ENERGY AND LIBYA'S ECONOMIC DEVELOPMENT

ENERGIJA I EKONOMSKI RAZVOJ LIBIJE

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Abstract: *Libya's economy is structured primarily around the nation's energy sector, which generates about 95% of export earnings, 80% of GDP, and 99% of government revenue. Substantial income from the energy sector coupled with a small population give Libya one of the highest per capita GDPs in Africa, but Tripoli largely has not used its significant financial resources to develop national infrastructure or the economy, leaving many citizens in poverty..*

Key words: *Libya, development, economy, energy*

Sadržaj: *Libijska privreda je strukturirana, pre svega, oko energetskog sektora, koji generiše oko 95% izvoza, 80 % BDP-a i 99% prihoda Vlade Libije. Sa značajnim prihodima energetskog sektora zajedno sa malom populacijom Libiji daje jedan od najviših BDP po glavi stanovnika u Africi, ali Tripoli uglavnom nije iskoristio svoje značajne finansijske resurse za razvoj nacionalne infrastrukture ili ekonomije, ostavljajući mnoge građane siromašnim.*

Ključne reči: *Libija, razvoj, ekonomija, privreda, energija*

1. INTRODUCTION

The structure of Africa's exports remains undiversified, focusing on primary commodities. In 2009, the major exports components were fuel and mining products (64 %), iron and steel (19.2 %) and agricultural products (10.2 %). As fuel and mining products were hit the hardest by the global recession (with a 36 per cent decline in value), Africa's exports fell by 32 % in 2009 [1]. The real danger lies with the Economic Partnership Agreements that are being negotiated, since the reciprocity involved in them will force African countries to liberalize too rapidly, with a bias towards Europe and against continental integration. They may also work against the strategic goals of promoting industrialization, economic diversification and structural transformation in Africa. [2] Global developments have significant implications for African countries, though the direction and magnitude of impact naturally vary among countries. On the whole, African economies have recovered from the crisis better than expected. On the other side of the flow, Africa's oil-importing countries will see their current account deficits widen. Rising grain prices will also pose daunting challenges to efforts to eradicate hunger in the African countries that heavily depend on food imports. [3] Employment creation has been limited in many countries as much of the economic recovery has been driven by capital-intensive extractive sectors that have few forward and backward linkages with the rest of the economy.

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2. THE INFLUENCE OF ENERGY SECTOR IN LIBYAN ECONOMY DURING AND AFTER QADHAFI'S ERA

Libya's economy is structured primarily around the nation's energy sector, which generates about 95% of export earnings, 80% of GDP, and 99% of government revenue. Substantial income from the energy sector coupled with a small population give Libya one of the highest per capita GDPs in Africa, but Tripoli largely has not used its significant financial resources to develop national infrastructure or the economy, leaving many citizens poor. [4] The process of lifting US unilateral sanctions began in the spring of 2004; all sanctions were removed by June 2006, helping Libya attract greater foreign direct investment, especially in the energy and banking sectors. Following the lifting of earlier United Nations (UN) sanctions in 2003, economic activity increased steadily for seven years.

During 2004–10, average real GDP growth was approximately 5 percent, annual consumer price inflation averaged less than 4 %, and official foreign assets increased from $20 billion at end-2003 to $170 billion at end-2010. While the non-hydrocarbon sectors grew rapidly, underpinned by an ambitious public investment program, Libya remained one of the most hydrocarbon-dependent countries. Consequently, social and governance indicators remained poor, job creation was uninspiring, and dependence on expatriate workers increased. [5] Violent protests in Libya erupted on February 17, 2011, escalating rapidly into conflict. The UN Security Council imposed sanctions on Libya on February 26, which was broadened on March 17 to include a mandate for limited foreign military intervention and a freeze on Libya's foreign assets. The bulk of Libya's foreign assets were unfrozen on December 16, clearing the way for normalization of the foreign exchange market. [6]

Libya's economic activity began to recover in 2012 thanks to the nearly full resumption of oil production by September 2012, an increase in construction and infrastructure activity, and the prospects of reduced political instability. The political volatilities surrounding the transfer of power from the transitional government to a more permanent governance structure, together with an increase in domestic security incidents affecting the army and civilians, however, have acted as obstacles to a smooth recovery and delayed long-term economic planning. By September 2012, Libya's oil production had nearly reached its pre-revolution levels of 1.6 million barrels per day (BPD). The 344% increase in the hydrocarbon component of gross domestic product (GDP) in 2012 was the main driver behind the high GDP growth (95.5%) in 2012. Although non-hydrocarbon economic activity was growing fast before the conflict, it still accounts for no more than 22% of GDP and a negligible part of total exports.

3. ENERGY AND LIBYA'S ECONOMIC FUTURE

Libya's chances of a successful transition to stability and prosperity will be significantly enhanced if it creates a favorable environment for the private sector and expands its output of oil and natural gas. Here again, the challenges are considerable. Libya's non-energy private sector remains underdeveloped, leaving both the government and the citizens reliant on income from hydrocarbons. So although the challenges facing Libya's economy are complex and broad, we focus here on a few key issues in the energy sector. The country's 47.1 billion barrels in proven reserves are the largest in Africa and among the top ten countries globally. Libya also has substantial natural gas reserves. [7] Hydrocarbons, especially oil, account for 95 percent of export earnings, 90 percent of government revenues, and 70 percent of gross domestic product. Oil production almost stopped during the war, but it has since reached 1.6 million barrels a day (*mbd*) and should fully recover to pre-conflict levels of 1.8 *mbd*.

Production of natural gas has resumed as well. Hydrocarbons can provide Libya with a valuable source of income. However, mismanagement of Libya's oil and natural gas could lead to greater corruption, prop up inefficient government subsidies, and subvert the development of the private sector, potentially derailing Libya's long-term political and economic development. Libya must use its energy resources wisely and make sound decisions about how to distribute the revenue generated by these resources. [8] Libya have shown interest in exporting natural gas to the immediate neighbors Morocco and Tunisia, which are also transit countries for Libya's gas exports to their main market, Europe.

4. LIBYA NEEDS REFORMS

The IMF World Economic Outlook 2013 Report (WEO) in Washington DC at the IMF headquarters reveals that the world economy has moved to a "three-speed recovery". The IMF reports that there is strong recovery in emerging markets and developing countries but weaker recovery in advanced economies. In emerging markets and developing countries, growth is predicted to reach 5.3 % in 2013 and 5.7 % in 2014. Italy, Libya's largest trading partner, for example, is expected to experience a contraction of its economy of 1.5 percent in 2013 and 0.5 % in 2014. The Euro area generally, again Libya's biggest trading partner, is also expected to contract by 0.3 percent in 2013 and grow by only 1.1 percent in 2014. [9]

The major long-term challenge facing the economy is to contain the dependence on oil revenues, particularly in light of the slowdown in international demand, and the urgent need for economic diversification in order to address the long-term financial and economic stability and Libya's unemployment challenge. Despite its large contribution to the GDP, the oil and gas sector contributes to less than 2% of total employment (according to the latest data from 2007). Despite the increase in hydrocarbon revenues, the increase in domestic demand and high expenditure on subsidies and public-sector wages pose fiscal pressures on the government. [10]

Libya's successful transition and sustainable development hinges on the evolving security situation, the new government's economic strategy, the resolution of regional tensions over hydrocarbon resources, and the international price of oil. When the uprising started in February 2011 the question of whether the voices for reform and effective state consolidation in Libya could effectively coalesce into an integrated channel for continued and meaningful reform remained unclear. With new windfalls from an expanded oil sector flowing into the country, the lack of institutional checks and balances should be the first focus for any reconstruction. [11] The hard constraints of macroeconomic stability, efficient and transparent budget and sovereign wealth fund management will be a critical, early component of Libya's economic recovery. As in most post-civil war countries, Libya's needs in terms of economic and reconstruction expertise will essentially be limitless.

5. CONCLUSION

The major role in economic development of developing countries has Foreign Investments. So far, experience is showing that foreign investments had main role in structural changes of industry and export among countries receivers of them. For the countries with difficult access to international capital markets, foreign investments are valve for engagement of foreign finances.

Income of foreign capital is still concentrated on rather small number of developing countries and plays a marginal role in development of others. Some of the difficulties can be resolved by consistent and healthy economic policy, and even the countries with higher risk index can attract foreign investments. Within developing countries such as Libya, few of them have higher level of development than average of them. The rhythm and achieved level of development, shows that many years will be necessary to pass before reaching a western level of development. Energy has undoubtedly played a defining role in the Arab world's economic development over the past fifty years, if not more. The region's energy resources have affected development choices, shaped economic structures, promoted certain patterns of industrial activities, and have integrated the Arab world into the global economy.

Libya will simultaneously need to develop a political formula that is acceptable to different segments of the population. Finally, in support of its economic reform and reconstruction efforts, Libya will need to create a system of law and accountability that serves its citizens equitably and provides clear guidelines for its economy. However, the main objective of economic development plans in Libya is to diversify the local economy and to find other sources of income rather than oil to achieve such growth in non-oil sector, capital goods imports and raw materials may play a crucial role in the economic development process, as a means of sustaining the country's economic development plans. However, diversification and modernization is needed across all industries.

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