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FACULTY OF ECONOMICS

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   - The Libyan economy
   - Oil and Gas
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4. How to do business
5. Conclusion

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I declare that this Bachelor work has been done independent with using some literatures and Knowledge of Supervisor and Consultation.

....

In Liberec

6.1.2005

Libya

12°
18°
24°
Tarabulus
(Tripoli)
Mediterranean Sea
Tunisia
Zuwarah
Az Zawiyah
Al 'Aziziyah
32°
Yafran
Tarhunah
Al Khums
Misratah
Bani
Walid
Al Bayda
Darnah
Al Marj
Tubruq
Banghazi
(Benghazi)
Surt
(Sidra)
Gulf of Sidra
Ajdabiya
Ghadamis
Ash Shuwayrif
Marsa al
Burayqah
Egypt
Al Jaghbub
Waddan
Hun
Libya
Adiri
Brak
Sabha
Awbari
Maknusa
26°
Tmassah
Marzuq
Tazirbu
Ghat
Al Jawf
Algeria
Niger
N
Chad
20°
Sudan
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CONTENTS

1 Introduction 1

2 Socio Economic Profile 2

3 Government and administration 4

4 General economic overview 5

4.1 Characteristics of the Libyan Economy 5

4.2 GROSS DOMESTIC PRODUCT GDP 7

4.3 Growth 8

4.4 Inflation 11

4.5 Trade Balance 12

4.6 Agriculture 12

4.7 Land use 14

4.8 Fishing and Forestry 17

4.9 Foreign trade 18

4.10 OIL AND GAS 20

5 Banking..24

5.1 Overview..24

5.2 Specialized Banks 25

5.3 The banking law for the year 1993 and its amendments........................28

6 TRADE 30

6.1 Description of the current trade system 30

6.2 Libya's Economic Structure and WTO. 32

6.3 THE MOST COMPETITIVE SEGMENT IN THE LIBYAN ECONOMY...32

7 Petrochemical industries 38

7.1 PETROCHEMICAL INDUSTRIES 38

7.2 Factor Condition 38

7.3 Demand Condition..39

8. Libya and EU 41

9. Conclusion 44

10. Sources 45

Symbols:

- US$_US dollar .
- est._ estimate.
- US$ bn. _US billion Dollars.
- NCR_Neighbouring Countries Rate .
- Ha_ hectare.
- b/day_barrels per day .
- GAIT_Grampian Accessible Information Taskforce
- (NOC) National Oil Company
- (Agoco),arabian Gulf Oil Company
- WTO : The World Trade Organization
- UN : United Nation
- GDP: Gross Domestic Product
- RCC: Rescue Coordination Centre
- GMMR: The Great Man-Made River
- FOB: Free On Board

1 introduction

The Libyan economy depends primarily upon revenues from the oil sector, which contribute practically all export earnings and about one-quarter of GDP. These oil revenues and a small population give Libya one of the highest per capita GDPs in Africa, but little of this income flows down to the lower orders of society. Libyan officials in the past three years have made progress on economic reforms as part of a broader campaign to reintegrate the country into the international fold. This effort picked up steam after UN sanctions were lifted in September 2003 and as Libya announced in December 2003 that it would abandon programs to build weapons of mass destruction. Libya faces a long road ahead in liberalizing the socialist-oriented economy, but initial steps - including applying for WTO membership, reducing some subsidies, and announcing plans for privatization - are laying the groundwork for a transition to a more market-based economy. The non-oil manufacturing and construction sectors, which account for about 20% of GDP, have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel, and aluminium. Climatic conditions and poor soils severely limit agricultural output, and Libya imports about 75% of its food.

2 Socio-Economic Profile

- Location: Libya consists mostly of huge areas of desert. Libya shares borders with Tunisia and Algeria in the west, and Egypt in the east, while the Sahara extends across the southern frontiers with Niger, Chad and the Sudan

- Capital: Tripoli

- Area: The area of Libya, one of the largest countries in Africa, is 1,757,000 sq km

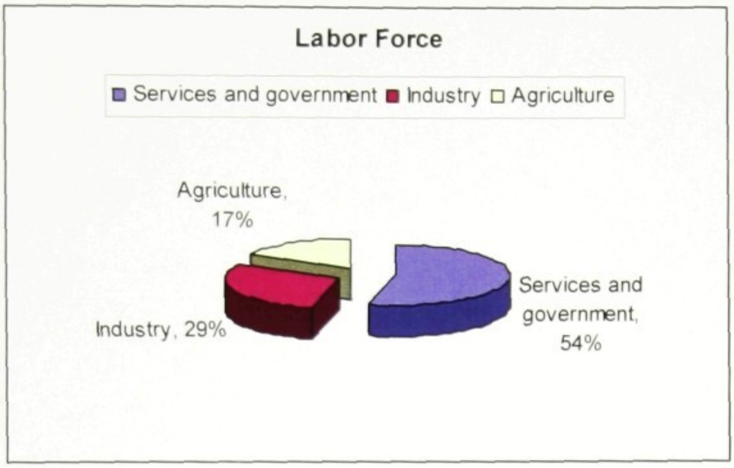
- Climate: Mediterranean along coast; dry, extreme desert interior

- Population: At the 1984 census, Libya had a population of 3,637,488. The 2004 estimated population was 5,631,585 giving the country an overall population density of 3 persons per sq km (8 per sq mi). The population, however, is unevenly distributed; more than two-thirds live in the more densely settled coastal areas. The indigenous population of Libya is mostly Berber and Arab in origin; about 17 percent of the population consists of foreign workers and their families. Some 86 percent of the people live in urban areas, although some Libyans still live in nomadic or seminomadic groups.

- Religion: Islam is the state religion, and about 97 percent of all Libyans are Sunni Muslim. A small number are Roman Catholic

- Education: The educational system is of average quality. Education in Libya is free for all, and compulsory up until secondary level. Libya has 4 universities, with about 50,000 students

- Labor force: 1.6 million (2001 est.); Services and government 54%, industry 29%, agriculture 17% (1997 est.).



Picture 1(Source 1)

3 Government and administration

Because of continuing historical and tribal divisiveness, the federation was replaced with a unitary system in 1963, and the three subnational provinces were replaced by ten governorates. The governorates were subdivided into districts (mutasarrifiyat; sing., mutasarrifiyah), each of which was further subdivided into subdistricts (mudiriyat; sing., mudiriyah). Executive heads of these geographical units included the governor (muhaafiz), district chief (mutasarrif), and subdistrict chief (mudir), respectively. Large cities, such as Tripoli and Benghazi, were organized as municipalities, headed by mayors, and subdivided into wards.

All subnational executive administrators were appointed by royal authority on recommendation of the minister of interior and approved by the Council of Ministers. Their appointment frequently was based on tribal and subtribal considerations as well as family prestige derived from the family's historical importance, religious standing and leadership, and wealth. Thus, much of the historical divisiveness that the switch from a federal to a unitary system was designed to overcome was perpetuated in the frequent appointment of members of regional and local elite families as subnational administrators.

Interested in minimizing tribal and regional differences and in encouraging mass participation in the political system, the RCC began modifying the subnational government structure soon after the 1969 revolution. Laws implemented in 1970 and 1971 established the Ministry of Local Government (which assumed some of the duties formerly exercised by the Ministry of Interior), gave local authorities more power to implement policies of the central (national) government, and redesignated some of the names and boundaries of the ten governorates. Selection of chief executives in the governorates, districts, subdistricts, and municipalities remained within the purview of the central government, appointments being made by the RCC on the recommendation of the minister of interior. Lower level administrators were required to meet standardized civil service qualifications.

4 General economic overview

4.1 *Characteristics of the Libyan Economy*

The area of the Jamahiriya is about 1,775,000 square kilometres. The number of Libyan population is now estimated at about 5.6 million persons, while the total population was estimated at about 4.483 million persons in 1990. The compound annual growth rate of population is about 4.5%, being one of the highest population growth rates in the world. Thus, the Jamahiriya is characterized by virtue of its vast geographical area and by its relatively small number of its population by low population density (Number of population per sq. km.). This density reaches in some regions about 0.10 person per sq. km., especially in desert areas. On the other hand, the coastal cities where most of the urban activities are concentrated are characterized by higher population density which reaches about 360 persons per sq. Km., as is the case in Tripoli. Totally, the general density is estimated at about 204 persons per sq. km. 5.

As to age structure of the population, nearly half of the population is below (15) fifteen years of age. Thus, the Libyan society is considered as a young society. Also, the women's contribution rate to manpower is considered relatively low, not exceeding 17.4% in 1989.

The natural, demographic and social characteristics led to the creation and development of a group of economic and social conditions distinguishing the Libyan Society and formed the nature of economic activity thereof.

In general, the Libyan economy is described as a developing economy with relatively small size. It has characteristics distinguishing it from other developing economies. The characteristics of Libyan economy can be summarized as follows:

1. The Libyan economy depends on one commodity, i.e. crude oil as a source of income and for obtaining foreign currency. The crude oil exports represent more than 90% of total exports. The oil and natural gas extraction sector contributes about 27% of the Gross Domestic Product.

2. The Public services sector represents about 22% of the GDP, and ranks second in importance after the oil and gas extraction sector. The sectors of construction, manufacturing industries, trade, restaurants and hotels, transport and communications rank third, fourth, fifth and sixth respectively, while agriculture

comes in the seventh rank in terms of importance for creating the GDP.

3. The Gross Domestic Product as per economic activities is incompatible with the Gross Fixed Capital Formation pattern as per economic activities. It is noted that the oil sector representing in certain years about 60% of the total income received only a small proportion of total investment, not exceeding 7%, while other sectors such as manufacturing industry, transport and communications, house ownership, agriculture received priority in allocating investments. Despite that, their contribution to the GDP formation is low as compared to the oil sector, which did not exceed 5.3% for agriculture, 7% for manufacturing industry, 5.6% for transport and communications and 4.1% for house ownership.

4. The size of productive manpower in the Jamahiriya is estimated at about 995,400 producers/workers in1989 of which Libyans constitute 84.5% and the remaining percentage is represented by foreign manpower. It should be noted that the number of foreign manpower was largely reduced in 1984.

5. The public services sector is characterized by its absorption of the largest proportion of manpower, as it receives (including education and health) 31 % of total manpower in the economy. The public services sector or the so-called administrative machinery (excluding health and education) received about 229,551 employees/workers in 1995 or 18.5% of the total manpower. The contribution rate of the public services sector to the GDP and absorption of manpower is considered relatively high, in comparison with other countries passing through similar development stages.

6. Despite the huge investments implemented in the industrial sector during the last twenty years, exceeding LO. 4 Billion, the contribution of the industrial sector in the structure of the GDP is considered low, as aforesaid. The employment rate in manufacturing industrial sector did not exceed 9.2% of total employment in the national economy until 1989.

7. Agriculture received more than 16% of the total allocations for Gross Fixed Capital Formation during the period from 1970-1989. Despite that the contribution of the agricultural sector to the GDP did not exceed 5.5% as indicated above, in addition to the lowering of the relative importance of employment in the agricultural sector progressively, as the relative importance of agricultural manpower decreased from 29.1 % in 1970 to 19.7% in 1989, then to 11.27% in 1995.

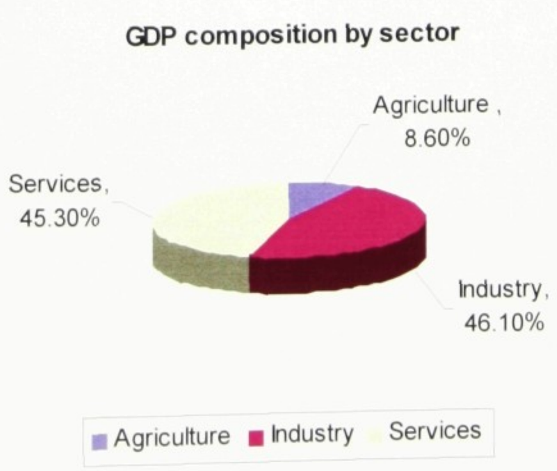
8. The Libyan balance of payments is characterized by fluctuations. However, it is described as achieving continual deficit during the last years 1987, 1988, and 1989. The deficit in balance of payments reached about LD. 268.6 million in 1997. The situation of the balance of payments reflects developments in crude oil exports and prices in the international markets on the one hand, and aspects and levels of expenditure of foreign currency locally on the other hand '.

9. The public finance of the State is characterized by adopting the method of financing by deficit, as the existent commitments on the public treasury towards the Central Bank of Libya and Commercial Banks (General local debt) were about LD. 5545 million in 1990 or an increase of more than 500 million as compared to 1989

10.The Jamahiriya has debts on others as represented in loans granted to various developing countries during the period 1971-.1990, amounting to about USD 2662.7 million of which about USD. 754.2 million were recovered in cash until 1990. Also, a part of loans granted was recovered in the form of commodities or other contracts for executing certain projects internally'. Against that, the external financial commitments recorded in favor of foreign companies are estimated at about USD 10,000 million.

4.2 GROSS DOMESTIC PRODUCT GDP

- GDP: purchasing power parity - $35 billion (2004 est.)
- GDP real growth rate: 3.2% (2004 est.)
- GDP - per capita: purchasing power parity - $6,400 (2004 est.)
- GDP - composition by sector



Picture 2(source 1)

4.3 Growth

At the time of independence, the Libyan economy was based mainly on agriculture, which was divided more or less evenly between field (including tree) crops and livestock products. Agriculture provided raw materials for much of the country's industrial sector, exports, and trade; employed more than 70 percent of the labor force; and contributed about 30 percent of the GDP, dependent on climatic conditions.

For the most part, agricultural resources were limited to two comparatively narrow stretches along the Mediterranean Sea and a few desert oases. The cropland had been maltreated, and the pasture had been overgrazed. Erosion was common, production methods were primitive, and close to a quarter of the agricultural area was held on a tribal basis and was being used inefficiently. Rainfall was unpredictable, except that usually it was scarce and ill-timed. When the rains did come, however, they were likely to be excessive. Groundwater was in short supply in the agricultural areas. In some locations it had been so excessively drawn upon that it had become brackish or saline and was no longer suitable even for agriculture. Because the country has no perennial rivers, there was only limited potential for irrigation and even less for hydroelectric power. At the time of independence, the apparently abundant subterranean water supplies located in the Lower Sahara had not yet been discovered. Even if officials had known about the water, its presence, while encouraging, would not have been very helpful in the short term because of lack of development funds and inadequate transport and storage facilities. In 1986, although agriculture contributed a very small share to the GDP, it still provided employment opportunities for a large portion of the population and was therefore still important. Shortage of water was the main drawback to expansion of cultivable land, but reclamation and irrigation schemes and the introduction of modern farming techniques held promise for the future.

At the time of independence, Libya possessed few minerals in quantities sufficient for commercial use, although iron ore was subsequently found in the Wadi ash Shati in the south-central part of the country. In turn, because of the absence of coal and hydroelectric power, the country had little energy potential. In the modern sense, Libya had practically no industry and, given the limitations of the agricultural sector, could produce few exports to be exchanged for the import commodities the country needed.

At independence, illiteracy was widespread, the level of skills was low, and technical and management expertise and organization were at a premium. (The lack of sufficient numbers of skilled Libyans in the labor force remained a problem in the 1980s; despite large sums of money having been spent on training Libyans, the government still relied on foreign workers.) A large part of the national life was lived under nomadic or seminomadic, rather than settled, conditions. The high birthrate added to the country's poverty. The rapid population increase strained the agricultural economy and resulted in the drift of excess unskilled laborers to urban centers, but these centers, too, lacked sufficient adequately paid employment.

In terms of resources, including human resources, the outlook at independence was bleak. Throughout the 1950s and early 1960s, international and other foreign agencies--mainly the United States and Italy--continued to finance the gap between Libya's needs and its domestic resources. The foreign community was not in a position, however, to undertake an across-the-board and sustained development program to set the economy on a course of immediate self-sufficiency. During much of a 1950s, the country's administrative apparatus was unable even to utilize all the resources made available from abroad.

During the decade after the discovery of petroleum, Libya became a classic example of the dual economy, in which two separate economies (petroleum and nonpetroleum) operated side by side. For practical purposes, no connection existed between them except that the petroleum companies employed limited quantities of local labor and paid a portion of their profits to the government in royalties and taxes. The financing and decisions affecting the activities of the petroleum economy came not from the domestic nonpetroleum economy but rather from outside the country. Although this sharp dichotomy was in the process of relaxation after 1965--perhaps especially after 1967-- it appears not to have been attacked conceptually, at least not with fervor, until after the 1969 change of government.

The laissez-faire arrangement came to an end with the military coup d'état of September 1, 1969. The previous government's personnel and much of its administrative framework were scrapped, and the oil companies were put on notice that they were overdue on large payments for unpaid taxes and royalties. In other respects affecting the economy, the new government marked time, except for its policy of "Libyanization"--the process of replacing foreigners and foreign-owned firms in trade, government, and related activities with Libyan citizens and firms. In mid-1970, the government embarked on a program of progressive nationalization.

In addition to establishing at least a temporary veto power over the activities of the oil companies, the nationalization program included sequestration of all Italian assets, socialization (state ownership) of the banking and insurance system, Libyanization of all forms of trade, and steady substitution of Libyans for foreign administrative and management personnel in resident foreign concerns--another aspect of Libyanization. In the petroleum sector, the government put a constantly increasing financial bite on the companies. By the end of 1974, the government either had nationalized companies or had become a participant in their concessions and their production and transportation facilities. The regime thus had a larger share of the profits than under the previous royalty and tax arrangements. However, despite varying degrees of nationalization of foreign oil firms, in 1987 Libya was still highly dependent on foreign companies for the expertise needed in exploitation, marketing, and management of the oil fields and installations that remained the primary basis of the country's economic activity.

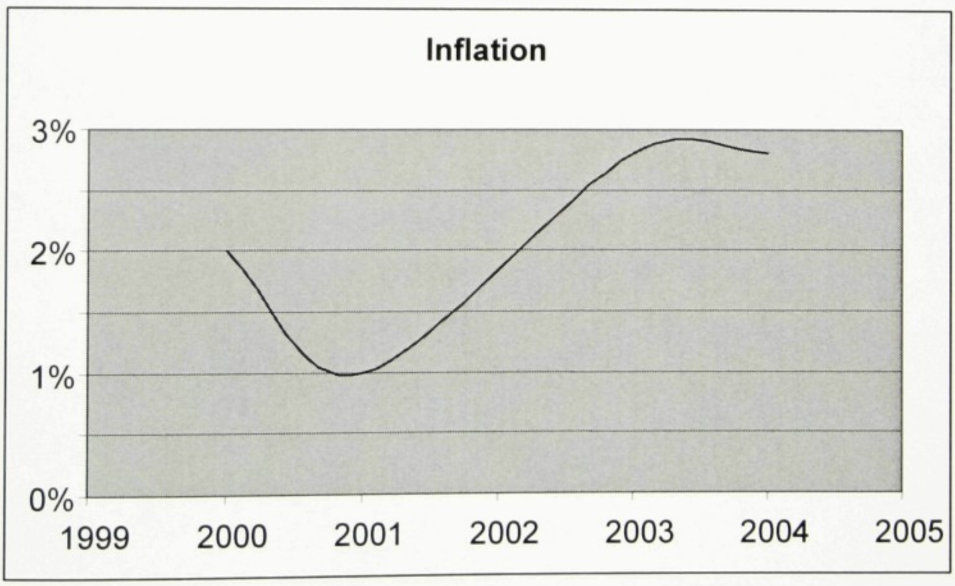
After 1972 the government began supplementing its policy of nationalization with an ambitious plan to modernize the economy, modeled largely on neighboring Algeria's experience. The key component of this plan was an intensive effort to build industrial capacity, placing a special emphasis on petroleum-related industry. The industrialization program had two major goals: the diversification of income sources and import substitution. In this latter respect, the plan met with some success, as several categories of imports began to decline in the late 1970s.

In 1981, when oil prices started to fall and the worldwide oil market entered a period of glut, the present phase of independent Libya's economic history began. The decline in oil prices has had a tremendous effect on the Libyan economy. By 1985 Libyan oil revenues had fallen to their lowest level since the first Organization of Petroleum Exporting Countries (OPEC) price shock in 1973. This fall in oil revenues, which constituted over 57 percent of the total GDP in 1980 and from which, in some years, the government had derived over 80 percent of its revenue, caused a sharp contraction in the Libyan economy. Real GDP fell by over 14 percent between 1980 and 1981 and was continuing to decline in late 1986. The negative trend in real GDP growth was not expected to reverse itself soon. .

The decline in real GDP placed great strain on government spending, reduced the level of imported goods available in Libyan markets, and increased Libya's debt repayment problems--all of which combined to lower living standards. The decline in oil revenues also caused the Libyan government to revise its somewhat haphazard way of making economic policy decisions, because it no longer possessed the financial resources to achieve its many goals. Thus, during the early and mid-1980s, development projects were subjected to a more rigorous cost and benefit analysis than during the easy money time of the 1970s. As of 1987, however, it was too early to judge the effectiveness of the government's response to falling oil revenues.

4.4 Inflation

Inflation rate (consumer prices) : 2.8% (2004 est.)



Picture 3 (source 2)

4.5 Trade BALANCE

The balance of trade has consistently been in Libya's favor since 1963, when oil exports first reached significant levels. Whereas during the 1970s exports kept ahead of imports by a wide margin, since 1981 this has not been true. For example, during 1982 Libya's trade balance showed a surplus of only LD2 billion, the smallest surplus since the mid-1960s. Only a drastic cut in imports kept the trade balance as a surplus after 1981. In 1985 exports stood at LD 3.2 billion, while imports totalled LD 1.4 billion.

- Exports: $14.32 billion (2004 est.)

Exports partners: Italy 38.8%, Spain 13.4%, Germany 13.4%, Turkey 7.1%, France 6.1% (2003 est.)

- Imports: $6.282 billion f.o.b. (2003 est.)

Imports – partners: Italy 27.8%, Germany 10.5%, Tunisia 7.6%, UK 7.1%, France 6%, Turkey 4.6% (2003 est,)

4.6 Agriculture

The history of Libya's agricultural development has been closely related, although inversely, to the development of its oil industry. In 1958, before the era of oil wealth, agriculture supplied over 26 percent of GDP, and Libya actually exported food. Although gross levels of agricultural production have remained relatively constant, increasing oil revenues have resulted in a decline in agriculture's overall share of national income. Thus, by 1962 agriculture was only responsible for 9 percent of GDP, and by 1978 this figure had tumbled to a mere 2 percent. Even more striking than the downward trend in agriculture's share of GDP was the rise in food imports. In 1977 the value of food imports was more than 37 times greater than it had been in 1958. Therefore, a large part of the rising oil wealth between 1960 and 1979 was spent on imported food products.

To some extent, these trends were neither surprising nor disturbing. Libya's comparatively strong agricultural position in 1958 masked an even greater level of general poverty. Agriculture during the 1950s was characterized by low levels of productivity and income. The advent of oil wealth provided many peasants with opportunities to engage in less exacting and more remunerative work in the urban areas, resulting in a huge rural migration to the cities. In addition, Libya is not well endowed with agricultural resources; over 94 percent of the land consists of agriculturally useless wasteland. The large number of people engaged in agriculture prior to 1960 reflected, therefore, not a thriving agricultural economy but merely the absence of attractive alternatives.

The number of peasants who gave up farming to look for jobs in the oil industry and in urban areas rose dramatically throughout the 1955-62 period. Another adverse effect on agricultural production occurred during the 1961-63 period, when the government offered its citizens long-term loans to purchase land from Italian settlers. This encouraged urban dwellers to purchase rural lands for recreational purposes rather than as productive farms, thereby inflating land values and contributing to a decline in production.

Since 1962 Libyan governments have paid more attention to agricultural development. The government has given inducements to absentee landlords to encourage them to put their lands to productive use and initiated high agricultural wage policies to stem the rural-to-urban flow of labor. These policies met with some success. Production levels began to rise slightly, and many foreign workers were attracted to the agricultural sector. Agricultural development became the cornerstone of the 1981-85 development plan, which attached high priority to funding the GMMR project, designed to bring water from the large desert oasis aquifers of Sarir and Al Kufrah. Agricultural credit was provided by the National Agricultural Bank, which in 1981 made almost 10,000 loans to farmers at an average of nearly LD1,500 each. The substantial amounts of funds made available by this bank may have been a major reason why so many Libyans--nearly 20 percent of the labor force in 1984--chose to remain in the agricultural sector.

Despite the greater attention to agriculture, however, in 1984 this sector only accounted for about 3.5 percent of GDP, and Libya still imported over 1 million metric tons of cereals (up from 612,000 metric tons in 1974). Also in 1984, the average index of food production per capita indicated a decline of 6 percent from the period 1974 to 1976. On the average, about 70 percent of Libya's food needs were met by imports during the mid-1980s

4.7 Land use

Although statistics vary, only a very small percentage of Libyan land is arable--probably under 2 percent of total land area. About 4 percent is suitable for grazing livestock and the rest is agriculturally useless desert. Most arable land lies in two places: the Jabal al Akhdar region around Benghazi, and the Jifarah Plain near Tripoli. The highest parts of the Jabal al Akhdar receive between 400 and 600 millimeters of rain annually, whereas the immediately adjacent area, sloping north to the Marj Plain, receives between 200 and f400 millimeters. The central and eastern parts of the Jifarash Plain and the nearby Jabal Nafusah also average between 200 and 400 millimeters of rain annually. The remaining Libyan coastal strip and the areas just to the south of the sectors described average 100 to 200 millimeters of rain yearly. In addition, the Jifarah Plain is endowed with an underground aquifer that has made intensive well-driven irrigation possible. Between these two areas and for a distance of about 50 kilometers south, there is a narrow strip of land that has enough scrub vegetation to support livestock. Desert predominates south of this strip, with only occasional oasis cultivation, such as at Al Kufrah, Sabha, and Marzuq.

Studies published in the late 1970s indicated that at any given time, about one-third of the total arable land remained fallow and that as many as 45 percent of the farms were under 10 hectares. The average farm size was about 11 hectares, although many were fragmented into small, noncontiguous plots. Most farms in the Jifarah Plain were irrigated by individual wells and electric pumps, although in 1985 only about 1 percent of the arable land was irrigated.

Since coming to power in 1969, the Qadhafi government has been very concerned with land reform. Shortly after the revolution, the government confiscated all Italian-owned farms (about 38,000 hectares) and redistributed much of this land in smaller plots to Libyans. The state retained some of the confiscated lands for state farming ventures, but in general the government has not sought to eliminate the private sector from agriculture as it has with commerce. It did, however, take the further step in 1971 of declaring all uncultivated land to be state property. This measure was aimed mainly at certain powerful conservative tribal groups in the Jabal al Akhdar, who had laid claim to large tracts of land. Another law passed in 1977 placed further restriction on tribal systems of land ownership, emphasizing actual use as the deciding factor in determining land ownership. Since 1977 an individual family has been allotted only enough land to satisfy its own requirements; this policy was designed to prevent the development of large-scale private sector farms and to end the practice of using fertile "tribal" lands for grazing rather than cultivation.

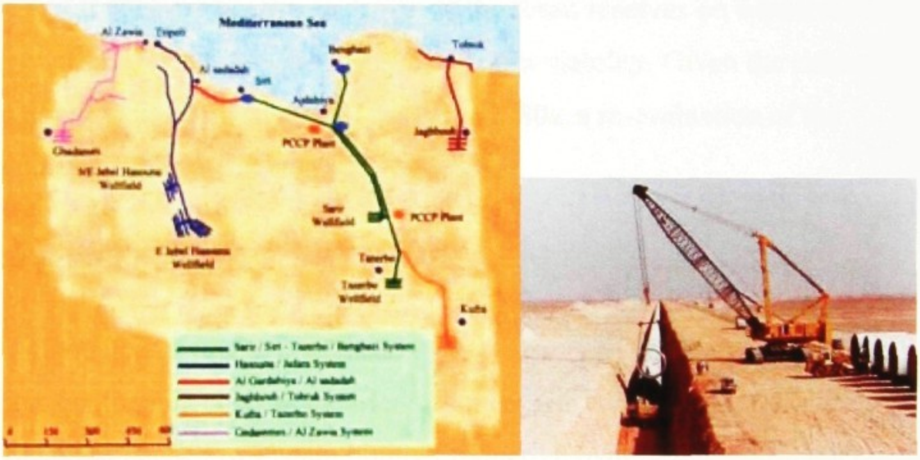
Partly as a result of these policies as well as the dictates of Islamic rules of inheritance, which stipulate that each son should receive an equal share of family land upon the father's death, in 1986 Libyan farms tended to be fragmented and too small to make efficient use of water. This problem was especially severe in the long-settled Jifarah Plain, which has been Libya's single most productive agricultural region.

The falling water tables in Libya's best agricultural lands caused by overirrigation posed a severe long-term ecological threat to agriculture. The government began to recognize this in 1976, and took measures to discourage citrus and tomato cultivation, both of which required large amounts of water. However, the more stringent steps required to save the coastal water resources--principally the regulation of irrigation and changing the land tenure system to make it more water-efficient--conflicted with Qadhafi's concept of economic equity, which favored intensive irrigated cultivation of small plots for family use.

The government's overall strategy for dealing with the impending ecological crisis has not been to reform the practices that brought it about. Rather, the cornerstone of agricultural policy since 1983 has been to avert disaster by pumping large quantities of water to the coast from the fossil reserves of the southern desert. This project, the GMMR, was expected to cost US$5 billion for the first two stages and has largely been spared from the cuts in development spending that have delayed many other projects in the 1980s.

The first phase of the GMMR, on which construction began in 1984, called for the construction of a 1,895-kilometer pipeline to carry water from the Sarir and

Tazirbu regions to a holding tank at Ajdabiya. From there the water will be pumped to Surt and Benghazi for both agricultural and urban consumption. Planners anticipated a total cost of about US$3.29 billion for this first phase and a completion date sometime in 1989. The first stage is projected to irrigate an area of 20,000 hectares for vegetables, and 50,000 hectares for cereals, and to enable the raising of some 100 head of cattle. A second stage will connect the fossil reserves at Al Kufrah to the system. It will also extend the pipelines from Ajdabiya to Tobruk. Planning for a possible third stage, which would link Tripoli to the underground reserves of the western Fezzan region, and would extend the western coastal terminus from Surt to Tripoli was also under way in 1987.



Picture 4 , Source (4)

After completion of the second stage, the GMMR will be capable of delivering up to 5 million cubic meters of water a day. According to estimates, this amount would be sufficient to irrigate 180,000 hectares in the Surt area, to provide pasture for 2 million sheep and 200,000 cattle, and to supply industrial and domestic needs in Benghazi and Tripoli. According to the project's American designers, the Al Kufrah and Sarir aquifers could sustain pumping at this rate for 50 to 100 years without depletion.

Despite planners' optimistic predictions about the benefits of the GMMR, foreign observers doubt that it will resolve the difficulties facing agriculture. Whatever the size of the desert aquifers, they are finite fossil reserves and will not last indefinitely. Furthermore, the major agricultural developments planned for the Surt region will do nothing to stop the declining levels of productivity in the Jifarah Plain. In fact, the choice of Surt as a site for massive agricultural development may have been prompted more by Qadhafi's family roots being there than its suitability for intensive agricultural development. In addition, urban and industrial demand for water from the south is likely to increase as the population continues to grow and as various industrial projects begin operations.

The GMMR's long-term impact on oasis cultivation in the south is also likely to be negative. Many of Libya's showcase agricultural projects are located in the southern oases that depend on the fossil aquifers that the GMMR will tap. Developments at Al Kufrah and Sarir have used advanced irrigation technology to grow wheat and fodder crops. The depletion of the fossil reserves on which these projects depend means that they have little long-term viability. Given the extremely high cost and low yields achieved as of the early 1980s, a re-evaluation of the economic viability of these projects may well occur.

4.8 Fishing and Forestry

Although Libya possesses nearly 1,800 kilometers of coastline and the second largest continental shelf in the Mediterranean, its waters are not particularly rich in the plankton needed to sustain highly productive fishing waters. In 1977 Libya's fishing catch stood at 4,803 tons. By 1981 it had risen to 6,418 tons--still one of the smaller national catches in the Mediterranean. Most of Libya's fishing fleet was located on the western half of its coastline, especially around Tripoli, because the country's eastern and central coasts possessed less attractive fishing grounds. Estimates in 1979 put the number of fishing boats at 325, of which 13 were trawlers; the rest were small and medium-sized boats. Approximately 1,000 to 1,200 people were thought to be professional fishermen in 1981. The government has been encouraging fishing activities and attempting to stimulate a demand for fish. In 1986 a new fishing port was under construction at Zuwarah, and numerous ice plants have been built at several coastal sites. Agreements for joint development of fishing have been signed with several countries, including Tunisia and Spain.

Sponge fishing has been monopolized by Greek fishermen who have been licensed by the Libyan government. A tiny percentage of the harvest has been obtained by Libyans using small boats and skindiving equipment from the shallow waters inshore. The Greeks have used modern equipment to exploit the deepwater beds where the best sponges lie. In an experiment begun in 1977, the government has established freshwater fish farms in several inshore locations.

For commercial purposes, the country has no forests. Although the government designated more than 62,400 hectares as woodland or forest, of this land is covered with scrub and minor vegetation.

During the 1960s, the government actively pursued an afforestation program; these activities were accelerated in the 1970s. An estimated 213 million seedlings had been planted by 1977, about 33 million of which were fruit trees. Most of the reforestation has been in western Libya. During reforestation efforts, scientist have experimented with a petrochemical spray that is sufficiently porous to allow the occasional rain to trickle and seep through, yet sturdy enough to prevent the seedling from being blown away during one of the country's frequent and severe sandstorms. The government's long-term goals for the massive planting program include the growth of enough trees to meet its domestic lumber needs, which in the past had been met by imports. Short-term goals include soil conservation and reclamation, and the creation of windbreaks for crops and settlements.

4.9 Foreign trade

- **overview**

By the mid-1980s, the government conducted virtually all foreign trade either directly or through public corporations. Import licenses were no longer issued to the private sector. The foreign exchange needed to purchase imports has been allocated by the commodity budget since its inception in 1982. Exports consisted almost entirely of hydrocarbons. Between 1978 and 1985, crude oil exports accounted for between 85 to 99 percent of total annual exports. Exports of other hydrocarbons, mainly methanol and liquefied natural gas, were irregular and depended on bilateral supply agreements of limited duration.

The balance of trade has consistently been in Libya's favor since 1963, when oil exports first reached significant levels. Whereas during the 1970s exports kept ahead of imports by a wide margin, since 1981 this has not been true. For example, during 1982 Libya's trade balance showed a surplus of only LD2 billion, the smallest surplus since the mid-1960s. Only a drastic cut in imports kept the trade balance as a surplus after 1981. In 1985 exports stood at LD 3.2 billion, while imports totaled LD 1.4 billion.

The decline in Libya's trade position after 1981 was largely the result of falling oil prices and decreasing volumes of oil exports. The oil price decline resulted from factors beyond Libya's control, but much of the decline in export volume resulted from Libya's decision to stay generally within its OPEC production quotas. These quotas were reduced in the early and mid-1980s as OPEC tried to use its market power to reverse the falling price trend.

The composition of imports was more varied than that of exports. Figures for 1981 indicated that the largest percentage of imports, by value, was the category of machinery and transport equipment. Manufactured goods, principally metal manufactures and iron and steel, came second, followed by foodstuffs. The percentage of foodstuffs in the import bill has been rising steadily since disposable incomes began rising. The direction of trade has undergone a significant change since the mid-1970s. Whereas during much of the mid- to late-1970s the United States was Libya's leading export market, American trade restrictions had reduced Libya's trade with the United States to zero by 1983. Italy remained Libya's most important trading partner in the mid-1980s, followed by the Federal Republic of Germany (West Germany). These two countries together supplied about 30 percent of Libya's imports and bought slightly under 50 percent of its exports in 1984.

- Import

$6.282 billion f.o.b. (2003 est.)

- export

$14.32 billion f.o.b. (2004 est.)

4.10 OIL AND GAS

4.10.1 Overview

Libya is Africa's major oil producer and one of Europe's biggest North African oil suppliers. Supplies from North Africa to Europe destinations have the advantage of being both timely and cost effective. Libya's economy is based on oil and exports contribute between 75% and 90% of State revenues. Libya has proven reserves of 29.5 billion barrels of oil and a production capacity of 1.4 million barrels per day. Italy, Germany, Spain and France account for 74% of Libya's exports.

Foreign involvement in Libya was severely reduced as a result of the sanctions and embargoes emplaced upon it, especially between the years of 1992 and 1999. Access to oil industry equipment and technology was restricted and Libya is reliant on foreign investment to keep the industry active. After almost 10 years, sanctions were lifted against Libya in 1999, following the extradition of the two suspects in the bombing of the Pan Am flight over Lockerbie. With the suspension of sanctions, oil companies have shown an eagerness to invest in Libya, and a poll of 76 global oil companies (New Ventures 2000 survey) indicated that Libya is the number one preferred location for oil exploration and production.

The reasons for this are numerous. Libya is Africa's biggest oil producer and Europe's biggest North African oil supplier. It provides extremely high grade, sweet crude. It has very low production costs and the oilfields are close to the refineries and markets of Europe. In addition, despite almost half a century of exploration, Libya remains largely unexplored with vast oil and gas potential.

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 larger markets in the African lubricants industry.

Since 1968 the state owned National Oil Company (NOC) together with its 33 subsidiaries has controlled the entire gas and oil industry, both upstream and downstream. NOC and its subsidiaries account for 63% of Libya's production. The main subsidiary production companies are Arabian Gulf Oil Company (Agoco), Waha Oil Company (WOC) and Sirte Oil Company (SOC). Since 1979, NOC has been allowed to enter into agreements with foreign oil companies. Numerous international companies are engaged in exploration / production sharing agreements with NOC, the largest being Agip-ENI. Oilinvest is the international arm of NOC, with subsidiaries Gatoil and Tamoil controls a network of overseas refineries and manages all international investments. UMM Jawwaby Oil Services is the procurement arm for NOC based in London.

Libya became a member of OPEC in 1962. At the beginning of 1999, Libya's OPEC production quota was 1.227 Million Barrels pre day.

4.10.2 Upstream

Libya's upstream oil industry is the key to its economy. It is expected to earn $11.7 billion from oil exports in 2000, which is more than double its 1998 earnings. Oil represents more than 95% of total export revenue and 98% of hard currency earnings. Libya produces high quality, low sulphur crude oil that is highly valued. Its proven reserves are 29.5 billion barrels and production is 1.4 million bpd. This represents less than half it 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.

Libya's oil reserves are located mainly onshore in three main areas: The western fairway (Samah, Beida, Raguba, Dahra-Hofra and Bahi oilfields), the north-centre of the country (the giant oilfields Defa-Wafa and Nasser, and the large gas field Hateiba) and an easterly trend (Sarir, Messla, Gialo, Bu Attifel, Intisar, Nafoora-Augila, Amal fields). Only 25% of Libya's area is covered by agreements with oil companies.

Of Libya's existing onshore oilfields, 12 have reserves of 1 billion barrels or more, and two have reserves of 500 million to 1 billion barrels. Most oilfields in Libya have lives of about 33 year s and with the exception of Murzuq, most of the oilfields were discovered between 1956 and 1972. NOC's fields are undergoing natural decline at a rate of 7%-8% per year. The priority for exploration onshore includes new areas in the Sirte, Ghadames and Murzuq Basins and in unexplored areas such as Kufra and Cyrenaica. Existing oil field life could also be greatly extended by the application of enhanced oil recovery techniques. LIbya's faces the challenge of maintaining production at its mature fields such as Brega and Sarir, Waha and Zuetina and bringing new fields such as Murzuk-El Sharara and Mabruk on line.

Offshore there is a relatively narrow continental shelf and slope in the Mediterranean and the Gulf of Sirte. The largest offshore field is El Bouri which has proven reserves of 2 billion barrels and a possible 5 billion barrels of oil and 2.5 Tcf of gas. This field, discovered by Agip-ENI in 1976 is central to Libya's plans.

4.10.3 Downstream

As in the upstream sector, NOC controls the whole of the downstream sector together with its numerous subsidiaries and overseas arms, Umm Jawwaby Oil Services and OilInvest with its two subsidiaries of Gatoil and Tamoil

The Umm Jawwaby Oil Services acts as the Libyan National Oil Company's procurement arm based in London. Libya is a direct producer and distributor in Italy, Germany, Switzerland and Egypt. In Italy, Tamoil Italia, which is based in Milan and has approximately 2,100 service stations, controls about 5% of the country's retail market for oil products and lubricants.

The downstream sector was very badly hit by the sanctions and this constrained Libya's ability to increase its supply of products to Europe.

4.10.4 Legislation

The Licensing authority is the Secretariat of Petroleum Affairs. Since 1973, petroleum rights have been granted under a series of production sharing agreements. Decision number 10 of 1979 allowed NOC to enter into agreements with foreign companies. There have been three exploration and production sharing agreements issued. EPSA-111 remains the model contract in use at the end of 1999. Libya is considering changing the 40-year hydrocarbon legislation to improve terms for foreign investment. The amendments that they are considering will include: access to exploration acreage; small field development; large field incremental production opportunities; increased transparency; and adoption of international competitive bidding practices. In November 1999, in the latest bidding round the acreage was offered under conditions of EPSA-111.

5 Banking

5.1 Overview

Consequences and reflections of the weak banking system on the whole economy

Banking systems pestered by problems could lead to deterioration of efficiency in the allotment of resources and weaken the effectiveness of implementing the economic policy even if it carried on working, thanks to the liquidity at its disposal, In addition to the complications, which the weak banking system creates for the financial management, it also imposes high costs in the form of obligations on the Public Treasury and causes deformities in the whole economy.

Effect on the real sector: - A sound working banking system contributes to the growth of the economy through mobilizing the financial resources which it changes into economic activities that are expected to reach the highest rates of returns at every level of risk-taking. Also the transaction services and the payment systems, which the banking system provides, lead to improvement in the efficiency of the economic activity. On the other hand, we find that the weak banking system fails in providing an active intermediary role in the field of reserves. Growth and the standard of economic efficiency in countries, which encountered banking crisis, suffered consequently.

It is noted that weakness in the banking systems appears as a severe problem in developing countries with economies undergoing transformation where asset markets and capital have not matured in addition to lack of alternative financial instruments. On the other hand, a sound banking system working in a competitive environment provides financial intermediary services at lower costs, because the competitive environment curtails the ability of any bank to increase single-handed the intermediary differences (the difference between the rate of interest on loans and the rate of interest on deposits), because it is difficult for banks under competition to increase the rate of interest on their loans except in cases of very high risks. However, when loans that fall under the category 'default loans' represent a considerable part of the total bank loans, the intermediary differences increase to reflect the increase of the cost structure of the baking activity. Also default credit in the dockets of banks lead to limitation of credit volume which could also be provided for better awareness among new borrowers.

5.2 *Specialized Banks*

5.2.1 Libyan Arab Foreign Bank

The Libyan Arab Foreign Bank was established by Law No. 18 for the year 1972. The gist of its functions is the practice of all banking and credit operations outside the Jamahiriya. The law exempted it from all restrictions stipulated in the two laws for banks and currency control. The bank is also permitted to engage is some local operations connected with the development field. Its capital was 20 million Dinars totally owned by the Central Bank of Libya. It is now increased to total 300 Million Dinars.

Since its commencement the bank has consolidated its presence in the international financial markets and created many business relations with various banks and correspondents on the international arena. The bank was able to take its place in the banking network covering several countries in the Arab World, Africa and Europe. Its contributions totaled 38.

The bank is regarded a pioneering financial institution as far as positive contribution to the national economy is considered. This is so because of the services and facilities which the department of surplus money offers to other financial institutions in the provision of necessary resources and foreign currency in order to assist the economic projects that serve the economic progress and development programs in the country. This is in addition to its principal and effective role in servicing and financing foreign trade.

5.2.2 The Agricultural Bank

The National Agricultural Bank was established in 1955 and was reorganized by Law No. 133 for the year 1970 by which it was renamed the agricultural Bank with a capital of 13 million Dinars. It has 42 branches in different provinces of the country. It aims at promoting agricultural and animal production and encouraging agricultural cooperation through:

1. provision of financial facilities to people engaged in agricultural and animal activities.

2. sale, purchase, rent and procurement of agricultural land.

3. execution of government assistance programs to people engaged in this field.

4. provision of services relating to agricultural and animal production matters in cooperation with the competent secretariats Since its establishment the bank has succeeded in contributing to the, agricultural and animal production development programs, especially in the field of agricultural loans and provision of necessary finance for the agricultural and animal projects in progress.

5.2.3 The Development Bank

The Industrial Development Institution was established in 1963 to help finance the industrial sector through loan offers and provision of financial counseling for local industries. In 1965 it was renamed the Industrial and Real Estate Bank to include real estate loans among its activities. In 1969 its capital rose to 45 million Dinars. In 1981

The Development Bank was established in response to the special importance which the development plan in the Jamahiriya gave to the industrial sector whose affairs the bank was established to attend to.Another law was issued to establish an independent bank to finance the housing sector named the Savings and Real Estate Bank.

This bank has 13 branches in different municipalities in the Jamahiriya with a capital of 100 million Dinars entirely owned by the government. Its management consists of one director general and four members of high efficiency and experience. Its targets are summarized as follows:

- Provision of assistance and technical counseling for productive projects.
- Provision of loans earmarked for financing productive projects in the industrial, agricultural and tourist sectors.
- Creation of investment opportunities so to as expand the economic basis in as far as it serves the transformation plans.
- Encouraging foreign participation in financing local projects.

In the field of national banks, 30 banks have opened in different provinces with five other branches in preparation to take up their role in promoting the development process and the infrastructure through financing productive projects and services in the different areas of the Jamahiriya.

5.3 The banking law for the year 1993 and its amendments

Law No. 1 for the year 1993 concerned banks, currency and credits. Its important items are as follows:

Chapter One - Establishment, management and aims

1. A central bank is to be established under the name "the Central Bank of Libya" with a corporate identity, an independent financial liability and a total capital of 100 million Dinars.

2. The bank bo.ard of director conducts its affairs and assumes the authorities accorded to it under the provisions of the law. Among its functions are the following:

- Organizing the issue of money.
- Safeguarding the stability of money.
- Management of the State's reserves.
- Organizing the credit policy and supervising its implementation and directing credit according to its volume, price and quality.
- Taking suitable measures to redress financial instabilities.

3. The bank pursues its activity in the purchase, sale import and export of money and gold, purchase and sale of foreign currency and rediscount of commercial papers.

4. Management and supervision of all the loans which the government contracts. The bank may also offer loans and advances to the Public Treasury to cover any deficit on condition that the total advances should not exceed two-thirds of the estimated revenues.

5. The bank has the sole right to issue money and specify the rates of exchange of foreign currencies according to the economic developments and in such a way that serves the national interests.

6. After securing the approval the from competent secretary, the Board of Directors may terminate the circulation of any banknotes or coins and nullify them. For the total amount of money in circulation there must be an equivalent amount of assets consisting of gold bars or foreign currency capable of exchange, or private withdrawal

rights and money orders and bonds issued by foreign governments or bills issued by local or international institutions.

7. In the chapter of control over commercial banks, the law permitted the bank's board of directors, according to the requirements of the credit case, to make general rules of control and supervision of banks regarding limitation on liquidity and quality of the assets and reserves which should be provided and specifying the maximum rate of interest and the difference allowed between the rate of interest and the rate of rediscount and the rate of discount specified by the banks for their customers and specifying the minimum of money backings necessary to open documentary credit

8. The law required the commercial banks to deposit at the Central Bank of Libya between 5-20% of the amount of the long term deposits and between 10-40% of deposits under demand.

9. The law stipulates that the Central Bank of Libya check the reports sent in by the banks and that it also have the right to inspect at any time the books and accounts of the banks. Should inspection of the data produced show that the bank's assets do not meet its obligations, the governor shall warn the commercial bank and demand that the deficit be put right within ten days.

6 TRADE

6.1 Description of the current trade system

Trade is one of the oldest economic activities, which has been considered and known as a traditional source of income for the people in Libya who used to trade with black Africa, Egypt, Tunis and Southern European countries.

Arabs are considered as clever merchants. If we agree with this idea plus the vital geographic location of Libya representing the area between Europe and Africa, all people will agree then that Libya has a noticeable advantage in the field of trade.

At the beginning of the eighties, the state took over the private sector in trading and created a public chain of stores managed completely by the state. This situation continued until 1998 when the people realized that the state couldn't be the only merchant, it is not its job.

During the eighties, the country experienced for the first time the direct public domination of the trade sector without participation from the private sector. The purpose of that step was to achieve equality, which affects the majority of the people, Trade benefits a lot from other people and that was the idea behind the state control on trade.

At the end of the eighties, people realized the facts, which led to the end of that era. Corruption prevailed in this sector and the black market flourished and that made many goods hard to obtain and when they are obtainable, people get them at high prices which diverted the main goal of the state/controlled trade, quality of services and distribution of goods (there were no advertisements goods display, services of the purchases... etc.).

At the same time, the state was forced to employ a huge number of people whose previous job was trade, which put a bigger financial burden on the state. We are still suffering their backsides till now.

The slide in oil prices at the time speeded up the wanted result which was the end of the state domination on the trade sector.

The private sector was allowed to carry out the business on which the state put many regulations that determined the size, shape and limit of trade in its new form where the state carried out the business with the private sector. In other words:

The private sector conducts the business with the presence of the state, which is called: controlled trade. This situation bred a distorted environment.

- First: The state still regulates the trade and that means the private traders are obliged to comply to those regulations which determine the goods, the prices, goods exported and their qualities and also the kind of exportation.
- Second: The state determined two exchange rates of traders in order to import which promotes the black market of goods and corruption.
- Third: The foodstuffs are divided into (four) categories each category has to be imported by a certain exchange rate "two exchanges" and each one must be distributed through a certain channel "public channels or private channels".
- Fourth: The state still monopolizes the trade of many goods and with the presence of the mismanagement of a lot of goods which are hard to obtain through the official channels and appear only in the black market which damages the welfare of the ordinary people.
- Fifth: Highly regulated trade centers have deprived the prived sector from fair competition and flexibility which leads to appropriate cost and better quality, as well as better services.
- Sixth: The tariffs exercised in Libya from 0% to 400% formed 12,4% of the G.D.P. in 1999 incurs more properly than the benefit when for this small number a lot of goods become quite expensive and then hard to import (ex: cars + furniture).
- Seventh: The money transactions for import must be through the Central Bank and the Central Bank determines the amount of local money trade is allowed to change into hard currency in order to buy goods from abroad,

This act is an indirect quantitative restriction, which is a governmental interference with equalization of the supply and demand.Why should we liberalize trade in Libya? The economic freedom would increase the growth then the G.D.P. participation will increase and that leads to society well being.

6.2 Libya's Economic Structure and WTO

WTO members agreed on 27 July 2004 to start talks with Libya on its membership bid, bringing the current number of applicant countries to 25.

The decision was taken in the General Council on 27 July. Following the normal procedure for negotiating membership, the General Council agreed to set up a working party to examine Libya's application, the first step in the accession process. Libya first applied to become a WTO member in December 2001.

The working party, whose participation is open to all WTO members, will start its work as soon as a chairperson is appointed by the chairman of the General Council in consultations with representatives of members and the representative of Libya. As an applicant country, Libya will also be an observer to the WTO during the membership negotiation.

Ms. Najat Mehdi Al-Hajjaji, ambassador and permanent representative of the Libyan Araba Jamahiriya to the WTO, addressed the General Council immediately after the decision.She said her country looks forward to WTO membership with the aim of achieving economic development, diversification of its sources of income, the attainment of economic benefits and the consolidation of good trade and economic relations with WTO member states, for the accomplishment of economic development for all.Another 24 countries are now negotiating the terms of accession to the WTO.

6.3 THE MOST COMPETITIVE SEGMENT IN THE LIBYAN ECONOMY

6.3.1 The situation in Libya and the diamond theory:

Why do many companies in particular countries achieve an outstanding success in specific kinds of business? This question means that there must be some characteristics in the people living in these countries which allow the companies to create and sustain the competitive advantages in specific fields. The real competition, globalization, rapid innovation, wide spread of information ... etc. all these factors lead these nations to gain more markets and achieve progress easily. This kind of progress originates from the theory of "Competitive advantage" where each nation must concentrate on some segments in order to reap the maximum profit.

Some of these segments are natural endowments, others are created by the nation itself in order to establish the competitive advantage in these segments. Nations succeed where country circumstances support the pursuit of the proper strategy for a particular industry or segment. What works well in the country must lead to competitive advantage in the industry. Many national attributes affect the ease or difficulty of pursuing a particular strategy, from the norms of behavior that shape the way firms are managed to the availability of certain types of skilled personnel, the nature of home demand, and the goals of local investors

Creating competitive advantage in sophisticated industries demands improvement and innovation-finding better ways to compete and exploiting them globally, and relentlessly upgrading the firm's products and processes. Nations succeed in industries if their national circumstances provide an environment that supports this sort of behavior. Creating advantage requires insight into new ways of competing and the willingness to take risks and to invest in implementing them. Nations succeed where the national environment uniquely enables firms to perceive new strategies for competing in an industry. Nations succeed where local circumstances provide an impetus for firms to pursue such strategies early and aggressively. Nations fail where firms do not receive the right signals, are not subject to the right pressures, and do not have the right capabilities.

Sustaining competitive advantage for very long demands that sources be upgraded. Upgrading advantage demands more sophisticated technology, skills and methods, and sustained investment. Nations succeed in industries where the skills and resources necessary to modify strategies are present. Firms that rest on static conception of advantage are eventually imitated, and they lose market position.

Sustaining advantage demands continual change which is uncomfortable and organizationally difficult. Nations succeed in industries where pressures are created that overcome inertia and promote ongoing improvement and innovation instead of an easy life. Nations fail in industries where firms stop the upgrading process.Nations succeed in industries where their home base advantages are valuable in other nations, and where their innovations and improvements foreshadow international needs. Success in international competition demands that firms translate domestic positions into international positions.

This allows advantages from the home base to be levered and reinforced by a global strategy. Nations succeed in industries where domestic firms are pushed (or encouraged) to compete globally. The search for the determinants of national competitive advantage in industries must isolate these circumstances.

Determinants of national advantage: quotation. The nation should emphasize the segment, which can provide some advantages when it enters the real competition with other nations, or can achieve a goal and change the attention from some less competitive segments to more important ones or to those, which have no competitive advantages at all.

This kind of competition is determined by some factors, which create the right environment where local companies are able to compete and create the competitive advantages. These factors are:

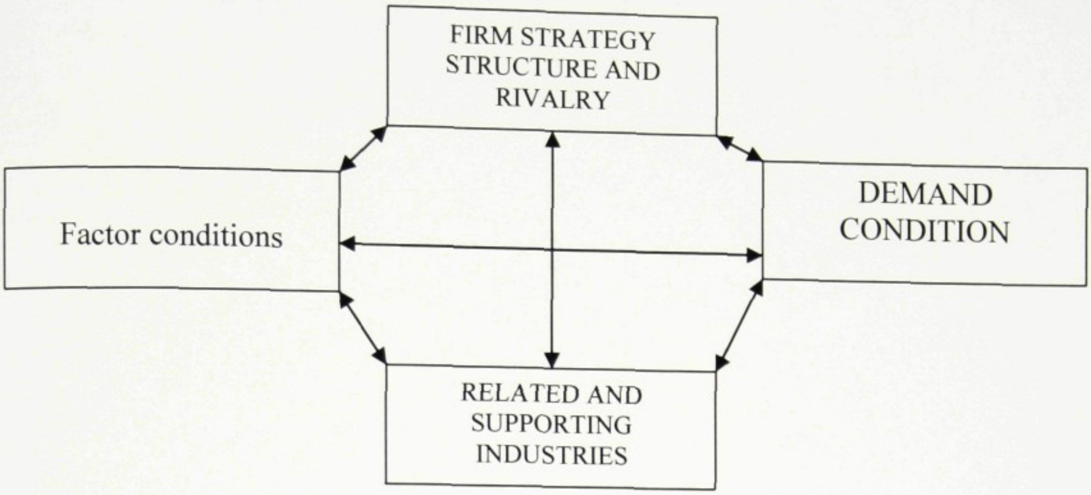
1. ***Factor conditions***. The nation's position in the factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.

2. ***Demand conditions***. The nature of home demand for the industry's product or service.

3. ***Related and supporting industries***. The presence or absence in the nation of supplier industries and related industries that are internationally competitive.

4. ***Firm strategy, structure, and rivalry***. The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry.

Figure (1): the determinants of national advantage



Picture 5 . (source 3)

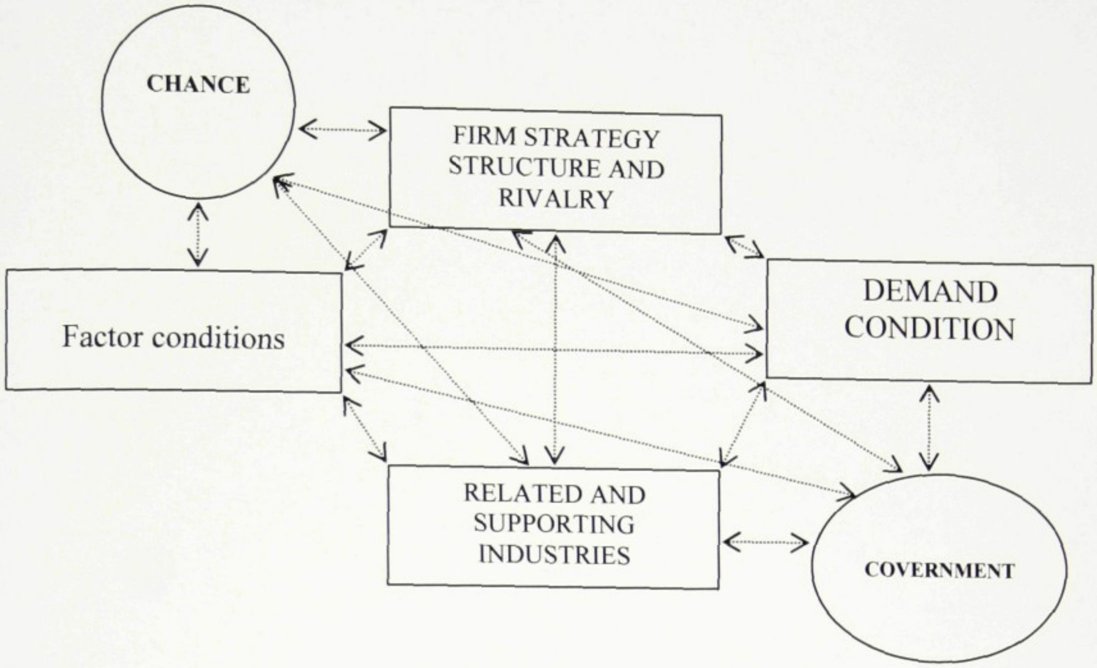
The determinants, individually and as a system, create the context in which a nation's firms are born and compete: the availability of resources and skills necessary for competitive advantage in an industry; the information that shapes what opportunities are perceived and the directions in which resources and skills are deployed; the goals of the owners, managers, and employees that are involved in or carry out competition; and most importantly, the pressures on firms to invest and innovate. Firms gain competitive advantage where their home base allows and supports the most rapid accumulation of specialized assets and skills, sometimes due solely to greater commitment. Firms gain competitive advantage in industries when their home base affords better ongoing information and insight into product and process needs. Firms gain competitive advantage when the goals of owners, managers, and employees support intense commitment and sustained investment. Ultimately, nations succeed in particular industries because their home environment is the most dynamic and the most challenging, and stimulates and prods firms to upgrade and widen their advantages over time.

Nations are most likely to succeed in industries or industry segments where the national "diamond", a term I will use to refer to the determinants as a system, is the most favorable. This is not to say that all a nation's firms will achieve competitive advantage in an industry. In fact, the most dynamic the national environment, the more likely it is that some firms will fail, because not all have equal skills and resources nor do they exploit the national environment equally well. Yet those companies that emerge from such an environment will prosper in international competition.

5. ***The role of Government***. Having described the determinants of national competitive advantage, a final variable is the role of government. Government is prominently discussed in treatments of international competitiveness. Many see it as a vital, if not the most important, influence on modern international competition. Government policy in Japan and Korea is particularly associated with the success these nations firms have enjoyed.

It is tempting to make government the fifth determinant. Yet this is neither correct nor the most useful way to understand government's role in international competition. Government's real role in national competitive advantage is in influencing the four determinants. This is illustrated schematically in Figure (2); which now reflects the complete system.

Government can influence (and be influenced by) each of the four determinants either positively or negatively, as should be evident from some of my earlier example. Factor conditions are affected through subsidies, policies toward the capital markets, policies toward education, and the like. Government's role in shaping local demand conditions is often more subtle. Government bodies establish local product standards or regulations that mandate or influence buyer needs. Government is also often a major buyer of many products in a nation, among them defense goods, telecommunications equipment, aircraft for the national airline, and so on. The way this role as a buyer is played can either help or hurt the nations industry.



Picture 6 (source 3)

Government can shape the circumstance of related and supporting industries in countless other ways, such as control of advertising media or regulation of supporting services. Government policy also influences firm strategy, structure, and rivalry, through such devices as capital market regulations, tax policy, and antitrust laws.

Government policy, in turn, can be influenced by the determinants. Choices about where educational investments are made.

Libya must start concentration on those segments which give the country the competitive advantages in comparison to other nations and to stop subsidizing and supporting the noncompetitive segments which don't have the ability to compete like: planting bananas in the desert which costs a lot with very little production. Moreover it will be much cheaper if bananas are imported. This policy and other similar ones would affect the national economy. Besides, these resources could be used better in other profitable segments.

According to this theory, Libya has the potential to be internationally competitive in many kinds of industries which can survive under this new situation of globalization and the removal of protection and all kinds of distortion and compete with others especially in the implementation of W.T.O. agreement.

7 Petrochemical industries

7.1 PETROCHEMICAL INDUSTRIES

Libya has been considered number eight among oil producing countries with production of 1.400,000 million barrel and 1,315,000 m of gas plus a very strategic marketing position. These elements give Libya a great advantage in this sector.

- ***Crude Oil and Petroleum Products***

Libya – crude/products balance 1997

	1000b/day
Crude Production	1.369
Crude Exports	1.103
Product Exports	122
Product consumption	173
Domestic Refinery Capacity	342

7.2 Factor Condition

The abundance of natural resources, "Crude Oil" of high-quality "brand oil", accessibility which makes one barrel cost 19 dollars, cheap energy which produces those products, "liquefied gas".

● Libya has very considerable infrastructures of very effective plants like: "Ras Lanuf", "Marsa el Brega", "Abu Kammash". These are linked to a good chain of services institutions, research and development institutes etc.... Which make it very suitable for vertical expansion.

● The abundance of cheap energy:- large scale petrochemical plants have been constructed in areas where there are large sources of natural gas and associated gas from crude oil fields (Middle East, South America and Asia).

In this way the gas is liquefied and used locally for the production of petrochemicals. A typical example is the large-scale methanol plants built in the last 5 years by Saudi Arabia, Iran, Qatar, Venezuela, Chile, Trinidad and Norway.

Ethane 69 is an ideal feedstock for ethylene production. Fewer co-products 70 than from naphtha and much cheaper plant investment.

Those countries, which operate profitable gas-based petrochemical operations, have advantageous gas costs.

The geographic location plays a vital role in this industry because Libya is near one of the biggest markets in the world "Europe".

7.3 Demand Condition

The increasing demand on these products is very high with a considerable potential growth. See the following Schedule.

A look at the chemical products supply and demand trends in Western Europe shows that Western Europe has not been investing for some time in new production capacity of methanol, steam crackers and derivatives. This is due to the rationalization process of the European petrochemical industry, which has taken place in the last 2 or 3 years, whereby capacity has shrunk as a result of mergers and acquisitions. In a trend to lowerthe cost of production, investment in the petrochemical industry has shifted to the areas where feedstock (gas) is plentiful and cheap, that is to say to Asia, the Middle East, North and South America.

Looking at the demand and supply balance for main chemical products - methanol, ethylene, propylene, polypropylene, polyethylene - it can be seen that, through year 2003, Western Europe will become a net importer of the above basic petrochemical products.

The growth rate for imports of these major chemical products is estimated at around 6% per year.

During the next few years Western Europe is set to become a major importer of polyethylene and by 2003 it is estimated that net imports will have reached about 500,000 tones, most relevant being that total imports will have reached 1.4 million tons, with HOPE 71 600,000 tons and LLD PE 72 550,000 tones. The majority of this material will be sourced from the Middle East and Arabian Gulf plants.

West Europe currently imports around 3 million tones of methanol, sourced mainly from South America and the Arabian Gulf. With demand for methanol growing in West Europe, there is potential for Libya to add value to its gas stream by increasing the actual capacity of methanol and ammonia plants.

8 Libya and EU

Generally speaking, the EU, is the most important economic trade partner for North African Countries of which Libya constitutes an important part.

There are geographical as well as historical basis for this importance: some of the E.U. countries are Mediterranean with life long interrelations which have left their mark on the multi ethnic societies of these two regions. Commerce has been active since time immemorial and cultural influences have floated between them with the warm winds from south to north in summer and a cooler one from north to south in winter. Archeological sights scattered in north African countries stand witness up to this day.

In the case of Libya, for instance, the bulk of its exports go to the EU countries specially crude oil and petrochemicals. In return Libyan imports consumer goods from the EU countries which represent a lion share of total imports. (See the following tables below)

Countries	Imports	Exports
Arab Countries	215597450	230507393
African Countries	1885387	3855728
EU- Countries	1124739695	2500362794
The European Countries	196479115	447826590
North, Middle & South American	127715690	19481069
Asian Countries	435202619	253538765
Australia	34030272	
New Zealand	2983359	
Grand Total	2138634237	3445572339

Tab (1) Value of Libyan Exports and Imports 1997 EST (in Libyan Dinars)

Source (3)

Country	x 1000 barrels	value	Countery	x 1000 barrels	Value
ITALY	188,130	3,516,149,700	*TURKEY*	25,338	473,567,220
GERMANY	87,826	1,641,467,940	*COROATIA*	10,567	197,497,230
SPAIN	40,186	751,132,410	*SWITHERLAND*	8,850	165,406,500
FRANCE	21,937	410,002,530	*TUNIS*	6,778	126,680,820
AUSTRIA	12,009	224,448,210	*ROMANIA*	4,852	90,683,880
GREECE	11,883	222,093,270	*CHINA*	1,563	29,212,470
PORTUGAL	4,852	90,683,880	*INDONESIA*	931	17,400,390
TOTAL	336,826	6,855,977,940		58,879	1,100,118,510

Tab (2)Geographical Distribution of Crude Oil Exports 1997 EST(source 3)

In addition, the **EU** is the biggest investor in North Africa; similarly most of the Libyan investments are located in the **EU** countries.

Another good reason for the solid relation is the stability prevailing in North African Countries. The relative stability contributed to flourishing relations between these countries and the EU. The common approach of the two sides in tackling problems such as immigration and terrorism is one good example.

This shows that our common issues are so inner-linked that no party or a group of parties can disregard them. It is in the interest of both sides to promote and enhance this common relationship.

On the other hand, the Libyan direct investment in the EU reached about $ 4)90.561 million in 1996, which represented 7.4% of the Libyan GDP in that year.

On the eve of the economic recession in Europe and the endorsement of the new Libyan foreign investment law; more European capital is expected to flow to Libya.

Libya can also play a vital role as a link between EU and other important African Countries, which may export their products to Europe through Libyan Territories. The construction of a rail road to connect these African countries with the seaports in the north of Libya together with the important existing Libyan infrastructure would enable these African Countries to extend their economic relationship with the North in a faster and less costly way.

As the following maps show, Libya can be a central gate for goods and passengers between the two continents. The existing infrastructure in Libya (Sea ports, air ports, high ways extending 22,000 km and telecommunication) will facilitate this process. Because of its vital geographical location, Libya can also play an important role in stabilizing the region and enhancing the cooperation process between the EU and the Maghreb States in particular and African States in general.

Libya is a member of the Union of the Coastal and Sub-Sahara countries. In this sense we can deal with the EU as one bloc, so that this group of nations would be the party to represent the southern coast of the Mediterranean. Finland much as Tchad is not a Mediterranean country yet it is represented in the EU Group, so is the position of Tchad in the Coastal and Sub-Sahara bloc.

9 Conclusion

Libya remains a problem country. The renewal of ILSA could be an instrument for U.S.-European cooperation, or it could create tensions within the NATO alliance. Careful management of the legislation with an eye toward harmonizing the U.S.-European approach can make an important contribution to the advancement of objectives shared by both parties. ILSA may contribute to convincing Libya that it is not necessarily exempt from pressure just because it handed over the Lockerbie suspects, and that the United States remains committed to ensuring Tripoli's full compliance with the United Nations resolutions. The experience of past encounters with Qaddafi suggests that confronted with a determined U.S. policy, he may prove more amendable to the demands of the international community.

Also on the other hand, the relationship between Libya and USA have a new face, The United States and Libya formally re-established direct diplomatic relations , after a 24-year break, when US Middle East envoy William Burns opened a US liaison office in Tripoli.

The move came six months after Libyan leader Moamer Kadhafi agreed to dismantle the country's nuclear, chemical and biological warfare programs and renounce the pursuit of such weapons.Burns inaugurated the US Liaison Office in Tripoli and resumption of direct diplomatic ties, said a statement issued by the US office at the conclusion of his visit."This occurs 24 years after the withdrawal of American personnel and the closure of the US embassy."Burns noted that "Libya would be taking its own steps to establish diplomatic representation in the US," the statement said.

What is expected? Libya will play like usual big role in The Economic development in all Africa, and specially after the logoff all the penalties on the Libyan economy and on the foreign investment in Libya, the new relationship between Libya and the UE,and between EU and Africa across Libya.

Sourses

- *Sourse 1* : **www.cia.gov**
- *Source 2 :* **www.google.com/search**
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