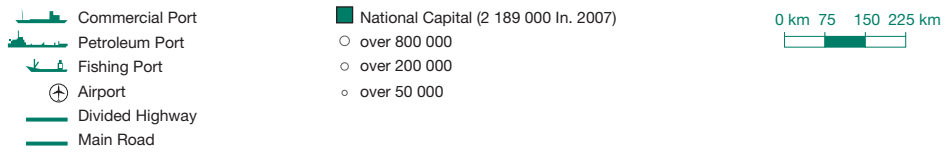
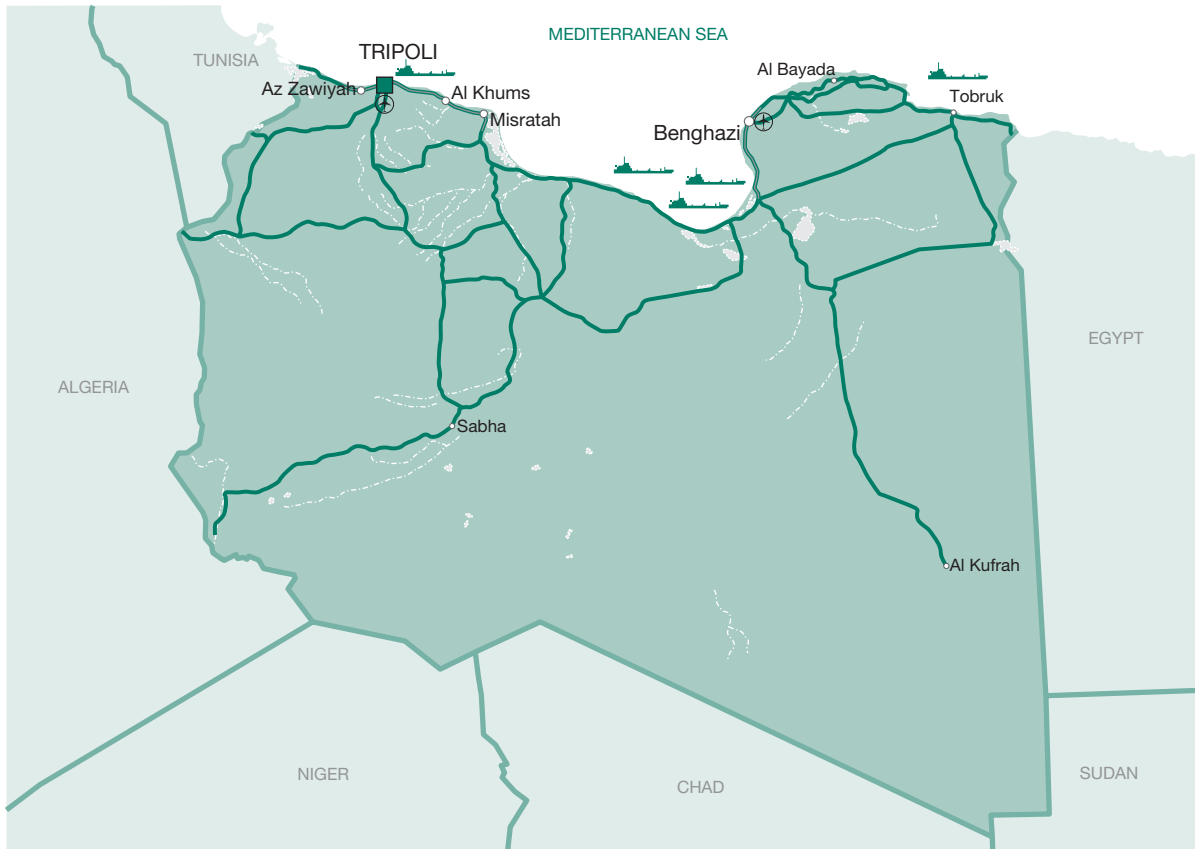


Libya
2011





This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Libya

Overview

After the anti-government protests of 17 February, the so called “Day of Rage”, Libya has experienced an escalation of violence which has led the country into an armed conflict which persists at present and which has seen the country effectively split between government-controlled areas in the west and areas controlled by anti-government forces in the east. The latter is backed by an international coalition which is enforcing a no-fly zone to protect from pro-Gaddafi forces.

The country is likely to pay a high price for the conflict, which has effectively paralysed the economy and led to a near halt of Libya’s oil production. With considerable oil revenues, a relatively small population and redistributive policies including an extensive social welfare system and subsidies for basic goods, Libya was enjoying the third highest Gross National Income (GNI) per capita and the highest human development index (HDI) in Africa. In 2010 the country was also enjoying a robust growth of around 7.4% and exhibited a high growth trajectory until the conflict erupted. The government had announced plans to increase oil production capacity to 2.5 million barrels per day (bpd) by 2015, but oil production and sales have been almost brought to a halt by the political unrest. At the time of writing this report, and despite the persistence of uncertainty, GDP is expected to decline by a double digit figure in 2011, but to recover again sharply in 2012, assuming the political situation stabilises.

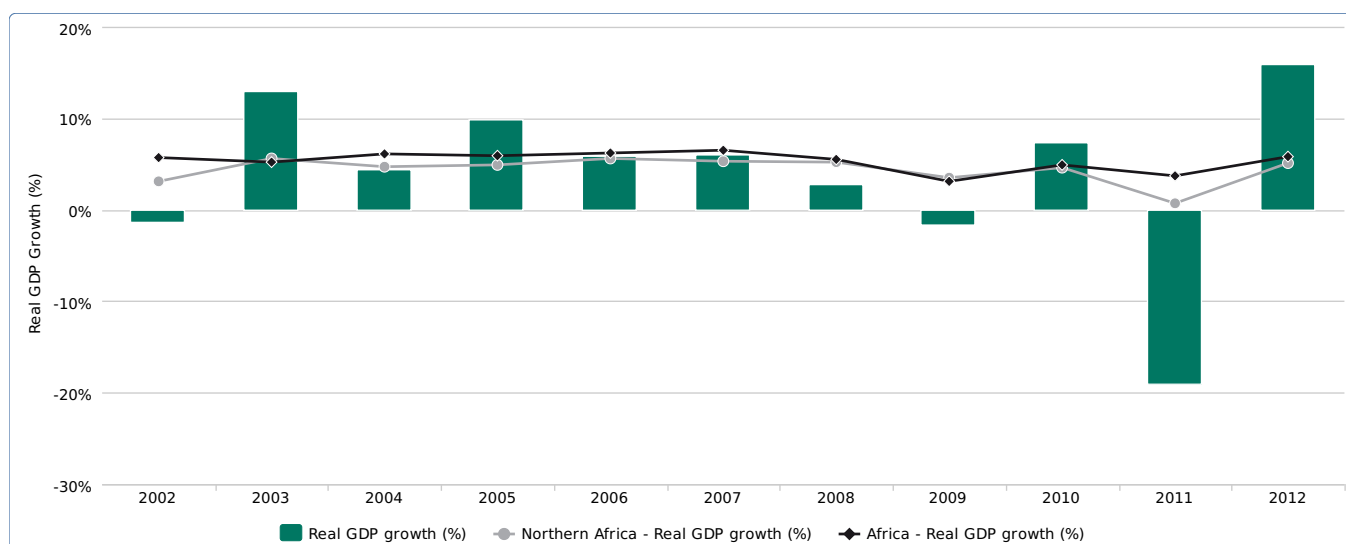
The Libyan crisis has also already spilled over its borders and severely affected some African countries, in particular through humanitarian crises on neighbouring countries’ frontiers, the loss of remittances from millions of African migrants working in Libya and through the freezing of Libyan assets worldwide. While the global market loss of Libyan oil production has been offset by the increase in supply by other oil producers, risk premiums and associated high prices are likely to persist.

On the security and political front, there is no clear indication of either the duration or the outcome of the crisis. At the time of writing, the Libyan National Council, the self-proclaimed authority in the rebel-area in the eastern part of the country was increasingly recognised as the legitimate authority for the country, while defections in government ranks and diplomatic representations have significantly weakened Gaddafi’s hold on power. The crisis came at a time when Libya was pursuing economic liberalisation which was often accompanied by a gradual opening up of the political system. However, progress in this direction was mixed and many sections of society grew increasingly dissatisfied. Events unfolding in Tunisia and Egypt in the wake of their respective revolutions gave people confidence that a regime change was possible, unleashing a wave of protests and political upheaval.

On the human development front, the population is likely to suffer significantly from the impact of the conflict. Before the unrest, Libya was expected to achieve all the Millennium Development Goals (MDGs) within the 2015 timeframe. Although the state provided free universal health care and education to its citizens, the main challenge was to improve the quality of both. The pressing social challenges included the need to tackle high youth unemployment, to strengthen efforts to conserve Libya’s delicate environment and limited natural resources, to encourage women’s economic and social participation, and to manage irregular migration. Such challenges are likely to be even further exacerbated by the conflict.

The European Union (EU) remains Libya’s largest trading partner. But economic relations between Libya and emerging economies, notably China and Turkey, were expanding rapidly. These economic partners were particularly prominent in the fast-growing expanding construction sector as foreign construction firms have been contracted to carry-out the country’s large public infrastructure projects. Foreign Direct Investment (FDI) is still limited, with a few exceptions in the oil sector. Libya was increasingly positioning itself as a “gateway to Africa”, an image that appeals to the wishes of Turkey and China to strengthen their economic foothold on the continent. It was also keen on using its partnerships with emerging economies to strengthen its negotiating power vis-à-vis its traditional partners. Future relationships may be further adjusted depending on the outcome of the conflict and the respective role countries would play in support of either party, with the highest dividend possibly being assigned to (or taken away from) France and the UK which have been the front-runners in supporting the no-fly zone and the rebels. By contrast China and Russia have played a much more cautious role and often criticised the military intervention.

Figure 1: Real GDP growth (N)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932404256>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	-1.6	7.4	-19	16
CPI inflation	2.4	4.7	12.1	5.1
Budget balance % GDP	7.1	20.9	-7.1	6.8
Current account % GDP	18.5	28.4	13.7	22.7

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932406612>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	2.2	2.7
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	65.8	54.3
Mining, manufacturing and utilities	-	-
of which oil	65.6	54.1
Manufacturing	4.7	6.3
of which hydrocarbon	-	-
Electricity, gas and water	1.3	1.5
Electricity, water and sewerage	-	-
Construction	4	8.7
Wholesale and retail trade, hotels and restaurants	4	4.9
of which hotels and restaurants	-	-
Transport, storage and communication	3.6	4.7
Transport and storage, information and communication	-	-
Finance, real estate and business services	7.5	8.4
Financial intermediation, real estate services, business and other service activities	-	-
General government services	7	8.2
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	0.1	0.1
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department, based on data from Statistics Libya.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407581>

Libya's economy rebounded in 2010 with growth of 7.4%, having experienced a contraction by 1.6% in the

previous year as a result of declining oil revenues. Oil receipts showed a 40% decline, as global oil prices fell and the country complied with a reduction in the OPEC quota in 2009. While the decline in oil revenues reduced government income, Libya's large budget surplus meant the government was able to maintain an expansionary fiscal stance. This limited the impact of the global recession on the Libyan population, who in fact benefited from lower inflation as commodity prices fell. The low level of exposure of Libya's banks to the global financial system, limited non-oil trade and prudent management of the country's reserves, including sovereign wealth funds, insulated Libya from further external impacts.

However, Libya's economic growth slowed sharply following the unrest and the near halting of Libya's oil production. Oil prices have spiked to more than two-year highs, touching USD 120 per barrel amid escalating violence and supply shortfalls in Libya. The possible destruction of oil fields is the largest long-term risk. At the time of writing, bombs have been dropped in the vicinity of oil fields and pipelines, and a degree of damages is likely to occur.

In spite of efforts to diversify the economy, the oil sector remains the greatest determinant of Libya's economic health and of the country's future recovery. The country has the ninth highest oil reserves in the world and the second highest natural gas reserves in Africa. Only around 25% of the country's surface area has been explored, meaning that the potential for growth in the sector is huge. Oil production has picked up and is estimated to have reached 1.48 million barrels per day (bpd) in 2010. Nevertheless, earlier government plans to increase oil production to 3 million bpd by 2015 were revised downwards to 2.5 million bpd because of concerns over excess global supply. While the recovery of the oil production up to pre-conflict level will take several months, the country will have a significant margin of manoeuvre to exploit its natural resources to sustain its growth in the long term, if oil infrastructures remain largely intact.

Driven primarily by public investment and government consumption, non-oil growth remained strong in 2010 and is likely to be a key for recovery over the medium term as the government continues to pursue an ambitious public investment programme. The construction sector is likely to remain the most important non-oil sector.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	49.7	34.9	12.6	-18.5	20	5	-7.7	8.3
Public	27.9	25.4	14	-18	20	4	-5.5	6.2
Private	21.8	9.5	9	-20	20	1	-2.2	2.2
Consumption	44.5	47	5.7	-3.8	6.9	3.5	-2.3	4.9
Public	14.1	17.5	-0.8	-2.9	7.3	-0.2	-0.6	1.7
Private	30.5	29.5	9.2	-4.3	6.8	3.6	-1.7	3.2
External sector	5.7	18.2	-	-	-	-1.1	-9	2.8
Exports	46.6	64	8.4	-31.3	26.9	4	-15.3	11.1
Imports	-40.8	-45.8	10.7	-12.6	15.5	-5.2	6.3	-8.4
Real GDP growth rate	-	-	-	-	-	7.4	-19	16

Source: Data from the Central Bank of Libya; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408550>

Fiscal Policy

The Libyan government has traditionally run a large fiscal surplus; it benefits from high oil revenues and has tended to underestimate average oil prices when drawing up its budget. The budget surplus remained below historical averages at 13.5% in 2010 as the government announced a USD 46 billion budget. The 2010 budget showed a 32% increase over the 2009 figure and was Libya's largest ever. As a result of the conflict, Libya is likely to continue to generate its first fiscal deficit in recent times.

Thanks to its earlier fiscal surpluses Libya has accumulated a large stock of foreign reserves. Out of 139 countries surveyed by the World Economic Forum in 2009, Libya had the second lowest government gross debt, amounting to only 3.9% of GDP. According to the Central Bank of Libya (CBL), Libya has no external debt. The IMF estimated that by the end of 2010 net foreign assets held by the CBL and the Libyan Investment Authority (LIA), Libya's largest sovereign wealth fund, were to reach USD 150 billion, around 160% of GDP.

The LIA was established in 2007 with a starting capital of USD 65 billion, as a vehicle for investing a substantial proportion of the country's oil wealth. Its conservative investment strategy allowed it to emerge from the global economic crisis virtually unscathed. Recently the LIA has adopted a more aggressive strategy, through investing in Europe, Africa and Latin America with an aim of benefiting from post-crisis opportunities. A new law passed in 2010 clarified the LIA's regulatory framework, stating that its investments should be made abroad, on a commercial basis and should be low-risk to protect future generations' share of the national wealth. The law also permits the LIA to retain all profits, with no more transfer of funds to the national budget. While Libya's foreign assets are largely frozen, they offer an important source of funds to finance the country's post-conflict development.

The year 2011 will probably see a significant slowdown in non-defence public spending from the record increases the country experienced in 2010, when rising oil prices renewed the government's resolve to invest in the country's ageing infrastructure. Prior to the unrest, the government saw investment in the country's transport links, telecommunications, and commercial and residential property as crucial to its larger aim of diversifying the economy and had announced a three-year infrastructural investment programme.

According to UN data, spending on education and health averaged around 2.7% and 1.9% of GDP over the period 2000-07. In the past a considerable proportion of government spending has been used to fund subsidies for basic foodstuffs, fuel, electricity and housing. In 2010 around a seventh of the total budget was allocated to the price-balancing fund. Social spending is likely to rebound further as a consequence of the unrest.

The public sector wage bill has also traditionally absorbed a large proportion of the national budget. In spite of continuing efforts to cut back the public sector, the wage bill increased by around 15% in 2010, according to the IMF. In 2010 public sector workers were exempted from income tax, a move which effectively raised incomes and narrowed the gap between public and private sector employees but only cost the government around USD 160 million in lost revenues. A new civil service law was under consideration in early 2011 and was aimed at doubling public sector salaries in 2011 to reduce the gap with private sector wages. Post-conflict Libya is likely to relaunch such proposals and experience a spike in public sector salaries in the long term.

A 2010 law simplifying tax bands aimed to increase tax compliance and boost government non-oil revenues in the long term. Additionally, several pro-business laws introduced in 2010 will reduce non-oil receipts by offering temporary freezes on taxes and customs duties for private companies. Further efforts would be needed to attract investors.

Off-budget spending has substantially decreased in recent years. However, lack of transparency in the budgetary process still exists and accounting methods can be cumbersome and confusing. Nevertheless, considerable advances have been made this year, including the unification of the current and investment budgets, improvement in budget classification and streamlining of government bank accounts. Before the unrest, the country was preparing the investment budget in a three-year framework to insulate these investments from changes in the oil price.

Concerns have also been raised over the need to improve co-ordination between the General People's Council (GPC) for Planning and Finance, which implements fiscal policy, and the Central Bank of Libya, which implements monetary policy.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	46.2	61.5	79.9	60.2	68.3	50.5	59.9
Tax revenue	4.1	2.7	3.6	5.4	5	2.4	4.1
Oil revenue	36.5	55.7	72.2	53.6	62.1	46.9	54.6
Grants	-	-	-	-	-	-	-
Other revenues	5.6	1.6	2	1.2	1.2	1.2	1.2
Total expenditure and net lending (a)	36.1	34.8	45.4	53.1	47.4	57.5	53.1
Current expenditure	24.1	13.2	17.8	24.8	21.5	29.6	26.6
Excluding interest	24.1	13.2	17.8	24.8	21.5	29.6	26.6
Wages and salaries	9.1	7.8	7.9	10.9	9.6	12.1	10.3
Goods and services	4.1	3.2	2.9	3.1	2.7	3.7	3.4
Interest	0	0	0	0	0	0	0
Capital expenditure	12	17.3	26.2	27.2	25.2	26.6	25.8
Primary balance	10	26.7	34.5	7.1	20.9	-7.1	6.8
Overall balance	10	26.7	34.5	7.1	20.9	-7.1	6.8

a. Only major items are reported.

Source: Data from Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409519>

Monetary Policy

Before the unrest, the CBL was the single organisation responsible for implementing monetary policy but it exercises limited control over inflation and did not set inflation targets. Exogenous factors such as oil prices and international commodity prices, as well as government spending, have significant inflationary effects, and consequently the CBL has limited room for manoeuvre. At the time of writing, reports were circulating on the designation of a new alternative Central Bank of Benghazi as a monetary authority competent in monetary policies in Libya and appointment of a governor to the Central Bank of Libya, with a temporary headquarters in Benghazi.

The peg of the Libyan dinar (LYD) to IMF Standard Drawing Rights (SDR) has historically provided a strong monetary anchor, while limiting its vulnerability in relation to fluctuations in individual major currencies. The exchange rate appreciated by about 5% in 2009, and depreciated by about 1.7% by August 2010. The dinar is likely to remain pegged to the SDR throughout the forecast period, as the financial system goes through further consolidation before adopting a more flexible exchange rate system.

Inflation reached 10.4% before the global economic crisis, according to IMF figures, but lower oil revenues, falling commodity prices, and reduced government spending saw it fall to 2.4% in 2009. Recovering oil revenues and global commodity prices, as well as increased government spending and consumer confidence, raised inflation to 4.7% in 2010. Inflation is expected to increase in 2011 as a result of disruptions to production and higher costs of imports. Subsidies to basic foodstuffs, fuel, electricity and housing mitigate the impact of inflation on the Libyan consumer.

Responding to the earlier decline in oil revenues, the CBL cut the benchmark interest rate to 3% in 2009 but increased it to 5% in 2010. Discount lending by Special Credit Institutions (SCIs), however, limits the effectiveness of CBL adjustment of interest rates as a tool for controlling domestic liquidity.

Thanks to their limited exposure to international markets and their prudent approach, Libyan banks were largely unaffected by the global financial turmoil. In spite of excess liquidity in the banking system, however, local private enterprises struggled to access credit, as is discussed in greater detail below. The Libyan Stock Market (LSM) is still in the early stages of development, having been established in 2007. Because of its limited integration with the global economy, it, too, was largely insulated from the global downturn.

External Position

As a major oil exporter, Libya's current account is dominated by hydrocarbons, with oil, natural gas and petroleum products making up around 97% of exports. Libya's trade balance has historically shown a surplus of around 40% of GDP, but declined to around 18.5% in 2009 as oil revenues dipped. It climbed back to about 30% of GDP in 2010 in line with rising oil output and prices. It is expected to fall to below 14% as a consequence of the political conflict but increase again in 2012.

Libya's non-oil exports picked up in 2010, mainly because of an increase in the export of processed foods to Arab and African markets. In 2010 for the first time Libya produced a surplus of flour, following government loans to install mills. New initiatives were launched, such as the export of fertilised eggs to the Gulf. Libya's non-oil exports continue to be hindered by the country's weak export infrastructure.

Strong domestic demand, fuelled in part by government development projects, has raised imports, but these remain around a third lower than exports. The IMF estimates the net foreign assets of the LIA and CBL had reached USD 150 billion by the end of 2010, amounting to around 160% of GDP. According to the CBL, Libya has no external debt.

Since applying for accession to the World Trade Organization (WTO) in 2004, Libya has gradually undergone trade reforms. Government subsidies and state importing monopolies have been reduced. It has limited the number of import bans, abolished import tariffs and replaced them with a flat port tax and reduced the number of goods subject to import licences. From 2010 products of at least 40% Arab origin are exempt from port duty, as are materials required for public infrastructure projects.

Libya is signatory to a number of regional trade agreements including the Greater Arab Free Trade Area (GAFTA), and the Arab Maghreb Union (AMU). It has ties to the Community of Sahel-Saharan States (CEN-SAD) and the Common Market for Eastern and Southern Africa (COMESA). Libya is signatory to double taxation agreements with 12 countries, and has bilateral investment treaties with 19 countries in Europe, Africa, the Middle East and Asia.

Before the political conflict the country was negotiating a framework agreement with the European Union, its main trading partner, which would include provisions for establishing a free trade area. According to the European Commission, this could increase Libya's annual exports to the EU by 7.8% across all sectors, and increase annual imports from the EU by up to 15.3% by 2018.

Opportunities for FDI are gradually opening up in Libya and are expected to be boosted by the creation of a special economic free zone in Misrata, and a proposal for a second zone in Zwaren. An investment promotion law passed in April 2010 aims to increase FDI in line with national priorities. FDI dropped sharply from previous highs of over USD 4 billion to around USD 2.7 billion in 2009, according to UN data.

Table 5: Current account (percentage of GDP)

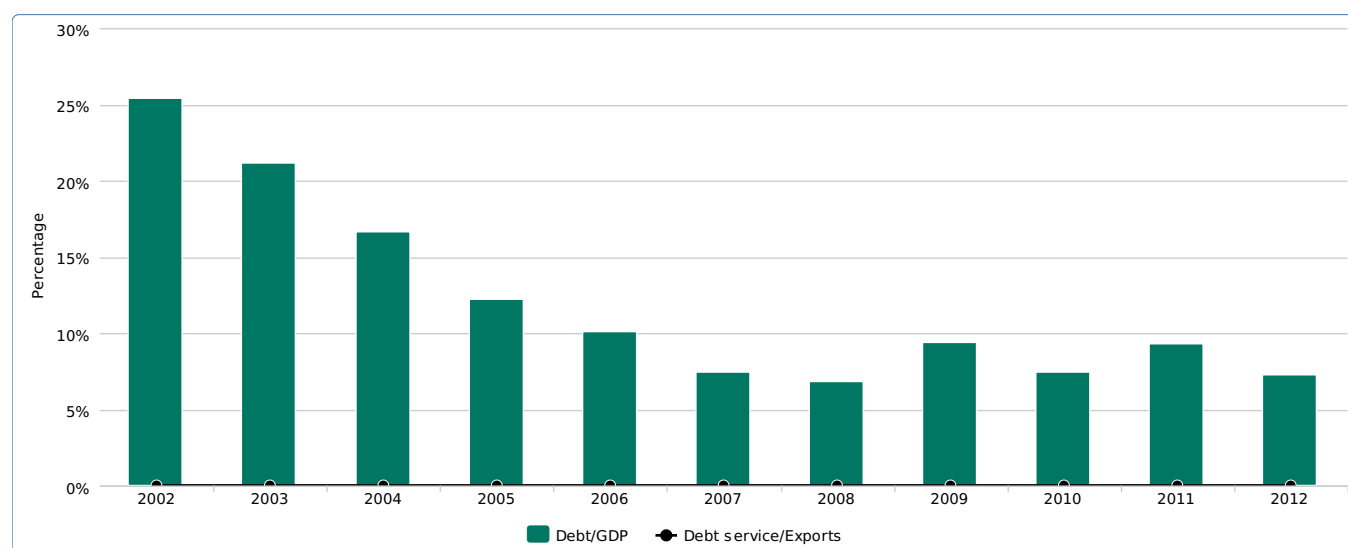
	2002	2007	2008	2009	2010	2011	2012
Trade balance	10.9	39.2	50.6	25.6	32.9	18	25.9
Exports of goods (f.o.b.)	44.7	63	77.7	62.8	67.6	58.5	63.3
Imports of goods (f.o.b.)	33.8	23.8	27.1	37.2	34.7	40.5	37.4
Services	-5.2	-2.6	-3.1	-5.5	-3.1	-3.2	-2.8
Factor income	1.2	1.1	0.9	1	0.4	1	1.2
Current transfers	-4	-0.3	-1.3	-2.6	-1.8	-2	-1.6
Current account balance	3	37.5	47	18.5	28.4	13.7	22.7

Source: Data from the Central Bank of Libya; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410488>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404256>

Structural Issues

Private Sector Development

Before the conflict the country had made major strides towards improving the business environment. However, private sector activity has been disrupted. The earlier reforms, included the passage in 2010 of ten new business laws, sought to improve the business and investment environment in the country. In many cases one new law replaced several old ones, making the legislative framework clearer and more user-friendly. This was especially the case for the new commercial code, which summarised and clarified over 90 previous commercial laws. In some instances regulations were created for recently established economic sectors in Libya, including the stock market, telecommunications and economic free zones. Simplified custom duties and income tax bands have been implemented to increase tax compliance.

A number of laws offer direct benefits to private enterprise. Specifically, the new employment law grants greater flexibility to employers and reduces the minimum number of Libyan employees required from 90% to 75%. A new investment law offers five-year customs and income tax exemptions for foreign investors, with further incentives for those investing in selected construction projects or projects contributing to food security and environmental sustainability. Law No. 15 of 2010 was proposed by the CBL to increase access to credit for small and medium-sized enterprises (SMEs) by permitting them to lease real estate and pay in instalments.

Together, these laws indicate considerable government resolve to promote private sector development. The real challenge, however, remains in their implementation. Moreover, while the simplification of commercial laws is good for the business environment, the Libyan private sector is equally keen to see greater stability in the regulatory framework.

In spite of these advances, a number of structural features of the Libyan economy continue to impede the growth of private industry, and SMEs in particular. For example, in construction, where the non-oil sector is currently experiencing the highest rate of growth, Libyan private companies are consistently crowded out of the market. The public companies implementing Libya's vast infrastructural investment programme favour foreign contractors, who bring with them international expertise and can train the local work force.

Libyan private companies are also crowded out when it comes to access to finance. Bank lending to the private sector has increased, with the ratio of credit to the private sector to GDP doubling from 10% in 2008 to 20% in 2010. Nevertheless, Libyan companies, particularly SMEs, still report difficulties in accessing this credit. One of the reasons behind this paradox of "credit-crunch" in a high liquidity environment is the risk-aversion of Libyan banks to lending to small companies. Libyan banks have a distinct preference for providing credit to large public sector enterprises or foreign enterprises over loans to SMEs, which are often reported not to have sufficient guarantees. This problem is exacerbated by the limited capacities of many SMEs, with lenders refusing to grant loans on the basis of poorly designed business plans and incomplete accounts. The CBL aims to increase private sector lending, through Law No 15, and to cut the revenue on certificates of deposits (CDs), thereby reducing the incentive for banks to keep large deposits at the Central Bank. Policy makers are, however, concerned that increasing credit could cause Libya's developing non-oil economy to overheat. The challenge for policy makers is to calibrate credit so that it reaches Libyan private enterprise.

In recent years, the Libyan financial sector has undergone significant reform. State-owned banks are being gradually privatised and foreign partners have been invited into the Libyan banking sector as a means of transferring knowledge, promoting competition and modernising the country's financial services. Six out of 16 Libyan banks now operate with foreign partners and there are no more totally government-owned banks. In August 2010, the Italian bank UniCredit became the first foreign bank to be licensed to set up a subsidiary in Libya. The CBL had originally announced its intention to award two such licences. This plan was revised because introducing two foreign subsidiaries into the financial system at the same time risked the undercutting of existing banks. The CBL has indicated that it may award another licence in 2011.

As the process of bank privatisation continues, the CBL is seeking to strengthen its supervisory and regulatory role. It has developed a strategic plan for 2009-11 which involves measures to improve bank supervision and compliance with Basel principles, aimed at improving bank supervision according to those principles. Notable reforms include moves to improve supervisory reporting and on-site supervision procedures and new regulations regarding non-performing loans and guidelines for bank risk management. A new Real Time Gross Settlement system is being introduced to facilitate inter-bank transfers, allowing banks greater control over their accounts and strengthening the CBL's supervisory role. The banking system is well capitalised but suffers from excess liquidity. This is partly because of Special Credit Institutions (SCIs), which crowd out commercial banks by offering discount loans. There are indications, however, that the Libyan government is responding to pressure to reform SCIs. Two major SCIs were not allocated a budget in 2010, with only the Real Estate Bank receiving government funds. As the financial sector develops potential high-growth areas include leasing, insurance and Islamic finance.

Other Recent Developments

In March 2010, the Privatisation and Investment Board, the body charged with overseeing the privatisation process in the country, announced Libya's intention to privatise half the economy in the next decade. The government has privatised 110 state companies, about one third of the total, in the past ten years. The Libyan Stock Market (LSM), established in 2007, is also expanding. By 2010, it had 25 companies listed. The privatisation of two large telecommunications companies and an iron and steel firm has been proposed. The LSM opened up to foreign investors that same year, as new laws allowed non-resident investors to purchase up to 5% of company shares. Overall, however, the process of privatisation was slower than expected in 2010, in part because of reduced interest on the part of foreign investors. Since Libya's privatisation programme is not motivated by a need to generate capital in the short term, but rather by a desire to reduce dependency on oil and to create jobs, the country is taking a rather cautious approach.

Government efforts to cut the size of the public sector continued. In 2006, a programme was launched to transfer 400 000 public sector employees to the private sector. Throughout the reorientation programme employees received their salaries but underwent training and career guidance. By 2009, 200 000 individuals were still on the programme; the remainder had either transferred to the private sector or had taken early retirement. Public perceptions continue to consider government jobs superior to working for the private sector but the gap between private and public sector wages may act as an incentive for more migration out of the public sector.

In 2008, Libya embarked on a five-year investment plan totalling USD 225 billion aimed at upgrading the country's ageing infrastructure. The plan includes spending on transport, communications, power and utilities, and commercial, residential and industrial property. Under the umbrella of this plan, Libya is currently implementing a three-year development plan for the years 2010-12, worth around USD 68 billion. In 2010, however, a large number of investment projects were suspended and payments were frozen. The underlying reasons for this funding freeze are unclear. It is, however, likely to be the government's response to recent corruption scandals and also a recognition that the country may have a reduced capacity to implement such an ambitious programme. The Public Projects Authority, a new institution created in the spring of 2010 to oversee and review all major public investments, is reviewing all investment projects. It has not been confirmed when the frozen projects will restart. The freeze of payments has created waves of uncertainty for foreign contractors and negatively influenced perceptions of the investment climate. But the decision to centralise the oversight and manage infrastructural spending is likely to promote efficiency and transparency.

Natural resource management in Libya has been, historically, very poor but is gradually improving, albeit from a low base. The United Nations Development Programme (UNDP) is offering technical assistance through a number of projects to the Environment General Authority (EGA), the main environment agency in Libya. Efforts to promote renewable energy have not made significant headway in recent years. However, the Renewable Energy Authority of Libya reported that the country can achieve the target of generating 10% of electricity from renewable energy by 2020.

Agriculture consistently accounted for about 3.5% of GDP in 2004-09, according to CBL data. Nevertheless, it accounts for 6% of the workforce, employing more workers than the oil industry. In spite of the government's desire to increase agricultural self-sufficiency, Libya imports about 75% of its food. The amount of food imported in 2010 is likely to rise as a result of a poor harvest caused by drought. In recent years, there has been a subtle shift in policy from attempting to achieve food self-sufficiency to securing food supplies abroad. Libya has initiated several projects to lease land in the Ukraine, Liberia and Mali for agricultural purposes and is negotiating a similar project with Turkey.

Emerging Economic Partnerships

The EU dominates the Libyan market in terms of both trade and FDI, but trade between Libya and emerging economies has mushroomed in recent years, with Turkey and China establishing themselves as leading players.

According to 2009 EU data, China was Libya's second largest trading partner, after the EU. Trade volumes between the two countries were reported to have reached USD 4.9 billion in the third quarter of 2010, up 46.5% from the previous year. This was largely due to a hike in oil imports from Libya, but Chinese exports to Libya also grew by 3.8%, with industrial machinery making up the bulk of this increase. The first direct air service between Beijing and Tripoli was launched in November 2010, providing further evidence of increased business ties between the two countries.

The 2009 EU report showed Turkey as Libya's fourth largest trade partner, behind the EU, China and the US. Turkey reported that trade volume between the two countries reached USD 2.2 billion in 2009, a 60% increase since 2008. This increase occurred even though Turkey no longer imports Libyan oil. From December 2009, Libya and Turkey mutually lifted visa requirements for businessmen, a move that Turkish officials say has greatly facilitated increased trade between the two countries. Turkey was the first non-Arab country to reach such an agreement with Libya.

Other noteworthy emerging economic partners include Brazil, Korea, India and Russia, which were ranked as the 7th, 8th, 9th and 19th largest trade partners respectively, according to 2009 EU data.

In terms of FDI, current engagement between Libya and these emerging economies remains low, as opportunities for investment in Libya are limited by the small size of the private sector and government policy. In 2010 Turkey reported that it has USD 60 million of FDI in Libya, with over half of this invested in the energy sector. The Chinese embassy reported that by the third quarter of 2010 China had invested USD 43.5 million in Libya, with most investment concentrated in the construction sector.

FDI from both countries may increase substantially in the next few years. In December 2009, Turkey signed eight bilateral investment treaties with Libya, including investment protection agreements. In September 2010 it was reported that Turkey had allocated USD 45 billion for investment in Libya in the next ten years. In July 2010, Libya and China also signed an investment protection agreement.

The construction sector has seen a large number of new economic partnerships forms between Libyan public companies and construction firms from Turkey and China, as well as Brazil, India, Russia and Korea. According to *World Bulletin*, construction projects undertaken by Turkish contractors in Libya exceeded USD 15 billion in 2010, accounting for 70% of the construction industry in the country. China has around 20 firms in the country across a number of sectors. Chinese construction companies have been awarded a number of high profile, large contracts. Two contracts worth USD 2.49 billion were awarded to the China Civil Engineering and Construction Corporation (CCECC) to build part of Libya's railway network. Discussions are under way on the creation of a special industrial zone for Chinese industry.

Libya continued to contract European or US firms for project management or planning roles but favours Asian, Eastern European and South American construction firms when it comes to implementing projects. The Libyan government was reported generally to believe that Asian, Eastern European and South American construction firms tend to offer good value for money, particularly for rather unsophisticated work, but for highly technical jobs a distinct preference for European or US firms has been reported. The stance is echoed among consumers who tend to see the increased trade from emerging economies as an opportunity for cheaper finished products and consumer items, albeit of lower quality, namely from China, Turkey and Korea. This has allowed for greater consumer choice, and has increased the purchasing power of many Libyans. In a few areas, such as processed foods, imported goods from emerging partners offer stiff competition to fledgling Libyan industry.

Libyan policy makers were well aware that partnership with emerging economies increases its leverage with other countries, especially its traditional partners. In response to US support for Switzerland during a diplomatic row between Libya and Switzerland, Shukri Ghanem, head of the National Oil Corporation (NOC), indicated that Libya might favour Russian or Chinese oil firms over US ones. Similarly, a key message in Colonel Gaddafi's speech at the Africa-EU Summit of December 2010 was that if negotiations with the EU failed to make progress, Libya has a host of other partners to turn to, including China, India, Russia and Brazil.

In the case of Turkey, close diplomatic ties between the two nations have helped facilitate greater economic partnership. Having been part of the Ottoman Empire for over 300 years, Libya considers itself to have a natural cultural affinity with Turkey. Turkey's diplomatic stance, particularly with regard to Palestine, has also drawn it closer to Libya. In November 2010 Turkish Prime Minister Recep Tayyip Erdogan was awarded the Gaddafi Human Rights Prize. This close political relationship may also explain Turkey's successful economic negotiations with Libya.

Diplomatic relations between China and Libya are more sensitive. In the past few years there has been an increase in the number of high profile visits between the two countries, including the attendance by Colonel Gaddafi's son, Saif al-Islam, at the Shanghai Expo. Nevertheless, top Libyan officials have publicly spoken of their misgivings concerning Chinese economic interests in the rest of Africa. China has reported that it has been approached over plans for a joint Libyan-Chinese venture to build a road from Libya to Niger and a number of railways on the African continent. This would suggest a potential for Chinese-Libyan co-operation in Africa. The more confrontational statements of Libyan officials, however, imply that Libya also considers China as a prime competitor in the African market, with both countries investing heavily and vying for influence across the continent.

Some of China's more aggressive attempts to enter the Libyan market have been resisted. In March 2009 the NOC blocked a move by the Chinese National Petroleum Corporation (CNPC) to purchase Verenex, a Canadian company that had recently discovered about 1.2 billion barrels of oil in Libya. The NOC asserted that Libya had first right of refusal on purchase and bought Verenex's assets itself. Some observers interpreted this as a deliberate manoeuvre against China but NOC Chairman Shukri Ghanem insisted that the purchase was for "commercial reasons."

For emerging partners Libya offers potential growth in conventional areas such as oil and gas, but also in the petrochemical, construction, retail and tourism sectors. Investors are also interested in using Libya as a "gateway to Africa", a term favoured by Libyan officials. Although this is the source of potential friction in Libya-China relations Turkish officials are keen to emphasise their interest in Africa, their desire for co-operation with Libya on the continent and the similarity in the two countries' approaches to investment in Africa.

Political Context

Until 17 February, the “day of anger” in Libya, the country enjoyed relatively high political stability. In 2011 Libya was to celebrate the 42nd anniversary of the “Al Fatah revolution” that brought Muammar al Gaddafi, the world longest serving leader, to power and the establishment of its unique system of government known as the Jamahiriya. As “leader of the revolution”, Colonel Gaddafi retained considerable power over the political system, while simultaneously seeming to remain above the fray of everyday politics.

The scenario was completely turned around by the protests and the change in regime in neighbouring Tunisia and Egypt provided a source of inspiration to Libyans. Further to the fall of the regime of presidents Ben Ali and Mubarak, the government had tried to mitigate the domestic impact of popular uprisings by increasing subsidies and access to loans and opening negotiations between government envoys and potentially disaffected groups in the east of the country. A major protest was organised on 17 February, marking the fifth anniversary of a similar anti-government uprising in which 18 protesters lost their lives and hundreds were wounded.

The protest was severely repressed by security forces, provoking a spiral of violence which escalated into armed conflict and led to the country being effectively split between a rebel-held territory in the east, ruled by the Benghazi- based Transitional National Council, and government- controlled territory including Tripoli and most of the western part of the country. As Gaddafi's forces were regaining several coastal cities on the eastern side, on 18 March a United Nations resolution authorised member states to establish and enforce a no-fly zone over Libya and take “all necessary measures” to protect civilians short of an invasion, after a lengthy discussion and a previously failed attempt to reach such decision at the level of G8 countries. A joint operation to enforce the no-fly zone over Libya began after the UN resolution. The command of the operation was then given to NATO. The operation was also supported by non-NATO members such as Jordan, Saudi Arabia and Qatar, which offered military and other logistical support. In the meantime, the government has been weakened by several spontaneous resignations by diplomats and senior officials.

The February events came at a time when Libya was continuing its efforts to reintegrate itself into the international community and enhance its diplomatic standing. Following a two-year seat on the UN Security Council, in May 2010 Libya was elected to the UN Human Rights Council. That same year, Libya hosted two Arab league summits, the Arab-Africa and the EU-Africa summits.

EU-Libya relations soured in early 2010 after Libya temporarily refused to issue visas to Schengen country nationals. Libya had retaliated against Switzerland’s visa blacklist containing the names of a number of Libyan officials. Nevertheless EU-Libya relations were back on track later that year, with the signing of a EUR 60 million deal on migration control and continued negotiation on a broader Libya-EU framework agreement. The framework agreement is intended to formalise Libya-EU co-operation, and will include provisions for a free trade agreement.

Until the February unrest, Libya continued to place importance on African integration, positioning itself as a lead player in the African Union and the Community of Sahel-Saharan States (CEN-SAD). The country channels billions of dollars of investment and development aid to the rest of the continent through a network of sovereign wealth funds and national development organisations.

The 2010 Africa-EU summit attended by leaders and representatives of over 80 countries indicated the extent of Libya’s ambition to be the gateway between the southern shore of the Mediterranean and the African continent.

Although Libya’s international rehabilitation has been accompanied by significant domestic reforms, progress towards opening up the country politically was not linear. The release of over 200 radical Islamist prisoners was welcomed by human rights activists and indicated that the perceived Islamist threat has declined in the country. As a precondition for their release, leaders of the notorious Libyan Islamic Fighting Group issued a 600-page retraction renouncing the use of violent *jihad*.

In 2009 and 2010 the Gaddafi Foundation, a development organisation founded by Colonel Gaddafi’s son, Saif al-Islam, published its own human rights report. Both years the reports have openly criticised the government’s record in a variety of areas, including the detention and treatment of political prisoners. The Gaddafi Foundation has also criticised government interference in workers’ unions. Although workers and professional associations are banned from protests, groups such as the Benghazi Lawyers Association and the Union of Journalists remain active.

At the same time, government control of the press tightened in 2010, with Al Ghad, the media company owned by Saif al-Islam, coming under considerable political pressure. *Oea* and *Quryna*, the two semi-independent newspapers owned by Al Ghad, were shut down in January 2010. *Oea* was reopened in July but suspended again in November. That same month, 22 journalists from Al Ghad were arrested, only to be released a few

days later. All the journalists worked for Libya Press, a news agency owned by Al Ghad, which was closed down a few weeks later, officially due to “security fears”. The episode has been interpreted as a power struggle between conservative and reformist elites. The tightening of the press in 2010 can be seen as a prelude to the attempted crackdown occurring one year later, which did not however manage to prevent the protests from occurring.

Social Context and Human Resource Development

The human cost of the Libyan conflict has not yet properly estimated. Estimates point to deaths in the thousands. Shortage of food and medicines has also been reported. At the time of writing, a growing humanitarian crisis was being reported in the besieged rebel city of Misrata and in many parts of the West. The Libyan conflict has also spilled over to the neighbouring countries where over 530 000 people had fled by mid-April, out of which over 250 000 of those had fled through the Tunisian border of Ras Jadir alone.

Before the conflict, Libya enjoyed the highest Human Development Index (HDI) on the continent, and ranks 53rd globally. The ranking takes a number of dimensions of human development into account, including literacy, life expectancy and GDP per capita. The 2009 economic slowdown had little impact upon national poverty levels or unemployment. Libyan citizens are protected by an extensive social welfare system. Libyan decision makers do not consequently consider absolute poverty a priority. The National Millennium Development Goals (MDG) Report for Libya, published in 2009, concludes that Libya is well positioned to achieve all eight MDGs.

The state provided free education and health care to all citizens. UN data placed adult literacy at 88.4% in 2007 and reported gross primary, secondary and tertiary enrolment rates for the years 2001-09 at 110.3%, 93.5% and 55.7% respectively. Nevertheless, government policy is focusing on improving the quality of the education provided and linking national curricula to labour market needs. A prime concern for policy-makers is unemployment, particularly among young people. Official government figures put the unemployment rate at 13.5%, but other estimates place it between 25% and 30%. Libya has a very young population: according to the 2006 census almost a third of the population is under the age of 15. The problem of youth unemployment was therefore major and erupted in the most recent crisis.

According to World Health Organisation (WHO) data, Libya use to spend USD 270 per capita on health care in 2006, or 2.9% of GDP, a figure that is above average for the region but is low when compared to countries with incomes similar to Libya. Many Libyans travel abroad for healthcare, often at great personal expense. Nonetheless life expectancy has increased to 74.5 years according to 2010 UN data. The prevalence of HIV/AIDS is largely considered to be low compared to regional averages but evidence points to the presence of a concentrated epidemic among high-risk groups. For example, a 2004 study by the National Centre for Infectious Diseases found the incidence rate in Tripoli prisons to be 18%.

Illegal migration used to present a considerable development challenge to Libya, as the country is a major transit point as well as an increased destination for migrants. The government estimates that there are around 3 million illegal migrants in Libya, a country with a population of 6.4 million. The International Organization for Migration (IOM) places the figure at around 1.5 million. Illegal migrants constitute one of the poorest, most marginalised and vulnerable sectors of Libyan society, particularly as many are unable to access public services. The problem has attracted the attention of both domestic and international actors. Since 2009 joint Libyan-Italian coastal patrols have helped reduce the number of migrants attempting the risky sea crossing to Europe. In October 2010 the European Commission pledged USD 80.3 million over the period 2011-13 to help combat illegal migration. As the conflict has unfolded, new waves of displaced people fleeing the war have added to the flows of migrant, sparking a heated debate particularly in Europe.

In recent years Libya had come under increasing pressure to reform its use of detention centres for irregular migrants and to sign the 1951 Geneva Convention concerning the rights and status of refugees. In 2010 Libya's decision to close temporarily the offices of the UNHCR, the UN refugee agency, provoked further controversy. Law No.19 was passed in 2010 to ensure that all cases concerning irregular migration are processed through the courts. It also strengthened the penalties for trafficking and employing illegal migrants while simultaneously making it easier to regularise employees. IOM reported that several prosecutions of migrant smugglers have since taken place. Migrant detention centres were emptied and closed in July 2010, but in late 2010 the International Organisation for Migration (IOM) reported that they were gradually filling up once more as the state struggles to process migrant cases.

Although women in Libya face few legal obstacles to economic and social participation, strict social customs continue to discourage women from participating fully in the economic life of the country. Women's enrolment in higher education has now surpassed that of men, but this is not yet reflected in the labour market. According to 2007 UN data, around 32% of women are in paid employment, but their average salaries are substantially lower than those of men. In July 2010, successful lobbying by a number of Libyan civil society organisations led to a revision of the country's nationality laws. In what was billed as a triumph for women's rights campaigners, the new laws enabled Libyan women married to non-Libyan men to pass on their nationality to their children. This made it easier for these children to gain access to Libya's extensive social welfare system as well as favouring mixed marriages with foreigners.

Libya faces a number of significant environmental challenges. A growing population, increasing prosperity and

expanding industry place a strain on the country's natural resources. According to the Arab Human Development Report 2009, almost 90% of Libya is affected by desertification. Libya is signatory to a number of important international environmental conventions, but still needs to strengthen its national response. Continuing subsidies on water, fuel and electricity contribute to over-consumption of the country's finite resources.