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# LOCATION DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN LIBYA

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## Abstract

This paper aims to determine the factors that encourage and discourage FDI in Libya. As well as examine the influence of location factors such as economic condition, market condition, government regulation, tax concession, supply of raw material, domestic infrastructure, skilled labour, semi-skilled labour, research and development, financial accessibility, and transparency and legal practice to FDI inflow by grouping the firms based on nationality, industry type, and mode of entry major shareholder to understand if there are differences in the groups with regard to the factors. The study is necessary to provide information to policy makers on different aspects of FDI so that the incentives provided by Libyan government matches with requirement as Libya intends to attract specific types of FDI.

The paper employed quantitative technique based on a survey data of 111 foreign firms operating in Libya in 2012. Thereafter, Principal Component Analysis (PCA) with Varimax rotation on the above eleven factors. Also, multivariate analysis of variance (MANOVA), then, was applied as statistic tool to determine the suitability of the various constructs based on the above three characteristics.

The analysis of the overall sample indicated that six out of eleven determinant factors encouraged FDI into Libya are: economic condition, market condition, tax concession, natural resources, skilled labour, and unskilled labour, in line with literature. The remaining five factors were found to be insignificant factors affecting FDI flows. When considered in details, the six factors that influence FDI were mostly related to profitability and operational efficiency of the various businesses. When the three characteristics of FDI were included in the model, the result showed variance in each group with respect to the locational factors. In the light of the above, the paper recommends to the policy maker that as different types of FDI viewed each locational determinant factor differently, provision of incentives should be FDI specific, in order to gain desirable benefits and promote the spill-over effect.

**Keywords**: Foreign direct investment, Determinants, Location, Libya

## 1. INTRODUCTION

Foreign Direct Investment (FDI) is one of the main important sources of capital for both developed and developing countries. It has made significant contributes to development and economic growth in many host countries by allocating resources from wealthy countries to those experiencing scarcity. In the same vein, it allows host countries to invest in activities beyond their domestic saving capabilities (Dimelis and Louri, 2002; Chang, 2010 Balasubramanyam et al,1996; Romer, 2010);Wu and Zhang, 2010).  In addition, host countries can get many benefits by attracting FDI as international companies does not only supply the developing countries with the capital inflows but also with modern technology, development of human capital, and more efficient management methods. Thus raising the efficiency of production elements and supporting higher economic growth of the host country (Moran, et al, 2005).  As a result of this, the perception of countries to FDI has changed. Since the 1980s, FDI has been welcomed, and many countries have amended their regulations and designed new frameworks in order to attract foreign investment and knowledge in their countries. In particular, developing countries have globally opened up their economies, liberated financial markets and offered tax and other incentives, to encourage foreign firms to invest in their countries. In order to have better access to international market and technological know-how, and also to increase employment, enhance balance of payments and all potential positive effects of FDI (Lall, 2000).

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Creating a suitable environment for FDI becomes very crucial in a growing competitive environment, especially to developing countries and need to re-examine FDI policies becomes paramount. This has led policymakers to search for ways to attract foreign investors, using both macro- and microeconomic instruments. Consequently, in order to encourage FDI, policy-makers have increasingly focused on the factors that could be improved in order to encourage investment as a possible method for achieving sustainable economic development.

Consequently, the inward foreign direct investment across the world has been raised sharply in the last three decades, and has been among the fastest growing economic activities around the globe. It rose from an annual average US$ 142 billion for the period of 1985-1990 to more than US$385 billion in the year 1996 and reaching US$2.1trillion in the year 2007. In 2010 the FDI decreased to 1.3 trillion affected by the global financial crises of 2008 and increased to 1.6 trillion in 2011 (UNCTAD, 2013). In 2012 FDI inflow to developing was US$680 compared with US$ 1.3 trillion generated by developed countries in the same year. The annual share out of total World FDI inflows of the developing countries has been increased dramatically from 16.86% in the year 1990 to 18%, 45%, and 52% in the years 2000,2010, and 2012 respectively, while the share of the Middle East & North African (M&N) countries were 0.61%, 0.42%, 4.97% and 2.67% respectively in the same period (UNCTAD, 2013).

Libya despite abundance of natural resources and various policies to encourage investment is not yet attractive to FDI inflows. Since the beginning of 1990s Libya have implemented wide-ranging reforms in order to diversity the sources of income and encourage the private sectors via an all-encompassing deregulation, privatisation, and globalisation to attract investment. Also, the Libyan government has given foreign direct investment top priority as a future development strategy by enacting investment Law No. 5 of 1997 amended by Law No. 7 of 2003 and Law No. 9 of 2010 to encourage foreign investors to invest in Libya. However, all the reforms have not attracted the expected amount of FDI.

As a result the FDI inflow to Libya has risen over the period 2003- 2010 from a relatively low level of about U$ 143 million in the year of 2003 to reach nearly U$ 4 billion in 2007 and U$ 1.4 billion in 2012 (UNCTAD, 2013). However, foreign direct investment has made little contribution to rising rate of capital accumulation in the local economy. Furthermore, yet most of the foreign investment in Libya are in oil and gas sectors (Central Bank of Libya, Annual Report, 2013).

Given these problems, there is agreement among policy makers that the future economic stability of Libya depends on its ability to attract FDI to the non-oil sector and strengthen the private sector to diversify the economy. However, while more FDI is needed to diversify and sustain economic growth, the question is how is this to be achieved? One essential step is to determine the factors that increase/decrease the investment inflows into the country. Thus, it is necessary for host countries to recognise the locational determinants of FDI, so that the incentives provided are effectively matched with the requirements.

Understanding what is behind investment location choices can help the host country governments to identify the consequences of implementing passive FDI policies as well as provide tools for FDI agency to formulate strategies. Because FDI is a rather complex economic phenomenon that depends on so many related factors, it is likely that as the world changes, FDI factors also change (UNCTAD, 2009). The motivation for this study is to explore the factors that determine factors and obstacles to FDI in the rapidly developing economy of Libya over the last decade.

## Overview of FDI Literature

There are many theories explaining why FDI occurs. As well as theoretical and empirical studies that has examined the justification of firms to engage in international business. In the Heckscher-Ohlin theory the initial explanation of FDI is based on the concept of comparative advantage, followed by neoclassical theory by Solow (1956). Lancaster (1957) summarized the neoclassical approach and tried to explain FDI as a result of the differential rate of returns between two countries. FDI moves from the country that has a low rate of return into the country that has a higher rate of return. This hypothesis is derived from the neoclassical economic theory. However, this theory failed to recognise the unique nature of FDI.

Hymer's theory 1960 criticizes the neoclassical approach for its limited ability to explain FDI flows. The focus of FDI research is on the more realistic, imperfect market assumption. Hymer gave a theoretical insight to the theory of international investment. Since then, the literature on pattern of FDI flows has taken a new dimension. One of such perspectives is the transaction costs approach which is an extension of Hymer's theory, although it still left something of a gap in understanding. Latterly, this has been filled by Dunning's so-

called eclectic paradigm, incorporating ownership, internalization and location advantages into a single strand of FDI theory. While this framework is widely accepted for its comprehensiveness, recent insights have raised the need to add further motives, such as strategic, social and ecological aspects. These developments show that the Dunning framework has proved is flexible, as it is a collection of ideas within a single framework which is yet to be fully unified. Nevertheless, it gives an insight into the spatial concentration of FDI activity particularly location, for which new theoretical developments attempt to explain. The location of FDI has played an increasingly vital role in the theoretical literature of FDI, and has been extended by the modern theories of economic growth, trade theory and new economic geography. These theories provided a rich framework to develop the reasons behind why, how and where firms engage in foreign direct investment.

## 1.1. Previous Empirical Evidence on FDI Determinants

**Macroeconomic Stability** Previous studies have shown a significant positive correlation between the economic stability and FDI. Various economic indicators have been used in research including economic growth inflation rate and exchange rate. Economic growth is necessary for attracting FDI (Moosa 2007). Empirical evidence showed that the fastest economic growing countries are the biggest FDI host countries (UNCTAD, 1998). Bellak et al. (2009) analyses bilateral FDI outflows of seven home countries to eight CEECs host countries, the result show that GDP per capita of the home country have a positive impact on FDI. Oladipo (2010) used different method of data analysis by employing time-series data from 1970 to 2005, to examine the factors influencing FDI inflows to Nigeria. He also, reached the similar results that GDP and overall macroeconomic stability is positively related to FDI inflows. Stability of exchange rate (measured in units of foreign currency per domestic currency) was also found to have positive effects on the inflows of FDI (Thomas and Grosse, 2001).

Apart from these changes, reforms in some of the economic variables can also stir foreign investment. For example, a reduction in the inflation levels in an economy sends out positive signals to prospective investors (Schneider and Frey, 1985). Asiedu (2002) examined the determinants of FDI in sub- Saharan African countries and has concluded that low inflation rates promote and stimulate FDI into the region. Catherine, at al. (2011) also confirmed that low inflation rate has a positive impact on FDI Inflow in South ASEAN countries particularly in Thailand. The study explained that there is enough evidence to indicate that a reduction in inflation rate could give rise to FDI inflow in a developed market. Economic openness policies which can be in the number of forms such as a simple bilateral trade agreement or a more elaborate open economy having no trade restrictions or by reducing government intervention in economic activity through the privatization. It provides avenue for a private sector led economy which sends positive signal to foreign investors.

**Market conditions** which is usually measured by per capita income gives a signal of increase in the market size; purchasing power; competition in local market; existence of distribution channel, availability and reliability of market information. Most of this literature identifies market size as an important determinant of FDI (Garcia-Fuentes et al 2013). Kolstad and Villanger (2008) found that different measures of market size are found to be significantly related to FDI inflows into host economy. In similar results Moosa (2007), founded that the size of domestic market is positively related to FDI inflows in the host country.

*Policy framework towards FDI* government can promote FDI inflows by providing various tax exemptions and facilitate the regulation for investors. The general quality of governance in host countries can play a crucial role in either attracting or deterring FDI. Also, other government rules including property rights and transparent economic policies are important for inflows of FDI. On the other hand, less transparent property rights increases the cost of investment as result of lack of information provided by government department, (Bangoa et al, 2003). Government regulation was found to significantly affect FDI inflows into African countries (Quazi, et al 2014). Host governments offer fiscal and financial attractions incentives to positively influence investor decisions by reducing costs which enhances the return on investment (krugell, 2005). Taxation policy factor affects location decisions of foreign farms because it is related to the strategic objective of investors which is maximization profit. Developing countries usually use fiscal incentives, such as reductions in the base rate of corporate income tax, and import-duty exemptions to attract FDI (Oman, 2000).

*Human capital Resources* many studies attempt to investigate the impact of labor force on FDI including both the costs and quality of labor. The cost of labor is captured by wages rate while labor quality is

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measured by availability of a semi-skilled and skilled labor, (Onyeiwu, 2003). Quality of work force in general is important determinant of the marginal value of investment, as the higher quality of labor implies higher profitability or higher quality of products, and thus, enhances competitive advantage (Lucas, 1988). However, in terms of the labor cost the previous researches, yielded mixed results the positive relationship highlighted by Chidlow *et al.* (2009). The authors suggested that low labor costs and productivity costs as well as the availability of labor are positively significant in explaining the FDI inflows in Poland. Alam & Shah (2013), indicate that labor cost affected the investor decision, the host countries with low labor cost are more preferred by investors in order to reduce the costs their business and products. The same result reached in case of FDI inflows to Nigeria by (Oladipo, 2010). While other studies found negative relationship between labour cost and FDI inflows such as (Barrell & pain, 1996; Havrylchyk and Poncet (2007); Moore, 1993). These mixed results may be because in some countries, wages already reflect level of labour productivity or quality. High wages, in this case, mean high labour quality and thus, would attract more FDI (Li et al, 2008; Onyeiwu, 2003).

*Natural Resources* theoretically availability and quality of natural resources is anticipated to have positive relationship with FDI, especially the resource-seeking FDI (Dunning, 1993). Acheampong and Qsei (2014) used time series annual data from 1980 -2010 to identify the determinants of Ghana FDI by employing econometric techniques. The finding indicates that the inflows of FDI into Ghana mainly depend on natural resources in the short –run. Koka et al, (2012) found the same result in the case of Nigeria where the rest of location factors were less important, while the natural resources were critical factors for inward FDI.

**Availability and quality of infrastructure** is often cited to explain the foreign investor's location decisions. Infrastructure includes cost and quality of energy and utility supplies; cost and quality of transportation system; cost and quality of communication system as indicator of Infrastructure level which can increase productivity and boost the location advantage of a host country (Quazi, et al 2014). Empirical studies also show that countries with more developed infrastructure have a tendency to attract FDI. It explains the concentration of FDI in countries with extensive technology infrastructure and external markets. Mina (2007) argued that infrastructure developments tend to be an important determinant of FDI and are positively significant in explaining the changes in FDI inflows. Acheampong,. P & Qsei,. V (2014) reached the same results in case of Ghana particular in long –run.

The other infrastructure such as availability of advancing training centres and education system has become very important responsibilities of human resources departments in the companies, particularly those requiring new knowledge and skills (Evans and Lindsay, 2002). Kanji and Asher (1996) indicated that the availability and quality of training centres are key factors in improving total productivity. The availability of well-developed infrastructure could reduce the FDI costs of doing business and maximize the return on investment (Morriset, 2001).

**Financial and legal development** The development of the financial system of the host country has been highlighted by Hermes and lensink (2003) as an important precondition for FDI inflows. They argue that a well-developed financial system positively contributes to the technological diffusion associated with FDI. Also, a god legal system with speedy dispensation of justice is a crucial factor in stimulating FDI flows to -the host country (Baniak, Cukrowski HercZyriski, 2002). In addition, OCED (1994) stated that frequency of changes in a country's legal policies and bureaucratic/administrative barriers decisively, shape investment choices (OECD 1994).

Another study conducted by Mina (2007), found that institutional quality also positively influenced FDI inflows particularly in Gulf Cooperation Council (GCC) countries it is reflected as an important determinant of FDI flows. Similar results reached by Cassidy and Andreosso-O'Callagan (2006), they concluded that institutional quality proved to be significant and positive related to FDI inflow. The study concluded that high quality legal system is an extremely significant determinant of inward FDI in China.

## 2. METHODOLOGY

Statistical software (SPSS Version 20) which is commonly used by social science researchers was used to analyze the data obtained by the questionnaire. External and internal validity were established and reliability was tested. Also, descriptive statistics such as frequency and means were used where applicable to meet some of the objectives of the study. Factor analysis is used for dimensionality and MANOVA test was used to test the research hypotheses.

## 3.1 Data

The data for this study was obtained from a survey conducted in 2012. The location specific factors in the survey were collected from both theoretical and empirical literature of international business (Dunning, 2000). The population from which the sample size was selected is based on the official list of companies from the Register Office of Privatization and Investment Board (PIB). The register contains 263 joint venture and fully foreign companies as at 2012. The sampling criteria are that companies should have office in Libya and most be foreign-owned or have at least one foreign partner.  A total of 111 close-ended questionnaires were self-administered to fully-owned and joint venture firms operating in all sectors with the exception of oil and gas sector in order to gauge the foreign investors attitudes and experiences in Libya. Only 74 questionnaires were returned, representing response rate of 66.6% of total sent questionnaires. Out of these, only 63 cases or 56.8% were used for the data analysis. The questionnaire covered the locational factors already identified in literature: economic condition, market condition, government policy toward FDI, natural resources, domestic infrastructure, human capital, research and development, financial accessibility, and legal practice. The internal consistency and reliability of the questionnaire was established using Cronbach's alpha which is consistent with Hair et. al, (2010). Based on the data collected in this study, all measures reported an acceptable Cronbach's alpha ranging from 0.707 to 0.885.Vilidity, based on careful scrutiny of the literature and measures used in previous researches, a few in-depth interviews with top executives of FDIs and scholars, and pilot test of questionnaire were conducted to ensure that only items relevant to investment issues in Libya were included.

## 3.2 Analytical Methodologies

The factor analysis technique used to conduct the Principle Component Analysis (PCA) with Varimax rotation for the purpose of measuring a construct loaded onto a single factor or divided into multiple factors. In other words, whether the variance accounted for was as a result of a given dimension or not. The results from PCA as reported in Kaiser-Meyer-Ohlin Measure (KMO) and Bartlett's test of Sphericity determines whether the given data were appropriate for conducting factor analysis or not (Field, 2009). This researcher reported KMO of above 0.5, indicating that the data obtained was suitable for conducting factor analysis. Bartlett's test was used for the overall significance of all correlations within a correlation matrix, in order to indicate the suitability of the sample for factor analysis (Hair et al., 2010 and Field, 2009). Bartlett's test indicated the significance level (P should be less than .01). To determine the number of factors Eigenvalues were used as a criterion for measuring construct variance accounted for by a given dimension. Only factors that have Eigenvalues greater than one are considered significant, otherwise they are considered insignificant and disregarded. (Field, 2009; Steven; J. 2006; Hiar.et.al; 2010; and Tabachnick & Fidell; 2007). The criteria for factor loadingcut-offs are inconclusive as argued by Steven. J. (2002) and Tabachnick & Fedlle (2007). Lee (1992) point out that loadings more than or equal 0.30 are salient, while cut-offs ranged between 0.30 and 0.60 are usual. (Hair, et al, 2010, p.378) suggest that if all the items loaded in the same specific factor exceed 0.4 in the same direction, these outcomes may offer acceptable evidence of dimensionality for these sets of the items. Shapiro, at el, (2002) suggests that the cut-offs range should be ≥0.40≤0.60. This study adopts a cut-offs of 0.50 coefficients loading which shows that the given data were adequate and appropriate for conducting factor analysis.

After completing the above processes, the outcome of the PCA with Varimax rotation indicated that the 34 variables were grouped into 11 factors or constructs, which were renamed economic condition, Market condition, Tax exemption, Government regulation & red tape, Availability & wages of skilled labor, Availability & wages for semi-skilled labor, natural resources, domestic Infrastructure, Research development, financial accessibility and Legal Practice.

Since the assumed objective of this study is to investigate the mean differences among groups which involve the combination of several dependent variables, therefore the MANOVA Multivariate Analysis of Variance was selected as recommended by Hair et al. (2010). The authors highlighted that multivariate analysis is a statistical technique that can be used to investigate mean differences among groups that contain several dependent variables.  In other words, differences will be tested for each of the three groups (company's ownership, sector of activity, and company's country of origin). The MANOVA statistic tool has a number of advantages.  First, there are several dependent variables in protecting against inflated Type I error due to multiple tests of (likely) correlated dependent variables.  Secondly, multivariate statistic helps researchers to improve the chance of obtaining results from different dependent variables and their interactions (Tabachnick & Fidell 2007).  Thirdly, the independent variables in this study are in the form of categorical variables.

## 3. FDI CHARACTERISTICS

Nationality of the company: The sample size consists of M&N firms (36.5%) and Western firms (57.1%). The M&N and Western firms are different in several aspects such as culture, ways of living and working and attitudes etc. The second, categorization is company ownership: fully foreign (36.5%), and joint- venture (63.5%), these two aspects were examined to find out if there is any difference between fully owned companies and Joint-venture? The third grouping indicates that manufacturing companies constitute 57.1% while service companies are 42.9% of the FDIs investigated. Based on the above categorization the following hypotheses were generated to address the objectives of the study.

**H1: factors encourage/discourage are different by ownership whether fully foreign-owned companies or Joint-Venture companies.**

**H2: factors encourage/discourage are different by company country of origin whether western company or M&N companies.**

**H3: factors encourage/discourage are different based on the activity sector the company belongs (Manufacturing or Services companies).**

The result of the descriptive statistics of the overall sample shows that six out of eleven determinant factors were considered as encouraging (mean score above 3.0) FDI inflow to Libya. The other five factors are either insignificant or discouraging factors from the perspective of the foreign investors. In terms of the six encouraging factor; Foreign investors ranked economic situation first followed by tax exemption, then Availability & wages of skilled labor, Market situation, Availability & quality of natural resources and lastly Availability & wages for unskilled labor. Unsurprisingly, when considered in details, these six factors are mostly related to profitability and efficiency of business operations.

**Table 1: Key Factors influencing investor's decision (Questionnaire Result)**

| FDI Determinants Factor | N of items | Mean | Rank | Std. Deviation |
|---|---|---|---|---|
| Economic situation | 5 | 4.31 | 1 | .59537 |
| Market condition | 4 | 3.57 | 4 | .72237 |
| Tax exemption | 5 | 4.27 | 2 | .47534 |
| Government regulation | 4 | 2.45 | 8 | .75325 |
| Availability & wages of skilled labor | 3 | 3.83 | 3 | .33044 |
| Availability & wages for semi-skilled labor | 2 | 3.43 | 6 | .84478 |
| Availability of Natural Resources | 2 | 3.54 | 5 | .74217 |
| Domestic Infrastructure | 3 | 2.42 | 9 | .48651 |
| Research development & Training system | 2 | 2.30 | 10 | .84022 |
| Financial accessibility | 3 | 2.97 | 7 | .79675 |
| Legal Practice | 2 | 1.97 | 11 | .58801 |

Note: Important Determinants factors that encourage FDI are appear with mean score equal or more 3.0

Besides the encouraging factors, this research also discovered that five of factors were considered to be of negligible importance or of no consequence to FDI inflow into Libya. These unfavorable factors were domestic infrastructure, research & development, financial accessibility, legal practice, and government regulation. It implies that government policy direction in terms of FDI should be geared towards the encouraging factors. However, it should not lose focus on remedying the discouraging factors.

In the area of legal and financial practice, Libya must focus more on developing accounting and legal systems, and enhancing corporate governance, in order to ensure transparency among FDI partners, which would result in high trust and, thus, further investment. In addition, Libya government must pay more attention in avoiding too much bureaucracy and administrative red tape. As well as improve the domestic infrastructure in order to minimize waiting time and corruption, which were considered as uncontrollable costs for the business. High uncontrollable cost will discourage investors in an economy as it impinges on the level return resulting in loss of opportunity to Libya.

The result of the MANOVA based on the three groups is presented in tables 2, 3 and 4.

Nationality (M & N) and Westerners): The mean difference based on the nationality of companies show the least variability compared to the other two groups. Four factors; economic condition, tax concession, market condition, and skilled labor were significantly different at 95% confidence level. The western FDI typically

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emphasized more on all of factors than the (M & N). It may be concluded that Westerners normally required stronger preference factors than M & N due to differences in culture and other factors. The factors have its associated costs as a result of distance from home markets, physical distance, and demographic difference, and so on.

**Table2: MANOVA RESULT BASED ON Nationality of Companies**

| FDI Determinants Factor | P= | M & N | | Western | | Partial Eta Squared |
|---|---|---|---|---|---|---|
| | | Mean | Rank | Mean | Rank | |
| Economic situation | .000 | 3.85* | 2 | 4.59 | 1 | .392 |
| Market condition | .027 | 3.82* | 3 | 3.39 | 3 | .083 |
| Tax exemption | .000 | 3.86* | 1 | 4.52 | 2 | .543 |
| Government regulation & red tape | .695 | 2.51 | 8 | 2.42 | 8 | .003 |
| Domestic Infrastructure | .501 | 2.42 | 9 | 2.34 | 9 | .008 |
| Availability & wages of skilled labor | .097 | 3.73** | 4 | 3.88 | 4 | .047 |
| Availability & wages for semi-skilled labor | .788 | 3.48 | 6 | 3.41 | 6 | .001 |
| Research development & Training system | .513 | 2.32 | 10 | 2.26 | 10 | .001 |
| Availability & quality of supply raw material | .004 | 3.18 | 5 | 3.48 | 5 | .005 |
| Financial accessibility | .179 | 3.18 | 7 | 2.90 | 7 | .013 |
| Legal Practice | .834 | 1.93 | 11 | 1.90 | 11 | .001 |

\*. The mean difference is significant at the .05 level.
\*\*. The mean difference is significant at the .10 level.

The top three favorable factors for N&M were tax concession, economic condition, and market condition. It is the same for Western companies, but ranked differently. For Western FDI economic condition is the most important factor while it ranks second for N&M. The reason why N&M felt that these factors less concerned about the market condition was less important because they did want to invest in countries that have similar environment conditions to their countries, so that expatriates did not have to worry about the living standard and conditions, and can concentrate on the business only. On the other hand, Westerners viewed supply of raw material as an encouraging factor because they were quite far away from their home towns. Importing raw material from home would create big burden and huge costs for them, and could affect return on investment finally.

On the discouraging factors, both took into account barriers and red tape, which was the factor that was uncontrollable and can drawback their business performance. In addition, N&M FDI did not pay much attention on unskilled labor factor, which included wages, availability and supply of raw material, which consists of cost and availability issues. This was because the N&M FDI can easily engage expatriates or source raw materials from their home countries, with minimal costs incurred, due to short distance between Libya and N&M countries.

Thus, the hypothesis Hi: Factors encouraging/discouraging FD1 are different by nationality; i.e. N&M vs. Western is accepted. There were four significantly different factors: economic condition, market condition, supply raw material and tax exemption.

**Industry type (Manufacturing and Service):** The most encouraging factors for both manufacturing and service FDI are: economic condition, tax concession, and quality & wages for skilled labor. However, there were five factors that were significantly different; unskilled labor, market condition, raw material, financial accessibility and economic condition.

Manufacturing firms are concerned more with unskilled labor than the service firms. As manufacturing business is labor intensive. Market condition is also viewed as more important by manufacturers than service providers due to huge amount of investment. As wrongly calculated or forecasted market condition in terms of trend, size of market, customer behavior, and degree of market competition, may result in huge losses. On the other hand, service FDI paid more attention on economic condition than the manufacturing because it is a factor that determines its market size and potential growth.

**Table3**: **MANOVA Result based on Industry type**

| FDI Determinants Factor | P= | Manufacturing | | Service | | Partial Eta Squared |
|---|---|---|---|---|---|---|
| | | Mean | Rank | Mean | Rank | |
| Economic situation | .060 | 4.44** | 1 | 4.15 | 2 | .572 |
| Market condition | .000 | 4.15* | 3 | 2.86 | 3 | .793 |
| Tax exemption | .106 | 4.36 | 2 | 4.17 | 1 | .042 |
| Government regulation & red tape | .000 | 2.83* | 8 | 1.97 | 9 | .328 |
| Domestic Infrastructure | .000 | 2.68* | 9 | 2.05 | 8 | .415 |
| Availability & wages of skilled labor | .271 | 3.88 | 6 | 3.78 | 5 | .020 |
| Availability & wages for semi-skilled labor | .000 | 4.00* | 5 | 2.73 | 6 | .565 |
| Research development & Training system | .000 | 2.36* | 10 | 1.85 | 10 | .209 |
| Availability & quality of supply raw material | .000 | 4.03* | 4 | 2.93 | 4 | .551 |
| Financial accessibility | .000 | 3.66* | 7 | 2.26 | 7 | .769 |
| Legal Practice | .046 | 2.10* | 11 | 1.88 | 11 | .064 |

\*  The mean difference is significant at the .05 level.

\*\* The mean difference is significant at the .10 level.

On the discouraging factors, manufacturers disliked barriers and administrative red tape, legal practice, while service providers shared the same view on barriers and red tape. Other factors not ranked high by service FDI includes unskilled labor, supply of raw material, skilled labor, legal practice, domestic infrastructure, market condition. It may be that the service involves little investment in labor and raw material, and any disadvantage arising from miscalculation of such factor leads to minimal loss.

In summary, the hypothesis H3: Factors encouraging/discouraging FDI are different by industry; i.e. manufacturing vs. service is accepted. There were eight significantly different factors: semi-skilled labour, skilled labour and market condition, Government regulation & red tape, Infrastructure, raw material, Research development, and financial factor.

**Ownership** (Joint Venture and fully owned foreign): There are four factors; government policy, market condition, domestic infrastructure, and research development & training system that were significantly different at 95% confidence level. Foreign firms are more concerned with these factors than the Joint Venture with local firms.

**Table 4: MANOVA Result based on Ownership**

| FDI Determinants Factor | P= | Fully foreign owned | | Joint- Venture | | Partial Eta Squared |
|---|---|---|---|---|---|---|
| | | Mean | Rank | Mean | Rank | |
| Economic situation | .344 | 4.41 | 1 | 4.26 | 1 | .15 |
| Market condition | .000 | 3.09* | 6 | 3.86 | 3 | .271 |
| Tax exemption | .412 | 4.34 | 2 | 4.24 | 2 | .011 |
| Government regulation & red tape | .000 | 1.95* | 9 | 2.74 | 8 | .256 |
| Domestic Infrastructure | .020 | 2.22* | 8 | 2.51 | 10 | .086 |
| Availability & wages of skilled labor | .995 | 3.84 | 3 | 3.84 | 4 | .000 |
| Availability & wages for semi-skilled labor | .450 | 3.54 | 4 | 3.37 | 6 | .009 |
| Research development | .013 | 1.91* | 10 | 2.27 | 9 | .097 |
| Availability & quality of natural resources | .232 | 3. 39 | 5 | 3.63 | 5 | .023 |
| Financial accessibility | .139 | 2.84 | 7 | 3.15 | 7 | .036 |
| Legal Practice | .435 | 1.89 | 11 | 2.01 | 11 | .010 |

\*. The mean difference is significant at the .05 level.

The expectation is that every determinant factor would be important to a foreign firm as an incentive to invest. FDI having foreign major shareholder viewed government policy on tax exemption, human resources, and raw material, as more significantly important factors than joint with Libyan major shareholder. Foreign FDI viewed tax concession, economic condition, and skilled labor as the top three encouraging determinants. On the other hand, they considered barriers and red tape as the discouraging factors for their investment. The Joint Venture firms also regarded tax concession and economic condition as the most desirable factors, but ranked market condition third. Joint Venture firms did not consider government policy as crucial because they understand the business environment compared to the foreign full owned FDI as they can adapt easily tothe local conditions.

Thus, the hypothesis H1: Factors encouraging/discouraging FDI are different by type ownership; foreign vs. J-V is accepted. There were two significantly different factors: government regulation policy, and market condition.

## 4. CONCLUSION

The paper has identified factors that encourage and discourage FDI in Libya as well as the different requirements between each type of FDI by grouping the companies based on three characteristics companies nationality, industry type, and mode of entry major shareholder for the purpose of testing the hypotheses. In order to provide further information to policy maker on the incentives that encourage FDI are matched with what actually is required, particularly as Libya desires to attract specific types of FDI.

The result showed that six out of eleven determinant factors were considered as encouraging incentives which are economic condition, market condition, tax concession, natural resources, skilled labour and semi-skilled labour. These factors related positively to FDI inflows in foreign investor's viewpoint which is in line with literature. Therefore, the policy makers should place these factors as priority for attracting foreign direct investment. The remaining five factors viewed by foreign investors as discourage factors are inversely related to the FDI are; government regulation, domestic infrastructure, research and development, financial accessibility and legal practice. However, Libyan government should pay more attention in improving these elements in order to attract more FDI.

When the FDI companies were categorized based on three criteria of nationality, industry type, and major shareholder the result showed differences in encouraging and discouraging locational determinant factors by each group. Based on nationality, the determinant factors were economic condition; tax concession, market condition, and skilled labor are significantly different at 95% confidence level. The western FDI typically place more emphasis on all the factors than the N&M. The second grouping is based on industry type most of the factors were significantly different between the two groups. However, there were five factors that were important for the manufacturing companies which are; unskilled labor, market condition, raw material, financial accessibility and economic condition, compering to only three factors reported important in views of services investors which are economic condition, tax concession and skilled labor. Finally, the ownership grouping four factors; government policy, market condition, domestic infrastructure, and research development & training system; were significantly different at 95% confidence level. It is recommended to the policy maker that as different types of FDI viewed each locational determinant factor differently, incentives provided by the government should be restricted to and designed for targeted FDI only, in order to gain desirable benefits and prevent the spill-over effects.

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