

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