AN EMPIRICAL ANALYSIS OF FOREIGN DIRECT INVESTMENT IN THE LIBYAN OIL INDUSTRY

Tarek Abushhewa

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Bradford University School of Management

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ABSTRACT

This study investigates the major factors that have restricted the flow of foreign direct investment (FDI) into the oil sector in Libya. The study focuses on the period from 2000 to 2009. This period is significant since, during this time Libya witnessed dramatic foreign and economic policy changes. The research objectives are: (1) To identify the determinants of foreign direct investment into Libya's oil industry for the period 2000-2009; (2) To reveal the obstacles and barriers which hinder FDI in Libya's oil industry; (3) To determine the extent that the Libyan Government FDI policy influenced FDI in Libya's oil industry. The rationale for this thesis was driven by filling an empirical void of FDI studies on the oil industry in Libya and by the intention of providing practical insights for current and future Libyan governments.

This study comprises of an analysis of the 30 multinational (MNCs) oil companies that are operating in the Libyan oil industry through questionnaire and interview data from executives employed by those MNCs, as well as data from ten Libyan senior government officials involved in the Libyan oil industry and/or FDI policies.

The research has provided support for several of the determinants of FDI flows traditionally found in the literature. The survey and time series analysis further reveals that access to Libya's proven oil and gas reserves was the singular most important determinate for influencing the MNCs to undertake FDI. Furthermore, the findings identified that Libyan government foreign policy had some impact on the MNCs decision to undertake FDI. The research findings with regards to the role played by environmental risk as a determinate of FDI, demonstrate that there is no significant relationship between overall levels of environmental risk and a country's performance in attracting FDI. Also, this research has identified a number of factors that are causing obstacles and challenges to the attractiveness of Libya as a location for foreign investment. It has revealed that MNCs are significantly dissatisfied by the stability of the public institutions and the lack of effective regulations in Libya.

KEY WORDS

FDI Determinants, FDI Policy; Foreign Direct Investment; Libya; MNCs; Oil Industry.

DEDICATION

I dedicate this work to the memory of my beloved father.

ACKNOWLEDGMENT

I would like to thank all the interviewees for sparing their time and for providing informative and well thought-out responses. I would also like to thank Dr. Mark Baimbridge for his advice and guidance. I would like to express my eternal gratitude to my family for their support they gave me during my entire life. I must also show my gratitude to my wife for her continuous support.

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

This research was undertaken during the period 2006 – 2010. Since then, a major development has shaken the political and investment climate in Libya. In late 2010, the beginnings of the Arab Spring in the neighbouring countries of Tunisia and Egypt had taken place. By the 17th of February 2011 an uprising took place in Libya, which turned into a violent civil war that resulted in the overthrow of the Qaddafi regime on the 20th of August 2011. A new democratic government has now been elected in Libya, to restore stability in the country. The long term impact of the Arab Spring on Libya is hard to ascertain and any views is primarily on anecdotal evidence. There is no evidence to suggest that the findings of this research will be effected as a result of the Arab spring, since the key determinates that attract or deter foreign investors are likely to remain the same in Libya's oil industry. The findings of a foreign investor survey on the MENA region jointly undertaken by the World Bank, MIGA and the Economist Intelligence Unit (2011), found that over half of the firms surveyed would invest in MENA in the future, assuming that there is at least a year of stability. Additionally, Barbour *et al*., (2012), has suggested that investors in MENA region will return fairly quickly once stability returns given the vast opportunities in the region.

This study investigates the major factors that have influenced the flow of foreign direct investment (FDI) into the oil sector in Libya. The study focuses on the period from 2000 to 2009. This period is significant since, during this time Libya witnessed dramatic foreign and economic policy changes. In this period Libya, had welcomed the return of oil companies from the United States and Britain, as a result of the lifting of United Nation and USA economic sanctions imposed on Libya. The lifting of the sanctions was due to Libya's major change in its relationship with the international community; through the handing over of the suspects' involved in the Pan Am flight bombing and its decision to abandon its weapons of mass destruction program. Furthermore, Libya's Government pursued new economic policies towards Foreign Direct Investment (FDI) in the oil industry by passing new laws and regulations that encouraged FDI in this sector such as Law No.7 of 2003, Article No. 39, which allowed foreign companies to open branches in Libya. Moreover, legislation was implemented that permitted multinational oil companies to enter into exploration/production sharing agreements and joint ventures with the Libyan National Oil Corporation (NOC, 2007)

This study aims to identify the major obstacles that contributed to restricted FDI inflows into Libya's oil industry. The problems of the Libyan oil industry started as a result of the sanctions imposed on Libya in 1991. Libya's oil production had continued to fall from a peak of 3 million barrels per day (bpd) to 1.3 million (bpd) in 1998 (NES 2006), because of Libya's lack of access to new technology, its depleting infrastructure and problems obtaining spare parts which have led to

sub-optimal development of existing oil fields and thus a continuous decline in the production level.

Furthermore, Libya's National Oil Corporation's (NOC) investment budget had long been cash constrained, in recent years it had operated on funds of less than US$ 2Bn (NES, 2006). This falls considerably short of the US$ 3.5Bn that is required for funding the investment needed to raise production levels to above 3 million (bpd) (NES, 2006). Since Libya's economy is heavily dependent on revenues from oil, the challenge for Libya, post sanctions, is to improve its competitiveness in the oil sector thereby increasing revenues to meet the demands of the growing Libyan population.

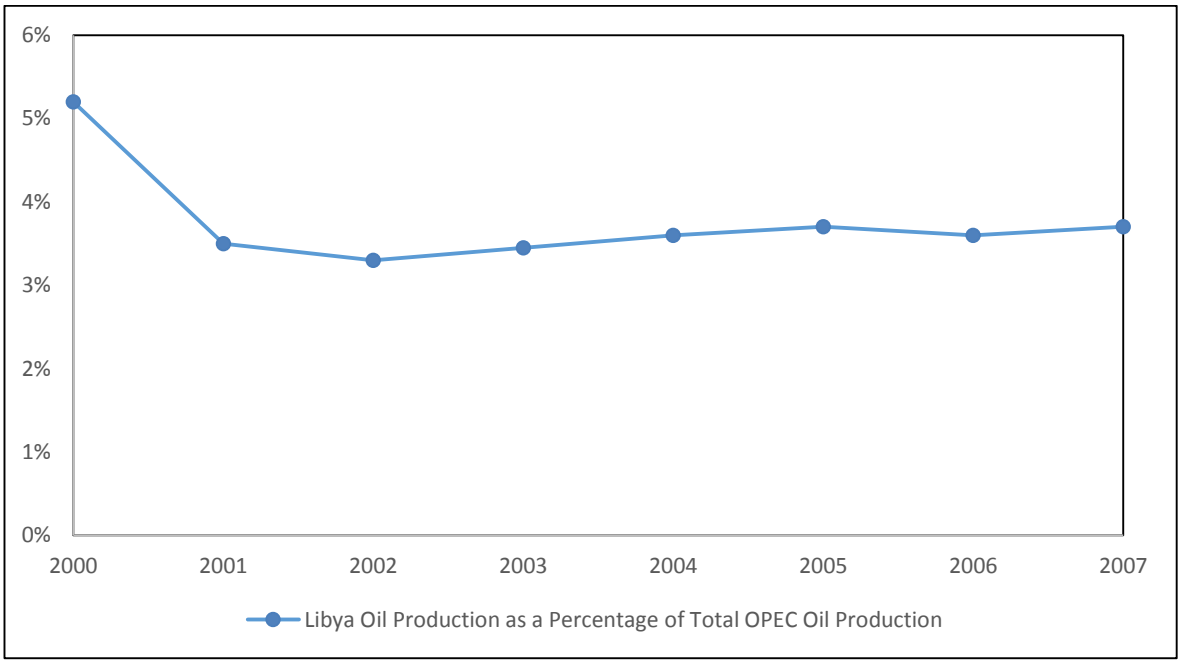
For approximately 50 years, the oil sector of the Libyan economy has been publicly owned and has been managed under the direct control of the Libyan government. However, the modern global economy has created new challenges for international oil competition, especially with the emergence of Russia as a significant player in supplying the oil market and the sanctions imposed on the Libyan oil sector. Thus, the Libyan government has attempted to respond to global developments and the lifting of the sanctions by reconsidering the role of multinational companies (MNCs) in Libya's oil industry.

Libya's leadership have acknowledged that Libya needed to take steps to encourage more effective and open markets. The deteriorating situation of Libya's oil sector has forced the Libyan government to accept that FDI and greater cooperation with MNCs is necessary to access oil technology, the

adoption of innovation in the production process and the funds needed to increase oil productivity. In addition, the Libyan government hope to gain from FDI in terms of new expertise and managerial know-how of the oil sector (NOC, 2003).

Despite government strategy to further encourage FDI into the Libyan oil industry, Libya's OPEC share of oil and gas exports actually decreased by 1.2 *per cent* (see Figure 1.1) between 1999 and 2007 (OPEC, 2007). Furthermore, the Libya government failed to meet their target of increasing oil production to 3 million barrels per day (mbd) by 2005 from their current level of only producing 1.8 mbd (NOC 2004).

Figure 1.1: Libya's Oil Production as a Percentage of Total of OPEC Oil Production



Source: OPEC Statistical Bulletins (2008)

Thus, this study analysing FDI in the Libya's oil industry is important for several reasons. Firstly, to the best of my knowledge, there are no published empirical studies on FDI that focus on the Libyan oil industry. Secondly, since the oil industry is a major contributor to the Libyan economy it is important to know the factors that affect FDI flows to this sector. Finally, to what extent that FDI to the Libyan oil sector is driven by different factors, policies that have been successful in other countries may not equally successful in Libya. Hence, this research will shed light on ways which policy makers in Libya oil sector can attract FDI.

The Organisation for Economic Co-operation and Development (OECD 2008:1) has defined FDI as, "A category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship".

OECD (2008) has defined FDI in the resource sector as including ownership of objects such as an oilfield or oil drilling rigs that operate within an economy for at least one year. Another definition was put forward by Kumar (2003:6), "FDI usually flows as a bundle of resources including, besides capital, production

technology, organisational and managerial skills, marketing know-how, and even market access through the marketing networks of multinational enterprises (MNEs) who undertake FDI". The literature on FDI identifies three most common investment motivations: resource-seeking, market-seeking and efficiency-seeking (Dunning, 1993). FDI undertaken in Libya's oil industry can be characterised as natural resource seeking FDI, this is undertaken by firms when, in order to gain access to natural resources such as oil, it is not available in its home country.

According to UNCTAD (1998), the presence of natural resources by itself was not sufficient for FDI to take place. Comparative advantage in natural resources usually gave rise to trade rather than to FDI. Investment took place when resource-abundant countries either lacked the large amounts of capital typically required for resource-extraction or did not have the technical skills needed to extract or sell raw materials to the rest of the world. In addition, infrastructure facilities for getting the raw materials out of the host country and to its final destination had to be in place or needed to be created (UNCTAD, 1998). FDI in the context of this study focuses on the Libyan government seeking to engage MNCs in their oil industry in order to gain access to the resources that the MNCs possess. This may involve transferring of production technology, skills, innovative capacity, and organisational and managerial practices between locations as well as accessing international marketing networks (Mirza and Giroud, 2004).

Literature on FDI in the region falls into two categories. The first category is made up of descriptive studies that analyse the magnitude, trend, and distribution of FDI in the MENA region. These studies conclude that FDI flows to MENA countries have been meagre and unevenly distributed (Eid and Paua, 2002). The second group consists of empirical studies that explore the determinants of FDI flows to the region. However, according to Bassam and Soliman (2008:2), "The literature on MENA countries, trade and FDI is limited. Excepting very few studies on FDI activity in the MENA region, the literature remains proportional to the humble size of FDI activity in the region". Furthermore, Caetano and Galego (2009) suggested that studies on FDI determinants for the MENA countries are relatively scarce, in spite of some recent studies have analysed this issue by using different methodologies and data sets. Moreover, there has still only been a limited amount of research carried out focusing on FDI in general into Libya (Shernanna and El-Fergani, 2006). More specifically, extensive research has indicated that there is a lack of accessible published literature relating directly to FDI into Libya's oil industry (Shernanna and El-Fergani, 2006).

Studying the oil sector, in general, possesses many challenges to the researcher, as the oil industry has long had a reputation for lack of openness, corruption and secretiveness (The Economist, 2006). According to a study by Juhasz (2008), the oil industry has a significant problem with regards to transparency in international exploration, production and refining. Despite proposals put forward by organisations such as Amnesty International for international corporate accountability, the major oil companies have benefited

from a virtual free pass in its operations around the world. Juhasz (2008) also suggests that the oil industry is built upon political tyranny, secrecy and manipulation of information.

Faced with researching such a challenging industry, the researcher attempted to overcome potential barriers by gaining personal contact with all of the oil MNCs operating in Libya, through the support of a number of Libyan government officials. These officials were instrumental in obtaining access to the oil MNCs and setting up the initial meetings to give the researcher an opportunity to explain the objectives of the study. Many meetings were conducted before the researcher was able to gain the confidence of the interviewees and assurances were made that financial data was not required, nor was the research concerned with ethical issues surrounding the oil industry. Pilot questionnaires were distributed to the interviewees for their approval before research commenced and it was agreed that research data would remain anonymous at their discretion. This study comprises of a survey of 30 multinational (MNCs) oil companies that are operating in the Libyan oil industry through questionnaire and interview data from executives employed by those MNCs, as well as data from ten Libyan senior government officials involved in the Libyan oil industry and/or FDI policies. Moreover, time series analysis was undertaken, a sample covering the period 1967-2008.

To overcome the potential barrier of data invalidity and bias, the researcher adopted a multi-strategy approach through the collection of different types of data, both quantitative and qualitative. The use of questionnaires as an

element of the research design, followed by in-depth semi-structured interviews and collection of documentary sources enabled triangulation to take place. Triangulation has been defined as “the combination of methodologies in the study of the same phenomenon” (Denzin, 1970:297). Moreover, triangulation involves the cross-checking of the results collected by one research strategy with the results collected by another research strategy (Bryman and Bell, 2003). In this research, the process of triangulation was undertaken to cross-check the results of the questionnaire data with the results of the interviews. In addition, when appropriate, the interview results, particularly the data gathered from Libyan government officials, were cross-checked for validity with documentary evidence. This methodology was implemented with the aim of lessening the threat of obtaining unreliable results and thus leading to greater confidence in the conclusions drawn from this research.

1.2 Aim and Objectives

The main aim of this study is to examine the major factors that have influenced the flow of foreign direct investment (FDI) into the oil sector in Libya, particularly during the period following the lifting of international sanctions from the year 2000 to 2009. The aim is to be achieved through accomplishment of the following objectives:

1. To identify the determinants of foreign direct investment into Libya’s oil industry for the period 2000-2009.
2. To reveal the factors that influence FDI in Libya’s oil industry.

3. To determine the extent that the Libyan Government FDI policy influenced FDI in Libya's oil industry.

1.3 Research Questions

1. What are the main determinants of FDI in Libya's oil industry?
2. What are the major obstacles faced by MNCs in the Libyan oil industry?
3. To what degree did Libyan Government FDI policy influence the level of FDI in the oil industry?

1.4 Research Methodology

This research uses a critical realist approach to analyse the factors that have influenced the flow FDI into the oil sector in Libya. The core assumption of critical realism is to recognise the reality of the natural order and the events and discourses of the social world. It holds that "we will only be able to understand—and so change—the social world if we identify the structures at work that generate those events and discourses. These structures are not spontaneously apparent in the observable pattern of events; they can only be identified through the practical and theoretical work of the social sciences." (Bhaskar, 1989:2).

In the context of this research a critical realism approach is appropriate as it recognises the significance of understanding people's socially constructed interpretations and meanings, within the framework of seeking to understand

wider social forces, structures or processes that influence, and constrain, the nature of people's views and behaviours (Sauders *et al*., 2003). Thus, this research aims to investigate the perceptions and subjective views of MNCs oil executives and Libyan government officials, to gain an understanding of observed FDI patterns in the Libyan oil industry and the barriers and obstacles that MNCs face which may impact on outcomes in the oil industry. Critical realism maintains that the real world is ontologically stratified and differentiated, consisting of a plurality of structures and mechanisms that create the events that take place. Moreover, according to a critical realism, "business relationships are real because they in themselves can cause events to occur and are therefore capable of influencing back at the actors whose activities are required to keep a business relationship going" (Ryan *et al.,* 2012). Thus, critical realism is well suited to investigating the complex business relationships and networks within Libya's oil industry which impact on the factors which inhibit the flow of FDI into the oil sector in Libya.

As the mechanisms and structures within Libya's oil industry that impact on FDI outcomes are an evolving process and not static, a qualitative approach is considered appropriate. In general, qualitative practitioners consider "the social world as processual rather than static, as being about the dynamics of social relationships between social actors rather than the characteristics of individuals and the relationships between abstract concepts" (Blaikie, 2000: 252).

A predominately qualitative research approach is considered appropriate for this research because of the following reasons:

(1) MNC's FDI experiences in the Libyan oil industry are not static accounts of events but are interrelated to each other. Therefore, the complexity of these issues did not favour a singularly quantitative approach;

(2) The small number of potential respondents (due to small population of MNC's in the Libyan oil industry); and

(3) Quantitative data provide less complex information which is necessary to explain the difficulties facing MNCs operating in Libya's oil industry.

1.4 Overview of Thesis Chapters

Chapter Two: An overview of Libya's political, economic, social and cultural environment. Also, an overview of the Libyan oil industry is presented. The first part gives a concise review of Libyan geography and population. The second part of this chapter discusses Libya's political, economic and social situation in the past and at present, taking into account the political and social conditions. The final part of this chapter reviews Libya's oil industry.

Chapter Three: An overview of the significance of inward FDI on host country. This chapter will also discuss government policy towards FDI in developing countries and reviews the literature on governments FDI polices in order to investigate the nexus between FDI inflow and the role of the host country FDI policies in influencing FDI inflows.

Chapter 4: Literature Review: This chapter provides an overview of the main the determinants behind FDI according to various theoretical frameworks and

international business literature. Also, this chapter, reviews the individual determinates with particular focus on FDI determinants available on literature relevant to MENA region.

Chapter 5: Research Methodology: This chapter covers research methodology and design of the research undertaken in this thesis. The second section examines the main advantages and disadvantages associated with the different research methods used. The third section analyses the research instruments that have been used in this study, primarily questionnaires and interviews. The fourth section discusses the time series analysis. This chapter also considers the analysis techniques of data used.

Chapter 6: Research Findings: This chapter discusses the main findings of the research and the answers to all of the research questions. Also presents and discuss the time series analysis, multinomial ordered probit and OLS regression results.

Chapter 7: Conclusion and Policy Recommendations: This chapter is a discussion of the main findings of the research. Also, discuss the contribution that this thesis has made to the field of international business and the implications of the research findings for policy and practice. This chapter also considers the limitations of this research and identifies directions for the future.

CHAPTER TWO: AN OVERVIEW OF LIBYA

2.1 Introduction

To give a concise understanding of Libya's foreign direct investment and understand Libya's business environment, an overall review of Libya's history and political system, economic, business and social environment is imperative.

In order to achieve this and acquaint the reader with the diverse issues and development in the Libyan business arena, this chapter will first review background information on Libya. This will be divided in two sections: Libya's geography, population and a brief history of modern day Libya. Secondly, it will overview Libya's political environment, which influences every aspect of Libya's decision-making process of foreign direct investment. Thirdly, a comprehensive overview of Libya's economic environment and social environment will be presented. Then finally, this chapter will review Libya's oil industry and provides an overview of the business environment.

2.2 Libya's Geography and Population

Libya is located in North Africa. It is bounded on the north by the Mediterranean Sea, on the east by Egypt, on the southeast by Sudan, on the south by Chad and Niger, on the west by Algeria, and on the northwest by Tunisia. Libya is the

fourth largest country in Africa by area, the 17th largest country in the world and is seven times the size of the United Kingdom.

Historically, Libya has always been divided into three distinct regions. Tripolitania region is located in the north-west of the country, Cyrenaica in the north-east and Fezzan in the south. Tripoli is located on the Mediterranean coast, is the capital and the largest city. Libya has a strategic location on the Mediterranean with a coastline that stretches to 1,900 kilometres.

The first ever census that was carried out by the Libyan government was held in 1954 and recorded a population of 1.041,099. Since then, Libya's population recorded an average annual growth of 3.8 *per cent* and according to the last census carried out in 2007 the Libyan population is 5,965,000. Furthermore, as a result of the country's high population growth rate (2.39% in 2003 and 2.262% in 2006), well over half of the population is under 25 years old.

2.3 The Libyan Business Environment

The current investment environment in Libya is influenced by historical developments in all spheres including the political, economic, social, financial, administrative and legislative. This section examines the Libyan business environment.

2.3.1 Political Condition

Discussing the political system in Libya it is necessary to identify the different stages of development of the Libyan government and the decision-making mechanisms, particularly those decisions that influence FDI. Given the contemporary economic developments, such as globalisation, Libya's foreign relations tend to have direct influence on the investment climate environment.

2.3.1.1 Development of the Libyan Political System

In 1945 and after the end of World War Two, Libya's land fell under both British and the French administration. Libya was granted independence by the United Nations General Assembly[1] on 24th of December 1951. On that date King Idris I installed himself the ruler of all Libya. Moreover, a new Libyan constitution was declared by King Idris I, the three provinces united, and the United Kingdom of Libya was declared.

In 1969, a group called the Revolutionary Command Council (RCC), seized power and abolished the Libyan monarchy. The RCC, led by a young army officer Muammar al-Qaddafy, established authority and announced that it would direct the activities of a new cabinet and also renaming the country, the Libyan Arab Republic. Led by Colonel Muammar Al-Qaddafy[2], the RCC

[1] Libya was the first country to gain independence through the United Nations
[2] The RCC announced the promotion of Captain Qadhafi to Colonel and named him commander in chief of Libya's armed forces

proceeded to create a new Libya based on Al-Qaddafy socialistic and nationalistic theories. The current political system in Libya began to be developed after the overthrow of the monarchy in the 1969 revolution (Eljahmi, 2006).

Libya's modern political system is enshrined in the "Third Universal Theory", developed by Colonel Qadhafi in his Green Book in 1976. His philosophy does not seek to build a typical state, but instead a 'Jamahiriya' or state of the mass. It is a unique system that puts the Libyan people in charge of their own political and economic destiny; as a result Libya has no written constitution. The Green book and the Quran are the principle source of laws and policies in Libya. The Green Book stresses first and foremost the 'natural law of equality' expressed through democracy in the form of peoples congresses and committees (Central Intelligence Agency, 2013).

People's Congresses in each of the 1,500 urban wards, 32 People's Congresses for the regions, and the National General People's Congress. These legislative bodies are represented by corresponding executive bodies (Local People's Committees, Sha'biyat People's Committees and the National General People's Committee/Cabinet). Through this structure in practice the Green Book is realised.

2.3.1.2 Regional Position

Libya is an important regional player; it is a member of regional organisations such as the African Union, the league of the Arab States, the Organisation of the Islamic conference, CEN-SAD (The Community of Sahel-Saharan States) and the Arab Maghreb Union. It is also an active participant in the region, promoting cooperation and peace among African and Arab countries, and stronger African representation at the United Nations.

2.3.1.3 International Relations

The Libyan government under King Idris followed and developed a foreign policy of neutrality towards the Israeli-Arab conflict and close alliance with United Kingdom and United States. Libya also established a strong relationship with France, Italy and Greece and also established full diplomatic relations with the Soviet Union. However, by the 1970s and under the new government led by Colonel Qadhafi, Libya pursued a policy of Arab nationalism, strict adherence to Islamic law and reducing the Western influences on Libya. As result of this policy the British were forced, in 1970, to evacuate their remaining military bases in Libya, and also the United States evacuated their Wheelus air force base (located near Tripoli). Furthermore, Libya's new foreign policy was generally reoriented away from the West and towards the heart of the Middle East. The Libyan government established strong political ties with Egypt, as a result of the pro-Arab policies pursued by Libya. In 1971 Libya joined with Egypt and Syria to form

a loose alliance called the Federation of Arab Republics[3]. A major programme of nationalisation took place in the late 1970s; the government nationalised most economic activities and partially nationalised foreign oil companies and foreign commercial interests in Libya.

The policy of anti-imperialism and pro-Arab unity combined with other issues, such as supporting revolution movements around the world, resulted in Libya's relations with the United States becoming ever more hostile and Libya being gradually isolated from the international community. Also, in 1981, two Libyan fighter planes attacked U.S. forces on manoeuvres in the Gulf of Sidra (which Libya claims as national waters) and were shot down. Due to hostilities between the two countries, the United States placed a ban on Libyan oil imports in 1982 and halted all exports to Libya other than food and medical supplies. When evidence of the Libyan government involvement emerged in the bombing of a Berlin discotheque in 1986, which resulted in two American military personnel being killed, the United States retaliated by launching an aerial attack against targets near Tripoli and Benghazi, cutting all diplomatic ties and ordering all American oil companies to withdraw from Libya. Furthermore, in 1986 the American government froze all the Libyan assets in the US, and also banned all trade between the two countries (Central Intelligence Agency, 2013).

Relations between Libya and the UK started to deteriorate from as early as 1971 with Libya nationalising BP's commercial interest in Libya. The

[3] The Federation of Arab Republic only lasted for two years

relations between the two countries continued to decline with Libya getting involved in the dispute between the British and the Maltese government over the former military bases in Malta. In 1984, the relations between the UK and Libya worsened further, after the killing of a policewoman during anti-Libyan demonstrations held by Libyan dissidents outside the Libyan embassy in London. This resulted in cutting all diplomatic relations between the two countries (Eljahmi, 2006).

In 1989, six Libyans were put on trial in absentia in Paris, for the bombing of a French UTA flight. Furthermore, in 1991, the Libyan government was indicted by federal prosecutors in the U.S. and Scotland for their involvement in the December 1988 bombing of Pan Am flight103, this event was one of most significant events, which has negatively influenced Libya's economic prosperity and its relations with the international community.

The UN Security Council demanded that the Libyan government surrender the suspects and cooperate with the Pan Am 103 and UTA 772 investigations. However, Libya refused to comply with the UNSC and this led to the approval of UNSC Resolution 748 on March 31 1992, imposing sanctions on Libya to bring about compliance to UNSC demands. Moreover, Libya continued defying the international community which led to further sanctions by the UN against Libya in November 1993 (Central Intelligence Agency, 2013).

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In 1999, Libya began to make gradual policy changes by handing over the suspects' involved in the Pan Am flight bombing, with the intention of pursuing the normalization of relations with the western world. As a result, the UN sanctions were suspended, but those imposed by the United States remained in place. As a further gesture of goodwill, in December 1999, Libya pledged not to aid or protects terrorists.

In 2003, Libya made a dramatic policy change by announcing its decision to abandon its weapons of mass destruction program and also pay almost 3 billion US dollars in compensation to the families of the Pan Am flight, as well as the UTA Flight. This step was welcomed by the international community and, in particular, western nations. Furthermore, this step has expedited Libyan efforts towards rejoining the international community. Since 2003, the country has made efforts to normalize its relations with the European Union and the United States. Furthermore, Libya's foreign policies changed from an anti-imperialism stance to a more tolerant, considered approach (AIJAC, 2003).

2.3.1.4 Administrative and Institutional Condition

Since independence in 1951, the Libyan administrative system has witnessed a number of structural reforms, as the initial federal system was replaced by a unified state in 1963, at this point; the country was divided into ten provinces. Following the revolution in 1969, this division was reviewed with some provinces being annulled and new ones created. However, this

division was abandoned in 1975 and replaced by a new system where the country was divided into counties and sub-counties to be governed by the Local People Committees. In 1993, another new system was introduced in which the country was sub-divided into 13 regions consisting of 340 Basic People Congress. However, in 1998 the county system was completely replaced by a system of 26 administrative regions overseen by the people; a further six regions were later added in total (Shernanna and El-Fergani, 2007). It should be noted that the current public administration is organised by the Basic People‘s Congress as well as People‘s Committees. The People‘s Committees form the main channel through which the government provides public services such as organising different economic activities. The People‘s Committees are overseen by the Basic People‘s Congress which has selected them to implement their decisions (Article No.1 of Law No.1 of 2001).

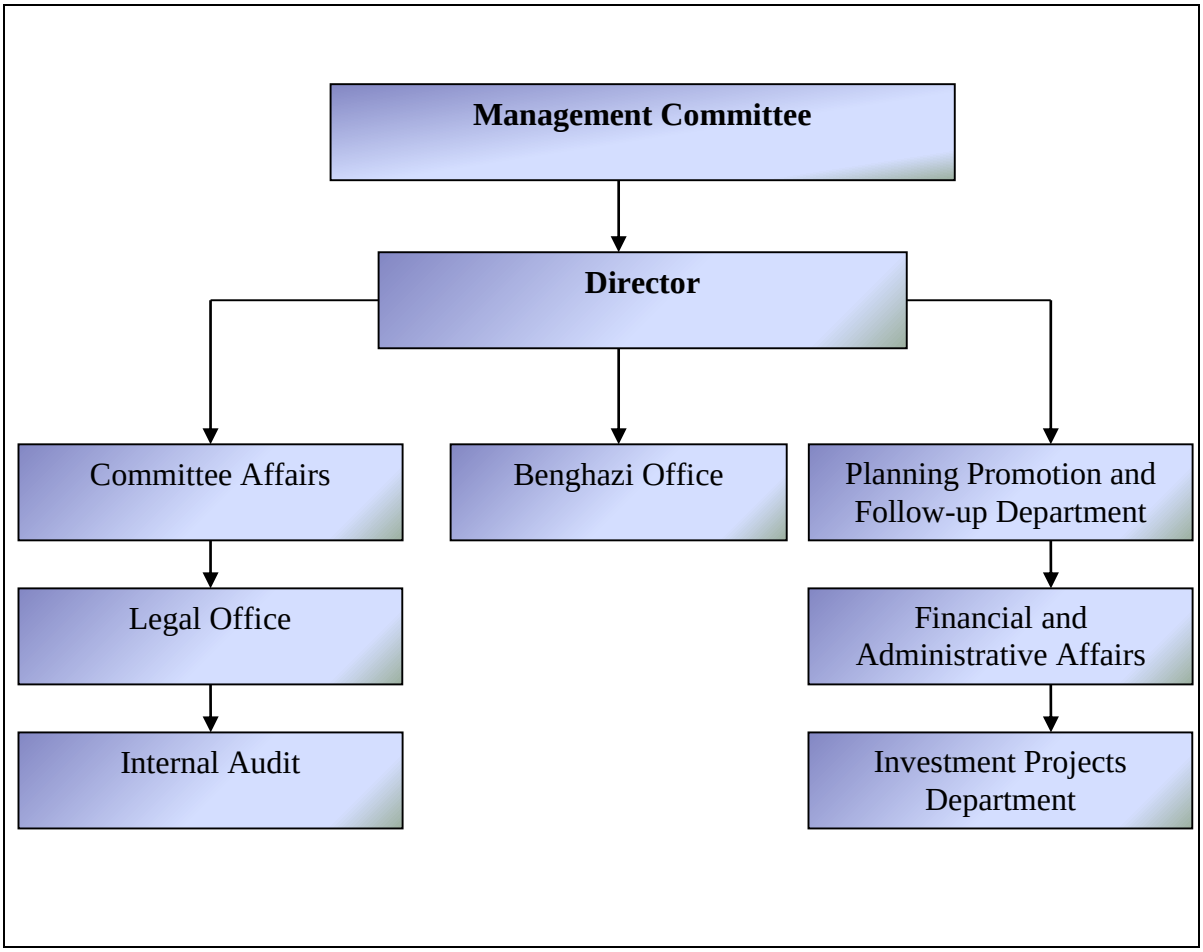
The administrative system in Libya is weak when compared internationally, and the high administrative burden is a barrier to competitiveness. Although Libya performs relatively better on some aspects, such as quality of legal framework and reliability of police services, the burden of bureaucratic red tape is immense (NES, 2006). The high levels of bureaucratic hurdles are a significant constraint to FDI activity because there are no standard guidelines for FDI. Government and licensing bodies lack objective decision-making and explicit guidelines, as a result the use of bribes to accelerate procedures is reportedly commonplace (Shernanna and El-Fergani, 2007).

2.3.1.4.1 The Libyan Investment Board

The Libyan Investment Board (LIB) was created in 1998, under the administration of GPC for Economics, Commerce and Investment. In the past, foreign investment was managed through a department affiliated to the GPC for Economics, Commerce and Investment. Figure 2.1 highlights the structure of the LIB, which comprises the management committee, three departments, a branch and three internal offices.

The management committee predominantly reviews plans for investment and monitors investment projects. The committee also takes decisions in relation to applications from foreign investors. These applications could entail branches of already established projects, new projects or expanding and developing already established projects. The committee also examines applications from investors in regards to the transfer of ownership in full or in part and remittances of invested capital. In addition, the management committee discusses reports from the Director-General of the LIB in relation to its activities, reviews investment legislation and gives recommendations for the development of legislation. Proposals for opening new management branches can be made at the discretion of the management committee (NES, 2006).

Figure 2.1: The Internal Structure of the LIB



Source: LIB, (2009)

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The committee can also propose changes to the internal organisation and take budgetary decisions, in addition to the approval of financial and management regulations in accordance with effective legislation.

The planning and promotion administration evaluate and propose investment plans and works towards the promotion of these plans, in addition to suggesting programmes and conducting studies to encourage investment. This gives the LIB a more active role. The board also undertakes the task of modifying and developing principles and measures and setting conditions for

investment, in which case three departments are involved; Financial Affairs, Administration Affairs, and the Public Relations Department.

Finally, the investment project administration approves foreign investment projects and provides any necessary service. It also controls and follows up foreign investment projects at the establishment and operational stages through three of its departments; Project Affairs, Investor‘s Service and Control and Follow Up Department. Overall, the LIB aims to provide the necessary infrastructure and investment environment to attract FDI.

2.3.1.5 Legal and Regulatory Conditions

Libya’s legal system is based on civil and Islamic law. Libya is party to the international covenant on civil and political rights (ICCPR) and the International covenant on Economic, Social, and cultural rights (ICESCR). Libya ranks low in the World Bank Institute sponsored Governance Indicators study which compares ‘regulatory quality’ across countries (NES, 2006). Since 2002, Libya has taken major steps to create a more stable legal environment and to rationalise its regulatory regimes. However, there are areas where necessary laws do not exist (e.g. Competition Law), or where existing laws are contradictory or need to be upgraded to meet current international best practices (Shernanna and El-Fergan, 2007). Furthermore, Libya’s constitutional proclamation of 1969 has not been superseded by a written constitution, leaving the judiciary without a constitutional authority to consult for definitive rulings on the interpretation of law. Policy uncertainty is

exacerbated by the fact that the Constitutional Proclamation can be superseded by laws passed by the General People Congress. Interestingly, a number of current laws are contradictory.

Libya's FDI law is based on Law 5/1997 (encouragement of foreign capital investment) and its amendments provide the primary framework for foreign investment. The benefits granted under Law 5/1997 are in accordance with international best practice. However, problems arise from restrictive amendment in projects capital and limiting the sectors that foreign investors can invest in. Furthermore, foreign investors entering the market are faced by a lengthy and cumbersome approval process and registration system. Only Libyan 'branch offices' of foreign companies enjoy a national treatment guarantee (NES 2006).

2.3.2 Economic Conditions

2.3.2.1 Development of the Libyan Economy

Once Libya gained independence, it faced major problems with almost all the local industries as trade was destroyed during the Italian colonial period in the first half of the 20th century and the campaigns of World War II (1939-1945). Moreover, Libya was traditionally an agricultural country. Although farming was restricted primarily to the coastal regions, livestock raising was also important. At independence in 1951, Libya was one of the poorest countries in the world and faced a difficult economic environment.

Furthermore, only 10 *per cent* of the population could read or write, and there were only a few college graduates. The per capita annual income was about $30 a year and the country's principal export was scrap metal[4]. Before the discovery of oil, Libya's economy was centred on two main economic activities, agriculture and scrap metal (Aziz, 1992).

In the first years of independence the Libyan government was totally dependent on foreign aid. The majority of foreign aid Libya was receiving came from the United Kingdom and United States. The amount of foreign aid that Libya was receiving in the period 1956-1959 averaged one-third of Libya's gross domestic product (Issawi, 1982). The Libyan National Income in 1950 was estimated at L£15 million, and income per capita was L£15. However, by 1962 the discovery of oil and the growing numbers of foreign companies operating in Libya's oil industry, lead to income per capita to increase to L£63 (Ateiga, 1972). The discovery of oil has brought with it a profound change in the Libyan economy. The main economic activities (the scrap metal and the agriculture industry) prior to oil discovery were to a large extent affected. For example, in 1958 the agriculture industry contributed twenty six *per cent* of Libya's gross national product (see Table 2.1). However, by the end of the 1960s, the contribution of the agriculture industry to gross national product had fallen to only 3.01 *per cent.* Furthermore, the agriculture industry by the end of the 1960s employed only 30 *per cent* of Libya's total workforce, whereas at the end of the 1950s, it employed 70 *per*

[4] scrap metal collected from World War II battlefields

cent the total workforce, this decline is due largely to the discovery of oil (Ateiga, 1972).

Table 2.1: Libya's Gross Domestic Product during the Period 1958-1968 (Million L£)

Sector	*1958*		*1962*		*1965*		*1968*	
	L£	*%*	*L£*	*%*	*L£*	*%*	*L£*	*%*
Agriculture	*13.6*	*26*	*14.9*	*9.6*	*25.2*	*5.1*	*33.4*	*3.01*
Petroleum and natural gas	*3.6*	*6.9*	*38*	*24.4*	*270.1*	*54.9*	*648.6*	*60.5*
Mining and quarrying	*3.6*	*6.9*	*0.6*	*0.4*	*1.0*	*0.2*	*1.5*	*0.1*
Manufacturing industries	*6*	*11.5*	*9.0*	*5.8*	*12.6*	*2.6*	*20.0*	*1.9*
Construction	*1.8*	*3.4*	*10.3*	*6.6*	*34.9*	*7.1*	*89.2*	*8.3*
Electricity and gas	*0.8*	*1.5*	*0.9*	*0.6*	*2.0*	*0.4*	*3.9*	*0.4*
Transport, storage and communication	*2.9*	*5.5*	*8.6*	*5.5*	*18.5*	*3.8*	*39.3*	*3.7*
Trade, restaurants and hotels	*7.3*	*13.9*	*14.3*	*9.1*	*25.1*	*5.1*	*45.5*	*4.2*
Banking and insurance	*-*	*-*	*1.7*	*1.1*	*3.5*	*0.7*	*6.3*	*0.6*
Public administration and defence	*9.5*	*18.1*	*15.5*	*10.0*	*37.0*	*7.5*	*77.1*	*7.2*
Educational services	*6.7*	*12.8*	*5.0*	*3.2*	*12.8*	*2.6*	*25.6*	*2.4*
Health service	*-*	*-*	*2.1*	*1.4*	*4.5*	*0.9*	*10.9*	*1.0*
Ownership of Dwelling	*-*	*-*	*29.4*	*18.9*	*36.4*	*7.4*	*59.7*	*5.5*
Other services	*-*	*-*	*5.3*	*3.4*	*8.5*	*1.7*	*11.6*	*1.1*

Source: Planning and Development Ministry; Ateiga (1972:108)

Despite the increased prosperity of the Libyan economy, according to Ateiga (1972), the Libyan government was unable to develop other industries in the early years of oil production and oil continued to be the main contributor to the gross domestic product (see Table 2.1). This is primarily due to the fact that Libya suffered from a very small and dispersed population; also its lack of skilled workforce. In fact, the contribution of manufacturing industry to the

Libyan GDP decreased from 11 *per cent* in 1958 *to* 1.9 *per cent in* 1968 (see Table 2.1).

Libya's foreign trade was profoundly influenced by the discovery of oil. In 1955 Libya's import of goods was L£14,388 million and by 1968 this had doubled reaching L£40,607 (Ateiga, 1972).

Table 2.2: Summary of Libyan Balance of Payments 1954-1968 (Million L£)

	1954	**1956**	**1960**	**1965**	**1968**
Export	+3.48	+3.96	+3.55	+284.0	+664.3
Imports	-11.75	17.53	41.70	115.0	232.0
	-4.96	-7.76	-11.54	+0.20	-12.6
Private unrequited transfers (net)	-0.53	-0.5	+0.20	-7692	-12.6
Government unrequited transfers (net)	+5.75	+8.62	+14.24	+1.636	+29.8
Current balance	+0.26	+0.37	+2.9	+33.44	+89.3

Source: Planning and Development Ministry; Ateiga (1972)

In addition, the Libyan balance of payments, during this period, has also been profoundly affected by the discovery of oil (see Table 2.2). This Table illustrates the effect of oil on the Libyan balance of payments. It shows a significantly unfavourable balance of payments and also illustrates that imports increased two fold and exports rose marginally. Furthermore, as a consequence of the new economic and social prosperity brought by the

discovery of oil, Libya became one of the most prosperous nations in Africa. This has influenced the transformation of Libya into a main regional player.

The United States of America and the United Kingdom continued to be Libya's main economic partner. Libya also continued to be reliant on the aid mainly donated by these countries and the expenditure of the British and American military personnel.[5]

From 1973, the Libyan government gradually began nationalising all economic activities in the country. This nationalisation process began first with nationalising the oil industry, where most of the companies operating in this industry were nationalised with the exception of some foreign oil companies (companies operating in the field of exploration and production of oil). Furthermore, by 1979, all economic activates by private enterprises seized and their activities were taken over by the public sector (Aziz, 1982).

However, despite these drastic economic polices the Libyan gross domestic product (GDP) increased from $1.5 billion in 1965 to $25.4 billion in 1985, and between 1965 and 1980 the economy grew at an annual average of 4.2 per cent (Ateiga, 1972). Furthermore, per capita income in Libya skyrocketed to amongst the highest in the world (Enterprise Ireland, 2004). Declining petroleum revenues in the 1980s forced cutbacks in development programmes, and per capita income declined by at least 25 *per cent*. For example, revenues from sales of oil, declined from twenty two billion dollars

[5] Both the USA and the UK held Military bases in Libya

in 1980 to only five billion dollars in 1988. The decline of Libya's oil revenues were as a result of two main factor, firstly the slump in oil prices and secondly the fall of Libya's oil production level.

In response to the economic difficulties that the Libyan economy was experiencing in 1988, the government began to gradually to introduce economic reforms and, as a consequence, the private sector gradually re-started to play a role in the economic development of the country. Libya's GDP decreased from L£ 5612.7 million in 2000 to L£ 8301.0 million in 2001, which was a direct result of the fall in oil revenue in the 1980s. However, the contribution of this industry to Libya's GDP in the 2000s continued to be of great significance (see Table 2.3).

The international sanctions have not only impacted on oil companies undertaking business in Libya but have also impacted on the rest of the economy (NES, 2006). Moreover, the Libyan economy was seriously affected during the 1990s by a critical shortage of spare parts and lack of access to raw materials and new technologies. This imposed serious limitations upon Libya's industrial infrastructure, in particular to the oil industry (UNDP, 2005).

Income from tourism also plummeted. Although, major development projects, such as the Great Made Man River, were unaffected, smaller projects including the construction of desalination plants were slowed down. The government was also forced to cut agricultural subsidies, thus stalling its

effort to boost the agriculture sector. However, as a result of sanctions being lifted in 1999, the Libyan economy rebounded in the late 1990s and Libya has experienced strong economic growth over the last seven years and GDP have increased by a staggering 300 *per cent* from L£18745 million in 2001 to L£60040 million in 2005 (Shernanna and El- Fergani, 2007).

Table 2.3: Libya's Gross Domestic Product during the Period 2000-2009 (million L£)

Sector	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture and Fishing	64.7	90	183	320	563.5	612.8	851.0	1392	1376	1527
Petroleum and natural gas	2385	3276	6571	1784	1608.8	2235.8	2385.5	7450	20673	
Mining and quarrying	15.5	28.5	48.8	49	65.7	66.5	84.0	307	360	459
Manufacturing industries	55	124.7	192.2	401.8	587.0	645.0	896.0	878	765	794
Electricity	12.4	26.1	49.7	112	174.8	154.1	258.0	285	303	379
Construction	376.6	602	935.7	895	1197.5	1205.5	1534.5	1063	1249	1648
Trade, restaurant and hotels	184.2	292	489.8	485.9	826.5	925.7	1347.5	1882	2205	2859
Transport, storage and communication	155	220.1	356.1	395.5	828.5	712.5	1046.5	1299	1516	1950
Banking and insurance	72.8	144.1	246.4	285.4	326.5	345.0	452.5	377	440	564
Ownership of Dwelling	111.3	157.3	210.4	252.4	298.2	304.1	352.5	499	534	665
Public administration	209.5	362.2	611.1	920.0	1114.5	1105.5	975.0	1301	1437	1861
Educational services	95.4	172.8	220.8	387.5	477.0	505.5	591.0	1035	1143	1480
Health services	38.5	79.6	114.7	213.5	292.0	311.0	576.0	566	625	809
Other services	19.5	37.4	47.4	75.0	140.5	155.5	212.0	411	451	539
Total GDP	3795.7	5612.7	10277.3	6577.0	8301.0	9284.5	11353.5	18745	33077	60040
Oil industry as per centage of GDP	62.%	58.%	63.9%	27.%	19.%	24.%	21%	39.%	62.%	74.1%

Source: Libyan Central Bank, bank different economic bulletins

2.3.2.2 Financial Services Conditions

Libya at independence in 1951 had no national monetary institution and only nine branches of foreign banks. These Banks were nationalised in 1971 and incorporated into the assets of the Central Bank of Libya until the end of 2007 (Shernanna and El- Fergani, 2007:185). Currently, Libya's financial market, according to a survey by LBES (2005), is poor compared to neighbouring countries. Equity markets in Libya does not exist and debts market are immature (LBES 2005).

The Libyan Banking sector is highly concentrated, in 2004, with total banking assets of LYD 17.6 Bn, of which 15.2Bn were held by the six commercial banks. Five of these banks are owned by the Libyan Central Bank. Libya also has three specialised banks (Agricultural Bank, Bank for Real Estate Investment and Savings, and the Development Bank), which aim to support the development of key economic sectors. In addition, there are 45 regional banks that are coordinated by the National Banking Corporation, and there are twelve offices representing foreign banks.

Libya banking system is still primitive, where critical services such inter-mediation of funds payment facilitation is outdated and inefficient (NES, 2006). Furthermore, Libyan banks have failed to offer its clients products and services comparable to the developed economies. For many decades the Libyan banking system only provided the traditional services such as the payment of wages and limited credit facilities. Also, the Central Bank of

Libya has not implemented its role properly as an advisor and controller of economic activity; this has resulted in what is commonly known as negative monetary policies (Shamiah, 2007:9). A further indicator of the poor banking sector in Libya is the low level of bank credit as a ratio of GNP. This ratio decreased from 41.0 *per cent* in 1998 to 28.0 *per cent* in 2008, although the absolute level increased from LD4.372bn in 1998 to LD11.812b in 2008. (Central Bank of Libya, 2009:29)

However, the Central Bank of Libya has commenced a policy to restructure the banking sector. Its first step was the sale of its share in the Unity and Sahara banks to local and foreign investors. In addition, it also merged the Al-Gumhouria and Al- Umma banks to create the Al-Gumhouria Bank, with total assets exceeding LD8bn (The Central Bank of Libya, 2008:30). Also, further steps were taken to upgrade the banking services, with the introduction of systems such as Real Time Cross Settlement System, the Automated Clearing House, Automated Cheque Processing, ATMs, POS and CMS. (Central Bank of Libya, 2006:12).

Two commercial banks have been established in partnership with the states of Qatar and the UAE, and another two foreign banks have purchased shares in Alwahda and Sahara banks in 2009. BNP Paribas Group has become a strategic partner in Sahara Bank with 19 *per cent* of the shares and it retains the right to purchase up to 51 *per cent* within three to five years in 2009. Moreover, a strategic partnership has been established between

the Arab Bank and Alwahda bank under the same conditions in 2010 (Libyan Central Bank, 2010).

Furthermore, the Central Bank of Libya issued, Resolution No. 3 of 2006 which allows commercial banks to provide loans and other financial facilities to foreign companies that are investing in Libya, provided that the financial assistance does not exceed 50 *per cent* of the total costs of the relevant project, and that the financial assistance provided by commercial banks does not exceed 30 *per cent* of the authorised credit capacity (Central Bank of Libya, 2008:24).

On 3rd July 2006, the People's General Committee issued Decree No. 134 in relation to the establishment and regulation of the Libyan stock market. As a result of its recent establishment and the uncertainty of its role, turnover is still weak compared to the size of the economy, LD250m (UK£124m) in 5,264 transactions. At the end of 2008 only seven companies were listed, of which three are in the insurance sector, and four are commercial banks (Libyan Stock Market, 2009:12).

The insurance sector is provided by five companies: Libya for Insurance, established 1964, United for Insurance Company, Africa, Sahara and Libo Insurance Companies. Libya for Insurance had a monopoly until 1999, when United for Insurance Company was established by the partnership of a number of oil companies. The other companies were established after 2004. All insurance companies including Libya for Insurance belong to the private

sector as the latter was privatised in the second half of 2007 through the Libyan stock market (Central Bank of Libya, 2006:12). However, each company suffers many problems, the most important of which are the weakness of their capital base, and the limited investment tools available: total capital of the five companies was LD 90bn in 2005 (Central Bank of Libya, 2006:84).

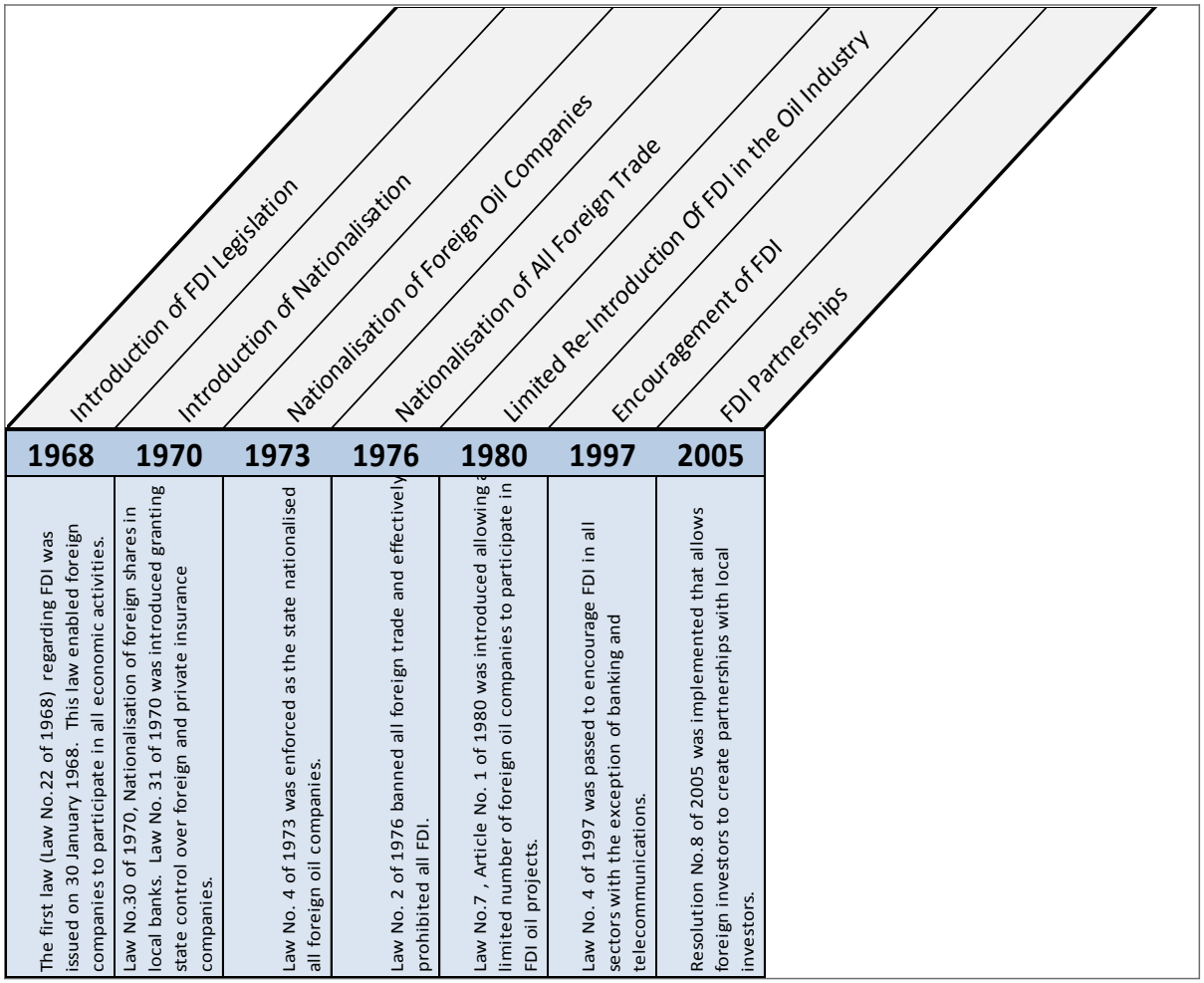
2.3.2.3 Libya's FDI Policies

FDI related legislation is a relatively recent practice in Libya. The first law regarding FDI was issued on 30 January 1968 (See Figure 2.2), followed by the law of Nationalisation of Foreign Shares in Local Banks which was issued in 1970, preceded by Law No. 31 of 1970 granting state control over insurance companies. Furthermore, in 1973 the regime nationalised all foreign companies operating in Libya and effectively forced all foreign investors to abandon their investment in Libya. The People's General Congress in its second session issued its resolution regarding the nationalisation of foreign trade Law No. 2 of 1976.

In 1980, the Libyan government decided to partially re-open the door to foreign investors after years of state control in the oil industry. A number of laws were passed to improve the climate for both local and foreign investment. For example, the Authority for the Libyan Investment Board (LIB) was established in 1988, which was the first entity that was able to

encourage FDI, in accordance with the provisions of Law No. 5 of 1988 (NES, 2006).

Figure 2.2: A Timeline of the Main FDI Related Legislation from 1968-2010



Source: Compiled by the Researcher

In addition, Law No. 4 of 1997 was concerned with the organisation of import and distribution of commodities. The General People Committee (GPC) also issued a number of resolutions, the most important of which was Resolution No. 3 of 2005 which allowed foreign companies to open branches in Libya; Article 2 stipulated that a branch should operate for a maximum of five years subject to renewal. Resolution No. 8 of 2005 allows foreign companies to open offices in Libya (Shamiah, 2007).

2.3.2.4 Libya Foreign Direct Investment climate

FDI in Libya has been almost exclusively in the oil industry. In 2009 Libya received USD 3Bn of FDI, 80 *per cent* of this went to the oil industry and the remaining 20 *per cent* to other sectors of the economy (LIB, 2010). The sanctions imposed on Libya, combined with the country's erratic economic policy in the past, provided little incentive for investors in other sectors. When the UN sanctions were finally suspended, inward investment has continued a positive gradual upward trend, and with the prospect of further economic liberalisation, FDI will see a marked rise.

The FDI inward flows into Libya stood at $700 million in 2007, after maintaining a negative value for the past several years. Additionally, based on the value of active projects, it has been estimated that Libya attracted $6-7 billion of FDI in 2007-08. Also, during 2007-08, Libya took the 116th place worldwide with respect to inward FDI, with a good deal of improvement from the previous period (137th in 2005-06). With regard to outward FDI performance index, Libya held the 52nd position globally in 2006-07, down from 47th place in 2004-2005 (WTO, 2008).

However, UNCTAD (2008), ranked Libya among only three countries (Botswana and South Africa) in Africa out 35 countries, to have very high FDI potential, but Libya FDI performance was below potential. Various explanations have been put forward for the poor FDI performance of

countries like Libya in Africa. According to UNCTAD (2008) uncertainty is one of the key reasons why foreign investors are reluctant to invest in Africa.

Despite the enormous profitable opportunities, the relatively high degree of uncertainty in the region exposes firms to significant risks. This is supported by Rogoff and Reinhart (2003) a study, in which they computed regional susceptibility to war indices for the period 1960-2001. They found that wars are more likely to occur in Africa than in other regions. However, the Rogoff and Reinhart (2003) study also revealed that there is a statistically significant negative correlation between FDI and conflicts in Africa. Other factors, were identified by UNTAD (2008), such as an inhospitable regulatory environment. In the past, domestic investment policies, for example, with regards to profit repatriation as well as on entry into some sectors of the economy, were not conducive to the attraction of FDI.

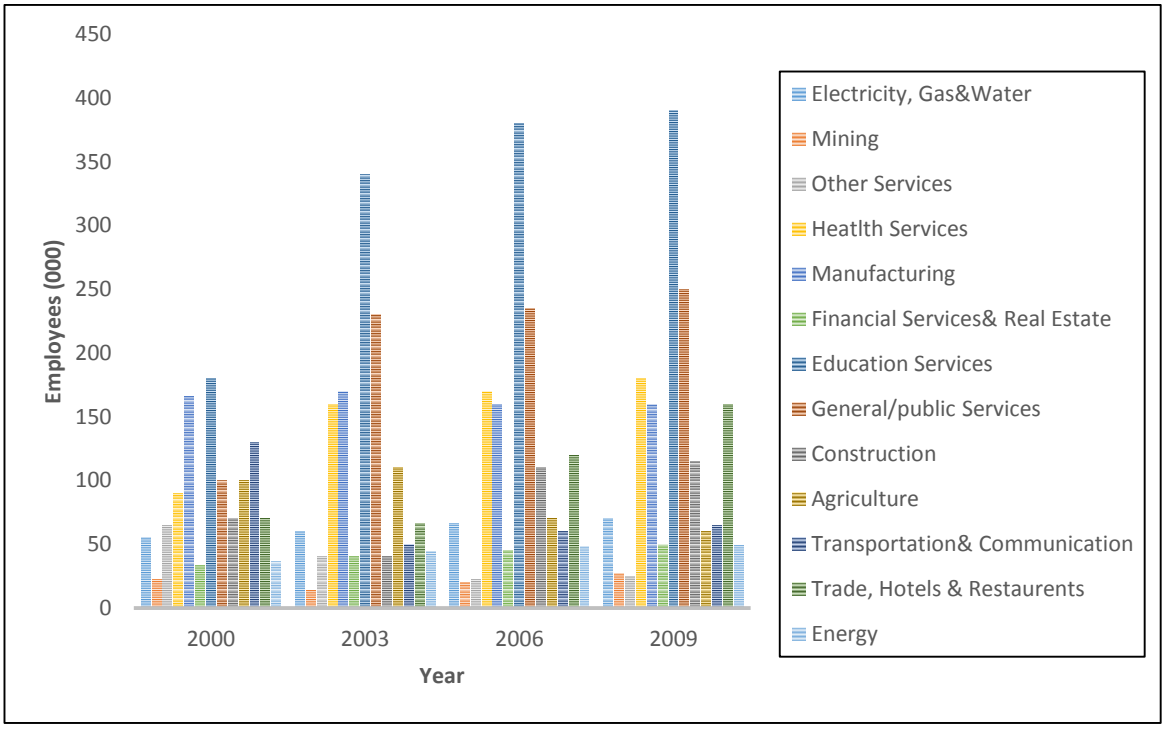
2.3.2.5 Labour Market

The Libyan economy is characterised by relatively small numbers (43,000) employed in the oil sector, despite the fact that most of the country's wealth is generated by this sector. The largest and continuously growing employment (840,000) is found in the public services sector (see Figure 2.3).

The oil sector contributes more than 60 *per cent* to Libya's GDP, but employs only 3 *per cent* of the public sector workforce. On the other hand, public services, including education and health care, contribute only 9 *per cent* to

Libya's GDP, but employ 51 per cent of the public sector workforce (see Table 2.3). Employment in public services doubled between 1999 and 2003, while the overall public sector grew by only 12 *per cent*. Where the private sector contributes to the Libyan employment and GDP is very difficult to determine its exact contribution is difficult to ascertain due to the lack of official data. It is estimated that the contribution of the private sector to be as much as 20-30 *per cent* of the official GDP. Private sector employment is almost entirely employed in agriculture, construction and retail trade sector.

Figure 2.3: Libyan GDP by Sector 2000-2009



Source: Central Bank of Libya, 2000-2009.

In a report by the UNDP (2008), Libya is ranked among the countries with higher rates of human development. Libya was ranked at 55 in a list of 177 countries in the 2008 Human Development Report with a human

development indicator of 0.847, where the standard indicator is equal to 1 (Human Development Report, 2009:167). Table 2.4 shows the most significant of human development indicators.

As can be seen in Table 4, with regards to Libya, all indicators show that the level of the Libyan human development is above the world average, Arab countries, developing countries and Eastern Europe in the four aspects apart from literacy where Libya comes behind the Eastern European countries. On the other hand, apart from the enrolment ratio in primary and secondary education, the level of Libyan human development is lower than what has been achieved by the OECD countries (UNDP, 2007).

Table 2.4: Libya Human Development Indicator

Indicator Average	**Libya**	**Arab Countries**	**Developing Countries**	**Eastern Europe**	**OECD**	**World**
Life Expectancy Years	73.4	67.5	66.1	68.6	78.3.1	**68.1**
Adult Literacy %	84.2	70.3	67.7	99.0	-	**78.6**
Combined Gross Enrolment %	94.1	65.5	64.1	83.5	88.6	**67.8**
GDP per Capital $	**10,335**	**6,716**	**5,282**	**9,527**	**29,197**	**9,543**

Source: UNDP (2007:232)

According to the Libyan Business Executives Survey (LBES, 2005), Libya performs poorly in terms of the overall quality of its educational system. As a result of the poor standards and training, the labour market is composed overwhelmingly of under-qualified workers. This has created a significant skill gap across almost all sectors of the Libyan economy. In over two-thirds

of SMEs in Libya, less than half of the employees have received sufficient vocational training in their field of work (LBES, 2005). Engineering and technical skills are an exception to general shortage of skills, especially in the energy sector where there are many qualified engineers and technicians. However, sectors like the oil sector remains dependent on expatriates with technical skills in key areas, and the number of well qualified Libyans in this sector is declining (NES 2006). Law 58/1970 allows the use of foreign labour only if there are no Libyans with similar qualifications. As many foreign companies prefer to enter the market with their own experienced employees, the restriction in law 58/1970 have had a negative impact (LBES, 2005).

Libya's public expenditure on education is approximately 4 *per cent* of GDP, which is around the average for MENA countries. Public expenditure from the administrative budget has averaged LYD 1.2-1.6Bn over the past 5 years, with further LYD 280mm spent on funding Libyan third-level students studying abroad. One of the key success stories of the Libyan government has been the improvement of basic education standards of the Libyan people. Libya's education system has been successful in achieving good basic education outcomes. Adult literacy levels are amongst the highest in the region, 84.2 *per cent*, with youth literacy reaching 100 *per cent* and female literacy is considerably better than many MENA peers. Despite the void of accurate information, it is clear that education in Libya has issues around quality; as a result Libya will continue to suffer from a shortage of a skilled work force that is desperately needed to contribute to the economic, social and cultural development of Libyan society.

2.3.3 The Social and Cultural Environment

2.3.3.1 Cultural Issues

Islam is the predominant religion in Libya with 97 *per cent* of the population associating with the faith. The vast majority of Libyan Muslim adheres to Sunni Islam, which influences the daily life of Libyans as well as government policies. Also, the majority Libyans view themselves as followers of moderate Islam, whilst a minority follows an extremist interpretation of Islam.

Although, Libya has a low population relative to its geographical size, it has one of the highest population growth rates in the world with an average of three *per cent* growth during the 1970s and 1980s (UNDP, 2002). Accordingly, Libyan society is predominantly a young society, which is forward looking. The diversified nature of Libya has resulted in a diversity of life patterns, including the pastoral Bedouin who base their society on the idea of tribalism, in contrast to life in rural areas where the agricultural environment is important. For this reason, every region in Libya has its own customs and traditions that make it unique. Libya has achieved significant progress on social issues, though there are still major socio-economic differences between the majorities of the population and there are approximately one million Libyans who live below the poverty line (NES, 2006).

In Libya there are no laws or regulations that prohibit women from taking jobs and partaking in all social and economic activities, as all legislation supports

this, even allowing women to hold senior jobs in the public sector. However, in reality, there are still some cultural issues that prevents women from taking part and competing in the job market. In some areas of Libya, customs and traditions prevent women working where the working environment involves mixing with men.

Furthermore, Libyan women want to work close to home because of the huge family and social commitments, especially in the absence of proper family planning and birth control schemes: the average size of a family is 6. Moreover, maternity leave regulations in Libya given to working women in accordance with Article 25 of the Social Security Law are not consistent with jobs such as teaching.

2.3.3.2 Libya's Infrastructure

The infrastructure has two components, that of information and physical infrastructure:

Telecommunication and information infrastructure: The state-owned Public Company for Mail and Communication is in charge of the development of the telecommunication sector in Libya and also monopolise telecommunication and postal services. Libya has 1.033m landlines with a penetration rate of 16.41 lines for every 100 inhabitants and as result is ranked the seventh highest of the Arab states. However, Libya is still behind other Arab oil producing countries that on average have 28.3 land lines for

every inhabitant (ITU, 2008). Furthermore, there are two companies, Al-Madar and Libyana, which between them control the mobile services in Libya, with a number of subscribers' equivalent to 100 *per cent* of the population by the end of March 2009 (ITU, 2009).

The internet services commenced in 1999, by the state owned Libya Telecom and Technology Company. However, by 2009 there were only 323,000 users at a rate of 5.13 per 100 people. There are also 82,500 internet subscribers at a rate of 1.36 per 100 people. In addition, there are 9,600 broadband subscribers at a rate of 0.16 per 100 people. By 2010 the penetration rate is still weak in Libya and is ranked only fifteenth in the Arab world.

Physical infrastructure: During the 1970s, the government realised the importance of infrastructure to the process of economic development and to upgrading the standard of living of the Libyan people. It commenced a major infrastructure development programme supported by oil revenues. Libya managed to build and upgrade its road transport network, maritime port and air transport routes. However, by the 1980s the decline of oil revenues, the rapid growth in population and the limited resources available to maintain and upgrade the infrastructure led the Libyan infrastructure to deteriorate to a poor standard.

In the 1970's, Libya managed to build a well-connected road network connecting the whole country, the most important of which is the coastal

highway linking the eastern regions to the western regions. The total length of built roads is 24,254km, compatible with the vast area of the country. However, due to reasons mentioned above, Libya's roads suffer high congestion and poor road planning in urban areas. In addition, Libya suffers from high rates of traffic accidents (Traffic Department Report, 2009). Moreover, the absence of underground trains and delays in establishing a railway exacerbates the situation, particularly in major cities such as Tripoli and Benghazi.

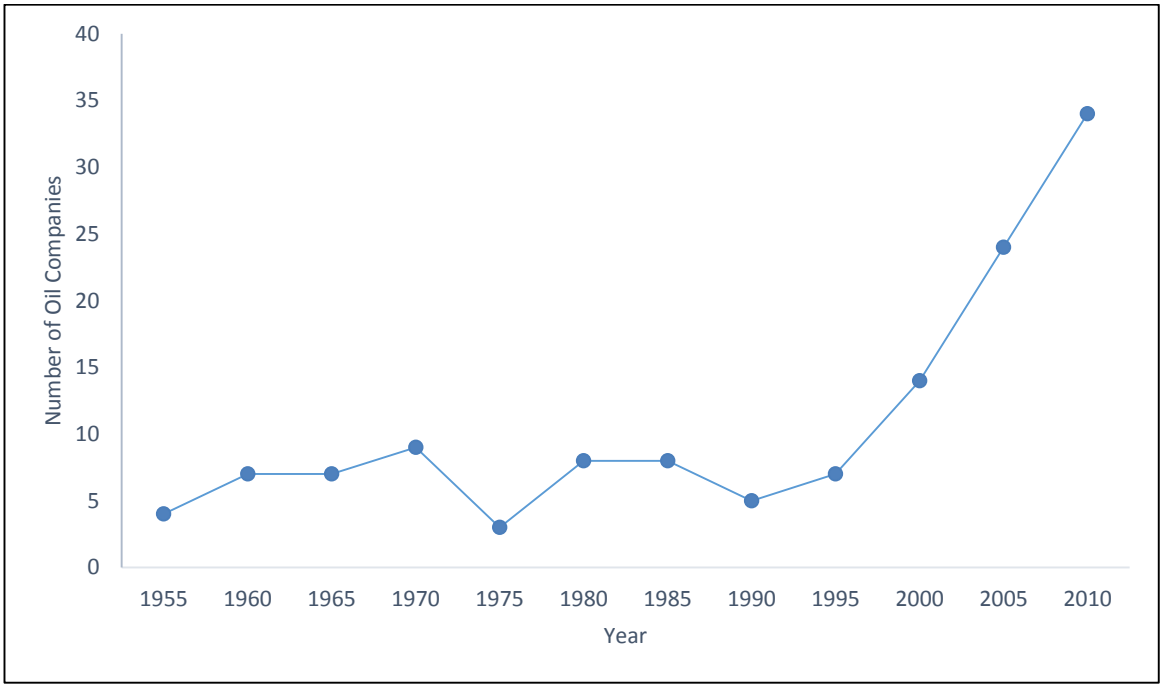
In the 1970's, Libya also built 20 ports of which eight are commercial, five of these are oil terminals and seven are multi-purpose ports (Shernanna and El-Fergani 2006). Despite its resources, the NCEP report concluded that the Libyan ports are poor as the facilities and equipment are obsolete, and the management is rated as very weak (NCEP, 2007:27). Moreover, the air transport services infrastructure in Libya according to a survey by NCEP (2007) is well below international standards. Other infrastructural services such as electricity, water supply, fluid and solid waste services in Libya, according to studies by Shernanna and El-Fergani, 2007 are deteriorating and are in poor condition. Many of these important services are unavailable in some rural areas and remote areas.

2.4 Oil Industry Business Environment

However, within the period 1971-1973, the Libyan government began to revise existing concessions in favour of 51 *per cent* participation agreements

with the state oil company, the Libyan National Oil Corporation (NOC) created in 1970. After many months of negotiations, some oil companies agreed to the new participation agreement including BP, Agip, Occidental and Marathon. In addition, by September 1st, 1973 the government issued a decree in nationalising foreign oil companies. This has been the most drastic action that the Libyan government has ever taken against foreign oil companies (Gurney, 1996). This, however, came at the expense of the significant slowdown in exploration and development activity following the nationalisation process.

Figure 2.4: Number of MNC's Undertaking FDI in Libya's Oil Industry during the Period 1957-2010.

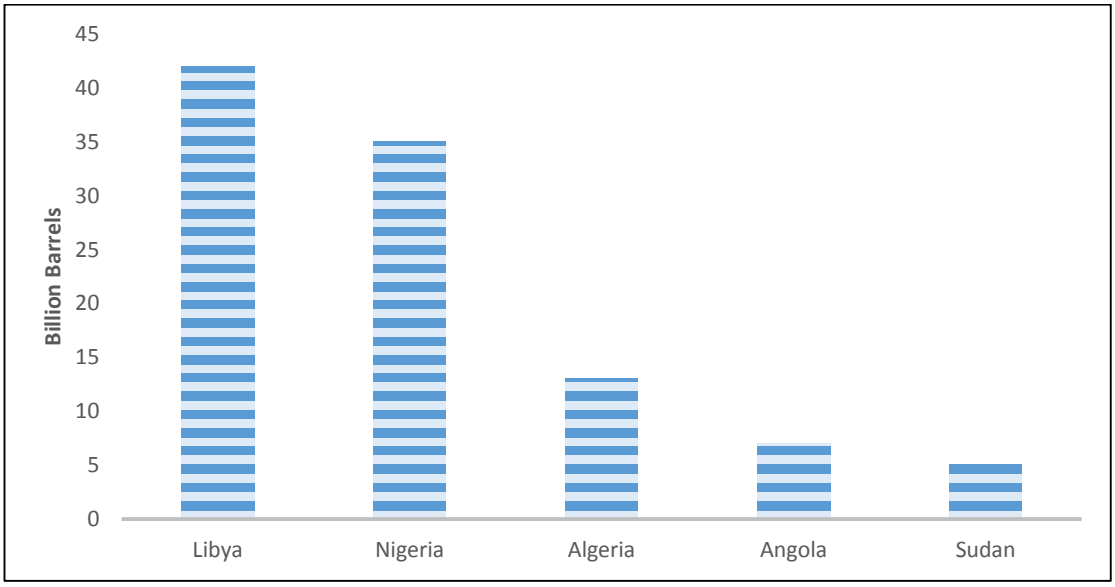


Source: Compiled by the Researcher

In 1978, Libya implemented exploration and production sharing agreements known as EPSA I as a channel for future involvement of foreign oil companies in the country and this led to re-entry of some MNCs (see Figure

2.5). During the 1980s, Libya was struck by a programme of US sanctions which caused the exit of all US oil companies. Exxon and Mobil were the first to depart in 1982. In 1986, Amerada Hess, Conoco, Grace Petroleum, Marathon, and Occidental exited the Libyan oil sector following the US Executive Order 12543 which banned commercial transactions with Libya. In 1996, the US imposed the Iran and Libya Sanction Act directed towards individuals that undertook investments that contributed to the enhancement of Libya's petroleum resources or enhanced Libya's ability to develop its petroleum resources. The sanctions had an adverse impact on investment in the oil sector. Thus, the Libyan government had no alternative but to negotiate and seek to attract European oil firms in an endeavour to counteract the impact of US sanctions.

Figure2.5: Africa's Top Oil Reserve Holders



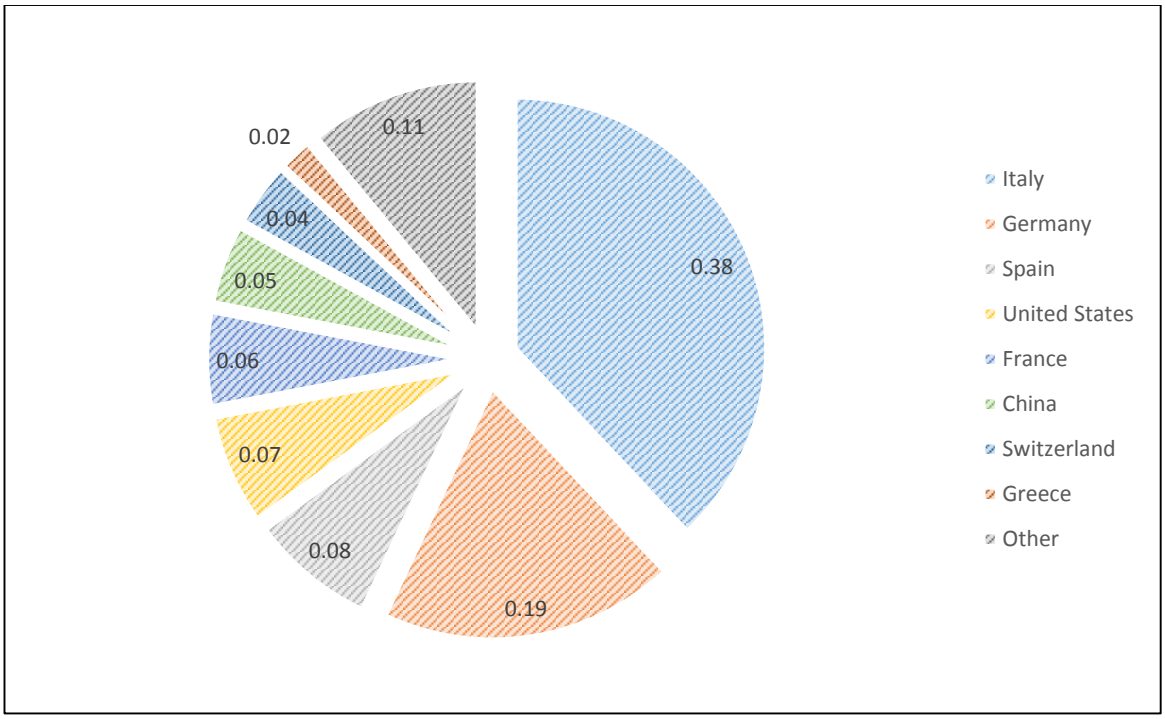
Source: OPEC Statistical Bulletins (2010)

Today, Libya is Africa's major oil producer and one of Europe's biggest African oil suppliers. Furthermore, Libya has the largest proven oil reserves

of 40 billion barrels of oil in Africa and has a production capacity of 1.4 million barrels per day (see Figure 2.6). In addition, Libya's main oil export partners Italy, Germany, Spain and France account for 74 *per cent* of Libya's exports (see Figure 2.7).

Libya's oil production increased rapidly during the 1960s to more than 3 mb/d by the year 1969 (NES, 2006). As a result, Libya became one of the leading members of OPEC[6] at the time. Libya's oil production has largely followed OPEC's overall production profile. However, during the mid-1980s and 1990s its output has grown only modestly, compared with OPEC's average growth of around three *per cent* per annum.

Figure 2.6: Libya's Oil Exports by Destination



Source: NOC, (2010)

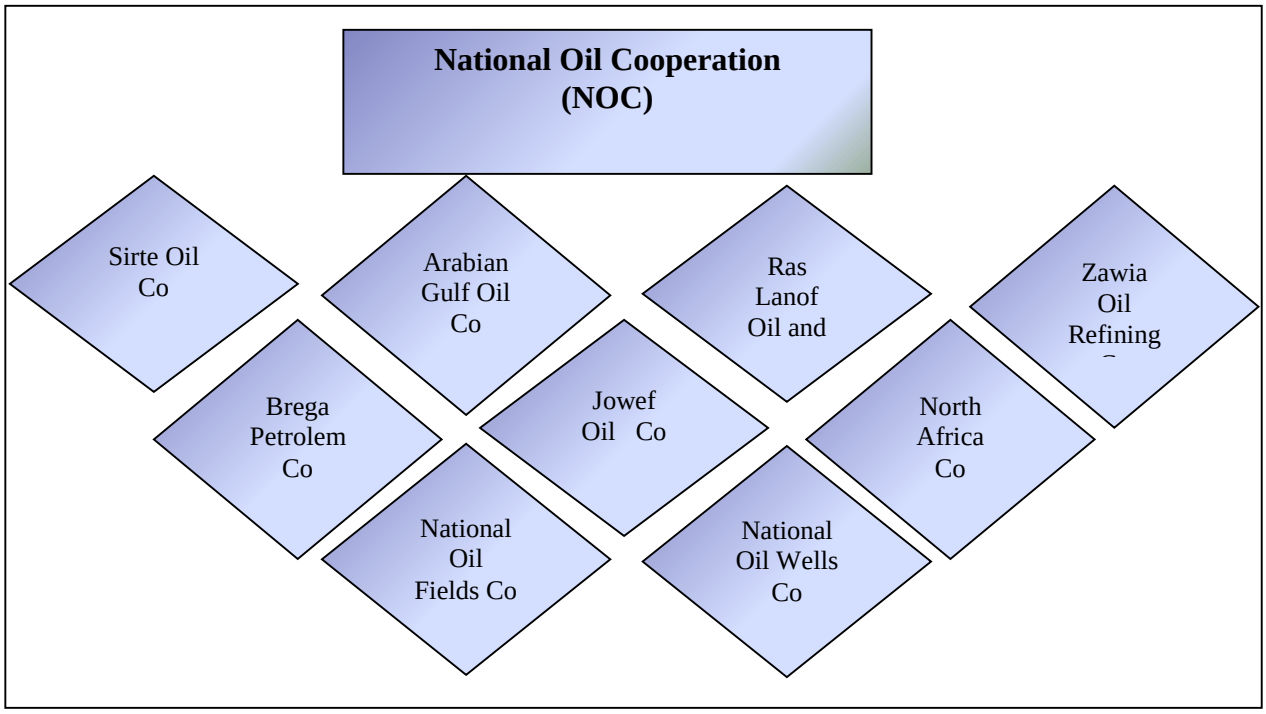
[6] Libya became an OPEC member in 1962

Libya's oil capacity has been constrained by lack of investment, mainly due to economic sanctions. Libya produces less than half of its peak production output of 3.3 million bpd in 1970, a decrease due mainly to the direct and indirect effects of sanctions. Libya would like to increase production and wants to attract foreign investment to the oil and gas industry (NES, 2006). Libya's downstream sector was exceptionally hard hit by the sanctions. Its three refineries have a nameplate capacity of 348,000 bpd, which is nearly twice its domestic consumption. The refineries, however, are outdated and desperately in need of upgrading, a matter which has been difficult, as sanctions have made equipment and technology less accessible. Libya plans to upgrade its existing refineries and build new refineries. In addition to its oil industry, Libya has an active chemicals industry as well as being one of the largest markets in the African lubricants industry.

The National Oil Corporation (NOC) was established on 12th November 1970, under Law No: 24/1970 to assume the responsibility of the oil sector operations. It was later reorganised under Decision No: 10/1979 by the General Secretariat of the General People's Congress, to undertake the realisation of the objectives of the development plan in the areas of petroleum, to support the national economy through increasing, developing and exploiting the oil reserves and operating and investing in those reserves, to realise optimum returns. In carrying out its activities, the NOC may enter into participation agreements with other companies and corporations carrying out similar activities.

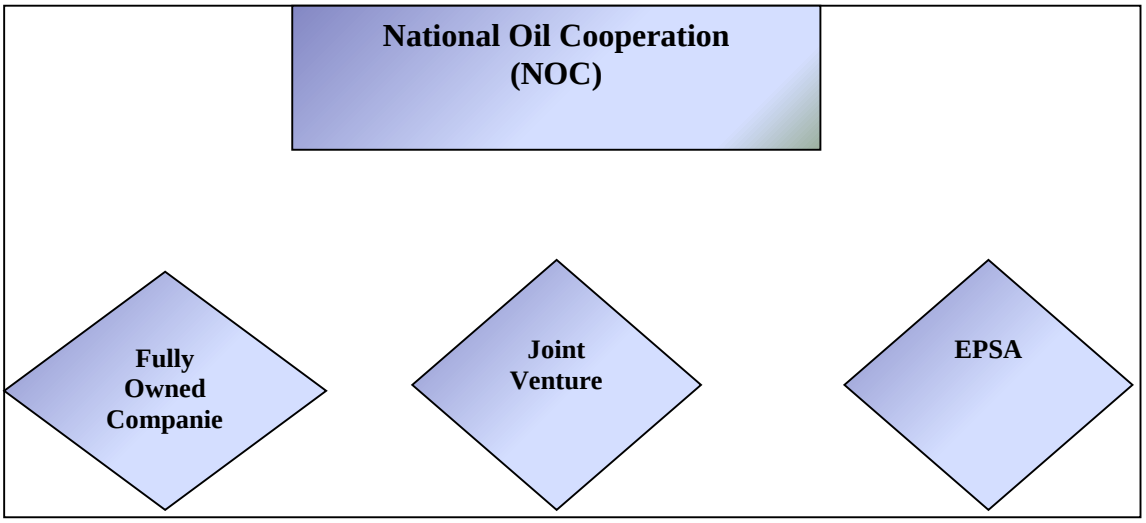
The NOC together with its 33 subsidiaries has controlled the entire gas and oil industry; both upstream and downstream (see Figure 2.8). The NOC operates in Libya through three different forms; fully owned companies, joint ventures and EPSA (see Figure 2.9). The NOC and its subsidiaries account for 60 *per cent* of Libya's production. International companies are engaged in exploration/production sharing agreements and joint ventures with the NOC (NOC, 2010). There are currently 28 companies operating in Libya under EPSA agreement. EPSA agreement did not follow the standard sharing contract and was different in some important features. One key difference was that the contracts did not offer any part of oil production for cost recovery. The oil company was allowed to receive a fixed tax-free share of oil production ranging from 15 *per cent* for onshore and 19 *per cent* for offshore blocks.

Figure 2.7: NOC Fully Owned Companies



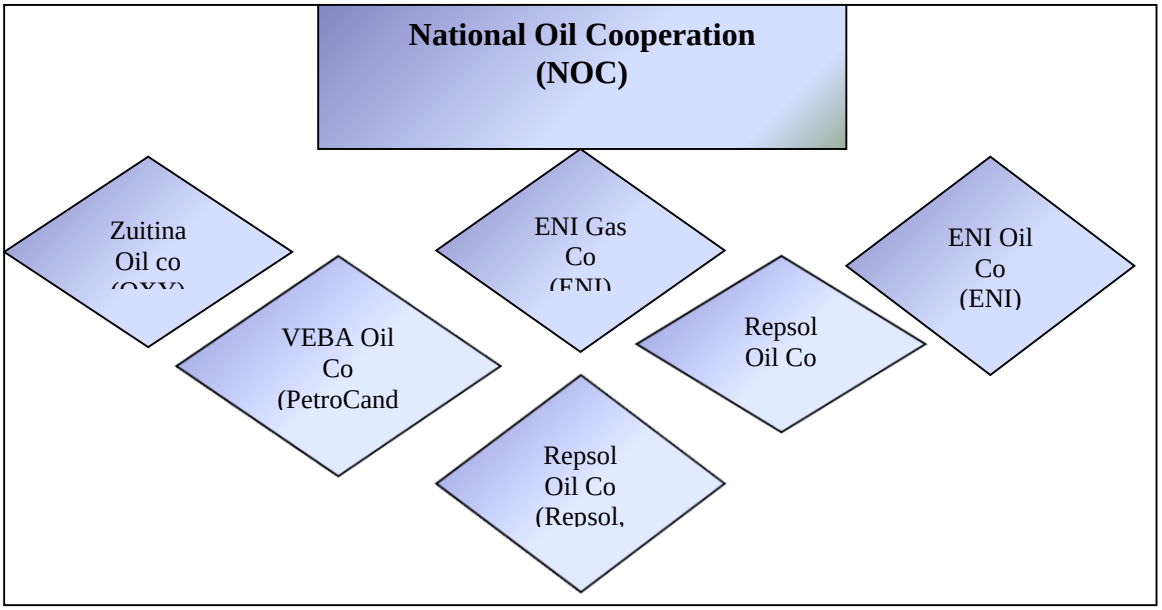
Source: NOC, (2010)

Figure 2.8: NOC Different Operating Forms



Source: NOC, (2009)

Figure2.9: NOC Joint Venture

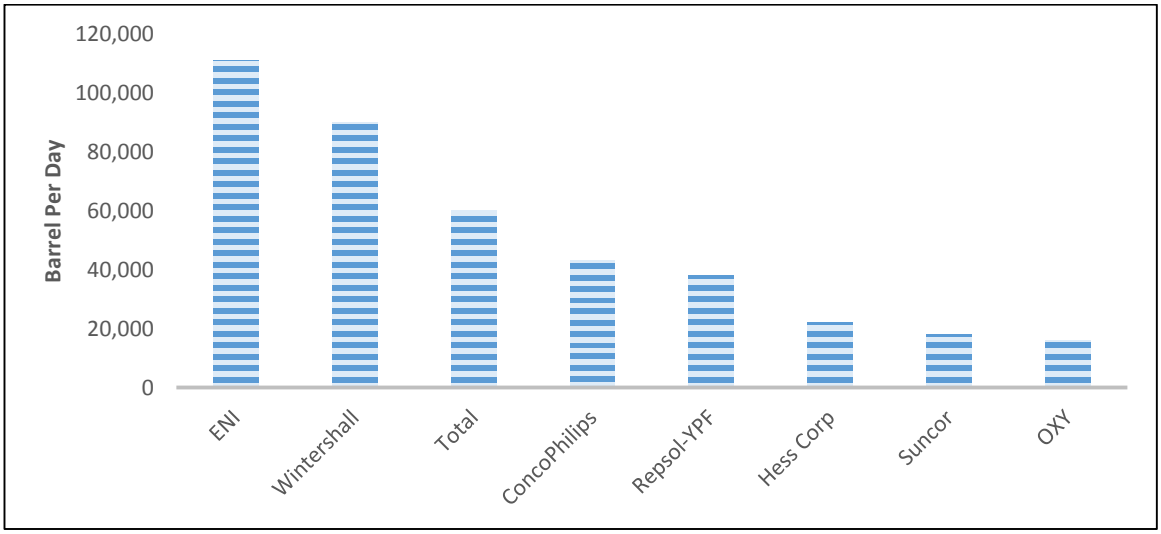


Source: NOC, (2010)

Furthermore, the new EPSA allowed the government greater supervisory and management control over operations. Current legislation also gave the option for the NOC to participate in joint ventures with MNCs if a commercial discovery is made. Currently the NOC have six joint ventures with different MNCs (see Figure 2.10).

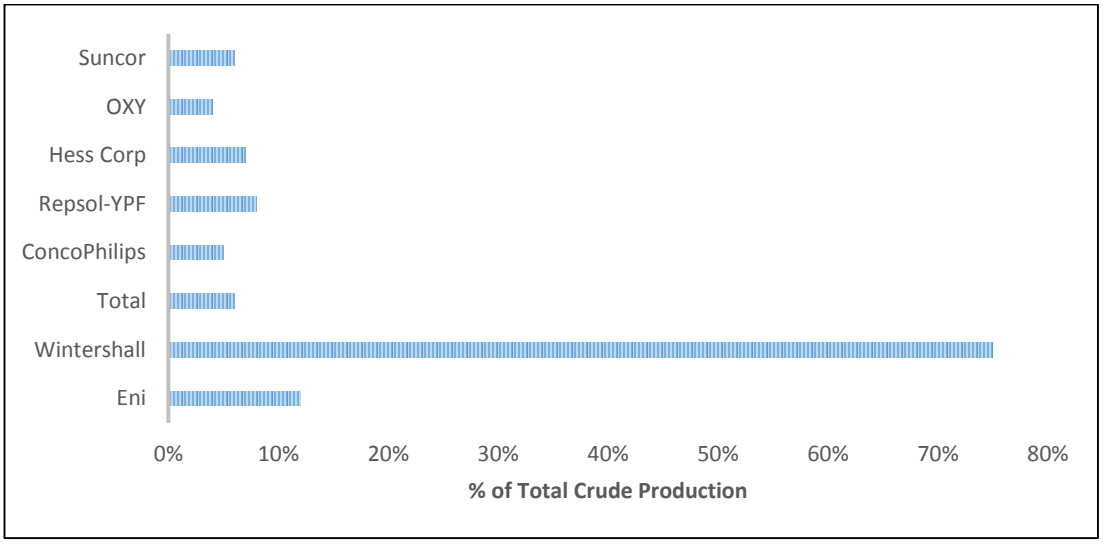
There over 30 foreign oil and gas companies actively operating in Libya (NOC 2010). The main oil companies operating in Libya by region are; 14 active companies based in Europe, 11 from the Asia Pacific region, 6 from North America, 2 from Russia, 1 from North Africa, and 1 from South America. Between them, the most important six oil producers in Libya control the majority of oil production in (see Figure 2.11). Libya is more important for some companies than for others (see Figure 2.12). One example is the firm, Wintershall, its Libyan oil production accounts for more than 70 *per cent* of its total crude production. However, ENI, the largest single foreign producer in Libya, relies on Libya for just over 10 *per cent* of its crude production.

Figure 2.10: Key Oil Producing Companies in Libya



Source: NOC, (2009)

Figure 2.11: Libya as % of Total Crude Production



Source: NOC, (2009)

2.5 Chapter Summary

It is clear that Libya is relatively well endowed with natural resources. However, the infrastructure, especially in the area of information technology, needs to be improved significantly. Moreover, as is the situation with some developing countries, Libya suffers from numerous financial and economic problems such as a reliance on the oil and gas sector as the main source of the national income. Furthermore the instability in the political, economic and administrative systems in the post-independence era, the issues discussed so far are a clear indication that the investment environment in Libya has not improved considerably to become more attractive towards encouraging FDI.

Foreign investment in Libya, particularly FDI in the oil industry is not a new phenomenon and with the positive political developments in the Libyan-

Western relationships since the suspension of UN sanctions in 1999 and the government‘s policy to improve FDI flows into the oil sector, the business environment has been much improved. Nevertheless, Libya’s world share of oil and gas exports decreased by 0.4 per cent between 1999 and 2005 (IMF, 2006). In addition, the Libyan government failed to meet their target of increasing oil production to 3 million barrels per day (mbd) by 2005 from their current level of only producing 1.8 mbd (NOC 2006). It is argued that the investment climate is determined by the nature of a country’s economic system and the core principles that create the foundations for this system, its structure, the role of the private sector and all policies connected with economic activity (El-Fergani, 2003). Thus, this research aims to examine the major factors that have restricted the flow of foreign direct investment (FDI) into the oil sector in Libya, particularly during the period following the lifting of international sanctions from the year 2000 to 2009.

CHAPTER THREE: FDI INFLOWS; EFFECT AND THE ROLE OF THE HOST GOVERNMENT POLICIES

3.1 Introduction

Global FDI has witnessed tremendous growth and evolution over the last forty years across the different regions of the world. As the geographical borders of the world have changed, so too have the direction and flow of FDI activity across the globe. In the last few years, worldwide economic and financial turmoil have led to reduced FDI activity with some economies experiencing a collapse in FDI and others, only being moderately affected. Initially, in this chapter, in order to understand the subject of FDI inflows it is important to review the different types of FDI. Secondly, this chapter reviews the effect of FDI on the developing countries. Finally, this chapter reviews the literature on governments FDI polices in order to investigate the nexus between FDI inflow and the role of the host country FDI policies in influencing FDI inflows.

3.2 Types of FDI

It is imperative to note that there are many different types of FDI, of which the most important associated with developing countries, are the following (Dunning, 1993):

(i) **Natural resources seeking FDI**: where FDI plays a key role in the production of raw materials in developing countries and the export of these materials for consumption in outside markets. Investment in the field of natural resources, where FDI plays an a key part in the production of raw materials in developing countries and the export of these materials for consumption in external markets. An example of this is the exploration and production of oil and gas.

(ii) **Market seeking FDI**: firms may go abroad to find new purchasers for goods and services. The firm may see that their product is better in overseas markets and look to take benefit of this opportunity, or simply to save on operational costs like transportation cost etc.

(iii) **Efficiency seeking FDI**: firms may decide to reorganise their overseas operations in response to broader economic changes. For instance, the introduction of a new free trade agreement among a group of countries may promptly make a facility located in one of those countries more competitive because of access for the facility to lower tariff rates within the group. Fluctuations in exchange rates may also change the profit margins of a firm, making the firm shift the allocation of its resources.

(iv) **Strategic asset seeking FDI**: this FDI can be described as a strategic investment. This type of FDI is at the very advanced stage in which MNCs may invest abroad in order to help build strategic assets, such as distribution networks or new advanced technology. This may involve the establishment

of partnerships with other existing foreign firms that specialise in certain aspects of the production process.

3.3 Barriers to FDI

The mainstream view of barriers to attracting and retaining FDI inflows in developing countries focuses on risk factors such as infrastructure, arbitrary taxation and regulatory systems, exchange and capital control policies, and cultural differences, all of which restrict the operations of MNCs (Brewer, 1993; Kobrin, 1979; McCarthy, Puffer, and Simmonds, 1993; Schlegmilch, Diamantopoulos, and Petersen 1991; Thomas and Worrall, 1994). FDI is subject to a various numbers of barriers, which inhibit the flows of FDI. Barriers to inward FDI are assumed to take the form of an increased fixed cost of locating in a host country.

FDI is assumed to respond to trade liberalisation or other exogenous changes that generate international flows in response to changes in rate of return (Martin and Yagashima, 1993). UNCTAD (1996) have identified the main types of FDI barriers (see Table 3.1).

Table 3.1: FDI Barriers

Restriction on Market Entry	1.Bans of foreign investment in certain sector 2.Quantitative restrictions (e.g. limit of 25 % foreign ownership in a sector) 3.Screening and approval (sometimes involving national interest or net economic benefits tests) 4.Restrictions on the legal form of the foreign entity

	5.Minimum capital requirement 6.Conditions on subsequent investment 7.Conditions on location 8.Admission taxes
Ownership and Control Restriction	1.Compulsory joint venture with domestic investors 2.Limits on the number of foreign board members 3.Government appointed board members 4.Government approval required for certain decisions 5.Restrictions on foreign shareholders' rights 6.Mandatory transfer of some ownership to locals within a specified time (e.g. 15 years)
Operational Restriction	1.Performance requirements (e.g export requirements) 2. Local content restrictions 3.Restrictions on import of labour, capital and raw materials 4.Operational permits or licences 5.Ceilings on royalties 6.Restrictions on repatriations of capital and profits

Source: UNCTAD, (1996)

3.4 The Effect of Inward FDI on Host Country Economic Growth

Debatably, the significance of FDI stems from the fact that it tends to boost economic growth in host countries. An optimistic evaluation of the impact of inward FDI was suggested by Romer (1993b), who established that for a developing country attempting to keep up with or achieve in more advanced countries, the key obstacle was the gap in the knowledge, or ideas, rather than physical capital. In this context a number of studies have analysed the relationship between inward FDI and host country growth. However, these studies differ in the methods of measurement used as well as the final results. Some of these studies are concerned with measuring the impact of FDI on the rate of economic growth in general, while others focus on

particular economic or political variables and their impact on growth. For example, some studies focus on the impact of FDI on production; other studies measure the impact on the economic aspects such as foreign trade, different manufacturing strategies and its effect on growth, and local investment in the host country.

3.4.1 The Effect of FDI on Production

The issues that arise with respect of measuring the effect of inward FDI on economic growth, is investigated through its effect on host country productivity. It can be argued that the benefits to the host countries, if they exist, stem mainly from the superior efficiency of the foreign-owned operations. For example, MNCs are in possession of the suitable production technology to activate otherwise unutilised or under-utilised economic resources in the host country (as in the case of Libya's natural resources). Furthermore, it is argued that MNCs also use advanced management techniques to boost the use of resources, as well as the reduction of production costs. As a result it is argued that attracting MNCs will increase the efficient use of resources by improving productivity qualitatively and quantitatively, thereby increasing the competitiveness of the host country. Lipsey (2002:40) suggested "The evidence on productivity, whatever the measure, is close to unanimous on the higher productivity of foreign- owned plants in both developed and developing countries".

Theories of the impact of FDI on host countries have on the whole taken it for granted that foreign-owned firms usually own a superior technology and that some of that technological knowledge spills over to the host country economy. Findlay (1978:5) suggested that "the rate of change of technical efficiency in the backward is an increasing function of the relative extent to which activities of foreign firms with their superior technology pervade the local economy". He also, suggested that the larger the gap in technology, the faster the transmission, provided that this gap not too wide for this assumption to hold. Moreover, according to Wang and Blomström (1992), the speed of the transmission depends on the characteristics of the host country environment and the host country firms. They further suggest that the transmission of technology would be accelerated further if a more competitive business environment existed.

It can be suggested that FDI plays a major role in helping improve the skills of the local workforce, assisting the use of modern means of production. This implies that a skilled and literate workforce should be a major target irrespective of the nature of the economy. The empirical studies reviewed below confirm a significant relationship between FDI and productivity spill over and hence an economic growth in developing countries through inward FDI.

Haddad and Harrison (1993), investigating the Moroccan case, established that FDI by MNCs have created a significant contribution in improving the performance of host country firms. They claim that the host country firms

have gained greatly from the advanced technology associated with inward FDI, which have had a great effect on the productivity of these companies and the subsequent increase in economic growth (Haddad, 1997). The same effect was established by Aitken (1997), who examined the effects of FDI on the growth in production in a number of countries from 1976 to 1989. He found that local companies achieved high production rates in sectors where the contributions of foreign capital were high; prior to the inflow of FDI, productivity in those sectors was low.

Blomström and Wolff (1994) concluded in their investigation of Mexico, based on the Mexican Census data, that higher foreign share in an industry in 1970 resulted in higher rates of productivity growth in the local owned firms over the next five years. The host country local firms were found to have higher productivity growth in industries in which local firms productivity were initially closer to those of the foreign-owned firms. They suggest the higher the shares in an industry were also associated with faster convergence of Mexican industry productivity toward U.S industry productivity levels.

Aitken and Harrison (1999) in their study of Venezuela found that an increase in foreign equity participation was linked with increases in productivity for small plants, but that increase in foreign ownership in an industry negatively affected productivity in local owned plants in the same industry. The positive impact within foreign plants exceeded negative effect.

Mathur (1992) in his analysis of India manufacturing also concluded similar findings to the above studies. He found that local low production sectors benefited significantly from FDI which improved the efficiency of these sectors. Richardson (1997) also suggested that FDI played a key role in boosting economic growth in South East Asian countries, through its contribution to total production via the associated advanced technology. In turn, this boosted exports earnings in these countries.

In a study investigating the role of inward FDI and commercial loans in increasing productivity in South Korea, between 1970 and 1990, Hong (1997) found that the flow of foreign capital had a greater positive effect on productivity than commercial loans. Moreover, this study concluded that the private sector in Southern Korea succeeded in attracting foreign capital especially in areas such as oil exploration, electronics and the heavy industry.

Blomström and Kokko (1996) suggested that MNCs have played a positive role in boosting the productivity in Kenya, in relation to their contribution to promote advanced technology among local companies. Similar findings were also concluded in a study on Cameroon (Ghura, 1997). Furthermore, Rhee and Belot (1990) stated "…the critical role of transnational corporations (TNCs) in the transfer of technical, marketing, managerial know-how to developing countries—a role more important than the transfer of financial resources associated with DFI by TNCs" (.Rhee and Belot, 1990:8).

Blomström and Kokko (1998) argued on productivity spill overs to host country by suggesting “such effects exist and…they may be substantial both within and between industries, but there is no strong evidence on their exact nature and magnitude”. Furthermore, “the positive effects are likely to increase with the level of local capability and competition” (Blomstrom and Kokko, 1998:24). According to Gorg and Greenway (2001) most of the results of the productivity with relation to spill overs from foreign-owned firms to local-owned, found only limited evidence in support of positive spill overs. In addition, they suggested that the majority of the work failed to find positive effects, with some reporting negative spill overs.

2.4.2 The Effect of FDI on Foreign Trade and Economic Growth

One of the main contributions of inward direct investment in some cases has been to introduce new industries to a country or drastically change the composition of production. The role of FDI has been argued as key in supporting developing countries to achieve the required international standards in order to compete in global markets and also to improve the quality of local production.

There have been various numbers of studies that have analysed the relationship between FDI and foreign trade. Chen and Zhang (1995) find a positive relationship between inflows of FDI into China and Chinese exports. They justified these results by the fact that a number of components are available in China, the most important of which is a manufacturing base for

export (Chen and Zhang, 1995). Lipsey (2000) explained the significant role of U.S. affiliates in the electronics industry in East Asia, particularly in the early development of the industry. The earliest data available illustrates that U.S. affiliates accounting for three quarters of exports in some cases, with the share declining over time. Labour intensive industries, such as food textiles, and apparel, decreased while the share of chemical and machinery industries in exports increased to more than half.

Aitken *et al*. (1994) highlighted the significant effect of MNCs on the overall exports of local companies, as these companies gain from the services provided by the MNCs predominantly in the area of information technology and distribution. Similarly, Thomsen (1999) in a study focusing on the ASEAN countries emphasised the strong relationship between FDI and exports. He found that export levels in the ASEAN countries expressed as ratio of GNP has grown from 30 *per cent* to about 40 *per cent* in three years starting from the end of 1980s.

In a study of over 2,000 manufacturing establishments in Mexico in 1986-1990, Aitken *et al*., (1997), found that higher production by foreign – owned firms in a sector, as well as greater export activity by those firms, increased the likelihood that domestic firms would export. Furthermore, countries like Thailand for example, have achieved annual average growth of 2.6% between 1989 and 1992, which would not have been possible without the contribution of MNCs in increasing its exports especially in the electronic products according to Hoekman (1996). In another study, Blomström and

Kokko (1997) emphasise that MNCs are more efficient than their local counterparts in achieving exports. They explain their findings by the fact that MNCs possess higher levels of technology, marketing skills and effective channels of communication with the outside world.

Rhee and Belot (1990), have illustrated various examples of the effect of inward FDI on developing countries, such as, a military uniform exporter from Zambia expanded from a joint venture with a German firm that initially was targeting the domestic market but could draw on export experience from the German parent when selling locally became impractical. Also, in the Ivory Coast, a joint venture with a French company, experienced in marketing and technically skilled, led the country into the semi-processed cocoa market. Another example was the success of the Jamaican export of garments to the United States. The key input factors that led to the expansion of exports were provided by a joint venture with a Korean company who supplied effective management, effective training in advanced technology, efficiency of operations, combined with marketing skills and channels.

Various studies have focused on the effect of FDI on economic growth by studying the type of manufacturing strategy (polices) adopted in the host countries, and whether the strategy target to increase exports or to restrict or replace imports. A study by Balasubramanyam *et al*., (1996) investigated the impact of FDI on economic growth in the host country in relation to variations in manufacturing strategies. It was assumed in their study, that the capability of investment to bring about economic growth differs according

to the type of manufacturing strategy. They established that policies that aim at increasing exports attract FDI inflows and as a result an increase in exports contributes to economic growth. According to Lipsy (2002:54) “The positive influence of inward FDI on host- country exports seems well-established whatever the mechanism. And the few studies of spill overs of exporting from affiliates to domestic firms point in the same direction”. However, Blondal and Christinsen (1999) studied the impact of the flow of foreign capital on the economies of the growing markets. They concluded that a significant contribution was made by FDI towards economic growth through increasing foreign trade. However, the impact on trade varied from one country to another depending on the aims and the type of strategies of host country.

2.4.3 The Effect of FDI on Local Investment and Economic Growth

When reviewing the effect of inward FDI on growth, it is also imperative to consider the effect of inward FDI on domestic investment levels, and, specifically, if the inward FDI and domestic investment are complementary or substitute each other. There are various studies in the literature that have investigated this relationship with varying results.

Bayoumi and Lipworth (1997) established that in Japan, inward FDI integrated with the local capital in the host country economy rather than replacing it. As a result, in the case of Japan, the injections of the foreign capital into the local economy offer additional financial resources to stimulate

sectors of the economy which were not performing effectively for economic growth.

Moreover, a study by De Mello (1996) on the OECD countries across the period 1970 to 1992 concluded that the relationship between the two variables could be described as integrative. FDI was found to have positive impact on economic growth rates in host countries. On the other hand, the relationship between foreign investment and local investment in source countries was that of replacement (De Mello, 1996). In another study, Agosin and Mayer (2000) analysed the effect of inward FDI on local investment in Africa, Asia and Latin America between 1976 and 1996 through two sub-periods: 1976-1985 and 1986-1996. The effects of integration or substitution varied across the countries and between periods within the same country. For example, it was concluded that the replacement effects were indisputable in Africa between 1970 and 1996, but assimilation was evident between 1976 and 1985, and 1986 and 1996. By contrast in Asia integration was always present all the time. However, in Latin America the relationship between foreign and local investment was that of substitution throughout.

3.5 Host Government Policies for Promoting FDI

The increase in foreign direct investment has been accompanied by an increase in competition amongst the developing countries to attract FDI. Many countries have pursued policies at both macro and micro-economic

levels to improve the investment environment in order to become more attractive to FDI. As a result, higher investment incentives have been offered by the host government and the removal of restrictions on operations of foreign firms in the countries has been implemented. FDI policy incentives have become one of the tools of government host countries to develop FDI attraction.

It is important to highlight that there has been a change from the long-established concept of relative advantage based on the resources available to the state that allow competitive production including natural resources, labour and geographical location, to the concept of the competitive advantage. This in addition to the afore-mentioned fundamentals includes aspects such as technological know-how, expertise, and quality production.

The theory of competitiveness varies according to the level involved: company, sector or state. The theory of competitive advantage is based on a model to evaluate competitiveness relying on micro-economic principles (Porter, 1990). However, the OECD identify economic competitiveness from the economic point of view as the level that would permit the production of commodities and services to meet the needs of international markets within open and fair markets, in the meantime sustaining the economic growth in the long term (cited in Oughton, 1997:11). The theory of competitiveness continues to be integral to improve the problems of the local market which constitute a major barrier to improving productive efficiency.

In addition, offering the right environment for competition should give an advantage to host countries in improving economic efficiency and boosting economic growth to promote better standards of living (Chabchoub & Oral, 1997; Lall, 2001). Countries such as Singapore and Ireland have managed to attract FDI, through successfully getting the endorsement of international organisations such as the World Bank, IMF and USAID. Win (2002) suggested that the attempts by these countries in encouraging FDI over the last few years have enticed other developing countries to attempt to copy the strategy adopted by these countries.

Policies for promoting FDI in order to maintain domestic investment and thus economic growth become vital. Countries like Libya have adopted FDI polices in order to attract further FDI. The effect of government policy on FDI flows has currently attracted a good deal of attention from economists and policy makers. The policy makers have attempted to impose and implement different types of policies to manage these flows to complement economic conditions of the countries. The question, then, is whether FDI has a positive effect on host countries, and if so, what can governments do to attract it?

The following section of this chapter will highlight a number of examples of policies, programmes and procedures that have been adopted by host countries to attract and improve the inflows of FDI and will review the empirical studies on the effect of government FDI polices on FDI inflow.

3.5.1 Selective FDI Policies

Encouragement of investment should selectively favour investment in particular sectors, such as sectors that use highly sophisticated technology, or areas associated with exports. Thus, rather than encouraging investment in the host country in general, the focus should be targeted on the development of specific sectors. For instance, in Singapore, the Economic Council for Development aim at investors that might contribute to the development of industrial conglomerates, while in Malaysia the Organisation for Industrial Development determined the most influential 22 industrial conglomerates in relation to their competence to attract FDI to increase exports. This type of FDI policies is a selective tactic. It is argued that it can help host countries to attain its strategic goals, including reducing unemployment, the acquisition of technological know-how and development of exports (Centre for Information and Decision Support, 2004).

3.5.2 Financial Incentives

Financial incentives have been adopted by many countries around the world and the experience of these countries suggest that to create an economy that is attractive inward FDI requires financial incentives. This suggests that the financial incentives should be associated with issues concerned with matters such as employment, modernisation and technology, and the development of human resources and exports. For instance, in some host countries, R&D grants have been used with companies that develop or

produce new products. These grants can be repaid back in the form of royalties in the case of a successful new product. For example, Finland has allocated grants to finance firms in the areas of R&D, which would help expand the capacity of firms to compete in foreign markets (Centre for Information and Decision Support, 2004b).

Another type of incentive is in the form of development aid which is granted to a firm in order to help them expand their capabilities. This will enable the firm to compete in the long term by encouraging them to support the use of skilled labour and innovative technology. The amount of aid is determined by the type of the project as well as the location where FDI is taking place. For example, countries like Ireland and Hungary adopted this measure by providing direct financial assistance to firms on the basis of agreeing to create a number of jobs for the local workforce (OECD, 2007).

3.5.3 Openness Policies

One of the key measures for a host country government is to follow policies that promote free-market economy. Openness to international trade and a free-market economy encourages and reassures investors and therefore tends to help increase FDI inflows, commodities and technological transfer into and out of the host country, thereby maximising economic benefits. A key element of providing the conditions for a free-market, open economy is implementing policies that promote export that in turn attracts FDI. It has been argued that such policies tend to help create new markets for the host

countries' economies and offer opportunities for investors to market their products and maximise their profits. Moreover, becoming a member of regional economic groups, and adhering to bilateral agreements to eliminate double taxation, may increase regional capital flows. Such policies are becoming increasingly significant as a result of the free trade, the globalisation of products and markets, and the free movement of international capital.

Bilateral agreements between foreign investors and host countries organises the relationship between them in the absence of an over-arching international agreement concerning international investment. These agreements are usually associated with the removal of double taxation and can be considered to have greatly encouraged FDI. Bilateral agreements date back to 1959, when the first one was signed between West Germany and Pakistan (UNCTAD, 2008).

3.5.4 Promoting Managerial and Institutional Frameworks

The effectiveness and flexibility of the organisational and institutional framework in a host county plays a significant role in determining the FDI environment. This efficiency helps with simpler procedures for accelerating the establishment of projects and settling disputes (WEF, 2002). Among the steps implemented to enhance managerial and institutional frameworks is the one-window service to assist the licensing process for FDI, which are aimed at saving time, resulting in the reduction of costs associated with

setting up FDI projects and thereby reducing the costs for investment (Hong and Gray, 2003). Further measures could include the establishment of agencies for the protection of the rights of investors and post-investment services aiming at eliminating potential obstacles that face foreign investors particularly within government offices. Also, these one-window services, offers consultation and advice to investors through research and database facilities. Also, in some cases, they distribute publications emphasising the proposed investments sectors where profits are anticipated to be high, and initial feasibility studies for investments proposed within the plans for economic development. (Centre for Information and Decision Support, 2004).

According to Hong and Gary (2003), this type of support is found in many countries, for example in South Korea. An agency for the promotion of trade and investment was established in 1999. They found that, when a referral is presented to the agency by an investor, it immediately liaises with the relevant organisation to resolve the issue. The office has been given full jurisdiction to request the assistance of any governmental organisation. The government organisation then has an obligation to construct plans to resolve the situation within seven days of receiving the complaint.

3.5.5 Improving the Legislative Framework

In order for the host country to be able to take full advantage of the potential benefits of investment it is necessary to protect the rights of all parties

involved. Thus, economic activity should take place under an umbrella of appropriate legislation. However, this legislation must encourage free competition, prohibit monopolies, and shield investment by providing the necessary guarantees to investors. Thus, to improve the legislative framework, host governments should avoid a multiplicity of legislation in relation to investment, and should favour a single all-encompassing, transparent law. This will provide investors with a stable legal environment that positively facilitates and encourages investment. Furthermore, effective legislation should be established to eliminate corruption amongst official circles, which would reduce costs for potential investors (El-Fergani, 2002).

3.5.6 Other Policies

There is a myriad of other policies that contribute to the development a country's investment environment which should be considered. For example, some policies bring about social and economic stability such as cutting down fiscal deficits, and lowering inflation and unemployment in order to close the gap between income and wealth levels of different social groups. Other policies include the freedom of ownership and the transfer of profits and investment capital when the project is terminated (El-Fergani, 2002). Moreover, other policy measures aimed at encouraging FDI by host countries government, is adopting several important tax and tariff measures to promote private investment, lower production costs, improve corporate liquidity, and reduce consumer prices. Furthermore, the host government have also eliminated the registration requirement for the import and export in

some countries. Governments of host countries, particularly in developing countries, are attempting to attract more FDI inflows with variety of investment and tax incentive and other policy preferences (Oman, 2000; Wheeler and Mody, 1992).

3.6 Review of Literature of the Empirical Studies of the Effect of Host Government Policy on FDI

A study by Root and Ahmed (1978), investigated the effect of policies of host government in developing countries and their ability to attract inward FDI in manufacturing. They estimated that the host country policies on corporate taxation, tax incentives, joint ventures, local content requirements, and limitations of foreign personnel discriminate between 'unattractive', 'moderately attractive' and 'highly attractive' with regards to FDI. The study was carried out on 44 countries from the developing world. These countries were analysed on their economic, social, political and policy variables. These factors were tested for their significance in discriminating between three groups of these countries. Data on non-extractive direct investment inflows of 70 developing countries were used, and then categorised into three groups according to their average annual per capita inflow of non-extractive direct investment over the period 1966-1970.

However, as result of data limitations on potential determinants, especially on policy factors, only 41 countries were then adopted in the discriminant analysis. They established that there are five fundamentally different

dimensions of the FDI investment climate. They are market size (per capita GDP and urbanisation), infrastructure (commerce, transport, and communication), import capacity (ratio of exports to imports), political stability (regular executive transfers) and host country policy (corporate tax level). They also attempted to find the relationship between inward FDI with regards to the host government policy variables: corporate taxation, complexity of tax incentives, liberality of tax incentives, attitudes toward joint ventures, local content requirements and limitations of foreign personnel. The study found that, corporate taxation is a significant determinant of inward FDI direct in the manufacturing sector. Previously taxes have not been an important consideration in the investor's choice of a country, however, it's likely that, their importance will increase further with the increasing mobility factors associated with international production MNCs.

Furthermore, the study concluded that, tax incentives appear to have no impact on inward FDI. However, the study established that countries with poor incentives may suffer a competitive disadvantage. Competitive tax incentives would appear to be necessary but not sufficient to attract foreign investment. They found that only corporate taxation was a significant discriminator among the unattractive, moderately attractive, and attractive groups of the sample countries in comparison to other variables studied.

A number of studies have researched the effect of openness to trade and regional agreements in trade on inward FDI inflows and found them to be a significant determinant. Free trade agreement increase both inward and

outward FDI. For example, a study by Blomstrom and Kokko (1997) found that lowering interregional tariffs can lead to expanded market and increase FDI but lowering external tariffs can result in the decrease of FDI to the region if the FDI is tariff jumping.

A study by Blomstrom, *et al*., (2000), found that international investment incentives play a role in the determining of foreign direct investment. Even though its role is limited, it is obvious that international investment incentives and policies might be significant at the margin in influencing MNCs decisions.

Oman (2000), in his study, suggests the presence of two-stage investment decision process. First, investors initially shortlist a set of potential host countries on the country's fundamental, economic background, and political fundamental. At this stage, it seems that investment incentives play no role. Secondly, after the shortlist is carried out, investors might consider and seek out investment incentives before determining where to invest. Host government incentives and FDI polices, is viewed by investors as signalling devices about the host government's attitude toward FDI and the overall business climate. According to Oman (2000), at the second stage, government incentives and policies of host countries may play a role in the decision of location. For example, if a firm has two more or less similar location alternatives for its investment, incentives can be considered as an important factor in the investment decision.

Moreover, a number of researchers attempted to examine whether policies were actually successful in altering the pattern of capital flows. For example, Montiel and Reinhart (1999) studied the effectiveness of capital control policies in emerging markets. They found capital restriction significantly; have an impact on the capital flows. Furthermore, Campion (2001) applied Montiel and Reinhart's methodology to quarterly data and included financial liberalisation policies in the analysis. His findings showed that there is a significant impact of control and liberalisation policies on the capital inflow. Also, Chai-Anant (2003) used Montiel and Reinhart's methodology to quarterly data of capital flows. The study found that capital inflows are sensitive to external and domestic factors; the share of FDI is the most sensitive item to policy.

3.7 Chapter Summary

From the literature review, it can be established that FDI can play an important role in increasing a country's technological level, creating new employment, and promoting economic growth. Many countries are therefore actively seeking to attract foreign investors in order to promote their economic development, particularly at times when the country's domestic growth prospects appear weak. However, designing efficient policies and incentive programs is a complicated task and the competition between host governments trying to attract FDI is likely to complicate the task further. Thus, this research aims to examine 'to what degree did Libyan Government FDI policy influence the level of FDI in the oil industry.' Hence, how

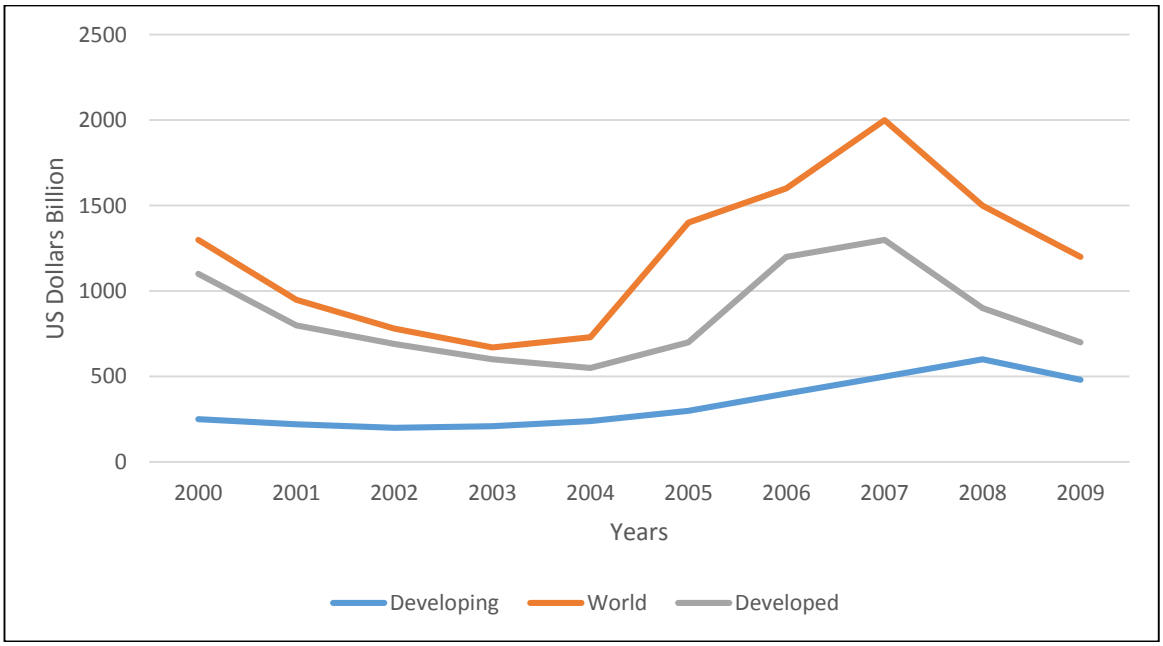
successful were the FDI polices adopted by the Libyan government in influencing the inflow of FDI.

CHAPTER FOUR: THE DETERMINANTS OF FDI: A THEORETICAL EXAMINATION

4.1 Introduction

Foreign direct investment (FDI) has risen dramatically in the second half of the 20th century. Although world FDI flows have increased quickly over the recent years, approximately three quarters of the FDI flows went to the developed countries (see Table 4.1).

Figure 4.1: World FDI Inflow 2000-2009



Source: Adapted from UNTCD, 2009

Moreover, the remaining FDI that went to developing countries was highly concentrated in a small number of countries and the majority of developing countries face major difficulty in attracting foreign investors (UNCTAD, 2009).

The characteristics of the FDI flows have prompted many studies into the determinants of FDI, this chapter attempts to review and shed light on the determinants of FDI flows. First, by reviewing the various theoretical explanations in studies of FDI determinants, these studies attempted to explain the phenomena of FDI and why MNCs pursue their international expansion through FDI instead of other means of servicing a foreign market. The inclusion of theoretical contributions' based on their significance invariably has some subjectivity associated with it. This is particularly true for theoretical contributions that help to set the context for this research. The second part of this chapter will review theoretical arguments about location factors and the empirical findings about location determinants of FDI with special focus on MENA countries.

4.2 Theories of Foreign Direct Investment

There are various theories that have been put forward which seek to explain the phenomena of FDI. However, Lizondo (1991:79-80) suggested:

"At present there is no unique, widely accepted theory of foreign direct investment. Instead, there are various hypotheses emphasizing different microeconomic and macroeconomic factors that are likely to affect it. While most of these hypotheses have some empirical support, no single hypothesis is sufficiently supported to cause the others to be rejected".

Lizondo (1991), views are shared by Dunning (1993b:63-68) who, similar to Caves (1971, 1996), claims that the search of a general theory is unattainable and, possibly even a counter-productive undertaking:

"The types of foreign value-added activities undertaken by MNEs may be very differently motivated. Because of this, it is difficult to perceive an all-embracing theory of the determinants of these activities in the sense of

encompassing, within a single explanatory equation, a set of variables that can fully explain each of them at the same time. The most the economist or business analyst can reasonably do is to formulate paradigms to provide an analytical framework for explaining various kinds of MNE activity or theories designed to explain particular kinds of FDI. It is not possible to formulate a single operationally testable theory that can explain all forms of foreign-owned production any more than it is possible to construct a generalised theory to explain all forms of trade or the behaviour of all kinds of firms".

Early theories of international investment, when researchers and theorists began following the phenomena of international investment as a result of the growth of multinationals operations, have focused mostly on foreign direct investment in terms of market imperfections, viewing it as a response to market factors. Parry's (1977) work built upon earlier theories, as he considered foreign direct investment as a reaction of multinationals towards imperfect and distorted markets. Parry categorised FDI theories into the following: 1) Classical transfer theory; 2) Capital theory; 3) Location theory; 4) Trade barriers theory; 5) Restrictions on factor movements; 6) Market imperfections in technological issues; 7) Imperfect competition; 8) Internalisation (Parry, 1977).

There are a number of other significant authors that have contributed to the study of FDI, most notably, Hymer (1960): location advantages theory; Kindleberger (1969); Caves (1971); Hymer (1960): special advantages theory; Vernon (1966), Hirsch (1967) and Wells (1972): product life cycle theory; Dunning (1976): eclectic paradigm theory; Buckly and Casson (1976): Internalisation theory; and Samuelson (1949), Johnson (1957), Harrod (1958) and Lancaster(1957): theory of trade. International Business has its origin in the transaction costs theory. Given the significant role that

the transaction costs concept has in the development of International Business theory, the review of transaction costs in this chapter on will discuss its central proposition as well as its subsequent extensions and critiques.

4.2.1 Transaction Cost Theory

The transaction approach started with the work of Coase (1937) and his work on the nature of the firm. He suggested that the borders of the firm are determined by the relative costs of undertaking a transaction within a firm's hierarchy or on the open market. Although, Coase in his theory did not deal with international firms specifically, his work has been subsequently been applied to the question of international production by Hymer's (1960) and others. The core principle of Hymer's industrial organisation theory is the assumption that firms continuously seek market opportunities and their decision to undertake FDI is motivated by the firms desire to capitalise on their possession of specific advantages not shared by competitors overseas (Hymer, 1960).

Hymer (1960) addressed the question of why firms undertake activities outside their home countries. Hymer's contribution was acknowledged by Dunning and Pitelis (2008) as follows: by first identifying different modalities and then assessing their relative advantages and disadvantages. Hymer was the first economist to address the questions-Why MNEs? and –Why FDI? vis-a-vis alternative forms of foreign operation. This

conceptual/methodological contribution has placed Hymer as the pioneer of the modern theory of the MNE and FDI.

The transaction costs approach was further extended by Williamson (1979, 1985), emphasising the role played by the opportunism, defined as self-interest seeking with intention to deceive another party. He argued that firms launch operations abroad because of the potential for opportunism between contracting parties. This potential opportunism creates with it substantial costs of negotiating contracts, monitoring compliance, resolving disputes and possibly renegotiating if a contract needs to be changed. This extension by Williamson on the transaction costs approach has been applied to the explanation of international production as well as to the study of entry mode decisions.

Buckley and Casson (1976), Anderson and Gatignon (1986) and Hennart (1982, 1986) amongst others have further developed the transaction cost approach. In their work, Anderson and Gatignon (1986) suggested that transaction costs are particularly high in case of asset specificity. In their argument, asset specificity refer to –investment (physical and human) that are specialised to one or a few uses or users. Chiles and McMackin (1996) also defined specificity in a similar way as –investment in durable physical or human transaction-specific resources.

Kogut and Zander (1993) extended further the work on opportunism within the transaction costs approach. They argue that knowledge which is difficult

to codify and transfer can also be considered as a highly specific asset, which is costly to transfer through the market mechanism. In their work Kogut and Zander (1993), firms are social organisations that specialise in the creation and internal transfer of knowledge. If this knowledge is more efficiently transferred within the firm boundaries rather than across company boundaries, then the firm will extended its operations through FDI. This will explain the use of either the market or the organisation as a way of international knowledge transfer by contemplating the attributes of the knowledge that is transferred. They suggested that the more tacit and complex knowledge is, the more likely it is to be transferred through a subsidiary rather than a third party.

There are many criticisms were levelled at the transaction costs approach, especially in its narrow version as a mechanism to deal with opportunism. For example, Goshal and Moran (1996) suggested that the emphasis on opportunism as the key part in firms' boundary decisions can lead to unsuitable choices making at the company level, since internalisation as a response to possible opportunism by third parties can actually increase opportunism and monitoring costs related to the firm's own work force.

Also, Madhok (1997) suggested that the transaction cost and the internalisation perspective is too narrow, in the logic of concentrating on individual transactions rather than the entire company. He argues that the transaction costs approach helps to explain the exploitation of existing advantages, while an organisational perspective also considers FDI as a way

to build organisational capabilities. Madhok, argues that the focus on transaction alone results in a (transaction) cost minimisation approach, which is not suitable from a firm perspective.

Notwithstanding these criticisms, Williamson (1985) agrees that firms make FDI decisions based on the expected transactions costs of different options. If the transaction costs are low, firms will favour its transactions to be monitored by the market. Transaction costs in turn are only determined by the possibility for opportunism but also by the specificity of the assets that the investing firm employs. If the firm invests in assets that have considerably lower value in alternative uses, its motivation to obtain control increases.

Furthermore, the transaction costs approach continues to be a central feature of International Business theory. Verbeke and Greidanus (2009), criticised and extended the transactions costs approach, however, they acknowledged its importance. They stated that transaction cost approach has fast become one of the most influential theories within the social science. Also, its applications in the international business context has proven its relevance to explaining and predicating a wide range of international business phenomena, including inter alia the existence of MNEs, MNE foreign entry mode decisions and interactions with external, and also MNE internal governance selections. On the whole, the transaction costs approach can be best considered as a general approach to understanding MNC actions and this is how it can be used in the context of FDI in MENA

countries. Factors in the transaction cost approach used at the firm level and are more appropriate to use in firm level studies rather than country level research.

4.2.2 The OLI Paradigm

In response to criticisms that the transactions costs approach is too narrow in focus, the many factors that help to explain the operations of MNEs have been put into a wider perspective by Dunning in his eclectic theory of international production, also called the OLI paradigm (Dunning 1977, 1993, 1995), the OLI represents; Ownership advantages (O), Location advantages (L) and Internalisation (I). The OLI approach proposes that a firm's decision to invest in a foreign market is determined on the grounds of three groups of advantages: ownership advantages, internalisation and location advantages (Galan and Gonzalez- Benito, 2001). Dunning's Eclectic Paradigm (1977, 1980) strives to integrate previous theories into a holistic approach attempting to overcome the partial explanation of the myriad of FDI theories previously put forward.

Tatoglu and Glaister (1998) have explained that Dunning recognised the importance of structural and transaction cost imperfection for MNCs' activity and has supplemented 'ownership advantages' to the location and internalisation advantages previously identified by internalisation theory. Dunning (1977) integrated and addressed the following questions in his eclectic theory: Why do firms undertake FDI? Why should production be

located abroad? Is there a location advantage in producing abroad? The eclectic paradigm considers the host country's factor endowments and intangible assets, which provide an explanation of MNC activity within the host country (Chandprapalert, 2000). The following part will discuss the; ownership advantages (O), location advantages (L) and Internalisation (I):

1. The Ownership Advantages (O)

The ownership advantage (O), are the firm's own competitive advantages that compensating for the disadvantages of competing with foreign firms in their domestic market. In order for a firm to compete with host country firms in their own market, it must hold superior abilities and assets to generate economic rents high enough to cover the cost of servicing these foreign markets (Agarwal and Ramaswarni ,1992). The competitive advantages of a firm may relate to product innovations, accumulation of intangible assets and technological competences (Galan and Gonzalez-Benito, 2001).

Dunning (1993) also identifies that the assets may be possessed by certain enterprises of the home country, but have the ability to be used with different resources and capabilities at home and abroad. The eclectic paradigm argues that ownership specific advantages may be unevenly distributed according to the countries of origin and destination (Dunning and McQueen, 1981). A study undertaken by Pearce *et al*., (1991) argued that UK and U.S.A companies' ownership advantages lay in their capability to innovate specific goods and services, in their managerial and marketing skills, in addition to their capacity advantage to exploit sizable homogenous markets.

In contrast, Japanese companies achieved their ownership advantages because of their skill in manufacturing differentiated products at a high standard of quality but also at a competitive price. It is also noted that, German businesses are more competitive in highly technical industries and Swiss companies gain their competitive advantage from product design and quality at a premium in niche markets. Korean companies gain their ownership advantages from their ability to establish overseas manufacturing projects more cost effectively than their competitors through careful planning, minimum spending on infrastructure and lower cost of expatriate employees (Dunning 1993).

A number of empirical studies (Grubaugh, 1987; Pearce 1989; Kuymar, 1990; Kogut and Chang, 1991) have extensively supported the importance of ownership advantages, such as the existence of technological and marketing assets (Galan and Gonzalez-Benito 2001). Empirical studies (Bilkey, 1978; Cavusgil *et al*., 1979; Cooper and Kleinsch, 1985; Edvardsson *et al*., 1993; Katsikeas, 1994) have proposed that when a manufacturer is conscious of the unique asset it possesses, it is more likely to seek for wider employment of its competitive advantage (Javalgi *et al*., 2003).

There has been significant empirical evidence which has supported the importance of the ownership advantages of firm size and multinational experience (Horst, 1976; Buckley and Casson, 1986; Caves and Mehra 1986; Kimura, 1989). Studies by Bergsten *et al*., 1978) identified that for U.S firms, size is regarded to be critical, where within an industry large firms have

the tendency to be foreign investors. Grubaugh (1987) suggested that size is extremely significant for U.S firms to be transnational corporations. Empirical research (Stopford, 1976) into the US and UK choice of investment outlets found that the participation of foreign affiliates is likely to be utmost in industries of host countries where there are significant economies of enterprise size (Buckley and Ghauri, 1999).

Chandprapalert's (2000) empirical research also led to the conclusion that firm size was the most significant ownership advantage factor and it was explained "that larger firms have a greater ability to absorb losses than smaller firms, they tend to have more financial assets to invest overseas, and therefore less sensitivity to uncertainty effects" (Chandprapalert, 2000:85). These empirical findings all seem to be consistent with Dunning's view that "the most efficient MNCs will exploit the most profitable markets" (Dunning, 1992:85). However, research (Chen and Chen, 1998) has also shown that FDI, undertaken by small and medium-sized enterprises, is rapidly increasing, in particular by MNCs from developing countries (Seyf, 2001). In addition, a number of empirical studies (Caves and Mehra, 1986; Terpstra and Yu, 1988; Yu, 1990) have indicated that there is a positive relationship between a firm's multinational experience and FDI.

It has also been identified that firms lacking foreign market experience are more likely to select non-investment modes of entry (Caves and Mehra, 1986; Gatignon and Anderson, 1988; Terpstra and Yu, 1988). However,

Chandprapalert's (2000) study on FDI in Thailand did not statistically support this relationship.

2. The Location Advantages (L)

The location advantages (L); anticipate that firms looking to service foreign markets will use a selective strategy and prefer entry into more attractive markets. This is due to such markets providing a better chance of high returns (Agarwal and Ramaswarni, 1992). The attractiveness of markets may be determined by factors, such as production costs, tariffs, risk, transportation costs and taxes (Grosse and Kujawa, 1992). Root and Ahmed (1979), Schneider and Frey (1985), as well as Dunning (1993), have suggested that physical infrastructure, market growth, availability of materials and efficient administration are the most commonly identified location-specific advantages in the host countries (Zhang and Yuk, 1998).

Agarwal and Ramaswarni (1992), have also highlighted the importance of investment risk in a host market when there is uncertainty with regard to economic and political conditions and government policies which are vital to the existence and profitability of a firm's activities in that country. Research has suggested that restrictive government policies in a host country are likely to hinder inward FDI (Agarwal and Ramaswarni, 1992; Rugman, 1979; Stepford and Wells, 1972). Agarwal and Ramaswarni (1992) warn that in such countries, firms would be better off not entering or, if they must, use non-investment options. Dunning (1976) has argued that firms will need to combine their own competencies with resource endowments that are

situated in particular foreign locations. Thus, FDI is required, as firms will locate their operations where such endowments are situated.

Dunning (1998), has also identified that the location preferences of firms have changed, as have the attitudes of the host countries receiving the FDI. Firstly, as foreign affiliates have become more entrenched in host markets, it has resulted in a deepening of their value chains and a tendency for them to undertake higher order activities. This development has been supported by a number of studies on the geographical distribution of R&D and registered patents by MNCs (Almeida, 1996; Cantwell and Harding, 1997; Dalton and Serapio, 1995; Dunning 1996; Kuemmerle 1996, Papapanastassiou and Pearce, 1997; Shan and Song, 1997). Secondly, location-specific assets which firms believe they require to enhance value of the competitive advantages they are exporting are varying as their downstream activities are becoming more knowledge-intensive (Dunning, 1996).

Dunning has also identified previous studies (Srinivasan *et al*., 1998), which suggest that "the presence of other foreign investors in particular is becoming more significant, both as an "investment-stalk" or signalling effect to other foreign firms less familiar with that country" (Dunning, 1998:51). Buckley and Ghauri (1999) suggested that manufacturing sectors will be attracted by different location advantages. Location of manufacturing enterprises will be concerned with transport costs and tariff barriers, whilst the location of services is more focused on proximity to customers. Enderwick (1989) further suggested that the location of many services will be

drawn to areas of high population density and that the high agglomeration of service enterprises in highly populated areas is a vital characteristic of many service sectors, such as restaurants and financial services (Buckley and Ghauri, 1999).

Pellegrini (1991) has identified three key location advantages relevant to the retailing industries when undertaking FDI: cultural proximity, market size and competitors' move. Cultural proximity is very important for mass retailers but becomes less important when the retailer is targeting narrowly defined consumer markets similar in various countries. Retailers will be motivated to undertake FDI when their home market becomes saturated. There must be space in the market available for the retailer to expand, especially if the business needs to achieve a certain size to gain economies of scale. Legal restrictions, controlling growth, in the home country can also be viewed as a motive for companies investing in foreign markets. If competitors enter a foreign market, first mover advantage will be lost, competitors may gain the ability to locate in prime retail locations and hold back other firms (Sternquist, 1997).

Empirical studies, (Alexandrides, 1971; Dunning, 1980) within manufacturing industries, have identified that location-specific market characteristics have a significant influence on management attitudes to investing abroad. Alexandrides (1971) concluded that, when manufacturing exporters believed in lower trade barriers to internationalising, they were more likely to have a positive attitude towards foreign investment. Further empirical studies

(Czinkota and Ronkainen, 1990; Dunning, 1980; Robock and Simmonds, 1989) have indicated that the market characteristics, managers are concerned with host government regulations and/or limitations on market entry, restrictions on foreign ownership, local content requirements, and fiscal controls. There are a number of additional studies (Chhokar, 1986; Dichtl *et al*., 1986; Dunning, 1980; Kaynak and Kothari, 1984; Kedia and Rabino, 1980; Yang *et al*., 1992), which have also analysed the impact that these external barrier have on international trade (Javalgi, *et al*., 2003).

3. Internalisation Advantages (I)

Internalisation advantages (I), are the benefits a firm would receive from operating within the foreign market compared to those of operating through an independent body with exporting licensing (Grosse and Kujawa, 1992). Thus, internalisation advantages will determine whether foreign production will be controlled through markets (licensing) or hierarchies (FDI) (Tatoglu and Glaister, 1998). The concept of internalisation has been intensively researched and redefined by leading FDI theorists, such as Buckley and Casson (1976, 1985) to provide a comprehensive foundation for the development of FDI theory. The origin of internalisation theory dates back to Coase (1937) who analysed why firms benefit by internalising economic activities to reduce transaction costs.

Buckley and Casson (1976), most notably amongst others, extended this theory to explain why MNCs internalise intermediate markets, namely that these activities take place as a result of imperfections in the goods and factor

markets. Buckley and Casson's theory is based on three arguments. The first, that firms utilise the potential of making profit in a world of imperfect markets. Secondly, that firm are motivated to establish an internal market when the intermediate product market is imperfect. Thirdly, that internalisation of markets globally creates MNCs.

4.2.2.1 Summary: OLI Framework for Analysis

The OLI has been criticised that it contains so many potential explanatory variables that its predictive value is zero. In response to this criticism, Dunning (2003) suggests that the purpose of the eclectic paradigm is not to offer a full explanation of all kinds of international production but rather to point to a methodology and to a generic set of variables which contain the ingredients that are essential for any satisfactory explanation of particular types of foreign value-added activity.

In recent times, the relevance and the shape of the OLI paradigm focused on the rise of emerging market multinationals and whether the OLI paradigm is as relevant to explaining the behaviour of emergent market MNEs as it is to developed country MNEs (Hennart, 2009). Another challenge to the OLI paradigm has come from the observation that many firms now start to internationalise early in their development and that a number of companies are even born global (Oviatt and McDougall, 1994). More generally, the OLI paradigm has been criticised for being a shopping list of variables (Dunning, 2001).

Overall, the OLI paradigm remains relevant as a framework to study the main questions relevant related to MNE activity, especially the ones related to foreign market entry mode and the determinants of FDI. Therefore, the OLI paradigm offer potentially useful framework for the analysis of phenomena in international business, particularly related to location choices of international enterprises and Transaction Costs economics can best be considered as a general approach to understanding MNE activity and this is how it can be used in the context of FDI in the MENA region. Transaction cost factors are by their nature considerations that are used at the firm level and are more appropriate to use in firm level studies rather than in country level research. In order to investigate the factors taken into account by companies when making decisions on locations and operation modes

Furthermore, the theory concerning FDI, as discussed above, highlights a series of normally supplementary views regarding why FDI takes place. There are many disputes and unresolved issues related to the theories, but they point to three major drivers of FDI. One of the key drivers emerging from these theories is that firms engaging in FDI have ownership advantages (firms specific advantages) for which the best method to exploit them is by use of some type of organisational arrangements, as opposed to the use of markets (connecting to the internalisation issue). The competitive forces also affect FDI decisions in terms of seeking to locate in different areas of the world, and to gain competitive advantage by firms (responding to such decisions by their competitors|). The use and the development of resources

to exploit firm's specific advantages is the third important driver of FDI connecting location advantages, because FDI can provide the means to acquire and develop resources to help to exploit ownership advantages. The research approach uses the OLI framework to examine the MNCs views of Libya's oil industry. For the purpose of this research, both the transaction costs approach and the OLI paradigm should not be regarded as highly specific theories which can be simply tested with respect to FDI in Libya. Rather, both transaction costs and OLI offer potentially useful and closely related frameworks for analysis of phenomena in international business, particularly related to the location choices and the entry and operation modes of international enterprises.

4.3 Empirical Studies on the Location Characteristics of Host Countries: A Review

The location factors are introduced in this section, which show their importance in MNCs related decision-making, which are based on the location advantages offered to MNCs (Dunning, 2002). The location advantage was first used by Horst (1972) to explain the US FDI in Canada. It is also recognised by the OLI paradigm for its importance as a key determinate for FDI in any potential host country (Dunning, 2006a) is highlighted, since FDI location decisions are thought to be influenced by a number of country specific factors. Hence, it is necessary to understand the importance and influence of the location factor related to the host country, as major investment decision made by MNCs has a location dimension

(Dunning, 2004). Therefore, from the existing literature (Dunning, 1998; Blonigen, 2005; Cantwell, 2009), by identifying specific knowledge gap(s) in the context, and the case of Libya (reviewed in Chapter 2), this research assess and investigate the main location determinants factors in attracting MNCs.

A lot of academics work has been undertaken to understand individual determinants of FDI flows over the years. In addition to the overall theories and frameworks to understand FDI, this section, reviews the key research done in the study of individual determinants. In terms of the OLI paradigm (discussed in the previous section), such research can be viewed as the development of theories regarding the key location factors that determine FDI.

In this context, it is essential to differentiate between the various motives companies may have when undertaking FDI. Dunning (1993) has suggested that there are four main kinds of MNC activity: seeking resources, markets seeking, efficiency seeking and strategic asset seeking. The significance of the different location factors in determining FDI flows is likely to differ for each type of FDI. For example, efficiency seeking export oriented FDI will be less affected by the size of the local market than market seeking FDI (Dunning, 1998).

The key question of what the determinants of FDI flows are is therefore significant for policymakers and academics, in countries like Libya. Some

studies have considered either the significance of individual elements on FDI flows, (Globerman and Shapriro, 2002 and Bénassy-Quéré *et al*., 2007) or have tried to construct an overall model of the determinants of FDI flows (Jun and Singh, 1995; Chakrabarti, 2001; Sethi *et al*., 2003). Despite the increasing academic interest in FDI in developing countries, the evidence on the determinants of FDI inflows into developing countries still lacks behind, particularly the relationship between FDI, natural resources endowments and the more traditional FDI determinants found in the literature. This section is divided into two sections, the first section will contain a brief survey of the empirical evidence of the determinants of FDI. The second section will review the empirical studies on location advantages of MENA countries.

4.3.1 Empirical Evidence on the Location Determinants of FDI

Market Size: Market size can be considered as one of the most straightforward determinants of FDI, as in general, large economies can anticipate greater FDI inflows than smaller economies. In general, the larger the aggregate size of the market of the host country, the larger the demand for goods. A big and booming market is expected to have a positive relationship with market-seeking FDI because it offers benefits of large-scale production. The most frequent measure of market size is by a country's gross domestic product (GDP), although other measures such as GDP per capita or GDP growth have been used. The use of other measures such as GDP per capita can have a more uncertain impact on FDI depending on the actual motive for undertaking FDI. For example, market seeking FDI would

be attracted to economies with high levels of GDP per capita as it would be assumed that there would be high spending power in the market. . Many empirical studies, for instance Schneider and Fry (1985), Hernandez and Rudolp (1995), Pain (1997) and Metwally (2004) use GNP to measure market size, while Root and Ahmed (1979), Billington (1999) and Moosa (2008) use GDP. Both GDP/GNP have been found to positively relate to FDI.

Other studies use per capita GDP to measure the market size. Alkinube (2003), Haile and Assefa (2005), found that per capita GDP has a positive influence. The economic growth rate of the host country is frequently mentioned as another factor for attracting FDI. Empirical studies of developing countries have cited the positive significance of the growth rate of GNP (Schneider and Frey, 1985; Chakrabarti, 2001; Onyeiwu, 2003). The implication of this finding is that high growth rate of a host country reflects potential market expansion, thus inducing more foreign investors to invest. Alkinube (2003) who uses GDP and GDP per capita to measure market size, suggest that growth rate of GDP is ,more important than real GDP/GNP per capita in the context of developing countries. Other empirical studies use some other proxies for host market size. Lucas (1993) measured domestic market size by private plus government consumption spending while Hisarciklikar et al. (2006) used population as a proxy for market size.

Trade Openness: The influence of a country's openness to trade in attracting FDI can be viewed as either a negative or positive factor in

attracting FDI flows. One can argue that trade barriers can play a role in attracting FDI for the sake of avoiding protectionist policies e.g. tariff jumping. However, it can also be viewed that openness to trade can attract export oriented FDI in a country. This latter view is supported by empirical research that established a positive relationship between openness to trade and FDI (Chakarbarti, 2001; Jun and Singh, 1995; Nunnenkamp, 2002). In addition, in a UN study on the determinants of FDI, it concluded that there was no evidence of 'tariff jumping' and the argument that there was a positive relationship between FDI and trade protectionism (Pearce *et al*., 1992).

There is uncertainty regarding the direction of causality of the relationship between FDI and openness to trade. A country's export policies may be a factor in encouraging FDI, but it can also be argued that at the same time FDI results in higher exports. Several studies such as Co (1997) and Billington (1999) find trade relations between home and host countries to be a positive determinant on the location decision. They concluded that FDI is attracted by countries that implement export promotion rather than those promoting import substitution policies. Dees (1998) and Liu *et al*. (2001) find that the trade relationship between the home country and china induces FDI from that country to China. Singh and Jun (1995) find export orientation (export as percentage of GDP) to be the strongest factor illustrating why a country attracts FDI. Studying the factors that significantly influence the long-run investment decisions-making process of investors in 89 developing countries, Akinkuugbe, (2003) finds that market growth, export-orientation

policy and liberalisation are important parameters in choosing whether or not to locate investment in a developing country.

Addison and Heshmati, (2003) used exports and imports as a percentage of GDP to analyse the impact of openness on FDI in 49 developing countries. Their findings indicate that FDI responds significantly to increased openness. Export shares of GDP and export growth variables in Ethiopia are also found to have significant effects on FDI (Haile and Assefa, 2005). The hypothesised link between FDI and trade protection is seen as fairly clear by most trade economists. Blonigen, (2002) found tariffs had a positive and significant relation with market-seeking FDI but the magnitude of the effect is quite modest. On the contrary, empirical evidence on the deterring negative effect of trade openness on the attraction of FDI is presented by Wheeler and Mody (1992) who argued that adherence to open-market policies does not generate much investor response at any stage of the development.

Real Exchange Rate: when domestic currency depreciates, there can be a negative or positive effect on FDI inflows. On the one hand, a real depreciation of the currency of the host country may reduce FDI inflows into host country, because a lower level of exchange rate (measured in units of foreign currency per domestic currency) may be associated with lower expectations of future profitability in terms of the currency of the source country (Campa, 1993). On the other hand, a depreciation of the currency of the host country increases the relative wealth of foreign entrepreneurs and therefore may increase the attractiveness of the host country for FDI

(Benassy *et al*, 2000; Cleeve 2004). For instance Froot and Stein (1991) found that FDI inflows into USA were negatively correlated with the value of the dollar. On the contrary, Cushman (1985) focused on the effects of real exchange rate risk and expectations on FDI. He concluded that an increase in the uncertainty of future changes in real exchange rates might reduce exports but increase market-seeking FDI. Mixed evidence on the effect of exchange rates indicates that exchange rates might not necessarily be important. Lecraw (1991) also showed that the impact of exchange rate depends upon the motivation for FDI: negative on export-oriented and resource-seeking FDI, but positive on market-seeking FDI. The risk of exchange rate fluctuations may be more important for firms investing abroad who are risk-averse (Hernandez and Rudolph, 1995; Caves, 1996; Ancharaz, 2003).

Environmental Risk: Environmental risk in the context of FDI can be defined as, the unpredictability of entrant's external environment (Anderson and Gatignon, 1988) and also referred to as an external risk or country risk (since environment risk is usually measured at a country risk). In some cases, political risk is applied to describe environment risk. However, it's viewed as part of environmental risk rather than equal to it. Environmental risk has been defined by Agrwal and Rawaswami (1992), as the uncertainty over the continuation of present economic and political conditions and government policies, which are critical for the survival and profitability of a firm's operations that country. Researchers like Root (1994) apply the term political risk and suggest that political risk happens as a result of "uncertainty

over the continuation of present political conditions and government policies in the foreign host country that are critical to the profitability of an actual or proposed equity/contractual business arrangement. Root (1994), also suggested four key types of political risks to be assessed by investors undertaking FDI; General Instability, Expropriation Risk, Operation Risk and Transfer Risk. It is considered that environmental risk is strongly connected to that of institutional stability and business operating conditions.

In general, one would presume that, a high level of environmental risk and institutional instability deters FDI. In case of a risk being viewed as high, firms would require a higher return for their project as a reimbursement for the risk they take. Therefore, some investment projects will be appealing in one country but not in another, higher risk country. Equally, if a firm has a choice between two countries for an investment, it will, *ceteris paribus,* choose to undertake FDI in the country with the lowest risk.

A set of Governance Indicators, produced by the World Bank, which are closely related to different environmental risk types (Kaufmann *et al*., 2006). The indicators that are used represent a wide range of sources and capture a broader range of risk than just political risk, including:

- Voice and accountability
- Government effectiveness
- Regulatory quality
- Rule of law
- Control of corruption

Moreover, there are agencies that provide risk rating. These agencies work has been subject to criticism by various academics. Calhoun (2005) suggested that the different risk measures were not statistically different from each other and concluded that these measures were not measuring different types of risk.

Furthermore, Calhoun (2005) considered the agencies rating work is unworthy by stating “illusions of precision” that the different ratings provide to their users. Cosset and Roy (1991) studied the country credit ratings produced by Euro-money and Institutional Investor. They suggested that the country ratings from both of the agencies are very close to each other and can be aligned more realistically with a model that includes GNP per capita and a measure of a country’s tendency to invest.

It was concluded by Oetzel, *et al*.,(2001) that risk ratings were inadequate at forecasting periods of severe instability. In their work, they analysed eleven risk ratings and their capability to forecast instability, as measured by extreme exchange rate fluctuations. In spite of the difficulties related to risk measurement, the products of various risk rating agencies have witnessed an increasing demand from corporations, governments and academics.

In their study of determinates of FDI in the developing countries Jun and Singh (1995), re-examined some of the early literature on the relationship between risk and FDI including works by Root and Ahemed (1979), Aharoni

(1966) and Schneider and Frey (1985). The result of these works have established conflicting results on the relationship between risk and FDI, which Jun and Singh (1995) concluded, the empirical evidence on the influence of political risk is not clear. To a certain extent it is challenging to obtain consistent quantitative approximation of this qualitative phenomenon for a prolonged period of time, particularly feature of political risk, which is considered as a direct constraint by foreign investors. Political instability is a complicated phenomenon and most studies that are available provide only some aspects of determinates. Furthermore, Jun and Singh (1995) conducted a regression study to test the association between FDI inflows relative to GDP and relative to a measure of socio-political instability, based on data from Business Environment Risk Intelligence (BERI). They concluded that a significant negative relationship between risk and FDI inflows, particularly for a group of countries attracting high FDI inflows.

Recent studies, measured risk in terms of International Country Risk Guide (ICRG) ratings published by the Political Risk Group. Busse and Hefeker (2005), for example, tested 12 different measures of political risk in developing countries and established that government stability, the absence of internal conflict and ethnic tensions, basic democratic rights and ensuring law and order are significantly high determinants of FDI inflow. Nevertheless, they did not find a significant relationship between FDI flows and the other elements of risk they tested for such as, investment profile, corruption, the role of the military in politics and bureaucracy quality.

Moreover, Chan and Gemayel (2004) carried a study based on the ICRG data. They found that stability of risk, rather than absolute risk level, which is related to high FDI flows in the MENA region. They also established that the role of risk in attracting FDI in developing countries is greater than in developed countries. Globerman and Shapiro (2002) found that good governance infrastructure attracts capital, particularly in smaller and developing economies. The results from their study are partially comparable and to some extent in contradiction to Jun and Singh (1995), who concluded that the significance of a broad-based qualitative political risk index is important, but is more important for a group of countries with relatively high FDI and high GDP. Anderson and Gatignon (1988) divided their country sample into low risk and high risk countries and found that variations in uncertainty are particularly appropriate for FDI into high risk countries. Moreover, Benassy-Quere *et al*., (2007), found that institutional factors such transparency, lack of corruption and efficiency of justice are significant determinates of FDI. Corruption is cited to have a harmful effect on FDI. The presence of corruption is highly correlated with other dimensions of government stability such as the extent of bureaucracy and red type (Wei, 2000). Since corruption is not always easy to be quantified, most empirical studies use three main indices of corruption, all of which are based on surveys of respondents (see BI, ICRG and TI).

Slangen and Van Tulder (2009) suggested that the World Bank Governance Indicators provide a more relevant measure of external uncertainty than just political indicators. They concluded that the Governance Indicators are a key

predictor of entry choices by the Dutch MNEs, with investors' preferring joint venture in countries with poor governance scores. They also found, that political stability was the least significant factor among six individual factors that make up the Governance Indicators score. Institutional hazards are found to be negatively associated with foreign activity of MNEs, according to Slangen and Begugelsdijk (2010), particularly in the case of vertical foreign activity where interlinked affiliates first extracts resources which are then processed and sold elsewhere. This is in contrast to the other type of FDI, horizontal FDI, which is linked to a certain country and more likely to be market seeking.

Slangen and Begugelsdijk (2010), findings is explained by the observation that failure in horizontal FDI does not frequently have an impact on the investor beyond the country in which the investment has been made and tolerance for environmental risk in these types of FDI is therefore higher. In this study they used World Bank governance indicators produced by Kaufmann *et al*., (2006) for their analysis.

Therefore, although some variations depending upon particular characteristics of individual studies, the most recent research point out that high level of environmental risk in a country do lead to lower FDI inflows. However, there remains significant ambiguity on the topic in the academic literature, in terms of precisely, what types of environmental risk have the most significant impact, how to measure environmental risk and in what

types of countries and under what circumstances such risks play a significant role in determining FDI flows.

Natural Resource Endowments: Natural resource endowments, such as oil and gas are commonly believed to attract resource seeking FDI (Estrin and Meyer, 2004; Dunning, 1998). However, the topic has not been the focus of much empirical research until recently. Dunning (1998) suggested, that the availability of natural resources as one of the possible location determinants for resource seeking FDI. Evidently, the availability of such resources is an essential but not sufficient condition for natural resource seeking FDI, as Dunning recognised by listing infrastructure, government restrictions on FDI and investment incentives as other relevant Location factors. Although it is obvious that natural resources are, by definition, required for natural resource seeking FDI, there is a counter argument to the concept that natural resources attract FDI. The 'Dutch disease' theory was first put forward by *The Economist* (26 November 1977) and afterwards tested by Corden and Neary (1982).

The theory of the 'Dutch disease' suggest that a country's manufacturing industry deteriorates as a result of a gradual increase in revenues from oil and gas. The manufacturing industry deterioration takes place because income from natural resource exports increase a country's real exchange rate, hence making local manufacturing activity uncompetitive. After the development of the economic model underlying this phenomenon by Corden and Neary (1982), the expression 'Dutch disease' has sometimes been used

in any context where a large raise in foreign income from sources such as natural resources or foreign aid negatively affect a country‘s competitive position. The exact phenomenon of the ‘Dutch disease’ theory can be explained more generally as the ‘resource curse’ problem. Countries that are rich in natural resources are prevented from achieving a balanced economic development as a result of the impact of the natural resource wealth on its income.

There is a sufficient, but largely untested, argument that the ‘resource curse’ theory be valid to the influence of natural resource endowments in attracting FDI. As a country expand its foreign exchange reserves through exports of natural resources, its real exchange rate may increase, creating an environment that makes FDI for foreign investors expensive. Present theory does not propose a clear forecast as to whether the presence of natural resources is connected with higher or lower levels of FDI, since natural resources may draw resource seeking FDI but might result on a negative effect on other type of investment (Mina, 2007).

Poelhekke and Van der Ploeg (2010), considered the impact of natural resources on FDI by analysing Dutch outward FDI. They concluded that countries with natural resources receive more resource seeking FDI but less non-resource seeking FDI than other countries. Overall, the negative effect of natural resources on FDI was found to be greater than the positive impact. Subsequently Van der Ploeg (2011) addressed the question of the resource curse issue more generally and found that resources can be either a blessing

or a curse for a country‘s economic development, depending on a country‘s institutions and policies. Moreover, the actual resource endowment of a country, FDI flows can also be affected by the world market prices for these resources.

To date, there appears to be no academic study that investigates the impact of oil prices on FDI, except for the work of Mina (2007) who found a negative relation between oil prices and FDI in the GCC countries. Fluctuations in oil prices can potentially impact FDI flows in two ways. First, higher oil prices make marginal investments in oil and gas exploration more attractive, thereby potentially increasing resource seeking FDI inflows if these investments are carried out by foreign investors. Secondly, higher oil prices increase the revenues of the governments of oil producing countries. Given that large oil producing countries typically run budget surpluses, these additional oil revenues are then available for direct investment, be it locally, regionally or outside the MENA region. If the impact described does exist, it is likely to be a lagged effect, since the effect of higher oil prices needs some time to work its way through to higher government revenues and higher FDI. With the exception of Mina (2007), the existing literature does not provide any empirical tests of a relationship between natural resource prices and FDI.

Host Government Polices: Brewer (1993) suggested that government policies can directly and indirectly influence FDI through their effects on market imperfections. The evidence from empirical support on the impact of

government policies on FDI inflows are uncertain. Some studies established a positive effect of government investment incentives. For example, UNCTAD's (1996) report illustrates that incentives can have an effect on encouraging FDI to some degree. A number of earlier studies established that fiscal incentives offered by governments do influence location decisions, especially for export oriented FDI. Caves (1996) suggested that government incentives are generally ineffective once the roles of key determinants of FDI are taken into account. Furthermore, a study carried out by Contractor (1991) concludes that changes in government policies may have a weak influence on FDI inflows on host countries.

Blomstrom, *et al*., (2000) suggested that international investment incentives play a role in the determining of foreign direct investment. Despite the fact its role is limited, it is clear that international investment incentive and policies might be significant at the margin in influencing MNCs decisions. A study by Oman (2000) found, the existence of a two-stage investment decision process. First, investors initially shortlist a set of potential host countries on the country's fundamental, economic background, and political fundamental. In this stage, it seems that investment incentives play no role. Secondly, after the shortlist is made, investors may contemplate and seek out investment incentives before choosing where to invest. Host governments Investment incentives and policies are considered as a signalling device about government's country general welcoming attitude toward FDI and the overall business environment. In the second stage, these incentives and policies of host the country's government might play a

role in the decision of location. For example, if an MNC has two more or less similar location options for its investment, incentives can be viewed as an important factor in the investment decision.

Other Determinants: For countries with poor infrastructure, investing in improvements in infrastructure may be significant in attracting FDI. However, some countries with inadequate infrastructure may be unattractive hosts for FDI for a variety of other reasons, and even considerable investments in infrastructure may not bring FDI pouring in. But, with all else equal, a country with adequate infrastructures would be expected to attract more FDI (as well as more domestic investment). The positive influence of infrastructure on FDI has been established to be quite robust to time periods and countries considered. Investigating the determinants of FDI into U.S. states for 1981-1983, Coughlin *et al*., (1991) found that more extensive transportation infrastructures were linked with increased FDI.

Moreover, Wheeler and Mody (1992) suggested that infrastructure quality is a significant factor for developing countries looking to attract FDI from the United States, but is less significant for developed countries that already have high quality infrastructures. The more advanced the human capital, the more attractive it is to FDI. The hypothesis that human capital in the host country is a determinant of FDI in developing countries has been embodied in the theoretical literature. For example, Lucas (1990) assumes that lack of human capital discourages foreign investment in developing countries. Zhang and Markusen (1999) put forward a model in which the availability of a

skilled labour force in the host country is a direct condition of MNCs and can influence the volume of FDI.

Dunning (1993), suggested that the skill and the education degree of labour can affect both the volume of FDI and the performance of MNCs in a country. As a result, the relationship between FDI and human capital is usually expected to be positive. Noorbakhsh *et al*., (2001) concluded that, human capital has an important positive impact on FDI and the significance of the human capital for FDI has increased over time. Cheng and Kwan (2000) established that human capital has a positive influence on FDI in China, but is statistically insignificant.

4.3.2 Empirical Studies on Location Advantages of MENA Countries

The topic of FDI and location decision making in emerging economies has been receiving increasing attention among academics, policymakers and company executives. The MENA region is of particular interest for the testing and development of location advantages due to its high level of environmental risk and the presence of significant natural resources (oil and gas). This makes the focus on MENA countries location determinants highly relevant for the development and testing of theory related to FDI determinants and location, particularly to the role played by energy endowments.

The MENA region overall has underperformed in attracting foreign direct investment in the past. Although net inflows as a percentage of GDP grew six fold between 1985 and 1999 in most other regions, but that of MENA stagnated. (Chan and Gemayel, 2004). The MENA region countries are not homogeneous. They have diverse economic structures. However, they have similar characteristics that deter FDI from taking place. These include political instability, restriction of FDI to a few sectors, preventing a majority ownership to foreigners and requiring a local partner in a joint venture and a relatively slow pace of privatisation. (Eid and Paua, 2003).

Other factors contributing to the poor performance of the MENA countries in attracting FDI include heavy reliance on oil; weak economic base; high population growth and unemployment rates; dominance of the state in the economic sector; low level of integration with the world; underdeveloped financial and capital markets; underdeveloped institutions; and low rates of returns on human and physical capital (Bashir and Hassan, 2002; Makdisi *et al.*, 2002; as cited in Divarci *et al*., 2005).

During the last two decades, the amount of FDI directed to the MENA countries was small, in both absolute and relative terms, in comparison with other developing countries. To explain the differences in the flow of FDI among developing countries, Onyeiwu (2003) and some other researchers such as Sekkat *et al*.,(2004) have emphasised that the failure of MENA countries may be attributed to a combination of factors that include the lack of democracy, lack of transparency and lack of good governance as well as

macroeconomic instability. Others such as Chan and Gemayel (2004) found that deficiencies in the political and economic environment could explain the low levels of inward FDI in MENA countries. They stressed the importance of good economic management. New institutional economists such Kamaly (2002), Collier and Gunning (1999) have hailed the role of institutions such as property rights, the tax system, the rule of the law, and economic freedom in mobilising both foreign and domestic capital growth and development.

Onyeiwu (2003) identified that the MENA region is different from other developing countries with regards to FDI flows. Some of the determinants of FDI flows to developing countries are not relevant for FDI flows to MENA countries. These include the rate of return on investment, infrastructure, and macroeconomic fundamentals such as GDP growth and inflation. He concluded that there are two significant factors explaining why FDI flows to MENA countries are less than other countries: corruption and limited trade openness. These findings are supported by Batra, *et al*., (2000), who suggests that the two top obstacles faced by foreign firms in MENA countries are political instability and corruption. Also, Chan and Gemyel (2004), found that the degree of instability associated with investment risk is a much more critical determinant of foreign investment in the MENA countries than it is in developed countries and developing countries, which have lower level investment risk. Haddad (2000), for instance, argues that tax rates are not "leading constraints to doing business" in the MENA region. He identifies the two leading constraints as public policy instability and corruption.

El-Naggar (1990) and Bisat (1996) considered FDI as another type of investment and emphasised the significance of keeping solid fundamentals to increase the investment level in the MENA region. Habash (2006) provides a number of stylised factors about FDI and its basic determinants and tests the effect of a number of policy and non-policy variables on flows of FDI during the period 1980-2003, using a comprehensive sample of the MENA countries. The main findings suggest that increased political rights and increased human capital levels positively influenced FDI, while a depreciation of the nominal exchange rate had a small positive effect on FDI flows in the MENA countries. On contrary, studies such as Kamaly, (2004) found that the variability of nominal exchange rate and democracy measure have an insignificant influence on FDI inflows in the MENA countries. These findings do not support the findings of a previous study by Kamaly (2002) which looked at FDI flows to all developing countries.

Alessandrini (2000) investigated the legal and regulatory framework of FDI in the MENA region and describes linkages with inward FDI. He noted that countries that have attracted significant FDI (Morocco, Tunisia, and Turkey) have done so despite legal restrictions to FDI in specific sectors. Several studies address multiple determinants of FDI flows, either into the MENA region as a whole or into specific parts of the region. Moosa and Cardak (2002), using an extreme bounds analysis, concluded that FDI into the Middle East can be explained in terms of GDP growth rate, enrolment in tertiary education, spending on research and development, country risk and domestic investment. Mina (2007) investigated the determinants of FDI in

the six GCC countries and found that that for these countries oil reserves and oil prices are negatively associated with FDI. He also found a positive role played by measures of institutional quality, trade openness and infrastructure.

Morisset (2000) also shows that natural resource availability is very significant for the flow of FDI to developing countries. While FDI tends to flow to economies with natural resource endowments, one could also imagine that foreign firms spot opportunities to exploit natural resources because fuel exports have previously been low. For instance, the recent discovery of oil reserves in Morocco has attracted a large inflow of FDI, even though the country's fuel exports are relatively low.

Chakrabarti (2001) concluded that market size, as measured by GDP per capita is the only determinant of FDI in the MENA region that is not highly sensitive to small changes in the conditioning information set. Hisarciklilar *et al*., (2006) studied the Location Drivers of FDI in MENA Countries. It was suggested that, GDP has a significant impact on FDI and trade is also significant. Moreover, FDI in the MENA region are market oriented and not vertical.

In summary, the main findings of the existing empirical studies on FDI in MENA countries suggest that countries performing better than others in attracting FDI are those countries that have high growing economies, low

country risk and high return on capital and pay more attention to education research, (Alessandrini and Resmini, 1999; Bennett, 2003; Moose 2008).

4.4 Chapter Summary

The existing literature on the determinants of FDI flows is, on the whole, uncertain about the importance of market size (as measured by GDP). Furthermore, on the potential FDI determinants, the current evidence indicates a positive relation between FDI and openness to trade and a negative relation with environmental risk. However, from the literature, determinants like trade openness and size of the market that appeared to play an in important role for other developing countries are not significant in the context of the FDI flow to MENA countries. Moreover, the existing research concerning the role of environmental risk is to some extent still uncertain. Furthermore, the influence of a country‘s natural resource endowment has not been researched comprehensively (Mina, 2007).

Given the poorer performance of MENA countries in comparison to other developing countries and the lack of studies focusing in MENA countries and in particularly Libya, it becomes imperative to examine whether the flow of FDI into MENA countries are affected by different FDI determinants. This study aims to contribute and help fill the void in the existing FDI determinants literature by investigating the determinants of FDI flows into Libya’s oil

industry by addressing the following question: (i) what are the main determinants in Libya's oil industry?

CHAPTER FIVE: RESEARCH METHODOLOGY

5.1 Introduction

As outlined in Chapter One, the main aim of this study is to examine the major factors that have affected the flow of foreign direct investment (FDI) into the oil sector in Libya, particularly during the period following the lifting of international sanctions from the year 2000 to 2009. This chapter describes the methodology used to collect primary and secondary data required to achieve this aim. The chapter begins by presenting the research methodology, design and strategy adopted in this research, followed by an in-depth description of the research method, followed by the time series model parameters. The last section of the chapter provides information about the methods used for data analysis and the limitations and difficulties encountered during data collection. Finally, the chapter is concluded with a summary section.

5.2 Research Approach

Most people use the term 'methodology' to refer to the methods used in the research. In this respect, Hammali (2003) perceives the scientific methodology as a series of clear cut rules and procedures on which the research is based so that practical results can be established. This implies that the purpose of methodology should go beyond the application of rules and procedures to involve the process of facilitating the scientific

communication among researchers, as well as establishing clear cut credible and verifiable systematic rules. Furthermore, carrying out research is important for both business and academic activities and, although, there is no one definition of research, this is because research means different things to different people (Hussey and Hussey, 1997).

According to Hussey and Hussey (1997), the most common definition of research is that, it is a process of enquiry and investigation, it is systematic and methodical, and enhances people's knowledge. Saunders *et al.* 2003, suggested, three main research philosophies that dominate research literature: positivism, interpretivism and realism. This section of the chapter will consider the most appropriate research approach to answer the research questions of this thesis.

The principles of positivism are based on the techniques used in natural sciences which can produce law-like interpretations (Saunders *et al.,* 2003). The positivistic approach does not focus on the subjective state of the individual as it is concerned with searching for the facts or causes of social phenomena. Therefore, when carrying out research a rational analysis is applied so that precision and objectivity replace the ideas that are based on instinct and experience as a way of solving a research problem (Hussey and Hussey, 1997). One of the main strengths associated with a positivistic approach is that the data collected is very specific and precise, thus the reliability of findings is considered high. There has been much debate over the reasoning of positivism, as some

scientists have wanted to explore the social world that does not necessary fit into positivistic logic (Hart, 2002). Nevertheless, many researchers continue to accept and enact the positivistic approach (Denzin and Lincoln, 2000).

Popper (1961, 1989), in his various works, has put forward the view that, whilst he accepts the positivist approach to natural sciences, he believes that the methods of natural sciences are not applicable to social sciences. Popper has argued "While the so-called laws of nature are assumed to apply throughout space and time, the regularities in social life are time and space specific. Social uniformities cannot be generalised because they change from one historical period to another and across cultures" (Popper 1961:7). One may agree that social science has a more complex nature than natural sciences but one may argue that social uniformities do exist and that positivism is a method of measuring them. Denzin and Lincoln (2000) have identified that the problem with a positivistic approach is "that if falsification is a matter of disjuncture between a theory, or a hypothesis derived from a theory, and the facts, the latter must be independent of the former" (Denzin and Lincoln, 2000:883).

The positivistic approach has been further criticised by Williams and May (1997), again because of its scientific approach used to study the social world. Williams and May have stated that the "search for laws of social life is thus doomed to failure. Moreover, the use of the language of the

physical sciences is singularly unproductive" (Williams and May, 1997:52). One can argue that this statement is an exaggeration of the limitations of positivism and disregards the fact that laws do sometimes apply in social sciences. However, for the purpose of this research, positivism has been rejected as a research approach, as positivism is often associated with hypothesis testing via the production of quantitative data using large samples, lending itself towards statistical analysis. Whereas, this research is centred on gathering and interpreting the perceptions and actions of a small number of agents from a small population. Thus, the emphasis is on the quality and depth of data. Furthermore, given the lack of prior research and literature on FDI in Libya's oil industry, it was not feasible to establish credible hypotheses based on existing theory. The use of this approach has also been deemed inappropriate for this research as positivistic research is often connected to controlled experiments undertaken in artificial settings such as a laboratory. However, this research was undertaken in a natural location, with data being collected from agents based in their workplaces in Libya.

The interpretivism approach was developed by social scientists in response to criticism by the use of the scientific approach of positivism to study the social world. Interpretivism views that "the subject matter of the social sciences-people and their institutions-is fundamentally different from that of natural sciences. The study of the social world therefore requires a different logic of research procedure, one that reflects the

distinctiveness of humans as against the natural order" (Bryman and Bell, 2003:15). Interpretivism is concerned with exploring the different interpretations individuals place on the different circumstance in which they find themselves in. These different interpretations may influence their actions and the nature of their social interactions with others. At the core of interpretivism is an assumption that agents generate meaningful constructs of the social world in which they exist in. Moreover, interpretivism has been described as "the details of the situation to understand the reality or perhaps a reality working behind them" (Remenyi *et al.,* 1998:35).

Therefore, interpretivism can be recognised as an appropriate approach for business research, as each business situation can be considered unique as they are a function of a particular set of circumstances and individuals (Saunders *et al*., 2003). Unlike positivism, an interpretivism approach does not begin with the construction of a theory, but rather the researcher will develop a theory as they interpret the views that others, and they themselves, have about the world. However, one of the key criticisms of interpretivism is that the subjective and contextual nature of its approach may, to all intents and purposes bias the research findings. In addition, a significant problem of the interpretivism approach is that it does not permit for generalisations because it encourages the study of a small number of cases that do not apply to the whole population. Thus, the researcher has identified that there would be limited value in adopting an interpretivist approach to this research thesis, as this research seeks

to provide a framework for FDI policy that is applicable to the whole Libyan oil industry. Using an interpretivist approach would only seek to understand and explain the phenomenon rather than looking for external reasons or basic laws use in it.

Critical realism can be viewed as a specific form of realism. Its manifesto is to recognise the reality of the natural order and the events and discourses of the social world. It holds that "we will only be able to understand—and so change—the social world if we identify the structures at work that generate those events and discourses. These structures are not spontaneously apparent in the observable pattern of events; they can only be identified through the practical and theoretical work of the social sciences." (Bhaskar,1998:2). From a critical realist perspective, in studying business relationships, one is attempting to identify structures and the mechanisms by which the nature of the relationship are brought into being (Sayer, 1992). Critical realism argues that the real world is ontologically stratified and differentiated and that the perceptions and actions of agents have a powerful effect on causal relationships and therefore on outcomes. The real world consists of a plurality of structures that generate the events that occur and do not occur. Archer (1995) has identified that, within social structures that are different, emergent properties that exist in interaction with agents such as: structural emergent properties (SEP) such as capitalism; cultural emergent properties (CEPs) such as religion; and people's emergent properties (PEPs) such as political groups. Therefore, critical realism is an

appropriate methodology to study the complex business relationships and various networks within Libya's oil industry.

Critical realism is often seen as a midpoint between positivism on one side and interpretivism on the other, thereby using a critical realism approach for this thesis allows the researcher to simultaneously address the heart of the concerns of both natural and social science regimes. Furthermore, critical realism shares the same perception with interpretivism that social phenomena are concept-dependent and need interpretive understanding. However, unlike interpretivism, it does not exclude casual explanation (Sayer, 2000).

This research uses a critical realist approach, to analyse the factors that have restricted the flow of foreign direct investment (FDI) into the oil sector in Libya. In the context of this research, the use of a critical realism approach enables the researcher access to narratives from MNCs oil executives and Libyan government officials that will provide subjective accounts of the real-life situation that go beyond the directly observable and gain an in-depth understanding of the nature of the relationship where the external and internal dynamics affecting its nature can become ever more apparent. Thus, this research aims to adopt a critical realism approach to investigate the perceptions and to gain an understanding of observed FDI patterns in the Libyan oil industry and the barriers and obstacles that MNCs face which may impact on outcomes in the oil industry.

There are a number of limitations that the researcher will face with the adaption of critical realism. Firstly, the critical realism approach lacks any specified methodology for undertaking research. Although, its "ontologically bold and epistemologically cautious" (Bhaskar, 1989:176) nature is viewed as a strength of this approach, it provides very little for the researcher as a framework for undertaking research as few methodological principles exist (Arestis *et al.,* 2005). Furthermore, it has been recognised as a difficult ontology to put into practice due to the opaque nature of its language and concepts (Danermark *et al*., 1997). In addition, as a modern research philosophy, it is still being constantly reviewed and debated by the critical realism theorists.

5.3 Research Method

In their basic form, research methods outline the way data will be gathered. Research methods can be broadly categorised into two types: a quantitative approach and a qualitative approach (see Table 5.1, for summary of the main differences of the two approaches). Most research will involve some element of the use of quantitative and qualitative methods, as they are not mutually exclusive. According to Blaxter *et al*., (2002:199) quantitative and qualitative methods often merge into each other and "it is very rare to find reports of research which do not include both numbers and words". This section of the chapter will discuss the two specific research methods – the quantitative and the qualitative methods in terms of: the types of data collected; instruments used to

collect the data; the main differences in how both types of research were undertaken and methods used to analyse the data; and some of the main limitations of each method. Finally, following discussions presented, the adopted research method for this thesis was rationalised.

Table 5.1: The Differences between Qualitative and Quantitative Research

Qualitative paradigm	Quantitative paradigm
• Concerned with understanding behaviour from actors' own frames of reference	• Seek facts/causes of social phenomena
• Naturalistic and uncontrolled observation	• Obtrusive and controlled measurement
• Subjective	• Objective
• Close to the data: the 'insider' perspective	• Removed from data: the 'outsider' perspective
• Grounded, discovery-orientated, exploratory, expansionist, descriptive, inductive	• Ungrounded, verification orientated, reductionist, hypothetic-deductive
• Process-orientated	• Outcome-orientated
• Valid: real, rich, deep data	• Reliable: hard and replicable data
• Ungeneralisable: single case studies	• Generalisable: multiple case studies
• Holistic	• Particularistic
• Assume dynamic reality	• Assume stable reality

Source: Adapted from Oakley (1999: 156)

Quantitative research reveals information that is subjective because the participants' input serves as the primary source of information to the researcher (Creswell, 2001). According to Lee (1992), quantitative

research derives from the natural sciences which highlight and emphasise objectivity, measurement, reliability and validity. Types of data collected in quantitative research include numerical data often to test, prove and verify a theory (Hussey and Hussey, 1997). This data is frequently collected through the following instruments. The answers in response to conducted surveys, statistical information found either through the use of surveys or through a more expanded study, comparison data that can be collected between one individual or group and another; and data that is raw and needs to be coded on a yes/no basis. This is in contrast to the more detailed answers that are often collected and analysed in qualitative research where the perceptions of the subjects are generally examined (Diaz and O'Hanlon, 2001).

Qualitative methods are often associated with the collection and analysis of written or spoken text or direct observation of behaviour (Cassel and Symon, 1994). Types of data collected typically involve "examining and reflecting on perceptions in order to gain an understanding of human and social activities" (Hussey and Hussey, 1997:249). Instruments used to collect the data typically include case studies, interviews, focus groups and observation (Creswell, 1994).

The most significant difference between qualitative and quantitative research is not the quality of the research carried out, but the procedure by which it is done. In qualitative research, conclusions are not drawn by statistical methods or other procedures of quantification. Qualitative

research can be assumed to contain a number of defining characteristics, which include: a focus on interpretation rather than quantification, an emphasis on subjectivity rather than objectivity, and flexibility.

Furthermore, quantitative research is based on scientific methods of inquiry and measure the analysis of causal relationships between variables. Whereas, qualitative research is based on gaining insight and understanding about an individual's experience and having a sense of reality in a way that does not generally involve attachment of a number to observations. Thus, quantitative research provides the means to test theories and validate information, whilst the process of qualitative research legitimises data for analyses through exploration, description, or expansion of existing knowledge and theory (Herndl and Nahrwold, 2000).

However, quantitative research has a number of shortcomings in that results can be over-simplified and data, analysed by hand, can be susceptible to error (Saunders *et al*., 2003). Moreover, other shortcoming, such as the absence of opportunity to explore questions further because of the low response rates, and without feedback, which regularly leads to both ambiguities of questions and of responses (Nachmias and Nachmias, 1990). Whereas, although qualitative analysis can be initially easy to start, but analysing the data can be time consuming and challenging, especially as the researcher often ends up overloaded with data. Furthermore, Lee (1992) suggested that

quantitative methodology is seen as inadequate, particularly in cross-cultural research. He further stated that more interest has been devoted to search for useful and effective alternatives, and this has resulted in the revitalisation of the qualitative approach which emphasises the description of culture and meaning.

In summary, a completely quantitative approach was judged to be inappropriate for undertaking this research as the small sample size would not generate the data necessary to produce meaningful statistical results on its own. Furthermore, quantitative research is often associated with scientific research and the testing of the validity of a theory (Cresswell, 2001), whereas this research is concerned with discovering how the perceptions and actions of agents influenced Libya's oil industry. Thus principally, a qualitative research approach was used involving primary and secondary data and is considered more appropriate for this research because of the following reasons:

MNC's FDI experiences in the Libyan oil industry are not static accounts of events but are interrelated to each other. Furthermore, the mechanisms and structures within Libya's oil industry that impact on FDI outcomes are an evolving process and not static, therefore a qualitative approach is considered appropriate. In general, qualitative practitioners consider "the social world as processual rather than static, as being about the dynamics of social relationships between social actors rather than the characteristics of individuals and the relationships between abstract

concepts" (Blaikie, 2000:252). Therefore, the complexity of these issues did not favour a complete quantitative approach. Although, time series analysis was undertaken to further support the qualitative data.

This study is based on measuring and revealing perceptions and the subjective opinions of MNC oil executives and Libyan government officials. Since perceptions are qualitative in nature, this study benefits from a predominately qualitative research approach. As qualitative research is based on gaining insight and understanding about an individual's experience and having a sense of reality in a way that does not generally involve attachment of a number to observations. Qualitative studies, therefore, provide guidance to test theories and validate information while the activity of qualitative research legitimises and generates credible data for analyses through exploration, description, or expansion of existing knowledge and theory (Herndl and Nahrwold, 2000).

5.4 Research Design

The design for any research provides the general framework for the acquisition and analysis of data associated with the phenomenon under investigation (Bryman, 2008). Nachmias and Nachmias (1990) define the term 'research design' as the programme that guides the investigator in the process of collecting, analysing, and interpreting observations. It is

a logical model of proof that allows the researcher to draw inferences concerning casual relations among the variables under investigation.

A number of designs are available for the researcher to choose depending on the research problems and the associated objectives. Bryman (2008) suggests the following five main types of designs:

Experimental design: this permits the researcher to investigate the effect of one independent variable on another dependent variable given that all other variables which might influence the relationship between the two variables are held neutral. One of the most important characteristics of the experimental design is that it is based on a clear cut theoretical framework and concentrates on a small number of variables. It allows for the experiment to be repeated many times over, studying the independent impact on isolated variables on one another.

Longitudinal design: this is linked to the areas of social sciences such as sociology and social policies. This type of design allows the researcher to study the development of the phenomenon within a certain period of time (Alhmali, 2003).

Case study research design: Eisenhardt (1989) has referred to the use of case studies as a research study which focuses on understanding the dynamics present within a single setting (Hussey and Hussey, 1997). Furthermore, Hamel *et al*., (1993) defined the case study as an in-depth

study of the cases under consideration. This design is useful in cases where adequate information about the unit needs to be gathered, particularly in cases where knowledge of all aspects of the unit or the case history of the person involved is indispensable (Alttir, 1995).

Comparative design: this entails studying two contrasting cases by using more or less identical methods (Bryman, 2008). This allows the case to make comparisons at different levels and relating to different features to establish its importance (Alttir, 1985).

Survey design: "A cross sectional design in which data is collected predominantly by questionnaire or by structured interview on more than one case (usually quite a lot more than one) and at a single point in time in order to collect a body of quantifiable data in connection with two or more variables (usually many more than two), which are then examined to detect patterns of association" (Bryman, 2008:44). The survey design could include all the social elements, in which case it would be referred to as a comprehensive survey. However, the survey design could include a limited number of elements as in the case with survey through using samples which is very common in social sciences, which researchers refer to as a social survey (Alttir, 1995). This research will be using a survey approach.

The primary objective of using a survey is to assess a number of factors identified in the literature review, which influence the MNCs' FDI

decisions. This type of data also helps to generate an overview of MNCs' assessment of Libya as a host country. Hence, the data generated through the survey will identify the perceptions of MNCs three different perspectives of nationality, size of investment and industry type. The use of a survey approach enables the researcher to undertake a descriptive study that presents data in a meaningful format and thus provide an understanding of a group in a situation of interest; in this case the group being MNCs investing in Libya's oil industry.

Furthermore, use of a descriptive survey will facilitate the author of this thesis to depict the state of the current situation and existing conditions, with the objective to identify areas where improvements can be made in the future with regards to FDI in Libya. The appropriateness of this approach can be encapsulated by Best's (1981) viewpoint that a descriptive survey describes and interprets what is. It is concerned with conditions or relationships that exist, opinions that are held, processes that are going on, effects that are evident, or trends that are developing. Additionally, Isaac and Michael (1974) have explained the purpose of descriptive research as literally to describe situations or events. It is the accumulation of a data base that is solely descriptive; it does not necessarily seek or explain relationships, or test hypotheses. Whilst this thesis is primarily descriptive, as its principal objective is to examine the major factors that have restricted the flow of foreign direct investment (FDI) into the Libyan oil sector, it will however endeavour to provide strategies to improve FDI policies.

The principal advantage of using a survey approach in this research thesis is that it provides the ability to generalise about the Libya oil industry by drawing inferences based on data collected from a portion of that population. The survey approach is considered as a relatively accurate method of collecting data when implemented correctly. According to the UN report (2002): Survey based studies (questionnaire and/or interview) have played a useful role throughout the history of formal analysis of the determinants of FDI decision making. The earlier studies of this this type made a very important contribution by indicating some of the key influences (…). Another contribution of such studies has been to their ability to incorporate less quantitative variables on a more effective and comparable basis.

Furthermore, Rea and Parker (2012) explain that use of a survey provides an opportunity to discover the characteristics of institutions and communities by studying individuals and other elements of those communities that represent these entities in a relatively unprejudiced and rigorous method. According to Remenyi *et al*., (1998) the key to a successful survey is the care taken in carrying out the time-consuming-preparatory work.

The use of survey research in this thesis provided the advantage of offering the research respondents the option of anonymity. Given the volatile nature of the research environment, anonymity was important in ensuring respondents provided candid and valid answers. To secure the

most accurate data, respondents need to be as open and honest as possible with their answers.

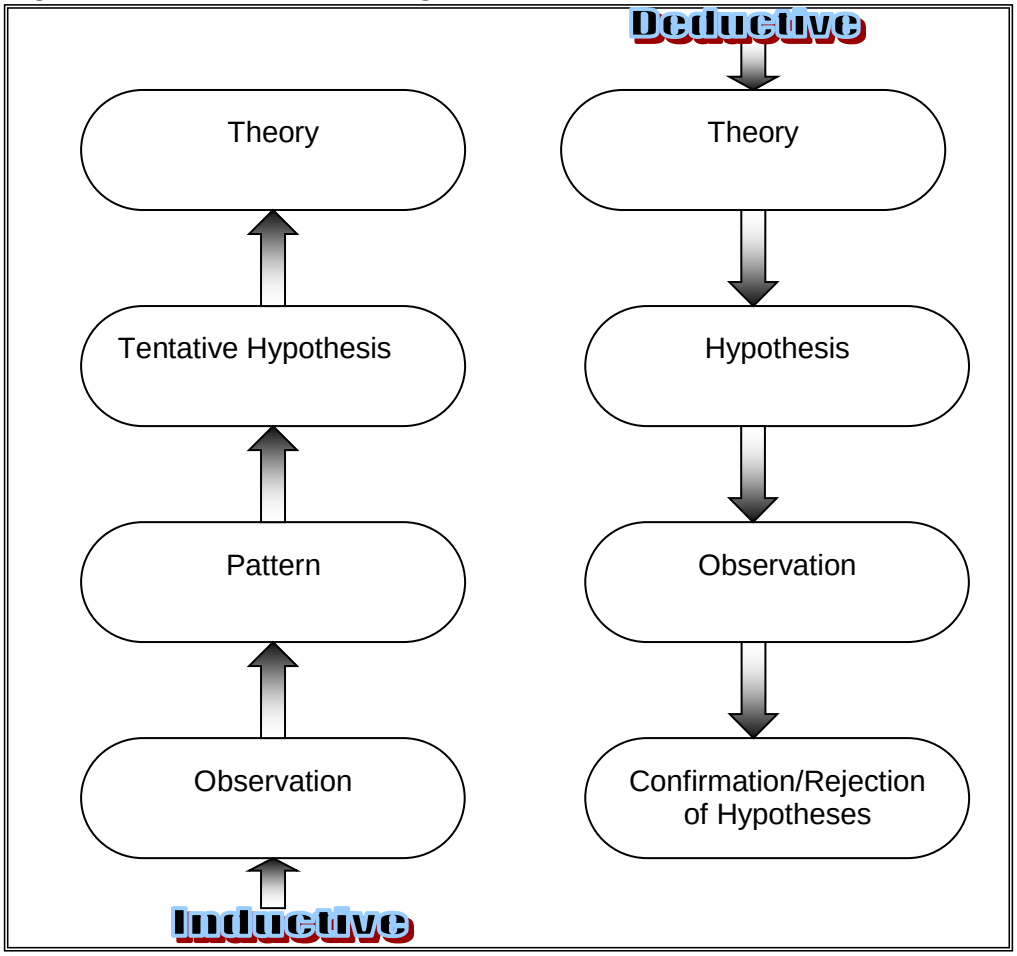
The survey approach can be criticised for only providing a "snapshot" of the situation at a certain period in time, yielding little information on the underlying meaning of the data. However, in this research thesis the use of questionnaires and interviewing was incorporated with in-depth interviews and analysis of secondary data to ensure that meaningful interpretation of data was achievable. Furthermore, through combining the survey study with a time series research, the objective is to build a complete picture of the determinants of FDI in Libya's oil industry and provide a means of validating the results of the survey. The survey approach can also be considered as relatively inflexible during the data collection period, as the researcher is limited in what they can do if they discover that some fundamental issues where omitted from the questionnaire (Gable, 1994). Thus, the researcher implemented a rigorous questionnaire design methodology (see section 5.7.1.1) to ensure that the right questions were being asked in the right manner.

5.5 Research Strategy

A number of research strategies are available depending on the nature and objectives of the research. Bryman (2008) identifies two main types of research strategy: deductive and inductive strategies. In social research two reasoning methods are used to find a relationship between

a research theory and the data collected deductive (whole to part or top-down approach) and Inductive (part to whole or bottom-up approach) (see Figure 5.1).

Figure 5.1: Research Strategies: Deductive and Inductive Reasoning



Source: Adapted from Bryman (2004)

The deductive reasoning approach moves from more general to specific. The research begins with a theory, which is then narrowed down to a hypothesis. Establishment of hypothesis is followed by the process of data collection to test the validity of the hypothesis. The results of the data collection will either confirm or disprove the original theory. This type

of reasoning is frequently implemented in quantitative research methodology (Bryman, 2004).

The inductive reasoning approach moves in the opposite direction i.e. from specific observation to a more generalisation and theories. The approach begins with specific observation that is used to identify a particular pattern, which will then lead to the development of a tentative hypothesis. From this tentative hypothesis a general theory is then formulated. This approach is most commonly used in the qualitative methods (Bryman, 2004).

As the main aim of this research is to examine the major factors that have restricted the flow of foreign direct investment (FDI) into the oil sector in Libya and put forward a set of recommendations that would assist the Libyan government in overcoming those hurdles. This would then help shed light on ways which policy makers in Libya oil sector can attract FDI. The deductive reasoning approach could not be used due to the exploratory nature of the study and due to scarcity of the research and literature related to the research topic. Saunders *et al.*, (2009) have identified that the use of deductive research lends itself more easily to subjects where there is a wealth of literature from which the researcher can develop a hypothesis. This is clearly not the case with literature on FDI in Libya's oil industry. Saunders *et al*., (2009), further suggested "with research into a topic that is new …….and on which there is little existing literature, it may be more appropriate to work inductively by

generating data and analysing and reflecting upon what theoretical themes the data are suggesting" (Saunders *et al*., 2009:127).

Therefore, this study adopted the inductive reasoning approach in order to find observed patterns in the Libyan oil industry through the investigation of the perceptions and subjective views of MNCs oil executives and Libyan government officials, as well as secondary data trends. It could be argued that there are elements of a deductive approach in this research as the initial questionnaires were undertaken using a structured format. Closed questioning was used for the purpose of aiding the analysis process and easy comparison of the relationship between variables and respondents (Bryman and Bell, 2003). However, the majority of features within this research are more consistent with an inductive approach such as; the small sample size of subjects, the use of qualitative data and the use of a variety of methods to collect the data (Saunders *et al.,* 2003). Furthermore, the interview process adopted, consisted of semi-structured questions which are generally more associated with an inductive approach (Bryman and Bell, 1999) and moreover, an inductive approach was implemented when analysing the data.

5.6 Data Collection Method

The challenge for the researcher is selecting the method of research which will provide them with the most valuable data (Gilbert, 1995).

Research methods have been explained by Ghauri *et al*., (1995), as methodical, focused and an orderly collection of data for the aim of acquiring information to solve and answer our research problems and questions. Furthermore, the choice of the appropriate method is a function of many factors including the nature of the research, the associated information, the nature of the research population, and the circumstances of the researcher with regard to money, time and experience (Rubhy, 1998). The following section will discuss in detail, the data collection instruments used in this research to investigate the research problem and to answer the research questions.

5.6.1 Questionnaire

A questionnaire can be defined as "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample" (Hussey and Hussey, 1997:161). One of the main sources of data for this research was collected by the use of a questionnaire. The author distributed questionnaires to 33 oil companies' executives; out of a possible 40 oil MNCs operating in Libya, and 15 Libyan government officials that are directly involved in FDI in the oil industry out of approximately 45 government officials involved directly with either the oil industry or implementing FDI polices (see Appendix 1 and 2 for characteristics of research respondents). The author had already established prior contact with some of these employees so their

completion of these questionnaires and their co-operation were relatively secure.

This data collection method was appropriate for the proposed research, as it allowed a relatively large sample (see sampling method used) to be taken in a cost effective manner (Hussey and Hussey, 1997). Additionally, the use of questionnaires would accommodate the wide geographical spread of the MNCs being researched, with data collection time being minimised (Nachmias and Nachmias, 1990). Questionnaires, (see questionnaire design) also provide the advantage of allowing the researcher to ask open and closed questions, thereby allowing the data collection method to be tailored to the subject matter of the study (Gilbert, 1995).

The use of a questionnaire allows a researcher to reduce biasing errors to some degree, as it avoids bias resulting from the skill and characteristics of the interviewer (Nachmias and Nachmias, 1990). The use of a questionnaire also means that all respondents are more likely to interpret the questions in exactly the same way (Hussey and Hussey, 1997). Saunders *et al*., (2003) consider questionnaires as an appropriate data collection method for explanatory research, as this research intended to explain the FDI practices of MNCs and it could be considered that such use of questionnaires was entirely suitable. The questionnaire can be presented to participants in one of four ways: 1) by mail in which case an interview is necessary after completion; 2) by telephone; 3) by

hand; or 4) by the internet either through a website particularly designed for this purpose or e-mailed (Bryman, 2008).

5.6.1.1 Questionnaire Design

The researcher is aware that the validity and reliability of the data collected depend on the design and structure of the questionnaire. Foddy (1994) has emphasised that "the question must be understood by the respondent in the way intended by the researcher and the answer given by the respondent must be understood by the researcher in the way intended by the respondent" (cited by Saunders *et al*., 2003:291). Therefore, the researcher put immense consideration into the phrasing of the questions whilst ensuring that questions minimised bias and provided sufficient data to be analysed. Two set of questionnaires were designed, one for the Libyan government officials and another for MNC's executives (see Appendix 3 and 4)

A closed question structure was selected for both questionnaires. A closed questionnaire is very convenient for collecting factual data and is usually easy to analyse, since the range of potential answers is limited (Hussey and Hussey, 1997). The language used by the researcher took the following steps to ensure the most adequate answers from the respondents:

- Using simple language

- Shortening questions to facilitate respondents' understanding of them.
- Specifying the terms and time frame
- Avoiding leading questions or negative questions, allowing the respondents freedom in answering any question
- Avoiding bias in questions or ambiguous wording
- Using indirect questions for sensitive issues or information
- Conducting a pilot questionnaire with an executive in the oil industry and getting help and advice (see section 5.7.1.4.1)

The researcher partly benefited from a questionnaire which was designed by the Multilateral Investment Guarantee Agency (MIGA). MIGA conducted a study in 2003 of six Asian countries to determine and compare conditions in their electronic manufacturing and shared services industries. This study covered five categories of issues that were: 1) the country's business climate and government policy, 2) specific industry factors, 3) investment promotion services, 4) infrastructure, such as land and building space, power and telecommunications, and 5) labour. MIGA's study was conducted through interviewing a total of 64 companies across six Asian countries.

It argued that the methodology of the MIGA study is practical as it focuses on factors that influence actual investing companies, real investor perceptions and objectives (MIGA, 2003). MIGA has also suggested that this study is particularly adaptable to the complex, high-stakes world of

foreign direct investment (FDI). The results of the MIGA study created a database of comparable information on key factors MNCs may consider when choosing a location, or expanding within a region. Equipped with these findings the governments of countries are able to more thoroughly understand their relative strengths and weaknesses as a location for FDI (MIGA, 2003). For the purpose of this thesis, the author has partially used the key factors identified in the MIGA research that MNCs consider, when undertaking FDI in formulating the questionnaires and interview questions. Furthermore, the question design was additionally guided by the objectives of the research, the review of key FDI literature and the review of the Libyan business environment. Key questionnaire topics included aspects such as; company profile; access issues; motivation behind location issues; labour issues; infrastructure and business climate.

The questions were formed on a number of areas related to the main topic of the research (see Appendix 3 and 4); the first of which concerns the personal details of participants. This section consists of two sections: The first relates to the description of the investor as to his/her nationality, education, experience, occupation, etc. The second section deals with the company owned/managed by the investor, including nationality, where the company is based, its operational status, and international business experience in general and in Libya in particular.

The second part of the questionnaire attempted to explore the factors attracting MNCs to undertake FDI into Libya's oil industry. The

questionnaire in this section seeks to gather information such as oil reserve, level of production cost, strategic location, local investment laws and oil quality. The selections of these factors were based on the literature review of the determinants of FDI, the theories of FDI and literature on the Libyan oil industry (Chapter 4 and Chapter 2). The last part, investigate MNCs views in relation to the Libyan investment climate focusing on the social, political, financial, and administrative. Also, this part, examines the guarantees and policies that participants deem necessary for improving the Libyan business environment to help attract more FDI into the country. In the light of the review of the appropriate literature on the Libyan oil industry (Chapter 2), literature on government policies (Chapter 3) and FDI determinants (Chapter 4), factors which might affect FDI inflows in Libya were investigated. These factors include technical, employment, managerial, marketing, government investment laws, government regulations and other Libyan business environment issues. The purpose of this part was to investigate and understand the main factors facing MNCs undertaking FDI in Libya's oil industry.

In the case of all the topic areas under consideration, due attention has been paid on making the questions as accessible as possible so that the respondents easily understand what is being asked. The questions have also been arranged in such a way that a continuous flow could be maintained which at the end bring out a clear view regarding the main determinants of FDI in Libya's oil industry and the major obstacles faced by MNCs in the Libyan oil industry. The design of the questionnaire

ensured that the questions were readily understandable and clear to the respondents. If the questions are unclear then it would simply result in poor quality of data and consequently, the reliability and validity of the data will be reduced significantly in case of answering the research questions.

5.6.1.2 Sample Description

Respondents chosen were experts and opinion leaders in the oil industry, specifically top executives and managers of multinational oil companies in Libya. Contact was initiated with both the National Oil Corporation (NOC) and Libyan Investment Board (LIB) to seek help in obtaining up-to-date information and data regarding MNC's operating in the Libyan oil industry. The total population of MNCs defined as all foreign companies operating or undertaking investment activities in the Libyan oil and gas industry.

The MNCs from which the sample was to be drawn were defined as all foreign companies undertaking investment activities in the Libyan oil and gas sector. These companies are involved in the different oil investment activities such as exploration, drilling, production, development, refining and services, according to the NOC Report (2000). The questionnaires were distributed to 33 MNCs oil executives and 15 Libyan government officials from the NOC and LIB.

5.6.1.3 Questionnaire Sampling

The number of oil MNCs present in Libya is a relatively small. Despite arguments that a good sample must be chosen as random (Hussey and Hussey, 1997), this is unfortunately not feasible in this research. Sampling is a term referrers to the selection of cases from the population of interest. Since our sample is small and specific as it represents top executives and managers of MNCs and top government officials, the aim is to analyse the sample picked so that generalisations may be made about the population from which the samples were picked (Trochim, 2006). Non-probability sampling, specifically purposive techniques were used to select the respondents. Non-probability sampling has few advantages:

It does not involve random selection and therefore is not dependent on the probability theory rationale (Trochim, 2006), since the subjects were selected on some unique characteristics which they have. Such a technique allows an objective observation of the important events from all angles. This sampling technique is best suited and mainly used when working with small and specific sample size (Neuman, 2000; Saunders *et al*., 2002). It is a valuable technique where the desired population is very rare or extremely difficult to locate (Sampling Methods, 2005). Purposive sampling is equally useful when the desired sample needs to be reached quickly and sampling for proportionality is not a concern (Trochim, 2006).

Zikmund (2003) asserts the value of purposive sampling in forecasting, a key objective of this study.

The sampling strategy in this study is a combination of three purposeful sampling techniques: critical case sampling, selective sampling, and snowball sampling (see Table 5.2 below). Through combining these sampling strategies, a desired sample size is achieved allowing flexibility (Patton, 2002; Silverman, 2005b). This sampling strategy increases the possibility of participants, who are not representatives in the target population (Burns and Grove, 1999). Since there were no formal lists containing the names of MNCs operating in Libya, the researcher decided to use snowball sampling to identify participants.

Table 5.2: Purposeful Sample Strategies for Selecting Interview Participants

Sample Strategy	Description	Examples
Critical Case Sampling	Selection of participant who are expert and well knowledged in the area of investigation	MNCs oil executives and NOC oil executives
Selective Sampling	Selecting participants based on initial set of criteria key to the study such as their expertise and experiences in MNCs' decisions about FDI	LIB staff (FDI policy makers in Libya)
Snowball Sampling	Referrals from participants to gain access to other participants	MNCs oil executives in Libya

Source: Patton (2002); Sandelowiski, (1995); Miles and Huberman, (1994)

5.6.1.4 Conducting and Administering the Questionnaire

The researcher carried out the fieldwork in Libya from March 2010 until the end of October 2010. The work involved the survey of foreign investors in Libya and interviews with senior Libyan officials working in areas relevant to the research topic. The main aim of the survey was to investigate the participants' views and attitudes regarding the Libyan oil industry.

An exploratory visit was conducted by the researcher to MNCs, NOC and LIB. This, not only, assisted the research procedures but also gave the opportunity for the researcher to become exposed to the working environment of these organisations. Furthermore, they provided great help in relation to the improvement of the questionnaire.

The researcher administered the questionnaire by two approaches. Initially, questionnaire were distributed through email to the MNCs executives (see Appendix 3) and handed delivery to the Libyan government officials (see Appendix 4) post due to a number of administrative and financial factors. The author anticipated the distribution of the questionnaires through email and followed the recommendations by Saunders *et al*., (2003):

• Contact the recipients by email and inform them that they will be receiving a questionnaire.

• Email the questionnaire with a covering letter.

• Email a follow-up message one week after emailing the questionnaire. This message should thank the respondents as well as reminding them to answer the questionnaire.

• Email a second follow-up message after three weeks to those who still have not responded. This should include another copy of the covering letter and the questionnaire.

• If response is still low a third follow-up can be used.

The researcher administered the questionnaire by hand to Libyan officials, due to the researchers knowledge and understanding of the local culture, it was deemed necessary to hand the questionnaire in person otherwise the Libyan officials would discard them. Following the final design of the questionnaire, and after choosing the research sample, the researcher started the next stage, the distribution of the questionnaires.

5.6.1.4.1 Pilot Questionnaire

Carrying out a pilot questionnaire assisted greatly in minimising time and effort, and helped the researcher to get a better understanding of the questionnaire. It also helped the researcher to focus further on the key questions and remove the un-related ones. Zikmund (1997:47) suggested that testing is an important tool by stating “Pilot studies collect data from the ultimate subject of the research project to serve as a guide for the

larger study. A pilot study also referred to as a feasibility study, can point out limitations in the research design which can then be dealt with before time and money is spent on the larger study".

In addition, the questionnaire was tested to establish if the questions were understandable to investors who came from different cultural backgrounds. It was also reviewed by a member of the Institute of Petroleum for Higher studies in Tripoli and by three foreign oil executives. Therefore, it was decided to distribute the questionnaire to a number of MNCs executives and Libyan officials. The size of this sample was set at an equivalent of ten *per cent* of the study. From the feedback the researcher noted that a number of the questions being investigated, such as relationship with government organisation and views of Libyan workforce, were not popular with the participants, whilst some, such as corruption, were completely undesirable, which led to their removal from the final questionnaire. Subsequently, the questionnaire was revised and changed, where some questions were considered irrelevant to research objectives, in accordance with the advice given and any error was eliminated to ensure questionnaire adequacy.

5.6.1.4.2 Conducting the Questionnaire

Following the final design of the questionnaire, and after choosing the research sample, the researcher started the next stage, the distribution of the questionnaires. This stage took more than two months from 15th

March until mid-May 2009. Despite the close monitoring of the distribution process, and that participants were urged to complete the questionnaire as soon as possible, only 24 (50% of the total) were returned within the three weeks' timetable. This was primarily due to some MNCs executives taking Easter Holiday and had returned to their home countries over this period.

After the three weeks, a reminder was sent to MNCs executives via Email and a personal visit took place to LIB offices on 11 April 2010 where the questionnaire was re-distributed. Five weeks after the first distribution of the questionnaires a total of 40 responses were received from both MNCs and government officials.

5.6.4.3 Questionnaire Return Rate

The rate of return 33 participants, representing 33 MNCs, were selected as the study sample and 15 government officials were also selected (see the sample characteristics in Appendix 3 and 4). Unfortunately, as shown in Table 5.3, only 30 questionnaires were returned by the MNCs executives and 10 questionnaires were returned by the Libyan government officials. Thus, the return rate of the questionnaire by the MNCs was 91 *per cent*, which is impressive and reflects the level of awareness among the MNCs executives. However, only 66 *per cent* rate of the return of the questionnaire by the government officials. According to Baruch (1999), in his study to explore what could and should be a

reasonable response rate in academic studies. One hundred and forty-one papers which included 175 different studies were examined (including the Journal of International Business Studies), the average response rate was 55.6 *per cent*. Therefore, the response rate in this research is deemed acceptable.

Table 5.3: Questionnaire Return Rate

Respondents	Distributed	Returned	Rate of Return
MNCs	33	30	91%
Government Officials	15	10	66%
Total	48	41	85%

5.6.2 Interviews

Saunders *et al***.**, (2003) have identified that questionnaires are best used when adopting a multi-method approach to data collection. Therefore, interviews were also held to complement the data collected through the questionnaires. Interviews allowed an in-depth analysis of issues raised in the questionnaires. Kahn and Cannell (1957) have described an interview as a purposeful discussion between two or more people (Saunders *et al*., 2003).

Saunders *et al*., (2003) have further described interviews as a method of collecting accurate and valid data that is relevant to the objectives of the

research question. Nachmias and Nachmias (1990) have mentioned that interviews offer the researcher flexibility in using a technique which covers freedom of wording, clarification of unclear questions, control of the order of the questions, and the possibility of acquiring additional information. Moreover, Neuman (1997) suggested that interviews provide higher response rate, allow longer questions, and permit interviewers to observe the environment. Interviews were held after the questionnaires had been completed and 38 respondents were interviewed.

This data collection method was appropriate, as it would support and further probe the data collected in the questionnaires. Furthermore, collecting interview data as well as questionnaire data may add a different dimension or help the researcher to approach the research question from an alternative angle (Mason, 2002). Saunders *et al.,* (2003) have also suggested that interview discussions provide "the interviewee an opportunity to hear herself or himself 'thinking aloud' about things she or he may not have previously thought about" (Saunders *et al*., 2003:250). Therefore, the use of interview data would add a greater depth and significance to the research.

Interviews as a data collection method can be criticised as being time-consuming and expensive (Hussey and Hussey, 1997). Nevertheless, interviews are still appropriate to this research because the author more or less was residing in Libya; and no additional travel expenses were incurred.

There are four types of interview (May, 1993): structured interview, semi-structured interview, focus interview and group interview. Structured interviews depend on asking the interviewee questions from a prearranged set of questions. In the interviews, the researcher can put the same set of questions to other interviewees; this allows the researcher to compare the various answers to the same questions.

Focus interviews, according to May (1993), is an open interview about a specific subject with no question. The respondents can express their thoughts and views in an open-ended answer. Furthermore, May (1993) suggested the use of the focus interview will help the researcher to get a whole picture of the research topic. However, the problem with this type of interview is that the researcher will struggle to be able to examine the differences in views or answers among the interviewees.

In the third type of interview, group interviews the researcher controls and manages a meeting of a focus group of 8 to 12 people, and the length of time ranges between one hour to two hours, and the discussion topics are raised by the researcher. The end result of the discussions will lead to a majority opinion on each topic raised by the researcher. However, according to May (1993), the response of any interviewee in the focus group meeting may be different from his/her response in a one-to-one interview.

The fourth type of interview is the semi-standardised or semi-structured interview. This research will adopt a semi-structured approach to the interviews. This means that the researcher asks the same main questions in the same way but is able to alter the order of questions asked and can probe answers for additional information (Gilbert, 1995). This approach provides the benefit of enabling the interviewer "to adapt the research instrument to the level of comprehension and articulacy of the respondent" (Gilbert, 1995:36).

Hussey and Hussey (1997) have suggested that semi-structured interviews provide the advantage of open discovery as the matters explored and issues raised change from interview to interview. The semi-structured approach to questioning will lead to mainly open questions being asked. An open question encourages the respondent to provide a detailed answer and often gives an opportunity to reveal their opinions and attitudes (Saunders *et al*., 2003). The use of closed questions has been rejected because the data that it would produce would be too limited to address the objectives of the research. According to Mirza (1998), these types of interviews have specific questions with a scope of flexibility for additional thoughts from the respondents about the same question.

The interview type that was used was semi-structured interviews, with a mixture of closed and open-ended questions. A semi-structured interview approach means that the interviewer has a general list of questions on specific topics to be covered but the interviewee has considerable

flexibility in how to reply (Bryman and Bell, 2003). This method provides the researcher with a set of questions to guide the whole interview and at the same time reduces uncontrolled deviation from the research questions. The rationale for using the semi-structured interviewing technique for this research is:

1. The basic rationale of unstructured interviews in this study is that it reveals something about the experiences and subjective views of the participants, derived from the interviewee concerned and not the interviewer concerned, as in survey interviewing (Bryman, 1988).
2. It is a study of a perspective as seen through the eyes of the interviewee involved in the process or has knowledge and experience in Libya's oil industry, based on specific facts and recollection of historical events and a sustained period of involvement in this industry.

The author also used the technique of probing to support the use of open questions. According to Nachmias and Nachmias (1990:195), probing has two main purposes. The first motivates the respondent to elaborate or clarify an answer or to explain the reasons behind the answer. The second will help focus the conversation on the specific topic of the interview. Interviews can be carried out in a number of different ways from a telephone interview to a group interview. The interviews for this research were carried out as face-to-face interviews on a one-to-one

basis. This method of interviewing allowed for flexibility (Gilbert, 1995), and provided an opportunity to obtain the confidence of an interviewee who may have been reluctant to disclose information in other situations (Hussey and Hussey, 1997). The author with the permission of the interviewees used a tape-recorder to record their response, allowing the author to solely focus on extracting the required information, as the task of note-taking in an interview can be demanding (Saunders *et al.,* 2003).

According to Mason (2002), an interviewer must develop the skill of 'really' listening to what the respondent is saying. Practice is required to develop this skill. Torrington (1991) identified that listening in interviews requires people being "on the look-out for signals and willing to spend the time needed to listen and build understanding, deliberately holding back our thoughts" (Saunders *et al*., 2003:259). It is also necessary for the interviewer to develop social interaction skills as interviewees may be nervous or anxious about the interview which may then distort the validity of their responses. Therefore, the interviewer must be sensitive to the needs of the interviewee and adopt an appropriate manner. According to Gilbert (1995:139), research has indicated that "interviewers should not be drawn from either extreme of the social scale that their demeanour should be neither condescending nor deferential and that they should display interest without appearing intrusive".

Gilbert (1995) identified that a common problem of interviews is that the respondent tells the interviewer what they think the interviewer wants to

hear. Therefore, the researcher should learn to adopt a manner that does not indicate any interviewer bias. Furthermore, to maintain the validity of the research he/she should adopt an objective approach to the study. This means that the researcher should not be selective about the data that is recorded. According to Saunders *et al*., (2003:135) if data is not objectively collected "your ability to analyse and report your work accurately will also be impaired".

Mirza (1998) suggested the researcher apply various techniques during the interview: 1) getting assistance in taking notes during the interview so that the researcher can concentrate and be interactive with the respondent; 2) using some type of recording for the interview, either hand written notes or a tape recorder; 3) doing the interview in the workplace will assist the researcher to acquire efficient answers under a controlled meeting environment.

To manage and overcome the problems discussed above, during the interview process the researcher followed De Vaus's (1991) suggestions: firstly, choosing the time that was suitable to the interviewee. Secondly, use of the telephone and a hard copy letter to contact the interviewee and to arrange the interview. Thirdly, to be confident but flexible, and to dress neatly and use the tools of the researcher not the salesperson. Also, it is important to introduce oneself in a in a documented way, with business card or ID and a presentation letter from your academic institution. Finally, it should be noted not to offer one's own opinion about the

respondent's answer if you have been asked until the end of the interview.

5.6.2.1 Interview Sampling and Population

Interviewing all the MNCs executives and the senior government officials involved with FDI and oil industry was an impossible task given the limited time available for fieldwork and the access issues. For this reason, the survey was limited to a sample which was able to represent the senior officials and MNCs executives in Libya.

Table 5.4: Total number of Interviews and Location

Participants Classifications	**Planned**	**Actual**	**Language of Interviews**	**Location of Interviews**
Oil MNCs Executives	23	15	English	Tripoli-Libya
Libyan Government Officials	15	8	English	Tripoli-Libya

Source: Research Data

As a preliminary step, the author relied on a comprehensive survey by sending letters to all the questionnaire participants outlining the main aspects of the interview and requesting their cooperation. Accordingly, only those who responded were interviewed and a total of 15 MNCs

executives and eight government officials were selected (see Table 5.4 and Appendix 3 for detailed characteristics of the interviewees).

5.6.2.2 Establishing an Interview Protocol

It is common practice during the interview stage for researchers to establish an interview protocol, with the purpose of establishing a systematic interview process. This process can involve organising the order of the interview questions, to scheduling the allocated interview time in the most optimal method. The researcher developed such a protocol in order to maintain the focus of the research objectives of the thesis, and thus circumvent any potential deviation from the topic (Creswell, 1998; Silverman, 2004). Before an interview protocol could be established the researcher had to thoroughly consider what information is required and how the information could be most effectively extracted (Fery, 2000). As the research process involved interviewing two different types of interviewees, two different interview protocols were developed. Firstly, an interview protocol for the MNCs in Libya, and secondly an interview protocol for Libyan government officials.

The interview protocol developed entailed three main stages. Firstly, the interviewer provided an overview of the nature of the research and its purpose, enabling the interviewee to comprehend the objectives of the research project. In the second stage, the ethical issues of the interview

process were addressed, with the interviewer establishing the interviewee's right to privacy and confidentiality throughout the research process. The final stage of the protocol involved introducing the interview questions, this consisted of the main questions (see Appendix 3) in addition to follow up questions and probing questions (Kvake, 1996).

6.2.3 Conducting the Interview

The interviews were undertaken from mid-May until October 2010. All of the interviews were conducted with the subjects in their relevant offices during official hours. The researcher planned to use tape recorders provided that the interviewees had given their consent in advance. However, a number of the interviewees were not comfortable with the use of type recorder during the interview, particularly Libyan officials. Therefore, the use of recording in some of the interviews was ruled out and the researcher relied on using written notes.

In each interview, the researcher re-introduced himself to the interviewees and briefed them on the research question and discussed the overall purpose of the research, in which many interviewees showed great interest. Furthermore, the researcher explained the purpose and the different aspects of the interview, reassuring them that they could discuss things at their own pace without intervention from the researcher who would write down their responses. The interview times ranged between 40 and 60 minutes.

The researcher drew up the responses from all the interviews on separate sheets, which were then sent to the interviewees so they could review what had been said and raise concerns about the content. The interviewees were requested to reply within a week of receiving the letter. As there were no responses within the deadline, the researcher was able to start analysing the data further and move on to the next stage of the research.

5.6.3 Secondary Data

Secondary data is information gathered and recorded by an individual other than the researcher and is generally historical. This data does not involve the use of respondents or research subjects (Zikmund, 2003). This data is especially significant where primary data collection cannot provide the information being required, possibly because such data may be unobtainable. This is a key issue in the Libyan oil industry as relevant information may be unavailable to the mass public and only government reports may provide such data.

In addition, such information was also sought on MNCs operating in the Libyan oil industry, MENA region and on the global economy in general. Secondary data was acquired from books and periodicals such as professional journals and government sources including economic data series, standard reference works, and market research reports on Libya from organisations, like the Libyan National Economic Strategy. Further

information was also obtained from international sources such as, the World Bank, United Nations Development Program, International Monterey Fund and others.

In undertaking this research, care was taken to avoid the problems associated with secondary data. The main difficulty associated with secondary data is that this data was not collected for this research purpose. Therefore, they cannot answer the specific research questions made by the researcher. There may not be some specific data in those secondary sources that are necessary for the research work. It may also occur that the secondary data sources are not gathered for the same region or population under question. Also the subject of the secondary data may be different from the subject of the research work. In that case, the researcher has to deal with the data that is already collected, and cannot altar them according to his/her wishes (Boslaugh, 2007).

There is another related problem. The variables in the data may not be defined in the same way as the researcher has defined. For example, the data on age may have been collected in categories and not as a continuous variable as the researcher wants. Also it may happen that all the information is not released with the data. For example, a secondary data prepared by some government agencies may not provide the information concerning the respondents and the sampling techniques. As the researcher is not engaged in the data collection process, he/she will not be aware of the whole process, its level of success and limitations.

There may be manipulations in the data or may be response misunderstanding during the survey (Boslaugh, 2007).

For these reasons, secondary data must be carefully examined to confirm that the data includes the necessary information required for the research work. Assessment of secondary data was carried out in order to ensure the accuracy of the data collected. Inaccuracy of data is more problematic than the irrelevance of data there may be biased reports and/or misreporting and misinterpretation of the data (Patzer, 1995). Therefore the accuracy of secondary data can was assessed by taking the following steps:

Cross-verification of the data: Secondary data can be cross-verified by probing consistency between two independent sources. Data obtained from one source is directly compared with corresponding data found in another source. In order to validate the data the two sources must be independent from each other (Patzer, 1995).

Data collected from original sources: When the secondary data is gathered from original sources, and not from the subsequent sources, the accuracy of such data increases. The original source is identified as the earliest source available in regards to particular secondary data. Usually it is the individual or organisation whose name is linked to the origin of the presented data. A subsequent source of data, however, is the data source that obtains the data from the original source for their research

purpose (Patzer, 1995). Both methods i.e. cross-verification of the data and data collected from original sources were used when using secondary data presented in this research.

5.7 Time Series Analysis

The main objective was fact finding, the researcher in this research seeks to uncover facts relating Libya's oil industry with regard to export volumes, reserve capacity, financial reports, and trade statistics. As a result a large macro data set was collected and used to investigate and examine the factors determining the FDI inflows to the Libyan oil industry. Annual data set has been used, covering the period 1967 until 2008. The main objective of the time series analysis was to investigate the factors affecting the determinants of FDI in the Libyan oil industry during 1967-2008.

The data consists of aggregate figures representing the oil activities include crude oil production, export, production costs, oil prices and Libya's revenue. In order, to eliminate quantity and price change effects on the state's annual crude revenue, a detailed annual price and production level were used to construct this data. The merits of a time series analysis according to Pearce *et al*., 1992; is it provides the potential to analyse the effects on FDI of crucial changes in the environment, or of periods of abnormal economic or political conditions. Hence, the time series analysis is imperative in order to supplement the

survey results as Libya's oil industry went through unique and crucial changes since its inception such as nationalisation of oil companies and sanctions imposed on Libya.

Until recently econometricians assumed that most time series data are non-stationary, and therefore, increased over time with non-constant variances (Hamilton, 1994). However, they have no effect on the empirical analyses. More recently, several time series based studies revealed that statistics such as the t values, DW statistics, and measures of R-squared and F-statistics did not retain their conventional characteristics in the presence of non-stationary data. By definition, a series is referred to as a stochastic process whose characteristics are likely to change over time. In other word, such time varying series display non-constant variance. Additionally, these time series studies proved that running regressions with such data might yield spurious results (i.e. results which erroneously indicate, through misleading values of such statistics, that a meaningful relationship among the regression variables exists).

A result of such discoveries is that it has become common practice to test for non-stationarity of economic time series data prior to any econometric estimation. Thus, stationarity is an important characteristic of the stochastic processes that we try to model. In the case of the economic time series, as displayed later in this section, first differencing would generate stationarity variables. However, it has been suggested by Engle

and Granger (1987), although first differencing may induce stationarity, first differenced regressions can also filter out long run information when the variables in levels are cointegrated. By definition, variables are said to be cointegrated if they exhibit long run relationship.

The process of arriving at a stationarity is referred to as unit root test for non-stationary series. The unit root test put forward by Dickey-Fuller (1979) for stationary assumes variables move over time with non-constant variances, making modelling a difficult task. Assume a variable X being modelled against time as:

X_t= a+ b t + u_t (5.1)

Where $u_t = \rho u_{t-1} + \varepsilon_t$ $\varepsilon_t \sim$ NID (0, σ^2) (5.2)

Substituting (6.2) into 6.1) and re-arranging gives the reduced form expression:

$X_t = \alpha + \beta$ t + $\gamma\ x_{t-1} + \varepsilon_t$ (5.3)

In expression (6.3) if γ = 1, then X is said to be stationary of order 1 [i.e. X $\sim$ t (1)] that is:

$\Delta X_t = \varepsilon_t$ (5.4)

With ε_t being a white noise error term, ΔX will be a random walk variable with a finite variance. For any value of γ less than unity, X will be stationary; while any value of γ greater than unity will lead to an explosive variance of X.

The augmented Dickey-Fuller (ADF) test, on the other hand, tests the hypothesis that, in the general model,

$$\Delta \times_t = \alpha + \beta \text{ t } + \Sigma\gamma_i \times_{t-i} + \varepsilon_t \qquad (5.5)$$

γi = 1 for every lag of X.

In summary, in the DF test the first difference of a variable is regressed on its own lag level, in addition to a drift and a deterministic trend, if required. In the ADF tests lags on the dependents variable are included to ensure white noise errors. The test statistic in the DF and the ADF procedures is calculated in the same way as a t-ratio. However, due to the presence of non-normality, the corresponding critical values are not exactly t-distributed, and hence have been calculated and offered in Fuller (1976).

The concept of cointegration follows from stationarity. Assume that there are two variables, X and Z, each being stationary of order 1. If there exists a linear combination so that

$$\text{Zt} = \text{a} + \text{b } X_t + e_t \qquad e_t \sim \text{NID } (0, \sigma^2) \qquad (5.6)$$

Then X and Z are said to be cointegrtaed of order 1. In this case as developed by Engle and Geranger (1987), a test for the presence of cointegration is performed by simply running an OLS regression of Z on X and subjecting the residual of equation (6.5) to a unit root test. In effect the cointegration test also involves a process of error correction. In general, variable Z could be regressed on k variables, producing a vector of k coefficients, better known as vector cointegration. In the spirit of

Granger causality, the cointegrating equation may not be unique; that is other variables could also be regressed on Z and produce cointegrating equations. Following Hall (1986) and Mcmillin (1991), the optimal cointegrating equation is the one which maximizes the adjusted R-squared. The variables in question are said to be cointegrated if these residuals prove to be stationary. The residuals can then be tested using the DF and ADF tests procedure.

5.7.1 Econometric Model and Data

The main source of data in this study is the Libyan Central Bank through its various periodic publications looking into the stationary and non-stationery of the macro-economic time series data covering between 1967 and 2009. Based on data for the specific Libyan economy, a regression was run to investigate which factors could affect the FDI inflows to the Libyan oil sector. Different explanatory variables may be used in studies of FDI, comprising a shopping list of variables (Dunning, 2001).

FDI = *f* (RGDP, OILC, OILP, OILR, GS, CW, NAT, SAN) (5.7)

Where:

1. FDI is foreign direct investment inflows to the Libyan oil sector

2. RGDP= real gross domestic product in real terms. This variable is used as a proxy for market size. Data for GDP at 1980 average prices used.
3. OILC= Average cost of production of crude oil per barrel.
4. OILP= Libyan oil prices, reflecting the quality of Libyan oil in the world market.
5. OILR= oil reserves. These estimate improved over the period of the study
6. GS= government spending on domestic development projects. This variable is used as an indicator of how much money was spent in developing the country during the period of study in all infrastructure projects.
7. CW= country wealth. This was calculated by multiplying oil reserves and world oil prices.
8. NAT= nationalisation of foreign oil companies. This is a dummy variable taking the value of 0 for the period before the nationalisation policy implemented from 1967 till 1972 and 1 after 1972. It represents the change in the structure of economic environment.
9. SAN= The UN sanctions. This dummy variable takes the value of 0 for the period before of the sanctions implemented from 1967 till 1991; value of 1 from the year 1992 until 1999, and the value of 0 from 2000 onwards.

A short-run model is used to estimate the equation which is exhibited in the form of Durbin equation model.

$$FDI = f\ (RGDP, GS, CW, CW, OILC, NAT, SAN, FDI\ (-1)) \quad (5.8)$$

This equation shows that the independent variables as well as one-lag FDI [FDI (-1)] can jointly determine the current value of FDI.

5.8 Data Analysis

The researcher took a number of steps once all the questionnaires and interviews were completed to process the data collected. To analyse the data from the interviews, the interpretative technique in a manual manner was adopted. This technique is defined by Bryman as a "strategy that respects the differences between people and the objects of the national sciences and therefore requires the social scientist to grasp the subjective meaning of social action" (Bryman, 2004:13). Consequently, the inductive approach for qualitative data analysis was utilised (Bryman and Burgess, 1994; Creswell, 2002).

This technique is primarily targeted at assisting and helping the understanding of the data by summarising the most important ideas from the raw data. The raw data that was gathered through questionnaires and interviews were analysed through the process known as content analysis. Content analysis is systematic, objective and can be either quantitative or qualitative analysis, depending on the objectives of the study, of the characteristics contents of a research project. Content

analysis has also been defined as “any technique for making inferences by objectively and specified characteristics of messages” (Berelson, 1952:18). For the purpose of this research, content analysis was used to qualitatively analyse the responses obtained from the MNC oil executives and government officials.

To begin the process of content analysis the raw data needs to be organised according to a number of factors for example. The date of the interview, the location of interview, and the type of respondent (e.g. MNC oil executive or Libyan government official). The next step was to assign a participant number; e.g. “participant 1” and “participant 2” and so on, to each of the respondents in order to aid the analysis process. The next step required to complete the analysis was to code the data. Coding has been defined as “the process of organizing the material into chunks or segments of text before bringing meaning to information” (Rossman and Rallis, 1998:171).

Due to the inductive nature of this research approach it was appropriate to complete coding after data collection, as the researcher was unsure of the likely responses from the interviewees. Furthermore, it was necessary to ensure that the coding used was tailored towards answering the research questions precisely. In order to accomplish this, responses to the interview questions were read a few times in order to explain all possible meanings and the main ideas were discovered and codified. The codes were then used to define the appropriate categories, and the

categories were, in turn, reassembled into major issues highlighting the relevant themes. This is known as focused coding. The final stage was to narrow down the focused coding into a main theme of the research, Table 5.5 illustrates an example from this research on the process used to undertake content analysis.

Table 5.5: Example of Content Analysis

Category	
9. How do view the quality of essential infrastructure *(roads* - airports harbours – postal services...etc.) in Libya?	
Focused Code	**Focused Code description**
4	Very Good
3	Good
2	Relatively good
1	Not good
Theme	The quality of essential infrastructure in Libya is viewed by MNCs not good, relatively good or good.

One of the most significant advantages of carrying out content analysis is that the objective nature of the procedure for allocating the raw data to themes, ensures that the researchers personal biases do not intrude on the analysis of results (Bryman and Bell, 2003), thus increasing the validity of the research data. However, content analysis does suffer from some limitations. It is a time consuming method of analysing qualitative data and it is considered as naturally reductive from an early stage of the research, especially when handling complicated data (Hussey and Hussey, 1997).

5.8 Research Validity

Yin (2003b) has identified that there are four tests that are frequently used to establish quality in case study research (see Table 5.6 for summary of this research validity).

Table 5: Summary of Research Validity Strategies

Tests	Case Study Strategies	Strategies adopted in this Research
Construct Validity	Use Multiple sources of Data	Questionnaires, Interviews and Secondary data (time series analysis)
	Review by Key informant	Feedback was obtained from the Academics at the Libya petroleum Institute
Internal Validity	Establish a chain of evidence	Use of sufficient quotation
	Triangulation of Evidence	Use of data sources in convergent manner
External Validity	Tran	Purposive selection of the sample
		Replication logic adopted to investigate 30 oil MNCs operating in Libya
		Findings of the research was reviewed by Libya oil experts at Libyan Higher Institute of Petroleum
Reliability	Precision	Precise data was collected through administering the questionnaires to the right people.
	Standardisation	Use of similar questions, presented in a similar manner.
	Bias	Use of clear and precise questioning.

Source: adapted from Yin (2003).

Construct validity: This requires the researcher to implement the correct measures for the concept being studied (Yin, 2003b). This study has achieved construct validity in two ways. Firstly, multiple sources of data was collected through the distribution of questionnaires and the interviewing of 30 MNC oil executives operating in the Libyan oil industry and 10 Libyan government officials. These findings were further

supported by carrying out time series analysis and by the use of other secondary data in order to increase construct validity. Secondly, the researcher sought feedback from experts (academics) at the Libyan Higher Institute for Petroleum. A draft case study was presented to these experts for the purpose of verifying that the researcher's interpretation is an accurate representation of reality.

Internal validity: This is concerned with whether or not we are measuring or explaining what we claim to be measuring or explaining (Mason, 1996). In this research the issue of establishing internal validity was addressed using the following strategies. Firstly, the researcher attempted to ascertain a logical chain of evidence through adequate use of quotations collected from the case study research. Yin (2003b) has suggested that preserving a logical chain of evidence will enable the reader to track the origin of any evidence from the initial research questions to the end conclusions. Secondly, the researcher has secured internal validity through the triangulation of different sources of data and information. A number of theorists (Miles and Huberman, 1994; Yin, 1994; Merriam, 1998; Silverman 2001) believe that triangulation will help improve internal validity of qualitative research. Hurmerinta-Peltomäki and Nummela (2006) argue that triangulation is useful in International Business research and emphasise that triangulation can be the way of using multiple methods. For example, when examining, which possible FDI policy is attracting the MNCs to invest in Libya, or why other policies had discouraged them from investing. In the case of this research, data

provided by oil executives and government officials was cross checked, when feasible, with published documentation.

External validity: This is concerned with the extent to which the research findings are generalisable, that is, whether the research findings are applicable to other research settings (Saunders *et al.*, 2003). In this research, external validity was firstly addressed by using purposive sampling. The sample consisted of MNC executives employed in the oil industry and government officials involved in FDI in the oil industry. As the use of purposive sampling meant that participants were selected according to the unique characteristics which they had, it allows an objective observation of the important events from all angles. Secondly, this research attempted to secure external validity through the application of replication logic in the MNCs studied. Furthermore, the researcher attempted to use analytical generalisation, to generalise the results to a broader theory. Finally, the third approach used to increase external validity was to have the findings of the research reviewed by experts from the Libyan Higher Institute for Petroleum.

Reliability: This deals with the extent to which other studies would arrive at the same conclusions if they use the same data and methods. Reliability is an important process in research design. This stage measures the level of the consistency of the responses in the survey process. Bell (1993:64) defines reliability as “the extent to which a test or

procedure produces similar results under constant condition on all occasions".

In order to achieve reliability certain steps were followed. Initially, precision of the data collected was achieved by administering the questionnaires to the right people in the Libyan oil industry. Secondly, standardisation was achieved by the use of similar questions asked in a similar manner to all respondents. Third, bias was reduced through the use of clear and precise questions. Also, to further eliminate bias, interview questions were formatted so that they weren't too lengthy or vague and only relevant questions were included which addressed the issues at hand.

Finally, there are numbers of devices for checking reliability in scales and tests such as test-retest which is administering the same test a period of time after the first. In this research the reliability was measured by using Cronbach's Alpha which can be written as a function of the number of test variables, and the average inter correlation between the variables. By using the Reliability Statistics in the SPSS programme to establish the reliability of the responses, it can be clearly concluded from the data displayed in Table 5.7 that the result for Cronbach's Alpha scale for the entire questionnaire was 0.816. As result, this grade of reliability means that the collected responses have a relatively good level and the findings have a good level of consistency.

Table 5.7: Reliability Statistics-Cronbach's Alpha

Questions	Cronbach's Alpha
Section II Factors Attracting FDI	0.806
Q1: 1. Oil Reserve	0.813
2. Oil Quality	0.801
3. Low Labour Cost	0.818
4. Low Production cost	0.821
5. Lack or Low Level of Competition	0.836
6. Geographical Proximity	0.814
7. Government FDI policies	0.815
8. Political Stability	0.816
9. Unexplored Potential	0.818
Section III: Libya's oil industry business environment	
Q1. Competitive Advantage	0.824
Q2. Importance Local Partner	0.825
Q3. Corporate Tax	0.810
Q4. Libyan Workforce Cost	0.808
Q5. Libya Workforce Skills	0.811
Q6. Labour Regulations	0.812
Q7. Export/Import Regulations	0.812
Q8. Government Decision Making Process	0.812
Q9. Quality of Infrastructure	0.822
Q10. Significant of Infrastructure in Undertaking FDI	0.810
Q11. Main Difficulties	0.811
Q12. Regional Competition	0.809
Q13. Planned Rate of Return	0.807
Q14. Expanding Operation	0.812
Cronbach's Alpha	**0.816**

Sources: Data Analysis

5.10 Chapter Summary

In conducting the research two forms of research methods were used to gather data; questionnaire and interviews. Interviews were in the form of semi-structured purposive in-depth interviews of top MNCs executives and Libyan officials. The pilot study was carried out prior to the in-depth interviews and secondary data collection in order to test logistics as well

as gather information which will help improve the overall study's efficiency and quality. In undertaking, the interviews, a purposive sampling technique was used to select the study sample. Such a technique provides an objective observation of the important events from all aspects. This interview technique is often used with small and informative sample group (Neuman, 2000; Saunders *et al*., 2002).

Interviews provide first-hand information from actual sources using a combination of correspondence and personal narrative techniques. These are considered the best forms of primary sources in research. Interviews and questionnaire are the primary source the research data. The qualitative data collected was analysed according to specific analytical methods summarized in the analysis section and presented in details in Chapter Six.

CHAPTER SIX: FINDINGS

6.1 Introduction

This chapter presents the main findings of the survey interviews and questionnaires from the researcher's fieldwork undertaken in Libya and secondary data analysis in order to answer the three research questions; 1. What are the main determinants of FDI in Libya's oil industry? 2. What are the major obstacles faced by MNCs in the Libyan oil industry? 3. To what degree did Libyan Government FDI policy influence the level of FDI in the oil industry? In order to answer these questions, thirty Managing Directors and Chief Executives of oil companies operating in Libya participated in questionnaire and interviews. In addition, there are the testimonies of a number of Libyan government executives who are involved in the Libyan oil industry or in implementing Libya's investment policy.

As discussed in the previous chapter, the questions which were asked to the interviewees have been grouped into three categories. This chapter, will, initially, present the questionnaire results on a brief overview of the Multinational Companies operations in Libya; Libya's oil industry FDI determinants; and Libya's oil industry business environment. The results from the questionnaires are then related to the results from the research interviews and other secondary findings. They are then discussed in the context of the research questions of this thesis, with the objective to

achieve the research aims. Furthermore, to supplement the survey results and to further assess the relative significance of the factors that may attract FDI into Libya's oil industry, a time series analysis was used to investigate further the factors affecting the determinants of FDI in the Libyan oil industry during 1967-2008. Finally, multinomial ordered probit and OLS regression was carried out to test the significance of the questionnaire responses.

6.2 MNCs Questionnaire Results

This section aims to provide an overview of the main finding of the questionnaire results from the MNCs.

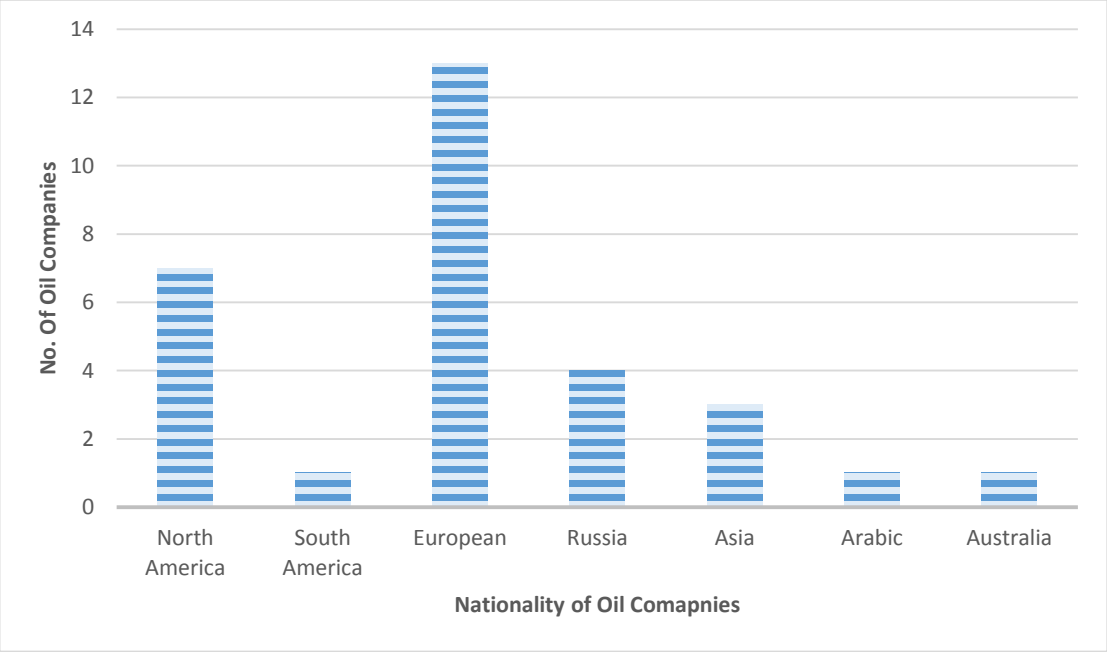
6.2.1 A Brief Overview of Multinational Companies Surveyed in the Study

Under this sub-category of the main research topic, a number of questions were asked to the thirty selected MNCs (see Appendix 2 for further detailed information), each from different companies operating in Libya who had participated in the questionnaire process. This section was designed to gather background information relating to multinational oil companies operating in Libya. These questions sought to collect data about the company's name, location, nationality, ownership, and investment method and investment mode. To help build some preliminary ideas regarding the MNCs Operations in Libya, clear and

concise questions have been asked. Since these are the initial questions of the interview, these questions have been set in a clear format so that interviewees have no complications whilst answering these questions and feel secure with the interview process.

Figure 6.1 shows that 13 companies invested in Libya from Europe representing 44 *per cent* of the total MNCs included in the study sample, followed by seven companies from North America representing both United States and Canada. The results shows that the companies from Europe are a major investor in the Libyan oil industry, with the top five largest oil companies in Europe operating in Libya (NOC Bulletin, 2007).

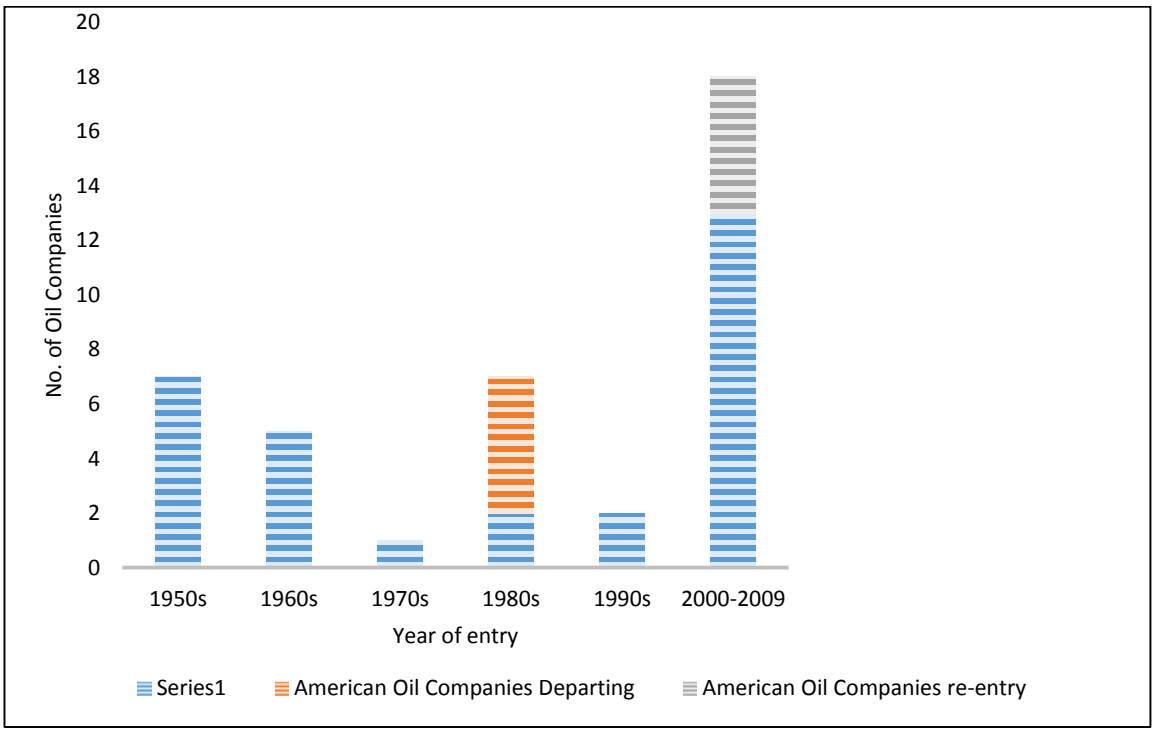
Figure 6.1: Nationality of the Oil Companies by Region



Source: Questionnaire data

Figure 6.2 shows that FDI in the Libyan oil sector started as early as the 1950s, with American companies being the pioneers of the discovery of huge quantities of oil in Libya. Other companies from Europe were then encouraged to enter and invest in Libya during the late 1950s and 1960s. However, by the 1970s, the Libyan oil industry had witnessed dramatic change with the nationalisation of all foreign oil companies operating in Libya.

Figure 6.2: Year that MNCs Started Operations in Libya

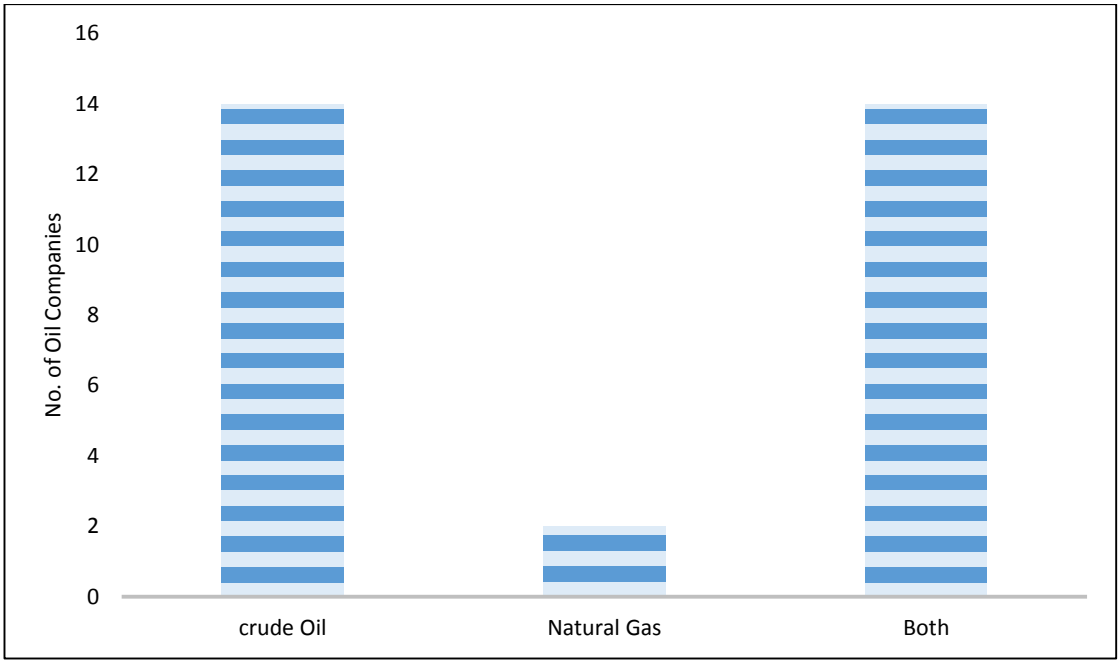


Note: companies from USA re-entered Libya in 2000s after were forced to abandon their Libyan assets in 1980s (see Chapter Two for details).

This had adversely affected the Libyan oil industry and prevented MNCs from entering Libya. However, in some exceptional circumstances, Libya allowed several MNCs in the 1970s and early 1980s to enter Libya and also some of the nationalised MNCs remained to operate in Libya under licensing terms (see Figure 6.2).

By 1999 the lifting of the sanctions imposed by the UN on Libya and the adoption of a new FDI policy by the Libyan government meant that MNCs were once more attracted to enter Libya as shown in Figure 6.2.

Figure 6.3: MNCs Investment Area in Libya

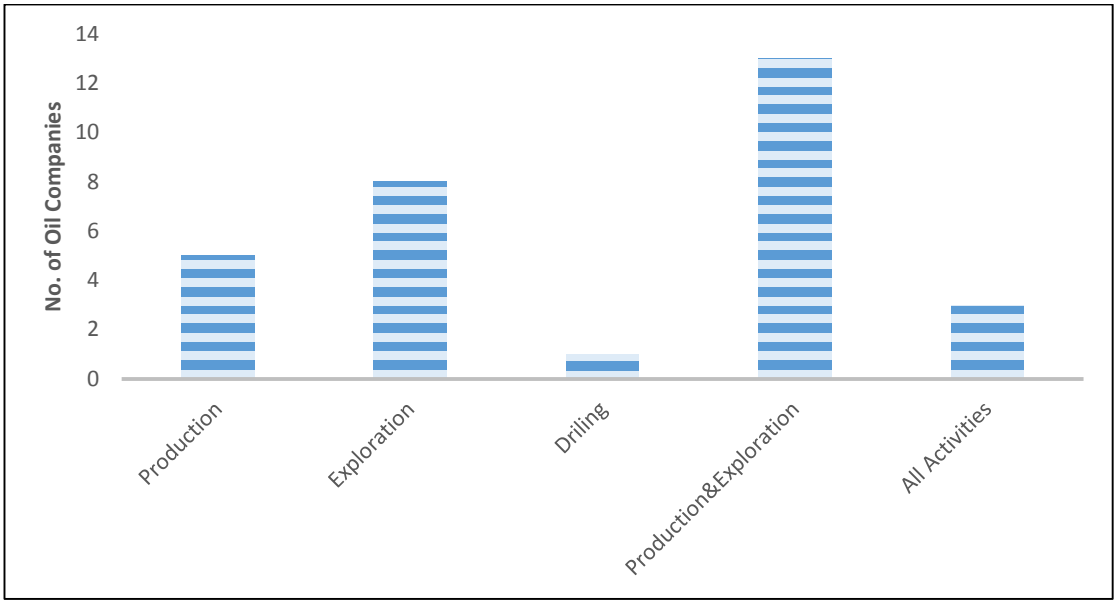


Source: Questionnaire data

Figure 6.3 clearly illustrates that half of the MNCs were operating in Libya in the production and exploration of crude oil. This is not surprising since Libya's main natural resource is crude oil, although explorations for natural gas in Libya had been taking place as early as the 1970s.

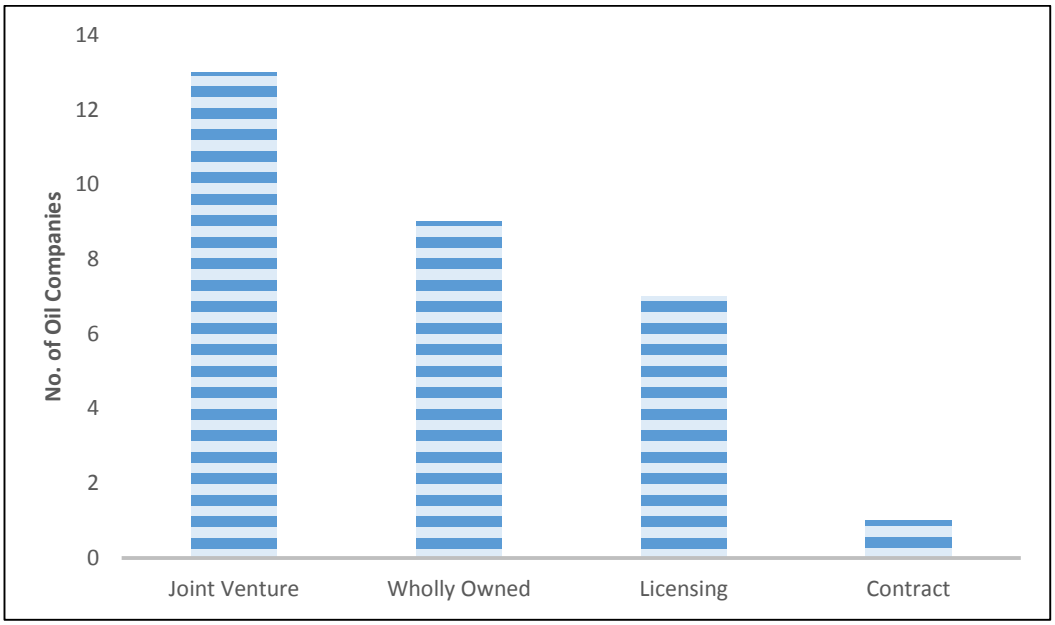
Figure 6.4 illustrates that over 80 *per cent* of the MNCs stated that their main activities in Libya were exploration or/and production.

Figure 6.4: MNCs Investment Activities in Libya



Source: Questionnaire data

Figure 6.5: MNCs Investment Mode in Libya



Source: Questionnaire data

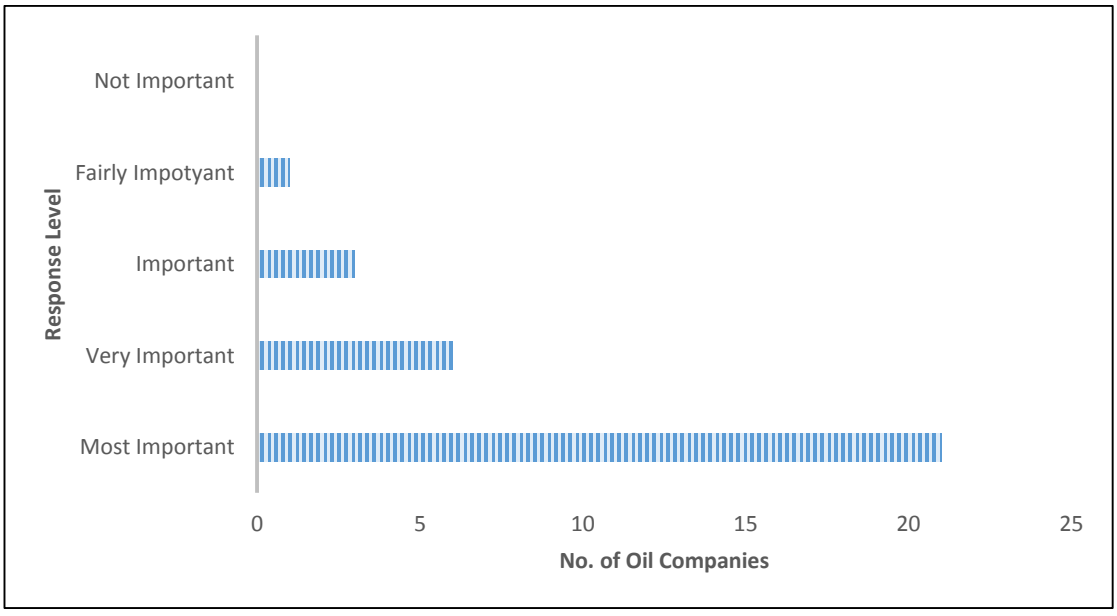
Figure 6.5 indicates that the majority of MNCs engaged in joint ventures with the NOC. The majority of MNCs are currently operating in Libya under a joint venture. Also, current legislation in Libya also gave the

option for the NOC to participate in joint ventures with MNCs. At the present time the NOC have six joint ventures with different MNCs.

6.2.2 Libya Oil Industry FDI Determinants

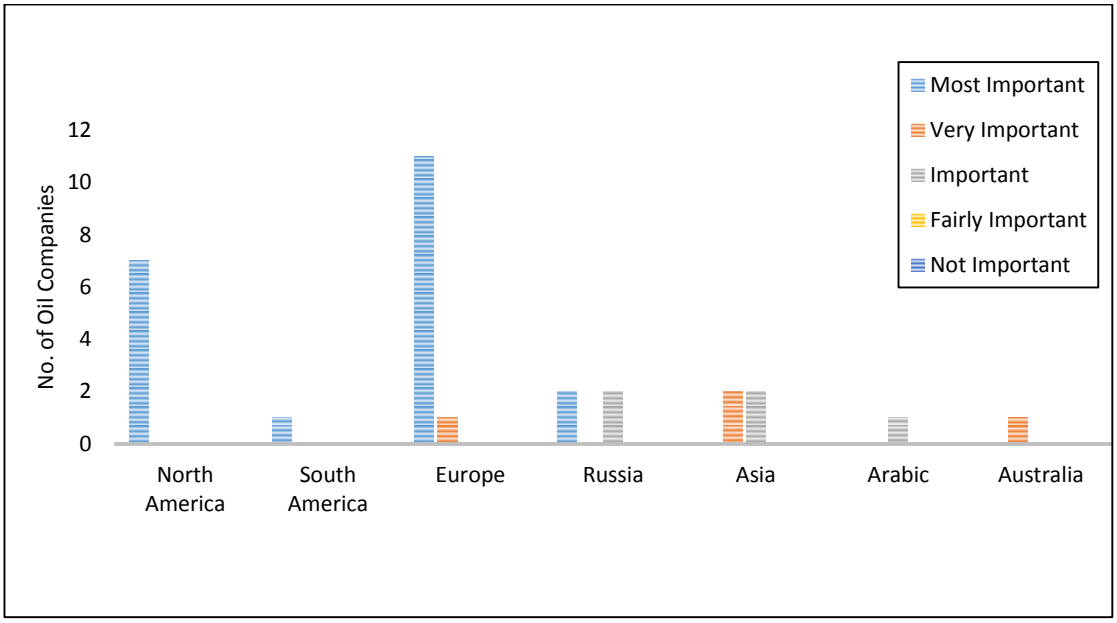
Under this sub-category of the main research topic, a number of questions were asked to the thirty MNCs respondents who had participated in the questionnaire process. From Figure 6.6, predictably Libya's oil reserve potential emerged as the most important determinant for those MNCs operating in Libya. Over 70 *per cent* of the MNCs ranked this factor as the most significant determinant. Furthermore, analysis of the overall rank order of the main determinants on a regional basis identified that all of the regions, with the exception of North Africa, identified Libya's oil reserve as the main determinant (see Figure 6.7).

Figure 6.6: Libya Proven Oil and Gas Reserves



Source: Questionnaire data

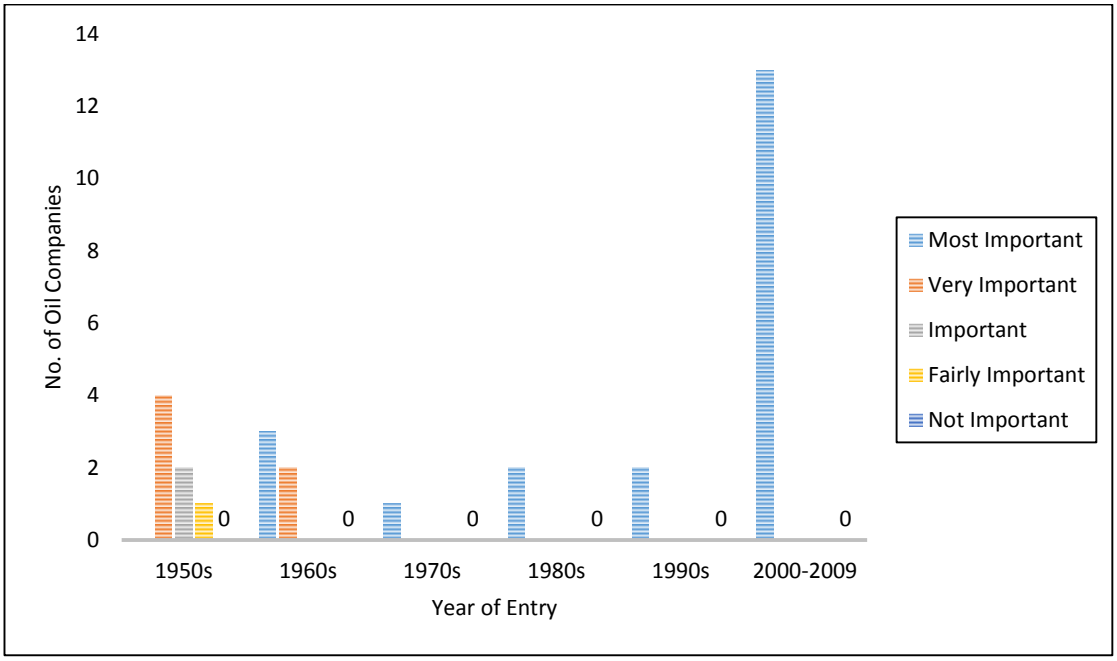
Figure 6.7: Libya Proven Oil and Gas Reserves by Region



Source: Questionnaire data

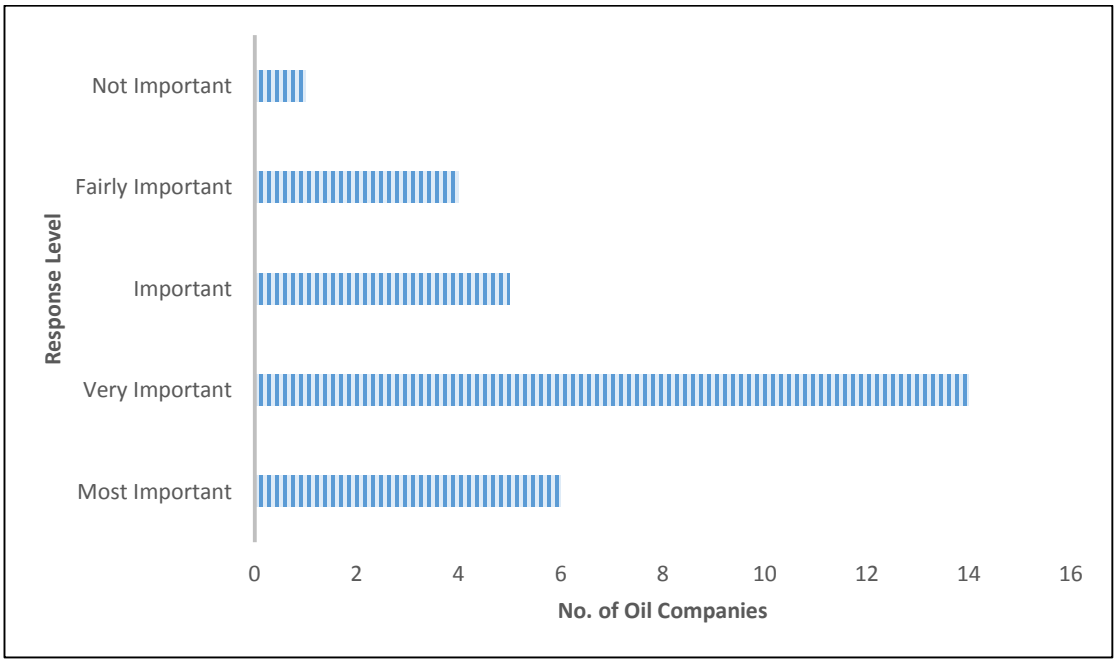
The results reflected that Libya's oil reserves potential is among the largest in the world and decisions to enter Libya are ultimately determined by such a factor. Moreover, Figure 6.8 illustrates that the views of MNCs on Libya's oil reserves differ depending on the year of entry. According to the questionnaire results (see Figure 6.8) the majority of the earlier entrants to the Libyan market selected 'important' with only one selecting 'fairly important'. Whereas, the late entry respondents all selected 'most important' in their decision to undertake FDI in the Libya's oil industry. From the results it is evident that the late entrants into Libya placed more importance on this determinant compared with early entrants to the Libyan market.

Figure 6.8: Libya's Proven Oil and Gas Reserves by Year of Entry



Source: Questionnaire data

Figure 6.9: Quality of Libyan Oil



Source: Questionnaire data

Figure 6.9 clearly demonstrates that the quality of Libyan oil plays a significant part in attracting FDI into the Libyan oil industry. There are

many types and grades of oil produced around the world. Indicated by OPEC in 2006, the quality of Libyan oil is amongst the highest in the world, and achieves higher selling prices compared with oil from other MENA countries (OPEC, Annual Statistical Bulletin 2006). Table 6.1, shows that over the last three decades Libyan oil prices, constantly maintained a higher price than the OPEC average.

Furthermore, from analysing the reply of the respondents it is apparent that the majority of European companies consider the quality of Libyan oil as a significant determinant in their decision to enter the Libyan market. According to the Centre for Global Energy Studies (CGES, 2011), Libya's oil export grades are light and have very little sulphur — less than 0.5% — making them difficult to replace directly. A number of European refiners relied on these crudes, which allowed them to produce high yields of low-sulphur distillates without large amounts of upgrading or desulphurisation capacity. The results from questionnaire clearly support the views made by the CGES in 2011.

Table 6.1: Crude Oil Prices of Selected OPEC Members, $/Barrel (1970 2003)

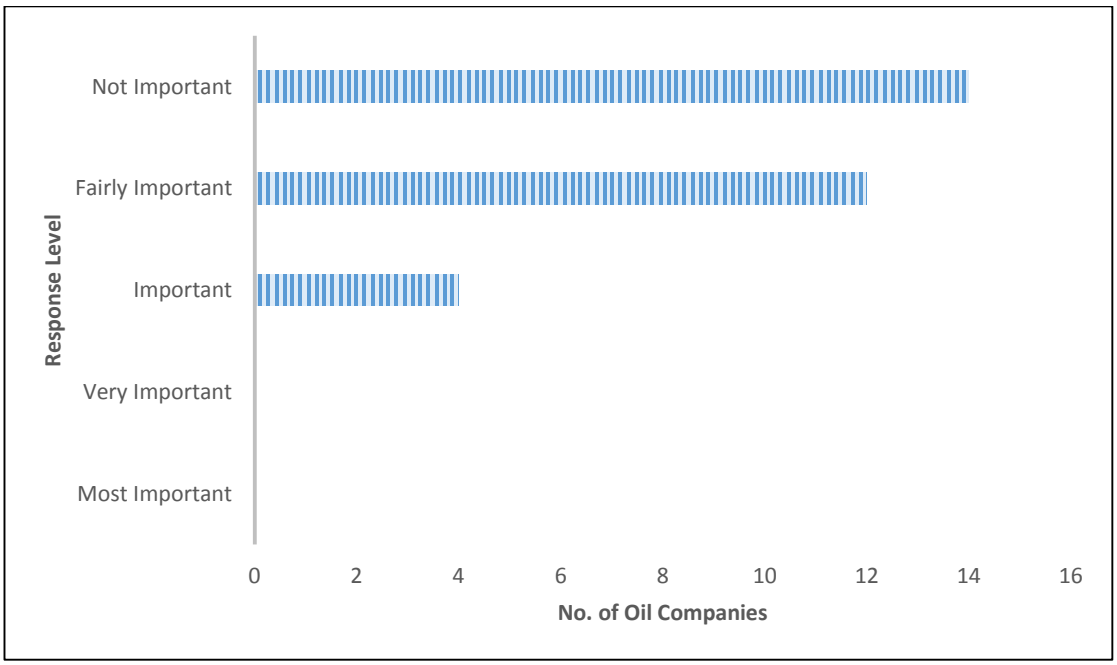
Year	Libya	Saudi Arabia	Iran	Nigeria	Indonesia	Venezuela	Average
1970	2.09	1.35	1.36	2.1	1.67	2.05	**1.77**
1975	11.98	10.46	10.67	11.80	12.60	11.00	**11.42**
1980	34.50	26.00	30.37	29.97	27.50	25.20	**28.92**

1985	30.15	29.00	28.00	28.00	29.53	27.88	**28.76**
1990	20.40	18.40	18.20	21.20	18.55	24.69	**20.24**
1995	16.05	16.63	16.18	16.15	16.95	16.57	**16.42**
2000	25.85	24.78	24.63	25.85	24.15	24.85	**25.02**
2003	30.40	27.39	30.40	30.40	35.03	30.25	**30.65**

Source: OPEC, 1992 and 2004

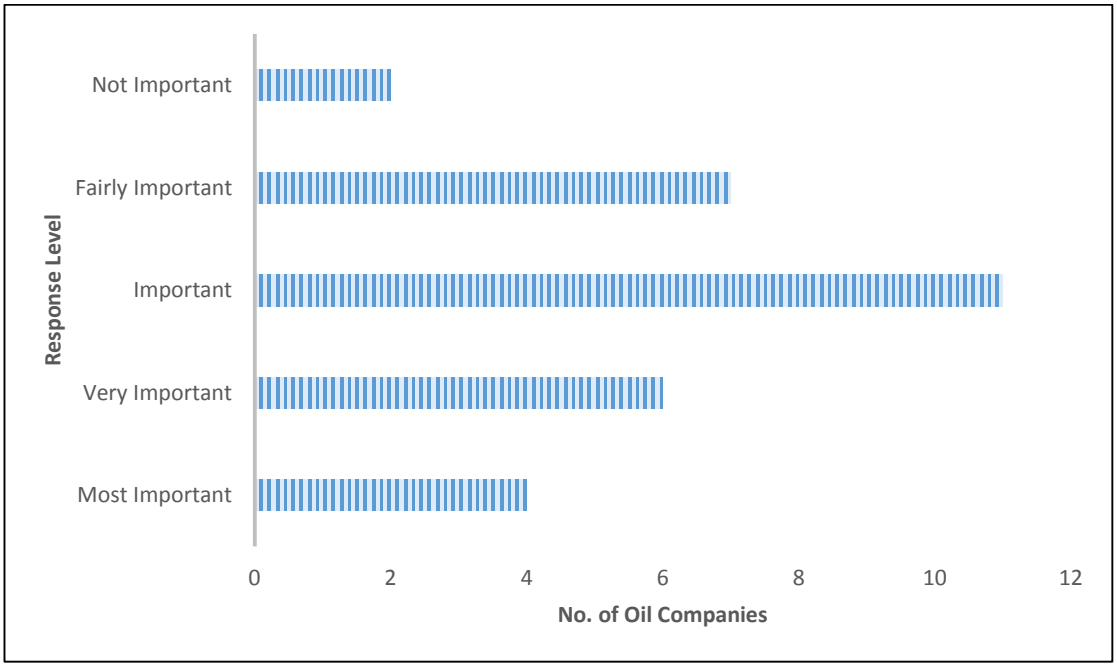
Figure 6.10 shows that the majority of the respondents consider the low cost of Libyan labour force as not a significant reason to undertake FDI in Libya.

Figure 6.10: Low Costs of Labour



Source: Questionnaire data

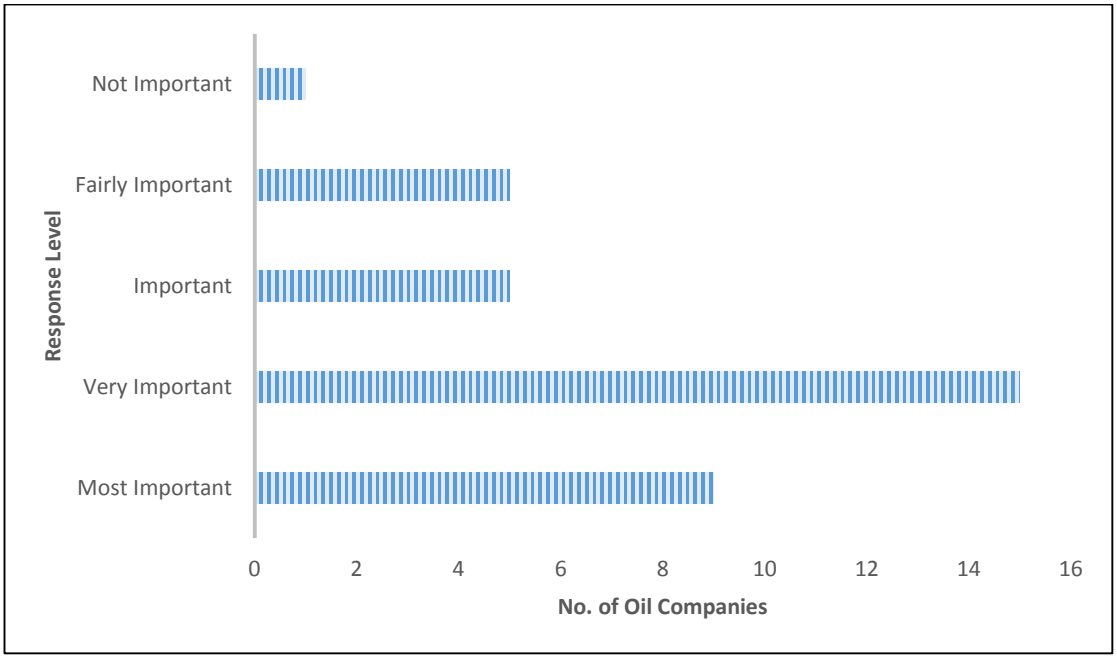
Figure 6.11: Low Production Cost



Source: Questionnaire data

Figure 6.11 shows the majority of the MNCs respondents selected that lower production costs of Libyan oil were a key element in their decision to enter into the Libyan market. Moreover, these results are supported by a study carried out by Baker and Russell in 1999, who stated that Libya's oil production cost per barrel is among the lowest in the world, Libya produces high quality low sulphur oil at a cost as low as 1 dollar per barrel in some oil fields compared to an average production cost of 5 dollars per barrel in Saudi Arabia (Baker and Russell 1999). Davidson (1979) suggested, that FDI location decision are influenced by a country specific variables like cost input.

Figure 6.12: Unexplored Country



Source: Questionnaire data

Figure 6.12 shows that the majority of the MNCs respondents viewed Libya being unexplored as one of the key factors for undertaking FDI in Libya due to the potential for further discoveries of oil and gas. The MNCs views was supported by an industry survey carried out by Robertson Research International in 2003; that Libya is one of the most attractive countries in the world in term of oil and gas exploration (see Table 6.2).

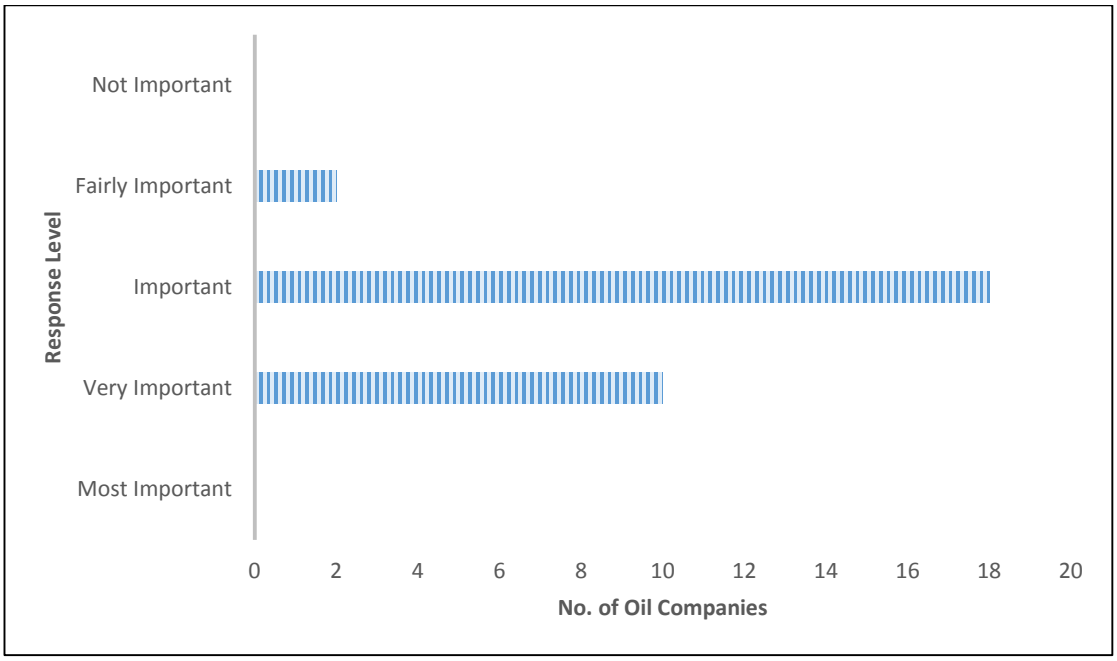
Table 6.26: Countries of Most Potential for Oil Exploration in 2003

Rank	Countries
1	Libya
2	Iran
3	UK

4	Australia
5	Algeria
6	Iraq
7	Indonesia
8	Angola
9	Brazil
10	Egypt

Source: Robertson Research International, UK 2003

Figure 6.13: Political Stability

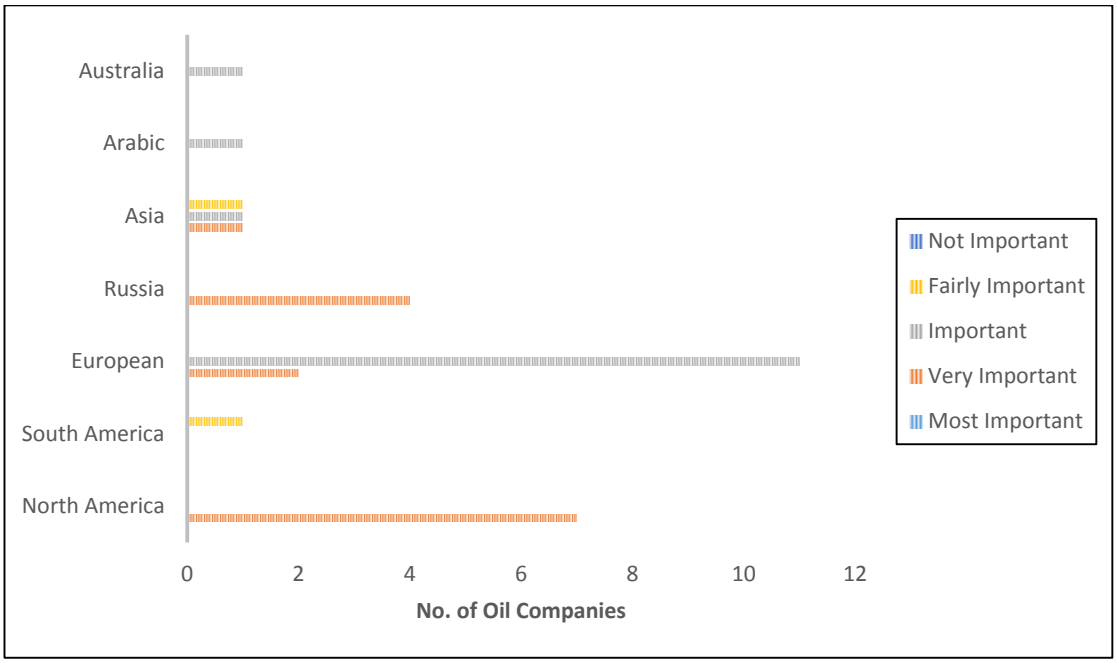


Source: Questionnaire data

Figure 6.13, indicated that all the MNCs respondents viewed Libya's political stability as an important factor in their decision to enter the Libyan market. According to Wei (2000), recent studies suggest the level of corruption and political instability (conflicts) deters FDI. However, some FDI investments are more likely to take place in the extractive

industries (in this case oil and gas) where investors have no choice but to locate near to natural resources.

Figure 6.14: Political Stability by Region

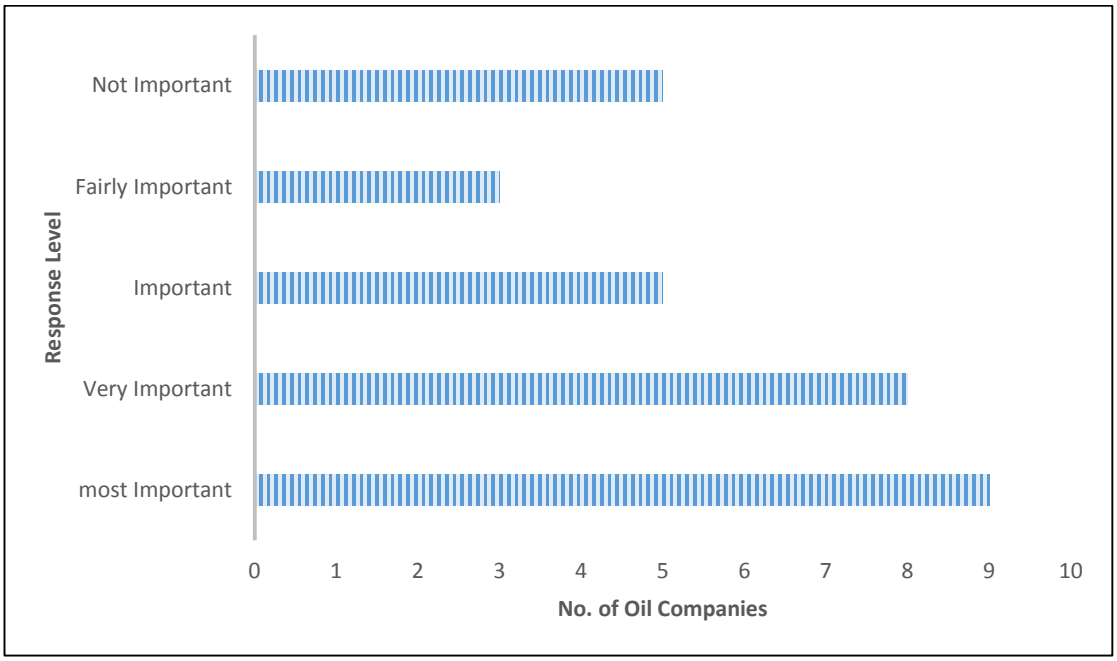


Source: Questionnaire data

Figure 6.14, shows that the all the North American companies consider political stability in Libya as very important in their key decision to enter the Libyan market (further discussion will be carried out in this section on the interview analysis section 6.5). Moreover, Asidu (2003) carrying out a study on the determinants of FDI in Africa, argued that natural resource endowment, large markets, good infrastructure and efficient legal framework promotes FDI; however macroeconomic instability, corruption and political instability have the opposite effect. Other studies have studied the significance of political risk in various parts of the world; studies by Bennett and Green (1972), Green and Cunningham (1975), Kobrin (1976) and Thunel (1977), all failed to determine a relationship

between political risk and the flow of foreign direct investment.

Figure 6.15: Geographical Proximity



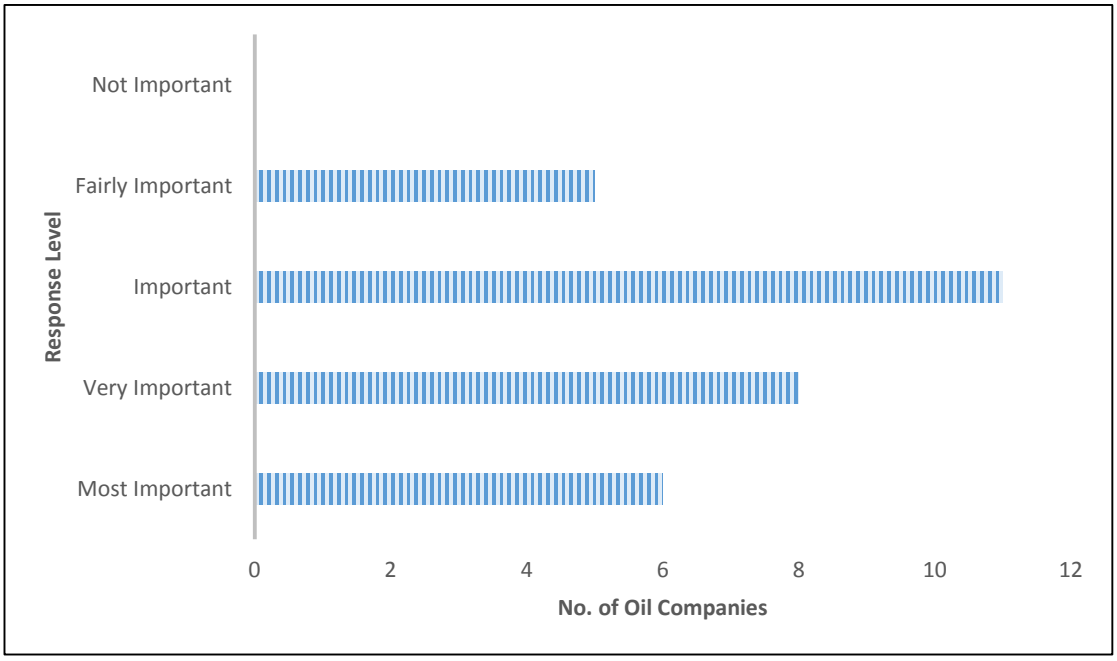
Source: Questionnaire data

As shown in Figure 6.15, 25 of the MNCs considered Libya's strategic location and proximity to Europe an important factor in their reasons to invest in Libya. According to Davidson, (1979) companies FDI location decision are influenced by the country specific location variables such as geographical proximity. Furthermore, Hausmann and Fernandez-Arias (2000), argued that the distance of a country to major world market is negatively related to total capital flows

The majority of the MNCs respondents consider the effect of Libyan investment policy important in their reasons to undertake FDI in Libya's oil industry (see Figure 6.16). Figure 6.17, shows that North American MNCs place great importance on the political stability of Libya in their

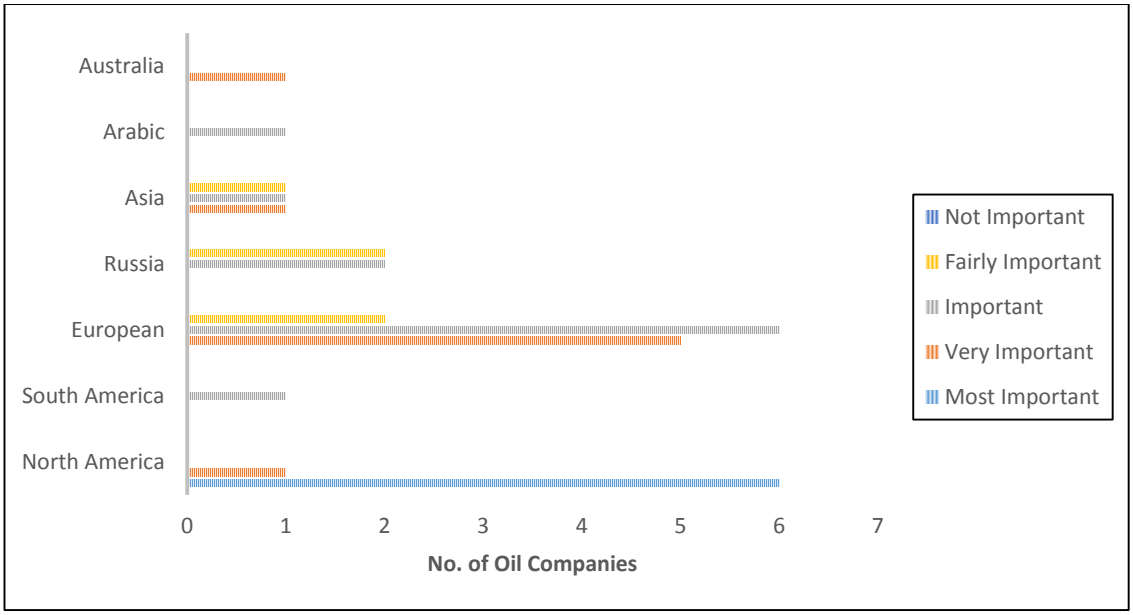
decision to undertake FDI in Libya. This is explained by the experiences of North American MNCs in the 1970s as a result of the 1st of September Revolution (see Chapter 2).

Figure 6.16: Libya FDI Policy



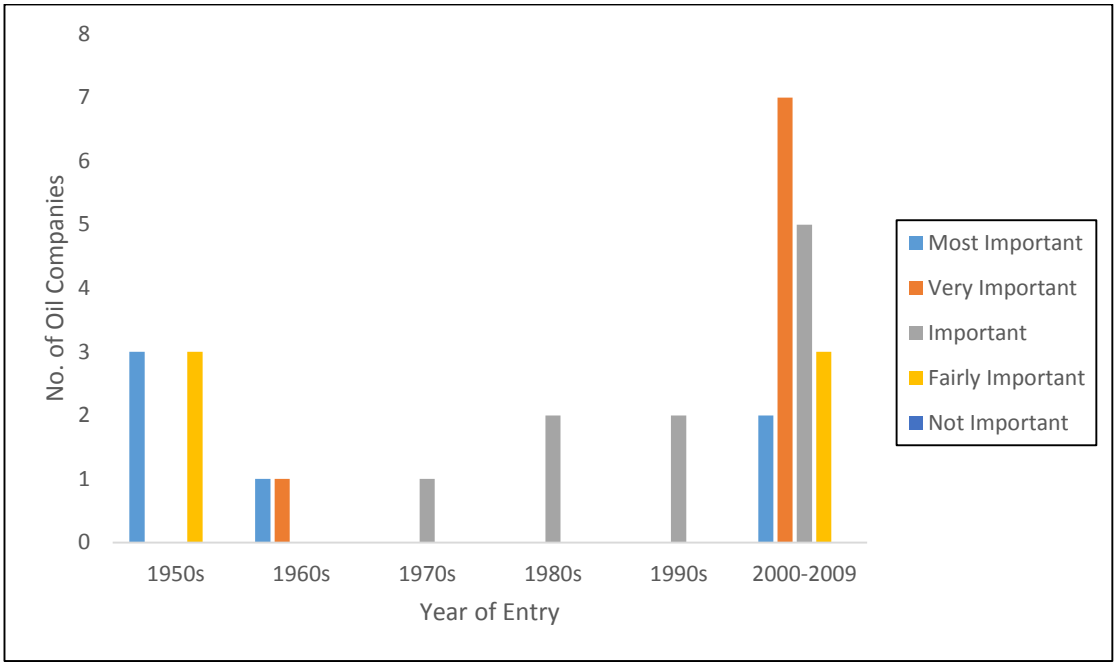
Source: Questionnaire data

Figure 6.17: Libya FDI Policy by Region



Source: Questionnaire data

Figure 6.18: Libya FDI Policy by Year of Entry



Source: Questionnaire data

Figure 6.18, indicates that Libya's FDI policy is affected to some degree by the year of entry of MNCs undertaking FDI in Libya. The questionnaire results show that companies, with late entry consider Libya FDI policy 'very important' to 'important' in their decision to enter Libya, with the exception of the early entrants MNCs from North America whom Libya FDI policy as 'most important'. However, this can be explained by the adverse experiences of the American companies in Libya during the 1970s and 1980s and their re-entry into Libya.

According to UNCTAD (2004), FDI policy liberation is a key reason for the dramatic increase in FDI inflows in the developing world during the late 1980s and the 1990s (UNCTAD 2004). Moreover, Levine and Renelt, (1992) suggested that creating a sound FDI policy is vital for improving the performance of developing countries. Furthermore, Asiedu (2003)

argued that governments can play an important role in promoting FDI through sound polices.

6.2.2.1 Rank Order of Libya Oil Industry FDI Determinants

Using the data from the questionnaire results, a set of ranking (see Table 6.3) can be obtained to show the positioning of Libya oil industry FDI Determinants in order of importance according to the thirty MNCs.

Table 6.3: **Rank Order of Libya's Oil Industry FDI Determinants**

Overall Ranking	Factor	Percentage of 'Most Important' or 'Very Important' Responses (%)
1	Libya Proven Oil and Gas Reserves	90
2	Unexplored Country	80
3	Quality of Libyan Oil	66.6
4	Libya FDI Policy	46.6
5	Geographical proximity	56.6
6	Political Stability	33.33
7	Low Production cost	33.33
8	Low cost of Labour	0

Note: Zero *Per cent* means no respondents selected 'most important' or 'very important'

6.2.3 Libya's Oil Industry Business Environment

Under this sub-category of the main research topic, a number of questions about Libya's business environment and its effect on FDI were considered. These questions were asked to the thirty MNCs employees

who had participated in the questionnaire process. To further help the analysis of the Libyan business environment and to enable a comparison of the views of the thirty MNCs and ten Libyan government officials (see Chapter 5 for characteristics of the interviewees), a number of questions were common throughout both of the questionnaires.

6.3.2.1 Libya's Competitive Advantage

The respondents were asked, "Does Libya's oil industry have any competitive advantage?". All the respondents answered 'yes', MNCs were quite sure about the fact that Libya has a competitive advantage in its oil sector. Further questions were asked to find out the possible advantages that the respondents think the Libyan oil industry possess. Table 6.4 shows that the respondents have identified four major advantages of the Libyan oil Industry.

Table 6.4: Summary of Views of MNCs and Government Officials (Common Questions)

Factor	Government Officials Results	MNCs Results
Libya Oil Industry Competitive advantage	1.Huge Oil Reserves	1. Huge Oil Reserves
	2.Location Advantages	2. Quality of Libyan Oil
	3.Low Production Cost	3. l Flexibility of Supply to Adjust to demand changes
	4. Infrastructure	4.Low Production cost

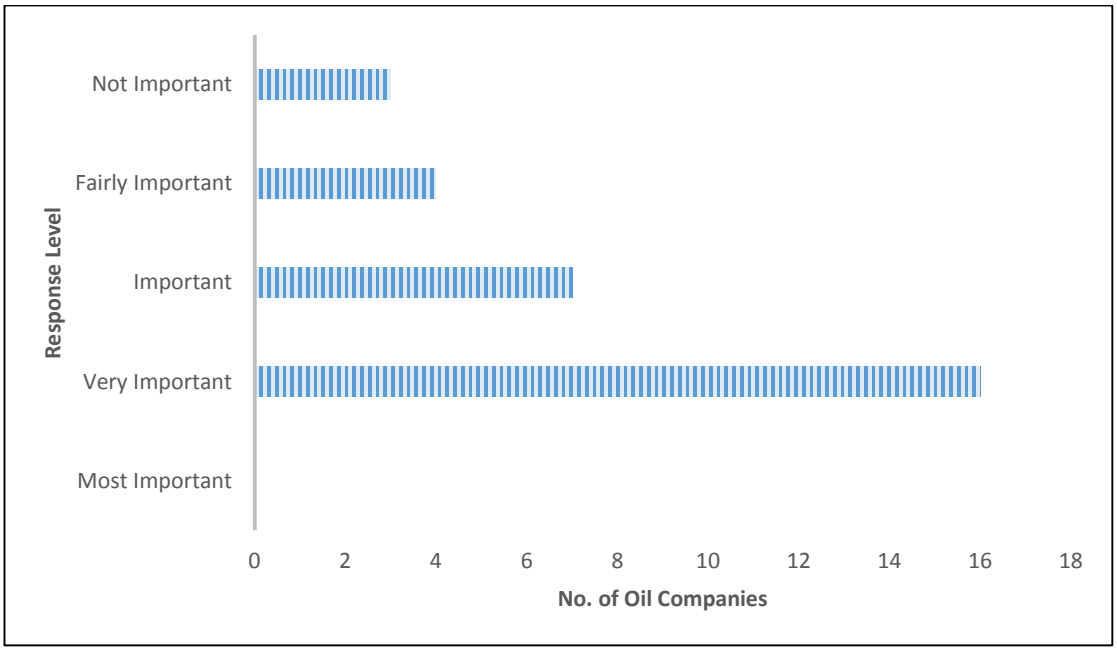
Source: Questionnaire data

There are a number of factors which contribute to the competitive advantage of the Libyan oil industry. Unsurprisingly, both MNCs and the government officials view Libya huge reserves of oil and gas as the main competitive advantage. However, setting huge reserves aside, the views of the MNCs and government officials differ on the main competitive advantages of Libya's oil industry (see Table 6.4).

6.3.2.2 The Importance of Having a Local Partner

The importance of having a local partner operating in Libya according to just over 50 *per cent* of the respondents, is 'very important' according to their experiences of the Libyan business environment (see Figure 6.19).

Figure 6.19: The Importance of Having a Local Partner

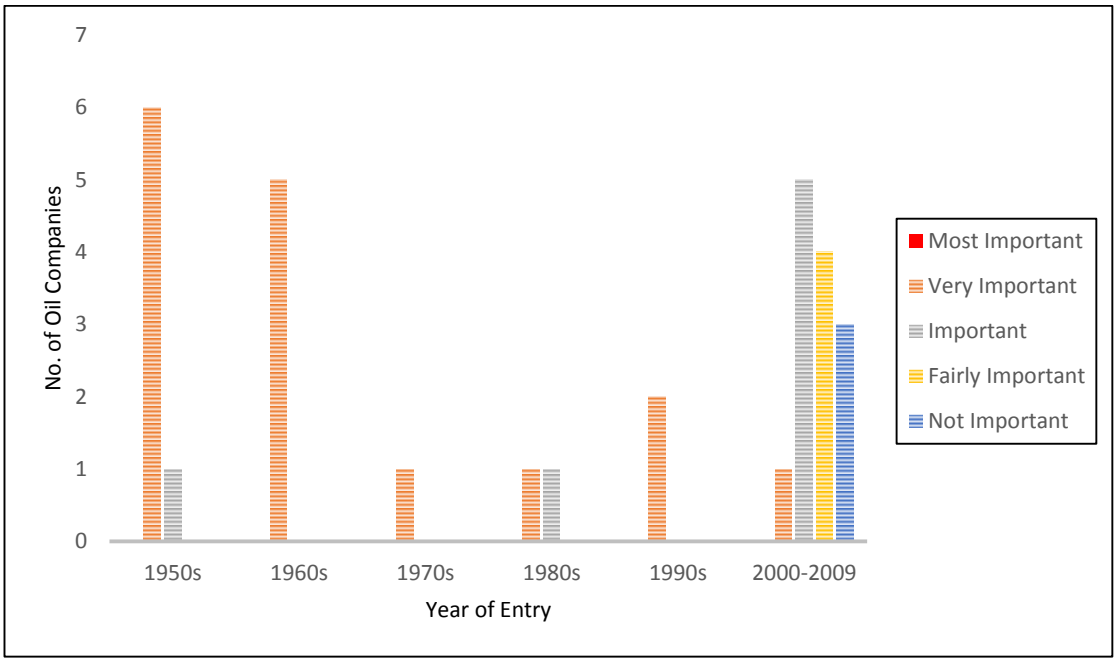


Source: Questionnaire data

Figure 6.20, further shows that MNCs with longer experience of the Libyan oil industry place more importance on a having a local partner than the more recent entrants to the Libyan market.

Moreover, just over half of MNCs operating in Libya recommended joint ventures as the most ideal investment form when entering the Libyan market. 20 *per cent* of the MNCs in the study viewed "wholly owned" as the preferred method of entry into Libya. These options were recommended by European MNCs (33%), North American MNCs (16%) and Asian Pacific MNCs (51%). However, the North African and the Russian MNCs (100%) preferred licensing and contract rather than other investment forms. Overall this was the least favoured investment option.

Figure 6.20: Importance of Having a Local Partner by Year of Entry



Source: Questionnaire data

Table 6.5: Summary of Views of MNCs and Government Officials

Factor	Response	Government Officials Results (%)	MNCs Results (%)
Recommended Entry Mode for FDI into Libya	Joint Venture	80 %	60%
	Wholly Owned	0%	20%
	Contract	0%	6%
	Licensing	20%	14%

Source: Questionnaire data

Table 6.5 showed relative consistency with the views of MNCs operating in Libya. More than half of government officials believed that joint venture was the most beneficial investment form for MNCs operating in Libya. Notably, none of the government officials recommended contract or wholly owned as an ideal investment form for MNCs. Thus, there is a relative consensus between MNCs operating in Libya and government officials on most recommended mode of entry into the Libyan market.

6.3.2.3 The Level of Libyan Corporate Tax

The majority of MNCs considered corporation tax to be very high in Libya. The issue of corporation tax have prompted extreme views. Conversely, 20 *per cent* of the MNCs regarded corporate tax in Libya as high and 3 *per cent* considered it as low (see Table 6.6). These views are a result of the varying different tax level in other oil producing countries and the level that exists in Libya. Furthermore, it was identified that Libya's tax system is both complicated and bureaucratic. The Libyan government imposes a corporation tax of 70 *per cent* on all oil companies engaged on the

production and sale of oil (Law No:5, 1997), whilst countries such as Kuwait imposes a corporation tax of 50 *per cent* on oil companies (OPEC, 2006).

Table 6.6: Corporate Tax (MNCs Questionnaire)

Factor	Low*	High**	Very High***
MNCs in Libya	1 (3%)	6 (20%)	23 (77%)

*Low:, **High, ***Very High: Compared with the companies expectations, based on their experience in other oil producing countries

Government policies can influence the attractiveness of the host country to foreign investors, through tax and regulatory initiatives. However, according to Wells (2001), tax concessions were found to be insignificant as a determinant of FDI. He also established that the effect of tax policy on FDI is rather limited, at least compared with other factors. However, Haufler and Wooton (2003) suggested that there is a unanimous consent that the corporate tax of the host country has a significant, negative effect on inward FDI.

6.3.2.4 Libya Oil Industry Labour Force

The majority of the MNCs operating in Libya viewed that labour force costs were 'medium', with the remaining minority of MNCs; one North

American MNC and three European MNCs, rating labour costs as ‘low’. Likewise, the majority of government officials considered that labour force costs in Libya were ‘medium’. None of the respondents identified that labour force costs in Libya were particularly high. This result reflects that government officials and MNCs operating in Libya have similar views with regarding the cost of labour in Libya. Furthermore, the cost of Libyan labour was viewed by the majority of the MNCs as insignificant in their decision to undertake FDI in Libya (see Figure 6.10)

A significant proportion of the MNCs consider that Libya has a below average skilled workforce (see Table 6.7). Moreover, the results identified that MNCs are concerned by the availability of skilled workforce in Libya. Noticeably, 100 *per cent* of the respondents answered ‘yes’ to the question, ‘Does the availability of a skilled workforce in Libya effect your operation?’ (for further discussion see section 6.5).

Table 6.7: Views on Libya workforce (Questionnaire results)

Factor	Below Average	Average	Above Average
MNCs in Libya	21 (70%)	9 (30%)	0 (0%)

Source: Questionnaire data

6.3.2.5 Government Legislation

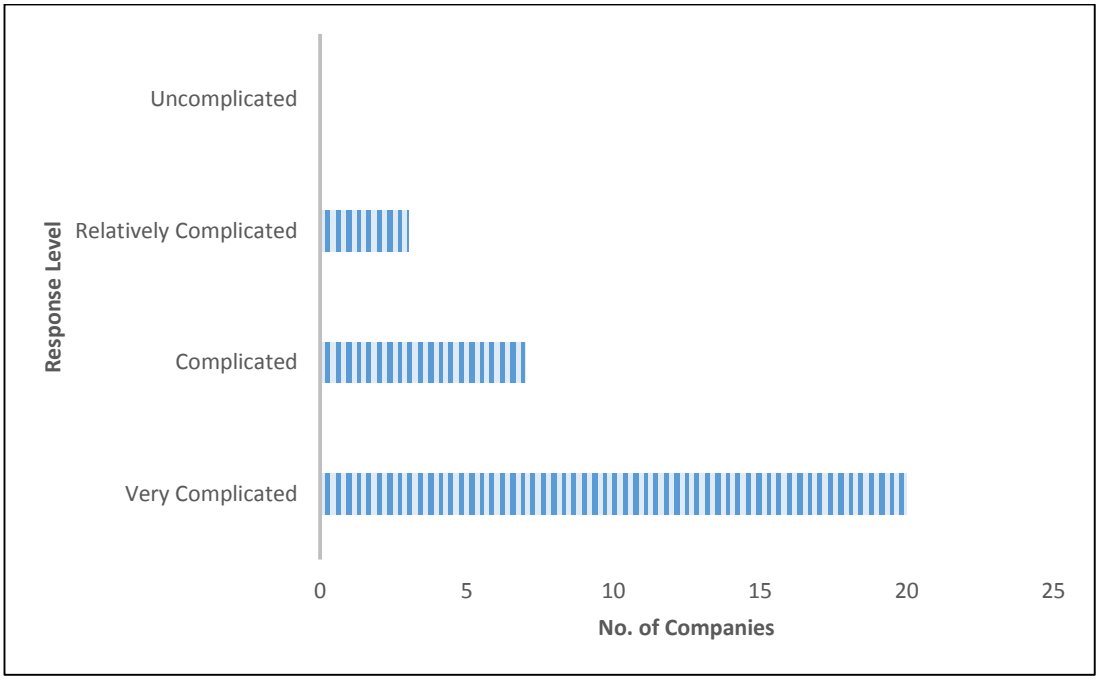
Libyan Government legislation is viewed as unhelpful and complex. A significant proportion of MNCs (*75%)* in Libya considered Libya's export-import regulations to be unhelpful, complex and time-consuming. Furthermore, the MNCs had experienced a high level of bureaucracy export-import regulations that had made operating in Libya a more challenging experience.

Moreover, from the questionnaire results, MNCs also view Libya's employment law such as the 'Libyanisation' of the workforce by imposing a quota in foreign companies,' as challenging. Although, 'Libyanisation' has had no measurable effect in deterring MNCs operating in Libya it is clear that it is not improving conditions in the Libyan oil industry as 100 *per cent* of the respondents considered it as 'unhelpful'. According to Mudd (2003), the complexity and uncertainty of regulation have a significant negative effect on inward FDI. Mehmet (2002) suggested that frequent changes in the rules and regulations can have a negative impact on business development in general.

6.3.2.6 Government Institutions

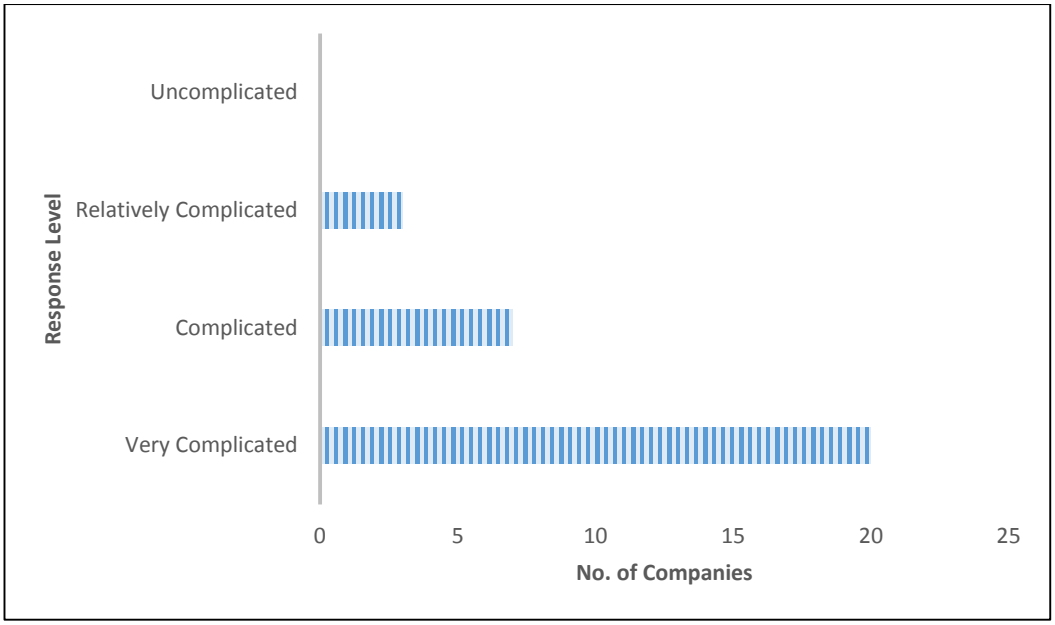
Figure 6.21 clearly indicates that MNCs respondents are undoubtedly unhappy and view Libya's institutional decision making process as very complicated.

Figure 6.21: Libyan Government Decision Making Process



Source: Questionnaire data

Figure 6.22: Libyan Government Decision Making Process by Year of Entry



Source: Questionnaire data

Furthermore, Government officials views are similar to those of the MNCs, where 70 *per cent* of the officials (see Figure 6.22), viewed the

decision making process as complicated. MNCs operating in Libya over 50 years hold relatively the same views of the Libyan government decision making process as to those who been operating in Libya less than 10 years.

A further question were asked to the respondents 'Do you think that Libyan government departments have a clear vision in terms of their orientations towards encouraging foreign investment?' All of the respondents answered 'unclear'. The views of Libyan government officials is inconsistent with the views of MNCs operating in Libya, as more than half of government officials respondents selected 'very clear'. This high level of dissatisfaction expressed by the MNCs with government departments is unsurprising given that in a study by the World Bank Institute (2008), Libya ranks 'low' in a regulatory quality index, measuring indicators such as administrative burdens, regulatory expenses imposed on businesses and legal obstacles to starting a new business. Furthermore, in terms of regulatory quality, Libya was ranked below countries such as Nigeria, Algeria, Kazakhstan and Egypt.

6.3.2.7 Infrastructure

Libya's infrastructure was considered as 'relatively good' to 'not good' by the majority of MNCs in this study (see Table 6.8). However, not a single company considers Libya infrastructure as 'very good'. In addition, Table 6.5 shows that respondents consider Libya's infrastructure requires

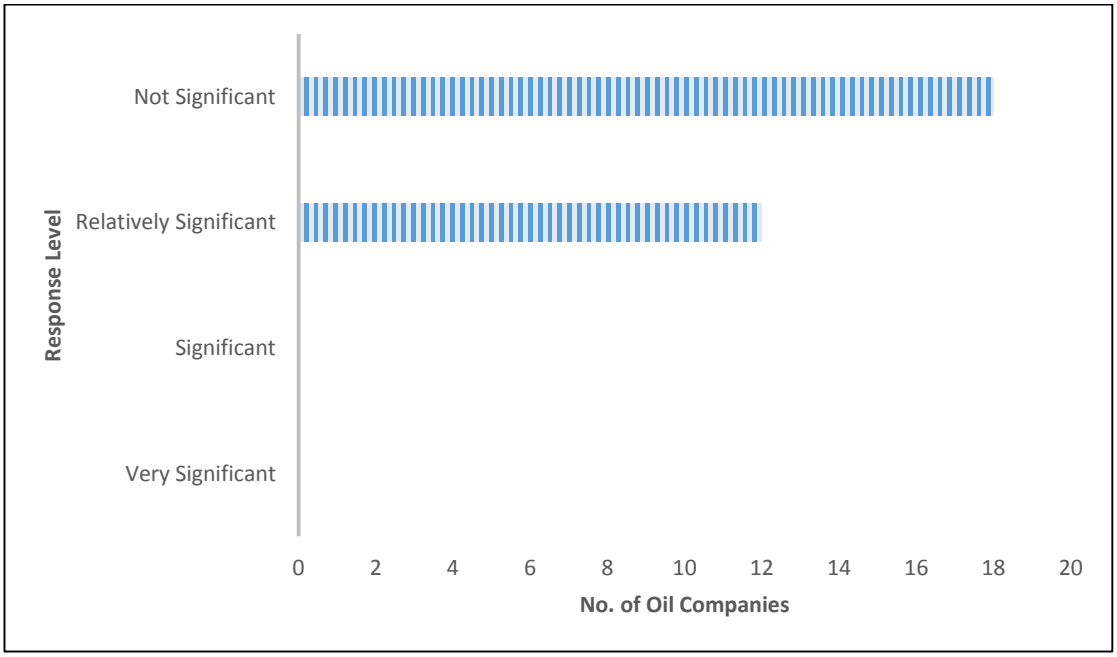
significant improvement. In contrast, all of the government officials considered that Libya's infrastructure was either very good or relatively good in meeting the needs of MNCs operating in Libya (see Table 6.8).

Table 6.8: Summary of Views of MNCs and Government Officials (Common Questions)

Factor	Government Officials Results	MNCs Results
Libya Oil Industry Infrastructure	1. Very Good (20%)	1. Very Good (0%)
	2. Good (30%)	2. Good (7%)
	3. Relatively Good (50%)	3. Relatively Good (50%)
	4. Not Good (0%)	4. Not Good (43%)

Source: Questionnaire data

Figure 6.23: Significance of Libya Infrastructure on MNC FDI Decision

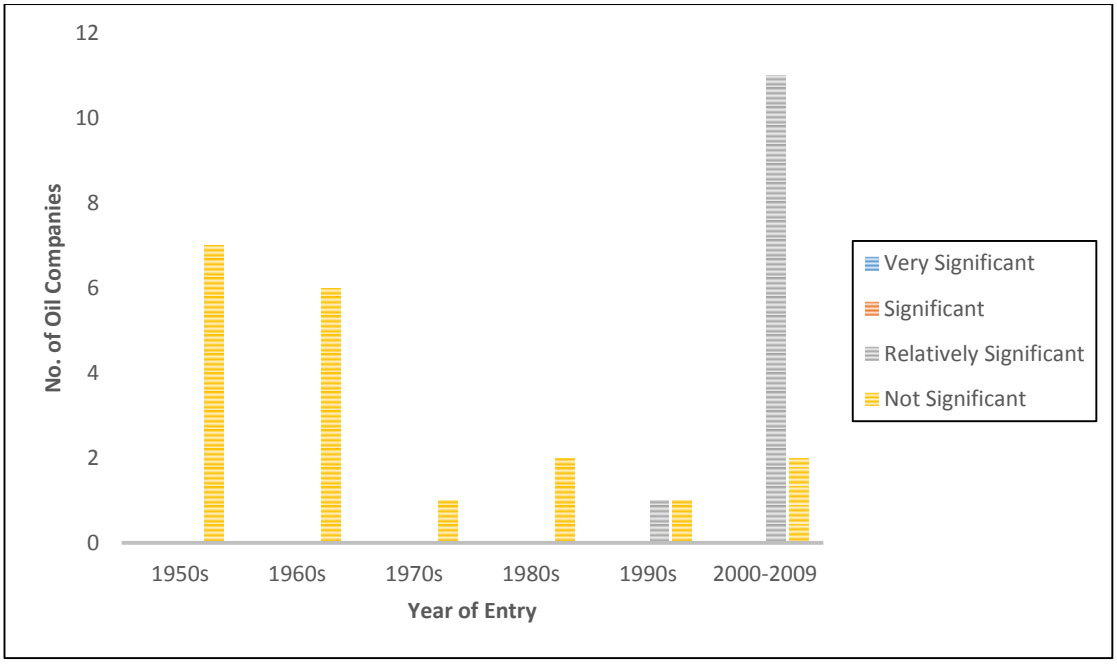


Source: Questionnaire data

The MNCs respondents were asked 'How significant was Libya's infrastructure in your decision to undertake FDI in Libya?' Figure 6.23 (above) indicates that 60 *per cent* of the respondents consider Libya's infrastructure of little significance in their decision to undertake FDI in Libya. Furthermore, a remaining 40 *per cent* considered that Libya's infrastructure was relatively significant in their decision to undertake FDI in Libya. The majority of MNCs considered this factor of little significance.

Figure 6.24 indicates that MNCs who entered Libya in the period 1950s to 1980s, considered the infrastructure in Libya to be of 'Not Significance' in their decision to undertake FDI in Libya, compared with MNCs who undertook FDI in 1990s and 2000s.

Figure 6.24: Significance of Libya Infrastructure on MNC FDI Decision by Year of Entry



Source: Questionnaire data

6.3 Libyan Government Officials Questionnaire Results

This sub-section of the chapter focuses on reviewing the main findings from the completion of the questionnaires by Libyan government officials (for an overview of their characteristics see Chapter 5). The main findings have been summarised in Table 6.9. All the government officials in the questionnaire results are 'strongly' in favour of attracting more FDI into Libya. FDI in the oil industry is viewed as a tool to increase Libya's oil export and, hence, help accelerate economic growth in Libya after years of stagnation. The government officials also considered it as a leverage that would help reduce the high level unemployment in Libya.

Table6.9: Summary of Senior Government Officials Views

Factor	Government View	Results (Number of Officials)
Favouring FDI	Strongly in Favour	10 (100%)
Main Rationale for Encouraging FDI	Increased Oil Exports Accelerate Economic Growth Reduce Unemployment	5 (50%) 4 (40%) 1 (10%)
Preferred Trade Blocs	Europe North America	6 (60%) 4 (40%)
Reasons for Low Inflows of FDI into Libya	Inadequate Government Concessions Bureaucracy Poor Marketing Competition from Other Countries	5 (50%) 3 (30%) 2 (20%) 1 (10%)

Source: Questionnaire data

Five government officials have explained the current low FDI inflow into Libya is due to the inadequate FDI conditions that the Libyan government is offering MNCs. Also, it was noted that three government officials regarded the current bureaucratic, complicated policies and regulations having had quite a negative influence on the number of MNCs wishing to undertake FDI in Libya. Poor marketing was also viewed as a factor by two government officials that might have had an effect on FDI inflow into Libya. They believe government failure in acquainting MNCs with the ample investment opportunity and the investment environment which is available in Libya. Only one government official perceived that competition from other countries was responsible for low FDI inflows.

6.4 Further Analysis of Questionnaires and Interviews

This section of the chapter is divided into three sections in relation to the three research questions of this thesis. The first of these sections focuses on the first research question; what are the main determinants of FDI into Libya's oil industry? The second section is concerned with the second research question, what are the main obstacles faced by MNCs in the Libyan oil industry? The obstacles, as described by the respondents. The third section discusses the third research question; to what degree did Libyan government FDI policies influence the level of FDI in the oil industry? Through examination of responses by the MNCs and

government officials to questions concerned with operating forms, government concessions, local partners and sourcing.

6.4.1 What are the main determinants of FDI into Libya's oil industry?

The majority of the MNCs identified that Libya's proven oil and gas reserve potential to be the most important determinant in the overall ranking of the main determinants' for their decision to undertake FDI in Libya. This is not surprising since the presence of natural resource endowment such as oil and gas reserves is generally believed to attract FDI seeking resources (Estrin and Meyer, 2004; Dunning, 1998). Dunning (1998) suggested that the presence of natural resources as one of the possible location determinants for resource seeking FDI. Clearly, the availability of these resources is a necessary but not sufficient condition for natural resource seeking FDI, as Dunning acknowledges by citing infrastructure, government restrictions on FDI and investment incentives as other relevant Location advantages.

European MNCs such as OMV and ENI established that Libya's oil reserves potential is the foremost factor for their investment in Libya, with particular reference to the fact that Libya has 39 billion barrels of proven oil reserves, but only 25 *per cent* of the reserves have been explored. OMV's General Manager explained that, access to oil is the key to OMV's investment in Libya, as OMV's core business is the exploration and

production of oil. This view was representative of the comments made by all other companies' interviews and also the questionnaire results (see section 6.2). For example, BP's General Manager stated "The volume of proven reserves is likely to increase as exploration intensifies". The Managing Director of Wintershall further explained that Libya produces 1.97 *per cent* of the world's total oil production and Libya has the potential to increase to 3 *per cent* in the next 3 years.

It was further stated by a Libyan official that, "The size of Libyan proven oil reserves have doubled growing from 22.8 billion barrels in 1986 to 41.4 billion barrels in 2006. In African countries such as, Algeria, the increase in the amount of proven reserves was more humble but still a considerable increase from 8.8 in 1986 to 12.3 billion barrels in 2006. Also, countries such as Sudan had proven oil reserves of 300 million barrels in 1986. By 2006, the proven oil reserve was then estimated at 6.9 million barrels. Clearly, Libya continue to be the leading country in Africa"

The questionnaire and interview results indicated that the presence of the companies is very significantly driven by Libya's unexplored oil reserves. 50 *per cent* of the MNCs selected this factor as 'very important'. The results reflected that Libya's oil reserves potential is among the largest in the world and decisions to enter Libya are ultimately determined by such a factor. This is supported by comments made during the interviews, such as 'Libya's unexplored oil potential is the decisive factor that drove

OMV's entry to Libya' (General Manager, OMV). Sonntrach's General Manager also stated that 'Libya's oil potential is the foremost factor for investment in Libya'. Chevron Texaco's Vice President has further helped in shedding light onto why this factor is very important by stating "The removing of US sanctions in 2003 and Libya's opening to the West formed new opportunities which many international companies have been keen to exploit". US oil companies have made their way back into Libya through participating in the exploration rounds and/or renegotiating the resumption of operations that they were forced to leave. In 2003, Libya offered a significant amount of new acreage under the new terms of EPSA IV. It was further explained by the Managing Director of Wintershall that "Libya's unexplored potential was further exuberated as a key determinant by the impact of the high oil price environment".

The findings show the significance of Libya's FDI policy was dependent on the timing of entry into Libya. The MNCs which were early entrants viewed the FDI policy factor as 'fairly important' in their entry decision, whereas late entrants considered this factor 'very important', in their decision to enter Libya. With the exception of North America companies' who have selected 'most important' but as explained earlier in this chapter the experiences of these companies may have altered their views. The other MNCs all generally considered Libyan government policies of 'very important' to 'important' as the effect of these policies had, to some degree, an impact on their operations. Libyan government policies have significantly influenced the case companies' decision to

enter Libya, as none of the respondents rated this factor as 'not important' (see Figure 6.16).

OXY's Finance Director explained the FDI policies of the Libyan government played a crucial part in OXY's re-establishing its presence. Furthermore, it was ascertained from the interviews that the changes in Libya's foreign policies had influenced Libya's BP decision to enter Libya. It was suggested by BP executives "In Libya, the removing of sanctions and the opening of the oil sector to foreign investment through a number of licensing rounds produced a new dynamism not seen in Libya for a long time". Moreover, according to a LIB executive "Libya encouraged FDI into its oil industry by modifying and changing the hydrocarbon law and relaxing some of the fiscal terms on offer. In response oil companies have invested heavily in exploration and development and contributed to the growth of our oil sectors". Furthermore, according to the vice chairman of the NOC, FDI into the oil sector is at the top of the Libyan governments agenda and he further added, "We have already taken steps to eliminate most barriers facing foreign investors, and new foreign direct investment legislation was approved".

Government policies with specific regards to FDI can play a part in determining FDI (see OECD, (1990) for LDCs or OCED, (1996b) for CEE and CIS countries). Moreover, Levine and Renelt (1992) suggested that creating a sound FDI policy is vital for improving the performance of developing countries. It is clear that a host government is likely to have a

key influence on FDI in terms of their attitudes towards inward FDI. Asiedu (2003) argued that government FDI investment restrictions have a negative effect on FDI inflow. However, according to to Balasubramanyam (1984) and McMillan (1995), government FDI polices do not have a positive effect on FDI flows.

In relation to the geographical location of Libya, there is a difference in the importance of these factors for European and other MNCs. The European MNCs consider Libya's location a highly significant motive in its FDI into Libya, due to the proximity to Europe. However, also other MNCs rated this as a 'very important' to 'important' determinant.

The results of the questionnaires and interviews identified that the importance of Libya's geographical location depends to some extent upon the nationality of the parent companies (see Figure 6.15). The European case companies, considered Libya's geographical location as a more important factor in its decision to enter Libya than the others. However, other MNCs did consider, Libya strategic location and proximity to the Europe is an important factor in their reasons to invest in Libya as Figure 6.15 illustrates. According to Davidson (1979), companies' FDI location decision is influenced by the country specific location variables such as geographical proximity. Furthermore, Hausmann and Fernandez-Arias (2000), argued that the distance of a country to major world market is negatively related to total capital flows. For instance, ENI's General Manager explained that, because of Libya's location, supplies to

European destinations have the advantage of being both time and cost effective. Moreover, according to Wintershall's Managing Director, "Libya enjoys a unique location at the door of Europe and this makes it very attractive".

However, for example OXY, did not view Libya's geographical location as an important factor in its decision to undertake FDI in Libya. As it was ascertained from the interviews with OXY, that OXY's main consumer market is the USA and all of its oil refineries are in the USA, therefore Libya's location is not particularly advantageous to the company.

It is apparent from the questionnaire results that political stability is generally viewed as a moderately important factor when considering FDI in Libya. The overall ranking of the data on Libya FDI determinants in terms of importance ranked 'political stability' as the sixth most important determinant. The findings show that the degree of significance of political stability was dependent on the timing of entry into Libya. The MNCs, which were early entrants, viewed the political factor as 'moderate' in their entry decision, whereas late entrants considered this factor 'significantly important' in their decision to enter Libya. Again, with exception of North American Companies, who viewed these determinants as 'very important' in their decision to undertake FDI in Libya.

None of those participants questioned from any of the case companies selected Libya's political stability as a 'not important' factor. Therefore,

from the results it can be ascertained that Libya's political stability was, to varying degrees, a factor the case companies took into consideration when making their investment in Libya.

Furthermore, from the interviews, it emerged that the current political climate in other oil producing regions (mostly African countries) made Libya more attractive. According to the President of OXY Libya, political stability in Libya in the last few years was the key factor in helping OXY in reclaiming its position. He further suggested that the instability in the Gulf region had made oil companies shift their focus towards Libya. Repsol considered political stability the least important, all of the other respondents ranked this factor as 'moderate'. Also, ENI did not consider political stability quite as significant, as according to the questionnaire results, respondents believe that Libya's political stability was not important in influencing ENI's decision to enter Libya. Most of the Libyan government officials, with the exception of only one government minister identified political stability as the most important factor in attracting investment into Libya and the others only rated it as the second or third most significant factor.

Basi (1963) reported in his study that host country's political stability and other related issues such as favourable government attitude towards foreign investors and cultural openness were consistently ranked either as the first or second most important influence in United States overseas investment. Moreover, the level of political instability is considered to

have a negative impact on FDI in the majority of surveys studies. Aharoni (1966) and Swansbrough (1972) and Petrolchilos (1989), all found a negative correlation between FDI and political stability. Furthermore, according to Reuber *et al*., (1973), political consideration plays at best a secondary role in the decision to invest. Asidu (2003) argued that natural resource endowment, large markets, good infrastructure and efficient legal framework promotes FDI. However macroeconomic instability, corruption and political instability have the opposite effect.

The results of the questionnaire have clearly highlighted the importance of the quality of Libyan oil to the case companies when making the decision to undertake FDI in Libya, although it was not necessarily their primary motive (see Figure 6.8). However, the results indicate the importance of this factor varies significantly from one region to another. The entire questionnaire respondents from Europe ranked this from 'most important to 'very important' (see Figure 6.9). From the interview results it was established that, since Libya is a major supplier to Europe, and over 60 *per cent* of Libyan oil has been exported to Europe over the last 50 years, the majority of the oil refineries are adapted to suit the Libyan oil. Furthermore, Repsol YPF's Managing Director explained that the company considers the quality of Libyan oil as among the best in the world, therefore reducing the cost of refining the oil. He further commented that, although Libya's oil quality is a key factor in Repsol's entry to Libya, it is not the main motive. This was further supported by the President of OXY Libya, who stated "The quality of Libyan oil is

unquestionably the best in the world and, constantly commands a higher price in the market".

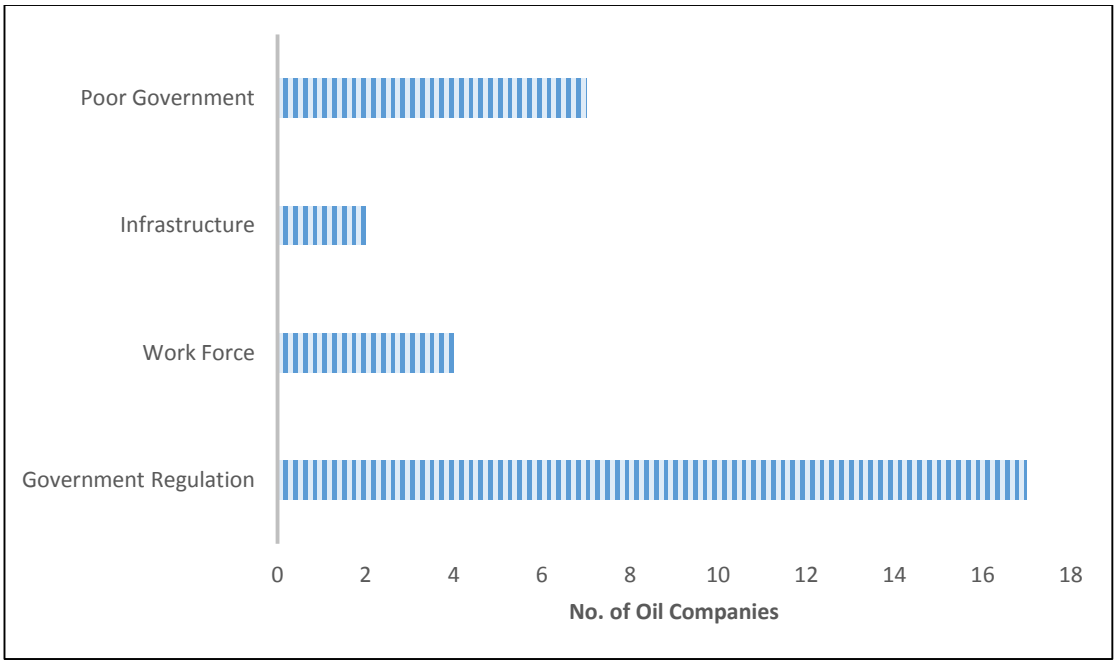
Despite the recognition by case company interviewees that production costs in Libya are among the lowest in the world, this factor was considered by all the companies as not a prime motive for investment in Libya, as the majority of MNCs selected 'important' to 'fairly important' with about 7 *per cent* of the respondents selecting 'not important'. From the overall ranking of the main determinants, the respondents considered production cost as 'low' in motivating their company to undertake FDI in Libya (see Table 6.3). For instance, it was explained by the Respol General Manager that, although the production cost in Libya is low because of its oil quality and location of oil wells near the ports, this factor was only considered as a secondary motive which made Libya an attractive investment opportunity.

6.4.2 What are Major Challenges Facing MNCs and their Future Plans in Libya?

Figure 6.25 indicates that the main challenges and obstacles facing MNCs in their operations in Libya are government regulations. Libyan government intervention in the FDI decision process in the Libyan oil industry is also perceived as a significant obstacle. Royal Dutch Shell Managing Director said "working time in Libya is wasted by 10-20 *per cent* dealing with Libyan government bureaucracy". Furthermore, Royal

Dutch Shell managing Director further stated, “all public institutions in Libya, suffers from poor legislation as well as the continual structural changes that face all public institutions in Libya, pointing out that, we are not quite certain if current policies will survive the restructuring associated with the new state”. He further added “Government employees lack knowledge and are not proficient at generating the information that is desperately needed to support decision making”. OXY president commented “the Libyan government need to prioritise the oil sector in terms of improving administrative organisation and legislation, all this bureaucracy can be diminished by simply upgrading its old regulations and updating its IT systems”.

Figure 3: The Main Difficulties Facing MNCs Operating in Libya



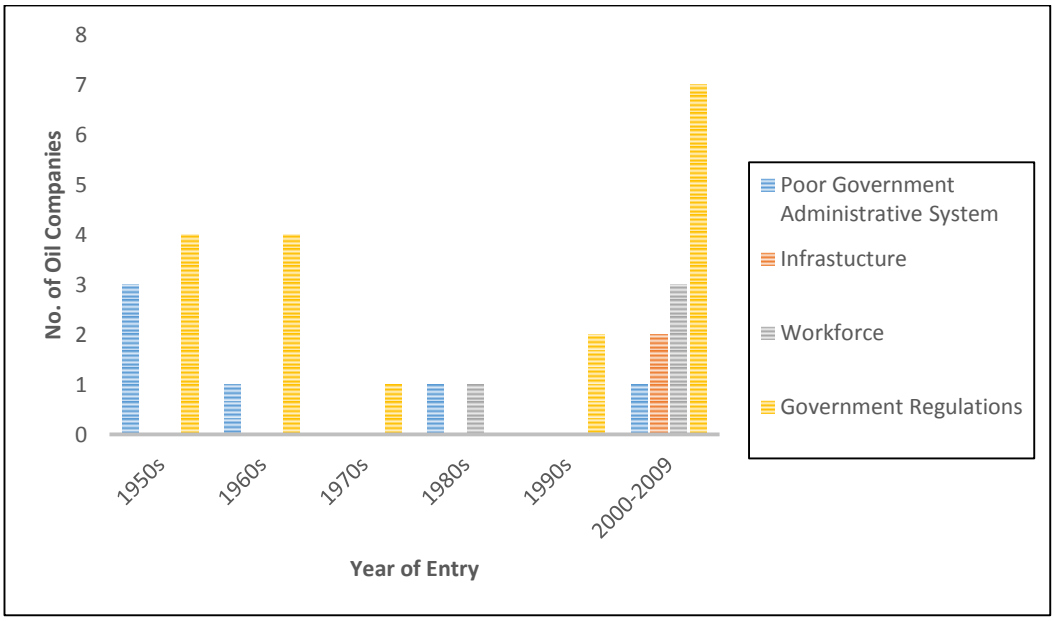
Source: Questionnaire data

Other obstacles facing MNCs are infrastructure issues, including IT infrastructure and telecommunications. A Total executive, for example

viewed that Libya's oil infrastructure was relatively developed and probably the most developed in Africa but stated "this is not the case about the infrastructure in other sectors in Libya, which are in desperate need of upgrading'. In addition, American MNC, Hess strongly criticised the physical connectivity infrastructure, stating, "the current transportation infrastructure in Libya does not adequately support business activities, the main port is too small and below standard, the airport is not up to international levels and they do not even have a railway system".

Moreover, four respondents identified that there were employment obstacles, such as the lack of skilled and professional employees. Those results support the views and results in the questionnaire in the previous section.

Figure 6.264: The Main Difficulties Facing MNCs Operating in Libya by their Year of Entry



Source: Questionnaire data

Figure 6.26 indicates that regardless of the MNCs experience of investing in Libya and the length of period they have operated in Libya, most MNCs hold similar views of the difficulties they are facing in operating in Libya's oil industry. However, MNCs that entered Libya in 1950s, 1960s and 1970s, did not view Libya's workforce and infrastructure as a significant challenge in their operation in Libya while late entrant viewed the issue of the lack of skilled workforce in Libya as significantly a major challenge as 30 *per cent* of the respondents selected this factor as the most challenging factor. The views of the early entrant is explained by the views of ENI General Manager, who commented, "since ENI is one of the pioneers of the Libyan oil industry, ENI has managed over the years to develop and secure its position in Libya with the Libyan government and local channels via wide range of vertical and horizontal integration with local partners". Such a statement helps explain the varying difference in the some of the views between the early MNCs entrant to Libya and the late entrants.

A further question was put to the respondents. "Does Libya possess the requisite manpower needed to meet the future expanding oil industry?" This was aimed at finding out whether Libya will have the manpower needed by the oil industry sector to meet future targeted growth.

From the responses, the theme from the majority of respondents was 'No, Libya does not possess the required manpower to meet the demand for expanding it oil industry'. As OXY President stated "Although Libya

managed over the years to produce skilled energy workforce due to the government focus in this sector, the size of the skilled workforce is still inadequate to meet the growing demand".

Another question put forward to respondents was aimed at finding out, 'How an increasing global demand for oil will affect the Libyan oil industry?' The research found that all the respondents have agreed on the fact that an increasing global demand for oil will help the Libyan oil industry further flourish. The respondents were also questioned on their views whether Libya oil industry is facing a serious competition from regional countries. The theme that emerged from the respondents' answers was that countries such as Egypt and Algeria are posing serious competition to Libya's oil industry, as these countries are offering far superior physical terms (exploration terms) than Libya. Furthermore, respondents suggested that Libya have one of the toughest physical terms.

The respondents' view on Libya's exploration terms that is offered to MNCs is supported by Johnston (2005). He suggested, that despite the pressures from long sanctions and the desire to re-establish political and economic links with the West, do not seem to have changed Libya's approach towards dealing with foreign oil companies as it still offers the same terms, which is considered as one of the highest in the world (Johnston 2005). In comparison, according to a study carried out by the

Oxford Institute for Energy Studies (2008), over the years, Egypt has maintained a stable and clear legal and institutional framework for investment in the oil sector. It also offered relatively attractive fiscal terms and has been flexible to adjust the fiscal terms as output began to decline in the mid-1990s.

With the aim to gauge the views of the MNCs and further understand their level of investment success in Libya, a question was asked to the respondents 'Did you achieve the rate of return you planned?' The majority of MNCs in Libya have been able to achieve at least their planned targets with regards to the expected rates of return on their investment, with *25 per cent* of the MNCs actually exceeding their targeted rate of return and *36 per cent* achieved the planned rate of return. However, a significant number of MNCs (*39%)* failed to achieve their target rate of return. The theme from the respondents in their answer for the reason those companies that have failed in achieving their planned rate of return were due to 'Libyan government bureaucratic regulations'.

To understand further FDI conditions in the Libyan oil industry, the questionnaire participant were asked about future expansion of their operations in Libya. The majority of the MNCs operating in Libya have the intention to expand their business operations in Libya within the next three years; 2011-2014 (see Table 6.9). Only 20 *per cent* of the MNCs in Libya are not planning to expand their business activities in Libya in the

short term; three European MNCs and one North American MNCs. The reason given by the six companies who do not wish to expand their operation in Libya did not carry a general theme and they varied from 'difficult exploration terms to lack of exploration successes'.

Table 6.10: Business Expansion Plan

Factor	No	Yes
MNCs in Libya	6 (20%)	24 (80%)

Source: Questionnaire data

6.4.3 To what degree did Libyan government FDI policy influence the level of FDI in the oil industry?

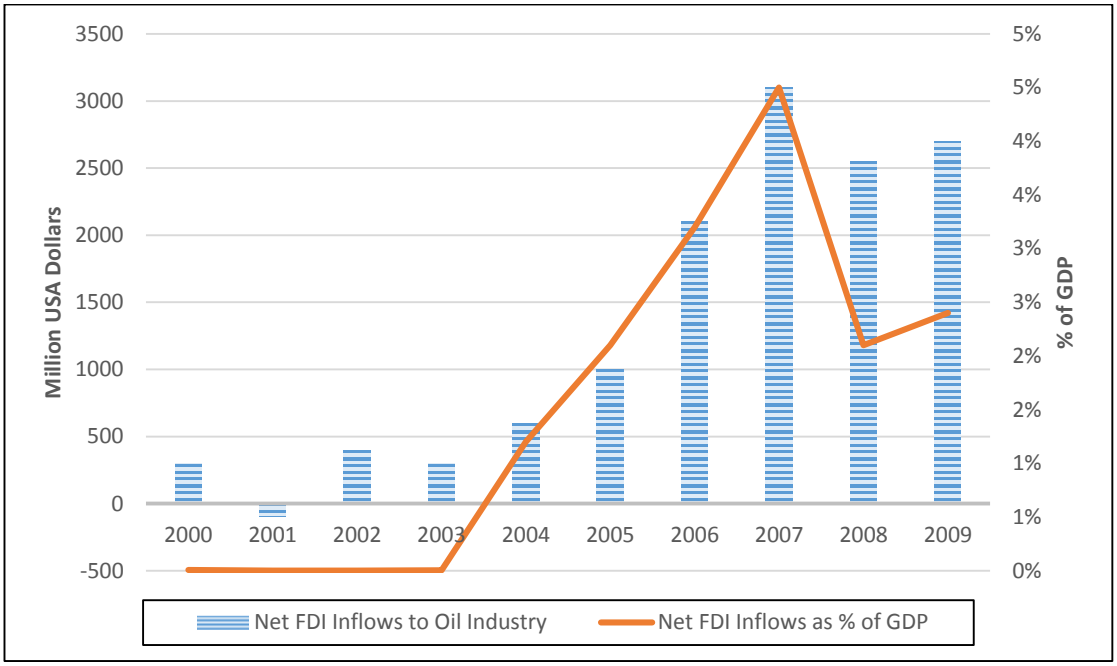
The Libyan government has been trying to increase the level of FDI in its oil industry. This was considered a necessary condition in order to help Libya benefit from the subsequent transfer of technology and capital flows, to increase the labour skills and create more jobs. However, the key aim that was made by the Libyan government was to raise production of Libyan oil by 3 million barrel per day by the year 2010. To achieve, such level of production, Libyan oil sector required a total inward FDI of 30 billion dollars by 2010.

For example, to improve the FDI environment in Libya, the government introduced Law No.5 of 1997 and Law No.7 of 2005 in relation to

encouraging foreign investment in the oil sector by modifying the hydrocarbon law and relaxing the some fiscal terms on offer (exploration terms). Furthermore, to facilitate speeder FDI related decisions, Libya, in 1998, created The Libyan Investment Board (LIB) under the administration of GPC for Economics, Commerce and Investment (for more details see Chapter Two). As a result of these polices and lifting of the sanctions imposed on Libya by the United States, Libya has witnessed a dramatic increase in the inflow of FDI. According to the NOC Vice Chairman, "the government of Libya has placed huge attention in the creation of adequate FDI polices for the Libyan oil industry. Thus, the FDI conditions in Libya's oil industry immensely improved and there has been an increase and regular inflow of capital into this industry, which significantly helps, in the rapid growth of this industry".

To help further illustrate Libya's FDI inflows during the study period, secondary data is used in Figure 6.27, which shows the real FDI net inflows to the Libyan oil industry from 2000 until 2009 and in comparison as a percentage of Libya GDP. FDI in the oil industry during the study period 2000-2009 has gradually increased (from 0% GDP to over 5% of Libyan GDP). Furthermore, during the study, Libya witnessed the longest positive FDI inflow since the 1960s. The oil industry is been the main recipient of the total FDI inflow.

Figure 6.27: FDI Inflows to the Libyan Oil Industry (2000-2009)

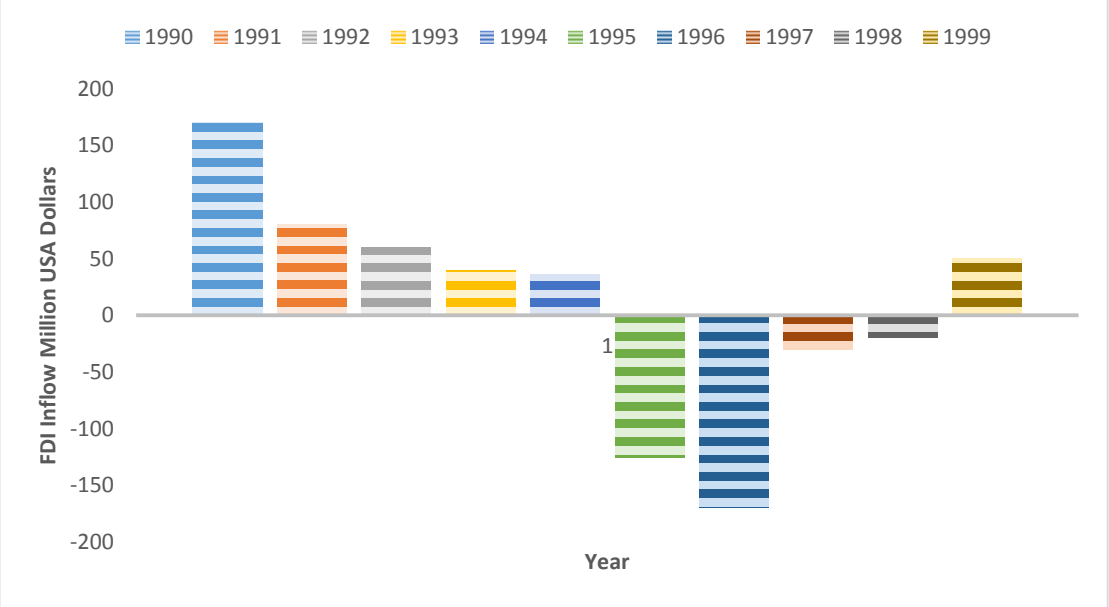


Source: UNTCAD, World Investment Report, (2001-2009) and NOC Statistical Bulletin, (2009)

In contrast, Figure 6.28 shows the period of 1990 to 2000 were Libya maintained a negative FDI inflow for the most part of this period. However, in 2008 and 2009, Libya's FDI inflows sharply dropped from its peak in 2007 to the lowest level in the study period. The increase of the level of FDI inflows to Libya oil industry is clearly attributed to two factors: (1) Libyan FDI polices; (2) The lifting of USA sanction on the Libyan oil industry. However, despite the dramatic increase in the level of FDI inflows, the Libyan government had failed to achieve its FDI inflows level of 30 billion dollars by the Year 2010. Furthermore, the Libyan government succeeded in only attracting 50 *per cent* of the targeted level of FDI inflows. Moreover, Figure 6.29 indicates that Libya's oil production, although gradually increased from the year 2000 by an average of 10 *per cent* a year, still did not meet the Libyan government

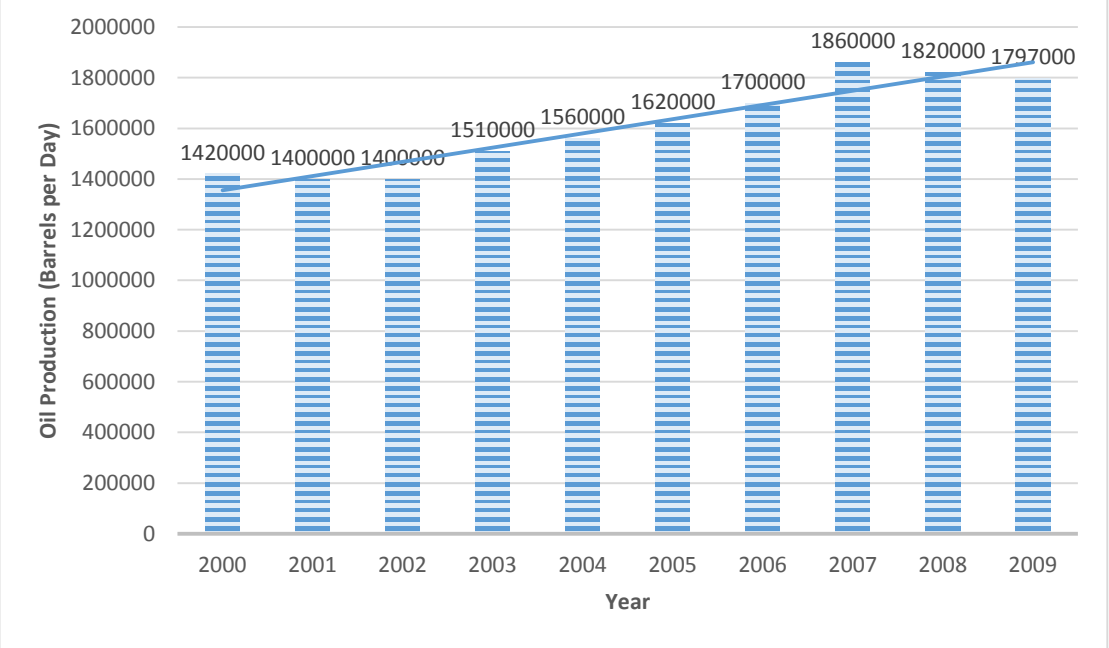
target of 3 million barrel per day (bpd) the level Libya was producing in the 1970s.

Figure 6.28: FDI Inflows to the Libyan Oil Industry (1990-1999)



Source: NOC, Statistical Bulletins, (1991 -2000)

Figure 6.295: Libya Oil Production of Crude Oil Barrel Per Day (m)



Source: NOC, (2010)

A question was put forward to respondents aiming at finding out 'Why the Libyan government has failed to achieve the targeted level of oil production?' The theme that emerged from the respondents answer was that 'Libyan government bureaucracy' and 'Libyan Government FDI policy 'was responsible for the failure to meet government FDI targets. It was explained by OXY's President on the issue of Libyan Government FDI policies that, "The oil environment since 2003, has dramatically changed as result of the high oil prices, that has not been as high since the 1970s. This has reflected in the competitive bidding process in Libya. This resulted in the Libyan government imposing stricter terms on oil exploration and ownerships of foreign oil. The effect of terms can have its impact on the level of investment through many venues. First, the strict exploration and ownership terms means that making some the projects profitable is very challenging for oil companies. Lower oil prices, unexpected escalation of costs, and/or failing to make big discoveries may leave many of the projects unattractive for the contractor. In such cases, this led to many of the oil companies reducing their investment and seeking to renegotiate existing contracts. This has proven to be both costly to both the Libyan government and caused to serious of delays". In contrast to those views, the NOC Vice Chairman, maintained that the reasons Libya failed to produce its targeted level of production was not related to the Libyan FDI laws. Instead, he insisted that "some projects have been more challenging than initially anticipated".

Furthermore, Figure 6.25 in the previous section indicates that the Libyan government regulations are significantly one of the main challenges facing MNCs operating in Libya. Libyan government intervention in the FDI decision process in the Libyan oil industry is also perceived as a significant obstacle. Furthermore, from the research results, the theme of responses from the respondents over Libya oil FDI policy was 'it restricts the level of ownership and therefore it limits MNCs FDI '. This factor was supported by Lopez-Carlos and Schwab, (2005 and 2007), where they suggested that energy resource rich countries have historically made policy decisions that restrict foreign ownership and limit FDI in order to maintain control over its key resources.

Although, FDI in Libya's oil industry has witnessed, a good deal of improvement from the previous periods since the year 2000. It is clear that Libya's oil industry FDI environment has not deterred FDI in Libya, but it has affected the level of FDI taken place in Libya.

6.5 Statistical Analysis

The researcher adopted a multi-strategy approach through the collection of different types of data, both quantitative and qualitative, to overcome the potential barrier of data invalidity and bias (triangulation). This study carried statistical analysis to further complement the survey and interview data, a time series analysis, ordered probit regression and OLS regression was undertaken. The purpose of this triangulation according

to Bryman and Bell (2007), to provide a basis for convergence on the truth and by using multiple methods and perspectives, researchers strive to sort out 'true' information from 'error' information. The use of both ordered probit regression and OLS regression is to examine which of the responses are statistically significant. Thus, this will help to further establish the reliability and validity of the findings from the questionnaire and interviews, and the triangulation strategy will help produce consistent and conclusive results.

The use of time series analysis and survey based research methods according to Pearce *et al*., (1992), to studies which have tested the influences on FDI in particular countries or group of countries over time have been especially valuable, as they provide the potential to analyse the effect on FDI of key changes in the host country environment, or of periods of abnormal economic or political conditions. Time series analysis in this study is carried out to assess the relative significance of the factors that may attract FDI for data covering 1967-2008. Moreover, this will provide an overview of FDI inflows patterns to Libya and draw some preliminary inferences about the influence of some of the existing FDI restructuring policies on FDI inflows.

Furthermore, in order to ascertain the factors that could affect the inflows of FDI to Libya. Different explanatory variables have been used to analyse their attribute in affecting the inflows of FDI in Libya. The selection of explanatory variables has taken into account the difficulties

associated with the measurement and accuracy of data concerning certain type of factors. There is an extensive and inconclusive literature on the economic and socio-political determinants of FDI which has presented a variety of results with both positive and negative correlations between FDI and its determinants in the host country (Oleksiv, 2000; Singh *et al*., 1995). Most previous studies have analysed a number of macro factors, such as GDP, exchange rates, the extent of openness, infrastructure level, government spending, and interest rates (Erdal, 2002). Since FDI location decisions are thought to be influenced by a number of country specific factors; hence, it is necessary to understand the importance and influence of the location factor related to the host country (Blonigen, 2005; Cantwell, 2009; Dunning, 1998, 2004). Therefore, different explanatory variables may be used in studies of FDI, comprising a wide variety of variables (Dunning, 2001).

6.5.1 Time Series Analysis

In order to further assess the relative significance of the determinant factors that may attract FDI inflow into Libya's oil industry and to supplement the data gathered from the interviews and questionnaires, a time series analysis for a sample covering the period 1967-2008, was carried out (see Table 6.11). Based on data for the specific Libyan economy, a regression was run to investigate which factors could affect the FDI inflows to the Libyan oil sector. Different explanatory variables may be used in studies of FDI, comprising a wide variety of variables

(Dunning, 2001). Keeping in mind previous studies as discussed above, different explanatory variables have been used to analyse Libya's FDI inflows (see Chapter 5 for econometric model):

FDI = *f* (RGDP, OILC, OILP, OILR, GS, CW, NAT, SAN)

Where:

FDI is foreign direct investment inflows to the Libyan oil sector

RGDP= Real gross domestic product in real terms. This variable is used as a proxy for market size. Data for GDP at 1980 average prices used.

OILC= Average cost of production of crude oil per barrel.

OILP= Libyan oil prices, reflecting the quality of Libyan oil in the world market.

OILR= Oil reserves. These estimate improved over the period of the study

GS= Government spending on domestic development projects. This variable is used as an indicator of how much money was spent in developing the country during the period of study in all infrastructure projects.

CW= Country wealth. This was calculated by multiplying oil reserves and world oil prices.

NAT= Nationalisation of foreign oil companies. This is a dummy variable taking the value of 0 for the period before the nationalisation policy implemented from 1967 till 1972 and 1 after 1972. It represents the change in the structure of economic environment.

SAN= The UN sanctions. This dummy variable takes the value of 0 for the period before of the sanctions implemented from 1967 till 1991; value of 1 from the year 1992 until 1999, and the value of 0 from 2000 onwards.

Table 6.11: Time Series Analysis Panel Data for the Period 1967-2008

Dependent Variable: FDI	
Independent Variables	Coefficient
Constant	-165.8346 (-1.193419)
RGDP	-1.172784 (-1.164635)
GS	-0.009587 (-0.327688)
CW	0.477006** (2.212022)
OILC	204.6886*** (3.720474)
OILP	-14.85664* (-1.909446)
OILR	9.404308 (1.648898)
NAT	-329.0328*** (-2.897753)
SAN	-69.14309* (-0.663215)
FDI (-1)	0.480361 (3.569627)
R^2= 0.798 **Adj R^2= 0.747** **N= 42** **DW= 2.6** **F =15.811**	

Where:***= ρ <.01; ** = ρ < .05; *= ρ<.1; t-ratios in parentheses

The estimated coefficient of real GDP has turned out to be negative and statistically insignificant, indicating that over the period of study, GDP has not been a good determinant of FDI. The same appear to be for the estimated coefficient of oil extraction cost and government spending. Theoretically, these explanatory variables are expected to affect FDI inflows to the Libyan oil sector. However, the estimated finding suggested that some estimated coefficients have turned out to be either statistically insignificant or with negative signs.

The regression results yield several insights into the determinants of FDI in the Libyan oil sector. The results obtained from the regression determinants showed that GDP level does not affect the FDI in Libya either positively or significantly. FDI theory suggests that the size of the market is important for both the country and the foreign investors and so a positive change in GDP should lead to an increased inflow of FDI. However, in this study no statistically relationship was found between GDP and FDI inflows. RGDP exercised a negative insignificant effect on FDI. This result is supported by Onyeiwu, (2003:12):

"There are three major surprises in this study in respect of FDI flows to the MENA region. The first is the non-significance of GDP growth rate in the fixed effects model. Nearly every study of the determinants of net FDI has identified economic growth as a very important variable [see, for instance, Zhang (2001) and Chakrabarti (2001)]. This result reinforces my earlier contention that there may be region-specific institutional factors that influence FDI flows to Arab countries, regardless of economic growth. It may also be the case that a majority of the foreign investors in Arab countries are not market seeking, but are in the region to extract natural resources.23 For instance; the major recipients of FDI in the

region (Egypt, Morocco, Tunisia, and Saudi Arabia) are endowed with natural resources. Thus, economic growth may not be a decisive factor in the decision to invest in these countries".

Country wealth (CW) has a significant effect, this supported by these studies (Caves, 1996; Davidson 1979; Dunning 1998; Estrin and Meyer 2004; Lim, 1983), all suggested the presence of natural resources is a significant determinant. Domestic investment (GS), showed a negative insignificant effect on FDI. This study also shows UN sanctions (SAN) had a relatively small effect in FDI inflows. Furthermore, the regression results indicate that nationalisation (NAS) of MNCs, was the most significant internal barrier and the major discouraging factor for FDI inflows. This supported a number of researchers, (Agrwal and Rawaswami, 1992; Anderson and Gatignon, 1988; Slangen and Begugelsdijk, 2010), who concluded, institutional hazards are to be negatively associated with foreign activity of MNCs.

Overall, it could be argued that the economic factor determining FDI inflows into the Libyan oil industry was country wealth. Moreover, the results have also found no significant effect of oil prices, oil costs; these results strongly support the interviews and the questionnaire data. The Durbin Watson (DW) statistics reported in Table 6.11, of 2.6, clearly shows no issue of autocorrelation and that the results for those variables that are significant. Since, values of less than 1 and greater than 3 pose cause for concern (Field, 2009).

6.5.2 Ordered Probit Regression

The ordered probit is a widely used approach to estimating this type of data in an ordered response model, thus it is often referred to as the ‘‘ordered probit’’ model. Like many models for qualitative dependent variables, this model has its origins in bio-statistics (Aitchison and Silvey, 1957) but was brought into the social sciences by two political scientists (McKelvey and Zavoina, 1975). The ordered probit model (Table 6.12) was estimated using IBM SPSS, Table 6.11 contains the estimated coefficients for the model. The coefficient for MNCs (coded 0= European, 1 = American).

Table 6.12: Estimates, their 95% Confidence Intervals and Significance for the Ordered Probit Model for Libya's FDI Determinants

	Oil Reserves	**Oil Quality**	**FDI policy**	**Unexplored potential**	**Production Cost**	**Geo-Proximity**
Threshold:						
1	*0.848**	0.157	0.693*	1.007**	1.321***	0.630
2	*0.011*	0.738*	0.486	0.124	0.284	0.334*
3	*1.309***	2.49***	1.830***	1.740***	.516	2.333***
Location:						
MNC 0	0.678***	0.798**	-0.187	0.465***	-0.060**	0.575***
MNC1	0.492*	0.111	0.921***	0.179*	0.156**	-0.543*

Where:***= ρ <.01; ** = ρ < .05; *= ρ<.1

In Table 6.12 most estimates are statistically significant, except for MNC0 in FDI policy and for MNC1 in oil quality. The estimates in Table 6.12 for oil reserves, oil quality and unexplored potential indicate that both European and North American MNCs are more likely to be selecting a higher category (most important or very important). For FDI policy, American MNCs are more likely to select a higher category than European MNCs. For the geo-proximity variable, European MNCs are more likely to select a higher category (most important or very important) than their American MNCs counterparts. Findings from this ordered probit are line with the interview analysis and previous literature (Caves, 1996; Davidson, 1979; Dunning, 1998; Estrin and Meyer, 2004; Lim, 1983) which researched FDI determinants. For example in the case of oil reserves, the regression model revealed that it has positively influenced MNCs to undertake FDI in Libya.

6.5.3 OLS Regression

The use of OLS regression analysis on Likert scale data in parametric statistical procedures that require interval data, such as Linear Regression, has been debated over the years (Jamieson, 2004). A typical Likert scale data item has 5 to 11 points that indicate the degree of agreement with a statement, such as in this analysis 5= Most Important to 0= Not Important. However, many maintain that while technically the Likert scale item is ordered, using it in parametric tests is valid in some situations (Carifio and Perla, 2008; Gaito, 1980; Norman, 2010). For

example, Lubke and Muthen (2004) found that it is possible to find true parameter values in factor analysis with Likert scale data, if assumptions about skewness, number of categories etc., were met. Likewise, Glass *et al*., (1972) found that F tests in ANOVA could return accurate p-values on Likert items under certain conditions.

Table 6.13 illustrates the results of OLS regression, was estimated using IBM SPSS. The independent variables included in the OLS regression are from the questionnaire to test and examine which of the responses are statistically significant, two variable were omitted as a result of producing insignificant statistically result. The OLS analysis is based on the following specification: the independent variables disaggregated into their constituent response measured on a Likert scale 3= IV3 (most important and very important), 2= IV2 (Important) and 1 = IV1 (fairly important and not important). For the independent variable as highlighted above and in the literature review chapter (Blonigen, 2005; Cantwell, 2009; Dunning, 1998, 2001, 2004), six independent variable were identified. OLS regression in this study aims to examine which of the responses are statistically significant.

From Table 6.13 some of the parameters were found to be statistically significant, the regression results yield several insights into the determinants of FDI into Libya. Firstly, Libya's oil and gas reserves are positively associated with its FDI determinants; this finding is in line with

the hypothesis of Dunning (1980) that natural resources attract resource seeking FDI.

Table 6.13: OLS Regression: Significance of Libya's Determinants

Dependent Variable :FDI determinants						
Variable	**Oil Reserves**	**Oil Quality**	**FDI policy**	**Unexplored potential**	**Production Cost**	**Geo-Proximity**
Constant	*4.235**** *(25.877)*	4.111*** (23.211)	3.923*** (24.636)	4.208*** (25.433)	4.289*** (23.374)	4.218*** (25.471)
IV3	*0 .611**** *(2.457)*	0.712** (2.943)	-0.235* (0.457)	0.493* (2.183)	-0.018** (0.387)	0.539** (2.066)
IV2	*0.213** *(1.834)*	0.414* (2.012)	0.367 (1.935)	0.766** (3.092)	-0.011 (0.222)	0.259 (1.928)
IV1	*-0.145 (0.430)*	-0.101 (0.569)	0.577 (2.187)	0.433 (2.111)	0.543** (1.973)	0.434 (2.008)
F	6.036***	5.704***	5.833***	6.235***	5.920***	6.085***
R^2	0.277	0.308	0.243	0.212	0.227	0.282
Adj. R^2	0.248	0.266	0.203	0.168	0.183	0.254

Where: ***= ρ <.01; ** = ρ < .05; *= ρ<.1; t-ratios in parentheses

Whereas, FDI policy is significant and negatively associated with FDI determinants, this is supported by the hypothesis made by Asiedu (2003) that government FDI investment restrictions have a negative effect on FDI inflow. The OLS also finds a positive relationship between Libya's unexplored oil reserves and the presence of MNCs in Libya. This results correlate with the questionnaire and interview results indicating that

Libya's unexplored oil reserved potential was the second most significant determinant on FDI and with various empirical studies (Choi *et* al., 1986; Khoury, 1979; Terpstra and Yu, 1988; Weinstein 1977). Overall, the results in Table 6.13 show that several of the variables are significant.

In summary, the results from the three regression analysis all show that Libya's oil reserves is one of main of the main determinants of FDI inflows to Libya. It is conclusively overall consistent with the generally accepted view in literature that, natural resources seeking FDI is significantly influenced by the existence of natural resources (Caves, 1996; Davidson, 1979; Dunning, 1998; Estrin and Meyer, 2004; Lim, 1983). Furthermore, the regression results show that Libya's production cost had no significant impact on the flow of FDI, this result is supported by previous empirical studies (Culem, 1988; Kravis and Lipsey, 1982).

Moreover, the results from the regression analysis for the other factors, such unexplored potential, geo-proximity, FDI policy and oil quality all are in line with the questionnaire, interview findings and existing empirical studies. Overall, the results from the three regression analysis are in agreement with the questionnaire, interview findings and previous empirical studies. Therefore, the three regression results have further supported that the findings of this research are very much consonant and convergent with the existent literature; hence, there is strong confidence that these results are valid and reliable.

6.6 Chapter Summary

There is no reason to suggest that the recent dramatic political developments in Libya will alter the findings of the research; the key determinates that attract or deter foreign investors are likely to remain the same. The questionnaire, the interview and the time series data analysis results have provided a comprehensive view of the determinants of FDI in Libya's oil industry. It has confirmed the importance of several traditional determinants of oil FDI in location decision making (see Table 6.14 a summary of the main findings of this research).

The findings show the decisions of MNCs with regard to Libya's FDI determinants do follow a general pattern for some of the factors; Libya's proven oil reserve, unexplored potential, quality of Libyan oil, government FDI policy, low production cost, geographical proximity, low labour cost and political stability. Libya's oil proven reserve was ranked the most important determinant in motivating the MNCs to undertake FDI in Libya. Furthermore, no statistically significant relationship between Libya's GDP and FDI inflows were found. The time series analysis revealed a positive relationship of country wealth (CW) on Libya's oil FDI inflows and strongly support the data from the questionnaire and interview results that MNC's FDI in Libya oil industry is primarily driven by natural resource seeking motives.

The findings show the determinates of MNCs with regard to location advantages do follow a general pattern for some of the factors: Libya's oil reserve, Libya unexplored potential, quality of Libyan oil and Libya FDI Policy; all had a high rating as a determinant.

From the questionnaire and interview results, it is clear that there are various levels of dissatisfaction in existence amongst MNCs with regards to the Libyan oil industry's business environment. For example, the Libyan infrastructure such as telecommunications and transportation including air, sea and land transport has caused discontent. This result reflects a variation in the levels of these services, and that the relative importance of these services varies among MNCs, the origin of the relevant companies, the timing of entry and their previous experiences. The study found that the MNCs where significantly dissatisfied by the stability of the public institutions and the lack of effective regulations. This level of dissatisfaction is higher among early entrant companies, this is explained as follows; that the levels of dissatisfaction increase with time due to the poor performance of the government resulting in institutional instability and the consequent uncertainty of the associated legislation.

Furthermore, Libyan government policies have to some extent influenced the MNCs' decision to enter Libya. The interview results revealed that Libya's FDI policies were considered from 'very important' to 'important' but none of the MNCs selecting 'not important'. Furthermore, it was evident from the results that the importance of Libyan government

policies was influenced by the geographical origin of the parent company. The research findings to some degree also support empirical studies (see Table 6.9) suggesting that host government policies are not one of the major determinants of FDI. However, this factor is significant to the companies when undertaking FDI; on the other hand, it cannot be described as the main determinant of FDI, as overall it was ranked 4th in the overall ranking of the Libyan oil industry FDI determinants.

Table 6.14: Summary of the Main Findings

Research Questions	Conclusions	Means of Assessing Validity	Type of Evidence	Strength of Evidence
1) What are the main determinants of FDI into Libya's oil industry?	1) The questionnaire and the interview results, have confirmed the importance of several traditional determinants of oil FDI in location decision making. This research identified, that Libya's proven oil and gas reserve ranked number one as the most important determinant on the MNCs decision to undertake FDI in Libya.	i) The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) The results strongly correlate with various empirical studies. iii) Published Reports.	i) Data from this research: questionnaire and interview results. ii) Literature: Caves (1996); Davidson (1979); Dunning (1998); Estrin and Meyer (2004); Lim (1983). iii) Published Reports: Gurney, J. (1996); NOC Annual Report (2006); NES (2006); Energy Information Administration (2007); OPEC Annual Statistical Bulletin (2007); Oxford Institute for Energy Studies (2008).	The results significantly support that Libya's oil and gas reserves are the most significant determinant.
	2) Libya's unexplored potential was ranked the second most significant determinant on the MNCs decision to undertake FDI in Libya.	i) The results from the questionnaire data from both MNCs and Libyan Government officials, strongly supported by the interview data. ii) Empirical studies support this conclusion. iii) Published Reports	i) Literature: Choi, Tschoegl and Yu (1986); Khoury (1979); Terpstra and Yu (1988); Weinstein (1977). ii) Published Reports: Robertson Research International, UK (2003); NES (2006); Oxford Institute for Energy Studies (2008).	Libya's unexplored potential as a main determinant is significantly supported by published data and empirical results, which established that market potential is a significant determinant of FDI.
	3) Libya's FDI policy was considered as a relatively important determinant by MNCs in their decision to undertake FDI in Libya.	i) The results from the questionnaire data from both MNCs and Libyan Government officials, strongly supported by the interview data. ii) Empirical studies partially support this conclusion. ii) Published Reports.	i) Data from this research: questionnaire and interview results ii) Literature: Asiedu (2003); Bennett and Green (1972); Levine and Renelt (1992); Root and Ahmed (1978); Schneider	The research finding to some degree is partially supported by empirical studies.

			and Frey (1985). iii) Published Reports: OCED, (1996b); UNCTAD (2004).	
	4) Political stability has a generally moderately to low significance in motivating the MNCs in their decision to enter Libya. The findings also showed that the significance of political stability was dependent on the timing of entry into Libya.	(i) The results from the questionnaire data from both MNCs and Libyan Government officials, strongly supported by the interview data. ii) Empirical studies partially support this conclusion.	i) Data from this research: questionnaire and interview results. ii) Literature: Aharoni (1966); Asidu (2003); Petrolchilos (1989); Swansbrough (1972).	The results to some degree indicate that Libya's political stability moderately influenced MNCs in their decision, some empirical evidence support this finding. However, other studies by Bennett and Green (1972); Green and Cunningham (1975); Kobrin (1976); and Thunel (1977), all failed to determine a relationship between political risk and FDI
	5) Libya's low production cost rated by the MNCs as one of the least significant factors in their decision to undertake FDI in Libya.	i) The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) The low ranking of the cost of production is consistent with some empirical research. iii) the time series analysis found no significant relationship between FDI inflows and Libya's oil production cost	i) Data from this research: questionnaire and interview results. ii) Literature: Culem (1988); Kravis and Lipsey (1982).	The research results strongly suggest that Libya's low production cost is insignificant as a determinant of FDI, some empirical evidence support this finding. However, this contradicts some research: Gilmore *et al.*(2003); Grosse and Kujawa (1992); Matsuura (1991) which have emphasised the importance of cost reductions.

	6) The results of the research also established that the importance of some determinants, differed from one case company to another, depending on their own unique characteristics, such as the geographical origin of the parent company and the timing of their entry into Libya.	i)The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) The low ranking of the cost of production is consistent with some empirical research.	i) Data from this research: questionnaire and interview results. ii) Literature: Dunning (1986)	The research results are in line with Dunning's (1986) views, where he acknowledged that firms will value identical investment opportunities in different ways, depending on factors such as the firm's size, experiences and the geographical location of its other operations.
	7) The results of the research also indicated that no significant relationship between Libya's GDP and FDI inflows	i) the results of the time series data analysis	i) Data from this research:	The research results are consistent with world investment report in 2009, when considering FDI as a share of GDP in OPEC countries for the period 1987-2008 the OPEC members had a ratio of FDI to GDP of 1.6% compared of ratio of 3.5% for non-OPEC members. Also, the evidence on the FDI flows to Liby'a oil industry is strongly is resource seeking motives.
	8) the results from the regression analysis strongly suggest the country wealth (CW) has significantly positive relationship with FDI inflows	i) The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) The results strongly correlate with various empirical studies. iii) Published Reports	i) Libya CW, was calculated based on Libya oil reserves multiplied by oil prices ii) There is a strong correlation with	The results significantly support that Libya's oil and gas reserves is the most significant determinant.

		iv) the results of the time series data analysis	Libya CW and FDI inflows and the data from the interviews and questionnaire strongly support this results	
2) What are Major Challenges Facing MNCs and their Future Plans in Libya?	There are various levels of dissatisfaction in existence amongst MNCs with regards to the Libyan oil industry's business environment are various levels of dissatisfaction in existence amongst MNCs with regards to the Libyan oil industry's business environment. The main Obstacle viewed by MNCs is the Libyan government	i)The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) Published reports	i) Data from this research: questionnaire and interview results. ii) Published Reports: The Libyan National Economic Strategy (NES 2006;World Bank (2005)	The research results indicate that Libyan government regulations as the most significant obstacle faced by the MNCs, this strongly supported by evidence from MNCs executives testimonies and published reports, Libyan and international.
	The results from the research also, established that Libya's infrastructure is a major obstacle faced by the MNCs and was viewed insignificant in their decision for undertaking FDI in Libya	i)The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) Published reports	i) Data from this research: questionnaire and interview results. ii) The Libyan National Economic Strategy (NES, 2006); UNCTAD (2004);NCEP (2007);ITU (2009)	The results are significantly supported by various reports indicating the poor status of Libya's infrastructure as a hurdle for good investment conditions. Furthermore, the results of this research is contradictory to the views of some theorists (Dunning 1993; Root and Ahmed 1979; Schneider and Frey 1985) who identified infrastructure as most common location

				advantages
	the results identified that MNCs are concerned by the availability of skilled workforce in Libya and recruitment is a a significant challenge	i)The results from the questionnaire data from the MNCs, supported by the interview data from MNCs executives ii) Published Report.	i) Data from this research: questionnaire and interview results from MNCs ii) NES (2006)	The views of the Libyan work force is partially supported by some of the MNCs and a published report by the Libyan National Economic Strategy (NES 2006) some degree suggested that Libya have a small pool of skilled work force
	The results significantly indicate that the Libyan Government administrative system is a major challenge faced by MNCs operating in Libya	i)The results from the questionnaire data from both the MNCs and Libyan Government Officials, strongly supported by the interview data, ii) Published reports	i) Data from this research: questionnaire and interview results from MNCs ii) NES (2006); UNCTAD (2004)	The results are significantly supported by reports indicating the poor status of Libya's administrative system
3)To what degree did Libyan government FDI policy influence the level of FDI in the oil industry?	The research findings that Libyan government policies have to some extent influenced the MNCs' decision to enter Libya. Furthermore, it was evident from the results that the importance of Libyan government policies was influenced by the geographical origin of the parent company. Moreover, issues such as restriction on the level of ownership imposed by the Libyan government on MNCs, was	i) The results from the questionnaire data from the MNCs supported by the interview data from MNCs executives and partially supported by some of the Libya government officials. ii) The results to some degree correlate with various empirical studies iii) Published Report.	i i) Data from this research: questionnaire and interview results from MNCs ii) Asiedu (2005); Bennett and Green 1972; Root and Ahmed 1978; Schneider and Frey 1985); Lopez-Carlos and Schwab, (2005 and 2007), iii) NES (2006); Oxford Institute for Energy Studies (2008).	The results in this research have strongly indicated a significant relationship between the level of FDI and Libya's FDI polices. The results significantly correlates with some empirical studies such as the work of Lopez-Carlos and Schwab, (2005 and 2007), on the issue of restricted level of ownership.

	considered was one of the main influence in effecting the level of FDI. Also, the strict exploration terms offered by the Libyan government was identified as another key factor on affecting the level of FDI.			Furthermore, published reports strongly suggest that the strict policies of the Libyan government can act as deterrent to FDI

CHAPTER SEVEN: CONCLUSION AND POLICY RECOMMENDATIONS

7.1 Introduction

The aim of this chapter is to firstly provide a concise outline of the aim and objectives of this thesis. Secondly, this chapter summarises the research findings that have been collated from the primary and secondary data. The third purpose of this chapter is to discuss the contribution that this thesis has made to the field of international business. The fourth section of this chapter will discuss the validity and the reliability of this research on the light of the methodology used. The next section will highlight the implications on policy makers and business decision makers; it will propose policy recommendations for the Libyan government based on the findings of this research. Finally, the limitations of the research will be discussed, which will lead onto suggestions for future directions for further research.

7.2 Summary of the Main Findings

This section will now review the main findings of this research in accordance with the research objectives of the thesis.

Objective 1: To identify the determinants of foreign direct investment into Libya's oil industry for the period 2000-2009.

This study has provided support for many of the traditional determinants of FDI available in the literature. However, it has presented new insights with respect to determinates of FDI in Libya's oil industry and provided, for the first time an in-depth study of the Libyan oil industry. The finding of this research on determinants of FDI in Libya is overall consistent with the generally accepted view in the literature, that natural resources seeking FDI is significantly influenced by the existence of natural resources, in the case of Libya, oil and gas. Libya's proven oil and gas reserve potential was found to be the most important determinants in the overall ranking of the main determinants' for their decision to undertake FDI in Libya. This finding is supported by various studies (Caves, 1996; Davidson, 1979; Dunning, 1998; Estrin and Meye,r 2004; Lim, 1983), which all suggested the presence of natural resources is a significant determinant of FDI. Additional evidence from published reports (Gurney, J 1996; NOC, Annual Report 2006; NES, 2006; OPEC Annual Statistical Bulletin, 2007; Oxford Institute for Energy Studies, 2008), strongly support this research finding. Thus, the various methods adopted in this research produced largely consistent and convergent results; therefore, there is significant confidence that these results are valid and reliable.

The research also finds a positive relationship between Libya's unexplored oil reserves and the presence of MNCs in Libya. The questionnaire and

interview results indicated Libya unexplored oil reserved potential was the second most significant determinants on FDI in Libya. The general importance of this factor is also supported by an industry survey carried out by Robertson Research International in 2003, which identified that Libya is one of the most attractive countries in the world in terms of oil and gas exploration. Furthermore, the importance of market potential - oil reserves potential in Libya to the case companies correlates with various empirical studies (Choi *et al*., 1986; Khoury, 1979; Terpstra and Yu, 1988; Weinstein, 1977) which established that market potential is a significant determinant of FDI. Moreover, these findings correlate significantly with published reports (Robertson Research International, UK 2003; NES, 2006; Oxford Institute for Energy Studies, 2008). Thus, the reliability and validity on these findings is significant, since the triangulation strategy that was used have produced consistent and conclusive results.

The findings with respect to the role played by the Libyan government's FDI policies, established that the significance of Libya's FDI policy as a determinate was dependent on the timing of the MNCs entry into Libya. However, Libyan government policies have significantly influenced the companies' decision to enter Libya, as its overall ranking was the fourth most significant determinate of FDI in Libya. The results from the research was supported by some of the literature available both empirical and published reports (Asiedu, 2003; Bennett and Green, 1972; Levine and Renelt, 1992; Root and Ahmed, 1978; Schneider and Frey, 1985; OECD for LDCs, 1990; OCED for CEE and CIS countries, 1996b). Therefore, the findings of this

research are very much consonant and convergent with the existent literature; therefore, there is strong confidence that these results are again valid and reliable.

The four factors with the lowest rating given by the case companies as the least significant determinants factors in their decision to undertake FDI in Libya were, political stability, geographical proximity, cost of production and existence of low cost workforce. The low ranking of cost of production and existence of low cost workforce was consistent with empirical research undertaken (Culem, 1988; Kravis and Lipsey, 1982) on location determinants, which identified that cost considerations were not an important determinant of FDI. However, other works (Gilmore *et al.,* 2003; Grosse and Kujawa, 1992; Matsuura, 1991) have emphasised the importance of cost reductions in motivating FDI. The results of this research strongly suggest that Libya's low production cost is insignificant as a determinant of FDI. However, secondary data that is used to triangulate the results produced partially consistent results, hence, not all the data is convergent on the findings of this research. Therefore, to some degree this research is only partially confident that these results are valid and reliable.

The research findings with regards to the role played by environmental risk as a determinate of FDI, demonstrate that there is no significant relationship between overall levels of environmental risk and a country's performance in attracting FDI. Therefore, in line with the most recent academic literature, the research provides support for the view that investors pay more attention

to institutional quality and regulatory stability than to overall levels of political stability. For example, studies (Aharoni, 1966; Asidu, 2003; Petrolchilos, 1989; Reuber *et al*., 1973; Swansbrough, 1972), have argued that political consideration plays at best a secondary role in the decision to invest. Moreover, Asidu (2003) argued that natural resource endowment, large markets, good infrastructure and efficient legal framework promotes FDI; however macroeconomic instability, corruption and political instability have the opposite effect.

The research results are contradicting the findings of other studies (Bennett and Green, 1972; Green and Cunningham, 1975; Kobrin, 1976; Thunel, 1977), who all failed to determine a relationship between political risk and FDI. Thus, the various methods adopted produced inconsistent results; therefore there is only partial confidence, that these results are valid and reliable.

The results of the research also established that the importance of some determinants did to some degree; differ from one company to another, depending on their own unique characteristics, such as the geographical origin of the parent company and the timing of their entry into Libya. For instance, Libya's geographical location was identified as a highly significant determinate for European MNCs in their decision to undertake FDI in Libya. In contrast, the majority of North American companies rated this factor as 'not important'.

There were also noticeable differences between the companies rating of political stability and government policies. These findings were partially explained by Dunning (1986), who acknowledged that firms will value identical investment opportunities in different ways, depending on factors such as the firm's size and the geographical location of its other operations. The findings are consistent with empirical evidence and confidence can be placed on the research results. The determinants of FDI into Libya's oil industry in terms of the overall significance are summarised in Table 7.1:

Table 7.1: The Overall significance of Main FDI Determinants into Libya's Oil Industry

Determinants	**Level of Significance**
Libya oil proven oil and gas reserves	Very Significant
Libya unexplored potential	Very Significant
Quality of Libyan oil	Significant
Libya FDI policy	Significant
Geographical proximity	Moderately Significant
Political stability	Moderately Significant
Low production cost	Not Significant
Low Labour Cost	Not Significant

Objective 2: To reveal the Factors that influences the inflow of FDI in Libya's oil industry.

The questionnaire and interview findings, alongside secondary data, have identified a number of factors that are causing obstacles and challenges to the attractiveness of Libya as a location for foreign investment. This section will now review the main obstacles and challenges to FDI in Libya's oil industry.

1. Institutional and Legislative Instability

From the research results it is evident that MNCs are becoming increasingly dissatisfied and frustrated with the obstacles that institutional and legislation instability in Libya generates. This high level of dissatisfaction can be attributed to the fact that Libya has witnessed institutional and legislative instability for over four decades as its political system has experienced a number of reforms, accumulating in extreme confusion for the institutions of the state.

Many of the MNCs stated that the non-transparent nature of government policies and the inability to obtain information on policy reforms makes the Libyan business environment challenging and unmanageable. The study found that the MNCs where significantly dissatisfied by the stability of the public institutions and the lack of effective regulations. This level of dissatisfaction is higher among early entrant companies, this is explained as

follows; that the levels of dissatisfaction increase with time due to the poor performance of the government resulting in institutional instability and the consequent uncertainty of the associated legislation. This instability has been on-going for over three decades.

The findings are significantly supported by empirical studies, correlating with the findings of Mudd (2003), he concluded that the complexity and uncertainty of regulation have a significant negative effect on inward FDI. Mehmet (2002) suggested that frequent changes in the rules and regulations can have a negative impact on business development in general.

A significant proportion of MNCs in the study have established that they have concerns regarding the quality of Libya's infrastructure and viewed it considerably below international standards. It was generally acknowledged that Libya's oil infrastructure was relatively well developed for the region but other services in Libya were poor and hindered business operations such as; financial services, energy, sewage, communications, water supply, postal services and health care. The results are significantly supported by various reports (see Chapter Six, Table 6.9 for triangulation of data). The produced data is largely consistent and convergent; therefore, there is significant confidence in the reliability of these results.

2. Infrastructure

The area of infrastructure that caused the greatest challenges with regards to undertaking FDI in Libya was the transportation network. The majority of MNCs highlighted negative issues concerning Libya's road networks with regards to congestion, road planning and safety issues. In addition, the MNCs identified that Libya was severely disadvantaged by the absence of a rail network and the limited capacity of Libya's ports. Most MNCs in the study believe that the government has to re-consider its infrastructural strategy and when expanding its investment adhere to international investment standards in meeting MNCs requirements. Furthermore, the case companies' low rating of the importance of Libya's infrastructure is contradictory to the views of some theorists, (Dunning, 1993; Root and Ahmed, 1979; Schneider and Frey, 1985), who believe that physical infrastructure is amongst one of the most commonly identified location advantages. As the majority of the MNCs did not view the infrastructure as a source of location advantage. The reliability and validity on these findings is significant, since all the secondary data is consistent with this research finding.

3. Labour force

A number of concerns relating to human resource issues were raised by the MNCs in the study; MNCs viewed the Libyan workforce as lacking in essential skills and qualifications which are necessary to perform their job

duties to conventional international standards. MNCs generally hold the opinion that the government needs to implement major reforms in the countries educational system for there to be an adequate supply of skilled local labour.

Furthermore, the casual business culture in Libya frequently leads to conflict between MNCs and the local employees regarding their poor attitude to work ethics and commitment levels. Thus, it can be concluded that the limited skills and qualifications of the local workforce combined with tight restrictions on importing foreign workers will damage the competitiveness of Libya as a destination for foreign investment. The finding on the Libyan work force is partially supported by some of the MNCs and a published report by the Libyan National Economic Strategy (NES, 2006) which to some degree suggested that Libya have a small pool of skilled work force. Therefore, one can place confidence on the reliability and validity on these results since; most of the data is consistent and convergent on the fact that Libya lacks to a degree a skilled workface or not enough skilled workforces to meet demand.

The main obstacles faced by MNCs in Libya oil industry in terms of the overall significance and overall ranking are summarised in Table 7.2:

Table 7.2: The Overall Significance and Overall Rank Order of the Main Obstacles Faced by MNCs in Libya

Overall Ranking	Business Environment factor	Level of Significance
1	Government Regulation	Very Significant
2	Poor Government Administrative system	Very Significant
3	Workforce	Significant
4	Infrastructure	Moderately Significant

Objective 3: To determine the extent that Libyan government FDI policy influenced FDI in Libya's oil industry

The research findings points towards, that Libyan government policies have to some extent influenced the MNCs' decision to enter Libya. The interview results revealed that Libya's FDI policies were considered from 'very important' to 'important' but none of the MNCs selected 'not important'. Furthermore, it was evident from the results that the importance of Libyan government policies was influenced by the geographical origin of the parent company. The companies from North America rated government policy as a determinant substantially higher than other companies, such as those from Europe. The explanation behind this disparity was that the European MNCs had been only moderately affected by the sanctions imposed on Libya and subsequently lifted.

The research findings to some degree also support empirical studies (Bennett and Green, 1972; Root and Ahmed, 1978; Schneider and Frey, 1985) suggesting that host government policies are not one of the major determinants of FDI. On the one hand, this factor is significant to the companies when undertaking FDI; on the other hand, it cannot be described as the main determinant of FDI, as overall it was ranked 4th in the overall ranking of the Libyan oil industry FDI determinants. Moreover, this research identified that Libya's policy decisions that restrict foreign ownership has a significant influence on the level of FDI. The results significantly correlate with some empirical studies such as the work of Lopez-Carlos and Schwab, (2005 and 2007), on the issue of restricted level of ownership. Furthermore, published reports strongly suggest that the strict policies of the Libyan government can act as deterrent to FDI. This research has produced to some degree largely consistent and convergent results, therefore we can place some confidence on these results, as there is no divergent data, but this might be explained by the lack of data related to natural resources studies of FDI.

Table 7.3: Summary of Key Findings on Libyan Government Policies

Summary of Key Findings on Libyan Government FDI Polices	
(i)	FDI policies are found to be important determinants of FDI flows. Results show that government investment policies have a very significant effect on FDI flows
(ii)	Restriction on foreign ownership imposed by Libya has a significant influence on the level of FDI
(iii)	The significance of Libya FDI policy was dependent on the timing of entry into Libya
(iv)	Libya's FDI polices has not deterred FDI in Libya, but it has affected the level of FDI taken place in Libya.

7.3 Research Contribution

This thesis has made a significant empirical contribution to the study of FDI, as it has provided a pioneering in-depth study into the main determinates of FDI in Libya's oil industry. A lot of research into the internationalisation of companies has been focused on developing countries, but the MENA region and Africa on the whole has been neglected (Bassam and Soliman, 2008; Caetano and Galego, 2009; Mina, 2007). The study adds not only to the available literature by dealing specifically with Libya but also by studying the role of several elements that are comparatively unique to oil producing countries like Libya, in terms, of the particular high levels of environmental risk and rich in energy resources.

Some of the specific contributions may be summarised by stating that the research produced evidence and support for the following:

(i) Proven oil reserves, unexplored potential, Libya FDI policy, cost of production, and existence of low cost workforce, political stability and geographical proximity Market. The results on these determinates from this research is in line with existing literature (see section 7.5 in this chapter)

(ii) Institutional characteristic and government regulation stability are more applicable in determining FDI flows than overall measures of political risk in Libya. This finding is in line with the current view of the importance of

institutions rather than overall risk levels in determining FDI flows (Chan and Gemayel, 2004; Henisz, 2000; Nunnenkamp 2002).

(iii) MNCs operating in Libya oil industry view joint ventures as a successful mechanism to manage host country environmental instability. The result from this research finding is in support of the existing literature that views joint venture as an efficient way to manage host country environmental instability (Slangen and van Tulder, 2009).

7.4 Research Validity and Reliability

To overcome the potential barrier of data invalidity and bias, the researcher adopted a multi-strategy approach through the collection of different types of data, both quantitative and qualitative. The use of questionnaires as the quantitative element of the research design, followed by in-depth semi-structured interviews, collection of documentary sources and time series analysis enabled triangulation to take place. Triangulation has been defined as “the combination of methodologies in the study of the same phenomenon’ (Denzin, 1970: 297).

Moreover, triangulation involves the cross-checking of the results collected by one research strategy with the results collected by another research strategy (Bryman and Bell, 2003). In this research, the process of triangulation was undertaken to cross-check the results of the questionnaire data with the results of the interviews and statistical analysis results. In

addition when appropriate the interview results, particularly the data gathered from Libyan government officials, were cross-checked for validity with documentary evidence.

This methodology was implemented with the aim of lessening the threat of obtaining unreliable results and thus leading to greater confidence in the conclusions drawn from this research. Moreover, to ensure reliability of the results, certain steps were followed; first, precision of the data collected was achieved by administering the questionnaires to the right people in the Libyan oil industry. Second, standardisation was achieved by the use of similar questions asked in a similar manner to all respondents. Third, bias was reduced through the use of clear and precise questions, simple and short questions. Although, these steps were taken, due to the sensitive nature of this research and the reputation of the secretiveness of the oil industry, it is possible that the data gathered is not of the best quality. However, to overcome this concern, steps were undertaken by the researcher to eliminate these concerns as much as possible (see Chapter Five, section 5.10).

7.5 Policy Implication for Policy Makers and Companies

The research findings have several important implications for policymakers as well as for companies undertaking or considering FDI in Libya.

i). Implications for Policy Makers

The findings of this research have provided policy makers with several implications. The result of this study clearly shows that under the present government there are many failings in attracting FDI in the oil industry and this has highlighted a bigger problem underpinning the Libyan business environment in general.

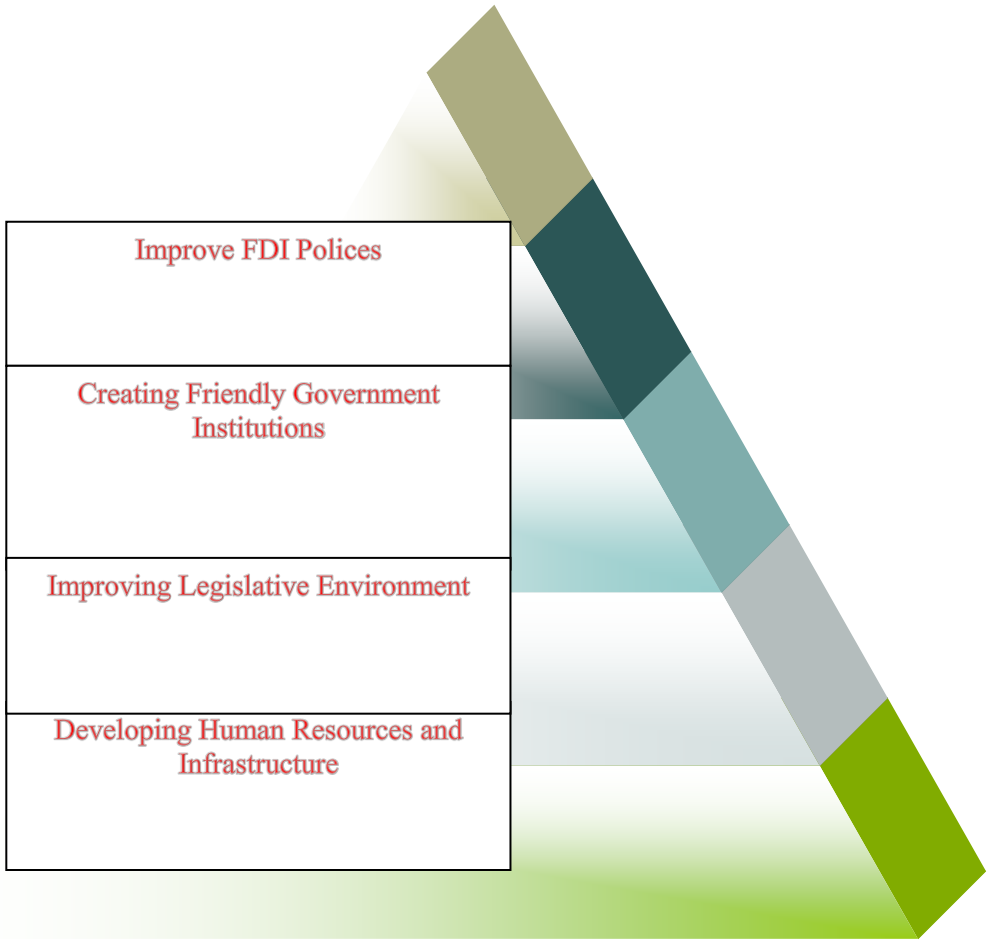
The following are findings from this research:

1). The importance of institutional quality and stability of government regulations;

2). Location factors such as infrastructure and quality of the Libyan workforce.

These findings point towards specific areas to which policymakers in Libya should focus their efforts on. These factors are more at the vanguard of concerns of MNCs than other factors that may appear on global rankings of competitiveness or ease of doing business in a country, such as the number of days required to register a company. Therefore this study, proposes an action plan for the Libyan government based on these research findings (see Figure 7.1).

Figure 7.1: Hierarchal Importance of the Proposed Policies



1. Developing Human Resources

The findings of this study clearly demonstrate local workforce lacks the competencies and skills required by MNCs and this highlights a larger issue. As most of the data is consistent and convergent on the fact that Libya lacks a skilled workface, thus the researcher proposes the following in response to this problem:

- Invest heavily in educational programmes to improve the overall level of literacy in the country, and to improve the technical capabilities of workers
- Improve working standards, by developing working codes and improve workers' productivity by providing vocational training
- Groom a generation of competent managers by choosing bright junior staff, training them in international managerial skills and decision-making ability
- Improve civil servants workers' standards by providing training programmes
- Create the concept of work commitment and loyalty among the workforce
- Change some articles in the Libyan employment law to allow greater flexibility to employers to deal with uncommitted workforce
- The high level of employment protectionism should be revised

2. Developing the Infrastructure

This study has revealed that the Libyan infrastructure is in need of modernisation and investment. The findings illustrated that Libya's infrastructure in general is relatively poor and requires developing. All the data triangulated in this research all concluded that Libya infrastructure is in a poor state. Therefore, this research proposes the following steps to be taken by policy makers in Libya:

- Upgrading the Libyan infrastructure to meet with international standards
- Redefining the government role in the infrastructure projects undertaking in Libya through:
- Allowing foreign investors to take part in infrastructural projects, such as power, electricity, roads, communications, water supply, sewerage etc.
- Allowing the private sector to participate in infrastructure projects

3. Creating a Friendly Legislative Environment

The findings clearly indicated that the legislative environment in Libya was an obstacle in undertaking business in Libya. The findings are significantly supported by empirical studies, which concluded that the complexity and uncertainty of regulations have a significant negative effect on inward FDI. Therefore, it is imperative that policy makers in Libya takes step to improve the legislative environment, since such factor is at the forefront of concerns of MNCs. Thereby the following is proposed to help create a better business environment:

- Change laws and regulations to reduce bureaucratic procedures
- Abolish unnecessary legal restrictions
- Simplifying the regulatory investment system by reducing the multiple layers of directives
- Eliminating administrative burdens and local costs

- Develop the civil service personnel system by making staff officials understand their duties, and obligations
- Advise officials about the organisation's overall policy framework.
- Improve motivation among civil servant through a comprehensive reward system
- Develop (vertical-horizontal) communication and (down-top) interaction within an organisation and other government departments
- Upgrade salary structures to match responsibilities
- Create Efficient Institutions through:
    - Create a long term planning strategy
    - Build-up competitive strategies for its organisations
    - Improve the data management facilities, apply better filing and record keeping and improve working conditions
    - Improve the educational quality of civil servants
    - Hire the most skilled people to monitor and follow up the daily work and workers' productivity, and set targets to be met within a certain time frame
    - Develop the use of the principles of total quality management (TQM) in government organisations

4. Improve FDI Policy

The results in this research have strongly indicated a relationship between the level of FDI and Libya's FDI polices. The results significantly correlate with some empirical studies. Furthermore, the findings in this research

strongly suggest that the strict policies of the Libyan government can act as deterrent to FDI and this is found to be related to the restriction of the level of ownership imposed by the Libyan government. For policymakers in Libya looking to design and implement policies that attract FDI it is important to certain steps to be taken to improve Libya's FDI polices. Based on the findings of this research the following steps can be suggested:

- Removing or reducing the restriction on the level of ownership s imposed on foreign companies
- Policymakers should continue the development of recent years in terms of viewing FDI as a vehicle for knowledge transfer, employment growth, trade growth and economic diversification rather than as a means to obtain foreign currency reserves. As findings of this research indicated that Libya still lacks a skilled workforce despite 50 years of international companies' involvement in Libya's oil industry.
- The introduction of one stop shop (OSS) to reduce the level of bureaucracy and speed up the process for FDI projects by either replacing the LIB or expanding its services
- Offering financial incentives such as the reduction of the tax. As the results of this research have clearly indicated that the level of tax imposed is very high and made some MNCs reluctant to expand their investment in Libya further.

ii) Implications for MNCs

For MNCs at present not investing actively in the Libyan oil industry, they should reconsider their position. As this research has demonstrated that FDI in Libya has grown during the study period (although not meeting the Libyan government targets), despite the significant level of environmental risk. Foreign investors in Libya have accepted that operating in Libya is risky; however this is common to some degree in the natural resources industries.

For MNCs considering undertaken FDI in Libya, the Arab spring of 2010 and 2011 has only added to this anxiety with anecdotal signs suggesting that few MNCs have put their operations in Libya oil industry on hold or abandoned their operations. For example, Royal Dutch Shell oil companies announced its quitting its operations in Libya (Arabian Oil and Gas, 2012). However, the returns provided by the investments in the Libyan oil industry may well compensate satisfactorily for the additional risk taken on. Although undeniable risks have increased, the exit of some MNCs, like Royal Dutch Shell, will create opportunities for others. As some existing companies operating in Libya, like Eni spa, has announced in 2012, it planned to invest eight billion dollars over the next 10 years in its Libyan operations (Market Watch, 2012). As it was established in this research MNCs despite the environmental risk in operating Libya, most of MNCs planned further investment in Libya.

Furthermore, MNCs that are considering undertaking FDI in Libya, this research has established that the majority of MNCs preferred investment mode in Libya was joint venture with a local company. A new company may establish their first operations in Libya where environmental risk and cultural distance levels are high, using joint venture mode as a launching pad for expansion in Libya. A joint ventures entry mode as it has been highlighted in this research is the most preferred mode of investment in Libya.

This research thesis has highlighted the implications for MNCs entering Libya with regard to ownership level. This research, have found that Libyan government regulations strictly control and limit the ownership level by which foreign oil companies undertake FDI. Therefore, the research has highlighted the complexities that MNCs face when undertaking FDI in Libya.

Finally, following the events of February 2011 that have taken place in Libya and elsewhere in the Arab world, it is clear that MNCs should evaluate environmental risk in terms of the factors that affect the overall levels and scores of environment risk analysis. The use of rating agencies to obtain political risk by MNCs should be the start of their analysis of the risk pertinent in specific country and not the end of it. The events of the Arab Spring and the civil war in Libya is clear evidence that political risk can occur in countries with good overall risk score, as in the case of Libya.

7.6 Research Limitations and Directions for Future Research

One of the main limitations is that the research finding may not necessarily be transferable to oil industries in other countries as different political, economic and physical environments, may change the significance of FDI determinants for investing in a country. Firstly, the limited availability of secondary data and previous studies in regards to FDI in Libya and the poor FDI national database was one of the main limitations of this study. This limitation made it extremely difficult to gain access to adequate set of panel data about FDI in Libya. Therefore, it was unusually difficult to refer to other studies regarding FDI in Libya.

Secondly, as the sample size was restricted, the quality of research would have obviously benefited from larger sample. However, access to more companies was difficult as the MNC offices were geographically dispersed around Libya. In addition, time constraints made it impractical to have a larger sample size. A further limitation of the research might have arisen when analysing the questionnaire and interview results. However, when one considers that the total population of MNCs operating in Libya's oil industry only comprises of about 40 companies, the sample size can be viewed as more than adequate to provide a representative view of the whole population.

This research has filled a gap in the literature of international business and it should provide a foundation for any future research on FDI in the oil industry

and on FDI in Libya. The results of this research could be developed by further research through carrying out a comparative study into the determinants of inward FDI of MNCs in other industries in Libya. In addition, during the course of this research a further question has emerged that is worth further investigation; a study is required to research how much are the MNCs are investing in Libya in comparison to their investments in other oil countries.

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APPENDIX 1

MNCs SUREVY SAMPLE CHARACTERISTICS

APPENDIX 1: MNCs SUREVY SAMPLE CHARACTERISTICS

Company name	Parent Company Characteristics		Respondents Characteristics
Shell Exploration and Production Libya	Name Nationality Geo-Coverage N. Employees	Shell Plc Anglo World wide 93,000	General Manager
Repsol Oil Operation Co	Name Nationality Geo-Coverage N.Employees	Repsol YPF Spain Worldwide 35,000	Managing Director
OMV Libya	Name Nationality Geo-Coverage N. Employees	OMV Group Austria Worldwide 5180	General Manager
Total E&P Libya	Name Nationality Geo-Coverage N.Employees	Total SA France Worldwide 95,000	Human Resource Manager
Eni North Africa	Name Nationality Geo-Coverage N.Employees	ENI SPA Italy worldwide 73,000	President
Wintershall Libya	Name Nationality Geo-Coverage N.Employees	Wintershall Holding AG Germany Europe, Russia and Middleast 1700	Managing Director
BP North Africa	Name Nationality Geo-Coverage N.Empolyees	BP Plc UK Worldwide 79,000	General Manager
Turkish Petroleum Overseas Co	Name Nationality Geo-Coverage	Turkish Petroleum Corperation Turkey Latin America and Middleast	Deputy General Manager

	N.Employees	2500	
Polish oil & gas Libya	Name	PGNiG	General Manager
	Nationality	Poland	
	Geo-Coverage	Europe & Libya	
	Employees	1900	
RWE-Dea Libya	Name	RWE-Dea	Manager
	Nationality	Germany	
	Geo-Coverage	Europe& North Africa	
	N.Employees	1300	
Saga petroleum	Name	Saga petroleum	Managing Direct
	Nationality	Norway	
	Geo-Coverage	Europe, Africa and Asia	
	N.employees	1360	
Statoil Libya	Name	Statoil	president
	Nationality	Norway	
	Geo-coverage	Worldwide	
	N.Employees	30,000	
GDF Suez	Name	GDF Suez	Manager
	Nationality	France	
	Geo-Coverage	Worldwide	
	N.Emlpoyees	236,000	
Oil India Ltd (ONGC)	Name	Oil India Ltd	General Manager
	Nationality	India	
	Geo-Coverage	India & Middle east	
	N.Employees	1200	
PERTAMINA E&P	Name	PERTAMINA	President
	Nationality	Indonesia	
	Geo-coverage	Indonesia	
	N.Employees	5000	
Petro china	Name	CNPC	Assistant General Manager
	Nationality	China	
	Geo-Coverage	Worldwide	
	N.Employees	1,600,000	
Gazprom Libya	Name	Gazprom	Operation Manager
	Nationality	Russia	
	Geo-Coverage	Worldwide	
	N.employees	370,000	
STAT Oil	Name	TAT Oil	Vice President
	Nationality	Russia	
	Geo-Coverage	Russia, Iran & Libya	
	N.Employees	6000	
LUKOIL	Name	LUKOIL	Project Director
	Nationality	Russia	
	Geo-Coverage	Asia & Africa	
	N.Employees	150,000	
GAZ Neft Libya	Name	Gazprom	Managing Director
	Nationality	Russia	
	Geo-	Africa	

	Coverage	
	N.Employees	5000
Woodside energy ltd	Name	Woodside
	Nationality	Australia
	Geo-Coverage	worldwide
	N.Employees	3000
Chevron Texaco	Name	Chevron Texaco corporation
	Nationality	USA
	Geo-Coverage	Worldwide
	N.Employees	60,000
OXY Libya	Name	OXY
	Nationality	USA
	Geo-Coverage	USA, S. America and N. Africa/middle East
	N.Employees	5000
ConocoPhillips	Name	ConocoPhillips
	Nationality	USA
	Geo-Coverage	Worldwide
	N.Employees	29,000
HESS libya	Name	HESS Corporation
	Nationality	USA
	Geo-Coverage	Worldwide
	N.Employees	11,000
Marathon OIL Libya	Name	Marathon Oil Corporation
	Nationality	USA
	Geo-Coverage	Worldwide
	N.Employees	29,000
Petrobras Libya	Name	Petrobras
	Nationality	Brazil
	Geo-Coverage	Worldwide
	N.Employees	80,000
Sonatrach Libya	Name	Sonatrach
	Nationality	Algeria
	Geo-Coverage	North Africa
	N.Employees	4000
Verenex Energy Libya	Name	Verenex Energy Inc
	Nationality	Canada
	Geo-Coverage	worldwide
	N.Employees	15,000
Suncor Libya	Name	Suncor energy Inc
	Nationality	Canada
	Geo-Coverage	Worldwide
	N.Employees	13,000

	Coverage		
	N.Employees	5000	
Woodside energy ltd	Name	Woodside	Tripoli office Manager
	Nationality	Australia	
	Geo-Coverage	worldwide	
	N.Employees	3000	
Chevron Texaco	Name	Chevron Texaco corporation	Vice-President
	Nationality	USA	
	Geo-Coverage	Worldwide	
	N.Employees	60,000	
OXY Libya	Name	OXY	President
	Nationality	USA	
	Geo-Coverage	USA, S. America and N. Africa/middle East	
	N.Employees	5000	
ConocoPhillips	Name	ConocoPhillips	General manager
	Nationality	USA	
	Geo-Coverage	Worldwide	
	N.Employees	29,000	
HESS libya	Name	HESS Corporation	General Manager
	Nationality	USA	
	Geo-Coverage	Worldwide	
	N.Employees	11,000	
Marathon OIL Libya	Name	Marathon Oil Corporation	E&P Manager
	Nationality	USA	
	Geo-Coverage	Worldwide	
	N.Employees	29,000	
Petrobras Libya	Name	Petrobras	Business Developemnt and Marketing Director
	Nationality	Brazil	
	Geo-Coverage	Worldwide	
	N.Employees	80,000	
Sonatrach Libya	Name	Sonatrach	Manager
	Nationality	Algeria	
	Geo-Coverage	North Africa	
	N.Employees	4000	
Verenex Energy Libya	Name	Verenex Energy Inc	Vice-President
	Nationality	Canada	
	Geo-Coverage	worldwide	
	N.Employees	15,000	
Suncor Libya	Name	Suncor energy Inc	President
	Nationality	Canada	
	Geo-Coverage	Worldwide	
	N.Employees	13,000	

APPENDIX 2

Libyan Government Official Questionnaires Sample Characteristics

APPENDIX 2: Libyan Government Official Questionnaires Sample Characteristics

Name	Position
Mr. A. Al-Sharoon	Head of Technical Cooperation Department at LIB
Mr. A. Alahrash	Head of Investor's Reception Department at LIB
Mr. G. Al-Aroush	Investment Affairs Department at LIB
Mr. T. Guthoor	Head of Investor's Services Department at LIB
Prof. F. Shernanna	Ex. Secretary of the GPC for Economics, Trade and Investment
H. Al-Zawi	Assistant Secretary of the LIB
Mr.A.Baruin	NOC Vice Chairman
Mr. N. Al-Gernazi	Head of Investment Affairs Department at LIB
Dr Omar A Abdelkarim	Member of the Management Committee for Exploration & Production, NOC Libya
Mr.Abulgasem Shebani Shengher	General Manager Exploration & Production, NOC Libya
Fituri Ibrahim Elhag	Exploration Manager, NOC Libya
Dr Jamal Hawisa,	Head of Projects & Maintainance, NOC Libya
Mr.Abdusalam Y Hussein	NOC Project Manager
Mr.Ali Bredan	Western field Operation Manager
Mr. S.Ftis	NOC Board Memebr

Appendix 3

Multinational Oil Companies in Libya Questionnaire Sample

Appendix 3: Questionnaire

Name**:** ……. Position**:** …….

Nationality**:** ..... Company**:** …….

1. What is the *nationality* of your company Headquarters?

2. How long have you been at this company?

3. What is the legal form of your parent company? (Please tick)

General Partnership ( )

Limited Partnership ( )

Joint partnership ( )

A limited liability ( )

Private Shareholding ( )

Public Listed ( )

4. What is the size of your Libyan subsidiary?

	Number of employees	Capital invested
Initial		
Current		

5. Which year did you enter Libya?

……

6. Which year did you start your *operation* in Libya?

……

……..

7. What is the area of your investment in Libya?

- Crude oil ( )

- Natural gas ( )

- Both ( )

7. What is the main activity (s) of your company in Libya?

- Exploration ( )

- Production ( )

- Drilling ( )

- Production and Exploration ( )

- Other (please specify)…….

8. What type of entry mode did your organisation use to enter Libya? (Please Tick)

-Jointventure(JV) ()

- Licensing ()

- Turnkey contract/project ()

- Greenfield ()

- Merger and Acquisition ()

Section II: Factors attracting your company to invest in Libya

1. To what extend Libya proven oil and gas reserves motivated your company to invest in Libya? (please tick one)

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

2. Quality of Oil

1.()Not Important 2.()Fairly Important.3.() Important.4.()VeryImportant.
5.( )Most Important.

3. Low Labour Cost

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

4. Low Production cost

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

5. Lack or low level of Competition

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

6. Geographical proximity

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

7. Attractive Local government FDI policies

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

8. The political stability of Libya

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

9. The Unexplored Potential of Libya

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important.

Section III: Libya's oil industry business environment

1. Does Libya oil industry have any competitive advantage?
- Yes ( )
- No ( )

If yes, what are Libya's competitive advantages?

……
……

2. How important is to have a local partner to operate successfully in Libya? (please tick one)

1.()Not Important 2.()Fairly Important.3.() Important.4.()Very Important.
5.( )Most Important

3. What do you consider the level of the Libyan corporate tax to be?

- Very high ()

- High ()

- Reasonable ()

- Low ()

4. What do you consider the Libyan workforce cost compared to other MENA oil producing countries?

- Low cost ( )
- Medium cost ()
- High cost ( )

5. How do you view your Libyan employed staff in terms of their skills?

- Below average ( )
- Average ( )
- Above average ( )

6. To what extent are government - labour regulations as seen a problem to your company (Libyanisation of the Workforce)?

- Major problem ( )
- Moderate problem ( )
- No problem ( )

7- How do you consider the Libyan Government export/import regulations? (please tick one)

- Unreasonable ()
- Relatively reasonable ()
- Reasonable ()

- Very reasonable ()

8. How do you view Libyan government department's decision making process?

- Uncomplicated ()
- Relatively complicated ()
- Complicated ()
- Very complicated ()

9. How do view the quality of essential infrastructure *(roads* - airports harbours – postal services...etc.) in Libya?

- Not good ( )
- Relatively good ( )
- Good ( )
- Very good ( )

10. How significant was Libya infrastructure in your decision to undertake FDI in Libya?

- Not significant ()
- Relatively significant. ()
-Significant ()
-Very significant ()

11. From your experiences in Libya, what are the main difficulties or concern facing your company operations in Libya?

1. ( ) Government regulations. 2. ( ) infrastructure workforce. 3. ( ) Investments policies. 4. ( ) Cultural issues. 5. ( ) financial issues 6. Other (please specify……..

12. How an increasing global demand for oil will affect the Libyan oil industry?

13. Is Libya's oil industry facing a serious competition from regional countries?

- Yes ( )
- No ( )

If the answer is yes, from which country?

14 . Did you achieve your planned rate of return R.O.R which you planned? ***(Please Tick)***

- Achieved more than the planned ( )
- Achieved the planned ( )

- Less than planned ()

- Others, please comment ()

15. Are you planning of expanding your business in Libya over the next three years?

Yes ()

No ()

If the answer is No, why you do not wish to expand your business?

…….

16. Why do you believe the Libyan government has failed to achieve the targeted level of oil production?

Thank you for your co-operation,

Tarek Abushhewa

Appendix 4

Libyan Government Officials Questionnaire

Appendix 4: Questionnaires

Name:……

Government-Depart:……..

Position:……

1. Are you in favour of attracting Foreign Direct Investment (FDI) into Libya?

- Strongly in favour ()
- In favour ()
- Against FDI ()

2. In which sectors would you like to encourage FDI?

- Upstream sector ()
- Downstream ()

3. What are your main motives for encouraging Foreign Direct Investment (FDI) into Libya? *Please mark 3 motives only according to their significance, weighting the highest priority to be 3 and the least to be I*

- To accelerate economic growth ()
- Reduce unemployment level ()
- Transfer of technology ()
- Industrialisation ()

- Increase exports ()

- To raise tax revenue ()

4. Which sectors do you consider as the most promising ones to attract FDI in the oil industry? *(Please tick one)*

-Upstream ()

-Downstream ()

5. Does Libya oil industry have any competitive advantage?

- Yes ()
- No ()

If yes, what are Libya's competitive advantages?

……
……

6. What are Libya's main determinants for attracting FDI you think? *(Please mark your answers in order according to their significance, weighting the highest determinant to be 10 and the lowest to be 1)*

- Libya Unexporled potential ( )

- Proven Oil and Gas Reserves Natural resources ( )

- Low labour costs ( )

- Rates of return on investment ( )

- Libya's Polices ()

- Low production cost ( )

-Low Labour cost ( )

- Political stability ( )

- Sound economic policies ( )

- Subsidised premises ()

7. What type of operating forms would you prefer MNCs to use on entering the Libyan market? *(Please mark 3 forms only according to their compatibility with the Egyptian market, weighting the more likely form to be 3 and the lowest to be 1)*

- Joint Venture ()

- Green field ()

- Licensing ()

- Turnkey Contract ()

8. How do view the quality of essential infrastructure *(roads* - airports harbours – postal services...etc.) in Libya?

- Not good ( )

- Relatively good ( )

- Good ( )

- Very good ( )

9. Would you like to see legislation to restrict some countries investing in Libya?

- Yes ( )

-No ()

10. Do you support government pressure on MNCs operating in Libya to provide job security?

- Yes ()

-No ()

11. From which of the following government departments does a foreign investor need to obtain approval? (*Please tick the necessary government department)*

- Trade ( )

- Economics ( )

- Industry ( )

- LIB ()

- Employment ()

- Home Office ()

-NOC ()

- Others, please specify……..

12. Do you consider that the current government FDI polices need to be changed to encourage more inward investment into Libya?

- Yes ()

-No ()

13. If your answer is "Yes" to question no.12, what is needed to be done?

14. How would you explain the current low inflows of FDI into Libya?

(Please mark 3 answers and weight them according to their significance, the highest factor to be 3 and lowest factor to be 1).

Weight

- Low rate of economic growth ()
- Lack of middle class ()
- Unbalance income distribution ()
- Insufficient marketing by the government ()
- Religious issues ()
- Bureaucracy ()
- Corruption ()
- Lack of reliable J.V and/or partner ()
- Undeveloped infrastructure ()
- Over valued currency ()
- High inflation rate ()

- Inadequate government concessions ()

- Competition from more attractive markets ()

-Instability and conflict in the ME ()

- Dominance of Public Sector ()

- Others, please specify……..

15. How an increasing global demand for oil will affect the Libyan oil industry?

16. Is Libya's oil industry facing a serious competition from regional countries?

-Yes ( )

- No ( )

If the answer is yes, from which country…….

17. Why do you believe your government has failed to achieve the targeted level of oil production?

Thank you for your Co-operation

Tarek Abushhewa