



# MONITOR GROUP

## ***National Economic Strategy: Libya's Moment for Action***

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This document provides an outline of a presentation and is incomplete without the accompanying oral commentary and discussion.

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- Competitiveness in the modern global economy: essential principles
- Libya's competitive position in a regional context
- Libya's 'Vision 2019': progress update
- Accelerating economic development: the role of an Economic Development Board




## What Is Competitiveness?

- Competitiveness is determined by the **productivity** (value per unit of input) with which a nation or a region utilizes its human, capital, and natural resources. Productivity determines a nation's or region's standard of living (wages, returns on capital, returns on natural resources)
    - Productivity depends both on the **value** of products and services (e.g. quality, uniqueness) as well as the **efficiency** with which they are produced
    - It is not **what** industries a nation or region competes in that matters for prosperity, but **how** firms compete in those industries
    - Productivity in a nation or region is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is **secondary** for national prosperity
    - The productivity of **“local”** industries is fundamental to competitiveness, not just that of traded industries
    - Devaluation and revaluation do **not** make a country more or less “competitive”
- ▼
- Nations and regions compete in offering the **most productive environment** for business
  - The public and private sectors should play **different but interrelated roles** in creating a productive economy




## Inherited Prosperity

- Prosperity is derived from selling **inherited** natural resources
- **Dutch disease** and macroeconomic **volatility** undermine the non-resource economy
- Prosperity is constrained by **limits** on the amount of resources available
- The inflow of resource rents creates pressures for the **re-distribution of wealth** as interest groups seek a bigger share of the pie

- 
- **Government** becomes the central actor in the economy as the owner and distributor of wealth
  - Resource revenues allow **unproductive government policies and practices to persist**
  - Resource revenues support **distortive subsidies**

## Created Prosperity

- Prosperity is derived from **creating products and services** that can be sold at profit in domestic and international markets
- Created prosperity includes the **realization of higher value** from natural resources
- Prosperity can only be created by **firms**
- Created prosperity is **unlimited**, based only by the innovativeness and productivity of companies and subsidiaries operating in the economy

- 
- **Companies** are the central actors in the economy
  - **Government's** role is to create the enabling conditions to foster private sector productivity and new business formation



## Macroeconomic, Political, Legal and Social Context

### Microeconomic Capacity

The Sophistication  
of Company  
Operations and  
Strategy



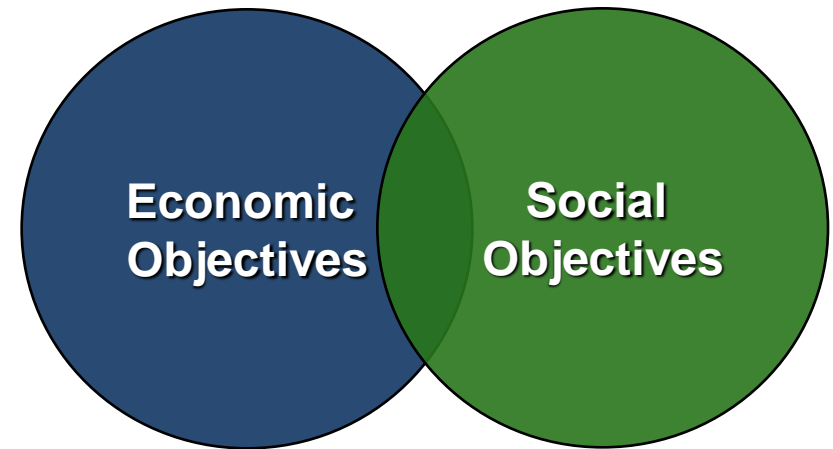
The Quality of the  
Microeconomic  
Business  
Environment

- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Only **firms** can create wealth, not government



## Social Policies and Competitiveness are inter-related

- There is an **inevitable link** between the needs of businesses and the needs of society
- The **competitiveness of Libyan companies** will depend heavily on such things as:
  - Improving education and skill levels
  - A trusted rule of law
  - Safe working conditions
  - A healthy population
  - A sense of equal opportunity
  - Protecting the natural environment
- The **health of the Libyan society** will depend on such things as:
  - A sustainable source of income and wealth for citizens
  - Competitive companies that can create wealth
  - Participation in the economy that is open to all citizens
  - Workers that are productive



***There is a long-term synergy between economic and social objectives, not conflict***

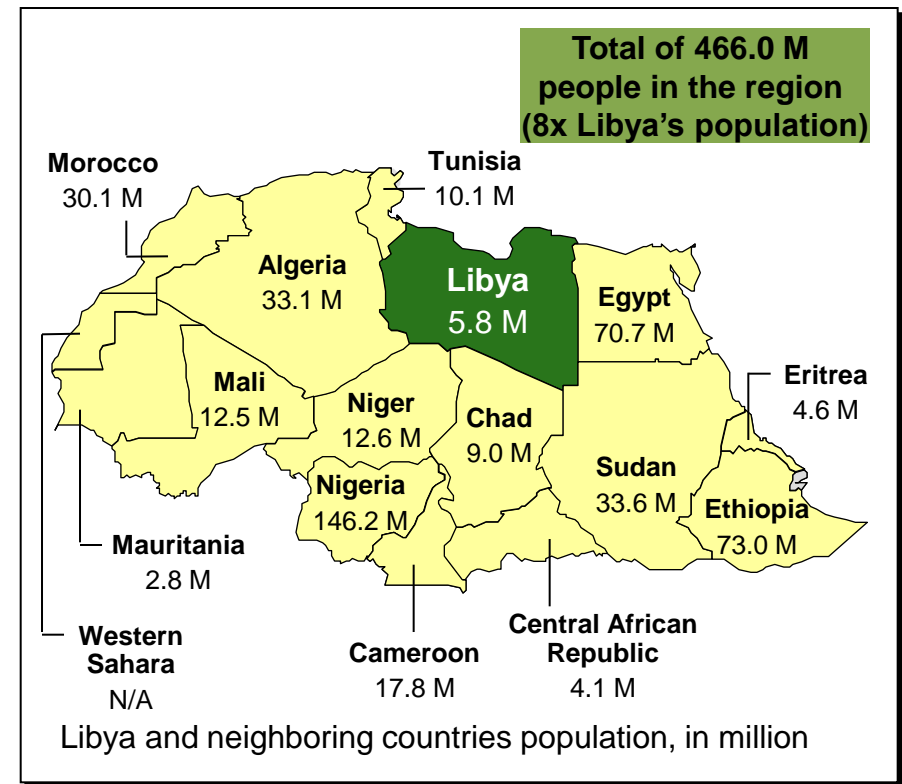
# Competitiveness and Geographic Levels



## Shaabias and Ports of Libya



## Links with Neighboring Countries



- Competitiveness is affected by circumstances and policies all geographic levels
- Economic coordination among neighboring countries can improve competitiveness



## Traditional Approach to Economic Development

- The **central government** drives economic development through policy decisions and incentives



## Modern Approach to Economic Development

- Economic development is a **collaborative process** involving government at multiple levels, companies, universities, and institutions for collaboration

- Competitiveness is most successful if it is a **bottom-up process** in which many communities, institutions and citizens take responsibility
- **Every** region and cluster can take steps to enhance competitiveness
- The role of the government should be to **foster a collaborative process**





*The Green Book* and the **competitiveness** concepts **share essential principles**:

- The importance of the **general welfare** of society
- Individual **economic responsibility** for their needs
- **Freedom of choice**
- **Absence of discrimination**
- The importance of **productive economic contribution**
- A **bottom-up approach**, which gives authority to communities



***The challenge is to get the Libyan institutions aligned with the common principles of competitiveness and the Green Book***

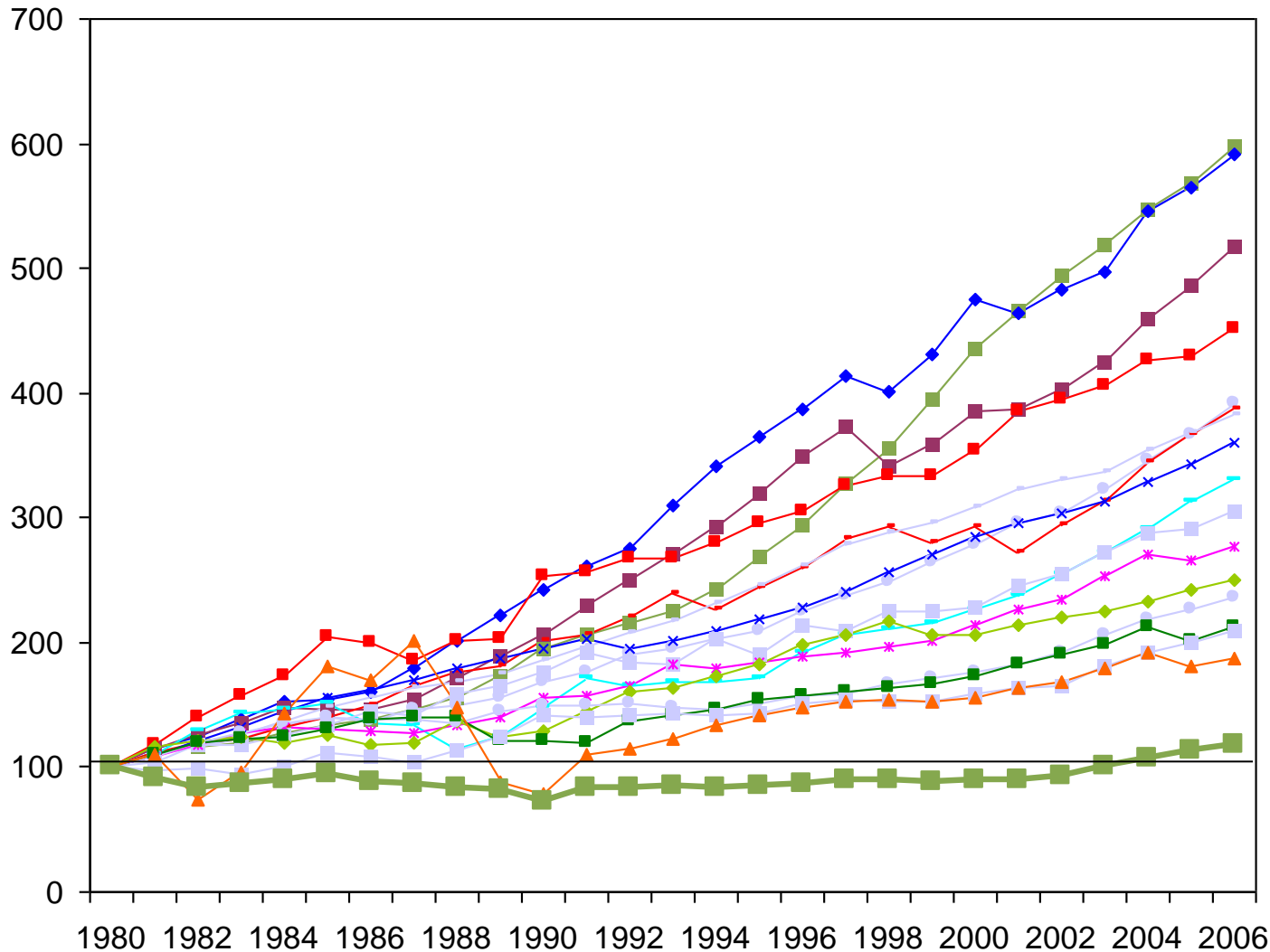


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# Libya's prosperity growth is low compared to peer countries

GDP per Capita PPP adjusted, base 100 in 1980



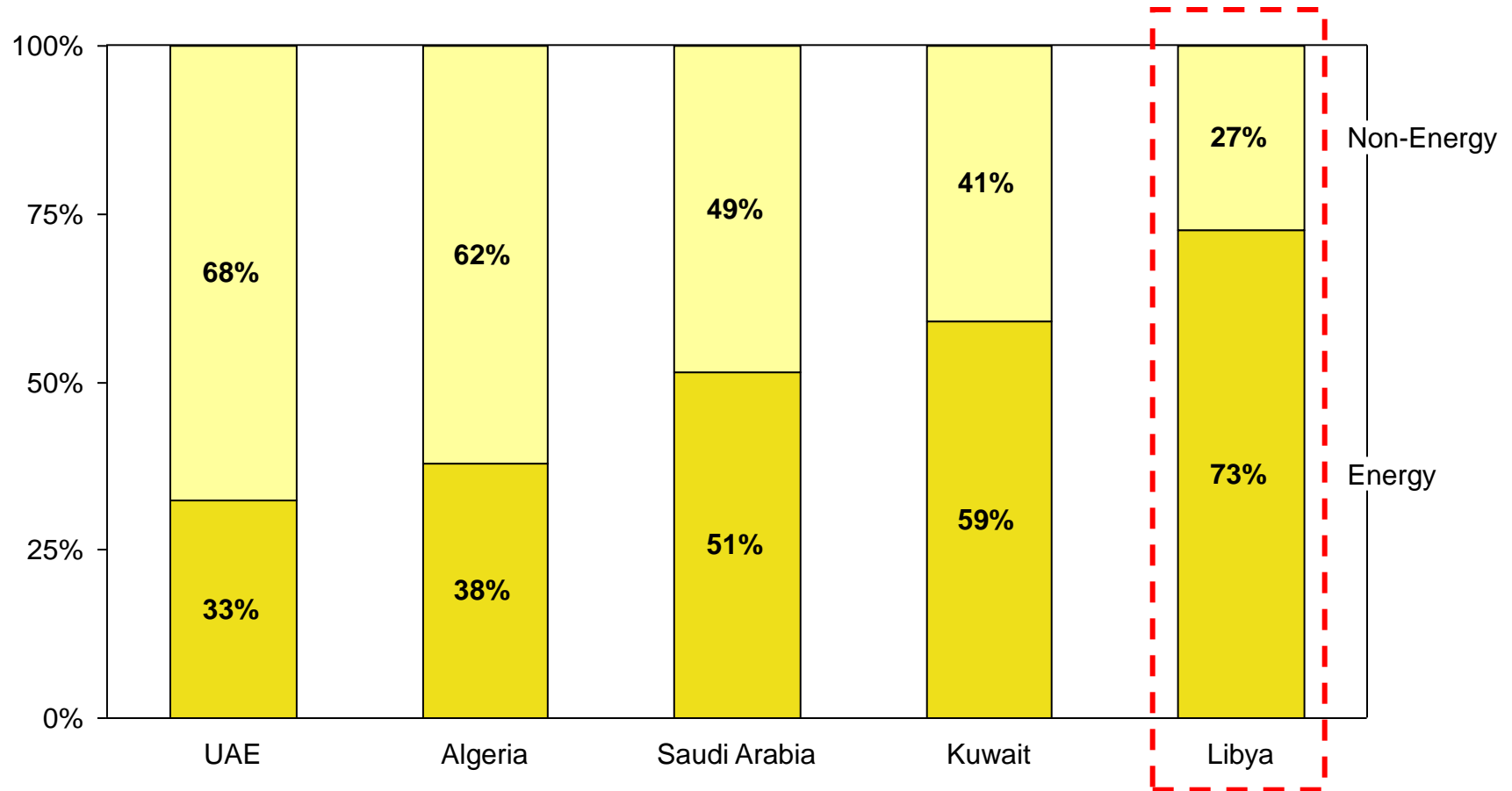
Sorted by CAGR	1980 GDP/Capita in \$ (PPP)	2006 GDP/Capita in \$ (PPP)
Ireland	7,042	42,082
Singapore	5,002	29,591
Malaysia	2,299	11,915
Oman	3,797	17,167
Tunisia	2,242	8,775
Turkey	2,173	8,393
Norway	11,372	43,481
Egypt	1,246	4,498
Iran	2,576	8,520
Morocco	1,529	4,665
Bahrain	7,418	20,575
Syria	1,599	4,004
Algeria	3,122	7,390
Jordan	2,285	4,854
Nigeria	596	1,244
Lebanon	3,438	6,426
Libya	10,063	11,805

Note: PPP = Purchasing Power Parity; Source: IMF (World Economic Outlook Database, 2006), Monitor analysis

# Libya's GDP economic performance has been especially weak outside the oil and gas sector



**GDP Breakdown by Energy vs. Non-Energy Activities, 2005, Selected resource-rich MENA countries**



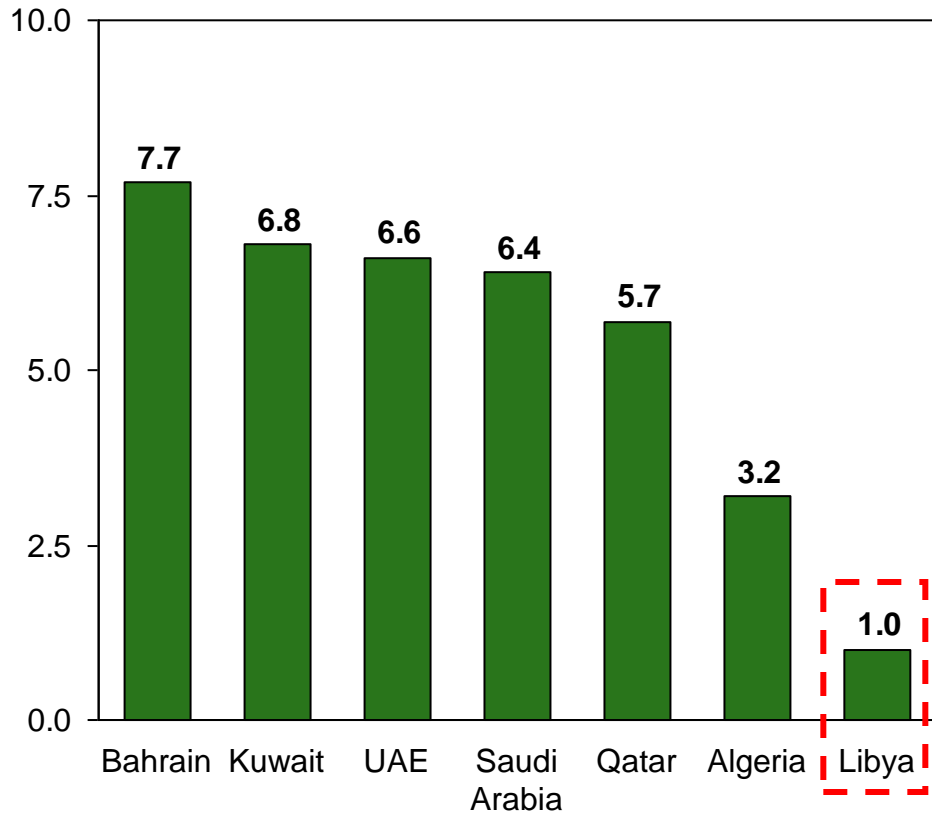
Note: Algeria data is for 2004  
Source: IMF (Country Reports), Saudi Arabia's Central Department of Statistics, Monitor analysis



# Other MENA countries have experienced much more rapid economic progress

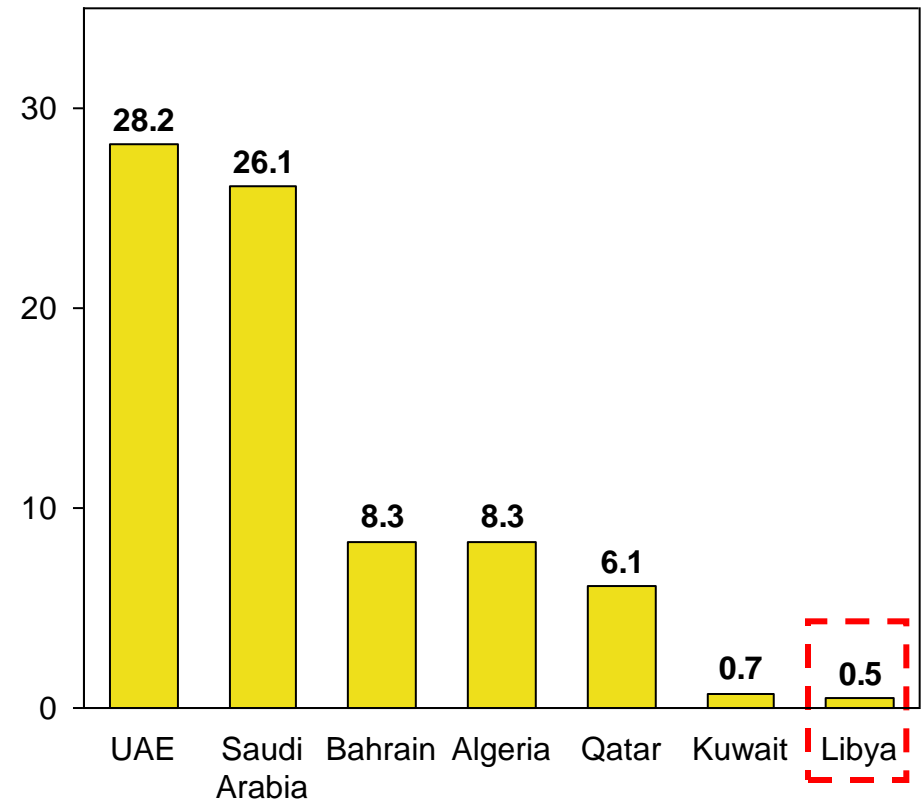
## Financial Development Index in selected resource-rich MENA countries

2003, scale 0 to 10



## FDI Inward Stocks for selected resource-rich MENA countries

2005, in USD Bn



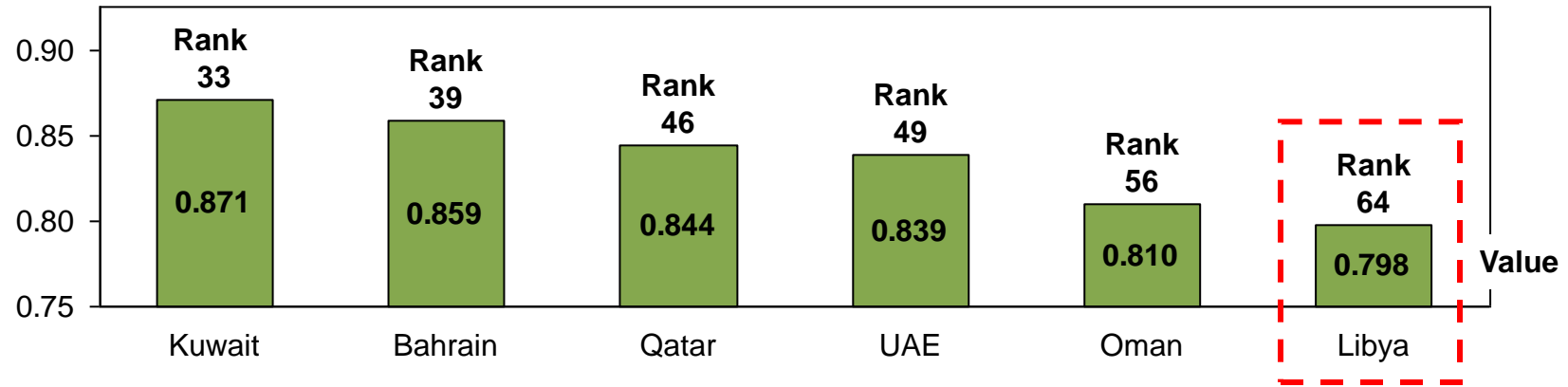
Note: Financial Development Index is based on 6 measures: banking sector, non-bank financial sector, regulation and supervision, monetary sector, financial openness, institutional environment

Source: UNCTAD (World Investment Report 2006), IMF (Financial Sector Development in MENA), Monitor analysis

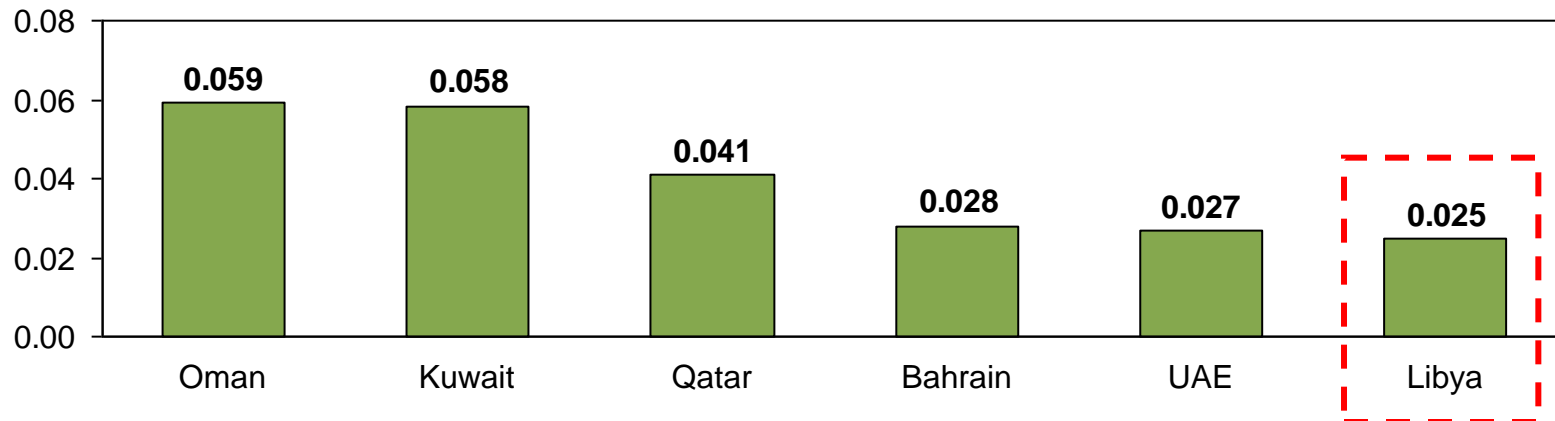
# Other MENA countries have achieved significant improvements social wellbeing of their people



**Human Development Index (HDI<sup>1</sup>)**  
2004, value and rank<sup>2</sup>



**Improvement in Human Development Index (HDI) between 2000 and 2004**



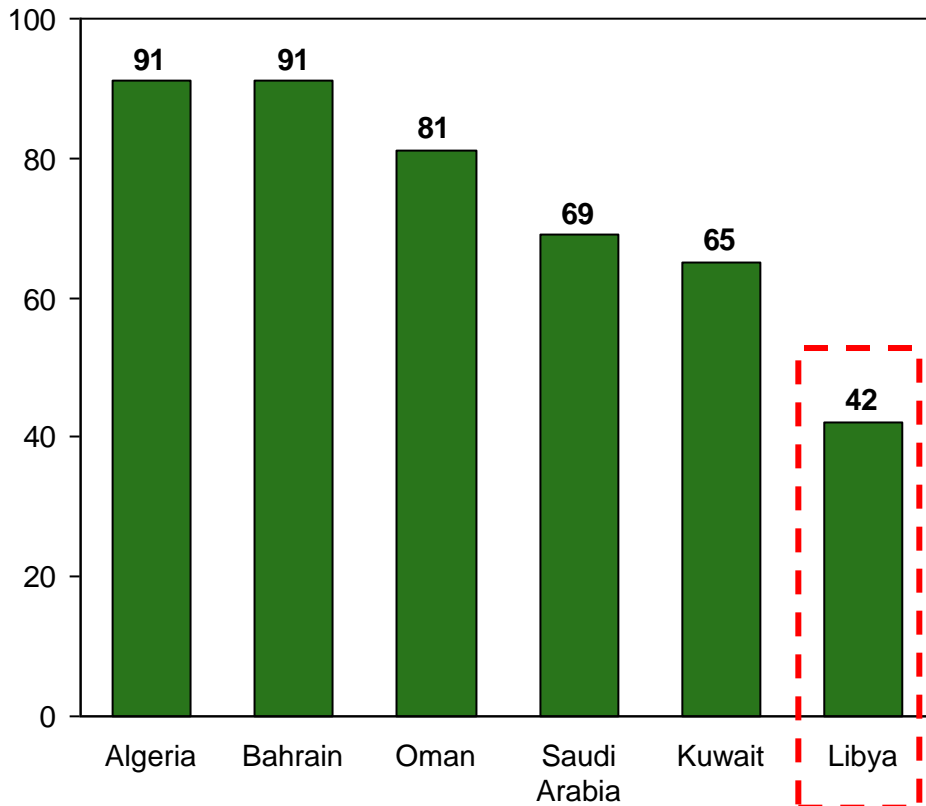
Note: <sup>1</sup> Human Development Index is based on measures of life expectancy, education and GDP. <sup>2</sup> Total of 177 countries  
Source: UNDP (Human Development Report 2000 and 2006), Monitor analysis

# Other MENA countries have instituted key reforms in economic and social policy



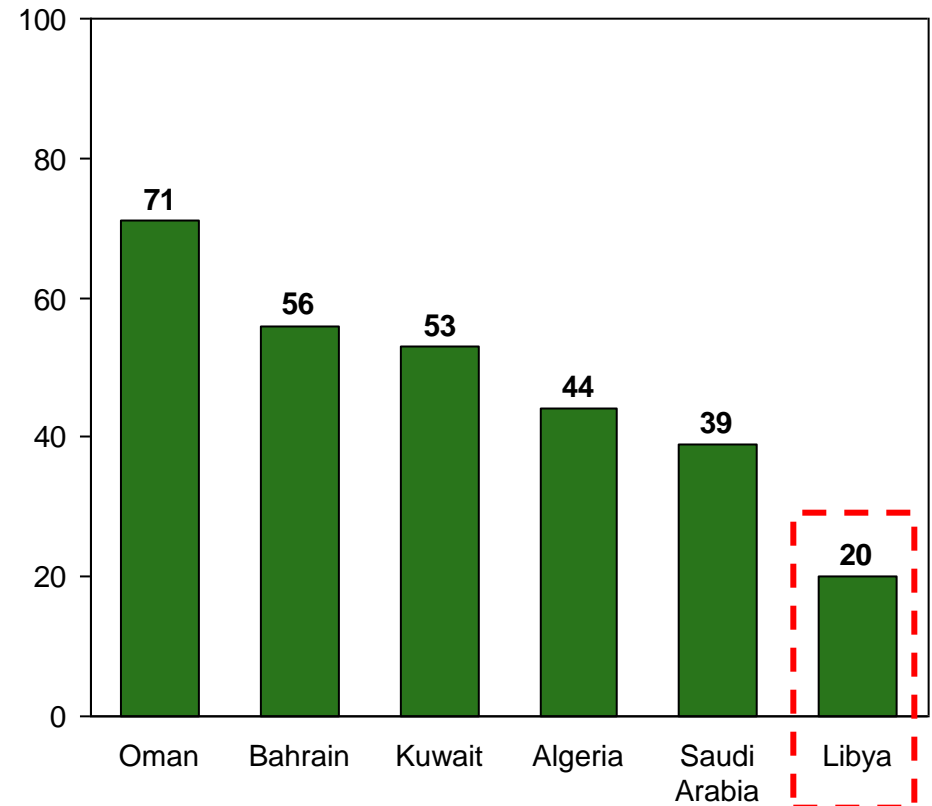
## Governance Reform Index<sup>1</sup> in selected resource-rich MENA countries

2000-2005 reform progress<sup>3</sup>, scale 0 to 100



## Trade Policy Index<sup>2</sup> in selected resource-rich MENA countries

2005 current status<sup>4</sup>, scale 0 to 100



# Regional and global corporate success stories are emerging in other MENA countries



<i>Company</i>		<i>Country</i>	<i>Key facts</i>
<b>Sabir</b>		Saudi Arabia	<u>Petrochemicals</u> <ul style="list-style-type: none"> <li>• <b>10th largest petrochemicals company</b> worldwide</li> <li>• Average <b>growth in profits of 58%</b> over the past five years</li> </ul>
<b>Emaar</b>		United Arab Emirates	<u>Real Estate</u> <ul style="list-style-type: none"> <li>• <b>Projects across the region</b> covering India, Egypt, Turkey, Morocco, Syria, Pakistan, Tunisia, Saudi Arabia, and UAE</li> <li>• Impressive <b>growth of 35% in annual profits</b> up to \$1.74 Bn</li> </ul>
<b>Emirates</b>		United Arab Emirates	<u>Airline</u> <ul style="list-style-type: none"> <li>• Carries <b>14.5 million passengers</b> to 87 destinations in 59 countries</li> <li>• Even with fuel price pressure, managed to return a <b>profit of \$762 M on a turnover of \$6.6 Bn</b></li> </ul>
<b>PWC Logistics<sup>1</sup></b>		Kuwait	<u>Logistics</u> <ul style="list-style-type: none"> <li>• Global provider of supply chain solutions (<b>in over 100 countries</b>)</li> <li>• <b>Revenues multiplied by 3 in a year</b> and by 30 in three years<sup>2</sup></li> </ul>
<b>Al Jazeera</b>		Qatar	<u>Media</u> <ul style="list-style-type: none"> <li>• <b>Leading global news channel</b>, operating from 4 worldwide broadcasting centers</li> <li>• Although relying on government subsidies, <b>audience reach is 50 M</b></li> </ul>

Note: <sup>1</sup> PWC Logistics has developed a new brand and is now called Agility. <sup>2</sup> based on 2005 data





- One of the **richest countries in North Africa**, with high availability of **natural resources**
- Relatively **equitable wealth distribution** among the people
- Ready availability of **capital**
- **Attractive geographical location**, linking Europe to Africa
- Outstanding **cultural and historical assets**



## Labor Productivity

- **Low labor productivity**, particularly in public services
- Significant portion of the population employed in **low quality or redundant jobs**

## Position in International Markets

- **Stagnating overall exports**, with almost no exports outside the oil and gas sector
- **Limited foreign direct investment**, with minimal progress in implementation of approved projects

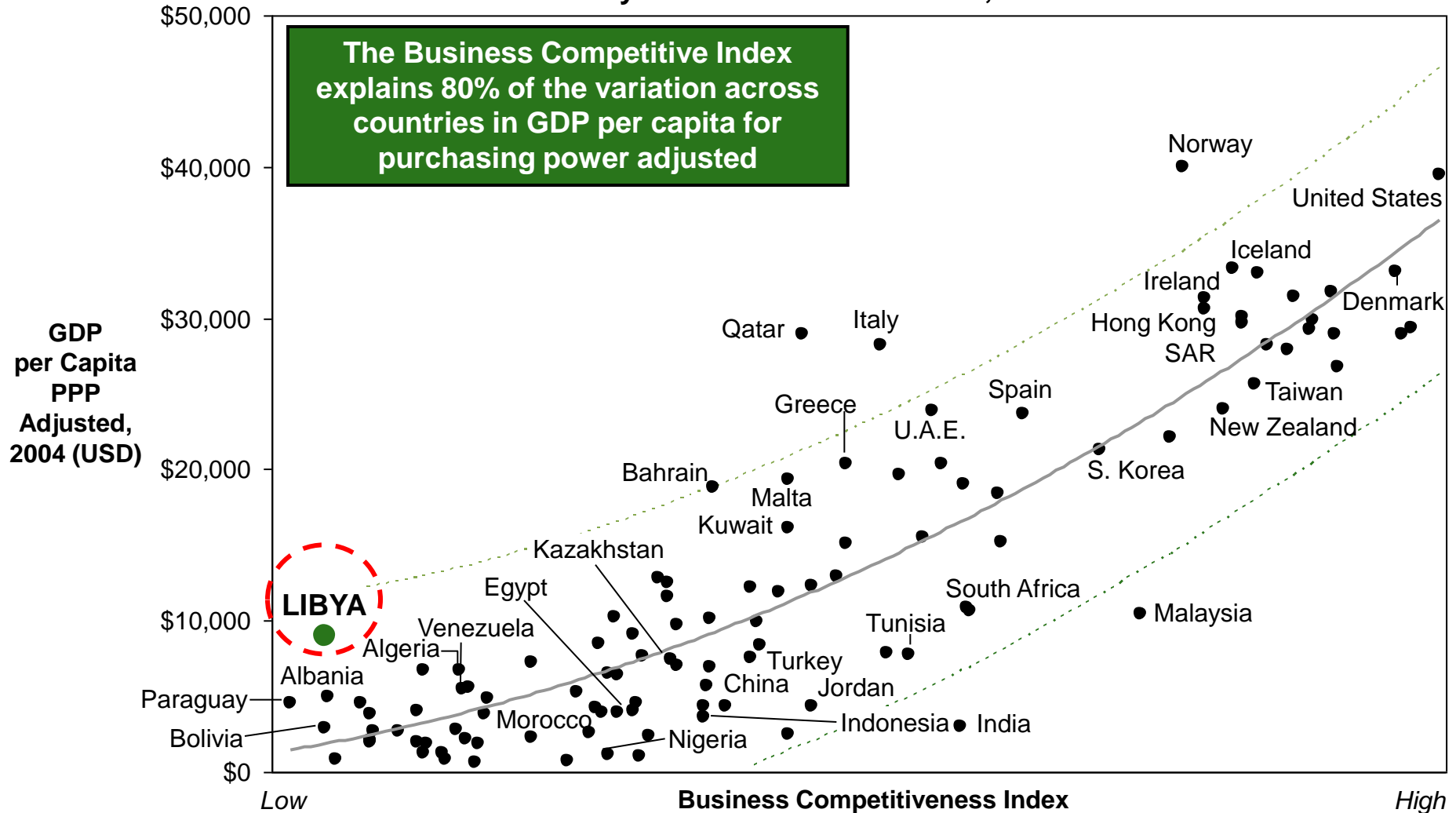
## Breadth of the Economy

- Economy dominated by the **oil and gas sector**
- **Underdeveloped private sector**, high dependency on public sector output

# Libya's weak business competitiveness is constraining potential prosperity levels

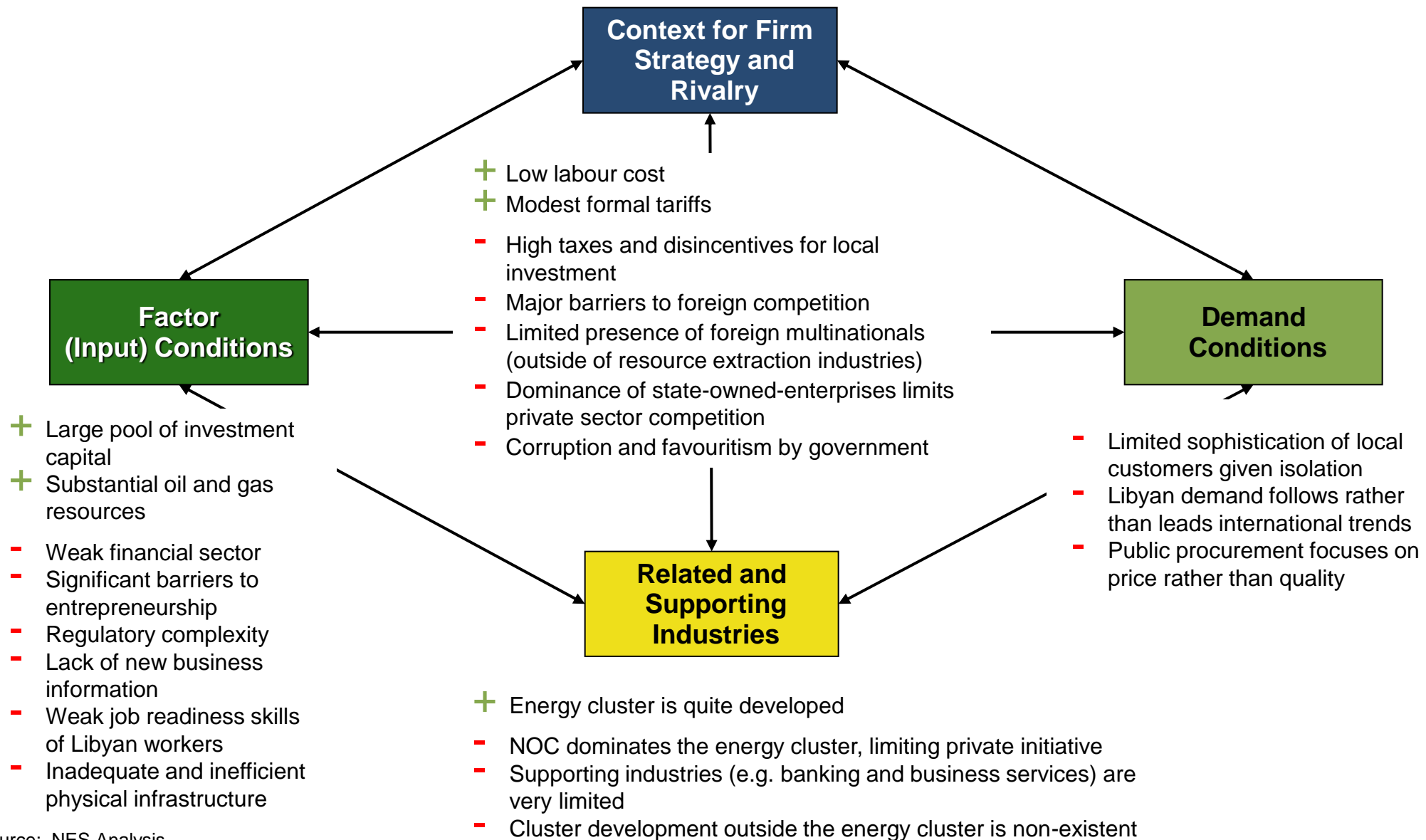


**GDP per Capita (PPP Adjusted) and Business Competitiveness Index, Libya and Selected Countries, 2004**



Note: All calculations relative to average of all 111 countries (including Libya) in the sample  
 Source: Institute for Strategy and Competitiveness, November 2005; Libya Business Executive Survey 2005

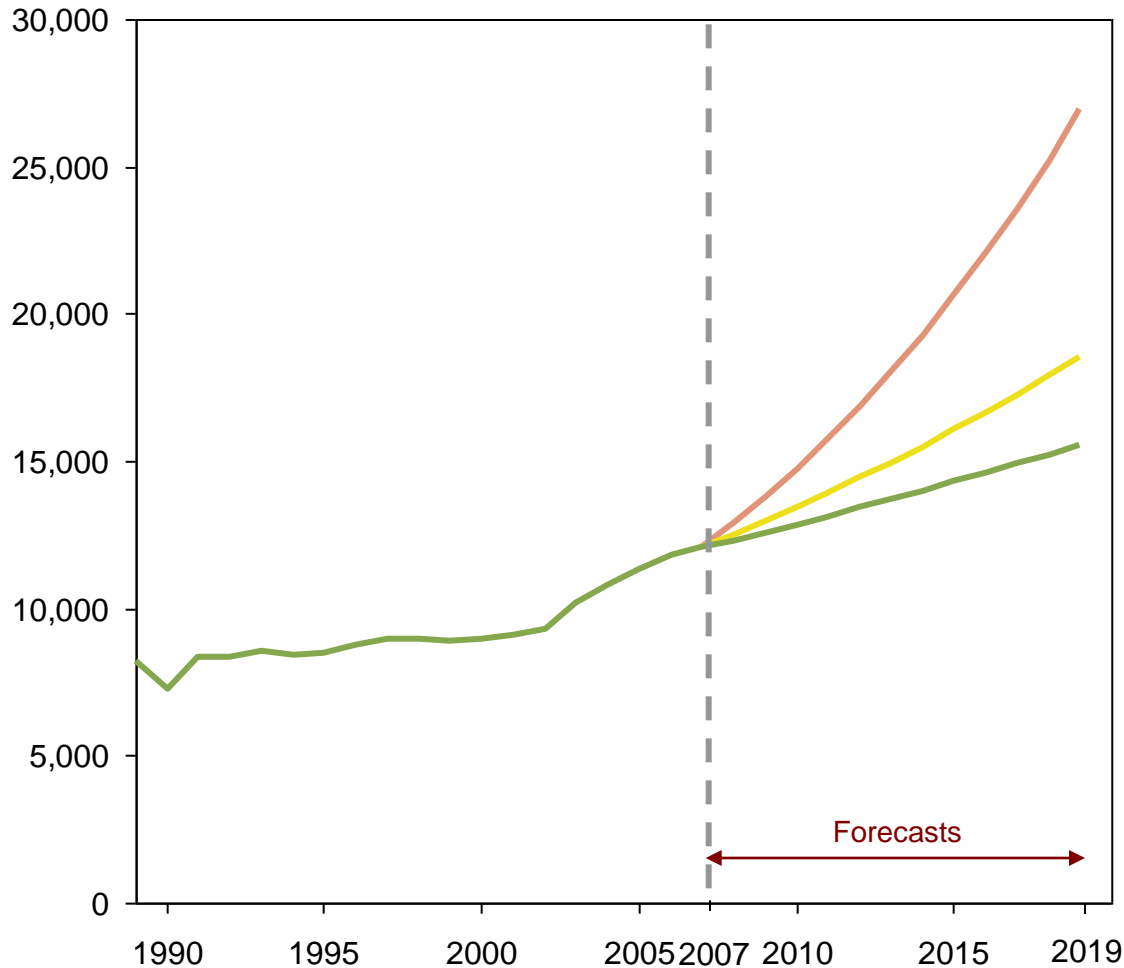
# The Libyan business environment needs major and rapid improvement in numerous areas



# Acceleration of Libya's economic growth could have a huge impact on the standard of living of all Libyans



**Gross Domestic Product per capita PPP Adjusted**  
1989 – 2019, in USD



Scenarios	Hypothetical CAGR	Time to double GDP
Fast growth <i>(Malaysia, Indonesia, China and India)</i>	6.9% <sup>2</sup>	10 years
MENA average growth	3.7% <sup>3</sup>	19 years
Continue current rate of growth	2.1% <sup>4</sup>	33 years

Source: International Monetary Fund (International Financial Statistics and World Economic Outlook Database), Monitor analysis



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# Libyan leaders agreed last year on a new path to a more prosperous future



## Libya's Past

Significant **isolation** from the outside world

Focus on **equality** of living conditions and social standards

**Oil revenues** as the main source of national prosperity

Government **distribution** of oil revenues to address social needs

## Libya's Emerging Future

Increasing **integration** with the international economy

Enable **individual achievement** based on productive contribution

Oil revenues supplemented by wealth creation in **other parts of the economy**

Government improvement in economic and social condition to allow **private** wealth creation on competitive markets

*Parallel changes will need to occur across many parts of Libyan economy and society to enable a successful transition*



- Identify and build on **existing and potential strengths**, rather than focus solely on addressing weaknesses
- Achieve clear progress on **human development** in parallel to economic reforms
- Employ **accelerators of development** to rapidly upgrade the economy in order to compensate for decades of economic isolation
  - Engage the Libyan Diaspora to gain from their global experience
  - Attract Foreign Direct Investment to allow inflow of expertise and technology
  - Employ economic zones to lead reforms that will be implemented in the wider economy
  - Outsource management of concessions to improve efficiency and revenues
  - Set up specialized agencies to rapidly implement key reforms





- Build a **competitive national economy** that significantly **raises the standard of living** and provides opportunities for all Libyans
- **Upgrade** Libya's **oil and gas cluster** to be among the world leaders
- **Diversify the economy** beyond the oil and gas cluster
- **Utilize Libya's strengths** in geographic location, heritage and culture as bases for economic development
- Engage the **participation of all Libyan citizens** in shaping the nation's economic future



# Outline of Libya's National Economic Strategy

## Governance Improvement

### Governance System

- Democratic process (direct democracy)
- Special purpose agencies to accelerate key reform priorities
- National government structure
- Regional and local government structure

## People Development

### Skills Development

- Work readiness training
- Cluster-based training
- Higher education
- Labor market rules
- Leadership training

### Social Development

- Housing
- Healthcare
- Basic education
- Clean water

## Cluster Development

### Energy Cluster

### Hospitality and Tourism Cluster

### Agricultural Cluster

### Construction and Real Estate Development Cluster

## Business Environment Reform

### Private Sector Activation

- Registration, licensing, permits
- Property rights
- Business regulation
- Dispute resolution
- Access to capital

### FDI and Internationalization

- FDI rules and incentives
- Diaspora engagement

### Banking and Financial System

- Modern payments system
- Banking regulation
- Accounting and reporting standards

### Efficient Movement of Goods, People and Information

- Information and Communication infrastructure
- Roads, ports, airports, rail
- Electricity
- Customs, visas

### Restructuring the SOE Portfolio

- Strategy for state-owned enterprises

# Implementing Libya's National Economic Strategy in 2006-7: limited progress



## Campaigns Ready for Launch

Governance:  
consideration of  
an EDB

Governance: other  
decision-making  
processes

Skills Development

Private Sector  
Activation

## Some Progress

Restructuring of  
SOE Portfolio

Banking and Financial  
System

Energy Cluster

Social Development

## Limited Progress

Construction  
and Real Estate  
Cluster

Efficient Movement of  
Goods, People and  
Information

Hospitality and Tourism  
Cluster

Agricultural Cluster

FDI and  
Internationalization



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# An Economic Development Board (EDB) can be a key accelerator of Libya's economic transformation



## Why have an EDB?

- Create **focus** on **key economic priorities**
- Signal a **clear commitment** to reform and build investor confidence
- Effectively **coordinate** between different institutions
- Engage **world-class expertise** in reform programme

## Roles of an EDB

- Design and implement **policies** and **action programs** addressing key priorities such as
  - Private sector activation & job creation
  - Human capacity development
  - Equitable wealth distribution
  - World-class technology & skills transfer
  - Globally competitive cluster development

**An EDB can enable rapid implementation of priority reforms**

# Singapore's economic strategy



Phase			
Industry Focus			
Goal	<p><i>Leapfrog the immediate neighbors, to create a first world oasis in third world region</i></p>	<p><i>Lead a second industrial revolution to move up the value chain</i></p>	<p><i>Develop an environment where diverse companies can thrive through synergies</i></p>
Activities	<ul style="list-style-type: none"> <li>● Create an attractive environment for foreign investors</li> <li>● Improve investment environment                             <ul style="list-style-type: none"> <li>– Tax incentives</li> <li>– Educated workforce</li> <li>– Migrant skilled labor</li> </ul> </li> <li>● Invest in top-class infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>● Upgrade workforce skills</li> <li>● Promote Singapore's position in higher value-add clusters</li> <li>● Discourage low-cost manufacturing, e.g., by allowing wage levels to rise</li> <li>● Promote domestic SMEs</li> </ul>	<ul style="list-style-type: none"> <li>● Continue supporting “cash cow” clusters (chemicals, IT, education, ports)</li> <li>● Promote innovation in emerging clusters, e.g., biotechnology</li> </ul>

# Singapore's EDB plays a major role in realizing the country's economic strategy



## Mission of EDB

*Make Singapore a compelling global hub for business and investment*

## Key Activities of EDB

### Facilitate FDI

- Establish a single-window process for FDI
- Proactively find and market to high priority investors

### Position Singapore as a hub

- Define and market a unique positioning for Singapore
  - Leverage infrastructure and location as key selling points

### Promote entrepreneurship

- Define areas where domestic enterprises can succeed
- Provide technical and financial advice to local entrepreneurs

## Success Factors

### Focus

- Target only specific manufacturing and services industries, where Singapore has distinct offering, e.g. biotech, logistics
- Hire professionals with the required expertise to achieve targets

### Autonomy

- Set up EDB as a statutory board with independence:
  - Separate budget
  - Separate hiring and compensation

### Collaboration

- Send EDB experts into other government departments on secondment
- Invite government and private representatives to be on the board of directors and advisors

# Ireland's economic strategy



Goal	<i>Attract new export focused investments that create jobs</i>	<i>Do 'whatever it takes' to bring in growing technology companies</i>	<i>Deepen existing clusters and increase complexity of operations of multinational companies</i>
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- | Activities | <ul style="list-style-type: none"> <li>• Promote Ireland as FDI location, attracting projects in any sector</li> <li>• Improve investment environment             <ul style="list-style-type: none"> <li>– Tax holidays</li> <li>– Well-educated workforce</li> </ul> </li> <li>• Control pay rises (central wage agreements and personal tax reductions)</li> </ul> | <ul style="list-style-type: none"> <li>• Continue to upgrade investment environment (e.g., telecom)</li> <li>• Make education curriculum relevant to skills required by industry</li> </ul> | <ul style="list-style-type: none"> <li>• Develop an integrated strategy for competitiveness and innovation</li> <li>• Promote clusters where Ireland has inherent competitive advantage             <ul style="list-style-type: none"> <li>– Advanced manufacturing with low transport costs</li> <li>– Internationally traded services, e.g., software</li> </ul> </li> <li>• Broaden strategic activities of existing multinational corporations</li> </ul> |
|------------|--|---|---|
|------------|--|---|---|



# Ireland's IDA plays a major role in realizing the country's economic strategy



Mission of IDA



Key Activities of IDA



Success Factors

*Win for Ireland, its people and its regions, the best in international innovation and investment*

## Education and Skills

- Provide input to universities on job-relevant curriculum
- Fund “collaborative” research programs that involve industry and academia

## Business-friendly Environment

- Design set of business friendly incentives for govt. to implement
  - Low corporate tax rates
  - Easy access to foreign talent

## Attracting high quality FDI

- Identify the specific manufacturing and service sectors to focus for attraction
- Develop clear strategy to attract investors in these sectors

## Political Support

- Ensure that the head of IDA has direct channel of communication with PM to rapidly overcome bottlenecks
- Insulate the IDA from the rest of the civil service

## Integrated Approach

- Provide a whole range of business services under one roof
- Create a holistic promotion approach
  - Clear message
  - Aggressive marketing

## Linkages

- Regular meetings with key ministries to ensure a two way flow of information
- Head of IDA participates in important economic and enterprise policy making meetings



- Explicit **support** of country's **top leadership**
- Sufficient **autonomy** for effective decision-making
- Clear and specific **focus**
  - Concentrate on the **national priorities** of the particular country
  - **Changing the mindset** and culture
- **Skilled professional** management team
- Access to **leading experts** from home and abroad
- **Adequate budget** to implement its mandate