef, (2001) contend that foreign direct investments plays a useful role in increasing domestic market competitions as a result of an increase in suppliers' base. In other words, by setting up more companies in the given countries as a result of foreign direct investment, buyers' bargaining power increases. This is also likely to result in cheaper services or product backed by better quality. To sum up, foreign direct investment generates more competition amongst firm, produces better skills and training for the workforce, and generates technological transfer from the investor nations to other foreign states. These technologies can be further researched and adapted or improved on by local firms (Hermes and Lensink, 2000). However, it would be biased to elaborate on the usefulness of foreign direct investment without considering the potential disadvantages associated with it as well. Ramirez (2000) argues that where a large amount of remittances are delivered back to the home country of foreign direct investors, it could result in a negative impact on the economy of the host country. This is termed as reverse flow. This usually involves the transfer of dividend, shares, useful hard currency and other funds to the investor's home country or even to another nation for more investment.

There are instances where certain transnational corporations have been given too many concessions by host governments to woo then into countries specifically to meet a need for foreign exchange. This approach has the potential to put the host nation at a strategic disadvantage as a result of lost revenues on the part of the government.

Additionally, theorists contend that foreign direct investment may not necessarily lead to any substantial rate of economy growth; hence they tend to focus in markets that are saturated with similar products or services.

3.2 Foreign Direct Investment Empirical Research

Borensztein, De-Gregorio and Lee, (1998) conducted a transnational study that lasted for a decade to illustrate the impact of foreign direct investment on 69 developing countries' economies across the globe. In accordance with their findings, it was pointed out that foreign direct investment contributed a lot more to the transfer of technology than local corporations. These theorists further highlighted the fact that human capital had a close relationship with the growth influx of foreign direct investment. In situations where a substantial amount of foreign direct investment was injected into the economy, human capital was enhanced through the training of staff in order to meet the standards of quality, safety and productivity set by the foreign corporations. The work of Blomstrom, Lipsey and Zejan, (1996) and De Gregorio, (1992) pointed to the positive impacts of FDI in developing countries generally and Latin American countries particularly. In order to determine the impact of foreign direct investment on the former Soviet countries, Campos and Kinoshita, (2002) undertook a study of 25 of these previous Soviet bloc member states; their study indicated that foreign direct investment had a significant impact on economic prosperity. This research was in conformity to that of De Gregorio's (1992) findings.

A study was conducted by Nyatepe- Coo, (1998) to account for the impact of foreign investment on 12 different countries situated in sub-Saharan Africa, Asia and finally Latin America within the years of 1963 to 1992. Results from the research indicated that majority of the 12 nation's economies benefited positively from foreign direct investment.

Another very important study done to determine the impact of foreign direct investment on recipient countries was undertaken by De Mello, (1999). The study included 32 countries from the Organisation for Economic Co-operation and Development (OECD) member states and some non-members as well, within the periods from 1970 to 1990. The findings of the study showed that foreign direct investment had huge positive contributions to the economic growth of these states. He additionally highlighted the fact that foreign direct investment led to an enhancement of the human capital of those states as well, and furthermore created a large capital base.

With the goal of determining the impact of foreign direct investment on Asian economies, Wang, (2002) conducted a study which included 12 Asian nations. Her findings indicated that foreign direct investment had a huge impact of these countries' economies, however, it was acknowledged that the impact on the manufacturing sector was much greater compared to other industries, suggesting that efficient means of manufacturing were easily copied by local workers and corporations, and applied to their own production lines.

Li and Liu (2005) undertook an ambitious study that included both western countries and emerging economies. The study focussed on the impact FDI on these countries between the periods of 1970 to 1999. They also focussed of the endogeneity- i.e. the ripple effect of FDI in these countries. Their findings pointed out that foreign direct investment growth in these nations also gave rise to further investment by other multinationals though offering complimentary services. Additionally, foreign direct investment led to the enhancement of human capital in these states, and that FDI was mainly targeted at large markets.

By the use of modelling techniques, Choe, (2003) conducted a causal research to investigate the influence of foreign direct investment on economic prosperity. He utilised data from 80 corporations between the years of 1971 and 1995. The findings pointed out that FDI had a two way cause and effect relationship with economic prosperity. This study produced findings consistent with the work of Bende-Nabende et al., (2000).

It is important to indicate that some studies have not established a positive relationship between foreign direct investment (FDI) and economy prosperity. One of these includes the work of Carkovic and Levine, (2002) which made used of a sample from a total of 72 nations which included developed and developing nations like the United Kingdom, United States, Rwanda and Kenya, to mention a few. They finding concluded that foreign direct investment sometimes did not contribute to economic prosperity as a result of certain external factors, for example, political stability and corruption.

Xu, (2000) conducted a study to indicate the impact of 40 American international corporations on the economies of their host countries from 1966 to 1994. He concluded that foreign direct investment had no impact on growth economic.

Durham, (2004) indicated that foreign direct investment had no effect on economic growth on their host nations; instead it was absorbed and so did not deliver any positive growth result. Similarly, Kholdy, (1995) extracted samples from 10 Asian nations in order to determine the impact of foreign direct investment on the economies of these nations. These results did not show any positive effect on the growth on these Asian countries from foreign direct investment.

The above reviewed literature indicates that foreign direct investment had had a mixed impact on the economy prosperity of its host countries. Hussein (2009) conducted a study to determine these conflicting findings. He pointed out that the level of business and financial market development in the host country as well as the level of education, and effective fiscal management systems have had an important role to play in determining the impact of FDI on some of these nations. His comment is similar to those made by Chanda, Ozcan and Sayek, (2002). Similarly Buckley, Clegg and Wang, (2002) contend that the level of socio-economic development in a country plays a very important role in the attainment of useful economy prosperity from FDI. Additionally Bengoa, Blanca and Sanchez-Robles, (2003) highlight that infrastructural development, substantial amount of human capital, and a free market system are important for a host nation to gain economy prosperity from foreign direct investment. Furthermore, Bhasin, Jun and Economu (1994) and Love and Lage-Hidalgo (2000) contend that the balance of trade of the government and the size of the recipient markets have a huge impact on the benefit of foreign direct investment in such countries. According to Lee and Mansfield, (1996) government trade policies, legal and political systems all have an influence on the way foreign direct investment benefits a recipient country. According to Moosa, (2006) the level of research and development taking place, and the level of education of the population of recipient countries has an impact on the outcome of foreign direct investment in those countries. Hussein, (2009) contends that liberalization of markets and an integrated national strategy to channel foreign direct investment to relevant sectors is important for any fruitful and meaningful outcome. He points out that foreign direct investment is generally productive when it involves manufacturing, wealth creation, media and tourism.

3.3 Global Trends in Foreign Investment

Overall, foreign direct investment has increased in recent years, although the global economic crises of 2008/2009 slowed this trend. In 2007, foreign direct investment rose to its highest level of US$1,833 billion dollars, but the global financial crises of 2008 caused a decline which amounted to 20% (UNCTAD, 2008). Statistical data showed that the terrorism crisis of 9/11 also had a severe knock on effect on foreign investment in the early years of the 21st century. For example, in 2000 foreign direct investment stood at a value of US$1544 billion dollars, but from 2001 to 2003 it fell to a value of about US$600 billion. In 2004, aggregate FDI improved with a global investment of about US$650 billion dollars, which was 2.4 % greater than the previous year. As a result of this, global stock values surged to an approximate value of US9 trillion dollars in that same year (UNCTAD, 2005). The influx of foreign direct investment in developing countries was also substantial in 2004, which accumulated to an aggregate value of $234 billion which was an increase of 40% on the previous year. Although Western countries continued to receive a high share of global FDI in 2004, there was a 14 percent decline in 2004 compared to the previous year. Subsequently, this large inflow of FDI into developing countries led to share values in those countries rising by 36.3%. This was the greatest level of foreign direct investment in developing countries since 1997. Between the periods of 2003 and 2004, Asian and Latin American countries gained a larger proportion of foreign direct investment than African countries, which gained an estimated total of US$18 billion during this period, (UNCTAD, 2005).

However, Africa enjoyed an inflow of US$36 billion of foreign direct investment in 2006, which was a rise of 20% over the previous year's total of US$30 billion. The 2006 influx of FDI to Africa was double the 2004 value of US$18 billion. African recorded the highest inflow of foreign direct invest in 2007, which amounted to

US$57 billion dollars. Although these figures seem significant, on average, Africa in fact underwent a very modest rise in FDI as a proportion of total global FDI from 2.7% in 2005 and 2.9% in 2007 respectively. Results suggest that return on investment of FDI from Africa countries is 12% annually, and this is the highest figure for developing nations worldwide. This has been mainly to due to investment from countries like China and India, which have contributed to greenfield investment in Africa. According to UNCTAD, (2005), Africa had only around 10 greenfield foreign direct investment projects, compared to Asia which received 175, and western countries which received 258. This report further emphasised that a large proportion of the foreign direct investment in Africa was done within South Africa. The majority of the foreign direct invest to Africa comes from Western countries like the Netherlands, the United Kingdom, France and north American nations. These investments are mainly directed to countries like Nigeria, Sudan and Egypt, with Nigeria attracting the highest value of FDI from these countries. Since 2003, foreign direct investment in Libya has been rising hugely, mainly due to the ending of United Nation sanctions. In 2001 Libya's foreign direct investment was less than US$1 billion, but since then this figure has risen dramatically. For example, it rose to US$2 billion, US$4billion and US$4.11 billion for the years of 2006, 2007 and 2008 respectively CBL,(2010). However, these investments have mainly been directed to the oil sector, which has seen the return of American and European corporations to the country since the sanctions were abolished and Libya recognised the urgent need to modernise and upgrade its explorations and extraction activities. However, given the huge potential of the tourism industry, Libya is likely to attract more foreign direct investment in that sector of the economy as well.

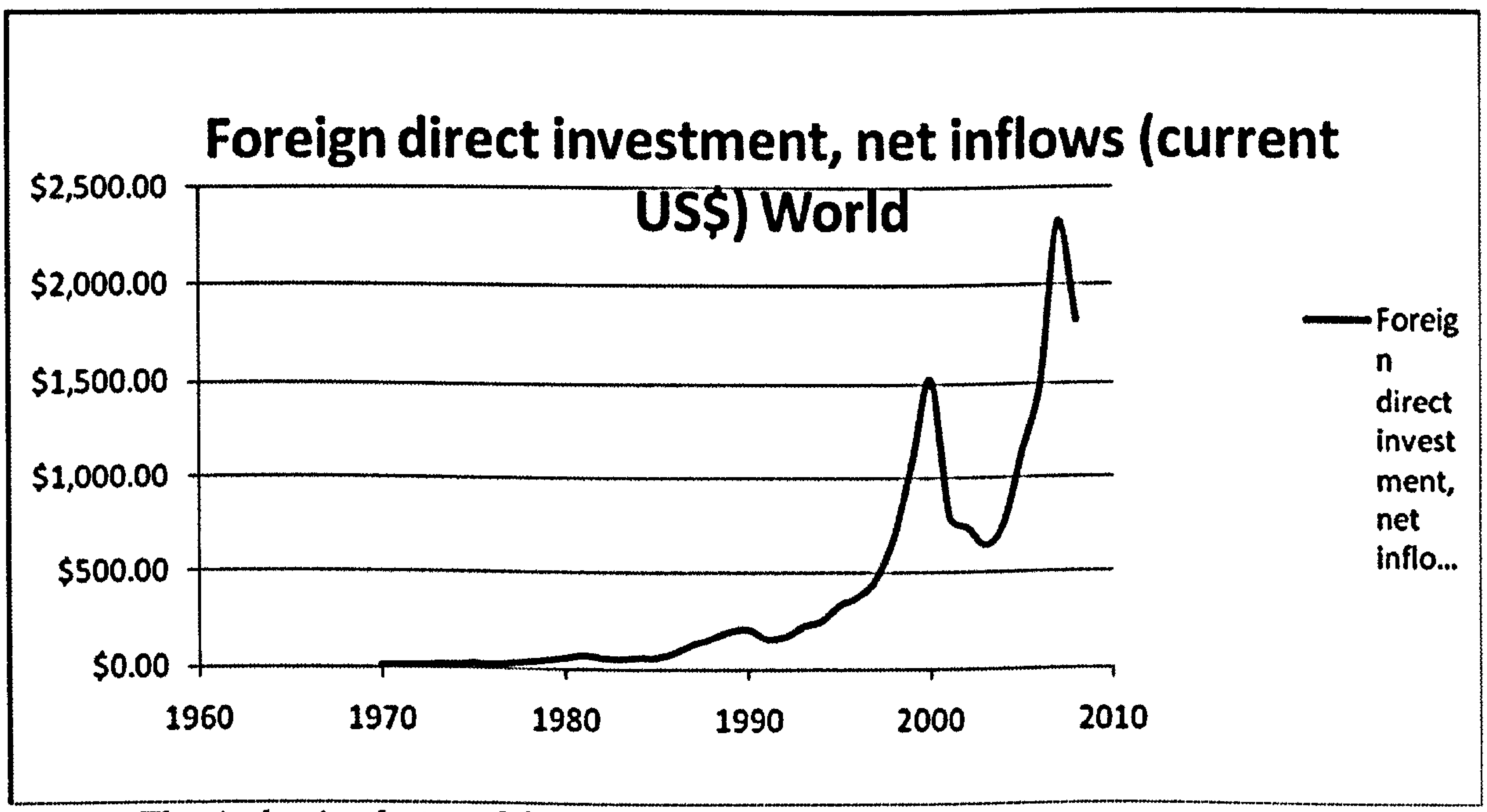
Theorists contend that global competition is the main driving force for a significant inflow of FDI into emerging economies and developing countries. This is compounded by the fact that many countries like South Korea, India, China, Indonesia, Malaysia, and others have all set up competent manufacturing processes that have managed to persuade some Western corporations into those countries to take advantage of their highly competitive labour and production costs. Another driving factor is the scarcity of basic raw materials and the transportation costs involved in shipping such resources from developing and emerging economies to Western countries, (OECD, 2010). As a result of these factors, corporations from both western countries and from the far east are being forced to set up production facilities in some of these developing economies to take advantage of low production and transportation costs and, as well as ensuring a steady access to raw materials.

According to UNCTAD, (2009) other factors that have contributed to the influx of foreign investment into developing and emerging economies include the effective liberalisation and privatisation processes that are taking shape in developing countries. For example, in 2007 Libya took a major step in this direction with the liberalisation of its publicly own commercial banks, which account for 90% of the country's market share. This has attracted substantial foreign direct investments from international financial institutions like the Italian BNP Paribas bank into the country. It has become much easier to acquire shares in international firms and gain immediate ownership in recent times than in the past. Other factors such as the global integration of financial institutions and the setting of transnational production centres to cater for immediate delivery of products worldwide has also fostered the influx for foreign direct investment into developing and emerging economies.

Infrastructure (e.g. airports, train stations, roads, transportation links, accommodation, restaurants) is a key issue in the development of tourism. Unfortunately, there is no data currently available on the amount of such infrastructure investment in Libya. Whilst there is no data specific to Libya it should be recognized, for tourist development, infrastructure investment must go hand-in-hand.

The diagram below shows the growth in global FDI from 1970 to 2008. From 1991 the rise in Global FDI was almost constant. However, the global shock cause by the 9/11 terrorist incident caused a slump in FDI growth around the world. 2007 recorded the highest level of FDI totalling about US$232 Billion. As a result of the global financial crises of 2008, global FDI fell to US$182 billion in 2008.

Figure 3.2 World FDI, net inflows (current, US$)



Source: *The Author's: designed from World Bank data*

Table 3.1 Summary of the key Determinants of Foreign Direct Investment

Economic Conditions	Markets	Size, income level; urbanisation, stability and growth prospects, access to regional markets, distributions and demand patterns.
	Resources	Natural resources, Location
	Competitiveness	Labour availability, cost, skills, trainability, managerial technical skills, access to inputs, physical infrastructure, supplier base; technology support.
Host country Profile	Macro economy policies	Management of crucial macro variables; ease of remittance, access to foreign exchange,
	Private sector	Promotion of private ownership; clear and stable policies, easy entry/exit policies; efficient financial markets
	Trade and industry	Trade strategy, regional integration and access to markets; ownerships controls, completion policies, support for SMEs.
	FDI policies	Ease of entry; ownership, incentives, access to inputs; transparent and stable policies
MNE Strategies	Risk perception	Perceptions of country risk, based on political factors, Macro management, labour markets, policy stability
	Location, sourcing, integration,	Company strategies on locations, sourcing of products/inputs, integrations of affiliates, strategic alliances, training and technology.

Source: Sanjayal, (1997) Attracting Foreign Investment: New Trends, Sources and Policies, Commonwealth Economic Paper 31.

3.4 Foreign Direct Investment in the Global Tourism Industry

The conceptualisation of theoretical constructs is necessary to provide the foundation for constructive argument on these issues. Understanding these constructs is necessary for the interpretation of primary data collected during this research endeavour.

As such the main focus of this literature is on factors which form the attributes of host countries which attract foreign investment in the tourism industry globally. In order to approach this discussion in a systematic and ordered manner, the various literatures are divided into school of thoughts with comments of the various theorists falling under the different school of thought. Some of these are Network theory, the Uppsala model (Johanson and Wiedersheim-Paul, 1975), the Eclectic Paradigm (Dunning 1993), and the Syncretic model (Contractor and Kundu, 1998a). Other facts obtained from the United Nation Organisations regarding the influx of foreign direct investment into hosts' country are also discussed.

Not all investors in developing countries find themselves on a 'level playing field, when seeking the necessary permission to invest, especially in those counties where there is often a greater dependence on personal relationships and favour. However the international hotels generally has a very high level of experience of developing FDI projects due to the nature of their business, and will not undertake projects without full disclosure and transparency of the financial arrangements. Therefore FDI in the hotel industry in Libya is more open to international competitors than is the case with other areas of investment in the economy, and this applies equally whether the investment is through acquisition or green-field development. These equity based investments usually involve both financial and human capital for success. However, with green-field investment, the international corporations usually have the advantage of adapting the infrastructure to their own needs and wishes.

Aliouche and Schlentrich (2009) have produced a generalised model of the research and investment procedures in a given hotel sector across different national economic environments (see Figure 3.3). This model offers a range of different modes of expansion, the licensing / joint venture mode being one of those most appropriate for developing countries, such as Libya. This is due first, to its low reliance upon indigenous access to new capital, and secondly a developed legal and regulatory system. They are clear that franchising is more appropriate as an approach in developed countries, such as within the USA and Europe, but that, *"due to differences in the levels of development of the respective legal, financial, social, and educational capabilities"* Aliouche and Schlentrich (2009, p.) it is not the best option in developing countries, including those in Asia, Latin America and Africa.

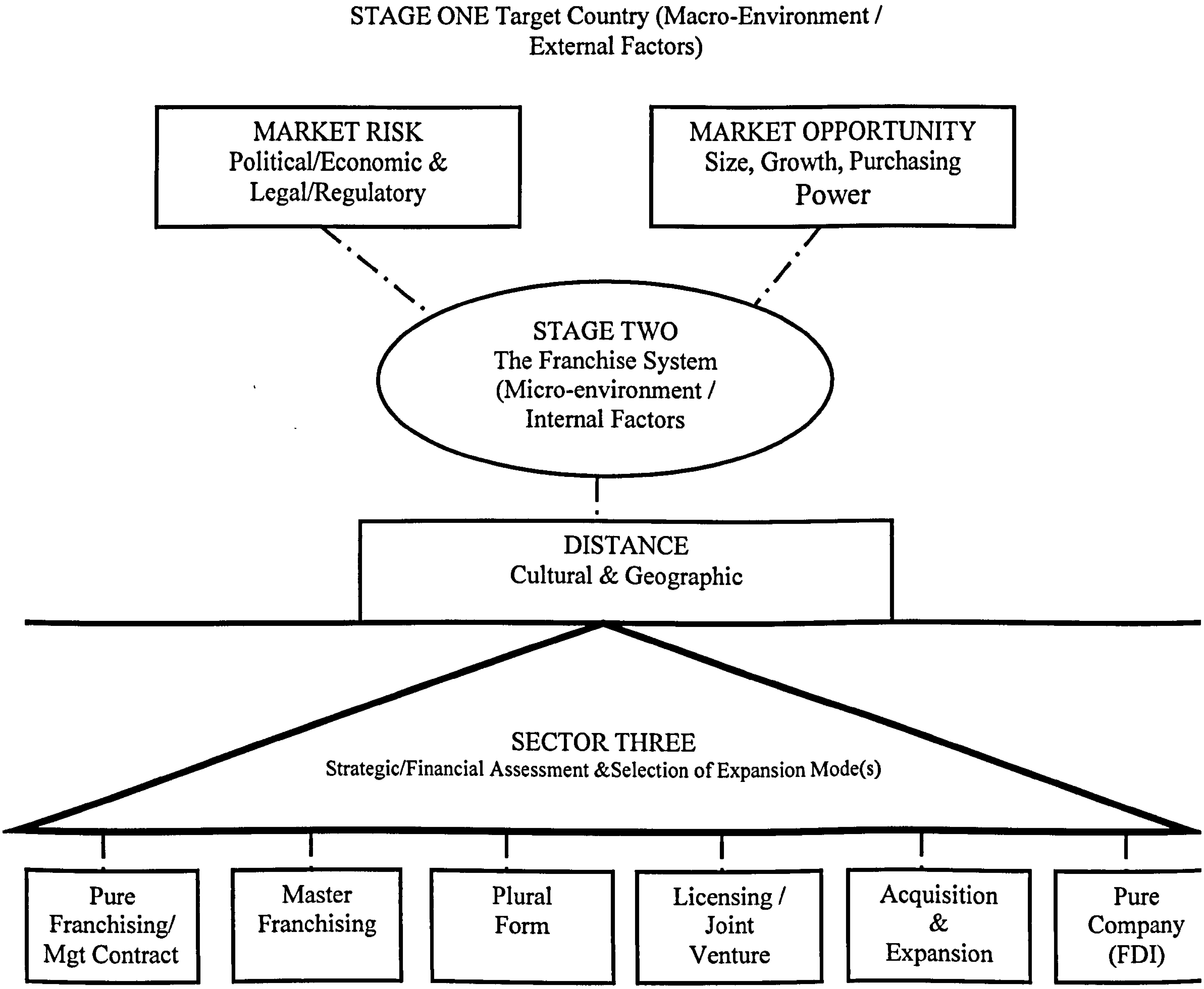
3.4.1 Joint Venture

This investment model involves partnership between an international corporations (usually) and the citizens of the foreign countries; or between international corporations and businesses operating in a similar area in the host country, (El-Shbani, 2008). Currently in Libya, many international corporations are working with the government as investment partners.

3.4.2 Mergers and Acquisitions

This is another form of equity based invest that involve buying the shares of another corporation (i.e. acquisition). This usually involves huge financial investment. As for a friendly takeover, it normally involves minimal financial investment: the two corporations simply aggress to a merger by way of exchanging shares. Non-equity investment includes management contract and franchising.

Figure 3.3 **A Summary of Research and Investment Procedures in a Given Hotel Sector**



Source: Aliouche. E. H. & Schlentrich, U. A. (2009).

Dunning and Kundu (1995) conducted a study to determine the elements that contribute to the globalisation of hotels by the use of the eclectic paradigm. These researchers collected responses from 34 companies and the results gave significant characteristics of key features that drive foreign direct investment in the hotel industry.

Their research indicated that an understanding of the host nation customers, the basic training skills of the host countries' employees, the stability of the political and economic environments, the level of infrastructure development and the brand image of the parent company and location of host country were all important factors associated with the success of an FDI project.

In terms of hotel location, their research indicated that the size of the economy and its rate of growth were key factors that attracted foreign investment into certain nations. Furthermore, the theorists indicated some the international entry strategy into host countries could be either by way of franchise or through equity based investment. According to Dunning and Kundu (1995), the selection of either of these entry strategies is dependent on the following factors:

3.4.3 Political stability

If a country was deemed relatively unstable, then entry through franchising reduces the investment risk. Losses through franchises which fail or are forcibly privatised are less than those incurred after pouring huge investment into building hotels from scratch. For countries with good political and economical stability, greenfield investment was the most favoured method of investment.

3.4.4 Quality control

This factor plays an important role in determining the entry strategy in that if the foreign investors have a company with strong brand image, they would not be willing to risk their marketing position by being franchised by a company within the host country.

Instead, they are more likely to leverage their brand strength for a much more competitive position in the host country's market. In doing so, they can maintain the similar quality standard of the parent company abroad.

Coordinating abilities- In some countries, the available of telecommunication infrastructure is not well enough established to efficiently cater for supporting global information systems. In such a case, coordinating activities through a centralised management system becomes more challenging. Additionally, if the multinational wishes to make minimal investment, they are likely to could seek entry by franchise instead going through the challenge of setting up a hotel from scratch.

The investment policy of the host country is also crucial: In some countries, it is very difficult for foreigners to own more than 50% of the shares in a company. As a result of this, joint venture or franchising could be the only alternative available for potential foreign direct investment into such countries. However, with the globalisation of world markets, it is much easier to own companies in foreign counties than it was about 20 years ago.

3.4.5 Political and Market Stability

For countries that are less stable, green-field investment is normally discouraged for fear of expropriation of assets. To minimise the risks, foreign investors may prefer to gain access into such nations by way of joint ventures or franchises.

Note: Although the discussion took the individual variables or factors in turn, in practice, there is a high degree of relationship between these variables. For instance, a country situated in Africa may attract a good number of Western tourists, but the political stability may not look very promising. Franchising requires two main elements to be in place in an economy: access to finance and a reliable legal framework. Because franchising requires some time to produce profits, and because ownership issues are less clear than in an ordinary business, opportunities for franchising in many parts of Africa is limited, so a foreign investor might seek joint venture investments. This reduces the risk, or they may borrow funds from the host country's banks in order to mitigate the situation. In short, the appropriate entry strategy is based on a multifaceted range of factors and these need to be analysed on a case by case basis.

To theorists such as Canina, Enz and Harrison, (2005) the agglomeration of hotels in a given region is a magnet for foreign direct investment in some cases, especially for budget hotels. These theorists contend that budget hotels seek to locate closer to other main hotels in order to win over customers through competitive pricing strategies. These findings were also in conformity with the work of Kalnins (2006) who indicated that although the accumulation of luxury hotels attracted foreign direct investment for budget hotels setup in such areas, a large collection of luxury hotels was not an attraction for luxury hotel groups in the global tourist market.

According to Hjalager, (2007) the foreign direct investor's country of origin plays a key part in the way such investment is made. He argues that European corporations favour investment into new markets by way of franchising less than their American counterparts, who more readily invest in the global hotel industry by way of franchising. As indicated by Dunning and McQueen, (1981) in the previous decades, foreign investment in Greenfield tourism projects like hotels, restaurants and guests houses was more common in the developed countries of Europe and America than in developing countries. Instead, investment in developing countries was through joint ventures or franchising where appropriate.

Anikeef, (2004) acknowledges that although European companies, unlike their American counterparts, prefer to have an equity stake in hotels, in cases where franchising was not possible, American companies invest in more green-field projects to ensure their global entry into foreign tourism markets.

According to Dunning and McQueen, (1981) Japanese corporations do not favour greenfield investment but instead channel their foreign direct investment via joint ventures or franchises into the host country.

According to Yu and Huimin, (2005), America corporate brands gain easy market penetration in foreign markets and have huge competitive advantages in the emerging markets than the local corporations of the host countries. They argue that franchising does not deliver superior advantages as compared to maintaining the parent company's brand. However, McDonald and Dunbar, (1995) contend that the main reason that drives American foreign direct investment into the global tourism market is due to the fact that their home market is saturated with hotels and restaurants. Buckley and Casson, (1998) are proponents of the internalisation paradigm, which attributes foreign direct investment mainly to attempts by parent companies to avoid costs. In this way, they transfer existing skills, machinery and technology to global tourism industries that have the potential to further benefit the companies in terms of cost reductions, increased production and access to new markets.

3.5 Chain Model of Globalization/ Uppsala Model

This model is the result of research from Scandinavia by Johanson and Wiedersheim-Paul, (1975). According to this model, companies do undertake investment in foreign countries in an orderly manner. The first stage of the chain is through export through foreign agents, when a lot of tangible goods are involved. These agents act as sales representative for the parent company, until sometime later a good market base is established. With the gaining of a substantial market share, then the foreign company decides to begin manufacturing operations in the foreign country by channelling a substantial amount of foreign direct invest. The key component of this model is the intangible quality of the knowledge and commitment of the company investing.

Johanson and Wiedersheim-Paul, (1975) contend that by following these series of stages the parent company acquires a substantial amount of knowledge of the target nation's market characteristics and requirements before getting involved on a larger scale.

In the case of the tourism industry, such corporations would normally export hotels and restaurant equipment through agents for some time prior to injecting a large amount of foreign direct investment into large scale operations in the foreign country (Johanson and Vahne, 1990)

However, Turnbull (1993) has offered a major criticism of this model. According to him, the model lacks provisions for understanding why the globalisation of an industry like tourism takes place. Another area that have been criticised is the fact that environmental forces and the corporate strategies of parent companies could impact on foreign direct investment decisions made by foreign companies. According to McAuley, (1999) this model presumes that globalisation of industry through foreign direct investments occur in stages, but this is not necessary the case with many companies. In fact, two factors are important in this regard: the level of economic development of the country seeking to attract FDI, and the capital available to the company investing. Countries with open, developed economies are less attractive to companies with limited capital resources, whereas countries such as Libya with no record of openness and a weak competitive tourism market are more attractive to investors. Some foreign investors could remit substantial amount of foreign direct investment into a foreign tourism industry based on facts gained through marketing research, especially in a service industry like hotel and tourism, with prior export and agents based business operations. Further theorists like Contractor and Kundu, (1998a) contend that multinational corporations' foreign direct investment may be a combination of equity based and non- equity based investment.

However, this theory is over 30 years old, and was designed in times when global information infrastructures were not as well advanced as today. With the use of telecommunication and global internet communication structures, information about market trends, consumer requirement, political stability, and economic stability of potential targeted markets can be easily accessed and aid in the formulation of investment strategies without going through the stages proposed by the Uppsala model.

3.6 The Eclectic Paradigm and Internalisation

Buckley and Casson, (1993) are the main advocates for the use of this paradigm in understanding the factors driving global foreign direct investment in various industries. A central point of this paradigm is that corporations transfer technology, skills and resources within their home markets until it becomes saturated with many branches of the parent companies (Oviatt & McDougal, 1994). At this stage, any further expansion could results in cannibalism between the various branches by way of competition. In order to overcome such saturation, these corporations resort to foreign direct investment in overseas market.

However, theorist like Contractor and Kundu, (1998a) contend that although internalisation theory is plausible, it fails to encapsulate the roles of other variables like location and corporate structure in terms of setting up a hotel or restaurant overseas. Further, Contractor and Kunda (1998a) argue that corporations have certain specific advantages which can easily be imitated by competitors in the foreign markets, so as means of preventing this location is a key factor. He argues international corporations choose appropriate locations that provide them with competitive advantages over their rivals, even if their service quality fundamental approaches are imitated. However, the work of Contractor and Kundu (1998a) was achieved through the utilisation of the eclectic model, which was design by Dunning (1998). This model indicated that foreign direct investments in global markets are driven by three types of advantages.

The first of these is ownership. Some large corporations many wish to gain larger market share through diversification of their services, and in so doing utilise the process of foreign direct investment to gain contracts and market share abroad.

The second factor given by Dunning (1998) was location. Location is important for numerous strategic reasons, for example situated a hotel closer to an airport, opening a restaurant at an exhibition centre or near a museum where tourist frequently visit etc. However, other aspect relating to location includes economic for natural factors. For example in closer to sources of raw material may be economical and certain characteristics that are indigenous of the foreign market like availability of a long season sunshine period may be deem natural. The final factor given my Dunning (1998) is internalisation implies the integration companies' resources within the corporation by seeking to remit foreign direct investment abroad rather than selling such skills and knowhow to competing businesses.

The eclectic model has received criticism on the basis that it does not include an organisation's corporate strategy. This shortcoming was also acknowledged by Dunning, (2001). For example the corporate strategy of firm many change over several years as a result of environmental dynamism and hostility and as such, firms may prefer to reduce their operational bases by way of diversification.

3.7 The Theory of Network

This theory was initially suggested by proponents of the Scandinavian school of thought, also known as the Uppsala model. According to Coviello and McAuley, (1999) unlike the Uppsala model, network theory takes into consideration the significance of social exchange and the construct of resource dependency.

Proponents of this theory like Johanson and Mattsson, (1988) contend that during the normal business transactions between corporations and their stakeholders, the act of networking takes place. Businesses may build special trust and co-operation through better interactive communication between them.

As a result of this, networks may be formed with customers, governmental bodies, and even suppliers. In some cases, these networks may collaborate to form business entities like joint ventures, franchising, subcontractors, partnerships, and strategic alliances and other marketing endeavours in order to undertake certain projects in a foreign country. This will subsequently result in the outflow of foreign direct investment into projects pertaining to the tourism or other industries (Ireland et al., 2001). This theory further contends that global business operations usually rely on the complimentary efforts of network partners rather than on the strategic strength of a single given company (Coviello and McAuley, 1999).

As a result of this relationship, a corporation that wishes to continue its existence may be forced into areas of the world to seek available resources and where demand for its complimentary services exists. In this way, such corporations may undertake foreign direct investment in the host country in order to set up operations (Ireland et al., 2001).

According to Johanson and Mattsson, (1999) corporations' durations of operations in global markets could be characterised into four groups depending on the period of their stay in these global markets. The first of these groups is referred to as an 'early starter'; just as the name indicates, corporations that have just been established are likely to have relatively low network relationships with key suppliers, governmental organisations, customers etc. and may also have limited experience with global market requirements and opportunities. Such corporations may normally have limited potential to enter foreign markets.

However, as the business gradually gains experience and expertise over time, it attains the next stage of being a 'lonely international'. At this level, the corporation has gained knowledge of foreign socio-cultural, economical, political competition and technological environment. As such the corporation may decide to leverage its experience into foreign markets.

The 'late starters' are those that are dragged into the global market without much research and expertise. This could due to an invitation from a supplier, distributors or even a set of customers. In certain cases this may be to the corporation's disadvantage as their action may prove counterproductive as a result of a poor understanding of the market conditions existing in the host countries. According to theorist like Chetty and Blankenburg-hom, (2000) the construct of network theory could also favour small to medium size enterprises, especially those already resident in or native to the host country, that wish to provide complimentary specialised service for bigger corporations.

According to Coviello and Munro, (1995) most New Zealand corporations that injected foreign direct investments to hosts country was a result of networking.

Networks are important in overcoming the shortcomings of corporations that may lack the experience and expertise to undertake certain projects on their own. However, the absence of exogenous factors from this model has been the main criticism.

Furthermore, like the eclectic model, it does not consider the strategic decisions of firms.

3.8 The Convergence Theory

Segal-Horn (1990) developed this relatively new school of thought. This theory borrows some concept of Chandler's model developed in 1990, and contends that the expansion of global service industries is closely related to the expansion of goods manufacturing industries.

The industrial evolutionary and dynamic phases are the two main stages of this model. During the evolutionary phase, corporations inject more foreign direct investment into developing economies of scale and scope. The establishment of an efficient supply chain management system may also be enhanced. As a result of this, the corporation acquires a larger market share and a higher competitive advantage. In order words, corporations seek to improve their dominance in global business by more foreign direct investment into tourism (industries in order any other industry as a result of larger and variety market, (Dains, 2006). The proceeds gained from such investment are utilised for further reinvestments for the sake of establishing a stronger global presence. However, during the dynamic phase, corporations may wish to take advantage of better technology, in order to gain better efficiency and savings. For example, hotel booking software and information system may be installed. During the setting up of certain technology, foreign direct investment may be remitted to a host country for the project's implementation. This theory argues that when local markets become saturated, corporations eventually diversify into new markets through foreign direct investment in order to expand their operations (Segal-Horn, 1990).

This theory explains why various hotel brands which have gained strong concentration in local markets eventually becoming global players after reaching the limits of their expansion in their home markets. With the use of sophisticated global management software, it is now relatively easy to cut costs and acquire efficiency.

3.9 Syncretism Model

This model is the result of borrowing constructs from multiple disciplines. It was developed by Contractor and Kundu, (1998a). They considered costs of transactions, knowledge of corporate issues, theories of organisational capacity, as well as agency theory. It provides an explanation for the underlying preference for equity or non-equity investment in terms of global foreign direct investment in hotels. According to these theorists, location and the characteristics of the corporations are amongst the key determinants of a firm's choice of entry into international markets. These corporate variables include size, knowledge of global markets, corporate strategy and type of control, management information systems, and the level of overall training investment necessary.

This model contends that risks that are economic and political in nature are key determinants of hotel locations. The model further indicates that corporations with a greater degree of experience of global markets normally seek equity based investment rather than those with limited global experience. Other issues that affect the choice of equity based investment included the costs of hotel reservation systems, brand image, quality control etc. The most important variable in selected the global location of hotels is the market size of the host country's industry. The usefulness of this model is that unlike the Eclectic model, it includes the corporate strategy of the parent company.

3.10 Hotel investment – Global Structures in Hotel Investments

The global hotel investment structure is mainly dominated by Western nations, particularly the United States and European nations. In recent times, these investments have mainly been made to facilitate the process of acquisition or forming partnerships with other hotel networks. According to the WTTC's 2009 report, in 2007 there were a grand total of 17.4 million hotels rooms available globally. However, the report further highlights that a large market number of these were owned by western hotel brands. Over five million of these hotel rooms were owned by the world's top 300 hotels, brands which are predominantly of western nation origin, with the United States accounting for over 3.5 million of these rooms . According to Pine (2002) the world's largest ten hotel chains own about 2.7 million of these hotel rooms.

The **table 3.2** below shows the world 100 largest hotel chains and their geographical location.

Countries	Hotels Numbers	Countries	Hotel Numbers
United states	48	UK	10
Japan	7	Canada	4
South Africa	3	Spain	9
China	2	Cuba	2
Germany	6	France	3
Netherlands	1	Norway	1
Sweden	1	Singapore	1
Poland	1	Mexico	1

Source: the Author: Data collected from various travel Magazines

As well as being large in their home countries, these hotels have gained access to global markets and a substantial market share of the world's tourism industry. For instance, Intercontinental (previously known as Bass hotels), is one of the United Kingdom's largest hotel companies but has branches in over 100 countries (Schlentrich, & Aliouche, 2006). Although Europe is home to the world's largest number of hotels rooms, the average rate of increase in the number of these rooms is much lower than that of North and South America, Africa and Asia. While a lot of foreign investment is still put into European hotels for expansion, in the next decade much of such growth is likely to occur in Asian nations.

Although 70% of the global hotel industry belonged to the United States and Europe just about a decade ago, they currently possess less than 60% of the global hotel market. Africa as a whole has less than 5% of the world's hotel room.(Zhu Wang and Quan, 2009). This figure indicates that substantial investment has not been made into the tourism industry of this continent in relative terms. It could also highlight the fact that the continent has a huge growth potential in the future. However, the majority of the largest brands active in Africa still belong to the parent companies of countries outside the continent. Unlike South America, which has enjoyed slow but steady growth over the last decade, the Middle East and Africa appear static in terms of demand for hotel accommodation. South Africa has seen a large investment in its hotel infrastructure, especially since it was chosen to hold the 2010 World Cup soccer tournament. It has over 1600 hotels and 800 restaurants, and attracts about 28% of all tourists who visit Africa. Namibia, Botswana and Kenya are countries that have also invested heavily in luxury hotel building in recent times. It is estimated that the annual income from United States tourists alone amounts to US$600 million for all African countries. (Zhu, Wang and Quan, 2009).

However, the key issue that drives investment in hotels is the expectation of the number of tourist visits. In Western countries, which have the largest numbers of visits, there has been large investment in the hotel sector. One of the reasons why Africa made less investment into establishing hotels is that hotels were mainly built for international tourists. Africa is mainly a collectivist society; people like sharing and living conditions are more communal. Local tourists normally stay with relatives and loved ones during internal tourist visits. In the West, it is a different case, due to a more individualist cultural pattern (WTTC, 2009).

3.11 Characteristics of Global Hotel Trends

There are numerous factors that have contributed to investment in global hotel structures; these include market share acquisition, brandy identity strategy, and desire for technological upgrade (Papiryan, 2008). These are discussed in turn:

3.11.1 Market Share Acquisition

As hotels acquire greater market share in order to gain competitive advantage over rivals in markets with reasonably high demand, they expand via various means like mergers and acquisitions, franchising and construction of more branches. Investment into a given expansion strategy differs from region to region based on the suitability of appropriate infrastructure. In North America for instance, most of the expansion occurs through franchising. According to Brown and Dev, (1997) over 65% of all American hotels are franchised. In other parts of world, franchising is non-existent. According to Paliwoda, (1997) some of the reasons for limited investment in franchising in other parts of the world are due to poor level of infrastructure, development and government policies regarding hotels are the main reason for this. In other cases huge investment is spent on mergers and acquisition. The common reason given for this type of expansion is that it produces synergy for the merged, contributes to economies of scale and economy of scope, increases market share and promotes a larger and better brand image. In 1997 alone, mergers and acquisition generated an investment of $4.1 dollars in the hotel industry. This was more than twice the same amount investment in this expansion mechanism in 1996. Examples of some hotel mergers include the one between HFS Inc. and PHH Corp. Both of these were United States hotel companies and the acquisition cost US$1.8 billion of investment. However, analysts put the current assets of the new company HFS at a value of US$9.5 billion. The investment in global mergers and acquisition is influenced by the nature of the takeover; if the takeover is hostile, it normally involves buying at least 51% of the target hotel corporation's shares. This could result in a huge investment burden on the predator.

However, there is evidence that some small to medium size enterprises have merged in a friendly manner in order to promote efficiency and standardisation, (Koscak, 1998).

According to Dunning and McQueen, (1982) a key strategic advantage that large international corporations have over the local ones is a brand. These corporations used their experience curves to provide high quality service for international tourists through anticipation of their customer's needs. As a result, most of these brands operate in the home country of the majority of international tourists; they are therefore more likely to be attractive to these customers on the bases of brand familiarity and loyalty. However, in terms of branding, three key concepts are involved, namely brand identity, brand image, and brand equity. The brand identity includes the trademarks, logo, signage etc. that belongs to the corporation. The brand image is the reputation of the brand. For instance, most international brands have the reputation of offering high service quality and in this regards, have a strong brand identity. Brand equity is the worth of the brand in monetary terms. In terms of international investment structures, most of these large corporations have injected large sums of money into spreading their brand presence in the global hotel industry (Spaeth, 1993). There has been a large growth of the world's ten largest hotel chains as indicated in the table. What is also striking is that in the past decade, hotel number of chains has fluctuated substantially over this time than in the past. For instance, in 1975, Holiday Inn was the world's largest hotel chain, but this had changed by 2000 when it occupied 7th place. The same is true for Sheraton, which was the world's second largest in 1975 but fell to 9th place by 2000. Similarly, Sol Melia, which was at one time the world's 10th largest chain of hotels, is currently the 12th biggest hotel company. These changes are due to the amount and type of investment put into the expansion of these hotels (Papiryan, 2008).

However, 2008 and 2009 witnessed a steady ranking in position of the top ten largest hotel brands. As the table indicates, although the ranking remains the same, there have been substantial differences in the number of branches opened by each of these global brands. For example between 2008 and 2009, International Hotel Group (IHG) acquired 237 hotels, which represented a global growth of 5.9 %. Similarly, Hilton hotels, which occupies 4th place, had an increase by 292 more hotels which translated as 9.3%. Currently, the world's largest hotel chain is IHG, the United Kingdom based corporation. It owns seven hotel brands and has distributed loyalty club card to over 48 million different customers worldwide in over 100 countries. The table below gives an illustration of the seven hotel brands that part of IHG business portfolio. IHG has dominated the global hotel industry since 2004; in the second half of 2008 the corporation had gained over 25,000 more rooms. The key contribution of this hotel growth has been the expansion of its sub-brand Holiday Inn Express, which caters for a large market segment for economic lodging. In 2010 US$1billion was spent on the re-launch of the Holiday Inn brand globally, which included US$100 million spent on global advertising to promote the company as a budget hotel offering. This investment also contributed to the opening of two new hotels in Brazil, one in Honduras and another one in Argentina. In 2010 for the first time, it opened another branch in El Salvador. Most of the other investments were spent on improving the aesthetic of the hotels in order to position the hotel as a much more modern chain. The increase in market share was also aided by further expansion of Crowne Plaza and Staybridge Suites. These expansions have led to a 5.9 % global increase in the number of hotel rooms owned by this brand.

Table 3.3 An Illustration of the 6 sub-brands of IHG Hotel with the number of hotels and rooms

Sub-brand	Hotel Branches	Number of rooms
Intercontinental Hotel and resorts	229	76294
Crowne Plaza	495	139547
Hotel Indigo	86	10690
Holiday Inn	1657	299576
Holiday Inn Express	2632	245763
Staybridge Suites	305	33245
Candlewood Suites	423	40134
Total	5876	857042

Sources: the Author: compiled from numerous sources

Note: The above are minimum estimates according to the company; about two new hotels are built or acquired every day on average.

Wyndham International is the world's second largest hotel chain, which grew by 7.7% percent globally through acquisitions of Microtel Inn and Hawthron Suites from their parent company Global Hyatt at a cost of $131 dollars. As a result of this, 400 extra hotels were added to its portfolio. Although between 2008 and 2009 Marriott international, the world's third largest hotel registered a 4.7% increase in their number of hotels and rooms, the company has also ploughed huge investment into improving the quality of its service to customers. However, this corporation is currently investing in over 800 new hotels globally with a total of 125,000 more rooms.

In 2008, Hilton Hotel gained over 300 new properties making it the world's fourth largest hotel chain. This was mainly attainable to huge investment in its sub-brand La Quinto, which has almost doubled in size since 2006.

2010 statistics on hotel growth indicates that eight of the largest hotel chains of the world are United States' Corporations, with one each based in France and the United Kingdom.

Although there have been more hotels and rooms made available within the past decade, the big corporations have contributed significantly to this, which has resulted in the consolidation of their market share. From 1990 to 1994 the international hotel structure produced a total return of $22.5 billion. From the period of 1995 to 1998, this return grew to $105.6 billion which was almost a five times increment.

In 2008, American Hotels alone made a combined pre-tax profit of $25.8 billion. This was a drop from $28 billion in 2007.

3.11.2Brand Identity

Another driving force of global investment into the hotel sector of the tourism industry is the quest to build a global brand identity. By growing into a global brand, hotels save costs in terms of economies of scale and scope, through which they can leverage their position to limit the power of their suppliers. As a result, suppliers are unwilling to lose such large business clients, who represent a significant part of their total income. There is also cost savings in terms of advertising as a given advertisement budget is able to have an impact on all the global braches, especially if the tools of the internet are harnessed.

The penetration of hotel brands based in the United States accounts for about 70% of the world's sales of hotel rooms. 25% denotes the brand penetration Middle Eastern and Asian hotel penetrations on the global markets whilst 20 percent South America and Europe has a brand penetration of just 15%. United States hotels have found it difficult to acquire greater market share in the European market in recent times. This could be because of the limited number of franchising opportunities available in Europe compared to the United States. In most cases, franchising requires homogeneity of set up, which in turn requires potential hotel buildings to have similar characteristics. However, in Europe, due to age and size of building stock available and more restrictive planning regulations, United States investors have been deterred. This has been even more difficult for US companies because in recent times, many European hotels based in the United States have also been trying to consolidate their position in the European tourism industry by investing in more expansion projects.

Most of the global hotel brands have also invested in sub-brands. This investment has been useful as it allows the parent company to establish the appropriate sub-brands within a given market segment in order to cater for the specific needs of the target market. For example, IHG's Holiday Inn is positioned as a low budget hotel to target customers seeking economic lodging, while the Intercontinental hotel and Resort sub-brand is targeted at those seeking more luxurious accommodation.

3.12 Technological Impact on Hotel Investment

As hotels brands consolidate their presence, a large amount of investment has been made in acquiring new technology to improve efficiency. According to Euromonitor (2008) many European hotels have invested heavily in online reservation systems to automate operations. According to Intercontinental hotel and resorts, a saving of £4 is made for very booking online compared to those done through call centres. However, most of these investments have been made in the United States and European countries. The research is mainly attached to package holiday offerings which are done by customers prior to their trip abroad.

In 1999, Wyndham invested heavily in designing an online database for its customers. This website covered several questions that customers would have normally been expected to ask during telephone booking or even through their travel agents. For example, customers are able to select the type of rooms they require, whether they prefer a certain type of pillow etc. These investments give global customers control over the experience they have.

Additionally, a lot of investment has been made by hotels to enhance global relationship with their suppliers through business to business relationship. This has obvious benefits, for example, in terms of the highly perishable foodstuffs hotels buy in bulk and the advantages just-in-time delivery of these commodities can provide.

In recent times, China has been making substantial investment in the establishment of more hotels, both within its burgeoning domestic market and in overseas markets.

3.12.1 Investment in Hotel Expansion Globally

Location is an integral component of the competitive position of any hotel business. Unlike manufacturers which are able to have different packaging and distribution networks, hotel service occurs through direct interactions with customers in most cases. Key determinants of the investment opportunities of hotels are the entry strategies and the amount of control that is sought by potential investors. These could be equity or non-equity investment. Non equity investment strategy is normally accomplished by the utilisation of franchising and contract of managements.

3.13 Foreign Direct Invest in the Global Hotel Industry

As global tourism continues to be the world's largest service industry, there has always been the need to build more hotels to cope with the ever increasing demand (Eadington & Redman, 1991). According to the World Tourism and Travel Council, (2010) the global tourism industry was predicted to generate a global GDP of US$5,751 billion by the end of 2010 and US$11,151 billion by the end of 2020. Total investment in this industry for 2010 is estimated at US$1,241 billion.

The word hotel is sometimes used with ambiguity. Researchers interested in this area may not be always be sure of the actual distinctive attributes of hotels. For instance, the term boarding house, private hotel, guest house, commercial hotel, guest lodge, and hotel are sometimes used interchangeably. In some countries they have different meanings (Slattery & Johnson, 1993). However, the definition given by the World Tourism Organisation (1994) states that a hotel is a collective establishment for tourists. It further highlight that such an establishment should include room service, and the provision of nourishment.

In terms of foreign direct investment, within just the first three month (first quarter) of 2010, there was a 53% global increase in foreign direct investment into the hotel sector of an aggregated amount of US$2.8 billion (CHIC, 2010). Of this amount, US$1.1 billion was spent in Africa, Europe and the Middle East. This was as a result of increased hotel sales: there was a 70% increase in hotel sales in the USA following the slump in 2008 of the global financial crises. This generated an amount of US$992 million. With regards to the Asian Pacific region, there were total hotel sales of US$736 million, representing a 43% increase (CHIC, 2010).

In the United Kingdom, hotels sales amounted to US$324 in the first quarter of 2010. This was a huge increase over the first quarter of 2009, which accounted for a total sales figure of only US$92 million (Yagen, 2010).

3.14Theories Underpinning Foreign Direct Investment in the Global Hotel Sector

The focus of this section of the literature review is to consider theories that provide better conceptualisation of key factors that impact global foreign investment in the hotel industry. At the end of these theoretical discussions, FDI financial data are provided for key global nationals as a case study. Below are the key theoretical conceptualisations of global hotel FDI:

3.14.1 Strategic Management Perspectives

This theoretical perspective contends that corporations need to analyse the business environment competently in order to determine opportunities and threats proactively. Those corporations which proactively adjust to the forces of environmental dynamism, hostility and opportunity find it much easier to cope with environmental uncertainties (Svensson, 2001). According to Johnson and Scholes, (1988) the aim of strategic management and planning is to is to align the corporation's competitive capabilities with its resources in order to attain the goals of the organisation in the long term.

With the huge statistics for projected further growth opportunity in the global tourism industry, the senior managements of large hotel corporations that have access to resources have been keen to invest in the global hotels sector of the world as long as it promises good return on investment (Tse and West, 1992). This strategic approach can be implemented through a rational approach, where formal planning and specifications are involved, or an environmental determinism approach in which case the details of environmental elements like dynamism or munificence are taken into consideration.

3.15 Global Strategic Management Perspective

The underpinning construct of this perspective is very similar to the concept of the strategy management paradigm discussed above. However, it contends that organisations should align their strategies not only with the forces of their immediate environment but within a global context. In order words, opportunities, threats, strengths and weaknesses should be analysed in a global context (Olsen, West and Tse, 1998). The rise and affordability of global information systems like the internet and the modernisation of telecommunications infrastructures have made globalisation a true reality, (Olsen et al., 1992): For example, a boom or bust in the tourism industry of one region of the globe normally produces a knock on effect in numerous other regions of the world. These can be either positive or negative. Furthermore, Olsen et al. (1992) contend that strategic management should be done by means of a scan of the environment, the design of an appropriate strategy, and finally the implementation of the designed strategy. The construct business environment originated mainly from the work of Von-Bertalanffy, (1950).

With regards to strategic management, the environment is normally divided into two dimensions. These are the Micro-environment and Macro-environment.

-Macro-Environment- This refers to the external environment over which corporations have limited influence. They include the political system, governmental bodies, ecological factors, and economic, social and technological forces that have an impact on business operations (Zhao and Merna, 1992). This environment is also referred to as the general environment.

3.15.1 Micro-Environment.

According to Tse and Olsens (1990) this is also referred to as the task environment and it is comprised of competitors, distributors, suppliers etc. The analysis of the business environment is related to the West and Olsen's (1989) construct of an open system. According to researchers such as Tse (1988); Ansoff (1989); Duncan (1972) and Costa, (1995), by scanning the open business, corporations like large hoteliers are able to identify potential business threats, opportunities, weaknesses and strengths that impact on their corporate goals adversely or profitably. Theorists like Child (1972: 2002) Child and Tsai (2005); Child, Chung and Davies (2003); Calori, Johnson and Sarnin (1994); Dean and Sharfman (1993); Grant (1988); Goodstein, Gautam and Boekar (1994); Gordon, Slade and Schmitt (1986); and Butler (2002) have given details of the importance of business strategy on organisational performance in terms of strategic process and strategic content. They deliberate on the various ways corporations identify opportunities and threats as well as their reaction to these in relation to their business structure, goal objectives, and the culture of their organisations.

The strategy choice of organisations is an important construct that managers and business analysts regularly review. According to Miles et al. (1978) this theory denotes that the organisational behaviour of corporations is influenced by the environment and senior management's choice of action. It could therefore be argued that strategy choice and environmental forces play a determinate role in the outcome of business processes. This construct is linked to the work of Kast and Rosenzweig, (1973) who argue that corporations adopt the principle of the contingency theory. This implies that there is no single best way to approach any situation, and that businesses adapt or restructure their operations according to the ways that suit them best.

With regards to foreign direct investment in the global hotel sector, this theory helps to explain why such a large amount of FDI has been put into the hotel sector of the tourism industry of certain countries around the globe by large corporations. By the use of rational decision making process, organisations can easily have access to large quantities of data on global tourism growth and the demand for hotel rooms in the future. Data from sources like business journals, research corporations like Euro monitors and Mantel, trade fairs, travel news, websites, countries' embassies, and even business news could be analysed to help managers in making their strategic choices. With the growth of information technology, knowing about trends in global tourism has become ever easier. Information regarding the political, economic, technological, ecological, and socio-cultural background of any state is also much easier to acquire now than a few years ago. As a result of this businesses are scanning the Macro and Micro environment and then matching this to their strength in terms service offerings and subsequent foreign direct investment. This is evident in the case of China, India, South Africa, the United States, and Europe: a lot of the foreign direct investments flow into these countries is based on factors of their macro and micro environment as well as the investment potential of large hotel corporations like IHG, and Accor.

Furthermore Porter, (1980) argued that effective strategy design and execution is imperative for organisations to bolster their competitiveness. He indicated that these could be achieved through cost based leadership, focus, and differentiation. Cost based leadership implies that corporations should gain and retain a substantial market share by offering competent services are a very affordable. Focus refers to concentrating on the needs of a narrow target market and offering services or products that are competitively priced or differentiated. And service differentiation denotes the offering of service with features that are unique to the target market. By so doing, a substantial market share can be attained. The construct is also similar to the argument postulated by Hofer, (1973: 1975). Foreign direct investment (FDI) has been encouraged by corporations seeking competitiveness by offering quality hotel service at a very reasonable service in order to gain a sizeable market share. The competitiveness could be gained through economies of scale by opening more hotels globally, and through operational efficiency, savings could be made which are passed onto customers. Differentiation can be offered in the way organisations which own some large hotel chains have created sub-brands to cater for the needs of specific market segments. For example, IHG hotels have used the low budget brand Holiday Inn to cater for people seeking economical accommodation, while the intercontinental hotel resort brand targets those seeking luxury. As hotels identify the needs of a given market globally, FDI direct investments have been used to expand such strategies.

3.16 International Business and Economic Theory Paradigms

As well as adopting the concept of the business paradigm of strategic alignment with an understanding of the global environment and the choices available to managers and their corporation resources (Olsen and Roper, 1998), this paradigm focuses mainly on mode of entry. These entry modes could be in the form of direct or indirect foreign investment made by global hotel brands. Although there are numerous theories related to international business, they are country specific, because a certain entry mode in a given country many not suit entry into another country. However, these entry mode theories shed light on the underlying reason for corporations to inject foreign direct investment in the global hotel industry in different ways. These could be by way of franchising, green-field investment, joint ventures, partnerships, strategic alliances, or management contracts, among others.

Two prominent constructs of this paradigm which are derived from the study of economics are termed factor proportion and comparative advantage theories. These two theories indicate that global trade and foreign direct investment are triggered by imbalances in the production efficiencies of individual countries. Even if nations produce similar services, it is possible to achieve efficiency through better human capital in terms of their experience, training and operational equipment in similar industries. Countries should therefore focus on areas of specialised strength particular to them and even export these services/products to the global market (Heckscher, 1919: Ronald, 1973; Jurg, 1993). However, these theories do not do not take into consideration environmental dynamism, hostility and munificence or economies of scale. With regards to the hotel industry, proponents of this theory argue that multinational corporations are able to export their standards of service quality to the global tourism industry by opening branches within markets that require such services. In so doing, foreign direct investment is injected into foreign markets and the human capital of the foreign market can be trained and equipped to the standards of these multinational corporations.

Another useful theory that could be used to explain the increase in foreign direct investment in global markets is the work of Hymer (1960) which was later developed by Dunning (1980) and Kundu (1994). They contend that imperfections in global markets are the key stimulants of foreign investment. These business disturbances could be the result of differences in government policies, e.g. protectionism or trade promotion and even the business strategies of other corporations that trigger foreign direct investment opportunities. Governments of countries like China, India, South Africa, Libya, the United Kingdom etc. have realised the significance of their policies in attracting foreign direct investment. As a result of this, some MNCs have targeted the hotel industries of such countries.

Furthermore, Dunning, (1977: 1980: 1981) provides a competent argument regarding the globalisation of the hotel sectors. He contends that FDI is injected into the economies of host countries as a result of internalisation, advantageous location, economic policies, and means of ownership. Based on deduction from this theory, one could argue that multinational corporations have targeted countries that provide good location advantages, and easy ownership policies (Dunning & Narula, 1996; Mathews, 2006; Buckley and Hashai, 2008). This was particularly evident in the past, when some international hotel corporations requested tough pre-conditions from some governments in terms of ownership policies, the location of their hotels etc. If certain governments did not meet such requirements, investment was normally shifted elsewhere (Caves, 1996; Kumar, 2006; Hosseini, 2005).

3.17. Mergers and Acquisition

1-Efficiency Theory- This construct contends that mergers and acquisitions generate synergy in the long term as some hotel corporations remit large sums of foreign direct investment into buying a least 51% of the target share of their acquisition targets.

Trautwein (1990) contends that corporations are able to gain financial synergy; this is attained through economies of scale through a reduction in overheads and operational costs. Furthermore, the merged hotels can gain cost savings through quantity discounts via bulk purchase. Another efficiency normally achieved is operational synergy. Large hotels attain large cost savings by the efficient use of resources; for example, the costs of buying two different hotel reservation software packages could be reduced by installing one in both of the merged hotel's information and communication systems. The third efficiency that is attained is management efficiency. This normally occurs as a result of knowledge sharing between the managements of the previous company, if they are retained.

2-Oligopolistic Theory- This theory argues that most hotels prefer to buy out their rivals in order to acquire a larger market share by reducing the amount of competing with other firms. The large size of the new company also serves as a major deterrent against new entrants to a market because the savings that are made through of the merger of hotels can be passed onto customers in the form of reduced prices. Many smaller potential new entrants see this as a barrier to entry.

3-Valuation Theory- according to this theory, hotels utilise foreign direct investment to purchase another hotel or hotel chain that has been undervalued by its management. In such a situation, the management of the predator corporation is believed to have insight about the target company's productivity which has remained unnoticed by others. The goal then becomes to acquire such corporations as soon a s possible and benefit from the merged entity.

4-Empire Creation Theory Proponents of this theory contend that management utilises FDI to acquire hotels for the feeling of self attainment rather than for the benefit of their shareholders. Normally this theory is useful for provide tangible arguments for why 50% of all mergers fail. Some managers even resort to buying a company through a hostile takeover if the target corporation refuses to merge. In some situations, the target corporation is able to increase the value of their company unrealistically. Any attempt to buy a hotel in this way results in ever greater amounts of FDI.

5-Process Theory- This theory indicates that the process of strategic decision making is influenced by numerous factors such as organisation politics, intuition, and environmental dynamism. As such, strategic decisions are not always based on rationality. As a result of this, some management groups may become excited about investing in foreign market without much rational argument for such decisions.

Research into the flow of FDI into the global hotel sector is still limited. The reason for this is it that tourism industries have numerous sub-sectors and the methodologies that are used for analysing the flow of FDI into host countries do not suit the tourism industry, (Endo, 2006). About 90% of all foreign direct investment for the global hotel sector goes to the developed countries (in areas such as Japan, North America and Europe) with only 10% reaching the developing economies. In addition, about 60% of global tourist visits are made to Europe and North America, whilst Africa and South America account for just 7% between them (WTO, 2009).

According to Graham, (1992) Western countries attract the most foreign direct investment as a result of their infrastructure development. According to this theorist, in countries with poor infrastructure development foreign investors tend to limit their level of investment in order to look for a more flexible means of expanding. However, other theorists argue that foreign direct investment is much more common in developed countries as a result of the competitiveness of these markets. Such competition dictates standards of service quality and as such corporations have limited options other than to inject huge amounts of FDI into these countries (Young et al., 1989; Parasuraman, Berry & Zeithaml, 1988). However, Davinson (1980) argues that corporations tend to copy their rivals in term of market penetration and in order to gain a sizeable market share. However, because corporations based in the United States and Europe control the largest share of the global hotel market, it serves as an attraction to forge a dominant position: as a result of this more foreign direct investment is transferred to this industry.

However, theorists like Dunning and McQueen (1982a; 1982b) contend that investors normally base an investment on the expected return. Hence since most developing countries still have a relatively small number of tourist visits, gains are usually less than their Western counterparts and as a result of this, a limited amount of FDI is made in such countries. In order to further provide a clear discussion of the role of FDI in the global hotel context, in is necessary to focus on various sections of the globe, as indicated below.

3.18 Case Studies

3.18.1 North America and its Global Hotel Chains

In order to understand the large amount of foreign direct investment that is made into the hotel sector of the United States, it is important to have a picture of the number of tourists that visit this country annually. The reason for this is that potential FDI is only undertaken if there is a substantial market share that indicates a substantial return on investment for potential investors or entrepreneurs (Dunning and McQueen, 1982a; 1982b)

In 2008 and 2009, the United States received the second largest number of tourist visits of any country in the world, with figures for these years of 58 million and 54.9 million respectively. These figure where collected from data derived from the entry ports of the country. Contrastingly, Egypt, African's largest tourist destination received only 15.2 million tourists in 2008 and Cuba only 2.1 million in the same year. These differences in tourist numbers explain why a much larger amount of FDI is made into the United States than in Egypt.

However, in 2001 international tourist arrivals into the United States dropped by about 17% due to the September 11th terrorism attacks. Notwithstanding, by 2005, it had recovered with an increase of 17.3% over the previous year, and in 2007, about 56 million tourists arrived in the United States and spent about US$122.7 billion during their visits.

According to Justis and Judd (2003), United States global hotel chains are increasing at an annual rate of about 18 %. The main factors that accelerate the growth of United States hotels overseas are the search for increased market opportunities, although many overseas markets may prove riskier than their home industry (Hermann and Datta, 2002).

Another reason why America attracts large foreign direct investment is that unlike some developing countries, it offers a fair environment for investors who can invest without fear of expropriation and these polices have been successfully tested over the years. Some potential investors feel less secure in entering markets and making substantial investments in developing countries that have poor economic policies and political instability. These factors undoubtedly account for some of the differences in foreign direct investment in the United States and developing countries. About 85% of all foreign direct investment into the Chinese hotel sector comes from the United States.

3.18.2 China

China has become the world's second largest economy, with a gross domestic product of US$8.3 trillion and a population of 1.3 billion people. By joining the World Trade Organisation in 2001, China opened its doors to a large amount of foreign direct investment. Joining this organisation also meant that China could more easily export it products globally. In order to attract foreign direct investment into its tourism sector, China embarked on huge infrastructure development in its telecommunication systems, and in the areas of education, 'green energy' and transportation networks - just to mention a few. The Beijing Olympics further contributed to an extensive infrastructure development in China. All these developments led to a huge opportunity for its tourism industry. This nation currently has the third largest tourism sector in the world, and forecasts indicate that by 2019, it will be world's second largest tourism industry after the United States. According to the World Trade and Tourism Council, (2009), China's tourism revenue will grow from US$527 billion to US$1,880 billion annually by 2020.

As a result of these viable economic conditions, global corporations have made huge foreign direct investment into the Chinese hotel sector. Some of these global hotel brands include IHG, Hilton, Hyatt, Accor and Best Western International among many others. In order to withstand the competitive threats posed by Western hotels, many smaller Chinese hotel companies have decided to merge- examples include Jinjiang International Hotel Management Corporation and R.J. Management Group.

FDI in China has risen dramatically, for example in 1990, it attracted an estimated US$19 billion, however this had risen to US$73 billion by 2006. In 2007, just before the global financial crisis, US$14 billion FDI was injected into the China economy for the construction of hotels. As the country's future tourism forecast looks good this amount is likely to significantly increase in the near future.

3.19 Foreign Direct Investment in Libya's Hotel Industry

Dunning's (1977: 1980: 1981) eclectic paradigm plays an important role in discussing and analysing the inflow of foreign direct investment within the hotel sector of the Libyan nation's tourism industry. Dunning's theory indicates that location, possession of corporations, government policies like liberalisation and privatisation, economic development, and other business opportunities within the host country are the key to attracting foreign direct investment. This well appraised theory will be utilised for this discussion (Buckley and Hashai, 2008; Mathews, 2006).

3.19.1 Location

A country's location has strategic advantages that provide the magnet for investment into its hotel sector. Libya, based in North Africa is very close to European and Middle Eastern population centres, and this allows international hotel corporations to benefit from internalisation. The country is close to the Mediterranean Sea with sunny beaches and seashore that extends for almost 2000km, representing a good attraction for divers and swimmers. The country is Africa's fourth largest and has an approximate land area of 1,760,000 kilometre squares of which 90% are desert, again affording a good potential for desert racing sports and sightseeing tours. It shares borders with Algeria and Tunisia in the West, with Egypt in the East, in the South with Sudan, Niger and Chad and finally to the North with the Mediterranean Sea. Average temperatures range between 15 to 35 degree Celsius. Furthermore, this strategic location offers tourists the opportunity to easily visit neighbouring Egypt, which attracts the largest amount of inbound tourists in Africa. Other countries like Niger, Chad, Algeria, Tunisia and Sudan could be travelled to quite easily, thereby affording a broader experience for tourists. The nation is one of Africa's least densely populated nations with a population of 6.2 million people (World Bank, 2008).

The Corinthia hotel chain is currently taking advantage of benign investment conditions in Libya by injecting FDI amounting to US$300 million project in a 40 storey building complex in Tripoli, Libya's capital city. The building is equipped with international standard facilities and has stores and retail outlets, offices and large car parking areas for clients. The building is called the Medina Tower. Furthermore, an amount of £100 million FDI has also been injected in Libya's second biggest city, Benghasi, for the construction of another hotel branch. This construction work is to take place during 2011-2012. A total area of 4,050 square feet of the proposed building is to accommodate offices. Additionally, it will accommodate homes of 30 residences, all in one building. The demand for office space and modern accommodation which are well located is high in Tripoli, and Corinthia has designed a business strategy to take care of these needs.

Corinthian's other hotel location at Janzour, situated in Palm City has been completed and occupancy will commence in June (2010). It has also invested heavily in further extension of this project by 4.6 hectares. This building will accommodate shops, 221 apartment blocks, and a total of 156 hotel rooms. It has also catered for the needs of tourists by providing further facilities such as a lagoon like swimming pool, cinema and bowling alley entertainment complex. As well as befitting tourists, residents will also find the facilities useful, thus providing further financial gains for Corinthia.

3.19.2 Ownership

Following to the abolition of the United Nations sanctions, the government launched a massive privatisation initiative beginning in 2003. State owned commercial banks, government factories like steel processing plants, automobile assemble lines etc. have undergone privatisation in order to improve efficiency through private ownership and performance enhancement. The government plans to privatise over 300 state owned corporations, many of which will have already been liberalised by the end of 2012. Citizens and foreigners can easily buy shares in most of these corporations. Although, there is no restriction on the number of shares citizens can purpose, foreigners are allowed to purchase up to an initial amount of 50% of the shares in most public corporations. If these foreign share owners excel in terms of service quality and financial performance in the long term, the government plans to give them the mandate to purchase more than 51% of shares, thus given such foreign investors the opportunity to take control these corporations. Economists have applauded the government's liberalisation approach as a milestone in the country's financial history. Ownership is important in terms of implementing policies and gaining competitive advantage. Because Corinthia hotels have invested and own shares in these new hotel developments, its brand equity and brand identity are extended. It is currently enjoying some attributes of monopoly power in the sense that is considered the only hotel that offers international standard service which matches that available in Western countries or developed nations. However, they charge the highest prices because of this brand reputation and as a result of limited competition. Although the Corinthia may the enjoying the benefits of economies of scale through standardisation, these savings are not reflected in their price to customers, which is normally a monopolistic characteristic. Furthermore, by owning shares in Libya and other parts of the global tourism market, Corinthia's potential for securing loans for further investment overseas is made easier due to its large global assets and business portfolios. For example in 2008, Corinthia hotels invested £135 million in the acquisition of the Metropole hotel in Northumberland Avenue, London. This investment was made by a consortium comprising the Libyan Foreign Bank, the bank of Valletta and Arab Banking Corporations.

Figure 3.4 Tripoli FDI-Corinthia hotels

This loan was given on the basis of the high brand equity, global assets, marketing and global management of the corporations.

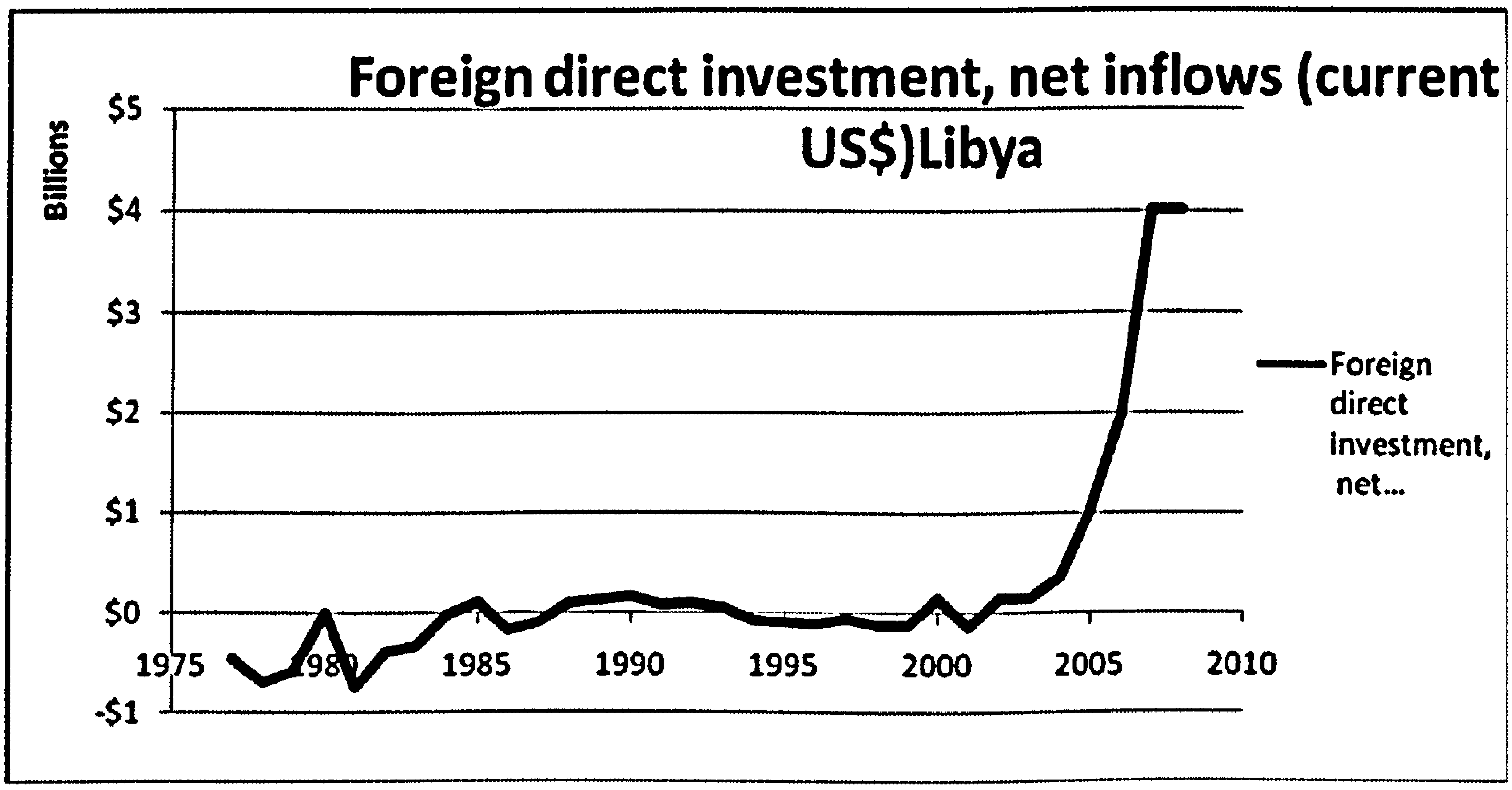
3.20 Government Policies

With the liberalisation and privatisation of the Libyan economic system, a huge amount of foreign direct investment has been injected into the country's industries, especially the banking and oil industries. Gross domestic product rose by 7.1% following the privatisation process in 2008. Other important initiatives that have expedited an inflow of foreign direct investment into the country are the tax exemption mechanisms and the 'One Stop Shop' policies set up by the Libyan Investment Board. The tax exemption is given particularly to corporations that do business in the free zone areas. These areas include the Misurata free trade zone and

Zwara-Abu-Kemmash free trade zones and were allocated in 2006 due to their strategic locations. The allocation of these trade zones are governed by Free Trade Act of 1999. The one stop shop service is provided by the Libya Investment Board (LIB) which serves as a single focal point for all investors' requirements in terms of advice, documentation and immigration matters. This has promoted efficiency and competency in terms of reducing bureaucracy from the investment system. Additionally, a special body called the Tourism Development Authority (TDA) has been set up by the government to provide full support for potential and existing investors into the country's tourism domain. These policies have helped to encourage foreign direct investment into the country's major industries.

In the graph below, the net inflow of foreign direct investment into the country is indicated. Although oil was first discovered in Libya in 1959, the country had a foreign investment deficit for most of the period from the 1960s to 2000. Subsequent to the abolition of the UNO sanctions, and with the effort made by the government, foreign direct invest was been flowing into the country. In 2008, the country gained a net inflow of foreign direct investment of US$4.69 billion (IMF, 2010).

Figure 3.5 Libyan FDI, net inflows (current US$).



Source: The Author: adapted from IMF data

3.20.1 Infrastructure

According to Beerli and Martin, (2004a) a country's infrastructure development, political stability, recreational opportunities, environmental comfort, ecological and economical environments play significant roles in the attraction of potential tourists, as these serve as what marketers call pull factors. Theorists like Woodside and Lyonski, (1989); Mas, (2006) Crompton, (1979) and Um and Crompton, (1990) have highlighted the importance to tourist destination of the choices available to tourists in terms of utility available in a given country. If a country offers better service infrastructure and other natural and historical experiences to tourists, they are likely to be attracted to visit that country.

These theories explain why the infrastructure of a place has an impact on attracting foreign direct investments. Investors are aware of the importance that infrastructure has on tourist's satisfaction and experience, and as a result of this, they normally invest hugely in countries that offer good infrastructure and a rich heritage as well as other factors.

However, although Libya still has a great potential to expand its tourism industry, over the past years, the Libyan government had done little in terms of developing its tourist industry. This was further compounded by the United Nations sanctions imposed on the country. As a result of this, the infrastructure needs of this industry were not properly developed over the years. The Corinthia hotel in Tripoli remains the country's only five star hotel. There had also been limited feeder road networks and proper signage to direct tourists, which is a major shortcoming. There is also no proper information centre to assist tourists who normally prefer to tour certain parts of the country on their own.

According to UNCTAD (1998), a restriction on the allocation of visas by certain countries to tourists remains a hindrance to the development of tourism. The case of Libya reflects this concept; obtaining a visa in the past was very difficult for Western tourists, especially as government sanctions were being observed by the international community. In 2006, a US tour operator had to cancel all its trips to Libya as a result of visa constraints imposed by the Libyan government. Similar, visas to 22 European countries of the Shengen zone early in 2006 were put on hold as a result of retaliatory action against Switzerland.

Fortunately, the Libyan government has been addressing these issues seriously in recent times. The nation has taken steps to benefit from its historical, cultural and natural heritages through attracting FDI into its hotel industry. As a result, more infrastructure development projects have been launched to give investors confidence. Projects for more hotels are being executed via joint ventures with global brands like Corinthia hotels, and with the success of the liberalisation and privatisation initiatives, more foreign direct investment has been pouring into the country than ever before in all sectors of the economy, including the tourism industry. In 2005, the government launched a US$3 billion investment package for the execution of 15 key projects for the development of the tourism industry. In 2009, a total amount of US$14 billion was allocated for the government's National Development Plan endeavour which includes the construction of more road networks, telecommunication systems, and electricity, water and security developments.

However, although the government's efforts to attract foreign direct investment into the country have been gaining grounds particularly in oil and gas sector of the economy, most of the foreign direct investment into the hotel sector has been achieved through partnership with Corinthia hotels and other international corporations. Some of these FDI projects are discussed below:

3.20.2 Green Mountain Ecotourism Project

In 2007, a contract worth US$3 billion was awarded by the government for the design, construction and promotion of an eco-tourism site at Cyrene, a 2000 year old archaeological site. The project was termed The Green Mountain Sustainable Development Project. This project was a plan to cover a total area of 2000 square miles and extend between Benghasi and Tobruk. Three grand luxury hotels powered by renewable energy were to be constructed initially. The government indicated that the project was as a result a joint venture with foreign investors and the government.

3.20.3 Farwa Island Project

In 2009, the Libya government attracted Italian investors, Gruppo Norman for the construction of a US$268 million project in a partnership agreement. The project was for the creation of a holiday resort at Farwa. The main feature of the project was for the building of six modern hotels with a capacity of 1,770 rooms to cater for the needs of visiting tourists. Of these, the hotels would include two 5 Star and four 4 Stars hotels. The project has a life cycle of six years and covers an area of 472 hectares. There would be golf courses of 18 holes and a double yacht platform to accommodate up to 18 boats.

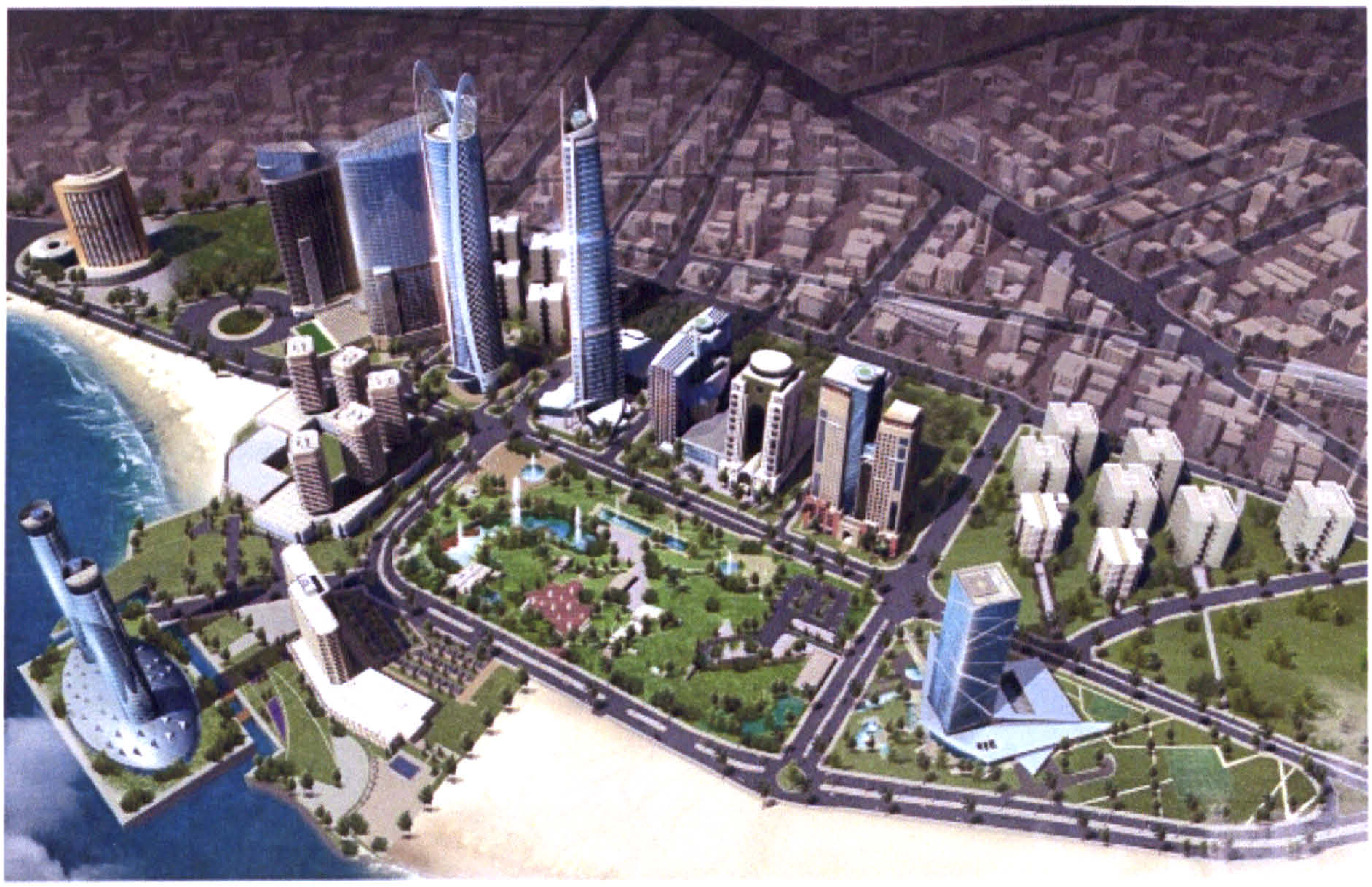
3.20.4 The Tobruk Project

In 2008, and government and the Dutch corporation Ladorado entered into partnership for the construction of ten hotels, restaurants, and stores near the country's border with Egypt. The project should be completed by 2012. In line with Dunning's (1980) eclectic theory, the situation of these hotels near the border with Egypt is important in terms of attracting tourists across the border. Tourists who visit Egypt by land can spend some time at these hotels before proceeding with their journeys.

3.20.5 Sea Towers

The Sea Towers project is a partnership between the Libyan government and an Italian corporation to build a major new tourist and business complex near Tripoli. The project is scheduled to take three years to complete and covers an area of seven hectares of land. The largest tower due to be built accommodates a five star hotel with over five hundred rooms and has 40 floors. The other tower comprises of 25 storeys and is a residential home consisting of 100 apartment. The smallest tower will be utilised for administration and consists of 18 floors. The building has modern conference facilities, sports centres as well a large parking area for tourists.

Figure 3.6 Tripoli FDI- Proposed Sea Towers Project



Source: LDC, 2010

3.21 Global Development Theory

Brohman (1996) contends that developing countries can stimulate economic prosperity by enhancing their tourism industries. By improving their infrastructure through initiatives such as construction of road networks, railways, telecommunications infrastructure, bridges etc in order to enhance their tourism industry, these facilities also provide the basis for national development. The construct postulated by Brohman is related to the work of Viner (1953) and Harberler (1950) who contend that focussed outward developmental initiatives can easily be geared towards comparative advantage.

The underlying construct of this theory has been used to argue that through export of national resources, and other natural features generated by way of comparative advantage, global trade can be enhanced between any given countries. The export of global tourism and its affiliated trades are seen as a means of competitiveness on the part of developing competitive advantages in various nations. According to the WTTC (2007) report, about 40% of all global export is service based, while only 10% is accounted for by tangible goods.

Neoclassical theorists contend that foreign exchange received from tourism has the potential to be used to expedite the industrialisation process of developing economies. As the global demand for tourism increases, foreign corporations with access to huge financial assets contribute to the development processes of other nations by way of foreign direct investment. Such growth will impact both the micro-economy and the macro-economy of nations.

3.22 Theory of Needs and Expectations

Beamish (1987) and Meleka (1985) suggest that it is important for global corporations operating in developing countries to comprehend the cultures, values and needs of the indigenous people. A similar construct was also stated by Kogut and Singh (1988) and Kobrin (1988). Zhao, (1994) contends that nations seeking foreign direct investment base their expectations on some of the likely developmental initiatives like economic growth, national brand image, capacity building of their human capital and infrastructure development etc. As a result of this, Kobrin (1988) urged global corporations to be sensitive of the indigenous people's needs and wants. It is thus crucial for global hotel brands to conduct research into the ethics and investment opportunity of a potential nation prior to committing themselves to investing in it.

In the opinion of Beamish, (1987) global corporations have certain important expectations of their hosts in return for their foreign direct investment, some of which are: capital based assets, availability of raw materials, human capital i.e. a competent work force, availability of appropriate infrastructure, accessibility to global markets, political stability.

Meleka (1985) indicates that hosts countries seek to secure five key benefits from global corporations seeking to invest in their countries. These include job creation, supplementing the national development effort, encouraging political stability, enhancing their human capital, and joint ventures with the government or entrepreneurs of the hosts' countries.

These theories could provide an explanation for the underlying challenges based on attracting substantial amounts of foreign direct investment into a country's tourism industry. It could also explain why the Libya government has taken the initiative by embarking on huge infrastructure investment to woo global investors. However, these hypotheses need to be tested during the data analysis procedure of the current study.

3.23 Global Tourism Developmental Strategies in African Nations

It is crucial to understand the integration of tourism into the national development framework of the host country and the impact of such foreign direct investments on the lives of the indigenous people (Brohman, 1996). A key goal of global hotel corporations is to gain maximum revenue or return on investment through cost reduction, economies of scale, standardisation and the enhancement of their experience curves. However, the government of developing countries needs to focus on the contribution of tourism towards the development of their local communities.

According the Hyma, Ojo and Wall, (1980), and Brohman, (1996), the underlying reasons for most African governments to attract foreign direct investment from global hotel corporations is to offset the leakage of their countries' balance of foreign exchange into the most developed Western economics. As result of this, liberalisation and privatisation processes have been launched in most African countries over the past years. For example, Nigeria now allows up to 50% foreign ownership of investment in its tourism industry, as well as projects in the oil and gas sector, and foreign ownership of shares varies across different Libyan industries. Initial ownership is at an initial amount of a maximum of 35%. However, when the global corporations demonstrate good performance, they are subsequently allowed to own up to 50% of shares or more, subject to the government's approval. In Tanzania and Uganda, global corporations are given the opportunity to own up to 50% and 60% of shares in the tourism sector respectively.

Management contract is the dominant form of entry mode for global corporations in Africa, including Libya. In fact, 73% of all hotels in sub-Saharan Africa are based on this entry mode, (Ankomah, 1991). Full ownership and joint ventures form only 18% of the ownership structures of hotels in this part of Africa. Some of the global hotel brands that have adopted management contract as an entry strategy include IHG and Accor (Ofei-Nkansah, 1988). IHG operates hotels in Swaziland under management contract, just as Corinthia does in Libya (Crush and Wellings, 2008). Unlike the United States where franchising is very prevalent, in Africa, this entry strategy is very limited. According to McQueen, (1983) by adopting a management contractual entry mode, these global corporations have utilised their expertise to provide quality service and at the same time enhance their brand image and global presence. However, some of these managerial contracts are based on consultancy and profession advice for the host country. For example, the Libyan tourism master plan of 1998 was developed with considerable help from an Italian corporation with a wealth of experience in global tourism markets.

However, while Libya has been able to attract foreign indirect investment for joint ventures in certain areas connected to the construction of tourism infrastructure and hotels, the government remains dissatisfied with the slow pace at which foreign direct investment is entering the country, although there has been significant progress (African News Service, 2008). The literature review conducted in this chapter has sought to achieve three main aims. First, it has attempted to explain the choice of research questions given in chapter one, and to see the research subject, FDI in the hotel sector, in terms of its potential benefits to the Libyan economy, and the barriers which prevent or discourage FDI in economies in general. Secondly, FDI is set in a context of its general effects on economies, especially in developing countries. The literature suggests that FDI is not without its drawbacks and threats, and the Libyan government needs to remain mindful of these. However, the most important potential benefit of FDI is improvement in the economy, in all the ways identified in the literature from improved corporate financial performance, through skills transference to the development of a Libyan owned and run hospitality sector of international standard. Thirdly, the literature provides many examples of FDI models. It is clear from reviewing these models that not all approaches, such as franchising, are applicable in a developing country context. Within Libya the only fully operational FDI hotel is the Corinthia Hotel, which was developed as a joint venture. This study is based on a case study of the Corinthia hotel company, because it is the first FDI joint venture in the hotel sector in Libya, and therefore represents a rich source of data about the barriers to FDI which exist. The study therefore adopts a mixed method approach, primarily quantitative, with a questionnaire used to collect data, but also with a qualitative element to draw on the opinions of three main groups: FDI managers in the Corinthia group, FDI managers in other orgainisations, and Libyan government officials. The next chapter will discuss the methodology in more detail, and explain how the findings of both qualitative and quantitative elements of the research will be analysed.

Chapter Four: Research Methodology

4.1 Introduction

This study is an attempt to examine the obstacles to FDI in the hotel industry in the Libyan tourism sector: It thus falls under the remit of economic research. It can be said, in brief, that economic science research is a purposive and rigorous investigation that aims to generate new knowledge. It employs the intellectual tools of social scientists, which allow them to enter contexts of personal and/or public interest that are unknown to them, and to search for answers to their questions. Social science research is about discovery, and expanding the horizons of the known, with confidence, new ideas, and new conclusions about all aspects of life (Sarantakos, 1993; 1998; 2005). Literature on research methods/methodology in social science often suggests that qualitative research is more appropriate than quantitative research for investigation into an event or social process (Berg, 2001: Ghauri et al., 1995; Morgan and Smircich, 1980; Nord and Tucker, 1987). It is particularly difficult to meaningfully express quantitatively such things as historic change, a person's experience or behaviour, or a phenomenon about which little is known. This is because in these situations researchers can no longer remain as external observers, measuring what they see. Instead, they must become insiders to investigate from within the subject of the study.

Notwithstanding this vast domain where exploration sometimes or frequently occurs, its recognition as an important procedure and personal orientation is generally not acknowledged in the modern world. In the social sciences, including even within qualitative research circles, the idea of exploration is usually mentioned, if at all, only in passing, as evidenced by a short statement by Boulmaer (1969, pp. 40-42) and Glaser and Struass's (1967) "The Discovery of Grounded Theory". These authors agree that qualitative research, such as grounded theory for example, has the potential advantage of providing intricate detail and in-depth understanding of the phenomena being studied. The driving force behind any type of social science research is its philosophical framework. This dictates not only the general perception of reality and social relations but also the type of methods and techniques available to researchers and the motives and aims of the research. The aims of social science research can vary significantly, depending on the theoretical orientation of the framework that guides the research; Sarantakos cited the aims of social science research in general as being the to achieve the following: " explore social and economic reality for its own sake or in order to make further research possible;

- Explain social and economic life by providing reliable, valid and well-documented information;
- Evaluate the status of social issues and their effects in society;
- Make predictions; Develop and/or test theories;
- Understand human behaviour and action; offer a basis for a critique of social reality;
- Emancipate people;
- Suggest possible solutions to social and economic problems;
- Empower and liberate people." (2005, p. 12):

In the realm of social and economic science, methodology is one way of ensuring the validity of knowledge gained about the social world (Strauss and Corbin, 1998, p. 4). Commonly, the nature of the research determines what methodology should be followed to achieve the study's aim through meeting its objectives. This study included a number of elements, which fed into the development of an exploratory framework employing a multi-methodology approach. The major prevailing methodology that has been followed is exploratory-grounded theory. This will be justified in the following sections.

4.2 Philosophical approach

Methodology literature illustrates the most common philosophies (Jonathan, 2004). Positivism and phenomenology are two alternative research philosophies often regarded as being at the extreme ends of a continuum of philosophical positions open to the social scientist. The positivist approach focuses on developing and testing hypotheses and generalising research findings from data, whereas the phenomenological approach aims to develop a deeper understanding of ambiguous and multidimensional concepts through exploratory techniques (Easter-Smith, Thorpe and Lowe, 1994; Harrigan, 1983a; 1983b). Although there can be exceptions, the positivist approach tends to employ more deductive quantitative methods such as experiments and surveys, whereas the phenomenological approach tends towards more qualitative methods such as observation, in-depth interviews and group discussions. It appears that there has been much philosophical debate about which of these research philosophies is superior, and more appropriate for research in the social sciences (Bryman, 1984). However, phenomenological research has started receiving more attention over the last two decades as in-depth and exploratory research studies provide explanations and/or understanding of the social and cultural dimensions of researched areas. Furthermore, several studies adopting a phenomenological philosophy and based on using qualitative methods have had significant results, for instance Chandler, 1962; Mintzberg, 1973; Peters and Waterman, 1982; Moss-Kanter, 1983; Hamel and Prahalad, 1989; Pettigrew and Whipp, 1991; Pettigrew, Ferlie and McKee, 1992).

It can be said that there is no ideal research technique in the behavioural sciences. "All methods have good and bad features. The advantages may lie along one dimension, such as economy; the disadvantages along another, such as objectivity. The goal of the researcher is not to find the single best method. For most problems, several procedures will be better than one; even though each has its limitations, these tend not to be the same limitations" (Sommer , 1980, p. 7). Multi-methods have been chosen to benefit from their characteristic differences in research (see table 4.1). According to Yin (1994), a case study is one of five types of research design, and these different types are: experiment; survey; archival; history; and case study.

To satisfy the overall aim of this research project, it was decided that the most appropriate research strategy would be to follow a phenomenological research philosophy by using an exploratory methodology and multi-methods in adopting both qualitative and quantitative methods, using techniques such as observation, semi-structured interviews, questionnaires, and documentary survey.

Whilst phenomenological research usually uses qualitative methods, here mixed methods are used; however, this research is still best viewed as primarily phenomenological in that it focuses on a case study and is exploratory in nature.

Table 4.1: Theoretical differences in Quantitative and Qualitative Research:

Quantitative	Qualitative	Differences
Deductive	Inductive	Logic of theory
Begins from theory	Begins from reality	Direction of theory building
Takes place after theory building is completed	Data generation, analysis and theory verification take place concurrently.	Verification
Firmly defined before research begins.	Begins with orienting sensitising of flexible concepts.	Concepts
Inductive sample-to-population.	Analytic or exemplar generalisation.	Generalisation

Sources: Sarantakos, (1998, p. 15)

This choice of philosophical position and methodology is intended to provide a wide knowledge and develop a better understanding of the complex and under-researched area of how to attract Foreign Direct Investment (FDI) into the hotel industry in Libya. Table 4.2 illustrates the strategy that is adopted in this research.

Table 4.2: The Strategy Adopted by the Research

Concept	**Approaches used**
Philosophy	Phenomenological philosophy
Methodology	Exploratory research methodology
Methods Approach	Qualitative and quantitative Exploratory case study

Source: prepared by the author

4.3 Alternative methodologies

As this research will explore and analyse findings from comparing foreign direct investors' requirements and Libya's readiness to provide a suitable environment to attract foreign direct investment into the hotel sector in Libya. Therefore, a methodology is required in this research to achieve the aim. Pires et al. (2003) use an exploratory methodology in studies determining the effects of ethnicity in marketing. They argue that they used an exploratory methodology due to the paucity of previous studies into their area of interest and the scarcity of information about the subject of their research. McDougall and Hinks, (2000) adopted an exploratory methodology in their study to highlight the benchmarking of facilities management. They argue that using an exploratory method means entering into a research process without hypotheses, or presuppositions, and reporting and analysing the situation as experienced. According to the few studies into how FDI should be attracted into Libya, such as Jomah (2006); Aljerbi (2006); Alfotaisi (2006); Altomi et al. (2006);

Almansory (2006); Benmoosa (2006); Zaki (2006), there are no studies which deal with attracting FDI in the hotel sector in Libya particularly.

Therefore, due to the rarity of studies in this field, an exploratory methodology is the most appropriate to explore determinants of how to attract FDI. As the term suggests, exploratory research is often conducted because a problem has not been clearly defined as yet, or its real scope is not yet unclear. It allows the researcher to familiarise him/herself with the problem or concept to be studied.

Exploratory research means that hardly anything is known about the matter at the outset of the project. The study begins with a rather vague impression of what to study, and it is also impossible to make a detailed work plan in advance. This research began with a survey of the published literature on foreign direct investment generally, and then focused on investment in the hotel sector in particular. Through the literature survey, it was possible to determine what were the most important determinants affecting FDI direction, and what attracts FDI investment in some places and not to others. These determinants will be used as criteria to measure what Libya already has prepared to attract FDI, and what should be prepared in future. The second part of the literature survey related to Libyan law and governmental decisions during the period 1997 to the present. In investigating the aim of this thesis how to attract foreign direct investment to invest into Libya the FDI criteria and current Libyan preparedness led to the following objectives:

4.3.1 First objective

1- To identify the advantages FDIs bring to the Libyan tourism sector, using Corinthia as a case study.

. , The basis of the study was an observation that FDI into the Libyan tourism sector was very limited, which suggested that some obstacles existed preventing such investment. Therefore, a survey was undertaken into studies that have dealt with incentives and obstacles to FDI globally, and how FDI host nations have dealt with these challenges. To investigate the issues specific to Libya, a questionnaire was applied, complemented by interviews with relevant stakeholders in the FDI process, and the responses of the managers of FDI companies and government officials were used to reach the research conclusions.

4.3.2 Second objective

2– To investigate the main risks which foreign investors may face in the Libyan hotel sector.

,Using the Corinthia hotel as a particular example in the hotel sector: this objective will be achieved by a questionnaire survey of Corinthia company employees and the answers to semi-structured interviews conducted with some of those employees involved in the questionnaire survey.

4.3.3 Third objective

To determine the ability of current levels of foreign direct investment in the Libyan tourism sector to meet the needs of the Libyan economy.

. Moreover, the target of the study will be to evaluate FDI in the hotel industry through the empirical units of the research, which are identified as the groups of respondents shown in the Figure 4.3 (p. 137). The literature of FDI will be surveyed and investors' questionnaire answers will be employed to achieve this objective.

4.4 Alternative methods

The use of a multi-methods approach has been justified in section 4.3 above. In terms of the specific uses of qualitative and quantitative methods to analyse the data collected: qualitative methods have been chosen to analyse the respondents' answers, including those given to the one open-ended question. The responses to this question gave respondents the opportunity to add anything they thought to be of importance, but which had not been mentioned in thequestionaire. The data given in this context is alluded to throughout Chapter Five (findings); for example the FDI manager who mentioned the very low levels of English language ability among Libyan hospitality workers as an obstacle to further FDI is representative of the opinions elicited by this additional question. Qualitative analysis was also applied to the questionnaires, literature, documentary survey and observations (Sarantakos, 2005); quantitative methods have been used to analyse parts of the semi-structured interviews and questionnaires in terms of responses that were closed-ended (Robson, 2002; Sarantakos, 2005).

4.5 Alternative techniques

To obtain the information necessary to achieve the aim of the study, several techniques were used. Observation was used, since data from direct observation can often usefully complement information obtained by virtually any technique (Robson, 2002). Observation is a widely used method in flexible research designs; particularly those which follow an ethnographic approach. Structured observation is almost exclusively linked to fixed designs, of both experimental and non-experimental types. Both styles call for a large commitment of time and effort and should not be undertaken without careful consideration of their implications to the time and money available to the researcher in a real world study. Concentration on these two approaches has tended to eclipse a third one, which may be styled unobtrusive observation. Its defining characteristic is that it is non-participatory in the interest of being non-reactive. It can be structured but is more usually unstructured and informal (Robson, 2002). In the current study the researcher used non-experimental observation techniques to complement the findings of the questionnaire and interviews, by observing differences in approach and systems between Libyan officials and foreign hotel companies, and through informal and unrecorded conversations with members of staff within these hotels. During the pilot study, it became clear to the researcher that many respondents, especially Libyan nationals, were unwilling to speak openly about perceived barriers to FDI, and this was reflected in their unwillingness to be recorded. Therefore, observation became an important part of the researcher's data collection, enabling him to ensure that the interview process was as unthreatening and confidential as possible, to ensure the maximum candour in terms of responses. The study of literature and analysis of documentation gives the study greater depth. Therefore, studies and documents related to the research have been appraised. However, because of the nature and culture of Libyans, interviewing was the best way to obtain the required data and information. For investors, given the difficulty of gaining access to them, the best choice of research tool was to send out a questionnaire. To collect data there are many methods that could be used, and the choice depends on the nature of the research; where one method of research might fail another can be successful. Accordingly, the researcher should be attentive when choosing samples and the kind of data to collect, and how the data and target groups should be classified.

No single data collection method has a complete advantage over the other data collection methods, in fact they are often complementary. Therefore, it is recommended that a good case study should use multiple sources of evidence to achieve broader and often superior research findings. It is also believed that triangulation generates in-depth research findings, and wider perspectives about the research phenomena. In addition, using multiple data collection methods is particularly recommended in terms of the validity of the research findings (Denzin, 1998; Huff and Reger, 1987; Hartley, 1994; Harrigan, 1983a; Robson, 1993; Yin, 1994). Moreover, multiple data collection sources are likely to produce a more complex, holistic and contextual portrait of the phenomenon under study, and the corroboratory evidence is also likely to make the findings and the conclusions of the study more convincing and accurate, thereby increasing the validity of the study (Eisenhardit, 1989; Ghauri et al., 1995; Yin, 1994). Accordingly, multiple data collection methods were used in this research. Therefore, observation, documentary survey, semi-structured interview, and questionnaire techniques were adopted.

4.6 The adopted approach

The use of a case study approach has become extremely widespread in social science research (Yin, 1994), particularly with small-scale research (Tolbert and Downing, 1995; Celuch et al., 2007). When researchers opt for a case study approach they refer to a set of related ideas and preferences which, when combined, give the approach its distinctive character (Denscombe, 2003, p. 30). A case study approach has been adopted in this research with both a qualitative and quantitative method. In a quantitative method case study a prior search is employed, that is, as an exploratory study. As a qualitative method, the case study appears as the main study, as a research enterprise of its own that aims to develop hypotheses or even theories. Case studies investigate social life within the parameters of openness, communicatively, naturalism, and interpretatively, as informed by the interpretive paradigm (Sarantakos, 2005). In such a methodology, what is lacking in breadth and generalise ability may be compensated for by greater depth (Sommer, 1980).

An exploratory case study approach was therefore chosen in this study, since it is considered useful for exploratory studies of this kind (Yin, 1994). It is expected that this approach will provide an opportunity to explore how to attract FDI into the hotel sector in Libya in some depth through the systematic piecing together of detailed evidence in context (Stake, 1994; Yin, 1994). The main point in this study is elucidation of the harmonic point between the Libyan authorities desire to attract FDI and the investors decisions to invest in the hotel sector in Libya. The research design therefore aims to satisfy the research aim and objectives. Yin (2003) defines a research design as: guiding the investigator in the process of collecting, analyzing, and interpreting observation. The research design must clarify the nature of how the questions will be answered, and how the researcher intends to deal with them. In addition, research design provides the plan and structure, which give the expected results an explanation. Moreover, Yin (2003) states that case study research could be based on single or multiple case studies. Employing a multiple or single case study approach depends on the kind of case study to be carried out. As in all approaches, a case study has advantages and disadvantages, as well as strengths and weaknesses.

4.6.1 Advantages and Disadvantages of the Case Study Approach

Denscombe (2003, p. 39) states the advantages and disadvantages of the case study as the following:

4.6.1.1. The Advantages

-The main benefit of using a case study approach is that the focus is on one or a few instances that give the researcher an opportunity to deal with the subtleties and intricacies of complex social situations. In particular, it enables the researcher to grapple with relationships and social processes in a way that is denied to the survey approach. The analysis is holistic rather than based on isolated factors;

-The case study approach enables the researcher to use a variety of research methods. In addition, what can be said is that it encourages the use of multiple methods to establish a complex reality under the microscope;

- In addition to the use of multiple methods, the case study approach fosters the use of multiple sources of data in parallel. This, in turn facilitates the validation of data through triangulation;

-The case study approach is characterised by it being particularly suitable for the researcher with little control over events. Because this approach is to examine the phenomena that occur naturally, there is no pressure on the researcher to impose controls or to change the conditions;

- The case study approach can fit in well with the needs of small-scale research through concentrating effort on one research site or just a few sites;

-The case study approach can be used in both theory-building and theory testing research to good effect.

4.6.1.2 The Disadvantages

The case study approach is characterised by being particularly narrow. The main benefit of using a case study approach is that the focus is on one or a few instances that give the researcher the opportunity to deal with the subtleties and intricacies of complex social situations. In particular, it enables the researcher to investigate relationships and social processes in a way that is denied to the survey approach.

The most important criticisms that have been directed to a case study approach are those related to the credibility of generalizations from the results. Research using a case study needs special attention to detail to dispel doubts about the broader applicability of its findings, and to demonstrate how similar other cases are, or how a particular study is in contradiction with others of its type, Case studies are often criticised because they are perceived as producing soft data. The approach is often accused of lacking the degree of rigor expected of social science research. This tends to go alongside the view of case study research as focusing on processes rather than measurable products, and relying on qualitative data and interpretive methods rather than quantitative data and statistical procedures; It is often difficult in a case study to determine its absolute and clear conclusions. There is a difficulty in determining what sources of information are suitable for inclusion in the case study, and the justification for excluding any. Furthermore, negotiating access to the case study setting can be a demanding part of the research process. Research can flounder if permission is withheld or withdrawn. In case studies, access to documents, people, and settings can generate ethical problems in terms of issues such as confidentiality; Researchers are unlikely to achieve their aim of investigating situations as they naturally occur without any effect arising from their presence. Because case study research tends to involve protracted involvement over a period, there is the possibility that the presence of the research can lead to the observer effect. Those being researched might behave differently from normal owing to the knowledge that they are under the microscope.

4.6.2. Strengths and Weakness of Case Studies:

As the case study has advantages and disadvantages, it generates the strengths and weaknesses of this method, according to Sarantakos (2005, ,pp. 216-217).

4.6.2.1 Strengths of Case Studies;

A case study gives researchers the opportunity to conduct in-depth research;

-Provides initial information of work in a natural setting;

-Encourages familiarity and close contact with the informants through employing a variety of methods;

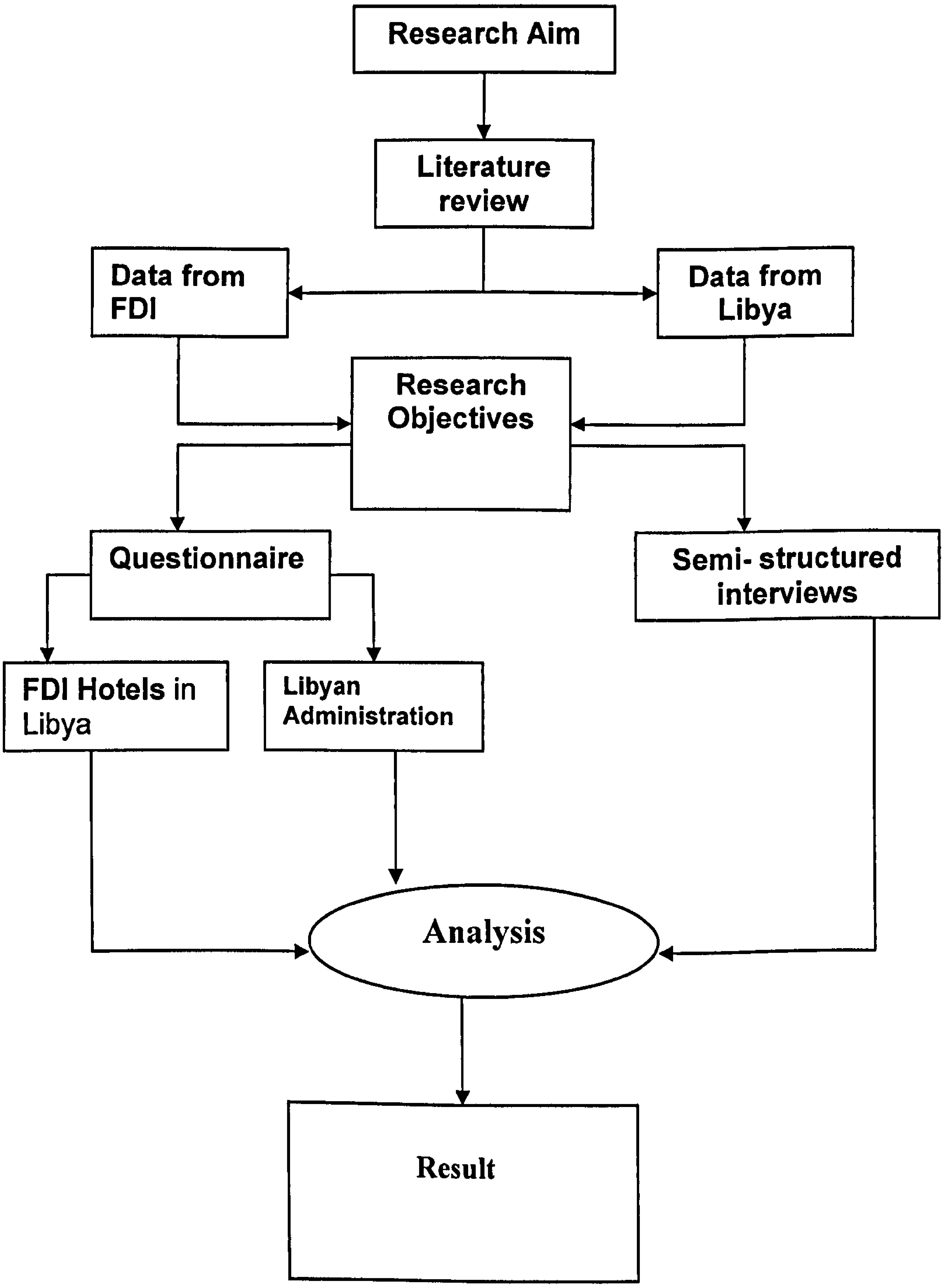
-Allows the employment of a variety of interrelated methods and sources;

- Involves long-term contacts and personal experiences in the field;

- Centres on direct and verifiable life experiences;

-Produces information that covers the whole unit and not only small aspects of it.

Figure 4.1 The Strategy Adopted by the Research



4.6.2.2 Weaknesses of Case Studies

The weaknesses of case studies include the following:

Results are related to the unit of analysis only and allow no inductive generalisation;

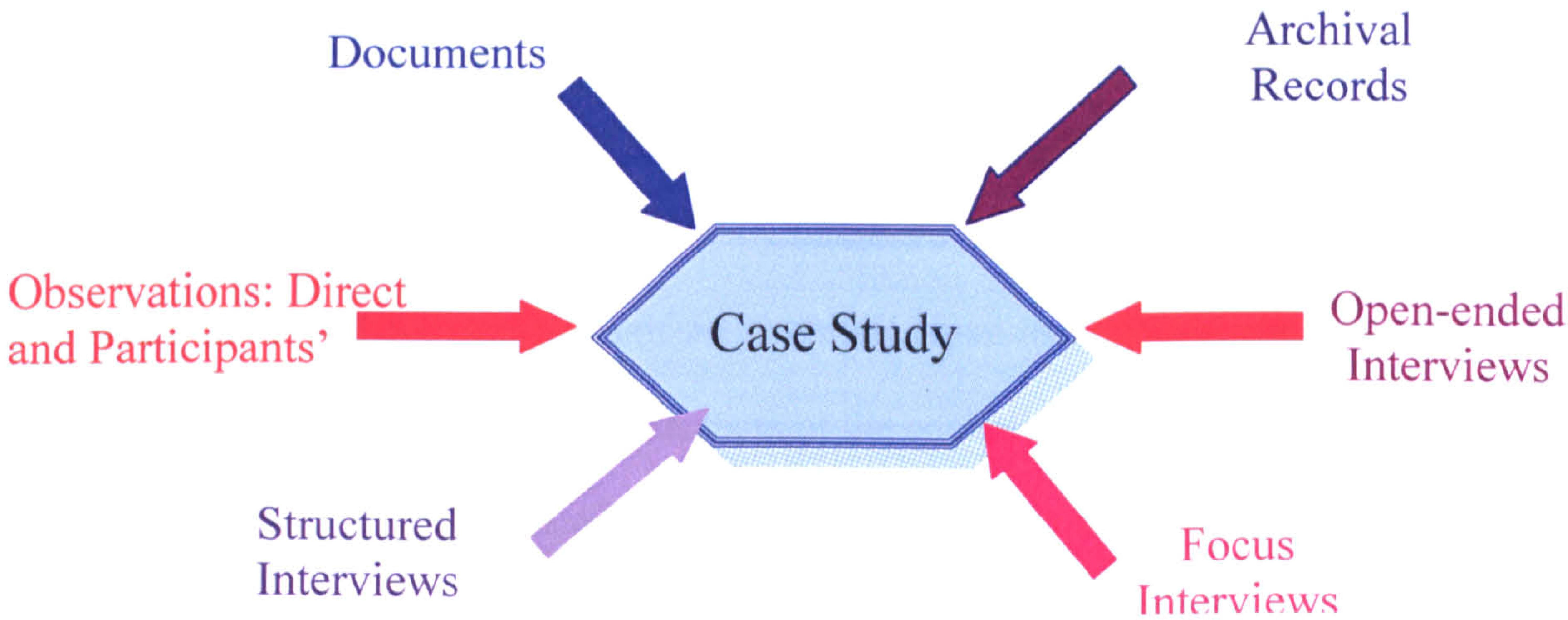
- Findings entail personal impressions and biases; hence no assurance of objectivity, validity and reliability;
- Research cannot be replicated;
- There is limited subsequent access to the field and to the personal and subjective information that constitutes the basis of case studies;
- The interviewer effect may cause distortions; even the presence of the researcher in the field can be destructive.

There is no research method free from problems, and case studies are no exception. Overall, they are a most useful and popular method, as legitimate as any other method of social research (Sarantakos, 2005). A case study research can be based on single-case or multiple-case studies. Furthermore, "whether single or multiple, case studies can be exploratory, descriptive, or explanatory" (Yin, 1994, p.5). This research is considered to be a single exploratory case study as it attempts to gain the full advantages that are provided by bringing rich data into the issue under investigation and ensuring realistic investigation of these issues. This research will be based on a single case study approach to illustrate how to attract FDI into the hotel industry in Libya

4.6.2.3 Data Collection

Data collection strategies should ensure conformity to predictions and generate valid and reliable results. The collected data, derived from numerous sources, is grouped using an objective measure or expert ratings to obtain a single score representing each group as a whole. In this way, the homogeneity of the data within groups is ensured (Klein, 1994).

Figure 4.2: Sources of Data Collection in a Case Study



Source: Yin, (2003).

The present study employed a single-case (holistic) design since it principally involved the Corinthia Hotel in Tripoli, Libya

Figure 4.3: An Embedded Single–Case Study Design Units and Participants

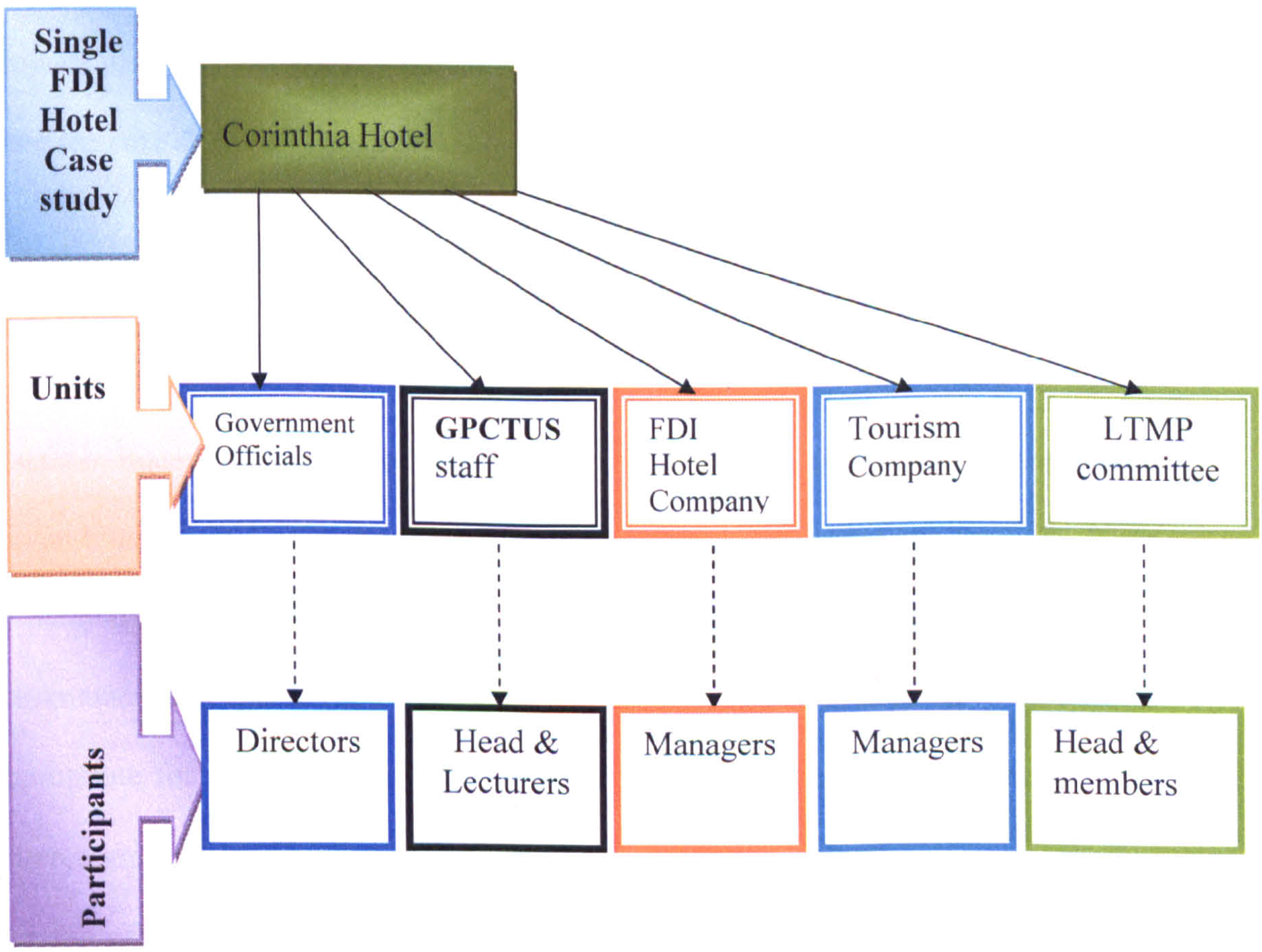


Figure 4.3 illustrates the range of sources used to investigate the research question through a case study of the Corinthia Hotel. These sources included government officials involved in or with knowledge of the FDI process in the tourism industry, staff working for the General People's Committee of Tourism and Utilities in the Shabiats, (GPCTUS), employees of the Corinthia Hotel itself, tourist companies with connections to the Corinthia and members of the committee convened to produce the Libyan Tourism Master Plan, as well as managers involved in other FDI joint-venture hotel projects in Libya. This group was sometimes not yet operating in Libya, and in some cases it was necessary to send the questionnaire to the respondents' home country. The inclusion of managers of FDI companies not at such an advanced stage of progress in their FDI projects as Corinthia was intended to assess whether the barriers identified by Corinthia remained the same, and if establishing an FDI project in 2009 was easier or more difficult than in the late 1990s. These emerging investment projects provided a contrast with Corinthia, and a validation of the findings emerging from the case study.

4.7 Nature of the Research Data

A number of methods can be used to gather requirements and identify tasks for research. Because there are no "one method fits all" studies, the specific requirements, research nature, and objectives of research will usually dictate the appropriate method or methods to use. Additionally, each method of data collection has its strengths and weaknesses, and this variation allows researchers to evaluate which method is most appropriate for a given situation. Both primary and secondary sources were used in this research. Secondary data employed in this study this study was mainly collected through official documents, published legislation, records of government decisions, and reports. In addition, previous literature on the subject has been studied, from various sources such as relevant textbooks, journals, unpublished theses, and the publications of international organizations. The purposes of using secondary data were two-fold: to help to better interpret and understand primary data; and to supplement empirical data through a better understanding of the determinants of attracting FDI into the hotel industry in Libya. Primary data was obtained through observation, semi-structured interviews and a questionnaire. At the conclusion of the research instrument an open was employed with the following wording:

The most important requirements to attract FDI into the hotel sector of the Libyan tourism industry is improve economic, administrative, finance and education system.

This section was used to elicit views from respondents and to assist in summarizing the conclusions of the semi-structured interviews/questionnaire process. The evidence collected from the use of this question has been used in developing the discussion of the formal results shown in chapters five and six. This research is characterised by dealing with two different 'behaviour' groups, with each group looking for the most benefit from their relationship with the other.

4.7.1 Group 1: This group represents the Libyan side of the FDI process, and comprises governmental functionaries with legislative and executive responsibilities as listed above. Individuals investigated included some who had experience of the Corinthia Hotel's investment in Libya and others who did not. Therefore, since data should be collected from both the host country and investors, government functionaries provided a good example of the Libyan perspective

4.7.2 Group 2: This group includes foreign companies which were operating in the hotel sector, who represented the opinions of foreign direct investors. This group included senior managers of the Corinthia Hotel, who were not Libyan nationals.

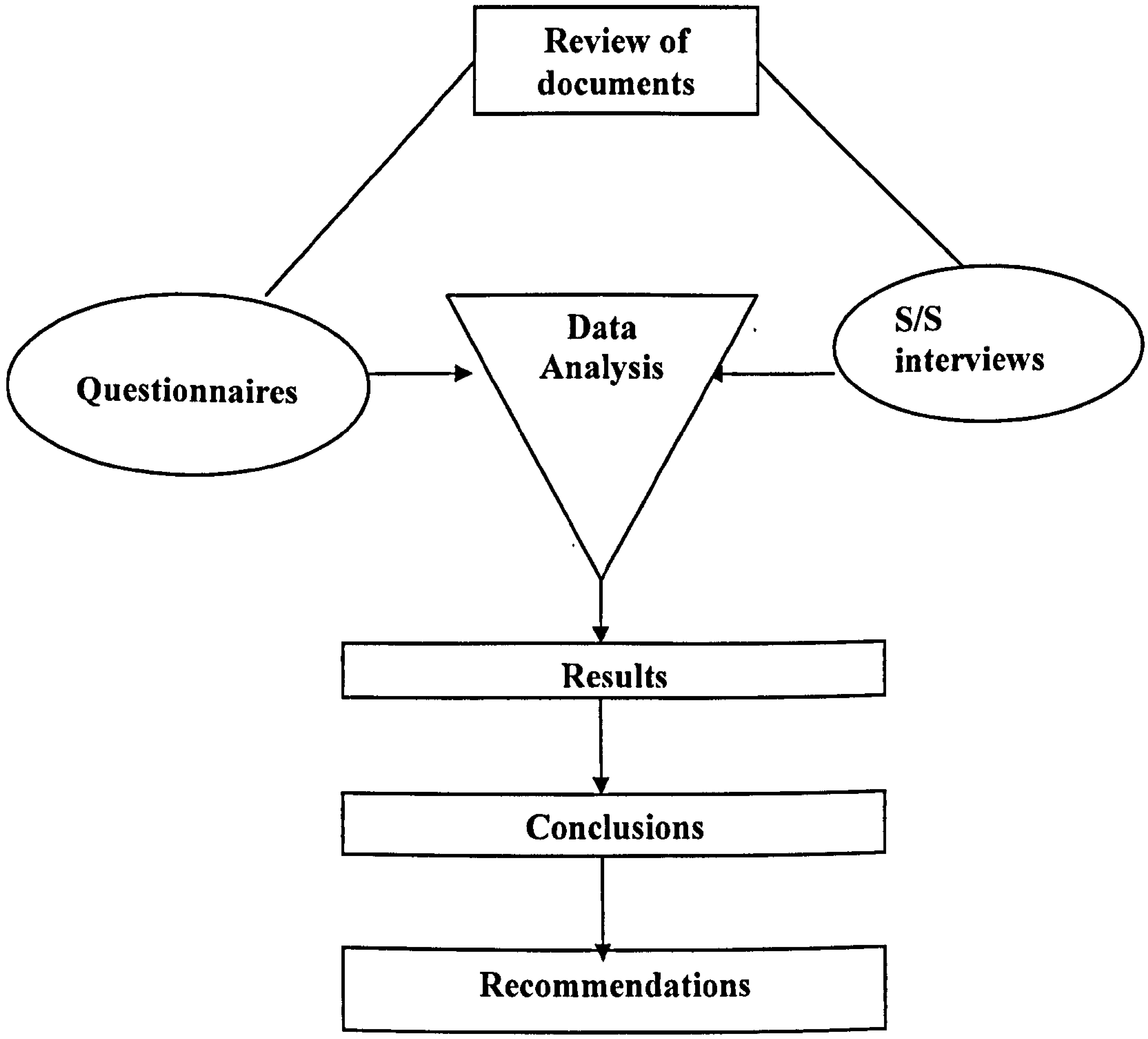
Therefore, data was divided into two categories; and an appropriate method was designated for each. A questionnaire and semi-structured was designed for staff working for foreign companies operating in Libya, and a questionnaire was also designed for use with the government functionaries. Figure 4.4 illustrates the overall approach. Every category comprised a number of groups: for example, whereas the host country category includes both levels of decision makers, and decision executers in the legislative and functioning sides, the category for foreign companies comprised two kinds of companies; the first were companies which already had experience of working in construction in Libya (see figure 4.3); the second kind was those companies that did not have any experience of working in Libya.

4.8 Triangulation

Methodological triangulation involves researchers using several methods to gather data relevant to the study. Using a predominantly qualitative research strategy can be enhanced by using more than one measuring concept. Triangulation has been employed in this study because a single method was not adequate to solve the problems of various factors under investigation. Moreover, this method enhances the validation of collected data. As stated by Jennings (2001, p. 151): "triangulation is not a tool or a strategy of validation, but an alternative to validation" (Lincoln, 1994, p. 2). An operational plan of action was constructed to assist in carrying out the data collection activity. The plan was drawn from a triangulation approach to the three main sources of information, documentation review, questionnaires, and interviews, (see figure 4.4)

The Triangulation of Case Study Information Sources

Figure 4.4



Conclusion.

This research is primarily exploratory in nature: it investigates FDI in Libya, which outside the oil sector, is a relatively rare phenomenon. As such it does not depend on a single model to give it structure, and its approach is inductive rather than deductive; for example the aim of the questionnaire is to identify the main barriers to FDI in Libya in the opinion of those working at a high level in this field.

The research approach is phenomenological. As mentioned earlier, phenomenological studies are predominantly qualitative in their approach to data collection; this study, however, employs mixed methods, using a questionnaire to collect data amenable to factor analysis, and supplementing these findings with qualitative data from interview questions, and the initial documentary analysis, to throw more light on the quantitative findings.

The key characteristics of this study are that it is exploratory and based on a case study. This case study seeks to identify key barriers to FDI, whether they are political, social, economic or administrative, and using qualitative data to assess the relevance of these barriers to the economy as a whole.

Chapter Five: Methods of Data Collection

5.1 Introduction

To collect primary data for this research, two groups were selected: the first group consisted of government functionaries, and face to face semi-structured interviews were conducted with the government functionaries (see appendix 1). The second group consisted of foreign companies, and here also face to face interview were conducted with individuals involved in the FDI process as employees of foreign companies investing in Libya, such as the senior management of the Corinthia Hotel Company. In addition, questionnaires were handed to Libyan officials and some employees of other companies, and others were sent by post or e-mailed to individuals in companies outside Libya (see appendix 1,. The proportion of respondents from the Corinthia Company compared to all other respondents is given in figure 5.1, further details related to the other respondents is given in figure 5.2. It is clear from the information shown in these two figures that Corinthia formed the largest individual company response, with other responses used to support the case study evidence. The only difference in approach to investigation was that the cover page for the two groups were different, but the questionnaire was the same for both groups.

The questionnaires were made available to participants in both Arabic and English to allow them the freedom to complete in the easiest language for them – all questionnaires were however completed in English. Where possible the questionnaires were handed directly to individuals, or left with their secretaries and were collected in person; this included all those given to government officials. Those that were sent outside Libya for completion were posted. Those participants from Corinthia were also seen face-to-face.

As well as a scale (see appendix 1) for quantitative analysis for each question a column was added asking for reasons/justifications for the answer given and for illustrative examples, to provide qualitative support from the questionnaire. Where questionnaires were collected in person the opportunity was taken to discuss the results with the individual, forming the semi-structured interviews. The results of these were added to the questionnaires, generally in the final section, '*From your point of view, what are the requirements to attract FDI to Libya in the tourism hotel sector*'

The quantitative analysis comes direct from the scaled questions in the questionnaire and this is supported by the qualitative data collected through these semi-structured interviews. Through interview discussion documentation was discussed and evidence used from this in the analysis. The opportunities to observe processes and individuals in a working environment allowed to opportunities to gain further insights, through viewing actual practice as well as written answers to the questions posed.

In presenting the results of this study, quantitative analysis of the questionnaires is undertaken; this is then discussed and expanded using the data collected from interviews and observations to give a fuller picture of the reasoning and justifications for the answers found from the questionnaires.

5.2- Pilot Study:

Prior to the main data collection, a pilot study was carried out. The essence of the pilot study was to test the reliability and validity of the data collection instrument. According to De Vaus (1990, p.54), a pilot study is a necessary task in any research process; it enables the researcher to observe the reliability and the response validity of indicators (variables), before conducting the actual study. In this research, the pilot study was carried out in Tripoli, Libya; it comprised questionnaires and interviews using a small sample similar to that of the main survey. Questionnaires were distributed to managers and directors of FDI companies and government officials. Each participant in this pilot test completed the questionnaire and provided feedback to the researcher regarding the clarity of the questionnaire. The main purposes of the pilot test were to:

- Determine whether the questionnaire instructions were easily understood.
- Identify questions that could be misunderstood or were poorly worded.
- Determine whether rating scales were understood.
- Determine how long it would take participants to complete the survey.
- Determine the participants' reactions to the survey in general.
- Make an initial reliability assessment of the measurements scales.

As a result of the pilot test and the feedback received from the debriefing session after the completion of the pilot test, expert opinion and observation check, the researcher realised that the questionnaire needed to be shortened, because the respondents were unlikely to be motivated to answer a long questionnaire, and therefore it should be kept short. In addition, the researcher observed that some respondents were unwilling to give all the information they were able to give, owing, in part, to personal and cultural circumstances. In addition, some of the questions needed to be reworded, because some of the respondents did not understand certain words and because some participants responded in English and some in Arabic. Even though the questionnaire was composed in English and then translated into Arabic by professionals from the university and some Arabic students (PhD) at the University of Gloucestershire, each of whom was fluent in English and Arabic, to ensure that every respondent could understand the questionnaire, it was noticeable in the pilot study that the Arabic version elicited more complete answers; therefore the English version was amended and improved. The language used in the questionnaires and interviews needed to be as simple as possible, clear and direct, therefore colloquial words were added to explain some the meaning of technical words and concepts.

Other observations were made during the interviews, with both responses from Libyan and FDI participants, as a result of which a number of more detailed questions were designed with which to investigate the FDI obstacles in the hotel sector in Libya and how to reduce these obstacles through the future plans of the government. The follow up interview questions were designed to triangulate the questionnaire results which these managers gave. Five individual interviews were undertaken with decision makers in Libyan administrative positions, together with two managers in the Corinthia Company and one from an Italian FDI Group: Observation showed that the following points should be taken into account before conducting the main interviews:

1. The selection of interviewees should be carefully planned; particularly those working in government departments.

2. The time required of the respondents for the interviews should be as short as possible, and

3. Recording the interview was undesirable to most respondents, owing to personal and cultural circumstances.

The use of observation by the researcher, based on his expertise and experience in the hotel sector, was useful, was useful to provide a comparison between some answers given by FDI companies still in the starting phase of their investment, and those, like Corinthia, that has established operations in the hotel sector.

Figure 5.1 Breakdown of employment of individuals involved in the research process

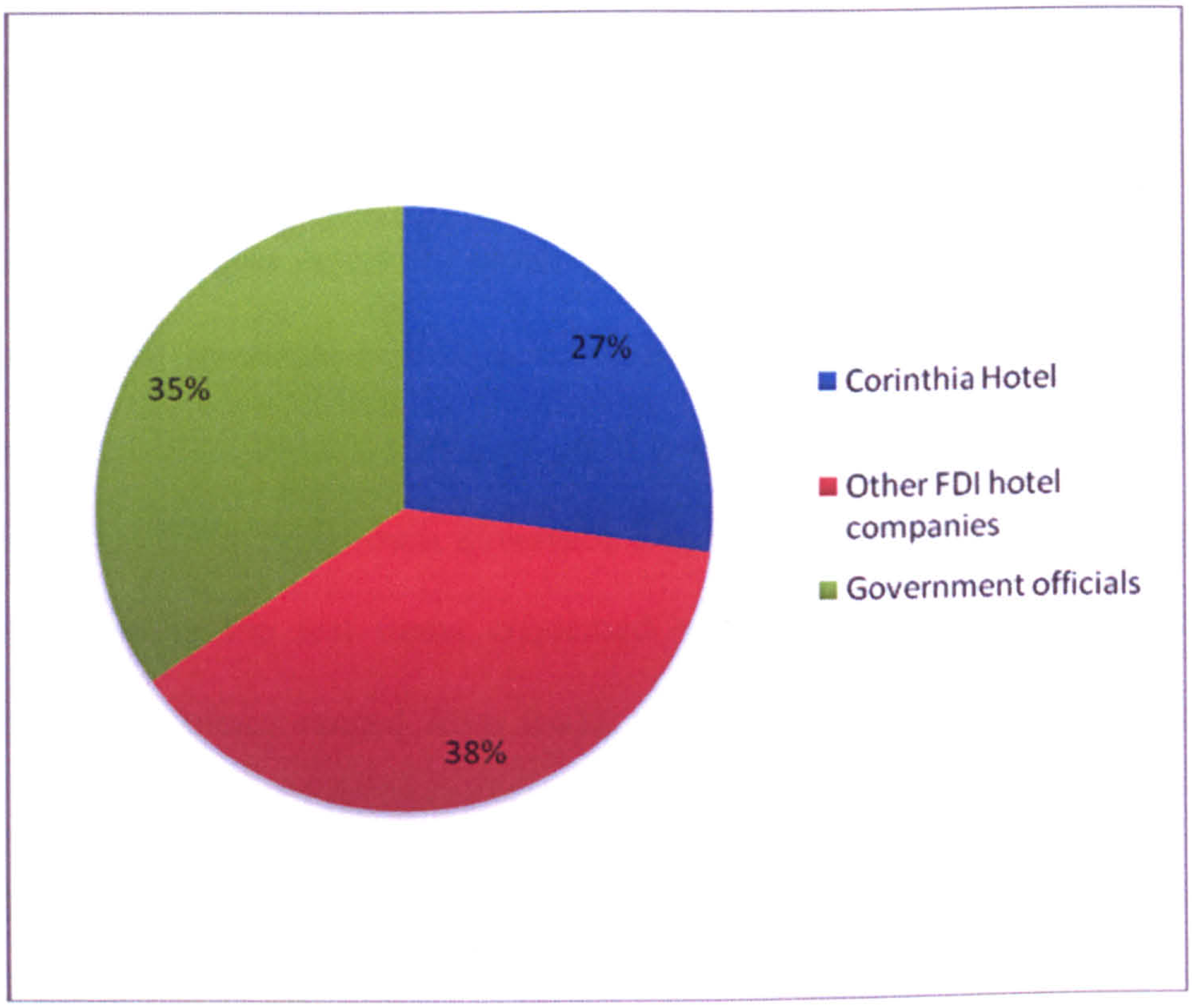
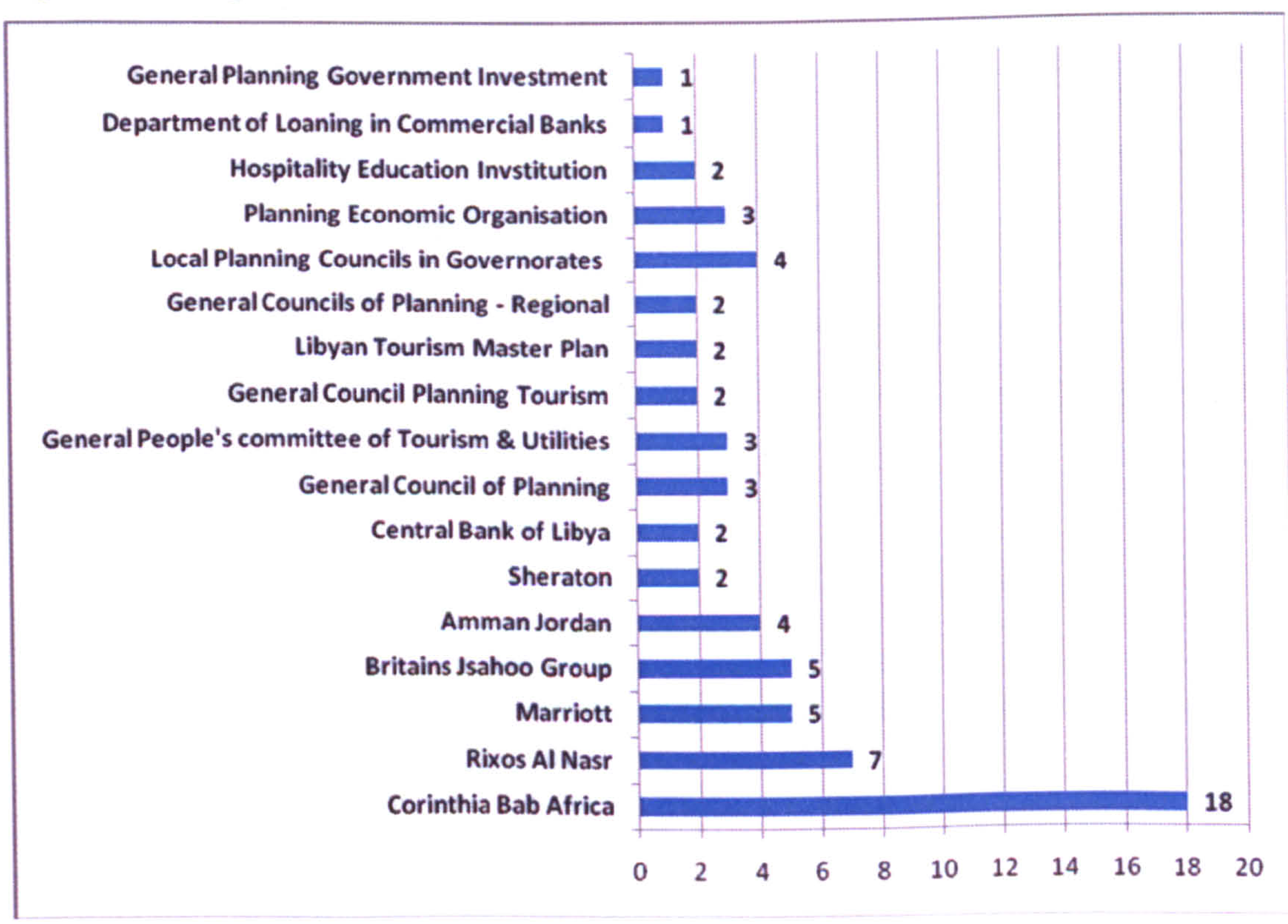


Figure 5.2 Proportions of data collected from different sources.



5.2.1 Reliability of analysis

At the beginning of the statistical analysis, the internal consistency of the questionnaire items was measured, using Cronbach's alpha test. As shown in table 5.1, the reliability of all dimensions is shown to be high using all thirty two items, since the overall alpha is 0.917, which is above the desirable level. The results indicate that the questions related to economic and administrative problems were reasonably consistent because they gave alpha scores of 0.864 and 0.881 respectively; this means that the items of each dimension measured the same construct. The inter correlation among the test items concerned with social, legal, institutional and infrastructure problems ranged from 0.611 to 0.708; which is somewhat low, but within the acceptable limits.

Overall, from the above it is concluded that all the items of the dimensions employed were internally consistent.

Table 5. 1: Output of Cronbach's alpha analysis for the questionnaire items.

Problem	Number of items	Alpha
All	32	0.917
Economic	10	0.864
Legal and institutional	3	0.611
Infrastructure	6	0.708
Social	6	0.655
Administrative	7	0.881

5.3 Factor analysis

This technique is used to uncover the important structures of a relatively large set of variables (items). This can be achieved by determining the number of factors and the loading of indicator variables on them. To apply factor analysis, it is assumed that each factor is associated with a particular subset of items. Therefore, in this particular study, after the extraction of factors each factor represents a specific problem that foreign investors have encountered.

Factor analysis is a statistical approach that can be used to analyze interrelationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). The statistical approach involves finding a way of condensing the information contained in a number of original variables into a smaller set of dimensions (factors) with a minimum loss of information (Hair et al., 1992).

Factor analysis attempts to identify underlying factors, or dimensions, that explain the correlations within the variables (item statements) that have been used, and further, to describe what the factors represent conceptually. The theoretical basis for factor analysis is that variables are correlated because they share one or more common component. In other words, correlations between variables are explained by underlying factors.

There are several different types of factor analysis, with the most common being principal component analysis, which attempts to find a linear combination of variables so that the maximum variance is extracted from the variables (Garson, 2005). It then removes this variance and seeks a second linear combination, which explains the maximum proportion of the remaining variance, and so on. In this manner, consecutive factors are extracted. Because each consecutive factor is defined to maximise the variability that is not captured by the preceding factor, consecutive factors are independent of each other. This is the principal axis method and results eventually in orthogonal (unrelated and uncorrelated) factors.

The second common type of factor analysis is principal factor analysis, also called principal axis factoring or common factor analysis. This is a form of factor analysis that seeks the smallest number of factors which can explain the common variance (correlation) of a set of variables, whereas the more common principal component analysis in its full form seeks the set of factors which can account for all the common and unique (total) variance in a set of variables (Garson, 2005).

The type of factor analysis used in the present study is exploratory factor analysis, and principal component factor analysis was performed. Because the study sought to ensure that the factors produced would be independent or unrelated to each other, the principal component factor analysis used a varimax rotation solution. The Kaiser-Meyer-Olkin measure of sampling adequacy (KMO statistic) and Bartlett's test of sphericity (Bartlett statistic) were used to confirm the data's reliability for factor analysis.

All necessary procedures that are required prior to factor analysis were conducted. The Kaiser-Meyer-Olkin (KMO) measure for objectives and items combined showed a value of 0.882, which confirmed the appropriateness of the data for exploratory factor analysis (EFA). Bartlett's Test of Sphericity also reached statistical significance (0.000), supporting the factorability of the correlation matrix. Based on these results, factor analysis proceeded, with principal component analysis (PCA) and varimax rotation with Kaiser Normalisation.

5.4 Corinthia Hotel Results

Table 5.2 presents how the number of factors that should be kept for further analysis was determined. This thesis follows the rule of thumb in order to select the number of factors; this method is based on Eigen values (the variance extracted by factors) greater than one. From Table 5.2, the first factor is the only one that has very large Eigen value with 32.44 % of the variance in the dataset. Factor 2 accounts for about

15%, and so on. The overall variance explained by the five factors is 75.37%, which is regarded as acceptable.

Table 5. 2: Eigen values and variance of factors with respect to the Corinthia Hotel

Factor	Eigen value	% of variance	Cumulative % of variance
1	10.379	32. 436	32. 436
2	4.821	15.066	47.477
3	3.183	12.011	59.487
4	2.727	8.521	68.009
5	2.355	7.358	75.367

Table 5.3 presents the loading factors as well as communalities. Through communality it is possible to assess the total of variance in each variable that can be explained by the reserved factors. The majority of the communality values that the percentage of variance associated with each item are relatively high. Using factor loading (correlation between each issue and factors) albeit was possible to assign particular items of investment issues to a particular factor. By looking at the loadings of each variable onto each factor, it was found that the majority of issues had a tendency towards factor one, which consists of eleven items. The remaining items were equally distributed among the four factors.

Table 5.3: Factor loadings and communalities for five factors with respect to the Corinthia Hotel.

Item	Factor					Communality
	Factor1	Factor2	Factor3	Fcator4	Factor5	
Lack of data on the Libyan market	-.093	.183	.375	-.374	-.719	.839
Size of the local market	.836	.238	.144	.110	.130	.805
Tax treatment	.728	-.408	.409	-.151	-.071	.892
Customs treatment	.928	.081	.086	-.042	-.206	.919
Exchange rate policy	.325	-.221	.855	.122	-.016	901
Banking services	.662	-.177	.619	-.053	.262	.878
Competition in the local market	.286	.719	.147	-.068	.101	.635
Poor performance of private sector	.607	.528	.315	.045	.012	.748
Marketing problems	.465	.735	.262	-.045	-.026	.826
Difficulties in finding a potential local partner	.049	.521	.435	-.231	.083	.523
Lack of simplification of the registration and licensing procedures of investment projects	.175	.881	.068	.212	-.141	.876
Difficulties in arranging meeting with government officials	.044	.906	-.219	.239	.044	.929
Lock of qualified and trained local workforce	.137	.646	.158	.241	.234	.573
Lack of investment data and technical information for interested investors	.651	.374	-.013	.482	-.077	.803
Lack of clear procedures for enrolment and residence of expatriates	.099	.865	-.313	.159	.128	.898
Lack of foreign schools	.834	.339	.035	-.065	.250	.878
Problems regarding transfer of salaries and remittance of profits	.648	.494	.165	.425	.036	.873
The size of investment required by the law	.293	.092	-.052	-.745	-.051	.654
Restrictions imposed on choosing a business location.	.096	.366	-.059	-.136	-.391	.318
Arbitration	-.036	.198	.764	.303	.052	.718
Lack of airports and associated services	.109	.189	.820	-.117	-.217	.780
Restriction imposed on choosing the location for business and operations	.919	.264	-.063	-.024	.100	.932
Lack of ports and associated services	-.069	-.063	-.024	-.930	.105	.885
Lack of hotels and associated services	.198	.446	-.339	-.332	.627	.856
Lack of a geographical map for the investment sites	.289	.436	.119	.739	-.017	.834
Communications and transportation	.035	-.235	.720	.212	.311	.717
Lack of security	.566	.178	-.339	.283	.514	.811
Lack of local experience of FDI	.205	.415	.612	.272	-.332	.772
Cultural differences between foreign investor and local nationals	-.052	.211	.319	.380	.451	.497
Weather and climate	.514	.171	.362	.030	.308	.519
Lack of awareness of the importance of FDI in the local culture	.176	.281	.300	.535	.103	.497
Difficulties in adapting to the local culture	.313	-.098	-.111	.045	.649	.534

5.5 FDI projects other than the Corinthia Hotel

Table 5.4 shows the result of applying factor analysis to the tourist hotel sector in terms of projects other than the Corinthia hotel.

Table 5.4: Extraction of factors with their variance

Factor	Eigen value	% of variance	Cumulative % of variance
1	10.012	31.288	31.288
2	5.153	16.104	47.393
3	3.275	10.236	57.628
4	2.748	8.587	66.215
5	2.293	7.166	73.381

Table 5.5: Factor loadings and communalities for five factors with respect to projects other than the Corinthia Hotel

Item	Factor					Communality
	Factor1	Factor2	Factor3	Fcator4	Factor5	
Lack of data on the Libyan market	.266	.054	.008	.125	-.764	.672
Size of the local market	.515	.652	.182	.042	.301	.816
Tax treatment	.117	.359	.787	-.018	.359	.891
Customs treatment	.140	.398	.075	.432	.707	.871
Exchange rate policy	.302	.123	.814	.340	-.039	.886
Banking services	.272	.403	.753	.112	-.032	.817
Competition in the local market	.848	.263	-.103	-.025	-.012	.799
Poor performance of the private sector	.705	.474	.203	.130	.088	.787
Marketing problems	.791	.278	.084	.252	-.027	.774
Difficulties in finding a potential local partner	.709	-.188	.415	-.102	-.259	.788
Lack of simplification of the registration and licensing procedures of investment projects	.797	.204	-.164	.179	-.028	.737
Difficulties in arranging meeting with government officials	.452	.183	-.753	.364	-.027	.942
Lock of qualified and trained local workforce	.231	.241	-.392	.542	-.309	.653
Lack of investment data and technical information to the interested investors	-.061	.400	-.116	.722	.308	.789
Lack of clear procedures for enrolment and residence of expatriates	.373	.240	-.809	.207	-.145	.916
Lack of foreign schools	.167	.604	-.118	.598	.228	.816
Problems regarding transfer of salaries and remittance of profits	.357	.661	.206	.440	.138	.820
The size of investment required by the law	.379	-.096	-.394	.265	.543	.672
Restriction imposed on choosing a business location.	.354	-.157	-.338	.068	.418	.444
Arbitration	.523	-.024	.549	.282	-.282	.740
Lack of airports and associated services	.580	-.189	.443	.505	-.029	.824
Restriction imposed on choosing the location for business and operations	.490	.654	.220	.016	.489	.955
Lack of ports and associated services	.099	-.198	-.175	-.509	-.039	.340
Lack of hotels and associated services	.284	.619	-.129	-.224	-.386	.679
Lack of geographical map for the investment sites	.503	.418	.026	.475	.053	.658
Communications and transportation	.171	.255	.776	-.105	-.366	.841
Lack of security	-.011	.861	-.032	.137	-.077	.766
Lack of local experience of FDI	.349	-.211	.037	.844	.016	.881
Cultural differences between foreign investor and local nationals	.200	.247	-.156	.260	-.350	.315
Weather and climate	.126	.596	.159	.262	-.021	.466
Lack of awareness of the importance of FDI in the local culture	.092	.103	-.114	.750	-.083	.602
Difficulties in the adapting to local culture	.040	.696	.123	.082	-.130	.524

Factor analysis was applied in order to discover and evaluate the differences between the effects of our study problems, rather than the effects themselves. Under this concept, we are interested in comparing the Corinthia hotel (first group) and other FDI projects in the hotel sector and government functionaries (second group). Thus, the two groups are considered as the basis of comparison.

Table 5.6: The results of issues based on Corinthia and other FDI projects.

Corinthia & others		Mean	Std. Deviation	t-statistic	p-value
Economic problems	Corinthia hotel	44.00	13.38	1.077	0.293
	Others	39.98	13.85		
Administrative Problems	Corinthia hotel	29.89	12.42	0.099	0.922
	Others	29.56	10.73		
Legal and institutional problems	Corinthia hotel	18.72	2.67	0.329	0.745
	Others	18.48	2.67		
Infrastructure problems	Corinthia hotel	28.61	5.39	0.461	0.648
	Others	27.90	6.17		
Social problems	Corinthia hotel	27.94	4.97	-0.328	0.745
	Others	28.40	5.09		

As shown in table 5.6, the economic problems experienced by the Corinthia hotel seem to be somewhat larger than for other FDI projects in terms of their mean values, which are 44 and 39.98, respectively. However, the t-test shows that this difference is not significant. Since the p-value = 0.293. With respect to administrative problems, the means of both groups are very similar, and as a result there is no significant difference as confirmed by the p-value, which is 0.99. Also, the same conclusion for administrative problems can be made for legal and institutional problems. Corinthia Hotel and others share the same degree of infrastructure problems and social problems; this is based on the large p-values. Overall, from the results of pervious issues, there is no particular problem that can be distinguished between the Corinthia Hotel and others.

Figure 5.3 Positions held by respondents.

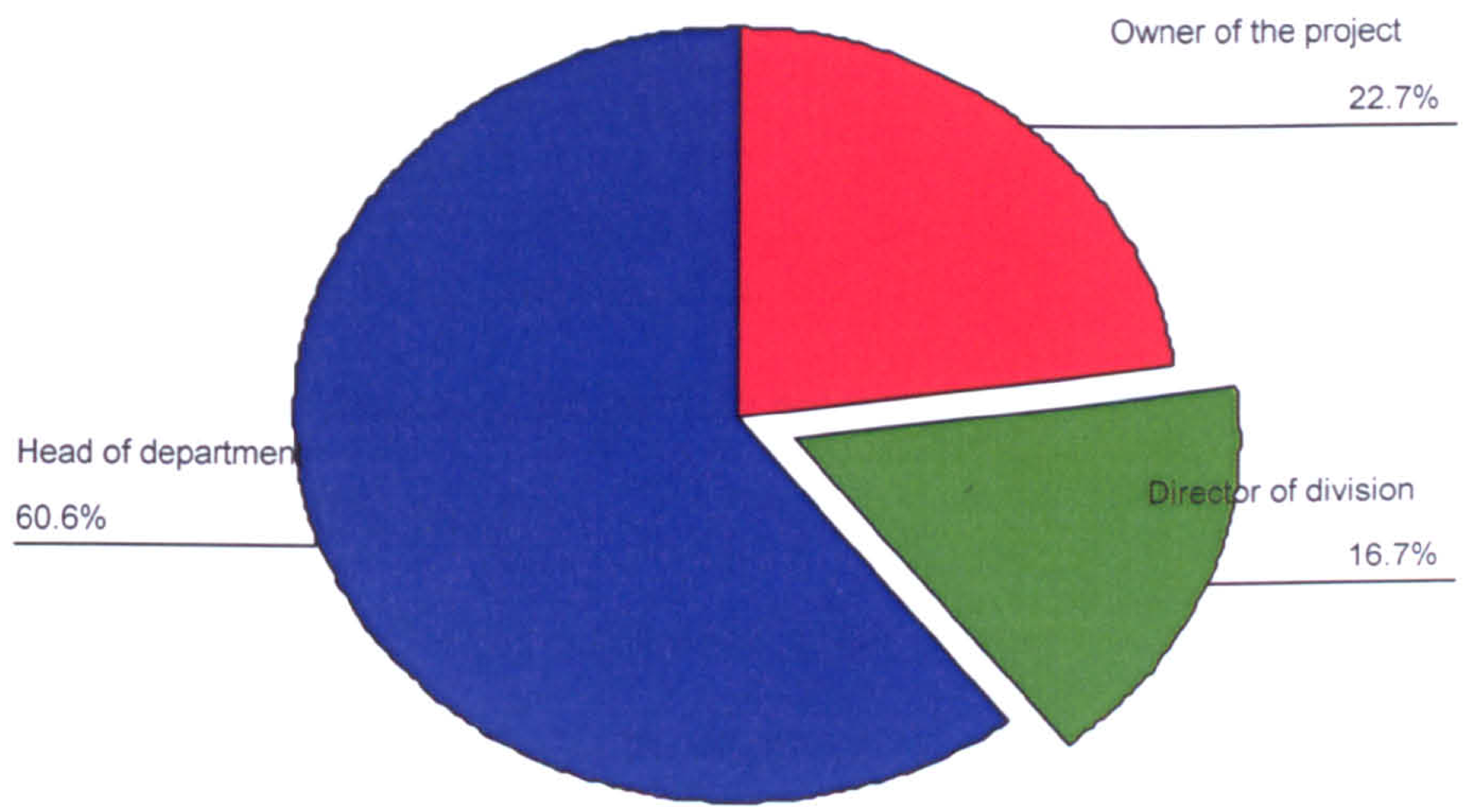
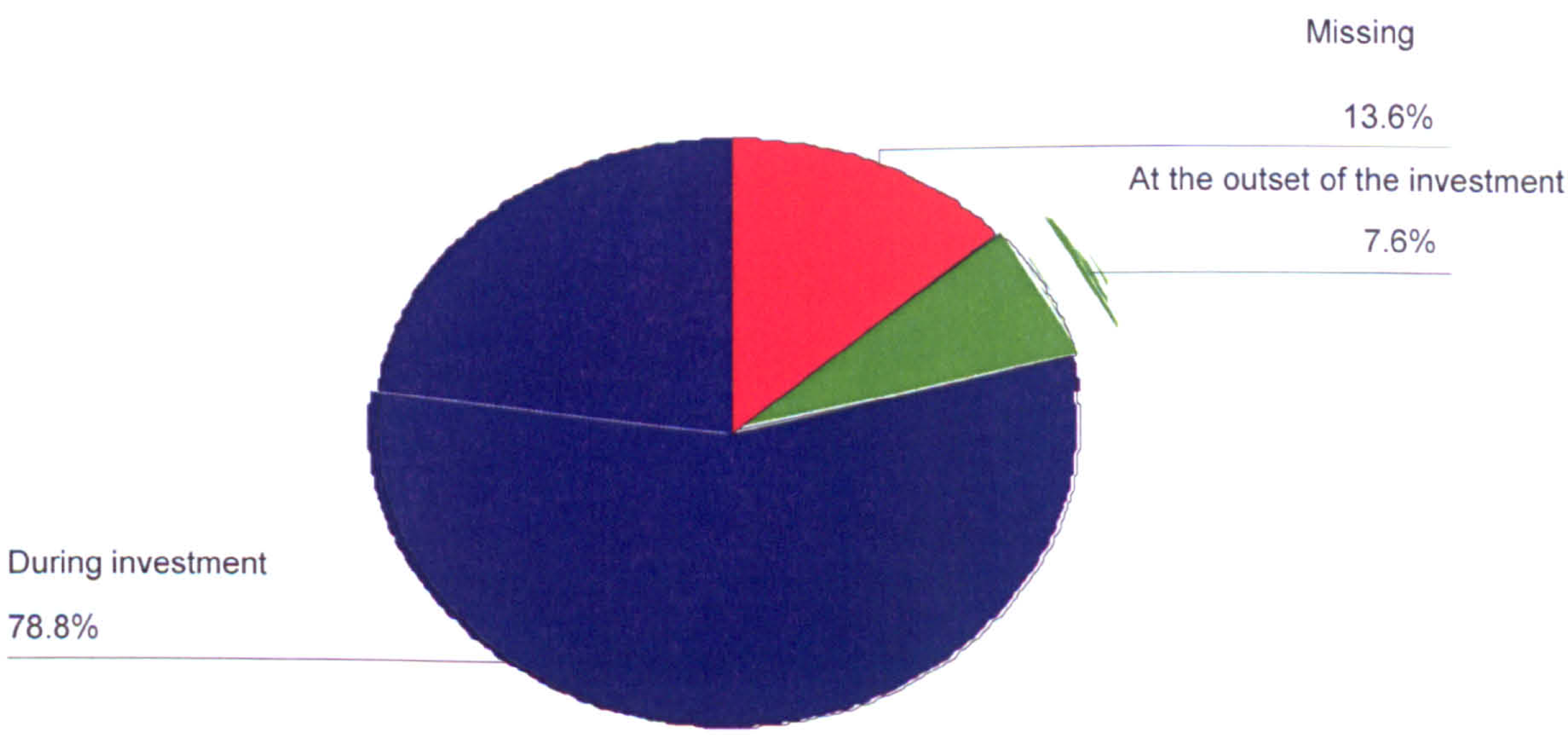


Figure 5.4 At What Stage of Investment Did of You Encounter Problems



Source: the author

1-Others – (The 'Second Group')

The factors investigated by the questionnaire given to representatives of FDI hotel projects other than Corinthia, and government functionaries with expertise of FDI are listed below:

Factor 1

5.5.1 Domestic obstacles

1- Competition in the local market.

2- Poor performance of the private sector.

3- Marketing problems.

4- Difficulties in finding a potential local partner.

5- Lack of simplification of the registration and licensing procedures for investment projects.

6- Lack of airports and associated services.

7- Lack of geographical map for the investment sites.

Factor 2

5.5.2 Economic obstacles

1- Size of the local market

2- Lack of foreign schools.

3-Problems regarding transfer of salaries and remittance of profits.

4- Restriction imposed on choosing the location for business and operations.

5- Lack of hotels and associated services.

6- Lack of security.

Factor 3

5.5.3 Finance obstacles

1- Tax treatment.

2- Exchange rate policy.

3- Banking services.

4- Difficulties in arranging meetings with government officials.

5- Lack of clear procedures for enrollment and residence of expatriates.

6- Arbitration.

7- Communications and transportation.

Factor 4

5.5.4 Obstacle to deal with FDI

1- Lock of qualified and trained local workforce.

2- Lack of investment data and technical information to the interested investors.

3- Lack of ports and associated services.

4- Lack of local experience on FDI.

Factor 5

5.5.5 Strategic obstacles

1-Lack of data on the Libyan market.

2-Customs treatment.

3-The size of investment required by the law.

5.6- Corinthia hotel

Factor 1

5.6.1 Local obstacles

1-Size of the local market.

2-Tax treatment.

3-Customs treatment.

4-Banking services.

5-Poor performance of private sector.

6-Lack of investment data and technical information to the interested investors.

7-Lack of foreign schools.

8-Problems regarding transfer of salaries and remittance and profits.

9-Restriction imposed on choosing the location for business the operations.

10-Lack of security.

Factor 2

5.6.2 Economic obstacles
1-Competition in the local market.

2-Marketing problems.

3-Lack of simplification of the registration and licensing procedures for investment projects.

4-Difficulties in arranging meetings with government officials.

5-Lock of qualified and trained local workforce.

6-Lack of clear procedures for enrollment and residence of expatriates.

Factor 3

5.6.3 Communication problems

1- Exchange rate policy.
2- Arbitration.
3- Lack of airports and associated services.
4- Communications and transportation.
5- Lack of local experience on FDI.

Factor 4

5.6.4 Administrative obstacles
1-The size of investment required by the law.

2-Lack of ports and associated services.

3-Lack of geographical map for the investment sites.

Factor 5

1-Restriction imposed on choosing the location for the business.

2-Lack of hotels and associated services.

This chapter aims to present the findings that were obtained from an analysis of the fieldwork data, and to compare and contrast these findings with the literature survey in a triangulation approach. For reliability and validity purposes, to gain access to the truth and achieve accuracy in the information used in the research, qualified persons with knowledge of the subject of the research where selected for the questionnaire and interview processes. The personal data reflects this, (see figures 4.1; 5.1).

5.7 Sample Justification.

The selection of the managers of the Corinthia hotel company was justified on the grounds that they had the deepest and most comprehensive knowledge of Libyan FDI systems from the perspective of a foreign company. All managers in Corinthia with relevant experience of the Libyan economy and FDIs were subject to questionnaire survey. Where possible the questionnaire findings were corroborated and further investigated through interview questions.

In terms of the managers of other FDI hotels, generally it was more difficult to meet with managers than was the case with Corinthia. As these companies had not yet started their operations, the managers were less likely to be on site, so those who were interviewed as a follow-up to the questionnaire tended to be those available when the researcher visited the companies' offices in Libya. However, with persistence and time, most of the respondents who had the greatest influence over FDI decisions were interviewed.

The government officials were the group most easy to make a selection from, and the researcher concentrated on departments of government with a relationship to FDI. This included sectors of government such as immigration, the Police, customs, the Central Bank of Libya and politicians responsible for the Libyan Tourism Master Plan. Those chosen for survey were senior managers with the greatest influence over the administration of current administrative policies who had close connection with FDI projects; for example, several FDI initiatives were developing in Janzour City close to Tripoli, including a new project for Cointhia, and the researcher targeted senior police and immigration officials working in this location to gain the greatest possible insight into FDI operations.

Given the case study nature of this research, sample size was not a specific issue, it was more important that all those involved in the FDI decision making process were included, as detailed above.

5.8 Accuracy of data

To ensure that the data collected from the questionnaire and semi-structured interviews was accurate and had the attributes of validity and credibility, the interviewees chosen all have knowledge and experience of FDI. 27.3% of the respondents were employees of the Corinthia Hotels group, and 72.7% others involved in FDIs, (40.9% government officers and 59.1% in other hotel companies) as illustrated in figures 5.1 and 5.2. This group (private companies) is more familiar with FDI obstacles in the hotel industry because it generally has a strong relationship with companies involved in foreign direct investment in the hotel industry, according to the habits and traditions of the Libyan economic system.

The Libyan tourism sector has adopted mixed concepts for hotels. While hotels are considered as a consumption commodity for the whole tourist trade according to a predictable trend, at the same time hotels are also considered as an essential and fixed commodity according to the tourism policy mentioned in chapter two.

During the period of the 1980s and the early 1990s, the Libyan government adopted a socialist policy towards hotels, as mentioned in section 3.4 of chapter 3, through policies such as the Public Hotels Policy, in order to improve and upgrade the hotels sector in different sites such as Tripoli, Misurata and Benghazi. However, several respondents mentioned that, despite the government's attempts, demand remained higher than supply in the hotels market due to the rapid economic growth of the coastal cities in particular: as a result, law (5) for FDI in 1997 increased the number of companies seeking to invest in the hotel sector. Despite this, the supply of hotel rooms increased only slowly, and the shortage of hotels in Libya started to become clearly more notable for most of society. 91% of the respondents to the questionnaires and interviews agreed that there had been a severe shortage in hotels in Libya for about the previous 25 years. This finding accords with a report of the General Council of Planning (GCP) presented to the General People's Congress (GPC) meeting in 2002, which highlighted the hospitality shortage in Libya.

The characteristics of the hotels crisis that accompanied the problem are most important. A majority of respondents (73%) identified a number of barriers to the completion of new hotels in the cities where demand was highest, particularly in terms of the instability and uncertainty engendered by the existing political system, and the lack of infrastructure necessary to support hotel development. There was also no clear plan to attract tourists, despite the fact that the Basic People's Congresses (BPC) placed the problem of the shortage of hotels at the top of their priorities following the emergence of the problem at the beginning of the 1990s (LTMP, 1999). A review of agenda items since 1990 reveals that not a single agenda failed to mention this problem. The Basic People's Congresses (BPC) strongly recommend providing these new sites with hotels at all of their meetings, and attempted by Law No .5 (1997) and Law No.7 (2003) to solve this problem through FDI, whilst trying to remove any obstacles from the path of foreign investors. In terms of barriers to FDI in the area of human resources, many respondents, particularly those employed by FDI companies, noted that a characteristic of the new Libyan society was that there were very few professional hotel workers. The respondents mentioned that the workforce of the Libyan hotel sector was dominated by workers imported from other oil-producing countries, and this was largely because more than 90% of local workers did not speak any language except Arabic, and many of them were also not highly productive, in the opinion of the respondents. This characteristic was one of the most notable observations recorded and was mentioned by 77% of the respondents.

From the questionnaires it should be noted that there were major shortages in construction materials, in particular in cement and reinforcement. Consequently, a black market appeared and the price rapidly increased: for instance the price of cement rose from LD37/ton to LD170/ton, and the price of reinforcement increased dramatically from LD130/ton to LD650/ton. 59% of the sample reported that the shortages of construction materials a major contributory factor to the shortage in accommodation and to attract FDI in this sector because more than 50% of FDI total cost in hotel industry is construction materials. In addition, the General Council for Planning (GCP) in its project for accommodation policy and urban development confirmed that the shortages of local construction materials were a characteristic of the shortage in accommodation. Furthermore, Porter and Yergin (2006) repeated the report of shortages of construction materials in the accommodation sector in Libya. The Secretary of the GCP mentioned the random construction phenomena and the building of shacks as one of the results of the shortage in accommodation in 2002. In addition, the majority of respondents (77%) agreed, and the observations of the researcher provided evidence that random construction has spread in most city suburbs. Due to a government desire for centralized planning, local urban planning ceased from 1985. Moreover, despite the small proportion of respondents (18%) who mentioning the lack of urban plans, the Under Secretary of the General Council of Planning (GCP), confirmed that there had been no urban planning conducted after 1980. This lack of urban plans led to increases in land prices, consequently leading to real estate price increases. It is worth noting that the increased the land price was a caused FDI obstacle and negative economic effects such as: increased hospitality prices and shortage accommodation and increased the local travel cost and create negative effect to attract the FDI in hotel sector.

5.8 Reasons of the shortage

Libya has faced difficult circumstances in the last three decades which have caused many economic and social problems; the wider economic and social problems have been excluded from this thesis, however, the accommodation crisis is linked to these problems. According to the research, there were a number of reasons behind this accommodation shortage, some of them internal and others external.

5.8.1. Internal Reasons

Through exhaustive study it has been found that internal causes fall under a variety of headings, such as: the state adopting overambitious targets; administrative system instability; population increases; local contractors' lack of experience; legislation that prevents leasing; a decrease in financial resources; constantly changing public targets; lack of an adequate urban planning framework; changes in the residential behavior of the population. These causes are examined in more detail below.

5.8.1.1 Adopting Overambitious Targets

As a result of abundant oil revenues, Libya was released from its debts and started to be self sufficient, so it became able to start development projects in various economic fields. Therefore an enormous amount of money has been allocated to development plans, in particular in the accommodation sector. Table 7.1 illustrates the allocated amounts compared with actual expenditure amounts in these development plans in the accommodation sector in the period 1970-1996. It is clear that there was a rapid increase in the amount allocated to development plans in the hospitality sector in the period 1970-1981; in addition to this, the actual expenditure was more than the allocated amount in some years.

For example, the actual expenditure to allocated amount ratio was 114.3% in 1970 and 102.2% in 1981. Allocated amounts for the housing development plans started decreasing from 1982 when Libya cut back expenditure after the USA and other nations imposed sanctions in 1982 because of the Lockerbie incident. Allocated amounts decreased, falling to LD91.8 million in 1989, and actual expenditure also dropped: for instance, it was only 41.4% of allocated expenditure in 1987. After that, the decrease in allocated amounts for housing continued. LD70 million was allocated in 1994, but the real expenditure was only 18% of this amount. A sharp decrease occurred in 1995 and 1996 where the allocated funds were only LD3 million and LD8 million respectively.

After 1982 the actual expenditure started to decline irregularly. The actual expenditure ratio also dropped to 17.1% in 1991 and 18% in 1994, this decrease in actual expenditure indicates that the main difficulties were in hospitality project development plans rather than the ability of the authorities to provide finance. It is worth noting that the shortage in hotels is a result of accumulations of previous plans. The targets contained in these plans were bigger than the states capability to manage funding them without delays due to corruption and mismanagement.

The execution ratio in hotels was 60% in the five year plans for 1970-1975 and 1976-1980, and it was 67% in the plan for 1981-1985. After this, development plans in hospitality stopped, as mentioned in the General People's Committee for Planning, Economics, and Trade's study entitled "Evaluation of Policies in Jamahiriya" in 1997. What is more, Michal Porter (2003) in the General Tourism Board Report stated that 12,000 planned hospitality units were not completed from the period 1979-1985. Furthermore, 73% of the respondent sample affirmed that they considered the inability to attain the planned targets and a decrease of the execution implementation ratio were important reasons for the shortage in hospitality accommodation.

5.8.1.2 Administrative System Instability

From the 2nd of March 1977, Libya adopted a socialist regime, which resulted in a lot of changes in the Libyan government administration. Systems for both the high level (decision makers) and low level (decisions implementers) were changed several times, often in convergent periods. Mergers of some of the General Peoples' Committees (Ministries) occurred sometimes, follows by their abolition at other times. According to the new regime the General Peoples' Committee for Hospitality was established on the 2nd March, 1977, subsequently it merged with the General Peoples' Committee for Utilities to form a new body named the General Peoples' Committee for Hospitality and Utilities on the 3rd March, 1982. The next change was the abolition of the General Peoples' Committee for Hospitality and Utilities on the 7th October 1990. The General Peoples' Committee for Hospitality was re-established on the 29th January 1996. Subsequently, once again the General Peoples' Committee for Hospitality was abolished and it became a subordinate of the Assistant Secretary for Service Affairs, under the General Peoples' Committee in 2001.

It then became an independent administration headed by the General Auditor, which is a subordinate of the General Peoples' Committee, in 2002 (General Peoples' Committee, 2005). On the other hand, changes at lower levels were more rapid than at high levels. Sometimes change happened every year or even more frequently. 83% of respondents confirmed that administrative instability caused a worsening of the hospitality shortage.

The merger and separation of provinces (administrative districts) was one of the other significant causes which resulted in administrative instability. As a result of this instability, the contracts of national and local public hotel projects became confused. At the same time contractors could not carry out their commitments and were undermined in their rights, which made them unable to accomplish their contractual obligations. Administrative instability was considered as one of the most significant causes which led to the decline in development levels in the Libyan economy (Al-Megharbi, 1993) and generally, it can be said that many of the changes in administrative organisations and the resulting administrative instability were a real cause for unsuccessful development plans in whole sectors of the Libyan economy, including hospitality.

5.8.1.3 Local Contractors' Lack of Experience

During the construction phase of hospitality prefects which were begun, many difficulties occurred with foreign contractors. The most significant cause for the decline of implementation levels was that the government did not complete its contractual commitment with contractors as a result of arguments about hard currency payments, and delays in payment installments (General Board for Hospitality, cited in Porter, 2003). In addition, 67% of respondents agreed that the government's refusal to commit to their contracts led to an inability to complete accommodation projects. As a consequence many foreign contractors left Libya. Those that stayed received a smaller share of the available contracts.

The Libyan policy trend in hospitality adopted since the 1990s has been to encourage hospitality companies to make arrangements with local Libyan contractors. In executing and sometimes investing in the Libyan hotel sector, it became apparent that most of the local contractors suffered experience weaknesses in executing large scale hotel projects. 68% of respondents to the questionnaire confirmed that this was a problem, a view supported by the General Board for Hospitality (2003). As a result of the deterioration of the contracting apparatus and in spite of attempts to re-organise many times, it became even harder to satisfy the growing demands in this sector. An absence of local qualified and skilled labor in the construction sector led to near total dependence on foreign companies and labor (General Council of Planning, 2002).

5.8.1.4 Legislation That Prevents Leasing

As a result of Libya's adoption of a socialist regime, it became illegal to own private property for leasing purposes. To quote the country's leader, "the hotel is a basic need of both the public and private tourism plans. Therefore, it should not be owned by others." (Al Gaddafi, 1975, p. 53). As a consequence, legislation that prevents leasing was established. One of most important laws was Act no. 4, (1978), which prevented leases. As a result, these laws prevented activities for profit and stopped rental housing, and prevented the private sector from building houses for leasing purposes. A study the General People's Committee for Planning, Economics, and Trade (1997) pointed to a lack of private sector participation in the housing sector. Moreover, 88% of the interview sample confirmed that the legislation that prevented leasing was an important cause of the hospitality shortage.

5.8.1.5 A Decrease in Financial Resources

To finance the Libyan hospitality sector three methods were adopted. The first method was financing by government, whereby investment in hospitality infrastructure was a part of the planning budget allocations. This was the predominant form of finance, especially in the early years of Libya's socialist period, because of ample oil revenues and the government's desire to reform the internal situation.

Therefore, the Libyan government adopted a public hospitality policy as one of the policies mentioned previously in chapter three. However, because of the oil price drop from $35.69/barrel in 1981 to $11.21/barrel in 1998 (13P, 2005), in addition to other political issues which caused a decline in exported oil quantities and therefore revenues, this affected the development budget negatively, and led to a decrease in the ability of the state to finance projects. The next form of financing adopted was through loans and mortgages from commercial banks, which in effect encouraged lending as the implication of personal capabilities policy as mentioned in chapter three. However, this system suffered procedural complications, (for example, Porter, 2006, ranked Libya 98 out of 100 countries that had difficult banking procedures) and restrictive laws, hence it became inefficient. The third method was a dependence on individual savings from the people to implement the personal capabilities policy as mentioned previously. The problem with this policy is that 51% of the Libyan workforce consists of government employees, as cited in the Porter report (2006), while Dr. Ghanem, the Secretary of the General People's Committee (SGPC, Prime Minister, 2004) stated that the percentage of government employees was more than 70% of the formal workforce. 400,000 of 800,000 government employees work in public education, whereas a figure of 8%-10% is an regarded as an acceptable percentage of the workforce to employ in the public sector, as confirmed in the Porter Report. However, the majority of public employees' monthly incomes are low, with

95.7% of them earning less than LD500 a month and 85% less than LD300 per month (General Board of Information, 2002, p. 51). These low levels of income are insufficient for even essential goods, and when matched by equally poor income levels in the private sector, there is little left for saving and investment. (For comparison with incomes levels in the UK, £l = 2.367 LD, Central Bank of Libya, 2005). The governor of the Central Bank of Libya, in a letter dated 30.11.1994 to the Secretary of General People's Committee, requested an extension to the period for 6,000 units of accommodation from three years to five years due to financial difficulties. This letter is evidence of the lack of financial resources available to the hospitality sector. Furthermore, 58% of the respondents said that government financial difficulties were one of causes of the shortages in the hospitality sector.

5.8.1.6 Constantly Changing Public Targets

The crucial feature at the beginning of the period 1970-1995 was the government's policy of total service provision to all people. These services included hospitality.

As a result, huge amounts of the development budget were allocated to the hospitality sector, and following the economic and political events in the first half of the 1980s this led to the previously noted decrease in amounts devoted for the hotel sector, which consequently resulted in changing targets and priorities. Because the government had total control over hospitality provision, changes in government revenue dictated the amounts spent on hospitality infrastructure and accommodation.

5.9 External Reasons

These reasons could be divided into: the effects of economic sanction; boycotts by foreign companies; and a fall in oil revenues.

5.9.1 The Effects of Economic Sanction

Libya faced sanctions because of political issues; the USA hurried to impose sanctions on Libya in 1982, and this situation continued up to 2004 (despite the attempts of US Business groups, led by oil companies that hold concessions in Libya, to persuade the US administration to ease a trade ban that was imposed on Libya in 1986). The UN Security Council imposed sanctions on Libya in 1992 to press Tripoli to hand over two suspects wanted for the 1988 bombing of a US Pan American Airways airliner over Lockerbie, Scotland.

These sanctions placed Libya in severe economic circumstances, and this led to economic shrinkage in all sectors and a development recession. This harmful economic situation affected the accommodation sector, similar to the rest of economy. 76% of interviewees saw the sanctions as having a crucial effect on the FDI in an accommodation sector and it was one of the reasons cited for shortages in hotels in both direct and indirect ways.

5.9.2 Boycotts by Foreign Companies

Many foreign companies which had previously operated in Libya boycotted the country in obedience to the UN decision No. 748 for 1992 and decision No. 883 for 1993 which placed Libya under sanctions. The departure of these companies led to stops and delays in many projects, as a result of which the accommodation sector was affected. Lack of hard currency and payment delays also led to the withdrawal of many other multinational companies; as a result completion dates were delayed extensively (Benkrima, 2001; El-Hasia, 2005). For instance, according to the decision of the Secretary assigned the task of implementing a project for 60,000 accommodation units (General Housing Board Report, 2002), due to the low efficiency of those companies assigned to complete this project and their lack of experience there was a minimal level of implementation. The interviewees agreed that the success rate of the state in resolving the problem was low. Half of them believed that the success rate was less than 20%, while 40% of respondents said the rate of success was less than 40%.

5.10 The reasons that hindered solving the hospitality problem

The most important reasons for the failure of hospitality shortage solutions were obtained from the documentation as secondary data. The interviewees' answers as primary data were: Legislative reasons; administrative reasons; political reasons; and economic reasons. These reasons are examined in more detail below.

5.10.1 Legislative reasons

After a comprehensive survey of Libyan laws concerning the hospitality sector, one can notice that Libya adopted socialism as an eco-political regime and started establishing a number of laws that prevented private sector activities.

More than 70% of the local respondents indicated the most important acts that led to a failure to solve Libya's accommodation problems were law No. 4 (1987), which prevented ownership of more than one house for each family. This law continued to apply until law No. 11 (1992) established the right for some categories of people to own more than one house. Moreover, it gave some institutions and companies' the right to build accommodation unit for rent as investment projects. In addition, there was a lack of convincing law applicable to society developments in ownership and leasing issues. Moreover, there was an absence of laws that guaranteed banks return on loans by legal distaining.

The severe tenor of these laws combined to prevent the private sector from contributing to solving the problem of Libya's accommodation shortages. New legislation established later gave the right to own dwellings for leasing, such as law

No. 11 (1992), and law No. 14 (1995), law No. 21 (1998),and law No 5 (1997) which now encourages the private sector to construct dwellings for sale and lease (See appendix three).

5.10.2 Administrative reasons

Administration procedures play a crucial role in the development issue in all economic activities. The absence of efficient administration led to a waste of time and resources without achieving the state's targets. Through a survey of the General People's Congress, it was evident that administrative instability was one of the reasons for failure. 63% of the respondent's answers confirmed that administration problems had led to unsuccessful solutions. The rapid changes of the responsible officers led to ignorance of the previous procedures, and the starting of new ones. Therefore, a great deal of money and time were wasted. Moreover, 52% of respondents thought that choosing responsible officers in the councils directly by elections was not efficient, while the short period in they had in office been another reason. Furthermore, 83% of the sample affirmed the absence of any action to respond to a problem at the beginning and a failure to analyses it systematically. This led to the problem growing to a crisis level.

5.10.3 Political Reasons

Adopting a socialist regime in Libya as a political system led to a decline in the private sector and reduced individual initiatives and personal aspirations. These political attitudes affected the whole economy, and consequently led to a failure in terms of the effectiveness of solutions. 78% of respondents said that the changing administrative system in governmental institutions as a result of political decisions caused confusion in decision implementation. 66% of them saw that political decisions to repudiate finance obligations had affected the amounts dedicated to development plans. 59% of respondents responded that a delay in solving external political problems in which Libya was implicated had led to further accommodation difficulties.

5.10.4 Economic Reasons

Economic reasons were identified by respondents as the most important of the authorities' failed attempts to solve the shortage in accommodation. More than 87% of respondents confirmed that the dependence on unqualified local efforts to solve the Libya's accommodation problems was the crucial reason for failure. The authorities gave a great many opportunities to local companies to implement its building plans; unfortunately, these local companies abused this chance to benefit from differences in the exchange market for building materials, where variations between the official market price, and the black market price were large. In addition, 72% of respondents stated that one of the significant reasons for the failure of government plans was financial policies that depended on personal savings. This was implemented without knowing the public's ability to offer sufficient financial resources for individual housing projects. A weakness in the efficiency of commercial banks was also an important reason in the failure of the solutions. This was confirmed by 72% of the interviewees. This weakness led to an inability to manage payment installments.

The aggregate of missed installments reached LD428.6 million in the period 1971-2001. That led to a decrease in the lending ability of banks. Moreover, 61 % of respondents indicated that the absence of studies in advance for the cost of house construction led to incorrect estimates, and as a result inappropriate loan amounts. The loan amount permitted by the state (LD15, 000) was less than half the typical building cost of a house. 57% of respondents also reported that the urban planning departments lag in the implementation of new plans for new projects was one of the reasons for failure. This insufficiency led to a mushrooming of housing units, randomly located to areas which lacked the infrastructure and healthy conditions for effective community development.

5.11 Negative Effects of the Accommodation Shortage

Many negative effects of the accommodation shortage appeared in the second half of the 1980s. These negative effects affected social life in Libya: tor example, the deferred marriage phenomena meant that the average marriage age increased to 35 years for a male and 27 years for a female, having previously been 22 -25 years for a male and 18 - 20 for a female in the 1970s. In addition, 95% of interviewees indicated that deferring the marriage age was one of the most important negative effects on Libyan society. One of the other most often observed negative effects of the accommodation shortage was an increased reluctance to marry, and the new phenomenon of unmarried young people became a prominent part of Libyan society. 91% of respondents confirmed that the accommodation shortage had caused an increased reluctance to marry among Libyan youth. The spread of the sale of the lease phenomenon (sub-letting is the comparable UK term) in Libyan society emerged as a result of the lack of accommodation supply. One impact was that landlords incurred huge costs in evicting illegal tenants. 82% of respondents were definite that sub-letting was one of the major negative side effects of the accommodation shortage.

This sub-letting also included dual-tenancy occupation, which is when the resident leaseholder allows another family to occupy the same residence.

Furthermore, 78% of respondents considered fraud on property and occupancy laws to have been a negative effect that happened due to the continuing shortage of accommodation.

This behavior became more notable following the1980s and severely affected Libyan society. Approximately 61% of respondents identified an increasing divorce rate as one of the negative effects of the shortage in accommodation: the Libyan Statistic Book, (2002), records that the divorce rate reached 5.8% in 2001. From local observations, it can be said that the shortage of hotels was also a contributory cause for an increase in the cost of hospitality, which had effects on society as a whole by making social and employment travel more difficult.

The semi-structured interviews provided a number of other negative effects which resulted from the FDI obstacles of tourism and an accommodation, together with some minor observations which did not appear in other sources of data. 50% of the respondents reported that the shortage of hotels was a reason for family disintegration. In addition, 32% of respondents also reported that the spread of administrative corruption in the tourism sector was a reason for the hotel shortage. Both of these latter findings were substantiated by the secondary literature sources: for example the report entitled Finance Barriers in the Hospitality Sector (1996) The incident of the People's Committee report into the 6,000 hospitality units that were not completed by local contactors illustrates the size of the finance problem. In addition, a letter from the Secretary of the General People's Committee on 08/09/1997 to the Secretary of the Secretariat in the General People's Congress illustrates the difficulty of obtaining local construction materials. Through the interview analysis, 86% of respondents said that the reluctance of the private sector to invest in hospitality because of the issue of Law No. 4 (1978) was a crucial dilemma for the hospitality sector, which represented one of the major barriers to finance.

These difficulties in obtaining finance were due to a number of factors. Correspondence between the Central Bank of Libya (CBL) and the General People's

Committee for Hospitality (GPCH), led to the decline of private sector efforts to obtain finance for hospitality projects, therefore contributing to the reduction in hospitality construction.

In addition to the above, a further barrier to investment in accommodation was the inefficiency of commercial banks and their dependence on the Central Bank of Libya (CBL), which possesses the lion's share of their funds, and which means that these banks are unable to make their own decisions, especially in their policy with regard to hospitality loans. The results of the interviews illustrated that 91% of respondents confirmed that the weakness of efficiency of the commercial banks was a reason for the lack of finance in hospitality.

Furthermore, total funds for hospitality shown in the development plans were insufficient, especially after 1984. The amounts allotted for hospitality decreased generally, for instance the amount dropped from LD208.2 million in 1984 to LD3 million in 1995, (see table 7.1) and the actual expenditure ratio fell more sharply in most years, by as much as 50% in some years. 52% of respondent's identified shortages of funds in accommodation development plans as a reason for the finance barriers. Private loan amounts for housing purposes were insufficient, and the original permitted amount of LD15, 000. Even when increased to LD30, 000, as mentioned previously, was still too little to finish construction of an average tourism hospitality dwelling. 56% of respondents said the size of the maximum available loan caused finance problems in the accommodation sector during the last two decades which have negative effect to attract FDI in hospitality sector.

5.12 Other Factors Affecting the Accommodation Sector

There are some additional factors that affect the accommodation sector indirectly. For instance, the extent of availability of construction materials has a large affect on construction, and in this study 60% of respondents reported that the availability of construction materials amounted to only 50% of their needs. Moreover, the General Council for Panning report on Project Housing Policy and Urban Development in 2002 illustrated the shortages of local construction materials. The General Council for Planning report on Project Accommodation Policy and Urban Development in 2002 also reported the scarcity of skilled labor in the accommodation sector as affecting construction and proposed this as a major reason for the accommodation shortage and 55% of respondents also mentioned that the scarcity of skilled local labor (due to a lack of special training institutes for construction) was one of the crucial reasons for the shortage in accommodation. 55% of respondents also reported that the lack of a training infrastructure could be a major reason for the disruption of accommodation construction, but no other source was found to confirm this.

5.13 Public Satisfaction with Accommodation

The desire of Libyan people to build their own houses (affirmed by 55% of respondents), despite a shortage of loans as mentioned before, made them resort to buying ready-built houses and paying for them in installments. Generally, the inhabitants are not fully satisfied with these houses, with 73% of respondents reporting only moderate satisfaction. Their dissatisfaction can be attributed to a number of reasons: 73% of respondents were unsatisfied because of the narrowness of dwellings; 73% said the reason was the high occupier ratio in the dwellings. A further reason was the shortage of separate rooms in the dwellings, mentioned by 69% of respondents. In addition, 60% of respondents said the age of the dwellings and absence of maintenance was a major reason for their dissatisfaction with their dwellings. Bilghit, (2007) also confirmed the general dissatisfaction with the country's stock of accommodation.

Chapter six: Findings

6.1 introductions

This chapter concludes this study on obstacles of FDI in the Libyan tourism sector in the context of the Libyan hotel sector. Section 6.2 presents a review of the research objectives and highlights the major research findings. This is followed by a section linking research findings with research questions (section 6.3). The significant contributions of the study in relation to theory and practice are outlined in sections 6.4 and 6.5 respectively. The study limitations and suggestions for future research are set out in section 6.6. The chapter concludes with the researcher's final thoughts on the research process in section 6.7.

6.2 Review of research objectives

6.2.1 Objective one

To identify the advantages FDIs bring to the Libyan tourism sector, using Corinthia as a case study.

The research findings revealed that the Libyan government has identified Hotels as a key element in the tourism industry. This study focused on the FDI a model of tourism development as one with the potential to improve the Libyan tourism sector to achieve alternative sources of foreign exchange. The advantages of the Corinthia Hotel were analysed in-depth to establish how FDI issues relating to the hotel sector are addressed. Preliminary research was undertaken through questionnaires and semi-structured interviews with hotel managers to get their views on FDI obstacles, as addressed in the Libyan economy. Furthermore, according to the World Travel and Tourism Council (WTTC, 2003) the Libyan tourism industry is expected to grow and gradually become more prominent within the Libyan economy. There are increasing signs of the willingness of the Libyan government to encourage the tourism sector to develop and grow independently, without much interference from the public sector.

The laws passed, and the creation of the Ministry of Tourism in 2003, are some of the indications of the intentions of the Libyan government to move in a more liberal direction with regard to the Libyan tourism industry. However, this does not release the government from its major role as the provider of the infrastructure needed to develop the industry. These issues underline the main reasons behind the development of the Libyan Economy to attract FDI to the hotel sector through the Libya tourism master plan (LTMP) 1998-2018.

The LTMP sets out the major plans necessary to develop the tourism industry in the country and promote it to the international community. It estimates an 80% increase in the demand for people to work in tourist establishments to meet the needs of future tourism development. However, the plan does not state explicitly estimate staffing levels (staffing rates) and competencies required to enable the tourism industry, in particularly the hotel sector, to carry out future functional requirements to meet the forecast demand. Given the results from the current study, where specialist hospitality expertise is highlighted as an issue, the plan downplays these concerns. There is a need for a curriculum review and practical training aimed at ensuring that the Hospitality Education Institutions (HEI) graduates match the needs of the Libyan hotel sector. This is an important finding and the Corinthia Hotel's main potential advantage to the LTMP is to reduce the obstacles facing FDI in the hotel industry in the Libyan economy, through the knowledge and experience they have already developed in this regard, being the first FDI hotel in Libya.. All of Corinthia's knowledge in this area has been hard-won through experience of operating in the Libyan market, and this is not knowledge they would necessarily be prepared to share with competitors.

6.2.2 Objective two

To investigate the main risks which foreign investors may face in the Libyan hotel sector.

This second objective was achieved through a critical review of the literature on FDI theory, the Libyan economic development and Libyan investment law. This was followed by a focused literature review on alternative FDI models to inform the adaptation of a unified theoretical model. The literature review highlights the critical importance of systematic approaches to FDI and economic planning in the development of tourism and hospitality investment and the enhancement of accommodation quality and destination competitiveness. The main risks encountered by FDI operations are with the facilities offered by a state in the economic field. The knowledge, skills and attitudes of that operation is critical to the FDI encounter. Thus, the task of reducing FDI risks has a heavy reliance on FDI operation and it is of crucial importance to getting an advantage by having the right skills in the right place at the right time. Another key issue emphasized in the literature review is that FDI dominates the hotel sector operation, particularly in Middle East and North Africa countries, such as Egypt, Tunisia. The low levels of experience available in the hotel sector operation have contributed significantly to the pay gap between local and foreign workers in these countries. Additionally, the majority of local investor in the hospitality sector does not have enough capital to fund these operations. Furthermore, the amount of private investments in the hotel sector in the majority of Arab countries is low. Many of the tourism investment patterns in the hotel sector do not fit with the prevailing Islamic norms and traditions in relation to women's work. As a consequence, women tend to decline or refuse to work in all anti-social work circumstances, which represent an essential component of the business activities (Kattara, 2000; Ibrahim, 2004; Kattara, 2005). It was clear from the literature review that FDI would be a panacea to the majority of tourism operations and the hospitality market. Different elements of various FDI models were researched in detail and were brought together as a unified model (figure 3.3) which was used to study FDI law issues in the hotel sector in Libya. The key issue is that currently there are only a limited number of foreign companies for tourism/hospitality in Libya and the development of a FDI model would address this issue by creating a qualified FDI programme which would reduce the investors' risks in the future.

6.2.3 Objective three

To determine the ability of current levels of foreign direct investment in the Libyan tourism sector to meet the needs of the Libyan economy.

This should provide a basis for comparing the Libya economic growth before foreign investment in tourism sector and after foreign investment in this sector. As a result, this study considers the Corinthian FDI hotel in Tripoli as a case study. Due to this, 72% of the respondents from the Corinthia Company came from the Corinthia hotel in Tripoli. Hotel managers, HEI staff and government officials were consulted to determine the FDI role in the Libyan hotel sector. Because this hotel, beside being the first FDI in hotel industry in Libya, is considered as the first five star hotel in the city, from the two impressive towers that dominate the shoreline of the Mediterranean sea, to the interior luxury befitting a world class destination, the Corinthia Hotel is significant as a tourist site in cosmopolitan destination of Tripoli. It is strategically located in the centre of the business district, and the hotel also offers proximity to the cultural activities of the city. Being suitable for leisure or business travellers, this hotel has set new hospitality standards in the area, offering first-class service in a way not previously offered by Libyan-run hotels. However, more emphasis was put on the second part of the question (ability analysis) so as to address the key problems facing the foreign investor in the Libyan hotel sector identified by the key stakeholders interviewed. There are four key steps to the FDI ability analysis phase of the FDI model identified by the FDI hotel managers in the Libyan economy: administrative, economic, social and political problems. Despite these shortcomings the majority of the key stakeholders supported FDI in hotel as a powerful tool to improve productivity in the Libyan tourism sector. Again the majority of the FDI and the government representatives expressed the need for a central organisation to be responsible for tourism and development in the hotel sector and the FDI obstacles in the hotel industry. Although there was a strong feeling amongst different experts that strong government support will ensure the implementation of articulated tourism development strategies and plans of action, as well as facilitate the FDI programmer in the hotel sector development some of the main responsibilities of different key stakeholders in the government and FDI are outlined below:

i) Government:

- Initiating FDI in the hotel sector;
- Overseeing the implementation of FDI;
- Evaluation of FDI process and outcomes;
- Funding of tourism education;
- Participating in tourism curriculum review;
- Formulating favorable education and training policies;
- Formulating favorable employment policies and legislation in relation to recruitment remuneration and terms and conditions of service;
- Co-operating and collaborating with other key stakeholders in the Libyan hotel sector.

ii) The hotel sector and FDI:

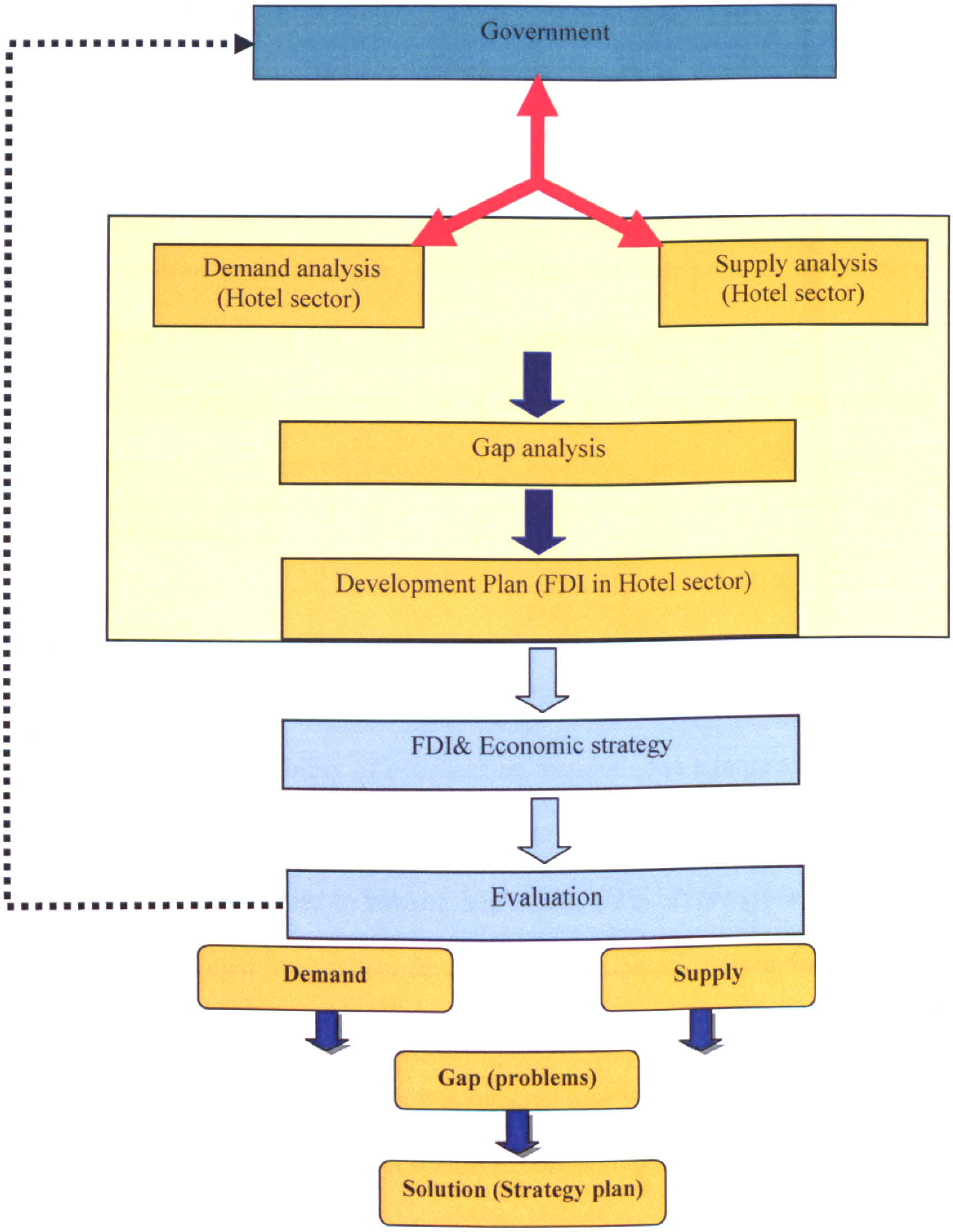
- Better linkage between the hotel sector and FDI

- Participating in the development, implementation and evaluation of FDI;
- Informing the government of their long-term planning needs;
- Creating an interdependent and cooperative relationship through exchange of education and training plans, sharing of information and exchange of expertise, curriculum review and work placements.

It can be said that the government's role in the hotel sector in Libya was that it continued playing a significant role as a funding resource from the beginning of the study period in the 1970s until 1997, despite the bottlenecks in the 1980s. In this period the government built hotels and allocated them to the tourism sector. The government assumed control of the planning process and the provision of land for construction. However, it cannot continue to play the same role because of its limited financial resources and increased workloads. In addition, government bureaucracy has caused untenable delays in all procedures, and it has become clear that the government is unable to do everything itself and that the private sector should be given an opportunity to participate according to the real estate market mechanism. Through the evaluation period of this study, policies, which relied entirely on the government for their success, were not always accomplished, and after a comprehensive survey of Libyan laws concerning the hotel sector, one can notice that the problem arose after Libya adopted socialism as an eco-political regime and started establishing a number of laws that prevented private sector activities.

More than 70% of the respondents indicated the most important acts that had led to the failure of tourism sector projects were law No. 4 (1987), which prevented ownership of hotels and more than one house for each family. This law still applied, until law No. 11 (1992) established the right for some categories of people to own more than one house and private hotels. Moreover, it gave some institutions and companies the right to build houses for rent as investment projects. In addition, there was a lack of a convincing law applicable to social developments in ownership and lease issues. Moreover, there was an absence of laws that guaranteed banks a return on loans by legal distaining. The effect of these laws was to prevent the private sector from contributing to solving the problem of accommodation shortages. New legislation established later, gave the right to own dwellings for leasing, such as law No. 11 (1992), law No. 14 (1995), and law No. 21 (1998), which now encourages the private sector to construct dwellings for sale and lease.

Figure 6.1: Proposed best practice FDI Model for the hotel sector in Libya



6.3 Political Reasons

Adopting a socialist regime in Libya as a political system led to a decline in the private sector and reduced individual initiatives and personal aspirations. These political attitudes affected the whole economy. Consequently, there was a failure in terms of the effectiveness of the solutions the government proposed to a whole range of problems, because there was no incentive to people to work towards these solutions. 78% of interviewees said that the constant changes in administrative systems in the governmental institutions as a result of political decisions caused confusion in decision implementation. 66% of them saw that political decisions to repudiate finance obligations had affected the dedicated amounts for development plans. 59% of interviewees responded that a delay in solving its external political problems hampered the efforts of the Libyan government, and led to further delays and tourism difficulties.

6.4 Other factors

There are some additional factors that affect the FDI in the hotel sector indirectly. For instance, the extent of availability of construction materials has a large affect on FDI in hotels, and in this context 60% of respondents reported that the availability of construction materials amounted to 50% of their needs. 73% of interviewees affirmed that the scarcity of skilled local labour (due to a lack of special training institutes for hospitality) was one of the crucial reasons for the shortage of qualified and skilled employees in the hotel sector. 55% of respondents also reported that the lack of a training infrastructure was a significant reason for disruption in hotel construction, but no other source was found to confirm this.

6.5 Legislation to Attract FDI.

Legislation plays a significant role in attracting FDI, and the literature related to FDI verified that foreign investors are attracted to countries which have suitable legislation such as commercial law, laws which organise FDI, laws for entry into the country etc. In addition, both sides, foreign investors and the host country, affirmed to what extent attractive statutes were important for FDI as they answered in the questionnaires and semi-structured interviews. 86% of interviewees and 64% of questionnaire respondents confirmed that legislation to support FDI was important. Libya has issued a number of laws to attract FDI, for instance law No. 5 for (1997), which was then modified by law No. 7 (2003), to make it more appropriate.

Legislation is not enough, but activation of these statutes is becoming more important. From secondary source observations, Libya has issued several laws but their application was not efficient enough, and as a result foreign investors need to feel that Libya is serious in its desire to attract FDI.

6.6 Political and Administrative Stability

Foreign direct investment tends to flow to countries that have political stability, as mentioned in chapter three. 35% of questionnaire respondents' answers mentioned Libya as a country that has a stable political system, and this is considered as favourable for attracting FDI, however, despite this stability at a national level. The importance of stable and consistent administrative systems to the completion of investment procedures is perceived as a weakness for Libya, which has often suffered from administrative instability. Questionnaire respondents and interviewees both affirmed that administrative stability was a significant factor in attracting FDI. Moreover, the observations of the researcher suggested continuing difficulties in administrative procedures; particularly in the payment of instalments, which that political stability had failed to achieve in Libya, whereas 63% of the interviewees stated that this instability had caused the cancellation of contracts with foreign companies in the hotel sector.

6.7 Existing transportation and communications

Providing FDI for transportation and communication projects in a host country is considered as an attractive factor in attracting further FDI in other sectors which can benefit from infrastructure developments. Studies of FDI included in the literature review pointed to the importance of transportation and communication, such as telephone lines, internet connections, highways, and other infrastructure. Observations confirm that Libya suffers from a lack in high quality transportation and communication means, but also that it had started to improve them recently.

57% of questionnaire respondents verified that the existence of good transportation and communications affected their investment decisions. Libyan interviewees did not mention this issue.

6.8 Freedom of Movement for Funds

Capital movements between countries are a crucial factor in attracting FDI, because it is impossible to invest without freedom of movement of funds in and out of the host country. FDI theories depend on the idea of movement of capital, from rich countries to countries which desire to host these funds. In this respect the Libyan authority has aimed to host FDI by allowing movement of capital, establishing new laws to make movement of capital in and out of Libya more freely achievable, as shown in the survey of Libyan documentation. In addition, investor respondents and interviewees confirmed the importance of freedom of movement of capital: 78% of questionnaire respondents and 86% of interviewees' answers affirmed this as an important determinant of FDI.

6.9 Additional Remarks

After a review of the target samples of the field study's answers, there are several remarks worth noting. These remarks can be listed as follows:

There is a desire from both sides (hosts and investors) to participate and benefit from the contribution of FDI to national resources; FDI investors considered the transparency and provision of adequate information about the investment climate in Libya to be a critical factor when taking decisions, and therefore prefer to enter by joint venture deals, which Libya is prepared to accept. Foreign investors accept a reservation is necessary to engage in projects under full ownership clauses to provide full protection of their rights and that there is a good opportunity for participation between Libyan companies and foreign investors;

Trust is still not sufficient for foreign investors in Libya due to a lack of information; foreign investors cannot invest a huge amount of capital, in large projects such as hotel construction, which take a long time to be established without additional changes.

In terms of the advantages of joint venture participation both sides agreed to a number of positives in the participation between foreign direct investment and local companies, and most agreed on the advantages. Examples of some of the comments given by interviewees are: "Foreign direct investment entry provides skills for local employees"; "Spreading FDI leads to the creation of new job opportunities for local workers"; " This participation provides advanced know-how for the local market"; "foreign investors' experience contributes to a reduced cost of work"; all of these comments suggest a benefit to the Libyan economy in terms of the transfer of knowledge and skills and a consequent increase in productivity. It is clear that the high technology that foreign investors utilise produces better qualities of production, and that joint venture participation leads to advancement in knowledge.

6.10 Summary

This chapter is the backbone of this study, where the results of the analysis of the primary data are presented. The results have been analysed and discussed and triangulated with other sources. This chapter presents, in the first section, the FDI obstacles to hotel industry and the reasons they exist, and at the same time defines the attempts to overcome these barriers and the reasons for their lack of success. The second section highlights the possibility of the Libyan economy attracting foreign direct investment contributions to overcome its tourism problems, of which the shortage of accommodation is the most serious. It defines the conditions that should be provided to make this effort a success from the viewpoint of both sides. The next chapter will summarise this study and present the final recommendations derived from the results of this chapter.

Chapter seven: Conclusion and recommendations

7.1 Introduction

This chapter aims to present the findings that were obtained from the analysis of the fieldwork data, and compare and contrast these findings with the literature survey in a triangulation approach. For reliability and validity purposes, to gain access to the truth and achieve accuracy in the information used in the research, qualified and knowledgeable persons on the subject of the research where selected for survey through a questionnaire and semi-structured interviews. The personal data on the respondents reflects this.

7.2 Discussion of findings

To ensure that the data collected from the questionnaire and semi-structured interviews was accurate and had the attributes of validity and reliability, the interviewees chosen all had knowledge and experience in FDI, 27.3 % of the interviewees were employees in the Corinthia Hotels group, and 72.7% worked in other FDI hotel companies or were government officials, (of whom 40.9% were government officials and 59.1% represented other FDI hotel companies) as illustrated in figures 5.1 and 5.2. This group is familiar with obstacles to FDI in the hotel industry because they generally have a strong relationship with foreign companies in the hotel industry. In accordance with the habits and traditions of the Libyan economic system, the Libyan tourism sector has adopted a mixed concept with regard to hotels. While hotels are considered vital to the expansion of tourism as a sector, there has been a lack of progress in enacting the kind of reforms likely to attract FDI, such as a policy to ensure the adequate provision of a trained and skilled workforce for the hospitality sector. During the period of the 1980s and the early 1990s, the

Libyan government adopted a socialist approach to hotels, (as mentioned in section 3.18 of chapter three), with policies such as: the Public Hotels Policy for the Improvement and Upgrading of the Hotel Sector (1977) in Sites such as Tripoli, Misurata and Benghasi.

Despite the government's attempts to invigorate the hotel sector, demand always remained higher than supply due to the economic growth in the coastal cities in particular, while at the same time law No. 5 for FDI (1997) decreased this supply,

The shortage of hotels in Libya that had started to become a problem at this stage became clearly more notable for most of society as time went on. 91% of the respondents to the questionnaire and interviewees agreed that there had been a severe a shortage in hotels in Libya for about 25 years. In addition, a report of the General Council of Planning (GCP) presented to the General People's Congress (GPC) meeting in 2002 highlighted the hospitality shortage in Libya.

The characteristics of the hotels crisis that accompanied the problem are most important. The difficulty of obtaining new hotels for cities was identified by the interviewees (73%). In addition, the Basic People's Congresses (BPG) placed the problem of the shortage of hotels at the top of its priorities following the emergence of the problem at the beginning of 1990s and until now. When reviewing agenda items since 1990 not a single agenda failed to mention this problem. The Basic People's Congresses (BPG) strongly recommend providing these new sites with hotels at all of their meetings, under the provisions of Law No. 5 (1997) and Law No, 7 (2003), to solve this problem through FDI and try to remove any obstacles facing the foreign investor.

Another characteristic has appeared and it is new to Libyan society, which is the drastic shortage of professional hotel workers. As a result it has been necessary for foreign investors to import skilled workers from other countries, mainly from the Middle East, because more than 90% of local workers cannot speak any language except Arabic, and are often unwilling to undertake the kinds of menial manual tasks which are a major part of the hospitality industry. This characteristic is one of the notable observations of this study and was mentioned by 77% of its interviewees. From the questionnaire, it should be noted that there are also major FDI obstacles in factor one, economic problems, (see table 3, chapter five.)

Amongst the most important economic obstacles to FDI identified by this study were: size of the local market, tax treatment, customs treatment, banking services (especially exchange rate policy), poor performance of the private sector, and in particular in lack of investment in collecting and providing data and technical information to the interested investors. Consequently, economic problems must be considered as serious obstacles to FDI in the hotel industry in the Libyan economic field. The second factor in this research included economic and administrative problems, and in difficulties in arranging meetings with government officials, lack of simplification of the registration and licensing procedures of investment projects, and a lack of clear procedures for arranging residence for expatriates are the principle administrative barriers to FDI into the hotel sector in Libya. The third factor was designed to assess the institutional problems representing obstacles to FDI such as a lack of airports and associated services, and arbitration, which have negative impacts on attracting FDI to hotels in Libya. Factor four, as given in table 3.5, identifies the lack of ports and associated services, the size of investment required by law, and the lack of geographical maps for the investment sites as some of the obstacles to FDI in the hotel industry in Libya. The last factor identified in this research included obstacles such as restrictions imposed on businesses in their choice of location. In addition, the General Council for Planning (GCP), in its project for tourism policy and urban development, confirmed that a lack of the necessary infrastructure was characteristic of the Libyan economy in the tourism sector. Moreover, Porter and Yergin (2006) reported shortages of construction materials in the hotel sector in Libya, and obstacle also mentioned by respondents to this study.

In addition, the majority (77%) of Corinthia respondents were generally in agreement with the observations provided as evidence that factor one (economic obstacles) represented a large degree of the barriers to FDI in the hotel sector in Libya (see table 5.3, chapter five). Moreover, despite the small ratio of respondents from outside and within the Corinthia (18%) who mentioned social problems, the Under Secretary of the General Council of Planning (GCP) confirmed that there had been no official urban plans after 1980. This lack of urban planning led to lack of geographical maps for the investment sites, consequently, leading to real restrictions imposed on the choice of locations available for investment operations, as shown in factor five, (see table 5.3, chapter five).

It is worth noting that the shortage of hotels causes negative tourism effects such as: increased accommodation cost rates; decreases in tourist numbers; high occupancy rates in existing hotel units; decreases in job opportunities. These negative social effects were mentioned by 45% of Libyan government interviewees.

7.2.1 Reasons for obstacles

Libya has faced difficult circumstances in the last three decades that have caused many economic and social obstacles in the hotel industry linked to these problems. According to the research, there are a number of reasons behind these obstacles, some of which are internal and others external. The wider economic and social problems have been researched in this thesis, however, from the perspective of their effect on FDI. The reasons are identified below, categorised into internal and external reasons.

7.2.2 Internal reasons

Through exhaustive study it has been found that internal causes fall under a variety of headings, such as: the adoption of overambitious targets; the weakness of the administrative system responsible for FDI; fluctuations in the financial resources available for investment; constantly changing public targets; lack of adequate urban planning; changes by the government in the FDI law.

7.2.3 Adopting overambitious targets

As a result of its abundant oil revenues, Libya was released from its indebtedness and started to be self sufficient, and as a result it became able to begin developmental projects in various economic fields.

Thereafter an enormous amount of money was allocated to development plans, in particular in the tourism sector. Table 7.1 illustrates the allocated amounts compared with actual expenditure amounts in these development plans in the accommodation sector in the period 1970-1996. One can recognise that there was a rapid increase in the amounts allocated to development plans in the housing sector in the period 1970 - 1981; in addition to which the actual expenditure was more than the allocated amount in some years. For example, the actual expenditure to allocated amount ratio was 114.3% in 1970 and 102.2% in 1981. Allocated amounts for accommodation development plans started to decrease from 1982 when Libya cut back expenditure following the imposition by the USA of sanctions in 1982 because of the Gulf of Sidra incident (1982). In line with allocated amounts decreasing, to reach LD91.8

million in 1989, the actual expenditure also dropped. For instance, it was only 41.4% of allocated expenditure in 1987. After that, the decrease in allocated amounts for development policy continued.

As an example of fluctuations in investment, a sum of LD70 million was fixed in 1994, and the real expenditure percentage was only 18%.

A sharp decrease occurred in 1995 and 1996, when the allocated funds were only LD3 million and LD8 million respectively. Libya now has to deal with the consequences of this long-term underinvestment, with very low-levels of high quality accommodation units, a hotel sector which has failed to keep pace with economic development in different areas of the country, and an administrative system that acts as a drag on investment projects rather than an aid.

Table 7.1 Allotted amounts and actual expenditure in development

Year	Allotted amount (AA)LD Units	Actual expenditure (AE) LD Units	% AE to AA
1970	32.8	37.5	114.3%
1971	39.9	39.4	99.7%
1972	72.9	72.2	99.0%
1973	76.9	60.9	79.1%
1974	148.2	146.9	99.1%
1975	142.7	128.3	89.9%
1976	150.5	138.3	91.8%
1977	185.0	175.1	94.6%
1978	231.0	152.7	66.1.0%
1979	166.0	167.8	101.0%
1980	231.7	224.0	96.6%
1981	288.2	294.6	102.2%
1982	245.6	237.0	96.4%
1983	217.6	221.3	101.7%
1984	208.2	184.0	88.3%
1985	168.6	143.6	85.1%
1986	167.5	126.6	75.5%
1987	142.0	58.8	41.4%
1988	138.8	77.3	55.6%
1989	91.8	97.6	106.3%
1990	100.0	86.9	86.9%
1991	289.7	49.8	17.1%
1992	70.0	19.1	27.2%
1993	-	-	-
1994	70.0	12.6	18.0%
1995	3.0	14.7	490%
1996	8.0	42.6	532.5%
Total 70-96	3,686.6	3,009.6	81.6%

Source: General People's Secretariat of Planning, Economics, and Commerce (1997), the national Accounts -1980- 1996 pp. 21-28

7.2.4 Instability in Administrative Systems

From the 2nd of March 1977 Libya adopted a socialist regime, which resulted in a complete overhaul of Libyan government administration. As a result, decisions about the strategic direction of the economy became concentrated in the hands of a narrow elite, while below this level administrative functions were distributed by popular vote and held for very short periods, with the result that functions lacked any consistency and often remained unfinished or were abandoned. Mergers of some of the General Peoples' Committees (Ministries) occurred sometimes, to be followed soon after by their abolition. In accordance with the beliefs of the new regime, an all-encompassing bureaucracy was developed to oversee every aspect of economic activity, but instead of ensuring efficiency, it could be argued that this system stifled innovation and ensured that Libya was an unattractive environment for FDI. In this context, 83% of interviewees confirmed that administrative instability had caused a worsening of the obstacles to FDI in the hotel industry, because hotels were a part of the tourism committee.

The merger and separation of provinces (administrative districts) was one of the other significant causes which resulted in administrative instability. As a result of this instability, national and local public tourism projects contracts became confused for the both the foreign and local investor, who were often unsure to which authority they should apply for licences and permits. At the same time contractors could not carry out their commitments and were undermined in their rights, because having signed a contract with one administration they found that it no longer existed, or that they were building their project in a new administrative district, which made them unable to accomplish their contractual commitments. Administrative instability was considered as one of the most significant causes which had led to the decline in development levels in the Libyan economy (Al-Megharbi, 1993) generally, it can be said, that many of the changes in administrative organisations and the administrative instability were a real cause for unsuccessful development plans in whole sectors of the Libyan economy, including FDI into the hotel sector.

7.2.5 Political system obstacles

Libya adoption of a socialist regime enabled the government to take control of and nationalise the principle revenue making sectors in the economy, especially the oil and gas industries. However, it also meant that concepts of private ownership were rejected in other areas, for example in the area of accommodation where it became illegal for private individuals to own properties for leasing purposes. Libya's leader observed that "accommodation is a basic need of both the individual and the family. Therefore, it should not be owned by others" (Al Gaddafi, 1975, p. 53). As a consequence legislation that prevented the leasing of private property was established. One of most important laws in this respect was act No. 4, (1978), which prevented leasing as a business activity. As a result, these laws prevented activities for profit and drastically reduced the availability of rental accommodation and prevented the private sector from building houses or hotels (FDI or otherwise) for leasing purposes. The General People's Committee for Planning, Economics, and Trade study (1997) pointed to a lack of private sector participation in the accommodation sector. Moreover, 88% of the interviewees and respondents to the questionnaire sample confirmed that the legislation which prevented leasing had been an important obstacle to FDI in the hotel industry during the previous two decades not only in the hotel industry but in all accommodation sectors.

In the early years following Libya's adoption of a socialist economic system with shared ownership of the means of production, financing by government was a part of the planning budget allocations. This was the predominant form of financing for the building of hotels in this period, and the ample oil revenues available, together with the government's desire to reform the internal situation, meant that considerable resources were invested in tourism infrastructure, especially accommodation. Therefore, the Libyan government's adopted public accommodation policy is one of the policies that were mentioned previously in chapter three. However, because of a number of adverse economic conditions such as the dramatic falls in the global oil prices in the early 1980s and 1990s, the imposition of sanctions by the UN, the US, the EU and other international bodies, and the lack of flexibility in the Libyan political system, funds allocated to tourism projects fell to very low levels, and in some years even these amounts were not actually spent. In addition to this, the political system not allowed the private sector to invest in any private tourism projects.

Porter, (2006), ranked Libya 98 out of 100 countries that had inefficiencies and restrictive laws in their banking procedures, and this meant that even when private individuals were allowed legally to invest in tourism projects, the necessary funding and support was not available from the Libyan banking industry. Furthermore, the savings ratio of the Libyan public was low, providing limited capital for large investments outside the influence of the national treasury. Porter, (2006) identifies 51% of the Libyan workforce as government employees, while Dr. Ghanem, the Secretary of General People's Committee (SGPC), a position equivalent to that of Prime Minister, in 2004 claimed in a speech that the percentage of government employees was actually more than 70% of the formal workforce. Of these, 400,000 of 800,000 government employees work in public education, whereas 8% - 10% is generally accepted as a percentage of the workforce to be employed in the public sector, as confirmed in a statement by Michal Porter (Report, 2006).

Moreover, the incomes of the majority of public employees are low, and 95.7% of them earn less than LD500, with 85% earning less than LD per month (General Board of Information, 2002, p. 51). These low levels of income are insufficient for even essential goods, and when combined with equally poor income levels in the private sector, there is little left for saving and investment In the evidence collected for this study, 61% of the respondents said that the government's financial difficulties were one of causes of the shortages in foreign direct investment in the hotel sector. In addition, 57% of the sample interviewees said the constant changing of targets in the different periods caused the neglect of accommodation as a priority for the government. As a further drain on the funds available for investment domestically, the political problems that Libya became involved in led to the expenditure of reparation money to rectify previous mistakes: for example, Libya paid US$2.7 Billion to the USA and UK to resolve the Lockerbie issue.

7.2.6 Lack of adequate urban planning

A study on accommodation policies prepared by the General Council for Planning Act No. 23 for (2002) identified the main cause of the accommodation shortage as the lack of contemporary urban planning. The previous plans ended in 2000 (General Council for Planning, 2002), yet the efforts to prepare new urban plans still suffer from a great many complications. As a result, land prices have increased rapidly and sharply. Furthermore, 78% of the interviewees affirmed (and in particular 100% of Managers of Urban Planning in the Shabiat, or Regional Authority) that a lack of up-to-date urban plans had contributed significantly to an increase the obstacles to FDI in the hotel industry, (see table 5.3).

7.2.7 External reasons

These reasons can be divided into: the effects of economic sanctions; boycotts by foreign companies; and reductions in oil revenues.

7.2.7.1 The Effects of Economic Sanctions

Libya faced sanctions because of a range of political issues; the USA imposed sanctions on Libya in 1982, and some of these continue. The UN Security Council imposed sanctions on Libya in 1992 in order to place pressure on the Libyan government to hand over two suspects wanted for the 1988 bombing of a US Pan American Airways airliner over Lockerbie, Scotland. The combination of these sanctions placed Libya in severe circumstances, and this led to economic shrinkage in all sectors of the economy and a development recession. This harmful economic situation affected the FDI in different sectors of the Libyan economy, especially the tourism sector (hotel industry), in line with the rest of economy. 76% of respondents saw the sanctions as having had a crucial effect on the Libyan economy and tourism sector, and they were one of reasons cited for shortages in foreign direct investment in both direct and indirect ways in the hotel industry during this period.

7.2.7.2 Boycotts by foreign companies

Many foreign companies boycotted Libya, in obedience to the UN decision No. 748 (1992) and decision No. 883 (1993) which placed Libya under sanctions. The result of these boycotts was that much expertise was lost to the Libyan tourism environment, besides the obvious loss of investment and customers. (Benkrima, 2001; El-Hasia, 2005). This meant that many development projects in process when sanctions were imposed were not finished, or were taken over by Libyan companies who lacked the necessary skills and resources to complete them to a high standard. When asked about the success rate of this kind of project, 50% of respondents to this study believed that the success rate was less than 20%, while 40% of respondents said that the percentage of success was less than 40%.

7.2.7.3 Reasons for Libya's failure to overcome obstacles to FDI.

The most important reasons for the failure of FDI barriers solutions were obtained from the documentation as secondary data. The interviewees' answers as primary data identified Libya's failure to overcome FDI obstacles as: economic reasons; administrative reasons; political reasons; and social reasons.

7.2.7.4 Economic Reasons

After a comprehensive survey of Libyan laws concerning FDI in the hotel sector, it is noticeable that Libya adopted socialism as an economic-political regime and began by establishing a number of laws that prevented private sector activities. More than 70% of the respondents indicated that the most important acts that led to the failure of Libya's policies with regard to accommodation were law No. 4 (1987), which prevented the ownership of more than one house by each family. This law still applied, until law No. 11 (1992) established to give the right for some categories of people to own more than one house. Moreover, it gave some institutions and companies' the right to build houses or hotels for rent as investment projects. In addition, there was a lack of convincing law applicable to social developments in ownership and lease issues. These laws, combined with the poor savings ratio of the Libyan public and the inefficiencies and administrative limitations of the banking industry, meant that private investment in accommodation was completely unable to make up the shortages caused by the government's falling revenues and the loss of money and expertise caused by the departure of foreign companies from Libya.

7.2.7.5 Administrative Reasons

Administration procedures play a crucial role in the development issue in all economic activities. The absence of an efficient administration led to a waste of time and resources without the achievement of targets. According to a survey conducted by the General People's Congress (2005), it was evident that administrative instability was one of the reasons for the failure of Libya's hotel development projects. 63% of the interviewees' answers confirm that administrative problems had led to unsuccessful solutions and that the rapid turnover of the officers responsible for functions such as planning, licensing and training led to ignorance of previous procedures, and the introduction of new ones. As a result, a great deal of time and money were wasted. Moreover, 52% of respondents thought that the policy of choosing responsible officers in local councils directly by elections was not an efficient method, and combined with their short period in office meant that consistency and reliability were impossible to achieve. Furthermore, 83% of the sample affirmed the absence of action to respond to a problem at the beginning and a failure to analyse to such problems systematically. This led the problem to grow to a crisis level.

7.2.7.6 Political Reasons

The adoption of a socialist regime in Libya as a political system led to a decline in the private sector and reduced individual initiatives and personal aspirations. These political attitudes affected the whole economy. Consequently, there was a failure in terms of the effectiveness of solutions proposed to problems which required policies the government was unable or unwilling to provide: 78% of interviewees said that the changes in the administrative system of the governmental institutions as a result of political decisions had caused confusion in decision implementation. 66% of them felt that political decisions taken to repudiate finance obligations had affected the amounts dedicated for development plans. 59% of interviewees responded that a delay in solving the external political problems that Libya was implicated in, led to further obstacles to FDI in the hotel sector in Libya.

7.2.7.7 Social and Financial Reasons

In the opinion of respondents to this study, social reasons occupied the first rank in terms of the authorities' failed attempts to solve the barriers to FDI in the hotel sector: More than 87% of respondents confirmed that the dependence on unqualified local efforts to solve the FDI problem was the crucial reason for failure. The lack of local experience in FDI was considered as the most important social problem, (see factor 3, table 5.3, p. 135) this as a result of a lack of awareness of the importance of FDI in the local culture. A weakness of efficiency in education and training in fields such as hospitality, language, and banking was an important reason in the failure of the solutions attempted. This was confirmed by 72% of the respondents.

In addition to the above, the inefficiency of commercial banks and their dependency to the Central Bank of Libya (CBL) - which holds the majority of their funds - made these banks unable to make their own decisions, especially with regard to the policy of hospitality loans. The results of the questionnaire illustrated that 91% of respondents confirmed that the weakness in the efficiency of the commercial banks was a reason for the lack of finance available for investment in private accommodation.

Furthermore, total funds for accommodation shown in the development plans were insufficient, especially after 1984. The amounts allocated by the government for investment in accommodation fell, and there were no institutions or private individuals able or allowed to compensate for the difference. Due to the low savings ratio of the general population, organisations and individuals were unable to obtain loans of sufficient size from the Libyan commercial banking system. 56% of interviewees said the size of the maximum available loan had caused finance problems in the hotel sector.

7.3 Other factors affecting FDI in the hotel sector

There are some additional factors which affected FDI in the hotel industry indirectly. For instance, as mentioned earlier, the availability of construction materials had a major effect on FDI in accommodation, with 60% of respondents reporting that the availability of construction materials amounted to only 50% of their needs. This scarcity had several causes, with the various sanctions imposed on Libya being the most obvious. However, the lack of government control over the distribution of materials allocated to construction projects meant that a great many construction materials were misappropriated and ended up being sold illegally, sometimes for export. A further problem was the lack of well trained and professional staff available to the Libyan hospitality industry. For example, the General Council for Planning report on Project Tourism Policy and Urban Development (2002) pointed to the insufficiencies of local construction materials, but also represented the scarcity of skilled labour in the hotel and hospitality sector, lack of foreign school, with a lack of qualified and trained local workers affecting the quantity of FDI into the hotel industry, and proposed this as a important reason for the failure to attract FDI, leading to the shortage of hotels Libya now faces. 55% of interviewees affirmed that the scarcity of skilled local labour (due to a lack of special training institutes for hospitality) was one of the crucial reasons for the shortage of FDI in the hotel sector, and felt that this would continue to be an obstacle to FDI in the future unless the government addressed this problem. 55% of respondents also reported that the lack of a training infrastructure could be a strong reason for FDI being an unattractive proposition to companies seeking to expand into the Libyan hotel market.

7.4 Summary of Findings and Research Questions

The research sought to answer three questions: the first question was: What are the barriers to foreign direct investment in the hotel industry and what is the impact of investment on direct growth?

This question relates to how the study understands the obstacles which affect the sufficiency and appropriateness of FDI into the hotel sector. The five study factors which were developed from the literature were identified by the questionnaire and interview respondents as having an effect on the sufficiency and appropriateness of investment into the hotel industry; and the example of the Corinthia Hotel Company provided further evidence of these factors. From the interview process it was clear that there was some additional clarification about investors and applications for indirect evidence. It appears that there is some trust issues between the different professional branches along with concerns about official statistics and data, and the reliability of original documentation which was stamped and dated. This issue about the validity and reliability of original documents in Libyan practice will required further investigation as it implies that there are potential issues faced by investors within Libya that may not be occurring in more developed investment environments. Cost and time do not appear to be a factor that contributes to the perceived obstacles as a result of government inefficiencies, and there is a difference in amounts between public and private investments. A key issue identified by interviewees was that currently there is no transparency to ensure the validity and reliability of their economic and tourism plans, in terms of the data they are based on. The second question was: What advantages related to foreign direct investment can the Libyan tourism hotel sector gain? This question concerns the extent to which investors in the Libyan hotel sector are affected by the factors identified by the study on the quality and quantity of investment. From a close observation of the responses given in both the questionnaire process and in the interviews, it became clear to the researcher that the various professional groups had different perceptions in relation to the advantages to the Libyan tourism hotel sector of the import of innovative types of technique, academic and professional qualifications for employees, and new systems of management, and new organisational culture. For example, there were a range of responses to the issue of visas for foreign workers: FDI companies wanted to get their workers into the country as quickly and efficiently as possible, whereas Libyan immigration officials treated such applications with suspicion and delay, and respondents of the Libyan Central bank offered valuable experience in this area that could be of value to both the other groups. Possible reasons for this difference have been identified in the discussion and the recommendations below include areas for further research to investigate the differences between the opinions of the various professional groups.

The final question was: Is there sufficient information available for the foreign direct investors to appraise the risks to foreign direct investment in the hotel sector, and how can these risks be avoided in the future? The statistical analysis of the questionnaire response revealed that there was a strong effect from the education and the experience of the workforce available to investors, which helps to understand the extent of FDI in the hotel industry with regard to the five factors identified in the study. This was unexpected and why this should be occurring was discussed above, but further research is required to clarify and confirm this situation. The study has highlighted a number of new research areas which need to be investigated so that a greater understanding of the independent variables and their effect on the formulation of new laws are developed. FDI, according to the statistical results, only impacts on the way investors and officials form their opinions about the type of evidence available, (See table 5.3). Again, why FDI did have an effect and why it did not on the other factors requires further research. This study has identified area for further development and provides recommendations to enhance professional economic planning in hotel investment practice within the Libyan tourism sector.

7.5 Contribution to Knowledge

Through this research, several contributions are made to the existing body of knowledge in the FDI field. These are split into contributions to investment theory and contributions to FDI in hotel practice. A number of contributions to foreign investment theory are made through this research. Initially, it is important to note that most previous FDI studies are based on quantitative methods.

However, this research has used both quantitative and qualitative method to ensure that *'triangulation'* occurred in order to gain a clearer picture of how foreign investors form agreements and make decisions in the context of the Libyan economy. The use of a quantitative research instrument (questionnaire) enabled the researcher to collect valuable data on a confidential level that respondents were unwilling to offer in face-to-face interviews, for fear of repercussions resulting from any criticism of the regime. Thus, despite the exploratory and phenomenological nature of the study, quantitative data leading to factor analysis gave the study a substance that could then be discretely investigated in the interview process.

The use of Factor Analysis is an approach not found in the literature, and has several advantages for studies of an exploratory nature conducted in developing countries. The data collection approach and factor analysis for analysis lends intellectual rigour and a set of results which can be compared, while also providing the basis for deeper investigation. Thus, this research adds a broader dimension to current research into investment by the use of an additional technique to support future studies.

Another contribution to this study is that it is clear from the findings that foreign investors in Libya, especially in the hospitality sector, hold different information and perceptions from the rest of the Libyan tourism sector and hotel industry, even after the publication of the LTMP. This study identified that most of the current administrative legislation used within the Libya tourism and hotel sector was found to be at least 36 years old. The Hotels & Guest Houses (Public and Private) Professions in Libya Law No. 4 (1977) and the Financial Law of 1967 are still affecting the development of the tourism and hospitality industry.

In addition to contributing to further studies in Islamic and Arab countries, this study has increased the knowledge and understanding of Libyan practitioners and academics, and by undertaking the research the researcher has attempted to address some of the criticism that existed hitherto about the lack of Libyan research. This study provides a baseline overview of FDI in hotel practice that can be utilised for future comparison by Libyan researchers, and also makes a number of recommendations for further areas of research. The study has provided an overview for Libyan academics that will help improve their understanding of the quality and quantity of FDI into the hotel sector in Libya. For FDI companies, it may help to overcome the obstacles facing them in the Libyan economy regarding the quality and value of evidence and its persuasiveness, while also encouraging them to develop their professional practice by undertaking some of the recommendations.

This could have an impact on investment decisions and potentially assist policy makers to understand why Libyan investment may be seen as high risk by foreign investors.

A copy of this study will be sent to the Libyan Investment Promotion Board and General People's Committee of Tourism and Utilities in the various Shabiat. It is envisaged that it will assist this body in the development of policy and future strategies. This it will contribute to the development of theory and practice of FDI within development the Libyan tourism and hospitality sector.

It is anticipated that the study will enable Libyan researchers to undertake further investigation. With greater development of the ideas within this study, the understanding and knowledge practice in developing countries can be improved and initiatives to address challenges developed.

7.6 Recommendations

Developing countries that are experiencing similar challenges to Libya, and where legislation is reducing the ability of practitioners to meet the challenges of the globalised economy, these countries would also benefit from using the current international standards to upgrade their legislation. A secondary benefit of having a strong supportive legislative environment for professional practice is the perception of the risks that foreign investors may face in developing economies. With the development of professional practice and standards, Libya and other Arab nations can reduce the perceived business risk that international investors fear when considering undertaking business in developing countries.

7.7 Limitations of the Research.

This study, as does any studied, faced certain limitations which must be acknowledged. The choice of a single case-study was dictated by the fact that at the time the field research was undertaken, the Corinthia Hotel was the only major FDI project in the hotel sector open and operating. However, the narrow focus of the study and the relative novelty of FDI as an important factor in the Libyan economy must call into doubt the ability of other researchers to generalise from this study's results.

The researcher also faced restrictions in terms of time and resources, and the wide range of respondents and interviewees involved in the questionnaire/semi-structured interview process made great demands of time and organisational effort. The political context within Libya at the time the research was undertaken also meant that some respondents and interviewees felt unable to be completely open in their answers, or asked that their anonymity be protected while refusing to be recorded or quoted directly. It is not inaccurate to say that a certain degree of inference was required in some contexts, and that while widening the understanding of the data collected, this could be seen as somewhat undermining the methodological rigour of the research approach.

7.8 Areas for Further Research

The political upheavals which have overtaken Libyan society since the completion of the field research make recommendations for further research very difficult to make. At the time of writing (mid-2011) Libya is in a state of flux, with a very uncertain future. The social unrest in Libya has been accompanied by a flight of capital and expertise from many of the companies mentioned in this study, and the temporary suspension of all tourism activities in the country. Libya's status as the chosen hosts of the African Cup of Nations football tournament in 2013 must now be in doubt, and FDI is now once again a prospect rather than a reality.

However, certain conclusions of the study retain their relevance. Whoever forms a future administration in Libya will face problems such as: an undereducated and untrained hotel/hospitality workforce; commercial banks which lack expertise and initiative in making investment decisions; a chronic accommodation shortage in both the hotel and domestic housing sectors; an inefficient and disorganised beaurocracy; and a country with a severe image problem to overcome if it wishes to be considered as an attractive tourism destination. It is anticipated that this study could be of use to future researchers through its identification of structural weaknesses in the Libyan approach to FDI that could be overcome in a well-planned future administration. Specific areas for further research should include research into the weaknesses in Libyan culture which affect its ability to attract FDI. This research should focus on:

1- Government administration.

2- Hospitality education and training.

3- Lack of academic expertise in economic investment.

4- Weaknesses in the statistical information available to investors.

5- The lack of documentary evidence for previous investment projects.

Future research should also focus on the attitude of Libyan commercial banks towards business and business people, and whether these banks represent a hindrance or an aid to FDI.

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Appendix1

Questionnaire /(host country) No:..........

Dear Sir/Madam
The aim of this survey is to seek your opinion on the problems and obstacles that you might have encountered as foreign investor in Libya in the tourism sector and in hotel industry. Please be assured that any data or opinions collected will be treated confidentially and used only for the purpose of this study.

Many thanks in advance for your cooperation and best wishes to you.

Section one: About the Respondent:

Board name:..
....

Respondent's name (optional):...
....
Title:...
....

Section Two: Problems and obstacles

☐ At the outset of the investment ☐ During your investment

Questionnaire /(FDI)
No:.........

Dear Sir/Madam
The aim of this survey is to seek your opinion on the problems and obstacles that you might have encountered as foreign investor in Libya in tourism sector in hotel industry. Please be assured that any data or opinions collected will be treated confidentially and used only for the purpose of this study.

Many thanks in advance for your cooperation and best wishes to you.

Section one: About the Respondent:

- Name of the institution..
- Public ☐ Private☐

Type of activity:

☐ Industrial (specify)........................... ☐ Tourism (specify)..............

☐ Services (specify)..........................

- The capital of project :...
- Your position:

☐ Owner of the project ☐ Director of division

☐ Head of department ☐Other (specify)....................

Investment fund:

☐ Bank ☐Hotel

☐ Tourism Related ☐Airline

Section Two: Problems and obstacles

☐ At the outset of the investment ☐ During your investment

The main problems:

.What are the main problems:
Economic problems:

Degree of importance of barriers to investment and investment growth	Completely not important 1	Not important 2	Not important to some extent 3	Neutral 4	Important to Some extent 5	Important 6	Very important 7	Please give Reasons/ examples for your answer if possible
Lack of data on the Libyan market.								
Size of the local market.								....
Tax treatment								....
Custom treatment.								
Exchange rate policy.								
Banking services								....
Competition in the local market								....
Poor performance of private sector.								....
Marketing problems.								....
Difficulties in finding potential local partner								....

Administrative problems:

Degree of importance of barriers to investment and investment growth	**Completely not important**	**Not important**	**Not important to some extent**	**Neutral**	**Important to some extent**	**Important**	**Very important**	**Please give Reasons/ examples for your answer if possible**
Lack of simplification of the registration and licensing procedures of investment projects.								....
Difficulties in arranging meetings with government officials.								....
Lack of qualified and trained local workforce.								....
Lack of investment data and technical information to the interested investors.								....
Lack of clear procedures for enrollment and residence for expatriates.								....
Lack of foreign schools.								
Problems regarding transfer of salaries and remittance and profits.								....

Legal and institutional problems:

Degree of importance barriers toinvestment and investment growth	**Completely not important**	**Not important**	**Not important to some extent**	**Neutral**	**Important To some extent**	**Important**	**Very important**	**Please give Reasons/ examples for your answer if possible**
The size of investment required by the law								....
Restriction imposed on choosing the location for business the operations.								....
Arbitration								....

Infrastructure problem

Degree of importance of barriers to investment and investment growth	Completely not important 1	Not important 2	Not important to some extent 3	Neutral 4	Important to some extent 5	Important 6	Very important 7	Please give Reasons/ examples for your answer if possible
Lack of airports and associated services.								....
Restriction imposed on choosing the location for business the operations.								....
Lack of ports and associated services								....
Lack of hotels and associated services.								....
Lack of geographical map for the investment sites.								....
Communications and transportation.								....

Social problems:

Degree of importance of barriers to investment and investment growth	**Completely not important** 1	**Not important** 2	**Not important to some extent** 3	**Neutral** 4	**Important to some extent** 5	**Important** 6	**Very important** 7	**Please give Reasons/ examples for your answer if possible**
Lack of security.								....
Lack of local experience on FDI.								....
Cultural differences between foreign investor and local nationals.								....
Weather and climate.								....
Lack of awareness of the importance of the FDI in the local culture								....
Difficulties in the adaptability of the foreigners in the local culture. .								....

☐ Other problems (specify):..

- Is the investment environment in Libya suitable from the legal point view (law warding no. 5 of 1997).

  ☐ Yes ☐ No

- If you answered yes above , what is the degree of relevance or suitability:
  - ☐ Very suitable
  - ☐ Suitable.
  - ☐ Neither suitable nor suitable.
  - ☐ Not suitable.
  - ☐ Not at all suitable.
- From your point of view, what are the requirements to attract FDI to Libya in tourism sector in hotel industry :

....

....

....

....

....

Thank..You.

Appendix2

Great Socialist People's Libyan Arab Jamahiriya
General People's Congress

Law No. 9, 2010 (1378 p.d.) on Investment Promotion

General People's Congress:

Pursuant to the Decisions of the Basic People's Congresses in the General Annual Session of 2009 (1377 P.D.) :

Reviewing and taking into account :

- The Declaration for setting up the People's Authority,
- The Green Magna Charter for Human Rights in the Era of the Masses,
- Law no, 20, 1991 : on the promotion of freedom
- Law no. 1, 2007 (1374 P.D.) : work system of the People's Congresses and People's Committees
- Commercial Law and amendments
- Law no, 67, 1973 : on Customs and amendments
- Law no. 11, 1992 : on determining regulations relating to estate properiety and amendments
- Law no. 19, 1992 : on Production Tax
- Law no. 5, 1996 : on Encouraging Investment of foreign capital and amendments
- Law no. 13, 2000 : on Planning
- Law no. 3, 2001 : on Architectural Planning
- Law no. 7, 2004 : on Tourism
- Law no. 12, 2004 : on Stamp Tax
- Law no. 1, 2005 : on Banks
- Law no. 6, 2007 : on encouraging investment of national capitals
-' Law no. 7, 2010 : on Income Tax

Has formulated the following Law:

Article 1 - Definitions

While enforcing this Law, the following words and phrases shall have the relevant meanings thereof, unless associated meanings may otherwise state.

1. The State : The Great Socialist People's Libyan Arab Jamahiriya
2. Administrative Authority : the appropriate administrative authority concerned with the implementation of this Law.
3. The Secretary : The Secretary of the sector to which the administrative authority belongs.
4. Executive Regulation : The regulation to be issued with the purpose of enforcement of the provisions of this Law.
5. Foreign Capital : The financial value in the form of cash, property, moral or material, in the foreign currency equivalent that is brought into the country, either owned by Libyans or foreigners, with the purpose of conducting an investment activity.
6. National Capital : The financial value in the form of cash, property, moral or material, in the domestic currency equivalent, which forms part of the investment project's capital of a Libyan national or artificial entity – either its capital is fully owned by Libyan nationals or artificial entities.
7. Investment Project : Any investment activity that meets the conditions stated as per this Law, regardless of their legal form.
8. Privatization : means transfer of ownership of companies, production and service units, wholly or partially owned by the state, public artificial entities or private

sector.
9. The investor : every natural, artificial national or foreign person, who invests in accordance with the provisions of this Law.

Article 2 - Area covered by this Law

This law applies to national, foreign, or joint venture capital jointly invested in the areas targeted by this Law.

Article 3 - The objectives of the Law

The Law aims at the promotion of national and foreign capital investment, with the purpose of setting up investment projects, within the scope of the state's general policy and the objectives of economic and social development, in order to particularly ensure achievement of the following goals :

(1) Technically upgrade and qualify Libyan cadres and elevate their efficiency, in order to acquire advanced skills in addition to opening employment opportunities.
(2) Endeavour to introduce know-how and technology and thereof inserted into the Libyan economy.
(3) Contribution towards setting up, developing or rehabilitating economic, service and production units, in a manner that asists such units to compete and be introduced into the world markets.
(4) Achievement of development in the relevant area
(5) Increase and diversify income sources
(6) Control energy consumption
(7) Utilize locally available raw materials

Article 4 - Forms of Investment

This Law classifies the investment of national and foreign capital, which is involved in forming
the project's capital in one of the following ways:

(1) Local currency, transferrable foreign currencies or their equivalent, brought in by one of the official banking methods.
(2) Machine, equipment, devices, transport means, spare parts, raw material required for the execution and preparation of the investment project.
(3) Ethical rights such as patents, licencing, trademarks, commercial names necessary to establish or operate the investment project.
(4) Re-invested portion of the project's interests and revenues either in the same project or in another. The Executive Regulation coordinates the method designed to assess the material and moral assets, and to re-invest the interests.

Article 5 - Authority responsible for the Law's application

An appropriate administrative authority shall be set up to execute the provisions of this Law ; a designation and organizing decision, thereof, shall be made by the General People's Committee, in accordance with a recommendation from the Secretary.

Article 6

Assignments of the Authority responsible for the Law's application

The administrative authority shall be responsible for encouraging investment of national and foreign capital and merchandizing investment projects via different m methods ; in particular, the following:

(1) Studies and proposals of plans organizing investment and privatization, including the preparation of a comprehensive investment map for all areas of investment and available investment opportunities, permitted within the investment areas brought about, as per this Law.
(2) Collection of investment applications, verifying that the aforesaid applications meet the

objectives of this Law and the fulfilment of terms, conditions and rules ; a study of the economic feasibility of the investment project, confirming that all conditions are met with respect to national and foreign investments conducted subject to the provisions of this Law.

(3) Collection and publishing of information ; involvement in the preparation of economic studies relating to the project's investment capabilities, which contribute to the counry's economic development.

(4) Adopting methods capable of attracting national and foreign capital and publicity campaigns of investment opportunities via the different media oulets.

(5) Provision of integrated "window service" to facilitate the investor's license application, approvals and other services necessary for the investment project.

(6) Periodic study of investment legislation and review thereof and submission of proposals related to development in this respect to the Secretary.

(7) Take necessary procedures to execute the public policies for the elaboration of the ownership base, privatization of public companies and production units.

(8) Any other assignments, as designated by the General People's Committee, for this administrative authority.

Article 7 - Conditions to be fulfilled for investment projects

The project shall fulfil all or part of the following:

(1) Transfer and introduction of expertise and know-how, modern technology, technical expertise or intellectual property right.

(2) Support of ties and integration between the activities and the outstanding economic projects or the reduction of production costs or a contribution towards providing operation items and facilities thereof.

(3) Exploitation or assisting in utilizing local raw materials

(4) Contribution towards the development of remote areas.

(5) Production of commodities for export or a contribution towards increasing the exports thereof ; alternatively, taking such measures that would, either totally or partially, avoid the import of commodities.

(6) Offering services required by the national economy ; alternatively, a contribution towards the improvement, development or rehabilitation thereof.

(7) Provision of employment opportunities for the Libyan labour force, of not less than 30%, along with endeavours to provide training courses for such labour, allowing acquisition of technical skills and expertise. The Executive Regulation specifies the terms and conditions for the employment of national and foreign manpower.

Article 8 - Areas of Investment

Investment shall be in all production and service areas. The Executive Regulation shall determine the areas of production and services, which are not covered by this Law, or which are restricted to Libyans only, or by way of partnership between Libyans and foreigners ; additionally , to determine the percentage of each side's contribution in the project, the legal form of the project and the minimum capital that conforms with the nature of the activity.

Article 9 - Permission for Investment

Permission to set up, develop, restore, run, or operate an investment project shall be issued under a decision by the Secretary, based on an offer from the administrative authority. This authority shall be solely concerned with the issuance of all licenses and necessary approvals for the investment project, in order that such licenses and permissions shall satisfy from the need for / shall negate the requirement for any other licenses or permissions required under the effective legislation. The Executive Regulation shall specify the conditions and rules for the issuance of licenses and permissions.

Article 10 - Privileges and Exemptions

The investment project, subject to the provisions of this Law, shall enjoy the following privileges:

(1) Exemption of the machinery, equipment and apparatuses necessary for the execution of the project, from all taxes, customs duties, import fees, service charges and other fees and taxes of a similar nature. However, exemptions stated, as per this clause, shall not include fees levied for services as port, demurrage or handling fees.

(2) Exemption of facilities, spare parts, transport means, furniture, requirements, raw materials, publicity and advertising items, related to the operation and management of the project, for a period of 5 years, from all fees and taxes, whatsoever their type or source.

(3) Exemption of commodities, produced for export, from production tax, customs duties and such charges imposed on exports.

(4) Exemption of the investment project from income tax for any activity, for a duration of 5 years, the calculation of which shall commence from the date of the permission for licensing the engagement in the activity.

(5) Exemption of the returns of shares and equities, arising from the distribution of the investment project's interests, during the period of exemption, as well as interests arising from the merger, sale, division or change of the legal form of the project, from all types of taxes and levies, provided these occur during the period of exemption.

(6) Exemption of interest arising from the project's activity if re-invested.

(7) Exemption of all documentary records, registers, transactions, agreements that are made, ratified, signed or used by the investment project, from the stamp duty payable in accordance with the effective legislation.

The investor may carry forward the losses that the project may incur during the exemption years to the following years. The Executive Regulation of this Law shall decide the conditions and rules necessary for the execution of this Article.

Article 11 - Transactions in machines and equipment

There shall be no transactions that lead to the sale or discharge of machinery, equipment, furniture, transport means, apparatuses, spare parts, raw material and operation facilities imported for the purpose of the project, unless under the consent of the administrative authority and after fulfilment of all payable fees and customs duties decided for the importation of such items.

Article 12 - Investor's Rights

The investor shall have the right in the following :

(1) Open a bank account, in favour of his project, in the local currency or foreign currency with one of the banks operating in the country.

(2) Receive financial loans from local and foreign banks and financial institutions, according to the legislation in effect.

(3) Re-export the invested foreign capital, in the case of the termination of the project's duration, liquidation, or sale thereof, either in part or in whole.

(4) Should difficulties or circumstances, beyond the control of the investor, prevent the foreign capital's investment after the elapse of 6 months from the date of such capital's import, the said foreign capital shall be transferred abroad in the same manner as it was originally brought in.

(5) Transfer distributable annual net interests and revenues achieved by

the foreign capital invested in the project
(6) Recruit foreign manpower in the case that national manpower is not available.
(7) Issuance of residence visas renewable for 5 years, the duration of the project, and multiple exit/re-entry visas.

Article 13 - Foreign employees

Expatriate employees shall have the right to transfer their salaries and any other privileges offered to them, within the investment project, outside Libya. They shall enjoy exemption from customs duties relating to their personal effects. The afore mentioned will be in accordance with the stipulations of the Executive Regulation.

Article 14 - Investment Record

Without prejudice to the provisions and stipulations of the Trade Register, the administrative authority will establish a special register to be called "Investment Records", in which all investment projects will be registered indicating the legal frame of such projects, size of investments, type of business, names and nationalities of owners and shareholders and the percentage of expatriate workers therein. The Executive Regulation shall specify the rules and procedures of registration in the Investment Record.

Article 15 - Additional Privileges and Exemptions

It may be possible, in accordance with a decision from the General People's Committee, under a proposal from the Secretary, to offer for the investment projects, tax privileges and exemptions for a period, not exceeding 3 years, or other additional privileges, if those projects prove that:
(1) They contribute to the achievement of food security.
(2) Utilise measures that are capable of achieving abundance in energy or water or contribute to environment protection.
(3) Contribute to the development of the area.
The Executive Regulation shall specify the classification of the rules and provisions taking into account that the project is one that fulfils these aforementioned considerations.

Article 16 - Privatization of Economic Units

The economic units targeted for privatization, whether the units are developed, rehabilitated, managed or operated, which attain the goals and fulfil the conditions included per this Law, shall enjoy all privileges and exemptions stated herein, provided that a decision thereof shall be made by the General People's Committee.

Article 17 - Rental of Estates

As an exemption from the effective legislation related to privatization, the investor shall have the right to rent the necessary properties, in order to set up or operate the project, either public or private properties, which shall be according to the conditions and stipulations specified by the Executive Regulation.

Article 18 - Authorities over the project

It may be possible to transfer the ownership of the project, either wholly or partially to another investor, with the consent of the administrative authority. The new owner shall replace the previous owner, with respect to the rights and obligations incumbent upon him, in accordance with the provisions of this Law and other legislation in effect. The Executive Regulation shall specify the conditions and stipulations under which the transfer of ownership takes place.

Article 19 - Violations

If it is proved that the investor has committed a violation of any of the provisions of this Law, in the first instance, he shall be warned by the administrative authority to fix the violation within a suitable period to be specified. In the case that the investor fails to do so, the administrative authority shall have the right to deprive the project of some of the privileges and exemptions decided, as per this Law, or to withdraw his license or refer the matter to the judiciary authority concerned to compel the investor to settle what he was previously exempted from.

Article 20 - Withdrawal of the License

The permissions and licenses issued for the project may be withdrawn or its final liquidation effected, under the following circumstances :

(1) Failure to commence the execution of the project, or failure to complete the execution within the specified completion date, without any justification.

(2) Violation of the provisions of this Law The aforementioned shall be in accordance with the rules, conditions and procedures specified by the Executive Regulation of this Law.

Article 21 - Complaint

The investor shall have the right to make a written complaint against any decision that may be made against him due to a violation of the provisions of this Law, within 30 days from the date of the written notification served on him and confirmed by a signed receipt. The Executive Regulation shall specify the authority to which this complaint shall be lodged, the complaint procedures and the period required for the final resolution.

Article 22 - Accounting documents of the project

The owner of the project must retain legal documents and final accounts necessary for the project according to the effective legislation, as well as the preparation of an annual budget and final accounts authenticated by a legal accountant, in accordance with the conditions indicated as per the Commercial Activity Law and the professional standards.

Article 23 - The project's guarantee

It is not allowed to nationalize the project or privatize, take by force, confiscate, impose custody, freeze, or subjugate to procedures having the same effect, except under a judicial decision and for a fair compensation, provided that these procedures shall be taken in a non discriminatory manner. The compensation shall be computed on the basis of a fair market value of the project at the time when the measure is to be taken. It is permissible to transfer the value of the compensation, in a transferable currency in a period not exceeding one year from the date of issue of a law or a decision on the prevailing exchange rates.

Article 24 - Settlement of Disputes

Any dispute that may arise between the foreign investor and the state, which may be attributed to the investor or due to procedures taken against him by the state, shall be forwarded to the appropriate courts of the state, unless if there are mutual agreements between the state and the investor's state or multilateral agreements to which the investor's state is a party thereof, including texts relating to reconciliation or arbitration or special agreement between the investor and the state stipulating arbitration as a condition.

Article 25 - Fees for services

A decision shall be made by the Secretary, in accordance with a proposal from the administrative authority, to determine the fees payable by the investor for presenting the services.

Article 26 - Judicial control officer

The personnel of the administrative authority, who are appointed under a decision from the appropriate Secretary, shall be entitled to occupy the capacity of Judicial Control Officers authorized to superintend the execution of this Law's provisions, detect any violations and submit to the authorities concerned. In order for them to fulfil this purpose, they are authorized to inspect investment projects and go through the books and documents relating to its activity. Other control and inspection authorities concerned shall report to the administrative bodies and coordinate with them before carrying out any inspection or superintendence work on the investment projects licensed for investment in accordance with the provisions of this Law.

Article 27 - Exceptions within the scope of this Law
The provision of this Law shall not apply on national and foreign capitals invested or will be invested in oil and gas projects.
Article 28 - Validity of legislation organizing the economic activity
The provisions of legislation organizing the economic activity shall be applicable on those who are subject to the provisions of this Law, this is with regard to matters that are not covered herewith.
Article 29 -Executive Regulation
The Executive Regulation of this Law shall be issued under a decision from the General People's Committee in accordance with an offer from the Secretary.
Article 30 - Annulment of previous laws
Law no. 5, 1996, on promotion of foreign capitals' investment and amendments, Law no. 6, 2007, on investment of national capitals, Article 10 of Law no. 7, 2004, on tourism, shall be revoked, as any other ruling that violates the provisions of this Law shall be revoked.
The provisions of this Law shall be valid for all investment projects, acts, events relating thereto and those outstanding ones in accordance with the aforesaid laws per this Article during the time of issuance of this law, this shall be without violation to the privileges and exemptions offered before its issuance. The executive regulations and decisions issued in accordance with the provisions of the said laws shall be into force in a manner that shall not withstand the provisions of this Law, up until the Executive Regulation of this Law is issued.
Article 31 -Publication of the Law
This Law shall enter into force as of the date of publication per the Official Gazette.
General People's Congress
Made in Sirte
On 13th Safar 1378 P.D.
Corresponding to 28th January 2010