

FOREIGN DIRECT INVESTMENT AS A FACTOR OF LIBYA'S ECONOMIC DEVELOPMENT

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Abstract

Foreign Direct Investment (FDI) play a crucial role in promoting economic growth and development efforts in host countries, including employment growth, transfer of innovation, and integration into the global economy. This dissertation investigates the impact of FDI on Libya's economic development, with particular focus on political stability, macroeconomic variables, and labor force dynamics. Using annual data from 1990 to 2021, an Autoregressive Distributed Lag (ARDL) approach examined short- and long-run stationarity, cointegration, and causality among variables including oil and gas exports, inflation, GDP per capita, trade openness, exchange rates, labor force, and FDI.

Empirical results indicate that only crude oil and gas exports and the exchange rate exert significant positive impacts on FDI inflows to Libya. Inflation shows a short-run positive effect on FDI but lacks long-run significance, while trade openness and GDP per capita do not significantly influence FDI in either time horizon. The analysis also shows that both the labor force and FDI positively affect Libya's economic growth in both the short and long run. However, crude oil and gas exports exhibit a negative relationship with GDP, reflecting reduced production costs when export volumes decrease. These findings underscore the need for policies that stabilize exchange rates, optimize resource exports, and develop a skilled labor force to attract FDI and foster sustainable economic growth in Libya.

The dissertation includes recommendations based on empirical outcomes derived from testing the data collected during the study period (1990-2021) and the results of prediction tests for the next nine years. These insights, detailed in Chapter 7, suggest that policymakers and future governments should make informed decisions regarding the attraction of FDI and the economic development strategy in Libya.

Keywords: foreign direct investment, inflation rate, exchange rate, openness trade, crude oil and gas export, GDP per capita, human resources, determinants of FDI inflows, economic growth, economic development, Libya.