THE MOTIVATIONAL FACTORS FOR FOREIGN DIRECT INVESTMENT (FDI) IN TOURISM IN LIBYA

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ABSTRACT

Foreign Direct Investment (FDI) is one of the most effective ways by which developing economies become integrated with the global economy, as FDI provides not only capital but also the technology and management expertise essential for restructuring firms in the host economies. Multinational companies (MNCs) have played a significant role in the development and continuity of the travel and tourism industry throughout the world. The presence of these companies in the accommodation sector continues to increase. In some countries, MNCs represent 70% of the total number of hotel companies. However, the MNCs in Libya make up less than 1% of the total number of Libyan hotel companies.

Although Libya has demonstrated various initiatives to solve the hotel problem, it could not overcome this dilemma on its own. Some analysts argue that this problem could be solved by international cooperation. In light of this fact, Libya has started a new era of openness and cooperation and has issued several important laws to attract foreign investment in order to facilitate solutions to its problems, including the tourism sector.

An exploratory methodology was adopted in this research, and multi-methods (qualitative and quantitative) were used to analyse multi-sources of data that comprise semi-structured interviews, questionnaires, literature, and official documents. Triangulation analysis has been employed which is appropriate for multi-source data. The study findings generally confirmed that:

- The Libyan government should make its investment climate more attractive for foreign direct investments by means of wide and deep reforms, in this respect the government should know that the major obstacles that FDI investment in tourism in Libya has faced since 2011: were: security situation, political stability, lack of investment in infrastructure and local investment policies;
- The government of Libya should adopt a clear policy towards MNCs which invest in the tourism sector and this policy should be transformed into a comprehensive plan;
- Foreign investors desire to invest in Libya when they know the nature of the investment environment because this will lead to maximizing their profits;
- Dealing with the tourism sector will provide the opportunity for foreign investors to enter other sectors such as infrastructure.

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ABBREVIATIONS

BRICs	Brazil, Russia, India and China
CBL	Central Bank of Libya
CHI	China
GDP	Gross Domestic Product
GBTTI	General Board for Tourism and Traditional industry
GCR	Global Competitiveness Report
FDI	Foreign Direct Investment
FIPA	Foreign Investment Promotion Agency
IMF	International Monetary Fund
JV	Joint Ventures
LMT	Libyan Ministry of Tourism
LIB	Libyan Investment Board
LDCs	Least Developed Countries
LFI	The Law on Foreign Investment
MEDC	More Economically Developed Country
MENA	Mediterranean Countries
MFs	Motivational Factors
MNCs	Multinational Companies
NI	Northern Ireland
NSTD	The National Strategy for Tourism Development
OECD	Organization for Economic Cooperation and Development
R&D	Research and Development
ROI	Return on Investment
SEE	Southeast Europe

TTCR	Travel & Tourism Competitiveness Report
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
US	United States of America
USD	United States dollar
VAT	Value Added Tax
VNAT	Vietnam National Administration of Tourism
VND	Vietnamese Dong
WB	Western Balkan
WOS	Whole Ownership
WIR	World Investment Report
WDI	World Development Indicators
WTTC	World Travel and Tourism Council
WTO	World Tourism Organisation

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Completing this work would have been all the more difficult were it not for the support and friendship provided by the other members of the School of Built Environment in the University of Salford. I am indebted to them for their help during my study.

Furthermore, I dedicate this thesis to my loving parents, HUSAIN ELGAMODI and TURKEYA ESHNEBESH, who never ceased praying for me and wishing me all success during the research. Through all the stages of my life, they never failed to provide me with the determination to move forward.

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DECLARATION

I declare that this thesis has been composed by myself, that it has not been accepted in any previous application for a higher degree, that the work of which it is a record has been performed by myself, and that all sources of information have been specifically acknowledged.

Khaled Elgamodi

CHAPTER ONE

INTRODUCTION TO THE RESEARCH

1.1 Introduction

FDI represents an important indicator of the increasing interdependence of the economies of countries around the world. FDI in its various forms is considered an artery that maintains continuity in the life of any economy. Therefore, all countries aim to set up programmes and policies to ensure the flow of investment according to the goals and objectives of their respective economic systems. FDI's growing role in global business is extraordinary. It can provide a firm with new markets and marketing channels, cheaper production facilities, and access to new technology, products, skills and financing. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property (UNCTD, 2009). FDI is conducive to the creation of a more competitive environment, or conversely to the worsening of monopolistic and/or oligopolistic elements in the host economy (Moosa 2002). Foreign direct investment has a significant impact on economic growth which is magnified within a host country. (Cotton and Ramachandran, 2001, and Barua, 2013).

FDI has remarkable effects on the economy of any host country. It influences production, employment, income, prices, exports, imports, economic growth, balance of payments and the general welfare of the recipient country. It also represents one of the most significant factors leading to the globalisation of the international economy. Flows of FDI contribute to the build-up of strong economic links both between industrialised countries and with developing countries (Moosa, 2002). The environment for FDI has become very competitive and it is important for countries to examine their investment policies critically and ensure the relevance and effectiveness of the policies in attracting and benefiting from FDI. FDI may improve employment and raise productivity and workforce skills through technology transfer.

FDI may also have other positive external effects through corporate linkages in market access, or through improved terms of financing and by enhancing exports, thus promoting economic growth. FDI is of great significance especially to developing countries. These countries require FDI as it is one of the most important factors in financial funding and is of enormous value as a means of acquiring the required knowledge and technology for succeeding in economic projects. The significance of MNCs within the tourism sector lies in the fact that tourism is the key to development, economic prosperity and well-being (UNWTO, 2013). MNCs also play an intermediary role between the host countries, the destination for the tourists who are their customers. They will aim to make a destination acceptable to the customers by providing finance, expertise and market connections and thus manipulate and direct tourist demand in line with their own interests.

The main aim of this study is to identify the factors motivating foreign investors to invest in the tourism sector in Libya. The Libyan economy is one of the economies that require such a combination of private, local and foreign investment to achieve the desired economic goals that correlate with the further objectives of the Libyan economic system in subsequent stages of development.

However, the Libyan economy needs to provide a suitable environment to accommodate investment and attract increasing foreign funding. The enormous changes in the world economy and the vast increase in FDI, especially during the 1990s, have led to significant revisions in investment strategy in several countries previously maintaining restrictions on FDI and tight control over it. However, liberalisation of investment policy alone does not necessarily increase FDI in a certain country, although it makes inward investment possible. World FDI has grown rapidly since the early 1980s (WIR, 2005). Indeed, the rate of increase in world FDI was higher than that of the increase in world trade from the early 1980s through to the mid-1990s. As a result of new developments, FDI has become one of the most important means of integration into the world economy (see Chapters Two and Six). The role of foreign direct investment in the world economy would be significantly greater if the impact of FDI on various economic activities was considered.

FDI enables investing firms to utilise their firm-specific assets, such as technology and managerial knowhow, efficiently, while recipients of FDI can obtain not only the funds for investment but also the transfer of technology, growth and knowhow (Iamsiraroj, e.t, al 2015). To understand the implications of a host country's locational factors, the study analyses the academic literature concerning FDI theories and the determinants of FDI in different countries and regions, particularly in Asia and Latin America. In order to understand the importance of host country factors in FDI, the study analyses comparative studies concerning FDI motivational factors and policies, particularly in East Asia, South East Asia and Latin America. The research attempts to determine the predominant factors in attracting FDI. This study discusses and analyses the Libyan investment environment and factors which affect the attraction of MNCs, not only in terms of economic factors, but also political instability, riots, geographical and social factors. The study therefore also addresses non-economic factors, such as human capital conditions and the regional situation that may affect a foreign investor's decisions when considering investment in Libya.

As this research aims to identify the motivational factors for foreign investors to invest in tourism sector in Libya, it develops and examines some questions regarding Libya's investment climate. The empirical study discussed relates to the economic environment. Other discussions relate to the political environment, and to further factors such as the social factors of Libyan manpower and the geographical location and the implications of this on FDI in Libya.

Firstly, to achieve the objectives of this study, a semi-structured interview method and questionnaire were used to collect data. The researcher conducted the semi-structured face to-face interviews with policy makers, consultants and heads of department from the Ministry of Libyan Tourism and the Libyan Investment Board. The second method used to collect the data was by means of emailing questionnaires to the policy makers and heads of department of some hotels, which rank amongst the top ten hotel groups in the world (2012-2013).

1.2 The State of Libya: General Overview

Libya is one of the world's Arab countries, occupying a strategic geopolitical location in the middle of North Africa and having a long Mediterranean coast of about 2,000 km. In total, it covers 1,774,440 sq. km, as shown in Figure 1.1. The population stands at 5.6 million (General Census of People 2012). According to Libyan demographic trends, Libya has a young population: 33% of the population are under 14 years old; 62% are between 15 and 64 (CIA, 2009). With effect from September 2011, the United Nations recognised the country’s change of name from "Libyan Arab Jamahiriya" to "Libya” in November 2011, the international Organization for Standardization (ISO) altered the name officially to "Libya" (ISO, 3166-1, 2011).

Source: (http://www.mapsofworld.com/libya, 2014)

Figure 1.1: Map of Libya.

1.3 Libyan Revolution 17th of February

During Gaddafi's regime (when he ruled the country for 42 years), there was no constitution in the country and the freedom of the press was not protected. As a result, the country had one of the worst records in the Arab world as regards the freedom of the press. As a result of the widespread movements that overturned the regimes of Tunisia and Egypt, Libya's immediate neighbours to the west and the east, Libya experienced a full-fledged revolt which began on 17th February, 2011. Currently Libya is undergoing political reconstruction, and is governed under an interim constitution drawn up by the National Transitional Council (NTC) (Gritten, 2011). The NTC declared the country to be officially liberated from Gadhafi's regime and pledged to turn Libya into democratic state. One of the major challenges facing the new authorities is the Militia - armed groups, some of whom originated during the anti-Gaddafi rebellion, others newly arisen - who have defied attempts to disarm them, and have caused concerns about the prospects for stabilisation. The most important goals of the diverse Arab Spring protests are improved material conditions and basic rights and freedoms (Moore, 2013).

1.4 Rationale of the Study

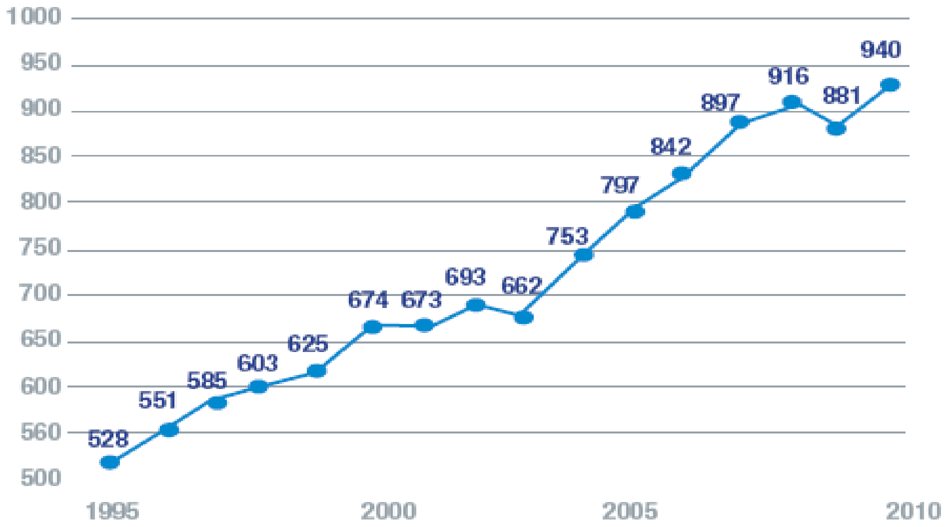
Tourism is one of the fastest growing industries in the world. It has been observed that, for many countries, tourism represents a significant potential for future development, while for other countries it offers a diversification of national economies (Elliott, 1997; TTCR, 2015). In addition, people at all levels and occupations in society are affected in one way or another by this fast growing and important industry. Recently, the foreign capital inflow has increased significantly in developing countries, due to the fact that FDI is the most stable and prevalent component of foreign capital inflows (Adams, 2009).

The importance of the present study stems from the fact that FDI brings benefits to all nations, but particularly to developing ones. These beneficial effects on host countries make FDI an important inflow, because FDI offers many advantages that other capital inflows cannot. For instance, it is safer than fixed debt as a way for financing development. The tourism sector needs this development and this often represents the easiest and most efficient way of gaining access to advanced technologies that subsequently encourage job creation, labour skills and export markets. Multinational Companies are significant vehicles for the direct and indirect transfer of technology, this being broadly defined as including not only scientific processes, but also organisational, managerial and marketing skills (Adams, 2009). In addition to these real benefits, the relative stability of Multinationals has also increased the emphasis on FDI among capital flows.

FDI also produces other unintended efficiency enhancing effects. For example, local companies are forced to upgrade their own technological capability as a consequence of the competition introduced by the local affiliates of MNCs. Since developing countries need to be integrated with global production, FDI will continue to be a vital element in covering investment gaps and ensuring the associated inward flow of technology. Libya's economy is in a transitional state, having been relatively closed for a decade and only recently re-opened to the world. However, there are several reasons related to the tourism sector that make the present research particularly important. These stem from the fact that:

- The World Tourism Organization (WTO, 2010) says that international tourism recovered strongly in 2010. International tourist arrivals were up by 7% to 940 million, following the 4% decline in 2009, and receipts grew by 5% to reach US$ 919 billion. The majority of destinations posted positive figures, sufficient to offset the 2009 losses. However, recovery came at different speeds and was primarily driven by emerging economies, as shown in Figure1.2.

(Millions of dollars)



Source: (World Tourism Organization, WTO 2010)

Figure 1.2: World Inbound Tourism International Tourist Arrivals (millions of dollars)

- According to the Libyan Ministry of Tourism (LMT, 2010) there was a sharp decrease in the number of tourists into Libya from 105,997 in 2007 to 32,038 in 2010. The total revenue decreased from $ 26,950 million in 2007 to $ 18,686 million in 2010, as shown in Table 1.1.

Table 1.1: International Arrivals and Revenues (2013)

Years	2000	2001	2002	2003	2004	2005	2006	2007	2010
Tourists	29,302	20339	20,075	23,029	42,638	81,319	125,450	105,997	32,038
Revenues (millions of dollars)	16,409	11,389	11,242	12,896	23,877	45,538	29,980	26,950	18,686

Source: (GBTTI, 2009) and (LMT, 2013).

On the other hand, Libya is suffering from an acute shortage of luxury accommodation. In order to cope with the volume of tourists in the future after the achievement of political stability and security, there is a need to encourage foreign investors. Libya has huge potential for tourism but lacks the infrastructure. Promoting the ancient heritage, the sea, the Sahara, Libyan food, music and folk life is not sufficient as it is necessary to build resorts and hotels (LMT, 2013).

- Finally, the researcher's personal motivation for conducting this study lies in the fact that the topic is a new research topic for Libya, and that without doubt, in the future tourism must play a pivotal role in strengthening the national economy. Furthermore, the study will provide an opportunity to gain experience in how to conduct a systematic investigation into the motivational factors for FDIs investing in the tourism sector, and an opportunity to learn in some depth how to present research results clearly and convincingly in an academic format.

1.5 Research Aim and Objectives

The main aim of this study is to identify the factors motivating foreign investors to invest in the tourism sector in Libya. To achieve this aim, the following objectives were developed:
1 -To review the literature on the international hotel industry world-wide and more particularly the literature which covers MNCs' investment in developing countries;

2 -To review the literature of political instability in developing countries in general, and undertake critical analysis of the international perception of Libya in respect of political stability and level of security, and how this influences the behaviour of external investors;

3 - Review how some countries have successfully attracted Foreign Direct Investment (FDI) after periods of political instability to identify adverse factors, which impact upon the scope for external investment;

4 - To evaluate the Libyan experience to attract MNCs to invest in Libya;

5 - To determine the requirements and needs of MNCs in order to encourage them to invest in Libya;

6 - To explore the potential benefits for the tourism industry for both Libya and international investors;

7 - To provide recommendations for policies and procedures which can help to improve the Libyan business environment and attract more FDI in the tourism sector.

This study investigates the motivation factors that will encourage MNCs to invest in new countries generally and in Libya in particular. In other words, it aims to develop an in-depth understanding of the requirements and needs of MNCs in order to encourage them to invest in Libya and also aims to look at the main benefits that Libya may obtain from the involvement of these companies.

The research questions along with the aim and objectives play an important role in choosing the research approach (Easterby-Smith et al., 2002).

1.6 Research Questions

In order to achieve the aim and objectives outlined in the previous section, questions were developed, as follows:

- Why does Libya need multinational companies to invest in the tourism sector?
- How can multinational companies be encouraged to invest in Libya?
- How can Libya provide a suitable environment following political instability and insecurity to attract international investment in tourism sector?

1.7 Research Methodology

In order to achieve the research aim and objectives and to answer the research questions, the researcher adopted a qualitative approach. The research approach is inductive, whilst the research strategy develops a case study. The secondary data were taken from various academic and professional sources whilst the primary data collection included questionnaires and semi-structured interviews. Multiple case studies were carried out for this research and they were multi case studies, adopted as a research strategy for the collection of data. They were developed from the Libyan Ministry of Tourism, the Libyan Investment Board and International hotel companies. In total 12 semi-structured interviews were conducted, out of which 6 were conducted with the Libyan Ministry of Tourism, while the other 6 were conducted with the Libyan Investment Board. 90 questionnaires were sent to 8 of the largest International Hotel Companies, which were selected as the study sample. However, only 52 questionnaires were returned, of which 45 were complete and seven were rejected because they were incomplete. Thus, the return rate of the questionnaire was 50%.

1.8 Validity and Reliability of Data

Validity and reliability of data were enhanced by the use of the multiple sources of evidence. This was seen as the most appropriate and available method for this study. The purpose of combining all these available sources is to increase the reliability and validity of the study. Yin (2009) suggested using multiple sources of evidence as a method to ensure the construct validity. The current study used multiple sources of evidence, both primary and secondary sources. A draft transcript of each interview was validated by the interviewees confirming the text as an accurate representation of the interview. The researcher had attended a number of training courses held by the Research Institutes at the University of Salford.

1.9 Ethical Approval

Ethics are defined as moral principles with norms or standards of behaviour that guide moral choices about participants' behaviour and their relationships with others (Saunders, et al., 2009). Ethical Approval was obtained in January 2013, and was granted by the Research Ethics Panel at the University of Salford (see Appendix 1).

1.10 Thesis Structure Plan

The thesis will be divided into ten chapters, as shown in Figure 1.3. The design of the chapters is intended to indicate the flow of information from a wider perspective about the key issues in line with the study. Chapter One will present the research introduction which will include justification of the research, aim and objectives, and research questions. In addition, it presents a short description of the research methodology, and the structure of this thesis. Chapter Two presents a literature review of FDI. It includes: Concepts, Motives, Theories, Effects, and an overview of FDI Trends in the World. Chapter Three will present the motivational factors and policies for improving the investment environment for attracting FDI in developing countries. Chapter Four will present the impact of risks on Foreign Direct Investment (FDI) it includes; defining political risk, general political risk indicators, elements of political risk and foreign direct investment, foreign direct investment protection. Chapter Five provides an overview of countries effectively attracting FDI after an episode of political instability; it includes: historical background and brief overview of the literature, FDI in tourism in Vietnam, FDI in Southeast Europe (SEE) and the Western Balkan (WB) countries. Chapter Six presents the multinational corporations (MNCs) in the tourism sector and the Libyan business environment. The methodology used in this study will be covered in Chapter Seven. The empirical findings, analysis and interpretations will be presented in Chapter Eight. Chapter Nine provides an in-depth discussion of the findings of the data and the results of the research, considering evidence from the literature review, the questionnaire and the semi-structured interviews. A conclusion, recommendations, expected contributions to knowledge by the study and areas for further research will be provided in Chapter Ten and the thesis will end with a list of references and appendices.

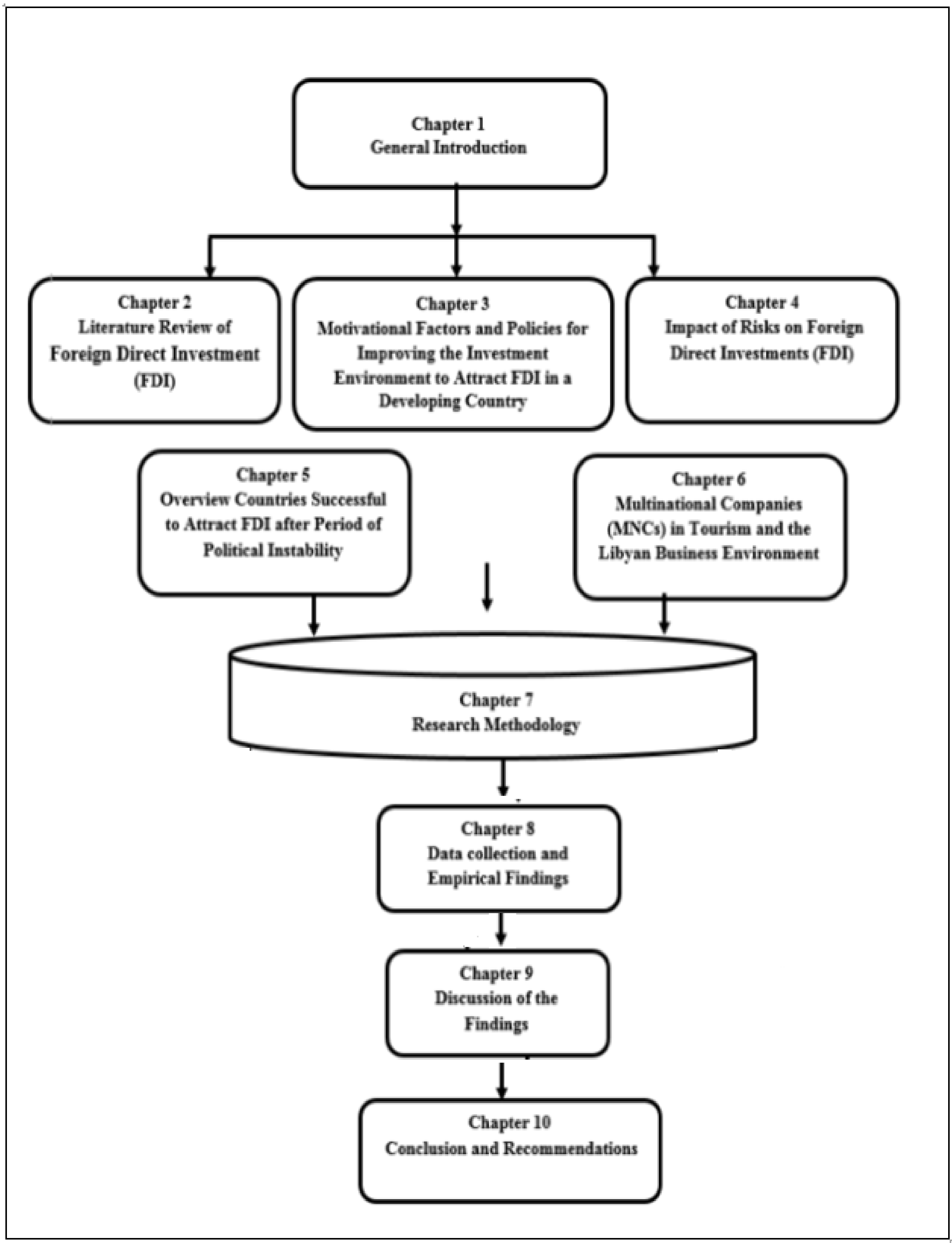


Figure: 1.3: Thesis Structure Plan

1.11 Chapter Summary

This introductory chapter has offered an insight into the research, highlighted the background of the strategic geopolitical location of Libya and offered a rationale for the study. The chapter has also considered the scope of the research, its aim, objectives, and the research questions which helped to achieve them. Validity and reliability of data have been considered, and an indication of the methodology adopted has been provided. Finally, an outline of the structure of the thesis has been provided in a diagram. The next chapter will introduce the concepts, motives, theories, effects and trends. It provides an overview of FDI trends both worldwide and in the Mediterranean.

CHAPTER TWO

LITERATURE REVIEW FOREIGN DIRECT INVESTMENT (FDI)

2.1 Introduction

The literature review of this research was conducted to enable the researcher to familiarize himself with and understand the concepts, motives, theories and current knowledge of FDI. The aim of the literature review was to review the published work in the area of FDI, and also enable the researcher to identify the barriers which face investors when investing abroad. It was intended to enable the researcher to recognise the relevant research aims, objectives, research questions and to establish a suitable methodology for conducting the research.

The importance of FDI has led to the development of numerous theories and models seeking to explain the motivations behind FDI and MNCs' choice of particular entry modes and locations. Several studies provide overviews of FDI theories (Olga, 2012). Dunning (1993) and Cazzura, etal. (2015) identified four types of motive, which are: the resource-seeking motive; the market-seeking motive; the efficiency-seeking motive; and the strategic asset motive. A motive is the starting point in the process of FDI. Motives are the key drivers of each of the main parties involved in the process of FDI, namely: foreign investors, the host government and the host companies. The FDI process takes place if the motives of each party are made clear to the others. However, if the real motives of some or all parties remain hidden, this may lead to FDI not taking place (Marinva, 2004).

As a result, FDI goes through many stages of development, and different state structures at different periods in time, with different needs at these different stages of international economic development. There are many theories of FDI. This study is interested in exploring theories that explain the motives and determinants of FDI from the point of view of foreign investors and host governments. The chapter presents definitions of motives for FDI. Then the motives for FDI are presented from the perspective of foreign firms, the host government and local firms.

2.2. Definition of Motives for FDI

Motives for FDI are the reasons for a firm to invest abroad (Dunning, 1993). In the context of Libya, this study will try to explore the motives for foreign investors for investing in the country. Thus the motive is probably the reason why the parties engage in certain specific activities. However, the motives of the parties are not arbitrary, but guided by what benefit can be attained. For example, a foreign investor may be motivated to engage in FDI to benefit from access to a virgin market. The host government is motivated to engage in FDI in order to benefit from new technology, and local companies may be motivated by the goal of enhancing their local competitive advantage.

2.3 Foreign Firms' Motives for FDI

It is important to differentiate between different motives for undertaking FDI, to understand the underlying motives for FDI decisions and the main features of each decision. However, this differentiation does not mean that these motivations are always used in isolation. Sometimes these motives can act together to drive FDI (Ziegler & Linden, 2010). Furthermore, the FDI decisions firms make depend on a variety of motives, and they will have therefore identified several motives for FDI. This is clearly illustrated by Eiteman et al. (2001) who identified five motives for FDI, as follows: market seeking, raw material seeking, production efficiency seeking, knowledge seeking and political safety seeking. Drawing on Dunning's classification of FDI motivations, Franco et al. (2010) distinguished between three motives of FDI; market seeking FDI, resource seeking FDI and non-marketable asset seeking FDI. However, Dunning (1993) categorized four motives of FDI: market seeking, resource seeking, efficiency seeking and strategic asset seeking. Furthermore, the FDI decisions firms make depend on different motives, and they have therefore identified several motives for FDI. This is clearly illustrated by Eiteman et al. (2001) who identified five motives of FDI, as follows:

2.3.1 Resource Seeking Motives

The motive for this type of FDI is the unavailability of resources (e.g. raw materials or low cost labour), or high costs in the home country. In this case firms decide to go abroad, because the reduction of their costs is a very important factor. Moreover, the motives for this type of FDI are to increase the firm's profits and to elevate its competitive level in the market served or in the market it wants to serve (Dunning, 1993). According to Campos and Kinoshita, 2003 this kind of FDI will be attracted to countries with rich natural resources. Sometimes the purpose of this type of FDI is to take advantage of resources in a specific area, and FDI in this case is location-based, for instance in the oil and tourism industries (Tekin-Koru, 2007). The main determinants of this resource seeking FDI are: physical infrastructure, openness, unskilled labour, coastal location and level of agricultural activity. If the country has comparative advantages in natural resources this could lead to trade instead of FDI. However, when a country does not have sufficient capital for exploiting these resources, or does not have the advanced technology to obtain or sell raw materials, and if there are not good infrastructure facilities, in these cases FDI will take place (World Investment Report, 1998; IMF 2015).

2.3.2 Market Seeking Motives

There are many reasons why market-seeking motives would affect investor behaviour. The market-seeking motive is influenced by factors such as structure, size and the growth of domestic and foreign markets. If a domestic market is stagnated or has a limited absorption capacity, this could lead companies to expand production facilities in foreign markets and to find opportunities to invest and reach consumers in foreign high growth markets. Alternatively, firms may invest in production facilities overseas in order to access resources or achieve efficiency gains. In addition to factors like transport cost, tariffs, economies of scale and host government policy towards imports, the potential investor will consider the political and economic stability in the host country in comparison with its neighbouring countries. (Streak and Dinkelman, 2000). Market seeking motives lead to FDI that is linked to the size and growth of a market and they are the most important factors that influence a company's choice of a market. New markets provide opportunities for the firm to compete, grow and gain economies of scope (UNCTAD, 1998). However, Franco et al. (2010) explained that the factors determining the choice of location depend on the purpose of this investment. If the firm is motivated to exploit the host country's market, then factors such as market size and the availability and intensity of comparative and absolute advantages are the most important factors determining the choice of location.

2.3.3 Efficiency Seeking Motives

The reason for efficiency seeking is the desire to rationalize the structure of production units that already exist in the home country. The expansion of FDI seeks to exploit the advantages of each company in the host country. This type of FDI has the additional benefit of contributing to the growth of sales in the company and in its investment at home and abroad. On the other hand, it indicates that the defensive FDI seeks cheap labour in the host country with the goal of reducing the cost of production. MNCs try to reduce the cost of their labour through investing in developing countries, for example China, Mexico and Morocco. Several countries encourage FDI by setting up fiscal and physical incentives like tax holidays, import quotas and simple repatriation of profits. In this case, the costs of production and transport are more important than the size of the market (Akhtar, 1998; Campos and Kinoshita 2003). An efficiency-seeking firm is motivated by benefits from advantages such as institutional arrangements, cultures, policy, market structure, and the economic system (Ascani, et, al. 2015). Firms focus their activities in a small number of locations and then supply their product to several markets. Well developed and open alien markets will encourage this type of investment.

2.3.4 Government Motives for Seeking FDI

The motives for a host government to seek to attract FDI are manifold. They might include its wish to support economic growth; to enhance privatisation programmes; to access advanced technology; to acquire managerial skills and create jobs; to develop the abilities of firms to create new goods; to facilitate the expectations of knowledge spill-over and to establish sources of funds to help the government with its expenditure (Marinov and Marinova, 1999), (Marinova et al, 2004). In addition, Gürsoy, et al. (2013), confirm that there is a positive relationship between economic growth and foreign direct investment. That relationship is important for both developed and developing countries. Economic growth of a host country is directly affected by FDI. New job opportunities, inflow of technology, managerial know-how, marketing skills and many other aspects of an economy are developed in a host country by the experience of foreign investors. Thus, host countries expend great efforts in attracting foreign direct investment. Governments of developing countries in particular give priority to attracting FDI due the fact that FDI has become one of the main drivers of economic growth and development, especially in transition economies and that it enhances both domestic capital formation and the quality of capital stock. MNCs are viewed as a means to import better management and technology. Furthermore, they cannot prevent local firms from absorbing (through spillover) technology or any skills they bring with them (Fodor, 2005). Fodor also stated the importance of the economic climate as a determinant of FDI. Economic climate factors include trade policy, the conditions of domestic labour, infrastructure and macroeconomic stability. However, due to an increase in competition among them which may also be caused by financial or fiscal motives, governments can offer a variety of incentives to attract FDI. Governments will attract FDI in response to the motivations of foreign companies. For instance, if investment is motivated by budgetary considerations, the government may reduce the tax burden for foreign investors. Therefore, the determinants of FDI in this case are tax allowances, reinvestment allowances, tax refunds and decreases in value added tax (VAT) (Fodor, 2005).

2.3.5 The Motives of Local Firms for Seeking FDI

According to Marinov and Marinova (1999), host firms undertake FDI due to several motives such as strategic asset seeking. For instance, to obtain sources of finance to enhance future growth, or acquiring brand names to exploit in local or foreign markets. Local companies believe that FDI brings finance, technology and know-how, and they benefit from foreign firms by strategic restructuring through several channels. Local firms may benefit from the introduction of fresh production processes by foreign companies. (Konings, 2000). The accelerated diffusion of fresh technology may happen through channels such as imitation or labour turnover. However, the positive effect from foreign firms may be offset by negative competition resulting from a reduction in the production of local companies following increased rivalry from foreign companies (Farole, et al. 2015).

2.4 Theories of Multinational Companies and FDI

The last decades have witnessed a vast body of literature that focuses on clarifying the increased growth of FDI carried out by MNCs. These theories try to explain the reasons for the success of some countries in obtaining FDI rather than other countries. Some of these theories discuss the investors viewpoint (why do the investors choose to invest abroad?), whereas others attempt to explain the host countries' viewpoint and understand the ability and propensity of a country to attract FDI.

2.4.1 The Portfolio Diversification Theory

The portfolio diversification theory is needed to explain FDI as FDI depends on expected rate of return and risk. According to Agarwal (1980) the most significant advantage is that it can be used universally. A second advantage is that it introduces an acceptable explanation for investment between industries and countries. A third advantage is that it takes into account risks, which are considered an important factor in determining FDI decisions. Neither differential rates of return nor the portfolio diversification theory explain the role of MNCs as contributors to FDI and why firms choose FDI instead of portfolio investment (Moosa, 2002).

On the other hand, according to the portfolio diversification theory FDI is used to decrease the risk. The theory can be tested through testing the relationship between the share of FDI inflow to particular countries and measuring both the return rate and risk. The results show weak support for this theory (Agarwal, 1980). The following are some of the problems which this theory faces: Firstly, return and risk are calculated from reported profit, which does not reflect the actual profit. Secondly, if historical data is taken as a variance in risk, this does not measure the risk accurately. Thirdly, the theory is concerned with a balance between estimated return and risk on the one hand, and actual return and risk on the other. In this case, the researcher can develop a scenario relying on logical assumptions about the expected values of return and risk, including a margin for error (Moosa, 2002).

2.4.2 The Eclectic Theory of Dunning

Dunning (1976; 1993; 2000) developed earlier ideas about FDI. An innovation in Dunning's theory was his combination of two types of market imperfection that are needed for FDI to take place. It is noteworthy that Duninng's theory is not a theory independent of others. The contribution of Dunning's theory is that it gives a useful framework for identifying the elements from each individual theory that are most appropriate in clarifying' a broad variety of differing kinds of overseas activities and the different climates in which they are launched. For example, some theories focus on motivations of FDI, others study the location of investment, and others analyse the choice of FDI as an internalisation form. Dunning distinguished between a microeconomic theory of the firm and a macroeconomic theory of international trade, (Nestorova, 1997). The eclectic theory developed by Dunning is a mix of three different theories to explain FDI that is (O-L-I) (Denisia, 2010): ownership advantages (O), location advantages (L) and internalisation advantages (I). The result was the OLI paradigm or eclectic theory of FDI. Dunning argues that these elements answer questions like how, why and where (Galan and Gonzalez-Benito, 2001).

Although Dunning's theory has been widely used by evolutionary economists, economic geographers, management scholars and others, there have been many criticisms of it:

- First, there is criticism that Dunning does not explain the factors determining the internalisation process.
- Second, it includes an immense number of variables, which affect its predictive power.
- The third criticism is that there are no clear lines between OLI (Kojima, 1982)
- The fourth criticism generally levelled at the eclectic paradigm is that it does not give adequate explanation for all types of international production
- The fifth major criticism is that the eclectic paradigm's explanation of the internalization process for a firm or country is expressed in static terms and does not take dynamics into consideration. Ietto-Gillies (1992) criticised OLI because it missed the probable impact of ownership advantages on the macro economy and therefore on location advantages.

On the other hand, Buckley (1988) and Casson (1987) point out that ownership advantages are already included in the view of internalisation, and they therefore do not need to be explicated. However, the framework of Dunning's theory still provides the most extensive explanation of overseas activities. It explains the determinants of FDI and how these determinants differ between companies, industries, and countries with the passage of time, and it helps in understanding a broad range of other MNC-related issues. Thus, the paradigm is not a theory. Rather, it is a classification of a variety of determinants of FDI.

2.4.3 The Oligopolistic Reactions

Knickerbocker argued that there are two types of investment, aggressive investment and defensive investment. Aggressive investment consists of setting up the first subsidiary in a particular industry and in a particular country. Defensive investment is setting up subsequent subsidiaries to compete with the first one. In an oligopolistic structure, the behaviour of a firm leads to a pattern of action and reaction, and the movement of a firm is the result of aggressive policies by its competitors. Knickerbocker (1973) suggested that, in an oligopolistic environment, FDI by one firm triggers a similar action by other leading firms in the industry in an attempt to maintain their market shares. In his assessment of the motives for Japanese outward FDI, Kreininetal (1999) concludes that 'securing market share is the most salient motivation [for FDI]'. After all, it is usually firms belonging to monopolistic or oligopolistic industries at home that are better placed and have the necessary incentives to commit resources to R&D.

Lall and Streeten (1977) argue that the very structure of oligopolistic competition and equilibrium is such that none of the participants can afford to ignore what the others are doing.

For example, a move by one firm to establish production facilities abroad may be interpreted by rivals as implying a threat to the status quo, thus inducing countermoves. The first move may be prompted by government action or by another factor, but, as Lall and Streeten argue, the subsequent pattern cannot be interpreted in terms of the profit maximizing behaviour of an individual firm independently of the actions of rival firms. Vernon (1974) discusses three kinds of oligopolies (innovative, mature and senescent) and the different pressures they generate for the firms concerned. Knickerbocker (1973) suggests that oligopolistic reaction increases with the level of concentration, and decreases with the diversity of the product.

With MNCs, he found that the oligopolistic firms try to counter any advantage that the first firm may obtain from its FDI by following it with their own FDI in order to maintain a competitive equilibrium. He concluded that increased industrial concentration causes increased oligopolistic reaction in the field of FDI, except at very high levels. He also found the profitability of FDI to be correlated positively with entry concentration, and that the latter was correlated negatively with product diversity. The hypothesis was also tested by Flowers (1975) on FDI from Canada and Europe in the USA. Agarwal (1980) argues that the problem with this theory is that it does not explain why a firm engages in overseas activities or why it takes the form of FDI instead of exporting or licensing. Buckley and Casson (1976) criticised Knickerbocker's theory in the following respects: firstly, the aims of the companies are not known, whether they show managerial risk aversion, profit or growth maximisation or maintenance of market share; secondly, why "follow the leader" is the best strategy under oligopoly; finally, it does not explain the motives of the first-mover.

This implication, however, is incompatible with the facts. While FDI has led to increased competition in many industries, this increase has not resulted in a corresponding reduction in FDI. This hypothesis also fails to identify the factors that trigger the initial investment. Yu and Ito (1988) argue that firms in oligopolistic industries do not only consider their competitors' activities but also the same economic factors as firms in a competitive industry.

2.4.4 Vernon’s Theory

This theory is different from other theories because it deals with direct investment and trade as variants to serve an alien market. Moreover, it clarifies this connection from a dynamic perspective (Andreas, 2005). Developing the life cycle theory, Vernon (1966) explains that FDI is part of a process that starts when the product is mature and standardized in the home market;

the firm decides to establish the production facilities abroad, in order to benefit from lower production costs. Therefore, in the decline phase, the FDI will be directed to the less developed economies, where there are the best cost advantages (Cuza, et al. 2015).

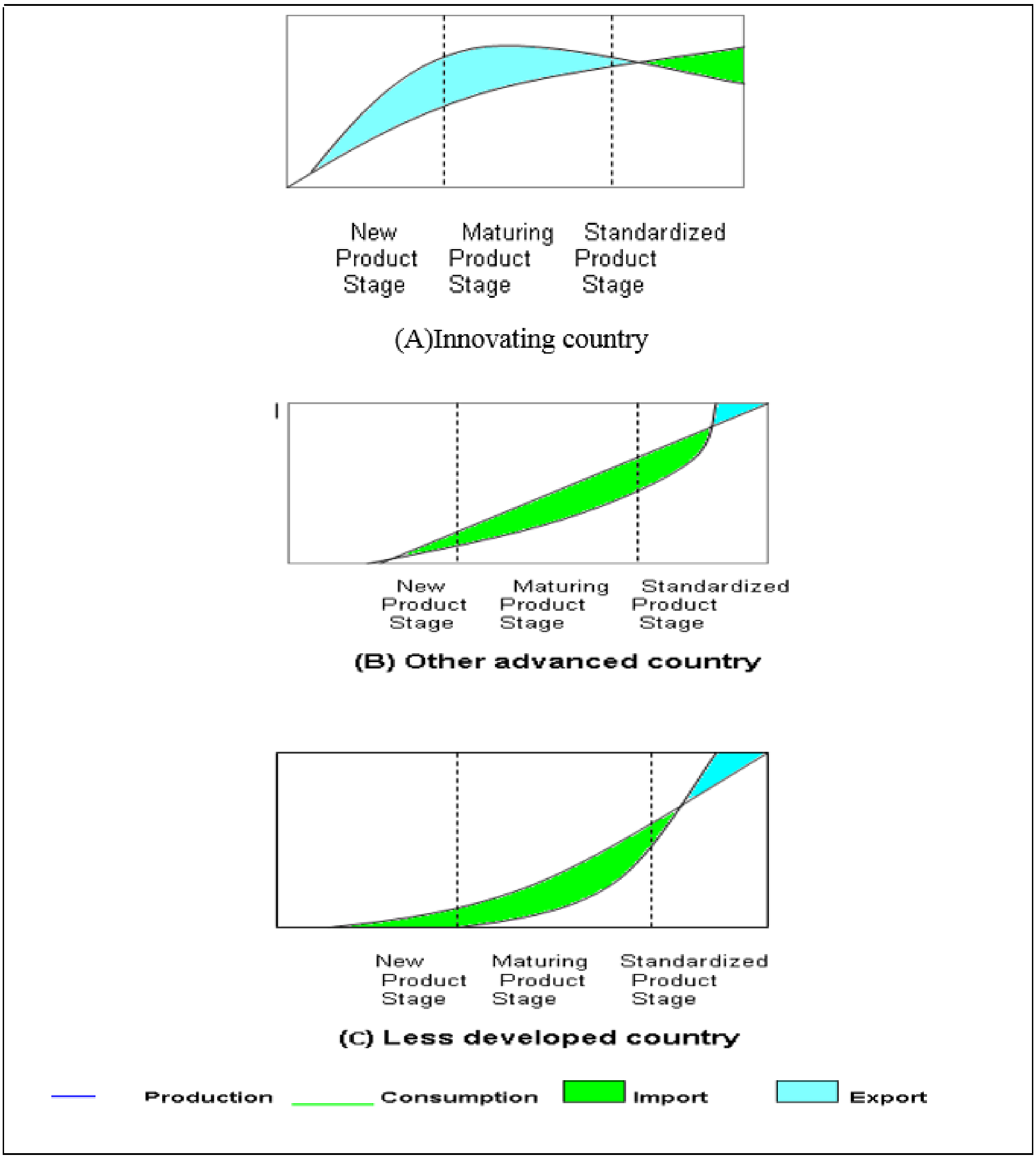
The vital contribution of Vernon was that he applied the product life-cycle idea to location determinants of FDI (Dicken, 1992) Vernon's theory introduced a helpful framework for explaining the early post-World War II increases in US manufacturing investment in other developed countries (Eren, 1994). The essential notion of Vernon's theory is that the need for innovation derived from the high level of income and demand in the US (Andreas, 2005). Vernon (1971) remarks that this theory is valuable because it gives another explanation of FDI, especially for manufactured goods that feature sophisticated technology and are sold in areas of high-income with elasticity of demand. The cycle of production consists of three stages, as noted in Figure 2.1; three product phases clearly exist; the new product, the maturing product, and the standardized product. This is described as follows:

In the first stage, firms set up the initial production in their home market, near the customers and dependant on the requirement for well-organized co-ordination between R&D and production components. In this stage, the firm can control the price due to the demand for the new product at its inelastic price. As time goes by, the product develops, based on the views of the customers (Mossa, 2002).

The focus of this stage is on the determinants of the initial location of production (Eren, 1994). Vernon stated that there is no FDI in the first stage, when the product is still new and created to serve the home market. This could be due to for example, product differentiation, or the monopoly of a firm's innovation (Akhtar, 1998), as shown in Figure 2.1.A. In the second stage, the emphasis is placed on the way in which alien markets are served, and on the balance between domestic production and export (Eren, 1994). This stage is characterised by the maturity and greater standardisation of the product. Steadily, in this stage, the demand increases and become more elastic, and production is less expensive in consequence of economies of scale. At this stage, a decision to export is taken in order to serve a foreign market. At this stage, foreign countries are importers of the goods and the home country is an exporter (Akhtar, 1998; Barclay, 2000; Moosa, 2002), as shown in Figure 2.1.B.

The third stage as noted in Figure 2.1.C features the complete standardization of the product, and it is no longer the single property of the innovating company. Cost advantages become an important concern, so developing countries are the best location to invest in production facilities.

Now the home country becomes the importer and the host countries are exporters of the production (Moosa, 2002). Hence, FDI is a defensive shift to keep the company's competitive advantage over its local and alien rivals. Moreover, at this stage unskilled labour is an alternative



Source Raymond Vemon and Louis T. Wells, Jr The Manager in the International Economy (Englewood Cliffs NJ: Prentice-Hall, 19910, p85.

Figure 2.1: The International Product Life Cycle Sales

to skilled labour. This stage sees companies seeking a comparative advantage at home and in the host countries (Eren, 1994). According to the product life cycle, the ownership of specific advantages is a most important determinant of FDI.

Through the medium of FDI, technology will move from developed to developing countries (Aktar, 1998). Vernon's theory explains that production starts initially in a developed country, and finally arrives in developing countries. During these stages, there is a change in supply and demand for the technology, and in cost concern. This leads MNCs to choose the location for their FDI (Barclary, 2000). However, Vernon maintains the hypothesis that market forces are the reason for the creation of new products. Vernon's theory cannot explain the process of production at the present time. Another limitation of this theory is that it only explains FDI in innovative products, and not those products which are already on the market (Andreas, 2005).

2.4.5 The Location Theory

According to this theory, FDI exists because of the international immobility of some factors of production, such as labour and natural resources. This immobility leads to location-related differences in the cost of factors of production (Moosa, 2002). This hypothesis was used by Horst (1972b) to explain US FDI in Canada. One form of location related-difference in the costs of factors of production is the locational advantage of low wages. Thus, the level of wages in the host country relative to wages in the home country is an important determinant of FDI. However, studies on low wages showed different results (Jensen, 2006). This difference is attributed to labour productivity. Labour in areas where wages are low may also be less productive. Low wages *per se* is a factor that attracts foreign direct investment. This factor cannot be disregarded. Location advantages not only take the form of low wages. Location advantages also apply to other factors of production. The location can lead to savings in the costs of shipping, and to avoidance of delays in the delivery of raw materials. The location hypothesis also emphasizes the importance of unavoidable government constraints, such as trade barriers. The location hypothesis is the more suitable theory to fit the circumstances of Libya, particularly in the hotels industry, where the transfer of produced goods (hotels) is impossible. Many of the basic raw materials are local, also the wages are low. Wages of 85% of employees were less than 300 Libyan Dinars, (General Board of Information, 2002), £l = 2.0236 LD (Central Bank of Libya, 2012); the cost of energy sources is also low in Libya. Therefore, Libya is seeking to reduce government restrictions on investors in a bid to attract foreign investors.

2.4.6 Internalisation Theory

The internalisation theory provides an explanation for the growth of multinational enterprises (MNCs) and gives insights into the motivations for foreign direct investment (FDI). This theory (Buckley and Casson, 1976, 1985) has been a dominant theme in the last two decades in the international business literature. (Paul and Judy, 2002, Denisia, 2010). According to Buckley and Casson, when market risk and uncertainty are high then transaction costs are also high, and internalisation of operations i.e. undertaking FDI, is an ideal option. Buckley and Casson's Internalisation theory of FDI provides an additional explanation for FDI by focusing on intermediate inputs and technology. According to Chawla and Rohra, (2015) Buckley and Casson's theory came to be known as internalisation theory as it focussed on two claims:

1. Firms maximize their profits by investing in a market that is imperfect.
2. Internalisation of markets across the world leads to creation of MNCs.

2.5 Other Theories of Foreign Direct Investment

These other theories of FDI comprise of the internal financing theory, the currency area theory and the effect of the exchange rates, the theory of diversification of international investment, and the Kojima theory, as follows:

2.5.1 The Internal Financing Theory

This theory refers to the utilization of profit created by a subsidiary to finance the growth of FDI by an MNC in the country where the subsidiary is located (Anderson, 1983; Fee et al. 2006). According to Barlow and Wender (1955), MNCs commit a modest amount of their resources to their initial direct investment, while subsequent expansions are financed by reinvesting profits obtained from operations in the host country. In addition, Rowley (2007) confirms that Internalisation theory states that one of the primary reasons for MNCs engaging in FDI is their wish to internalize the majority of the production process. It consequently implies the existence of a positive relationship among internal cash flows and investment outlays, which is conceivable because the cost of internal financing is lower. Froot and Stien (1991) argue that, due to informational imperfections in capital markets, external financing is more expensive than internal financing.

This theory appears to be more appropriate for explaining FDI in developing countries for (at least) two reasons (Froot et al, 1993; Desai et al 2004): (i) the presence of limitations on the movement of funds; and (ii) the rudimentary state and inefficiency of host financial markets. Therefore, foreign investors can contribute to establishing the Libyan financial market in the right way. Libya as stated above, is a developing country, but it is characterised by a financial market which was established in 2006 (General Peoples' Committee No. 134 in 03/06/2006). In addition, Libya will benefit from long term outside experience in finding solutions to some of its finance problems.

2.5.2 The Currency Area Theory and the Effect of Exchange Rates

This theory attempts to explain FDI in terms of the relative strengths of various currencies. Aliber (1970) proposed that imperfections in capital markets are the main cause of FDI. Aliber also indicated that firms based in countries with a strong currency tend to invest abroad, while firms belonging to a country with a weak currency do not have the same tendency. Specifically, some firms in the home country are able to capitalise the same stream of expected earning at a higher rate than firms in the host country because they can borrow at a lower rate from the international capital market. In other words, countries in the strong-currency area will be sources of FDI, whereas countries in the weak-currency areas will be recipient countries of FDI (Moosa 20002). Caves (1988) argue that the effect of the exchange rate on FDI runs through two channels. First, changes in exchange rates lead to changes in the investor's costs and revenues. The net effect of this on FDI is ambiguous, depending on certain characteristics of the underlying business activity. The second channel is associated with expected short-term exchange rate movements. A depreciation that is expected to be reversed will encourage FDI inflows to obtain capital gains when the domestic currency appreciates. Generally, it can be said that various studies as cited by Moosa (2002) such as (Agarwal, 1980; Dunning, 1973) have confirmed that the exchange rate changes affect the flow of foreign direct investment. Libya started to benefit from these economic changes, therefore it decreased its currency value against the US $ from $1 = 0.29771 LD in 1992 to $1 = 1.30669 LD in 2004 (Central Bank of Libya, 2004), this decreasing of Libyan currency value is considered an attractive factor. Also the relative stability of exchange rates is an attractive factor. However, currency risk rate theory cannot explain simultaneous foreign direct investment between countries with different currencies (Denisia, 2010).

2.5.3 The Theory of Diversification with Barriers to International Investment

Many of the barriers impeding the capital flows of foreign investment lead to the diversification of foreign investment to avoid these barriers (Moosa, 2002; Nishiotis, 2006). The benefits of international diversification at the investor level are well-documented (Agmon and Lessard, 1977). However, the mere presence of a less than perfect correlation between company earnings and/or asset values in various countries is insufficient to establish that international diversification is relevant at the corporate level (Agmon and Lessard, 1977; Mishra et al. 2001).

According to (Agmon and Lessard, 1977) the hypothesis states that two conditions must be satisfied: (i) it must be the case that there are greater barriers or costs to portfolio capital flows than to capital flows forming part of the direct investment package; (ii) investors must recognize that multinational firms provide diversification opportunities that are otherwise unavailable. Libya, under the laws of Investment (Law No. 9, 2010) gives investors ample opportunities to enjoy the benefits of investment and at the same time offers them with opportunities to diversify investment.

2.5.4 The Kojima Theory

The Kojima theory suggests that direct investment provides a means of transferring capital, technology, and managerial skills from the source country to the host country (Kojima 1973, 1975, 1985). Kojima identified resource, labour and market orientation as the three major motivating factors for firms involved in international investment. Kojima strongly suggested that FDI was a requirement in order to make the markets more competitive and efficient globally and to improve production processes in a country that is well endowed with a given resource (Chawla, et al. 2015).

This approach is described as being a 'macroeconomic approach' or a 'factor endowment approach', as opposed to the 'international business approach' to FDI. Kojima classifies FDI into two kinds. The first is trade-oriented and generates an excess demand for imports and excess supply of exports at the original terms of trade. This kind of FDI leads to welfare improvements in both countries. Moreover, it would normally imply investment in industries in which the source country has a comparative disadvantage. This would promote trade and a beneficial industrial restructuring in both countries. The second kind is the anti-trade-oriented FDI, which has exactly the opposite effects to those of the first kind. Thus, anti-trade oriented FDI has an adverse effect on trade, and it promotes unfavourable restructuring in both countries.

Libya seeks to take advantage of the complementarity between FDI and international trade, where growing trade leads to activating while sectors of the economy whole sectors, and this is one of the most significant orientations in Libyan economic policy.

2.6 The Forms of Entry Mode of MNCs

There are different kinds of entry mode which multinational companies may use in developing countries. Some companies use an equity mode of development such as whole ownership and others use a non-equity mode such as franchising and management contracts (Kusluvan and Karamustafa, 2001).

2.6.1 Equity Modes of Development

- **Whole Ownership, (WOS)** this is one of the methods that multinational companies use when investing in a new country. This may happen by means of an acquisition of an existing property or by developing a new building. In other words, when the company invests directly in the host country and has a strong amount of control, both over the tangible and intangible assets, and retains all powers of decision making it has WOS (Larimo and Arslan, 2013).
- **Joint Ventures, (JV)** could be defined as a separate legal organization, an entity representing part of the holdings of two or more parent companies (Shaker el at, 1994). Each party in a joint venture contributes assets, takes an active role in decision-making and shares risk (Harrigan, 1984). Joint ventures are preferred structures in national and international firms for successful competition in the market place. The benefit of the joint ventures mode is that good relationships with local government are thereby facilitated, especially if the local authorities have shares in the company (Gee, 2000). Furthermore this mode of entry allows more flexibility in the sourcing and deployment of resources. It also facilitates the overcoming of industry barriers and the minimization of risks and liabilities to foreigners. (Elango and Sambharya, 2004). Another advantage of the JV is that having a local partner, '…can help firms gain legitimacy because partnering with a local firm can help it create structures and activities that conform with local norms, values and expectations,' (Brouthers et al, 2008). In comparison to acquisitions where the investor has access to all resources, in JVs only the resources placed by the local partner are accessible (Meyer et al, 2009).

  For example, a unique hotel which was developed five years ago in Libya was a joint venture initiative between the Corinthia Company and the Libyan Foreign Investment Company.

2.6.2 Non-equity Mode of Development

- Franchising can be defined as a contractual form of commercial co-operation between independent companies, where the franchisee pays for the right to use the franchiser's brand name (Brickley, 1987). Franchising in the tourism industry is the franchise agreement between a multinational company (franchisor) and host country owner (franchisee) that allows the owner to use the company's brand name and services in another country in return for the franchise fee. Under such an agreement the franchisor is not involved in the franchisee risk and its economic success (Gee, 2000).

- Management contracts can be defined as the management of one company by another and often but not always the two are in different countries. In the tourism industry, management contracts have been recognized as one of quickest and preferred forms of expansion strategy. Multinational companies prefer to use this mode because it allows a company to establish a presence without the investment of ownership. In fact, recently, multinational companies are requested to contribute working capital in the form of loan or some or other small good-faith investment (Rushmore, 2001). Putting funds into a profitable project is the key factor that motivates the owner to use the management contract mode (Brook, 1989).

2.7 Comparison of the Different Entry Modes

When considering specific examples, the results will in many cases be different. For instance, in some situations joint ventures (JV) might require a higher upfront investment than a whole ownership (WOS). Furthermore, the return on investment (ROI) with reference to licensing/franchising is higher than that for WOS, JV and acquisition. This is because of a minimal upfront investment, but the absolute value of return on investment is small. The different entry modes have both merits and disadvantages and there is no single rule for which to choose. In fact, companies can operate with different entry modes in different markets, or begin with one entry mode and later move to another, as shown in Table 2.1**.** When speaking about internationalization in the tourism sector it is not necessary to go through all the different entry modes available, but to emphasize the main entry modes being applied.

Table 2.1: Comparison of the Different Entry Modes

	WOS	JV	Licensing/ franchising	Agent/ Distributor
Upfront investment (financial and managerial)	HIGH	MEDIUM	LOW	LOW
Speed of entry	SLOW	QUICK	MEDIUM	QUICK
Market penetration	MEDIUM	MED/HIGH	MED/LOW	MED/LOW
Control of market (Customer knowledge)	HIGH	MEDIUM	NIL (Nothing)	LOW/NIL
Political risk exposure	HIGH	MEDIUM	LOW	LOW
Technological leakage	LOW	HIGH/MED	HIGH	LOW
Managerial complexity	HIGH	HIGH	LOW	LOW
Return on Investment (ROI)	HIGH/ MEDIUM	HIGH/ MEDIUM	HIGH	RETURN?

Source: Lasserre (2007)

2.8 Advantages of FDI on Developing Countries

Foreign direct investment can make a positive contribution to a host economy by transfer of technical and managerial know-how, providing capital resources, creating employment and increasing competitiveness in a host country as the destination of investment (Kastrati, 2013).

2.8.1 Domestic Investment

Capital accumulation is seen as the driving force behind faster growth. It is then obvious that FDI has impacted more significantly for developing countries, where inward investment is viewed as a means of boosting economic development (Mossa, 2002).

2.8.2 Transfer of Technical and Managerial Know-how

The potential advantages of the FDI on the host economy is an increasing rate of technical progress in the host country by a contagion effect from the advanced technology and management of foreign firms (Findlay, 1978). FDI can also promote competition in the domestic input market. In addition, Kastrati, (2013) confirms that technologies that transfer to developing countries in connection with foreign direct investment tend to be more modern and environmentally ‘cleaner’, than the local technologies. Moreover, positive externalities have been observed where local imitation, employment turnover and supply-chain requirements have led to more general environmental improvements in the host economy.

They can stimulate technical efficiency in local firms, both suppliers and competitors, by providing assistance, acting as role models and intensifying competition. In general, technology transfer can be defined as 'the transfer of systematic knowledge for the manufacture of a product, for the application of a process, or the rendering of service and does not extend to transactions involving the mere lease or sale of goods' (UNCTAD, 1985 as cited by Marcotte and Niosi, 2005).

2.8.3 FDI as a Resource of Capital

FDI brings in investible financial resources to capital-scarce countries. Since 1990 FDI has been the largest single source of external finance for developing countries and has become a significant part of capital formation in developing countries despite their share in global distribution of FDI continuing to remain small or even declining.

According to Feldstein (2000) and Kastrati, (2013) a number of advantages related to unrestricted capital flows are:

- International flows of capital reducing the risk faced by owners of capital by allowing them to diversify their lending and investment.
- The global integration of capital markets contributing to the spread of best practices of corporate governance, accounting rules, and legal traditions.
- The global mobility of capital limiting the ability of governments to pursue bad policies.

Investments in the tourism sector require a large capital injection which developing countries cannot usually afford. Local companies may encounter difficulties and risks investing in this sector. As result, the developing countries compete to attract FDI. For particular reasons the inflows of FDI are more stable and are easier to service than commercial debt or portfolio investment.

2.8.4 FDI and Employment

There is general consensus in the literature that foreign direct investment has a positive effect on employment. Foreign companies are often the main source of jobs, and generate employment opportunities in the area where they are located. The effects on employment associated with FDI are both direct and indirect. In countries where capital is relatively scarce but labour is abundant, the creation of employment opportunities either directly or indirectly has been one of the most prominent impacts of FDI (Kastrati, 2013). The direct effect arises when a foreign MNC employs a number of host country citizens, whereas the indirect effect arises when jobs are created with local suppliers as a result of the investment and when jobs are created because of increased local spending by employees of the MNCs. Added to the impact on total employment, foreign direct investment has a strong impact on local employment through the creation of new types of jobs, and through regional distribution of new workers, wage levels, income distribution, and skills transfer as well as being important for creating economic prosperity.

2.8.5 Increased Competitiveness

Economic theory tells us that the efficient functioning of markets depends on an adequate level of competition between producers and service providers. By increasing consumer choice, foreign direct investment can help to increase the level of competition in national markets, thereby driving down prices and increasing the economic welfare of consumers. Kurtishi-Kastrati (2013) confirmed that the presence of MNCs may greatly assist economic development by spurring domestic competition and thereby leading eventually to higher productivity, lower prices and more efficient resource allocation. Increased competition tends to stimulate capital investments by firms in plant, equipment and R&D as they struggle to gain an edge over their rivals. According to an OECD study, 'Like trade, foreign direct investment acts as a powerful spur to competition and innovation, encouraging domestic firms to reduce costs and enhance their competitiveness' (OECD, 1998). FDI's impact on competition in domestic markets may be particularly important in the case of services, such as telecommunications, retailing and many financial services, where exporting is often not an option because the service has to be produced where it is delivered.

2.9 Review of the Empirical Literature on FDI

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

The purpose of Coskun's (2001) study was to explain the factors which determined foreign direct investment in Turkey. Coskun focused on Turkey as an attractive manufacturing location for FDI. To explore the determinants of FDI, a survey approach was adopted. This study relied on the findings of three surveys.

- The findings of these surveys show that economic performance and growing market size were the most important determinants of FDI in Turkey. However, factors such as Turkey’s geographical location, its having cheaper labour and inputs did not appear as important as Turkish officials had suggested. Turkey is located between competitive countries such as ex-Eastern bloc members, with their well-qualified and cheap labour.

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

- The findings of this study illustrate that the increased possibility of undertaking market-seeking FDI and efficiency-seeking FDI are determined by larger international experience, a large market size, a low wage rate, a large firm size, and a low cultural distance.
- Regarding the possibility of undertaking knowledge-seeking FDI, success was determined by the research and development (R&D) intensity of the investing firm, while for companies seeking risk-reduction, factors such as low level of risk, low inflation rate, and high level of exchange rate were affected by instability.
- This study found that ownership factors, location factors, internalisation factors and strategic motives had impacted on the location choices of the Finnish companies.

Gilmore et al, (2003) explore the main discrepancies and similarities in the motivations and contentment levels related to FDI in Bahrain and Northern Ireland. This study tried to investigate

the preferences of the management of FDI in entering alien markets and their motivations in investing in a specific location instead of other forms of investment. A questionnaire was adopted in this study to explore the motivation of MNCs for investing in Northern Ireland (NI) or Bahrian as a location for FDI, and their level of satisfaction related to FDI projects.
The study sample consisted of 42 foreign companies conducting FDI in Bahrain and 40 firms conducting FDI in Northern Ireland, using data covering the period from 1997 to 1999.

- The results showed that in Bahrain, FDI featured predominantly in manufacturing and joint ventures. In Northern Ireland, the study investigated 38 production firms, one service firm and one research firm. Of these, 4 firms were joint ventures and 36 firms conducted activities without a domestic partner.
- In Bahrain the tax structure, low taxation, low inflation, cultural similarity and infrastructure were found to be key motives. Also, this study discovered that investors in Bahrain were likely to engage in licensing or exporting as a variant on FDI. In both Bahrain and Northern Ireland the size and growth of the host country and the cost of labour were not important. Rather, the export-based FDI provided was more important.

Aqeel and Nishat (2005) sought to explore determinants of FDI growth in Pakistan, especially the role government policies play in encouraging or discouraging FDI in Pakistan. This study used data covering the period from 1961 to 2003. All data was collected from official sources.

- The findings showed the importance of government policy variables in encouraging and determining FDI and the growth of FDI in the short and long term in Pakistan. Also, this study illustrated the important effect that policy reforms had on FDI.
- Moreover, the findings showed that factors like tariffs, GDP, exchange rates, tax rates, and credit to the private sector were positively related to FDI, and that FDI could be explained in terms of these factors. However, wage rates and the share price index did not have a bearing on explaining FDI in Pakistan.

Shuming (2006) studied the most important policies in developing countries aiming to attract successful foreign direct investment. He analysed some critically important policies in developing countries' attempts to attract successful FDI, and to draw out some implications from the government actions:

- He found that the most important policies for motivating more foreign investors in developing countries, irrespective of the type of FDI, were continued improvements in the investment climate for foreign investors by means of policy reviews.
- He suggests that for any a developing country that has just stepped out of war or political instability, the most urgent and best policies for this country's government to attract FDI are improvement in the quality of governance and enforcing property protection. The most important aspects for potential foreign investors are personal security, property security and lawful infrastructure.
- He found that the governments of advanced developing countries like Singapore, China and Taiwan should place most emphasis on the policies that maintain a low inflation rate and a low budget deficit.
- Governments of developing countries need to emphasize the importance of human capital improvement and R&D infrastructure to facilitate technology-intensive FDI inflows for those former communist countries during their economic transition; privatization policies and regional integration actions appear to be of more significance.

Hellstrom and Sungur (2006) investigated the determinants of investments made by Swedish enterprises in Turkey. They examined the motivation for the investments and this study used the eclectic paradigm as a framework. The survey approach was adopted in this study, which used a sample of 11 Swedish firms which had conducted FDI in Turkey. In collecting data for this study an email survey was used.

- With respect to ownership advantages, the findings of this study illustrate that both international experience and R&D played an important role in determining ownership advantages. However, firm size was not found to be important. With regards to location-specific advantages, market growth, geographic location, labour costs, level of education, business climate and economic climate, all were important determinants of FDI. However, infrastructure and culture were not important.
- Economic climate is emphasized by several empirical studies as a determinant: for example, Benacek et al (2000), Uiboupin and Sorg (2005), Naude and Krugell (2007), and Ismail (2009).

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

- Alfarsi and Almanasory found that the most important factors that motivated foreign investors were the attractive geographical location in the first order; the proximity to world markets in the second order; the political stability and security in the third order.
- the most important factors that discouraged FDI from investors' point of view were (according to investors' rankings) weak structure of communication and transport, lack of data and information required by investors, absence of a stock market, and lastly the lack of labour in terms of both quality and quantity.

There is a relationship between this researcher's study and the work of Alfarsi and Almanasory as follows:

- In order to achieve the aim and objectives, questionnaires were used as a tool to collect data from foreign investors who were selected as the sample of investors in Libya.
- This study uses a sample from outside Libya, which should enable the identification of the important factors that attract foreign investors to Libya.
- Preliminary results were reached and were consistent with the findings of Alfarsi and Almanasory, indicating a positive relationship between the flow of investment capital and the political stability of the country.

Teeb (2009) has investigated the economic climate in Libya to see whether or not it has become more attractive to foreign investors, particularly since the economic reforms of the 1990s. The main research methods that were used were an extensive review of the pertinent literature and a survey questionnaire. The literature review provides the necessary background for understanding the related issues involved in the research topic.

The survey questionnaire allows the researcher to identify the main factors that may affect foreign companies' investment decisions in Libya and to anticipate the future of FDI in Libya in both the short term and the long term. Recommendations for Libyan decision-makers may be proposed after analysing the collected data in order to provide guidelines for encouraging foreign companies to invest in Libya. The information relates to the Libyan investment climate, aspects such as economic stability and legislative reform. This study found some available data from the Libyan government documentation, international organisations, such as the World Bank, the

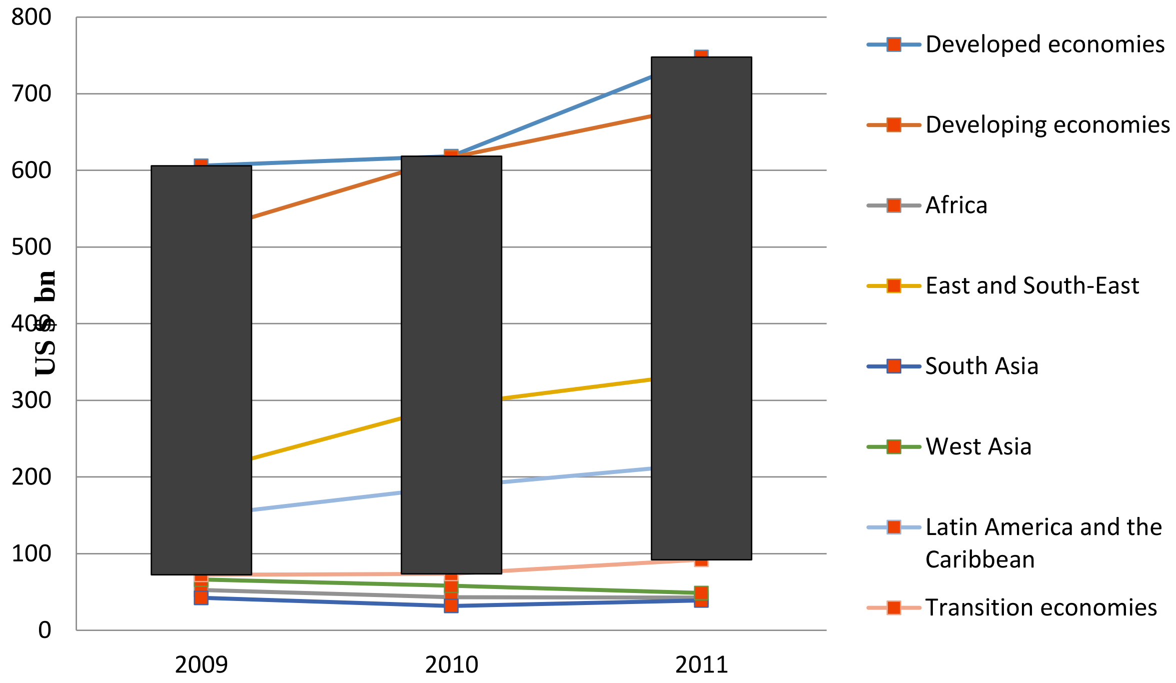
IMF, and the UN and from previous academic studies. It required more information concerning the Libyan labour market and more information regarding the Libyan economic, political, social and administrative system.

In general, the results obtained show that Libya's investment climate has improved in relative terms but there is still more to be done:

- There are still a lot of weaknesses that prevent Libya from being able to attract and diversify investment inflow, the majority of which is still concentrated in the oil industries and in natural gas. These weaknesses include the infrastructure, such as airports and seaports.
- Bureaucracy is still a big problem and represents an obstacle that confronts foreign investors in Libya. Also, there are still shortcomings with the tax system.
- Investment in human capital still needs some consideration, particularly with regard to the issue of "quality" rather than "quantity". In this respect it was found that the general level of Libyan labour skills and the level of research and development in the country are very low compared to other developing countries.
- There were flaws within the local private sector and the capital market as they fail to provide production input and funding for foreign companies. This leads to a weakening of the ability of the local market to attract FDI.

2.10 Overview of FDI Trends in the World

Despite turmoil in the global economy, foreign direct investment (FDI) flows exceeded the pre-crisis average in 2011, reaching $1.5 trillion. However, they still remained some 23 per cent below their 2007 peak. Global FDI flows rose across all major economic groupings in 2011. In developing countries FDI increased by 11 per cent, reaching a record $684 billion.



Source: UNCTAD, World Investment Report 2012

Figure 2.2: FDI Flows by Region 2009–2011

According to the World Investment Report (2012), FDI in the transition economies increased by 25 per cent to $92 billion. Developing and transition economies respectively accounted for 45 per cent and 6 per cent of global FDI. Flows to developed countries increased by 21 per cent to $748 billion, as shown in Figure 2.2. Africa and the least developed countries (LDCs) saw a third year of declining FDI inflows in 2011. Decline in inflows to the continent was due largely to divestments from North Africa. In contrast, inflows to sub-Saharan Africa recovered to $37 billion, close to their historic peak.

In 2011, foreign affiliates of MNCs employed approximately 69 million workers, who produced $28 trillion in sales and $7 trillion in value added, some 9 per cent up from 2010. The new FDI Participation Index shows relatively higher efforts by foreign affiliates to host economies in developing countries, especially Africa, in terms of value added, employment and wage generation, tax revenues, export generation and capital development (UNCTAD's).

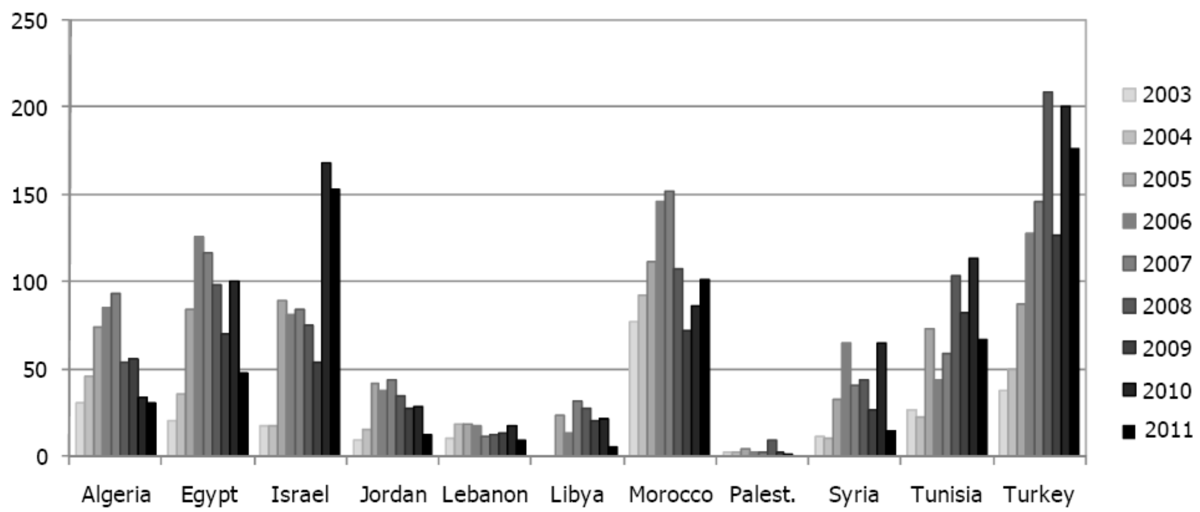
2.11 FDI in Mediterranean Countries

Following the growth in Foreign Direct Investment in the Mediterranean region during the year 2010, FDI by contrast slowed down during 2011 by 26%. In Tunisia, the number of FDI projects decreased by 40% in comparison with 2010.

The Foreign Investment Promotion Agency (FIPA-Tunisia) (2012) also registered a 27% drop in FDI flows during the first nine months of 2011, which especially impacted tourism, hit hard by the ongoing events. 2011 could have been even more difficult in Egypt, where the number of FDI projects decreased by approximately 50% according to the ANIMA Investment Network Observatory (AIN, 2011). The total FDI flows reached around 2 billion Euros in 2011, half of the flows in 2010, as shown in Figure 2.3.

The situation is hardly any better in Libya, Syria, Lebanon and Jordan. The strongest drops were registered in Libya and Syria with around -75% in the number of announced projects in comparison with 2010, while Lebanon and Jordan recorded a loss of half of their previous investment level. Algeria and Morocco are exceptions within the Maghreb and Mashreq countries. The number of FDI project announcements is stable in Algeria (though this has to be put in perspective with the bad 2010 record), and it increased by 15% in Morocco in comparison with the same period in 2010.

(Millions of dollars)



Source: ANIMA Investment Network (AIN, 2011)

Figure 2.3: Projects in Tourism in Mediterranean Countries - (2003 to 2011)

Morocco ranked third in its number of FDI projects, behind Turkey and Israel. However, investors further reduced their financial involvement in Morocco as in other Mediterranean countries - an on-going trend since 2009. In 2011, the level of FDI projects announced in Morocco decreased by half in comparison with 2010. In 2011 saw Turkey and Israel with almost one quarter of total regional FDI recorded for Israel and over one third recorded for Turkey. Israel thus outperformed Egypt for the first time in 5 years in announcing FDI flows in 2011. Turkey attracted a record share of announced flows according to the ANIMA Observatory.
Recent data released by the Central Bank of Turkey confirms this trend. Turkey attracted over 8 billion Euros` of FDI in the first ten months of 2011, an 84% increase when compared with the same period in the previous year.
However, one of the key issues in the Libyan economy is the low level of Foreign Direct Investment (FDI) compared to similar economies such as, Egypt and Tunisia. Libya has not been a major recipient of FDI inflows, especially outside the oil sector. This is reflected in the fact that the role of MNCs in the Libyan economy has not been substantial.

2.12 Chapter Summary

This chapter provides a detailed classification of FDI concepts, motives, theories, effects, trends, and regional distribution. The chapter presents definitions of motives for FDI. Then, the motives for FDI are presented from the perspective of foreign firms, the host governments and local firms with a classification of foreign investors' motives, which Dunning (1993,) identified as resource seeking, market seeking, efficiency seeking and strategic asset seeking. A number of factors influencing investments have been discussed earlier through different theories of FDI. The chapter has also provided a review of the effects of FDI on developing countries. The chapter introduce the forms of entry mode of MNCs. Finally, this chapter provided an overview of FDI trends in World FDI and in that of the Mediterranean countries. The next chapter introduces the motivational factors and policies for improving the investment environment for investment flows to developing countries.

CHAPTER THREE

MOTIVATIONAL FACTORS AND POLICIES FOR IMPROVING THE INVESTMENT ENVIRONMENT

3.1 Introduction

This chapter represents an attempt to identify some of the factors and policies which attract flows of FDI to developing countries. It is believed that by identifying and trying to understand these factors and policies, policy makers would be provided with better insights as to how future FDI policies might be tailored to help to increase the inflows of FDI into these states. Since the eighties less developed countries have begun to implement more liberalized trade and investment policies in an effort to attract greater inflows of Foreign Direct Investment (FDI). This has been a problem since domestically generated resources are not sufficient to satisfy the growing needs for investment in tourism, in infrastructure and in the exploitation of natural resources, etc. This is due to the inability to generate internal savings in accordance with investment needs.
This chapter will overview of the motivation for, and determinants of FDI and the important role of policies to attract FDI and focus FDI inflow to Latin America and into South and South East Asian countries in particular. These countries have been successful in attracting considerable amounts of foreign investment. FDI inflows have been concentrated in East Asian and Latin American countries with China emerging as the main beneficiary. Therefore, it is very important to understand what attracts foreign direct investment (FDI) capital into host countries. (Luis et al, 2006). The chapter also highlights a number of examples of policies and procedures that have improved the inflows of FDI.

Conversely, several developing states have failed to benefit from the explosive growth in FDI which occurred during this period.

In addition, this chapter will consider the indicators of the openness of the economy, macroeconomic stability, human capital and the importance of natural resources and will study the effects of privatizations on FDI, to provide important guidelines on how a country can attract more foreign direct investment.

3.2 Motivation for, and Determinants of FDI

Investors have highlighted that their incentives for investing in countries vary according to the country and the sectors of investment interest. However, in some instances investors believe that the main factors which truly determine the inflow or outflow of investments to countries are the following: 1) the existing market in foreign countries; 2) the size of the market and market conditions; 3) the size of the market demand; and 4) the price of labour/ wages.

1. Labour: The productivity and the skill level of the labour force play a crucial role in attracting foreign direct investment.
2. Infrastructure: In many countries the government may offer good and modern infrastructure free of charge in certain areas to attract foreign direct investments.

Taxation: The level of taxation within certain sectors and the country's fiscal policies may be an indication of stability, which can influence the decisions of many investors (Horska, 2014).

3.2.1 Motives for Performing Foreign Direct Investment

"The basic assumption of FDI is to achieve a minimum level of political, institutional and macroeconomic stability, liberalization of foreign goods and financial flows" (Srholec, 2004). The importance of these factors is reflected in the volume of FDI a country receives. Some researchers highlight taxation rates as having a similar consequence to other investment incentives. For example, in Hong Kong and Estonia low taxation rates on capital resulted in high FDI inflows whilst Ireland also stands as an example of the mentioned "flagships “much needed.

Investors also tend to assess the number of established successful businesses including: the localization of production and labour costs; the existence of investment incentives; and economic stability related to bureaucracies, market size and the level of corruption. Investors also investigate socio-economic aspects such as the quality and price of labour and the total cost of development. Accordingly, investors have identified low labour costs and the quality of the workforce as most important, and as such, investment incentives were regarded as being on the same level as economic and political stability.

According to Srholce (2004) the stability of the country and the feasibility of an investment in technical and socio-cultural perspectives must be evaluated. This should focus on the level of corruption within legal framework and the availability of all necessary infrastructure in order to protect the investment. Although the investor is aware of its ability to contribute to creating infrastructure, there should be potential for the cost to be offset by potential income after an evaluation of economic factors such as transportation costs, labour costs, availability of technical workshops and so on.

By monitoring several independent markets for FDI, the firm is able to identify the differences and the factors that may be competing with each other. Therefore, the investor can estimate if the investment will be favourable in advance.

In Eurasian countries which would be places of interest for relatively low labour costs, except southern European countries or the countries of Central Europe, the countries may not be technically and economically equipped. However, on the other hand, Eastern European countries are still deemed unstable due to the quality of the labour force, the legal structure and high level of corruption. For example, Libya is very far from achieving high levels of the above mentioned areas in this very specific market.

Literature has highlighted a large number of formal hypotheses or theories of FDI determinants in attempt to explain them because they may make sense scientifically or intuitively, as shown in Table 4.5.

Table 3.1: Classification of FDI Determinants

Determinants Variables	Examples
Policy Variables	Tax policy, trade policy, privatisation policy, macroeconomic policy
Business Variables	Investment incentives
Market-related Economic Determinants	Market size, market growth, market structure
Resource-related Economic Determinants	Raw materials, labour cost, technology
Efficiency-related Economic Determinants	Transport and communication costs, labour productivity

Source: UNCTAD (2002).

Political risk is a major concern of investors after their alleged openness and liberalization of foreign direct investment (FDI) regimes in the 1990s. Hence, governments that do not take this into consideration will pay a high price due to low investment rates. For the investor, confronting political and regulatory risks is a critical part of understanding the investment climate and stability, thus it is crucial for countries to give their country a competitive advantage. The political risk or probability of interference in the firm's operations is one of the major concerns of foreign investors.

3.3 The International Finance Corporation

This agency has been tasked to promote investment activities and provides advisory services to countries about attracting FDI and foreign investors. The institution focuses primarily on developing countries as it strives to assist them to formulate the following initiatives:

1. To develop technologies regarding the transfer of technology
2. To develop guidelines for the attraction and management of FDI
3. To develop strategies to attract FDI
4. To optimize and increase the ability of government institutions to handle FDI
5. To develop and share knowledge about policy requirements for effective attraction of FDI into particular economic sectors
6. To identify companies with the potential for FDI and to assist local firms in the host country to become involved in FDI
7. To identify the sectors in developing countries that have potential to offer the required openings to foreign investors
8. To increase and manage the awareness of International Finance

Corporation Activities:

1. To teach developing countries how to issue new financial products that may attract investors from developed countries
2. To provide developed countries with the required information to make informed decisions about other investors, worldwide

3.3. 1 The International Centre for Settlement of Investment Disputes

This institution was founded in 1965 with the main objective of resolving disputes between foreign investors and their host countries or governments. Very often the institution uses mediation to reconcile and/or help during the court processes. Close to one hundred states already signed and most of them have ratified the treaty concerning.

3.3. 2 Multilateral Investment Guarantee Agency

Generally, political risk can be viewed from two perspectives: Firstly, it can be influenced by the host government related to areas of taxation, management of foreign investors and regulation enforcement. Policies regarding profit transfer, foreign exchange rates for purchasing hard currencies and similar financial activities are included in this category. Secondly political risk can fall beyond the reach of government control if they are unable to manage or deal with it. This kind of risk is usually mitigated by insurance, but a typical example is an outbreak of war or severe political instability. Therefore, this World Bank institution has two main tasks:

1) To offer guarantees against commercial risks which are not associated with commerce; and
2) To endeavour to improve the FDI climate and promote investments in poor countries.

These guarantees of FDI are executed as follows:

1) Guarantees regarding situations of war or armed conflict
2) Guarantees to reach fair judicial course in the event of poor law enforcement
3) Guarantees to lessen restrictions and enable transfer of hard currency which is a major challenge for FDI in developing countries.
4) Guarantees against confiscation, domestication or expropriation of assets or investment by the host country.

This institution also offers assistance to developing countries to enable them to attract FDI in areas related to: research, information dissemination, promotion, policy requirements and finalising investment agreements or associated agreements with the guarantees of the Multilateral Investment Guarantee Agency.

3.3.3 Bilateral Agreements on the Protection of Investments

Agreements between two Countries: Formulating agreements between the host country and investors can help to reduce political risk and win interest in FDI. Governments must play a critical role in reducing political risk if they are to attract investors. Once democratic governments readily make commitments to respect and uphold the rights of foreign investors, such agreements make the host country more attractive to FDI and increase potential for capital inflows.

Bilateral Investment Agreements: Usually these agreements are signed amongst more industrialized and developing countries that export and import capital. Bilateral investment agreements are easily linked to upholding the rights of the investor after business operations begin in the host country. Ownership conditions of the investor are very important, especially when related to expropriation of assets and transfer of funds between the host country and the investor's homeland. Further, these agreements are also cover dispute settlement between the investor and the host country. The definition of the investment or the scope of the investment and the geographical areas are covered.

1. General conditions regarding the protection and attraction of the investment
2. The conditions regarding the treatment of the investor excluding the right of establishment, but including unbiased treatment
3. Expropriation of goods or assets related to and in general interest of the public
4. Compensation according to the value of the investment and rules regarding how it should be done
5. Effective transfer of funds
6. Exceptions related to tax agreements in instances where countries belong to integration unions such as a customs union.
7. Disputes between investors and host countries
8. Disputes between the government of the investor and the host country.

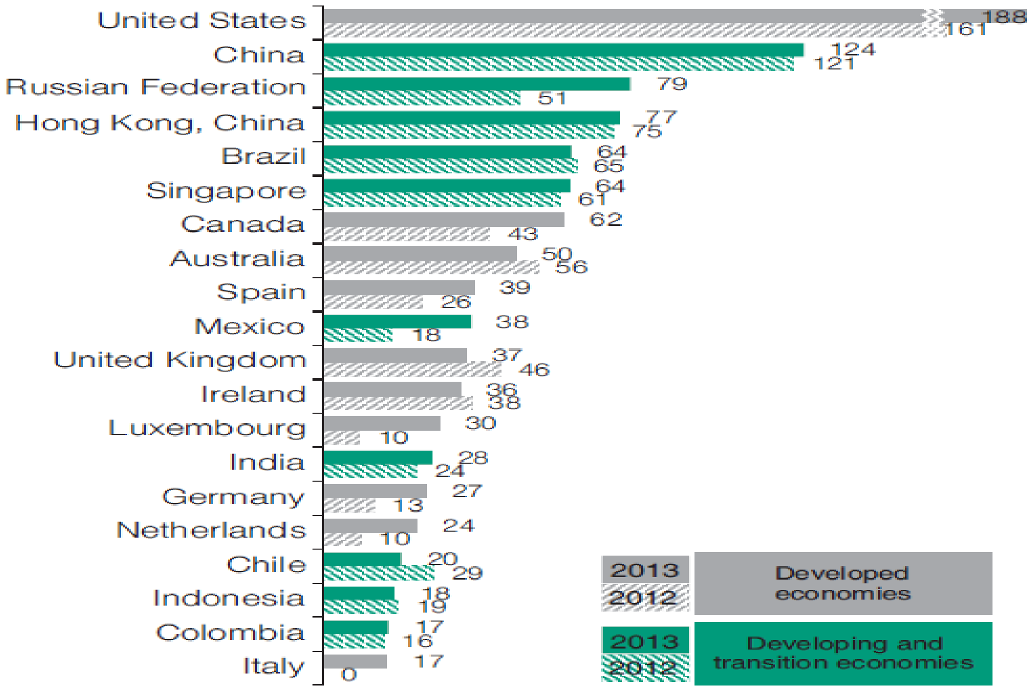
3.4 Overview of the Important Role of Policies to Attract FDI

A part of this critical need to attract FDI can be said to be the idea of an ideal destination. For any destination to increase its FDI share, it needs to possess a maximum of the motivations for FDI, and policy is one of the important motivations for foreign investors in deciding on their investment location. According to Dunning (1993) MNCs investment abroad is undertaken because the company will have ownership, location and internalization advantages. These then are factors on which an investor bases a selection of a particular location for a project. They include the factors affecting the availability of local inputs such as natural resources, the size of the market, geographical location, the position of the economy, the cultural and political environment, factor prices, transport costs and certain elements of the economic policies of the government (trade policy, macroeconomic policies, industrial policy, budget policy, tax policy etc.).

In addition, Dunning points to the economic policy of the government and the influence it may have on the ability of a country to attract capital. Multinational companies' consideration of location mainly focuses on three factors, namely profitability, predictability and investment security (likewise the domestic companies in host countries). Therefore, a government's policies for attracting FDI need to meet with MNCs' needs to strengthen their confidence in these three aspects. Through the study of those developing countries that successfully attract FDI and those that do not, we realize that policies for fostering a favourable environment play an important role for developing countries that wish to attract FDI.

The empirical evidence suggests that in order to induce more FDI into developing countries, the countries should focus on improving the investment environment for the foreign investors by paying special attention to measures that facilitate FDI. These measures that tend to increase a country's attractiveness to MNCs engaging in FDI include improving labour quality, infrastructure construction, stabilizing the inflation rate, etc. As investors are more likely to choose those locations that make it easier to do business, economic structural reforms in a country are more important in winning MNCs' confidence to take their investment funds there. Such reforms can be very wide and far-reaching. Reforms, whether social, political or economic, should aim at creating, maintaining and improving the environment for business, both local and foreign. Some of the important reforms can involve the relaxation of entry restrictions in various sectors, removal of government monopoly, privatization, independence of the central bank, elimination of import licensing, and removal of foreign exchange. Such reforms are likely to create a business-friendly environment that is likely to attract more FDI.

Also, the policy measures related to institutions which maintain political stability, reduce the risk of asset nationalization, enforce property protection, implement administration transparency, etc. can strengthen MNCs confidence of investment security. The processes of globalization and regionalization have created a new situation where the role of investment incentives has become more important in the eyes of governments (Blomstr Om, Kokko, 2003).



Source: UNCTAD, World Investment Report 2014.

Figure 3.1: FDI Inflows: Top 20 Host Economies, 2012 and 2013

(Billions of dollars)

As a result of international trade liberalization, the standardization of regulations and unilateral liberalization measures, technological innovation and the advance of telecommunication, markets have become increasingly integrated, and the size of the local market has become less important as a factor in selecting the location of investment projects. Governments wanting to use FDI as part of achieving a development objective will therefore have to think of policies which will attract FDI, upgrade FDI and encourage links between foreign multinationals and local firms.

The World Bank data report (2002), indicates that FDI has been boosted by sound policies to the benefit of the larger recipients. The largest FDI recipients have an average World Bank policy rating of 4.1, compared with 3.3 for the other developing countries. The ratio of FDI to GDP increased by 25% per annum in countries where policy and institutional performance improved the most, while the ratio of FDI to GDP increased by less than 6% annually in the countries whose policies improved the least. In addition, the relationship between improvements in the investment climate and FDI were positive.

Developing countries and transition economies now also constitute half of the top 20 economies ranked by FDI inflows, as shown in Figure 3.1. Mexico moved into tenth place. China recorded its largest ever inflows and maintained its position as the second largest recipient in the world (WIR, 2014). The next section explains the most important policies which have been used by South and South East Asia and by Latin American countries which have succeeded in attracting foreign direct investment.

3.5 FDI in East and South East Asia

Asia remains the world's number one recipient region, with total FDI inflows of $426 billion in 2013. Developing Asia accounted for nearly 30% of global total and remained the world's number one recipient region. Through the use of large amounts of FDI, East and South East Asian countries have made rapid improvements in their macroeconomic situations, investment, exports and employment during the 1980s and 1990s. East and South East Asian economies have focussed their investment incentives exclusively on foreign firms.

Over the last two decades market reforms and trade liberalization as well as more intense competition for FDI have led to reduced restrictions on foreign investment and expanded the scope for FDI in most sectors. The East and South East Asian countries have been extremely successful in attracting FDI. These countries, jointly and individually, receive a high level of FDI. For example, FDI inflows to East Asia rose by 2% to $221 billion. The stable performance of the sub region was driven by rising FDI inflows to China as well as to the Republic of Korea and Taiwan. With inflows at $124 billion in 2013, China again ranked second in the world (WIR, 2014). The economy has been highly successful in attracting regional headquarters of MNCs, the number of which reached nearly 1,400 in 2013.

Inflows to South Asia rose by 10% to $36 billion in 2013. The largest recipient of FDI in the sub region, India, experienced a 17% increase in FDI inflows to $28 billion. East and South East Asian policymakers realize that credible efforts at economic reforms in the region must involve an upgrading of technology, a scaling up of production and links to an increasingly integrated globalised production system, chiefly through the participation of Multinational Corporations (MNCs).

East and South East Asian countries have many advantages to offer to potential investors, including high and steady economic growth, vast domestic markets, a growing number of skilled personnel, an increasing entrepreneurial class and constantly improving financial systems, including expanding capital markets. On top of these advantages, East and South East Asian countries have been designing policies and giving incentives to foreign direct investors in several ways. The development strategy and the economic success of East and South East Asia has been comprehensively analysed in recent academic studies of world-wide development strategies.

According to the report on foreign direct investment 2014, the top sector in Asia-Pacific FDI in 2013 is coal, oil and natural gas. As the leading sector for FDI in the Asia-Pacific region it has almost doubled in 2013 from $13.23bn to $24.89bn. Within the other top five sectors – real estate, hotels and tourism, business and financial services, transport equipment, chemicals, plastic and rubber – each experienced varying decreases in FDI in 2013. Business and financial services endured an investment decline of 21.69%, the sharpest fall of the top sectors in the Asia-Pacific region.

While the chemicals, plastics and rubber sector experienced a decline in FDI of 8.82% in 2013 to $17.14bn, it narrowly managed to stay within the top five Asia-Pacific sectors and this ensures it remains a key component within the region (FDI markets, 2014). A steady increase of 4.29% in project volume of FDI during 2013 indicates investors will initiate projects in the sector, albeit at a lesser overall value, as shown in Table 3.2.

Table: 3.2: FDI in East and South East Asia by Sector 2013

Capital investment $bn

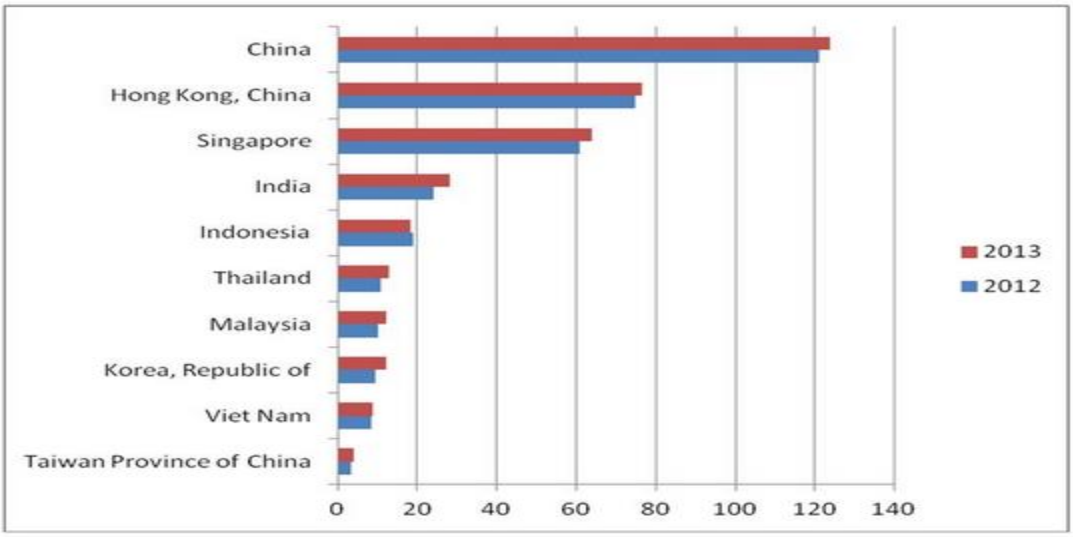
Investment by sectors	Capital investment
Coal, oil and natural gas	24.9
Transport equipment	18.4
Real estate, hotels and tourism	24
Chemicals, plastics and rubber	17.1
Business and financial services	19.3
Other	80.9

Source: FDI Markets (2014).

3.5.1 FDI in China

China has made tremendous progress in attracting foreign investment. Inward investment has played an important role in China's economic development and export success. Thousands of multinational corporations have invested in China. The latest UNCTAD report on World Investment Perceptions lists China in first place among the top 15 investment locations (WIR, 2014). Hong Kong and Taiwan, along with China have traditionally been the most important sources of FDI, but the presence of investors from Japan, the USA, and Europe has grown over the years.

In 2010, China was successful in mobilizing inward Foreign Direct Investment (FDI). This was attracted by the country's investment opportunities and by its sheer size and growing domestic market. According to the world investment report China received about 20% of all FDI to developing countries over the last 10 years and over $124 billion in 2013, as shown in Figure 3.2. Corresponding to China's shift in its development goals from an emphasis on GDP growth towards a more harmonious balanced development, China made a radical commitment to the liberalization of its services in its accession to the WTO. This has triggered a shift of FDI to service industries. By 2009, FDI in services had increased 3 fold from that in 2000.



Source: UNCTAD, World Investment Report 2014.

Figure 3.2: Top 10 Recipients of FDI Flows in Developing Asia, 2012 and 2013 (Billions of US dollars)

China has introduced laws and regulations that encourage foreign investment. It has introduced laws on tax incentives to reduce the level of risk and uncertainty for foreign firms in committing resources and investing in equity-based operations in China (WIR, 1995). A gradual and prudent approach has been taken to the process of liberalization. China has been quite open to FDI in almost all manufacturing and most service industries. FDI policies in China have evolved alongside economic development and strengthened institutional capacity.

The most important change is the raising of the ceiling on provincial examination and approval authority over foreign investment projects in the "permitted catalogue" from a total investment of US$ 100 million to US$ 300 million. The State Council circular specifies that this delegation of approval applies not only to manufacturing but also to service industries, except for the financial and telecommunications sectors (Davies, 2013). China's highly decentralized FDI approval and policy implementation creates opportunities for healthy competition for FDI among local authorities.

The Chinese government has been aligning inward FDI flows more closely with national priorities, including upgrading industrial sophistication, supporting innovation, setting up outsourcing industries and developing poorer hinterland regions.

3.5.2 FDI in Singapore

Singapore ranked first in the Asia Pacific Investment Climate Index for 2014, repeating its feat for the past two years as the most attractive destination for foreign direct investment (FDI) in the region. Singapore's economic freedom score is 89.4, making its economy the second freest in the 2014 Index. Its score is 1.4 points better than last year, reflecting improvements in investment freedom and labour freedom that outweigh small declines in monetary freedom and business freedom. Singapore is ranked second out of 42 countries in the Asia–Pacific region. Singapore has traditionally been lauded for its lack of corruption, though transparency remains a concern. The government's overwhelming success in court cases raises concerns about judicial independence.

In addition to its locational advantages, it also possesses the best-educated, most-skilled labour force (Elizabeth and Veliyath, 1996). Singapore, which has had a much more open policy, has also used a variety of measures to attract FDI into its strategic sectors. Besides having a favourable external environment, sound economic policies and reforms in recent years have played an important role in Singapore's strong economic performance during the last four years. Singapore has held the top position since 2012, displacing its rival Hong Kong, which had topped the league table in the report's inaugural year of 2011. This year, Hong Kong has dropped to third place, falling behind second-placed New Zealand, after it scored lower for political stability and the rule of law following China's more pronounced influence on the special administrative region. Because of its location, Singapore is a major logistics centre. Its port is used by most sea traffic sailing west from Asia to Europe, and east from Asia to North America. Despite having virtually no resources of its own, Singapore has become a major downstream processor of raw materials from its neighbours, particularly oil products (Ali, 2000).

In addition, Singapore's highly qualified and educated workforce has attracted a large amount of high-tech manufacturing, in particular, electronics. In another study relating to Singapore (The Economist, 1997), it was found that the country has competitive advantages: highly educated manpower, a superb port, airport, telecommunications, infrastructure and logistical infrastructure. Singapore also has a reputation for honest professional integrity, efficiency, a business-orientated culture, openness to negotiation over business incentives, and even a willingness to invest national money into projects that may be of value to the country. This is since it reopened its economy to foreign investors in 1979. The top corporate tax rate is 17 %, and there are few non-tariff barriers. Foreign investment in several economic sectors is restricted by the government.

As a leading global financial centre, the highly competitive financial sector offers a wide range of financing options. Singapore remains one of the world's freest economies. It has been ranked the most globalised country in the world by Foreign Policy for the fourth time in seven years and the world's second freest economy by the Heritage Foundation for the thirteenth consecutive year. Singapore has consistently ranked among the world's most competitive economies. Singapore was rated the world's second most competitive economy by the World Competitiveness Yearbook 2007 and the seventh most competitive economy by the Global Competitiveness Report 2007-2008. In Asia, Singapore remains the most competitive economy. In 2012, Singapore was the third highest destination country in Asia for inflow of FDI, attracting 348 projects (WIR, 2014), (See Table 3.3).

Table: 3.3: Investment Regulations and Investment Incentives

Term of Regulation	Singapore
Investment incentives and promotion	Pioneer Status: Exemption from corporate tax for up to 10 years.
Taxation	Corporate income tax :26%
National treatment	- Foreigners are free to acquire land and buildings zoned for industrial or commercial purposes. -Foreign investors are allowed to maintain 100% foreign equity. -Free trade zones for sea borne cargo and air exist. -No restrictions are placed on foreign projects except for national security.
Administrative	20 working days
Special investment area	Free trade zones for sea borne cargo and air exist: within these zones a wide range of facilities and services are provided for the storage and re-export of dutiable and controlled goods.

Source: European Commision Asia-Invest Programme, 2005

Singapore has been able to maintain a stable and conducive macroeconomic environment, to transit to higher value activities and upgrade workers' skills, to capitalise on opportunities in new growth industries, to position the economy as a services hub, to invest in research and development (R&D) and position it well to face the challenges posed by globalisation and seize its opportunities. Table 3.2 shows the regulatory and investment incentives in Singapore.

3.6 Main Factors that Attract MNCs to Asia

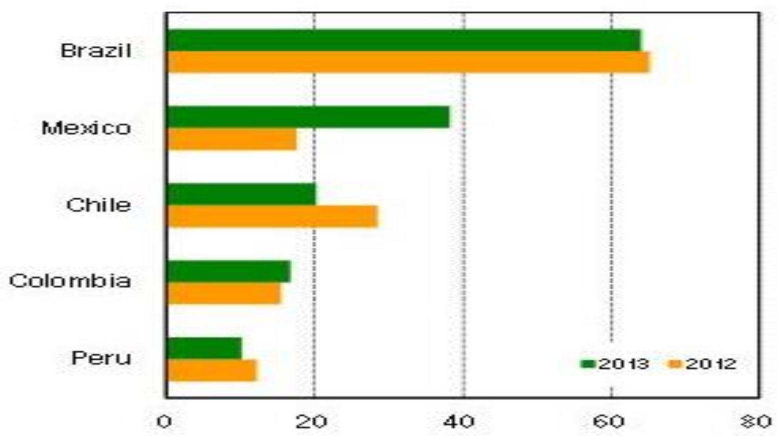
The main factors that attract MNCs to Asia are: economic growth, huge domestic markets, abundant natural resources and human capital. These attractions continue. The basic FDI-attracting policies, processes of liberalization, the business environment and, most importantly, favourable economic policies and tax incentives, remain attractive. The geographical proximity of Japan as the main investor in the region is factor too. Over the last two decades market reforms and trade liberalization as well as more intense competition for FDI have led to reduced restrictions on foreign investment and expanded the scope for FDI in most sectors. In terms of economic growth the region has witnessed a remarkable growth in GDP, in per capita income, and also in good quality infrastructure. One of the main reasons behind the region's ability to attract FDI was that many Asian countries have invested heavily in human capital. Developing Asia accounted for nearly 30% of the global total and remained the world's number one recipient region (WIR, 2014).

3.7 FDI in Latin American

Amongst the developing regions, Latin America and the Caribbean, along with Central and Eastern Europe, have been the only two regions where inward FDI has steadily increased since the 1990s. FDI into Latin America and the Caribbean increased in 2013 from $256 bn in 2012 to $292 bn in 2013. Project numbers increased from 1198 to 1320, and the region also experienced a 20.54% increase in jobs created. Historically, Latin America has always attracted a large share of direct investment. In the past, the countries in the region offered large and relatively wealthy markets as well as abundant natural resources.

Brazil was the leading location in 2013 in Latin America with an estimated $64 bn of FDI. This was due to the waterway being constructed by Hong Kong Nicaragua Canal Development Investment as an alternative to the Panama Canal. However; the number of FDI projects in Brazil had dropped to 327 recorded projects in 2013. FDI into Mexico increased to $39 bn in 2013. The top three countries for capital investment in Latin America – Brazil, Mexico and Chile – collectively account for almost 65% of FDI into the region in 2013, as shown in Figure 3.3.

(Billions of US dollars)



Source: UNCTAD World Investment Report 2014.

Figure 3.3: Top 5 Recipients of FDI Flows in Latin America and the Caribbean, 2012 and 2013

According to the FDI Report 2014, the top three sectors in Latin America and the Caribbean in 2013 were business and financial services with FDI worth $48.19bn, ICT with $17.04bn and renewable energy with $13.28bn. Together, these three sectors accounted for 56% of FDI in Latin America and the Caribbean.

Of the top five sectors, transport equipment was the only sector to witness a decline in 2013, with FDI figures falling 4.19% from $12.23bn to $11.72bn. This was despite an increase of 7.03% in the number of projects. Business and financial services, coal, oil and natural gas were the fastest growing sectors, as shown in Table 3.4.

Table 3.4: FDI into Latin America and Caribbean by Sector 2013

Capital investment $bn

Investment by sectors	Capital investment
Business and financial services	48.2
Transport equipment	11.7
Information Communications Technology (ICT)	17
Coal, oil and natural gas	11.5
Renewable energy	13.3
Other	38.1

Source: FDI Markets (2014).

3.7.1 FDI in Brazil

On a global scale, Brazil is ranked as a top destination for foreign direct investment. It accounts for more than half of total FDI inflow in Latin America. The country saw a record amount of incoming investment due to a combination of the last World Cup in 2014, the 2016 Olympic Games and the discovery in Brazil of oil fields. This is on top of economic growth and receiving USD 64 billion in FDI in 2013 (see Figure 3.3). The growth of inward FDI is sector-bound. Both the primary sector (agriculture and mineral extraction), and industry have seen double-digit growth in the previous five years. FDI in services more than doubled between 2010 and 2011. The Brazilian financial sector is large and sophisticated. Lending by the large banking institutions is focused on the largest companies, while small- and medium-sized banks primarily serve small- and medium-sized companies.

Brazil's tax environment is known to be highly regulated. This is one of the reasons for Brazil making extensive progress in introducing a more favourable tax climate in order to attract foreign direct investments. In addition, the federal government has granted tax benefits for certain free trade zones. Most of these free trade zones aim to attract investment to the country's relatively underdeveloped North and Northeast regions. The FDI in the service sector in Brazil is the largest business segment and the largest sub-segment for FDI in 2011. From 2006 to 2011 Foreign Service investments increased from USD 12.1 to 32.0 billion. This can be mainly attributed to investments in commerce and telecommunications and financial services. The origin of FDI mainly stems from the Netherlands (mainly for tax purposes), the United States and Spain. However, other countries, especially China, are swiftly increasing their investments in Brazil. China's FDI into Brazil is mainly resource-driven, though slowly expanding into other sectors.

3.7.2 FDI in Mexico

Mexico is also attracting foreign investors and traders by unilaterally liberalizing its trade, foreign investment, and domestic policies. Rules governing foreign investment have been liberalized. Under certain conditions, Mexico now permits 100% foreign projects. In 2013 Mexico received US$ 38 billion, more than double the FDI in 2012 (see Figure 2).

In addition, a number of constitutional amendments have been passed to open up parts of the economy, such as the telecommunications and transportation sectors, to foreign investors (Joma, 2005). Mexico's fiscal reform, passed in 2013, consisted of 34 financial and banking laws which strengthened banking regulations and the legal framework with the intention of increasing competition and transparency in the sector. The banking sector remains highly concentrated, with a handful of large banks controlling a significant market share, and the remainder comprised of regional players and niche banks.

These reforms have stimulated the Mexican economy, which has achieved an average annual real growth of more than 5% during the last two decades. Exports have grown over 20 %. The Mexican government actively encourages foreign investment from the USA and other countries. The Mexican Investment Board provides information on labour, advises on the viability of projects, refers investors to bankers, helps cut red tape, and sets up meetings with government authorities (Reda, 2002).

In addition, Mexico has an excellent communications network, with several trans-border highways and rail lines, as well as several major ports. This means lower shipping costs. Mexico enjoys a stable exchange rate and a substantial domestic market (population 112 million). The country has formed an outstanding network of trade and investment agreements with the world's largest free trade agreements network, spanning three continents, and offering preferential tariffs to more than 44 countries. Competitive labour costs and responsible federal fiscal policies have increased the resilience of the national economy. The availability of skilled labour and well-educated, multilingual managers, the proximity to the USA, both for investments and for markets lowers production costs. Mexico's government offers numerous incentives, including job training and tax credits. Therefore, the factors which explain Mexico's increasing attractiveness as a destination for FDI are all related, either directly or indirectly, to economic reforms undertaken by the Salinas government, which was elected to modernize the Mexican economy and make it highly competitive. To this end, macroeconomic stabilisation and fiscal consolidation were prerequisites, and remarkable progress has been made.

3.7.3 FDI in Chile

Chile was one of the first countries in Latin-American to include FDI in its development strategy. Against the trends of the 1970s, the country enacted laws to promote the arrival of FDI, which started flowing gradually. However, it was not until the 1990s and the return of a democratic regime that economic and political stability and the globalization winds from the north caused a boom in FDI. In the past decade, besides the high inflows received, Chile's FDI policy has made various efforts to use foreign direct investment not just as a mere capital flow, but as a means to promote export diversification, technology transfer and the upgrading of production capacities (José and Carlos, 2010).

In addition, Chile has been a trailblazer of economic reform in Latin America, and this also applies to policies regarding FDI. Chile was one of the first economies in the region to seek FDI actively as a part of its development strategy, at a time when many countries were mostly following inward looking policies. Today, Chile is the third largest recipient of FDI, in terms of stocks, in Latin America, only behind the two largest Latin American economies, Brazil and Mexico. In 2009, the country was the region's second most important recipient of FDI inflows, just behind Brazil, and the country received USD 20 billion in FDI in 2013 (WIR ,2014). Chile has become one of the main recipients of foreign direct investments of Latin America, keeping up with other FDI magnets from emerging markets of similar size in other regions of the world, such as the Czech Republic and Thailand.

3.7.4 Main Factors that Attract MNCs to Latin America

Having discussed above the policy situation concerning FDI in Latin America, we see that these countries represent some of the most attractive emerging markets, because of the improved macroeconomic situation and remarkable progress in structural change. The ongoing commodity boom has also reinforced the region's economic fundamentals and strengthened its potential capacity to grow. It is possible to summarise the main factors behind Latin America's attraction to MNCs as follows:

• Abundance of natural resources: many countries in the Latin America region, such as Chile and Venezuela, have succeeded in attracting FDI mainly because of the wealth of their national resources.

• Geographical proximity: The US is the main investor in the region, because of its geographical proximity to Latin American countries.

• Privatization policies and economic reforms: nearly 25% of total FDI which flowed into the seven largest countries in the region was a result of privatization.

• Deregulation: many countries have eliminated historical differences between national and foreign companies.

• Economic growth: the region has witnessed a remarkable growth in GDP, in per capita income, and also in good quality infrastructure.

• The advance of structural reforms with the region continuing to open itself up to free market policies. The region has been performing at, or above, the equilibrium. Fiscal imbalances have been structurally corrected, increasing surpluses are being reported for trade balances, and external debt ratios have been remarkably reduced.

• The strength of the domestic market, in which fixed investment has been one of the most dynamic components of the economy's absorption, together with strong household consumption propelled by an improvement in workers' conditions.

All these factors have reinforced the region's potential capacity, and also reduced its external vulnerability, which is well appreciated by foreign investors. In addition, legislative measures have opened up previously restricted sectors to foreign investors, have eliminated restrictions on profit remittances, and have significantly simplified administrative procedures. The following section focuses on a number of policies and programmers and procedures that led to the improvement of FDI flows.

3.8 Policy to Encourage Privatization

More than twenty years ago, many countries around the world engaged in economic reform programmes that sought to establish an active private sector, i.e. privatization. The purpose of this reform was to decrease government control in the economy, and to transfer resources and ownership from the state to private investors. For many countries, privatization is an essential policy tool that attracts the foreign funds for investment purposes much needed in recent years. Recent trends toward globalization of production and consumption patterns have led to a sharp increase in global FDI. At the same time, trade and investment liberalization has brought more developing countries into the globalized economy. This has led to a dramatic surge in FDI flows to developing countries, which exceeded $778 billion in 2013. This increase went mainly to 12 large developing countries, in part reflecting their economic size. Thus, China alone received $124 billion in 2013. Already a significant part of the economy in many developing countries, FDI is likely to continue at high levels for the foreseeable future.

The widespread and large-scale privatization of state-owned enterprises in developing countries and former communist countries over the last two decades has fuelled the recent growth of FDI by merger and acquisition in a few countries, China being one of these.

Privatization then spread worldwide as economic globalization and market integration increased. Indeed, the deeper international competition, the liberalization of stock markets worldwide and the lifting of trade barriers across countries helped strengthen the need to develop and foster private sector activities, leading to an international shift towards private sector development. Many empirical studies show that developing countries and transition countries' economies are increasingly privatizing their state-owned enterprises and at the same time experiencing a significant inflow of FDI.

Persson (2004) and Mukherjee and Suetrong (2009) consider both privatization and FDI simultaneously. Norbäck and Persson (2004) consider the situation where public firms are sold at auction. They show the importance of participation by foreign firms in the privatization process, and find that high green-field costs and high trade costs do not necessarily induce foreign acquisitions in privatizations. In addition, Carstensen and Toubal (2003) also find that the level of privatization played an important role in determining the flows of FDI into Central and Eastern European countries over the period of the 1990s. They find that privatization increases the incentive for FDI and attracts more capital inflow. The reason for this is that privatization decreases the domestic firm's output and increases the foreign firm's output. Thus the foreign firm has a higher incentive for direct investment.

3.8.1 Policy of Investment Incentives

FDI incentives can be formally described as: government financial benefits, primarily offered to foreign investors, for the purpose of influencing the size, nature or location of an investment project. The experience of a number of countries indicates that to make an economy attractive to investment requires financial incentives. This implies that the financial incentives should be linked to issues having to do with matters such as employment, modernization and technology, and the development of human resources and exports.

Developing governments acting as hosts often offer incentives to improve the attractiveness of their location for FDI. The incentives aim to encourage FDI inflows by reducing costs and making investment more profitable. The incentive schemes are often closely linked to efforts by the host governments to encourage investments in export industries, or preferred sectors, or in less developed areas of the country. Most host countries believe that incentive schemes are crucial for attracting FDI, because competing economies have similar schemes. For instance, in Hungary direct financial assistance was given to companies capable of creating an agreed number of jobs within the first three years of their operation. This grant funded assets on the proviso that the total invested capital was not below a certain limit taking into account the production technology to be used. Competition between developing countries' governments to offer investment incentives to attract FDI has been intense in recent years. East Asian countries can provide some background information in this context. Both Malaysia and Singapore introduced tax holidays for firms investing in 'Pioneer industries' in the late 1950s. Since then Singapore has become the regional leader.

3.8.2 Policies for Improving the Business Environment for FDI

FDI has become the most dynamic component of international resource flows to developing countries and, therefore, policies with the aim of attracting investment by multinational

companies (MNCs) are of growing importance. MNCs can and do contribute to the development of developing countries. Many governments have recently reconsidered their attitudes and policies toward FDI and global corporations.
Until recently, there was a strong consensus in the literature that multinational corporations (MNCs) invest in specific locations mainly because of strong economic fundamentals in the host countries, for example large market size, stable macroeconomic environment etc. (Globerman, 2001).

However, with the growing integration of the world markets and increased competition between the host countries wishing to attract FDI, the host country's economic fundamentals may not be sufficient for inward FDI. This can be attributed to having to cope with the rapid changes brought about by globalization, the need to integrate into the world economy, and the huge development in information technology and telecommunications seen in recent years. In these circumstances it is difficult for a country to remain isolated from these developments, given the potential difficulties it would face from isolation, particularly in areas such as exports and the flow of capital.

For this reason, many countries including developing countries have adopted reform policies aimed at restructuring their economies in order to provide the right investment climate to improve their competitiveness in a global economy open for trade and capital flow. Therefore, it now becomes important to study afresh what determines inflow of FDI. In this regard, there is a need to focus on the role played by host government policies and investment agreements in attracting inward FDI.

Many countries have pursued improved policies to become more attractive to FDI. Over the past few decades these policies have gained an increasing importance in the global economy. Since the 1980s the policies in developed and developing countries alike, have completely removed restrictions on the economic activities to attract FDI. Many developing countries are embarking on market liberalisation programmes to achieve economic development based on outward-oriented export promotion strategies. Thus, they hope that investors will bring expertise and technology that will be passed onto the local firms and workers, helping to sharpen up their whole economy (Abraham, 2006).

3.8.3 Financial Incentives

The experience of a number of countries indicates that to make an economy attractive to investment requires financial incentives. This implies that the financial incentives should be linked to issues having to do with matters such as employment, modernization and technology, and the development of human resources and exports. For example, R&D grants should be given to companies that develop or produce new products. These grants can be repaid in the form of royalties in the case of a successful new product. A similar scenario is to be seen in the grants Finland allocated to fund activities in the areas of R&D, which would improve the capacity of companies to compete in foreign markets. Consequently, the R&D grants in Finland were $390 million in 2003 (Centre for Information and Decision Support, 2004).

Another example is development aid-oriented grants which are given to assist projects to improve their capacity to compete in the long term by encouraging them to promote the use of skilled labour and modern technology. The amount of grant depends on the nature of the project as well as the location where FDI is taking place. For instance, in both Ireland and Hungary direct financial assistance was given to companies capable of creating an agreed number of jobs within the first three years of its operation. This grant funded assets provided that the total invested capital was not below a certain limit taking into account the production technology to be used OECD, 2003.

3.8.4 Policy Promoting Managerial and Institutional Frameworks

Some developing countries during the past decades sought to establish a hospitable regulatory framework for FDI by relaxing rules regarding market entry and foreign ownership, improving the standards of treatment, and improving the functioning of markets. These "core" policies are important because FDI will simply not take place where it is forbidden or strongly impeded. The efficiency and flexibility of the organizational and institutional frameworks play a major role in determining the FDI environment. This efficiency improves with simpler procedures for establishing projects and settling disputes. Regulatory standards that are regarded as predictable by investing firms would reduce uncertainty and increase the attractiveness of investment, even if they involve higher operating costs. This predictability can itself be derived from the legal or legislative process that supports them, which means they will not be applied arbitrarily.

Among the measures taken to improve managerial and institutional frameworks is the one-window service to facilitate the licensing process for investment projects, which is intended to save time and effort thereby reducing the costs for investment (Hong & Gray, 2003).

In addition, creation centres for the entrepreneur provide consultation/advice to investors and seek to protect the rights of investors and provide post-investment services aiming at removing potential barriers that face foreign investors, particularly within government offices. The advice can be disseminated through research and database facilities. Virtually all successful attraction of inward FDI highlights the importance of governance as a factor conditioning the FDI process. In broad terms, governance encompasses laws, regulations and public institutions that determine the extent of economic freedom in a country, the security of private property, the costs to the private sector of complying with government regulations and legislation, the competence and efficiency of the civil service in carrying out state activities that, in turn, affect the efficiency of private sector enterprises. The transparency of economic policies is vital for foreign investors for several reasons, the most important being that non-transparency imposes additional costs on businesses (Zdenek 2001). These additional costs arise as firms have to tackle the lack of information that should have been provided by the appropriate government department in the implementation of its policies and in the activities of government institutions. However, the concept of transparency is necessarily subjective, as it relates to perceptions of the investment climate in the host country. In this context, host-country authorities should undertake some measures to strengthen their efforts to consolidate the rule of law and good governance. This includes stepping up efforts against corruption and enhancing policy and regulatory frameworks to foster a dynamic and well-functioning business sector. Increased transparency would significantly reduce the scope for negative welfare outcomes.

3.8.5 Improving the Legislative Framework

In order to maximize the potential benefits by protecting the rights of all parties involved, economic activity should take place under an umbrella of appropriate legislation. However, the legislation should encourage free competition, ban monopolies, and protect investment by providing the necessary guarantees to investors. In this context, the multiplicity of laws in relation to investment should be replaced by one stable, integral and transparent law. This will make the law more reliable for investors as it facilitates the legal environment for investment. Moreover, effective legislation should be introduced to combat corruption in official circles, which would lower costs for potential investors (El- Fergani, 2002).

3.8.6 Other Policies

Other policies that contribute to the improvement of the environment for investment should be considered. These include policies that 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 terminates. A report compiled by the OECD in 2003 indicates that organizing training programmes for labour, aiming at improving skills, constitutes a major incentive for attracting FDI, particularly in technologically demanding areas. The report argues that this tends to encourage investors because of the presence of highly-skilled low-cost labour (OECD, 2003).

3.9 The rationale selecting Latin America and South/South East Asia

The rationale selecting Latin America and South/South East Asia to attract FDI as example:

3.9.1 South/South East Asia

China

- China made a radical commitment to the liberalization of its services in its accession to the WTO. China has introduced laws and regulations that encourage foreign investment. It has introduced laws on tax incentives to reduce the level of risk and uncertainty for foreign firms in committing resources and investing in equity-based operations in China (WIR, 1995). The Chinese government has been aligning inward FDI flows more closely with national priorities, including upgrading industrial sophistication, supporting innovation, setting up outsourcing industries and developing poorer hinterland regions.

Singapore

- Singapore has traditionally been lauded for its lack of corruption, though transparency remains a concern. The government's overwhelming success in court cases raises concerns about judicial independence (Asia Pacific Investment Climate Index for 2014).
- Singapore, which has had a much more open policy, has also used a variety of measures to attract FDI into its strategic sectors (Elizabeth and Veliyath, 1996).
- Singapore's highly qualified and educated workforce has attracted a large amount of high-tech manufacturing, in particular, electronics (The Economist, 1997),
- Singapore has competitive advantages: highly educated manpower, a superb port, airport, telecommunications, infrastructure and logistical infrastructure.

- This is since it reopened its economy to foreign investors in 1979. The top corporate tax rate is 17 %, and there are few non-tariff barriers. Foreign investment in several economic sectors is restricted by the government (European Commision Asia-Invest Programme, 2005).
- It has been ranked the most globalised country in the world by Foreign Policy for the fourth time in seven years and the world's second freest economy by the Heritage Foundation for the thirteenth consecutive year (European Commision Asia-Invest Programme, 2005).

- In Asia, Singapore remains the most competitive economy. In 2012, Singapore was the third highest destination country in Asia for inflow of FDI, attracting 348 projects (WIR, 2014).

3.9.2 Latin America

Historically, Latin America has always attracted a large share of direct investment (UNCTAD World Investment Report 2014).

- Privatization policies and economic reforms: nearly 25% of total FDI which flowed into the seven largest countries in the region was a result of privatization.
- Deregulation: many countries have eliminated historical differences between national and foreign companies
- The advance of structural reforms with the region continuing to open itself up to free market policies. The region has been performing at, or above, the equilibrium. Fiscal imbalances have been structurally corrected, increasing surpluses are being reported for trade balances, and external debt ratios have been remarkably reduced (UNCTAD World Investment Report 2014).

- The strength of the domestic market, in which fixed investment has been one of the most dynamic components of the economy's absorption, together with strong household consumption propelled by an improvement in workers' conditions.

Brazil

- Brazil's tax environment is known to be highly regulated. This is one of the reasons for Brazil making extensive progress in introducing a more favourable tax climate in order to attract foreign direct investments (UNCTAD World Investment Report 2014).
- In addition, the federal government has granted tax benefits for certain free trade zones. Most of these free trade zones aim to attract investment to the country's relatively underdeveloped North and Northeast regions.

Mexico

- A number of constitutional amendments have been passed to open up parts of the economy, such as the telecommunications and transportation sectors, to foreign investors (Joma, 2005).
- Mexico's fiscal reform, passed in 2013, consisted of 34 financial and banking laws which strengthened banking regulations and the legal framework with the intention of increasing competition and transparency in the sector.
- The Mexican Investment Board provides information on labour, advises on the viability of projects, refers investors to bankers, helps cut red tape, and sets up meetings with government authorities (Reda, 2002).
- The country has formed an outstanding network of trade and investment agreements with the world's largest free trade agreements network, spanning three continents, and offering preferential tariffs to more than 44 countries.
- Competitive labour costs and responsible federal fiscal policies have increased the resilience of the national economy. The availability of skilled labour and well-educated, multilingual managers, the proximity to the USA, both for investments and for markets lowers production costs (Joma, 2005).
- Mexico's government offers numerous incentives, including job training and tax credits. Therefore, the factors which explain Mexico's increasing attractiveness as a destination for FDI are all related, either directly or indirectly, to economic reforms (Reda, 2002).

Chile

- In 1970s, the country enacted laws to promote the arrival of FDI, which started flowing gradually (José and Carlos, 2010).
- In addition, Chile has been a trailblazer of economic reform in Latin America, and this also applies to policies regarding FDI. Chile was one of the first economies in the region to seek FDI actively as a part of its development strategy, at a time when many countries were mostly following inward looking policies (WIR ,2014).
- Chile has become one of the main recipients of foreign direct investments of Latin America, keeping up with other FDI magnets from emerging markets of similar size in other regions of the world, such as the Czech Republic and Thailand (WIR ,2014).

3.10 Chapter Summary

This chapter provided an overview of the important role of policies for attracting FDI and focused on FDI inflow to Latin America and into South and South East Asian countries in particular. These countries were focused on because they have been successful in attracting considerable amounts of foreign investments. The chapter has also provided a review of the experiences of China, Singapore, Brazil, Mexico and Chile in order to support this argument. The efforts made by these countries in the last two decades have encouraged many developing countries to follow suit. Finally, the aim of policies for attracting FDI must necessarily provide an appropriate environment for competition in which investors can conduct their business profitably and without incurring unnecessary risk, thus leading to advantages in improving economic efficiency and boosting economic growth to strengthen and improve living standards in a host country. The next chapter is devoted to discussing the impact of risks on foreign direct investments, general political risk indicators, foreign direct investments protection and Multilateral Investment Guarantee Agency.

CHAPTER FOUR

THE IMPACT OF RISKS ON FOREIGN DIRECT INVESTMENT (FDI)

4.1 Introduction

This chapter seeks to achieve a number of objectives. Firstly, we will discuss the main factor to be considered when firms in the political environment enter global markets. Secondly, the significance of political perspectives when handling global business and the impact of associated risks on foreign direct investments (FDI) are highlighted.

The performance of the firm’s business is usually impacted by several dynamics, some of which are internal and some external. However, the primary elements that influence its business are the economic climate, political stability, social and technological settings.

4.2 Political Risk

The political risk factor is related to government interference in the commerce of foreign stakeholders and their investments. This interference can range from discriminatory treatment to seizure of assets. Political risk is a major concern of foreign investors whether or not the place of interest is considered a developed or developing country.

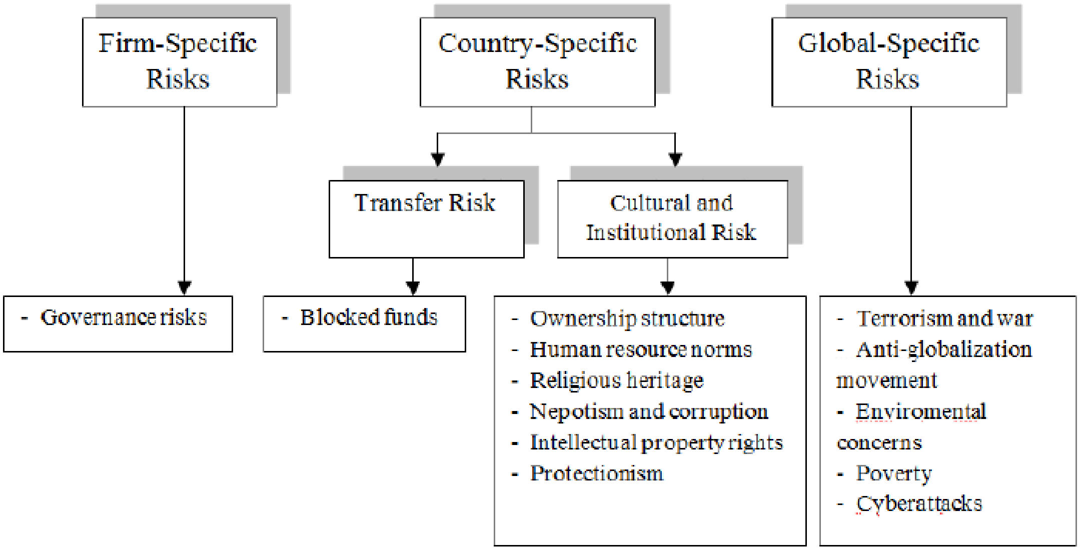
Research which focuses on FDI informs us that political and institutional risks are two major concerns of foreign investors; especially in developing countries. Some political risks include the “resurgence of ‘resource nationalism’” (MIGA, 2010) and unfavourable termination or change in the “terms” of foreign investment (Barthel, Busse, & Neumayer, 2010). Such hindrances continue to challenge foreign investment into developing economies.

Considering the perceptions and requirements for investors to cope with political risks can help us to identify the role of political risk within any industry, yet political risk remains one of the key hurdles in conducting business in a developing country which is unlikely to change in the near future. When foreign investors were surveyed regarding their top concerns of political risks when investing in developing countries, these included the macroeconomic stability and access to fiscal loans in the country. Recently, many factors have stimulated a relatively high risk tolerance. Most acknowledged factors include promising economies, ample liquidity and a levelling risk premium (Hansen, 2004; World Bank, 2006; Ratha, 2009; UNCTAD, 2009; and Horska, 2014). Usually, host economies with high political risk factors would tend to discourage FDI inflows since political precariousness negatively affects the profitability and survival of foreign investment stakeholders. There are three key political risk factors to discourage foreign investment: firstly, and more rarely it is the nationalization or expropriation of foreign assets, or a breach of contract; secondly, policy unpredictability and subjective FDI-related policies in regulation; and, thirdly, war and/or political violence including terrorist activities which damage and discourage the productivity of the host's log-term economic activities (Jensen, 2008; MIGA, 2010).

4.2.1 Defining Political Risk

The World Bank (2011) defines political risk as 'the probability of disruptions of the operations of companies by political forces and events, whether they occur in host countries or result from changes in the international environment'. This is largely determined by popular reservations about the actions of governments, political institutions and minority groups and autonomist movements (Marchetti & Vitale, 2013).

When a firm recognizes the need to manage their political risks, they must first define and then classify the risks involved. Political risks can be classified in three ranks: firm-related, country-related and global risk factors (Horska, 2014). Firm-related risks, also called micro risks, affect the firm's project at the corporate level whereas governance risk is the most popular firm related political risk because of the conflict created between a firm and its host government. This brings us to country-related risks, which are known as macro risks; the most recognized category at country-level which includes cultural and institutional risks. Global-related risks, on the other hand, are deeply related to terrorism, anti-globalization movements, poverty and cyber-attacks.



Source: Political Risk Assessment and Management, 2005

Figure 4.1: Classification of Political Risk

Depending on how firms are affected by political risk factors, this can be classified into three areas: first, transfer risks which are derived from uncertainties regarding cross-border capital flows, disbursements and expertise; second, operational risk, related to uncertainties about the host country's policies and plans for resident operations of multinational companies; and finally, control risks which come from uncertainties regarding the host country's policies on ownership and control of such resident operations , as shown in Figure 4.1

In order to evaluate the process, managers can construct and conduct baseline studies of historical, current and projected political risks, which may influence business strategies and goals related to operational productivity and success. The baseline assessment should further include four principal categories according to Horska (2014):

Table 4.1: Normative Model of Macro Political Risk Assessments

	Internal	External
Government-related	- Degree of elite repression - Degree of elite illegitimacy - Likelihood that regime chase will affect policy	- Likelihood of political violence - Degree of involvement in international organization - Possibility of regulatory restriction on investment, capital or trade
Society-related	- Degree of fragmentation (potential for social conflict) - Sense of nationalism, xenophobia alienation or fundamentalism	- World public opinion - Disinvestment pressure - Regional diversity and incongruent interests
Economy-related	- GDP per capita growth - Income distribution - Likelihood that economic goals will be met	- Future economic policies regarding FDI - Likelihood of balance of payments problems - Likelihood of currency inconvertibility / instability

Source: Alon – Martin, "A normative model of macro political risk assessment", Multinational Business Review, 1998.

1) macro-political environment factors such as taxation constructs, foreign ownership, privatization, business regulations and corruption which all impact a firm's competitiveness and capacity to conduct business in the host country; 2) economic policies which affect inflation rates, interest rates, foreign exchange rates and the ultimate economic growth of the market; 3) social risk factors like social norms, demographics shifts and societal struggles or pressures. Security concerns, such as institutional preparedness for natural or human disasters related to hurricanes and earthquakes or terrorism and bio-security threats.
2) A major factor regarding the political climate and degree of political risk is related to the proportions of the governance indicators. Government efficiency therefore includes responses to civil servant competencies, provisions for quality public service, levels of bureaucracy, independence of its civil service from political stresses, and the reliability of government commitment to its policies and regulations.

Rule of Law involves indicators which help us measure the degree of confidence institutions have in, and how much they truly abide by, the rules of society. This includes insights regarding the incidence of crime; the effectiveness and predictability of the judiciary; and the enforceability of contracts. Voice and Accountability comprises indicators that measure various characteristics of political processes including political and human rights and civil rights which measures the democracy of nationals of country in the selection of their Government, as shown in Table 4.1. Absence of Violence and Political Stability entails indicators that measure sensitivities and the likelihood of the government being overthrown by unconstitutional or forceful measures, including civil unrest and terrorism.

Control of Corruption involves the degree of corruption, as defined by utilizing public power for private gain which is established from scores of variables from polls of experts and surveys. Regulatory Quality focuses on established economic policies, including perceptions imposed by extreme regulation in areas related to foreign trade and business development. This is also extended to unfriendly market policies such as price controls or firm- and country – related risks which are associated with political instability. Table 4.2 highlights examples of such identifiable risks.

Table 4.2: Examples of Political Risk Factors

	Government Risks	**Instability Risks**
Firm-related risks	- Discriminatory regulations - "Creeping" expropriation - Breach of contract	- Sabotage - Kidnappings - Firm-specific boycotts
Country-related risks	- Mass nationalizations - Regulatory changes - Currency inconvertibility	- Mass laborstrikes - Urban rioting - Civil wars

Source: MIGA-EIU Political Risk Survey 2010.

4.2.2 General Political Risk Indicators

Six internal causes of political risk:

1. Political divide and divided political power
2. Divided societal power in aspects of language, religion, and ethnicity.
3. Restrictive or intimidating measures of power
4. The existence of nationalism, xenophobia, corruption, nepotism and the willingness to compromise.
5. Social factors and structures including population densities and distribution of wealth
6. Social climate including the association and strength of radical forces for or against the government.

Two External causes of political risk:

1. Dependency on hostile ruling power
2. Negative influences of regional political streams.

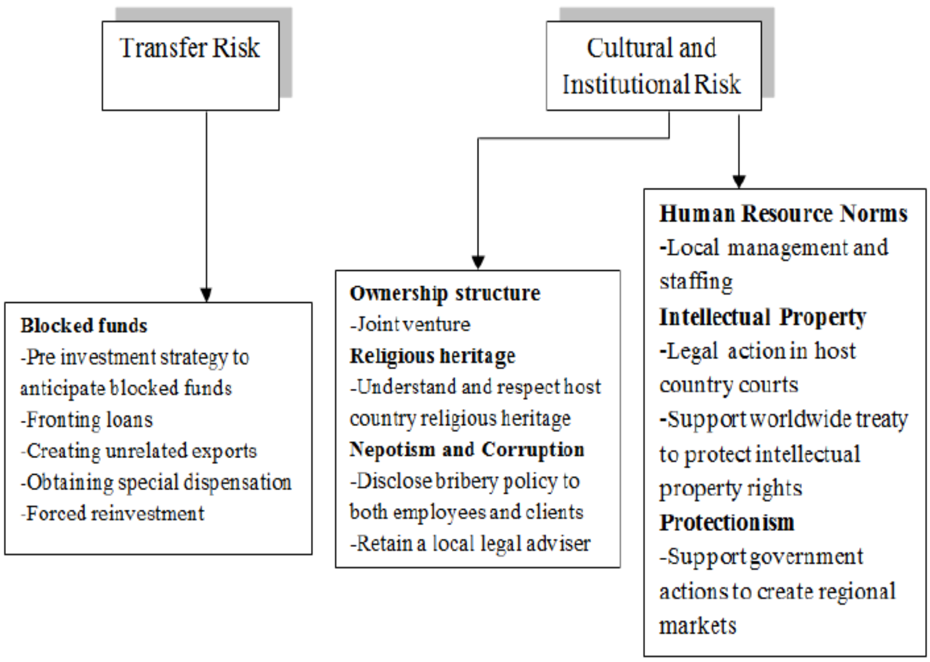
Two symptoms of political risk:

1. Societal unrest concerning demonstrations, strikes and street violence.
2. Instability by non-constitutional deviations, assassinations and guerrilla wars.

Key Steps of the Political Risk Assessment (World Bank, 2009; Horska, 2014):

1. Map the political climate: Analyse the political risk portfolio in the country of interest. This analysis should provide a holistic idea of all political risks involved and can be constructed according to data from reliable internal and external sources and from experts with various backgrounds. The firm should attempt to identify its global market position within the associated region regarding its dependency on the global economies. It is important to evaluate the organization´s exposure to macro-risks including those associated with the government, issues of terrorism and political instability. All of these considerations should be given when mapping political risks in its varied forms (Rodriguez, 1996).
2. Calculate risks**:** The information attained from mapping the political risk should be categorized according to priority and conditions to help identify the more pertinent risks associated with the business and its operational requirements. One significant issue is the relationship between the country's political stability and associated risks, with the government, or macro-level risks. In this regard certain approaches must be considered in order to understand how to assess the political stability and the impact it may have on

conducting business. In many instances this will strongly influence the asset value of the firm since mainly financial by-products are extremely sensitive to the political stability of a country. Political risk therefore impacts and influences a firm´s strategy. Such an analysis would highlight critical points of strategies to understand the severity of the political risk impact. Firms should assess plans and procedures to determine their resilience to political risk factors and the degree to which they may become involved in ordeals related to these factors. For foreign investors, foreign exchanges and profit reparations are therefore considered one of the more significant issues associated with this since the issue of currency transfers is crucial in developing countries see Figure 4.2.



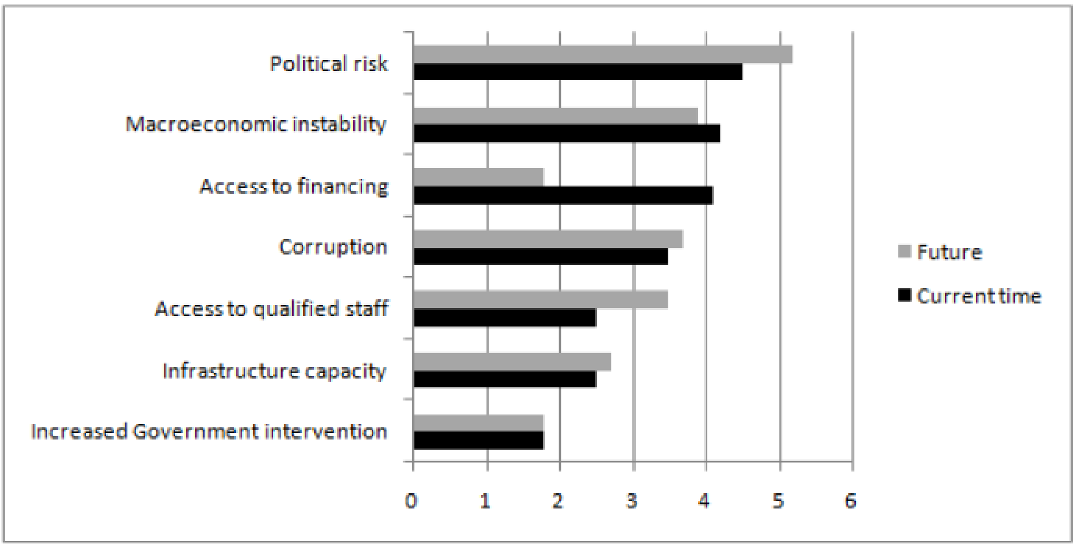
Source: Political Risk Assessment and Management, 2005

Figure 4.2: Management Strategies for Country-related Risks

Non-payment and currency challenges like the inability to convert currencies or delays in acquiring foreign exchange can be caused by the host government´s influences or lack thereof. Confiscation, expropriation and nationalization may lead to elimination of ownership, government control over or its right to the asset/investment. Further, war and civil unrest can lead to loss due to destruction, disappearance, or physical damage of assets as caused by politically driven acts of war, civil disorder or uprising and terrorism. A breach of contract can similarly result in denial of the investor/lenders by host government of a contractual agreement (Horska, 2014).

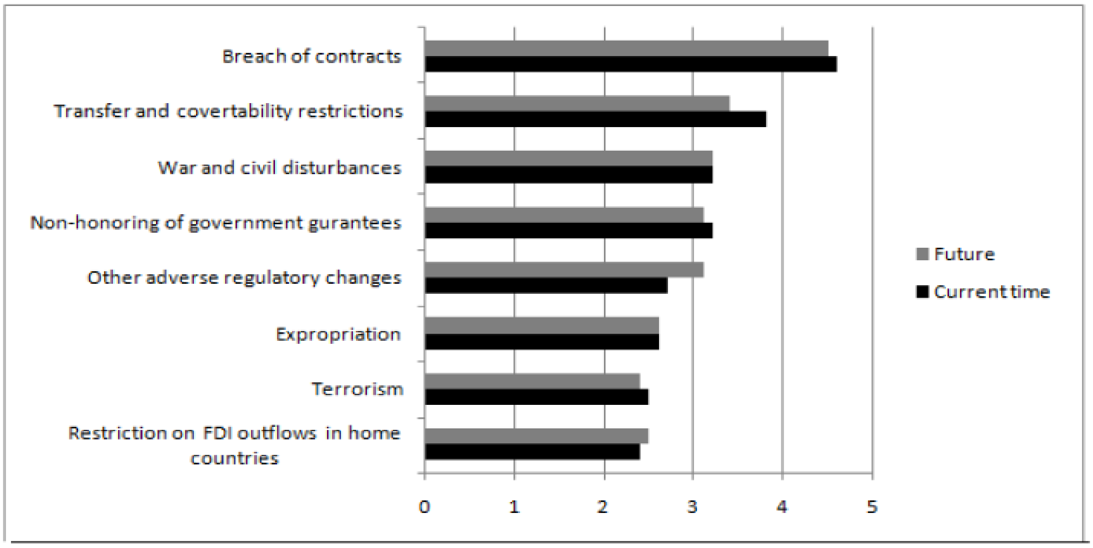
The Word Bank (2010) published a study on world investment and political risk, which attempts to study the development of political risk. The study mentions that the manner in which foreign investors identify and deal with challenges of political risk will contribute to how they map out the role of political risk insurance in developing post-crisis investment economies. This will also contribute to how they recover from failed long-term foreign direct investments in developing countries.

The last part of this chapter will present examples according to the aforementioned study. According to the World Bank (2010) study´s respondents, the following issues are likely to cause the greatest challenge to investments by companies establishing in developing markets, as shown in Figure 4.3. (World Bank, 2010; Horska, 2014).



Source: MIGA-EIU Political Risk Survey 2010.

Figure 4.3: Major Challenges/ Constraints of Foreign Investment in Developing Markets



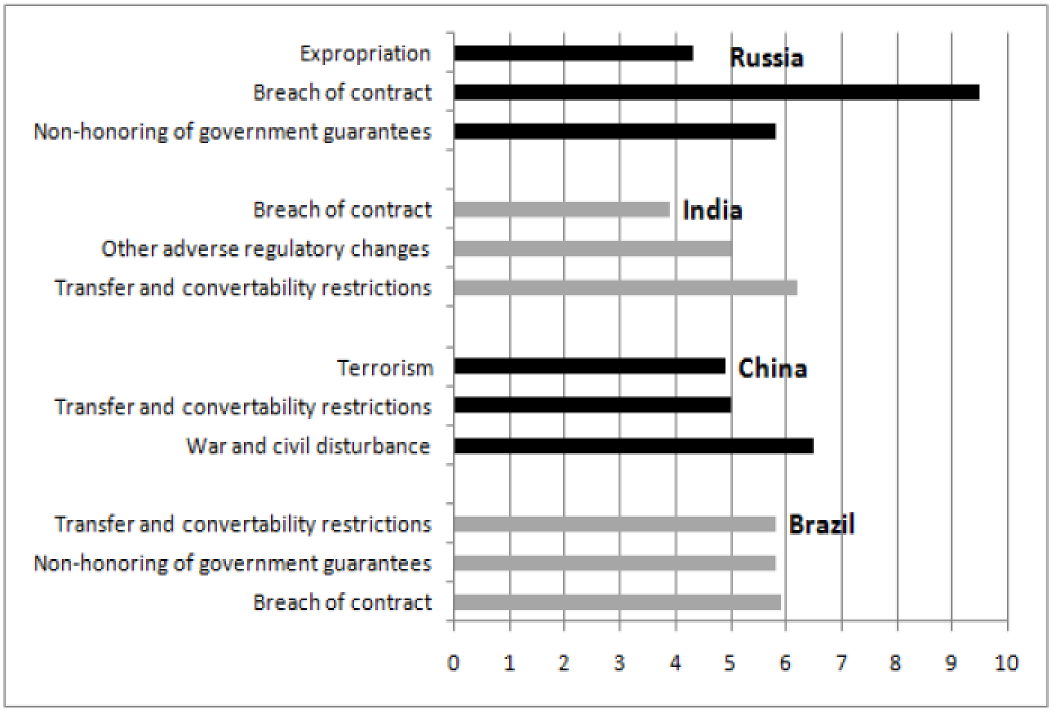
Source: MIGA-EIU Political Risk Survey 2010.

Figure 4.4: Types of Political Risks causing most Concern to Investors in Developing Markets

According to this study, the political risks that cause greatest concern to investors with interest in developing countries are recorded in Figure 4.4 (Horska, 2014)

According to the study the political risks with most concern to investors from the Brazil, Russia, India and China (BRICs) in developing countries are recorded in Figure 4.5. (Horska, 2014). Both firms and foreign investors must learn to manage political risk generally. Therefore, the following steps should be followed to help manage these risks:

1. Identify and analyse the firm's loss exposure
2. Understand how to measure losses connected to this risk
3. Develop new/alternative approaches for dealing risk exposure
4. Implement high level techniques and combine them to help forecast each exposure
5. Evaluate the results and, according to this, innovate new techniques of identification, measurement and treatment.



Source: according to MIGA-EIU Political Risk Survey 2010.

Figure 4.5: Top Political Risk for Investors from the BRICs

Foreign investors must appreciate the national policies being pursued by the government and which policy instruments may be used to promote interest, as shown in Table 4.3.

Table 4.3: Government Policy Areas and Instruments

	Policy Areas					
Policy Instruments	*Monetary*	*Fiscal*	*Trade*	*Foreign Investment*	*Incomes*	*Sectoral*
Legal	• Banking reserve levels	• Tax rates • Subsidies	• Government import controls	• Ownership laws	• Labor laws	• Land tenure laws
Administrative	• Loan guarantee • Credit regulation	• Tax collection	• Import quotas • Tariffs • Exchange rates and controls	• Profit repatriation controls • Investment approvals	• Price controls • Wage controls	• Industry licensing • Domestic content
Direct market operations	• Money creation	• Government purchases	• Government imports	• Government joint ventures	• Govern-ment wages	• State-owned enterprises

Source: Adapted from James E. Austin, Managing Developing in Developing Countries and Operation Techniques (New York: Free Press, 1990) p.89.

It is imperative to prudently assess the political structure and climate in the country of interest before deciding upon business operations. By assessing various environmental factors, as shown in Table 4.4, marketing managers can better understand the likelihood of challenges, threats or opportunities the host country may have to offer (Horska, 2014).

Table 4.4: Country Risk Assessment Criteria

Index Area	*Criteria*
Economic Risk	• GDP Per Capita • Real Annual GDP Growth as Annual percent Change • Annual Inflation Rate as Annual percent Change • Budget Balance as percent of GDP • Current Account as percent of GDP
Financial Risk	• Foreign Debt as percent of GDP • Foreign Debt Service as percent of Exports of Goods and Services • Current Account as percent of Exports of Goods and Services • International Liquidity as Months of Import Cover • Exchange Rate Stability as percent Change
Political Risk	• Government Stability • Socioeconomic Conditions • Investment Profile • Internal Conflict • External Conflict • Corruption • Military in Politics • Religious Tensions • Law and Order • Ethnic Tensions • Democratic Accountability • Bureaucracy Quality

Source: The PRS Group, International Country Risk Guide.

4.3 Types of Foreign Direct Investment Incentives

Investment incentives have been well debated in both the professional and the political arenas for many years. It has become the centre of economic policies in many countries worldwide, regardless of their economic development. Such measures have become popular because they allow governments to underline the value added to the country's economic growth and decline in unemployment due to increases in new jobs, whilst showing improvements in public finances, thanks to the related increased payments of social security and pension insurance and the correlated decline in the number of pay-outs for unemployment benefits. Therefore, investment incentives give the impression of provisions being made for the businesses community whilst the government increases the competitive advantage of the country; thus creating a stable environment to attract more business. However, research shows that investment incentives are not the only major deciding factor for investment interest into a specific country (Markusen, 1999).

It must be noted that the main objective of investment incentives is to create economic benefit for developing regions which are characterized by steep unemployment rates, a low standard of living and low economic outcomes when compared to other regions. Therefore, this characteristically divides investors into two categories: 1) those that act according to standard rules; and 2) those who are not too concerned about incentive subsidies or tax breaks. They are economically advantageous as if they overcome existing market failures. On the other hand, the granting of incentives has been uniquely associated with risk of government failure, especially when governments alter market conditions which lead to inefficient allocation of resources by investors. Consequently, investment incentives are discouraged in many countries, but as an exception to the general rule, a state's intervention of this kind is usually authorized. Further, another standard against investment incentives is the EU single market as Member States can no longer incentivise benefits provided by neighbouring countries, by increasing their import duties under the common customs policy.

The presence of investment incentives generally creates long-term national disputes because supporters of it tend to influence and encourage their preferred investors to come into the country. Investment incentives introduce steady economic growth whilst suggesting direct positive outcomes through direct and indirect job creation and substantial transfer of expertise and technology. Further, by the host establishing investment incentives, employment taxes are often less costly in order to support this initiative. On the other hand, opponents of investment incentives view it as an encumbrance on public finances and an interference in competitive economic stability. In their opinion, incentives are unnecessary, especially when the country has a combination of skilled and relatively cheap labour. Very strong advocates against the investment incentives system believe that it is disadvantageous to domestic firms since they do not have robust capital injections like multinational firms. Even more, investment campaigns can potentially reduce tax liabilities, in attempt to create a more stable and transparent political and macroeconomic setting.

FDI publications and related structures attempt to access basic divisions of the host's incentives via two pathways. Alfaro (2003) firstly, believed that investment incentives can be categorized into two groups: fiscal and financial; and secondly, developed the aforementioned basic division to include non-financial incentives. We will now explore these groups in more detail:

1) Fiscal incentives include preferential tax rates and items related to income after tax. This sort of state support for foreign investors creates loopholes for the multinational company

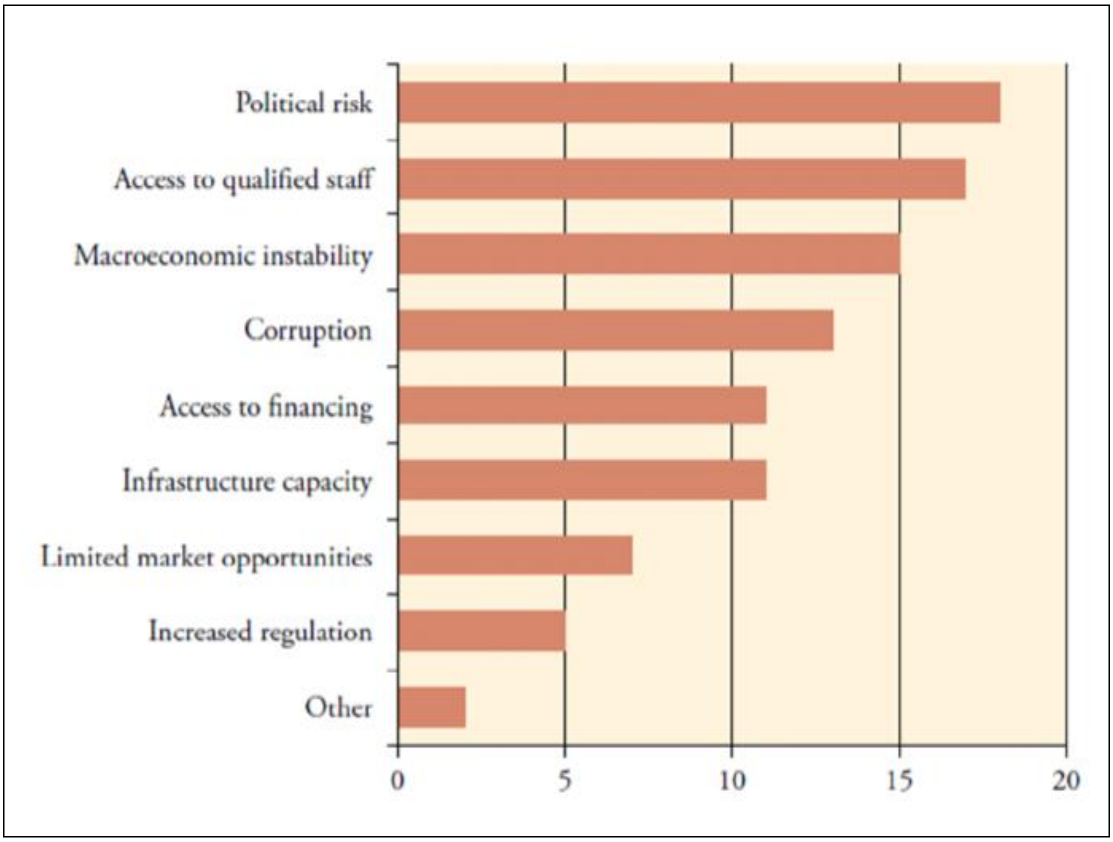
to take advantage of pricing and losses. Among other things, international investors often view tax breaks as a temporary advantage.

2) Financial incentives, however, include and are represented largely by government grants or subsidies. Here, the guarantee of grants or preferential loans ultimately encourages domestic participation in these risky investments.
3) Non-financial incentives are represented by the state's participation in national projects such as the establishment of new technological infrastructure, industrial or free trade zones, or even by guaranteeing certain rights to foreign trade.

This analysis of investments incentives can therefore reiterate specific opinions for or against investment incentives. Advocates of it view it as generally positive for the country, whilst opponents highlight notable challenges as follows:

- Investment incentives can be an effective economic government policy that aids in closing the gap between developed and developing regions or countries.
- Investment incentives can promote decreasing inequality such as by lowering unemployment rates through job creation, which is often effective.
- It can also aid in restructuring the unemployed into various sectors.
- It often has positive effects or spill -over effects within and amongst industry sectors.
- Investment incentives can initiate new tax breaks.
- Consulting firms are often driven according to the order of government priorities, therefore demonstrating great impact on public budgets.
- Investment incentives are often a market-compliant instrument of economic policy.

From the aforementioned discussion, we can concur that investment incentives can be a form of selective support in order to influence allocation of market resources which can result in market disturbances, as shown in Figure 4.6.



Source: Political Risk Assessment and Management, 2005.

Figure 4.6: Top Investors Concerns about Foreign Direct Investment

The major features of political risk that foreign investors tend to consider important are:

1) The economic stability of the host country, mainly price stability;

2) The host government's framework for management of foreign investors;

3) The regulatory approach implemented by the host government;

4) Profit transfer stipulations according to government policies;

5) The ease and accessibility with which it is possible to sell or liquidate assets and transfer funds to their homeland;

6) The ability of the host government to conduct structural reforms. Structural reforms are considered an important aspect for many foreign investors.

4.4 Effects of Foreign Direct Investment

The following three areas are realistic applications of foreign direct investment challenged with the management of economic policies:

- The examination of determining factors which cause FDI inflow;
- The investigation of direct effects of FDI such as: productivity, return on equity, employment, wages, export, import and growth on the firm; and
- The analysis of indirect or spill over effects of FDI on the entire host economy.

The effects of FDI and related debates started around the early '60s. One of the earliest publications came from MacDougall (1960) who systematically included the spill over effect as a possible consequence of FDI. In 1967 Corden attempted to analyse this phenomena a little more closely and Caves (1971) later tried to do the same. A common theme of the authors' publications was a comparison of all possible costs and benefits associated with FDI. The authors also discussed the many indirect effects that influence the welfare of the host country such as government revenues from tax policy, enquiries about local trade or the stability of payments. During this era in the literature it was perceived that the impact of indirect effects was just as crucial as direct impacts since it significantly affected the host's economy. FDI implies much more than the simple expansion of international trade or free movement of funds as a result of production. As mentioned below, FDI influences the essence of assets and resources in a much broader sense:

a) FDI represents a low rate of domestic savings as a function of inadequately generated domestic capital

b) FDI presents updated technology and greater quality physical resources into the economy

c) FDI complements shortfalls in domestic skills of human capital related to research and development, technological expertise, and the management and organization of production levels.

d) FDI expands domestic capital through its networks of information technology, marketing and distribution, including a more refined infiltration into world markets and ready access to patents, innovation and investment services.

e) FDI also helps to develop institutional systems within the host country in areas of expertise. This often indicates an assurance of subsequent economic development, the protection and greater enforcement of asset rights, improved public administration systems, and an overall cultural shift of the resident market economy.

4.4.1 Possible Negativities Associated with FDI

Many of these impacts have been discussed previously, but they are mentioned in this section to provide a more holistic overview.

1) Aggressive overthrow to destroy production operations of all existing firms in the field with the aim of removing competition.

2) Imposing forced transfer of domestic savings abroad under adverse conditions.

3) Flocking domestic investors in domestic FDI-oriented markets for multinational corporations' entry and the ultimate development of production with foreign capital in firms.

4) Depreciation of local currencies as a result of capital surplus which may lead to trade deficits and the removal of marginal domestic exporters.

5) According Rybczynského and Stolper-Samuelson's theory, the development of capital-intensive production at the expense of downturn in labour-intensive manufacturing will cause what is known as the Dutch disease and a rise in unemployment.

6) Raising wages in the sector of foreign companies hampers the domestic business sector, this also negatively influences unemployment rates and negatively affects the competitiveness of domestic firms.

7) Inflation effects due to high FDI and the subsequent sterilization by increasing interest rates has a restrictive effect on the domestic economy.

8) Increased importation of materials to support FDI participation may lead to liquidation of domestic suppliers of commodities, especially if domestic manufacturers are unable to offer competitive alternatives to imports due to lack of funding.

9) Transfer of profits burden the current capital account, as was the case in Hungary. However, this is a normal phenomenon when FDIs are only focused on profit maximization.

10) Manipulation of market prices within a multinational corporation, also called transfer pricing, reduces the tax revenue of the host country. This is a serious problem since most international

firms seek to avoid high income taxes whilst smaller domestic competitors pay taxes, thereby becoming less profit-making competitors.

11) Domestic economy segments lagging behind companies with FDI leads to dual or parallel economies.

12) Discrimination or neglect of issues related to domestic companies may develop from excessively optimistic expectations and subsequent concessions to foreign capital.

13) Prolonged economic challenges and confrontations with foreign investment may lead to xenophobia, autarkic tendencies, political instability and a subsequent economic lag of the host country relative to the world.

4.5 Foreign Direct Investments Protection

Several methods can be implemented to support the confidence of foreign investors. Governments should therefore review their laws, regulations and policies accordingly in order to assess and update existing frameworks and determine which of the following they will offer:

1. Investor protection: Governments will not expropriate the investors' assets unless required for public purposes; on a non-discriminatory basis; based on established laws and regulations; and with adequate and rapid reimbursement.

2. Arbitration: Here, investors are entitled to international mediation for commercial disputes to ensure timely resolution of disputes and enforcement of rewards. Alternative dispute resolution guarantees risk mitigation regarding indirect seizure of assets.

3. Repatriation of funds: The free and fast transfer of funds into the currency of choice.

4. International investment regimes and risk mitigation instruments: Between 1970 and 2000, the developing countries that signed international agreements attracted more FDI. This was so because at any time investors felt safe enough to draw on favourable conditions set by bilateral treaties and other international agreements. Access risk mitigation instruments were offered by international financial institutions and international trade agreements reassured investors that the country's investment climate was favourable. This system was deemed more credible than domestic policies, which can be volatile and less reliable to lean on.

4.5.1 Elements of Political Risk and FDI

1. Hurdles against foreign direct investors
2. Restrictions regarding the share of equity a foreign investor could hold
3. Restrictions on the sector foreign investors could invest
4. Restrictions on ownership of assets
5. Restrictions on the volume of FDI influx
6. Biased exclusion of foreign investors from lucrative economic sectors
7. Vague criteria regarding official FDI approval
8. High tax rates and inadequate incentives
9. Restrictions on ownership of equities
10. Vague domestic prerequisite specifications
11. Extensive repatriation periods
12. Restrictions on the volume of repatriations
13. Restrictions on the foreign exchange rates of repatriation
14. Blocks on foreign currency transfers
15. Limitations regarding profit repatriation
16. Banning capital and profit outflow to investors' native countries
17. The level of government interferences in the economy
18. The level of price regulations led by the government
19. The prices of natural resources
20. The extent of monopolies already existing in the economy
21. The extent of the government enterprise sector
22. The stability of the social environment
23. Political frameworks and its flaws
24. Corruption levels
25. The presence of civil wars
26. Existing government inefficiency and incompetency
27. Domestic crime rates
28. Organizational levels and institutional weaknesses
29. Challenging relationships between the government and the United Nations
30. Challenging relationships between the government and IMF and/or World Bank
31. The ability of the government to conduct economic reforms
32. Stability of the political climate

33. Revolts, riots and similar forms of civil unrest
34. Enforcement of rules of democratic institutions
35. The country’s relationship with international institutions

Political risk can be influenced by several external factors such as international institutions like The World Bank. This international organization has three established institutions in the field of foreign direct investments: The International Finance Corporation; The International Centre for Settlement of Investment Disputes; and The Multilateral Investment Guarantee Agency. In many instances, these institutions are very helpful for international investors.

4.6 Impact of Political Risk on FDI in Developing and Developed Countries

This section aims to review a selection of published research literature on how political risk influences FDI in developing and developed countries. There are several factors that influence foreign direct investment, which is defined as the establishment of MNCs in countries outside of their headquarters or in countries where they are intent on taking over the existing tourism industry with the purpose of growing cross-border activities. When a multinational company (MNC) that makes foreign direct investment (FDI) chooses to invest in a country, a lot of factors are taken into consideration including the country’s political risk. Political risk displays the likelihood of changing government policies, potentially to the detriment of the firm's profits. Several studies address how political risk reduces FDI in host countries as follows:

-In 1993 Erramilli and Rao conducted a survey on 114 service-type businesses about their entrance into foreign markets. Preferences of the companies were investigated regarding full-control or shared control entry modes. Among the conclusions of this study, Erramilli and Rao (1993) found that political risk prevents FDI. The authors also proposed that MNCs avoid making investments in countries with a high political risk profile.

- Gastanaga et al. (1998) conducted research in 49 less developed countries (LDC) during 1970-1995 to investigate the influence that political and institutional variables such as corporation tax rate, tariff rate, level of openness to the international capital flows, exchange rate bias, contracting administration, expropriation, bureaucratic delay and corruption of different types had on FDI. It was concluded that the less corruption and risk of expropriation, the better the compliance to contract, the greater the likelihood foreign direct investment is to occur.

- In 2007 Busse and Hefeker examined the relationship between political risk, corporations and foreign direct investment flows. The most significant determiners of MNC activities used different econometric techniques in 83 developing countries between 1984 and 2003. The empirical analyses used political risk and 12 different institutional components. The results highlighted government stability, internal and external conflicts, corruption and ethnic tensions, law and order, democratic accountability of the government and the quality of bureaucracy as very significant determinants of foreign direct investment flow. Cross-sectional analysis concluded that there was a close relationship between FDI and variables of political risk, and institutions with exception of government stability, law and order, and quality of the bureaucracy. Investment profiles, internal and external conflicts, ethnic conflicts, and democratic accountability were deemed significant determinants of FDI flows.

-Wyk and Lal (2008) completed a study which examined the effects of institutional and macroeconomic variables on FDI in 31 developing countries between 1995 and 2003. The study revealed that economic liberty made foreign direct investment easier and political risk hindered FDI. It was proposed that lower political risk results increased foreign direct investment. The study concluded that there was a positive relationship between market size, GDP growth rate and foreign direct investment, and the results indicated that low current account balances, rises in currency value and low inflation rates encourage foreign direct investment.

- In 2009 a study was conducted by Lee and Rajan using the data from 60 source countries and 60 target countries (APEC countries) between 2000 and 2005. It revealed that the less the likelihood of political risk, the more foreign direct investment the country may attract. The authors concluded that 10% decrease in the political index of a target country would usually lead to a 3.2% increase in foreign direct investment inflow. The results indicated that of financial, economic and political risks; political risk is the most important factor for determining foreign direct investment entrance.

-Krifa-Schneider and Matei (2010) also did research based on a fixed effect model and dynamic panel model in an attempt to empirically represent the relationship between political risk, business climate and foreign direct investment, and to present more supportive results of 33 developing countries and transition countries. This study concluded that low political risk leads to increased foreign direct investment entrance. Further, because political risk affects the business climate, the business climate is also a significant component which influences FDI inflows. Low level of political risk means a better working environment for foreign investors. The control variables used in the study were GDP per person - which controls for market growth, GDP growth rate- to check market potential and market growth, the proportion of import versus export to GDP - to reveal trade openness, and GDP deflator – which was used as the indicator of macroeconomic political inadequacy.

-Hayakama et al. (2011) published a study that looked at 93 countries (60 of which were developing countries) between 1985 and 2007. This was the first article to thoroughly examine the long and short term effects of political and financial risk components on foreign direct investment. The study highlighted a relationship between variables of political risk and foreign direct investment; especially related to socio-economic conditions, investment profile and external conflict which are the strongest determinants likely to affect FDI inflows. In developing countries, amongst the existing financial risk variables, only exchange rate stability seemed to have significant positive effect on foreign direct investment. Current account balance, the percentage of goods and services exported, external debts as a percentage of GDP and net international liquidity or the number of months of import cover all have negative effects on FDI. This study suggests that the host country's financial risk is not a major deciding factor for multinational companies.

-Aguiar et al. (2012) studied the effect of political risk in the host country on foreign direct investment. This research covered 180 countries with existing political risks such as Brazil, with the objective of analysing the effect of political risk on investment decisions and foreign direct investment movements, by using models of Probit, Tobit and Heckit multi-guessing methods. The results indicated that increasing political risk reduced the foreign direct investment in host countries like Brazil.

-Benacek et al. (2013) examined the effect of political and economic risk on foreign direct investment in 35 European countries, during the period of 1995 to 2008 using a cross-comparative approach. The countries were analysed in 4 groups. The first group included all European countries; the second group included 15 developed countries; the third group included 9 Accession countries; and the fourth group included 11 Candidate countries from the EU. The results indicated that the relationship between foreign direct investment decision making and risk is not always negative. Further, the results revealed the importance of external economic factors but their contribution to the entire economic decision making process was not easy to measure.

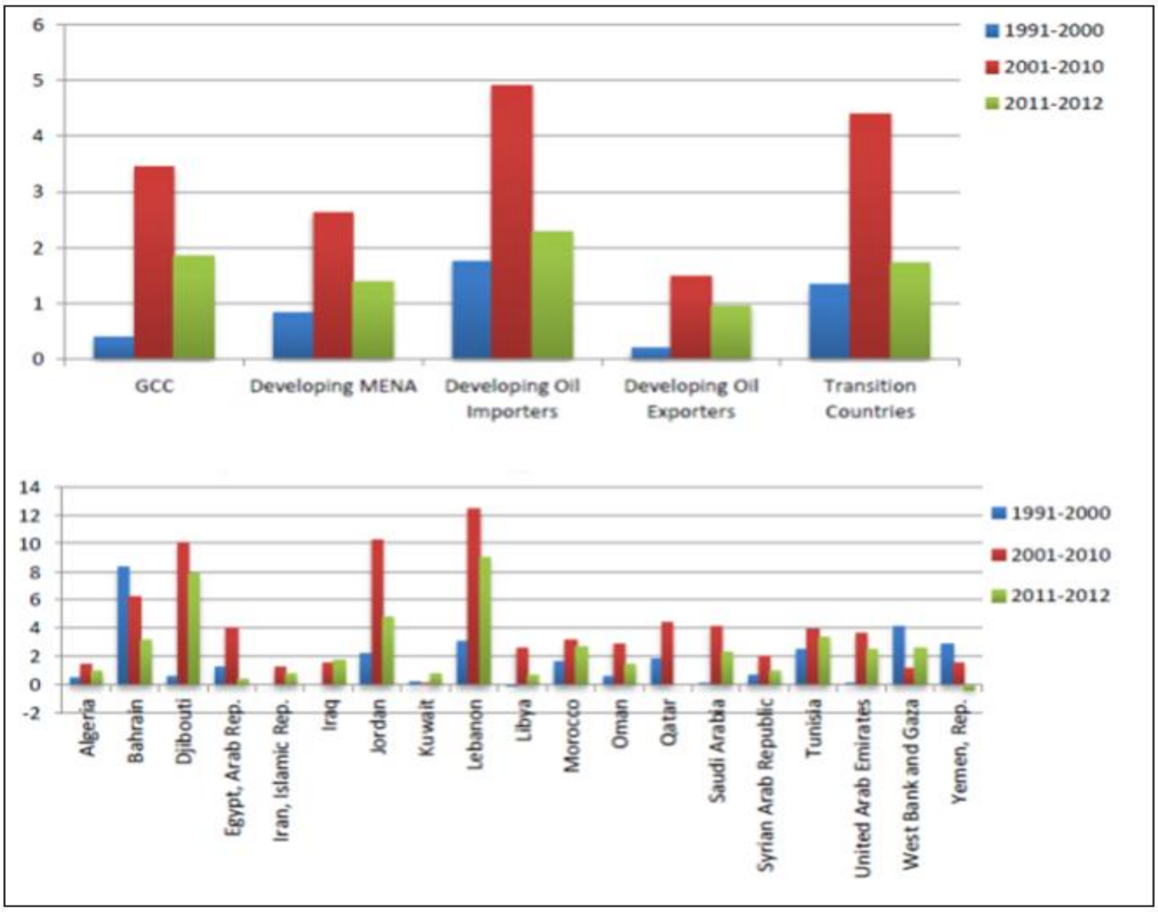
-Al-Khouri and Khalik (2013) proposed a study to examine the effect of various variables of political risk and other risk factors such as financial and economic factors on foreign direct investment in North Africa, the MENA region. The study aimed to reveal whether there was a difference between factors affecting FDI in rich and poor countries, or not. The analysis was executed by using the fixed effect and random model for 16 MENA countries between 1984 and 2011.The results presented a positive relationship between deferred values of FDI, market size, political risk and foreign direct investment. Furthermore, amongst 12 political risk variables, there was a close relationship between corruption level, external conflicts or tensions and FDI activities. A difference between rich and poor countries was also found in terms of drawing the attention of foreign direct investment.

The study concluded that there was a high correlation between the stability of risk and FDI movement in the MENA region. By comparing the role of risk in MENA countries to that in developed economies, the authors also found that the role of risk in attracting FDI was greater in developing countries when compared to developed countries. In other words, risk analysis is an important part of FDI inflow to developing countries as opposed to developed countries.

4.7 The Impact of Country Risk on FDI in the MENA Region

During the early 2000s, foreign direct investment flows into the MENA region followed the world trend, but the wake of the "Arab Spring" has changed the current situation. Whilst FDI for the rest of the world-increased post-2010, flows into the MENA region landed on a downward trend as the exacerbation of economic, political and social conditions continued. The political and social uproar affected levels and types of FDI inflow. However, despite significant increases in FDI over the last decade, the MENA region has still experienced disappointing rates of FDI attraction when compared to other developing countries. The lack of attraction therefore raises serious concern about the economic reforms that have been implemented by several MENA countries to date, but the region is expected to attract even less FDI inflow in coming years due to current unstable conditions.

Foreign investors have been discouraged by the deterioration of the political and economic environment within the region post-2010. This is evident as only half of the average net FDI rates that were registered in the 2000s were registered during 2011-12, as shown in Figure 4.7. Conversely, much of the developing world’s FDI rates remained close to the numbers registered in the 2000s. As anticipated, the decline was most dramatic in countries affected by political and social turmoil and least affected were the oil exporting developing countries, which had low levels of FDI prior to 2010. However, these rates eventually plummeted for some developing oil exporters including Libya, the Republic of Yemen, and the Syrian Arab Republic.

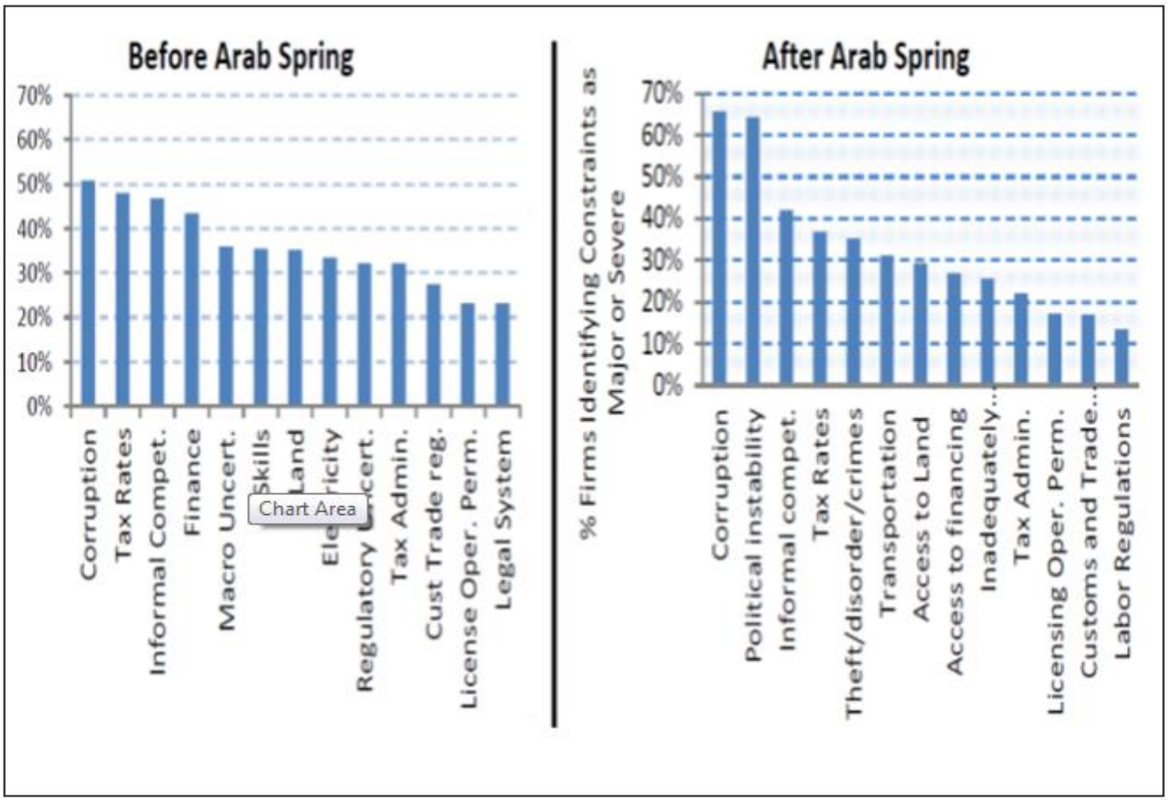


Source: UNCTAD data. Notes: EAP=East Asia and Pacific; ECA=Europe and Central Asia; LAC=Latin America and Caribbean; MENA=Middle East and North Africa; GCC=Gulf Cooperation Council; SA=South Asia; SSA=Sub-Saharan Africa.

Figure 4. 7: Net Foreign Direct Investment Rates (% of GDP)

The decline in Tunisia's FDI rate was insignificant despite the political uproar. Arguably, this was due to Tunisia's dual economy structure with tax exemptions for offshore sector investments and corporations being subject to only a few regulations overall. Whilst during this period FDI increased in two MENA countries (Iraq and Kuwait), in the 1990s and 2000s 19 MENAs shared in global FDI inflows which had doubled and retreated back to levels observed in the 1990s.

In addition, before the Arab Spring, political instability was not amongst the top concerns in the MENA, as shown in Figure 4.8, left panel. During the 2000s, corruption and taxes were most widely referred to as the major restrictions to private sector growth. After the Arab Spring, concerns about corruption have become even more pronounced whilst political instability has become the second most named challenge plaguing the economic business environment. Nearly 65% of business owners in MENA criticised the political instability and institutional weaknesses in recent World Bank surveys that were conducted in the region, as shown in Figure 4.8, right panel.



Source: World Bank, Enterprise Surveys.

Figure 4.8: Leading Constraints to Firms in MENA

Additionally, crime and violence have become even more concerning after the Arab Spring, with 35% of firms mentioning issues of constraints toward their operations.

In conclusion, this section explores the impact of political instability on foreign investors. Whilst political instability affects all economic players, for the most part, international investors in the MENA region continue to hold back in order to “wait and see”. Low growth estimates and concerns regarding security, political violence and government instability have evidently affected corporations’ willingness to boost investments in the MENA region. Thus, these result in missed opportunities and largely failed attraction of high-quality FDI which is absolutely necessary for sustainable economic growth and development, exportation improvements and lowering unemployment rates.

4.8 The Rationale for Choosing the Literature on Political Risk in Developing Countries

Most literature tends to focus on studying the effects of political risk on FDI in developing and emerging markets. It is largely because first, industrialized countries are deemed to be politically stable and immune to radical political changes and violence, and, second, political risks should affect the investment decisions of MNCs more when they consider investing in developing nations with high political risk and low credibility (Janeba, 2002; Jensen, 2003b, 2008). As Figure 4.3. FDI and Political Risk shows, there is a stronger relationship between political stability (i.e., low risk) and the amount of FDI flowing into emerging, developing nations than into industrialized countries. This concurs with the conventional wisdom that political risk should have greater effects on the MNCs that make investments in developing nations

4.9 Chapter Summary

By attempting to discover linkages between political risk and foreign direct investment, most literature revealed that overall, political risk is negatively correlated with FDI inflow. Some researchers also established that political stability that improves the probability of a country becoming attractive to foreign investors is also based on its geographical location. Further, some literature explains that various types of political violence will negatively affect foreign direct investment as they found that MNCs' decisions for investment weigh heavily on whether political violence is strongly anticipated.

Researches further highlighted the importance of capital availability for investment at any time and the inevitable sensitivity to political risk. As such, it has been noted that when there is a major influx of FDI, investors are less sensitive to and sceptical about political risk. Conversely, some research findings mention that political risk in a host country is not major concern of foreign direct investments in transition economies. However, many researchers found that the attractiveness of a country's business environment is strongly influenced by the relative weighing of multiple criteria which should be used by companies prior to making investment decisions. As such, many other underlying factors seem to have more controlling influence on foreign direct investments than political risk alone.

In the following chapter, will overview of transition economies successfully attracting FDI after a period of political instability such as Vietnam, South East Europe (SEE) and the Western Balkan (WB) countries.

CHAPTER FIVE

OVERVIEW OF COUNTRIES ATTRACTING FDI AFTER EPISODES OF POLITICAL INSTABILITY

5.1 Introduction

This chapter aims to outline some countries which have successfully attracted Foreign Direct Investment (FDI) after periods of political instability. FDI has become crucial for both developed and developing countries due to increased political stability and liberalised attitudes to global investments since World War II. Such political climates have been suitable for global trade and international business activities, much of which have contributed to increased FDI influxes.

It is very important to note the factors that influence the attraction of FDI capital into host countries (Luis et al., 2006). Therefore, in this chapter, will review Asian, South East European (SEE) and Western Balkan (WB) nations that have successfully attracted FDI after recovering from periods of political instability. To better understand the role of policies and procedures designed to improve the inflows of FDI after a period of political instability, the focus is on country examples that have been successful at increasing their foreign investment.

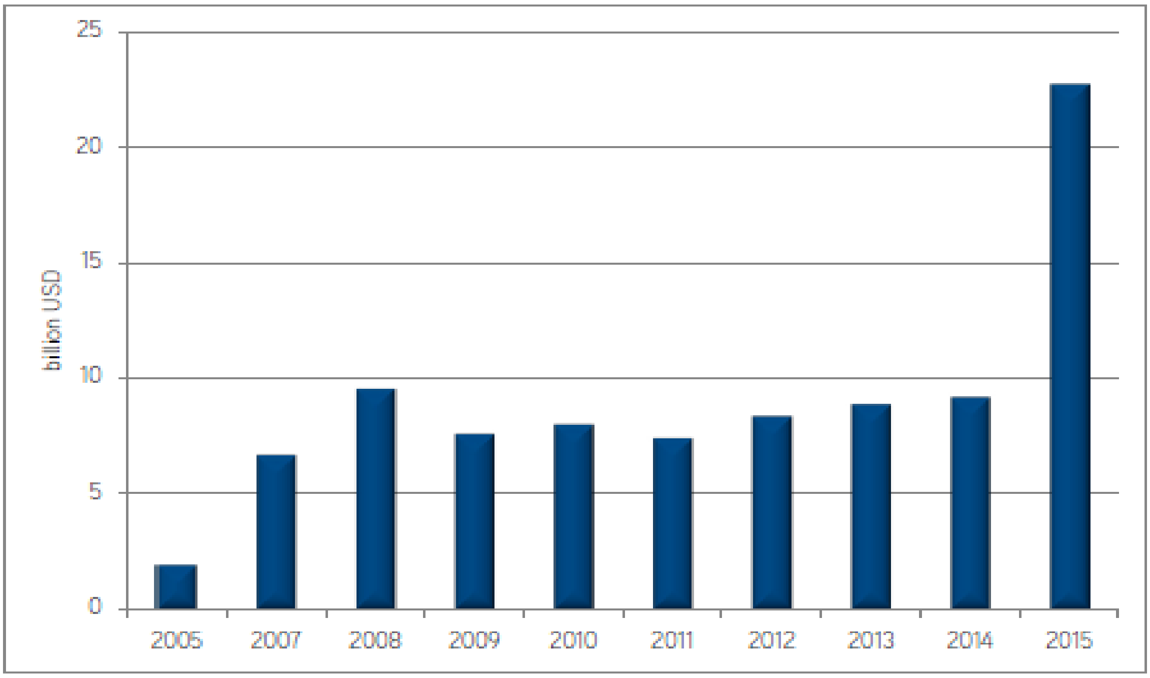
In this chapter, the second section looks at Vietnam as an example of an Asian country that has a successful export-oriented economy with FDI-led growth strategies. The third section later reviews Southeast Europe (SEE) and the Western Balkan (WB) countries to investigate areas of their policy reforms that positively influenced FDI.

5.2 FDI indicators in Vietnam

After the Second World War, FDI became very important for both developed and developing nations due to an increase in political stability and a liberalised attitude to investments. This climate was suitable for international business activities and contributed to increases in the volume of FDI flows, as well as trade flows.

With foreign investment increasing significantly in the global market, the trends of globalisation have become more apparent. FDI has become a significant competitive strategy for multinational enterprises to invest all over the world, and the governments of host countries consider FDI to be a crucial element in the development of their countries.

In 2014, Vietnam continued to take concrete steps to improve the investment climate and further integrate into the global economy. It revised several key related laws including the Enterprise Law, the Investment Law, the Bankruptcy Law, in addition to the new Housing Law, and Real Estate Business Law. The State Bank of Vietnam (SBV) worked hard to stabilize the banking sector and maintain the stability of the Vietnamese Dong (VND) (Investment Climate Statement; ISC, 2015).



Source: GSO Colliers International Research

Figure 5:1 FDI in Vietnam (2005 – 2015)

The country has been an attractive FDI destination, particularly for investors from Japan, South Korea, Taiwan and Singapore where they can borrow at low interest rates. In 2015, FDI attracted 2013 newly licensed projects with the registered capital of US$15.58 billion, an increase of 26.8% in the number of projects and a decline of 0.4% in the capital from the similar period in 2014 (Jackson. D, Gray .B 2016).

At the same time, 692 projects from the previous years registered to raise US$6.67billion investment capital. Thus, the total registered capital of both newly and additionally financed projects reached US$22.67 billion, grew by 12.5% against the last year's same period. Realized FDI capital in 12 months of this year was estimated to gain US$14.5 billion, up 17.4% from 2014's similar period. As of end of December, the manufacturing industry attracted the largest number of FDI projects with the registered capital of US$15.23 billion, accounting for 66.9% of the total registered capital while the real estate business attracted US$2.39 billion, accounting for 10.5%, as illustrated in Figure 5.1.

5.3 FDI and Tourism in Vietnam after Political Instabilities

5.3.1 Introduction

This section reviews Vietnam as an Asian country, which has succeeded in attracting FDI, and effective global trade with economies though FDI-led growth strategies to date. The country continues to be significant FDI host country in the developing world. It has often been declared that Vietnam has become one of the most attractive FDI destinations in the world; particularly from Asia and most developed countries (OECD, 2009). This is largely due to Vietnam's locational advantages which make it a suitable place for multinational corporations striving to develop new business in South-East Asia. Besides the more conspicuous low labour costs in the manufacturing industry, one major valuable asset is Vietnam's ever-improving legal and policy framework on FDI (UNCTAD, 2008). Here, government policies are effectively used to facilitate the implementation of planned objectives and to foster strong national development regarding both public and private interests.

More recently in Vietnam, government policies have reformed the economic-political regime which controls FDI (Nguyen, 2010). It is desirable to better understand the basis of the country's economic policies, especially related to FDI. The economic reform policy, also known as the Doi Moi policy, was adopted in 1986 and marked the acceptance of a market-oriented economy with an open-door policy on FDI. This resulted in the Vietnamese economy becoming more closely integrated with global economies. For example, important economic transformations have resulted from trade development, export expansion, human capital development and technology improvements. However, the more crucial dispute is how the government effectively handled these FDI policies in Vietnam to successfully attract inward FDI to further develop the country's growing economy.

In an attempt to understand the changes brought to the development of FDI inflows by the changing Vietnamese FDI policies, this section reviews the development of Vietnam's FDI policies from the French rule to the Doi Moi policy and then further on to the present.

5.3.2 Policies in Vietnam before the Doi Moi Policy

After facing an extensive period of severe challenges caused by a history of colonisation and dominance by foreign supremacies, one main challenge was caused by the lack of suitable government policies to promote the development of Vietnam's economy. Consequently, the Vietnamese economy remained stagnated for a long period as it experienced low economic growth rates. Therefore, this section examines the attributes of FDI policies in Vietnam before the Doi Moi policy, under the French rule which ended in 1954 during the period of partition (1955–1975) and after the country's reunification in 1976–1985.

Table 5.1: Comparative Indicators for Attracting FDI between Vietnam and its Neighbouring Territories (2011)

Country	Number of start-up procedures	Corporate income tax rates (per cent)	Electricity cost (USD/KwH)	Water cost (USD/cubic metre)	Market size (population, million)	Avrage minimum annual salary (worker, USD)
Vietnam	11	25	0.07	0.25	88	1,002
China	13	30	0.08	0.18	1,344	1,500
Indonesia	12	30	0.07	0.59	242	1,027
Malaysia	9	28	0.07	0.51	29	4,735
Philippines	11	35	0.10	0.21	95	2,053
Thailand	8	30	0.06	0.31	68	2,293

Sources: Aldaba, 2006; Devonshire-Ellis, 2011

The influx of FDI into Vietnam has been heavily attributed to varying factors (Harvie & Tran, 1997). Markusen (1995) suggested that the main motivation for a multi-national corporation (MNC) investing in a host country would be that it is confident it possesses some specific advantages over the local companies; hence, investors in Vietnam may tend to have some ownership advantages. These advantages range from the ability of the MNC regarding managerial and technological capabilities and international marketing skills, or its capital-

intensive and capital-cost advantages, which give MNCs special advantages as foreign investors in countries like Vietnam.
Another factor, which may explain high inflows of FDI into Vietnam, is locational advantages, as mentioned earlier. This advantage comes with a range of natural resources, an abundant and inexpensive labour market, a vast and fast-developing domestic market, consistent political and economic stability, and the ever-improving legal and policy framework surrounding FDI, as illustrated in Table 5.1. Such internalisation factors have attracted major influxes of FDI into Vietnam along with its increasing market share and its ability to avoid the competitive pressure of increasing production and high labour costs.

Among the three main factors attracting FDI inflows to Vietnam besides its location, is the policy factor that has played an important role. Usually, policy factors strongly reflect reasons why foreign investors may choose one host country over others. As such, the approach of Vietnam to FDI, the Law on Foreign Investment and other policies such as tax-incentive policies, exchange rate policies, open-trade policies and labour policies, deserve to be analysed.
The effectiveness of Vietnam's policies and locational factors combined to attract FDI to a country that had previously experienced practically no FDI inflow before the launch of its economic reform in the mid-1980s. Crucial changes in FDI policies had supported increased rights of foreign investors in Vietnam that has created a legal and investment environment that was deemed more favourable to investors, as it narrows the policy gap between the conditions for foreign and native investors. As such, the Law on Foreign Investment (LFI) and its revisions have played a fundamental role in attracting inflows of FDI.

In addition to the LFI, tax-incentive policies, exchange rate policies, labour policies and open-trade policies relating to FDI have been developed to generate a more encouraging legal and business environment for foreign investors. In addition, Vietnam's international commitments to welcoming FDI have opened economic domains by reducing restrictions against foreign investors and establishing mechanisms for foreign investment promotion and protection. As a signatory to the World Trade Organisation (WTO), Vietnam has signed bilateral trade agreements with more than 90 of over 200 nations and territories. The World Trade Organisation (WTO) offers pertinent advice about legal provisions and protection, confirms the development of international economic integration, and contributes to creating a favourable investment environment, which is transparent and equal for investors in all economic sectors.

5.3.3 An Overview of Tourism Development

As a part of this systematic overview, it is important to review the history and development of the local tourism sector (Huynh, 2011; Tran, 2005). Vietnam's tourism development can be separated into three key periods; 1960-1975 when tourism was developed for political reasons (Brennan & Nguyen, 2000; Tran, 2005); during 1976 to 1990 when tourism was recognised as an economic sector (Cooper, 2000; Tran, 2005); and after 1991 when tourism has been regarded as an important tool of economic growth and poverty alleviation (GOV, 2005a).

The Vietnam Tourist Company was established in 1960 in the North under the Ministry of Foreign Affairs (Tran, 2005; VNAT, 2005). Although it was later managed under the Ministry of Public Security (Tran, 2005), evidence suggests tourism was placed at the highest level of state management during the American War, also known as the Vietnam War in the West (1960-1975). During this period of unrest, the country was divided into two parts; North and South, and the development of tourism, predominantly for political purposes, proved to be very difficult (Vietnam National Administration of Tourism [VNAT], 2005). Most tourists visiting Vietnam in this period were political delegates who were specially invited by the Government of Vietnam (GOV). Therefore, the total international arrivals were very limited and leisure and business tourists were rare, as illustrated in Table 5.2.

Although some early tourist sites such as Hanoi, Hai Phong, Quang Ninh, Tam Dao and Hoa Binh were already in place (VNAT, 2005), the economic benefits that could be derived from this sector were not a priority (Cooper, 2000). It can therefore be concluded that tourism served as neither an economic sector nor an economic activity.

After the American War, Vietnam had been severely damaged, and so it remained very difficult to develop tourism further (Mok & Lam, 2000). However, other areas such as Ho Chi Minh City, Hue, Da Nang, Vung Tau and Can Tho were gradually expanded as tourist sites (VNAT, 2005). Then, some state-owned tourist companies were established and managed by the local people's committees.

Table 5.2: International Tourist Arrivals to Vietnam (1960-1975)

Year	Arrivals	Year	Arrivals
1960	6,130	1970	18,160
1961	7,630	1971	12,080
1962	8,070	1972	15,860
1963	8,790	1973	19,320
1964	10,780	1974	26,820
1965	11,850	1975	36,910

Source: Ministry of Internal Affairs (1979, cited in Tran, 2005)

After 1975, tourism was primarily developed to promote patriotism, enhance the mutual understanding between the North and the South, and introduce Vietnam as a peaceful country (VNAT 2005). In 1978, the GOV established VNAT to manage all of the country's tourism activities and although there were limited numbers of foreign visitors, as illustrated in Table 5.3, tourists mainly consisted of those coming from the then Soviet Union (Cooper 2000; VNAT 2005). Tourism was heavily branded by the GOV, as proven by the dominance of state-owned companies in the local tourism marketplace (Brennan & Nguyen, 2000; Mok & Lam, 2000).

Table 5.3: Tourist Arrivals 1980-1989

Year	1980	1985	1986	1987	1988	1989
International	41,110	50,830	54,353	73,283	110,390	187,573
Domestic	-	-	280,000	400,000	480,000	540,000
Total	-	-	334,353	473,283	590,390	727,573

Sources: Ministry of Internal Affairs, Ministry of Trade and Tourism (1990, cited in Tran, 2005)

The Renewal Policy of 1986 marked a pivotal turn in history for Vietnam's progress from a command to a market economy. Tourism was then recognised as a secondary economic sector,

but did not flourish until the 1990s (Tran, 2005). After 1991, the restrictions on private investments were gradually lifted and foreign investments were encouraged (Cooper, 2000). Following implementation of the Law on Private Companies and the Company Law (1990); the Law on the Promotion of Domestic Investment (1994); and the amendment of the Law on Foreign Investment (1992, 1996) (Brennan & Nguyen 2000), t
his resulted in a rapid upsurge in tourists visiting Vietnam, as illustrated in Table 5.4, for business and investment opportunities (Hobson et al., 1994; Mok & Lam, 2000). It also resulted in a noteworthy change in the GOV's perception of tourism; from treating it as a political means to focusing more on its long-term economic growth benefits (Agrusa & Prideaux 2002; Cooper, 2000).

For example, the 1994 Decree No. 46 states that tourism was a strategic part of the country's socio-economic development, industrialisation and modernisation (VNAT, 2005). This perceptual change was also demonstrated by the development of a licensing system for hotels (1993); a classification system for hotels (1995) (Cooper 2000); and the approval of subsequent policies and strategies such as the Tourism Ordinance, Law on Tourism.

Table 5.4: International Arrivals 1990–1999 (Unit: thousand)

Year	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Total	250	300	440	670	1,018	1,351	1,067	1,715	1,520	1,782
By purpose										
Leisure	-	-	-	-	-	610	661	691	599	838
Trade & investment	-	-	-	-	-	308	364	403	292	266
Visit friends & relatives	-	-	-	-	-	-	273	371	301	337
Others	-	-	-	-	-	432	306	249	328	341

Source: Adapted from Brennan & Nguyen (2000)

In order to create a more sound legal framework for the tourism sector, many tourism policies and strategies have been developed since 2000. Additionally, according to Mok & Lam (2000), Vietnam's socio-economic and political stability has served as a solid foundation for tourism development that has caused tourist numbers to be on the rise since this period (Table 5.4).

The Pro-poor Tourism (PPT) concept has also attracted notable scholarly attention to Vietnamese tourism (e.g. Bui 2010; Dao 2010; Huynh 2011; Mai 2010; Nguyen D.D. 2010; Vu 2010). As a result, the potential of pro-poor tourism has been included in a number of tourism policies and strategies such as the Law on Tourism. Over time, scholars have attempted to effectively design a suitable tourism development model, which highlights the economic benefits for poor people as a means of poverty alleviation. However, more attention is required to address the local needs of poor people in Vietnam.

Several publications have proposed that the Vietnamese tourism sector has had significant impacts on the livelihoods of various stakeholders including poor people. Further, it is suggested that tourism has had considerable direct and indirect benefit to the wider population, as measured by the rise in foreign tourists and total tourism earnings (VNAT 2005, 2009a). Upto 2020, The National Strategy for Tourism Development (NSTD), Vision 2030, affirms the importance of tourism and states that the total tourism receipts are a primary indicator of tourism growth (GOV, 2013). This evidence suggests that tourism and its growth has become a key priority for the GOV but is yet to be proven as the most effective mechanism for poverty alleviation, as illustrated in Table 5.5.

Table 5.5: Vietnam's Tourism Arrivals (thousand) and Receipts (trillion - Vietnamese Dong, VND) 2000-2013

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Domestic	11,200	11,700	13,000	13,500	14,500	16,100	17,500	19,200	20,500	25,000	28,000	30,000	32,500	35,000
Foreign	2,140	2,330	2,628	2,429	2,928	3,477	3,583	4,229	4,254	3,772	5,049	6,014	6,847	7,572
Total receipts	17.4	20.5	23	22	26	30	51	56	64	70	96	130	160	200*
Major foreign markets														
China	492.0	675.8	723.4	693.0	778.4	752.6	516.3	558.7	650.0	527.6	905.4	1, 416.8	1,428	1,907
South Korea	---	---	---	---	232.9	317.2	421.7	475.5	449.2	362.1	495.9	536.4	700.9	748.7
Japan	142.9	205.1	279.8	209.6	267.2	320.6	383.9	411.6	393.0	359.2	442.0	481.5	576.4	604.0
USA	95.8	230.4	259.9	218.8	272.5	333.6	385.6	412.3	417.2	403.9	431.0	439.8	443.8	432.2
Taiwan	210.0	199.6	211.1	208.1	256.9	286.3	274.7	314.0	303.5	271.6	334.0	361.0	409.4	398.9
Thailand	20.8	31.6	41.0	40.1	36.4	84.1	123.8	160.7	183.1	152.6	222.8	181.8	225.9	268.9
France	88.2	99.7	111.5	86.8	104.0	126.4	132.3	182.5	182.0	174.5	199.4	211.4	219.7	209.9

Sources: VNAT (2009a, 2011a, 2011b, 2014a, 2014b, 2014c). (10,000 VND = $ 0.45 USD)

This section shows that tourism has been effectively used to achieve the GOV objectives since 1960 when tourism was being developed for political reasons (1960-1975). Between 1976 and 1990, the tourism sector became more valued and was recognised as an economic sector. Since 1991, it is treated as a means for meaningful economic growth and poverty alleviation. Hence, the changing roles of tourism over decades indicate its significance in the GOV's tourism policies toward action plans.

5.3.4 Tourism Policy in Development

The changes in Vietnam's tourism policies over two periods: 1976-1990 and 1991-present are herein analysed. Notably, 1960-1975 is excluded since tourism was not regarded as a formal industry and no importance was placed on policies to support it. Hall (1994) suggested that it is first necessary to dissect the political history of the tourism industry before attempting to understand its development and varied impacts in any given country.

Table 5.6: Tourism Development Policies, Strategies, and Plans

Publication	Year of publication	Main objective	Poverty component
Master Plan for Tourism Development 1995-2010	1994	By 2000: 3.5-3.8 million foreign tourists; 11 million domestic tourists; turnover US$2.6 billion. By 2010: 9 million foreign tourists; 25 million domestic tourists; turnover US$11.8 billion.	Sustainable tourism emphasised by protecting tourism resources and creating economic opportunities for disadvantaged regions.
Tourism Ordinance	1999	Tourism considered an important economic industry that improves intellectual standards, creates employment, and contributes to socio-economic development.	Tourism encouraged in socially and economically backward regions.
National Action Plan for Tourism Development 2002-2005	1999	Ensure tourism would be a key economic industry and turn Vietnam into an advanced tourist destination by 2005. Receive 3-3.5 million foreign tourists and 15-16 million domestic tourists by 2005.	Sustainable tourism mentioned, but poverty alleviation neglected.
Socio-economic Development Strategy (SEDS) 2001-2010	2001	Lift the country out of the underdevelopment state, improve local living standards, and lay the foundation for Vietnam to become an industrialised country by 2020.	Efforts encouraged to develop tourism into a spearhead industry, but the task of poverty alleviation ignored.
National Strategy for Tourism Development (NSTD) 2001-2010	2002	Develop tourism into a spearhead industry and turn Vietnam into an important tourist destination in Asia.	Effective use of tourism resources encouraged, but poverty alleviation not mentioned.
Comprehensive Poverty Reduction and Growth Strategy (CPRGS)	2003	SEDS's target repeated: bring the country out of the underdevelopment state and lay the foundation for it to become an industrialised country by 2020.	Rapid and sustainable economic growth emphasised as the best way out of poverty.
Law on Tourism	2005	Policies created to ensure tourism would be a spearhead industry.	Tourism encouraged in remote areas for hunger elimination and poverty reduction.
National Action Plan for Tourism Development 2006-2010	2006	Turn Vietnam into a country with an advanced tourism industry in Asia by 2010. Foreign tourists increase about 10-20% annually. Domestic tourists increase about 15-20% annually.	Poverty alleviation not mentioned.
National Action Plan for Tourism Development 2007-2012	2007	Achieve the targets of the NSTD 2001-2020: develop tourism into a spearhead industry. Receive 5.5-6 million foreign tourists and 25 million domestic tourists.	
National Strategy for Tourism Development (NSTD) to 2020 (Vision 2030)	2011	Affirm tourism is the spearhead industry and use total tourism receipts as the primary indicator of tourism development.	Many action plans made to promote tourism growth, only one single plan proposed for PPT development.

According to Hall (1994), the roles of governments in tourism are a direct outcome of the policy formulations and implementation strategies set in place. It is therefore critical that we analyse tourism policies in an attempt to understand the underlying roles and ideologies of governments. Hall (1994) also developed a model for the tourism policy-making process which consists of four main components: demands, decisions, outputs and impacts (see also Dredge & Jenkins 2007). As summarised in Table 5.6, based on this model that Vietnam's tourism policies are analysed and the GOV's roles are highlighted.

5.3.5 Impacts of Tourism Policies

Vietnam achieved a target of one million foreign tourists in 1994 (Tran, 2005; VNAT, 2009a), a fourfold increase when compared to 1990. From 1990 to 2008, the number of domestic tourists increased approximately 20 fold. Within the same period, foreign tourists increased by roughly 17 times whereby Asian countries were recognised as the largest international markets at the time, as illustrated in Table 5.4 above. Overall, total tourism receipts grew approximately 53 times from VND, with 350 billion (US$64.3 million) in 1999 to VND 70,000 billion and (US$3.3 billion) in 2009. In 2011, tourism contributed over 5% to the national GDP (VNAT, 2011a). Until the end of 2011, there were 12,500 tourist hotels and 987 international tour operators nationwide (VNAT 2011b). Approximately 50% of these hotels are globally ranked from one to five stars. Additionally, tourism has created direct employment for more than 334,000 people with indirect employment rates at around 510,000 people; many of whom are young adults and women (VNAT, 2009a). The sector also significantly influences the increased funding for infrastructural development within these key areas, as illustrated in Table 5.7.

Table 5.7: State Investments in Infrastructure for Tourism Development 2001-2009

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Amount (billion VND)	266	380	450	500	550	620	750	620	700
Number of localities	13	37	43	53	58	59	59	56	55

Sources: VNAT (2005, 2010)

FDI has also been a part of this tourism development journey. Between 1988 and 1997, Vietnam attracted more than US$30 billion in FDI, of which in excess of 20% was related to tourism (Sadi & Henderson, 2001). From 2000 to 2009, the number of FDI projects increased 15.5 fold and spiralled upward 385 times in terms of capital. Finally, since 2011 FDI in tourism has been estimated at approximately US$476.8 million, as illustrated in Table 5.8.

Table 5.8: FDI in Tourism 2000-2011

Year	2000	2001	2002	2003	2004	2007	2008	2009	2010	2011
Number of projects	02	04	25	13	15	48	26	31	39	25
Capital (million US$)	22.8	10.3	174.2	239	111,17	2,012	9,126	8,800	315.5*	476.8*

Sources: GSOV (2010, 2011); VNAT (2010); Note: Cumulative values

5.4 FDI into Transition Economies in South East Europe (SEE) and the Western Balkan (WB) Countries

5.4.1 Introduction

This part of the study addresses the characterises of FDI in eight transitioning economies located in South East Europe (SEE) consisting of the six Western Balkan (WB) countries: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia, along with Bulgaria and Romania in comparison to the other transitioning economies. To date, most SEE countries have experienced periods of high political and economic instability during the 1990s. However, economic recovery and the related transitioning economic reforms in these areas have been generally slower than that experienced in Central Eastern Europe (CEE).

Despite numerous positive improvements during the 2000s, the Balkans has still experienced unimaginable problems related to attracting potential foreign investors. This is evident because often, the word Balkan 'conjures up troubled images of war and conflict, rather than investment opportunities and economic potential' (Christopher and Sanfey, 2010).

5.4.2 Historical Background and Brief overview of the Literature

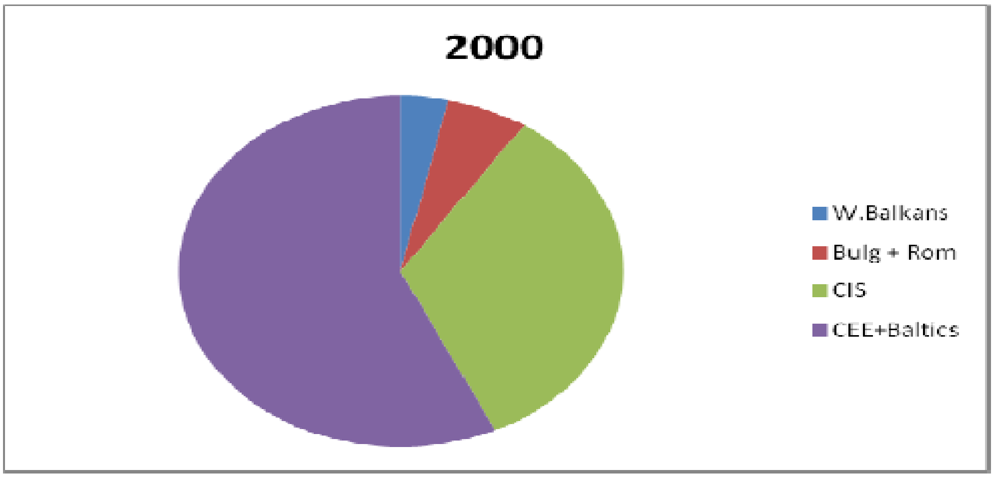
The past eighteen years have seen thriving publications on FDI in Eastern Europe. This is not surprising since foreign capital has played vastly important roles in most countries' transition to the global market economy during the last twenty years.

Within the first decade of transiting market economies in most of the Balkan region, FDI was low and likely deterred due to its unstable political environment. Since 1991, many political developments and events have continued to conjure negative economic implications for the entire SEE region (Uvalic, 2003). Political instability during the 1990s has left traces of bitter memories on the Balkan region. Kekic (2005) analyses such trends in Balkan FDI during the early 2000s and concluded that the influx in FDI was strongly related to only a few minimal conditions which included the restoration of peace and basic security. This marked the beginning of an economic recovery followed by modest improvements in the business environment. According to Kekic (2005), the inflow of FDI into these 8 East European countries during 1998-2002 was attributed to a number of variables which impacted on FDI including its GDP, wages, business environment, abundance of natural resources, privatization and geographic locations. In this region, FDI inflows were also attributed to its sensitivity to the policy framework, particularly regarding the business environment and privatization strategy. Though, more distant countries from the EU core were less likely to be attracted by such FDI incentives. For the Balkan countries, political conflict and instability meant far more reduced FDI inflows; below the expected comparable rate for Western European countries, and related reform and stabilization failures further reduced FDI to the region.

5.4.3 Main Features of FDI in the 1990s

As mentioned above, the SEE region attracted little FDI during the 1990s due to the political risk and economic instability, and existing competition from more encouraging economies. The first half of the nineties brought a period characterized by major political and economic instability; therefore, FDI inflows to SEE were particularly low during this time. By 1996, except in Bosnia and Herzegovina, which were at war in 1992-95, FDI stock began flowing into Albania, Bulgaria, Croatia, Macedonia, Romania and FR Yugoslavia; amounting to approximately US$ 3.4 billion or 5.7 percent of total inward FDI stock in all 27-transition economies.

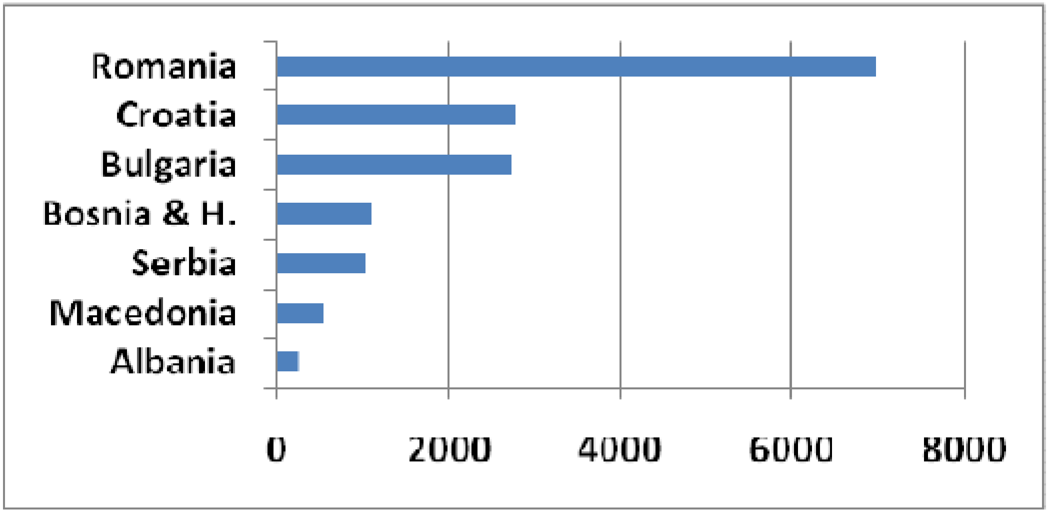
This was far less than their share of 7.7 percent in the total population of the transition region. Though the situation improved after signing the Dayton Peace Accords in1995, many SEE countries continued to lag behind the CEE as FDI recipients. For the period of 1989-2000, the inward FDI stock in these eight SEE countries amounted to approximately US$ 15.3 billion or 9.4 percent of total inward FDI stock in all 27-transition countries, as illustrated in Figure 5.2.



Source: Authors' elaboration based on UNCTAD data (World Investment Report)

Figure 5.2: Inward FDI Stock, by Transition Regions (2000)

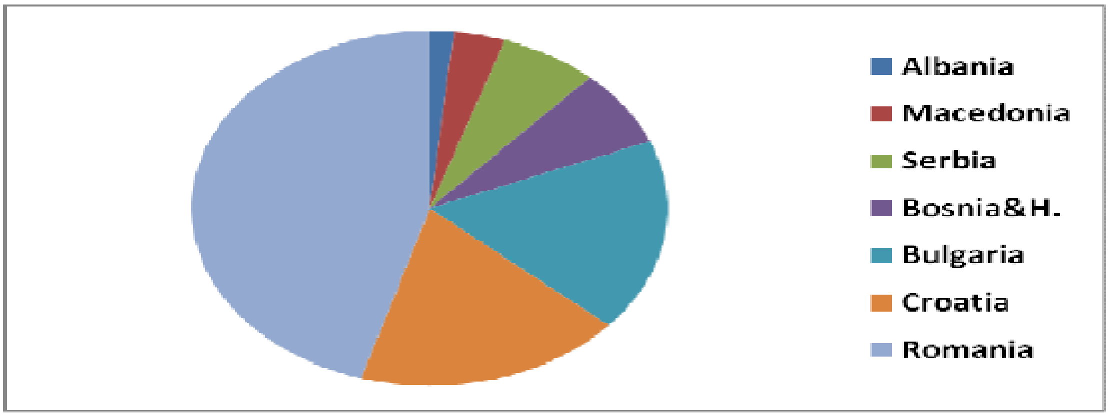
By the 2000s, the volume of FDI by country, as illustrated in Figure 5.3. was very uneven; Romania had attracted far more FDI that the other Balkans, almost as much as the total sum of all other SEE countries. With a population of 21.4 million, the size of Romania's economy helped to explain why this amount of FDI was attracted along with other factors such as a higher political risk in most other Balkan countries.



Source: Authors' elaboration based on UNCTAD data (World Investment Report).

Figure 5.3: Inward FDI Stock in SEE Countries, 2000 (millions of US dollars)

Although no data is available for Montenegro, in 2000 Bulgaria, Croatia and Romania accounted for more than 80 percent of the total inward FDI stock in the SEE region, as illustrated in Figure 3. Bosnia and Herzegovina received very little FDI once the war ended from 1997 onwards, but its inward FDI stock in 2000 was just over US$ 1 billion. In 1997, Serbia received a similar investment following a foreign deal where 51 percent of Telekom Srbija was sold to Greek and Italian partners (Uvalic, 2010). The other two countries attracted even less investment throughout this period



Source: Authors' elaboration based on UNCTAD data (World Investment Report).

Figure 5.4: Inward FDI Stock in SEE, by Country, in 2000

5.4.4 Upsurge of FDI in the 2000s: Political and Economic Background

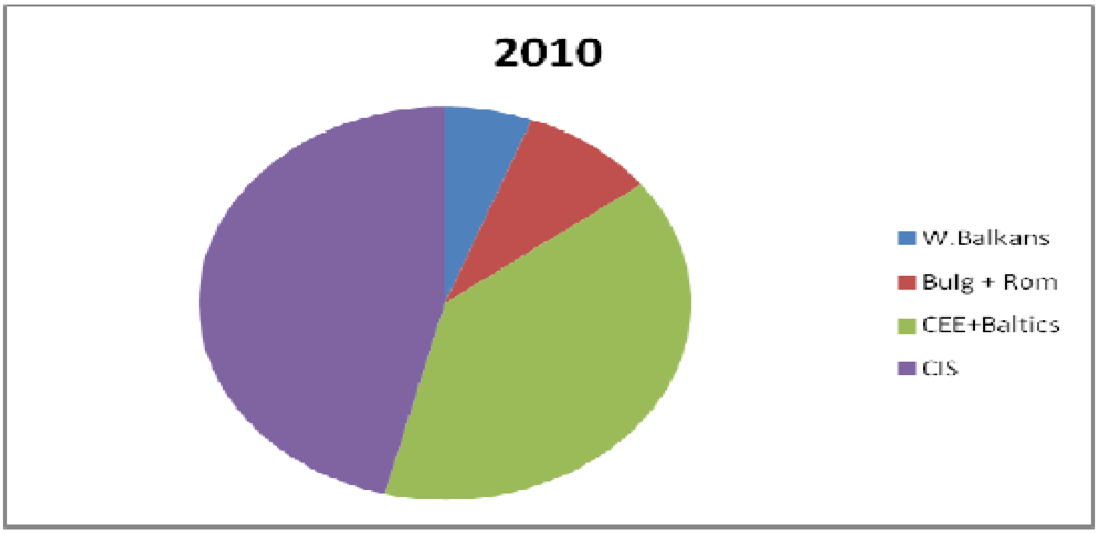
There has been a considerable increase in FDI inflows to the SEE region since 2000, mainly due to a generally improved political and economic climate. In addition to positive reactions toward more democratic regimes in countries like Croatia and Serbia from the early 2000s, SEE countries have greatly improved their overall economic performance. Further, macroeconomic stabilization which is relatively strong when there is GDP growth, has developed the potential to increase foreign trade in order to help these countries catch up with the more developed countries within the transition region. This was deeply characterized in the SEE countries throughout 2001 to 2008 as the acceleration of economic reforms begun even in countries that until 2000 had been lagging behind (Uvalic, 2010, 2012a).

Since 2001 SEE countries have further implemented trade liberalization with the EU and within the Balkans region which has gradually improved the business climate and privatized many industries, mostly within the banking sector. Additionally, the international community saw a change in its policies towards the region post-Kosovo conflict in mid-1999. The Stabilization and Association Process was also launched by the EU for WB countries offering trade liberalization measures; a new financial assistance programme; contractual relations through the signing of Stabilization and Association Agreements; and even prospects of EU membership.

5.4.5 Increasing FDI Flows in the 2000s

As a result of improving the political and economic conditions, the entire SEE region saw significant increase in FDI after 2000, yet by 2010, these eight SEE countries had only received one third of the volume of FDI that went towards the eight countries in CEE and the Baltics. This happened in spite of the latter group attracting relatively less FDI in the 2000s, due to a strong increase in the share of the Commonwealth of Independent States (CIS).

Although most SEE countries started attracting FDI sometime after 2003, the total transition region share of the eight SEE countries receiving inward FDI stock increased from 9.4 percent in 2000 to 14.7 percent by 2010. Of this, 5.8 percent was invested in the Western Balkans and another 8.9 percent in Bulgaria and Romania (see Figure 4). Hence, by 2010 almost double their relative in population share of 7.7 percent was represented by the transition region

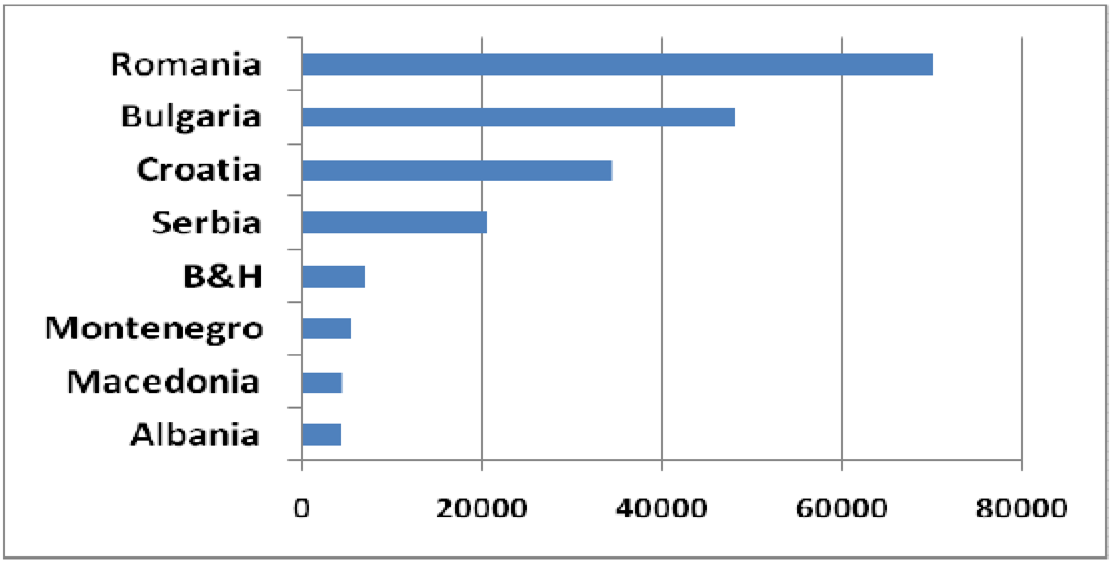


Source: Authors' elaboration based on UNCTAD data (World Investment Report).

Figure 5.5: Inward FDI Stock, by Transition Regions (2010)

The 2000s also experienced some changes in the share of FDI by country, as illustrated in Figure 5.5. All SEE countries attracted significantly more FDI when compared to the 1990s, but still this increase was uneven.

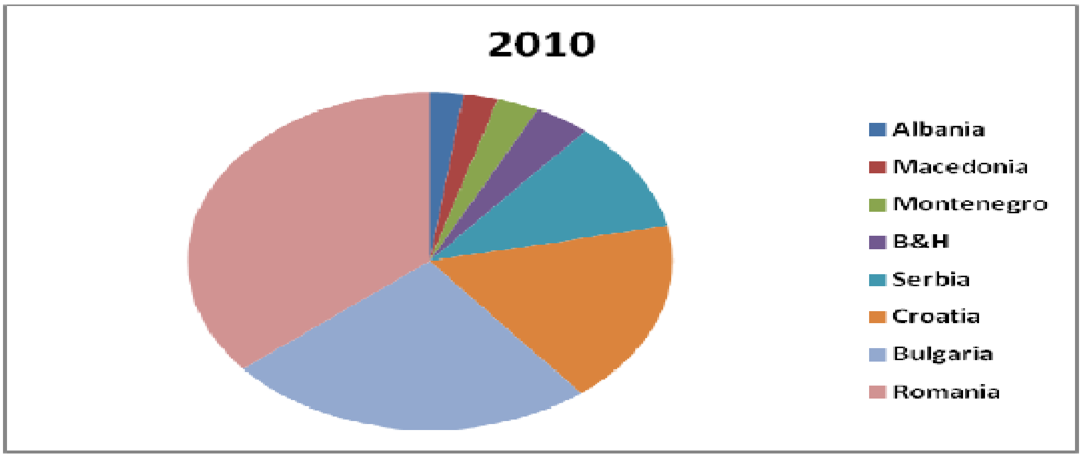
By this time, Romania, the major recipient of FDI, had experienced a tenfold increase in its inward FDI stock between 2000 and 2010 (from US$ 7 billion in 2000 to US$ 70 billion in 2010). However, most other SEE countries registered even greater increases since this period. Further analysis shows that in 2010, the FDI inward stock, when compared to the earlier decade, had increased in Croatia by 12 times and in Albania and Bulgaria by 17 times; whilst Serbia had a 20 time increase from US$ 1 billion to US$ 20 billion by the end of the said period. The only two countries with a less impressive increase in inward FDI stock during the 2000s were Bosnia and Herzegovina with a six-fold increase and Macedonia with an eight-fold increase.



Source: Authors' elaboration based on UNCTAD data (World Investment Report).

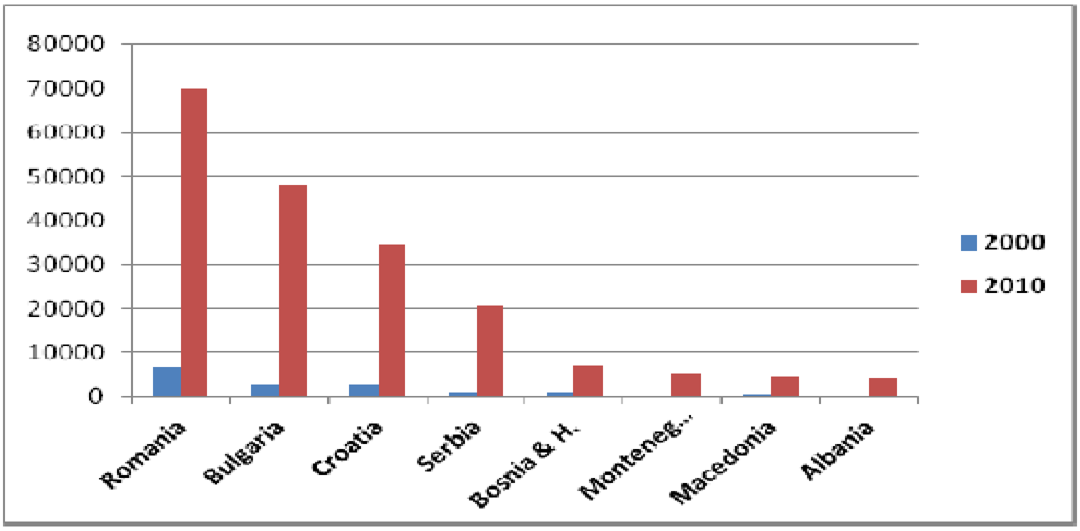
Figure 5.6: Inward FDI Stock in SEE Countries, 2010 (millions of dollars

Consequentially, the intra-regional shares of FDI do not show much evidence of substantial change since the 1990s, as illustrated in Figure 5.6. Romania, Bulgaria and Croatia continued to experience the largest share of 78 percent of the total inward FDI stock in 2010 as Romania continued to rank first. Bulgaria has now overtaken Croatia, whilst Serbia attracted increasing FDI in more recent periods. This uneven increase of FDI in the SEE territories over the past decade can also be seen when comparing inward FDI stock in 2000 and in 2010 by country, as illustrated in Figure 5.7.



Source: Authors' elaboration based on UNCTAD data (World Investment Report)

Figure 5.7: Inward FDI Stock in SEE, by Country, 2010



Source: Authors' elaboration based on UNCTAD data (World Investment Report).

Figure 5.8: Inward FDI Stock, 2000 and 2010 (millions of dollars)

5.4.6 An Overview of Tourism industry

According to the World Tourism Organization (UNWTO, 2015a), Europe accounts for 41.0% of total international tourism receipts, with Southern and Mediterranean Europe, including South East Europe (SEE), being one of the fastest growing regions. Globally, foreign tourist spending has grown to USD 1.2 trillion and is expected to expand further in 2015. South East Europe has the opportunity to capture a share of the growth in international tourism and gain from tourists' increased interest in the region.

Thanks to its diverse and rich regional heritage, SEE represents a unique tourist destination. Its mountainous landscapes (e.g. the Dinaric Alps, the Pindus Range and the Balkan Mountains), natural sites (e.g. the Plitviče Lakes National Park in Croatia, the Durmitor National Park in Montenegro, and the natural and cultural heritage of the Ohrid region in the Former Yugoslav Republic of Macedonia), as well as beaches and islands (a coastline of almost 7 000 km and 1 200 islands), provide international tourists with a diverse range of natural landscapes to visit. Medieval castles, Orthodox monasteries and Ottoman mosques also make it an attractive cultural destination.

As a result of the fact that these countries are characterized by tourist attractions, the international arrivals have increased the increasing importance of the tourism sector in SEE is apparent from the rising number of international arrivals to the region. The number of overnight visitors, including tourists, same-day visitors, cruise passengers and crew members has almost doubled over the last ten years, reaching 17.0 million in 2013 (World Bank, 2015).

International arrivals to the SEE region grew on average by 6.2% a year in the last five years, compared with 1.5% for the EU (see Figure 5.9). The SEE economy experiencing the sharpest increase in the number of international tourists was Albania, where the number of international overnight and same-day visitors reached almost 3 million in 2013, up from 1.2 million in 2008. With over 10 million international visitors in 2013, Croatia remains the preferred tourist destination in the region, followed by Albania (2.9 million) and Montenegro (1.3 million). In addition, the number of guests in hotels has increased in all SEE economies over the last five years (UNWTO, 2015b). The increase has been particularly strong in Albania, where it rose from 74 000 in 2010 to 161 000 in 2014 (UNWTO, 2015b).

Source: World Bank (2015), World Development Indicators, World Data Bank.

Figure 5.9 International Arrivals, Yearly Growth (2008-13)

5.5 Chapter Summary

In summary, this chapter has analysed the development of Vietnam's tourism policies during the period 1976-1990 when tourism policies emerged in response to the 1986 Renewal Policy. The GOV has since operated, coordinated, promoted and educated the nation about its policies. During the period 1991-present, the GOV strongly considered tourism a tool of poverty alleviation. This meant that tourism policies are now required to address the ever-increasing expansion rates of the growing industry which has resulted in the classification and standardisation of related businesses to bring about better government-designed strategies and plans. As such, the GOV continues to play vital roles in planning and regulating, but its role of educator has weakened whilst it intensifies promotion.

In addition, the author has aimed to highlight some of the major changes in economic order that were advanced by major players in the Western Balkans. The notable acceleration in economic reforms took place in countries which until 2000, had been struggling to experience economic growth. Since 2001, trade liberalization with the EU and within the Balkans region have been implemented in SEE countries which has progressively improved the business climate and led to privatization of many sectors along with most of the banking sector. Internationally the community also adapted some of its policies towards the region after the Kosovo conflict ended. The launch of the EU’s Stabilization and Association Process, specifically for WB countries offered many benefits including: trade liberalization measures, a new financial assistance programme, contractual relations through the signing of Stabilization and Association Agreements, and even prospects of EU membership. Actors' practices in shaping the economic order were seen to have mainly been driven by political restraints and efforts to maintain political legitimacy and social cohesion. Additionally, these actors' practices deeply were underpinned by contextual factors as identified by internal imbalances and a broader policy environment.

FDI is regarded as a crucial solution for economically underdeveloped countries. Therefore, Romania which managed to increase its inward FDI stock between 2000 and 2010, saw many benefits, but most other SEE countries have since registered even greater successes. The only two countries with less impressive increases in inward FDI during the 2000s within the region were Bosnia and Herzegovina, and Macedonia. This was likely due to a generally improved political and economic environment. In addition to macroeconomic stabilization, a relatively strong GDP growth is required to increase foreign trade and catching up with the more developed countries. In the next chapter, we will overview multinational companies within the tourism sector in Libya.

CHAPTER SIX

MULTINATIONAL COMPANIES (MNCs) IN THE TOURISM SECTOR AND THE LIBYAN BUSINESS ENVIROMENT

6.1 Introduction

A study of the motivational factors to MNCs in order to encourage them to invest in Libya, and an overview of the international tourism industry considering some important characteristics the Libyan business environment. This chapter will outline the international tourism industry in the world, specifically international hotel industry in Africa. The chapter will discuss many aspects with regard to the Libyan business environment, which include: the economic background, infrastructure, financial services, the taxation system, and present the main government policies towards foreign companies in terms of business laws and regulations, particularly those related to foreign investments in the tourism sector.

6.2 Overview of the International Hotel Industry

In many countries, where tourism has become a major export industry, the hospitality sector is the focal point for concepts of globalization to take root. Indeed, tourism has become the world's largest export industry, involving as it does enormous cross-border flows of people and capital. Globalization of the hotel industry started with the expansion of American companies in the second half of last century.

This expansion began in the US region and later occurred in the rest of the world. As globalization became the strategy for many hotel companies, these companies began to look for newly emerging markets in order to serve an increasing international customer base (Gee, 2000). Table 6.1shows for example the world’s 10 largest hotel companies. Growth within chains was continuing in 2013.

The motivations for international hotel companies investing abroad, such as finding new customers, incentives provided by host countries, competitive advantages over local firms, increased market share and lower cost for labour have made the industry one of most global of all industries. Almost half of hotels owned or operated by international hotel companies were located in less developing countries. There are three basic ways that international hotel chains can expand business outside their home countries: (a) owning subsidiaries, (b) franchising, and (c) operating through management contracts (Praporski, 2008).

Table 6.1: The Top 10 Rank Hotel groups in the World: (2012-2013)

Rank 2013	Rank 2012	Groups	Country	Hotels 2013	Hotels 2012	Rooms 2013	Rooms 2012	Growth in the number of rooms
1	1	IHG	GB	4,602	4,480	675,982	658,348	17,634
2	2	Hilton Hotels	USA	3,992	3,861	652,378	631,131	2,1247
3	3	Marriott International	USA	3,672	3,595	638,793	622,279	1,6514
4	4	Wyndham Hotel Group	USA	7,342	7,205	627,437	613,126	1,4311
5	6	Choice	USA	6,198	6,203	497,023	502,460	-5,437
6	5	Accor	FRA	3,515	4,426	450,199	531714	-81,515
7	7	Starwood Hotels and Resorts	USA	1,121	1,076	328,055	315,346	12,709
8	8	Best Western Hotels	USA	4,024	4,018	311,611	295,254	16,357
9	9	Home Inns	CHI	1,772	1,426	214,070	176,562	37,508
10	10	Carlson Rezidor Hotel Group	USA	1,077	1,077	166,245	165,802	443

Source: Database MKG Hospitality 2013

6.3 International Hotel Industry in Africa

FDI inflows to Africa grew to $50 billion in 2012, a rise of 5% over the previous year (UNCTAD, 2013). The majority of the increase in FDI inflows was seen in increased flows to North Africa, Central Africa and East Africa, whereas West Africa and Southern Africa registered declines. FDI in African countries is increasing overall.

There is a rising interest in FDI due to a number of fundamental socio-economic and demographic trends in Africa. These are as follows:

- Africa has the world's fastest growing population, fertility rates are down from historic levels, which means that the working age population is growing fastest, and that means further real increases in GDP per capita, a decline in the dependency ratio, and a higher level of per capita disposable income.
- The IMF forecasts that seven of the top ten fastest-growing countries in the next five years will be in Africa, and that the average growth in Africa will be higher than the average growth in Asia.
- GDP per capita in Nigeria, the most populous nation on the continent, and the second-largest economy, increased from US$ 950 in 2000 to US$ 2,600 in 2011.
- The largest 50 cities in Africa, with 13 per cent of the population, are forecast to contribute nearly 40% of GDP growth in the next decade. 40% of the growth in spending power is forecast to occur in households with an average income of above US$ 20,000.

According to the survey of the 29 hotel chains by World Hospitality Group (2013) there were almost 90,000 rooms operating in Africa, with around 48,000 in North Africa and 41,000 in sub-Saharan Africa. This is due to the tourism development that has taken place in North Africa, particularly in Morocco, Tunisia and Egypt.

As illustrated in Table 6.2, the majority of North African countries featuring in the top ten destinations for branded hotel developments, the majority of activity is located in Egypt and Morocco, where the tourism industries are most well-established.
On the other hand, investment in hotels in North Africa has experienced relatively little growth for two reasons; the political turmoil in the region has had a negative effect on new investment and, therefore, new deals. Therefore, several hotels which are in the pipeline have effectively been suspended, pending a return to sustained normality.

Table 6.2: Chain Hotel Top Ten Development in Africa 2013

Rank	Country	Hotels	Rooms
1	Egypt	20	7,644
2	Nigeria	49	7,470
3	Morocco	30	5,178
4	Algeria	17	3,160
5	Kenya	11	1,469
6	Ghana	8	1,441
7	Tunisia	6	1,441
8	Libya	4	1,359
9	South Africa	8	1,320
10	Gabon	7	1,128

Source: Hotel Chain Development Pipelines in Africa ,2013

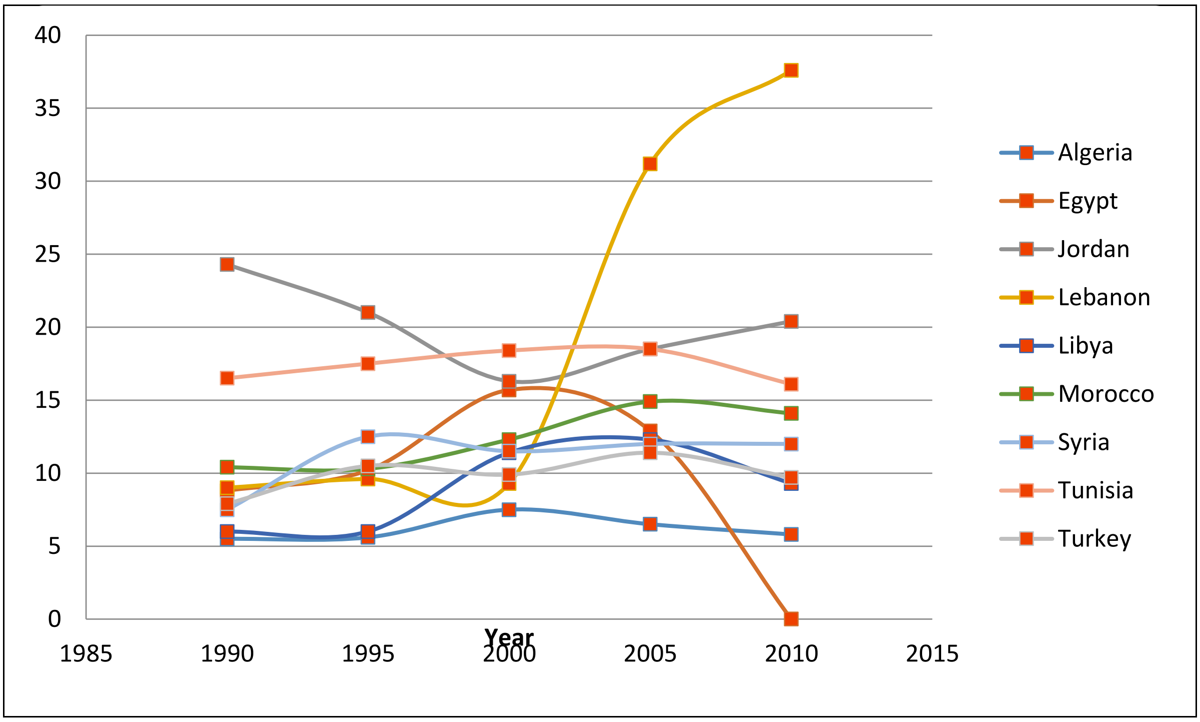
6.4 Tourism in Libya

The Libyan Ministry of Tourism has formulated a master development plan to develop the infrastructure of the tourism sector over the next ten years. The main goal of this plan is to encourage local and foreign investors to invest in this sector, especially in the hotel sector. For this reason, the government has decided to fully open the sector to local and foreign investments, with tax exemptions as an added inducement. Further to this, it has tried to change and broaden Libya's tourist image in order to obtain a good position in the international tourism market place. Libya has several tourist resources, distributed over a wide area of the country. These include a length of coast-line along the Mediterranean Sea, Eljabel Elakhdar (Green Mountain), Eljabel Elgharbi (West Mountain) and several landscapes in the Libyan Sahara. Moreover, there are ancient archaeological cities and monuments from Roman, Phoenician, Greek and Islamic civilisations. There are also historical mosques and churches, as well as museums with their splendid antiquarian possessions (Libyan Ministry, 2013).

6.5 Importance of Tourism Activates

According to the World Travel Tourism Council (2011) the total contribution of travel and tourism to GDP is almost 3 times greater than its direct contribution. In fact, the changes in the relative importance of the tourism sector must be seen in relation to the overall economic development of the country and the growth of other sectors. In Jordan, for instance, the share of tourism fell from 24.3% of GDP in 1990 to 20.4% of GDP in 2010, reflecting the maturity of the tourism sector and the fact that other economic sectors have grown faster than tourism, as illustrated in Figure 6.1.

In Egypt, Morocco and Syria the growth of tourism has been faster than the growth in other sectors, resulting in its growing share in the economy. In contrast, the total contribution of travel and tourism to GDP in Algeria and Libya is modest compared with other countries in the region.



Source: WTTC (2011), UNWTO (2010)

Figure 6.1: Total Contributions of Travel and Tourism to GDP % in the MENA Countries (As percentage of GDP)

6.6 Overview on the Libyan Business Environment

6.6.1 Libya’s Economy

According to World Factbook (CIA, 2004) and Mansoor et al (2011) the Libyan economy relies primarily upon oil revenues, which constitute practically all the export earning and about one-quarter of GDP. These oil revenues, combined with a small population, give Libya the advantage of the highest per capita GDP in Africa. In addition, there is strong evidence to suggest that Libya has made a great deal of progress on economic reform as part of a broader campaign to reintegrate the country into the international fold. Libyan officials have announced a new strategy to liberate its economy and have taken significant steps toward privatisation.

According to the annual report of the Libyan Ministry of Tourism (LMT, 2013) the Libyan Government has also decided to completely open its doors to local and foreign investment and to free such investors from taxes, as well as to provide more facilities and opportunities to industries such as tourism, fishing and agriculture with the aim of diversifying the economy away from oil.

April 2013. According to a recent report by the World Bank, the economy of Libya again dips into negative numbers. After a sharp decline in GDP of 62% in 2011, Libya's economy in the year 2012 began to recover rapidly and its growth rate reached 104%, mainly due to a revival of crude oil production. However, in 2013 economic development experienced another negative peak manifesting blocking mining and crude oil exports as a result of nationwide social security and instability in the country. Balances on the current and financial account declined due to the drop in revenues from crude oil sales and the continued expansionary spending policy of the government. This situation continues to deepen the real unemployment rate; with generous welfare benefits, this situation does not motivate the population to change this trend to the better. Libya's economy is still heavily dependent on crude oil, its production represents 70% of GDP and government revenue is dependent on its sale by 95%. Starting with June 2013 the daily output of crude oil production due to strikes and unrest in the crude oil fields and export port terminals blocking by the warring militias abruptly dropped from 1.4 million barrels (b / d) by 1 million b / d, but at the end of that year the quantity produced was just over 200 thousand. b / d. The above developments reflected a decline in balances in the current and financial account of the country. The decline of crude oil revenues was around 80%. The problem with the balance of payments was also intensified due to the continued expansionary fiscal policy of the government, during the aforementioned period, incredibly, in September 2013 announced an increase in the salaries of public sector and employees and issued a specific decision to increase the salaries of judges. The World Bank, therefore, for the period 2013-2014 revised its estimates regarding the development of the fiscal parameters of Libya. The surplus on the financial account deficit reached in 2012 was again plunged into a deficit representing 5% of GDP in 2013 and 4% of GDP in 2014. Also, the current relatively high surplus current account balance is dropping significantly. Unfortunately, everything is far too dependent on crude oil production (as the predominant source of fulfilment for all balance systems), and internal political stability in the country. In the current situation, the government is and will be required in order to finance budget deficits reaching deeper into still relatively substantial reserves. At the end of the year 2012, the reserves of foreign currencies accounted for 124 billion USD. It is estimated that to cover the deficit in 2013 the county had to withdraw from reserves of foreign currencies amount between 10-13 billion USD, as illustrated in Table 6.3.

Table 6.3: Basic Macroeconomic Indicators over the Past 5 years

Basic Macroeconomic Indicators	**2008**	**2009**	**2010**	**2011**	**2012**
Real GDP growth (annual changes in %)	5,6	0,5	5,0	-62,1	104,5
Crude oil and gas (annual changes in %)	3,6	-4,6	4,0	-72,0	211,4
Other sectors (annual changes in %)	7,9	6,0	6,1	-52,5	43,7
Nominal GDP (bil. LYD)	119,8	79,3	94,7	42,5	103,0
Nominal GDP (bil. USD)	98,0	63,3	74,8	34,7	81,7
GDP per capita (thousands. USD)	15,6	9,9	11,7	5,5	12,7
Inflation rate (CPI, %) - average	10,4	2,0	2,5	15,9	6,1
Inflation rate (CPI, %) – the end of period	9,8	5,1	3,3	26,6	-3,7

Source: IMF, 2012

The labour market remains highly distorted, with 80% of people employed in the public sector. Relatively attractive wages and other benefits in the public sector create high wage expectations among potential candidates for jobs in the private sector. These market needs and ideas, ultimately causing persistently high unemployment among the working population. Despite the fact that the official statistics of the Ministry of Labour and Social Affairs show a gradual decline in the unemployment rate from 20% in 2010 and 2011 to 15% in 2013, it is estimated that as a result of hidden unemployment in the public sector, real unemployment is about 30% of the working population. The highest unemployment rate was in the group of people aged under 25, which reaches up to 50%.

The World Bank highlights the main issues and challenges which, if not promptly and effectively addressed, could worsen the prospects for recovery and growth of the Libyan economy. The primary challenge is to streamline the management of crude oil resources and the urgent need to diversify the economy in order to ensure long-term financial and economic stability and a drop in unemployment. Despite the large contribution of crude oil production to the state budget, this sector is highly capital intensive, while it offers jobs to just 2% of the employed population. The second - equally important - challenge is to regulate the system of public subsidies representing 10% of GDP and reduce wage costs in the public sector. Subsidies are high, while in their current structure (for basic food, fuel, energy, etc.) they create a space for inefficiency and waste in their spending. Yet, they are significantly undervalued investments in health, education and infrastructure. Another huge and still unresolved crucial issue is the lack of support for private sector development. The growth of private sector is hampered in particular due to the lack of access to finance business projects, the uncertainty of the regulatory environment and the fragile security situation in the country.

6.6.2 Economic Policy

Libya's preliminary actions in liberalising the socialist-oriented economy - such as applying for WTO membership, decreasing some subsidies, and announcing plans for privatisation do promise a transition to a more market-based economy. However, three decades of authoritarian rule, populist policies and political machinations continue to hamper market-driven private sector development and thus diversification of the country's economic structure. Foreign investment is almost completely directed towards the oil and gas sector and does not add to much to the broader economy's strength. Although the country's leadership recognises that the current state-directed socialist model needs to be thoroughly changed, their long-term commitment to grant the private sector and especially foreign investors a substantial role in the system, is still uncertain. Also, some progress was made to reform the financial sector and enhance the monetary policy framework, but overall the implementation of structural reforms has been weak at best. In contrast, the most important policies concerning the encouragement of foreign investment are contained in Law No. 7 of 2004 and its amendments.

6.6.3 Investment Incentives

There are considerable incentives for MNCs in general and for tourist projects in particular. As described in Law No. 7 of 2004 regarding tourism, and with regard to the incentives in Law No. 9 of 2010 concerning the encouragement of investment of foreign capital, tourist projects are exempted from the following taxes and levies: Customs duties on construction materials, tools and equipment, furniture, tourist transport, and different types of equipment necessary to construct and operate tourist utilities and projects. Income, buildings, and entertainment are exempt from levies for a period of five years starting from the actual start date of the project, which may be extended for a further five years, by virtue of a decision issued by (as is called previously) the General People's Committee following a proposal submitted by the General People's Committee for Tourism.

Moreover, the main guarantees that are provided by the Libyan government to foreign companies (as mentioned in Law No. 7 of 2003 and its amendments in Law No.9 of 2010 regarding the encouragement of investment of foreign capital, without prejudice to the guarantees in Law No. 7 of 2004 regarding tourism) include the following:

- Net profits and dividends are freely transferable
- Expatriate personnel can be freely employed in the absence of Libyan substitutes
- Long term leases for land for production facilities are available.
- Bank accounts in convertible currencies can be freely opened.
- Ownership of the project may be transferred in whole or in part to another investor
- The investor can freely re-export his invested capital.
- Guarantees which protect the investor against nationalisation, dispossession, seizure, expropriation or any other action of a similar nature.
- Establishing a One-Stop Shop for investors that provide all the required services, including the processing of applications and the granting of licences and permits.

6.6.4 Libyan Tourism Industry

According to the Libyan Ministry of Tourism (2013) and the European Statistical System (2015) the total number of international tourist arrivals in Libya increased from 83,319 in 2005 to 123,480 in 2006. Conversely, arrivals dropped from 105,997 in 2007 to 26,000 in 2011; also, arrivals dropped again from 39,993 in 2012 to 6,529 in 2015 due to the impact of the events of February 17th, which affected international tourist arrivals to Libya**.** Accommodation is a major issue and a key element of the tourism industry: the total number of hotels in Libya increased from 245 hotels in 2005 to 321 hotels in 2010, most of these being located in the urban areas of Tripoli, Benghazi, Sabha, and Misurata, with offerings as illustrated in Table 6.4. Libyan hotels vary considerably: some are state-owned and some are private hotels owned by individuals or local companies, while some are joint ventures with foreign investors. There are insufficient hotels at present.

Table 6.4 Number of Hotels and International Tourist Arrivals to Libya (in thousands)

Year	Hotels	Tourists
2005	245	83,319
2006	256	123,480
2007	268	105,997
2008	277	42,118
2009	303	35,692
2010	321	32,038
2011	321	26,000
2012	321	104,000
2013	321	30,622
2014	321	30,213
2015	321	6,529

Source: Libyan Ministry of Tourism (LMT, 2013), and European Statistical System (2015)

The total number of classified hotels in Libya is 138. Despite the significant role which international hotel companies play in the development of the tourism industry in less-developed countries, the presence of these companies in Libya is less than 1% of the total number of hotels in Libya. To cope with the lack of hotel rooms for current and future tourist arrivals, the Libyan government has concentrated efforts on encouraging local and foreign investors to invest in this sector.

Additionally, Libyan accommodation lacks standardisation to international norms. Four-star hotels in Libya are not equivalent to four-star hotels in the UK or elsewhere. This leads to the conclusion that Libya needs to establish more five-star hotels with higher capacity in order to be able to compete internationally. The existing hotels in Libya also require major maintenance and upgrading in the short term, because most tourists spend the majority of their time in hotels as well as a high proportion of their expenditure (Sharpley, 2006).

Table 6.5: Summary of Libyan Tourism Activity in 2010

Category	
Total number of tourists	32,038
Tourists (overnight visitors)	21,492
Cruise passengers	10,546
Overnight stays in hotels	150,444
Average length of stay	7 days
Average of spending of tourist per day.	120 $
Total estimated income.	18,686,320 $
Total number of cruises	29
The number of guests in hotels and similar establishments	420,479
The labour force in tourism	17,581
The number of tourist guides	306
The number of hotels participating in exhibitions and forums for International Tourists	7
The number of hotels participating in the festivals and forums for internal tourists	20
The number of agreements between Libya and friendly countries in the field of tourism until 2010	17

Source: Ministry of Libyan Tourism (2013)

According to the Libyan Ministry of Tourism (LMT, 2010) international tourists dropped from 105,997 in 2007 to 32,038 in 2010, as a result of new procedures implemented in Libya when all international arrivals were required to have a translation page in Arabic in their passports, also the total revenue gained from tourism reduced by $18,686 million. Table Seven summarises the tourism activity in 2010 and provides information and statistics on the activity, as illustrated in Table 6.5.

The main nationalities of international arrivals are French, Italians, Britons, Germans 22%, 21%,17%, 11% respectively and other European nationalities, as presented in Table 6.6. The total number of tour operators and travel agencies was calculated in 2010 (LMT, 2013).

Table 6.6: Arrivals Tourists from Main Countries Importing Tourists to Libya in 2010

Country	**Year 2010as %**
France	22
Italy	21
United Kingdom	17
Germany	11
Poland	4
Spain	3
Japan	3
Australia	3
Belgium	2
Austria	2
United States of America	2
Netherlands	1
Others	9
Total	100

Source: Ministry of Libyan Tourism (2013)

The above Table 8 shows, that the UK market is less important for Libya than the markets of Italy, and France and the statistics are probably a good reflection of leisure travellers, despite the significant growth in UK visitors. International arrival statistics do not include visitors entering Libya without passports and visas. This is a particular problem in relation to access across Libya’s southern borders with Niger, Chad, and Sudan, as there are no border controls in operation and these people enter Libya to seek employment or pass through to Europe.

6.7 Comparative Advantage

The comparative advantage consists of the core tourism resources, these being the natural resources, the heritage, culture and created resources. Although Libya has the potential for many different types of tourism, tourists tend to enjoy two main types of tourism, namely the desert and the Greek and Roman antiquities:

6.7.1 Natural Resources

Libya occupies an area of approximately 1,775,050 km^2. However, most of the land is unfit for food crops or any kind of farming activities. Agricultural production mainly depends on the climate, the area of land available as well as the quality of the soil. Libya has a hot, dry tropical climate, apart from the narrow coastal strip and the northern highlands where the Mediterranean climate dominates (Treih, 1995). According to Shernnana and El-Fergani the land can be subdivided into two categories (2006):

(i) Lands that cannot be cultivated, such as sandy soils and sand dunes, pebbly soils, and land covered with boulders and all the rocky parts of the open desert. These areas constitute more than 90.0% of the total area of the country.

(ii) Land that can be described as arable provided that water is available. Importantly these are covered by clay soil or a mixture of clay and fine sand, which is suitable for agricultural activity, including sabkha (salty soil), which is good for growing crops that tolerate the high levels of salt such as the date palm. The arable soil is usually found in the coastal plains and desert lowlands such as oases and at the floor of desert valleys.

The 2001 Agricultural Census estimated that the actual area used for cultivation and grazing is 1,809,596 hectares, an equivalent of 1.0% of the total area of Libya. This arable land is subdivided into 166,154 small and medium size farms, which are owned by professional farmers or otherwise (GIA, 2003). The census also shows that 62.2% of the cultivated area depends on seasonal rains, i.e. un-irrigated land. The rest is irrigated by different methods such as ground water wells which are private or state owned, spring water, dams and so on. Ground water wells, dams and springs are used to irrigate 17.3%, 2.6% and 17.9% of the total cultivated land respectively (ibid).

6.7.2 Tourism Resources

Libya possesses a variety of natural and man-made tourist attractions, which can be used for competitive advantage in the global tourism market place. As indicated above, Libya has a long coastline along the Mediterranean Sea, thereby offering the potential for a full range of beach activities and sea sports that traditional tourist destinations provide. Additionally, there are a variety of natural features along the coastline, such as sandy beaches, wild palm trees and rocky shores.

Libya is rich in ancient archaeological cities and monuments from Roman, Phoenician, Greek and Islamic civilisations, and from more recent times, historical buildings such as mosques, churches, and museums housing magnificent artefacts. The tourist attractions of Libya (for example, its scenery, cultural heritage and beaches) may be grouped and explored under the following subheadings below, although it should be understood that this section does not attempt to list every possible attraction:

- **Beaches and Sea** Libya has an extensive coastline nearly 2,000 kilometres long, much of which still in a natural, undeveloped state. There is considerable variety in the nature of this coastline, ranging from wide palm tree fringed sandy beaches to rocky shores backed by low cliffs and mountains. There is only one significant island off the coast, at Farwa, although smaller islets and rocky outcrops add interest to the coastal landscape at, for example, Besieses and Susah. However, a number of these beaches have been developed into holiday resorts which have become a significant tourist attraction for the local population.

- **The Desert** Over 90% of Libya's land area is desert and this part of the country contains many attractive features, such as an extensive wealth of prehistoric art and agriculture, all of which have tourism value. The importance of the desert city of Ghadamis as a tourist attraction has been endorsed by the choice of this city as a World Heritage site, especially as these attractions are becoming more accessible to visitors.

- **Archaeology** Libya has some of the best classical antiquities in the world, the most significant archaeological remains dating back to the Phoenicians, who founded the cities of Sabratha, Oea (Tripoli) and Leptis Magna. These cities, in the west of the country, were built by the Romans and the Romanised Libyan population, who endowed Libya with a rich heritage. The ancient cities from the Phoenician and Roman eras are located along the northern coastline. These cities flourished during the Roman times and in 1982 were listed as World Heritage sites (Tarih, 1995).

- **Culture** In addition to the attractions discussed previously, there are other cultural features which are considered significant, these include handicrafts, food, cooking, art, music, festivals, special events, popular singing and dancing.

6.8 Supporting Resources

Supporting resources are the facilities used by the MNCs during the expand in host country, which include human resources, transportation, infrastructure and the facilitating resources.

6.8.1 Human Resources

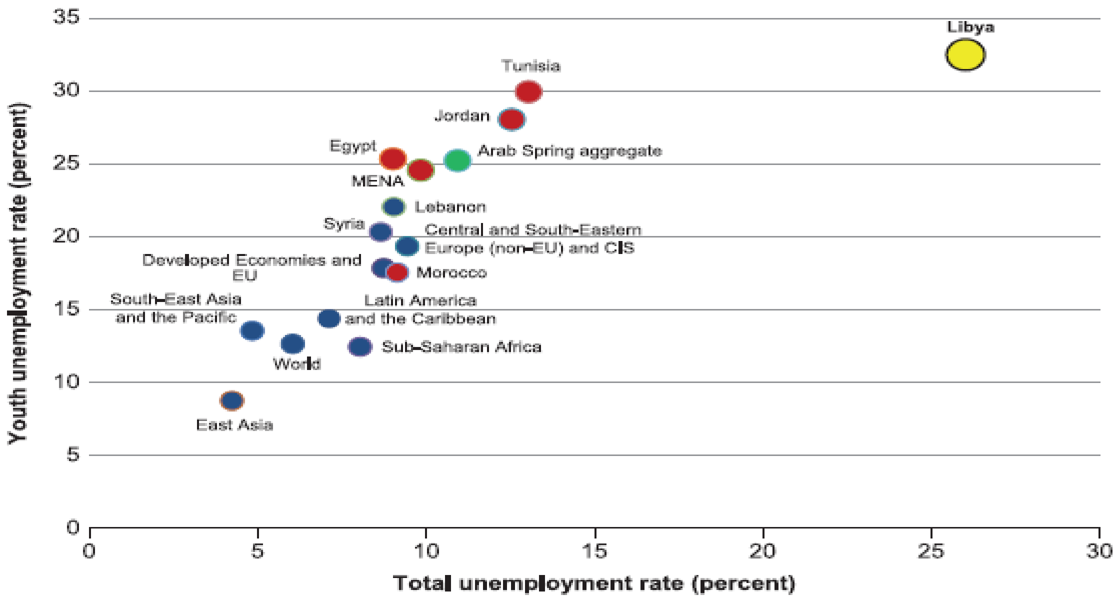
It is imperative to note that an increase in the population will lead to a significant expansion of the market which should lead to more investment, or the expansion of the already existing investment programmes. The availability of human resources, both in terms of number and quality will lead to the improvement of qualitative and quantitative production. Currently, Libya's population is around 6 million people (Oxford Business Group, 2008). It has one of the highest population growth rates in the world and almost 50 per cent of the population is under 20 years of age (Wallace and Wilkinson, 2004; Oxford Business Group, 2008).

The vast majority of the population lives on or near the Mediterranean shoreline, especially in the two major cities of Tripoli and Benghazi. The natural rise in the population of Libya during the period 1964-1984 can be attributed to a number of factors, the most important of which is the growth in public services as an effect of the oil boom following the exploration of oil from 1963. By contrast, the reduction in population growth rate in recent years can be explained by a number of socio-economic factors. For instance, the expansion in education, the rapid migration from rural to urban areas, the deteriorating economic status of families and the subsequent economic hardships, have all resulted in marriages at a relatively older age, the wider use of contraceptives and the subsequent decrease in birth rates (Hweata, 2002).

According to Al-Kikhia (2003), the average age of the population was around 19 years, indicating the majority of the population was relatively young. According to a report compiled by the United Nations Development program (UNDP), Libya is classified among the countries with higher rates of human development. Libya was ranked at 64 in a list of 187 countries in the 2011 (Human Development Report, 2011).

6.8.2 Labour Force

The labour force in Libya is comprised of around 1.3 million workers of whom about 31% are employed in industry, 27% in services, 24% in government while 18% are in agriculture. (U.S. Commercial Service, 2007). Furthermore, unemployment appears to be a structural problem, while official figures put the unemployment rate at 27% in 2010, unofficial estimates place the real rate between 35% and 40%, particularly among the youth. The identification of policy measures and structural reforms to create employment opportunities is critical, as illustrated in Figure 6.3. Although the Libyan labour force has a favourable level of education and a high literacy rate, there is a shortage of more advanced skills in the job market (Porter, 2006). In order to manage and address this shortage, the Libyan Government decided to develop educational and training systems to meet Libya's long and short-term strategies.



Sources: Ministry of Labor and Capacity Building; International Labour Organization; and IMF staff calculations (2010).

Figure 6.2: High Unemployment is a Structural Problem (2010)

As a result, in recent years significant investments have taken place in the education sector. There is a considerable increase in the number of students, schools, teachers and classes at all levels of education in the country. The state administration has also adopted new policies to allow scholarships and academic training for their people overseas, namely in the UK, United States, Germany and France. According to Libyan labour Law No. 12 of 2010 the employment of people under the age of 18 years is prohibited, except for high school students with parental approval. Wages are paid according to qualifications, experience and skills. Typical rates are (450 – 500) Libyan Dinars per month £ (210-240), for manual labour and (800 - 1000) Libyan Dinars for a professional £ (380-480).

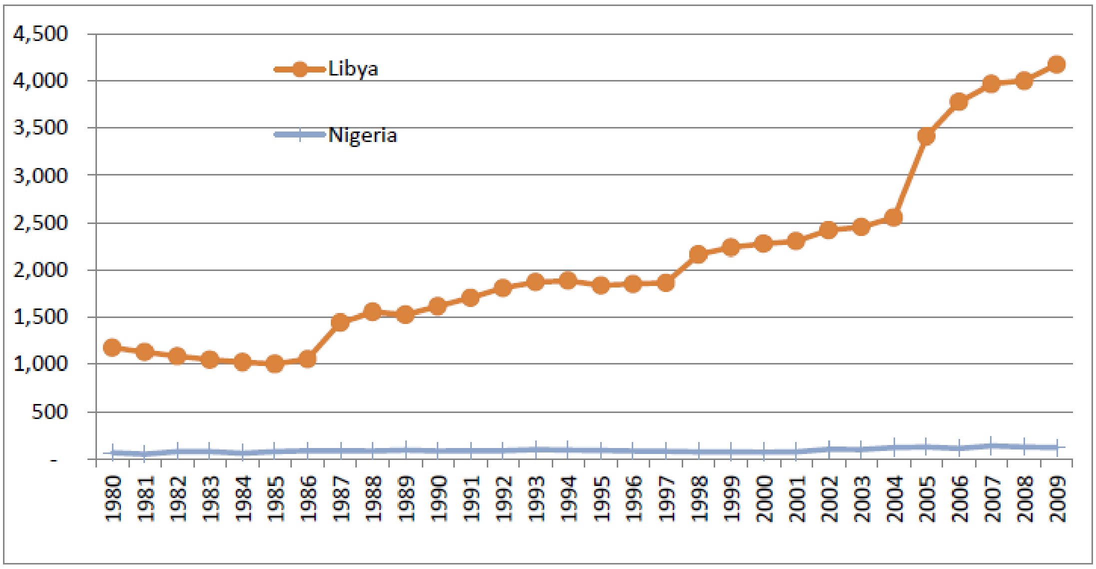
6.8.3 Water Resources

In Libya rain constitutes the main source of water. The rainy season extends from September until the end of May, with the maximum rainfall during December and January (NASR, 1996). Libya has no all-year round natural streams. Winter and spring rain water flows into some mountainous valleys from which the water is drained via short channels, such as Wadi Triglat in Tarhuna and Mislata counties. As far as surface water is concerned two major reservoirs exist, one of these is in the north from where the water drains into the Mediterranean. The other is inland but the bulk of the water drains into underground aquifers. The annual stock of surface water in Libya is estimated at 200 million cubic metres (Treih, 1995).

Other sources of water include desalination plants for sea water and the treatment of sewage water, but these cannot be considered to be natural sources. Studies estimate that the total production of ground water in Libya is around 4,670m cubic metres per year compared to around 110m cubic metres per year from surface water. Hence, ground water constitutes the main source for domestic consumption and other economic purposes.

6.8.4 The Power Sector

Libya's electricity sector is run by the state-owned General Electricity Company (GECOL). The country has been self-sufficient in energy since the 1960s, with no imports or exports of electricity. 14.8GWh of electricity was produced in 1999, entirely from fossil fuels, and mainly in oil-fired rather than gas-fired power stations. Per capita consumption of electricity is higher than that of any other African country.



Source: World Development Indicators (WDI) accessed in January 2012

Figure 6.3: Power Consumption (Kwh per capita) for Nigeria and Libya 1980-2009

Libya currently has an electric power production capacity of about 4.5 Gwatts. Projects have been planned to develop other gas-fired facilities, though most appear to have stalled. The following figure 6 shows that electrical power consumption (kWh per capita) is higher than that of other countries like Nigeria. This clearly shows that Libya has made improvements in the power sector in the last thirty years since 1980 (WDI, 2012), as illustrated in Figure 4.4.

The demand for energy has increased rapidly across North Africa. Rapid economic growth in the region prior to the global economic crisis triggered a rapid increase in energy demand, particularly electricity consumption, and most countries remain short of power generating capacity, as illustrated in Table 6.7.

The energy sector plays a major role in Libya's economy. Oil and gas comprised about 70% of the country's GDP and 95% of its export revenues. Oil reserves were estimated at 44 billion barrels, the largest in Africa (compared with 36 billion barrels in Nigeria and 12 billion barrels in Algeria) (World Bank 2010). Libya's power demand is growing rapidly (around 6% - 8% annually). In 2010 the demand reached 5.8 GW and is expected to reach 8 GW in 2020.

Table 6.7: Energy Characteristics of North African Countries

Country	Population (million)	GDP (US$ billions)	Electricity Consumption (TWh)	Installed Capacity (MW)	Gas Reserves (Tcf)
Egypt	81.5	441.2	125.3	23,500	77
Libya	6.3	96.7	29.1	6,196	54
Algeria	34.4	166.5	40.5	8,503	159
Tunisia	10.3	40.3	13.7	3,316	2.8
Morocco	31.6	88.8	23.6	5,292	negligible
Mauritania	3.2	2.8	0.5	150	1.5 to 3.0

Source*:* World Bank (2010), AUPTDE (2010)

6.8.5 Transportation Services

In recent years, the international transport market has witnessed huge developments. In Libya, the transport sector is of vital importance because of the vast geographical size of the country. All types of transport are readily available in Libya apart from railways which were abandoned in 1956 (Shernanna & El-Fergani, 2007).

Taking into consideration Libya's central geographic location in the African continent, its proximity to the shores of southern Europe, and its convenient location to many enclave countries not having access to the sea, it should be apparent that Libya is best placed to serve as the perfect transport corridor linking the Arab east and the Arab west, on the one hand, and West African countries and the Middle Eastern region on the other. The Libyan authorities have given due attention during the past 25 years to the development of infrastructure in the transport sector, aiming at recreating the basic necessities for the transport industry and to enable it to provide a link between North and South, and East and West, thus becoming a main crossing point for transport. Libya has an extensive network of around 25,000 kilometres of tarmac roads, and most major towns and villages are already accessible by car. (Shernanna& El-Fergani, 2007).

Table 6.8: The Travel and Tourism Competitiveness 2011

Country/Economy	T &T regulatory framework	T&T business environment and infrastructure	T&T human, cultural, and natural resources
	Rank	Rank	Rank
Ireland	10	23	37
Israel	41	42	65
Italy	45	27	15
Jamaica	55	59	87
Japan	27	32	14
Jordan	37	72	74
Kazakhstan	65	88	123
Kenya	113	106	72
Korea, Rep.	50	28	27
Kuwait	108	60	126
Kyrgyz. Rep.	95	132	100
Latvia	38	39	83
Lebanon	78	63	69
Lesotho	125	123	138
Libya	122	107	125
Lithuania	33	46	85

Source*:* The Travel & Tourism Competitiveness Report 2011, (2011 World Economic Forum)

In 2009, the number of airline passengers carried in Libya was 1,147,234 according to a World Bank report, published in 2010. The passengers carried in Libya were reported as 1,213,854 in 2008, according to the World Bank. Air passengers carried include both domestic and international aircraft passengers of air carriers registered in the country. There are three national airline companies in Libya: Libyan Airlines, Afriqiyah Airways and Al-Buraq Airlines.

There are in addition foreign airlines, linking Libya with almost all the major cities of the world, by daily and weekly flights. Furthermore, domestic flights are available between Tripoli and all the Libyan major cities. The main Libyan airports are: Tripoli airport, which is located 30 km from the city, Banina airport, located 20 km from Benghazi, and Sabha airport situated to the east of the city.

Moreover, Maitega, Abrag, Sirt are all international airports but with a very limited capacity, and can be used only in emergencies. Also, there are a number of local airports, including Misratah, Ghahdamis, Chat, Kufrah, Al-Bayda and Hoon (GIA, 2006). Services for domestic travellers are provided by three local companies (Shernanna & El-Fergani, 2007). Nevertheless, this sector faces a number of problems and obstacles, a major problem being the quality of air transportation.

Libya ranks very low according to the Global Competitiveness Report (2010-2011) regarding the quality of air transport infrastructure: Libya was ranked 133th in 2009. The absence of underground trains and delays in establishing railways exacerbates the situation. The increase in the number of public transport vehicles to meet increasing demand has wreaked havoc on the roads and led to traffic congestion, pollution, and traffic accidents particularly in major cities such as Tripoli and Benghazi (Traffic Department Report, 2009).

In order to resolve these complications and barriers, the Libyan government has begun a number of programmes on the further development and maintenance of Libya's air transport industry (Porter, 2006). It has built a new international airport in the Libyan capital which is expected to welcome over 20 million commuters a year. Two billion euros have been earmarked for the modernisation of other airports in the desert country. These new international airports will help to create a fundamental change in air transportation and attract and develop air travel and cargo movement between Libya and the rest of the world. Work has also started in establishing and maintaining Libyan local road networks and sea ports, as illustrated in Table 6.8.

6.9 Physical Infrastructure

Physical Infrastructure are the facilities used by the MNCs during the expand in host country, which include financial services, taxation system, tax brackets and classes and the customs duties.

6.9.1 Financial Services

The current banking system in Libya constitutes the Central Bank of Libya which owns five public commercial banks, five private commercial banks and four specialised banks. In addition, there are twelve offices representing foreign banks. The banking system remains under the control of the government, while state-owned specialised credit institutions play a major role in the financial sector. For many decades the banking sector has suffered from problems associated with the nature of major banks (both private and public), which only provide the traditional services such as payment of wages and limited credit facilities. Many obstacles that have negatively affected the performance stet inherent in the financial sector.

Table 6.9: Financial Indicators in Libya (2004-2010)

	2004	2005	2006	2007	2008	2009	2010
Regulatory capital to risk-weighted assets	10.4	10.9	11.6	11.8	12.2	14.5	17.3
Nonperforming loans to gross loans	35.5	31.7	26.1	26.2	22.5	17.0	17.2
Return on assets	0.4	0.5	0.5	0.5	0.6	1.3	1.0
Return on equity	6.8	8.6	9.9	10.2	13.6	23.7	15.0
Liquid assets to total assets	49.8	59.8	60.2	68.0	73.4	74.1	74.3
Loan provisions to nonperforming loans	51.8	61.1	65.8	59.6	71.0	88.7	85.0

Source: International Monetary Fund (2012).

Importantly, banking services still depend primarily on cheques as the only method of withdrawing cash funds from current accounts, apart from a few private medium sized banks which have less than 50 cash machines. None of the major banks have cash machines. According to the International Monetary Fund (2012), before 2011, Libya's financial sector had been undergoing reforms. Remedies included partial privatization and the involvement of foreign partners in six out of the 16 banks, the performance of the banking sector had improved, and the total commercial bank assets increased from LD 14.5 billion at the end of 2003 to LD 65.4 billion at the end of 2010. Financial soundness indicators improved over the period, with non-performing loans declining to 17.2% (from 35.5% in 2004), loan provisioning increasing to 85% (from 51.8% in 2004), and the regulatory capital ratio increasing to 17.3%, compared to 10.4% in 2004, as illustrated in Table 6.9. During the revolution (from 17/02/2011 to 20/08/2011), commercial banks suffered a systemic liquidity crunch despite the doubling of currency in circulation. At the end of 2011, the unfreezing of Libya's foreign assets allowed the Central Bank of Libya to provide foreign exchange liquidity to banks, which was designed to normalize the demand for dinar banknotes and the operations of commercial banking. Moreover, the announcement by the Central Bank of Libya of its intention to maintain the current exchange rate peg has bolstered confidence in the value of the dinar. The restoration of the non-cash payment system should also help reduce the demand for cash. Credit to the private sector declined by about 6% in 2011, compared to an increase of 14.3% in 2010. Linkages between the financial system and the real economy are sluggish, as evidenced by a ratio of credit to GDP in 2010 of less than 20%.

In 2006, the Libyan government issued Decree No. 134 in relation to the establishment and regulation of the Libyan stock market. The establishment of the Libyan stock market as a stock exchange was a major step in its contribution towards improving financial institutions within the economy, facilitating a better utilisation of financial resources by mobilising domestic savings, encouraging foreign investments and channelling such resources towards productive projects for the purpose of developing a sound capital market.

Table 6.10: Companies Listed in the Libyan Stock Market

Company	Data	Subscribed Capital (LD)	Shares
Assaray Bank	20/8/2005	3,000,000	300,000
Sahara Bank	13/12/2005	126,000,000	126,000,000
Suq Al-Gumaa Regional Bank	19/01/2006	3,000,000	300,000
Hay Al-Andalus Regional Bank	30/05/2006	3,000,000	300,000
Cement Regional Company	08/06/2006	600,000,000	6,000,000
Libyan Insurance Company	24/06/2007	50,000,000	10,000,000
Muttahida Insurance Company	29/06/2007	10,000,000	100,000

Source: Libyan Stock Market Report (2007).

The role of the Libyan stock market is still weak compared to the size of the economy, LD250m (UK£124m) were traded in 5,264 transactions due to uncertainty. At the end of 2008 only seven companies were listed, three of which were in the insurance sector, and four of which were commercial banks (Libyan Stock Market, 2009), as illustrated in Table 6.10.

In 2012, the market was made available to foreign investors, with 10 companies trading, and with a combined market cap of $3.1bn. The ten active companies were: Wahda Banks, Al-Tijari Bank, the Al-Mutahidalil-Tamin insurance company, the Libyan Insurance Company, Al-Ahliya

Cement, the Tijarawa Al-Tanmiya Bank, the Al-Sahara insurance company, the Mutawasit bank, the Gumhouriya bank, and the stock exchange itself. But as the conflict in Libya draws to a close and attention turns to rebuilding its economy it might still be a little soon to leap in. Recently, in terms of the sectoral contribution, the banking sector ranked first with 2,193,367.27 dinars at a rate of 75%, while partnered sectors in the remaining parts of the insurance sector in the ranking of second (24%) was followed by the investment sector and financial services by (1 %) (Libyan Stock Market, 2013).

6.9.2 Taxation System

In recent years, Libya has taken a number of steps to encourage foreign direct investment, with its current initiative dating back to the mid-1990s. Since that time, Libya has enacted numerous laws and regulations intended to improve the Libyan business climate and increase its attractiveness to foreign investment. Companies and people, resident or non-resident, are subject to tax on all income arising, or deemed to arise, in Libya. Thus, all income of subsidiaries and foreign branches of companies/organizations in Libya is subject to tax. Companies pay income tax on their income regardless of who their owners are, even if wholly owned by another company. Subsidiaries located in Libya are subject to tax at the same rates as local Libyan companies.

There are foreign companies registered under Law No. 5 of 1997 which allows for 100% foreign equity ownership of companies licensed under the law. The law provides for various preferences for licensed projects. These include an exemption from corporate income tax for five years with a possible extension of three years provided net profits are reinvested in the project. This law provides exemptions from some customs duties and excise taxes on exported goods and allows for foreign ownership of land. Investors are also afforded some protection against expropriation and permitted access to arbitration. The total amount of tax must be paid on time to avoid penalties (Libya Income Tax Law, 2004). Foreigners working in Libya are subject to tax from the date of their arrival if they have been in Libya for more than 30 days in any calendar year. Monthly salary declarations must be filed with the Revenue authorities. All salaries, wages, benefits in kind which accrue as result of working in Libya are liable to Libyan income tax.

Both personal and company tax assessments are payable within 60 days of receipt, but are subject to negotiation for the 30 day period from the issue of the preliminary assessment. Libya is encouraging investment opportunities for foreign firms and making reforms to make the business environment more attractive for foreign investors. The government passed the Law No 9 of 2010 on promotion of investment and the Free Trade Act in 1999.

The Free Trade Act 1999 includes tax incentives and allows for the transfer of project ownership, the re-export of employed capital, and the hiring of foreign workers, while also creating a specialized agency to promote and supervise the law. The Free Trade Act also enables the establishment of offshore free-trade zones in order to enhance exports, revenue, training, and technology in land, water, energy, telecommunications, and manufacturing facilities.

The Government has promulgated Law No. 9 of (2010) to encourage the investment of foreign capital. This Law aims to attract foreign capital within the country's framework of the general policy and the objectives of economic and social development, particularly to:-

- assist the transfer of modern technology
- build up Libyan technical cadres
- accelerate the diversification of income sources
- encourage the development of national products to infuse these into the internal markets.
- achieve regional development.

The law is applicable to the investment of foreign capital emanating from foreign sources and from foreign capital owned by Libyan Arab citizens. Investment is being targeted in the following areas: Industry, Health, Tourism, Services, Agriculture and other fields specified at the discretion of the Minister of Tourism. The taxation policy in respect of the projects undertaken within the scope of the Law 9 of 2010 is as follows:

- The project shall be exempted from income tax for a period of five years from the date of commencement. This period may be extended for an additional period of three years. Losses incurred during the exemption years can be carried forward to the subsequent years.
- The project shall be exempted from stamp duty specified on commercial writs and documents.
- Exemptions mentioned above shall not include the fees relating to services such as port, storage and handling fees.

6.9.3 Tax Brackets and Classes

The tax rates applied in Libya depend on the nature of income and the activity from which it is derived. Rates for local companies vary from 15% to 40%, as illustrated in Table 6.11.

Table 6.11: Company Income Tax Rates

	Libyan Dinar	%
Up to	200,000	15
Up to	500,000	20
Up to	1,000,000	25
Up to	1,500,000	30
Up to	2,000,000	35
beyond	2,000,000	40

Source: (FITA, 2006)

In addition, the Libyan government set up new stamp duty rates on items procured in Libya by foreign companies as formulated in Table 6.12.

Table 6.12: Stamp Tax Rates

Taxable Item	Rate
Auditors Certificate & Reports, per document	100 LD
Accounting Books (registered), per page.	250 LD
Automobile invoices, on sale/purchase	3%
Invoices over 100 LD	2%
Rentals (housing)	1%
Contracts for supplies, services, public works, etc.	2%
Sub-contractor on 1/10 value of subcontract	1%
Opening of Letters of Credit.	2%
Guarantees, insurances, etc.	5%
Receipts (general).	5%
Amounts paid by any public body on behalf of recipients.	5%

Source: U.S Commercial Service, (2007).

However, foreign companies registered under Law No.5 of 1997 and its amendments regarding the encouragement of foreign capital investment, are exempt from stamp tax on contract registration

6.9.4 Customs Duties

Capital equipment imported into Libya for use in a project licensed under Law No.5 of 1997 and its amendments in Law No.7 of 2003 (Foreign Investment Law) is exempt from customs duties. Parts and raw materials are exempt for five years. Temporary importation of equipment is exempt, subject to the payment of a customs deposit, but the requirements surrounding the exemption are stringent, and a breach of temporary import conditions leads to substantial fines and penalties. However, the imports into Libya are subject to different rates of duty depending on the nature of the import. Goods originating in Arab countries may be exempted from customs duty if the Arab content is in excess of 40%.

6.10 The Concept of Investment Climate

In recent years, policy-makers and multinational organizations have focused increasingly on the importance of a sound 'investment climate' in developing countries for economic growth (Stern, 2002b). According to El-Fergani (2002), an investment climate is defined as a combination of economic, social, administrative and legislative conditions, which affect the flow of capital into the country. Additionally, market size is an important component of the investment climate, due to its correlation within commerce and economic growth.

The World Bank Development Report (2005) defines the investment climate as, 'a set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs and labor markets'. The report emphasizes that, government policies and other issues associated with the government administrations, particularly corruption and lack of credibility could have strong adverse effects on the investment climate, as such, issues affect the costs and would cause obstacles preventing fairer competition between the companies involved.

However, it is difficult to define 'investment climate' precisely. Stern (2002) notes that it is the policy, institutional and behavioral environment, both present and expected, that influences the returns and risks associated with investment. In general, this includes three broad categories. The first includes macroeconomic or country-level matters, such as fiscal, monetary, exchange rate policies and political stability. The second covers governance and institutions, including bureaucratic harassment and the financial and legal systems. The final category incorporates infrastructure necessary for productive investment, including transportation, electricity and communications.

The success or failure in attracting FDI is always an indicator of the effectiveness of the prevailing investment climate in the host economy. Moreover, this could be the most reliable indicator in predicting the success or failure in attracting new investment as investors usually rely on their own experiences or the experiences of others. However, the relative importance of the above variables varies among investors depending on goals, desires and experience as well as the preferred area of investment. The following sections discuss these variables in detail.

6.10.1 Legal Environment for Foreign Investment

Companies and individuals, resident or non-resident, are subject to tax on all income arising, or deemed to arise in Libya. Thus, all revenues of the subsidiaries of foreign branches of companies/organisations that arise, or is deemed to arise in Libya, is subject to tax. Companies registered under Law No.3 of 2003 and its amendments in Law No.9 of 2010 regarding the encouragement of foreign capital investment are exempt from company income tax on profit for five years, extendable to eight if those profits are reinvested.

These include exemption of the necessary machinery, equipment and devices for construction of the project from all customs duties, taxes and fees of similar effect; exemption of furnishings, spare parts and raw materials necessary for operation of the project from all customs duties and taxes imposed on import and other taxes for a similar period of five years; the profits resulting from the project activity also enjoy exemption, if reinvested. The investor has the right to carry forward the losses incurred by a project during the exemption years to the subsequent period. There is exemption of export-oriented commodities from production tax, and taxes and fees imposed on export, in the event that they are exported, together with exemption of the project from stamp duty on commercial writs and documents necessary for its operation (See Appendix 5).

6.10.2 Legal Guarantee of the Legal Rights of Foreign Investors

Law No. 9 (2010) also contains provisions on protecting the legal rights of foreign investors. These are re-exports of capital in the following three cases: (1) the period of the project is finished. (2) The sale of the project in whole or in part - before a time period of not less than five years (3) the liquidation of the project.

Moreover, the main guarantees that are provided by the Libyan government to foreign companies as mentioned in Law No. 5 of 1997 and its amendments in Law No.7 of 2003 regarding the encouragement of investment of foreign capital, without prejudice to the guarantees in Law No. 7 of 2004 regarding tourism include the following:

- Net profits and dividends are freely transferable
- Expatriate personnel can be freely employed in the absence of Libyan substitutes
- Long term leases for land for production facilities available
- Bank accounts in convertible currencies can be freely opened
- Ownership of the project may be transferred in whole or in part to another investor
- The investor can freely re-export his invested capital
- Guarantees and protection for the investor against nationalisation, dispossession, seizure, expropriation or any other action of a similar nature
- Establishing a One-Stop Shop for investors that provide all the required services, including the processing of applications and the granting of licences and permits.

6.10.3 No Nationalization or Requisition of Foreign Companies

Article 23 of Law No. 9 of 2010 defines that "the project shall not be nationalized, expropriated, compulsorily acquired or confiscated or imposing guardianship conservation or freezing thereof or subjected to procedures having the same effect unless by law or judiciary verdict against a prompt, adequate and fair compensation, provided that such procedures shall be taken indiscriminately. Compensation shall be calculated on the basis of fair market value for the project in taking the procedure. The value of compensation is allowed for transfer in transferable currency within a period of one year at exchange rates prevailing at the time of transfer"(See Appendix 5).

6.10.4 Privatization and Investment Board (PIB)

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

Ministry of Economy (Previously the General People's Committee for Planning, Economy and Commerce).

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

6.10.5 The Libyan Investment Board and Processing of Applications

The Libyan Investment Board (LIB) was established in 1998. It comprises the management committee, three departments, a branch and three internal offices. The management committee mainly reviews plans for investment and monitors investment projects. The committee also takes decisions in relation to applications from foreign investors. These applications could involve branches of already established projects, new projects or expanding and developing already established projects. The committee also reviews applications from investors in relation 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.

However, the objectives of The Libyan Investment Board LIB are as follows:

- Receive and consider applications for foreign capital investment.
- Issue licenses and approvals required for investment projects.
- Provide advice, information and support to investors.
- Identify and promote investment opportunities.
- Develop investment programs and promotional activities to attract foreign investors.
- Recommend or renew exemptions, facilities and incentives for investment projects.
- Examine complaints by investors without affecting investors' right to legal action.

This is in addition to suggesting programmes and conducting studies to encourage investment, thus giving 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 a public relations department. Finally, the investment projects administration approves foreign investment projects and provides the necessary service. It, also, controls and follows up foreign investment projects at the establishment and operational stages through three of its departments, project affairs, investors' service & control and follow up. Overall, the LIB aims to provide the necessary infrastructure and investment environment to attract FDI.

6.11 Chapter Summary

This chapter has addressed the importance of tourism in developing and developed countries in general, and in the accommodation sector specifically. Tourism has become the largest export industry, involving as it does an enormous cross-border flow of people and capital. This study highlights this through its exploration of tourism developments in developing countries such as Tunisia, Egypt, and Morocco. Some of the characteristics of Libya could have positive effects upon the nation's economy and so lessons can be learned from neighbouring countries.

Attention has been given to Libyan tourist resources. Libya has several tourist resources, distributed over a wide area of the country. These include a length of coast-line along the Mediterranean Sea, and several sites in the Libyan Sahara. Moreover, there are ancient archaeological cities and monuments from Roman, Phoenician, Greek and Islamic civilisations. These tourist resources make Libya one of the most attractive tourist destinations in North Africa (Libyan Ministry, 2013). In contrast, accommodation is a major issue and a key element of the tourism industry.

The Libyan government plans to promote itself in order to improve its image in the world, particularly, in the tourism sector. For this reason, Libya seeks to attract foreign investors and resort developers to develop the Libyan accommodation sector.

Finally, economic diversification has been shown to be important in order to reduce the economic dependence of Libya on oil revenues, and tourism could be the best option. The establishment of a strategic investment policy leading towards sustainable development is required to guide this process. The next chapter will describe the research methodology adopted to answer the research questions, and how this meets the aim and objectives of the study.

CHAPTER SEVEN

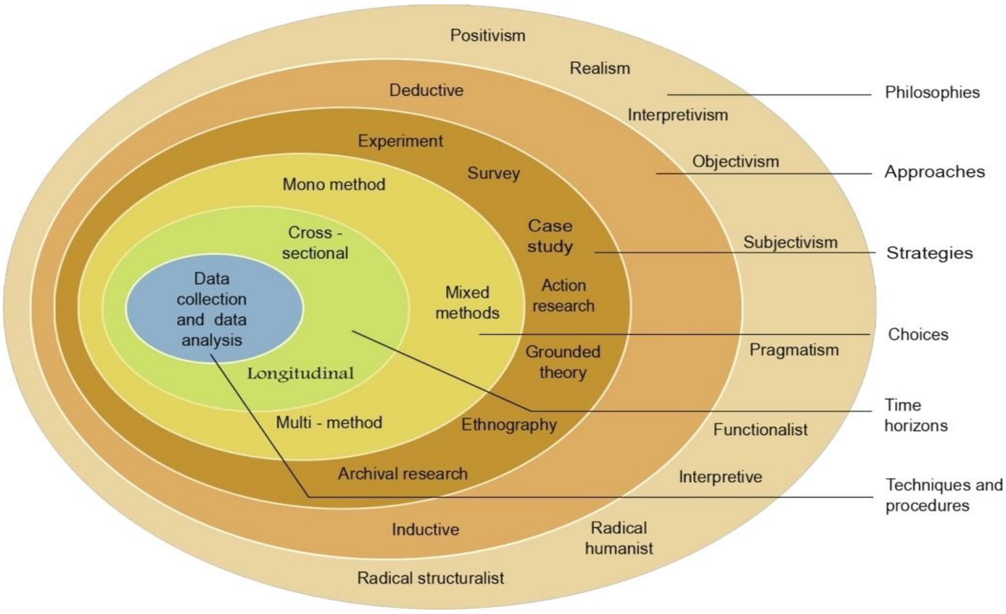
RESEARCH METHODOLOGY

7.1 Introduction

The objective of this chapter is to describe the research methodology that has been applied in undertaking this research and to explain the stages undertaken and the methods employed by the researcher in collecting the data. The chapter is structured as follows: an overview of the research philosophy and design, followed by a detailed discussion with justification of the research philosophy and design adopted including the population and sample. A detailed description of the data collection methods including questionnaire and semi-structured, face-to-face interviews is then provided. Following this, a detailed account is given of the questionnaire design and layout, pilot work, question types and format, the covering letter, respondents, contents of the final version of the questionnaire, administration of the questionnaire, conducting the interviews.

7.2 Definition of Research Methodology

Regarding the definition of research methodology Collis and Hussey (2009) stated that there is no consensus in the literature on how research should be defined. One reason for this is that research could mean different things to different people. However, a number of different definitions appear to agree that research is a process of enquiry and investigation, that it is systematic and methodical and that it increases knowledge. The research methodology refers to the overall approach of the research process, which starts with the theoretical foundation leading to the collection of data and finally then to the analysis of the data (Collis and Hussey, 2009). The research process can be regarding as an 'onion’ with five layers (Saunders et al. 2003). The outer layer is the research philosophy, the second layer is the research approach, the third layer is research strategy, then comes time horizons and finally data collection. To set up the research methodology for this study in an appropriate context, this research process onion (RPO) was used. It has been mentioned that Saunders et al., (2009) have developed the RPO to contain the research strategy choices layer which includes mono methods, mixed methods and multi methods. In accordance with the RPO, the next section explains the research philosophy, the research approach, the research strategy, and the data collection methods, as shown in Figure 7.1.



Source : Saunders et al. (2009).

Figure 7.1: Research process 'Onion'.

7.3 Research Philosophy

Research philosophy or paradigm refers to a way of examining social phenomena from which particular understandings of these phenomena can be gained and explanations attempted (Saunders et al, 2009). Paradigm is a term frequently used in the social sciences. According to Yin (2009), there is no specific rule for which philosophy to select when doing research. It all depends on the nature and scope of the thesis, the source of the data, the research questions and hypotheses or proposals, and the limitations and range of the research. The authors in research methodology include Hussey and Hussy (1997), Easterby-Smith et al, (2002), Collis and Hussey (2003), and Saunders et al, (2009). It is generally accepted that there are two main research philosophies in social sciences. Positivism and phenomenology represent two extremes of a continuum. However, there are a number of alternative classifications and alternative paradigms, most of which underline the fact that there are not just two paradigms but a whole range. Paradigms provide a framework comprising an accepted set of theories, methods and ways of defining data. Therefore, the paradigm determines the entire course of the research project. Logical positivism usually uses quantitative and experimental methods to test hypothetical-deductive generalisations. Phenomenology is a paradigm that stems from the view that 'reality' is not objective and exterior but is socially constructed and given meaning by people. In addition, phenomenology focuses on the ways that people make sense of the world, especially through sharing their experiences with others via the medium of language. There is no definite rule of which philosophy to select when doing research. It all depends on the nature and scope of the thesis, the source of the data, the research questions and hypotheses or proposal, constraints and scope of the research (Yin, 2009) and the overall research aim. The phenomenology paradigm will be adopted in this research, as this paradigm focuses on the ways that people make sense of the world, especially through sharing their experiences with others via the medium of language and this is the case concerning the motivation of MNCs in investing in Libya.

7.4 Research Approach

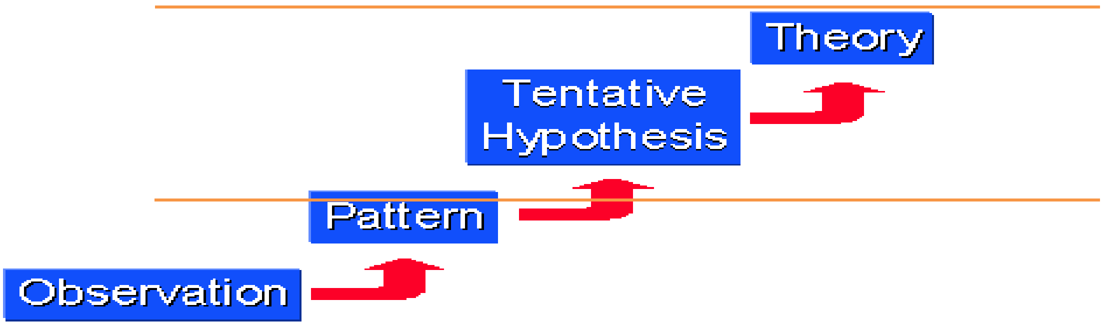
The two main research methodological approaches are inductive and deductive. The inductive approach is generally an inquiry to understand a social or human problem from multiple perspectives (Yin, 2009). Inductive research (building theory) is used when a researcher collects data and develops a theory as a result of data analysis (Saunders et al., 2009). Table 7.1 summarises some of the major differences between deductive and inductive.

Table 7.1: Major Differences between Deductive and Inductive Approaches to Research

Deduction emphasises	Induction emphasises
• scientific principles • moving from theory to data • the need to explain causal relationships between variables • the collection of quantitative data • the application of controls to ensure validity of data • the operationalisation of concepts to ensure clarity of definition • a highly structured approach • researcher independence of what is being researched • the necessity to select samples of sufficient size in order to generalise conclusions	• gaining an understanding of the meanings humans attach to events • a close understanding of the research context • the collection of qualitative data • a more flexible structure to permit changes of research emphasis as the research progresses • a realisation that the researcher is part of the research process • less concern with the need to generalise

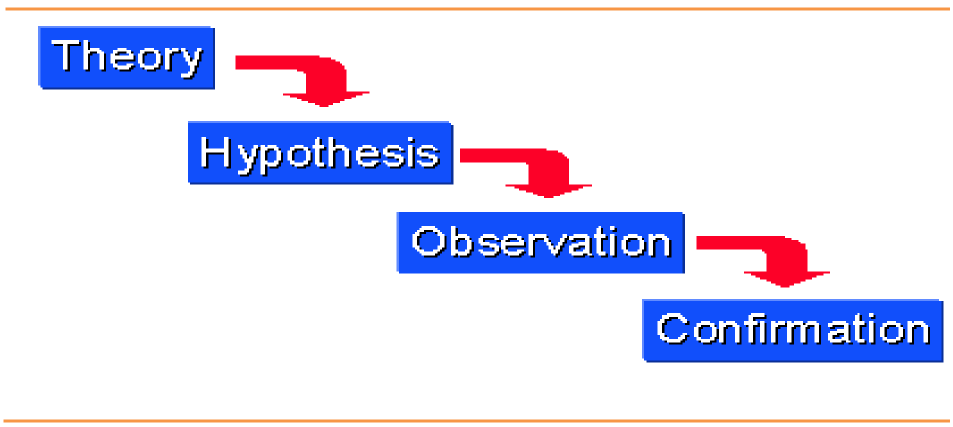
Source: (Saunders et al., 2009).

Inductive research is moving from specific observations to broader generalizations and theories (Collis and Hussey, 2003, William, 2006). Informally, it is called a ‘bottom up’ approach (William, 2006) as illustrated in Figure 7.2.



Source: (William, 2006).

Figure 7.2: Inductive Research



Source: (William, 2006).

Figure 7.3: Deductive Research

Deductive research (testing theory) is used to develop a theory and hypothesis and design a research strategy to test the hypothesis (Saunders et al., 2000). Deductive research is moving from the more general to the more specific or particular (Collis and Hussey, 2003, William, 2006). Sometimes this is informally called a 'top-down'" approach (William, 2006) as illustrated in Figure 7.3. As discussed above and according to Sekaran (2003) who argued that the combination of deductive and inductive approaches is possible in the same piece of research, therefore, the researcher has chosen to combine the deductive and inductive approaches: a list of factors necessary to identify the motivational factors for foreign investors to invest in the tourism sector in Libya will be derived from the literature and then investigated in the case study institutions (deductive). After that, the findings from the fieldwork will be incorporated into the existing theory (inductive).

7.5 Research Strategy

The aim of the research strategy is to satisfy the research aim and objectives. Epistemological, ontological and axiological assumptions together with the nature of the research topic can influence the selection of the research strategy. There are a number of research strategies in social science research (Yin, 2009; Veldeetal, 2004) which include experiments, surveys, analysis of archival information and case studies. According to Keraminiyage, (2014) states that it is important to ensure that any study is robust with respect to academic rigour, which can be achieved by developing a clear and unambiguous research strategy. Yin (2009) pointed out that there are three conditions, which can be used to select the appropriate strategy for research:

1. The type of research question posed
2. The extent of control an investigator has over actual behaviour
3. The degree of focus on contemporary as opposed to historical events

Yin (2009) summarised the five different types of research design and these are presented in Table 7.2 In this research, the case study strategy has been selected to obtain the depth of understanding of the information necessary to investigate the motivational factors for foreign investors to invest in the Libyan tourism sector. Yin (2009) indicated that the case study is an appropriate strategy when 'how' or 'why' questions are being posed. This allows the researcher to determine not only what happened but also why it happened.

Furthermore, he recommends the case study strategy when the researcher has no control over the events and when the focus is on contemporary events. Based on the above discussion, the case study strategy has been selected as the most appropriate to answer the following research questions:

Why does Libya need multinational companies to invest in the tourism sector?

How can multinational companies be encouraged to invest in Libya?

How can Libya provide a suitable environment following political instability and security to attract international investment in tourism sector?

Table 7.2: Relevant Situations for Different Strategies.

Strategy	Form of Research Question	Requires control of Behavioural Events?	Focus on Contemporary Events
Experiment	How, Why?	Yes	Yes
Survey	Who, What, Where, How many, How much?	No	Yes
Archival analysis	Who, What, Where, How many, How much?	No	Yes/No
History	How, Why?	No	No
Case study	How, Why	No	Yes

Source: Yin (2009)

The events are contemporary and the researcher has no control over this phenomenon, therefore, the case study strategy is in this respect suitable for this research. Generally speaking, as this study is exploratory research, which seeks to investigate the aforementioned key factors, according to Yin (2009), the most appropriate research design is the case study, since it can provide good empirical evidence. Yin (2009) suggested the use of the case study method to achieve a rich understanding of the context of the research and the processes being enacted. According to Kohn (1997) in tourism studies, adopting a case study methodology is more applicable and relevant. Moreover, it is a preferred strategy for case studies to have a qualitative orientation.

7.5.1 Justification of Choice for Case Study Organisations

Case studies can be conducted in one organization (a single case study) or more than one organization (multiple case studies). In this research, a multiple case study method was chosen. The subjects were: the Ministry of Tourism and the Libyan Investment Board, mainly for three reasons.

Firstly, conducting a multiple case study may enhance the external validity of the investigation. This is because one case study cannot provide sufficient evidence to enable robust generalisations (Remenyi et al., 1998). In contrast, a multiple case study design allows comparative analysis to be conducted across the case organizations and replications of the findings across the cases provide robust evidence for generalisation (Ghauri and Gronhaug, 2005) and Yin (2009). Secondly, a single case study is not suitable for the phenomenon being studied and the aim/objective of this study. Thirdly, Located in Tripoli (Capital of Libya), the organizations have a great opportunity to provide its services to different institutions including public and private organizations; as regards the logistics of the research, it was also possible for the researcher to contact the department easily, obtain permission and considerably reduce travelling time and cost. Although the qualitative research is recognised for its value in providing contextual depth, results are often criticised in terms of reliability, validity and the ability to generalise (Yin, 2009).

7.6 Research Methods

The research methods related with every paradigm and methodology are also diverse. According to Creswell (2003), there are three paradigms from which the research methodology can be derived. These are: qualitative, quantitative, and mixed methods. He further linked them to paradigms and methods of data collection and analysis to enable researchers to choose an appropriate approach. A qualitative paradigm is one which is chiefly reliant on a constructivist or phenomenological paradigm. Qualitative research utilizes methodologies such as case studies, ethnographies, or grounded theory studies, and collects its data through open questions and emerging data with the intention of developing themes from it.

A quantitative paradigm is one where the examiner primarily utilizes a positivistic paradigm, uses methodologies such as researches and surveys, collects data on predetermined instruments utilizing closed questions, and uses statistical techniques to analyse the data.

A mixed methods paradigm is where the research relies on pragmatism. Pragmatists attempt to integrate methods of quantitative and qualitative approaches in examining a single study. It uses both the paradigms above to collect data.

The study of literature and analysis of documentation gives the study much depth. Therefore, studies and documents related to research have been appraised. However, because of the nature and culture of Libyan life, interviewing was the best way to obtain the requested data and information. For investors, given the difficulty of access to them and costs in time and money, the best choice was to send out a questionnaire.

Table 7.3: Differences in Emphasis: Qualitative Versus Quantitative Methods

Qualitative methods:	Quantitative methods:
- Emphasis on understanding	- Emphasis on testing and verification
-Focus on understanding from the point of view of the respondent/informant	- Focus in facts and/or reasons of social Events
- Interpretation and rational approach	- Logical and critical approach
- Observations and measurements in natural settings	- Controlled measurement
- Subjective 'inside view' and closeness to data	- Objective 'outside view' distant from data
- Explorative orientation	-Hypothetical-deductive focus on hypothesis Testing
- Process oriented	- Result oriented
- Holistic perspective	- Particularistic and analytical
- Generalisation by comparison of properties and contexts of individual organism	- Generalisation by population membership

Source: (Ghauri et al., 1995)

Though the research methods used in this study are based on qualitative research techniques, in order to achieve a richer information deposit, triangulation is used. This is the technique of using and consist of three modes of data collection to ensure that the researcher addresses the phenomena from different angles. The first method of data collection is a semi-structured interview, the second document analysis, and the third a questionnaire through which primary data from the representatives of the international hotel groups was gathered.

People who are responsible for development and decision-making in a number of international hotel groups were questioned alongside companies that have never been worked in Libya. This has the objective of establishing diverse attitudes towards the Libyan business environment. The main point in this study is elucidation of the harmonic point between the Libyan authorities' desire to attract FDI and the investors' decisions to invest in tourism in Libya. Furthermore, qualitative research has benefits in providing specific detail and in-depth understanding of phenomena being studied. Table 7.3 summarises the main differences between the two aforementioned approaches.

7.7 Data Collection Methods

Data collection refers to the methods that are used to collect the information required. There are two main options for data collection methods: field work methods (which are considered to be primary data collection) such as survey interviews and questionnaires and the desk study method (which is regarded as secondary data collection) such as journals, statistical or descriptive formats (Nauom, 2007).

There is no one method that is suitable for all types of research but for every research question, paradigm, and methodology, one or more data collection methods may be suitable. The choice also depends on certain limitations such as time, cost, and the availability of people and facilities (Sekaran, 2003).

In this context, Oppenheim (1992) pointed out that the best approach is a matter of appropriateness. Many business researchers argue that mixed methods should be used to some extent as this provides more perspectives to the issues or problems being investigated as data sources can complement each other. The main forms of data-collection are personal interviews, postal questionnaires, and documentation (Yin, 1994). Creswell (2003) lists qualitative data collection methods and provides a brief description of these methods, as shown in Table 7.4

Table 7.4: Qualitative Data Collection Types, Options and Advantages

Data Collection types	Options within types	Advantage of the type
Observation	- Complete participant: researcher conceals role. - Observer as participant: role of researcher is known. - Participant as observer: observation role secondary to participant role. - Complete observers: researcher	- Researcher has firsthand experience with participants. - Researcher can record information as it is revealed. - Unusual aspects can be noticed during observation.

	observer without participating	- Useful in exploring topics that may be uncomfortable for participants to discuss
Interviews	- Face-to-face: one on one, in-person interview. - Telephone: researcher interview by phone. - Group: researcher interviews participants in a group.	- Useful when participants cannot be observed directly. - Participants can provide historical information - Allows researcher 'control' over the line of questioning
Documents	- Public documents such as minutes of meetings, and newspapers. - Private documents such as journals, diaries, and letters. - E-mail discussion	- Enables a researcher to obtain the language and words of participants. - Can be accessed at a time convenient to the researcher-an unobtrusive source of information. - Represents data that is thoughtful, in that participants have given attention to compiling. - As written evidence, it saves a researcher the time and expenses of transcribing.

Source: Creswell (2003, p.186-187). Note: Creswell (2003) included some material from Merriam (1998), Bogdan and Biklen (1992), and Creswell (2002).

To achieve the objectives of this study, a semi-structured interview method and a questionnaire have been used to collect the data. The researcher conducted semi-structured face-to face interviews with policy makers, consultants and heads of departments from the Ministry of Libyan Tourism and the Libyan Investment Board, as illustrated in Figure 7.4. The second method used to collect the data was by means of emailing questionnaires to each of the policy makers and heads of department to the following hotels: Hilton Hotels Corporation, Intercontinental Hotels Group, Golden Tulip Hospitality Group, Accor, Marriott International, Four Seasons Hotels and Resorts, Choices Hotels International, Intercontinental Hotels Group and Best Western Hotels.

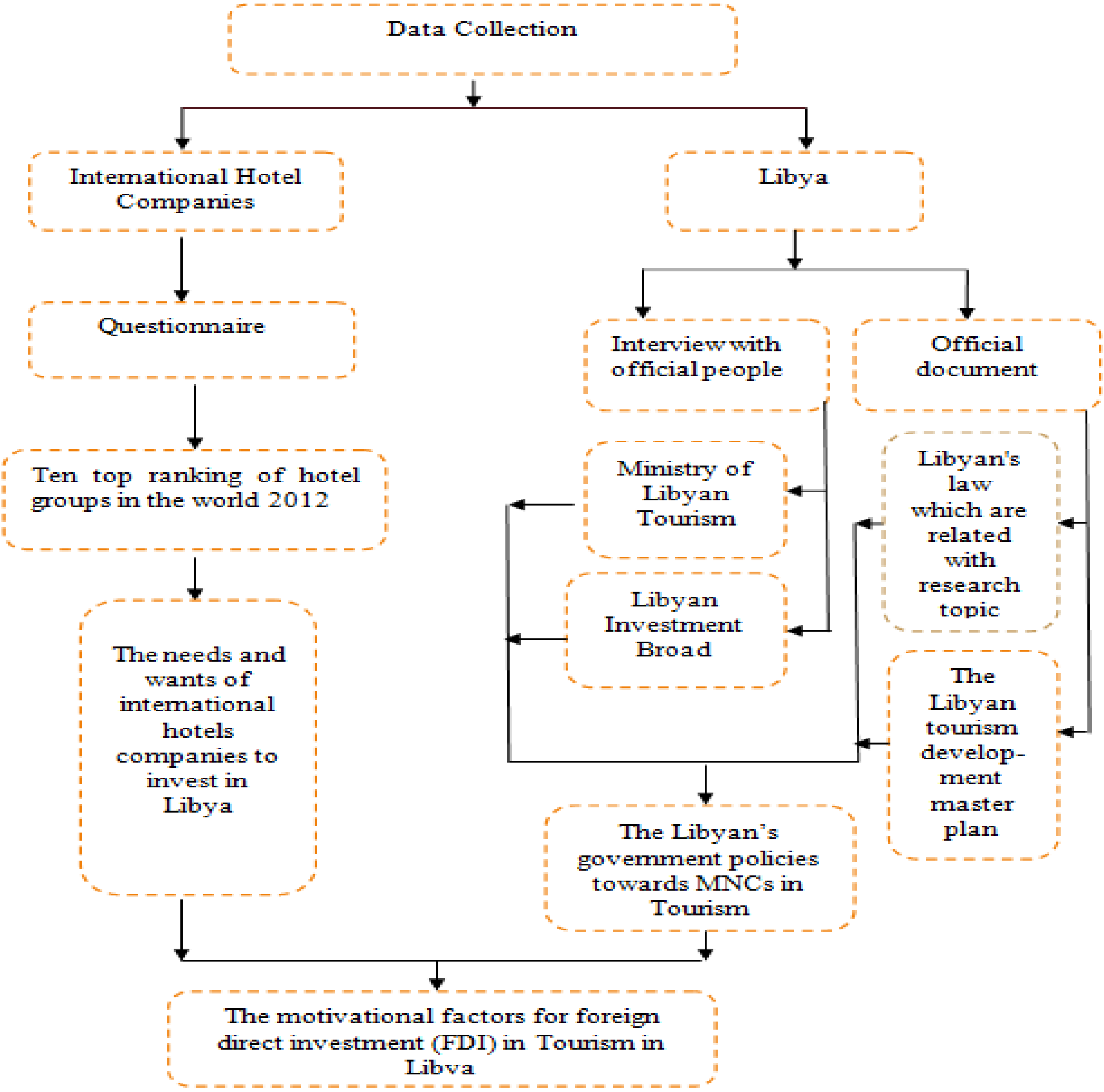


Figure 7.4: Data Collection Methods

7.7.1 Primary Data

Primary data is defined as information that is attained first hand by a researcher on the variable of concern for the specific purpose of the study (Sekaran 2003). The researcher collects data directly from the participants to answer particular questions. According to Wiid and Diggines, (2009) primary data is especially concerned with the research problem and is more related to the realisation of the research objectives than secondary data. In this research the data and information are collected using designated primary data methods via questionnaires and semi-structured interviews. Semi-structured interviews have been designated for collecting evidence from Libyan functionaries, and a questionnaire has been designated likewise for foreign company investors in the hotel sector. This research is characterized by its dealing with two different groups, each group looking for the most beneficial relationship with the other.

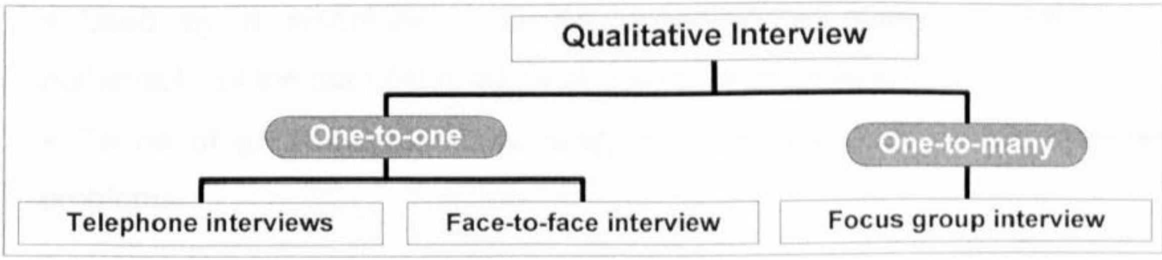
Group 1: this group represents the Libyan side, and comprises of the governmental functionaries in legislative and executive roles as listed in Section 7.8.1.

Group 2: this group includes foreign companies, which work in the hotel sector. They do not have experience in Libya and are listed in Section 7.8.2.

7.7.1.1 Interview Method

In social research, many researchers prefer personal interviews as the most powerful and useful method of social scientific survey research because they enable the gathering of both sociological and psychological facts (Abdullahi, 1993). Moreover, use of interviews may facilitate the gathering of valid and reliable data relevant to the research questions and objectives. Where research questions and objectives have not yet been formulated, such, interviews may help in their formulation (Saunders et al., 2009). An interview might be defined as:

'... a method of data collection that gathers information through oral questioning' (Sarantakos, 2005). Interviews in qualitative research are characterised by the use of many special criteria open-ended questions and are used only when questioning a single person. The question structure is not fixed, and the interviewer has relative freedom (Sarantakos, 2005). Also the interview may be classified into two forms: one-to-one, or one-to-many, as illustrated in Figure 7.5



Source :(Saunders, et al. 2003)

Figure 7.5 Forms of Qualitative Interview

The one-to-one interview is the most common form of interview. It involves a meeting between one researcher and one informant face-to-face or by telephone (Denscombe, 2003). Types of interviews used by many authors in social research are classified into three types (Saunders et al., 2009).

Table 7.5: Interview Types

Structured Interviews	An interview in which questions to be asked, their sequence, and the detailed information to be gathered are all predetermined, used where maximum consistency across interviews and interviewees is needed. (GAO,1991)
Semi structured Interviews	Interviews with a given structure but with relative freedom to formulate the questions and to determine their order and presentation. (Sarantakos, 2005)
Unstructured Interview	An informal interview, not structured by a standard list of questions. Fieldworkers are free to deal with the topics of interest in any order and to phrase their questions as they think best. (Nichols, 1991).

These include the structured interview, the semi structured interview and the unstructured interview. May (2001) adds another type which is the focus interview. Table 7.5 provides definitions of these interview types.

The following are some of the advantages of using interviews as a collection method:

- The best means for selecting and evaluating personal qualities
- Used by a researcher with the observational means to verify the authenticity of the data obtained by means of correspondence
- Of great benefit in the diagnosis and treatment of humanitarian problems.
- Almost the only means of data collection in communities with high levels of illiteracy

Despite the advantages, interview methods demonstrate some disadvantages. The most common disadvantages are as follows:

- More costly and time consuming
- The possibility of very high personal bias in the data
- Success obscures, to a large extent, the willingness of the respondent to cooperate

The data in this section of the research was collected using semi-structured face-to-face interviews with Libyan experts from the following groups: government officials, such as the Libyan Ministry of Tourism, and Libyan Investment Board.

Before conducting any interview, the researcher obtained written permission (a copy of the permission request letter is presented in Appendix No. 1). Semi-structured interviews were used in this research in order to get the views of the target population, and also to understand an interviewee's experiences and impressions. The interview was designed to take no more than approximately 30 minutes and the interviews were recorded. All interviews were conducted face-to-face.

7.7.1.2 Design of the Interview

The interview consists of seven categories: General Information (Interviewee Details), policy for attracting Multinational Companies (MNCs), obstacles facing tourism development in Libya, guarantees which the Libyan government provides in order to encourage MNCs to invest in tourism, the main advantages which the Libyan government may expect to obtain from Multinational Corporations (MNCs), whether entry mode is preferred by the Libyan government and any addition requirements.

Table 7.6: The Relationship between the Main Categories and the Interview Questions

Category	The question (s) relating to this category
General Information (Interviewee Details)	1
Policy for attracting Multinational Companies (MNCs)	2,3,4,5
Obstacles facing tourism development in Libya	6
Guarantees which the Libyan government may provide in order to encourage MNCs to invest in tourism	7
The main advantages which the Libyan government may expect to obtain from Multinational Corporations (MNCs)	9
Entry mode preferred by the Libyan government	8
Addition requirements	10

The semi-structured interview guidelines were designed to cover the categories in order to achieve the research aims and objectives successfully. Table 7.6, summarizes the relationship between the main categories and the interview questions (see Appendix 4**)**

7.7.1.3 The Development of the Interview Protocol

Saunders et al., (2009) argue that the validity and reliability of the data depends on the design and structure of the questions, and the rigour of the pilot study. Bearing in mind all these aspects, questions were developed and established in accordance with the following procedure:

- The initial draft of the questions for the Case Study interviews with the Libyan Ministry of Tourism and the Libyan Investment Board (LMT, LIB) were created from the literature review and with regard to FDI in tourism in developing countries.
- Modifying the questions after interview with each of the three members from the Ministry of Tourism who have experience in tourism (LMT).
- Conducting a second pilot study with interview with three members of the Libyan Investment Board who have experience in investment (LIB).
- Redrafting questions and restructuring the content to reflect the feedback from the two pilot studies.
- Asking the final revised questions.

7.7.1.4 Conducting the Interviews

As discussed earlier, information was collected by conducting face-to-face semi structured interviews. Originally, it was planned to use a tape recorder provided that the subjects had given their consent in advance. However, a number of the subjects agreed to speak only on the condition that the conversation was not recorded. Interviews involved two steps. The first step was contacting and making appointments with interviewees in a suitable interviewing environment. The second step was the interviewing process.

At a confirmation meeting before each interview, the interviewee was given a description of the research purpose. This helped in communicating an understanding of the questions, made respondents more relaxed and comfortable, so that they gave more sincere answers, and respondents were allowed to make comments regarding the questions before conducting the interviews. Furthermore, this provision may have also promoted the validity of data by enabling the interviewees to consider the information being requested. The interviewees chose the place and time of their interviews. All of the interviews were conducted with the subjects in their respective offices during office hours.

Accordingly, at the beginning of each interview a good relationship was first sought with the interviewee by discussing a matter unrelated to the research. This is typical of Libyan custom and was a necessary preamble. Typically, the data collecting process began with general questions regarding the profession and degree held by the interviewees. The interview guidelines (see Appendix 2) guided the researcher during the interviews. There interviews were conducted over an eight-week period between the end of March 2013 and the end of May 2013. The average length of the interviews was between thirty minutes and forty-five minutes and all interviews were conducted on a one-to-one basis. Notes were taken during all the interviews and later the notes were confirmed by the interviewees. In addition, all interviewees signed the consent form of Ethical Approval for using the collected data in this thesis and its publication in different academic forms. A promise of anonymity was given to all interviewees.

Following the interviews, the researcher drafted the responses on separate sheets, and then sent them to the interviewees so they could review what had been said and raise any concerns about the content. The interviewees were requested to reply within ten days of receiving the letter. As there were no responses within the deadline, the researcher was able to move on to the next stage.

7.7.1.5 Justification for Choosing the Interview Method for Data Collection

The use of several data collection methods (such as interviews and document review) within one case study is likely to increase the validity of the findings and the researcher's confidence in the reliability of the information obtained. This is supported by Yin, (2009), Denscombe, (2007), Crinson and Leontowitsch, (2006), Denzin and Lincoln, (2003), and Remenyi et al., (1998). In this study, face to face interviews allowed respondents to talk at length in their own words and at their own level of understanding to allow the researcher to gain an in-depth understanding of motivational factors for foreign direct investment in tourism in Libya. Interview research is a type of inquiry based on qualitative methods aiming at generating a rich data source about a phenomenon. In this research, the face-to-face interview method has been used to collect data for several reasons:

• It has the capacity to provide important insights into the phenomenon under scrutiny through the eyes of interviewees and well-informed respondents (Yin, 2009).
• It gives the researcher the opportunity to explore and discuss potential meanings of questions and answers as the interviewer explores the perspective of the respondent. In the same way, Oppenheim (1992), stated that the strength of interviews as a powerful data collection method comes from the increasing certainty of comprehending the meaning of those interviewed.

• By the direct contact between the interviewer and interviewee, the interviewee allows the researcher to explain the aim of the study and to explain or avoid any misunderstandings.
• It can provide insights into the previous history of the situation as well as current activities, both of which are essential for this study (Yin 2009).
• As the research endeavoured to gain rich and in depth information, semi-structured interviews were employed in this study as the source of data collection beside questionnaire.

Additionally, it is important to note that some Arab researchers, for example Al-Faleh, (1987) and Al-Bahussein, (2000), used semi-structured interviews to conduct empirical work. These researchers found that such interviews were a popular approach in Arab organisations where people prefer to talk rather than complete a questionnaire.
Furthermore, the response rate of questionnaires is very low when compared with that of direct interviews. Therefore, the interview tool was designed to give interviewees every opportunity to fully explain their own experiences from their own perspective, thus supporting the inductive nature of the study.

7.7.2 Questionnaire Method

The questionnaire is the cheapest way to collect data on a particular topic from a very large sample of people but it can be expensive in terms of design and extracting results. Consequently, it is important to know that the researcher has made every effort to get the design of the questionnaire right and will be guaranteed in getting data that can be used to take a particular decision on the issue being studied. It is important that the preparation of the questionnaire is completed in stages. Firstly, matters to be tested need to be defined and lastly the method of extracting the results needs to be defined. Each stage must be designed very carefully, because the final outcome depends on the interdependence of all stages.

Questionnaires can be administered by post, by fax or by email. The questionnaire can contain questions in a variety of formats. According to Denscombe (2003) there are nine types of questions that might be included in any questionnaire: a statement; a list; a yes/no answer; agree/disagree with a statement; choose from a list of options; rank order; degree of agreement and disagreement (the Likert Scale); rate items; and feeling about a topic (the semantic differential).

The closed question type is most commonly used in questionnaires because of its advantages in eliciting specific answers, relatively complete responses, the clarity of meanings and connotations and their facilitation of the process of classification. However, there are many disadvantages such as haphazard answers, and difficulties in verifying the veracity of the answer. In open-ended questions, the respondents have great freedom to answer the questions. These questions are used when there are difficulties in determining the array of possible answers and they too are very important in helping the respondents' self-esteem as they can give their preferred answer.

The following lists the advantages and disadvantages respectively of using the questionnaire as a data collection method:

- Cheaper than any other methods
- Offers greater assurance of anonymity
- Produces quick results
- Completed at the respondent's convenience
- Information can be obtained from a large number of individuals
- Researcher cannot note and record the reactions of respondents
- Cannot be used in a community that does not have a command of reading
- Respondent return rate is always very low

7.7.2.1 Design of the Questionnaire

Table 7.7 summarizes the relationship between the main categories of question and the questions found in the questionnaire (see Appendix 3**)**.

Table 7.7: The Relationship between the Main Categories and the Questionnaire Questions

Category	The question(s) relating to this category
General information of organization,	1,2,3
The important factors which influence investment decisions for your organization	4,5
Policies in host countries which help your organization's investment decisions	12
The Main obstacles for low inflow of MNCs in tourism sector into Libya	6
Obstacles facing MNCs.	14
The main advantages which a host government may expect to obtain	7,9
Entry mode in new markets	13
Suggestions for promoting foreign investment in North African Countries	15,16
Additional requirements	17

7.7.2.2 Questionnaire Approaches

Having determined the standardised questionnaire as the data collection method for the survey in this study, questions arise as to how to deliver the questionnaires. In this regard, there are four major approaches. These are face-to-face, mail, telephone, and internet-based questionnaires (Czaja and Blair, 1996; Saunders et al, 2000; Zikmund, 2000).

- **Face-to-Face Approach** It is possible to keep in touch with each of the prospective respondents in person with the face-to-face approach. Taking the transportation time into account, the total amount of time needed to complete a face-to-face questionnaire is restrictive. Moreover, the transportation expense would drive up the cost of the whole survey. If the number of respondents required is small, the costs in time and money may not be too high. In this research, it would be inappropriate to use face-to-face surveys due to the limits on time and money costs.

- **Mail Approach** The mail approach involves sending a cover letter and questionnaire with a pre-paid stamp and envelop to specific persons and addresses. It allows the collection of a large amount of data from a large population in a highly economical way (Saunders et al, 2000). Moreover, it provides a quick, inexpensive, efficient, and accurate vehicle for obtaining information with respect to the survey population (Zikmund, 2000). Due to the unavailability of the targeted respondents' addresses, this approach was considered to be unsuitable in this research.

- **Telephone Approach** The telephone approach requires much less time than either face-to-face survey or mail survey. However, this kind of survey is suitable only for those surveys that involve only a small amount of time, such as opinion polls on election candidates. As this research covers a wide spectrum of international hotels, the questionnaire takes around fifteen minutes to complete. It is thought that a prospective respondent may get easily bored with the length of such a questionnaire, making the telephone approach also unsuitable for this research.

- **Internet-based Approach** From the previous comparisons of data collection method, it can be seen that internet-based questionnaire survey enjoys a number of advantages that are crucial to this study. The questionnaire could be quickly and easily administered with this approach. This method is adopted as an appropriate measure to achieve objectives of this research.

7.7.2.3 Justification of Choosing the Questionnaire for Data Collection

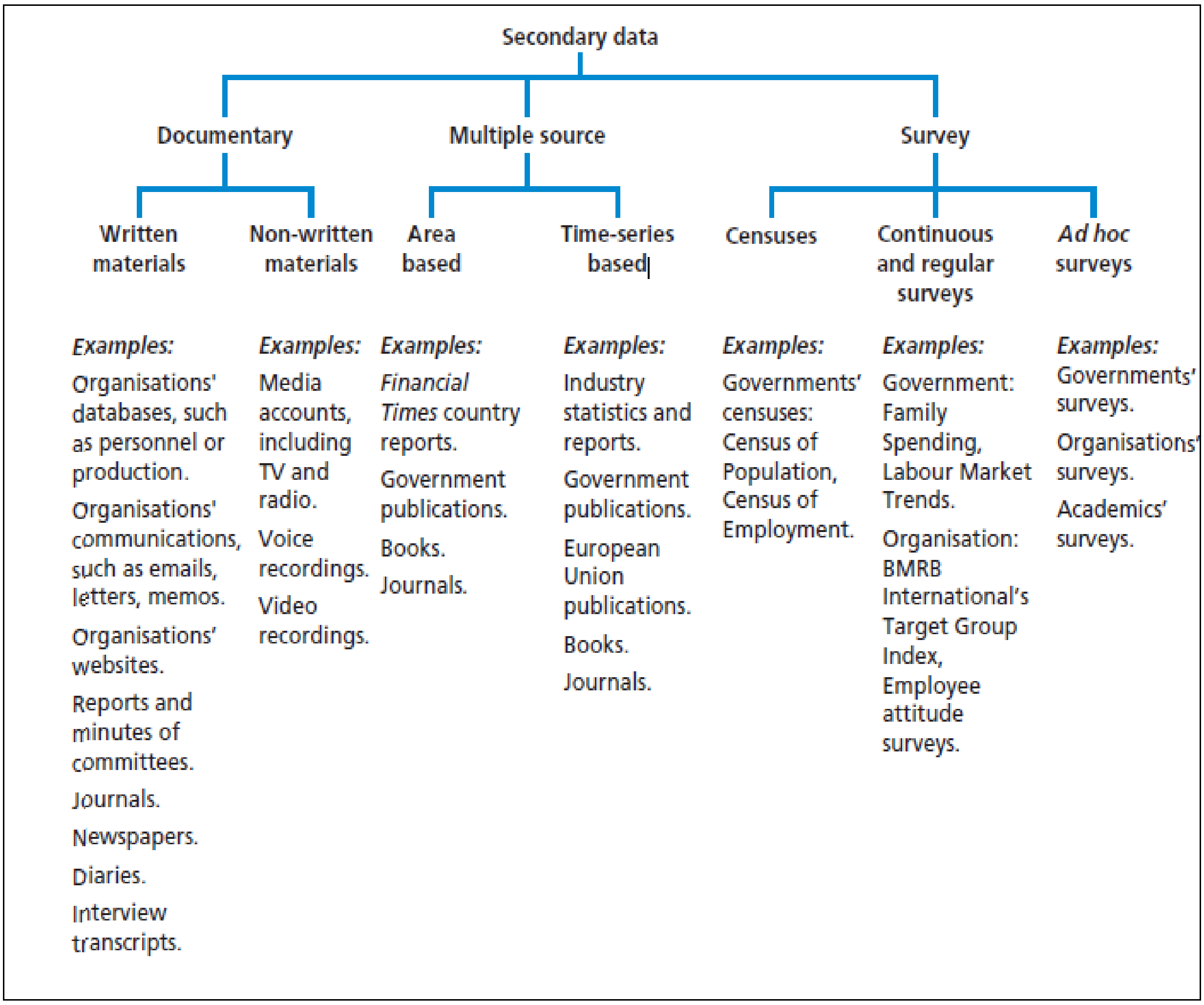
To achieve the objectives of this study, questionnaires have been used to collect the data by means of emailing questionnaires to each of the policy makers and heads of department to the following hotels: Hilton Hotels Corporation, Intercontinental Hotels Group, Golden Tulip Hospitality Group, Accor, Marriott International, Four Seasons Hotels and Resorts, Choices

Hotels International, Intercontinental Hotels Group and Best Western Hotels. Using a questionnaire to gather data is a relatively quick method.

Moreover, it must be remembered that when choosing a questionnaire as a research instrument, respondents may be unwilling to answer the questions because they wish to keep their opinions and/or information private, or they may worry about being punished for revealing their opinions. To ensure the respondents feel more comfortable in this respect, they should be fully informed of the reason for providing the information, how the results will be beneficial, and asked to reply honestly in the full understanding that all responses are entirely confidential. Furthermore, they should understand that whatever their response, the response is valuable, and that if possible the identity of the respondent to the questionnaire should be anonymous. The choice of the questionnaire technique was made based on the assumption that it would be possible to collect numbers of respondents from different nationalities to gain the information using the questionnaire survey. This research depends on two main kinds of data

7.7.3 Secondary Data

According to Saunders et al., (2009), secondary data is information that has been previously gathered for some purpose other than the current research project**,** as illustrated in Figure 7.6. This study requires an extensive search of secondary data. The advantage of secondary data is that it saves time and costs in acquiring information. Saunders et al., (2009) stated that few researchers consider the possibility of re-analysing data that has already been collected for some other purpose. He explained that secondary data includes both raw data and unpublished summaries. For instance, government departments undertake surveys and publish official statistics covering social, demographic and economic topics. Textbooks and empirical studies on hotel firms in academic journals were used for this purpose. For this reason, journals and e-journals were used to gain knowledge of the current views and developments. Further research was conducted through hotel company websites in order to access up-to-date information.



Source: Mark Saunders, Philip Lewis and Adrian Thornhill, 2009.

Figure 7.6: Types of Secondary Data

The researcher acknowledges that consideration must be given to ascertaining the validity and sources of knowledge. Secondary research enabled the researcher to compare the already existing theories and views on FDI, and place these in relation to the content of the interviews and questionnaires. Bell states that secondary research assists the researcher in developing questions to be answered as part of a project (2000). By analysis of the acquired literature, the researcher was able to develop particular questions where clarification would be required and through which answers would be sought in the primary research.

In this study, the researcher also gathered data from different documentary sources including the publications of international organisations such as the World Tourism Organisation (WTO), World Travel and Tourism Council (WTTC), the International Monetary Fund (IMF) and newspapers published in the UK. National or local sources included the Libyan tourism development master plan, Libyan legislation related to the research topic, annual reports of the Central Bank of Libya, and local newspapers both in Arabic and English and those obtained through the use of the internet.

7.8 Size of the Sample

The size of the sample was classified into two types, as illustrated in Table 7.8.

7.8.1 Size of the Interview Sample

A sample is a subset of a population and should represent the main interest of the study. A population is any precisely defined set of people or collection of items which is under consideration (Collis and Hussy, 2003). Regarding the number of interviews required for a qualitative research approach, Patton (1990) has argued that there are no rules governing the number of interviews and the sample size in qualitative research. These depend rather on the purpose of the study and the time and cost constraints. Invariably decisions about sample size represent a compromise between the constraints of time and cost. (Bryman and Bell, 2007).

In this part of the research, the two groups of the sample were recruited from a number of different Libyan organizations: the Ministry of Tourism and the Libyan Investment Board, where the interviews conducted, included top management from the different departments within these two organizations. There were of these 12 who are classified into two groups: See Table 5.8 for further reference and the details below:

- The first group was a sample of interviewees from the Libya Investment Board (LIB): Director-General of Libya Investment Board (I_1), Undersecretary of the Board of Directors of the Libya Investment Board (I_2), Director of Directors of Legal Affairs (I_3), Director of Directors of Public Relations and Services (I_4), Director of Directors of Studies and Planning (I_5), and Director of Directors of Investment (I_6), respectively.
- The second group consisted of interviewees from the Libyan Ministry of Tourism (LMT) including: the Minister of Tourism (I_7), Undersecretary of the Ministry of Tourism (I_8), Director of Directors of Planning and Studies (I_9), Director of Directors of development zones and tourism projects (I_{10}), Director of Directors of Human Resources Development (I_{11}) and Director of Directors of International Cooperation (I_{12}), respectively.

Table 7.8: Codes and Respective Positions of the Interviewees from LIB and LMT

1- Interviewees from the Libya Investment Board (LIB)	
Level 1	I_1LIB Director-General of Libya Investment Board
	I_2 LIB Undersecretary of Libya Investment Board
Level 2	I_3 LIB Director of Directors of Legal Affairs
	I_4 LIB Director of Directors of Public Relations and Services
	I_5 LIB Director of Directors of Studies and Planning
	I_6 LIB Director of Directors of Investment
2- Interviewees from the Libyan Ministry of Tourism (LMT)	
Level 1	I_7 LMT Ministry of Tourism
	I_8 LMT Undersecretary of the Ministry of Tourism
Level 2	I_9 LMT Director of Directors of Planning and Studies
	I_{10} LMT Director of Directors of development zones and tourism projects
	I_{11} LMT Director of Directors of Human Resources Development
	I_{12} LMT Director of Directors of International Cooperation

These interviews were intended to provide information regarding the government's policies and plans for tourism development, and to ascertain the motivational factors for FDI in the tourism sector in Libya within the contextual line of progress so far.

7.8.2 Size of the Questionnaire Sample

For the purpose of achieving the goals of the research, a sample has been chosen that will help to get the information needed to answer the research questions. These include the following: the Heads of Development, Finance Development and Department of Investment, from each of the following hotels: Hilton Hotels Corporation, Intercontinental Hotels Group, Golden Tulip Hospitality Group, Accor, Marriott International, Four Seasons Hotels and Resorts, Choices

Hotels International Intercontinental Hotels Group and Best Western Hotels, as illustrated in Table 7.9.

Table 7.9: Method, Number and Place of Data Collection

Method of data collocation	**Organization**	**Number**	**Place**
Semi-structured interviews	Government officials (Ministry of Libyan Tourism) **(LMT)**	6	Tripoli-Libya
	Government officials (Libyan Investment Board) (**LIB**)	6	Tripoli-Libya
Questionnaire	International hotel companies (**decision-makers**)	45	(by email)

7.9 Pilot Studies

It is believed by many experts in the area of research methodology, that the questions provided by the researcher either through interviews or questionnaires should be subjected to a preliminary test, known as a pilot study (Hussey and Hussey, 1997; Yin, 2009). Saunders et al. (2009) define a pilot study as a ‘small-scale study to test a questionnaire, interview checklist or observation schedule, to minimise the likelihood of respondents having problems in answering the questions and of data recording problems as well as to allow some assessment of the question's validity and the reliability of the data that will be collected’. In this study the researcher conducted two pilot studies in two stages:

7.9.1 Pilot Study (Interviews)

To make the interview questions clear, unambiguous, to make sense to the respondents and to decide on a suitable duration for each interview, the researcher conducted a pilot study with six staff, three members each from the Ministry of Tourism and the Libyan Investment Board, who have experience in investment. The purpose of such a pilot was to establish whether the interview questions were understandable to the interviewees and comprehensive enough to cover the research problem. Moreover, the pilot helped discover if those questions were appropriate and would collect a rich data and source and valuable information to satisfy the aim and objectives of the research. The feedback from interviewees in the pilot study was very helpful and their comments were taken into consideration. Consequently, some changes were made for example, language adjustments, re-phrasing some questions in order to facilitate comprehension, and re-arranging some questions thematically.

7.9.2 Pilot Study (Questionnaire)

It is necessary to test and pilot the questions before administering the questionnaire. Performing pilot work is an important step in research and has important practical benefits. It removes inconsistencies in the questionnaire and can resolve doubts about the content, structure and design of the questions. The principle of the pilot work is to be sure that the questionnaire is clear, understandable, well designed and contains questions that will collect data relevant to the study variables. The first stage in piloting the questionnaire involved sending the questionnaire to six colleagues undertaking their PhDs in UK universities. They provided many useful suggestions in terms of design, sequence, question content, the wording of questions, clarity and the comprehensibility of its contents. Attention was paid to their suggestions.

In the second stage of pre-testing, the questionnaire was distributed to seven PhD students in the School of the Built Environment at the University of Salford. They were asked to provide their feedback on the questionnaire in terms of its design, diction, content and length. Useful comments were received and these resulted in amendments to the wording and scale of the questions. Furthermore, supervisor feedback was also taken into account. In the final stage of pre-testing the questionnaire was delivered to seven staff in different Libyan hotels. The respondents were asked to complete the questionnaire and provide any comments and suggestions about content and wording in order to decide if it was well written. Five questionnaires were completed and returned. This reflects a response rate of 80% of the total sample in the pilot study. None of the respondents proposed any comments, which suggests that the questionnaire was clear and easy to complete. Consequently, the final questionnaire was prepared after taking into account the suggestions of the pre-testing stages conducted in the pilot work.

7.10 Data Analysis

The data analysis method depends on whether the data collected is quantitative or qualitative. Data needs to be analysed to achieve the research results (Ghauri and Gronhaug, 2002; Collies and Hussey, 2009). The literature acknowledges that the research approach refers to the systematic, focused and orderly collection of data for obtaining information from it in answering research problems or questions. In this study, therefore, the methods of data analysis involved qualitative approaches. A significant amount of qualitative data was collected from the interviews. The data was analysed manually due to the language of the transcripts (which were in Arabic). The researcher translated the findings into English. Using interviews with the relevant ministers sheds light on governmental policies and plans regarding tourism development, and interviews with Director of Directors and Heads of Department gives an indication of the kinds of services and facilities that are being provided, and using questionnaires with foreign companies investor's gives a comprehensive picture of their experience, and therefore provides feedback to the decision makers in the Libyan government in order to assist in the building of effective stable policies and plan to attract MNCs to invest in Libya in the tourism sector. After gathering the data from the participants at the Libyan Investment Board and Ministry of Tourism, the data analysis was an important step in the research as it helped the researcher examine the collected information and prepare the conclusions based upon them.

General analytical procedures were used in this research, which is the most familiar tool in the analysis of qualitative data. The method helped the researcher gain a rich insight into the qualitative data. It provided him with a formal approach for analysing the data (Collis and Hussey, 2009).

7.11 Triangulation

Collis and Hussey, (2003) define the term triangulation as the use of different research approaches, methods and techniques in the same study. Saunders et al. (2003) similarly indicate that triangulation is the use of different data sources within one study, where each method, tool or technique has its distinctive strengths and weaknesses. Moreover, this method enhances the validation of the collected data.

Based on the above discussion, the researcher used face-to-face open ended semi structured interviews and questionnaires, as the primary method for data collection. They have been supported by other secondary sources of evidence, i.e. document review, archival records and direct observations to maximise data triangulation. The plan was drawn from a triangulating approach of three main sources of information, documentation review, questionnaires, and interviews. Qualitative and quantitative methods were combined so as to maximize the strengths and minimise weaknesses of each method. They are complementary rather than competing approaches. Finn et al. (2000) and Bryman (2001) explore a range of uses of qualitative and quantitative methods:

- Either quantitative research helps facilitate qualitative research or vice versa.
- At different points in the study, quantitative methods might be more appropriate than qualitative methods, or vice versa.
- Quantitative research can explore large-scale macro structures whereas qualitative research can focus on small-scale micro aspects of a project. This might also allow a broader range of issues to be addressed by the research.

7.12 Chapter Summary

In line with the aim and objectives of this study, the research philosophies, approach strategies and data collection methods were outlined. The chapter has discussed the fact that deductive and inductive methods were selected and the decision for this choice has been justified. Multiple case studies were adopted as a research strategy for the collection of data. The case studies were from the Ministry of Libyan Tourism, the Libyan Investment Board and International hotel companies. The following chapter discusses the findings that emerged from the collected data.

CHAPTER EIGHT

EMPIRICAL FINDINGS, ANALYSIS AND INTERPRETATION

8.1 Introduction

Previous chapters laid the foundation for the empirical work presented in this chapter. This chapter aims to present descriptive findings from the survey (see Appendix 3 for a copy of the questionnaire), through the perceptions of MNCs investing in the hotel sector, in relation to the main aspects of FDI in the Libyan business environment. Also presented herein are the analyses of the semi-structured interviews involving Libyan governmental functionaries, both legislative and executive, whose jobs are directly related to the research topic in question (see Appendix 4 for a copy of the Interviews Questions).

The chapter is divided into nine sections. Following the introduction, the second section focuses on general information related to the characteristics of the experienced foreign representatives. Section three discloses general information about the companies whose representatives took part in the survey which includes economic activity, location and experience. Section four deals with the survey and the participants' responses to it, with focus on the geographical location and FDI in Libya. Section five focuses on the major obstacles factors for low inflow of MNCs in tourism sector into Libya after 17th February, 2011 (Arab Spring). Section six discloses of privileges and exemptions directed towards potential investors, at political, financial and economic aspects as well as managerial and organisational characteristics. Section seven is concerned with the responses of participants in the survey with focus on the effect of FDI into Libya and the advantages to the host country and foreign investors. Finally, the eighth section is designed to introduce the findings of the semi-structured interviews whilst section nine reviews the most important aspects discussed in the survey.

8.2 General Information about the Study Sample

The researcher approached several key tourism administrators from the Libyan Ministry of Tourism (LMT) and the Libyan Investment Board (LIB) in order to conduct face-to-face interviews and gain more in-depth information regarding the motivational factors that would encourage MNCs to invest in the Libyan tourism sector. Using a questionnaire in the context of this research in order to understand the requirements of the international hotel companies, the researcher engaged the concept of MNCs operating in more than one country with a home base or head office in a particular country. As such, this usually creates national demand in the host country as one of the MNC's goals.

In addition, the selection of these companies will help to acquire accurate information regarding the requirements of these companies for investment purposes in developing countries in general, and in Libya in particular. These companies were rated amongst the top ten companies in the world in 2013 and have branches in most countries worldwide, and therefore, it is possible to build policies to encourage such MNCs to invest in the Libyan tourism sector. Table 8.1 shows the distribution of the international hotels in terms of the number of countries throughout the world in 2013.

Table 8.1: Distribution of the International Hotels in terms of the Number of Countries in 2013.

Organization Name	Number of countries
Accor	92
Best Western Hotels	100
Choices Hotels International	35
Four Seasons Hotels and Resorts	38
Golden Tulip Hospitality Group	40
Hilton Hotels Corporation	91
Intercontinental Hotels Group	92
Marriott International	74

8.2.1 Accuracy of Data

To ensure that the data collected from the semi-structured interviews and questionnaires is accurate and is both valid and credible, the interviewees chosen all have knowledge and experience in the hotel industry. More than 70% of the respondents interviewed or those completing the questionnaire were decision-makers in one of the MNCs along with the Ministry of Libyan Tourism and the Libyan Investment Board, as illustrated in Figures 8.1 and 8.2.

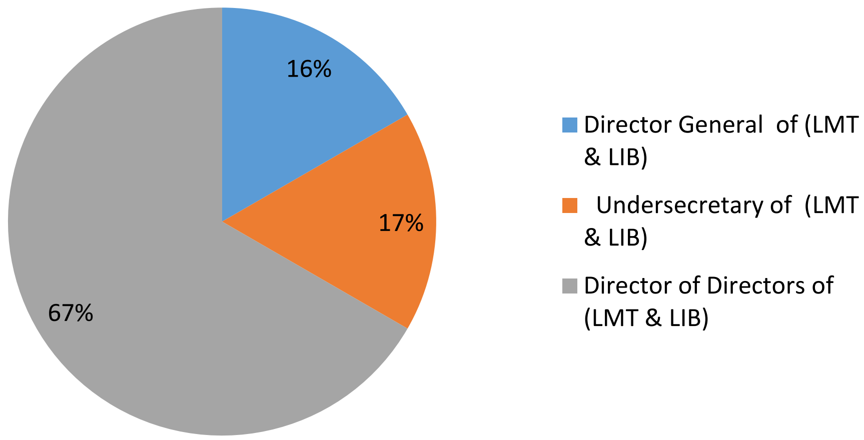


Figure 8.1: Roles of Interviewees

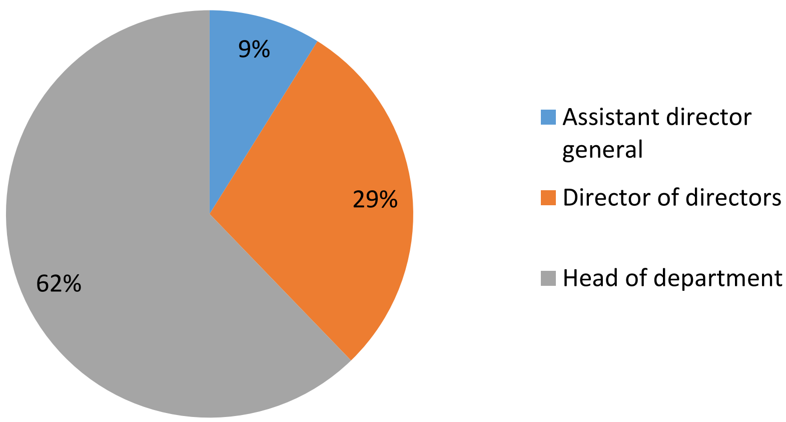


Figure 8.2: The Roles of the Respondents Completing the Questionnaire

In addition, most of the respondents were highly qualified, the majority holding Master's degree 50%, 33% having Bachelor's degrees and 17% having obtained Doctorates, as illustrated in Figure 8.3. Thus, the author believes that this will impact the research positively since the respondents are likely to have background information on questions and understand the issues related to the research objectives. Hence, the respondents have full credibility and so they are likely to offer valuable information for this research.

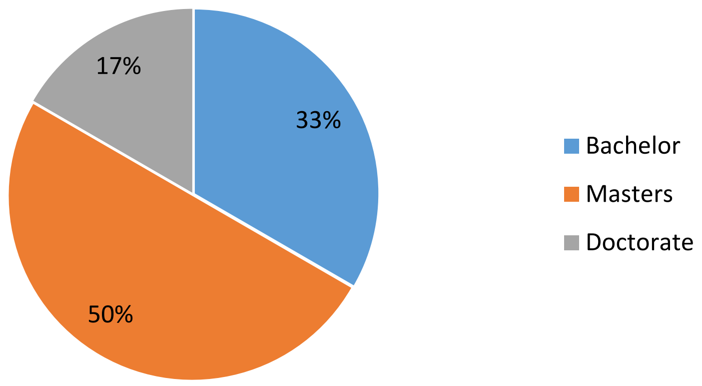


Figure 8.3: Qualifications of Interviewees

8.2.2 Main Sources for MNCs in Obtaining Information on Potential Markets

According to Figure 8.4, feasibility studies and carrying out market research were main sources for MNCs in obtaining information about potential markets. (44% and 31% respectively). Published reports and the Legal advice were the main source for 13%, whilst analysis of the existing hotel market in the country of interest was the lowest main source at about 11%.

From the questionnaire it is evident that there are factors that influence the attraction of MNCs in their overseas investments abroad. The respondents revealed several motivational factors that have an impact on the MNCs' investing abroad. The factors that attract MNCs in their investment abroad are classed below.

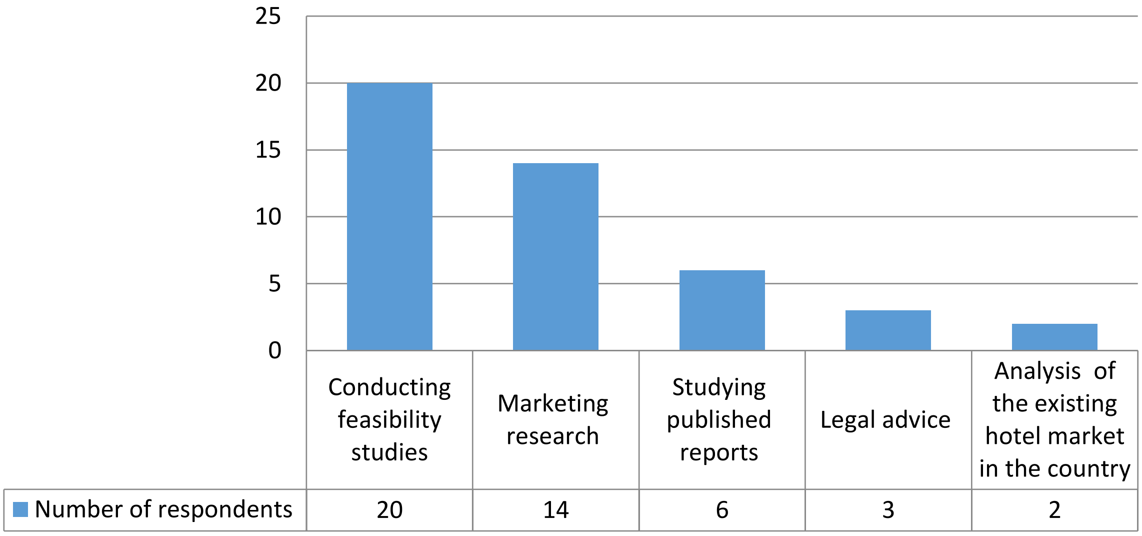


Figure 8.4: Main Sources for MNCs in Obtaining Information on Potential Markets

8.3 The Important Factors Attracting Foreign Investment into Libya in the Tourism Sector

Question four deals with the important factors attracting foreign investment to the tourism sector, with regards to :maximization of profitability, increase in demand, importance of tax incentives, availability of finance, investment policy and regulations, availability of human resources, geographical location, and infrastructure that influences multinational hotel companies to make decisions to invest in Libya.

8.3.1 Maximization of Profitability

Most of the respondents revealed that there is a need to increase the level of the company's profit in areas that promise to have high revenue. Their responses are presented in Figure 8.5. 55% of the sample responded that this is ‘very important’, whilst 22% responded ‘important’, 13% said it is ‘fairly important’ and 8.8% indicated it is ‘not important’.

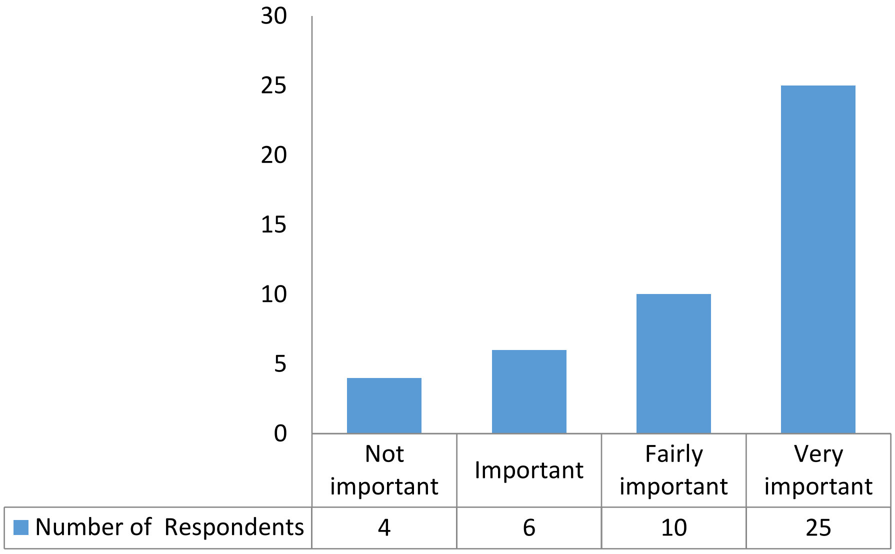


Figure 8.5: Maximization of Profitability

The result shows that respondents recognize maximisation of profit as a major factor with a significant impact on a multinational hotel company’s growth and ability to invest abroad according to the secondary data, as noted in chapter six. According to Investment Law in Libya (No. 9, 2010) the investor has the right to export the invested foreign capital, in the case of termination of the project’s duration, liquidation, or sale thereof, either in part or in whole, and transfer distributable annual net interests and revenues achieved by the foreign capital invested in the project.

8.3.2 Availability of Finance

FDI and foreign indirect investment are, in fact, complementary. Several studies have taken the view that the financial sector and the capital market were found to be important financial proposals from the host country's financiers and developers such as banks or local and foreign investors. For continued success in attracting new hotels in the source country, the availability of finance is considered to be one of the significant factors which will impact on MNCs' growth and foreign investments (see Chapter 6), since foreign investors are likely to need to obtain hard currency. In Libya, the capital market is still too weak to play a strong role in foreign investment (see Chapter 1). The respondents were asked, 'To what extent do you think the Libyan credit and capital market is an attractive factor to foreign investors?' Responses are presented in Figure 8.6.

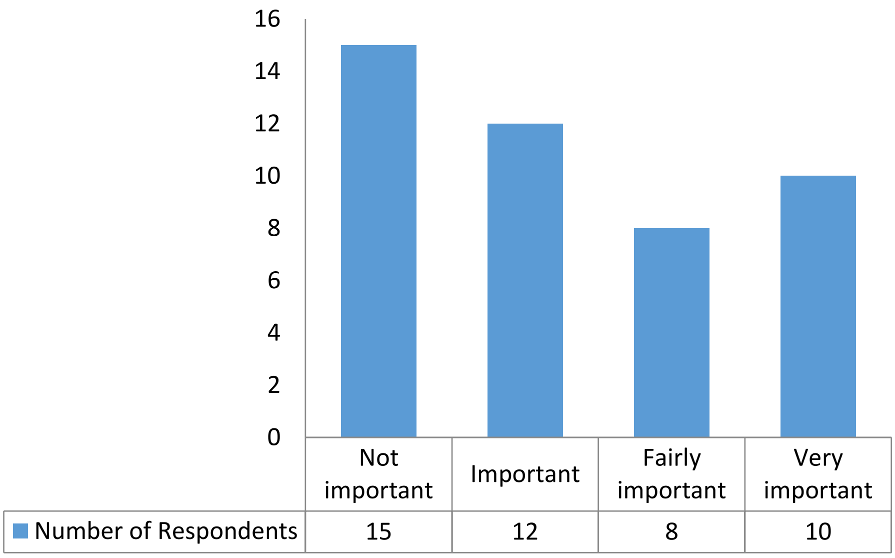


Figure 8.6: Availability of Finance

Only 22% responded 'very important', 18 % responded 'important', 27% responded 'fairly important', and 33 % responded 'not important'. Libya's capital market is therefore still weak, which is why the majority of foreign companies are mainly dependent on self-finance rather than local credit.

8.3.3 Increase in Demand

The study of the hospitality industry is vital to its survival. If resources are not properly or efficiently managed, profitability is diminished or lost. Supply and demand are the fundamental concepts behind any industry in the economy. Supply of new hotels cannot be easily or rapidly adjusted on any large-scale basis because the addition of a hotel takes a large investment and a long time.

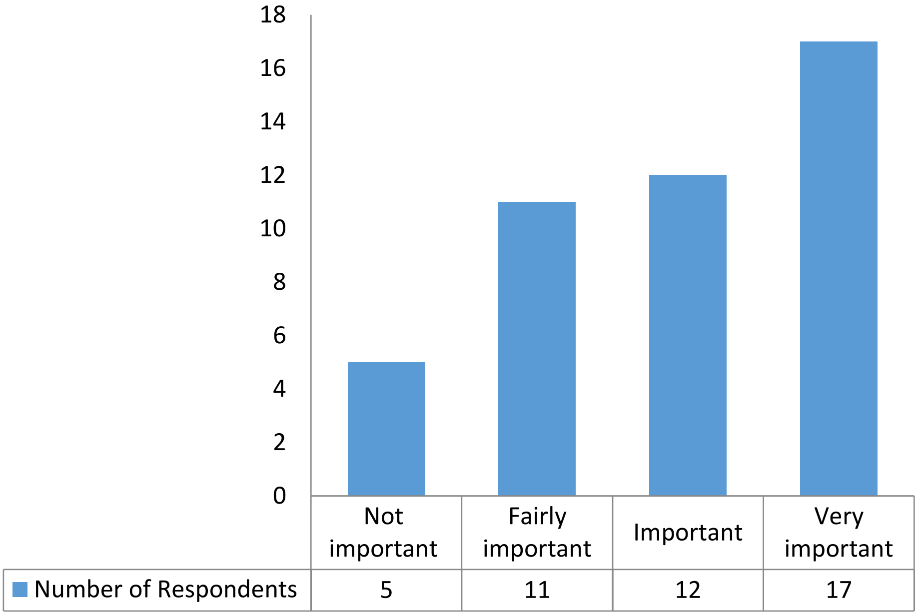


Figure 8.7: Increases in Demand

The forces of supply and demand drive entry and exit into and out of the industry. Demand forecasting is crucial in making investment decisions when building new hotels. Further, it can help hotels that are struggling to determine if recovery is possible and, if so, help them create strategies to recover. However, the focus is on demand, since that is what ultimately propels the industry. Both factors are relevant because they determine profitability.

According to the questionnaire, 64% of the respondents considered an increase in demand over supply either 'very important ‘or ‘important’, 24 % quoted ‘fairly important’ and only 11% of the respondents considered increase in demand 'not important' in their investment decisions, as illustrated in Figure 8.7. Hence, the general finding is that an increase in demand is an important factor in foreign companies' decisions. According to the findings, all respondents underlined the fact that the hotel industry is affected greatly by the factors of supply and demand, which can determine the expansion of multinational hotel companies.

8.3.4 Importance of Tax Incentives

In relation to the importance of tax incentives in company decision making, companies were asked: "How important is the tax incentives policy in making Libya more attractive to foreign investment?" The responses are presented in Figure 8.8.

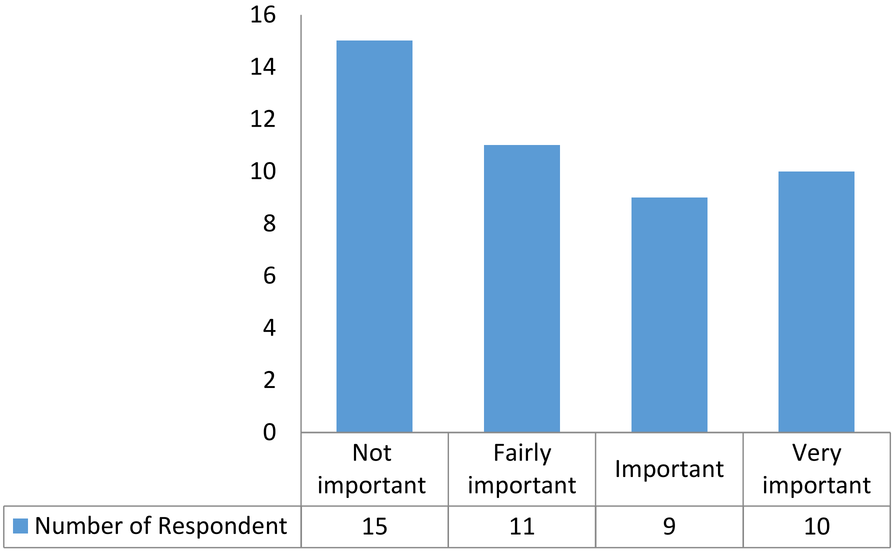


Figure 8.8: Tax Incentives Policy

Slightly more than 22% of the respondents considered tax incentives 'very important ' in their investment decisions, whereas 20% respondents considered tax incentives 'important' and more than 24% said it is 'fairly important'. More than 33% of the sample considered reasonable taxation policy to be 'not important' to their investment decisions. Hence, the general finding is that tax incentives are a fairly important factor in foreign companies' decisions.

8.3.5 Investment Policy and Regulations

Adoption of liberal investment policies by some countries in the world has played an active role in encouraging inward foreign investment to these countries. The stability of the host government and its attitude toward foreign investment were the most important considerations in the company's expansion decision within a given country. Furthermore, respondents also mentioned that the active involvement of the host country's government would be necessary in order to encourage them to invest in that country. Figure 8.9 shows that 33% of the respondents considered the host country's investment policy 'very important' in their investment decisions, whereas more than 24% of respondents considered the host country's investment policy to be 'important' and 22% regarded it as 'fairly important'. 20% of the sample reasonably considered the host country's investment policy to be 'not important' to their investment decisions.

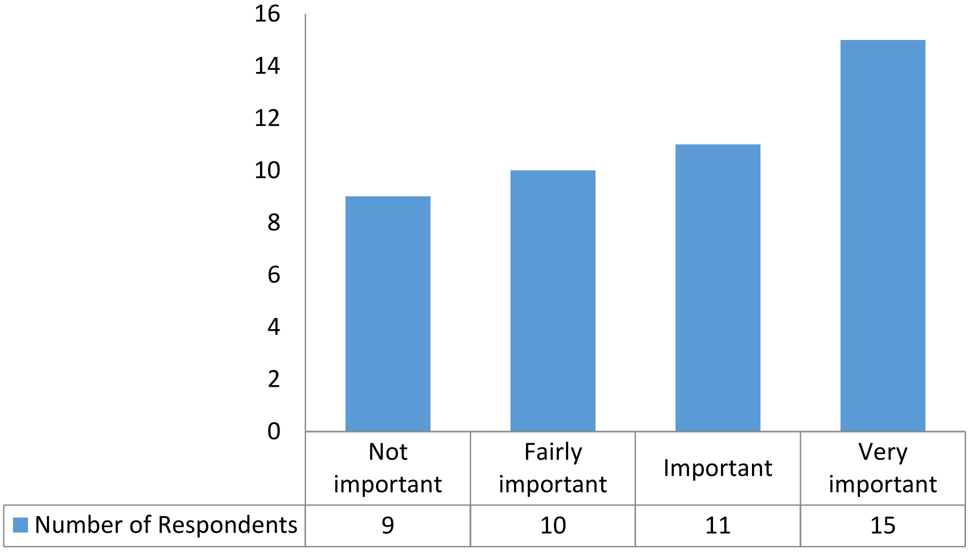


Figure 8.9: The Host Country's Investment Policy and Regulations

Part of creating the conditions for a free-market, open economy is adopting policies that encourage exports which, in turn, tend to attract FDI. Therefore, to boost the flow of capital commodities and technological transfers into and out of the host country, maximising economic benefits is essential. Such policies tend to create new markets for the fledgling economies and provide opportunities for investors to market their products and maximise their profits. In this context, all the respondents reported that the investment policy of some countries was directly relevant to the expansion of hotel companies into those countries.

8.3.6 Availability of Human Resources

In relation to the importance of the availability of human resources in a host country and its effect on the company investment decisions, the respondents were asked a general question, “How important to your investment decisions is the availability of human resources in a host country?” The general results are presented in Figure 8.10 below. Only 22% responded 'very important', 22% responded 'important', and 31% responded ‘fairly important’, whereas 25% responded ‘not important’. It is clear that there was a variation between companies in their consideration of the availability of human resources in a host country.

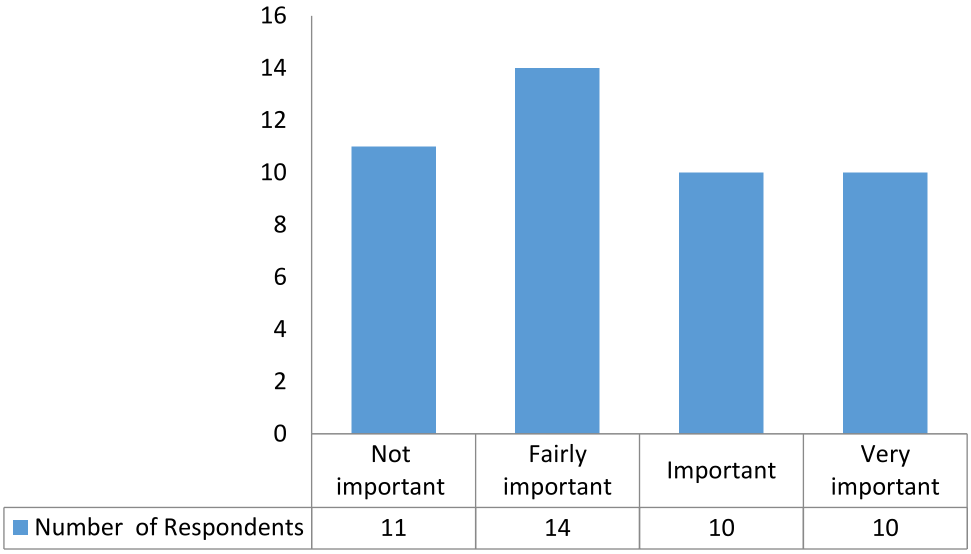


Figure 8.10: Availability of Human Resources in Host Country

It is significant to note that companies in the tourism and industry sectors considered the availability of human resources more important to their decision-making than companies in other activities such as investment in agriculture and trade. It can be concluded from the findings in this section that most representatives indicated that the availability of human resources is one of the important factors, although with varying levels of importance, along with the skills of the local workforce. However, it is also true that many of the respondents faced difficulties related to using those resources, with the major difficulty being the issue of importing foreign labour as a result of the inadequacy of trained local labour and the restrictions imposed on the labour force of foreign companies designed to provide more job opportunities for local labour.

8.3.7 Geographical Location

Companies were asked whether or not they had considered Libya's geographical location in their investment decisions. The responses are presented in Figure 8.11. 33% of the respondents considered Libya's geographical location very important in their investment decision, whereas, 29% considered it 'important'. For this 62% of respondents, the results show how important the geographical location factor is in foreign companies' decisions to invest in Libya. See Figure 8.11 for further detail. Conversely, almost 27% considered it 'fairly important' with only 11 % considering it ‘not important’.

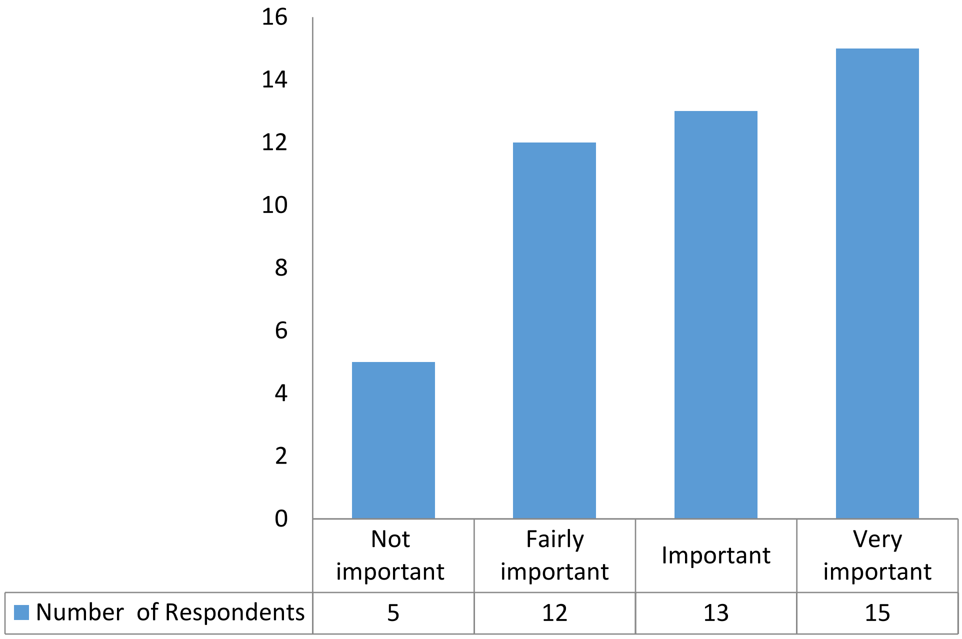


Figure 8.11: Libya's Geographical Position and FDI

8.3.8 Adequate Infrastructure

A considerable volume of literature has highlighted the importance of infrastructure as a determinant of economic growth. The tourism phenomenon relies heavily on public utilities and infrastructural support. Tourism planning and development would not be possible without roads, airports, harbours, electricity, sewage, and potable water (Ritchie, 1999; Seetanah et al., 2011). The infrastructure dimension is thus a necessary element for tourism development. It improves the investment climate for FDI and thus attracts more MNC to invest in the tourism sector. Respondents were asked about the infrastructure and its importance as a factor for encouraging MNCs to invest in Libya. Figure 8.12 shows that 22% from the sample responded 'very important', whilst almost 27% responded 'important' and about 40% considered infrastructure to be 'fairly important' in their investment decision. However, 11% of those who responded regarded this factor as 'not important '.

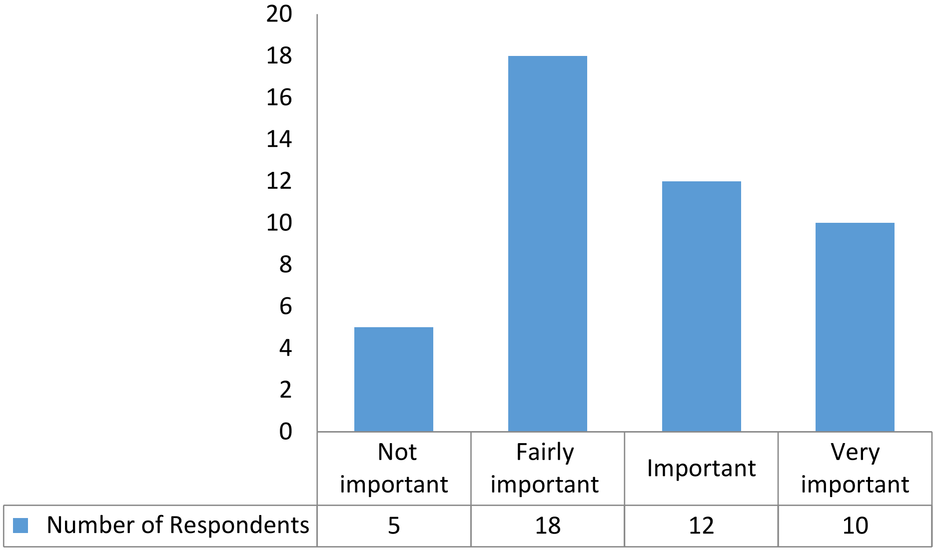


Figure 8.12: Infrastructure and FDI

8.4 The Effect on Libya of the Entry Mode FDI

Capital, technological know-how and skilled labour development are the main drivers of economic growth in any country. The lack of these crucial elements is therefore considered to be the main impediment to economic growth. FDI is a convenient way to solve these problems. Developing countries have been encouraged to devise FDI-friendly policies in order to attract FDI.

FDI results in the direct injection of capital and technology. Therefore, companies in receipt of FDI are expected to perform better than local companies. In addition to this direct effect, various spill-over effects from FDI will occur for local firms, since foreign companies do not work alone in the host country, but engage local companies, both private and public. This therefore forms a causal, mutual relationship between foreign and local investors.

Of those responding to the survey, 45% indicated that 'joint ventures' are helpful whilst a 'wholly or full ownership' option received the preference of 13%. 'Management contracts' are thought to be the second-best option for 33% of the respondents whereas 'franchising' was least favoured by a mere 9% as the preferred mode of entry into the market, as illustrated in Figure 8.13.

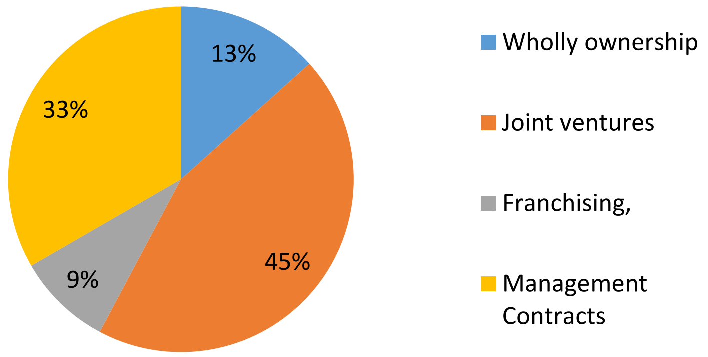


Figure 8.13: Percentage of Entry Mode Preferences

8.4.1 Libya's Marketing Strategy for FDI

Recent trends in foreign direct investment (FDI) have created a unique opportunity for developing countries to attract international resources, technologies and skills essential for economic growth. Some argue that strategies to attract foreign investment should focus on promoting specific sectors rather than on improving a country's macroeconomic conditions. Without a strong, effective and clear promotional strategy, potential investors would not be able to get the required information about any market as the preferred market for their activities. It was assumed that Libya's FDI promotional strategy is not efficient in attracting more foreign investors to Libya. Therefore, respondents were asked the following question regarding Libya's promotional strategy for FDI: "To what extent do you agree or disagree that the current investment promotion strategy is effective in attracting FDI to Libya?" The responses are represented in Figure 8.14.

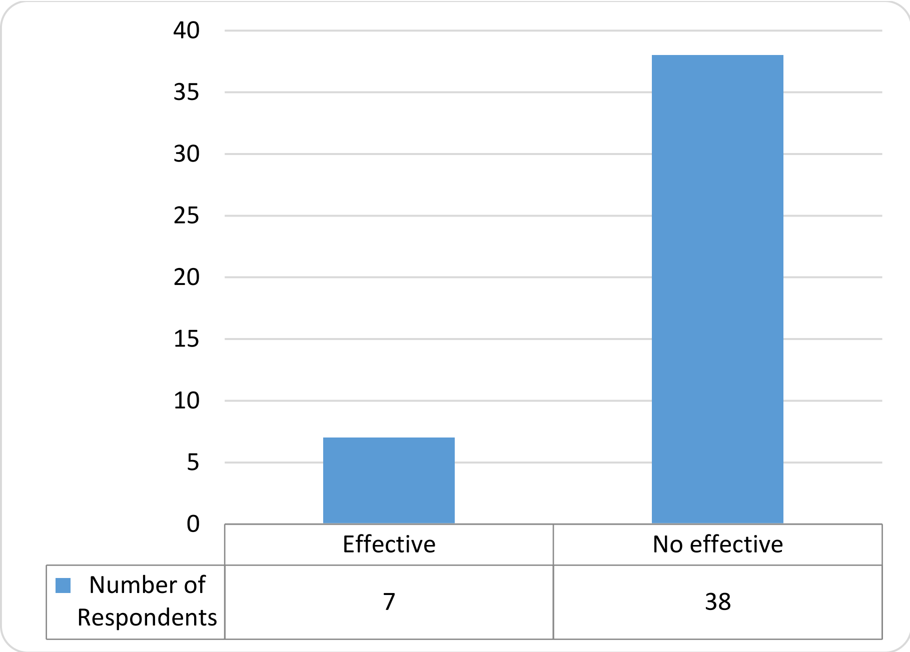


Figure 8.14: Libya's Marketing Strategy for FDI

Only 15% of the respondents believed that the current investment promotion strategy was effective, whilst 85% of those responding to the survey said they did not believe the current investment promotion strategy was effective in attracting more FDI to Libya. Thus, the survey suggests that it is perhaps a good time to sell a new image of Libya's investment climate. It is necessary for Libya to demonstrate its comparative advantages through its geo-economic, geo-political, cultural and traditional facets through effective promotion. For example, the private sector could effectively promote these areas, either separately or in co-operation with the government. Further, it is advisable that there should be an investment promotion agency with close ties to the local private sector with focus on investor support.

8.5 The Main Factors for Low Inflow of MNCs in Tourism Sector into Libya

A sample of the respondents was asked to rank the major obstacles factoring into low inflow of MNCs in tourism sector into Libya. This question proposed eight obstacles that potentially hinder tourism development in Libya:

Revolts, riots and similar forms of civil unrest, political instability, local investment policies, location advantages, exemption from taxes on income, dominance of public sector, cheap labour force, and availability of raw material.

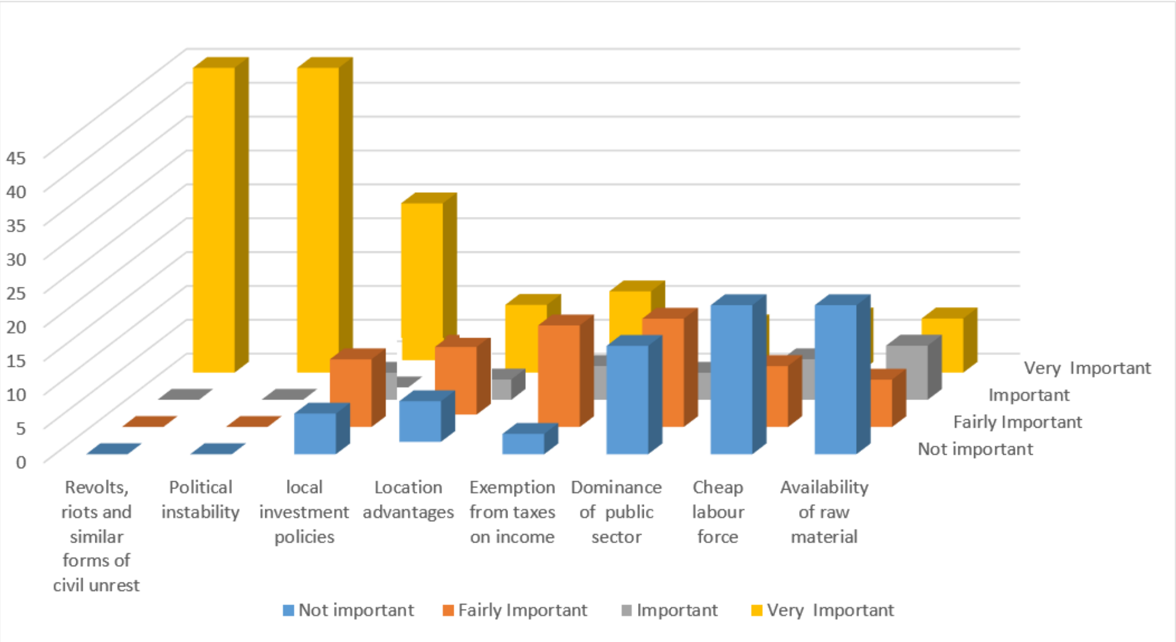


Figure 8.15: The Main Factors for Low Inflow of MNCs in the Tourism Sector into Libya

All respondents (100%) confirm that riots and similar forms of civil unrest, political instability in Libya since 2011, have a great influence on the location decision of foreign operations, as this factor was ranked first in its degree of importance to the investors. Local investment policies were ranked the second factor by foreign investors, about 56% of whom regarded this factor as having a high degree of importance.

Ranked third and fourth were exemption from taxes on income and location advantages from more attractive markets respectively. 33 % and 27 %, of respondents regarded these factors as having a fairly important of influence on the investment location decision.
On the other hand, just about 18 % or more of respondents viewed dominance of public sector, cheap labour force and availability of raw material as having only slight effect on their decision, as illustrated in Figure 8.15.

8.6 The Important Efforts Should the Libyan Government be Made to Attract FDIs

One section of the questionnaire referred to the important efforts should the Libyan government be made to attract FDIs and preferred proposals for solutions to improve the economic environment in order to attract further FDI. In this context, question thirteen deals with the important efforts. Participants were asked to, "What sort of efforts should be made to attract FDIs?"

According to the findings presented in the Figure below, the important efforts should the Libyan government be made to attract FDIs: transparency of economic policies and improving basic infrastructure, such as road, electricity, telephone and water facilities, seem to have a great influence on the location decision of foreign operations as these factors were ranked first in degree of importance to the investors. Slightly More than 75% of the respondents suggested removing administrative hurdles and developing investment policies to attract FDI in Libya. These factors were also considered to have a fairly important of influence on the investment location decision. These factors were ranked third and fourth respectively, as it seems that 70 % of respondents considered them of importance and 20 % of them considered them of moderate importance; only 10 % of respondents suggested these factors were not important.
Nearly 60% of respondents stressed the need for acquiring information and knowledge about the new technologies with respect to global joint ventures to attract MNCs and argued for creating a conducive environment through improving legal guarantees as an incentive to attract MNCs in Libya. These factors were ranked fifth and sixth, as it seems that 56% and 53% of respondents considered them of importance respectively. On the other hand, just about 25% or so of respondents viewed matters related to tax and credit facilities (banking loans) as having only

slight effect on their decisions. These factors were ranked seventh and eighth respectively in degree of importance to the investor, as illustrated in Figure 8.16.

Although all these efforts are equally significant for promoting FDI, transparency of economic policies, basic infrastructure and removing administrative hurdles are essential components for economic development. It is indicated that foreign investors were, generally, consistent in their opinions, which means that there was a consensus among the sample that these efforts are of high importance for promoting MNCs' investment into Libya.

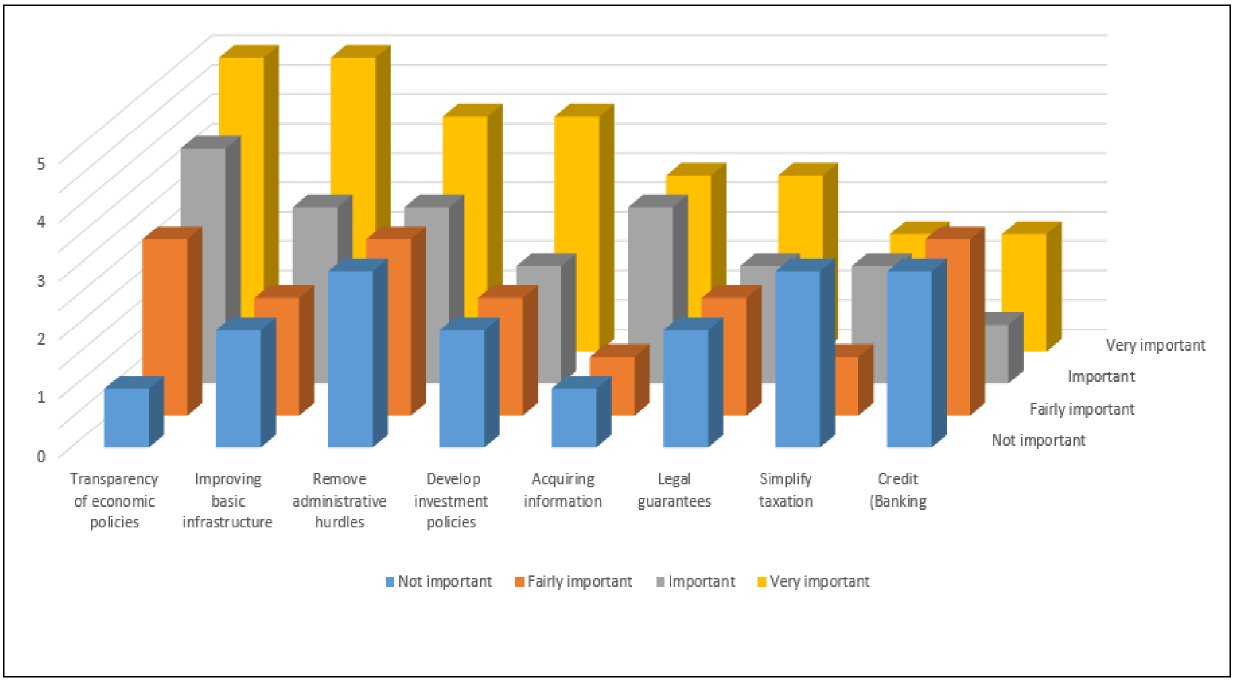


Figure 8.16: Main Efforts Should be Made to Attract MNCs

8.7 The Main Benefits from Multinational Hotel Companies

This section presents the findings on the main benefits that Libya could obtain from the involvement of multinational hotel companies in the country. The following benefits were highlighted by the respondents with Figure 8.16 showing that all parties can benefit from partnerships between local and foreign investors. More than half of respondents (53%) felt that this relationship could have a positive effect on all parties if their company would partner local investors in the hotel sector. 25% of the respondents would partly consider the idea, whereas only 9% of respondents were 'undecided’.

This is an indication of the importance of expanding the Libyan hotel industry from the investor's point of view. Furthermore, the main benefit that Libya might obtain from the involvement of these companies would be an increase in the number of high quality hotels, thus contributing positively to the Libyan hotel sector in general.

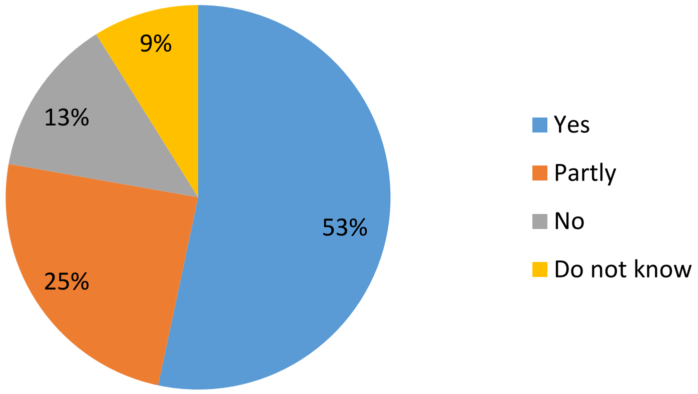


Figure 8.17: Partnerships between Local and Foreign Investors and the Benefits

8.8 Findings from the Interviews with Officials from the Libyan Investment Board (LIB) and the Libyan Ministry of Tourism (LMT)

8.8.1 Introduction

For the purpose of this research the researcher utilised the semi-structured interview method in support of the findings from the questionnaire. The main purpose of the questionnaire was to establish the perceptions of investors regarding the Libyan business environment in relation to FDI by investigating various variables, as the demand side of the equation. In order to discover the official view, which is the supply side, as indicated in Chapter Five, the researcher conducted twelve personal interviews with appropriate policymakers and government personnel in the Libyan government, divided into two groups: (LIB) and (LMT). For further details, see Section 5.12.1 in Chapter Five.

The following section provides the researcher's analysis of the interviews, Libyan investment Law and the General Development Plan of the Tourism Industry in Libya (2009-2025) by referring to four main aspects that affect the attraction of Libya to MNCs' investment, namely, motivational factors, obstacles, entry mode and advantages which the Libyan government can offer

8.8.2 Motivational Factors for MNCs

There are major incentives for tourism projects in general and for MNCs in particular. As stated in Law No. 9 of 2010 regarding tourism, with respect to the incentives in Law No. 5 of 1997 concerning the encouragement of investment of foreign capital, tourist projects are exempted from the following taxes and levies: Customs duties on construction materials, tools and equipment, furniture, tourist transport, and different types of equipment necessary to construct and operate tourist utilities and projects (see Chapter 3). Generally speaking, as the results in the following sections indicate, interviewees stated the following:

The Undersecretary of the Board of Directors of the Libya Investment Board (I_2):

"In addition to the tourism training for the authorities serving FDI in the tourism sector, the government provided customs duty and tax exemptions for tourism projects along with the required assistance and guidance, promotions via media, and built awareness through participation at international festivals."

Furthermore, the Director of Directors of Legal Affairs in the Libya Investment Board (I_3) said:

"The Law of Investment must be changed so the Libyan policy regarding the labour market becomes more flexible by removing all restrictions that prevent MNCs from successfully operating their business."

Finally, the Director of Directors of Investment in the Libya Investment (I_6) Board mentioned that:

"The policy should be changed to make it more conducive for investment purposes. This will also cause Libya to benefit from the experiences of neighbouring counterparts such as Tunisia and Egypt who have already succeeded in attracting international hotel companies"

As stated in Article 6 from Law No. 9 of 2010 regarding to attract more FDI, the *Libyan government has established:*

"A one-stop-shop service in order to ease the procedures that foreign investors must undertake in order to gain entrance into the Libyan market."

However, the investors still face many difficulties in retrieving licenses, executing official transactions and following required procedures. Therefore, the Libyan authorities must overcome these difficulties.

From the findings discussed, it can be concluded that the majority of interviewees are in favour of the proposed policies, which are used to attract MNCs to invest in Libya. However, support for the proposed policies varies according to the position held. From a rank perspective, it was found that heads of the board of directors as well as general directors are in favour of policies featuring the easing of administrative procedures, and focusing on human resources, the improvement of infrastructure and the establishment of an investment map.

8.8.3 Policy for Attracting MNCs

The sample of policymaker interviewees from the Libyan government (LIB and LMT) was asked: "What can be done to improve FDI policy for attracting Multi-National Companies in the tourism sector?"

In the interview with Director of Directors of Studies and Planning in LMT (I_9), he suggested:

"Strategies for attracting increased FDI into Libya include the adoption of the one-window policy; simplification of procedures for processing FDI projects; improved collaboration between authorities and institutions in relation to promotion of foreign investment, and better planning and allocation of investment sites."

In general, the perception of the majority of government officials who were interviewed is that there is need for change. 75%, saw need for change whilst the remaining 25% believed that the existing FDI policy is effective.

According to Article 6 from Law No. 9 of 2010 regarding to attract more FDI, the administrative authority shall be responsible for encouraging investment of national and foreign capital and merchandizing investment projects via different m methods; in particular, the following: "*Adopting methods capable of attracting national and foreign capital and publicity campaigns of investment opportunities via the different media."*

In addition,

In addition, to attract more MNCs to investment in tourism sector, the General Development Plan of the Tourism Industry in Libya (2009-2025) suggested:

"Develop the tourism investment legislation in Libya should be treated as a special case in order to be more attractive to both local and foreign companies."

8.8.4 Measures Attracting MNCs

The next question posed to interviewees was, 'What measures do you think should be taken by the government to increase the inflow of FDI?' The Director-General of the Libya Investment

Board (I_1) stated from his point of view, that the measures to be taken by the government in increasing the inflow of FDI investment climate must be conducive to all. He indicated:

"In order for any developing country, especially Libya, to effectively attract substantial FDI, the investment climate must be made favourable for foreign investors to have guarantees of minimal infrastructure and policy challenges which would result in higher return on investments and an upsurge in profitability overall."

Whereas, the Director of Directors of Investment (I_6) added:

"Private investments serve as the investment engine for economic growth and account for a significant share of the GDP in many countries worldwide. A good investment climate is therefore essential to foster productive local private and foreign private investment. Hence, in a favourable investment climate, new expansions of goods and services become available at reduced prices which enhance return on investment. Further, local and foreign investors are encouraged to increase their capital injection which supports a sustainable source of tax revenues to finance other important social and political goals, as identified by the government, at a national level."

Finally, the Director of Directors of Public Relations and Services (I_4) said:

"If a country is to attract significant foreign direct investments and encourage substantial local investments, an improved investment climate is critical. However, the creation of a good investment climate should include finance markets, courts and efficient infrastructure which complement a holistic system to enhance entrepreneurial activities in the country by its foreign investors."

Through the interviews conducted it is clear that most of the officials agree that the investment climate is a very important measure that must be conducive where foreign investors are assured minimal infrastructure and policy challenges in order to improve returns on their investments as well as increase profitability to the inflow of FDI.

According to Article 10 (Privileges and Exemptions) from Law No. 9 of 2010, the investment project, subject to the provisions of this Law, shall enjoy the following privileges:

> *"Exemption of the machinery, equipment and apparatuses necessary for the execution of the project, from all taxes, customs duties, import fees, service charges and other fees*

and taxes of a similar nature. However, exemptions stated, as per this clause, shall not include fees levied for services as port, demurrage or handling fees."

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

"Exemption of interest arising from the project's activity if re-invested."

8.8.5 Policies and Guidelines Helpful in Attracting MNCs

The next question posed to the interviewee was, 'To what extent do you think the following policy guidelines are helpful in making the country more attractive for foreign investment?'
This section discusses the proposed policies aiming at attracting more FDI in the Libyan tourism sector. Two groups are used from the interviews conducted, each group containing six officials from Libyan Investment Board (LIB) and Libyan Ministry of Tourism (LMT). As mentioned earlier, the proposed policies are: simplifying administrative procedures; exemption from tax on profit; improving human resources skills; easing property ownership and renting procedures and reducing capital required. As already highlighted in chapter five, investors vary in their estimations of the significance of these different policies. The next section illustrates the answers of the interviewees (LIB and LMT).

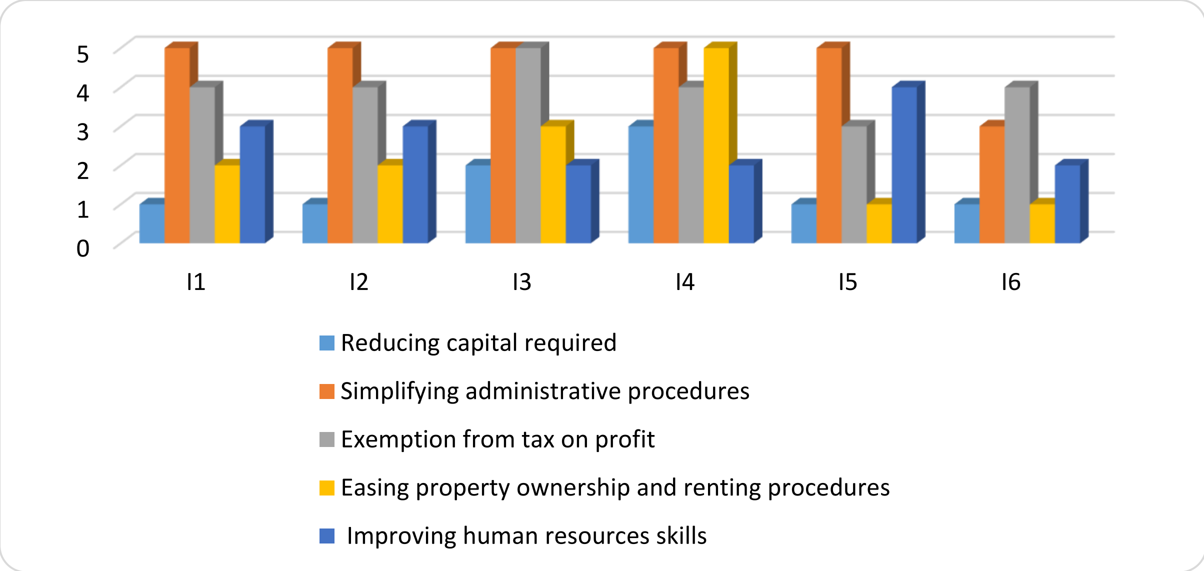


Figure 8.18: Ranking of Characteristics that Make a Country more Attractive for FDI. Opinions of Interviewees from LIB

- The first group: Interviewees from the Libyan Investment Board (I_1, I_2, I_3, I_4, I_5, I_6). In their opinions, simplifying administrative procedures, exemption from tax on profits and improving of human resources' skill, have top priority in making the country more attractive for foreign investment. This is also in regard to the easing of property ownership and renting procedures. However, lowering the capital required to be invested comes at the bottom of priorities for investors in their opinion, as illustrated in Figure 8.18.

- The second group: Interviewees from the Ministry of Tourism (I_7, I_8, I_9, I_{10}, I_{11}, I_{12}). In their opinions, like the first group, the order of priority highlights simplifying administrative procedures and reducing capital required. However, there is a difference in that the improvement of human resources skills is given more priority than exemption from tax on profit in making the country more attractive for foreign investment, as illustrated in Figure 8.19.

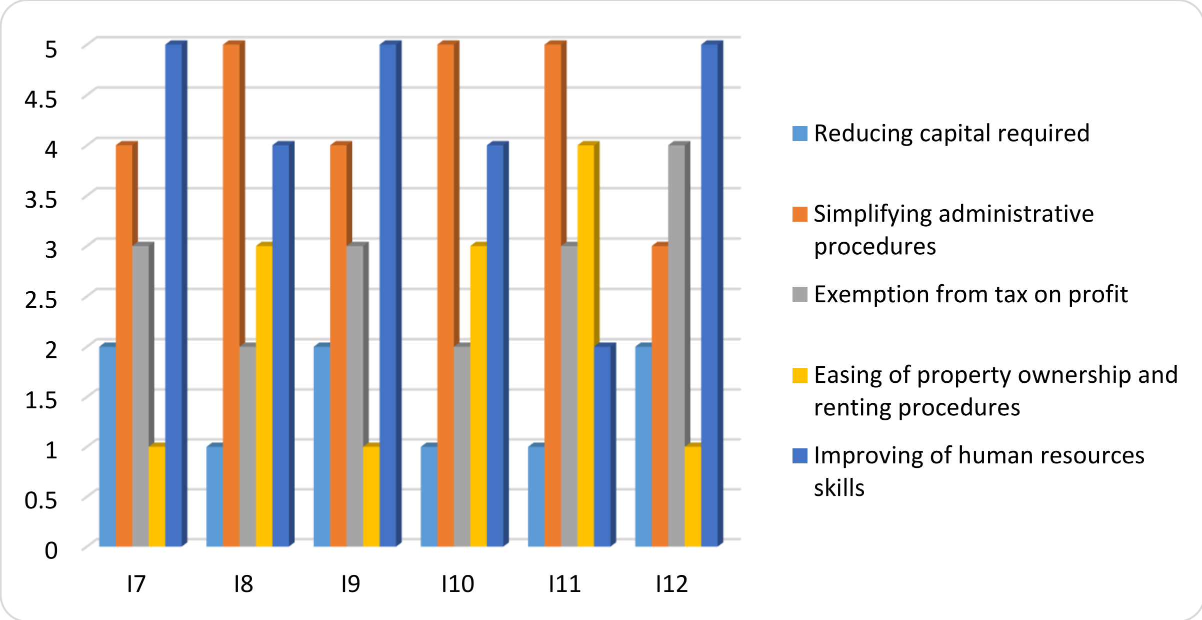


Figure 8.19: Ranking of Characteristics that Make a Country more Attractive for FDI. Opinions of the Interviewees from LMT

8.8.6 Obstacles that Hinder Tourism Development in Libya

The sample of the interviewees from LIB and LMT were asked to rank the order of major obstacles to MNCs. This question proposed five obstacles that potentially hinder tourism development in Libya: inadequate government budget, security situation in host country, lack of expertise in tourism, political instability, lack of investment in infrastructure. The next section illustrates the answers of the interviewees (LIB and LMT).

Responses from the two groups of interviewees from the LIB and the LMT are included in Figure 8.20 to 8.21. These figures show that there is an agreement between the sample interviewees about the major obstacles that affect tourism development in Libya. The three key obstacles mentioned were: security situation in host country, political instability and lack of investment in infrastructure. The other two factors were considered less important in affecting tourism development. These were lack of expertise in tourism and an inadequate government budget.

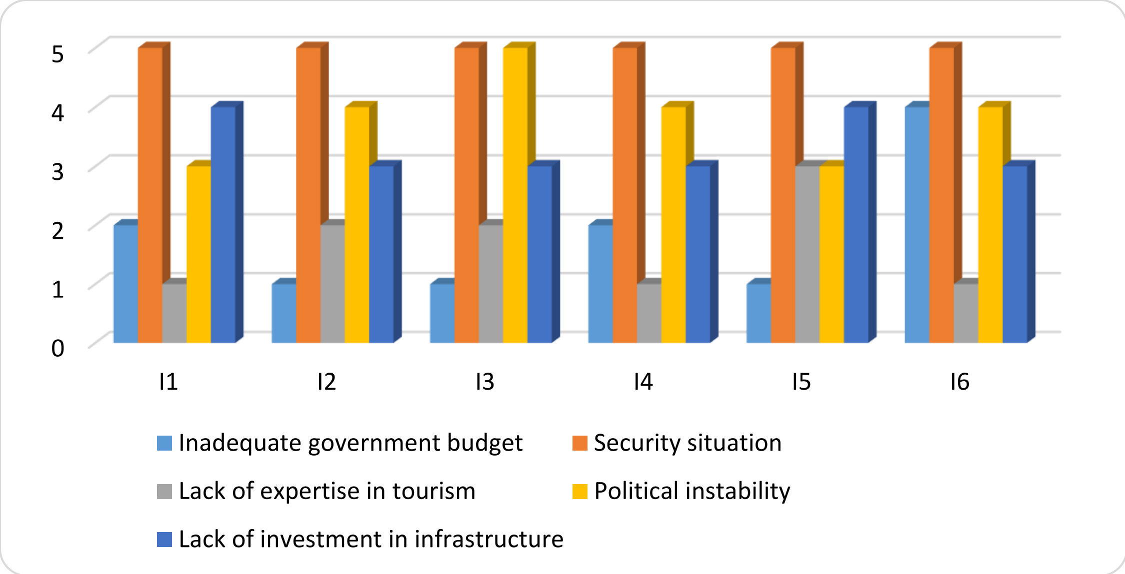


Figure 8.20: Obstacles to Tourism Development in Libya (Opinions of the Interviewees from LIB)

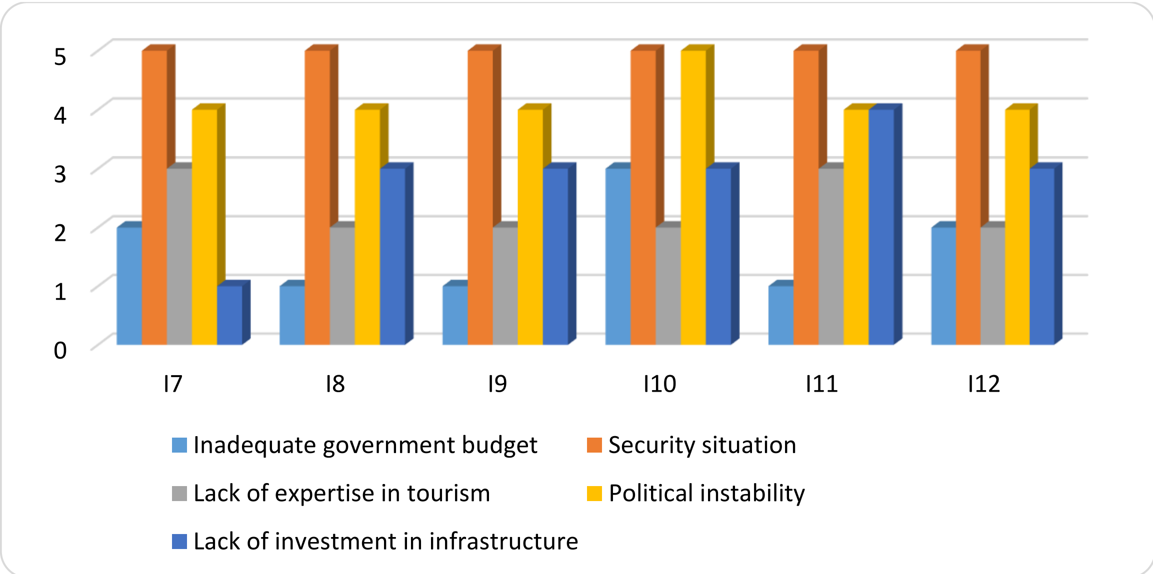


Figure 8.21: Obstacles to Tourism Development in Libya. (Opinions of the Interviewees from LMT)

In addition, in this context, the Undersecretary of the Ministry of Tourism (LMT) (I_8) stated:

"Achieving consensus on political reforms is a necessary pre-requisite for sustainable high growth in Libyan investment climate. But so are structural reforms that address long standing challenges, including distortionary and unevenly enforced regulations, favouring privileged businesses, macroeconomic imbalances and expensive subsidies, inadequate and irregular provision of electricity and other infrastructure services, problems with education quality and skills, and poorly functioning markets for labour, goods, and finance. These structural issues

constrain growth, with grim consequences for the structural unemployment problem, especially among youth and women."

The Director of Directors of development zones and tourism projects (LMT) (I_{10}) also suggested that:

"Not surprisingly, that political violence (war, civil disturbance, and terrorism) was the risk of most concern in Libya, to foreign investors".

In addition, to attract more MNCs to investment and provide the suitable conditions in the tourism sector, the General Development Plan of the Tourism Industry in Libya (2009-2025) suggested:

"The relevant bodies shall, respectively within their sphere of competence, provide the suitable conditions for promotion of tourism in Libya, especially regarding facilitation of anting visas, and simplifying the procedures in entry inlets, proper reception of tourists and investors , facilitating their movement and residence, providing assistance to them, as well as security and safety requirements, and strict supervision and control of the bodies which provide services to the tourists as per the basics and rules specified in the executive regulation for this Law."

8.8.7 Guarantees Attracting MNCs

The sample of the interviewees from the LIB and LMT were asked, 'What kind of guarantees and major investment incentives should the Libyan government provide in order to encourage MNCs to invest in tourism?'

The Libyan government needs to coordinate with local and international organisations to reassure investors by providing guarantees against the risks of nationalisation, dispossession, seizure, reservation or asset freezing, or any other procedures with a similar effect. In this context, the Minister of Tourism (I_7) explained:

"We encourage tourism businesses by the introduction of new laws and facilities. We confirm the procedures and facilitate the establishment of tourism projects, but we have no power to provide funding. Funding decisions ultimately depend upon the policies of the banks".

Furthermore, the Director of Directors of Public Relations and Services in Libya Investment Board (I_4) stated:

"The Libya Investment Board (LIB) is a governmental agency that was established to facilitate the development of legislation and investment projects, which is an important institutional development. Further, the protection of investors' rights and the establishment of private property are essential elements of a market economy which can potentially attract FDI".

Finally, the interview with the Director of Directors of Legal Affairs (LIB) (I_3) saw him expressing satisfaction with the guarantees given to them in (Article 23) from Law No. 9 of 2010. This article outlines the guarantees granted by the government for the investor.

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

8.8.8 Entry Mode

This section examines the views held concerning the market entry mode that the Libyan government would prefer for the MNCs. It also discusses the main reasons for selecting any particular entry mode. The question posed to the interviewees was open ended.

'"What form of entry mode is preferred by the Libyan government for MNCs? For example: franchising, management contracts, whole ownership or any others'

Of all interviewees, 50% including the Director-General of Libya Investment Board, the Undersecretary of the Libya Investment Board, the Director of Directors of Investment, the Minister of Tourism, the Undersecretary of the Ministry of Tourism, and Director of Directors of International Cooperation (I_1, I_2, I_6, I_7, I_8, I_{12}) preferred joint ventures as the preferred mode of entry into Libya because of the minimal risk involved.

However, only 25% of interviewees, the Director of Directors of Legal Affairs, the Director of Directors of Public Relations and Services and the Director of Directors of Planning and Studies, (I_3, I_4, I_9) favoured management contracts as a mode of entry into Libya, whilst 17% of the interviewees, the Director of Directors of Studies and Planning and the Director of Directors of Human Resources Development (I_5 and I_{11}) preferred whole/ full ownership. Franchising as a mode of entry into Libya was the least chosen option with only 8% of interviewees responding to it, this being the Director of Directors of development zones and tourism projects. (I_{10}), as illustrated in Figure 8.22.

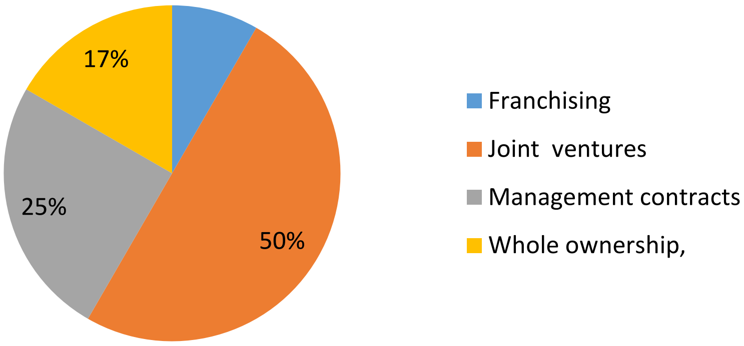


Figure 8.22: Entry Mode Preferred by the Interviewees from the (LIB and LMT)

8.8.9 The Main Advantages for the Libyan Government

The sample of the interviewees from the LIB and LMT was asked about the advantages that Libya will be getting from MNCs. The question, 'What are the main advantages which the Libyan government may expect to obtain from MNCs, such as managerial expertise, technology transfer, creating a more competition-conducive climate, enhancing human resources in the services sector, capital provision or others?" was asked.

Figure 8.23 and 8.24 show an agreed perspective between the LIB and LMT about the advantages that Libya will acquire from MNCs in terms of the importance of all factors: capital provision, technology transfer, creating a more competition-conducive climate and managerial expertise, with the exception of two factors, namely managerial expertise and creating a more competition-conducive climate. Different opinions were expressed with regards to the order of prioritizing these two factors.

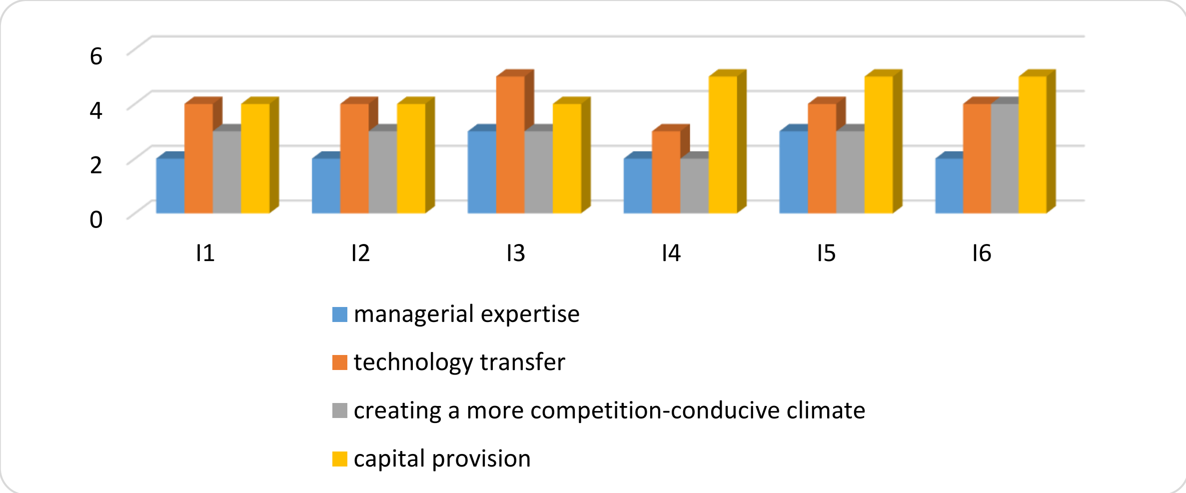


Figure 8.23: Main Advantages that the Libyan Government may Expect to Obtain from MNCs (Opinions of the Interviewees from LIB)

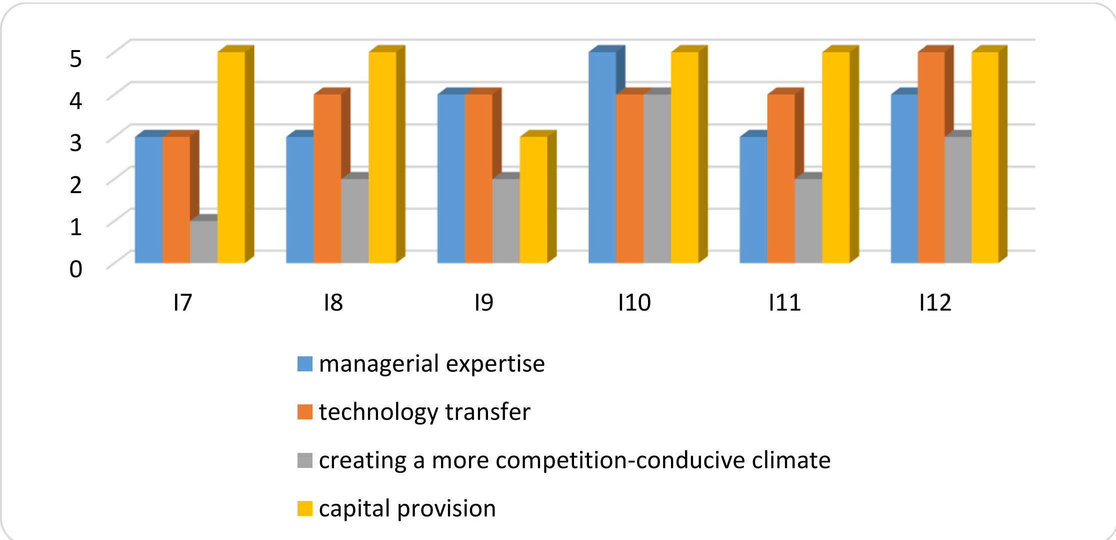


Figure 8.24: Main Advantages which the Libyan Government may Expect to Obtain from MNCs (Opinions of the Interviewees from LMT)

In this context, most of those who were interviewed highlighted the significant role of FDI in providing some or the bulk of the resources which are not available domestically, in order that balanced and sustainable economic development can be achieved in Libya. In this, context the Director of Directors of Studies and Planning (I_5) stated that:

"It is important to note that FDI has made a significant contribution to the creation of jobs in Libya, particularly by the MNCs in the tourism sector. By the end of 2008, foreign and joint

companies employed in excess of 7,000 Libyans. Thus, these companies have contributed to cutting down the unemployment levels in the country, which constitutes one of the major challenges facing the Libyan economy at this time".

Further, the Undersecretary of the Ministry of Tourism (I_8) regarded that:

"The transfer of advanced technology is one of the major roles of FDI in the country. Therefore, the MNCs have made significant contributions in areas of the tourism sector development in this regard".

The Director of Directors of Human Resources Development in the Ministry of Tourism (I_{11}) believed that:

"FDI in Libya will improve the efficiency of human resources. This will result in the emergence of a more suitable environment that fosters creativity and productivity, both qualitatively and quantitatively. Thus, local and foreign investors, including those in the public sector, must now plan their resources within the context of aligning themselves with the competitive market that is now open to foreign investment."

Finally, the Director of Directors of development zones and tourism projects (I_{10}) stated:

"The presence of MNCs in Libya would bring Libyan hotels in line with international standards and offer improvements regarding design and quality of service. This, by establishing an internationally recognised hotel brand in Libya, would significantly help to promote the country as an international tourist destination."

In addition, to get more advantages that will be getting from FDI the Libyan government established Article 7 - from Law No. 9 of 2010, conditions to be fulfilled for investment projects. The project shall fulfil all or part of the following:

"Transfer and introduction of expertise and know-how, modern technology, technical expertise or intellectual property right"

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

"Exploitation or assisting in utilizing local raw materials"

"Contribution towards the development of remote areas."

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

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

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

Another unique benefit stated by many respondents in all cases was the belief that attracting a lot of international clientele to Libya could lead to an improvement in demand, creating more competition in the Libyan market and thereby enhancing the country's economy, its development generally and the tourism sector in particular. Thus, this research suggests that it is time to sell a new image of Libya's investment climate. It is also necessary for Libya to demonstrate its comparative advantages as aforementioned, through effective and collaborative promotion. For example, the private sector could effectively promote tourism, either separately or in co-operation with the government.

Also, the Libya Investment Board and Ministry of Tourism should form closer ties with the MNCs and local private investors and focus on provision of an appropriate and attractive environment for investors to Libya in general, particularly in the hospitality sector.

8.9 Chapter Summary

This chapter is the backbone of the study where the results of the analysis of the primary data are presented. In the first section, the perceptions of the MNCs investing in the hotel sector are represented in relation to the main aspects of FDI in the Libyan business environment, important factors, privileges and exemptions influencing investment decisions for MNCs and obstacles facing MNCs.

The second section places the spotlight on the possibility of foreign direct investment contributions in the overcoming of the aforementioned problems through the lenses of policymakers and senior government personnel in order to provide a contextual analysis of the four main aspects in question, i.e. incentives, obstacles, entry mode and advantages which the

Libyan government can offer. As such, this study aims to define the motivational factors for foreign direct investment (FDI) in tourism in Libya, factors that should be considered and provided for in order to make this effort a successful one from both sides of interest. The next chapter will discuss the main research findings.

CHAPTER NINE

DISCUSSION OF THE MAIN RESEARCH FINDINGS

9.1 Introduction

This chapter contextualises the results of previous chapters and provides coherent insight into the topic under examination. The outcomes of this research therefore critically developed in a systematic manner in order to make connections to the general topic and to identify the main motivations which make a developing country's investment environment attract FDI, specifically in the Libyan context. This section further incorporates an investigation of the results of the current study in light of the outcomes of past research as stated in the literature review.

As Abugahaf (2001) highlighted, the most critical elements that may lead MNCs to pursue investments are macroeconomic arrangements and the degree of their acknowledgement in creating stable economic conditions within the country of interest. This usually involves circumstances encompassing the procedures of the investment such as the political, financial, social, administrative and official components, all of which contribute to the success or failure of the investment in addition to practices based on scientific research.

Further, this discussion focuses on realizing the aim and the related objectives of this study which are stated in Section 1.5, based on the literature review as it seeks to address two perspectives of the motivational factors that encourage MNCs to invest in developing nations. Firstly, the discussions are based on obstacles encountered in attracting MNCs into Libya as an attempt is made to identify the preferred entry mode and secondly the discussions attempt to identify the main advantages of MNCs from the vantage point of the MNCs and policymakers in Libya.

9.2 The Motivational Factors that Encourage MNCs to Invest in Developing Countries and Libya

9.2.1 Maximization of Profitability

When choosing to invest resources into any business endeavour, the primary incentive for MNCs is the chance to boost profits. If a long-term investment in developing countries would help them to achieve this objective, then the MNCs would take the opportunity (Lewis, 2000; UN, 2009). In this study, 77% of the respondents indicated that it is 'critical' or 'imperative' to build the level of their organization's profits in areas that guarantee high income performance. Therefore, the respondents also perceived that a boost in profits would be the main consideration that would have significant impact on the MNCs' deciding to expand their investments abroad. This is concurrent with studies by Ghoshal (1987), Webster and Hudson (1991), Caves (1996), Ramasaran (1998), Keillor (2011) and ICAEW (2014), who all indicate that anything that MNCs can do to either cut expenses or increase incomes will fulfil an organization's definitive objective to boost profits.

However, it should be noted that by putting resources into developing countries, MNCs may diminish aggregate net expenses through lowering processing costs such as taxes or transportation expenses, bringing down overhead expenses and diminishing primary input costs including raw materials. Likewise, by investing resources into developing countries, MNCs may conversely increase aggregate net incomes to attain a relatively favourable position on these local markets (Keillor, 2011).

9.2.2 Availability of Finance

Motivating factors of FDI can be formally portrayed as government budgetary advantages fundamentally offered to foreign financial investors with the primary objective of influencing the size, nature or area of their business investment. Andrew (2003) speculated that incentives incorporate such instruments which give direct monetary advantages to investors and are sensibly proximate to the investment of choice. The experience of various nations demonstrates that in order to make an economy appealing to foreign investors, motivating factors include engaging the quality of the local market to FDI to offer monetary incentives. In the same way, in this study approximately 50% of respondents reported that the accessibility of financing is ‘critical' or ‘vital’, and could be a solid explanation for investors directing resources into the tourism sector in Libya.

In this context, the Libyan Minister of Tourism (I_7) explained that:

"Another example is development aid oriented grants which are offered to assist projects to improve their capacity in order to compete in the long term by encouraging them to promote the use of skilled labour and modern technology".

The amount of grant depends on the nature of the project and the location of the FDI. For instance, in the 1990s in both Ireland and Hungary, direct financial assistance was given to companies capable of creating an agreed number of jobs within the first three years of their operations (OECD, 2003).

Other incentives also include preferential treatment for FDI such as ease of money and profit transfer, the provision of main services for the investor, the execution and administration of projects, providing investors with market information, supplying raw materials, offering advice on production and marketing, facilitating training and providing basic infrastructure at competitive prices. These incentives may indirectly contribute to decreasing the cost of projects and increasing the possibility of achieving high returns.

According to Hamid El-Arabi El-Hadari, (1998) government grants and financial incentives may also include direct assistance, which supplements production or costs pertaining to marketing expenses. In addition to this, the government stake in investment projects involves high commercial risks, so the government also offers insurance with preferential advantages to cover certain kinds of risks such as a change in foreign exchange rates or non-trade risks such as nationalisation and confiscation. In this context, Kariuki, (2015) notes that unexpected movements in the exchange rate may affect expected rates of return on investment, which has an impact on FDI flows into Africa. Finally, according to the World Bank Group (2015), addressing risk financial and uncertainty, helping to increase the efficiency of resources provides new flows of MNCs and promotes co-investment between local and foreign investors. This therefore implies that the availability of financial incentives is an important factor that could be one of the main reasons for investing in the tourism sector in Libya, as suggested by the respondents of this study.

9.2.3 Importance of Tax Incentives

Developing countries should construct a package of privileges or incentives such as tax remission, and offering assurance for the transfer of profits available to companies, which fully complies with their requirements. According to the outcomes of the study relating to the investment law in Libya and the importance of tax incentives in general, tax legislation in Libya is similar to the legislation in other developing nations where it is believed that providing long periods of 'tax holidays' will allow countries to attract a larger share of FDI. Tax incentives are most commonly used by countries to attract MNCs whereby tax remissions are conditional and dependent upon the area of work of the foreign company in usually poor or underdeveloped countries (The United Nations Economic and Social Council) (ECOSOC, 2015).

From the survey it was found that more than 42% of the respondents considered the assessment approach to be ‘vital’, though 20% of the respondents considered tax incentives ‘not critical’ despite considering the significance of ‘tax holidays’. Organizations consider such incentives to be an imperative component for success. In any case, there are other related factors in the tax framework, which the host country ought to provide. Foreign investors appear to be more intrigued by the business environment than by tax incentives. For this reason, and notwithstanding the enormous drivers included in law No. 10 of 2010, Libya's offer to FDI is still insufficient.

In this context, the United Nations (2010) affirmed that the investment atmosphere is more vital than tax reductions or other non-charge motivators; this is supported by studies led in Jordan, Nicaragua, and Serbia, for example.

According to Brauner, (2014) tax incentives actually lead to an increase in the level of foreign direct investment. However, Brauner goes further and questions whether foreign direct investment actually generates economic growth that is beneficial for development. However, focusing on incentives, these are unlikely to diminish since investment initiatives do not attract some organizations that face financial constraints and who cannot exploit tax incentives. Further, temporary incentives can have an even larger short-term impact than perpetual ones. Likewise, according to Haufler and Wooton (2003), there is consistent agreement in the literature that the corporate expense rate of the host country has a huge negative impact on internal FDI. Desai and Hines (2003) also assert that tax arrangements are known for influencing the volume and location of FDI.

9.2.4 Investment Policy Strategy and Regulations

Developing countries today tend to attract foreign direct investment to their local hotel industry and numerous governments have effectively changed their policies on foreign investment to compete effectively with other countries within their region. In Libya, the legal system is critical for foreign investors. The investment law of 2010 gives tax exemptions to financial investors and there are laws to ensure full opportunities for investors, separation insurance, and stability of policies and flexibility of financing. Libya has joined numerous global treaties in the hope of advancing and securing upcoming investments from international markets. Further, there are numerous bipartite international arrangements such as those with the United States, France and Italy.

This study discovered that 57% of the respondents considered the host nation's investment approach 'imperative’ or ‘vital’ for their determining final investment decisions. Additionally, the World Investment report (2014) highlighted that in 2013, 59 nations and economies received 87 policy measures that were meant to influence foreign investment and national investment policymaking, these being directed towards direct capital advancement and liberalization. The investor respondents and interviewees affirm the significance of investment strategies and regulations to attract foreign direct investment to the hotel industry, as stated.

9.2.5 Availability of Skilled Workforces

The accessibility of a skilled workforce, not simply a cheap workforce, in a few regions such as, the EU, the ASEAN and Latin America, prompts countries in these regions to develop exceptionally competitive labour forces in order to make themselves more attractive markets for FDI, as was noted in Chapter Four.

In this context, a report prepared by the OECD in 2003 shows that capacity development for workforces enhances aptitudes and constitutes a real incentive for drawing in FDI, especially in technologically driven sectors. The report suggests that this development has a tendency to empower financial investors due to the availability of a highly skilled and cheap workforce as a result of capacity building initiatives (OECD, 2003). As indicated by the outcomes of the study, 22% of the respondents stated that the significance of workforce abilities and the impact of this on an organization's investment choice was 'vital' whilst 22% indicated it was 'imperative'. As such, foreign financial investors appear to value high work aptitudes in their investment choices. Hence, regardless of the level of the Libyan workforce, its aptitudes were not up to the preferred standard and were viewed as overall low when contrasted with global standards. Consequently, the Libyan economy has been confronted by the issue of addressing this lack of a skilled and specialized workforce - just one of the requirements for business and financial investors.

What is more, the human capital of developing countries is a critical factor for MNCs when considering investing their resources into developing countries. Clearly, when investing in the future of another country, MNCs will be likely to need to use the available workforce of the host country. Therefore, MNCs look for a large, productive, educated workforces to drive their investments, and for this reason, the more educated the workforce, the more probable it is that it will attract successful FDI (Lewis, 2000 and Ogunade, 2011).

9.2.6 Geographical Location

Various studies stress the significance of geographic location as a determinant for attracting FDI. According to Wei and Liu (2001), Ernst and Young (2013), the geographic dimension plays a critical role in where MNCs decide to invest resources as market accessibility is considered one of the primary inspirations for firms to contribute abroad. Additionally, location choices lend to processing expenses of operational investment exercises in a foreign country. For example, the transportation, communication and informal expenses in addition to cultural and language barriers must all be considered (Bevan and Estrin, 2004). Furthermore, geographic location choices have both immediate and long-term impacts on the investment atmosphere between the host country and contributing partners. Distance can also be a deterrent to building relations among financial organizations due to a possible unfamiliarity with local laws and regulations, whilst neighbouring countries may have already become more acquainted with them (Brenton et al., 1999). The study by Portes and Rey (2005) recommends that separation assumes a critical part in deciding transaction streams in foreign investments.

For example, distance is used as a determinant of internal FDI and value streams by MNCs to estimate the cost of data as opposed to transport costs. Furthermore, the cost of data is liable to increase with distance since unfamiliarity with the host country's society may not open doors or reduce expense (Guerin, 2006). Gopinath and Echeverria (2004) state that geographic separation may cause nations to change from exports to foreign investments in order to lessen transportation and production generation costs. Accordingly, countries with a large local market or those near to large markets are more attractive to outside financial investors than more distant and foreign markets. On the other hand, any country with advances in local transportation systems and short distances from business hubs can draw in more financial investors in spite of the limited smaller markets. In addition, updated transportation infrastructure reduces gaps between capital urban communities, financial centres and rural areas (IMF, 2004).

Separation is therefore said to have a negative effect on internal FDI since it is an intermediary of all conceivable investment barriers which deter foreign investors by geographical separation. This suggests that increases in these investment expenses have a negative effect on FDI inflows into host countries. For example, because of the topographical closeness, North Africa and EU countries have been critical investors in Libya. From investigations, it can be noted that due to the geographical nearness, the US is the top investor in Latin America and Japan is the top investor in the Asian region (see Chapter Five).

Libya also has a key geographical location that unites the nations of southern Europe, which are situated on the Mediterranean, and the countries of central Africa. In this way Libya could be said to have an extraordinary locational environment for trade and investment. As a consequence of this favourable geographical location, it was recognized that Libya's land would be a critical place in any organization's investment choices and as such it was expected that Libya's geographic position would draw in more FDI, especially through exportation investments. Thus, organizations were asked whether Libya is deemed to profit from its geographical area, regarding drawing in FDI. The outcome of the review revealed that 62% of the financial investors communicated that Libya’s critical location feature is indeed a consideration in foreign organizations' decisions to invest resources into Libya. The results therefore affirmed that Libya was thought to be a key location but the significance of its location was found to vary amongst the MNCs.

9.2.7 Convenient Infrastructure

The accessibility of suitable infrastructure is an essential component when attracting FDI since it can add to the minimisation of workforce expenses and thus expand the rate of profits on private investments. Fixed transport systems and communication frameworks are prone to help achieve ‘access' into territories that lay inside and outside the host country. Hence, as expected, effective communication methods will encourage fast connections to various branches of MNCs and will likewise help maintain a smooth flow of data between a Head Office and its branches.

Exceedingly urbanized areas provide MNCs with vast pools of workers to choose from in a region that has vastly developed infrastructure as opposed to rural areas. Hence, the better the infrastructural foundation, the more accessibility to engage more workers for maintaining FDIs.

For example, an urbanized zone offers the ease of making routine business transactions and in this manner typically such areas receive higher FDI.

As indicated by the research, more than 47% of the respondents emphasised the ‘critical’ or ‘essential’ role of infrastructure in attracting multinational organizations. As found from the experience of Latin American and East Asian states, infrastructure was altogether a vital variable for nations such as Singapore to attract FDI (see Chapter Five).

In addition, Kariuki, (2015) confirms that infrastructure is a factor that influences FDI inflows. Governments need to improve on the quality of infrastructure so as to reduce the transaction costs faced by foreign investors. The Libyan government focused on creating its infrastructural foundation from the 2000s and the high expenses of infrastructure services had a negative effect on the economic advancement, especially in 2014 when oil prices fell. This implies that the government administration could not provide the essential funds to enhance services (as discussed in chapter three) although critical changes have been made since then.

However, it is still noteworthy that Libya's infrastructure has not been radically enhanced in the last ten years and therefore more ought to be done to improve it. Further, regardless of this, Libyan infrastructure can be regarded as being modest regarding its quality, though its expansion has resulted in greater demands as a result of rising population levels and the consequent extension of urban areas. This shows evidence of the significance of infrastructure in host countries and the critical part it can play in attracting MNCs.

9.2.8 Political and Economic Instability

Foreign direct investment (FDI) inflows to Libya slowed down during the revolution of 2011. It is expected that for the time being most FDI will continue to be in the oil and gas sector. According to the empirical study, all of the respondents concluded that the main factors influencing slow FDI inflows over the short- to medium-term would be political instability and economic policy uncertainty, as well as fears over the security situation related to riots and similar forms of civil unrest. In addition, given the challenging business environment, inconsistent decision making and high levels of bureaucracy, investment into other developing countries is not expected to arrive at the same rate.

There are a number of studies which underscore the significance of practical political conditions (for example, Hansen & Rand 2006; Azman-Saini et al. 2010; Bengoa and Sanchez Robles 2003). According to Dunning (1973, 1981) the host country is an essential determinant in the investment choice of foreign firms. Davidson (1979) discovered that FDI location choices are impacted by particular national variables such as political security. In a similar context, Kolstad (2004) found that political freedom is a critical component to encourage FDI inflows. The security of the government in power ultimately influences the MNCs' choice in allocating resources in developing countries. Furthermore, military overthrows and rebellions are problematic scenarios for MNCs, since laws and trade standards may quickly change under new and more erratic government administrations. In such situations, additionally, MNCs are likely to be unable to respond rapidly enough to halt their investments in the country (Lewis, 2000).

Additionally, Lewis (2000) affirmed via an 'adaptive expectation' model, that the existing financial stability of a country's economy is vital, but when an economy has consistently done well in the past, monetary stability demonstrates to investors that they can have more confidence in the future economic successes of the country.

A study by Mahembe and Odhiambo (2014) further discovered that changes in policies and methods translate into a boost in financial development. This is currently the basis of attracting FDI into six SADC (the Southern Africa Development Country's) low-income countries including the DRC, Madagascar, Malawi, Mozambique, Tanzania and Zimbabwe for the period from 1980 to 2012. These countries transitioned from communism to free enterprise during the 1990s and mid-2000s.

Specifically, government administrations of some of these nations were extremely active in businesses through state-owned enterprises, particularly in 'strategic sectors' such as telecommunications, agriculture, and mining. Specifically, nations that sought the privatization of state owned enterprises like Mozambique and Tanzania have attracted generous amounts of FDI inflows in the most recent two decades and have seen their economies develop at a faster rate.

9.2.9 Market Size

The size of the existing business sector is an essential element in influencing inward FDI in host countries. This is especially true since there must be sufficient domestic demand in the host country (Davidson, 1980) to effectively capture the market share regarding the supply and demand within the MNC's geographical location of choice. There are a few observational studies which discovered a positive relationship between FDI and the level of demand in the market.

Abugahaf (2001) and Poelhekke (2010) support the view suggesting inward FDI can be correlated with the host country's market size. Hence, the likelihood of enhancing development is one of the compelling factors in the decision-making process toward attracting foreign investment into host countries. Likewise, this study supports the literature review with respect to the essential market size to appeal to MNCs. According to the survey, 64% of the respondents considered their interests were ‘vital’ or ‘imperative’ regarding the choices MNCs make in investing resources into the host country based on the impact of the size of the market.

Among others, Wei and Liu (2001), Bevan and Estrin (2004), and Ho (2004) associate a positive relationship between internal FDI and the beneficiary country’s GDP, proposing that a bigger business sector size can progressively attract FDI inflows. Since market or business size can be utilized as an intermediary for total demand, the size of the country’s business market may be identified with the size of FDI in the host country (Wei and Liu, 2001).

For example, the study one by Pitelis (1996) applies an econometric estimation for testing connections between total interest and outward investment. The study found that successful residential interest inadequacies are drivers of foreign investments by the home country. According to this brief outline of the literature, a correlation is noted between the relative improvement in the business size of the investing company and the receiving country (Wei and Liu, 2001). In the event that the host nation’s GDP increases faster than the MNC’s home nation’s GDP, the host country is relied upon to be generally more appealing than the country of origin, and the firm from the country of origin is more inclined to invest resources into the host country. Nonetheless, if the business size of the host country is negligible, the MNCs are liable to increase profits through lower nominal production expenses in that country (Markusen, 1998). Although Libya has a moderately small market due to its small population of roughly 6.21 million, it has a rapidly developing market due to a high rate of young working age people. This implies that there is incredible potential for developing the Libyan market. The business sector is also considered to be a sector for possible expansion in light of its geographic location, which could presumably play a major role in global trade development between various countries. In order to dominate part of the market share, external and local investors tend to find loopholes in supply and demand within Libya’s cross-sectoral markets.

9.3 Main Sources for MNCs to Acquire Information about Potential Markets

Prior to engaging FDI in a foreign country, financiers needed to acclimatise themselves with the laws and regulations in the host country. They therefore needed to break down its development prospects and acquire definite data on production costs. They also need to consider the accessibility of potential collaborations with suppliers of raw materials. However, whilst statistics about developing nations are easily accessible and consulting firms can support this approach; acquiring data about business conditions in developing nations is frequently problematic. The results of this survey therefore highlighted that the key practices for examining the business environment were based firstly on leading feasibility studies and then on completing statistical surveys in the country of choice, with 45% and 31%, respectively. This result was similar and reinforced by numerous studies such as those led by Scott and Gerald (2012), Costa and Teare (2000), and Olsen et al. (1998 and 1994). This suggests that the Libyan government ought to allocate resources for the improvement of data sources and their management in order to enhance MNCs' to use of these resources. In an appreciation for this, the Libyan government formed the Libyan Foreign Investment Board, the General Board of Tourism and the General Board of Information to manage the procurement of all administrative data required by foreign organizations (See 6.11.5).

9.4 The Main Obstacles for Inflow of MNCs in the Tourism Sector into Libya

The fundamental challenge confronting MNCs' investment into Libya was stated to be riots and similar forms of civil unrest and political instability in Libya since 2011, which were the significant obstacles for inflow of MNCs in tourism sector into Libya. In addition, several studies confirm that this discourages MNCs from investing in the host economy that is subject to such risk (Büsse & Hefeker, 2005; Büsse & Hefeker, 2007; Bussmann, 2010; Büthe & Milner, 2008; Daniele & Marani, 2010; Diamonte, Liew, & Stevens, 1996; Enders, Sachsida, & Sandler, 2006; Haftel, 2006b; Jensen, 2004, 2008; Ramamurti & Doh, 2004).

In addition, this study found the obstacles facing MNCs' investment into Libya was stated to be concerns of legal issues, underdeveloped infrastructure and non-transparency of government policies and its bureaucratic systems. As indicated by the findings exhibited in the last chapter, these elements have a heavy weighting on investment decisions from international investors. As such, this study found that a large portion of respondents considered these elements were imperative and likely to have a high impact on investment choices.

Further, the concerns of investors are in accordance with the prior findings of Wei (1997 and 2000), Morisset, (2000), Drabek and Payne (2001), Onyeiwu (2003), Sekkat and Veganzones-Varoudakis (2004) and Filipovic (2005) who acknowledge that in developing and transitioning countries there is a lack of infrastructure and skilled workforces, which have an inhibiting impact on FDI inflows.

Nonetheless, in spite of the disadvantages such as legal issues and underdeveloped infrastructure there are numerous positive emphases. As such, in a geographic area of interest, various assets and human resources must be accessible in order to aid the establishment of the investment project within the region. For example, in the Arab, African and Mediterranean regions such issues are connected to the deficiency of the local markets, per capita income, inexpensive local labour and international emigrant labour.

9.5 Preferred Entry Mode

In view of the findings of this study, there are four basic kinds of entry modes. These are claimed to be subsidiary, joint endeavours, administration contracts and franchising. These outcomes agree with various studies led by Zhao and Olsen, (1997), Chen (2005) and Panvisavas and Taylor (2006). In this respect, the most of the respondent organizations revealed that they preferred non-value modes for projects in Libya, which included primarily administration contracts and franchise agreements. Regardless, a few respondents disclosed that their organizations would sooner utilize the joint endeavour mode in the event that they could acquire a decent offer or an incentive from Libya.

The primary purpose of embracing the previously stated modes as reported by the respondents may be related to having adequate control of the operation and protecting the organization's image with little risk involved. The risks may include the small market size and constraints faced within the Libyan market, the encounters of the organization in utilizing the mode, the way that the value of the organization’s stock decreases in the event that they utilize whole ownership and leasing modes and the current state of the hotel industry. Whilst political stability was specified in the last section as a critical determinant in the global development decision-making process, it is apparently not a vital issue when firms use management contracts and franchising arrangements. These conclusions are supported by numerous studies performed by Zhao and Olsen (1997), Gannon and Johnson (1997) and Blomstermo el al. (2006), for example. However, all of the respondent organizations reported that they prefer to utilize management contracts and franchising in light of the aforementioned reasons and especially since the Libyan business sector is still unfamiliar with their organizations. Such methods of business are not presently suitable under the Libyan law unless the organizations utilize a fully owned subsidiary or attempt a joint endeavour with a local firm as highlighted in Chapter Two. This implies that the Libyan decision-makers ought to consider these structures seriously when creating related policies on this issue in order to encourage MNCs to extend their business into the Libyan market.

9.6 The Impact of the Host Nation's Policies and Regulations for MNCs

The results of this study further demonstrated that MNCs consider the stability of the host nation and its acceptance of external or foreign investors amongst the most vital determinants in global development decision-making. Additionally, respondents asserted that significant contributions by the host nation’s government would be essential in order to support the internal investments and the MNCs interests more specifically.

Richter (1994), Poirier (1997) as referred to in Hong et al. (1999), Asiedu, (2006) and Kariuki, (2015) found that multinational firms have highlighted the security of the host nation to be amongst the most imperative elements in foreign investment decisions. The study additionally demonstrates that the host government's strategies and regulations may become limitations on the business operations of MNCs and undermine those organizations' property rights.

These requirements include uncertain government strategies or transparency issues, limitations on profit repatriation, constraints on workforces, issues of supply and demand, taxation policies such as wage assessments on operation systems and the level of tax exemption, customs and duty, particularly on hotel equipment, the Libyan visa process, the security of the nation, the protection of the hotel’s image and restrictions on changing national currency into foreign currency.

Likewise, there are other related issues which were accounted for by some of the respondents and may support the improvement and operation of MNCs in Libya. These include proper infrastructure, ease of government endorsements for hotel improvements, a solid financial sector to inspire local and foreign investors to put resources into their nation, building new lodgings or renovating existing hotels, and the ability to direct these newly constructed hotels to well-known hotel networks to oversee them so they are able to take benefit from these relationships. In such manner, the Libyan government has promulgated laws and regulations to encourage foreign organizations to enter the Libyan business sector (see Chapter Six). These laws were intended to ensure investor and government rights. The incentives given by these laws and regulations are similar to those motivators stated by the respondents of this study. These incorporate incentives such as exemptions from tax and customs duties, removal of limits on benefit repatriation, and the procurement of various facilities. However, the application of these laws is not adequate with regard to their practicality since organizations need to have confirmation that Libya is serious in its aspiration to address the current matter.

9.7 The Advantages of MNCs Engagement

Both the host nation and the foreign investors realize advantages of MNCs engagement from different vantage points according to their approaches. The interviewees noted advantages in utilizing modern technology in the host nation, offering employment to local workforces, presenting training and work experience, and contributing by financing projects. Foreign investors realised benefits in engaging new markets, ensuring profit maximization, generating profit from raw materials and benefiting from the low workforce costs in the host country. Moreover, a large portion of respondents (53%) felt that this relationship could have a beneficial outcome for all parties if their organization would collaborate with the local investors already in the hotel industry. As a result, 25% of the respondents further stated that they would consider the idea of networking with local hotels. These conclusions were supported by numerous studies undertaken by Kusluvan and Karamustafa (2001), Pine and Yu (2001) and Jacob and Groizard (2007).

Further, studies led by Kobrin (2001) point to the beneficial outcome of FDI and disregarded the extent of the impact of reliance upon the development of human capital accessibility in the concerned countries. This is amongst the most critical impacts on FDI for financial development as it attempts to attract various resources that support the investment interests overall. This is an indication of the significance of extending the Libyan hotel industry from the financial investors' perspective.

Moreover, the fundamental advantage that Libya may achieve from association with these organizations would mean an increase in the quantity of luxury hotels which would contribute to the development of the Libyan hotel industry overall. Another advantage expressed by numerous respondents was the belief that by appealing to many international customers, Libya could prompt a change in demand, thus creating more competition in the Libyan business sector and improving the nation's economy, its overall advancement generally and the tourism industry more specifically.

9.8 Additional Requirements

To appeal to more MNCs and improve the investment environment for the future in Libya, respondents were requested to offer additional suggestions from their perspectives of what would add to the advancement of the Libyan tourism and hotel industry. These are outlined by the accompanying points raised below:

- Developing investment opportunities by increasing collaboration of endeavours with global associations that have a role in promotion procedures and offering consultation services. This includes establishing workplaces for promoting investment exercises throughout the world and developing an information baseline of tourism data in order to enhance the nation's image within the global tourism markets,
- Improving the Libyan tourism infrastructure and administration. For example, air terminals, parking, roads, and developing the economic markets and banking procedures to support a positive image for travellers to Libya,
- Offering a straightforward business environment without corruption and bureaucracy,
- Providing political and security stability,
- Increasing finances allocated to research and development, and offering the much needed support to enhance capacities in all tourism-related fields,
- Benefiting from developing nations' involvement in attracting foreign direct investment.

9.9 Discussion of Case Study Findings

9.9.1 Introduction

The significance of this study relates to the motivational factors that attract MNCs is critical for those involved in FDI. It would therefore be useful for executives to recognize this in their direction of future interest in foreign markets. It is also helpful for governments in their creating measures and sending positive signals to foreign investors about prospects and the investment climate in order to attract further FDI. This is especially so since MNCs are seen as being able to offer the essential capital, expertise, knowledge and skill to help them advance economically to a more developed state.

The discussion of the findings will take into account the outcomes from interviews with officials of the Libyan Investment Board (LIB), the Libyan Ministry of Tourism (LMT) alongside evidence found within the literature searches. These outcomes have taken into account what was reviewed in the literature and the outstanding issues or themes included in the processes, policies and assurances for attracting MNCs along with the restrictions that challenge overarching tourism development in Libya. What is more, this section carefully looks at perspectives concerning the business sector entry mode by MNCs that the Libyan government favours and it additionally examines the primary explanations for selecting those specific entry modes.

Finally, there is a discussion of the research results regarding the role of the FDI in offering some of the most constructive environments which the Libyan government may hope to gain for MNCs. These include obtaining a strong position in designing attractive approaches which encourage MNCs to take a greater interest in the Libyan tourism sector. To achieve this, the researcher led twelve semi-structured interviews with the respondents for the case study. The interview questions took into account the perspectives and ideas identified with the motivations of MNCs. The objective of this study and the outcomes of the multi-contextual investigation, the Libyan Investment Board (LIB) and the Libyan Ministry of Tourism (LMT) were introduced in Chapter Six. The present chapter addresses these outcomes and presents their suggestions. Since an investment endeavour is not only reliant upon the intentions of the foreign investors, but also on those of the host country's government, the characterization of the intentions for FDI in this study takes into account the collaboration of these two parties.

9.9.2 Importance of the Investment Environment in Libya for Attracting MNCs

Foreign direct investment assumes an essential role in the world economy, particularly since it offers services for financial development, reduces development burdens, creates jobs for national workforces and therefore decreases unemployment rates. Besides this, it extensively contributes to an exchange of cutting-edge technology which has been noted in numerous financial analysts' studies which investigated the advantages of such investments. The present study was proposed to achieve a critical understanding of the effect of FDI in developing countries and elements impacting FDI including: intentions, challenges and investment incentives.

As expressed in Section 1.4 of this study, these are significant difficulties which could have an effect on the nature of the investment environment in Libya. Subsequently, it is essential to decide the means by which an attractive environment can be created for MNCs to invest in Libya. The majority of individuals interviewed by the researcher belonged to several levels of the authoritative hierarchy; Ministers, Undersecretaries of the Ministry and Heads of Departments. They were asked to highlight the role of the FDI in offering assets which are not accessible locally in order to achieve development and reasonable financial improvement, particularly within the tourism industry of Libya. Furthermore, investment development and its continued flow into developing nations, Arab countries specifically, is accounted for by the degree of pertinence of the investment environment, which is characterized by the circumstances encompassing the investment processes. For example, the political, financial, social, regulatory and legal components can all be more focused on the successes or failures of the investment environment. This outcome is supported by a number of studies which emphasise the significance of stable political conditions (e.g. Hansen & Rand 2006; Azman-Saini et al. 2010; Bengoa and Sanchez Robles, 2003).

9.9.3 Investment Incentives

Host governments can take advantage of the knowledge and contributions of foreign investors and what investors look for when selecting a host country in which to expand their operations. Not only can host governments attract the required level of FDI by foreign firms, but they can maintain existing firms as well by offering the right incentives and obtaining the right coordination between the cost of offering the incentive and the advantages of impending development.

Notwithstanding tourism training for the authorities serving FDI within the tourism industry, the policy ought to be adjusted to make it more favourable for investment purposes and to allow the Libyan government to better facilitate the systems that foreign investors must engage in. As such, this must be approached with the goal of gaining access to the Libyan business sector which would ideally present a one-stop-shop service. Also, from the perspective of interviewees, it was discovered that leaders of the governing body and other executives are more supportive of policies which include managerial systems that concentrate on human resources, the development of infrastructure and the establishment of an investment map.

Through these endeavours, the Libyan government aims to offer an appealing environment for investment in the tourism industry along with an enhanced investment climate. In addition, an effort must be made to overcome the challenges of underdeveloped infrastructure, non-transparency of government policies and bureaucratic processes, finance-related issues, shortages of skilled workers and institutional instability. These findings are supported by past studies, as indicated in Chapter Two, by Teeb (2009), Alfarsi and Almanasory (2006) and

Shuming (2006). The host countries ought to continue enhancing the investment atmosphere for foreign investors by giving careful consideration to the significance of policies, economic stability and legislative reform which ultimately prompts growth in the capacity of the local market to attract FDI.

Likewise, with the Libyan government attempts to attract some MNCs to invest in Libya in this said context, as clarified by the Deputy Director of Investment Management, the critical undertakings by the Libyan government are represented by the embracing of various systems and projects designed to empower foreign investment.

The Government issued Law No.7 in 2003 and Law No.9 in 2010 regarding the empowerment of foreign capital investment as a measure to offer a legislative environment which ensures investment and guarantees its streamlining and compatibility with the objectives and necessities of the Libyan economy. Despite the levels of investment in Libya being lower than in neighbouring nations, it was proposed that these incentives are insufficient to successfully attract as many MNCs as may be required to realise the different incentives through the development of investment Law. This is especially so in accordance with the experiences of those nations that succeeded in attracting MNCs like those of Latin American and East Asian as discussed in Chapter Three.

The policies and strategies of the Libyan Ministry of Tourism with respect to investments tend to be linked to eager investors who want to exploit local natural resources. In this setting the Director of Directors of development zones and tourism investments stated that:

> "*Indeed, the aim to pull in FDI is constantly present, especially in the region of development materials, the health administration and hospitality industry given the deficiency of these services in the Libyan market.*"

The Executive Director of Public Relations and Services (I_4), added:

> "*The law of foreign investment has offered tax exemptions for a particular time to foreign projects related to food security, regional enhancement, utilization of advanced technology and those which add to the improvement of local products.*"

In addition, the general aim is to empower organizations in partnerships between foreign and local investors by encouraging methods for combined investments (Guthoor, 2009). In summary, the lack of investment motivating forces or offers from the Libyan government shows that there is a gap between the Libyan government's policy arrangements towards encouraging MNCs to inject resources into Libya and the actual organizations' needs, which this study has strived to ascertain (see Chapter One).

9.9.4 Obstacles to Attracting MNCs into Libya

Over recent years a large portion of countries throughout the world have made their business environment investment-friendly in order to sustain global opportunities by attracting more capital investment into the country. Regarding the key deterrents to tourism investment in Libya, this study found that these relate to security situation and political instability in the host country, absence of administration services, poor tourism related infrastructure, misguided political aims, absence of expert advice on tourism and limited government budgets.

The other two elements which demonstrated less significance in influencing the appeal of Libya to MNCs were absence of expertise in tourism and a general lack in government budgetary vision.

The majority of interviewees recommended that the Libyan government ought to overcome these challenges, particularly those related to the security situation, political instability and the legal frame work in Libya, and infrastructural shortfalls in order to become an attractive environment to investors in the tourism industry.

9.9.4.1 Security Situation and Political Stability in Host Country

All the interviewees confirmed that the riots and similar forms of civil unrest, political instability in Libya since 2011, have a great influence on the location decision of foreign operations as this factor was ranked first in degree of the obstacles to the investors. Ahmed (2014) confirmed that the investment climate is one of the important factor to the host country to become more attractive for foreign direct investments; in this aspect the government should work to detriment of the political risk, by providing security, political stability and legal framework in Libya. The organizational instability was related to civil unrest, political instability and that this greatly influenced the decision of foreign investors regarding their moving to the Libyan tourism market. Furthermore, the consequences of the considerations are supported by Dupasquier, et al (2006) who articulated that the inadequacy of bureaucratic systems existing in some African countries was one of the primary hindrances that slowed foreign investors from going into those countries. From the findings discussed, it can be inferred that all portions of the interviewees were supportive of most of the policies proposed to enhance the investment environment toward making Libya more attractive to FDI inflows.

9.9.4.2 Lack of Tourism Services and Related Infrastructure

Essentially, the critical infrastructure, which is deemed fundamental for the development of a rewarding tourism division is absent in Libya, and perhaps the absence of accessible lodging, with regard to the quantity and quality, near to the main tourism areas is most lacking. Hence, whilst traditional archaeological destinations, coastal sites and valuable desert stopover areas are all places frequently visited by sightseers, there is insufficient lodging, whilst lodging that does exist does not meet international standards. Further, the Minister of Tourism highlighted the shortcomings of the current administration, which suffers the ill effects of poor procurement connected to the tourism sector. For example, within the banking industry, there are deficiencies in the procurement and supply of water and sewage services coupled with poor telecommunication services.

Despite this, these circumstances are deemed superior to other locations like Tripoli and Benghazi that experience more stability related to various public services such as telecommunications, banking, insurance and air transport. Tripoli experiences poor services in land and sea transportation systems, in addition to existing deficiencies in its supply of workforce. As such, although rural areas tend to experience poor telecommunication services, these areas are often best situated for obtaining connections to air, maritime and ground transport.

In this context, Kariuki (2015) confirms that infrastructure is one the factors that influences FDI inflows. Furthermore, governments need to improve the quality of infrastructure so as to reduce the transaction costs faced by foreign investors. In spite of the promising resources in the tourism division, its performance is still below standard with aggregate incomes of around US$ 26.7m in 2010 in contrast to neighbouring nations such as Egypt with US$ 4.5bn in aggregate income in 2009 and Tunisia with US$ 3.2bn in the same year (Tourism Information and Statistics, 2011). Numerous investigators and experts explain that this is due to the poor proficiency of the tourism sector related to underdeveloped infrastructure in hotels, telecommunication facilities and overall mismanagement (Libya Alyoum, 2010).

9.9.4.3 Political Rationales

Political administrations in Libya before 2011 encouraged a decrease in the private sector and individual projects. Such political approaches influenced the economy and investments into the hospitality industry that was largely represented by the length of the respective restoration period (return period). This type of arrangement usually makes financial investors hesitant to inject resources into countries such as Libya, particularly when the political and economic climate is unstable. A large portion of the interviewees agreed that the change in administrative frameworks by government institutions is an after-effect of poor political decisions, which were developed into ineffective strategies in an attempt to attract MNCs to the Libyan tourism sector.

The Director-General of the Libya Investment Board (LIB I_1) said:

"*Economic, political and social changes completed by Libya's recent activities to attract investors are still deficient to gain to the conviction of financial investors in spite of Libya's determination to keep pursuing openness policies to the world which is a result of the shortcomings of the Libyan media. Then again, the first financial investors who entered Libyan markets were prone to proliferation due to dominance*".

Some studies such as Dunning (1981), and Busse, et al. (2007) have affirmed the significance of political risks. They acknowledge that political dependability in host countries is a critical consideration in the investment decision of foreign firms. Likewise, Bartels, et al. (2009) discovered that the decision for FDI location is impacted by country-particular variables like political dependability, whilst Kariuki, (2015) found that political risk has a negative but insignificant impact on FDI inflows.

9.9.4.5 Lack of Skilled Labour Forces

The majority of interviews validate these findings with policymakers and government officials in the Libyan government (LIB) and (LMT). Regarding employment and skilled labour in the tourism industry, there appears to be a poor connection to technological knowledge, expertise and collaboration abilities. This presents multifaceted challenges concerning human resource capacities since the prevailing perspectives are that these limitations begin with linkages to the importation of foreign workforces as noted in Chapter Five. In this context Kariuki, (2015) confirms that policies that aim to train and upgrade the skills of the labour force are encouraged as this increases human capital thus leading to more inflow of FDI.

On the other hand, regardless of the disadvantages such as the deficiency of local markets, numerous positive aspects still exist. For example, the expansive geographic area of Libya, its various assets and natural resources, which are accessible and can support the establishment of distinctive regional investment projects in Arab, African and Mediterranean areas. This potentially helps to address key issues connected to the inefficiency of the local markets as it relates to per capita income, cheap national and imported foreign workforces.

9.9.4.6 Inadequate Government Spending Budgets

A large portion of interviewees disclosed that the financial commitment to the improvement of tourism is insufficient and various inadequacies exist within the nation's tourism sector. For example, the poor conditions and underdevelopment of vacation sites and the absence of expert marketing workforces at national and foreign tourism offices are prone to be a consequence of underfunding. Interviewees were certain that the government's desire for extending, changing and developing the tourism infrastructure in the country could be properly executed if adequate funds and skilled labour for the procurement of suitable products were assigned. The tourism heads accepted that it was important to sustain the supply within the industry in order to meet visitor demand. On account of its broad nature, the tourism division requires substantial investment to obtain access to vacation sites and to offer the critical requirements of one’s stay such as communications, energy, food and other recreational necessities. In order for Libya to be considered a preferred tourist destination, these services should be offered by the public sector in order to attract desired MNCs to the hospitality industry. Subsequently the administration must channel resources for governments and regional and private agencies to offer higher standards of vital services to the tourist industry.

Finally, the interviewees felt that in light of the Libyan tourism sector being independent, its improvement is likely to support and hasten the enhancement of various other commercial investments such as farming food supplies, manufacturing local crafts for hotel decorations, creating souvenirs and providing adequate transportation. The interviewees also appreciated that the demand on the yield of these industries will be high in order to fulfil traveller demand. It was further deemed important by the tourism executives that the Libyan government should reserve adequate funds for the development of an international airport. Since competing nations are acknowledged as being pivotal in raising interest in their countries as a tourism destination, it is important to begin forceful marketing promotion projects to showcase Libya’s uniqueness and consequently attract MNCs to the tourism industry.

9.9.5 Preferred Entry Mode Allowed by the Libyan Government

As indicated by the Libyan government, this study found that the favoured entry mode to Libyan hospitality industries is via joint investments on account of the negligible risk that may be involved. The second most favoured entry mode was via management contracts. This concurs with the perspective of Gee (2000) who explains that the advantages of a joint entry mode venture encourage the parties to form strong partnerships with the government and can potentially lead to overcoming or minimizing the start-up and operational risks involved. In this context, Que, et al. (2007) confirm that in the case of the hotel industry, a high degree of control can also be achieved with contractual agreements and that since it is not necessary to invest in real estate, growth can take place faster and with less risk.

9.9.6 Favorable Circumstances Acquired from MNCs

The results demonstrate that interviewed individuals highlighted the major role of MNCs in providing some or the majority of the assets which are not otherwise accessible locally, but are required for consistent and manageable economic development to be attained in Libya. These outcomes are supported by Mossa (2002) where MNCs investments are seen as a method for profit maximisation in host countries. MNCs have also made a noteworthy commitment to creating employment in Libya, especially those within the tourism sector. However, the overall enhancement of human resource effectiveness will eventually bring about greater development existing within a more suitable environment.

Another critical point of interest is that the presence of MNCs in Libya would enable Libyan hotels to align with worldwide hotel benchmarks where upgrades can be attained with regards to quality and design standards and services. According to Kastrati (2013) the presence of foreign enterprises may greatly assist increased competition tends in stimulating capital investments by firms in plant, equipment and R&D as they struggle to gain an edge over their rivals. FDI's impact on competition in domestic markets may be particularly important in the case of services.

Further, most policy changes keep favouring FDI. Measures such as decreasing corporate income tax, special measures like accessibility to finance, investment policies and regulations to attract MNCs assume a vital part in the long haul toward the financial improvement of a country, not only for capital, but toward improving the competitive advantage of the local economy via an exchange of technological knowledge, strengthening infrastructure, increasing efficiencies and creating new livelihood opportunities. FDI likewise plays a critical part in improving exportation. The policy of the Government of Libya endeavours to boost the developmental effect and spin-offs of FDI whilst the Government supports and invites FDI in all the permitted sectors. Particularly, this involves a search for vast FDI inflows in the development of infrastructure with the potential for creating job opportunities on a substantial scale.

9.9.7 Additional Requirements from the Case Study Investigation

The majority of respondents concurred that a considerable amount of work still needs to be done before Libya can compete with other nations as a preferred tourism destination. They reported that for a long time there has been an absence of investment interest in the nation's infrastructure and service facilities and skilled labourers are currently lacking in order to meet the requirements of an expanding tourism industry. Moreover, promoting and marketing strategies which were not so important to the nation before are presently considered to be fundamental to improving the image of, public awareness of and knowledge about Libya. All interviewees understood the industry's financial significance and suggested the promotion of global tourism, reiterating their opinion that this would make a significant contribution to the national economy. They recommended the development of tourism in Libya toward a perspective of boosting foreign trade markets, creating job opportunities and improving overall economic diversification.

9.9.8 Chapter Summary

This chapter has examined the outcomes from the investigation of organisations as discussed in the literature review in Chapters Two and Three. Numerous issues impact the attraction of MNCs to any country. As such, this study has highlighted various critical motivations and challenges which influence the drive of MNCs for investment into Libya. A few studies have underlined the role of regulatory strategies and the need to secure human resources as a noteworthy incentive for favourable foreign investment decisions. Others assert that the role of managerial techniques and human resources have restrictive impacts on FDI choices. FDI mechanisms, which were identified within the host nation, include the size and development of the economy, regulatory systems, workforce capacities, and government policies towards foreign financial investors. These aspects were addressed. Many of the interviewees also noted that the size of the current business sector and potential for growth or business development in the host country are critical FDI determinants.

A general rule may be that in picking a foreign market, investors search for a practical foundation at generally low costs coupled with easy access to international transportation and communication networks. This chapter also indicated how the carefully designed research methodology has helped the researcher to execute a thorough study and has encouraged the accomplishment of the aim and objectives of the study. As such, the research further justifies itself by addressing its commitment to offer recommendations with respect to future research within this field that should be considered for advancement by the decision-makers at the Ministry of Tourism and Libyan Investment Abroad.

The next chapter will discuss how the research aim and objectives have been met, the originality of the research and the contribution it makes to existing knowledge. Additionally, it discusses the overall research limitations and the recommendations for future work.

CHAPTER TEN

CONCLUSIONS AND RECOMMENDATIONS

10.1 Introduction

This chapter provides a summary of the thesis, presenting the outcomes of the thesis by bringing together the results of the discussion of the interviews, the questionnaire and the analysis of the supporting documentation and so drawing conclusions on the methodology used and identifying the motivational factors for foreign investors in their investments in the tourism sector in Libya. It includes a justification of the study, discusses the benefits of the FDI, the benefits of the research along with the difficulties encountered and what improvements can be made to the research, offering suggestions for further research as well as policy recommendations.

10.2 The Success of the Research Method

This study has investigated the motivational factors that will encourage MNCs to invest in developing countries generally and into Libya in particular, to identify the factors which work to improve the environment for investment in Libya and, as a consequence, to attract MNCs to invest in tourism by building appropriate policies and legislation. For this purpose, a case study was conducted on LTM and LIB.

In order to achieve the research aims and objectives, to answer the research questions and to ensure the quality of the case study findings, there was a need to choose the most appropriate methodology. The selection of the appropriate methodology for this research was made after a review of the literature on the research topic, setting the aim and objectives, along with an examination of the literature on research methodology.

Based on the nature of this study, an interpretive approach was selected as the main approach for the research. A positivist approach has also been used in order to intensify the validation of the collected data, and to enhance the research quality (see Section 7.3). The case study was selected as the best strategy for this research, being informed by Yin (2009) regarding its appropriateness. The required data was collected through two main sources: a primary data collection method and a secondary data collection method. The multiple sources of evidence were found to be useful as they helped to reduce uncertainty and bias, since the researcher could consult documents to verify answers provided by respondents and then compare the results with results from other data collection techniques. This method of data analysis was based on a systematic analytical technique. FDI is a significant factor in a country's economic development and is also important as an element of a country's economic policy. As outlined in the introduction and the chapter on methodology, the research is an attempt to explore the impact of policies implemented by the host country on the amount of inward FDI and the impact of that FDI on the economy of the host country. In conducting this research, combinations of qualitative and quantitative methods have been employed. A case study approach has been adopted to investigate the impact of the measures taken by the government of Libya to encourage FDI. As well as investigating the impact at the macroeconomic level, the study focuses on the tourism sector (Chapter Seven).

Attracting FDI is not an easy task, particularly with current worldwide competition in attracting FDI. Therefore, to understand FDI and associated phenomena, the theories of FDI, as discussed in Chapter Two, were examined. The successful experiences of the East Asian, Southeast Asian and Latin American regions illustrate the main factors that made these countries the top developing recipient countries of FDI in the last three decades. In general, it is important to study successful experiments in these regions that have attracted FDI. Firstly, the countries in these regions are internationally classified as 'developing countries' as is Libya, which is at the core of the applied study in this research. Secondly, an overview of a transitional economy successfully attracting FDI after period of political instability was presented.

Finally, this study discussed and analysed Libyan economic policy regarding FDI and its effects on the country (Chapter Nine).

10.3 Conclusions

This study aimed to establish the key factors that will encourage MNCs to invest in Libya. A number of objectives were formulated in order to achieve this aim and two organisations were chosen for case studies to represent companies as a whole. The most appropriate methodology was selected to maximise the quality of the research findings in order to achieve the overall research aim and objectives and answer the stipulated research questions. Because of the nature of the research undertaken, the phenomenological paradigm was adopted for this study. Section 7.3 provides the argument for this approach. Therefore, as justified in Section 7.5.1, the case study approach was decided upon as the best strategy for this research. In-depth semi-structured interviews were conducted as the appropriate method for collecting the required data, as justified in Section 7.7.1.5.

Analysis and discussion of the collected data were undertaken in order to investigate and interpret the respondents' answers and to identify and obtain an in-depth understanding of the key factors that encourage MNCs to expand their activities into a developing country generally and into Libya in particular (from the point of view of the targeted companies). The process of data analysis (Section 7.10) involved data being collected from case study organisations and amassed in matrices, representing a process that increased the validity of the research findings because the analysis was conducted systematically, ensuring the consideration of all the pieces of information. Moreover, the matrices simplified the analysis process in terms of comparing and contrasting the responses between the case study organisations.

This study consists of ten chapters. Following the introductory chapter, there is a literature review in Chapter Two. This was undertaken in order to determine the current state of research in the area of MNCs' international expansion. This topic has been reviewed from different subject perspectives. Chapter Three examines motivational factors and policies for improving the investment environment for attracting FDI into a developing country.

Chapter Four, considers the impact of risks on Foreign Direct Investment (FDI). Chapter Five overview countries successfully able to attract FDI after episodes of political instability, In Chapter Six, general background information on the Multinational companies (MNCs) in the Tourism Sector and the Libyan business environment is provided and the main aspects of the Libyan government's policy towards MNCs are discussed and evaluated.

Chapter Seven considers the methodology and the procedures adopted in conducting this study. It deals with the philosophy encompassed in this study which is, by its nature, a phenomenological philosophy, and it identifies the research approach, the research strategy, the data collection method and the generation and analysis of data.

Chapter Eight provides the results of the data analysis and identifies the key factors that would encourage the selected MNCs to expand their activities in Libya. It also identifies the benefits that Libya would obtain from the involvement of these selected companies in the country.

Chapter Nine consists of a discussion of the findings in relation to the theory, and considers the implications of these research findings. Thereafter, it addresses the limitations of the study.

Chapter Ten provides the conclusions drawn by the researcher in the light of the research aim and objectives. It then presents the suggested recommendations which have been deduced from the study and the particular contribution of this study to the body of knowledge in the field and the potential in it for future work in the area.

10.4 Achieving the Aim and Objectives of the Research

The main research questions (Section 1.5) were answered and thus the aim and objectives of the study were achieved. The aim of the research was, 'to identify the factors motivating foreign investors to invest in the tourism sector in Libya.

This aim has been accomplished effectively through the following research objectives, which were also fulfilled.

The first objective of this research was, 'to review the literature on the international hotel industry world-wide and more particularly the literature which covers MNCs' investment in developing countries'. In achieving this objective, a critical literature review was conducted. The literature covered issues relating to the international expansion processes of MNCs, these being the concepts and definitions of MNCs, the development of MNCs, the historical context, the motivation for international investment and the motivational factors influencing international investment (including organisational, legal, financial and socio-cultural factors.) Furthermore, the literature review covered the main forms of market entry modes and the main reasons behind selecting a suitable mode and the potential benefits from MNCs in this for less developed countries.

Based on a critical review of the literature, a significant theoretical background for this research was gained. This information also assisted the researcher in developing the conceptual and methodological aspects of the data gathering process. Hence, the first objective was successfully achieved.

The second objective was, to review the literature of political instability in developing countries in general, and undertake critical analysis of the international perception of Libya in respect of political stability and level of security, and how this influences the behaviour of external investors, in achieving this objective, a critical literature review was conducted. The literature covered issues relating to the impact of risk on FDI, presented in Chapter Four.

The third objective was, to review how some countries have successfully attracted Foreign Direct Investment (FDI) after periods of political instability to identify adverse factors which impact upon the scope for external investment, following political instability and civil wars to identify adverse factors which impact upon the scope for external investment; in achieving this objective, a critical literature review was conducted. The literature covered issues relating to overview of the countries obtaining FDI effectively after an episode of political instability, presented in Chapter Five.

The fourth objective was, to evaluate the Libyan experience to attract MNCs to invest in Libya, for encouraging MNCs to invest in Libya'. In order to achieve this objective, an essential review of the relevant issues in the Libyan business environment generally and of those related to MNCs in particular was conducted and presented in Chapter Six. It focused on the economic developments that have taken place in Libya, on the business laws and regulations concerning foreign companies' activities generally and on MNCs in particular. It also focused on the incentives and guarantees that will be provided by the government to those companies that might choose to expand their activities into Libya. In other words, comprehensive background investigations were undertaken looking at the government polices (the various documents and archival materials gathered from the related authorities) towards MNCs that might choose to enter the Libyan market. Thus, this objective was fruitfully achieved.

The fifth objective was, 'to determine the requirements and needs of MNCs in order to encourage them to invest in Libya'. In order to satisfy this objective a semi-structured interview method and questionnaire were used to collect the data. The researcher conducted semi-structured face-to-face interviews with policy makers, consultants and heads of department from the Ministry of Libyan Tourism and the Libyan Investment Board. The second method used to collect the data was by emailing questionnaires to each of the policy makers and heads of department in the world's top ten ranking hotel groups in 2012-2013 (See Section 6.2). Hence, the requirements and needs of MNCs were ascertained in order to explore and identify how they can be encouraged to invest in Libya. Thereby the third objective was secured.

The sixth objective was, 'to explore the potential benefits that result from developing the tourism industry in Libya, and the potential benefits for MNCs'. In order to achieve a wider and in-depth understanding of the benefits that Libya may obtain from the involvement of MNCs, semi-structured face-to-face interviews with policy makers in the Libyan government, and an intensive review of the relevant literature, were conducted and appropriate information was gathered from the case study organisations. The study findings presented several advantages that Libya could gain from MNCs, as summarised in Chapter Eight (section 8.8.9) under the heading, “the main advantages for the Libyan government”. Therefore, the fourth objective was successfully achieved.

The seventh objective was, ‘to provide recommendations for policies and procedures, which can help to improve the Libyan business environment and attract more FDI in the tourism sector’. To achieve this objective, the findings derived from the previous objectives were discussed successfully using a compare and contrast approach with the literature, which has been updated and scrutinised in order to gain a wider and in-depth understanding of the key factors that will encourage MNCs (within the case study organisations) to invest in Libya. This process allowed the researcher to identify those factors that were consistent with the literature, and some unique factors that emerged from the empirical work.

Therefore, recommendations for Libyan decision-makers were made and these are provided in Chapter Ten under each heading in order to encourage MNCs to invest in Libya. Recognition was made of aspects of the Libyan business environment (Chapter 3). The following section provides a summary of the main recommendations.

Finally, by meeting the seven research objectives, the main research aim was achieved by establishing the key factors that will encourage MNCs to invest in Libya. Hence, the main research questions were also answered.

10.5 Motivational Factors for FDI

According to the empirical study, it seems that there are two viewpoints on the motivational factors that encourage FDI in the tourism sector, from the foreign investor (MNCs) and host country (the Libyan decision makers) as follows:

10.5.1 Motives for FDI from the Viewpoint of the MNCs (Foreign Investor)

In general, the findings of the present study showed that foreign investors preferred to invest in a country that is able to provide an environment in which they can conduct their business profitably and without incurring unnecessary risk. In addition, as illustrated in Chapter Two have shown that in developing countries and transition economies, foreign investors are primarily motivated by resource-seeking and market-seeking FDI.

This study confirms that foreign investors were motivated mainly by the opportunity to maximize profitability, the availability of finance, tax incentives, and the availability of human resources skills, the geographical location and convenient infrastructure and the size of the market. These are all factors that provide an environment in which they can conduct their business profitably. On the other hand, both political and economic stability and investment policy and regulations enable the investor to achieve their goals from investing in the host country without risk, as illustrated in Table 10.1. However, the government cannot control these motives through its regulations and policy.

In the tourism sector, foreign investors are motivated in resource-seeking and knowledge-seeking FDI. If some investors have specific motives, this may set specific requirements for the regulation and management of FDI projects depending on their particular sector in the economy.

Table 10.1: Common Motivation Factors Concerning MNCs, the Libyan Government and Foreign Investment

Motives for FDI from viewpoint of the MNCs (Foreign investor)	**Motives for FDI from viewpoint of the Libyan government (Host country)**
Maximizing profitability	The ease of administrative procedures
Market size	Improvement of infrastructure
Political stability	Training human resources in tourism
Tax incentives	Improving the investment climate
Availability of human resources skills	Provision of legislation and legal environment
Geographical location	Provision of incentive policies
Convenience of infrastructure	
Availability of finance	

For example, if foreign investors are motivated by resource-seeking FDI, the action of the government in this case has, in its regulation and management, to facilitate this by creating better conditions to gain a more stable environment.

A further aspect of policy could involve improving infrastructure. Therefore, the government could indirectly control this motive through its policy.

Because there are few studies which have paid attention to the host governments, one intention of the current study was to integrate all the motivations and particularly pay more attention to the host government's motives and how the government can regulate and manage the process of FDI.

10.5.2 Motives for FDI from Viewpoint of the Libyan Government (Host Country)

From the findings discussed it can be concluded that the majority of interviewees are in favour of the factors that motivate MNCs to invest in Libya. It follows that policy should be changed in order to make the environment more conducive for investment purposes. The Libyan government should aim to ease the procedures that foreign investors must undertake in order to gain entrance into the Libyan market and to this end has established a one-stop-shop service.

In addition, based on ranking, it was found that heads of the boards of directors as well as general directors are in favour of policies featuring the easing of administrative procedures, and focusing on training human resources in tourism and the improvement of infrastructure.

Finally, the establishment of an investment map, through these efforts carried out by the Libyan government, has aimed to provide an attractive environment for investment in the tourism sector and to improve the investment climate (see Table 8.1).

In spite of the locational advantages of Libya and its establishment of foreign investment laws to encourage FDI inflow, foreign investment also needs to overcome the most important obstacles of legal problems, underdeveloped infrastructure, lack of transparency in government policies and bureaucratic procedures, financial problems, scarcity of skilled labour and institutional instability. The government needs to provide the legislation and legal environment to protect investment and ensure its flow, as well as ensuring its harmony with the goals and special requirements of the Libyan economy.

10.6 Major Obstacles Factors for Low Inflow of MNCs in Tourism Sector into Libya

Responses from the two groups - interviewees (Host country) and respondents (Foreign investors) - are included in Table 10.2. This table shows that there is an agreement between the sample interviewees and respondents about the major obstacles that affect tourism development in Libya. The two key obstacles mentioned were security situation in host country, political stability. However, interviewees and respondents considered different viewpoints as to the third factor, the viewpoint of the Libyan government was the lack of investment in infrastructure, whereas local investment policies were the third factor of the foreign investors.

Table 10.2: Major Obstacles Factors for Low Inflow of MNCs in Tourism Sector into Libya

Major of obstacles factors for FDI from viewpoint of the MNCs (Foreign investor)	Major of obstacles factors for FDI from viewpoint of the Libyan government (Host country)
Riots and civil unrest	Security situation
Political instability	Political stability
Local investment policies	Lack of investment in infrastructure

10.7 Benefits of FDI to Host Countries and MNCs

There are many crucial economic benefits that host countries can gain as a result of attracting foreign direct investment, which include domestic investment, transfer of technical and managerial know-how, capital resources, employment opportunities and increased competitiveness, as mentioned in Chapter Two. Equally, host governments can benefit from an understanding of what motivates foreign investors to invest abroad, and what investors look for when choosing a host country in which to establish their investment operations. Not only can host governments attract the desired level of FDI by foreign firms, but they can also retain existing firms. Providing the right types of incentive and obtaining the right balance between the costs of providing incentives and the benefits of enhanced development and growth in the host country is an important issue in this process.

Overall, the costs and benefits of FDI will vary depending on some of the host country's characteristics such as market size, political and economic stability, availability of labour, geographic location and so on. The foreign investing company may also cause an FDI impact through utilizing its intangible assets and its competitive advantage over local firms. In general, host countries continue to compete in attracting foreign firms, which indicates the realization that FDI can produce a beneficial impact on the development of host countries.

10.8 Limitations of the Research

The study is designed to identify and analyse the variables which influence FDI inflows to the Libyan tourism sector. It explores the perspectives of two types of participants (government officials and foreign investors). Like any other empirical study, the study has its limitations. Getting information and perspectives from government officials is not usually easy, as issues could be regarded as sensitive, especially when the opinion of the respondents may not be in line with official government policy.

The main problems of data collection lay in the use of the questionnaire method. Questionnaires sent to many of the international hotel companies were ignored, others took a long time to respond and some were not available during the administration of the questionnaire due to summer holidays or other commitments. However, a response rate of 47% may be considered representative for this type of research.

Interviewing high-level functionaries may be difficult because of the limitations on time available to them. Some functionaries in lower levels would not be interviewed or did not take interviews seriously because of their prejudice that the interviews could not change the current situation. One of the main advantages of the fieldwork and data collection process, however, was that the personal experience, knowledge and feelings of the respondents were obtained. So, these problems have been reduced. Secondary data has been rather difficult to compile as it is disseminated and collected by different agencies with different methods of data collection. In most cases, discrepancies in data definition and values were marked.

The inability to record interviews of the case study on tape due to cultural constraints can be regarded as a limitation since this may have led to important information being missed and the analysis of the interviews being less detailed. In order to overcome this limitation, the researcher, as recommended by Yin, (2009), wrote down as much information as possible during the interviews, and on the very day of every interview, transcribed all pieces of information and ideas and converted them into a form of written record while they were still easy to recall. These records where then verified by the interviewee.

The Arab Spring is a revolutionary wave of political demonstration and protests occurring in the Arab world that demands the replacement of dictatorial governments, which have been in authority for more than twenty years, with elected governments through fair rather than fake elections. This movement started in Libya on 17 February 2011. Therefore, Libya is now governed by the General National Conference, and its priority is to set a constitution for Libya.

Recently many Libyan people have been looking for a definition of legitimate government. This definition is still awaited at the time of writing. All interviews and fieldwork took place during the Arab spring.

10.9 Recommendations for Policymakers

There are many benefits that Libya may obtain from the involvement of MNCs in the country. Therefore, the government should concentrate its efforts on encouraging these companies to invest in Libya. In order to achieve this goal, the Libyan policy makers should take into account the needs of these companies, which are discussed and presented clearly in this study. In addition to the comprehensive discussions in Chapter Nine on the requirements and needs of MNCs if they are to be encouraged in expanding their activities into developing countries generally and into Libya in particular, the following points summarise the main recommendations for the Libyan decision makers in order to foster the establishment of those companies in Libya.

Libyan government should make its investment climate more attractive for foreign direct investments by the means of wide and deep reforms, in this aspect the government should know that the major obstacles that facing FDI investment in tourism in Libya: were: security situation, political stability, lack of investment in infrastructure and local investment policies, which are presented in Sections 8.8.6 and 9.9.4.1).

- The government of Libya should invest in promoting the country's business environment in the world generally and should also promote the country as an international tourist destination, concentrating on the information that is needed by MNCs as is illustrated in this study and preferred sources of information (Sections 8.2.2) in order to provide investors with relevant information on the country's business environment which may help them to reduce their investment risk ratio.

- Objectives and policies that are established should be based on scientific research, reliable data, statistics and information. It is also recommended that a data base centre should be set up in the Libyan Ministry of Tourism.

The Libyan decision-makers should take into consideration the nature of the MNCs' business activities and their business operating methods. For example, most MNCs adopt non-equity market entry modes for expansion rather than equity modes (i.e. management contracts and franchising). These latter modes are not acceptable in Libya at the present time. Therefore, the authorities should allow MNCs to use the aforementioned modes in order to encourage them to invest in Libya.

The Libyan authorities should be more flexible in their policies regarding the labour market by removing any restrictions that prevent MNCs from operating their business activities successfully. For example, the government should modify or abandon its resolution that a manager for a foreign company or organization working in Libya should be a Libyan national.

Although the Libyan government has established and promulgated several laws and resolutions to encourage foreign companies to enter the Libyan market, the application of these laws and resolutions has not been fully implemented and this does not encourage the MNCs to feel that Libya is serious in its desire to attract the foreign companies. Therefore, Libya should activate and implement these regulations efficiently. The Libyan government should ensure freedom of transfer of profits made by foreign companies from Libya to the home countries of those companies. The stability of currency exchange is also an important factor in order to encourage foreign companies to make positive investment decisions concerning Libya.

Uncontrolled administrative corruption and bribery are proliferating and this is one of the most significant issues preventing inward investment in the country. Thus, the Libyan government must do its best to eliminate this phenomenon if it wishes to attract investment across different sectors of the economy.

Transparency is one of the most essential international standards, especially in establishing the validity of an investment climate. Libya is among the countries that are slow in tackling this issue. The Libyan government should work quickly and accurately to ensure that the dissemination of accurate data can be relied upon when making investment decisions.

Although the Libyan government has established one-stop-shop services in order to ease the procedures that foreign investors must undertake in order to gain entrance into Libya, the investors still face many difficulties in securing licenses, in official transactions and in following required procedures. The Libyan authorities should then overcome these difficulties. One-stop shops exist to assist investors looking to expand into the country. However, these have only recently been set up and currently there is a lack of skilled staff with the skills necessary to work successfully in these shops.

There is a need for the government to alter legislation in order to simplify the bureaucratic procedures required for any outside company that wishes to invest in Libya. It needs to improve the demand for tourism within Libya and to increase its share in the international tourism market generally and within the Middle East and North African countries in particular. This can be achieved partially by improving the Libyan tourist-related infrastructure including such services as airports, parking and roads, by promoting Libyan tourist facilities through different channels worldwide and by easing the Libyan visa acquisition process for tourists and business people (as long drawn out procedures may reduce the motivation for tourists to travel to Libya).

The Libyan government should encourage its people to recognize and respect the cultural differences of tourists. This should include training local people to speak different foreign languages and encourage recognition of other people's customs and traditions and so foster understanding of their needs and attitudes. The Libyan government should encourage local and foreign investors to develop more hotels by providing more fiscal and financial incentives.

The Libyan authorities should concentrate their efforts initially on attracting ‘quality’ tourists to Libya. This could involve presenting the country as a provider of a unique selling point. For example, Libya has many historical sites and a fantastic desert which can be marketed as something quite unique.

With regard to the Libyan natural environment, the development of the tourist infrastructure should not jeopardise the natural environment but it should rather integrate the preservation of the natural environment within its development.

10.10 Major Contributions to Knowledge

This study provides significant original contributions to knowledge at academic and practical levels. The following are the main contributions made by this research:

- Based on the survey of the literature, there is currently very little research or literature available covering the problems and issues related to encouraging multinational companies generally and MNCs in particular to work in Libya. Therefore, this study has contributed to knowledge about the motivational factors that would encourage MNCs to invest in new countries, and particularly in regard to Libya.

This study may be considered as a first step towards building a theory relating to MNCs' investing in Libya. It has brought together some knowledge about the requirements and needs of MNCs in order to encourage them to expand their activities into Libya. The theoretical knowledge contained within this thesis builds on the information gained from previous studies of investment in tourism, corroborates such information and puts it in one place. This undoubtedly eases subsequent research, as the obtaining of reliable secondary sources represented one of the more difficult issues. Finally, the possibility of identifying cultural concerns means that there is a platform for communication between investors in tourism sector and the wider academic world. It has outlined the main benefits that Libya would obtain from the involvement of these companies in the country. The review of the literature revealed a large gap and the need for more research, and this study has contributed in this respect.

- This study contributes to the limited literature on the Libyan business environment with respect to the existing policies that are adopted by the Libyan government regarding foreign investors generally and MNCs in particular. Thus, it improves the understanding of Libyan policy towards attracting MNCs into Libya.
- This study has uncovered many new ideas and issues that could be considered for further studies.
- This research makes significant recommendations to the decision makers, both within the Libyan government and for authorities of other countries who may also wish to encourage MNCs.
- These recommendations could be used as guidelines in formulating favourable policies in order to encourage MNCs to expand their activities into new countries and into Libya in particular.

- It is recognised that this study has some limitations but it is believed that the findings of this study provide a deep understanding of the requirements and needs of MNCs in their investment in Libya and it also provides a starting point for future research.

10.11 Suggestions for Further Research

This study has identified and analysed the factors motivating FDI inflows into the Libyan tourism sector taking into consideration perspectives from historical data, foreign investors and government officials. Information was collected from documentary sources, from officials representing Libyan government agencies involved in foreign investment and from decision makers representing international hotel companies located outside Libya.

However, the study has raised a number of questions and has many limitations, which provide opportunities for future research. An attempt has been made to begin to fill the existing gap in the literature on FDI in Libya in terms of the scope of the study and the extent of the analysis. Both resource constraints and the lack of existing research in the subject have restricted the discussion of some issues. The following can be put on the agenda for future research.

- Replication of this research with other service firms such as travel agencies, airlines and food and beverage companies could enhance the understanding of how to encourage expansion of business activities in Libya.

- A similar study should be conducted on the effects of FDI inflows to the Libyan tourism sector in such areas as employment generation, technology and skill transfer, flows of foreign exchange, new training programmes, new management techniques, and the creation of domestic competition, the exploitation of natural resources, enhancing national output and accelerating economic development.

- Cost/benefit analysis and other techniques could be used to measure the direct and indirect effects of all the positive and negative consequences of FDI.

- In order to study the overall impact or motivations of FDI inflows to developing countries, a cross-country study should be conducted. It would be interesting here to measure the effect of FDI inflows on employment creation, trade balances or GDP.

- The study recommends academic study of Libya's private sector and its role in diversifying the sources of income in the Libyan economy. Human capital is considered to be one of the most important factors in influencing the decisions of foreign companies in investing abroad. The level of Libyan labour skills was generally not up to the desired standard and was considered low when compared to international standards. This underlines the need for educational reform in the country in order to meet modern needs. Moreover, the study suggests that the relationship between the educational system and human capital requires more academic work.

The government needs to develop strategies, based on good governance, to achieve macroeconomic stability, to ensure policy transparency and credibility, to strengthen infrastructural and institutional frameworks, enforce the rule of law in the country and to develop competition through deregulation and privatisation. Such factors are expected to help in supporting a more positive environment for FDI and assist in coping with the dynamics of global demand for FDI. Socio-economic policies need to be adjusted in such a way that Libya becomes competitive in the changing global economic environment, as viewed from a regional perspective. Although this study has identified advantages that Libya could obtain from the involvement of MNCs in the country, disadvantages too may occur as result of such involvement. Therefore, further research could be conducted in this particular area to identify the related issues and to find ways to overcome them.

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APPENDICES

Appendix 1: Ethical Approval

University of Salford
MANCHESTER

Academic Audit and Governance Committee

College of Science and Technology Research Ethics Panel (CST)

To	**Khaled Elgamodi and Prof Les Ruddock**
cc:	**Prof Mike Kagioglou, Head of School of SOBE**
From	Nathalie Audren Howarth, College Research Support Officer
Date	30 January 2013

Subject: **Approval of your Project by CST**

Project Title: The motivational factors for foreign direct investment (FDI) in Tourism in Libya

REP Reference: **CST 12/44**

Following your responses to the Panel's queries, based on the information you provided, I can confirm that they have no objections on ethical grounds to your project.

If there are any changes to the project and/or its methodology, please inform the Panel as soon as possible.

Regards,

Nathalie Audren Howarth

College Research Support Officer

Appendix 2: Consent Form

Research Participant Consent Form

Title of Project: The Motivational Factors Foreign Direct Investment (FDI) in Tourism in Libya.

Name of Researcher: Khaled Elgamodi

Name of Supervisor: Prof. Les Ruddock

1. I confirm that I have read and understood the information sheet for the above study and what my contribution will be.	**Yes**	**No**
2. I have been given the opportunity to ask questions (face to face)	**Yes**	**No**
3. I agree to take part in the interview	**Yes**	**No**
4. I agree to the interview being tape recorded	**Yes**	**No**
5. I understand that my participation is voluntary and that I can withdraw from the research at any time without explanation	**Yes**	**No**
5. I agree to take part in the above study	**Yes**	**No**

Participant's Name……………………
Signature: …………………………….
Date………………………………….
Researcher's Name: Khaled Elgamodi
Researcher's e-mail address: K.HA.Elgamodi@edu.salford.ac.uk

Appendix 3: Questionnaires to Foreign Tourism Companies

University of
Salford
MANCHESTER

Motivational factors for foreign direct investment (FDI) in Tourism in Libya

Dear

Motivational Factors for Foreign Direct Investment (FDI) in Tourism in Libya To Whom It May Concern, I am undertaking a study which aims to gain information to better understand the issues relating to Foreign Direct Investment in Libya by focusing on multinational hotel companies. This study is part of a PhD research project conducted at the School of Built and Environment, University of Salford, United Kingdom. You are kindly requested to spare some of your valuable time to complete this questionnaire survey. Please be assured that the information provided in this questionnaire will be treated with extreme confidentiality and therefore please note that this questionnaire does not require your name. Your cooperation will contribute to the successful completion of this research and is very much appreciated. Should you require further clarification, please do not hesitate to contact the researcher, Khaled Elgamodi on the address shown below.

Thank you very much for your valuable time and for your cooperation.

Best Wishes

Khaled Elgamodi

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Part1. General Information of organization:

Your company name: .... Your position... ………………

1. Has your organization had dealings in the Libyan tourism sector?

Yes

No

If your answer is A, for how long has there been this involvement?

....

2. In how many international countries has your company currently operate?

1-15 Countries

16-30 Countries

More than 30 Countries

3. From what sources does your company obtain its intelligence on potential markets?

....
....

Part 2. The important factors attracting foreign investment to the tourism sector

4. To what degree do the following influence investment decisions for your organization?

	Not important	**Fairly important**	**Important**	**Very important**
Profitability maximization				
Availability of finance				
Investment policy and regulations				
Increase in demand				
Tax incentives				

5. What kind of guarantees and investment incentives should a host government provide in order to encourage your company to invest?

....
....

Part 3. The main advantages which a host government may expect to obtain

6. Do you think partnerships between local and foreign investors can benefit both parties?

- A. Yes
- B. Partly
- C. No
- D. Do not know

7. If your answer to Question 7 is A, do you think consider that your company would partnerships with local investors in the hotels sector?

- A. Probably
- B. There is a possibility
- C. There is possibility under acceptable conditions
- D. Unlikely

8. What are the main advantages which a host government may expect to obtain from your company's investment?

- A. Managerial expertise
- B. Technology transfer
- C. Creation of a more competitive environment
- D. Provision of more skilled labour
- E. Capital prove

Part 4. Policies in host countries which help for your organization investment decisions

9. If your answer to Question 8 is C, what are the main conditions?

....
....

10. If your answer to Question 8 is D, why it is unlikely?

....
....

11. To what extents are the following policies are helpful in making the country more attractive to foreign investment?

	Not helpful	Helpful		Very helpful
Industrial free zones	○	○	○	○
Ease of property ownership and renting procedures	○	○	○	○
Simplified administrative procedure	○	○	○	○
Allocation of land	○	○	○	○
Ability to import manpower	○	○	○	○
Exemption from tax on profit	○	○	○	○

Part 5. Entry mode of a new market

12. In countries, such as Libya, what forms of entry mode does your company usually prefer to use for such international expansion?

○ A. Franchising

○ B. Management contracts

◉ C. Whole ownership

○ D. Other....................................

Part 6. Obstacles facing MNCs

13. **What sort of efforts should be made to attract FDIs?**

(Please tick where appropriate)

Efforts	**Not important**	**Fairly Important**	**Important**	**Very Important**
Transparency of economic policies				
Improving basic infrastructure				
Remove administrative hurdles				
Develop investment policies				
Acquire information				
Legal guarantees				
Simplify taxation				
Credit (Banking Loans)				

14. What are the main factors for low inflow of MNCs in tourism sector into Libya?

Factors	**Not Important**	**Fairly Important**	**Important**	**Very important**
Revolts, riots and similar forms of civil unrest	○	○	○	○
Political stability	○	○	○	○
Host government local investment policies	○	○	○	○
Location and advantages	○	○	○	○
Exemption from taxes on income	○	○	○	○
Dominance of public sector Cheap labour force	○	○	○	○
Availability of raw material				

Part 7. Additional requirement and suggestions

15. Do you have any suggestions for promoting foreign investment in North African countries?

....
....

16. Do you perceive the foreign investment environment of Libya to be promising in the foreseeable future?

○ Yes

○ Partly

○ No

○ Other...

17. Do you have any further comments you would like to make?

....
....

Appendix 4: Copy of the Interviews Questions

University of Salford MANCHESTER

Interview Guidelines

Motivational Factors for Foreign Direct Investment (FDI) in Tourism in Libya

Date: / /

Interviewee Details:

- Organization .... Position in the organization................

- Education level ....

Q.1- How do you view the development of international tourism in Libya?

....

....

Q.2- What are the recent reforms that have been done in respect of FDI policies and how have they affected the flow of FDI into Libya?

....

....

Q.3 - what can be done to improve FDI Policy for attracting Multi National Companies in the tourism sector?

....

....

Q.4- What measures do you think should be taken by the government to increase the inflow of FDI?

....

....

Q.5- To what extent do you think the following policy guidelines are helpful in making the country more attractive for foreign investment?

Policy	Not helpful	Helpful	Very helpful
Reducing capital required			
Simplifying administrative procedures			
Exemption from tax on profit			
Easing of property ownership and renting procedures			
Improving of human resources skills			

Q.6- Please rank in order of importance factors that may be perceived to hinder tourism development in Libya.

- ☐ Inadequate government budget
- ☐ **Security situation**
- ☐ Lack of expertise in tourism
- ☐ **political stability**
- ☐ Lack of investment in infrastructure?

Other (Please specify)…………………………………………………………………………..

Q.7- What kind of guarantees and major investment incentives should the Libyan government provide in order to encourage MNCs to invest in tourism?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Q. 8- What form of entry mode is preferred by the Libyan government for MNCs? , (e.g. franchising, management contracts, whole ownership, others)

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Q.9- From your point of view, what are the main advantages which the Libyan government may expect to obtain from MNCs e.g. Managerial expertise, technology transfer, creating a more competition-conducive climate, enhancing human resources in the services sector, capital provision?

……………………………………………………………………………………………………

………………………………………………………………………………………

Q.10- Any other comments?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Appendix 5: Libya's Investment Law (No. 9, 2010)

General People's Congress:

Pursuant to the Decisions of the Basic People's Congresses in the General Annual Session of 2009

Article (1) Definitions

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

1. The State: The Great Socialist People's Libyan Arab Jamahiriya

2. Administrative Authority: the appropriate administrative authority concerned with the implementation of this Law.

3. The Secretary: The Secretary of the sector to which the administrative authority belongs.

4. Executive Regulation: The regulation to be issued with the purpose of enforcement of the provisions of this Law.

5. Foreign Capital : The financial value in the form of cash, property, moral or material, in the foreign currency equivalent that is brought into the country, either owned by Libyans or foreigners, with the purpose of conducting an investment activity.

6. National Capital : The financial value in the form of cash, property, moral or material, in the domestic currency equivalent, which forms part of the investment project's capital of a Libyan national or artificial entity – either its capital is fully owned by Libyan nationals or artificial entities.

7. Investment Project: Any investment activity that meets the conditions stated as per this Law, regardless of their legal form.

8. Privatization: means transfer of ownership of companies, production and service units, wholly or partially owned by the state, public artificial entities or private sector.

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

Article (2) Area Covered by this Law

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

Article (3) The Objectives of the Law

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

(1) Technically upgrade and qualify Libyan cadres and elevate their efficiency, in order to acquire advanced skills in addition to opening employment opportunities.

(2) Endeavour to introduce know-how and technology and thereof inserted into the Libyan economy.

(3) Contribution towards setting up, developing or rehabilitating economic, service and production units, in a manner that assists such units to compete and be introduced into the world markets.

(4) Achievement of development in the relevant area

(5) Increase and diversify income sources

(6) Control energy consumption

(7) Utilize locally available raw materials

Article (4) Forms of Investment

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

(1) Local currency, transferrable foreign currencies or their equivalent, brought in by one of the official banking methods.

(2) Machine, equipment, devices, transport means, spare parts, raw material required for the execution and preparation of the investment project.

(3) Ethical rights such as patents, licencing, trademarks, commercial names necessary to establish or operate the investment project.

(4) Re-invested portion of the project's interests and revenues either in the same projector in another.

The Executive Regulation coordinates the method designed to assess the material and moral assets, and to re-invest the interests.

Article (5) Authority Responsible for the Law's Application

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

Article (6) Assignments of the Authority Responsible for the Law's Application

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

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

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

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

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

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

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

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

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

Article (7) Conditions to be Fulfilled for Investment Projects

The project shall fulfil all or part of the following:

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

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

(3) Exploitation or assisting in utilizing local raw materials

(4) Contribution towards the development of remote areas.

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

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

(7) Provision of employment opportunities for the Libyan labour force, of not less than30%, along with endeavours to provide training courses for such labour, allowing acquisition of technical skills and expertise. The Executive Regulation specifies the terms and conditions for the employment of national and foreign manpower.

Article (8) Areas of Investment

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

Article (9) Permission for Investment

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

Article (10) Privileges and Exemptions

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

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

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

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

(4) Exemption of the investment project from income tax for any activity, for duration of

5 years, the calculation of which shall commence from the date of the permission for licensing the engagement in the activity.

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

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

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

The investor may carry forward the losses that the project may incur during the exemption years to the following years.

The Executive Regulation of this Law shall decide the conditions and rules necessary for the execution of this Article.

Article (11) Transactions in Machines and Equipment

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

Article (12) Investor's Rights

The investor shall have the right in the following:

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

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

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

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

(5) Transfer distributable annual net interests and revenues achieved by the foreign capital invested in the project

(6) Recruit foreign manpower in the case that national manpower is not available.

(7) Issuance of residence visas renewable for 5 years, the duration of the project, and multiple exit/re-entry visas.

Article (13) Foreign Employees

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

Article (14) Investment Record

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

Article (15) Additional Privileges and Exemptions

It may be possible, in accordance with a decision from the General People's Committee, under a proposal from the Secretary, to offer for the investment projects, tax privileges and exemptions for a period, not exceeding 3 years, or other additional privileges, if those projects prove that:

(1) They contribute to the achievement of food security.

(2) Utilise measures that are capable of achieving abundance in energy or water or contribute to environment protection.

(3) Contribute to the development of the area.

The Executive Regulation shall specify the classification of the rules and provisions taking into account that the project is one that fulfils these aforementioned considerations.

Article (16) Privatization of Economic Units

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

Article (17) Rental of Estates

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

Article (18) Authorities over the Project

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

The Executive

Regulation shall specify the conditions and stipulations under which the transfer of ownership takes place.

Article (19) Violations

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

Article (20) Withdrawal of the License

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

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

(2) Violation of the provisions of this Law

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

Article (21) Complaint

The investor shall have the right to make a written complaint against any decision that may be made against him due to a violation of the provisions of this Law, within 30 days from the date of the written notification served on him and confirmed by a signed receipt.

The Executive Regulation shall specify the authority to which this complaint shall be lodged, the complaint procedures and the period required for the final resolution.

Article (22) Accounting Documents of the Project

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

Article (23) The Project’s Guarantee

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

Article (24) Settlement of Disputes

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

Article (25) Fees for Services

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

Article (26) Judicial Control Officer

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

Article (27) Exceptions within the Scope of this Law

The provision of this Law shall not apply on national and foreign capitals invested or will be invested in oil and gas projects.

Article (28) Validity of Legislation Organizing the Economic Activity

The provisions of legislation organizing the economic activity shall be applicable on those who are subject to the provisions of this Law, this is with regard to matters that are not covered herewith.

Article (29) Executive Regulation

The Executive Regulation of this Law shall be issued under a decision from the General People's Committee in accordance with an offer from the Secretary.

Article (30) Annulment of Previous Laws

Law no. 5, 1996, on promotion of foreign capitals' investment and amendments, Law no. 6, 2007, on investment of national capitals, Article 10 of Law no. 7, 2004, on tourism, shall be revoked, as any other ruling that violates the provisions of this Law shall be revoked.

The provisions of this Law shall be valid for all investment projects, acts, events relating thereto and those outstanding ones in accordance with the aforesaid laws per this Article during the time of issuance of this law, this shall be without violation to the privileges and exemptions offered before its issuance.

The executive regulations and decisions issued in accordance with the provisions of the said laws shall be into force in a manner that shall not withstand the provisions of this Law, up until the Executive Regulation of this Law is issued.

Article (31) Publication of the Law

This Law shall enter into force as of the date of publication per the Official Gazette.

General People's Congress

Made in Sirte

On 13th Safar 1378 P.D.

Corresponding to 28th January 2010

Appendix 6: Feedback on Questions: Pilot Study

1) How long did it take you to complete the questions? ____________

2) Were the instructions clear? Yes No

If not, which ones were unclear?

____

____

3) Did you object to answering any of the questions?

Yes No

If yes, which ones?

____

____

4) Do you think any major issue was omitted in the questions?

Yes No

If yes, which ones?

____

____

5) Any other comments?

Thank you again, for taking time out of your busy schedule to give me valuable feedback.

Appendix 7: Published Paper

Khaled. Elgamodi and Amer, Megari (2001),"Intra- commerce as an access to economic integration in states Gulf Cooperation Council (GCC)" Academy of Postgraduates Studies, Tripoli, Libya.