A CHANGE IN THE LIBYAN ECONOMY: TOWARDS A MORE MARKET-ORIENTED ECONOMY

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Abstract

Since the mid-1980s, there has been a significant movement toward global markets, especially the privatisation of the State-Owned Enterprises. Recently, after a more than three decades of excessive reliance on the public sector, Libya has pursued privatisation of its public sector. This paper explores the underlying forces of the economic reform, especially with respect to the privatisation of industrial sector, in Libya. It is found that privatisation has been pursued in Libya as result of its own policy plan, rarely after pressures from the international lending agencies. It has been embarked on with more pragmatic and less ideological base.

1. Introduction

Since the mid-1980s, there has been a significant global movement away from the state ownership of production and services towards the private ownership and free enterprises (Gratton-Lavoie, 2000). One of the important aspects of this trend has been the sale of the state-owned enterprises (SOEs) to the private investors with the hope to improve the unsatisfactory performance of these firms. This process was called a privatisation and it was attributed to the conservative government of Margaret Thatcher in 1979 (Megginson, Nash, & Randenborgh, 1994). The initial motivation for the privatisation is based on the comprehensive divestiture of the SOEs in the United Kingdom (UK). The successful sale of British Telecom in 1984 was an example to launch similar privatisation in many other developed countries such as France, Italy, German, and Japan (Megginson & Netter, 2001). By the end-1980s, privatisation spread rapidly around the world, especially to the developing countries of South Asian, Latin America, African, and Middle East (Gratton-Lavoie, 2000). Libya was not an exceptional; it has witnessed privatisation of small public firms in 1987 and trade liberalisation in 1992. However, most of the evidence suggests that the Libyan economy remains tightly controlled by the state and shows no real signs of reform (Vandewalle, 1996). In recent years, Libya started its transition to move from a planned to a market-based economic system. It is ahead with privatising its public sector, liberalising its economy, and applying for the membership of the World Trade Organisation (WTO) (IMF, 2006).
This research explores the underlying causes of the economic reform, especially a privatisation, in Libya. The argument relies on the claim that governments have different incentives to privatise their economy. They may privatise as result of ideological shifts hostile to the SOEs or as a pragmatic response to the poor performance of these firms. The governments may also privatise under pressures from the international lending agencies. The research addresses the following questions: When and how has the Libyan economy privatised? Is the Libya government privatising because it is an easy way to raise cash to finance budget deficits? Is it being forced into it by powerful international agencies? Or is it doing so because it is likely to improve the long-term performance of its economy?

2. Literature Review

To understand the movement from the state ownership towards a market oriented economy, especially the privatisation of SOEs, a brief review of the history of both privatisation and its precursor nationalisation is provided. Throughout the history, the SOEs are found in both developed and developing nations (Colavito, 1997). The SOEs are an amorphous group of companies covering most sectors of the economy, acquired under a variety of political ambitions and held together by a number of status and legal provision (Kayizzi-Mugerwa, 2002). The depression, World War II, and the final breakup of colonial empires pushed government into a more active role, including ownership of production and services in much of the world. The government ownership grew in the developing world for slightly different reasons (Megginson & Netter, 2001). The primary economic motivation behind the SOEs was increased capital investment. Several real constraints hindered capital investment in developing economies in the years following the World War II, the most important of which was low domestic savings rates (Smith & Trebilcock, 2001). Meanwhile, many countries had no alternative to reliance on the state ownership because there was no local private sector or the local private sector was insufficiently developed (Nellis & Kikeri 1989). Another reason for the state ownership, often through nationalisation, was a historical resentment of the foreigners who owned many of the largest firms in these countries (Megginson & Netter, 2001). Meanwhile, many governments were influenced by the spread of socialist ideology following the World War II, which dictated that the state control the “commanding height” of its economy (Smith & Trebilcock, 2001).

After 1980, undue and overgrown state intervention gave rise to cumulative financial deficit and foreign debt (Seock, 2005). Since then, privatisation has been promoted by economists as a key component of structural reform programs in both developed and
developing economies (Parker, 1999). Privatisation is a process which shifts the economic activities from the public to the private sector in an economy (Awadalla, 2003). It includes denationalisation (the sale of publicly owned assets), deregulation (the introduction of competition into statutory monopolies), and contracting out (the franchising to private firms of the production of the SOEs) (Kay & Thompson, 1986).

The common argument for the private over the state ownership centres on the comparative economic efficiency of public and private sectors (Parker, 1999). In general, inefficiency is traced back to the ideological shifts hostile to the SOEs that started in the UK and the United States (US) (Colavito, 1997). Conservative governments are believed to be more prone to privatisate the economy than socialist or Christian democratic government (Bortolotti, Fantini, & Siniscalco, 2003). The UK is an example of a country where supposed superior efficiency of private ownership was main driving force of the privatisation policy for conservative government of 1979 to 1997 (Parker, 1999). Another example is France where a right of centre government between 1986 and 1988 privatised large industrial, banking and financial trusts. This privatisation was brought to a halt by the election of socialist administration in 1988. The re-election of a right centre government in 1993 renewed the privatisation again (Parker, 1999). The ideological shift away from SOEs has for long been encouraged by the United States Agency for International Development (USAID) (Ramamurti, 1991). It is now widely reflected in the policy of the World Bank (WB) and International Monetary Fund (IMF) (Colavito, 1997). Based on these developments, the following proposition is offered:

P.1: The government privatises its economy as result of ideological shift hostile to the SOEs.

Privatisation has also been associated with two major economic pressures, namely fiscal and international pressures on the governments. In the 1980s, the governments of both rich and poor developing countries found themselves with large budget deficits. In the aftermath of the oil crisis and the debt crisis that followed it, governments found it difficult to squeeze money out of taxpayers and savers at home and from lenders abroad. This turned privatisation into a serious option for improving the short-term cash for governments (Ramamurti, 1991). For instance, in the late 1980s, the Hungarian government implemented privatisation program to reduce the deficit of state budget (Louzek, 2005). Therefore, the higher budget deficit can explain the timing of the privatisation revolution in the 1980s. Accordingly, the following proposition is offered:

P.2: The government privatises its economy due to high budget deficit.

A second economic pressure is applied by international lending agencies to which
developing countries came to finance their external debts. These agencies made their credit dependent upon the adoption of market reforms (Manzetti, 1994). The notable example is Jordan’s privatisation program that was initiated in the late 1980s when the country, unable to service its $8 billion external debt in 1989, came under pressure to implement structural reform as part of its program with the international agencies. Similarly, the privatisation of 1991 in Egypt was part of the package of measures agreed between the IMF and the Egyptian government to access to fund (Kauffmann & Wegner, 2007). The role of international agencies would then explain the shift in favour of privatisation in many developing countries. Thus, the following proposition is offered:

P.3: The government privatise its economy due to the pressures from international lending agencies.

The emphasis on the privatisation follows growing evidence that the SOEs have had poor economic performance and have not met their objectives (Colavito, 1997). This is based on the argument that the governments, over the years, have become disillusioned with the performance of SOEs and learned that the inefficiencies associated with state ownership were higher than expected. They seem to have grudgingly accepted this view after evidence revealed that a variety of solutions to the problem of managing the SOEs failed to produce an improvement in the performance of these firms. This was described as long-term causes that seen as a result of learning process (Ramamurti, 1991). For instance, the privatisation in Tunisia was the result of poor performance of many SOEs (Kauffmann & Wegner, 2007). The wide acceptance of privatisation in Latin America was a result of the recognition that the involvement of the state in economic activities failed to deliver the promised results (Ruiz-Mier, Garron, Machicado, & Capra, 2002). Thus, dissatisfactory with the performance of SOEs provides explanation for why some countries pursued privatisation. The following proposition is offered:

P.4: The government privatise its economy due to the poor performance of the SOEs.

It is quite clear from the literature that there are at least four explanations related to the privatisation trend. These explanations include 1) ideological shifts from the state towards private ownership, 2) high budget deficit, 3) pressures from international lending agencies, and 4) the poor performance of the SOEs. However, these explanations are not mutually exclusive; they could be operating simultaneously in any country. Some of them may even be causally connected. For instance, poor performance of SOEs (P-4) could contribute to high state budget deficits (P-2), which, in turn, could force countries to turn to the WB for funds (P-3). The changes in a country’s ideology (P-1) may be the result of dissatisfaction with the country’s economic performance (P-2) (Ramamurti, 1991).
3. Research Methodology

3.1 A single country study

The study concerns a single country as a case in order to obtain in-depth knowledge about economic reform and privatisation. Among many developing countries Libya is selected as case study for this paper as it is at turning point from a socialist and planned to a market-based economic system.

3.2 Data sources and measures

Data collection relies on documents and material from the General Board of Ownership Transfer (GBOT), IMF, and industrial information centre. The privatisation database published by the GBOT, which is a privatisation agency, reports a privatisation progress in terms of a number of privatised companies and the followed procedures. It also reveals a type of the new owners whether individual, employment, domestic, or foreign (Oswald & Jahera, 1991). In addition to the percentage of shares that remained with the state (Kocenda & Svejnar, 2003). Privatisation database also used to identify the political economy of privatisation that reveals the platform and ideological orientation of the government (Bortolotti, Fantini, & Siniscalco, 2003). The Country’s Annual Reports (CARs) published by IMF from 2003 to 2008 report the economic development of the country and the progress of economic reform. They concern activities related to opening state monopolies, and the deregulating or liberalising the market. The CARs also reveal the prevalence of tariffs, exchange rate controls, balance of payments, and limitations on the imports and exports. The annual reports also reveal the relation between the Libyan government and the WB. The official government reports reveal the performance of public sector and therefore show how satisfied or dissatisfied the Libyan government is likely to be with the performance of its public sector.

3.3 Data analysis

For the analysis purpose, the paper specifies a set of theoretical propositions that are derived from the literature to answer the questions that are being asked in this paper (Yin, 2003). Those propositions narrow down the focus of the paper and direct attention to four main causes of privatisation program. The propositions are also used as guiding tools for analysing the research findings. Two steps are followed to analyse the collected data. In the first step, a brief overview of the historical economic development in Libya is reviewed in order to understand the recent Libyan economic reform. In the second step
the theoretical propositions are compared with the empirical data to answer the questions.

4. The Libyan economy an overview

To interpret the recent Libyan economic reform, it is necessary to have an overview of the historical economic development in the country. By the time of independence 1951, Libya was one of the poorest countries in the world (Vandewalle, 1996). It was mainly based on agriculture and foreign aid from the UK, the US, the UN, the United Arab Republic (UAR) and Italy (El azzabi, 1974). In addition to revenues from the sale of scrap metal left behind by the belligerents during the war and rents from military bases used by the US and the UK (Vandewalle, 1996). The foreign aids and agriculture sector contributed about 26 percent of GDP each (Alfitouri, 2004). By the end of 1950s, after oil had been discovered and marketed, the economy of Libya has changed from one of the poorest countries to one of the richest economies (El azzabi, 1974). In 1963, for the first time the Libyan economy had achieved surplus in its balance of payments that reached LD35 million (Alfitouri, 2004). The national income increased by 344 percent from LD131 million in 1962 to LD789 million in 1968. It was due to the continuous increase of 835 percent in the oil exports during this period (El azzabi, 1974).

The monarchy government, at that time, turned to use oil revenues as an engine for the economic growth. It advocated capitalist philosophy that limiting the role of the government and encouraging the private sector to develop both itself and the economy (Ghanem, 1985). Due to the small size of the domestic private sector, the majority of development projects were carried out by foreign private sector (Alfourjani, 2005). Unfortunately, very little is known about this period mainly due to the lack of literature. Towards the end of the 1960s, the oil sector developed rapidly and become the dominated sector of the economy. The economic development plan favoured people working in agriculture and oil sectors. The cities in the north, mainly Tripoli and Binhazi, benefited more from development allocations plan than the rest of the country (Ghanem, 1985).

In 1969, the new revolutionary government transferred the economy from being capitalist-oriented to being socialist-oriented economy (Abdossalam, 1985). Although in the first few years of the revolution, there was a continuation of the previous economic policies and the private sector flourished even more than it had done before the revolution (Ghanem, 1985). In 1972 the private sector investment had risen to LD7.8 million (Allan, 1982). In the mid-1970s, the government advocated socialist philosophy that expending public sector and cutting back the private sector (Ghanem, 1985). In the new economic system the private ownership was severely restricted as outlined in the Green Book. It was argued that unrestricted ownership would lead to exploitation through wages, rent and profit that would give rise to income disparity and inequality (Abdossalam, 1985).
People were not allowed to own more than the house in which they lived and the rental payment for property was outlawed (Meliha, 1996). But small ventures could be carried out as long as they involved self-employment or family undertaking (Abdossalam, 1985).

The principal vehicles for fostering economic transformation in this period have been two five-year plans (1976-80 and 1981-85) (Ghanem, 1985). Through these two plans, the total of LD 20.593 billion was allocated and total of LD 18.951 billion was actually spent on different economic sectors (The Ministry of Planning, 2002). Among other objectives, the plans were aimed to create diversified economic structure through investing in different economic sectors and thus, reduce the domination of oil sector (O’hed, 2003). The plans were also aimed to reduce income disparities between people, regions, and sectors through expanding the role of public sector, progressive taxes, and distributing the service and production units over the country (Alqadhafi, 2002).

Consequently, the government agencies and corporations were created to import and trade a wide range of goods and services (Abdossalam, 1985). The private sector was almost abolished through nationalisation process (Althouni, 2000). First foreign trade then local, both wholesale and retail, was nationalised. The workers, encouraged by the Green Book view of industrial ownership, took over the plants they working at, proclaimed themselves ‘partners not employees’ (Ghanem, 1985). The braches of foreign banks, namely Barclays bank, D.C.O, Banco di Roma, Banco di Napoli, and the Arab Bank, were nationalised and became completely state-owned (Abdossalam, 1985). The state created 1279 centralised supermarkets in various parts of the country with the aim to provide the daily needs of Libyans (Ajam, Kilani, Frhat, Alarabi, & Rashid, 1984). The role of the government in economic activities was gradually increased and became directly responsible for all sectors of the economy and all aspect of social life. It directly employed about 75 percent of labour force (Vandewalle, 2006). The increasing income from oil eased to follow a policy of all things to all people (Ghanem, 1985).

5. The Libyan economy reforms

Due to the drop in the oil market, the Libyan oil revenues went down from $21 billion in 1980 to $6.5 billion in 1986 (Vandewalle 1996). This loss of income adversely affected the state’s ability to continue with its pervious policy (Ghanem, 1985). The state responded by applying austerity policy and limiting the list of imports by cutting unnecessary commodities. Despite these efforts, austerity policies did not help to save much money and the state had to reform its earlier economic policies (Meliha, 1996). After brief an overview of the Libyan economy, this section sheds light to the economic reform programs in Libya, particularly the privatisation as one element of the economic reform, from its commencement in 1987 to 2008 in three experiences as following:
5.1 The first economic reform program

As result, the government introduced the concept of *tashrukiyya*, collective ownership that allowed for the creation of cooperatives to which some partners contribute labour and capital (Vandewalle, 1998). Between 1987 and 1989, the government passed a new collection of laws allowing, for the first time since 1977, limited private sector investment in Libya. The *tashrukiyya* system aimed to encourage the small-scale private sector to participate in retail trade, service and light industries as means of overcoming the inefficiency in these industries (Meliha, 1996). In industrial sector, for example, 102 public firms had been turned over into *tashrukiyya* form and 10233 new private firms were established (the Ministry of Industry, 1992).

According to the Ministry of Planning (2005), the success of the *tashrukiya* system was limited as most of the firms that were privatised through this system suffered from performance decline, some even continued with loss-making. This was attributed to the privatisation procedure as these firms had not been restructured in a way that ensures their performance improvement. They had been privatised with their prior debts and their labour force intact. Alqadhafi (2002) added that the government control and intervention in the economy remained widespread, which means the price-setting was still government control. So that it was difficult for these firms to make profit as in market economy.

5.2 The second economic reform program

In the early 1990s, Libya was not only suffering from the effects of international economic sanctions but a drop in oil prices was placing a huge strain on the Libyan state’s ability to finance its inefficient public sector (Otman, 2007). To withstand this, the government went further and adopted its second economic reform program. It introduced the concept of *sharika musahima*, joint-stock company, which allowed private companies to open foreign currency accounts and to import equipment (Vandewalle, 1998). This was meant to surpass the previous privatisation experience and share the burden of public with the private sector via more reduction in the government’s involvement in the economy. In this case, the central committee was established. It consisted of a secretary, chairman, and members, who were specialised and expert in their respective fields (Alakdar, 2005). In industrial sector, for example, 196 public firms were privatised and 7483 new private firms were established (the Ministry of Industry, 1992).

The Ministry of Planning (2005) reported that the performance of the privatised firms was declined and the production was similar to if not worse than before privatisation. The report provided the same reasons that mentioned for the first economic reform. Addition reason stated by Alqadhafi (2002), the privatisation method was partly responsible for
performance decline as it was limited only to employee buyouts. Alakdar (2005) concluded that, several privatised firms suffered from not only the expensive of spat parts but also the difficulty to obtain them because of procedures imposed on the private sector. In addition to economic sanctions, a length procedure of licensing foreign investments led to only few foreign projects to invest in Libya (Otman, 2007).

5.3 The recent economic reform program

In 2003, the Libyan government prepared a large scale privatisation program, *al tamleek*. It is described as a program of broadening the ownership base through encouraging residents to own the public firms in order to avoid concentrated ownership (Alfourjani 2005). Initially, the program targeted 360 public firms included 204 industrial firms, 56 agricultural firms, 82 livestock firms, and 18 marine firms. These firms were planed for privatisation according to an interlocking time schedule in three stages during a period of 2004 to 2008, (Aldroish, Khajiji, & Alkdar, 2005). This section discusses the recent economic reform program in the light of the theoretical propositions of the paper.

The political economy of the privatisation

The current privatisation is aimed to restructure the Libyan economy towards building poplar capitalism through spreading share ownership more widely (Alsouia, 2005). To this end, the employees and residents were encouraged through savings schemes to participate in owing the public sector firms. The foreigners were also allowed to participate but with limitation imposed on their ownership (the GBOT, 2004). The privatisation is part of large economic reform programs included the Wealth Distribution Program (WDP) that launched to distribute part of the oil wealth to the population (the GBOT, 2004). The distribution will be in the form of both cash and shares in the public firms to improve the living standards of residents. The initially announced amount was LD25-30 (about $20-25) billion, but subsequently only 4.6 (about $3.8) billion were approved in 2008 (IMF, 2008). The current privatisation is aimed to reduce the public sector and enhance the role of private sector in the economy. So that to bring the country into the WTO membership (John, 2008). The current privatisation policy is aimed to improve the performance of public sector and national economy through attracting the private savings, and transferring the role of the government from the owner and manager to supporter and encourager of the economic activities (Shernna & Alfourjani, 2007).

The performance of the Libyan economy

Oil revenues in Libyan dinar were increased by the large devaluation of the official exchange rate at the beginning of 2002. However, tax and customs revenues declined,
mainly as result of widespread exemptions granted to public firms in 2002. As result, total revenues increased by only 2.5 percent of GDP. The CPI declined by 9.8 percent, driven mostly by increased competition resulting from trade liberalisation and exemptions from all taxes and customs duties granted to public firms. GDP stagnated in 2002, reflecting 7.6 percent decline in oil production, and 2.9 percent growth in the non-oil sector. The external account shifted to a deficit for the first time since 1998 as import payments rose by almost 40 percent to $7.4 billion, while export receipts fell by about 8 percent, driven by a decline in oil exports. About 75 percent of these import are financed from the budget and the remaining imports are those of public firms which were provided foreign exchange at the pre-unification official rate at the end-2001, they also were exempted from tax and custom in 2002 (IMF, 2003).

The government interference in the economy resulted in a continuous deterioration in the business climate, low economic growth, fragile macroeconomic conditions, and increased vulnerability to external shocks (IMF, 2006). This led the Libyan government to request technical assistance from the WB to reform and modernise its economy (IMF 2003). The staff from IMF stated that Libya needs strong and sustained economic growth to meet the demands of its rapidly growing labour force and an efficient use of the state’s resources. This can only be achieved through the implementation of extensive market-oriented structural reforms that would enhance the role of the private sector and promote economic diversification (IMF, 2006).

The role of the World Bank (WB)

In 2002, technical assistance (TA) was signed between the WB and the Libyan government. Libya would have to cover most of the cost of the assistance. It was identified in the area of the monetary policy, bank restructuring, tax policy, and revenues management. The TA aim to consolidate public finance, streamline budgetary management, remove external trade restrictions, complete price liberalisation, rationalise the subsidy system, develop a vigorous privatisation program, and improve the business climate (IMF 2003). In 2005, medium term strategy (MTS) was signed between the WB and the Libyan government. It aims to maintain macroeconomic stability and rationalise the use of the country’s oil wealth, accelerate the transition to a market economy, and create a solid basis for the development of the non-oil sectors. In 2007, a technical cooperation agreement was signed between the WB and the Libyan government with a total budget of $1 million contributed jointly in two parts. The agreement funds a joint economic advisory program, to support and further Libyan’s reform process, covering the period of July 2007 to June 2008. Activities were launched in the areas of an investment climate assessment, business and legal environment, and support for the development of the Libyan vision 2025 (IMF, 2008).
The performance of the public sector

The paper focuses on privatisation of the public industrial sector (PIS) because it was the first sector that exposed to the current privatisation program. Since 1969, the PIS received priority and huge amount of money to enhance the economic diversification by expanding the non-oil products. The government policies in the PIS also aimed to achieve more self reliance and self sufficiency in food. It is also aimed to contribute to regional development and job creation. Throughout the period of 1970 to 2005, about LD6 (almost $5) billion was allocated in different development plans for the PIS and LD4 (about $3.2) was actually spent on it (the Ministry of Electricity, Industry, & Minerals (MEIM), 2006). As result, the PIS rapidly grew as hundreds of industrial projects were established in different regions of the country (Ghanem, 1985). In 2001, it hired 172.1 employees, account for 11.8 percent of total labour force (IMF, 2005).

Despite the huge investments that are being poured into the PIS, the sector still relies heavily on oil revenues, especially in providing foreign currency, for both investment and raw inputs (the Ministry of Industry 2000). The contribution of the PIS to the GDP did not exceed 8 percent during 1970s, whereas it dropped to 5.9 percent in 2000 and eventually dropped again to 3.2 percent in 2002 (Shareia, 2006). According to the MEIM (2006), the LIS, like other sectors, suffered from reduction in the expenditure due to the drop in the oil market since mid-1980s. The PIS was also subjected to various organisation changes. In 2000, the Ministry of Industry was abolished and its competence was transferred to the production affairs at the government level. This resulted in administration instability, overlap in the authorities and responsibilities, which had negative impact about the performance of the sector (the MEIM, 2006).

In addition, there were many low-performance industrial projects; some even resulted in financial losses (Alqadhafi, 2002). This is to some extent owing to the increased competition from private sector imports (IMF, 2005). Most of the industrial projects were equipped with absolute machinery due to the delay and cancel of the investment and development plans (the MEIM, 2006). The public industrial projects faced a sharp increase in the cost of their inputs due to the sudden unification of the exchange rate (the Ministry of Economy & Trade, 2006).

The current status of the economic reform

By the end of 2007, 57 headquarters, mother companies, were liquated through procedures of bankruptcy. These companies not only failed to realise their targets, but they were persistent loss makers, suffer from marketing, technology, cash and workforce problems. Another 80 public industrial firms were privatised buy using four different
privatisation methods. 31 industrial public firms were privatised through management and employee buyout, *tashrukiyya form*. 37 industrial public firms were privatised by using special bidding, *sharika musahima*. 10 industrial public firms were privatised through direct discussions with investment holding organisations. Two industrial public firms were privatised through partnership between the employees, domestic investment holding organisations, and public.

Two new private commercial banks and one private regional bank were licensed in 2002. BNP Paribas acquired 19 percent of Sahara Bank in August 2007, with immediate management control and option to purchase additional shares of up to 51 percent within 3-5 years. Wahda Bank was acquired by Arab Bank in February 2008 under similar terms (IMF, 2008). Some key strategic companies are still earmarked for privatisation, particularly Libyan airlines, public telecommunication company, Brega petroleum company, and electricity distribution network (Alfotesi, 2008). The stock exchange was established in 2006 and by end-2007, seven companies (mostly banks) were listed with a capitalisation of LD1.2 billion (IMF, 2008).

Notable progress has been made on various structural reforms, tariff rates were reduced, resulting in a decline in the simple average tariff to 17.8 percent. So that to make it far easier for foreign investments and capital to enter the country (IMF, 2005). The trade regime was simplified by cutting half the consumption tax rate on imported goods (IMF 2007). The state import monopolies were also reduced to petroleum products and weaponry. The list of prohibited import (40 items) was scaled down to less than ten products. The government intend to keep the import bans only for religious and health reasons (IMF 2007). So that private sector can freely import or produce goods that were previously under public monopoly (IMF, 2007). Numerous investment agreements with a number of countries have been signed so that to encourage foreign direct investment and harmonise taxes. Infrastructure is also being modernised and free zones are planned (IMF, 2003). Certification requirements for trade with Maghreb countries have also been simplified (IMF, 2008).

6. Finding and Discussion

To address the propositions of the paper, this section compares the findings with the theoretical propositions. From the overview of the historical economic development in Libya, that the Libyan nationalisation program, in the context of its time, was not unique. From the 1950s to 1970s, in line with a general anti-colonial backlash in plethora of newly independent nations, a series of major nationalisation programs took place in many Arab countries such as Egypt, Syria, and Iraq. Following these countries, many foreign-owned resources were nationalised in Libya after the revolution in 1969. This change was
the result of ideological change, the desire, search for independence, and construction of the state. As defined by article 6 of the constitution declaration of 1969. The nationalisation program that took place through the 1970s was affected to reduce perceived social inequalities, effectively to return exploitative business, whether domestic or foreign, to the Libyan people. The role of the state in this operation was to act as a trustee of these nationalised and publicly owned firms, which in fact were ultimately owned by the people (Otman, 2007).

The process of privatisation in Libya shares several similarities with what has been observed in the literature. The first wave of privatisation, which began in 1987, was response to the drop in the oil market prices. The drop in the oil market affected the country’s ability to continue with its previous policy. As result the government adopted its first economic reform and allowed, for the first time since 1977, limited private sector investment in Libya. The second wave of privatisation, which began in 1992, provided political signal, notably regarding the international economic sanctions. It was also was response to the drop in the oil market prices in early 1990s and the poor financial performance of many public sector firms.

P.1 Recently, the Libyan government seems to have accepted the view of economic efficiency of the private sector over the public sector. After evidence revealed that a variety of solutions to the problem of managing the public sector failed to produce an improvement in the performance of the public sector companies. As Colonel Alqathafi stated “this system has failed the same as happened in the former Soviet Union and Eastern Europe because it depended on unqualified employees who do not care about their country’s interests. The economy has no place for sentiments and niceties and therefore, this sector have to be reviewed as there is no one understands it in Libya” (Arabic News, 2003).

This is clearly reflected the end of the socialist period and shift the country towards market-oriented economy. Although, the government chooses the policy that maximises social welfare as it was reflected in the priorities that were given to the residents and the WDP program. A Colonel Alqadhafi himself stressed “the need to avoid capitalism and exploitation, in case the public sector is cancelled. He re-affirmed the need to establish people’s socialism, or even people’s capitalism” (Arabic News, 2003). The recent wave of privatisation seems to be a result of ideological shift away from the policy of the public sector. However, it provides part of the explanation for why the government pursued privatisation in 2003. Therefore, the proposition 1 was partly accepted.

P.2 Libyan economy in 2002 suffered few balance of payments problems, rapidly growing labour force, and inefficient use of the country’s resources. It was impacted by
the unification of the exchange rate, liberalisation of the external sector, and accommodating fiscal and credit policies (IMF, 2003). Under these circumstances, privatisation in Libya is a strategy to correct the past policies of the costs and benefits of using the public sector. This was clearly evident by the staff from the IMF. They stated that Libya needs strong and sustained economic growth to meet the demands of its rapidly growing labour force and an efficient use of the country’s resources. This can only be achieved through the implementation of far-reaching market-oriented structural reforms (IMF, 2006). This reveals that the recent wave of privatisation was desire to meet the demands of its rapidly growing labour force and an efficient use of the country’s resources. Therefore, the proposition 2 was accepted

P.3 The role of the WB group was limited to provide technical assistance and economic advisory program to reform and modernise its economy. Therefore, the privatisation in Libya is result of its own policy plan, rarely after pressure from the international agencies. This means the proposition 3 was rejected.

P.4 After three decades of excessive reliance on the public sector, the government has become dissatisfied with the performance of the public firms and learned that the inefficiency associated with the public sector were higher than expected. This was clearly evident in the interposition made by Algathafi in the Libyan economic forum on the aversion of oil revenues in the future, when he said: The hundreds of factories that we have established in order to sell their products and bring the foreign currency necessary to buy the raw materials and provide maintenance and services for their machinery, we keep spending the revenues from oil on these enterprises thinking that they will replace the dependency on oil. Instead, they as well continue to rely on oil the agriculture activities came to a standstill and so did the industry cited by (Shareia, 2006). Therefore, dissatisfactory the performance of public sector can also explain the cause of the recent privatisation in Libya. This means the proposition 4 was accepted.

7. Conclusions

This paper explored the recent causes of the economic reform, especially privatisation, in Libya. It found that Libya differences from other developing countries that have been embarked on privatisation in response to pressures from international agencies. It has pursued on privatisation as result of its own policy plan to correct the past policies of the public sector. The privatisation of what perceived as strategic companies and the establishment of the Libyan stock market is clearly reflected the shift of the government ideology towards market-oriented economy. The government, however, chooses a policy that maximizes social welfare as reflected in the employee ownership and the Wealth Distribution Program. This indicates that privatisation in Libya based on empirical
evidence of the poor performance of the SOEs, rather than on hope and theory as in the UK and France. This leads to the conclusion that privatisation has been pursued in Libya with more pragmatic and less ideological base.

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