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A Review of the Major Factors Influencing Foreign Direct Investment (FDI) in the Libyan Economy

مراجعة العوامل الرئيسية المؤثرة في الاستثمار الأجنبي (FDI) في الاقتصاد المباشر الليبي

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Abstract

Background

Foreign Direct Investment (FDI) plays a crucial role in promoting economic growth, technology transfer, employment creation, and integration into the global economy, particularly in developing and transition economies. Libya, despite possessing vast natural resources and a strategic geographical location, has historically attracted limited and volatile levels of FDI.

Methodology

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The study adopted a review methodology for FDI and other data from various sources and a qualitative PRISMA review to identify and discuss the determinants of FDI inflows into Libya.

Findings

This qualitative PRISMA review examined the major factors influencing FDI inflows into the Libyan economy. It analyses economic, political, institutional, and structural determinants, with particular emphasis on political stability, legal and regulatory frameworks, macroeconomic conditions, infrastructure, and natural resource endowments. The study finds that while Libya has strong potential to attract foreign investment, persistent political instability, weak institutions, and regulatory uncertainty significantly hinder FDI inflows.

Recommendations

Identification of these determinants can aid policymakers in designing and implementing targeted reforms. Such policy, legal and regulatory reforms should aim at promoting a favourable business environment to strengthen investor confidence, and reduce investment risks for the promotion of increasing foreign investments in non-oil sectors sustainably. Actions on these aspects are recommended for the Libyan government.

Keywords: Foreign Direct Investment, political stability, legal and regulatory environment, macroeconomic stability, natural resources.

ملخص

يلعب الاستثمار الأجنبي المباشر دورًا محوريًا في تعزيز النمو الاقتصادي، ونقل التكنولوجيا، وخلق فرص العمل، والاندماج في الاقتصاد العالمي، لا سيما في الاقتصادات النامية والانتقالية. وعلى الرغم من امتلاك ليبيا موارد طبيعية هائلة وموقعًا جغرافيًا استراتيجيًا، إلا أنها تاريخيًا لم تجذب سوى مستويات محدودة ومتقلبة من الاستثمار الأجنبي المباشر.

المنهجية

اعتمدت الدراسة منهجية مراجعة بيانات الاستثمار الأجنبي المباشر وغيرها من البيانات من مصادر متنوعة، بالإضافة

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إلى مراجعة نوعية باستخدام منهجية PRISMA لتحديد ومناقشة العوامل المؤثرة في تدفقات الاستثمار الأجنبي المباشر إلى ليبيا.

النتائج

تناولت هذه المراجعة النوعية باستخدام منهجية PRISMA العوامل الرئيسية المؤثرة في تدفقات الاستثمار الأجنبي المباشر إلى الاقتصاد الليبي. وحللت العوامل الاقتصادية والسياسية والمؤسسية والهيكلية، مع التركيز بشكل خاص على الاستقرار السياسي، والأطر القانونية والتنظيمية، والظروف الاقتصادية الكلية، والبنية التحتية، والموارد الطبيعية. وخلصت الدراسة إلى أنه على الرغم من امتلاك ليبيا إمكانات قوية لجذب الاستثمار الأجنبي، إلا أن عدم الاستقرار السياسي المستمر، وضعف المؤسسات، وعدم وضوح الأنظمة، تُعيق بشكل كبير تدفقات الاستثمار الأجنبي المباشر. التوصيات

يُمكن أن يُساعد تحديد هذه العوامل صانعي السياسات في تصميم وتنفيذ إصلاحات مُوجّهة. ينبغي أن تهدف هذه الإصلاحات السياسية والقانونية والتنظيمية إلى تعزيز بيئة أعمال مُواتية لتقوية ثقة المستثمرين، والحدّ من مخاطر الاستثمار، وذلك لتشجيع زيادة الاستثمارات الأجنبية في القطاعات غير النفطية بشكل مُستدام. يُوصى الحكومة الليبية باتخاذ إجراءات بشأن هذه الجوانب.

الكلمات المفتاحية: الاستثمار الأجنبي المباشر، الاستقرار السياسي، البيئة القانونية والتنظيمية، استقرار الاقتصاد الكلي، الموارد الطبيعية.

1. INTRODUCTION

Definitions of FDI

Foreign Direct Investment (FDI) refers to the movement of capital across national borders with the intention of establishing a lasting interest and significant influence in a foreign enterprise. OECD defines FDI as “the establishment of a lasting interest in and significant degree of influence over the operations of an enterprise in one economy by an investor in another economy. Ownership of 10% or more of the voting power in an enterprise in one economy by an investor in another economy is evidence of such a relationship. (OECD, 2025b) (p. 6).

UNCTAD defines FDI as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)." (UNCTAD, 2007).

According to the World Bank, FDI can be defined as "net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor." (World Bank, 2026).

US Congress defines FDI as "a type of cross-border investment that occurs when a resident of one country obtains a lasting interest in and degree of influence over the management of a business in another country (commonly 10% or more of voting securities or equivalent interest)." (U.S. Congress, 2025).

The common points in all the above definitions are the long-term or lasting nature of investment, significant influence on the operations of the invested firm, and investment from one country to another. Therefore, any of these definitions can be adopted for use. The US Congress definition is more precise and complete. However, as the data for this paper are to be sourced from the World Bank, UNCTAD and OECD, the UNCTAD definition will be adopted for this paper.

FDI and Economic Growth, especially in developing countries

FDI is widely recognised as a key driver of economic growth, as it expands a country's investment capacity and enhances productive efficiency (OECD, 2008; UNCTAD, 2023). It also contributes to reducing unemployment by creating new job opportunities and improving labour market outcomes. Furthermore, FDI facilitates the transfer of advanced

technologies, introduces modern management and organisational practices, and improves communication and marketing techniques, thereby enhancing productivity and managerial capabilities (World Bank, 2020).

FDI is particularly important as a source of external financing for developing countries, including many Arab nations, where it plays a critical role in supporting economic development and structural transformation (UNCTAD, 2023). Despite its importance, the Libyan economy faces considerable challenges in attracting foreign investors, while many Libyan entrepreneurs prefer to conduct business activities outside the country. This situation is largely attributed to the deterioration of essential public services, including electricity and water supply, as well as restricted mobility between Libyan cities due to ongoing security concerns. These challenges, which stem from both the legacy of the former regime and the consequences of the February 2011 Revolution, continue to undermine investor confidence and limit economic activity. Investment typically requires a supportive environment characterised by reliable public services, political stability, security, and strong administrative and legislative frameworks. In developing economies, FDI plays a vital role in promoting economic growth, technological advancement, and employment creation.

The Libyan Economy

Libya has historically ranked among the African countries with the highest per capita income, a position largely attributable to its substantial hydrocarbon resources. Since the late twentieth century, petroleum has constituted the cornerstone of the Libyan economy. At the beginning of the twenty-first century, crude oil and natural gas collectively generated nearly three-quarters of national income and accounted for almost the entirety of export earnings, despite employing less than 10 per cent of the labour force.

During the rule of Muammar al-Qaddafi (1969–2011), the state exercised extensive control over economic activity. The petroleum sector

was nationalised in the 1970s, and the government-maintained authority over most other industries and public utilities through state-run trade unions and industrial organisations. In response to structural dependence on oil revenues, official economic policy prioritised diversification through agricultural and industrial development initiatives. However, declining global oil revenues in the 1980s constrained fiscal capacity, resulting in repeated revisions and delays in development planning.

Beginning in the late 1980s and continuing into the early twenty-first century, Libya introduced domestic reforms aimed at liberalising the economy and fostering greater private-sector participation. These measures reflected an incremental shift away from centralised economic management toward a more market-oriented framework (Britannica, 2026).

Although Libya is classified as a developing economy and seeks to achieve sustainable economic development, it remains heavily dependent on natural resources, particularly oil and natural gas. The petroleum sector dominates the Libyan economy, accounting for more than 95% of export earnings and approximately 60% of the country's Gross Domestic Product (GDP). These substantial oil revenues, combined with Libya's small population size, have contributed to the country maintaining one of the highest nominal GDP per capita levels in Africa.

However, recent economic assessments, including the 2025 Article IV Consultation, highlight that ongoing political instability and Libya's heavy reliance on the hydrocarbon sector continue to restrict economic growth and undermine fiscal sustainability (IMF, 2025)

Assessments conducted by Libyan authorities and international institutions indicate that many of these conditions remain insufficiently developed in Libya. In addition, significant legislative and regulatory barriers continue to hinder investment, particularly regarding investor incentives, such as competitive taxation policies and customs facilitation.

The presence of complex and inefficient bureaucratic procedures within state institutions further discourages investment, often leading investors to withdraw from the market or resort to informal practices, including corruption. For a resource-rich country such as Libya, particularly in oil and gas, FDI has the potential to contribute to economic diversification and post-conflict reconstruction significantly. Despite these advantages, Libya has experienced persistent difficulties in attracting stable and sustainable levels of foreign investment.

The primary framework for FDI in Libya is the Investment Law of 2010. Incentives like a tax exemption for five years and customs duty exemption for machinery are offered. However, there are many challenges in attracting sustainable FDI levels into the country. According to Lloyds Bank (Lloyds Bank, 2026), Libya's transparency, managers' responsibility and shareholders' power are very low. This affects the FDI volume into the country. Libya enjoys a locational advantage, is rich in natural resources, has implemented economic liberalisation promoting private investment, a low level of foreign debt and a dynamic demography. On the other hand, political instability, a high level of trafficking, control of many operations by the state, extreme dependency on oil, an inefficient administration, lack of loans and control of prices and exchange rates, import restrictions, and a high unemployment rate affect both FDI and economic growth. These challenges are largely driven by a complex interaction of political, economic, institutional, and security-related factors. Despite the absence of clarity, FDI (Daoudi, 2025) and foreign trade (Elboiashi, 2025) were correlated with sustainable economic growth. Therefore, understanding the key determinants of FDI in Libya is essential for identifying the constraints faced by investors and for developing effective policy strategies aimed at improving the country's investment climate.

This paper aims to examine the Libyan economy during the period 2010–2024. Libya's economy is characterised by a distinctive economic

structure within North Africa. Unlike neighbouring countries such as Algeria, Egypt, Morocco, and Tunisia, which have large populations, significant agricultural capacity, and more diversified industrial sectors, Libya has a relatively small population and limited economic diversification.

PROBLEM OF THE STUDY

Libya possesses significant natural resources and a strategically advantageous geographic position; however, it has struggled to attract stable and diversified Foreign Direct Investment (FDI). The FDI trends from 2022 to 2024 are presented in Table 1.

Table 1-*FDI trends in Libya (2022-2024)* (Lloyds Bank, 2026) sourced from UNTAD.

FDI variables	2022	2023	2024
FDI Inflow (m USD)	0	0	0
FDI stock (m USD)	18462	18462	18462
No of greenfield investments	5	2	1
Value of greenfield investments (m USD)	6367	2083	154

As shown in Table 1, there was no FDI during the three years. Therefore, FDI stock remains unchanged. No of greenfield investments and their values declined over the years. However, Trading Economics reports FDI for these three years as 1.71K Lyd Million, 3.08 K Lyd Million, and 3.35 K Lyd Million.

Ongoing political instability, fragile legal and institutional systems, insufficient infrastructure, and an over-reliance on the oil sector have contributed to an unpredictable investment climate (Lloyds Bank, 2026). Furthermore, the scarcity of reliable data and frequent policy shifts make it challenging to accurately evaluate the drivers and effects of FDI within Libya. Consequently, there is limited empirical research examining the primary factors influencing FDI inflows and their role in promoting economic growth and diversification in the Libyan economy. This study aims to fill this gap by identifying and analysing the key determinants of FDI in Libya and assessing the barriers that restrict foreign investment.

Purpose of the study

This study aims to examine the key factors influencing Foreign Direct Investment (FDI) in Libya. Specifically, it seeks to analyse how political stability and security, the legal and regulatory environment, natural resource availability, economic stability, and infrastructure development impact the inflow of foreign investment into the Libyan economy. By identifying and evaluating these determinants, the study intends to provide valuable insights that may assist policymakers in improving Libya's investment climate and promoting sustainable foreign investment.

The importance of this study

The importance of the study arises from the need to study the baseline framework necessary to diversify the country's oil-dependent economy, guide post-conflict reconstruction, and mitigate severe political and institutional risks (Hamoudi, 2016). As Libya seeks to increase its national income and achieve development goals by enacting appropriate policies to attract foreign investment and create favourable conditions for it, it has to compete with other developing countries to attract foreign capital and provide local investment opportunities. Therefore, it is essential to study the components that characterise Libya's investment climate and which can

attract foreign investors. The lack of clarity in these areas may leave economic sector leaders and investors unaware of the advantages available in the Libyan market. This, in turn, may lead to a lack of necessary information for foreign investors seeking to invest in this environment, leaving them in dire need of supporting their investment position through a favourable environment (Altayib, 2025). For an economy where the oil and gas sector historically generates over 95% of export earnings and 60% of Gross Domestic Product (GDP), understanding what attracts or deters foreign capital is the only viable pathway toward long-term financial stabilisation (Lloyds Bank, 2026). Post-conflict attempts to build infrastructure need foreign funds. Therefore, it is important to study which information is useful for attracting FDI into the country. More attractive investment climate, clear policies for MNCs, a favourable investment environment, and specific packages for specific sectors have been suggested by (Elgamodi, 2017). These efforts will help to compensate for the shortfall in growth, remove administrative barriers to FDI, and facilitate technology transfer. Table 2 summarises the factors influencing FDI into Libya and their impact on investment.

Table 2-*Factors influencing FDI into Libya and their impact on investment*

Factor Type	Core Elements Influencing FDI Inflow	Impact on Investor Decisions
Encouraging Factors	Massive proven oil/gas reserves, strategic Mediterranean location, tax holiday options.	High initial motivation for resource-seeking and platform FDI.
Financial Determinants	Level of financial development, accessibility to credit, and Islamic banking options.	Strong positive correlation with successful project implementations.

Discouraging Factors	Civil instability, fragmented governance, and administrative corruption.	High-risk premiums often cause sudden contraction of capital flows.
Structural Barriers	Deficit of skilled domestic labour, weak infrastructure, and a rigid legal framework.	Restricts FDI diversification away from the primary oil sector.

These factors align with three of the key determinants examined in this study: political stability (civil stability), economic growth (level of financial development) and macroeconomic stability (level of financial development).

Scope of study

This study focuses on Libya, covering the period from 2010 to 2024, based on the availability of relevant data. Libya was selected because few empirical studies have examined Foreign Direct Investment (FDI) in the Libyan context during this timeframe.

The research concentrates on analysing the key determinants influencing FDI inflows into the Libyan economy. Specifically, the study is limited to examining political, economic, legal, and institutional factors that impact foreign investment in Libya.

2- Methodology

This study adopted a qualitative review methodology, utilising existing published materials to collect and analyse relevant information. The research drew on a range of academic and institutional sources, including books, research papers, working papers, and official reports. This study was

basically a review of the literature. This review consisted of sourcing data and sourcing the relevant literature.

The relevant literature was sourced from Google Scholar using search terms, and the PRISMA process was used to screen and select the papers required for this review.

Sourcing data

Data was sourced from credible governmental agencies and international organisations to ensure reliability and accuracy. In particular, the study used reference publications and statistical data from institutions such as the OECD, the World Bank, the United Nations Conference on Trade and Development (UNCTAD), Lloyds Bank, and Macrotrends. The data obtained from these sources are presented in the Results section of this paper.

Sourcing the literature

Google Scholar was used for identifying the relevant papers. The search terms used were “FDI”, “Libya”, “factors influencing FDI” and “factors influencing FDI in Libya” and their combinations. The identified papers were screened using certain inclusion and exclusion criteria. The inclusion criteria were papers in English, published in 2000 or later, and relevant to this study. The exclusion criteria were papers in other languages, published earlier than 2000, books or chapters available only on Google Books, and not relevant to this study. Thus, the review parameters are as follows-

Review design-Qualitative PRISMA review

Inclusion and exclusion criteria are mentioned above.

Time horizon- Papers published in 2000 or after.

Selection strategy- Using search terms related to the topic, searching Google Scholar and selecting based on the PRISMA process.

Analytical synthesis- Qualitative discussions.

The finally selected papers after the PRISMA process have been qualitatively synthesised and presented as subsections in the Results section below.

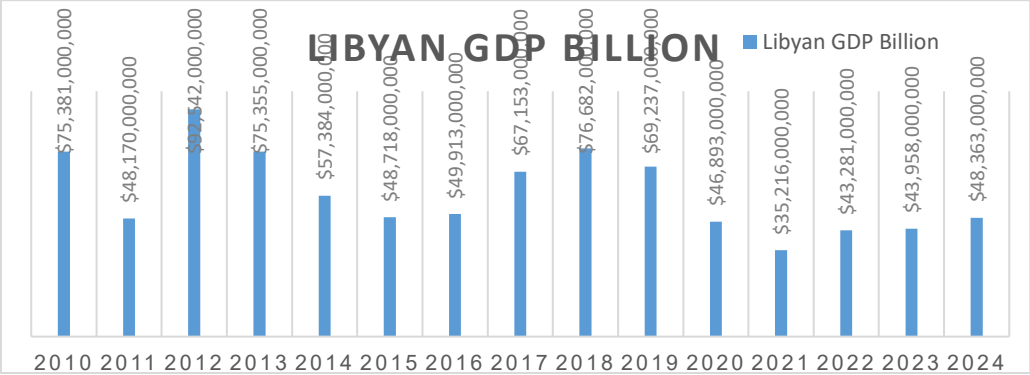
3- Results and their discussion

Libya's GDP growth

Since FDI is linked to economic growth, and GDP is an index of economic growth, the GDP trends in Libya are discussed here. Following the 2011 uprising that ended Muammar Gaddafi's rule, Libya's economy experienced significant disruption, reflected in sharp fluctuations in GDP. Real GDP fell dramatically in 2011 in the wake of conflict and political fragmentation, with nominal GDP dropping from about $75 billion in 2010 to roughly $48 billion in 2011. The economy rebounded in 2012 as oil production recovered, with GDP peaking around $92 billion before declining again amid renewed instability in subsequent years. Between 2013 and 2016, GDP contracted due to repeated oil production disruptions and political division, then showed intermittent growth during periods of relative stability from 2017 to 2019. The COVID-19 pandemic and renewed disruptions in 2020 caused further contraction, and although GDP recovered in 2021–2023, ongoing fragilities kept output below pre-2011 peak levels. By 2024, Libya's real GDP remained around $48 billion, reflecting persistent dependence on oil and continued vulnerability to political and security challenges.

Figure 1- *The Libyan GDP* (Worldometer, 2026).

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The GDP in 2025 was 44.73 billion USD and 52.45 billion USD in 2026.

Overall, Libya's economic growth from 2010 to 2024 has been highly volatile and tightly linked to political stability and oil sector performance. Periods of growth are often short-lived due to resurgent instability, while contractions tend to coincide with governance disputes that disrupt oil production, the backbone of Libya's economy. In this context**,** overall, the situation can be summarised along two main dimensions. First, the Libyan economy is heavily dependent on the oil sector, rendering economic growth highly sensitive to fluctuations in oil production and global prices. Second, persistent political instability and weak governance continue to constrain investment flows, particularly foreign direct investment, thereby limiting the duration and sustainability of growth episodes. Achieving stable and sustained economic growth requires strengthening political stability, enhancing institutional capacity, and promoting economic diversification away from excessive reliance on oil. Such measures are essential for creating a more conducive environment for attracting foreign investment over the long term.

FDI trends

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Table 3-*Periodic Analysis of FDI Performance in Libya (2010–2024): Growth Drivers and Key Outcomes*

Period	Growth Drivers	Key Outcome
2010–2011	Oil and political upheaval	Sharp collapse 2011
2012–2014	Post-conflict rebounds, then renewed conflict	Erratic growth
2015–2016	Continued instability	Weak activity
2017–2019	Oil production gains	Modest positive growth, then downturn
2020–2021	COVID & politics	Large swings
2022–2023	Oil price rise	Partial growth
2024	Institutional and production shocks	Mild contraction

The FDI temporal trends in Libya

1990s–2000s: Pre-Arab Spring Growth: FDI inflows increased significantly, particularly towards 2010, when they reached approximately $1.78 billion. This was driven by liberalisation policies, increasing oil prices, and the lifting of international sanctions (Iyrot & Hamouch, 2026).

2011–2014: Post-Uprising Contraction: Following the 2011 revolution, FDI collapsed due to insecurity and political division. FDI inflows

plummeted to roughly $50 million by 2014, a drastic drop from the 2010 peak.

2015–2023: Low and Volatile Recovery: FDI has remained low compared to regional peers. While net FDI in 2021 was recorded at $603 million, representing a 14.1% decline from 2013, the inward position of OECD countries showed a slight recovery, rising from $1.5 billion in 2018 to $4.2 billion in 2022 (OECD, 2025a).

2024–2026 Outlook: The economy remains heavily dependent on oil, with a projected GDP rebound of 9.6% and 8.4% in 2026 driven by oil production, which could potentially encourage future investment, though security concerns remain (World Bank, 2024).

FDI trends in Libya from different sources

1. (OECD, 2025a) published FDI trends during 2010-2021.

Table 4-*FDI transactions in assets and liabilities* (OECD, 2025a) *(million USD)*

FDI	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Ast	2722	131	2509	708	-78	395	440	-295	276	-269	350	225
Lia	1784	0	0	0	0	0	0	0	0	0	0	603

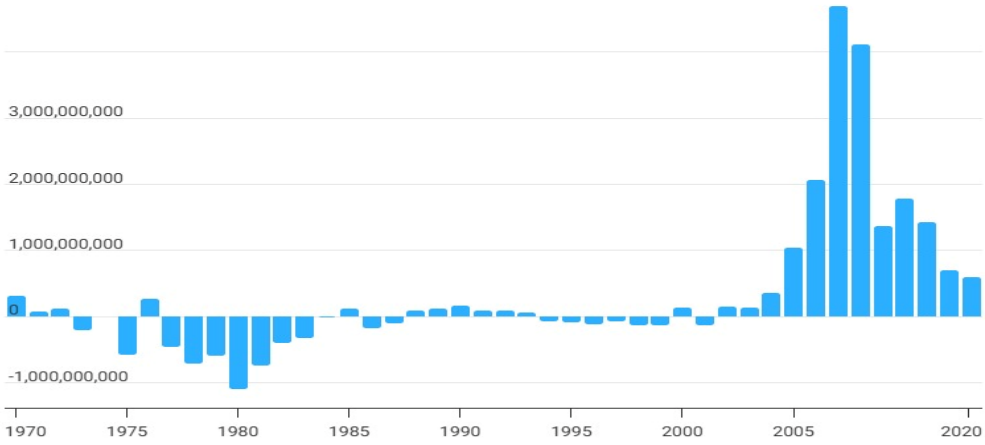
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FDI assets (Ast) were negative in 2014, 2017, and 2019. The highest assets were 2722 million USD in 2010 and 2509 million USD in 2012. Assets in other years were much smaller, becoming negative in three years as indicated above. FDI liabilities were highest in 2010 (1784 million USD), and it was zero till 2020 and 603 million USD in 2021. Thus, in most years, when assets were low, there was no liability.

2. Macrotrends

The FDI data presented by Macrotrends covers the period of 1970-2021.

Figure 2-*FDI inflows to Libya 1970-2021* (Macrotrends, 2026)



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Fig. 2 shows that in 1970, the FDI in Libya was 317.22 million USD. Then, there was no growth in FDI till 2001, when it was -133 million USD. In 2002, it was 245 million USD. The increase thereafter reached 4.69 billion USD in 2007. FDI declined since then, registering 603 million USD in 2021.

3. UNCTAD

UNCTAD provides the FDI inflows to Libya from 2000 to 2024. Figure 3 provides the data.

Figure 3-*FDI inflows to Libya: 2000 to 2024* (UNCTAD, 2026)



FDI inflows increased from 2000 to 2007. Then it declined. No data is given from 2014 to 2024.

FDI inflows into Libya: 2010 to 2024

None of the above and other sources provided the FDI data for this specific period. Hence, the data from different sources were compiled to provide the FDI inflows during 2010-2024, as given in Table 5.

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Table 5-*FDI inflows into Libya: 2010-2024 (compiled from different sources)*

Year	FDI (million Libyan dinar)
2010	13.25
2011	NA
2012	9.38
2013	-898.8
2014	98.6
2015	-545.3
2016	-610.9
2017	409.4
2018	-376.1
2019	376.5
2020	17.5
2021	1.71K
2022	3.08K
2023	3.81K
2024	3.35K

None of the sources provided the FDI data for 2011. After a low of 9.38 million Libyan dinars in 2012, FDI became negative in 2013, 2015, 2016 and 2018. Since 2019, there has been a general upward swing in FDI. The high of 2010 can be related to post-Arab Spring growth. The low of 2012 and the negative value of 2013 can be related to the post-uprising contraction. The negative values of 2015, 2016 and 2018 can be attributed to low and volatile recovery. The value of 2024 might be due to heavy dependence on oil for economic development. The wide year-to-year variations show high volatility of FDI in Libya.

Political events timeline of Libya

1951: Libya gains independence as a kingdom under King Idris.

1969: Muammar Gaddafi leads a military coup, overthrowing King Idris.

1977: Gaddafi declares the "Great Socialist People's Libyan Arab Jamahiriya" (state of the masses), establishing a system of revolutionary committees.

2011: February: An uprising begins against Gaddafi's rule. October: Gaddafi is overthrown and killed.

2014: A second civil war breaks out, dividing the country into rival East/West administrations.

2020: A UN-backed ceasefire is signed, leading to a new peace process.

2021: March: The interim Government of National Unity (GNU) is established. December: Planned presidential elections are postponed indefinitely.

2022-2026: Continued conflict between rival administrations with a UN-recognised government in the west and a parallel government in the east.

Current situation (2026): The country remains divided, with competing governments vying for control, resulting in ongoing instability.

The above timeline is related to the high variability and negative values of FDI in Table 5. The civil war might be the reason for the non-availability of FDI data for 2011. The attempts to steady the political situation are reflected in the small FDI of 2012. The second civil war might be the reason for the highly erratic FDI values, of which three were negative. However, in 2017, there was a substantial FDI inflow in 2017, which could be due to many countries supporting the removal of precursors of chemical weapons by the Organisation for the Prohibition of Chemical Weapons (OPCW) from Libya in August 2017, and continued destruction of all chemical weapons in Libya by 2018. The high negative FDI in 2018 could be due to the suspicion of the supporting countries about the destruction of all chemical weapons by Libya. The UN-backed ceasefire agreement in 2020 improved the political stability, and this was reflected in a positive FDI inflow. The FDI in 2020 was followed by a steady increase in FDI in subsequent years till 2024 due to increasing political stability in the country, although the internal conflicts continued to some extent during 2020-2026. As the current situation indicates, full political stability is yet to be achieved. This may affect future FDI inflows.

Oil production trends in Libya

Libya's crude oil production from 2017 to 2026 is given in Fig. 4.

Figure 4-*Libya's crude oil production: 2017-2026* (ISIceic, 2026)

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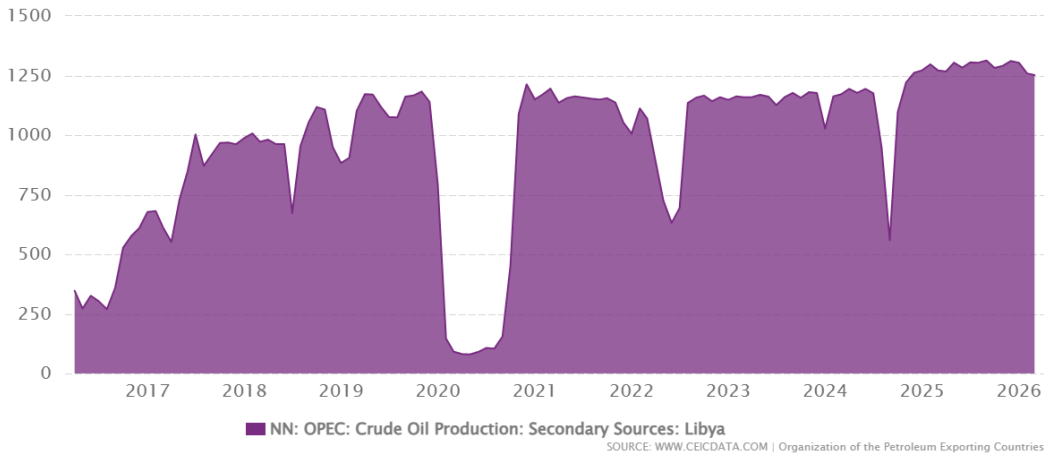


Fig.4 shows that Libya's oil production is highly erratic. The all-time low during 2020-2021 may be due to the COVID pandemic disrupting operations.

Exchange rate instability indicators

Key indicators are high volatility (standard deviation of exchange rates), persistent trade deficits, rapid inflation differentials, and low foreign exchange reserve adequacy. In the case of Libya, the key indicators as of 2026 include a widening gap between the official and black market rates (9–10 LYD vs. 6.3–6.4 official), successive devaluations (13.3% in April 2025), and extreme volatility linked to security threats affecting oil production, which provides 93% of exports.

Literature review- Factors determining FDI inflows into Libya

Based on the methodology described above, the selected papers are reviewed and synthesised below. These papers deal with both positive and negative factors to identify several key determinants of FDI, including

political stability, economic and macroeconomic stability, a stable legal and regulatory environment, and improved security conditions.

1. Political stability

Political economy theory underscores the central role of political stability in creating an enabling environment for investment, economic expansion, and sustainable development (De Schutter, 2017; Swinnen, 2010). Stable political systems foster a more predictable environment for investors, thereby enabling them to engage in long-term planning and make sustained investment commitments (Busse & Hefeker, 2007). More specifically, political stability can influence the willingness of foreign investors to invest in economic sectors, thereby affecting the flow of capital, technology, and knowledge transfer factors that are essential for promoting economic development (Swinnen, 2010).

Political stability is a critical factor that can either enhance or constrain the positive effects of economic FDI. One of the central dimensions of political stability is its role in attracting and sustaining economic FDI inflows. Political stability significantly influences the effectiveness of policy measures designed to encourage agricultural FDI and improve food security. In countries where institutional frameworks are strong and macroeconomic policies are stable, FDI can enhance food security by improving food availability, accessibility, and supply stability (Arezki & Bruckner, 2011).

Samimi and Ariani (2010), from their analysis of the Middle East and North Africa (MENA) region over the period 2002–2007, concluded that political stability plays a critical role in attracting FDI. They emphasise that institutional factors, particularly the rule of law and the control of corruption, have a significant positive impact on FDI inflows. The study also highlights the growing focus of governments in the region on implementing policies aimed at enhancing their attractiveness to foreign

investors. The political stability of Libya was given as -0.07 compared to 1.38 for Malta, 0.19 for Kuwait, and -1.43 for Algeria. Thus, the political instability of Libya is around the average for the 16 MENA countries. During the study period, Libya's FDI inflow was about 1200 million USD, compared to about 4200 million USD of Egypt, 2400 million USD of Lebanon, and about 10 million USD of Saudi Arabia. Thus, despite a significant level of political instability, Libya's FDI inflow was better than that of some MENA countries with lower political instability. In the panel regression equation, the coefficient for political stability was only 0.015 compared to 0.732 for the rule of law and 0.08 for control of corruption. These data lead to the contention that political instability may not be a very significant factor in determining FDI inflows to Libya.

On the other hand, Quazi (2007) obtained a significant regression coefficient of -4.16 for political instability in model 1, -2.55 in model 2, and -1.63 for determining FDI inflows. These data clearly show a significant effect of political instability in determining FDI inflows. The author used East Asian panel data for this study. It is not certain whether the findings also apply to Libya.

Although some papers highlight the growing emphasis placed on government policies aimed at increasing FDI inflows to the region, political instability can create a negative perception of a host country's economic environment among foreign investors, fostering uncertainty and discouraging investment. As a result, FDI inflows may decline (Galan & Gonzalez-Benito, 2001; Quazi, 2007). The paper of Quazi (2007) discussed above supports this contention. The study further identifies key indicators of political instability, such as military coups, high-profile political assassinations, and frequent strikes or shutdowns, which can significantly undermine investor confidence in the host country's economy.

Libya has gained particular significance in African policy discourse since 2011 due to its strategic geographic location, abundant natural

resources, and its influence on the Sahel and North African regions. Numerous scholars argue that political instability in Libya has negatively affected domestic development efforts and contributed to the destabilisation of regional security dynamics (Khaled, 2025). In the specific case of Libya, political instability was the first weak point in FDI inflows to Libya, according to (Lloyds Bank, 2026).

From an African perspective, achieving stability in Libya requires addressing the root causes of the crisis through balanced development, the activation and strengthening of state institutions, and the promotion of economic integration with its regional environment. Such measures are essential to reducing armed conflict and mitigating the persistent security fragility within the country. Accordingly, the integration of development and political stability provides an appropriate analytical framework for examining the Libyan case and the challenges it faces in the processes of reconstruction and building.

Thus, there is disputed evidence for the effect of political stability on influencing FDI inflows into Libya.

Economic growth and macroeconomic stability

Macroeconomic conditions, including inflation, exchange rate stability, and fiscal policy, play a significant role in investment decisions. Libya's economy has experienced volatility due to fluctuating oil prices and disruptions in oil production. Currency instability and difficulties in accessing foreign exchange have increased operational risks for foreign investors.

Libya is characterised by one of the highest oil-to-population ratios globally and maintains relatively low levels of external debt, positioning it as a resource-rich economy. However, it exhibits the features of a classic mono-product economy, with a heavy reliance on hydrocarbons. The oil

and gas sector typically contributes more than 70% of gross domestic product (GDP), over 90% of government revenues, and approximately 95% of total exports (Alan, 2017).

A report of the World Economic Forum, (Vasylieva et al., 2018) observed the need to include macroeconomic stability, openness of the economy and foreign direct investments in the Cobb-Douglas function for economic growth. About 98% of economic growth was caused by labour, capital, macroeconomic stability and FDI. FDI was the second most important variable after macroeconomic variability in this respect. Considering GDP growth rate, exports, imports, balance of payment, and inflation as the macroeconomic factors, (Shahzad & Al-Swidi, 2013) noted that the relationship of FDI inflows with all these factors was moderated by political stability in Pakistan.

(Shah, 2016) observed a positive effect of macroeconomic stability on FDI inflows in African developing countries, including Libya. The macroeconomic variables measured were infrastructure, liberalised investment and trade regimes, prudent macroeconomic management and healthy business policies. Macroeconomic stability in terms of exchange rate and inflation had a significant effect on economic growth (0.2455) and FDI (0.55).

The above results show that economic growth and macroeconomic stability positively influence FDI inflows in Libya.

Legal and regulatory environment

The advantages of Libya, together with the untapped potential of its non-oil sectors, enhance the country's attractiveness as a destination for foreign investment. The legal foundation for foreign investment was provided by Law No. 9 of 2010 on Investment Promotion, supported by the General

People's Committee Decision No. 499 of 2010, which together constitute the core framework governing FDI in Libya. (Tumi Team, 2025)

The legislative framework governing foreign direct investment (FDI) in Libya is defined by a set of laws covering both oil and non-oil sectors. Oil-related FDI is regulated under Law No. 25 of 1955, while non-oil investments are governed by Law No. 5 of 1997, later amended by Law No. 7 of 2003, and subsequently replaced by Law No. 9 of 2010, along with their respective executive regulations.

Law No. 5 of 1997 (as amended in 2003) and Law No. 9 of 2010 establish the regulatory framework for foreign capital investment in the Libyan economy. These laws permit investment in various forms, including convertible foreign currency or its equivalent transferred through official banking channels, as well as machinery, equipment, and tools. They also encompass the importation of spare parts and raw materials necessary for project implementation. In addition, the legislation recognises intangible assets such as patents, licences, trademarks, and trade names as valid forms of investment essential for establishing and operating projects. The framework further allows for the reinvestment of a portion of project profits and revenues (Article 4 of Law No. 5/1997; Article 4 of Law No. 9/2010).

Regarding sectoral access, Article 8 of Law No. 5/1997 restricts foreign investment to specific sectors, including industry, healthcare, tourism, services, and agriculture. In contrast, Article 8 of Law No. 9/2010 adopts a more liberal approach, permitting foreign investors to engage in all production and service sectors.

Law No. 5 (1997), as amended by Law No. 7 (2003), includes executive provisions such as Articles 29 and 30, and forms the basis for the later Law No. 9 (2010), which aims to promote FDI in non-oil sectors. Overall, there are no substantial differences between these laws in terms of regulating

non-oil investment, aside from variations in provisions related to exemptions and investor rights.

Article 3 of the Oil Law delineates four petroleum investment zones across Libya: one in the western region, two in the eastern region, and one in the south. Article 17 stipulates that all permits and concession agreements between investors and the government must be administered by the Ministry of Petroleum, which retains the authority to impose terms and conditions in line with the national economic interest. Furthermore, Article 18 of Law No. 25 of 1955 specifies that licences and granted privileges cannot be revoked except under exceptional circumstances and in accordance with legal provisions (Abushhewa, 2014).

Despite all the above laws, the FDI performance of Libya is poor. The lack of a strong legal and regulatory framework is demonstrated by the cancellation of many foreign and joint projects (Abdulla, 2010). According to (Elgamodi, 2017), making the investment climate more attractive can increase FDI inflows into Libya. The author opined that legislation should encourage free competition, ban monopolies, and protect investment by providing the necessary guarantees to investors. In this context, the multiplicity of laws in relation to investment should be replaced by one stable, integral and transparent law. This will make the law more reliable for investors as it facilitates the legal environment for investment. Moreover, effective legislation should be introduced to combat corruption in official circles, which would lower costs for potential investors. A favourable business environment in terms of investment climate positively impacted FDI, as evidenced by some Eastern African countries (Bosire, 2019). According to (Nnadozie & Njuguna, 2011), improving the investment climate through policy reforms can increase FDI inflows in Africa. During 2007-2009, Libya ranked 5th in FDI inflows among African nations with a share of 5.9%. Angola and Egypt topped with shares of 20.4% and 14.3%, respectively. While Libya was an upper middle-income

country, Angola and Egypt were lower middle-income countries. Angola and Libya attracted FDI primarily in the oil sector. Egypt promoted tourism, banking, telecommunication and manufacturing for FDI. Most selected African countries exported a sizeable percentage of oil and its products. MENA countries ranked 4th out of six regions for business-friendly laws and regulations. Libya seems to have too many strict laws and regulations. Due to this effect, it ranks low in the ease of doing business index. As the ease of doing business index decreases, FDI is likely to decline.

(Alshehri, 2020) noted that the main problems of FDI in Saudi Arabia were related to an adverse business environment contributed by a decline in the efficiency of financial markets and credit growth, increasing interest rates, restrictive labour laws, slow pace of facilitation steps of FDI, stagnant investment climate, imbalances of crucial natural resources and insufficient guarantees and policies. The author stressed the need for a reliable legal system to improve the situation. In the survey, 9.4% of respondents cited legal problems as obstacles to investment in Saudi Arabia. This was the reason for many MNCs leaving the country pre-Vision 2030. The interview respondents stressed the need to review and update laws and regulations, and to improve the ease of doing business to increase FDI into the country.

A transparent and predictable legal environment is essential for attracting FDI. Libya's investment laws have undergone several changes, often lacking clarity and consistent enforcement. Weak judicial independence, bureaucratic inefficiencies, and overlapping authorities further undermine investor confidence. Additionally, restrictions on foreign ownership in certain sectors limit investment opportunities.

Improved security conditions

Two types of risks affecting FDI in fragile and conflict-affected countries like Libya are discussed by (Ragoussis & Shams, 2018). They are

security risks due to political conflict and criminal violence, and political risks due to institutional fragility. Political risks (terrorism, expropriation, not honouring financial commitments, terms and conditions restrictions, breach of contract, and adverse regulatory changes), and uncertainty were identified as two major risks for FDI into the MENA region (Bouyahiaoui & Hammache, 2013). When there is a security concern, firms tend to put FDI projects on hold, reconsider them, withdraw from the current commitments or cancel them. The most important political risks are terrorism and breach of contracts, after war. A significant impact of terrorism on reducing FDI inflow into certain countries was observed by (Vahid et al., 2025).

Natural Resources

Natural resources, including water, land, air, minerals, forests, oceans, and rivers, as well as the broader natural environment, play a fundamental role in shaping human life, cultural practices, and collective identities (Yin et al., 2022). In this context, natural resources are elements obtained from the natural environment that provide essential support to human life and daily activities. They encompass all materials and substances required for human sustenance, interconnected through the flow of matter and energy. Fundamentally, any entity in its primary form, such as water, air, plants, soil, and other components utilised in energy production or critical for maintaining human livelihoods, qualifies as a natural resource (Wang et al., 2021).

Natural resources are generally classified into renewable and non-renewable categories, which interact with and influence one another (Simaremare & Noho, 2021). **Renewable resources** are those that are continuously available, such as solar energy, wind power, wood, plants, and animals, and can be replenished within the human lifespan. In contrast, **non-renewable resources**, including petroleum products, coal, and copper ore, form over geological timescales and are not readily replaceable

(Mihajlović & Đorđević, 2022). Plants and animals, as renewable resources, exist as populations of diverse organisms and are intricately connected within their habitats. For instance, forests, deserts, grasslands, mountains, rivers, and oceans constitute specialised ecological communities that support various plant and animal species (Adigun, 2025).

Libya's abundant oil and gas reserves are a major attraction for FDI, particularly in the energy sector. Historically, the majority of FDI inflows have been directed toward hydrocarbons. This dependence is underscored by the fact that heavy reliance on natural resources has limited diversification and discouraged investment in manufacturing, agriculture, and services. Indeed, Libya possesses substantial reserves of oil and natural gas. The Libyan economy is highly reliant on hydrocarbon exports, which accounted for 95 per cent of the country's exports and government revenue in 2023. Furthermore, revenues from the oil and gas sectors contribute approximately 60 per cent of the nation's gross domestic product (GDP) (Hartnett, 2024).

Infrastructure and Human Capital

Infrastructure consists of transport networks (such as roads, railways, and ports), telecommunication systems, and institutional frameworks like the quality of accounting and legal services (Ross, 2015). The availability of well-developed and reliable infrastructure has been widely recognised as a key determinant of multinational enterprises' (MNEs) location decisions, as it contributes to lowering production, transportation, and distribution costs (Demirhan & Masca, 2010; Mateev & Tsekov, 2014; Ranjan & Agarwal, 2011; Ross, 2015).

However, in contrast to these findings, (Luu et al., 2025) argued that although inadequate infrastructure is frequently viewed as a major constraint on FDI, in low-income economies it may, under certain conditions, serve as an attraction for FDI. FDI may promote infrastructure

development. This happens when host governments allow significant foreign participation in the infrastructure sector.

Human capital accumulation plays a crucial role in enabling host countries to internalise the benefits associated with foreign direct investment (FDI) inflows, including the transfer of capital, knowledge, technology, and advanced management practices. A shortage of human capital in less developed economies acts as a deterrent to foreign capital inflows. Moreover, a well-educated and skilled workforce is better equipped to adapt to ongoing technological advancements and the evolution of capital goods, while also enhancing the efficient utilisation of machinery, equipment, and sophisticated technologies (Noorbakhsh et al., 2001). However, FDI can be attracted through international collaborations to train and upskill the labour force of a country. (Butunoi, 2017) showed that Thailand has succeeded in attracting FDI for training in electronics and automotives.

The literature suggests that human capital plays a significant role in attracting foreign direct investment (FDI) inflows, as it increases the availability of skilled and trained labour, thereby expanding technical, managerial, and professional employment opportunities (Volker & Handy, 2021). Skilled and professional workers are better able to adopt and implement technological innovations (Khan, 2007), and countries with higher levels of human capital tend to attract greater FDI inflows (Dutta & Osei-Yeboah, 2013). In Singapore, FDI was linked to skill development through a joint government-private sector programme to train the workforce (Kuruvilla & Chua, 2000). (Huggins, 2001) observed that often, FDI budgets include skill development and training among their workforces. However, using FDI for skills and training is a rare phenomenon. Furthermore, the availability of unskilled labour can also stimulate labour demand, contributing to increased FDI inflows. This

dynamic may, in turn, raise the wage premium for skilled workers and incentivise individuals to pursue higher levels of education (Zhuang, 2008)

Adequate infrastructure, including transportation, energy, and telecommunications, is vital for investment. Libya suffers from infrastructure degradation due to conflict and underinvestment. Moreover, while Libya has a relatively educated population, skills mismatches and limited vocational training reduce labour productivity, affecting investor decisions.

Market size is widely regarded as a key determinant of horizontal, market-seeking foreign direct investment (FDI). It has a direct influence on expected returns and profitability, as larger and expanding markets signal greater demand potential and more favourable prospects for goods and services. Duanmu and Guney (2009) find that outward FDI from China and India is positively associated with the host country's market size. Similarly, Zhang (2001) reports that market size, alongside infrastructure, constitutes a critical factor in attracting foreign investment.

Economic diversification is defined by the United Nations as the process through which an economy transitions from reliance on a single source of income to a broader base encompassing multiple sectors and markets. Traditionally, the primary objectives of diversification have been to promote sustained economic growth and generate employment opportunities. However, in the contemporary context, diversification has acquired an additional dimension, as countries increasingly pursue it as a strategy to mitigate and adapt to the impacts of climate change. (Klasa, 2019). However, diversification is widely regarded as a fundamental pillar of national development strategies, and in the context of stagnation across many segments of the global economy, its importance has become increasingly pronounced. Such conditions place considerable pressure on countries that rely heavily on the production and export of a limited range of goods or that are dependent on a narrow set of external markets.

Libya's small domestic market limits market-seeking FDI. However, its geographic proximity to European and African markets could be an advantage if supported by trade integration and stable economic policies. Lack of economic diversification remains a key challenge, as dependence on oil exposes investors to sector-specific risks.

4- Conclusion

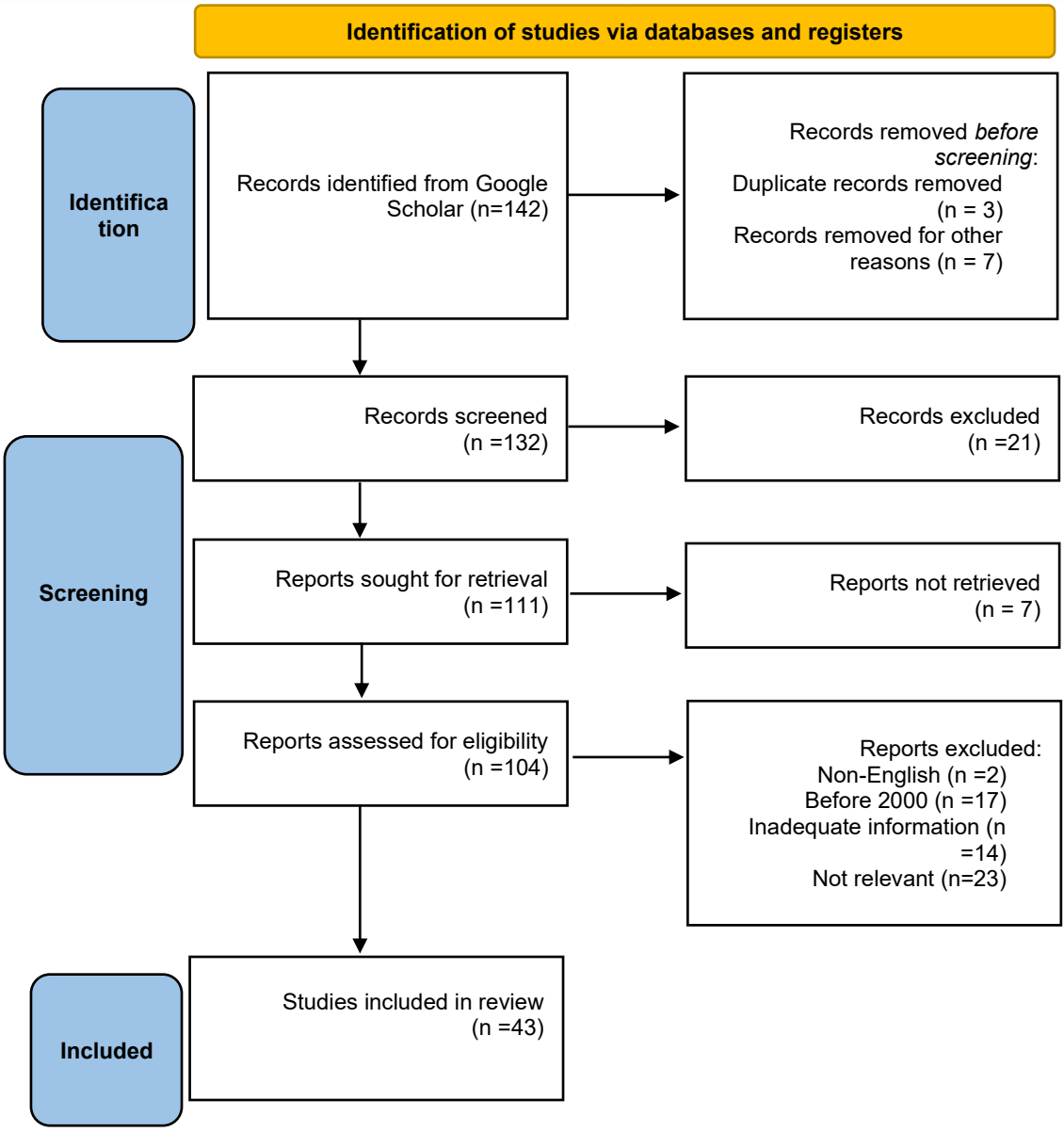
Foreign Direct Investment (FDI) has the potential to significantly transform the Libyan economy by promoting economic growth, diversification, and employment creation. However, despite Libya's substantial natural resource endowment and strategic geographic position, persistent political instability, weak institutional frameworks, and economic volatility continue to constrain foreign investment inflows. Addressing these structural challenges through comprehensive political, economic, and institutional reforms is therefore essential to establishing a stable and attractive investment climate. In this context, the present study examines the key determinants of FDI in Libya. The review of the literature identified political stability, economic growth, macroeconomic stability, legal and regulatory environment, security risks, natural resources, infrastructure, and human capital as the key determinants of FDI inflows into Libya.

Identification of these determinants can aid policymakers in designing and implementing targeted reforms. Such policy, legal and regulatory reforms should aim at promoting a favourable business environment to strengthen investor confidence, and reduce investment risks for the promotion of increasing foreign investments in non-oil sectors sustainably. Actions on these aspects are recommended for the Libyan government.

Supplement of Tables and Charts

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