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The Effect of Bureaucracy on the Inflow of Foreign Direct Investment: A Comparative Study of Libya and the United Arab Emirates

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By

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Approval of the Dissertation Committee

This dissertation has been duly read, reviewed, and critiqued by the committee listed below, which hereby approves the manuscript of Abdurraouf Elakder as fulfilling the scope and quality requirements for meriting the degree of Doctor of Philosophy in Political Science.

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Abstract

Attracting foreign direct investment (FDI) is a determinant factor for developing national economies, and Libya is no exception. However, the bureaucracy in Libya still needs to be improved to help attract foreign direct investment. Therefore, this comparative case study seeks to analyze the effects of bureaucracy on attracting FDI to Libya and the United Arab Emirates, highlighting the bureaucratic barriers embodied mainly in bureaucratic expansion, bureaucratic corruption, and the obstacles of the FDI laws. I argue in favor of eliminating those bureaucratic barriers and improving bureaucratic quality, enhancing the chances of attracting and keeping FDI. The study's standpoint is that eliminating bureaucratic flaws such as bureaucratic expansion, bureaucratic corruption, and drawbacks of the foreign direct investment law are preconditions for the inflows of foreign direct investment to Libya, taking the experience of the UAE as an example in this regard. This study takes Libya as a major case and the UAE as a minor one. The United Arab Emirates succeeded in adopting bureaucratic reforms varying from reducing bureaucratic expansion and corruption and updating its FDI laws, which improved its bureaucratic quality and encouraged the inflows of FDI in recent decades. Therefore, the experience of the UAE is considered a suitable model that Libya can apply to attract FDI. The study goes beyond how the UAE utilized its bureaucracy in attracting FDI and how Libya did not to why the UAE could conduct such bureaucratic reforms while Libya could not. For the why aspect, the study brings the roles of political stability and the political leadership character and incentive. The study bridges qualitative and qualitative methods through the investigation process. It runs a simple regression model to determine whether what is being explored qualitatively about the relationship between bureaucratic quality and FDI inflows makes sense when quantitively examined.

Acknowledgment

I appreciate the time and effort put in by the academics on my dissertation committee. Professor Melissa Rogers has been helpful to me since I began school at Claremont Graduate University. I look forward to returning her great assistance by helping students in my future role as a professor and researcher. I particularly appreciate Professor Yi Feng's assistance with this project and throughout my time at CGU. Professor Mietek Boduszynski provided helpful scientific feedback, and I would like to thank him for his involvement in this project. I am also thankful to my Professors at Claremont Graduate University viz. Mark Abdollahian, Sallama Shaker, Jacek Kugler, Heather Campbell, and Zining Yang, for providing me with excellent academic guidance and mentoring. In addition, I'd like to thank Professor Kurt Jefferson of Spalding University for always being there when I needed him. This research is the culmination of my political science student career. Therefore, I'd like to thank the Professors at Western Illinois University, where I completed my first master's degree and the professors at the University of Tripoli, where I had completed my bachelor's degree.

My gratitude would be incomplete if I did not thank all my family, family-in-law, relatives, friends, colleagues, and neighbors who have constantly motivated me to make progress in my studies. They have always admired and celebrated my accomplishments through my academic journey over the last nearly a decade. I would like to acknowledge the support of my brothers Musa and Muhsin. I'd also want to thank my American and international friends, whom I've had the pleasure of meeting in California, Illinois, Florida. Finally, my mother, wife, children, sisters, brothers, nieces, nephews, and I devote this study to the memory of our father, Abdussalam Elakder Alyoncee, who devoted his life for our upbringing.

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Chapter 1: Introduction

In the era of globalization featured by economic interdependency and free market, countries worldwide are racing to benefit from the fruits of the world order tree. States' policymakers have become aware that economic gains through economic cooperation, such as sending investment beyond their borders and receiving it in their countries, are more significant than that achieved through militarized conflict. Leaders in developing countries have also become aware that their comprehensive development and economic growth depend on what they import of elements used in development and growth, such as administrative and organizational knowledge, capital, and technology. Thus, opening their arms to welcome foreign direct investment was not surprising in this era. Smart and responsive governments started improving bureaucratic complexity in institutions concerned with foreign direct investments, such as central banks, audit bureaus, and economy and finance ministries. In addition, they are certainly updating their foreign direct investment laws, regulations, and procedures to attract foreign investors and facilitate the inflows of their businesses.

In this study, the goal is to research the effect of bureaucracy on attracting or repelling FDI. It was intended to compare two countries, one of which did not attract a decent amount of foreign direct investment and another that succeeded in attracting a decent amount of it. Libya was selected as a major case study to examine the hypothesis, while the United Arab Emirates was chosen as the second case in this paper. I also realized that introducing the nature of FDI laws in both cases in terms of flexibility and modernity will make studying bureaucracy and attracting FDI more comprehensive. The link between foreign direct investment laws, bureaucracy, and foreign direct investment are institutional linkage. Law, administration, and economy are considered institutions of the political system. Scientific work in political science within interdisciplinary tendency is useful in the case study because it provides a thick analysis. That is familiar since the study of political science stretches back to Plato's time when the study of law was always a component of the search to comprehend politics.[1]

Libya is unique in that the country has enormous economic and development potential but needs to be significantly exploited. It is rich in natural resources such as oil and gas. The country enjoys a geographical location in the middle of the continents, has wonderful weather, and possesses the largest Mediterranean coast. In addition, Libya is a country that enjoys beautiful natural water ponds in one of the largest deserts in the world, fertile plains for agriculture, and substantial underground water reserves. Many landscapes, ancient cities, and towns from the legacy of African, Amazigh, Phoenician, Greek, Roman, Arab, and Turk civilizations are scattered in the country. Libya also has a beautiful cultural diversity, cultural tourism festivals for ethnicities, and enormous youth energies, who constitute the largest group in the country's population. Those various untapped wealth elements provide Libo's land a comparative economic advantage. Therefore, an effective government needs to work as a mediator to transform the Libo land's wealth into tangible wealth in the hands of the people and their state. Thus, bringing in foreign direct investment is one of the fundamental approaches to transforming Libya's natural wealth into actual wealth that enriches Libya. The county's geographic location is suitable for making it a global business hub if the country installs the appropriate institutions, such as high-quality bureaucracy and effective foreign direct investment laws. Despite all these potential economic opportunities, the country still needs to catch up. Specifically, this study is concerned about the lagging in attracting foreign direct investment. That lagging is potentially caused by a notably substandard bureaucratic quality that is extended

[1] Andrew D. Martin and Morgan L.W. Hazelton, “What Political Science Can Contribute to the Study of Law,” Review of Law & Economics 8, no. 2 (2012): pp. 511-523, https://doi.org/10.1515/1555-5879.1581, 512.

and corrupted, dominating the significant economic and political institutions and reducing chances for private investment and free corruption contracts. Therefore, Libya must take the initiative in reforming domestic institutions and policies to achieve the decent bureaucratic quality that facilitates FDI inward inflows.

Political and market forces at the international level can be perceived as the key variable forcing changes in state policy. The state is the innovator in crucial policy decisions.[2] This proposition is the framework that I build my study. Countries such as Libya and the United Arab Emirates are affected by external factors, which should influence their internal structures and policy decisions regarding attracting foreign direct investment. Those countries' responsibilities remain to take the initiative in setting internal institutions and procedures to facilitate such a goal. The external factor embodied in foreign investors' judgment of bureaucratic quality in the hosting countries should push the hosting countries like Libya and the United Arab Emirates to implement accessible bureaucratic, corruption-free, and modern FDI laws and regulations to attract as much as possible of FDI.

1.1: Observation

It has been observed that countries with a high quality of bureaucracy also have high levels of foreign direct investment. For example, the United Arab Emirates is among the countries that attract high levels of foreign direct investment and enjoy high levels of bureaucratic quality. While a country like Libya lacks the quality of bureaucracy and, at the same time, lacks a decent amount of foreign direct investment inflows. This situation also applies to many countries, especially Western and Anglo-Saxon countries.

[2] Herman, Schwartz. Science & Society 56, no. 3 (1992): 367–69. 376 http://www.jstor.org/stable/40403287.

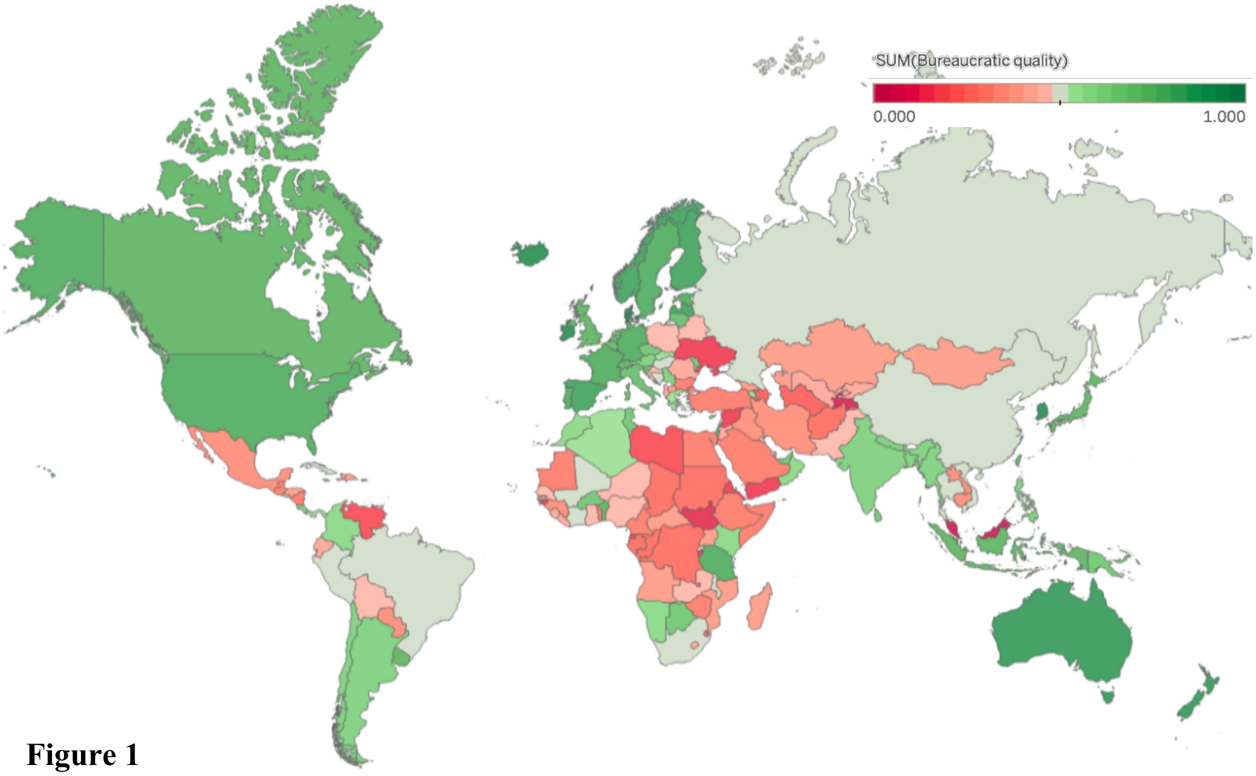


Figure 1
Bureaucratic quality by country for the year of 2019

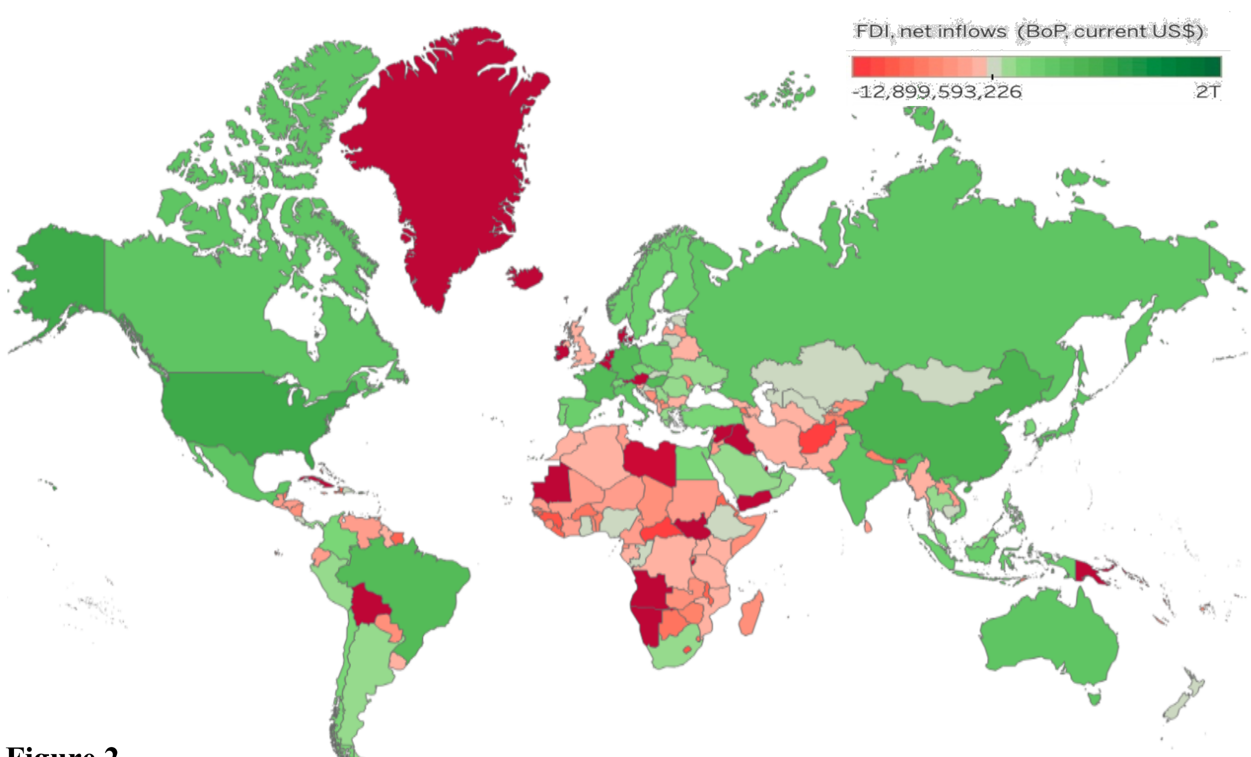


Figure 2
Foreign direct investment, net inflows (BoP, current US$) for the year of 2019

As illustrated on **Figure 1**, the greener the country, the higher its bureaucratic quality score, whereas the redder the country is, the lower its bureaucratic quality; Anglo-Saxon nations are greener, while Libya is red, whereas the United Arab Emirates is bright green. Interestingly, those countries with high-quality bureaucracy are also greater in foreign direct investment inflows, as illustrated on the **Figure 2**. Anglo-Saxon countries have high bureaucratic quality and have more significant FDI Inflows. Libya has fallen behind in bureaucratic quality and foreign direct investment inflows as it is colored red in both variables, while the United Arab Emirates is green in both indexes. Therefore, this observation indicates a correlation between bureaucratic quality and FDI inflows.

Western countries with decent bureaucracy, mainly flexible bureaucratic procedures for investment, relatively free from corruption, and modern and facilitated investment laws and regulations rely on intelligent governance. They have also adopted New Public Management, NPM, which the United Arab Emirates adopted recently. It should not be forgotten that the democratic nature of Western European political systems helped adopt such institutional reforms, which reflected positively on the level of investment, whether the source of the investment was domestic or foreign. Therefore, the correlation mechanism between bureaucratic quality and FDI inflow interests us precisely. **Figure 3** presents the top 30 countries in bureaucratic quality for the year of 2019.[3]

[3] "Bureaucratic Quality," GovData360, https://govdata360.worldbank.org/indicators/h726e38c7?country=BRA&indicator=41814&viz=line_chart&years=1975%2C202.

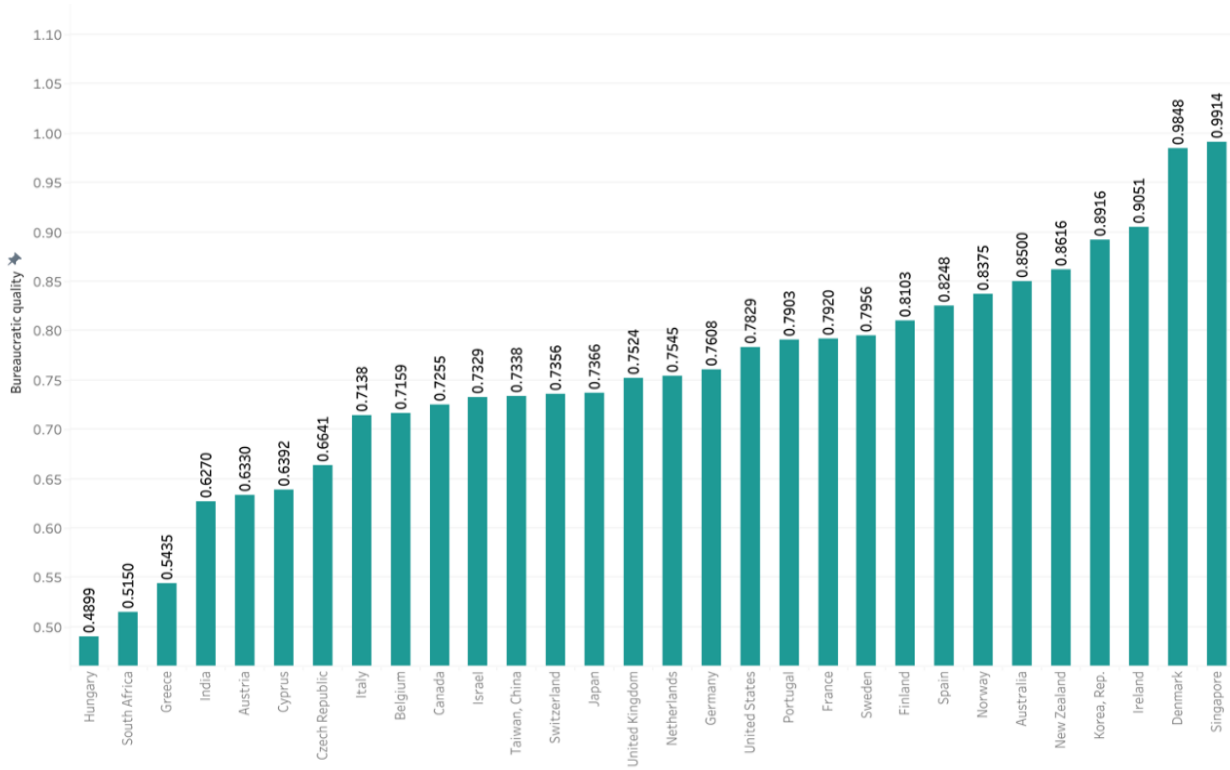


Figure 3
Top 30 countries in bureaucratic quality for the year of 2019

Even though a preliminary conclusion has begun to appear from the previous observation and indicates that nations with higher quality bureaucracy have higher foreign direct investment net and vice versa, it still requires statistical confirmation. A simple regression model of bureaucratic quality as an independent variable and FDI net inflows as a dependent variable will help to explore if there is a relationship between the two variables. The World Bank index of bureaucratic quality for all countries alongside World Bank data on FDI net inflows will be used while testing the correlation between bureaucratic quality and FDI net inflow. If there is a correlation relationship, then the explanatory argument on Libya and the United Arab Emirate in this study is more confident.

1.2: Statistical Evidence

A simple linear regression with foreign direct investment (PoP Current U.S. $) as a dependent variable and bureaucratic quality as an independent variable was run to test the relationship between the two variables.

1.2.1: Model - Using FDI, Net Inflows (BoP, Current U.S $).[4]

It contains 160 countries from 1984 to 2019, during the period for which data is available. One unit increase in bureaucratic quality leads to a $ 156000 increase in foreign direct investment inward inflows.

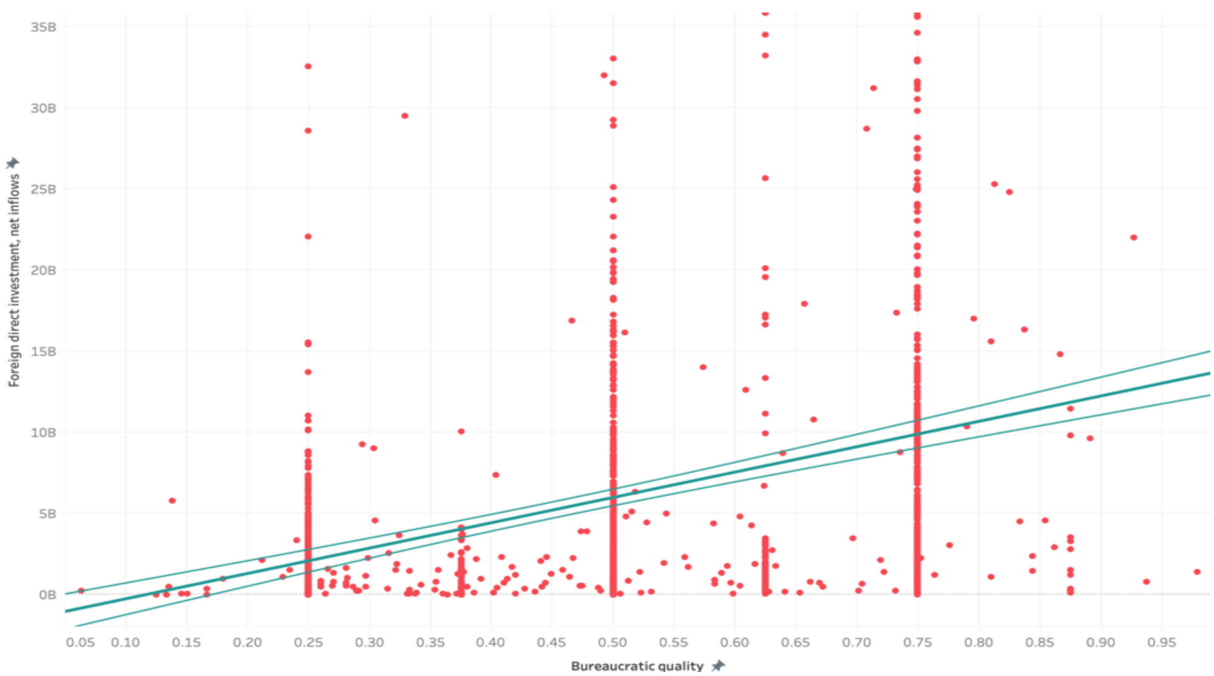


Figure 4
Regression of FDI in net inflows over Bureaucratic Quality

[4] "The World Bank. World Development Indicators." Washington, D.C.
http://data.worldbank.org/data-catalog/world-development-indicators
The World Bank. Worldwide Bureaucracy Indicators. Washington, D.C.
https://govdata360.worldbank.org/indicators/h726e38c7?country=BRA&indicator=41814&viz=line_chart&years=1975,2020

Figure 4 demonstrates the bureaucratic effect on the inflow of FDI in net inflows.[5] A linear trend model is computed for sum of foreign direct investment, net inflows (BoP, current US$) given bureaucratic quality. The model is significant at p <= 0.01.

1.2.2: Regression Output

P-value:	< 0.0001
Equation[6]:	Foreign direct investment, net inflows (BoP, Current US$) = 1.5617e+10*Bureaucratic quality – 1.83394e+09
SSE (sum squared error):	3.1003e+23
MSE (mean squared error):	1.42085e+20
R-Squared:	0.11996
Standard error:	1.192e+10
p-value (significance):	< 0.0001

	Value	**StdErr**	**t-value**	**p-value**
Bureaucratic quality	1.5617e+10	1.20136e+09	12.9994	< 0.0001
Intercept	-1.83394e+09	6.04711e+08	-3.03276	0.0024518

Table 1
Regression output of the model

[5] Ibid
[6] The beta coefficient is small due to the variation in the value of FDI which is in billions and the bureaucratic index has a range of 0 to 1.

The regression with foreign direct investment as a dependent variable and bureaucratic quality as an independent variable in the model shows a positive impact of bureaucratic quality on the foreign direct investment net inflows.

The data tested above confirmed a positive relationship between bureaucracy quality and foreign direct investment inflows. Thus, the explanation of how the substandard bureaucracy affected the inflow of FDI in Libya and the United Arab Emirates can proceed. However, before that, a brief highlight should be given to the potential effect of government effectiveness and trade openness on foreign direct investment inflows, especially since they are also essential from a scholarly point of view.

1.3: Government Effectiveness

Some may argue that what influences the attraction and repulsion of foreign direct investment is the level of government effectiveness in the country hoping to attract FDI, not the quality of its bureaucracy. That may sound scientifically accepted, but the effectiveness of the government itself may be a measure of bureaucratic quality. Daniele Caramani perceived the effective government as a government with good bureaucracy.[7] Moreover, the World Government Effectiveness Index is based on a plethora of cross-country data, principally a measure of the view of government agency clients and professional observers, such as polling organizations. The index defines governance as an overall assessment of the quality of public services and the civil service, the degree of civil service, independence from political pressure, policy formulation and execution quality, and the government's dedication to such policies'

[7] Daniele Caramani, Comparative Politics & Government (Oxford, United Kingdom: Oxford University Press, 2017), 152.

innovation. Therefore, good bureaucracy does not represent only good governance but also effective governance. Moreover, effective governance is only possible with quality bureaucracy. Thus, countries with decent bureaucracy are also expected to have high government effectiveness as the two factors overlap and mutually represent each other.

The following **Figure 5** illustrates that the Anglo-Saxon democracies and Western European nations possess effective governance compared to other regions.[8] Thus, Anglo-Saxon, and Western countries are the most capable regarding bureaucratic performance since government effectiveness can indicate good bureaucracy. What is interesting is that these countries also have a superiority when it comes to FDI inflows.

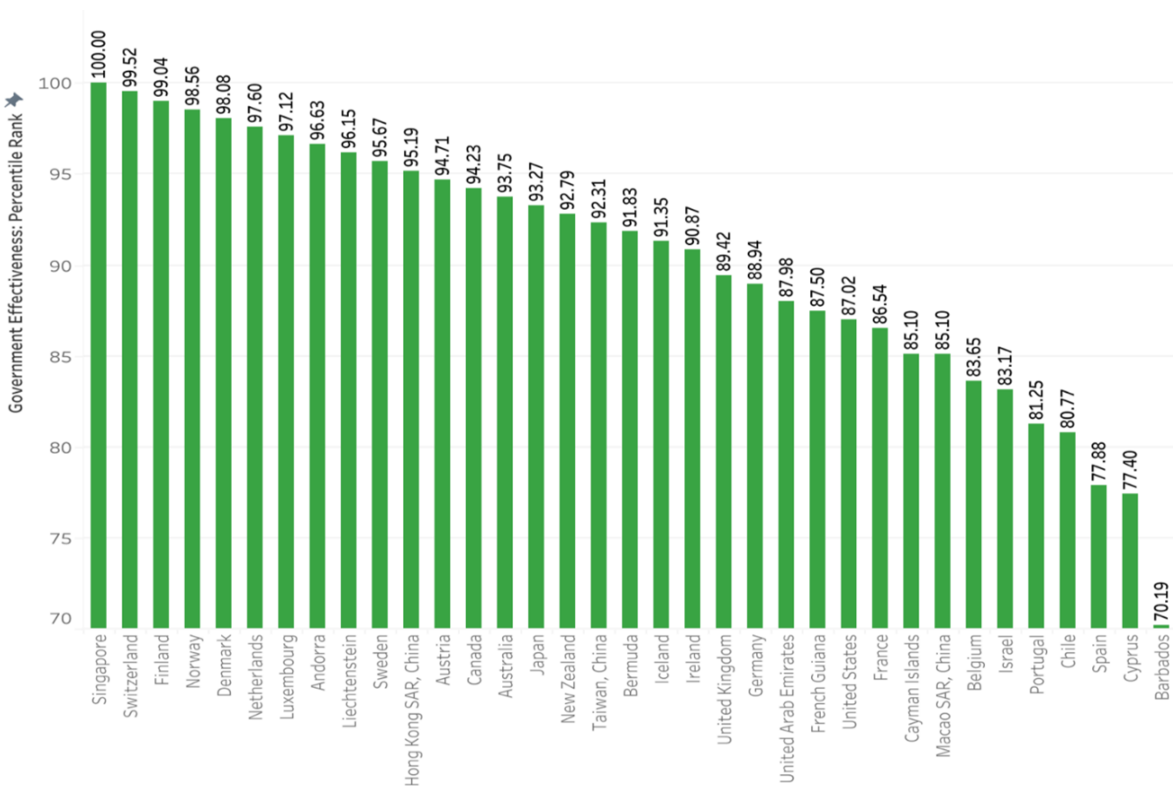


Figure 5
Top 30 countries ranking in Government Effectiveness 2019

8 Data Catalog," 2019 Data Catalog (World Bank), https://datacatalog.worldbank.org/search/dataset/0038026.

The Anglo-Saxon countries with high governmental effectiveness ranking according to the world bank are colored green on the following **Figure 6**.[9] Intriguingly, the United Arab Emirates, as shown colored green on **Figure 6**, is one of the countries with a high inflow of FDI, which promoted an interest to discover what the UAE has done to be in such a place and what Libya has missed being in the red zone.

Because government effectiveness represents and expresses good bureaucracy, countries with high government effectiveness have better foreign direct investment net inflows, as **Figure 7** demonstrates.[10]

It is remarkable that the greener the color, the greater the net inflows of foreign direct investment, while the redder the color, the less foreign direct investment net inflows. For example, the United Arab Emirates is among the green zoon countries, while Libya is among the red ones. These data are almost identical regarding government effectiveness and net inflows of FDI. Therefore, the influence of government effectiveness as a variable should never doubt the influence of quality bureaucracy. In contrast, government effectiveness provides more confidence and credibility to the importance of bureaucracy quality as a factor that affects the inflows of FDI.

[9] "Data Catalog," World Bank Open Data, http://data.worldbank.org/data-catalog/world-development-indicators. Data from world bank has been used to create the above chart in Tableau.
[10] "World Bank Open Data," FDI flow 1970 – 2020. http://data.worldbank.org/data-catalog/world-development-indicators.

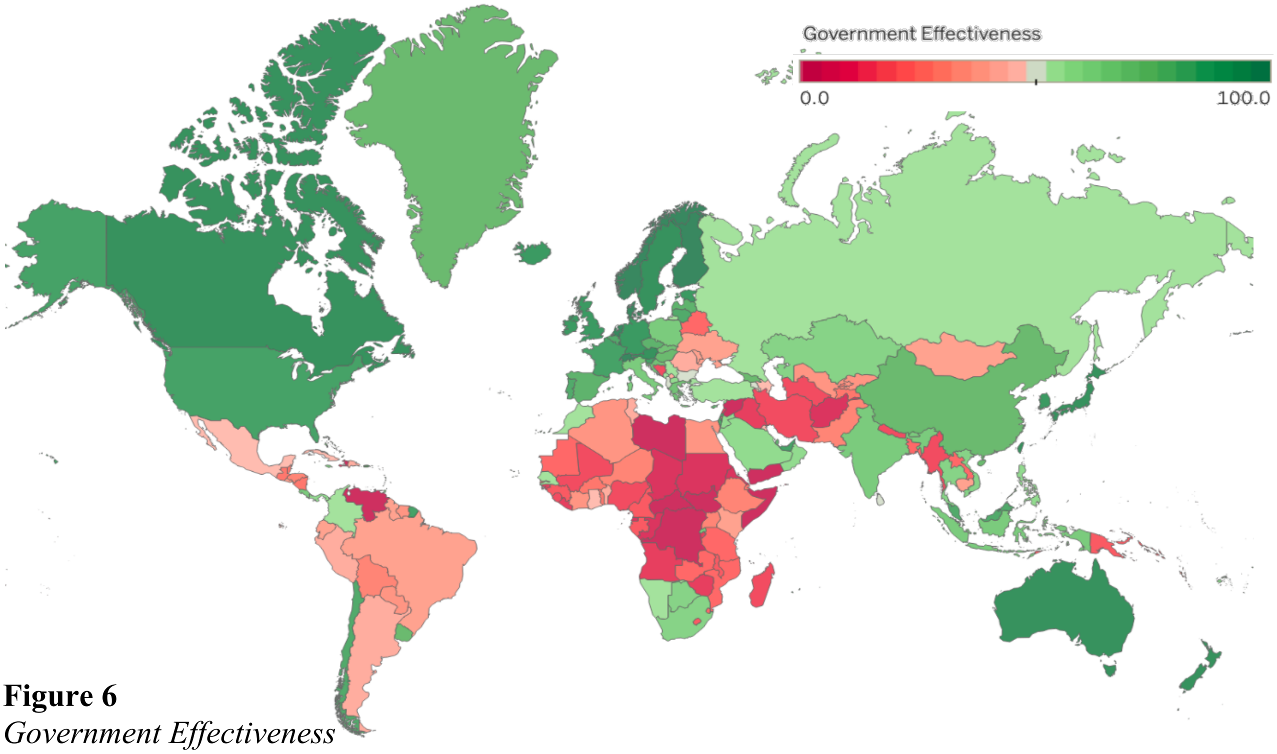


Figure 6
Government Effectiveness

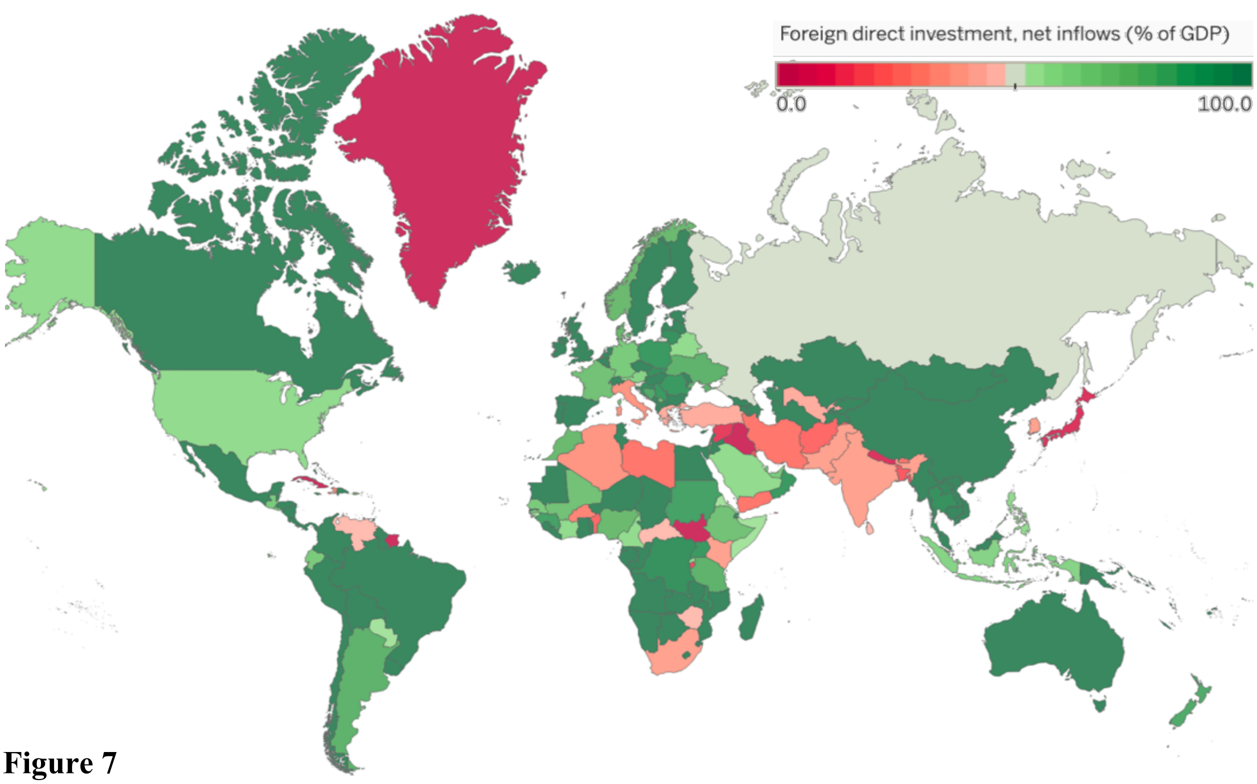


Figure 7
FDI, net inflows (% of GDP)

1.4: Trade Openness

It is also useful to examine certain data regarding the levels of trade openness for Libya and the Emirates, the two countries studied in this comparison. This would reduce uncertainty regarding the potential impact of trade openness on FDI direct foreign investment in the two nations. Although trade openness to the outside world remarkably happened after the 2011 Feb 17th revolution and was one of Libya's most prominent economic features, FDI hesitated to inflow to the country during that period. Libyans started competing in taking the franchises of companies and international brands without political restrictions and bureaucratic obstruction. Still, the levels of foreign direct investment remained in a state of decline, as shown in **Figure 8**, because the administrative and bureaucratic atmosphere has stayed the same to attract foreign investors to the country. **Figure 8**, displays the FDI inflow in Libya.[11]

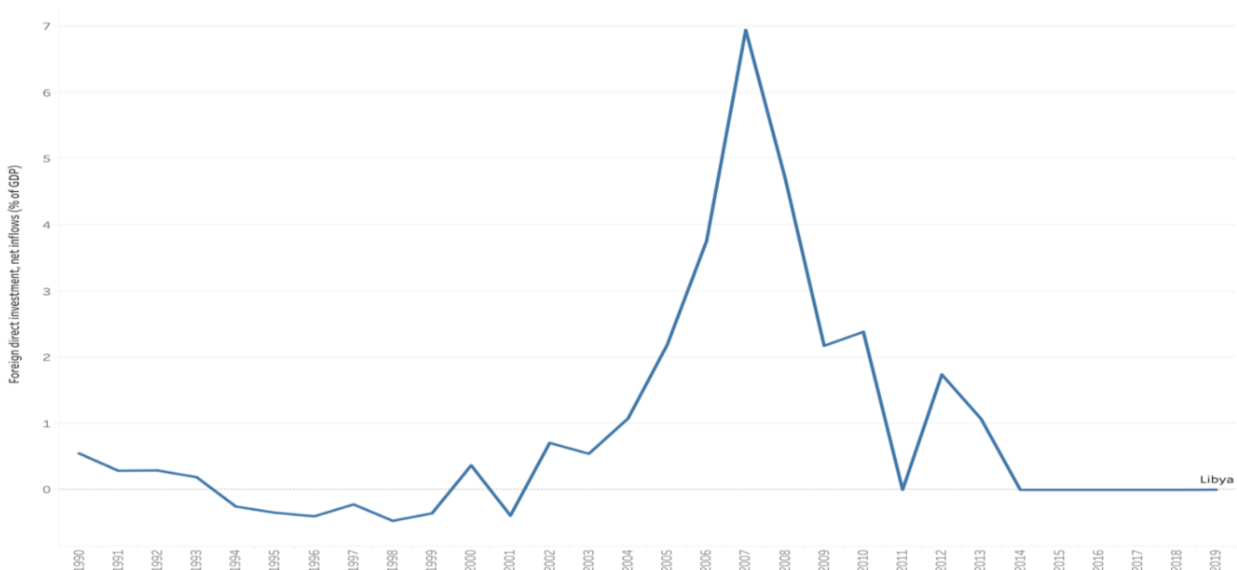


Figure 8
FDI, net inflows (% of GDP) for Libya from 1990 to 2019

[11] "Data Catalog," World Bank Open Data. The data for FDI is annually from 1990-2019.

As shown in the **Figure 8**, since the launch of the UAE vision 2003, the global trade openness curve has increased in the United Arab Emirates. Since its union, the country has taken the capitalist side and opened to the world while maintaining outstanding levels of support for its citizens, as if it were regulated capitalism. By contemplating the UAE's global commercial openness can understand why UAE has become a global economic hub with ports and airports that are among the best globally in terms of traffic density and global distribution maps. These circumstances and facts have certainly required major administrative and bureaucratic reforms, which is why the United Arab Emirates launched the smart government when procedures can be done quickly through the internet. **Figure 9**, illustrates trade openness in the UAE.[12]

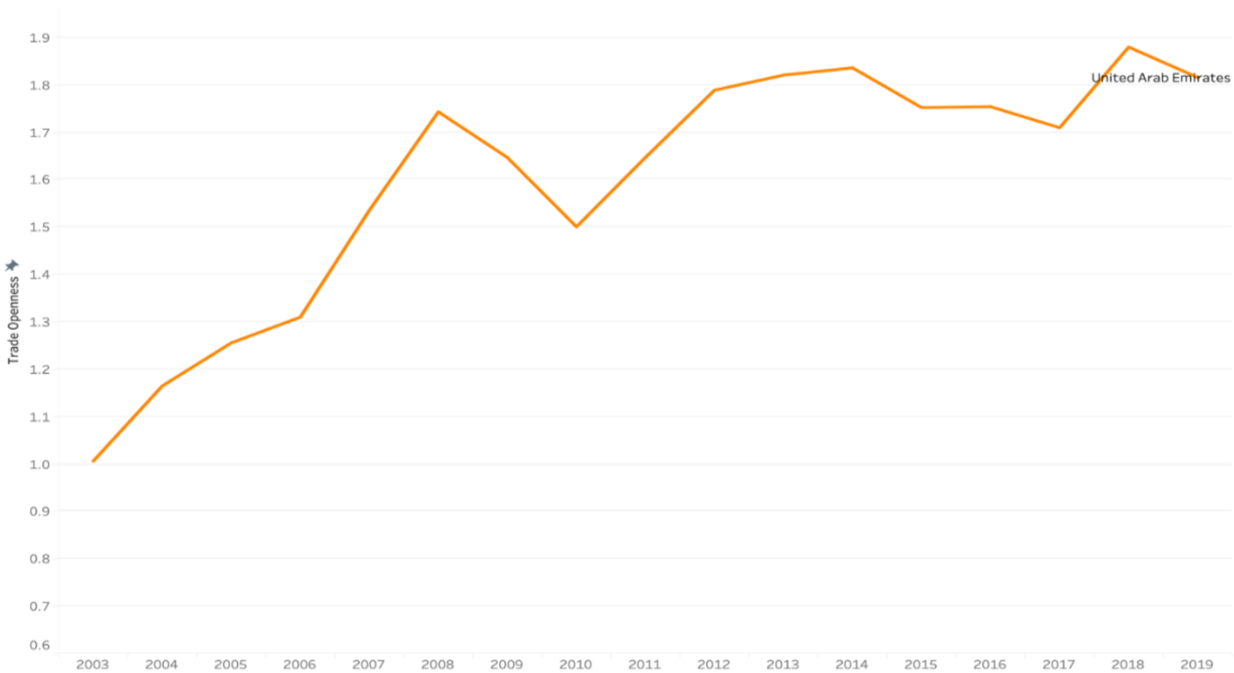


Figure 9
Trade Openness in UAE from 2003 to 2019

[12] "Openness to Trade," WITS, https://wits.worldbank.org/visualization/openness-to-trade-dashboard.html.

1.5: Selected Cases

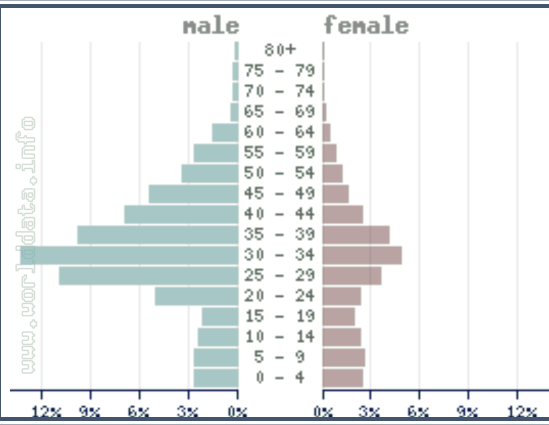
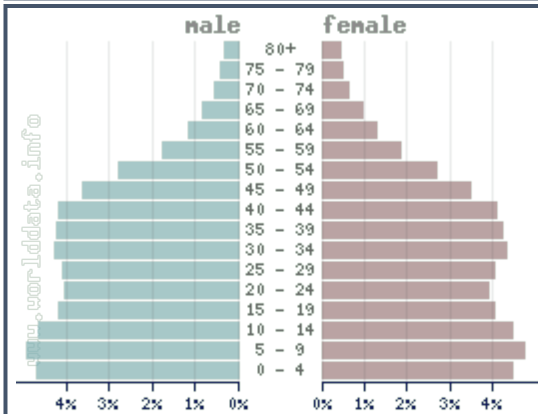
Several reasons motivated the decision to compare Libya to the United Arab Emirates. The most prominent of them is that both countries are MENA countries. In addition, the UAE is a pioneer in attracting foreign direct investment in MENA. The UAE is perceived as a successful model for hosting foreign direct investment in the Middle East and North Africa. It is also unsuitable, for example, to compare Libya with a Western country with long-term experience in hosting foreign direct investment.

During the 17th Revolution in Libya, politicians who opposed the Qaddafi regime promised Libyans that they would make the country as economically successful as the United Arab Emirates. They literally named UAE as their state role model. Those promises were in combination with their pledges to the Libyan people for democracy, the rule of law, modern institutions, and human rights. One of the reasons for the Libyans' overthrow of the Gaddafi regime was their demand for better economic conditions and their aspirations for economic openness. Democracy was also in demand, but it was not just the aspiration that motivated Libyans to overthrow the Gaddafi regime. In this regard, a famous phrase, "*we will make it like Dubai*," spread among the people during the freedom struggle in 2011. The phrase, an echoing slogan during the revolution's battle, means that we, the Libyan, will make Libya a fantasy and flourish like Dubai. I wanted to know how the Emirates developed their country to be a global hub financially and economically and the possible chances for Libya to be in a similar position. So, the inquiry was initially searched and found several reasons, including the existence of the political will for economic development and the friendly foreign policy adopted by the Emirates with Western countries which possess the technology, capital, knowledge, and investment. Hence a personal desire was built to discover this investment and how to attract it. The experience of the UAE with FDI would also be suitable for Libya, which has advantages such as geographical location, weather, natural resources, and other factors that would attract foreign investors.

Some similarities between the two cases prove the suitability of the comparison. Several social and historical factors may be compatible even though the current political characteristics differ. This difference is recent after Libya transitioned to a transitional political stage under the supervision of the United Nations, which is the stage of democratic transition. Economically, the UAE has outperformed Libya's per capita income and national GDP. This superiority is relatively recent, as it emerged at the beginning of the new millennium, as will be explained later by presenting tables and figures in this regard. However, it cannot fail to point out that the economic superiority and leap of the UAE are one of the reasons that motivated this study. The following table compares several aspects of the two countries and shall give an idea about how close and far they are from each other currently. The **Table 2** below will give the readers an idea about the convergence and divergence between the two cases.

Libya and the UAE are rich in energy resources and have comparable population sizes. Both were newly independent, in 1969 for Libya and 1970 for the UAE. As will come later, Libya started at a faster growth rate after independence than the United Arab Emirates. After nearly three decades, the United Arab Emirates joined Libya in the rate of development and surpassed it at the end of the nineties. Although the United Arab Emirates maintained a close level with Libya in foreign direct investment inflow rate during the first three decades of independence, it surpassed Libya in the new millennium. This superiority continued upward, encouraging the discovery of the bureaucracy's role in attracting FDI.

<table>
<tr><th></th><th>United Arab Emirates</th><th>Libya</th></tr>
<tr><td colspan="3">General Information</td></tr>
<tr><td>Map:</td><td>
</td><td>
</td></tr>
<tr><td>National Flag:</td><td></td><td></td></tr>
<tr><td>Region:</td><td>Western Asia</td><td>Northern Africa</td></tr>
<tr><td>Location:</td><td></td><td></td></tr>
<tr><td>Area:</td><td>83,600 km²</td><td>1,759,540 km²</td></tr>
<tr><td>Official language:</td><td>Arabic</td><td>Arabic</td></tr>
<tr><td>Government type:</td><td>Federation of autonomous monarchies</td><td>Republic (transitional government after dictatorship)</td></tr>
<tr><td>Independent since:</td><td>1971 AD</td><td>1951 AD</td></tr>
<tr><td>Capital:</td><td>Abu Dhabi</td><td>Tripoli</td></tr>
</table>

Demographics		
Population:	9,890,000	6,871,000
Population Density Inhabitants/km²:	118.3	3.9
Life expectancy males:	Ø 77 years	Ø 70 years
Life expectancy females:	Ø 79 years	Ø 76 years
Average age:	Ø 38.4 years	Ø 25.8 years
Birthrate:	10.22 ‰	18.30 ‰
Deathrate:	1.52 ‰	5.10 ‰
Migration rate:	-3.18 ‰	-1.15 ‰
Population pyramid:		
Economy		
Gross domestic product:	358,869 M US$	25,419 M US$
Gross national product:	389,787 M US$	34,077 M US$
Exported goods:	308,500 M US$	27,901 M US$
Imported goods:	229,200 M US$	24,500 M US$
Currency:	Arabic Dirham	Libyan Dinar
Unemployment rate:	3.4 %	19.6 %
Inflation rate:	-2.08 %	2.61 %

Commercial taxes and contributions:	15.90 %	32.60 %
Average income:	39,410 US$	4,960 US$
Religion		
Islam:	76.0 %	96.6 %
Christianity:	9.0 %	2.7 %
Hinduism:	3.6 %	n/a
Buddhism:	n/a	0.3 %
other:	11.4 %	0.4 %
Quality of Life: Values from 0 (bad) to 100 (very good)		
Political stability:	82	15
Civil rights:	65	3
Health:	65	58
Climate:	62	71
Cost of Living:	67	64
Popularity:	29	49

Table 2
Country Comparison United Arab Emirates and Libya
Source:[13] World Data. Retrieved from https://www.worlddata.info/country-comparison.php?country1=ARE&country2=LBY on 5/16/2022

[13] "Country Comparison," WorldData.info, https://www.worlddata.info/country-comparison.php?country1=ARE&country2=LBY. Retrieved.

Chapter 2 – Methodology

The method in this study is the case study comparison at the national level, known as comparing a few countries in the comparative methodology. The analysis is mainly qualitative exploratory analysis, bridged with data visualization, descriptive statistics, and a simple regression model. The thesis is that a low-quality bureaucracy characterized by expansion, corruption, and substandard FDI laws discourages the inflows of FDI. The study provides the hypothesis that H1, bureaucratic expansion discourages the inflows of FDI. H2, bureaucratic corruption discourages the inflows of FDI. H3, obstacles within FDI laws discourage the inflows of FDI.

2.1: Hypothesis

Institutional reforms include bureaucratic expansion, bureaucratic corruption, and obstacles in FDI laws that discourage foreign direct investment inflows. Whereas there is an increase in the unit of bureaucratic quality, there will be an increase in the unit of foreign direct investment inflow. Therefore, attracting FDI requires increasing bureaucratic quality by limiting bureaucratic expansion, eliminating bureaucratic corruption, and updating FDI laws. These are presented in this study as the three main elements of substandard bureaucracy. The study aims to verify my hypothesis, which blames expanded, corrupted, and insufficient foreign direct investment laws for the low-level inflows of FDI in Libya. Beyond proving the hypothesis, the study dedicates space to highlighting why the UAE could generate good policies manifested in the bureaucratic reforms, while Libya could not, or perhaps did not want to do so. The proposition for such inquiry manifested in the political stability and the political leadership's character.

2.2: Operations

Three elements present the concept of low-quality bureaucracy in this study, which are considered the study's main contribution. First, bureaucratic expansion: bureaucratic expansion in Libya is driven by socialism and state control of the economy that discourages FDI inflows, versus bureaucratic constraints in the UAE driven by adopting capitalism and encouraging FDI inflows. Second, bureaucratic corruption: bureaucratic corruption is high in Libya and takes different forms, while bureaucratic corruption is being fought in the UAE, which encourages the inflows of FDI. Third, substandard FDI Laws: FDI laws in Libya is complicated and outdated, influenced by the *AL Jamahiriya* era and socialism and anti-imperialism ideology, etc. In comparison, the FDI laws in the UAE are designed to attract FDI and facilitate the inflows of FDI. Therefore, it has been exposed to updates to meet the demands of the current global economic structure and trends. These elements will be tested qualitatively for both cases in different chapters.

2.3: Data Description

Qualitatively the study will be systematically embedded into the related development in both cases and using tools such as books and articles, official statements, etcetera. Nevertheless, the qualitative part is bridged slightly with other quantitative technics, such as displaying tables, charts, and graphs to understand the research comprehensively. The main task is to qualitatively illustrate how Libya's substandard bureaucracy, which is expanded and corrupt, obstructed the inflow of FDI while good bureaucratic quality contributed to the increase in the FDI inflow to the UAE. Nevertheless, the hypothetical relationship is tested in this study using regression to see if there is a statistical relationship between bureaucracy and FDI inflow, as illustrated in the previous chapter. Countries' indexes were visualized regarding government effectiveness, bureaucratic quality, and FDI net inflow. Therefore, data from the world bank has been used to create top-ranking charts in government effectiveness and bureaucratic quality on Tableau.

> The World Bank development indicators series meta-data defines the variable as Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Percentile rank 2019 indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to the lowest rank and 100 to the highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the World Government Indicators, WGI.[14]

As for the measurement of the FDI inflow, World Bank data was used. The data for FDI net inflows of GDP used in this research is from 1970 to 2020. The FDI inflow data are in the current U.S. dollar.

> The world-development-indicators series meta data defines the variable as Foreign Direct Investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Data are in current U.S. dollars.[15]

The govdata360 Global State of Democracy meta-data definition regarding the bureaucratic quality variable was perceived as comprehensive and tangible for quantitative testing. That is because one of the characteristics of a good bureaucracy is free of political

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[14] "Data Catalog," 2019 Data Catalog (World Bank) https://datacatalog.worldbank.org/search/dataset/0038026.

[15] "Data Catalog," World Bank Open Data http://data.worldbank.org/data-catalog/world-development-indicators. Washington, D.C.

corruption, which matches the descriptive analysis provided in this study as characteristics of substandard bureaucracy.

> The govdata360 Global State of Democracy meta-data defines the variable as the institutional strength and quality of the bureaucracy is another shock absorber that tends to minimize revisions of policy when governments change. Therefore, high points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. In these low-risk countries, the bureaucracy tends to be somewhat autonomous from political pressure and to have an established mechanism for recruitment and training. Countries that lack the cushioning effect of a strong bureaucracy receive low points because a change in government tends to be traumatic in terms of policy formulation and day-to-day administrative functions.[16]

When the state begins to work to attract foreign direct investment, it logically works on opening to global trade. Therefore, presenting the trade openness of Libya and the UAE over the past decades may indicate their efforts to engage the global economy, including the attraction of FDI. The United Arab Emirates may have broader trade openness than Libya, which is expected since the UAE is engaged more productively in bureaucratic facilitation and FDI attraction.

Trade Openness: (Exports of goods and services (constant 2015 US$) + Imports of goods and services (constant 2015 US$)) / GDP (constant 2015 US$).

> The indicators are defined as GDP (constant 2015 US$) - GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2015 prices, expressed in U.S. dollars. Dollar figures for GDP are converted from domestic currencies using 2015 official exchange rates. Exports of goods and services (constant 2015 US$) - Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments. Data are in constant 2015 prices, expressed in U.S. dollars. Imports of goods and services (constant 2015 US$) - Imports of goods and services represent the value of all goods and

[16] "Bureaucratic Quality," GovData360, https://govdata360.worldbank.org/indicators/h726e38c7?country=BRA&indicator=41814&viz=line_chart&years=1975%2C202.

> other market services received from the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments. Data are in constant 2015 prices, expressed in U.S. dollars.[17]

Corruption is a primary quantitative and qualitative variable in this research, both directly when it comes to the descriptive analysis and indirectly when it comes to bureaucratic measurement. Corruption is an essential characteristic of low-quality bureaucracy. Two variables of corruption will be used in this research which are Control of Corruption and Transparency International. The first measures what countries take of policies to control corruption, while the second measures the perception of trusted individuals and institutions given to a country.

> The world-development-indicators series meta-data defines the variable as Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.[18]
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> The Corruption Perceptions Index (CPI) measures how corruption each country, s public sector is perceived to be, according to experts and businesspeople. Each country's score is a combination of at least 3 data sources drawn from 13 different corruption surveys and assessments. These data sources are collected by a variety of reputable institutions, including the World Bank and the World Economic Forum.[19]

[17] "The World Bank." 2022. World Integrated Trade Solutions. Washington, D.C. http://wits.worldbank.org/visualization/openness-to-trade-dashboard.html

[18] "The World Bank." 2022. Worldwide Governance Indicators. Washington, D.C http://data.worldbank.org/data-catalog/worldwide-governance-indicators

[19] "The Abcs of the CPI: How the Corruption Perceptions Index Is...," Transparency.org, https://www.transparency.org/en/news/how-cpi-scores-are-calculated.

2.4: Sources

The comparative case study on Libya and the United Arab Emirates will also rely on secondary sources, such as what is published by specialized newspapers and magazines and what officials in decision-making centers said, along with primary sources, such as books and prereview articles. Documents and other data reported and published by governmental organizations such as the World Bank and other United Nations bodies will also be used. In addition, the comparative case study will allow for following the legislation, laws, regulations, and general policies related to bureaucracy and foreign direct investment in both countries under investigation. Information published in the native language in Libya and the United Arab Emirates will be translated and used here if it is perceived as appropriate, relevant, and valuable.

2.5: Case Study

The comparative methodology in this study is a comparative case study with two cases, Libya, and the United Arab Emirates. A case study is an intensive study of one or a few cases.[20] Libya is the major case because it has a substandard state bureaucracy that discourages foreign investors instead of attracting their businesses. At the same time, the United Arab Emirates is a minor case as a country that succeeded in removing many bureaucratic obstacles, which contributed to enhancing its competitive capabilities to attract FDI.

Random selection is preferred in scientific methodology for objectivity and neutrality in purely quantitative research. However, a random sample comparing a few cases may lead to the outlier problem when one of the selected cases is significantly more advanced than the other.

[20] Phillips Shively, The Craft of Political Research, Ninth Edition (Upper Saddle River, New Jersey: Pearson Education, 2011), 102.

Therefore, comparing two countries in a close geographical region with similar levels of knowledge and economic endowments is more appropriate, especially when the outcomes of similar cases are different, making the study's findings more interesting to explore. The United Arab Emirates, despite its socioeconomic resembling of Libya during its early decades of establishment and independence still considered a prosperous country in terms of the net inflow of foreign direct investment compering to Libya. Therefore, the United Arab Emirates makes an appropriate case for comparison and testing the conductive hypothesis of the main case study, Libya, even though the current economic development level between the two countries is gapped. In terms of comparison, the two countries will be compared utilizing quantitative charts that indicate their approximate distances across decades regarding bureaucratic quality, bureaucratic corruption, trade openness, and net inflows of FDI.

The case study research was selected because it is considered one of the most used research methods. When looking at economics and political science work, the case study is well-established, if not booming.[21] Between 1975 and 2000, the proportion of publications in 14 journals focused on two fields of social science research in which a case study was used remained roughly steady at around 20%.[22] However, each method suffers critique, and hardly anything is devoid of shortcomings, which also applies to case study comparison. The opponents of the case study argue that the most prominent flaw found in the case study research and comparison of a few cases is the unsuitability of the method for building a general theory that would apply to other cases. Even though that case study provides a profound understanding of

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[21] Gary Thomas, "A Typology for the Case Study in Social Science Following a Review of Definition, Discourse, and Structure," Qualitative Inquiry 17, no. 7 (2011): pp. 511-521, https://doi.org/10.4135/9781473915480.n27, 511.

[22] Ibid

the case under study, it is still not the best suitable option for building a theory that can be generalized to other cases.[23] In the same context, a case study suffers from the relative inability to make a judgment on the representativeness of cases.[24] That is understandable, but the generalization of case study comparison is not necessarily a priority. Among the terms of case study is the one means the idiographic case seeks little attempt to generalize beyond its empirical bounds.[25] As for building a theory, each case has its specifics. Therefore, this study is interested in approving an explanatory analysis of a causal relationship and solving a problem through a comparative model than building a broader theory that applies to most cases.

Among the critics of the case study method is that the case study is prone to revisions of selection biases that concern statistical researchers.[26] Nevertheless, the case study proponents respond to such a critique by stating that selections on the dependent variable should not be rejected in the case study. Moreover, such selection facilitates identifying the causal paths leading to the independent variables.[27] In responding to such concerns, the choice of Libya and the UAE was deliberate. The two countries have the same independent variables, namely bureaucracy quality and foreign direct investment laws, and the dependent variable, which is the inflows of FDI. Therefore, the dependent variable grabbed the observation and contributed to determining the cases of this comparative research. So, the case study method of analysis also

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23 Jacek Kugler, "Case Study," Case Study (February 13, 2019).

24 Alexander L. George and Andrew Bennett, "Case Studies and Social Science," in Case Studies and Theory Development in the Social Sciences (Cambridge, MA, Massachusetts: MIT, 2005), pp. 3-36, 22.

25 Paul F. Steinberg, "Can We Generalize from Case Studies?" Global Environmental Politics 15, no. 3 (August 2015): pp. 152-175, https://doi.org/, 164.

26 George and Bennett, "In Case Studies and Theory Development in the Social Sciences" 22.

27 Ibid

has its benefits and sobriety, particularly how it can touch politics and economics and capture most of the dynamic issues under study.

In some cases, a case study is preferred as a research methodology and is widely used in interdisciplinary areas. The objective in such cases is to use several complementary sources of evidence to obtain multiple perspectives on a phenomenon. With this, the perception of the researcher becomes more comprehensive and trustworthy.[28] Therefore, the case study and the study of a few cases have strengths that must be considered. A case study research method is ideographic, reacting to the discovery of scientific facts and processes distinct from general laws and then capturing the dynamic of the phenomenon. Furthermore, it gets into the cultural understanding, which assists in exploring the matter's uniqueness.[29] A case study comparing a few cases is an intensive study that provides vigorous analysis because of the profound focus on specific areas of the countries under comparison, which is two MENA countries. The case study method of research gives us configurative analysis that explores particular behavior and movements related to the case and results in path dependence when a sequence of past actions has formed the outcome. The case study has already explained the path dependency proposition is consistent with this study which links the reasons beyond the attraction of foreign direct investment to the bureaucracy and the FDI's laws. The two institutional factors are connected and affect foreign direct investment inflow, growth, and flourishing. For these mentioned features specifically, a decision on the case study method to compare Libya and the United Arab Emirates

[28] Cátia Quintão and Pedro Andrade, "How to Improve the Validity and Reliability of a Case Study Approach?" Journal of Interdisciplinary Studies in Education 9, no. 2 (2020): pp. 264-275, https://doi.org/10.32674/jise.v9i2.2026, 266.

[29] Todd Landman, Issues and Methods in Comparative Politics: An Introduction (London And New York: Routledge, 2014),47.

to coordinate, control, and cope with the significant institutional dynamics corresponding to the Libyan case caused differentiation in terms of the outcome.

The contextual description is a foundation that single-country studies have finest served.[30] However, this study seeks to go beyond contextual description to confirm an existing argument that institutional bureaucracy is a critical factor in attracting or averting FDI. There are institutional causes for the attraction and aversion of foreign direct investments. Nevertheless, without a causality relationship, it cannot hold people and institutions accountable for their actions or act efficaciously.[31] Causal research aims to problem-solving goals rather than devise or amend political theories.[32] Even though the emphasis in this research will be quantitative analysis, a simple regression model will help to explore if there is a relationship between bureaucratic quality the FDI inflow. If so, then the explanatory argument is more confident.

Concerning dimensionality, it should be unidimensional in the fundamental concepts as much as possible. It is good to frame theories on unidimensional rather than multidimensional concepts to escape social science jargon.[33] Key terms, such as bureaucracy, FDI's laws, and FDI, should, as much as possible, create one meaning for the readers of this study. Therefore, it is the responsibility that the concepts such as bureaucracy and foreign direct investment laws are well-defined and clarified consistently when both cases of this comparative study are analyzed.

Regarding measurement, scientists have come up with four classificational levels of possible measurement: nominal, ordinal, interval, and ratio. The Nominal does not quite seem

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[30] Ibid

[31] John Gerring, Social Science Methodology (New York, NY: Cambridge University Press, 2001), 129.

[32] Shively, "The Craft of Political Research"4.

[33] Ibid. 33

like measurement; it refers to the classification of things.[34] So, bureaucracy in the explanatory parts of the research will have nominal measurements such as laws enacted by the legislative or regulation and documented practices enacted by top bureaucratic officials to facilitate and organize their work. At the same time, the World Bank's measurement of bureaucratic quality is the choice to quantitively test the effect of bureaucracy on the inflow of FDI. The concepts in both cases Libya and the UAE should enjoy the exact measurement of the concepts. The FDI laws will be examined the same way in the two cases regardless of the source of the laws or procedures, whether the UAE Federal National Council, the Libyan National Council, the Libyan Parliament, etcetera. The measurement will present the concepts' true values to increase the validity. World Bank data on FDI inflow by country is a preferred source for information when measuring FDI in Libya and UAE.

Measuring FDI in practice is difficult, especially when the investment takes the form of machinery or financed technological inputs; there are always gaps in the FDI data accessible from the source and host nations of FDI. Furthermore, most governments do not provide detailed information about their firms' activities abroad for security reasons.[35] Nonetheless, various measures of FDI and trade openness will be utilized to measure foreign direct investment. Therefore, numerical data will be published by reliable organizations such as the World Bank to show the volume of FDI net inflows in both countries under study, including the FDI amount in different decades from the seventies to the first decades of the new century.

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[34] Todd Donovan and Kenneth R. Hoover, The Elements of Social Scientific Thinking (Boston, MA, USA, Washington: Wadsworth Cengage Learning, 2014), 80.

[35] Imad A. Moosa, Foreign Direct Investment Theory, Eviedence, and Practice, first (Basingstoke, New York: Palgrave, 2002),2

Reliability is an important element to take care of in our research. The measure is reliable to the extent that it gives the same result again and again if the measurement is repeated.[36] The measure should dependently mirror the concept.[37] The measure of bureaucratic quality in the quantitative explanation will focus on whether it is expanded in the market or corrupted, including the suitability of the FID's laws for encouraging FDI inflows.

A measure is valid if it measures what it aims to measure. There must be an equivalent relationship between the measure and the concept so that validity exists.[38] Internal and external validity are concepts that reflect whether the results of a study are truthful and meaningful. While internal validity relates to how well a study is conducted (its structure), external validity relates to how applicable the findings are to the real world.[39] Regarding validity in the case study, some say that the case study has weak external validity and cannot apply to other cases in the world. This is understandable since each case has its uniqueness, which is why case study is important for practitioners to understand a certain country right and well. Other political scientists, including Jack Kugler, believe that case study also has weak external validity.[40] Several interacting and overlapping variables in case study research can be driving forces of the phenomenon, so whether the concepts under highlight are trustworthy for taking them as causes of the outcome is not effortless to confirm. Nevertheless, pure endogeneity is all types of scientific research almost impossible. For example, the substandard bureaucracy that suffers

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[36] Shively, "The Craft of Political Research"46.

[37] Ibid

[38] Ibid. 49

[39] Arlin Cuncic, "Understanding Internal and External Validity," Verywell Mind (Verywell Mind, July 31, 2021), https://www.verywellmind.com/internal-and-external-validity-4584479, 1.

[40] Kugler, J. (2019, February). The Nature of Scientific Inquiry. Week 4. Claremont; Claremont Graduate University.

from extension, corruption, and outdated foreign direct investment laws is the cause of the low inflow of FDI in Libya. In contrast, the decent high-quality bureaucracy and updated foreign investment laws caused the inflow and expansion of FDI in the United Arab Emirates.

The mentioned pluses were considered when the case study methodology was selected as the primary method of my research. However, today, data and information visualization have enhanced the methodology of expressing and presenting data, enabling us to provide an integrated and digested comparative study for interested readers. Furthermore, the attraction of foreign investors and their organization, administration, ideas, capital, and technology is an exciting subject for exploring and for providing a scientific basis for searching Libya and the UAE more for those interested in fields various from comparative politics and public policy to the global economy and international relations.

Chapter 3: Literature Review

It is essential to review what was written on the topic in general while on the way to defending the argument in this research. This chapter reviews the well-known work on foreign direct investment inflow, focusing on what promotes or impedes FDI inflow. The literature review highlights elements that affect the inflow of FDI and are related to the bureaucracy, such as technical, security, and institutional constraints. Other theories highlighting bureaucracy's effect on investment generally cannot be escaped. Then the literature will be narrowed down to cover the effect of bureaucratic quality on the inflow of foreign direct investment. The study's main contribution is about the impact of institutions of bureaucracy and foreign direct investment laws on the attraction and aversion of FDI. Bureaucracy is either high quality, decent, or low quality, meaning substandard. This study theorizes that low-quality bureaucracy is a substandard bureaucracy characterized by expansion, corruption, and rigid and complex FDI laws. At the same time, high-quality bureaucracy is constrained, relatively free of corruption, and non-complicated FDI laws. This chapter starts by highlighting the concepts related to bureaucracy and foreign direct investment and which ones are more suitable to be a base of the theoretical framework of this project, along with a brief explanation of bureaucracy as a science. Then it concludes with its most important part, which presents the different theories that affect attracting foreign direct investment and are derived from different scientific approaches.

3.1: Definitions

Definitions are essential in scientific research. It is difficult for scholars to provide an explanation and clarification to the inquiries they seek to answer without definitions, and perhaps even those phenomena that they seek to examine and predicate. Definitions help readers grasp the concepts or aspects explored throughout the research. However, unsolved definitional issues beset the social sciences.[41] Even though there will always be some ambiguity, some areas of social science still need to generate good common understandings of terminology. Science can only make limited advances without viable definitions. As a result, when a researcher uses the term, for example, institution, they should be able to clearly define the sort of phenomenon to which the phrase refers.[42]

It is crucial to briefly present the difference between the conceptual and operational definitions derived from the conceptual ones before defining bureaucracy and foreign direct investment in this study. Concepts in research frequently include terms that must be carefully and precisely defined so that readers understand the meaning without ambiguity. Peter Dunn cited that there are two types of definitions: conceptual definition and operational definition. A conceptual definition describes what should be measured or observed. It denotes what a word or term means in the research context, whereas an operational definition specifies how to measure or observe it.[43] The conceptual definition is used to create the operational definition. So, there is a strong link between the two definitions. A conceptual definition is usually a dictionary definition used to descript a concept by relating it to other obstructing concepts, while an operational definition describes a concept in terms of its observable, measurable, and or behavior by specifying how the concept can be observed in actual practices.[44] For example the term stress

[41] Geoffrey M. Hodgson, "Taxonomic Definitions in Social Science, with Firms, Markets and Institutions as Case Studies," Journal of Institutional Economics 15, no. 2 (November 2018): pp. 207-233, https://doi.org/10.1017/s1744137418000334, 207.

[42] Ibid

[43] Peter K Dunn, An Introduction to Quantitative Research and Statistics in Science, Engineering and Health (BOOKDOWN, 2021), https://bookdown.org/pkaldunn/Book/, 12.

[44] Ibid

is defined conceptually as a “mental or emotional or physical strain felt by somebody caused by anxiety or overwork”.[45] The same term stress is defined operationally by “measurement of amount of time staying in the library overthinking and the amount of social and academic obligations you have to do at the same time”[46]. Thus, from what is explained of definitional differences, it can be said that if consensus on the conceptual definition is possible even though complex, then the consensus on the operational definition is also possible but may undoubtedly be trickier. The complexity of operational definition may increase as the distance in institutional culture increases between individuals when considering bureaucracy as a critical term in this study, the problem of conceptual stretching that appears when the concept is applied to cases that are not suitable or when the operationality of the concept is too broad and loose should be avoided. These conceptual criteria will be applied to the key institutional terms in this study, most notably bureaucracy, foreign investment laws, foreign direct investment, and legislation as the source that enacts foreign direct investment laws.

3.2: Definitions of Bureaucracy

A definition of bureaucracy assists in establishing the criteria that determines what counts as a bureaucracy and what does not. Furthermore, it will help in answering the question of how to distinguish between what bureaucracy is and what is non-bureaucracy.[47] According to David Beetham, there are two main models based on what the researcher wants from the research and

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[45] Kelsey Brien et al., eds., “Conceptual vs. Operational Definition,” YouTube (YouTube, March 6, 2014), https://www.youtube.com/watch?v=HNPmfAtiC5o.

[46] Ibid

[47] David Beetham, Bureaucracy (Minneapolis, MN: University of Minnesota Press, 1997), 7.

their focus or interests. A normative model appears to prescribe the organizational efficiency or effectiveness conditions that must be met. It investigates how far bureaucracy can go to meet the demands of efficiency and effectiveness. It answers the question, "How efficient are bureaucracies?" An explanatory model offers a framework for explaining how bureaucracy works in practice and why it has consequences for policy formation and implementation.[48] The normative model that appears to prescribe the necessary conditions for organizational efficiency or effectiveness is suited to the study that argues that low-quality bureaucracy impedes the inflow of foreign direct investment. At the same time, the explanatory definition is suitable for tracking how bureaucracy works in state institutions and what private interests are made through it. As illustrated in the opening of this section, "a conceptual definition articulates what exactly is to be measured or observed in a study."[49] There are different conceptual definitions for the term bureaucracy. Still, in this study, the one perceived as more comprehensive and services the mission better will be used. However, those definitions will be briefly reviewed. According to Daniele Caramani, a few men and women who shape the government need help to manage a country. As a result, governments establish bureaucracies to assist them in their responsibilities of ruling and administering the country.[50] Therefore, governments are not the sole executive in the country; instead, they are the heart or core of the political executive. Bureaucracy is also an element of the executive.[51] Caramani's explanation of bureaucracies teaches that bureaucracies are governmental administrative agencies that assist the elected men and women in their jobs of

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[48] Ibid. 7

[49] Dunn, "An Introduction to Quantitative Research and Statistics in Science, Engineering and Health" 13.

[50] Daniele Caramani, Comparative Politics & Government (Oxford, United Kingdom: Oxford University Press, 2017), 137.

[51] Ibid. 138

ruling and administrating the county. Based on this perspective, bureaucracy's conceptual definition would be that governmental administrative body aiming to assist the elected government in implementing ruling legislation passed by the legislature. This deduction of the conceptual definition of bureaucracy is found to be thorough. Furthermore, it is possible to deal with it in case study research, distinguished by the depth of the analysis.

An operational definition articulates how to capture (identify, create, measure, assess etc.) the value.[52] Caramani imparts bureaucratic attributes from Max Weber's theorization on the Prussian bureaucracy, which he classified as personnel, organization, and procedures. Personnel is the first character of bureaucracy, and it refers to the formal lifelong employment of bureaucratic employees who receive a fixed salary and can earn pension rights in exchange for their service and are promoted primarily based on their seniority or the length of their service. The second characteristic of bureaucracy is an organization, which encompasses elements such as specialty, training, functioning, division of labor, well-defined areas of jurisdiction, and a clear hierarchy among bureaucrats. The third and last element of bureaucracy is the procedure, which refers to the impersonal implementation of universal norms, most notably laws and government directives.[53] Business is performed using written papers, bureaucratic decisions are documented, and essential records are appropriately stored during the procedures. From these characteristics of bureaucracy, an operational definition can be driven from it.
Bureaucracy operationally can be defined as any public administrative organization with employees who receive a fixed salary in exchange for their service, work in a clear hierarchical order and division of labor and follow impersonal procedures while executing their tasks. So,

52 Peter K Dunn, "An Introduction to Quantitative Research and Statistics in Science" 13.

53 Daniele Caramani, "Comparative Politics & Government" 148.

measuring whether an administration is considered bureaucratic or not requires thinking about whether it is related to the executive government, has employees who work in return for salaries or pensions, and follows regulations in the performance of its duties without the influence of personalization in a professional manner. Nevertheless, whether conceptual or operational, bureaucracy enjoys numerous definitions, and that is because different scholars have different scientific opinions. Among those scholars is David Beetham, who heavily cited classical scholars in bureaucrats, namely Max Weber and Carl Marx.

During the nineteenth century, "the bureau's rule, it denoted a system in which ministerial positions were occupied by career officials, usually answerable to a hereditary monarch."[54] Nevertheless, in those days, getting a cohesive definition of bureaucracy and appropriate knowledge requires analytically presentation to many viewpoints from which it has been investigated and their relationships to one another. David Beetham was concerned with bridging different perspectives in their understanding of bureaucracy to reach a more inclusive and comprehensive definition. Bureaucracy in the sociology of organization discipline derives originally from the work of Max Weber. A system of administration in which responsibilities are carried out continually by educated professionals following defined rules and regulations. Weber observed that this kind of administration in bureaucratic regimes such as Prussia has persisted in all political systems, whether representative or monarchical. Businesses, enterprises, unions, political parties, and so on were all sophisticated organizations with large-scale administrative tasks. According to David Beetham, this is an inclusive concept of bureaucracy in which professional administration is interested in understanding modern society's most general characteristics and forms of organizations. From the Weberian theocratization of bureaucracy, it

[54] David Beetham, “Bureaucracy”, 3.

can be concluded that the conceptual definition of bureaucracy under the sociology of organization can define it as a system of administration established its tasks continuously by trained professionals according to prescribed laws and regulations, while the operational definition for bureaucracy under the same discipline would be as all organizations that are complex with large-scale administrative tasks such as business, enterprises, unions, political parties, etcetera. Such a definition aligns with those interested in the science of organizations regardless of their nature, whether political, social, or economic organizations, as it focuses on the complex administrative processes in all organizations. Therefore, this definition is a comprehensive definition of bureaucracy's conceptual and operational definitions. Moreover, it helps researchers take a broad definition when they write about an extensive phenomenon such as bureaucracy.

Public administration is the second field with a particular view of bureaucracy in terms of concept. Bureaucracy under public administration disciplines meant public administration. As the term implies, it differs from administration within a private organization. The goal of distinguishing here is to identify the difference between administrative bureaucracy in public and private organizations.[55] So, bureaucracy's conceptual definition here would be whatever public administrative agencies, while its operational definition here would be any public organization that somehow operated under the control of the government. This definition of bureaucracy is helpful for those seeking to cover the bureaucratic subject in their research, which focuses on governmental policies such as attracting foreign direct investments to boost economic growth and economic prosperity.

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[55] Ibid. 3

As David Beetham illustrates, the third field with a particular view of bureaucracy is political economy. The bureaucratic conceptual definition here seems similar to the one in the public administration field, but it is slightly different. Bureaucracy, in this context, differentiates organizations economically based on the nature of their income. Bureaucracy is defined in the political economy as a non-market organization that is not funded by the sale of its product. As a result, railway companies and automobile manufacturers, for example, need to be more technically bureaucrats. The goal of defining bureaucracy in this way, as Beetham explains, is that the character of an organization varies systematically depending on how it is financed and the economic environment in which it operates. However, while the government funds those organizations, many others, such as churches, charities, and voluntary associations, are not. Furthermore, some government agencies sell their wares on the open market.[56] Nevertheless, how it comes, they can be accounted on bureaucracy while receiving funds wholly or partially from selling their service or products. From the above explanation, it can be assumed that bureaucracy is conceptually defined under the political economy as organizations financed by governments and part of the public sphere. At the same time, its operational definition would be any public organization, such as churches, charities, voluntary associations, etcetera, that does not produce or provide service for return income. Defining bureaucracy as the organizations affiliated with the government that falls within the public sector and have no profit goals, and do not engage in selling to finance themselves is a definition that may be deficient. Bureaucracy is a complex administrative network with a system and regulations to follow. Today it matters little whether it is engaged in profitable economic activity. Many governmental organizations today

[56] Ibid. 4

engage in buying and selling activities to finance themselves and for profit, and they remain immersed in bureaucracy and part of the government's bureaucratic system.

In sociology of organization, defining bureaucracy requires a more rigid or flexible organizational structure. In political economy, bureaucracy is defined as the method by which an organization is funded by a grant or the unit sale of its product. Finally, the manner of an organization's accountability, whether public or private, is the critical variable in defining bureaucracy in public administration.

The primary concern about bureaucracy in this research is related to the sociology of organizations' concern about bureaucracy in terms of rigidity, flexibility, and transparency of bureaucracy and its impact on understanding others, such as attracting or repelling foreign direct investment. In addition, the view of public administration regarding what is considered bureaucracy is helpful. So, bureaucracy touches those governmental organizations in the public sector and state institutions.

Abdel Hamid Al-Naimi presented three administrative approaches observed by scholars while highlighting the subject of bureaucracy. The first approach perceives bureaucracy as a form of government or a political system compared to other political systems such as democracy and autocracy.[57] Thus, it can be extracted from this approach that the conceptual definition of bureaucracy is a type of government or political regime. In the same context, it is documented in some literature when scholars think the domination of excessive bureaucracy is a type of political regime and perceive it as a type of dictatorship. Karl Marx, for example, perceived bureaucracy as a tool in the hands of the dominant capitalist class. The second approach appeared in Germany and presented the term bureaucracy as administrative arrangements and organizations that

[57] Abdel Hamid Al-Naimi, Principles of Public Administration t (Tripoli, Libya: ELGA, n.d.), 84. "trans"

appeared in Germany in the nineteenth century.[58] Thus, bureaucracy can be any administrative arrangement within an organization. The third approach to understanding bureaucracy utilizes the term to indicate the conflicts that may characterize administrative work in governmental organizations.[59] Other definitions of bureaucracy that can be considered conceptual definitions came from the Merriam Website, including "A body of nonelected government officials," and "An administrative policy-making group," and "Government characterized by specialization of functions, adherence to fixed rules, and a hierarchy of authority."[60] These direct definitions share a common emphasis on the public and the governmental nature of bureaucracy. That is also how public administration views bureaucracy, as David Beetham explains. Bureaucracy under public administration disciplines indicates public administration. As the term implies, it differs from administration within a private organization. The conceptual definition of bureaucracy as a body of non-elected government officials is consistent with the distinction introduced by David Beetham in Bureaucracy. He distinguished between a bureaucracy and the government body that employs it. Members of a government body are elected and work on a part-time basis. Their goal is to establish policies and rules and provide the funds needed to carry them out (electorate, shareholders, members, etc.) While bureaucrats are appointed from above and are accountable to the government body for administrating its funds. Although this distinction is sometimes blurred in practice, it is critical in theory. In the same context, the difference between bureaucrats and other lower-level employees is that bureaucrats exercise authority within a bureau. In contrast, production workers do not exercise authority or work in a bureau. In a bureau, for example,

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[58] Ibid. 85

[59] Ibid

[60] “Bureaucracy Definition & Meaning,” Merriam-Webster (Merriam-Webster), https://www.merriam-webster.com/dictionary/bureaucracy.

secretaries or typists are employed. What they do is critical to the files' primary bureaucratic activity. However, they are classified as office workers rather than bureaucratic officials because they do not have the authority.[61] Considering the conceptual definitions mentioned on Merriam's Website, it is obvious that bureaucracy has criteria, the most prominent of which are governmental, public, appointment, internal organization, a hierarchy of authority, and contribution to enacting procedural regulations facilitate the work. Therefore, the comprehensive operational definition of the phenomenon is that bureaucracies are public and unelected government bodies with internal organizations, regulations, and administrative hierarchies involved in enacting internal rules regulating their work. Considering Abdul Hamid Al-Naimi's classification of bureaucracy, the second level of bureaucracy, which dominated economic institutions affected by politics, deserves more attention in this study. Thus, this is how the presentation of the term bureaucracy will be constrained in this comparative case study, mainly bureaucratic expansion, corruption, and foreign direct investment laws.

Concluding this introduction to the concepts of bureaucracy by saying that bureaucracy meant in this research is that every public governmental organization or body has its internal regulations, functions, and tasks entrusted to it through its elected executive and legislative bodies. The bureaucracy that concerns and affects the economy in general and foreign direct investment, in particular, is the one that prevails in the primary economic institutions such as the distribution associations, audit bureau, central bank, and sanctions, but more than that, including the relevant legislation and laws.

Shafritz, Steven Ott, and Youg Jang explained the modern officialdom function in a specific classical Weberian understanding of organization theory. The authors listed six main

[61] David Beetham. “Bureaucracy”, 43.

characteristics of modern bureaucracy. First, there is a principle of fixed and official jurisdiction areas, generally organized by rule, i.e., low administrative regulations. Second, the principle of office hierarchy and levels of graded authority refers to a well-organized system of supervision and subordination in which higher-ranking officials supervise lower-ranking officials. Third, modern office management relies on written documents preserved in their original draught form. Fourth, there is specialized office management, which is distinctly modern and usually requires expert training. Fifth, the official's full working capacity is required, regardless of whether his mandatory time in the bureau is clearly defined. Sixth, the office's management adheres to general guidelines that are more or less stable and exhaustive and can be learned.[62]

Abdul Hamid Al-Naimi categorizing bureaucracy into two main sections is essential to this study and helps control the concept of bureaucracy. The first level is partially related to the organization's bureaucracy in terms of organizational structure and the regularity and effectiveness of relationships with it. The second level considers bureaucracy as a component of the larger social system and investigates its interactions with current economic and social realities.[63] The second level is most attractive for this research because it concerns the bureaucratic phenomenon at the highest levels in state institutions as part of the overall political system. Moreover, bureaucracy here is doable to associate with economic outcomes such as the inflow of foreign direct investment.

[62] Jay M. Shafritz, Steven Ott, and Yong Jang, Classics of Organization Theory Eds. Jay M. Shafritz. (Belmont, CA: Wadsworth, 2011), 77.

[63] Abdel Hamid Al-Naimi, “Principles of Public Administration” 91. “trans”

3.3: Definition of FDI

Bodies that issue foreign direct investment laws and regulations vary from one country to another. However, economic and trade committees in the legislative unilaterally or in cooperation with the executive part of the government are involved in creating such significant investment laws. In other cases, the executive authority enacts FDI laws with the approval of the legislative council. Daniele Caramani mentioned that various terms, including Assembly, Congress, and Parliament, are sometimes used interchangeably with the term legislative, leading to confusion concerning parliamentarians' functions and powers. Caramani clarified the subtle differences between those interchangeable terms. First and foremost, the legislature is a body of individuals who can legislate, an organized organization with the authority to establish laws for the larger political community. Second, the assembly, specifically the lower house of the legislature, is a legislative body. It is a collection of people who join together for some objective.[64] Third, the parliament is the supreme legislative body of a usually significant political unit in continuing institutions, specifically of a republic.[65] Congress is the highest legislative body. The executive branch, including the bureaucracy, is overseen by legislatures. Fourth, legislatures serve as an important mechanism for reaching a compromise between conflicting groups and interests in society. Policymaking people are agents who perform a set of activities on behalf of the principal.[66] So the legislative authorities are the ones who enact laws in different countries, including foreign direct investment laws in Libya and the United Arab Emirates, as will be explained in detail later in this paper. Nevertheless, these authorities seek the assistance

[64] Daniele Caramani, “Comparative Politics & Government”, 118.

[65] Ibid. 119

[66] Ibid. 120

of experts, inside or outside the committees formed in the legislative authority, to review or develop proposals. In addition, the executive authorities in some countries also have the power to propose laws of technical concern through which governments seek to achieve public policies and objectives, albeit to a limited extent.

FDI investment accrues when the foreign investor buys a company in the host country or by expanding the operations of their existing business in the host country, which enables their participation in the management, involvement in a joint venture, and transfer of their technology and expertise, and that does not include the purchase of shares if that purchase results in an investor controlling less than 10% of the shares. FDI is differentiated from FPI foreign portfolio investment by the element of control. In addition, FPI usually takes the form of liquid investment or purchase of stocks or bonds, characterized by less risk and an easy way to withdraw, or sell.

FDI has different types. First, Horizontal FDI accrues when funds are invested abroad in the same industry. It happens when a company invests in a foreign company that makes a similar product. For example, the U.S. Nike invests in German Puma. Second, Vertical FDI refers to investments made inside the supply chain rather than directly in the same industry. For example, the U.S. chocolate Hersheys invests in cocoa producers in Brazil. Since the company is acquiring a supplier or potential supplier in the supply chain, this is called backward vertical integration. Third, Conglomerate FDI refers to foreign investors' investment that is not related to their industry. For example, the U.S. Walmart retail invested in German BMW.[67]

The disadvantages of FDI include introducing foreign control into the host nations, which makes native businesses less able to compete with foreign ones and, in certain situations, results

[67] Paul Boyce, "Foreign Direct Investment (FDI) Definition: 3 Types," BoyceWire, https://boycewire.com/foreign-direct-investment-definition/.

in political instability. Nevertheless, increased international trade, lowered regional and global tensions, the dissemination of information, technology, and culture, and the diversification of national economies are all advantages of foreign direct investment. In addition to these advantages, FDI lowers costs and boosts the productivity of foreign firms in nations with abundant labor, offers tax breaks to foreign corporations operating in host nations, and promotes employment and economic growth in such countries.[68] Still, the most important thing for this research is that FDI is perceived as a means of rapid economic development because it transfers capital, technology, organization, and knowledge at a time when countries are rising economically and developmentally with what they gain from external economic cooperation.

Defining foreign direct investment is crucial to differentiate between it and other types of foreign investment such as investment portfolios. The United Nations Conference on Trade and Development (2014) defined Foreign Direct Investment 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 partner enterprise) in an enterprise resident in an economy other than that of the foreign direct investor".[69] Paula María and Feliciano Cesterob look at FDI as when MNEs invest in assets in foreign countries and establish some form of a subsidiary to execute market-seeking, strategic asset-seeking, and efficiency-seeking activities. Their goal is to come out with the most comprehensive review of the MNE-FDI literature.[70] Thus, their study of

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[68] Ibid

[69] Rania, Miniesy, John, Adams, and Zhongxiu, Zhao. Chinese FDI in Africa: a platform for development? Bingley: Emerald Publishing Limited, 2015. ProQuest Ebook Central. 4

[70] Justin Paul and María M. Feliciano-Cestero, "Five Decades of Research on Foreign Direct Investment by Mnes: An Overview and Research Agenda," Journal of Business Research 124 (2021): pp. 800-812, https://doi.org/10.1016/j.jbusres.2020.04.017, 1.

foreign direct investment focuses on the activities of multinational companies in foreign countries seeking to establish a form of a subsidiary for market or asset or efficiency activities.

Laurentiu Gabriel Fraucu identified foreign direct investment "as a direct or indirect ownership of a foreign entity that holds at least 10% of voting shares of an organization." A foreign direct investment can be an acquisition, a merger, a new business, expanding company or absorption of other enterprise".[71] Operationally from this definition, it can be extracted that any owned business in a foreign country that holds 10% of the voting shares can be considered a foreign direct investment regardless of the nature of the business, whether it is an industrial, agricultural, commercial, or service investment. In the era of globalization, many foreign direct investments are active within the service sector, including owning consulting companies in foreign countries, exceeding what people think of the traditional ownership of industrial and agricultural businesses overseas. Fraucu's definition put no limits on the nature of the business in defining FDI.

It is essential to present the most explicit definitions of FDI. Imad Moosa provided three different definitions of foreign direct investment. First, "foreign direct investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution, and other activities of a firm in another country (the host country)" Second, Moosa quoted from the International Monitory Fund's Balance of Payment Manual which defines FDI as "an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that to the investor, the investor's propose being to have an effective voice in the management of the enterprise." Third,

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[71] Laurentiu Gabriel Fraucu , "(PDF) Post-Crisis-Developments-in-Economics-Nov-2014" (Bucharest University of Economic Studies , November 2014), https://www.researchgate.net/publication/335206807_Post-crisis-developments-in-Economics-nov-2014, 36.

Moose quoted the United Nations 1999 World Investment Report which defines FDI as "an investment involving a long-term relationship and reflecting a lasting interest and control of 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, affiliate enterprise or foreign affiliate)".[72] There are comment features among all definitions. The three definitions insisted on the asset's control element, which allowed the foreign investor to participate in decision-making and policies underlying a project. It should not fail to highlight that controlling requires a minimum shareholding (10%), which allows the foreign firm to exert significant influence on key policies of the underlying project. But many firms are unwilling to carry out foreign investment unless they have one hundred percent equity of ownership and control, and other firms look for majority control which is 51 percent stake .[73] So, deriving from the three mentioned definitions, FDI can operationally be defined as any over 10 percent of direct possession or ownership of business or assets by foreign individuals or firms in hosting countries with control over decisions and policies and with long-term investment plans. That is how this study considers if an investment is a direct foreign investment or not in this research. The elements of over 10 percent ownership, control and participation in decisions, and long-term investment distinguish FDI. It should be clear that portfolio investment is short-term and involves a high turnover of securities. Also, there are no control or lasting interests for the investor with portfolio investment like with FDI. There is always an expectation from foreign firms to transfer their assets, production, or sales to the host country. However, as explained by Emad Moosa, an investment project abroad may be financed totally by borrowing from the host

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[72] Imad Moosa, "Foreign Direct Investment Theory, Eviedence, and Practice," 1.

[73] Ibid. 2

country. Thus, the transfer of assets cannot realistically be a determinant factor in considering an investment as a direct foreign investment may, some people think.

3.4: Bureaucracy as Study

The study of bureaucracy within political science has a century-long intellectual history. As illustrated by George Krause and Kenneth Meier when German sociologist Max Weber proposed that maintaining a rational-large authority was the proper way to conduct governance business, it was both a normative and empirical theory.[74] The early American study of bureaucracy has its roots in the work of Goodnow, Gulick, and Taylor rather than Weber and Wilson. However significant, Weber's and Wilson's influence came late to administration scholars. Because Weber's work was translated into English in 1946, it was relatively inaccessible. Similarly, Wilson's original essay vanished from the literary canon when it was reprinted in 1941. Goodnow proposed a political administration dichotomy; he saw these as two distinct functions but recognized that politics was rarely separated from administration. According to Krause, his distinction became ingrained in the progressive philosophy of public service education. The functional division allowed for advancement in two dimensions. On the administrative side, efforts were made to conduct a scientific study of the implementation and bureaucratic process. On the political front, the emphasis was on creating governmental institutions, that is, the institutions that would formulate, adopt, and implement policy. These efforts, known as the study of the separation of powers, occupied public administration scholars' time until the 1950s.[75] The political dominance of bureaucracies that deal with the creation of

[74] George A. Krause and Kenneth Meier, Politics, Policy, and Organizations: Frontiers in the Scientific Study of Bureaucracy (Ann Arbor: University of Michigan Press, 2005), 1.

[75] Ibid. 2

government institutions is usually thought of in law schools as constitutional law. In contrast, it is traditionally thought of in political science schools as comparative politics. Since we've arrived at the topic of bureaucracy within the broader political science subfield of comparative politics, we should mention the type of bureaucracy that interested the most students and scholars of comparative government.

It should not fail to mention that according to what was stated by Faraj Bin Lama and Salem Ajeel, the first to use the term bureaucracy were the French philosophers in the eighteenth century.[76] What Bin Lama's said about the French roots of bureaucracy as a concept and term is compatible with what Martin Albrow's understanding to the term, which was initially published in 1972, and which is cited in the excerpt from Martin Albrow;

> In a late of July 1, 1764, the Baron de Grimm, the France philosopher, wrote, we are obsessed by the idea of regulation, and our Master of Request refuse to understand that there is an infinity of things in a great state with which a government should not concern itself. The late M. de Gournay ... sometimes used to say, "We are an illness in France which bids fair to play havoc with us: this illness is called bureaumania". Sometimes he used to invent a fourth of fifth from of government under the heading of bureaucracy. A year later the same author wrote: the real spirit of the laws of France is the bureaucracy of which the late M de Gournay used to complain so greatly, here the offices, clerks, secretaries, inspectors, and intendants are not appointed to benefit the public interest, indeed the public interests appears to have been stablished so that offices might exist.[77]

Identifying the conceptual and operational definitions of bureaucracy should start with mentioning the traditional critics of the term in both traditional Weberian and Marxist schools. Max Weber's critics of bureaucracy concentrated on its expansion and penetration of the market and society. The same concern about bureaucratic expansion shapes a significant base in this

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76 Faraj Bin Lama and Salem Ajeel, Introduction to Public Administration (Tripoli, Libya: Tripoli International Scientific Library, n.d.). “trans”

77 Martin Albrow, Bureaucracy (London: MacMillan, 1994), 16.

research and will be treated later as an indicator or measurement of substandard and low-quality bureaucracy. Karl Marx also contributed to the subject of bureaucracy while theorizing his class domination theory. He saw it as a tool used by the bourgeoisie class to enhance its dominance. But contradictory, he abhorred bureaucracy during the period of class capitalist control while tolerated with it during the stage of socialism and the rise of workers' influence.[78] The Marxist concept of bureaucracy developed from investigating its role as an instrument of social control in capitalist society; nevertheless, bureaucracy also arose in socialist and communist nations and replaced the capitalist class; it exercised authority and excluded the proletarians. Such contradictory places communism at odd, rendering it detached from reality and far from authentic human historical experience.

Prior to addressing the bureaucratic definitions, it should be briefly clarified from which words this term is constituted and from which linguistic roots. Abdullah Marei Bin Mahfouz posted an essay on a specialized platform called the Economic Newspaper, discussing the term bureaucracy and where it came from. Bureaucracy, as introduced by Mahfouz, derives from the two words “bureau” and “cracy,” the latter of which is, in itself, derived from the Latin word “Kratia,” meaning strength or power. The notion of bureaucracy posits that efficiency is inextricably linked to authority, centralization, due process, and, arguably, sovereign control.[79]

The theoretical literature about what encourages or discourages foreign direct investment is a mixture of economic, which focuses more on restrictions on FDI, such as foreign investors' acquisition of domestic firms, tariffs, etc., and political science which focuses more on state institutions, such bureaucratic quality, regime type, and the ideology of the political regime, etc.

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[78] David Beetham, “Bureaucracy”, 74.

[79] Abdullah M bin Mahfouz, “Is Governmental Bureaucracy the Cause of Our Problems?” Economic Newspaper (Economic Newspaper, April 30, 2009), https://www.aleqt.com/2009/05/01/article_4140.html.

Several political science scholars have provided their theories on what promotes investment and FDI and what discourages their inflows.

3.5: Theories of FDI

Bureaucratic rigid, expanded, and corrupted administrative systems are popular, especially in developing countries. Oddly, the notion of bureaucratic order revolves around the presupposition that the 'office' and 'bureau' increase efficiency in the opinion of bureaucracy's advocates. Interestingly, contemporary forms of bureaucratic administrative order have evolved from a historical need to improve the overall levels of efficiency and organization of economic activity. As such, it can be argued that bureaucratic development was initially established to improve economic activity, and FDI's inflow and growth are a part of the economic activities of any modern society. However, despite being generally discussed as an abstract notion with financial precedents and implications, economic growth is much more complex and multi-faceted than it may initially seem. The individual and professional aspirations, demands, requirements, and commitments that shape forms of economic growth create an ever-increasingly complicated space of political, economic, social, technological, legal, and environmental change, which require parallel forms of governance and continued review and evaluation. Therefore, within this complex space, the bureaucratic administrative system was formulated and developed to deal with the new chaotic forms of economic activity and interactions resulting from economic growth. There are several reasons why bureaucratic administrations betray otherwise continuing forms of economic growth. The most important is the overwhelming burden associated with increased regulative, legislative, and legal obligations and corruption, which is expected to grow as bureaucracy grows in society. At their very core, expanded bureaucracies tend to undermine the potential value associated with otherwise spontaneous forms of economic activity, leading to much more complicated business environments, where administrative capacities become more of a burden than a possible avenue for increased growth. Furthermore, bureaucracies tend to promote forms of corruption, as they directly sponsor the placement of otherwise largely unnecessary mediums between businesspeople, politicians, and state officials. Because bureaucratic administrations tend to rely on an incredibly rigid, hierarchic, and centralized system of operations, the need for due process, regulation, and authoritarian oversight precede the entire economic process, including the attraction of foreign direct investment, which is essential for economic growth in the modern era. As a result, bureaucratic administrators, when left unmonitored, often tend to wield excessive and dangerously high levels of power and authority, which not only actively promote levels of corruption, but which significantly undermine the underlying features of innovative and entrepreneurial economic development.[80] This bureaucratic expansion Weber perceived as an unhealthy administration character. This study proposes that such complicated bureaucracy also impedes the inflow and the flourish of the FDI. Because of the adverse impact that bureaucratic administrations often have on economic activity, it can be argued that, despite their being initially formulated as a means of ensuring continued growth, these systems have led to the repeated degradation of contemporary chances for charming foreign investors, whether they are in the shape of individuals with small businesses or firms with huge investments. Overwhelming bureaucratic interference and penetration into the economy and society may not be in the interest of the FDI inflows.

[80] David Beetham in reviewing Weber's concern over expanded bureaucracy.

Many theories talk about what attracts, facilitates, and keeps foreign direct investment, which is helpful to economic growth and development, if not a determinant factor. What foreign investors want and do not want to, and which political, economic, and social environment attracts them, has attracted the attention and work of many scholars and researchers in political and economic sciences. In addition, many theories deal with the contributing and obstructing factors to the inflow of foreign direct investment. The importance of several factors affecting FDI inflows, such as the type of political system, the integrity of the local judiciary, the degree of infrastructure development, the degree of security, and so on, follows a brief presentation on FDI data at the country level derived from the world bank. **Figure 10** presents FDI net inflows of the top thirty-five countries for 2019.[81]

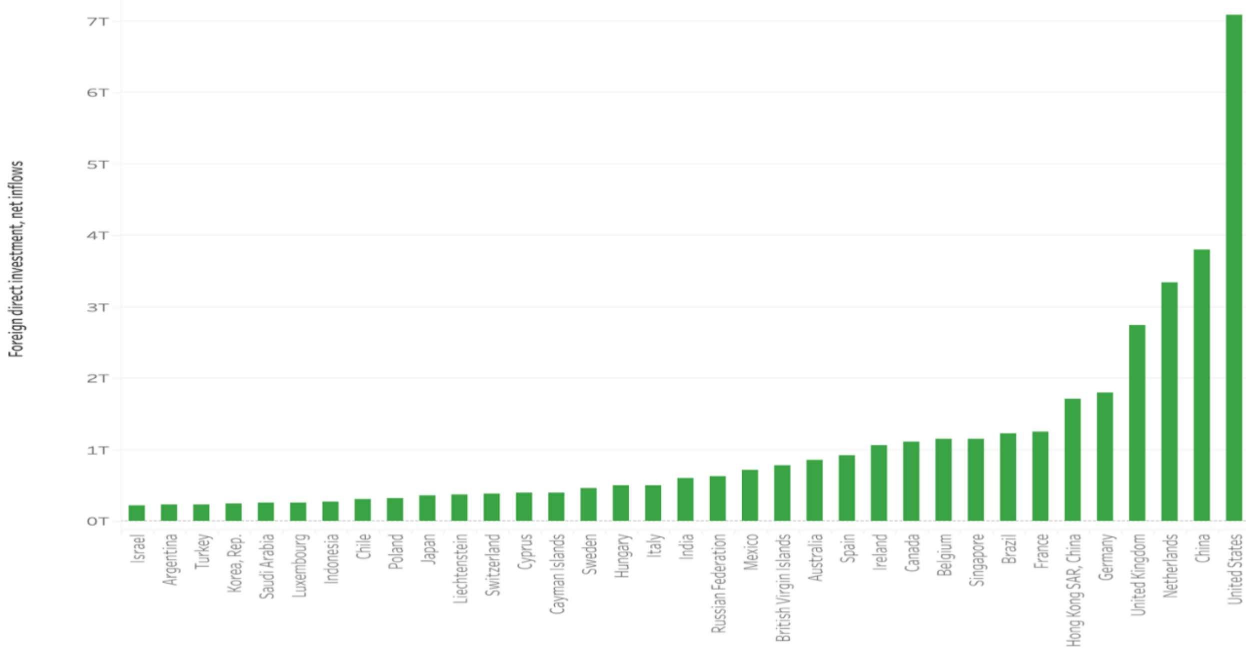

Figure 10
Top 35 Countries' ranking in FDI, net inflow in 2019

81 "Data Catalog," World Bank Open Data, http://data.worldbank.org/data-catalog/world-development-indicators. Washington, D.C.

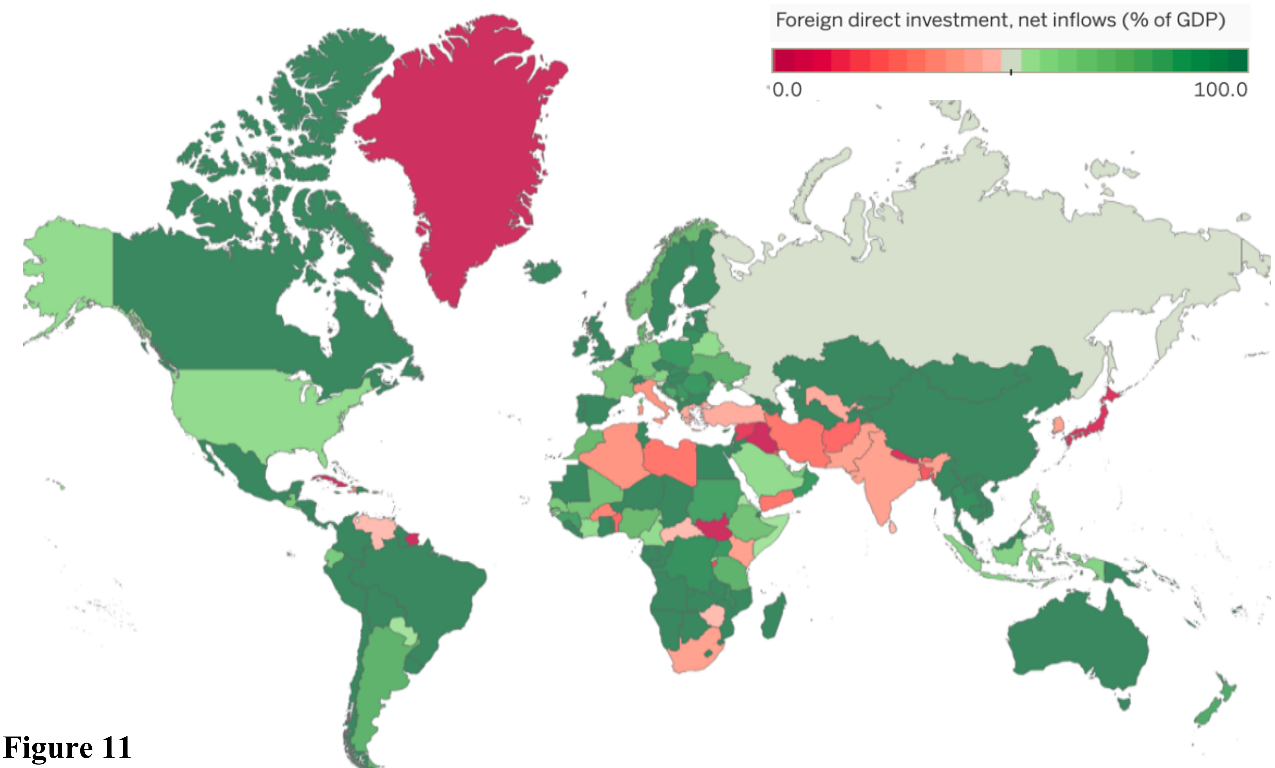

Figure 11
FDI, net inflows (% of GDP)

Figure 11 presents FDI net inflows as percentage of GDP by county (2019).[82] The dark green color indicates countries with high FDI inflow rates, while the pink color covers those with low FDI inflow rates. The UAE, the second case in this study, is colored a bright green, which indicates that it attracts a high rate of foreign direct investment. In contrast, Libya, the primary case in this study, is colored in pink, as it attracts a low rate of foreign direct investment inflows. Data from World Foreign Direct Investment Report for the year 2022 shows that the United Arab

[82] "Data Catalog," World Bank Open Data, http://data.worldbank.org/data-catalog/world-development-indicators. The data for FDI is annually from 1970-2020.

Emirates is ranked in the top thirteen globally in the FDI hosting list with more than 20 billion dollars according to the United Nations Conference on Trade and Development "UNCTAD.[83]

The variation in the value of the FDI by country, as data shows, is evident. But what is the reason for such variation? Searching for the factors that attract foreign investors to a country led to finding that they are many, including high quality bureaucracy, which is related to the institutional and legal structure within the country wishing to receive foreign direct investment. In addition, the nature of the foreign direct investment laws in the country hoping to attract foreign direct investment impacts the perceptions of the potential investors. The legal aspect is also an institutional aspect related to bureaucracy in terms of the procedures followed, the regulations, and the time it takes to complete such transactions. In addition, there are other aspects related to bureaucracy, including the financial system followed, the lending and insurance system, the judicial system and its integrity, and the stability of internal laws and regulations. The security situation within the target country for investment also matters and may be the most crucial element for the inflow of FDI. That matters to foreign capital owners, who consider them before moving their capital and businesses. From here comes different theories that contribute to understanding what motives those foreign investors and their firms to move to the hosting countries.

3.5.1: Capital Market Theory

According to the capital market theory of Robert Aliber (1970 - 1971), FDI is determined primarily by interest rate and the host country's currency value. Hence, companies have more

[83] "UAE Tops Rankings in Arab World for Foreign Direct Investments (FDI)," (ArabianBusiness, July 10, 2022), https://www.arabianbusiness.com/industries/banking-finance/uae-tops-rankings-in-arab-world-for-foreign-direct-investments-fdi.

potential to expand abroad when their currency value in the home country is strong. On the other hand, firms in countries where the currency is weak avoid investing abroad.[84] Therefore, for example, the deterioration in the value of a country's currency the way it happened in Libya after the 2011 Feb Revolution should encourage the inward inflows of FDI according to the implication of this theory. But some with a macro judgment argue that no matter the value of foreign investors' financial returns, the structure of bureaucracy and its quality are more critical in their effect on the profitability and security of the investment. An early attempt to explain FDI by international capital theory was soon abandoned for two reasons. The first such investment involves the transfer of resources other than capital (management, organization, marketing, etc.). The expected returns on these, rather than on capital purse, prompt enterprises to become MNCs. Thus, capital is simply a conduit for the transfer of resources. Second, in the case of direct investment, resources are transferred internally within the firm rather than externally between two independent parties: de jure control is still retained over their usage.

3.5.2: Real Exchange Rate

Cushman (1985) found that the increase in real exchange rate variability under floating had indeed stimulated U.S FDI outflows, that FDI made by USD. Meanwhile, an expected appreciation of foreign currency prices reduced U.S FDI outflows.[85] In the same context, Cushman also found that the dollar appreciation has reduced U.S. FDI by 25%.[86]

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[84] Ahmed Musabeh, "(PDF) Main Theories of Foreign Direct Investment - June 2018,https://www.researchgate.net/publication/342529872_MAIN_THEORIES_OF_FOREIGN_DIRECT_INVESTMENT, 3.

[85] David O. Cushman, "Exchange-Rate Uncertainty and Foreign Direct Investment in the United States," Weltwirtschaftliches Archiv 124, no. 2 (1988): pp. 322-336, https://doi.org/10.1007/bf02706782, 322.

[86] Vintila Denisia, "Foreign Direct Investment Theories: An Overview of the Main FDI Theories".

Understandably, inflows of foreign direct investment take a rational and realistic measurement. Giant global companies do not want to lose the value of their assets and money in the sudden fluctuations in the currency of the host country, especially when its value is over-appreciated. However, in some cases, foreign investors would take a risk and invest even in uncertainty regarding the value of the host country's currency when they perceive the possibility of monopoly and high profit. That is motivated by the hope the investment will make a high return tomorrow. The risk of initiating business in such an environment becomes more expected when the sector is valuable and highly desired in the international market.

3.5.3: Credit and Borrowing Availability

Centuries ago, political economists realized the importance of the internal financial structure of states if they wanted to succeed economically, especially concerning capital and trade. For example, in his book Lombard Street: A Description of the Money Market (1873), Walter Bagehot wrote,

> In a new trade English capital is instantly at the disposal of persons capable of understanding the new opportunities and of making good use of them. In countries where is little is lent tardily and reluctantly, enterprising traders are long kept back, because they cannot at once borrow the capital, without which skill and knowledge are useless".[87]

Countries without capital cannot do much, and even the knowledge and skill they possess become useless. In this regard, Bagehot emphasized the importance of access to borrowing for traders. He also wrote, "This efficient and instantly ready organization gives us an enormous advantage in competition with less advanced countries, that is, in this particular respect of

[87] Walter Bagehot, Lombard Street, a Description of the Money Market, by Walter Bagehot. (Digitized by Google), 14.

credit."[88] The organization of credit, in his perspective, gives England an advantage over other less advanced countries. In addition, Bagehot provided an example of the English ability to take advantage of the opening of the Suez Canal and enhance overseas trade because of the availability of capital and lending to men who finds potential profits. From this point, a decent level of financial organization and lending is essential for flourishing trade, which the statement should grab the attention of the developing countries that seek to attract foreign direct investment. In addition, a proper financial structure and the bureaucracy related to its management in the countries that seek FDI are crucial for the inflow of FDI.

3.5.4: Local Financial Market

The role of the financial and finance infrastructure is evident in the financial transactions related to investment. From an obvious principle, the more underdeveloped the finance institutions, the more insecure and complicated these transactions will be, and vice versa. Laura Alfaro, Areendam Chandab, Sebnem Ozcanc, and Selin emphasized the role of institutions, in particular, the role of financial institutions, and they argued that the underdevelopment of local financial markets might constrain the economy's capacity to benefit from potential FDI spillovers. However, the majority of FDI depends on capital from abroad. However, it is essential to understand the extent to which domestic financial markets develop and could significantly impact the spillover effects on the host economy. Laura Alfaro and her coauthors also illustrated the importance of foreign capital in the host county of FDI. That is because even though some local enterprises might be able to finance new projects with internal financing, the significant gap in technology and knowledge between them and the latest technology and

[88] Ibid. 13

knowledge of the outside world makes them need greater external finance. They highlighted that external finance is mainly restricted to domestic sources. Developing nations wanted to attract more FDI due to the debt crisis in the 1980s, and the unrest in emerging markets in the late 1990s generated the belief that FDI could aid a country's development efforts. Typically, lower costs and higher efficiency factors influence a multinational company's decision to move production to another nation. As a result, the majority of developed and developing countries have set up investment agencies and policies that include financial and tax incentives to attract FDI, as well as others that aim to improve the local regulatory environment and the cost of doing business. According to their research, having unreliable financial markets may prevent a nation from being able to deal with uncontrolled short-term capital inflows and preclude it from reaping the full benefits of long-term, stable inflows.[89] Based on their empirical research, Laura Alfaro and her coauthors hypothesize that better local conditions, such as established local financial markets, are necessary for attracting foreign businesses and enabling host economies to increase the advantages of foreign direct investments.

Articulating the significance of the local financial system in the host country for foreign direct investors brings us back to explaining what motivates these investors in the first place and what their primary goal is when embarking on business ventures, particularly in developing countries. Political economy and international economics writers believe that foreign direct investment is driven by profit and cost-calculating factors, which seems logical and consistent with the rationality of classical economic thought. Hence, the issue of attracting FDI is an out-of-control issue for the leaders of financially poor countries, which have little potential, such as, for example, natural resources, to lure foreign investors. Walter Bagehot illustrated centuries ago

[89] Laura Alfaro et al., “FDI and Economic Growth: The Role of Local Financial Markets,” Journal of International Economics 64, no. 1 (2004): pp. 89-112, https://doi.org/10.1016/s0022-1996(03)00081-3.

that capital sets toward the most profitable trades and rapidly leaves the less profitable and non-paying trades. Bagehot provided an example explaining how the books of bill brokers in Lombard Street in England are full of the bills drawn in the most profitable trades while empty of those drowning in the less profitable and how bill brokers move from trade in iron to corn based on profitability. Thus, he concluded that the English capital runs as indeed and instantly where it is most wanted and where there is most to be made of it.[90] In this, a rationality rule of all investments and FDI is no exception. Therefore, the issue of profit for foreign investors is crucial, and this must be considered by the leaders of countries that wish to attract and obtain foreign direct investment.

3.5.5: Harrod Domar

Harrod Domar's economic growth model illustrates that economic growth depends on the level of capital saving and investment. More investment leads to more capital accumulation, leads to more savings and reinvestment, and eventually leads to economic growth. The higher the saving rate is, the higher the growth rate when savings is reinvested. Accepting that capital investment leads to more capital accumulation suggests multinational enterprises seek FDI in search of new opportunities in the economies of scale in the host countries to invest more and generate more capital. Therefore, profitability and wealth accumulation are the driving forces for FDI in this case. For the host developing countries, the motive of giving concessions to MNEs and foreign investors is to find occupations for their unemployed labor, solve the problem of capital lack for the short term, and create chances for domestic spillover of knowledge and technology for the long term.

[90] Walter Bagehot, “Lombard Street, a Description of the Money Market” 12

3.5.6: Gravity Model

Among trade models that can assist in understanding the reason behind FDI is the 1954 Gravity Model in economics, introduced first by Walter Isard. The model predicts bilateral trade flow based on GDP, population and market size, cultural and historical factors, and distance among trading countries. The model predicts that when the GDP gap between the two countries increases, trade is expected to decrease between them. In addition, trade between the two countries is likely to increase if the two countries share history and culture. Moreover, trade is expected to increase between the two countries with significant populations and immense market sizes.

The most prominent notion of the model is that as the distance between the trading countries increases, trade decreases due to the rise in transaction costs related to shipping safety and cost, survival of the products, and communication difficulties. The further away the country is, the increase in transaction costs for the trading partner. For more than 50 years, the gravity model has served as the industry standard. Even though the early empirical work based on the gravity model lacked solid theoretical foundations, theoretical progress has highlighted how many models with various assumptions are gravity-like specifications.[91]

Resorting to the Geraghty Model theorization to understand the phenomenon of foreign direct investment that became comment since the 1960s as a type of international trade pattern leads us to specific observations: First, multinational enterprises employ FDI to reduce transaction costs of regular trade when they expand their operation directly in the host countries:

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[91] Scott Baier and Samuel Standaert, "Gravity Models and Empirical Trade," Oxford Research Encyclopedia of Economics and Finance, March 31, 2020, https://oxfordre.com/economics/view/10.1093/acrefore/9780190625979.001.0001/acrefore-9780190625979-e-327, 1.

Second, globalization and a new communication method made it possible for foreign enterprises to locate their stuff in the host countries and invest directly in their markets: Third, countries far from the developed world would encourage foreign direct investors to come in, seeking to overcome their disadvantages highlighted in the Geraghty Model.

3.5.7: Multinational Firm

The prominent theory of the multinational firm was written by the short-lived international business establisher Stephen Hymers in 1960 but published in 1976 tracked the motives of MNCs to enter a foreign market with direct investment and extend their activities at the international level. According to Hymers's theory, companies operate abroad in foreign countries to take advantage of their unique advantages, including their unshared culture and enhance their position in the consumers' preferences against the local competitor companies. MNCs, in this case, take advantage of their monopolistic advantages.[92] Hymer's theory illustrated that foreign direct investment undertaking FDI operates in an imperfect market in the host countries where those firms acquire net advantages compared to their local competitors or counterparts.[93] Nevertheless, expanding operations overseas in imperfect markets by those multinational enterprises could result in market failure in various forms, ranging from government intervention to lack of management skills to instability in policies.

The proposition that MNCs would be risk takers and invest in imperfect markets agrees with some comparative policy theories that found that foreign investors do not hesitate to

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92 Ahmed Musabeh , "Main Theories of Foreign Direct Investment" 5.

93 John Dunning, "Explaining Changing Patterns of International Production: In Defense of the Eclectic Theory" 273.

establish their business in countries that lack decent economic transparency and fair competition. Stephen Haggard's 1999 work, The Politics of Growth in the Newly Industrializing Countries, is an example of those findings when he found out that authoritarian governors in countries with a tradition of labor or left pressure attract investors because those authoritarian rulers protect property rights.

The work of Stephen Hymers influenced the Eclectic Paradigm of Dunning. However, it was prominent, broad, and influential. The theory incorporates three components to explain what determines an enterprise to extend their business directly in other countries different from the home country. The three components are ownership advantage, location advantage, and internalization advantage, abbreviated in OLI letters. When the ownership and location advantages are fulfilled, the enterprise is expected to achieve the internalization advantage conditionally so that the process is more profitable than another pattern of investment less than the level of FDI.

As previously said, there are three benefits that businesses must have before considering a direct foreign investment. The first is the advantage of ownership. The expansion of company ownership advantages can explain the modern MNC's growth. Especially in knowledge-based and resource-intensive industries. The desire to use these benefits internally rather than through the market has resulted in the expansion of operations abroad. The second benefit is one of location. The shift in locational advantages would cuts transportation and communication expenses while increasing the size of multinational enterprises' overseas marketplaces. The third benefit is internalization. When businesses determine that it is more profitable to internalize their advantages rather than sell them to foreign corporations, they relocate their operations to the foreign market. When ownership of the MNC is reserved in the foreign market through monopoly, patent, or act, and when internalization of production is possible and profitable to the MNC, then license or export, and when the location of the foreign market is suitable in terms of good infrastructure, security, transportation, communication, costal, act, the enterprise is more likely to extend its operations to the foreign market through internalization process.[94]

John Dunning understood that other factors, such as the scarcity of dollars in the 1950s and the dollar's overvaluation in the 1960s, encouraged U.S. companies to take advantage of these opportunities by establishing operations abroad and becoming MNCs. However, he stated that the U.S. was particularly well-favored with the endowments such as technology, management, and finance, act essential to develop ownership advantages at that time, which is why U.S MNCs predominated in the 1950s and 1960s.[95]

Dunning's thesis is workable to test why some countries successfully host FDI more than others by testing these three elements of ownership, location, and internalization. Companies in the developed world enjoy the ownership advantage in most cases. On the other hand, countries worldwide usually also enjoy the locational advantage, or at the least can overcome their shortcoming in location by cooperating with their neighboring countries or by building an excellent infrastructure such as highways, airports, etc. But what about the third element? Countries need to restructure their institutional structures to be seen as a locational option for internalization by enterprises. Therefore, updating their investment laws and elevating their bureaucratic quality are some restructurings that countries must conduct to attract FDI. Thus, the enterprise's internalization element appeared essential to highlight how bureaucratic quality and FDI laws in Libya would affect the country in the eyes of potential foreign direct investors.

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[94] John Dunning, “Explaining Changing Patterns of International Production: In Defense of the Eclectic Theory” 290.

[95] Ibid

Multinational Enterprises must perceive the host country of their FDI as a low cost for their transactions and suitable for the internalization process, including the nature of its FDI laws and the quality of its bureaucracy.

3.5.8: Eclectic Theory

In Explaining Changing Patterns of International Production: In Defense of the Eclectic Theory (1976), John Dunning wonderfully criticized the attempt to explain FDI by international capital theory. The first reason is that such investment involves the transfer of resources other than capital, such as management, organization, marketing, machine, etc., and the expected return accounted for these units rather than capital per se. The return of these units is what prompts enterprises to become multinational enterprises. Therefore, Dunning illustrated that capital, in this case, is simply a tool for transferring other resources rather than the fundamental cause of direct investment. The second reason is that resources are transferred internally within the company itself rather than externally between two independent parties in the case of direct investment. So, enterprises still hold on to those units and retain their users. These two exciting points deserve much consideration because they clarify two things. First, returns from FDI are not achieved by transferring and using other resources or units rather than merely capital. Second, companies still own and operate these units or resources, such as machines, organization, management, etc., and retain them.[96] John Dunning considers Changes in international ownership and production patterns influence the decision for outward FDI. Such

[96] John H. Dunning, Explaining Changing Patterns of International Production: In Defence of the Eclectic Theory (Reading: University of Reading, Department of Economics, 1979), 272.

observation does devalue the strong emphasis other scholars put on the fluctuation of local currency and money value.

3.5.9: Industrial Development Theory

Industrial development theory written by Rajneesh Narula and John Dunning, responds to a significant change in the world economy, described as globalization. Since 1980, governments' attitudes toward MNCs have become friendly.[97] These changes in the global economy make FDI-based development strategies common among developing countries. The growth of FDI increased the competition among governments for indigenous spillovers of technology, and organizational capacity.[98] Industrial development theory links the level of a country's internal development and the type and volume of the investment it receives. When the development within a country change because of the effect of foreign direct investment and government policies aimed to deal with it, it again changes the type of investment the country receives and the direction of that investment, whether inward or outward.

There are four stages a country experiences before it develops totally in terms of the FDI flows and what is associated with it in terms of domestic structure changes or developmental level. In stage one, foreign firms prefer to extend their product in the country through trade. In this stage, the FDI inward flow is limited, and the firms tend to be rent-seeking firms. The outward FDI does not exist in this stage. So, the government should engage in policy reforms such as improving infrastructure, building human capital, and establishing a good institutional

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97 Rajneesh Narula and John H. Dunning, "Industrial Development, Globalization and Multinational Enterprises: New Realities for Developing Countries," Oxford Development Studies 28, no. 2 (2000): pp. 141-167, https://doi.org/10.1080/713688313, 2.

98 Ibid. 3

environment for the market. In this stage, the improvement in infrastructure makes the country attractive for investment and includes the inward flow of FDI. In the second stage, the country starts experiencing growth in domestic industry and support sectors. The improvement of its infrastructure leads to the growth of inward FDI volume, especially in the labor-intensive manufacturing sectors, while the outward FDI is still low because local firms still need ownership advantages. As a result, the desire of the government to attract FDI grows, and foreign investors are attracted by the availability of unskilled labor, which can be exploited in the intensive labor industry. In stage three, local firms' ownership advantages grow, so their capacity to compete. As the value of inward FDI rises, so does the value of outward FDI. As a result, the domestic industry got more substantial, and the country became a new industrial nation and a target destination for more foreign firms seeking FDI. In stage four, the country becomes a developed industry with an advanced economic structure such as technology, skilled labor, infrastructure, etc. Domestic firms become as competitive as foreign firms, and the dual value of inward and outward FDI is achieved. The government keeps up with those changes by supporting market efficiency and other conditions. In addition, the government supports the status of new industries, and finally, the outward FDI exceeded the inward FDI.[99]

Industrial theory understands the realities of foreign direct investment more realistically and expresses the experiences of recently rising countries. The excellent work of Narula and Dunning not only introduces FDI inflows as an independent factor affecting host states' developmental levels but also as a dependent factor influenced by developing countries' conduct of reforms in their internal structures. The first stage requires developing countries to upgrade their internal structures to attract foreign firms is crucial for a country like Libya that desires to

[99] Ibid. 147

be a destination for foreign direct investment. Also, it provides an understanding and interpretation of the successful Emirati experience in attracting FDI. Also, this theory provides an example of South Korea's economic growth model when it gradually progressed until it became a major exporting country.

3.5.10: Production Cycle Theory Production

The production cycle theory of Vernon (1966) explained foreign direct investment made by U.S. companies in the manufacturing industry in Western Europe following the Second World War. There are four production cycle stages: innovation, growth, maturity, and decline, according to Vernon. In the first stage, multinational enterprises in the United States develop new creative products for domestic consumption and export the surplus to overseas service markets. Following World War II, Europe boosted demand for manufactured goods such as those produced in the United States. As a result of their technological edge over overseas competition, American corporations began to export. If firms have an advantage in the early stages of the manufacturing cycle because they have innovative technologies, as the products get popular European competitors will replicate them. As a result, European manufacturers began to imitate American products that the United States was exporting to European countries. Thereby, American companies were forced to open production factors in the local markets to maintain their market shares in those areas in the host European countries.[100] Thus, it is understood that the stage of decline forces national companies to establish new markets in foreign countries through foreign direct investment and enhance their business abroad to maintain profit.

[100] Vintila Denisia, Foreign Direct Investment Theories: An Overview of the Main FDI Theories (December 1, 2010). European Journal of Interdisciplinary Studies, No. 3, December 2010, Available at SSRN: https://ssrn.com/abstract=1804514

3.5.11: The Internalization Theory

The internalization theory was founded by Peter Buckley and Mark Casson (1976) relied on the assumption of market imperfection which results in market failure and leads business to move or expand abroad to enhance their chances of survival and success. For example, the Asian auto companies and their move to the U.S market. It is understood that consideration for a perfect market that makes profitability potential is what traditionally explained the movement of investment internationally, which resulted in the existence of FDI made by MNEs. On the other hand, orthodox market failure is perceived as a result of a lack of perfect pricing information among sellers and buyers and the possible presence of a monopoly. Buckley and Casson criticized this traditional approach to market imperfections. Furthermore, Buckley and Casson clarified that imperfect competition alone could not explain the movement and growth of multinational enterprises. It should not fail to mention that Buckley and Casson define MNE as "an enterprise which owns and controls activities in different countries."[101] They illustrated that the orthodox theory of production and trade assumptions, profit maximization, and perfect competition are not always accurate regarding MNEs. Thus, something else must motivate their growth and expansion. First, MNEs take off intensively following the post-war period. Second, post-war international direct investment does not confirm that capital moves from capital-abundant to capita-scarce countries. More than that, it moves from one country to another in the same and sometimes in the wrong direction. Third, capital moving and concentrating in a specific industry invests intensively in labor, management, and research, achieving a great

[101] Peter Buckley and Mark Casson, The Future of the Multinational Enterprise (New York: Ney York: Holmes & Meier Publisher, 1979), 1.

return.[102] According to Buckley and Casson, all result in horizontal direct investment in sometimes for of intra-firm in goods and knowledge. So, what drove the growth of MNEs, then?

Buckley and Casson mentioned that "the growth of MNEs is one of the aspects of radical changes in the business organization which has outdated the orthodox theory of production."[103] In more detail, they clarified that the creation of multinational enterprises is driven by a desire to reduce transaction costs related to market failure for intermediate products. The intermediate products are semi-processed materials passed from one enterprise to another in different forms, such as patents, human capital, know-how, etc. Training labor, building management teams, managing finance, and asserts administration are independent activities related to the inflow of intermediate products. Multinational enterprises seek to reduce costs and find better organizations for such activities. That led firms to exploit their foreign markets by internalizing the markets for the inputs and outputs of the intermediate products and overcoming market imperfection. Enterprises seek to overcome market imperfection of the intermediate products by creating internal markets to control all activities linked to the market. This process of internalization of activities related to the market generates the growth of MNEs.[104]

Although the theory of internalization intended to criticize the traditional economic assumption of perfect competition and profit maximization did not come with something else so far from the orthodox discoveries. That is because the theory was built on the notion of reducing cost and increasing profitability. Nevertheless, the internalization theory elaborated more than the classic profit maximization theory as it explored the cruciality of the intermediate products.

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[102] Ibid. 31

[103] Ibid. 32

[104] Ibid. 33

3.5.12: The Enter Model of Investment

The enter model of investment developed by Dunning in 1993 categorized the motive of MNEs' FDI into four categories. First, resource-seeking FDI aims to acquire raw materials in the host country and use those materials as inputs for the industry. MNEs from the developed world frequently employ this kind of FDI in the developing world. Second, market-seeking FDI aims to help foreign firms locate a new market to sell their surplus goods and services in the host country of their investment. Also, market-seeking FDI assists MNEs in overcoming the trade regulations and barriers imposed on their exports by the host country. Third, efficiency-seeking FDI attempts to assist multinational enterprises in taking advantage of the status of economics of scale in the host country and utilize other factors like intensive labor, sizable market, institutional facilitation, etc., that are available in the host country. Fourth, assets-seeking FDI makes it possible for MNEs to buy assets or stock in already-established companies in the host country for long-term investment. Additionally, it aims to undermine rival businesses and aid MNEs in gaining ownership advantages.[105]

Fortunately, foreign companies have multiple motives for direct investment in developing countries because it provides an opportunity for all countries to attract such critical investments for their growth and prosperity. Likewise, countries that suffer from weak infrastructure and institutions can start the path of attracting foreign direct investment and gradually improve it, as Dunning’s theory of FDI stages proposed, especially when those countries have natural resources, such as in the case of Libya. The beginning may be via attracting firms that desire to take advantage of the natural resources and then reach the horizontal investment to cover other vital sectors of the economy, just as occurred in the United Arab Emirates.

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[105] Ahmed Musabeh , “Main Theories of Foreign Direct Investment” 8.

3.6: Natural Resources

Elizabeth Asiedu found that essential aspects play a significant role in the inflow of FDI. These elements are natural resources and market size, which are elements beyond the control of the hosting countries. The study raised three questions. First, what factors influence FDI in Africa? Can small or resource-poor countries attract foreign direct investment? Third, how are natural resources and market size necessary to direct FDI inflows to the region compared to government policy and host country institutions? Asiedu emphasized that the common perception of foreign direct investment (FDI) in Sub-Saharan Africa (SSA) is primarily driven by natural resources and market size. This perception appears to be supported by data: the three largest recipients of FDI are Angola, Nigeria, and South Africa, which absorbed approximately 65 percent of FDI inflows to the region between 2000 and 2002. Thus, Asiedu perceives this perception as problematic because it implies that an uncontrollable factor primarily determines FDI in the region and that natural resource-poor or small countries will attract very little or no FDI regardless of the policies pursued by the host country.[106]

According to the findings of Asiedu's research, large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system, and a good investment framework all promote FDI. On the other hand, corruption and political instability have the opposite effect. These findings are consistent with reports of multinational establishments working in the region. What is essential in Asiedu's study is that factors like an efficient legal system and a good investment framework encourage FDI, while factors like corruption

[106] Elizabeth Asiedu, "Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability," SSRN Electronic Journal, 2005, pp. 63-77, https://doi.org/10.2139/ssrn.717361, 64.

discourage it.[107] That is consistent with this study's statement that bureaucratic quality and FDI laws are determinants of FDI inflow to Libya and the UAE. The findings of Asiedu's study should not cause concern for countries like Libya because they are rich in natural resources and are expected to have little difficulty convincing foreign investors of the potential profits.

3.7: Property Rights

John Oneal conducted empirical research to examine how democracy affects FDI. This work is regarded as the first quantitative analysis of how the characteristics of a regime affect FDI. Oneal examines whether foreign companies invest more and make more money in authoritarian nations than in democracies by focusing on FDI from the United States to LDCs in pairs. His findings indicate no statistically significant relationship between authoritarian regimes and FDI inflows. Thus, investment is best in advanced democratic countries.[108] Nevertheless, Quan Li and Adam Resnick emphasized that Oneal did not consider the impact of property rights independently of democracy.[109] But it should not fail to mention that after 1994 many countries in the developing world witnessed a gradual transition to the capitalist system and ensured kind of commitment to property right. However, this economic transformation was not yet to affect democratization.

The factors that affect negatively or positively the attraction of FDI go beyond the financial system of the host country and the rationality of profit solely to reach the type of the existing political system in the host country, whether it is democratic or autocratic. Scholars who

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[107] Ibid. 74

[108] Quan Li and Adam Resnick, "Reversal of Fortunes" 177.

[109] Ibid. 178

articulated the impact of political institutions on economic performance, economic policies, capitalism, investment, and even economic inequality in another direction presented findings that sometimes contradict and sometimes complement each other and sometimes are more precise and detailed. Nevertheless, those studies highlight a potentially bilateral positive and negative effect of democracy on the inflow of foreign direct investments.

3.8: Democratic Institutions

It is impossible to review the impact of regime type on foreign direct investment without first considering Douglass North's work on the relationship between regime type and economic outcome. North in Institutions, Institutional Change and Economic Performance (1990) illustrate that authoritarian rulers are not accountable to the electorates, so they lack incentives to maximize total output for the people, but just for their rent. Autocracies are ready to seize the wealth of society. Only democratic institutions can force autocracies to act to be in more general interest in the perspective of North. Therefore, the nature of autocracies prevents them from generating a good economic outcome.[110] A sizable literature review locally connected the good economic output to the inflow of FDI, so it can be argued that autocrats don't like the inflows of FDI. This sounds like a robust argument, especially when the autocrats perceive a potential security threat that comes with the foreign investors and starts domestically presenting the FDI as a type of foreign hegemonic agenda to prevent their entrance. Also, Henry Bruton made an explicit statement connecting the FDI to institutions and said, "Politics with respect to foreign

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[110] Douglass C. North, “Institutions, Institutional Change and Economic Performance,” 1990, https://doi.org/10.1017/cbo9780511808678.

direct investment, income distribution, and democracy are examined along the same line and shown to be closely intertwined with institutions and political change."[111]

Connecting our hypothesis to North's idea, the argument of the study was built implicitly on the philosophy that development requires economic growth, which is best reached by the inflow of foreign direct investment. It is understood that FDI requires a capitalist marker and can be seen as a form of the prevalence of the global capitalist market. The issue Douglas North highlighted is that a capital market demands securing property rights. In contrast, property rights will not simply evolve where political rulers can arbitrarily put their hands on assets or aggressively change their value. Therefore, North suggests establishing a credible commitment to secure property rights over time is necessary. Still, it requires either a wise ruler who can concentrate his power, or forcibly concentrate his power institutionally to prevent arbitrary seizure of assets. North then goes for the second option, as the first one is rarely to be successful in deriving observation from human history. North provides an example of how the English king's power was reduced because of the frequent warfare he launched in the 17th century, which caused high taxation and financial stress. The English people had to entail a fundamental restructuring of the polity during the Glorious Revolution of 1688, which resulted in parliamentary supremacy over the crown.[112] More democratic Institutions protect property rights and thus capitalism, which is not available in autocracies when political leaders can seize assets. Nevertheless, what newly developed and non-democratic countries have achieved in the last half-century in attracting FDI can be stated that the main factor for bringing in such investments

[111] Henry J. Bruton, Economic Development and Cultural Change 41, no. 4 (1993): 883–86. 885 http://www.jstor.org/stable/1154282.

[112] Douglass C. North, "Institutions." The Journal of Economic Perspectives 5, no. 1 (1991): 97–112. 101 http://www.jstor.org/stable/1942704.

goes beyond the type of political system, whether it is democratic or autocratic. Perhaps the secret lies in the quality of the bureaucracy and the performance of governments, including the opportunity provided by flexible investment laws in the hosting countries and the protection the ruler offers investors, some scholars argue, which is essential and will be highlighted by the end of this section.

The impact of democratic institutions on property rights can be viewed in opposition to what Douglas North argued. The concerns for property rights, arbitrary allocation of money toward welfare, and the king's unreturned borrowing are among what pushed toward the democratization of England.[113] So, it can be understood that what enhanced capitalism and investment in English is also private property and not only democracy per se. The United Arab Emirates, for example, is not democratic, but it preserves a decent level of property rights protection for local and foreign investors. This is an interesting proposition that Quan Li and Adam Resnick brought out when they illustrated that property rights per se play a role in encouraging and discouraging FDI.

3.9: Democratic Rule

The review of the FDI's motives should not escape what political scientist Mancur Olson contributed. The prominent in his time, Mancur Olson, indicated that history is packed with examples of confiscations, repudiated loans, debased coinage, and inflated currencies carried out by monarchs and dictators.[114] He was not into autocratic regimes for the sake of investments and

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[113] Melissa Rogers, "CGU Course Lectures," Week 9" (October 29, 2019).

[114] Mancur, Olson. "Dictatorship, Democracy, and Development." The American Political Science Review 87, no. 3 (1993): 567–76. 571 https://doi.org/10.2307/2938736.

labeled them as *Roving Bandits* who destroy incentives for investment and production. Olson, as North, connected property rights to democracy. He illustrated that property rights in established democracies make them suitable lands for investment. Democratic elements such as independent judiciaries and electoral contests support the protection of property rights in well-established democracies, ensuring the long-term security of investments. Olson argued that investors favor such governments because they protect their assets from rapacious banditry.[115] One can infer from this argument that more FDI inflows ought to be correlated with greater levels of democracy.

3.10: Authoritarian Rule

Stephen Haggard argued that authoritarian governors in countries with a tradition of labor or left pressure attract investors because those authoritarian rulers protect property rights. In addition, authoritarian regimes provide political elites safeguard from distribution pressure. Thus, foreign, multinational, and local capitalists like investing in autocratic countries where the leaders prefer repression out of fear of the dimension of their control.[116]

3.11: Reversal of Fortunes

Quan Li and Adam Resnick conducted a data-driven study on the interactions between economic globalization as represented in FDI and political democracy. Their theory covers fifty-three developing countries from 1982 to 1995 and identifies the causal paths by which

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[115] Quan Li and Adam Resnick, "Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries," International Organization 57, no. 1 (2003): pp. 175-211, https://doi.org/10.1017/s0020818303571077, 176.

[116] Ibid 176

democratic institutions promote or hinder FDI inflows.[117] They argued that democratic institutions do not consistently influence FDI inflows. On the one hand, democratic institutions impede FDI inflows in three ways. First, restrictions placed on democratically elected officials tend to erode the monopolistic positions of multinational corporations. Second, these limitations make it more difficult for the host governments to provide generous financial and fiscal incentives to foreign investors. Third, there are established channels for indigenous businesses to request protection under widespread political participation that enables the public to access elected officials. In every instance, the increased pluralism made possible by democratic institutions leads to the creation of political outcomes that lower the MNE's level of space in the host developing nation.[118] On the other hand, democratic institutions encourage FDI inflows by strengthening the protection of property rights. Predatory rent-seeking acts are stopped by the representation of ordinary citizens' interests in the legislature. In addition, restrictions on elected officials further ensure contract enforcement for businesses. Due to these outcomes, property rights are effectively protected, lowering the risk for foreign investors and promoting their investment. Therefore, the relative strength of these opposing two forces determines the overall impact of democratic institutions on FDI inflows to developing nations.[119]

Quan Li and Adam Resnick's study shows that property rights protection associated with democracy encourages FDI inflows while democratic institutions enhance property rights protection. Nevertheless, after controlling for the positive effect of democracy via property rights

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[117] Quan, Li, and Adam Resnick. “Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries.” International Organization 57, no. 1 (2003): 175–211. 177 http://www.jstor.org/stable/3594829.

[118] Ibid. 178

[119] Ibid. 177

protection, democratic institutions seemed to decrease FDI inflows.[120] Thus, according to Li and Resnick's findings, democracy plays a role in increasing foreign direct investment inflows because democracy prevents property rights violations. Then Li and Resnick provide advice to those countries that enter democracy, hurting their ability to attract foreign investors. The trade-off between competing for limited FDI and democratization is a solution for these countries. This advice sounds applicable to the situation of Libya, which started the process of democratization and increased its weak ability to attract FDI. At the same time, for those other countries that democratized while the process enhanced their ability to attract FDI, Li and Resnick think democratization will eventually increase their potential to attract FDI.[121]

Li and Resnick's conclusions offered policy implications for developing countries looking for FDI. Among those recommendations are that gradual improvements in the protection of property rights are likely to result in a more favorable environment for foreign direct investors. States unable to strengthen their property rights protection may be forced to compensate for their shortcomings by offering more tax breaks, discounts on land purchases, or exclusive access to natural resources. Additionally, efforts to improve contract enforcement or bureaucratic competence could go a long way toward differentiating a nation from rivals for foreign direct investment.[122] The recommendation on improving bureaucratic quality is very appealing and deserving of attention.

Theories that debated the driven motives of foreign direct investment inflows are numerous. Indeed, different factors affect FDI with different weights, including the security

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[120] Ibid. 202

[121] Ibid. 176

[122] Ibid. 203

situation of the host country, the existing political ideology, the effectiveness of the government, the type of political institutions, the status of property rights, and others. Foreign investors can be categorized into two types; the first type includes those willing to take risks by investing in an environment unperfect for investment if they see incentives provided by the hosting countries and a significant profit can be made. The second type includes those risk-averse and unwilling to gamble by pouring their money and assets into unperfect markets abroad. For example, it is not expected to a large extent that a Middle Eastern investor is hesitant to invest in other Middle Eastern countries even if those countries are not democratic and somehow corrupt. In contrast, largely expected that a Western investor would hesitate to invest in such countries. Other investors would prefer non-democratic countries where the ruler's control almost the political arena almost wholly and have a supreme say in the market. It is documented that some rulers prefer to empower local and foreign investors for various reasons, including good intentions toward their people or search for stability and legitimacy. For those leaders who care about the sake of the people's interests, Milan Svolik classified them as timocracy, meaning that autocratic rules of benevolent that promote growth and well-being for its people.[123] Some rulers encourage investments for competition with their neighboring countries. There are non-democratic countries such as the United Arab Emirates achieve high rates of attracting foreign investment, as well as Singapore and China. However, those countries maintain decent property rights protection levels and commitment to trade treaties with outsider partners. Here it is essential to recall what Przeworski, Alvarez, Cheibub, and Limongi have reached. Democracies are rich because they invest more, while autocracies are poor because they invest little.[124]

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[123] Milan W. Svolik, "Power Sharing and Leadership Dynamics in Authoritarian Regimes," American Journal of Political Science 53, no. 2 (2009): pp. 477-494, https://doi.org/10.1111/j.1540-5907.2009.00382.x.
[124] Michael E. Alvarez et al., Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990 (New York: Cambridge University Press, 2009).

As it turns out from the literature review, property rights play a vital role in attracting investors and are better protected in democracies. Still, it is also protected in some competitive dictatorships. Still, this should never challenge the heavier side of the matter. Democratic countries are doing better than autocracies in attracting foreign direct investment. Also, it should not downgrade the high normative value of being democratic in the 21st century.

3.12: Balance of Payment and Political Stability

Friedrich Schneider and Bruno Frey, in 1985, found out that they investigated empirical political, economic, and even legal considerations. They found out that the most critical economic determinant is the country's level of development (as measured by real per capita GNB) and the balance of payments. In their concoction, they stated, "The higher the per capita income and the lower the balance of payments deficit, the more foreign direct investment is attracted."[125] Multilateral aid as an economic factor also significantly furthers foreign direct investment. However, for political came political stability is a relevant factor that substantially decreases the inflow of foreign direct investment, while the hosting government's political ideology, whether right or left, plays an insignificant role in determining the inflows of FDI.[126]

3.13: State Economic Regulation and Corruption

The empirical tests of FDI inflows in 55 countries conducted by Ram Mudambi, Pietro Navarra, and Andrew Delios in 2013 across four distinct time periods revealed that the level of

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[125] Friedrich Schneider and Bruno S Frey, "Economic and Political Determinants of Foreign Direct Investment," World Development 13, no. 2 (1985): pp. 161-175, https://doi.org/10.1016/0305-750x(85)90002-6, 173.
[126] Ibid

economic regulation is a significant determinant of the magnitude of FDI inflows, as is the level of corruption; however, corruption does not have an independent effect on levels of FDI inflows. In their research, the degree of government regulation affects both the volume of FDI and the level of corruption. Consequently, states affect multinational enterprises' desired or undesirable locations.[127]

3.14: Bureaucratic Authoritarianism

Guillermo O'Donnell established interesting work on the mechanism that the autocratic state works economically and influences socially depending on concentrated and exclusive bureaucracy. The bureaucratic authoritarian state desires international capital. Therefore, it wants to sustain the entry of a sufficient quantity of that capital, such as monetary, incorporate equipment, technology, and foreign currency to compensate for a new balance of payments tensions generated by its entry.[128] The bureaucratic autocratic state works to diminish the popular sector and weaken the labor organization to create the necessary peace to enter the international capital.[129] All that enhances its political control using a technical, social class that gained their positions from long-time successful careers and loyalty to the state. O'Donnell demonstrated how investors and autocrats frequently have a cozy relationship. Autocrats shield foreign capital from popular pressure for higher wages, stronger labor protection, or less capital-friendly taxation because political leaders are interested in the economic benefits of FDI. In highly

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[127] Ram Mudambi, Pietro Navarra, and Andrew Delios, "Government Regulation, Corruption, and FDI," Asia Pacific Journal of Management 30, no. 2 (December 2012): pp. 487-511, https://doi.org/10.1007/s10490-012-9311-y, 205.

[128] Guillermo, O'Donnell. "Reflections on the Patterns of Change in the Bureaucratic-Authoritarian State." Latin American Research Review 13, no. 1 (1978): 3–38. 15 http://www.jstor.org/stable/2502640.

[129] Ibid

autocratic countries, investor-state collusion benefits foreign capital.[130] This linkage between the ruling class's interests in the dictatorial countries and foreign investors looks logical. It may be expected in the developing world, especially rich those in natural resources and population size, so great domestic market potential. Still, some may reject the pragmatic interpretation of this relationship and argue that the rulers seek to bring these investments for the public's sake even if they weaken the social classes expected to oppose the foreign investors, including making concessions to foreign investors. Perhaps this is a realistic, intelligent, and rapid model of development.

3.15: Bureaucratic Capacity

Other great political economists, such as Barbara Geddes, have emphasized the importance of bureaucracy for economic performance and investment regardless of regime type. That is because a good bureaucracy is required when governments want to implement policies. Geddes reviewed studies by prominent scholars and mostly analyzed the relationship between politics, economic policy, and economic performance. The review covered evidence from eight Latin American countries that witnessed radical economic liberation in recent decades. Geddes brought three empirical findings that emerged from the review of those studies.[131] First, authoritarian governments do not commonly favor market-oriented economic reforms and have no advantage over democratic governments when it comes to economic performance. Second, bureaucratic capacity matters when it comes to economic performance. The quality of the state

[130] Quan Li and Adam Resnick, “Reversal of Fortunes” 176
[131] Barbara, Geddes. Review of The Politics of Economic Liberalization, by Robert H. Bates, Anne O. Krueger, Jose Maria Maravall, Adam Przeworski, Luiz Carlos Bresser Pereira, Jeffry A. Frieden, Lawrence Graham, et al. Latin American Research Review 30, no. 2 (1995): 195–214. 196 http://www.jstor.org/stable/2503839.

bureaucracy affects economic policymaking, no matter how deep the state intervenes in the market. Third, the perceivable effects of economic and policy interests and interest groups are surprisingly small regarding economic performance.[132] Among these three points, the second one related to bureaucracy is critical and explains the many cases in which states are not democratic but have a decent level of transparency and an elevated level of foreign direct investment.

3.16: Quality of Bureaucracy

Countries worldwide achieve economic success by hosting foreign direct investment, which in turn requires raising the level of bureaucratic quality and capacity. The importance of the bureaucratic variable manifests in that it is easier to implement the selected good policy with good bureaucracy. Foreign direct investors are interested in the flexibility of the bureaucracy and its leniency toward them, and most importantly, its lack of excessive penetration into the market, especially since such penetration is theoretically linked to bureaucratic corruption. The more the bureaucracy intrusion into society accrues, the more corrupt it is. Absolute power causes absolute corruption, which the great philosopher Max Weber warned of centuries ago about the threat bureaucratic expansion could have on fundamental liberties and thus on creativity and innovation.[133] Classic Weberian feared the impedance of economic innovation from the expansion of bureaucracy more than they feared the interruption of political freedom when bureaucracy uncontrollably expanded in society. Bureaucratic expansion and bureaucratic corruption are among the worst characteristics of state bureaucracy that can hinder the inflows of

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132 Ibid

133 David Beetham, “Bureaucracy”, 51.

FDI. They raise the transition cost and work as repelling force of foreign direct investment, which is what this comparative study proves.

Chapter 4: Bureaucracy and FDI Inflow in the United Arab Emirates

The United Arab Emirates (UAE) constitutes seven emirates united under the federation political system since 1971. The country started as poor and underdeveloped economically, with around 180,000 people by that time. The UAE's former subsistence economy depended on agriculture, pearling, extraction, fishing, and trading. The country's infrastructure during the late 1960s needed to be more present. After 44 years, the UAE became an innovation-driven economy and ranked 17th most comparative economy in the world by the World Economic Forum (2015).[134] In the same year, its population jumped to reach 9.6 million. The hydrocarbon resources played a significant role, but the wise policymaking by the UAE federal government was also an essential factor that influenced the better use of that natural resources.[135] Several policies arguably participated in the UAE's economic transformation. However, the role of foreign direct investment is core to such economic transformation. But why do foreign investors not hesitate to invest in the UAE? This chapter answers that because of the high quality-bureaucracy of the UAE, which is characterized by non-expansion, less corruption, and modern FDI laws. All these are bureaucratic reforms that resulted in good bureaucracy.

The United Arab Emirates ranks well in the bureaucratic quality index. This study argues that such high-quality bureaucracy is why the country succeeded in encouraging the inward inflows of FDI. Furthermore, the quality bureaucracy of the United Arab Emirates manifested in the government effectiveness index, considering that high government effectiveness means good

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[134] Pinto Alexandre and Dias Delgado, “The United Arab Emirates Case of Economic Success,” Católica Porto Business School, July 2016, pp. 1-121, https://doi.org/https://core.ac.uk/download/pdf/80521628.pdf, 17.

[135] Ibid

bureaucracy, as explained in the introduction of this study. **Figure 12** presents government effectiveness rank of the year 2019).[136]

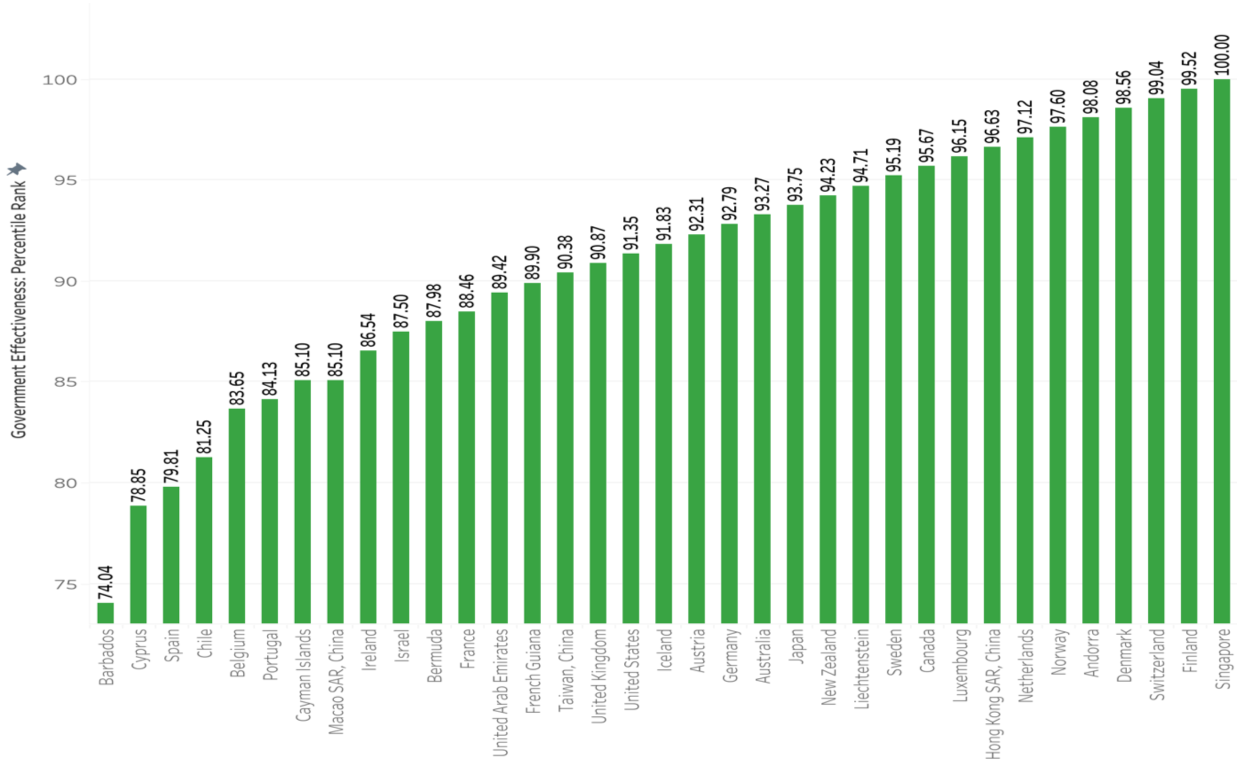

Figure 12
Top 30 Countries' Government Effectiveness: Percentile Rank in 2019

The net inflows of the FDI in the UAE began at a similar level to Libya throughout the 1990s. Yet, it increased following the bureaucratic reforms the UAE adopted at the beginning of the new millennium and declined following the 2008 financial crisis, as shown in **Figure 13**.[137] Nevertheless, it is remarkable that an increase in FDI inward inflow in 2010, while the net inflows of FDI experienced a significant improvement following the updates on the 2018 FDI

[136] The World Bank. 2022. Worldwide Governance Indicators. Washington, D.C. http://data.worldbank.org/data-catalog/worldwide-governance-indicators

[137] The World Bank. 2022. World Development Indicators. Washington, D.C. http://data.worldbank.org/data-catalog/world-development-indicators

Law that permitted foreigners to own up to 100 percent of their investment in the United Arab Emirates.

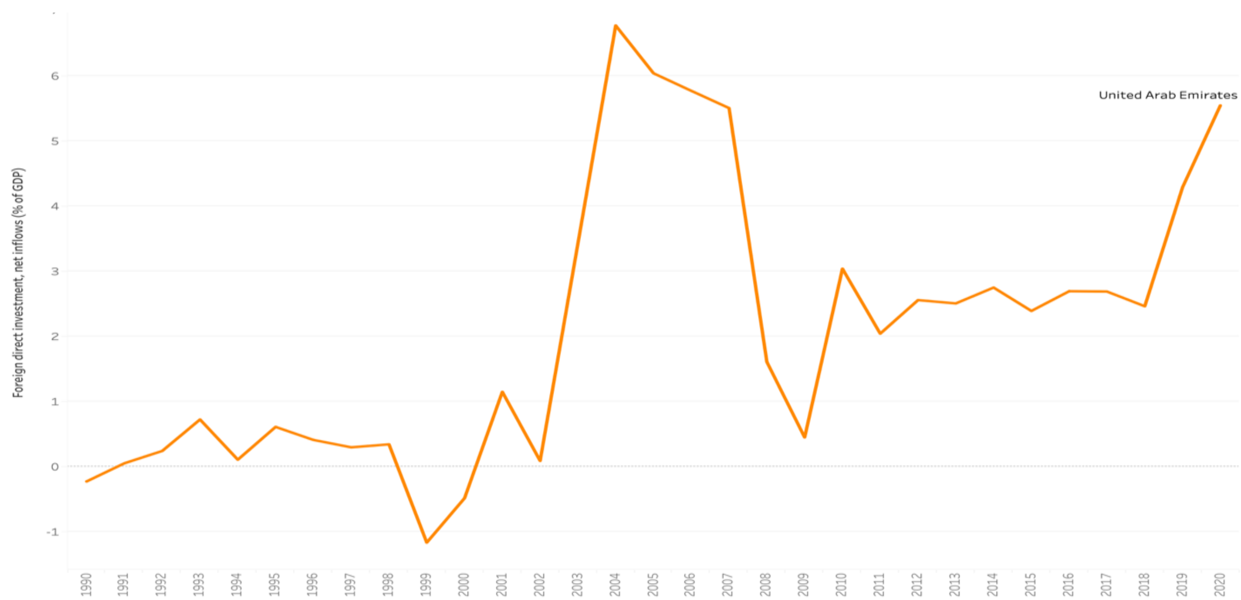

Figure 13
FDI, net inflows (% of GDP) of UAE from 1990 to 2019

Figure 13 attributes the fluctuations in the level of foreign direct investment inflows in the United Arab Emirates to the state of its bureaucracy and its foreign investment law. However, this study recognizes the impact of unusual circumstances within global economic fluctuations like the 2008 crisis. Other than that, it is noted that since the UAE began its involvement in bureaucratic reforms, it has improved the level of foreign investment inward inflows, as will be explained in detail in this chapter**.**

Bureaucratic reforms such as the adoption of the New Public Management NPM, the Behavior Competence Frameworks, the Litigative Reforms, the continuous updates to the FDI laws and regulations, including the 2018 presidential decree allowing foreign investors to own 100 percent of their business in the country increased the inflows of FDI in UAE. The result of such bureaucratic reforms in the broad context was that the UAE ranked first in the Arab world and nineteen globally in terms of its ability to attract foreign direct investment, according to the World Foreign Direct Investment Report for the year 2022. Also, according to the report of the United Nations Conference on Trade and Development "UNCTAD." the UAE attracted foreign direct investment in 2021 amounting to $20.7 billion, with a growth rate of 4% over the year 2020, which placed the UAE among the top 20 host economies for the years 2020 and 2021.[138] **Table 3** presents the world foreign direct investment report for 2022 according to the United Nations Conference on Trade and Development "UNCTAD" and displayed in **Figure 14** of the top 20 countries in FDI inflows for the same year.[139]

	Country Name	**FDI inflows in 2021**
1.	United States	367 U.S billion
2.	China	181 U.S billion
3.	Hong Kong - China	130 U.S billion
4.	Singapore	99 U.S billion
5.	Canada	60 U.S billion
6.	Brazil	50 U.S billion
7.	India	45 U.S billion
8.	South Africa	41 U.S billion
9.	Russian Federation	38 U.S billion

138 "UAE Tops Rankings in Arab World for Foreign Direct Investments (FDI)," (ArabianBusiness, July 10, 2022), https://www.arabianbusiness.com/industries/banking-finance/uae-tops-rankings-in-arab-world-for-foreign-direct-investments-fdi.

139 "Chapter 1 - Global Investment Trends and Prospects," World Investment Report, June 10, 2022, https://worldinvestmentreport.unctad.org/world-investment-report-2022/chapter-1---global-investment-trends-and-prospects/#fdi-fl.

10.	Mexico	32 U.S billion
11.	Germany	31 U.S billion
12.	Israel	30 U.S billion
13.	United Kingdom	28 U.S billion
14.	Sweden	27 U.S billion
15.	Belgium	26 U.S billion
16.	Australia	25 U.S billion
17.	Poland	25 U.S billion
18.	Japan	25 U.S billion
19.	UAE	21 U.S billion
20.	Indonesia	20 U.S billion

Table 3
Top 20 Countries by FDI value in 2021

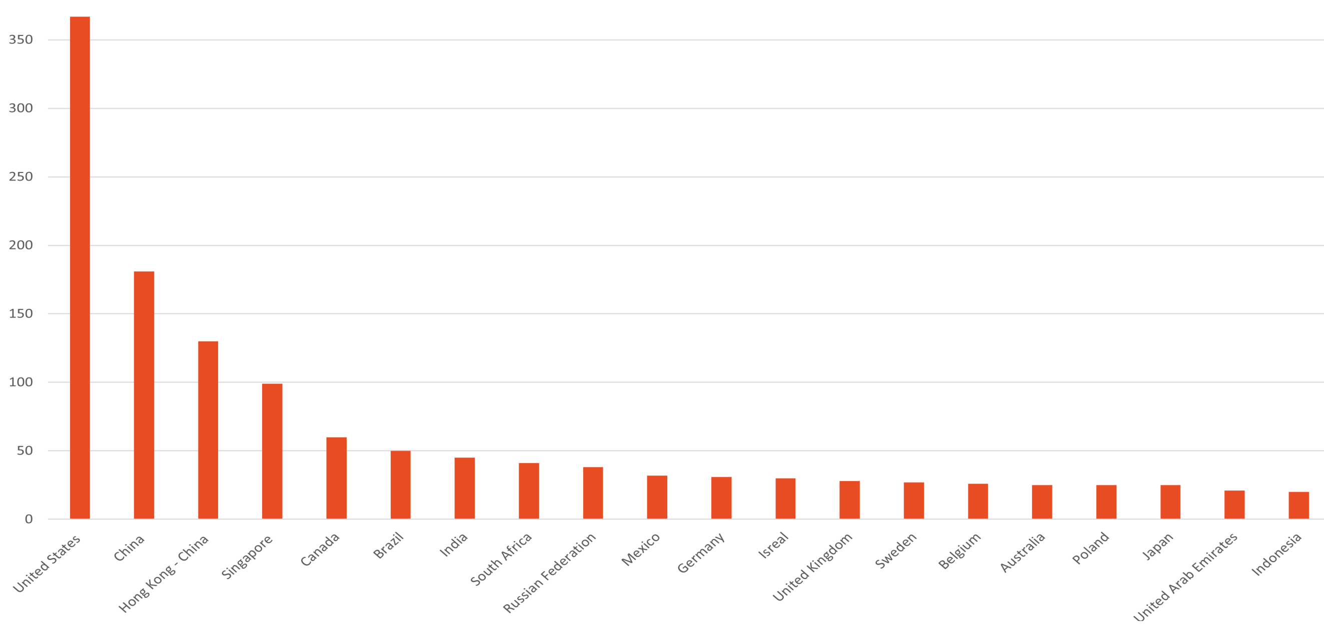

Figure 14
FDI, net inflows top 20 countries 2021

4.1: Bureaucratic Control and FDI in the United Arab Emirates

The political system in the United Arab Emirates tended to favor an open capitalist economy which assisted the country in creating the opportunity for foreign direct investment inflows. In addition, the NPM administrative system was adopted in the UAE, and the smart government system in the country paved the way for bureaucratic reforms that limited the space of bureaucracy to impede investment in general and FDI in particular.

Even though the state's economic ideology can be seen as a political choice, it still directly affects its bureaucratic situation. The ideological preference of the first president of UAE, Sheikh Zayed Bin Sultan Al Nahyan, was not in the direction of socialism, as was the case with most Arab countries during the early sixties and seventies. The tendency toward a market economy and pro-capitalism as an approach appeared early in the UAE with the Abu Dhabi Investment Authority (ADIA) accomplishment. It was established in 1976 as a specialized investment agency. Another example is the UAE foreign assets portfolio, whose official cash revenue as of mid-1989 is estimated at 4.4 billion, while its international bank deposits reached 30.9 billion during that time.[140] The capitalism in all Emirates was strengthened in the seventies and eighties. However, Emirate of Dubai remains the most prominent in this aspect. Dubai capitalism was designed by the political elite that wanted Dubai to be in the capitalist way as the rest of the capitalist world. Although the locals and emirates direct this capitalism, it is still linked to the powerful central non-democratic government of the UAE, which can implement its general economic ideology.[141] However, the experience of the UAE in liberating the economy

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[140] Y.H. Farzin, "Importance of Foreign Investment for the Longrun Economic Development of the United Arab Emirates," World Development 21, no. 4 (1993): pp. 509-521, https://doi.org/10.1016/0305-750x(93)90106-j, 516.

[141] William Gallois, "The History of Capitalism in Dubai," Maghreb/Mashrek, 187-1 (2006), 45-68. (Academia, May 31, 2014), https://www.academia.edu/3657158/The_History_of_Capitalism_in_Dubai, 12.

has been always at criticism by some progressive pro free market advocates because the governmental ownership of important businesses in the UAE.

The economic choices driven by the ideology of the political regime in the UAE and Libya influenced the level of bureaucratic incursion and economic freedom. As presented in previous chapters, such an expansion of bureaucracy was the primary concern of Max Weber's theorization of the bureaucratic state. The socialist regimes at a relative level to communism, such as the one that ruled Libya since from 1969 to 2011, produced state bureaucratic domination in the market and state-run economy, which in turn weakened economic freedom, in contrast to the situation of other pro-market economies such as one established in the UAE. **Figure 15** below shows the differences in economic freedom between Libya and the United Arab Emirates. For example, the UAE's score was 74.2 in 2000, while Libya's score in the same year was as low as 34.7. The alternative to such economic freedom was always state control which was managed and supervised by uncontrolled bureaucracy.[142]

[142] Graph the Data," Index of economic freedom, https://www.heritage.org/index/visualize?cnts=unitedarabemirates%7Clibya&src=country.

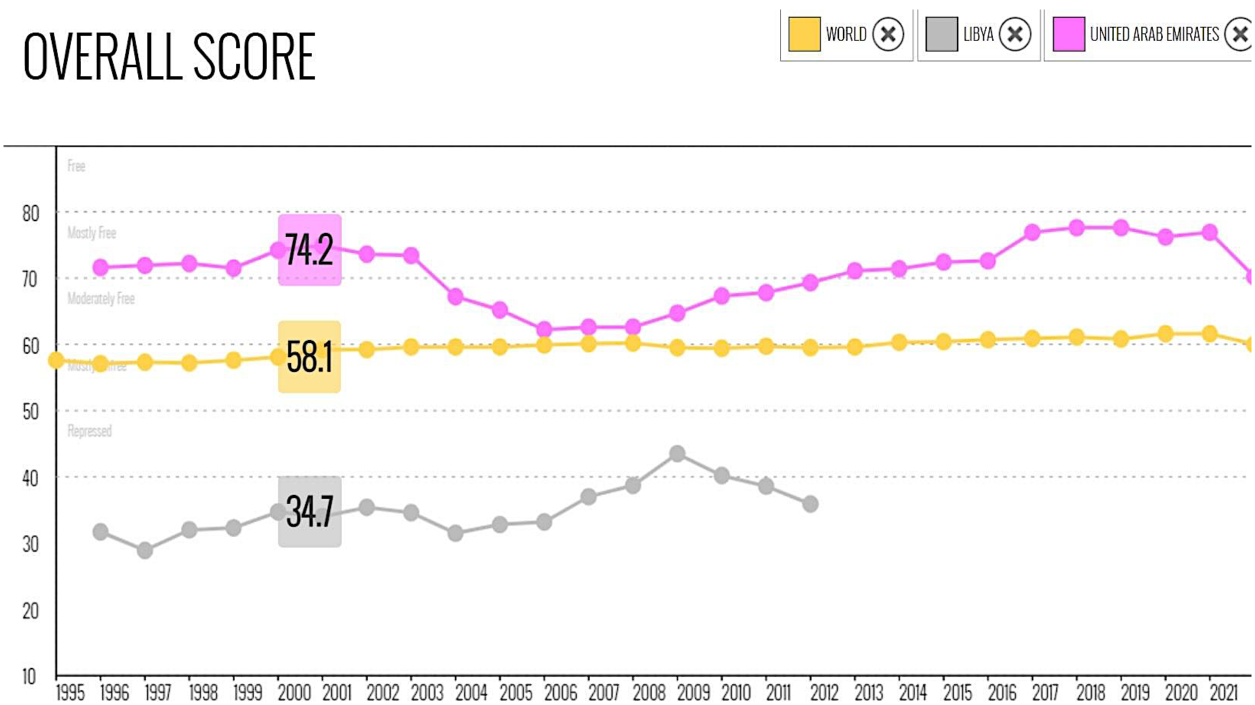

Figure 15

Differences in Economic Freedom Between Libya and the United Arab Emirates

Figure 15 represents an illustration of Economic freedom level in the UAE in comparison with Libya. Direct Quote from Heritage Foundation, 2022.[143] Tas the graph illustrates, the UAE is above the global average, while Libya is below the worldwide average. The study attributes this to the bureaucratic expansion due to the socialist economic ideology that dominated Libya for decades, which will be explored in detail in the next chapter.

Earlier pro-market economy preferences in UAE have relaxed the laws and procedures for investment opportunities and the private sector in the UAE, including foreign ones. While many countries like Libya chose the socialist approach, which allowed the incursion and control of the state bureaucracy in the economy until the private sector was seen as hostile to the society

143 Ibid

and introduced as that by the state. Foreign investment also fled Libya during the 1970s, 1980s, and 1990s.

Back to the UAE's case, the early ideological orientations toward a market economy and investment produced in the United Arab Emirates lead to policies when bureaucracy is controlled. The most prominent of such control is the adoption of the new public management system, the behavior competency framework, the small government, the E-government, the use of technology, the cutting of red tape, the legislative reforms, the online FDI platform, facilitated doing business, liberated the economy, and increases market efficiency, and overall led to the increase of the FDI inward inflows.

4.1.1: New Public Management System

Administrative reforms that seek to control bureaucracy and limit its inefficiency take several forms, including the reform of the state's administrative structure at macro and micro levels to make the evaluation, verification, and follow-up of various operations more flexible and faster, resulting in consumer satisfaction and confidence while also saves time. Such reforms reduce the expansion of bureaucracy and limit its corruption and inefficiency. It is called the New Public Management (NPM). NPM seeks to reframe the model of public administration from a rule-concentrated system of accountability to one that makes government run in the approach of private business. That means that NPM enables public service to be more responsive and competitive while providing citizens service obtains their satisfaction. In addition, NPM enables the measurement of public servant performance, including efficiency and effectiveness, which have inspired directors, supervisors, and frontline employees to improve their ability to detect and fix operational problems.[144] NPM tools are classified into macro and micro levels. The micro level targets the restructuring of the whole administrative and economic system, and the micro level provides business management tools to the public sector management. The UAE attempted to utilize both levels to reform its federal government administrative system as a response to globalization, which led to the development of the UAE's economy and its integration into the international political economy.[145]

The administrative structure of the UAE consists of three levels, federal, Emirate, and local. The federal government's task is to provide the regulatory and basic infrastructure in the different emirates. In addition, the federal government owns some economic and business institutions planned to be privatized or implemented by New Public Management (NPM). Some of those entities are federal electricity, water utility authority, public transportation, and telecommunication. In 2015 the prime minister stated that the UAE could not make a significant Jump in growth if it kept the same way of government. The hope is for a neoliberal NPM and small government. He promised to decrease the number of ministries. But what is the macro level of NAM? As a pattern of bureaucratic reform, the NPM is the usage of business management tools such as the emphasis on quality management, taking care of the customers, implementing E-government, and adoption of market-driven policies to bring the administration from the traditional way to modem way. It is the injection of the public sector with competitive market-driven culture and business environment. The UAE succeeded in achieving that in the most area and was certified by the pro-market, Heritage Organization.[146] Such certification

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[144] New Public Management," Google search (Google, April 5, 2018), https://www.google.com/search.

[145] Ahmed Mustafa Mansour, "From Bureaucracy to New Public Management. The Case of United Arab Emirates Federal Government," Reseacggate, December 2017, pp. 115-123, https://doi.org/file:///C:/Users/abdur/OneDrive/Desktop/HAS%20THE%20UNITED%20ARAB.pdf, 116.

[146] Ibid. 123

proves the seriousness of the country's bureaucratic reforms and its intense seek to easy investment and attract as many foreign investors as possible, as will be explained later in this section.

The Heritage Index classified nations as free, mostly free, moderately free, unfree, or repressed. According to the report, the UAE is mostly free or moderately free, making it the least corrupt of all Middle Eastern countries.[147] More importantly, the report praised the Regulatory Efficiency of business in the UAE and demonstrated that no minimum capital requirements for establishing a business, licensing requirements have been simplified, labor regulation has been adaptable, and the non-salary cost of hiring a person is reduced.[148] Despite this, the 2016 report discovered that negative behaviors continue to exist and that these policies are decisions made to shield residents from the uncertainties of the free market.

4.1.2: Behavior Competency Frameworks

As part of reforming the state bureaucracy, the UAE established a manual entitled Behavior Competency Frameworks in Resolution No. 2 of 2012. Legislative No. 2 aims to enhance human capital management and is considered part of the strategic objectives of the Federal Authority Human Resources FAHR. Examples of the reforms are the use of a system automation BAYANATI (My data) in 2013, the development of smart banks, and the establishment of the professional competency framework publication in 2016.[149]

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[147] Ibid. 124

[148] Ibid. 125

[149] Progress in Public Management in the Middle East and North Africa - OECD," OECD, https://www.oecd.org/mena/governance/48634338.pdf, 193.

4.1.3: Small Government

The 2012 Legislative Document serves as the sole criteria for judging the UAE's federal employees' behavior, knowledge, skills, and abilities.[150] Using Weberian terminology in describing what the UAE made to its state bureaucracy, the UAE restricted or controlled its state bureaucracy and that control manifested in the transformation toward the small government. The 2016 Index of Economic freedom illustrated that UAE is almost tax-free. The country's tax burden accounted for 22.4 percent, while the government spends about 28.2 of the country's GDP, indicating a relatively small public sector size and moderately limited government. In addition, the public debt remained below 15 percent of the GDP.[151]

4.1.3: e–Government

The UAE federal government depends extensively on using electronic government, E-government, providing prompt service delivery to the residents and private and foreign investors. The UAE's e-government is considered among the best in the world in E-Government, ranked 38 globally in 2003, and 23 globally in 2012.[152] The emirate of Dubai passed the E electronic transaction and commerce law N.02 in February 2002 sought to use electronic transactions as governmental agencies are required to use the maximize e-commerce. Now all government agencies must use *www.tejari.com* e-procurement systems, both federal and local agencies.[153] The UN E-government survey 2022, the Future of Digital Government's Report, indicated that

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[150] Ahmed Mustafa Mansour, "From Bureaucracy to New Public Management. The Case of United Arab Emirates Federal Government" 126

[151] Ibid. 124

[152] Ibid. 127

[153] "Progress in Public Management in the Middle East and North Africa - OECD," 193

the UAE came among the highest 60 nations in EGDI level. The score of those countries ranges from 0.75 to 100. Several other countries have low EGDI values ranging from 0.00 to 0.25, while other 53 countries are part of the middle EGDI group with value ranges between 0.25 to 0.50.[154] Libya, the primary case study in this research, is one of those middle groups. The Good Practices Innovation in Public Government report, United Nations Public Service Award Winner 2012-2013, praised the UAE for its electronic digital, government, and Electronic Shared Service (ESS). That service is meant to incentivize collaboration for the whole of government policymaking and implementation.[155]

4.1.4: The Role of Technology

Underlining bureaucratic improvements can be more successful by increasing the role of technology in public administration to expedite transactions and increase investment. Since its formation in 1971, the UAE has been recognized for its innovation and originality, boosting its social and economic position, and quickly evolving into a destination for talents and enterprises. HH Sheikh Mohammed Bin Rashid Al Maktoum announced the national innovation strategy in 2014. The country's leaders think technology is the best human investment for the future.[156] The improvement in several aspects places the UAE in a high rank in the Global Competitiveness Index for 2017-2018. The rank covered 138 economies and measured national competitiveness, representing the set of institutions, policies, and factors determining the country's productivity

[154] "UN e-Government Survey 2022". The Future of Digital Government. 2

[155] "Good Practices and Innovation in Public Governance:" United Nations (United Nations, January 1, 2014), https://digitallibrary.un.org/record/3868850?ln=en.

[156] Manuel Fernandez and Robinson Joseph, "UAE the Most Attractive FDI Destination in the Middle East", 158

level from a scale of 1 to 7.[157] **Table 4** presents some countries with their score value and ranking for the 2017-2018 Global Competitiveness Report.[158] The United Arab Emirates ranked highly in the previous years and ended up ranking 16 in 2018, exceeding several developed nations.

Economies	Points between 1 -7	Rank
Switzerland	5.86	1
United States	5.85	3
UAE	5.30	16
France	5.18	21
Saudi Arabia	4.83	29
Mexico	4.44	51
Argentina	3.95	104
Yemen	2.87	138

Table 4
2017-2018 Global Competitiveness Rank

4.1.5: Cutting Red Tape

The UAE seeks to cut red tape to attract hundreds of digital companies, as announced in June 2022 by the Minister of State for Foreign Trade. The aim is to make it easier for digital companies to incorporate the latest economic policy announcement into the financial and banking systems. The process targets 300 digital companies to integrate within a year from Asia Americas and show them that the UAE is the best place to live, work, invest, and prosper, as the minister told the reporter during the interview. In addition, the UAE seeks to provide incentives

[157] Klaus Schwab, ed., "The Global Competitiveness Report," World economic forum - home, https://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.

[158] "Data from the Global Competitiveness Report 2017 – 2018

that help double its economy to reach $816 billion by 2030.[159] In 2007, around 1500 E-Government Services were being offered by various departments in Dubai for both residents and businesses, and the number continued to rise.[160]

4.1.6: Recent Legislative Reforms

The UAE's methods of limiting the growth of its bureaucracy have advanced in recent years, taking into account both institutional and social considerations. The United Arab Emirates (UAE) has enacted several new laws. Sheikh Khalifa bin Zayed Al Nahyan, president of the United Arab Emirates, has ordered extensive legal changes to boost the country's economy, encourage investment and trade, strengthen public order and security, and protect individual and institutional rights. This "Year of the 50th" saw the creation of many pieces of legislation. More than 40 laws are being changed, making this the most comprehensive legal overhaul in the United Arab Emirates history. Laws pertaining to investment, trade, and industry; a commercial company; copyright, trademarks, commercial register, electronic transactions, trust services, factoring, and residency; laws pertaining to society and personal security; and laws related to the production, sale, and use of narcotics and psychotropic substances are all on the chopping block for revision. Teams of 540 professionals and experts from 50 federal and municipal administrations cooperated with over 100 business sector organizations over five months to represent worldwide best practices in the new law's requirements.[161] The reforms enacted

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[159] "UAE Cuts Red Tape to Attract Hundreds of Digital Companies:" AW (Reuters, July 6, 2022), https://thearabweekly.com/uae-cuts-red-tape-attract-hundreds-digital-companies.

[160] "Progress in Public Management in the Middle East and North Africa - OECD," 193

[161] "News (United Arab Emirates the Cabinet, January 2023), https://uaecabinet.ae/en/details/news/uae-adopts-largest-legislative-reform-in-its-history.

progressive social reforms that empower, support, and protect residents, with a focus on women's and children's rights, such as the Law on Electronic Transactions and Trust Services, the Copyrights Law, the Commercial Register Law, the Higher Education Law, the Trade Market Law, the Factoring and Transfer of Civil Accounts Receivable Law, the Higher Education Law, the Data Protection Law, the Commercial Enterprises Law allows investors and entrepreneurs to establish and entirely own onshore businesses in any industry. The amended legislation also states which businesses are exempt from the limitations. The legislation also stipulates the licenses and licenses that companies must get to perform commercial activities in the UAE and the company's name, contract, formation procedures, and capital expansion and capital reduction criteria. As part of the UAE government's overall economic diversification push toward an innovation-led and knowledge-based economy, the amendment intends to strengthen the country's competitive advantage. In addition, the new Commercial Companies Law aims to increase foreign direct investment (FDI) and keep the UAE a significant regional and global economic center.[162]

These reforms, intended to boost investment changes in general and FDI inflows in particular, have a social component that directly influences economic features. For example, the United Arab Emirates, according to The New York Times, has amended its workweek in response to global markets, declaring that Sunday, a workday in most of the Arab world, is now part of the weekend. Fridays will henceforth be half days. The Emirati government said in a statement that the new weekend, which will begin on January 1, promotes their economy's interaction with other economies and global markets and ensures that exchanging days of

[162] Ibid

commercial and financial activity and transactions are matched.[163] This change in the weekend days may appear to some to be nuanced, but it is not a nuanced step in the Middle East and reflects two things. First, it reflects the tremendous governmental political will to advance the country economically and immerse it in the global economy. Second, it indicates the UAE government's extraordinary capacity to impose economic policies while paying little attention to the potential social pressures from the public who, for long decades, have been used to the otherwise.

4.1.7: FDI Online Platform

One of the facilitation measures allocated is the availability of electronic inquiry services and the completion of procedures electronically through https://u.ae/en/information-and-services/finance-and-investment/foreign-direct-investment to assist those considering investing in foreign direct investment in the United Arab Emirates. This government website devoted to foreign direct investment contains information for interested investors on how to set up a firm and the procedures for a business license. The FDI website also has an electronic chat that directs visitors to the information they want. Applicants should be able to complete the online application procedure in no more than 15 minutes. Legal structures for FDI projects might include a limited.[164] Also, other links take to different websites supporting foreign direct Investment in the various emirates. **Table 5** demonstrates the steps toward obtaining a license for

[163] Mona El-naggar, "Sundays off: U.A.E. Changes Its Weekend to Align with West," The New York Times (The New York Times, December 7, 2021), https://www.nytimes.com/2021/12/07/world/middleeast/uae-weekend-shift.html.

[164] "Foreign Direct Investment - the official portal of the UAE Government (The UAE Government, December 12, 2022), https://u.ae/en/information-and-services/finance-and-investment/foreign-direct-investment.

an FDI project and is also illustrated at https://u.ae/en/information-and-services/finance-and-investment/foreign-direct-investment and quoted directedly from the UAE's government website for foreign direct investment.[165]

Steps for Licensing FDI Project Specified Under the Positive List	
1.	Select business activity in positive list and legal form.
2.	Submit a foreign direct investment license application after obtaining the initial approval.
3.	Reserve the trade name; The name shall be followed by an indication of the legal form of the company and then the expression "Foreign Direct Investment (FDI)".
4.	Get approvals of entities concerned with FDI company activity.
5.	Obtain approval and receive FDI license after paying the fees.
6.	Present proof of submission for joining between partners club.
7.	Registration of the license with the ministry of economy (MOE).
8.	Opening a bank account on behalf of the company (under incorporation) and depositing at least %20 of the capital.

Table 5
Steps for Licensing FDI Project Specified Under the Positive List

[165] Ibid

4.1.8: Economic Liberty, Market Efficiency, and Business Ease

As explained in the definition part, Max Weber worried about the extension of bureaucracy and administration procedures and their effect on the freedom of individual innovation, thus, the freedom of the market. From here, the importance of bureaucratic control and oversee manifested. The Index of Economic Freedom for 2016 indicated an improvement in economic freedom in the United Arab Emirates. The country ranked 25th internationally and second regionally. As illustrated by the report, its economic freedom has been experiencing an improvement for ten years consistently. Also, the report mentioned that the UAE enjoys high political stability and desired climate for business and described the country's environment as suitable for international investors. The Index of Economic Freedom of the same year also highlighted some negativity. For example, privatization still needs to be completed 100%. In addition, the UAE's government pressures international firms to engage in the employment of local nationals. Such policies are understood as an attempt of the UAE's government to maintain the traditional patron-clint relationship for political consideration.[166] From a political standpoint, some would see that such maintenance of patriotism is justified when it services the stability in the county which is also a crucial factor for the inflows of FDI.

Economic Library has a favorable impact on market efficiency in the UAE. The UAE is at the top of the middle eastern countries in ranking for Good Market Efficiency from 2012-13 to 2016-17.[167] For Financial Developed Markets, the UAE ranked second in the Middle East, following the state of Qatar. Individuals are free from taxation on their income earning,

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[166] Ahmed Mustafa Mansour, "From Bureaucracy to New Public Management. The Case of United Arab Emirates Federal Government," International Public Management Review, December 1, 2017, pp. 116-134, https://doi.org/file:///C:/Users/abdur/OneDrive/Desktop/HAS%20THE%20UNITED%20ARAB.pdf, 121.

[167] Manuel Fernandez and Robinson Joseph, "UAE the Most Attractive FDI Destination in the Middle East: A Study on How UAE is Sustaining the Status" ResearchGate (Skyline University College, December 2018), 153.

encouraging many high-income earning professionals and skilled workers to come to the UAE and reducing the cost of running a business in the UAE. Foreign firms would be quick to go to a country like the UAE, which enjoys easy investment procedures, clear policy, and free individual tax that lowers salaries.[168]

Market Efficiency has a favorable impact on doing business in the UAE. The United Arab Emirates is ranked among the best countries in the Middle East and North Africa in terms of ease of establishing a business, which directly impacts the chances of receiving FDI. Doing Business Parameters are starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. A high ranking of doing business means that the regulatory environment in the country is more suitable for establishing a business. In the 2015 Business Report that included 189 countries, the UAE was ranked at the first top of the Middle Eastern countries while at the top 31 globally.[169] Such ranking would no doubt make the country a desired destination for foreign investors and summarize the meaning of this study!

The aforementioned bureaucratic reforms had an impact on FDI inflows to the United Arab Emirates, which was a primary motivation for such reformers and policy decisions, as shown publicly by the country's leadership. As a result, unless there is a severe economic impact internationally, such as the 2008 crisis, the United Arab Emirates has seen consistent growth in net FDI inflows throughout the preceding three decades. As a result, in 2021, the UAE was the leading nation for inbound Investment in the Middle East and Africa and the only country from

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[168] Ibid. 159

[169] Manuel Fernandez, "UAE The Attractive Destination for FDI in the Middle East," International Research Journal of Finance and Economics, September 2016, pp. 55-73, https://doi.org/https://www.academia.edu/35366309/UAE_the_Attractive_FDI_Destination_in_the_Middle_East, 70.

either region to be among the top 10 globally.[170] Following the demonstration of the positive effect of bureaucratic control and constraint on the inflow of FDI in the United Arab Emirates, the study moves forward to explain the positive impact of reducing bureaucratic corruption on the inflows of FDI.

4.2: Bureaucratic Anti-Corruption and FDI in the United Arab Emirates

Transparency International defines corruption "as the abuse of entrusted power for private gain."[171] The study's second factor of low-quality bureaucracy is corruption. Low-quality bureaucracy is more corrupt, whereas high-quality bureaucracy is less corrupt. According to this study, countries with low-quality bureaucracy receive less foreign direct investment because international investors are hesitant to relocate their enterprises to corrupt countries where they would rather not risk their wealth.

On the other hand, scholars such as Leff and Huntington have proposed that corruption may help economic development in two ways. For starters, unscrupulous tactics speed money would allow people to circumvent bureaucratic delays. Second, government personnel who charge bribes would work harder to earn payoffs. Although the first mechanism increases the possibility that corruption helps development primarily in nations with heavy bureaucratic procedures, the second works regardless of the quantity of red tape. On the other hand, Shleifer and Vishny contend that corruption tends to slow economic progress. Moreover, Murphy,

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170 Cara Lyttle, "FDI in the Middle East and Africa in 2021: The State of Play," Investment Monitor, https://www.investmentmonitor.ai/fdi-data/fdi-middle-east-africa-2021-state-of-play/#:~:text=UAE%20leads%20for%20FDI%20in,in%20terms%20of%20project%20numbers.

171 "What Is Corruption?" Transparency.org, accessed February 19, 2023, https://www.transparency.org/en/what-is-corruption.

Shleifer, and Vishny show that nations that allow rent-seeking tend to expand economically more slowly.[172]

The suggestions mentioned above from the Left and Huntington function as pro and con arguments for and against this study's proposal. From one perspective, they argue that corruption would lead to more significant investment and economic growth, which contradicts the hypothesis of this research. Another piece of advice is that they confess that the bad bureaucracy of red tape inhibits and hinders investment unless investors attempt to utilize corruption as an alternative to assist their company. This supports the study's position that corruption severely impedes investment in general and FDI inflows in particular. Paolo Mauro examines a data set compiled from the Business International (BI) indexes on corruption, red tape, and judicial system efficiency from 1980 to 1983. The indexes are based on regular surveys completed by BI correspondents in about 70 countries. He discovered that corruption reduces private investment, limiting economic growth. Mauro found that the negative relationship between corruption and investment and growth is statistically and economically significant. Based on actual evidence, he said that if Bangladesh improved the integrity and effectiveness of its bureaucracy to the level of Uruguay, its investment rate would increase by about five percentage points. Consequently, its annual GDP growth rate would climb by more than half a percentage point.[173] According to Mauro’s research, the association between increased corruption and decreased investment is correct.

Governments such as the United Arab Emirates embraced capitalism, which leads nations to keep an eye on their state bureaucracy and regulate it to avoid impeding investment,

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172 P. Mauro, “Corruption and Growth,” The Quarterly Journal of Economics 110, no. 3 (January 1995): pp. 681-712, https://doi.org/10.2307/2946696, 681.

173 Ibid. 683

particularly from foreigners as FDI. As previously stated, Emirates authorities publicly acknowledged their goal of reducing red tape, experimenting with bureaucratic processes, implementing technology in state institutions, and so on of reforms that resulted in lower corruption in the UAE and promoted more significant FDI inflows, as recently shown. At the same time, a nation such as Libya provides the opposite experience.

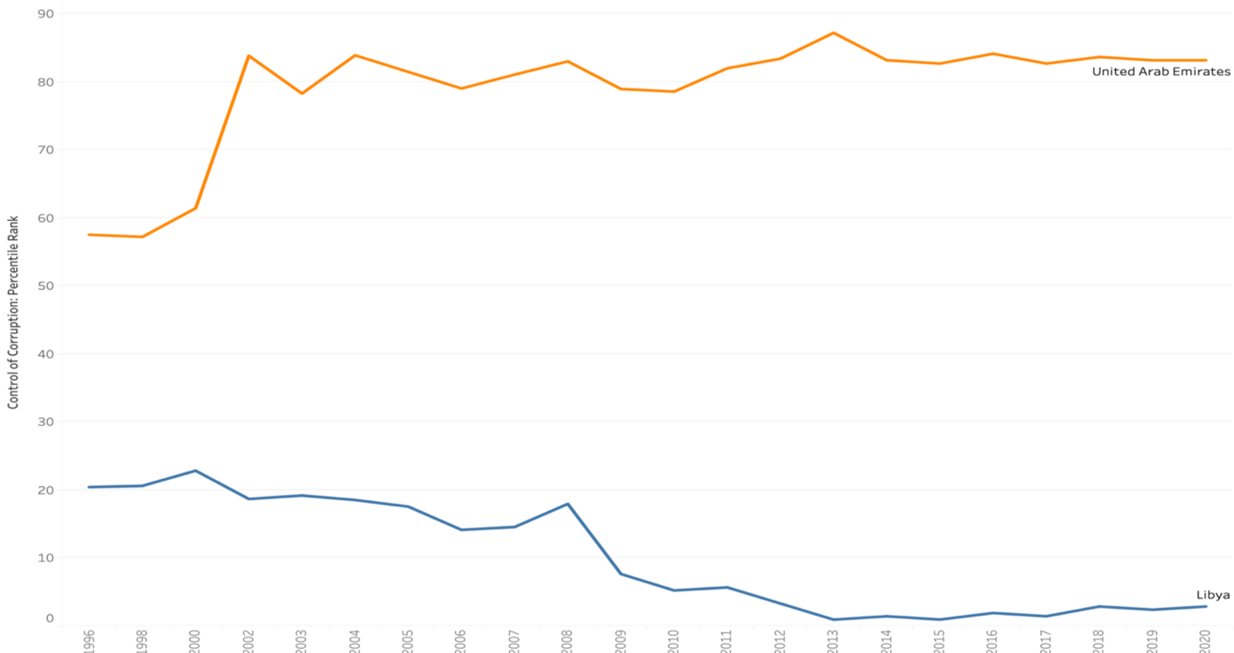

Figure 16
Control of Corruptions Between Libya and the United Arab Emirates

Figure 16 depicts how the UAE's control of corruption has progressively risen since 2000, in contrast to Libya, which suffered the reverse.[174] Remarkably, the UAE's corruption rating has improved in tandem with the country's ongoing bureaucratic reforms in recent decades. In the same context, **Figure 17** shows that the UAE received increasing net FDI inflows in a decade before the 2008 financial crisis.

[174] "The World Bank". 2022. Worldwide Governance Indicators. Washington, D.C. http://data.worldbank.org/data-catalog/worldwide-governance-indicators.

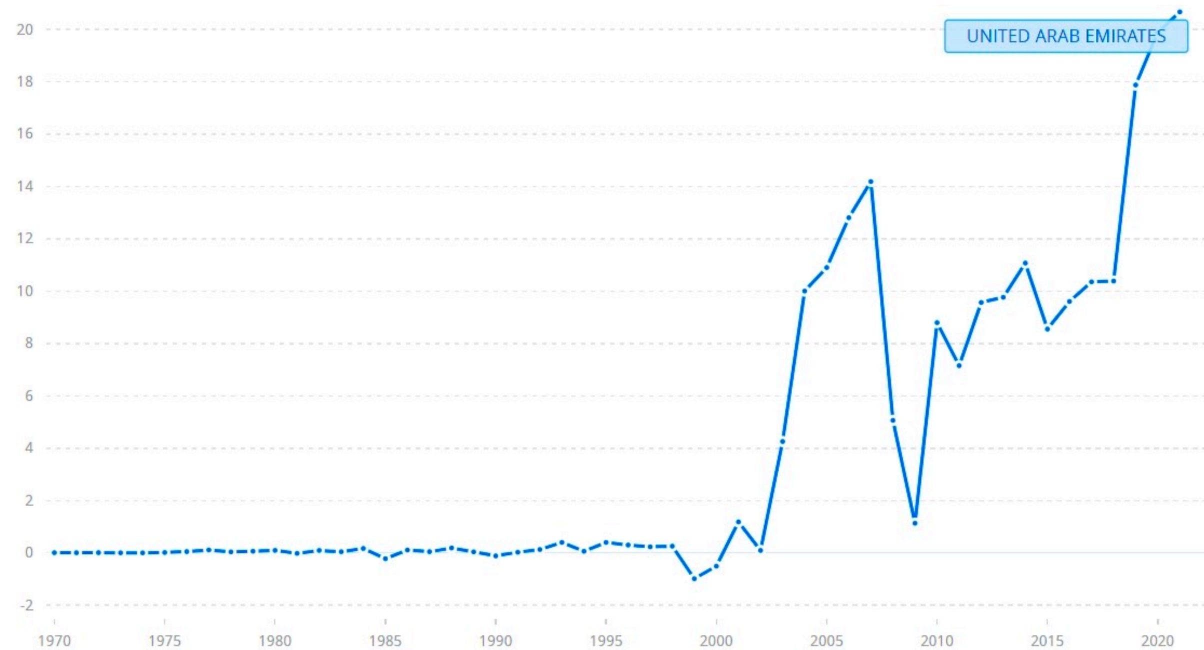

Figure 17
United Arab Emirates FDI during the decade preceding the 2008 financial crisis

Figure 17 Foreign direct investment, net inflows (BoP, current US dollars) - United Arab Emirates years during the decade preceding the 2008 financial crisis.[175] Except for the time disrupted by the UAE's 2008 financial crisis, the increase in FDI inflows rose steadily. The United Arab Emirates has been fighting bribery and corruption since the 1980s, with the passage of Federal Law 3/1987, commonly known as the UAE Federal Criminal Code, and the Federal Human Resources (Federal Decree) 11/08. In addition, several pieces of legislation indirectly impact the fight against bribery and corruption. Federal Law 4/2002 on the Criminalization of Money Laundering, the Regulations Governing Declarations by Travelers Entering or Leaving the UAE Carrying Cash or Negotiable Instruments, Federal Law 7/2014 on Combating Terrorism Crimes, Federal Law 9/2014 amending specific provisions of Federal Law 4/2002 on the Combating of Money Laundering Crimes, Cabinet Resolution 38/2014, Executive Resolution

[175] "Foreign Direct Investment, Net Inflows (BOP, Current US$) - United Arab Emirates," Data, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2007&locations=AE&start=1997.

of Federal Law 4/2002; and the Cabinet Resolution 38/2014, Executive Resolution of Federal Law 4/2002; and the Dubai Law 4/2016 on Financial Crimes.[176]

Despite some flaws observers noticed about the UAE investment enlivenment, such as the participation of the ruling elites in the economy, creating an unequal playing field, and the state ownership of major utility companies, still the UAE government has managed to make the country the least corrupt in the Arab world. In addition, the nation offers a business-friendly climate and an effective and efficient governmental administration. Bribery, embezzlement, and power abuse are prohibited under the UAE Criminal Code. Bribery and minor corruption are infrequent, and anti-corruption and anti-fraud law is strictly implemented. The UAE's anti-corruption policy governs gifts and hospitality. Facilitation payments are unlawful since they are considered bribes. The Corruption Perceptions Index score confirms that the UAE has the lowest degree of corruption in the Middle East and is improving year after year in terms of corruption reduction.[177] The UAE was rated 27 in the world by the Corruption Ranking index in 2012, 26 in 2013, 25 in 2014, and 23 in 2015, indicating a progressive improvement in the battle against corruption. Such a corrupt environment could be better but compared to the rest of the MENA regime is outstanding. That made the UAE the desired destination for foreign investors. The significant investment comes from Switzerland, the United Kingdom, India, the United States of America, France, Austria, Japan, the Kingdom of Saudi Arabia, Kuwait, and The Netherlands, according to the UAE government's online FDI portal. But is bureaucratic control and the fight against corruption just what made the UAE bureaucracy decent in the eyes of foreign direct

[176] Hugo Tyne, “Anti-Corruption & Bribery Comparative Guide - - United Arab Emirates,” Anti-Corruption & Bribery Comparative Guide - - United Arab Emirates (BSA Ahmad Bin Hezeem & Associates LLP, November 23, 2022), https://www.mondaq.com/criminal-law/864072/anti-corruption-bribery-comparative-guide.

[177] Manuel Fernandez and Robinson Joseph, “UAE the Most Attractive FDI Destination in the Middle East”, 63

investors? Of course not. The third element of this study's conceptualization of high-quality bureaucracy also significantly attracted FDI to the United Arab Emirates. That element is the updated, modern, and flexible FDI law of the United Arab Emirates.

4.3: Bureaucracy of FDI Laws in the United Arab Emirates

The amendments to the UAE's Foreign Direct Investment Law encouraged international investors to come to the country, providing them confidence and incentives for direct investment, as seen by the magnitude of these investments over the previous decade. Decree No.19 of 2018 was an example of such an amendment to the UAE's FDI Law. The new FDI legislation establishes a framework for the UAE Cabinet to allow foreign shareholders to control up to 100% of enterprises in specific industries. The explanation of this portion of the study illustrates revisions to foreign investment rules and regulations that favorably affect FDI inflows.

Updates on the UAE's investment rules and regulations affecting international investors continually changed following the state's economic aspirations and ambitions. Reading about those changes makes the reader realize the high level of pragmatic thinking in the UAE's policymakers and their ability to adapt to the demands of the global economy. The UAE Federal Law No. 13 of 1988 amends the earlier UAE Commercial Companies Law, Federal Law No. 8 of 1984, also known as the Companies Law at the time. The amendments to Law No. 13 of 1988 went into effect in 1989, with existing businesses given a two-year grace period from the effective date to comply with the new Legislation. The updated Companies Law now allows and controls the creation of international corporations' branch offices in the UAE. By definition, the Law applies to all foreign firms that carry out their primary operations or establish their headquarters in the UAE. The old Companies Law of 1984, which went into force in 1985, restricted the partnership form of the company to UAE citizens solely. As a consequence, existing joint venture partnerships were forced to modify their structures to comply with the 1984 Legislation. The new Companies Law of 1988, on the other hand, was a comprehensive piece of Legislation that governs the proper legal form of companies in the UAE; the procedures for company formation and registration; the rights of partners, shareholders, and other persons dealing with companies; company conversion, merger, and liquidation; and government inspection and supervision of companies. The Legislation also addressed the registration of foreign corporations' branch offices. All commercial businesses incorporated in the UAE or carrying out major operations in the UAE were subject to legal forms of the 1988 Companies Law. All companies founded within the UAE must have at least 51 percent equity participation by UAE nationals and must take the form of a partnership, limited partnership, consortium company, public shareholding company, private shareholding company, limited liability company, or partnership limited by shares, according to the amended Companies Law of 1988, which went into effect in 1989.[178] This is a significant change from the original 1984 Legislation, which granted UAE nationals exclusive ownership of enterprises. It is likely to result in a significant increase in international business in the UAE in the future.

The 1988 Law significantly changed the 1984 Law in that a foreign firm with branches or offices in the UAE no longer needed to submit an annual balance sheet, and the profit and loss statement must now be published in local publications. Furthermore, the updated Company Law allowed a company to be dissolved under the Law if its articles of association have expired, if it has completed the objective for which it was formed, or if it loses all of its assets, enters into a merger, or is wound up by unanimous agreement of all shareholding partners. Businesses may

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[178] Gary R. Feulner, “The UAE Commercial Companies Law: Recalled to Life,” Arab Law Quarterly 4, no. 3 (1989): pp. 216-223, https://doi.org/10.1163/157302589x00334, 216.

also be formed by dissolving one company and transferring its assets to another or combining two companies to form a new one. Furthermore, a company can be converted from one form to another by passing a resolution through its internal procedures, accompanied by a statement of assets and liabilities, and then by amending its entry in the Commercial Register once the requirements for the form of company to which it is to be converted are met.[179] Numerous UAE-based firms, as well as those considering entering the UAE market, have already shown an interest in taking use of different aspects of the Companies Law.[180] Changes in FDI laws continue to draw additional Investment to the UAE, which recently unveiled the 2020 Law, which earned international acclaim and resonance. The 2020 FDI Law changed some articles of Federal Law No 19 of 2018 regarding foreign direct investment, resulting from the amendment of 2015 Federal Law No 2. Article 2 of the Federal Law by Decree No. (19) of 2018 regarding foreign direct investment demonstrated the attention of the law which is the attraction of FDI when it stated that:

> The Law by Decree aims to promote and develop the investment environment and promote attracting foreign direct investment in line with the developmental policies of the State, in particular: 1. Asserting the position of the State as a major attraction hub for foreign direct investment both regionally and globally. 2. Attracting and encouraging foreign direct investment. 3. Expanding the production base, diversifying it, and transferring and attracting advanced technology, knowledge, and training. 4. Increasing the flow of foreign direct investment in the priority sectors to achieve balanced and sustainable development and create job opportunities in various fields. 5. Achieving the best return with the available resources and securing high added values for the State's economy.[181]

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179 Ibid. 221

180 Ibid. 223

181 "Federal-Decree Law No. 19 of 2018 on Foreign Direct Investment", https://wipolex-res.wipo.int/edocs/lexdocs/laws/en/ae/ae044en.pdf, 4.

The United Arab Emirates announced revisions to Federal Law No. 2 of 2015 on Commercial Companies on November 23, 2020, which included allowing 100% foreign ownership of UAE-incorporated firms and revoking Federal Decree No. 19 of 2018 on Foreign Direct Investment. According to Squire Patton Boggs, an international law firm with 42 offices in 20 countries, the new decree will significantly ease the investment process for investing in the UAE, as well as provide for greater participation in company management and boards, improved governance and transparency in management, and increased flexibility in share subscription. In conjunction with the previous adjustments to visa requirements and residence regulations for business personnel, the new decree demonstrates the UAE's ongoing commitment to promoting international investment, and it should promote even more foreign direct investment in the coming years.[182]

The modified legislation of 2020 was the most major FDI law and regulatory change in the UAE. Observers, including international law firms from the UAE, praised it highly for facilitating the operations of foreign investors and enterprises and offering guidance and explanation. The new FDI legislation decree of 2020 is a significant step toward the liberalization and modernization of the UAE's foreign investment environment. It will undoubtedly stimulate international investment flows into the UAE.[183] According to a study released by Squire Patton Boggs, the following articles are the most apparent changes the new degree brought.

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[182] “UAE – Foreign Investment Rules - Squire Patton Boggs,” https://www.squirepattonboggs.com/-/media/files/insights/publications/2020/12/uae-foreign-investment-rules/uae-foreign-investment-rules.pdf, 1.

[183] Tareq Na’el Al-Tawil, Venugopal Prabhakar Gantasala, and Walaaeldeen Ibraheem, “The Potential Impact of the 2020 UAE FDI Decree and Side Agreements,” ICSID Review - Foreign Investment Law Journal 36, no. 3 (January 2021): pp. 518-535, https://doi.org/10.1093/icsidreview/siab032, 534.

- Article 10 removes the need for a local shareholder and asks for the formation of a committee by the Cabinet of Ministers to decide the minimum local involvement necessary (as shareholders and board members) for enterprises engaged in strategic operations.
- Article 11 eliminates the constraint on the legal form a firm must have to participate in activities involving the investment of money on behalf of third persons.
- Article 71 abolished the nationality limitation, allowing a foreign shareholder to own a One-Person Limited Liability Corporation.
- Article 44 eliminated the restriction on the maximum number of non-shareholder board members.
- Article 153 eliminated the prohibition, which now applies solely to financial institutions supervised by the UAE Central Bank.
- Article 279 permitted a corporation to change to a public joint stock company, pending the requisite permits.
- Article 329 was repealed, and foreign branches in the UAE are no longer required to have a national agent.[184]

These institutional reforms were decided in 2020 but came into effect on 2 January 2021, representing heavy bureaucratic facilitation in line with the legislative facilitation. The impact of FDI was immediately apparent when the UAE attracted $20.67 billion in FDI for 2021, a 3.94% rise from 2020 and $ 19.88 billion in 2020, an 11.2 percent increase from 2019.[185] In 2022, FDI

[184] Ibid. 1-3

[185] "UAE Foreign Direct Investment 1970-2023," MacroTrends, https://www.macrotrends.net/countries/ARE/uae/foreign-direct-investment#:~:text=UAE%20foreign%20direct%20investment%20for,a%2011.24%25%20increase%20from%202019.

inflows reached $22 billion.[186] **Figure 18** demonstrates how yearly FDI inflows to the UAE have increased two years after the enactment of the 2020 FDI Law.

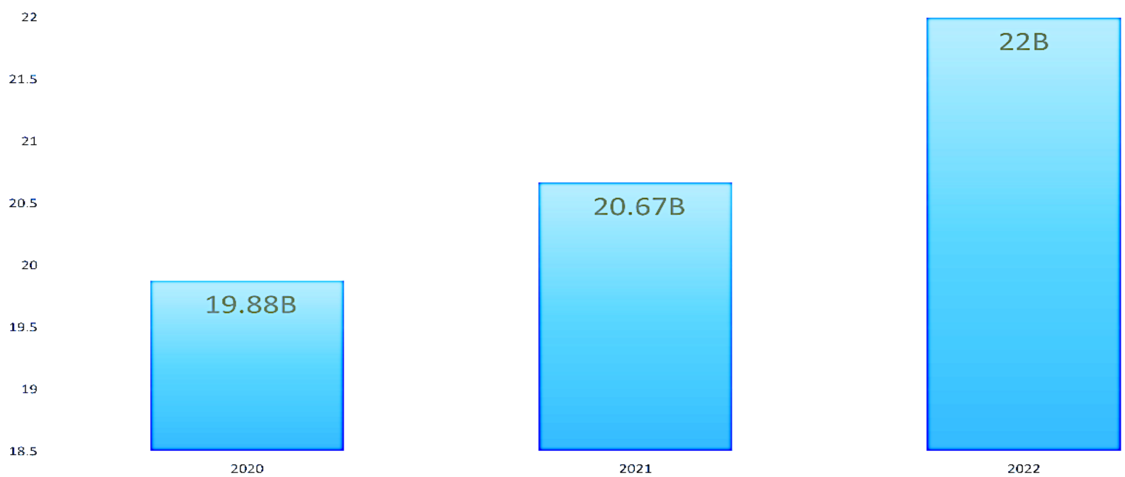

Figure 18
Value of FDI Inflows in UAE in US $

4.4: The Role of the Political Stability, Incentives, and the Leadership

Even though this study was mainly looking for (how) bureaucratic reforms pushed towards encouraging foreign direct investment in the United Arab Emirates while neglecting them led to an aversion of FDI in Libya, searching for (why) these bureaucratic reforms were adopted and desired in the UAE is essential for understanding the picture in its entirety in both cases.

Comparative politics literature emphasizes the importance of political incentives as determinants of whether rulers adopt good economic institutions and policies or hesitate to do so. For example, *Acemoglu, Daron, Johnson, and Robinson's 2005 article, Institutions as a Fundamental Cause of Long-Run Growth*, explained that economic institutions are the reason for

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[186] "UAE Top Choice of Investors as FDI Inflows to Hit $22B This Year," GulfToday, https://www.gulftoday.ae/business/2022/11/20/uae-top-choice-of-investors-as-fdi-inflows-to-hit-$22b-this-year.

long-term growth and development. Those economic institutions are chosen for political reasons.[187] Therefore, the rulers' political incentives provide a decent explanation for the cause of adopting good economic institutions. The rulers' political incentives provide a decent explanation for the cause of adopting good economic institutions. Adopting good economic institutions and policies is a welcomed process when political incentives such as government stability, public satisfaction, or regional competition matter for the political system. But this social equation also submitted to whether the individual leadership character is a pro-investment and growth.

The UAE started as a traditional rentier state. Political authority provided the people with what they needed, and people delegated political authority to the delegation necessary to govern state affairs. The economic-political equation in the UAE has two sides of charge feeding each other. Economic growth has become a driving factor and a booster of political stability without political competition in the UAE, and political stability has also become a driving factor for more economic growth in the UAE. This two-sided social equation caused the absence of political struggle in the UAE, which provided an opportunity for the influential elite and rulers to improve economic growth by adopting the continuous status of good economic policies, as presented in the above sections of this chapter. People in the UAE, in turn, enjoyed the fruits of the economic policies and expanded their trust in the government. This bipolar economic-political equation imposed a continuous push toward better economic policies, reforms, and constant modernization of economic institutions by the state and for reaching citizens' greater satisfaction, which in turn enhances the stability of the political system. The consequence is that economic reforms have become desirable by the state. Recently, the UAE built a strong and competitive economy, which created a new political incentive for its rulers to continue to adopt economic

[187] Daron Acemoglu, Simon Johnson, and James Robinson, "Institutions as the Fundamental Cause of Long-Run Growth," 2004, https://doi.org/10.3386/w10481.

growth policies. A new political incentive for regional excellence and influence is expected to push the UAE toward better economic policies and reforms, as seen recently.

The personality of political leaders is essential when it comes to reforms, growth, and development because of their significant influence in making public policy in their countries and their significant influence in directing their societies towards what they think is appropriate. However, the role of the individual factor is also essential in analyzing these countries. Individuals are the ones who lead states, even though in some democracies, institutions guide as much as individuals do. On top of this economic-political equation of the UAE explained above, there is a fact that cannot be overlooked in understanding Emirati growth, which is the role of the leadership represented by the founder of the United Arab Emirates, Sheikh Zayed bin Sultan Al-Nahyan. His inclination towards development was noticeable and his participation in the development of the UAE is remarkable, unlike other leaders who do not have this inherent tendency towards construction and development.

What was analyzed above about the UAE is the opposite of what is the case in other countries, including the main case study in this study, Libya. During most of its modern history, Libya lacked the political incentives necessary to adopt good economic institutions and reforms. In addition, the country's most of time political leader Muammar Gaddafi was more interested in ideological and historical matters than global economic matters, as highlighted in the next chapter.

4.5: Conclusion

Several other reasons have been suggested by academics who have studied the causes of the UAE's large inflow of foreign direct investment. Yet, the bureaucracy factor is an essential part of FDI that received great attention in this study.

Since its governments engaged in bureaucratic reforms—including bureaucratic control or restraint, fighting corruption, and updating the FDI law continuously and based on the implicit requirement of the global economic structure—the United Arab Emirates has become a desirable destination for foreign direct investment (FDI).

Since the 1970s, the United Arab Emirates has adopted capitalism as its economic ideology, which facilitated the control of its bureaucracy and not allow it to expand at the expense of investment; whether they were aware of it or not, the UAE's propensity toward capitalism led them down the route of Max Weber's ideology, where they had to keep an eye on their bureaucracy and ensure it didn't grow to impede investment.

The political leadership of the UAE has expressed in several interviews that they are exerting such bureaucratic control via the ongoing status of legislative and administrative adjustments aimed at making it simple for international investors to move their businesses to the UAE and to feel convenient in the UAE.

The UAE bureaucracy was the target of the country's legislative and administrative reforms. Adopting the Macro New Public Management, Behavior Competency Frameworks, an online platform for foreign direct investment, legislative modifications, electronic and smart government, and, most significantly, the reduction of red tape are all examples of bureaucratic reforms presented in this study. Consequently, the market became more efficient and liberalized, and, most importantly, doing business was made more accessible. All of the improvements, as mentioned earlier, happened over time, and at the same time, foreign direct investment into the nation went risen. Increases in foreign direct investment (FDI) were consistent during the whole time frame; however, they did fluctuate somewhat at times before increasing again. The study attributes the short and minor fluctuations of the FDI inflows in the UAE to short-term shacks in the international market and the FDI-source nations. Notwithstanding these quick fluctuations, FDI inflows in the UAE have increased significantly since the country began reforming its bureaucratic system.

To counteract bureaucratic corruption, the United Arab Emirates implemented a New Public Management system and Behavioral Competency Frameworks at the federal level. In addition, to minimize corruption in public institutions, the UAE complied with international standards and increased its legal penalties for corruption activities. Among the objectives was to gain international investors' and domestic enterprises' trust. As a result, the United Arab Emirates is now recognized as one of the least corrupt nations in the world and the least corrupt Arab nation. It is the 27 least corrupt nation out of 180 countries, according to the 2022 Corruption Perceptions Index reported by Transparency International.

The UAE has maintained a high-quality bureaucracy by regularly revising the Foreign Direct Investment Law. In 1988, the United Arab Emirates implemented amendments to the 1984 Commercial Companies Law. It was a comprehensive set of rules that applied to domestic and international corporations operating in the country. After years of restrictions, the UAE Companies Law of 1988 allowed foreign companies to acquire as much as 49 percent of local businesses. The foreign company's ability to dissolve, re-form, change business activity, and the register was also greatly expanded by the 1988 legislation. Many at the time praised the legislation for its merits. The Commercial Companies Act Amendment Law No. 2 of 2015 furthered the process of liberalizing the UAE economy. The United Arab Emirates proclaimed the provocation of Federal Decree No 19 of 2018 and proposed incremental modifications to the legislation in November 2020. Foreign investors and corporations operating in the UAE have applauded the improvements that resulted from these amendments, such as eliminating the necessity for a national agent as a partner for license registration and allowing 100% foreign ownership of UAE-incorporated enterprises.

For international investors, the UAE is an attractive location for doing business because of its efficient bureaucracy, its commitment to eliminating corruption, and the regular updates it makes to its Foreign Direct Investment Law. Those improvements in three criteria made the UAE of the sufficient nations worldwide regarding the quality of bureaucracy and at the top of the Arab world's rankings. Moreover, the UAE's high standards in FDI inward inflow have been embraced by its leadership, which potentially was derived from political incentives as the developmental legacy of Sheikh Zayed Bin Sultan Al Nahyan (1918 - 2004) cannot be overlooked.

The United Arab Emirates, like most Middle Eastern countries, began as a rentier state, with a relationship between the people and the ruling authority in which the people outsource the management of the country's affairs to the political rulers in exchange for the services and goods that they desire. This relationship between the government and the people worked as a political incentive and prompted the United Arab Emirates authorities to work on improving policies that would promote economic growth and the population's well-being.

Former President Sheikh Zayed's character advocated economic growth and development, enhancing the UAE's economic policy. From there, bureaucratic reforms and investment incentives became a political motivation in the UAE and a driving element in more development-oriented reforms. Economic growth, development, and welfare measures have strengthened the country's political system and improved residents' trust in the rulers because such policies benefit the people. Good economic institutions contribute to the strength of the political system, which in turn supports these economic institutions.

Ultimately, the UAE's economic heft grew, and the UAE entered the regional competition arena. It even entered an international competition on numerous levels, as revealed by pertinent international reports. Moreover, the UAE's new regional and international status provided a new external impetus, pushing for more efficient economic policies. As a result, billions of dollars in FDI have crossed the border into the UAE, making it a global destination for global capital.

Nevertheless, some observers mentioned that the UAE's neoliberal economic transformation is incomplete and pointed to the government ownership of critical utility companies and government subsidies in areas like the aviation industry. Such criticism was likely in light of the high standards of assessment based on the experience of the advanced capitalist nations. As its leadership has acknowledged, the UAE has a long way to go. Yet it doesn't diminish the country's economic advancement. Foreign direct investment (FDI) inflow into the United Arab Emirates has been miraculous and unique in the Arab world. Libya can potentially become Africa's equivalent to the United Arab Emirates. However, Libya does need to adopt certain institutional upgrading, the origins of which will be discussed in the next chapter.

Political stability without competition in the United Arab Emirates was a helpful factor that facilitated the reforms. Political leadership in the UAE was not distracted by political competition, which provided room for pro reforms policies and resulted in remarkable policies inclined toward growth and development.

Chapter 5: Bureaucracy and FDI Inflow in Libya

Libya was a constitutional monarchy with a democratic experience that predated its neighboring countries in the Middle East and North Africa area and lasted for 18 years, from its independence year of 1951 to the 1969 military coup. It had an elected parliament, an independent judiciary, and a prime minister as the executive head of government. At the helm of this kingdom was King Muhammad Idris bin Muhammad al-Mahdi as-Senussi, the spiritual leader of the liberation struggle with Omar al-Mukhtar. King Edris enjoyed decent political authority; however, it did not diminish the nature of his simplicity in life. His political authority as a king was not unrestricted and did not impinge on the rights of the elected parliament and its executive prime minister. **Figure 19** presents the map of Libya sourced from World Atlas.[188]

Figure 19
Map of Libya

[188] "WorldAtlas, Libya Maps & Facts," https://www.worldatlas.com/maps/libya.

On the 1st of September 1969, a youthful first lieutenant in the Libyan army embarked on a risky political adventure with his fellow low-ranking soldiers, staging a military coup that ended the constitutional monarchy while king Idris was on a foreign visit. The coup succeeded miraculously. By then, Libyan society was simple and experienced economic challenges compared to the high expectations of the people of the independent nation. From 1969 through 1977, youthful military commanders led by Muammar Gaddafi proclaimed Libya a republic. They turned the country into a political, economic, and social field test, which produced much uncertainty and confusion at the time. The new military rulers of the nation succeeded in assassinating what remained of the country's 18 years old of institutions. The revolutionary council of coup commanders governed the country during that period. Gaddafi was at the helm of the revolutionary council, including a prime minister and a cabinet. Following internal conflict and power competition among coup officers, Gaddafi eliminated those who posed a political threat to his character, empowered those loyal to him, and grabbed his hand on power at the expense of his former colleague and rivers. In 1977, Gaddafi declared what is known as the Establishment of the Authority of the People. After that, he announced the three chapters of his *Green Book*: political, economic, and social, with mythical and illusionary ideas. However, those ideas certainly assisted him in tightening his grip on power.

The core idea of the Green Book's political chapter was like the ancient Greek direct popular democracy, in which people in neighborhoods, schools, enterprises, clubs, towns, and cities convened twice yearly to debate and decide on policy. Each popular conference formed an executive committee to implement the policy proposals from the people's discussions. These policy choices finally reach the General People's Conference, the congress at the state level, and its executive committee, the government, executes these decisions after sorting, sifting, and amending numerous documents from everywhere. It's a time-consuming bureaucratic cycle in which policies often get lost in the drawer, and it's always been an inefficient mode of government. In such an extensive bureaucratic cycle, the status of Gaddafi as supreme leader, first teacher, and leader of the never ended revolution was maintained well preserved. The main propaganda of the whole system was that Gaddafi had no political authority and that the people ruled themselves directly without delegating power to others. The successive political shifts during those decades generated an uncontrolled and corrupted bureaucracy that harmed investment in general and foreign direct investment in particular, as will be proved later in this chapter.

The *Al Jamahiriya* system governed until Muammar Gaddafi was deposed on February 17th, 2011. Since then, seven prime ministers have alternated in leading the nation during a transitional phase. During the post-*Al Jamahiriya*, the political system hybridized between presidential and parliamentary systems and did not avoid political violence between adversaries, notably in 2014, during the second civil war, and in 2019, during the third civil war. Democracy existed throughout the transitional period, although characterized by flaws. Elections were held in 2012 and 2014, with another scheduled for 2022 but postponed to 2013. What is more significant for this study is the influence of bureaucracy on FDI inflows and its fluctuations in value due to changes in bureaucracy and bureaucratic quality.

Bureaucracy in Libya will be presented similarly to how bureaucracy was portrayed in the previous chapter on the United Arab Emirates. Low-quality bureaucracy is determined by three factors: bureaucratic expansion or uncontrol, bureaucratic corruption, and the bureaucracy of the FDI Laws, which may be flexible or challenging. As discussed in the last chapter, the United Arab Emirates benefited from a high-quality bureaucracy, boosting FDI inflows.

Administrative reforms, anti-corruption measures, and the continuous status of FDI Laws modifications to apply to the contemporary global economy have resulted in high-quality bureaucracy in the UAE. In Libya, however, the situation is the opposite, and the bureaucracy in Libya is low quality, as illustrated on **Figure 20**.[189]

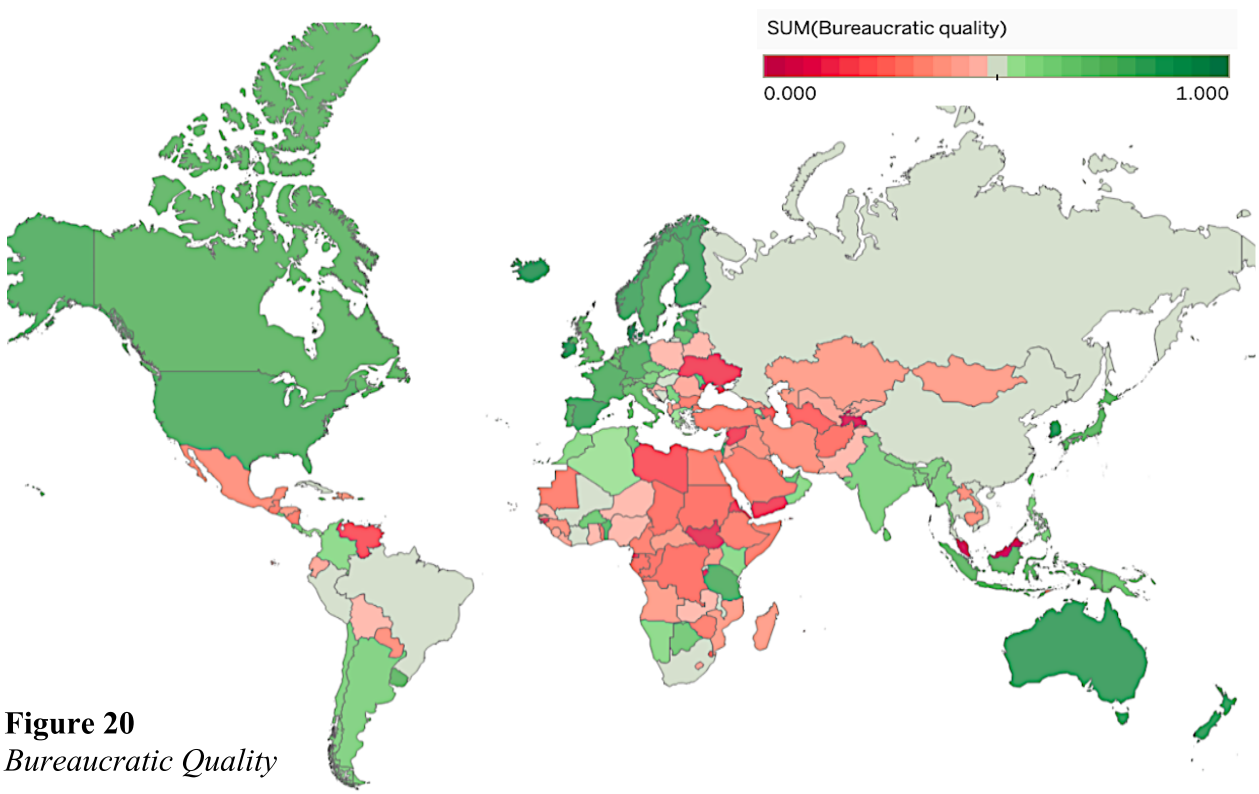

Figure 20
Bureaucratic Quality

Libya's embrace of rigorous socialism after Muammar Gaddafi's takeover resulted in the expansion of bureaucracy and the heavy involvement of the state bureaucracy in the economy, limiting investment prospects in general and making the nation unappealing to foreign capital particular. The hesitation of foreign capital inflows to Libya under these circumstances is not surprising given that capital is a coward and will not take risks to move in ambiguous circumstances. Moreover, corruption was rampant in the state institutions in Libya, and it was

[189] "Bureaucratic quality by country for the year of 2019."

well-recognized worldwide in different international reports and indexes. The motivations for the corruption varied and connected in vicious cycles in Libyan state institutions. Adopting a rigorous socialism with similar features of communism for decades has resulted in an unrestrained bureaucracy, which has resulted in increased corruption in the state, especially since the country is rentier in nature and gaining and retaining power is crucial for survival. In addition, the profound social relationships and ties among the country's families and tribal regions, and ethnic groups are regarded as a distinctive feature of the Libyan culture and arguably blamed for enhancing corruption. In addition, intermarriage also creates another socially sanctified tie that adds to patterns of nepotism, favoritism, and other types of corruption. The expansion of bureaucracy generated a form of rent that reflected bureaucracy, enhanced its domination in society, and benefited the elite class that skillfully maintained their positions regardless of who ruled the country politically. Apart from the two characteristics of low-quality bureaucracy in Libya, bureaucratic expansion and high corruption, the bureaucracy of the FDI Laws and regulations has impeded international investment attraction. The three factors of low bureaucracy caused FDI inflows to Libya to be extremely low compared to Libya's potential as a nation with numerous untapped economic resources. **Figure 21** shows FDI inflow in Libya.[190]

Foreign Direct Investment inflows dropped throughout the Jamahiriya's rule, particularly during the peak of bureaucratic growth in the 1970s to 1990s. However, foreign investors began moving businesses to Libya during the first ten years of the new millennium during the emergence of the star of Saif al-Islam Gaddafi as an institutional reformer. Saif was pressured into adopting several good policies and institutional initiatives, which slightly improved institutional performance. Among the revisions undertaken at the start of the 2000s were

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[190] "Data Catalog," World Bank Open Data. The data for FDI is annually from 1990-2019.

revisions to the foreign direct investment laws in 2003, 2005, and 2010. Later, during political change after the February 17th Revolution of 2011, there was a further decrease in bureaucratic and institutional performance, and corruption extended even further. Consequently, the level of foreign direct investment inflows fell again, as shown in **Figure 21**.

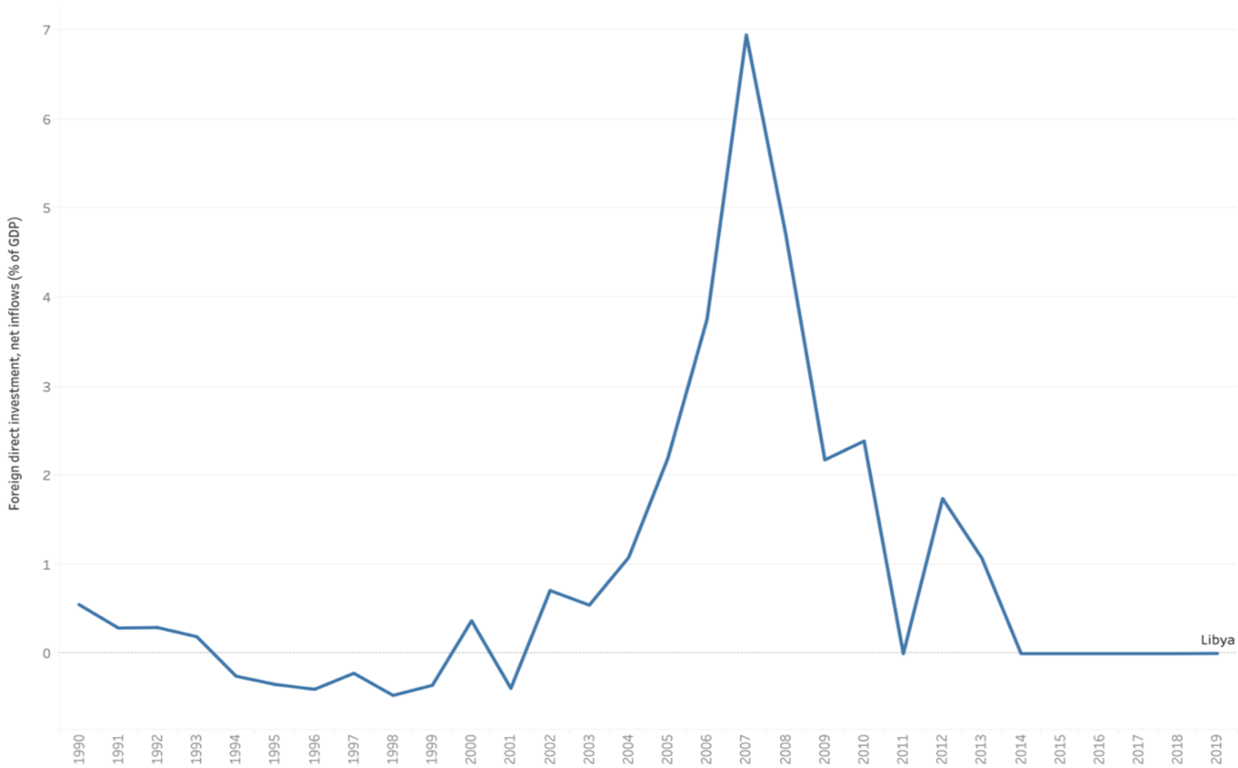

Figure 21
FDI inflow in Libya

5.1: Bureaucratic Uncontrol (Expansion) and FDI in Libya

The bureaucratic expansion that characterized Libya following the 1969 political change hindered investment and FDI inflows and can be understood as a deliberate government ideology that tightened socialism and state interference in the economy. The start was a radical change in laws through several semi-constitutional documents that assassinated what remained of the kingdom's constitutional institutions, which were not mature enough to defend themselves.

Those semi-constitutional radical changes initiated and supervised by Gaddafi empowered the state's bureaucracy. They varied from the First Statement of the Revolution (Coup), *the Zuwara Speech or Zuwara Five Points* (Cultural Revolution), the Declaration on the Establishment of the Authority of the People, The Declaration of the Green Book, the *Alzahf Alakhdar* (Green Crawl) and the prevention of private business. Although they appeared to be merely economic measures, they concealed a political philosophy to eliminate any possibility of political resistance to the new regime.

5.1.1: First Statement of the Revolution

Intention toward socialism was revealed in what is known as the First Statement of the Revolution, which was read by Gaddafi on the night of September first, 1969, on a state TV station based in Benghazi. Implicitly a part of that statement stated, "From now on, Libya is considered a free and sovereign republic under the name of the Libyan Arab Republic, ascending with God's help to work to the heights, and on the path of freedom, unity, and social justice."[191] Such intention toward strict socialism under the pretext of social justice was demonstrated over the next decades of the coup through several official laws and regulations that were treated as semi-constitutional documents in *Al Jamahiriya*, resulting in a state of expanded bureaucracy.

5.1.2: Zuwara Speech

On the 15th of April 1973, in *Zuwara*, a coastal stronghold town of the Amazigh ethnicity that was historically anti-Gaddafi, the latter provided what is known as *the Zuwara's Speech* (The Declaration of the Five Points). *Zuwara Speech* was among the semi-constitutional

[191] “arab48,” tran., “Arab 48, Arab website 48
https://www.arab48.com/.

declarations that prevailed during Gaddafi's rule. What was labeled the as the Cultural Revolution was declared. Gaddafi declared what he described as a war on the "reactionary-style" character of the state, expressing what he called "the era of emancipation and liberation from all legal restrictions" and even suspending laws and purging the country from what he called "the politically ill enemies of the revolution". A year later, he officially abolished political and administrative posts while retaining the head of state and chief of army titles. Shortly after, Gaddafi issued the first version of the *Green Book* calling it the "Third Universal Theory." Laws and political parties were eliminated.[192] These acts contributed to an even higher level of anarchy and confusion in society. What was left of the legal institutions of the constitutional monarchy that ruled from 1952 to 1969 was abolished.

5.1.3: The Establishment of the Authority of the People

The year 1977 came with a declaration treated as a semi-constitutional document. The declaration stipulated that the Libyan people assembled in the general forum of people's congresses in its extraordinary session in Cairo, Sebha, from February 28 to March 2, 1977, decided to proclaim the establishment of the authority of the people.[193] The official name of Libya changed to the Socialist People's Libyan Arab Jamahiriya. Third, Direct Popular Authority is the basis of the political system in the Socialist People's Libyan Arab Jamahiriya. The declaration stated that authority belongs to the people and that no one else has authority. People exercise their power through congresses, committees, trade unions, federations, professional

[192] "Africa News Portal," Towards a Better Understanding of Africa - Africa News Portal https://www.afrigatenews.net/.
[193] "DCAF Legal Database," https://security-legislation.ly/ar/law/33037.

associations, and the general people's congress, while the law defines their work system.[194] This political declaration paved the way for a subsequent stage of the assassination of the remaining institutions that guarantee freedom of ownership and investment, as well as the beginning of a new phase of hostility to the private sector and spreading a culture of aversion to foreign investment, which was replaced with expansion and bureaucratic incursion into the state, beginning with Law No. 4 of 1978, which defines green crawl law. Socialism was now openly avowed.

5.1.4: Alzahf Alakhdar

The complete elimination of economic freedoms came with what the Libyans know as the Green Crawl "*Alzahf Alakhdar,*" when the masses followed Gaddafi's discourses and encroached on capital's properties, homes, factories, stores, and so on. As the government claimed at the time, this movement came to implement the decisions and recommendations of the popular congresses in its regular session in March of 1978 AD.[195] Implementing Law No. 4 of 1978 deprived many Libyans of their property. The tenants robbed their owner's house, and the workers crawled into the factories, turning them into partnerships association. Workers and employees divided the properties where they used to work for salaries among themselves. Companies forcefully altered to Business Partnership Associations "*Tasharukiaat*" derived from a plural word of *Ashtirakia*, which means socialism in English. Whoever owned a building was taken from them. Because of this, many families moved from wealth to poverty, some fled outside the country, and some became workers in factories they previously owned. The private

[194] Ibid

[195] "Law No. (4) for the Year 1978 Regarding the Determination of Some Provisions Related to Real Estate Ownership." The General Secretariat of the General People's Congress.," Ministry of Justice Libya, https://aladel.gov.ly/home/?p=1069.

sector had been looted, and the state took control. The 1978 law came with fourteen detailed articles, the most prominent of which is Article 12, which stipulates severe penalties against those who obstruct the implementation of this law by imprisonment and deprivation of civil rights, including those who refuse to disclose information about what they own.

Even though Muammar Gaddafi confessed in a tv interview at the end of his rule that he made a mistake in enacting this law and learned from his previous mistakes, Law 4 produced societal antagonism between people that persists to this day. Gaddafi further stated that those who plundered assets were wrongdoers. Yet, during the start of his leadership in the early 1980s, Gaddafi delivered a speech in which he argued that confiscated possessions belonged to other Libyans and were stolen from them during the colonial era. He challenged every resident whose property had been taken by the state while the property was not stolen from others during colonialism. He implicitly referred to the time of Turkish and Italian colonialism, where arguably many people lost their assets while some accumulated wealth.

The damage to the law was significant despite the later attempts made by Saif al-Islam to repair what was corrupted by the 1978 law. A compensation idea was proposed, but the matter still needs to be resolved. The looted properties are transferred from one individual to another, and retaking and returning them would lead to more social and economic unrest. In Tripoli, for example, the execution of Law No. 4 resulted in the deprivation of thousands of people from their houses, leaving behind a complicated and weighty institutional real estate quandary that has yet to be resolved.[196] The situation worsened when the ideologized revolutionary committees burned the Cadaster database on November 17th of, 1985. The law came as an actual

[196] Suleiman Ibrahim, tran., “Real Estate Ownership in Libya, Gaddafi's Heavy Legacy,” Legal Agenda, January 27, 2021, https://legal-agenda.com.

implementation of the economic and social concepts of the *Green Book* that ruled the country and showed the extent of the damage its philosophy could cause. Those acts were implemented by the bureaucracy of the state apparatus, which provided an excellent political tool for use by the regime.

For the sake of fairness in conveying all points of view, it is worthy of mentioning that some still justify the "*Alzahf Alakhdar*" policy as restoring the rights of oppressed and crushed classes during the times of Turkish and Italian colonialism, from those who worked with the Turks and gathered wealth at the expense of other oppressed classes. I do not rule out the possibility that Gaddafi's adoption of the government confiscation of properties was influenced by his personal social and economic environment caused by the Turks and Italians' colonization of Libya during their rule, even if he did not overtly proclaim it. He was brought up in a challenging and poor social and economic environment in the countryside, and he always had this feeling toward influential families and capital. Gaddafi's tribe was forced during Italian rule to migrate to the neighboring countries. His famous slogan, "Tent triumphed over the palace," proves such a feeling. The socialist expansion using bureaucratic tools also assisted him in consolidating the *Al Jamahiriya* regime and suppressing and weakening the groups that opposed it or were likely to resist the regime, particularly those concentrated in the heart of urban cities such as Tripoli, Benghazi, and Misurata, and who early gained scientific and technical skills that the rest of the population did not have.

5.1.5: Oil Policies

The strong socialism that began with the arrival of the Gaddafi regime and the participation of its bureaucracy in all facets of the economy showed signals of economic harm to the oil sector, the core of the Libyan economy. Oil production in 1970 hit a record high of 3,7 barrels per day, representing the total pipeline system capacity. Yet, the hostile stance of the Libyan regime's foreign policy caused international oil corporations to decrease their operations in the country.

The military administration pursued more enormous profits from Libyan oil via a divide-and-conquer policy between small and large oil businesses. The poor negotiating position of the independents at the time aided the regime's tactics. Those small oil corporations derived much of their earnings from Libyan oil. By intentionally targeting the smaller independents responsible for the bulk of oil production at the time, the supply to Europe dropped significantly. Those producers had to comply with the regime's demand for higher pricing. The Libyan government continued to pursue a policy of higher prices, greater ownership, and greater control over production. It reduced production quotas for individual companies in cooperation with the Algerian authorities. The latter also began taking measures against the French oil interests by that time. When the tiny independent oil producers in Libya, who at the time produced more than half of the country's crude oil, agreed to the government's demands for higher advertised prices, the rest of the sector had little option but to follow suit. The government increased tax rates and posted fees. In 1971 foreign corporations sought to form a unified approach to deal with the Libyan Producers' Agreements, but the regime's divide policy allowed it to resist the companies' collective efforts. As the Libyan National Oil Cooperation LNOC had been able to sell oil on its own at far higher rates than those advertised for Libyan petroleum, it pushed for even higher stated prices. The conclusion of the discussions, the Tripoli Accord of March 20, 1971, was an increase in the displayed price of Libyan oil to $3.32 per barrel. In 1974, the price disparity between Libyan and Persian oil reached $4.12 per barrel, forcing Libya to lose its cost edge and generating temporary problems later that year. The Libyan government then focused on bolstering the status of the LNOC to play a more significant role in administrating the country's oil sector. During and after oil price talks, the oil corporations abandoned twenty-three concessions. The LNOC assumed the administration of these concessions.[197]

By the end of the 1970s, Gaddafi's regime was in an open conflict with the West, which eventually affected Libya's economic stand. The United States ceased all crude oil imports from Libya at the end of 1981 during the peak of the military dispute over the international waters of the Gulf of Sirte. Libya could readily reroute these shipments to the European market. Therefore, this was of little concern to the country. But the United States progressively widened its economic embargo until it encompassed essential supplies for Libya's oil sector. The severing of diplomatic ties with the United States and the United Kingdom was the climax of a rising antagonism between Libya and the West, resulting in diplomatic and economic isolation after 1986.[198]

Even though the Libyan government introduced to the public such measures as restoring the nation's wealth from foreign exploitation and economic imperialism in its rhetoric and gaining political legitimacy by that time, the continued result of such state intervention in the sector that partnered with foreign investors would worsen over time, and the people would come to realize this. The country's oil reserves are large and superior worldwide, even though companies abandoned oil fields and left the country. Now a maximum of 1.5 million barrels per day is produced. Thus, the economic capacity of the populace is constrained. Moreover, during the bureaucratic intervention of socialism, a potentially highly lucrative investment and

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[197] Dirk Vandewalle, A History of Modern Libya (Cambridge: Cambridge University Press, 2012), 90.
[198] Ibid. 98

collaboration in the oil industry were overlooked. Sorrowful even is that an intellectual culture was constructed based on these strategic mistakes when many people felt that foreign investment may be a kind of foreign exploitation of the nation's resources and that oil should not be a key source of income. These conventions are a remnant of the past socialist anti-investment regime. Such intellectuals advocate those discourses disregard that Libya needs more infrastructure for economic diversification. In addition, they overlook the fact that nations compete in the global market based on their comparative advantage in specific commodities and services, which for Libya, at the outset, is the oil industry.

5.1.6: Socialist Bureaucratic Incursion

The state's involvement via bureaucratic control and its use of bureaucracy as an instrument of power in society was felt and experienced by the residents. Libyans were still determining what kind of life the green book and its radical theology would bring. There was a significant transformation as individuals who used to own and produce things such as food production, sulfur, soap, and so on became laborers reliant on low governmental wages. At the same time, foreign corporations in the energy and agricultural industries were departing. According to an article published in the New York Times on February 19, 1974, foreign oil companies found Libya to be the most challenging producer to do business with because the young military leaders, Gaddafi and his coup partners known as the Free Unionist Officials, were dictating terms to the foreign oil companies.[199] In addition, those individuals from the Western world investing in agricultural sector projects had to leave during socialism and bureaucratic

[199] Juan De Onis, "Foreign Oil Companies Find Libya Is Toughest Producer to Do Business With," The New York Times (The New York Times, February 19, 1974), https://www.nytimes.com/1974/02/19/archives/foreign-oil-companies-find-libya-is-toughest-producer-to-do.html.

economic expansion. As a result, the FDI inflows in Libya started to drop during the 1970s immediately after Gaddafi took over and established the strict socialist system in the country, as illustrated in **Figure 22**.[200] The graph presents a notable decline in the growth of *Al Jamahiriya*'s bureaucracy.

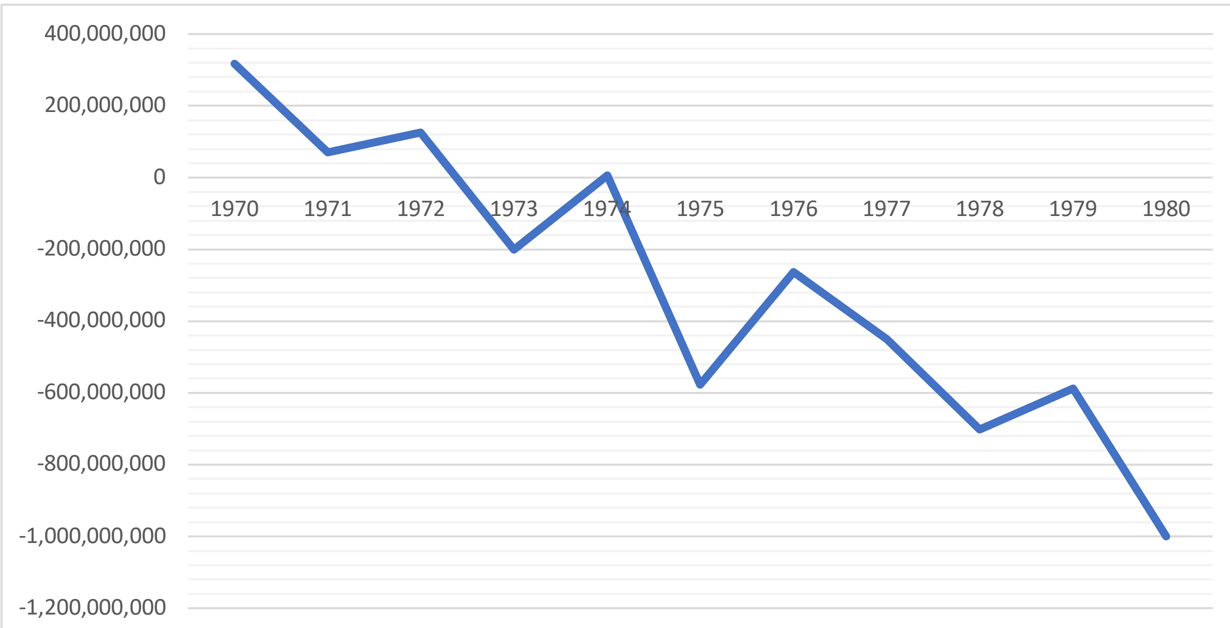

Figure 22
FDI Net Inflow in Libya PoP (1970 – 1980, U.S. $)

Private stores were prohibited in the late 1970s, significantly restricting private business. During the Green Crawl movement, the government banned the private sector from playing commercial roles and seized residents' private property. Private trading between citizens was also prohibited, and retail operating stores were illegal. The government took everything from minor basic items like bread to more significant products. Workers working in soap, sulfur, marble, and other industries relied on government salaries. The private sector was replaced with government-

[200] "Foreign Direct Investment, Net Inflows (BOP, Current US$) - Libya," Data https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=1980&locations=LY&start=1970&view=chart.

run consumer associations known as *Jameiaat*. The primary role of those associations was to distribute products to residents in their communities, providing the government with a significant pattern of bureaucratic intervention and authority in society. Every family had its association booklet, used with the family book to get its share of the commodities. Government authorities utilized consumer association booklets to record what electronic gadgets and other products citizens acquired. The family book was a tiny green notebook listing the family members. The administration often needed to supply products on schedule, but individuals used to struggle while waiting for their supplies on time. Sometimes the government delays the delivery of certain commodities, which distracts public opinion with basic needs for a while. Some items may take up to three months to become accessible in the consumer association. Occasionally a person had to network in order to get an additional ratio to fill the need. During that period, the heads of households struggled to provide their families with the necessary requirements for living. The government used to sell more items and commodities at government-run malls (*alaswaq*) than the consumer association, especially during the peak of social occasions such as holidays and Ramadan.[201] **Figure 23** is an image which presents picture of gathered citizens in front of a government-run public market during the 1980s in Cyrenaica, eastern Libya.

As necessary products became scarce and private enterprises started to close, simple goods like tuna, chocolate, cigarettes, clothing, and agricultural supplies took time to arrive at the customer associations or government-run public markets. For example, people often had to wait months to receive a package of tuna or cheese. The box included a maximum number of pieces for a household and would be consumed quickly. It is typical when one type of commodity like

[201] Abdurraouf A Elakder, "Sanctions and the Salvation of the Authoritarian Regimes Libya, Eritrea, and Iraq." (ProQuest, January 2015), https://www.proquest.com/openview/895363eba89f5517ea5b8f8b4bda4c1d/1?pq-origsite=gscholar&cbl=, 35-47.

chocolate is consistently provided in violation of consumption freedom. An example of such daily suffering during the 1980s and 1990s ate smokers.

Figure 23
Citizens gathered in front of a government-run public market (1980s in Cyrenaica, Libya)

The supply of the one national kind of cigar needed supply and was sometimes disrupted. The pack of cigars contains 20 cigarettes and is so costly. When the minimum government salary is considered, cigarette usage becomes financially draining. Trading cigarettes on the black market was prohibited and may lead to significant penalties. People, however, engaged in such trade secretly. Clothes were another popular item under the government's control. Clothing was seldom accessible when it was most needed. The government offered poor-quality clothing twice a year via its government-run public markets, generally before the start of the school year and then again before the *Al-Fitr* holiday. The government imported the clothing at a low cost, then raised the price and sold them in customer associations and malls it runs. Farmers had their booklets, known as ownership booklets. In that tiny book, the government keeps track of what a farmer receives regarding agricultural goods and equipment. Yet, due to the government's monopoly on the import of agricultural supplies such as fertilizer, feed, and seeds, additional agricultural materials were required. During this time of bureaucratic expansion, the Libyan government used to purchase fertilizer from Tunisia and Egypt and then sell it to farmers at exorbitant rates via government-run shops known as agricultural organizations, *Jameiat Ziraeia*. This policy negatively influenced food costs and exacerbated residents' hardship. The agricultural industry comes second after oil regarding the damage received because of the withdrawal of foreign investors. Overcrowding in government-run public markets when they are open, nepotism, favoritism, and mediation made it challenging for certain categories of citizens to get what they needed in goods. To overcome such prohibition of trade, women used to open house shops to sell basic things such as clothes, kitchen equipment, and other necessities.[202]

Because there were inadequate products to buy, this gave a chance for some individuals to save money that the government would indirectly seize. At the end of the 1990s, the government imported low-cost vehicles such as Hyundai and Daewoo, then raised the price and sold them to residents. The government was able to collect the savings of residents in this manner. The public transportation systems in the nation during that time were distorted, and as a result, residents had no choice except to purchase an automobile from the government at an exorbitant price, and most of that money was collected by the people during the shortage of goods and services to purchase.[203] Throughout the 1980s and 1990s, consumer associations distributed three kinds of electronic devices: TVs, DVD players, and radios. The government used to provide tens of electronic items to each consumer association every few months. Hundreds of consumer association members competed for those devices in a lottery. Some fortunate individuals would win and get one device. The device would be documented in the

202 Ibid

203 Ibid

association's book. If a person wins the lottery and receives an electronic device, they cannot join it again. It would take at least three years for them to be eligible to join the lottery again. It was typical for the winners to resell their equipment on the black market to obtain more funds for primary goods purchases. The government's bureaucratic structure poorly coordinated these supply measures, causing social embarrassment among residents.[204]

The mentioned brief examples of what the strict socialist bureaucracy committed at all lower and upper levels of acts are also highlighted under the bureaucratic corruption section. These bureaucratic expansion tactics in the country's economy have limited internal and external investment, making Libya unfavorable for foreign direct investment. Regretfully, the poor bureaucracy did not stop with bureaucratic expansion; its second element in this study, bureaucratic corruption, is also associated with bureaucratic expansion. All the heavy governmental programs were implemented via the expansion of bureaucracy, eliminating any investment opportunities.

5.1.7: New Millennium Reforms

The relief of the political, economic, and social deterioration and pressure on the Libyan people that started with the bureaucratic expansion process peaked during the 1970s, 1980s, and 1990s, supposed to pave the way for the emergence of Saif al-Islam Gaddafi as a political and economic reformer in the first decade of the new millennium. It was supposed to gain him acceptance from the Libyan people, opposition elites abroad, and the international community's

[204] Ibid

trust. That occurred precisely, even if only for a decade or a little more. Among the economic and political reforms carried out by Gaddafi's son include:

- The normalization of relations with the West.
- Encouraging his father to abandon weapons of mass destruction.
- Releasing political prisoners.
- Reinstituting abroad scholarship programs.
- Carrying out macro administrative reforms centered on the role of individuals. Most importantly, such administrative reforms affected the FDI inflows into Libya positively, drawing the most attention in this study section.

Saif al-Islam Gaddafi succeeded in leading reform initiatives that focused on appointing senior state officials based on their qualifications and not on their political loyalty to the regime - and this was the opposite of what was usual in previous decades. Saif al-Islam convinced Dr. Mahmoud Jibril, a Ph. D. in political science, to return to the country and head the government, what was known in Libya by the time the General People's Committee, then helped in appointing him as the General People's Committee for Planning, or the Ministry of Planning in Al Jamahiriya terminology. Interesting that Dr. Mahmoud Jibril became the first prime minister of the opposition after the outbreak of the revolution in 2011. Saif al-Islam also succeeded in appointing legal advisor and judge Mustafa Abdel Jalil as head of the General People's Committee for Justice, or the Ministry of Justice. Interestingly, Counselor Mustafa Abel Jalil became the first president of the National Transitional Council that opposed Gaddafi after the outbreak of the revolution in 2011. In addition, Saif al-Islam supported the efforts of the Ministry of Planning in administrative reform and supported the establishment of the National Council for Economic and Social Development, which included and empowered Libyan experts who supervised significant economic and social reforms, including what is in the field of privatization and investment. Under the supervision of Saif al-Islam, several technocratic and technical leaders also assumed top governmental positions. Under his supervision many bids were held for foreign companies and the government concluded many huge contracts with foreign partners. With the beginning of the new millennium, foreign companies began flocking to Tripoli, and Libya witnessed a rapid construction renaissance. The markets were filled with luxury goods and Western products, especially since Libya is a country that does not impose hefty customs tariffs and is a country with low taxes. Citizens of neighboring countries come to Libya for shopping due to the quality of goods imported from abroad relatively at low prices due to limited tariffs and almost minimal taxation. As a result of Saif's reforms, Libya witnessed foreign direct investment inflows in the first decade of the new millennium, as illustrated below in **Figure 24** presenting the increase in FDI net inflows in Libya in Pop U.S $ during the period of comprehensive reforms, including the administrative ones—data extracted from the World Bank.[205]

Among the positive reforms during the first decades of the new minimum was the 2006 decision to cut the minimum capital requirement for foreign investments from $50 million to $1.5 million. It was a step toward facilitating foreign investment in non-hydrocarbon industries. The consolidation of 21 regional banks and the reorganization of public and commercial banks were prudent business decisions. In July 2007, BNP Paribas was chosen as Sahara Bank's strategic partner, acquiring 19% of the bank's capital with an option to purchase up to 51% in three to five years. In October 2007, Libya announced intentions to combine two major banks as

[205] "Foreign Direct Investment, Net Inflows (BOP, Current US$) - Libya," Data, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2010&locations=LY&start=1970&view=chart.

part of its reform initiative. The February 2007 announcement of plans to privatize the mobile phone industry was also a solid financial choice.[206]

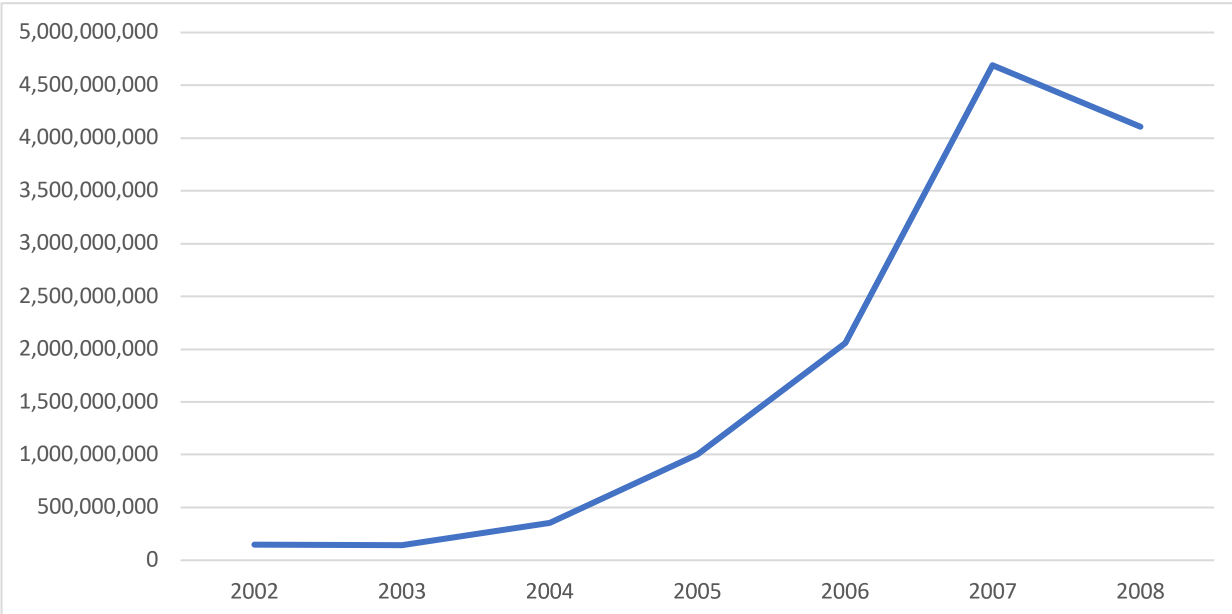

Figure 24
FDI Net Inflow in Libya PoP (2002 – 2008, U.S. $)

In 2009, under rule No. 89, the Privatization and Investment Board was established, one of the most substantial reforms for attracting foreign investment to Libya. PIB in Libya encourages international and domestic capital to engage in investment projects in various production and service sectors within the country's general policy framework and social and economic development objectives. In addition, the board oversees and executes the essential procedures for the success of investment projects in compliance with Law No. 9 and its implementing regulations for encouraging investment in Libya. The Privatization and Investment Board maintains an online portal that displays Libya's privatization and investment laws, rules, and regulations, including international investment. It includes investing recommendations,

[206] Ronald Bruce St John, "The Changing Libyan Economy: Causes and Consequences," The Middle East Journal 62, no. 1 (2008): pp. 75-91, https://doi.org/10.3751/62.1.14, 88.

instructions, contact information, and physical location. The board delivers adequate services and is seen as a bright spot in Libya's little experience developing appealing policies for inward Investment inflows. Additional information concerning its laws and processes will be provided in the third phase of this chapter, which will focus on the bureaucracy of Libya's FDI Law.

Because of the high numbers of bids and contracts and the non-democratic nature of the system, some people became poorer, and some influential people associated with the rules of the significant institutions got richer. Those opportunists are the beneficiaries of these reforms and openness, especially in construction contracts. There was a state of chaos and confusion in dealing with all these new and rapid changes. The most important thing is that the bureaucracy has two different roles here, as after being exposed to some reforms, the bureaucracy helped to enhance the inflows of foreign investment. Still, the same bureaucracy also had a prominent role in the confusion and corruption accompanying the whole process.

5.1.8: Current Bureaucratic of Challenges

International goods inflows into the country began a decade before the outbreak of the February 17th Revolution in 2011; as noted previously, Libya's very low tariffs and taxation sped up such a process. As a consequence, foreign businesses and individuals began flocking to Tripoli. Foreign direct investment grew and surpassed 4.5 billion US dollars, a significant figure in the country's history. Foreigners were often observed in the area, and large projects were dispersed nationwide. Even if they were connected with elites becoming wealthy and the people becoming poorer, they were positive indications for economic progress and development. On the other hand, economic inequality was observed, which fueled antagonism to the regime. Even though ordinary people and the middle class would not find a scientific justification for that, it would be tolerated as the sharp inequality following the initial years of economic openness, and fast growth is expected, especially if the process occurred suddenly and the government lacked tools to mitigate its impact on specific groups of people. Moreover, the Libyan bureaucracy created opportunities for corruption. Libyan rules and regulations, for example, require a foreign investor to associate with a Libyan enterprise, which results in contact corruption. In November of 2006, the General People's Committee (the government) issued a decree mandating all foreign direct investment in the non-hydrocarbon sector to be conducted via joint stock firms with local partners, dampening investor excitement. Foreign firms already operating in Libya at the time questioned how the condition would affect them, while prospective investors regarded it as another impediment.[207] Moreover, the substantial documentation required to execute contracts created an opportunity for corruption. In addition to these limitations, which will be discussed in the section on corruption in this chapter, Libya needs a decent credit system. Before 2011, the financial sector was quite archaic and needed modernization. Card service was scarcely a luxury in the oil industry. There is no postal system except in downtown Tripoli and for large corporate enterprises and important governmental institutions.

The general negative business environment remains in Libya and needs to be reformed. Those obstacles include the absence of an agreed-upon plan, a lack of coordination between government institutions, a complication of the approval process for entry into the competitive sector, restrictions on foreign participation in services like finance, and ambiguous laws related to renting and owning property. The labor code also needed operational flexibility while ensuring sound working conditions. In addition, the excessive delays in customs administration require to

[207] Ibid

be reduced. Libya is also suffered from ownership dilution.[208] The law quality bureaucracy in Libya also manifested clearly in some qualitative reports and other international indexes and reports.

Prior to the political unrest of 2011 and the years that followed, the World Bank Group Repost, Finance, Competitiveness, and Innovation of 2020, identified a number of obstacles to the business environment in Libya. According to the report, several statutory and informal hurdles to business creation inhibited private sector development, particularly among smaller enterprises. The absence of business infrastructure and the disarray of the private sector have resulted in very low private sector participation and an unfavorable investment climate. Libya was ranked 186 out of 190, fourth from the bottom (a higher score is worse), and much more complex than Algeria or Iraq. According to the same report, various obstacles discourage private sector firm development, including bureaucracy and corruption, making it difficult to get licenses and enforce contracts. Starting a firm needs an average of 10 administrative processes, 35 days, and 30 percent of the per capita income. This contrasts negatively with other MENA nations, which are rare exemplars of business development, where it takes an average of 7.7 procedures, 18.6 days, and 18.7 percent of the per capita income to begin a firm. As a result, Libya is towards the bottom in terms of business formation difficulties.[209]

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[208] Ibid

[209] "Libya Financial Sector Review English Final - World Bank," https://thedocs.worldbank.org/en/doc/288521600444837289 0280022020/original/LibyaFinancialSectorReviewEnglishFinal.pdf, 20.

5.1.9: Generally Uncontrolled Bureaucracy

The bureaucracy in institutions related to investment impedes Libya's direct foreign investment inward inflows and is seen as merely one branch of Libya's bureaucratic expansion tree. The Lloyds Bank International Trade Portal provides a portal to discover international trade prospects and thorough market information. According to a recent report, the omnipresence of the government in Libya's economy is one of the country's primary weaknesses impeding FDI. The report stated that structural reforms are necessary even though Libya's reintegration into the international community has boosted investor confidence.[210] An article published in August 2020 by Al-Sharq Al-Awsat highlighted the Libyan bureaucracy that impedes the growth of small business projects in Libya. Abdulbari Tirbel, a lawyer at Libya's Supreme Court, released a book in 2021 titled *The Extended Judiciary Between What Is Reality and What Is Desired*, in which he discusses the delay of trials in Libya and what is caused by a sort of bureaucratic court that injustices the accused.[211] Interestingly, a bureaucracy at the state passport authority may impede acquiring a passport for a Libyan soccer professional playing in Europe when the national team is desperately in need of him for a critical international match; in countries like Tunisia, Morocco, or Algeria, such an obstacle is addressed in hours as it attracts the attention of the public opinion. The Libyan Alsaaa Daily released an article in September 2022 outlining how bureaucracy is delaying the availability of children's vaccinations. According to a United Nations Office for the Coordination of Humanitarian Affairs (OCHA) report, the Libyan bureaucracy

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[210] "Foreign Direct Investment (FDI) in Libya," Foreign direct investment (FDI) in Libya - International Trade Portal, https://www.lloydsbanktrade.com/en/market-potential/libya/investment.

[211] Abduelbari Etarbal, tran., The Extended Judiciary Between What Is Reality and What Is Desired. (Tripoli, Libya: Tripoli International Scientific Library, 2021).

impedes foreign humanitarian workers' entrance and their aid.[212] Analysts also have criticized Libya's bureaucracy for obstructing the path of democratic transition. On the *Clubhouse* platform last year, I explained to Libyan intellectuals on the Clubhouse platform that the lack of goods and services arrival also puts pressure on citizens' political participation in the country, particularly in the more remote regions, cities, and villages, making access to power in the country a matter of life and death for them, reinforcing the phenomenon of the re-outbreak of civil wars. I used the example of healthcare disruptions in the far south of Fezzan. According to a response to my idea by Al-Habib Al-Amin, a former member of the Libyan National Council, a legislative body, creating a health clinic in a village or city in Libya involves a lengthy and burdening bureaucratic cycle. Libya is burdened by an increasing bureaucracy, a remnant of its former socialist era. The U.S state department report of 2021 on Investment Climate Statements in Libya illustrated that the opaque bureaucracy, onerous regulations, and widespread rent-seeking activity in public administration are still prominent in Libya and display a non-friendly investment climate.[213] The report also indicated that the Libyan government has a long history of not fulfilling contracts and payments, and a number of U.S. companies are still owed money for services performed prior to and after the 2011 revolution.[214]

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212 "Libya, Bureaucratic Restrictions Remained the Biggest Access Limitation," | Digital Situation Reports (OCHA, May 18, 2021), https://reports.unocha.org/ar/country/libya/card/Tv1HMpQwwJ/.

213 "Investment Climate Statements 2021 - United States Department of State" https://www.state.gov/reports/2021-investment-climate-statements/.

214 Ibid

5.1.10: Political Bureaucratic Technocrats

Even though Libya's political transition in 2011 resulted in a new look of affluence, including the arrival of well-known worldwide brands via local agents, foreign firms still prefer to ship their goods to Libya or grant franchises to local agencies. They do not make direct investments in the Libyan market. Global apparel, well-known food guarantees, cellphones, and luxury automobiles infiltrated Libyan markets, which had a high consumption level, and billions of government money left government banks somehow. Foreign direct investment is almost absent except for the oil and natural gas sectors, and yet without the aspirations, given the large size of the reserves of both commodities.

The country's volatile political situation cannot be overlooked as an enriching factor, as it has created competition or a state of disagreement between sovereign state institutions such as the Libyan Oil Corporation, the Ministry of Oil, the Central Bank, the Audit Bureau, and the Administrative Control Authority. Nowadays, these critical institutions are either political participants or instruments in Libyan politics. In certain situations, they even use the strength of the notion of independence to protest against the prime minister. Directors of such institutions successfully resisted executive and parliamentary decisions to dismiss them on several occasions and were capable of maintaining their positions. The head of the Central Bank and the head of the Audit Bureau had held their positions since 2011 when the revolution began, and repeated efforts by the House of Representatives to replace them have failed. They are the two most powerful institutions in the nation, and they control the flow of money. Prime leaders must maintain good relations with these two organizations to avoid funding cuts. It should be noted that this pattern of the broad authority of the two institutions does not correspond to what is stipulated in Libyan laws, which not only preserve their technical and independent status but also oblige them to submit to the head of the executive government and its programs, in addition to the legislative authority option in case of dismissal or replacement. The executives of these institutions also switch their political allegiance and administrative dependence between the National Council in Tripoli and its rival, the House of Representatives in Tobruk, whenever they feel distressed, taking advantage of the political divide between East and West, the dominant Tripolitania and its contending Cyrenaica, and because of the status of continuous political polarization these Poli-technocrats always find a warm welcome.

Yet, no one can deny the efforts and services made by these institutions throughout these challenging years in Libyan history. However, in recent years, these institutions have been unable to preserve their neutrality in the face of the country's political struggle. Consequently, those supreme institutions have started to veer toward extreme divisiveness. Moreover, their directors have autonomous net ties with international officials and diplomats, which distributes queries in the mindset of public opinion.

These institutions are complex and intertwined, and they were affected by the country's political situation, which produced a state of incompatibility with each other, as manifested in manifestations such as delaying contract signing and stopping some projects shortly after they began implementation, delaying salaries, violating employment standards, and disregarding efficiency and specialization attributes in hiring, which greatly reflected their effectiveness. Moreover, systemic corruption in public institutions revealed itself in their disturbing bureaucracy. However, the democratic transformation in Libya brought positive aspects to the bureaucracy, such as the entrance of modern technology, electronic transactions, banking system reforms, and the publication of financial reports for public consumption, even though such reports, as for now, do nothing but add to public frustration.

5.2: Bureaucratic Corruption and FDI in Libya

A powerless opinion also believes corruption may lead to economic growth in a closed economic system. However, corruption's negative effect on foreign direct investment inflows shapes most of the scholarly work in this regard and reflects a semi-consensus. As illustrated in the literature review, scholars value the magnitude of corruption's impact on FDI differently. Even though corruption may leak some money into society and contribute to the opening of private businesses that benefit some working class, and even though some foreign companies prefer a corrupt environment to be able to seize contracts in crooked ways and possibly bribe government officials, still prominent FDI companies with a global reputation do not prefer a corrupt climate when choosing the location. Foreign direct investment concerns components such as government confiscation, bribery scandals, becoming lost in bureaucratic hallways and faulty policies, and the uncertainty of unexpected political change such as coups or radical policy swings. Foreign direct investment usually hesitates to invest in a corrupt nation where financial institutions lack transparency and conceal reports and information.

The second third of this chapter examines the impact of bureaucratic corruption on FDI inflows in Libya. Bureaucratic corruption has been a factor in the definition and understanding of low-quality bureaucracy since the beginning of this study, as it is commonly viewed by various international organizations, particularly the World Bank, which includes corruption as one of the factors for measuring bureaucratic quality.

Corruption in the previous case, the United Arab Emirates, appeared much less than in the current comparative case, Libya, as demonstrated in **Figure 25**. Fighting corruption in the United Arab Emirates succeeded in improving the reputation of the country and was reflected in its international rankings for transparency, which is what multinational companies and foreign investors take into consideration. In contrast, in the subject of analysis in this chapter, Libya, corruption is spread like a malignant cell that causes Libya to miss investment opportunities, including opportunities to attract foreign investment characterized by hesitation and risk averse. Bureaucratic corruption in Libya has several intertwined causes and patterns that all pour into the wellspring of corruption. It is necessary to admit, with discomfort, that corruption in bureaucracy and public institutions has established a culture in Libyan society. The first fear is that such corruption will become more tolerable as time passes, while in a country like the UAE, the situation did not worse to reach such a level.

Figure 25 illustrates the corruption perception index score during the last decade as illustrated by Transparency International.[215] As shown in **Figure 25**, a country such as the UAE is way better than Libya regarding levels of clean corruption in the past decade, according to the Corruption Perception Index score illustrates. Transparency International has published the index annually since 1995. Countries are ranked from 100 very clean to 0 highly corrupt.

[215] "Corruption Perceptions Index 2021 - Explore the Results," Transparency.org, https://www.transparency.org/en/cpi/2021.

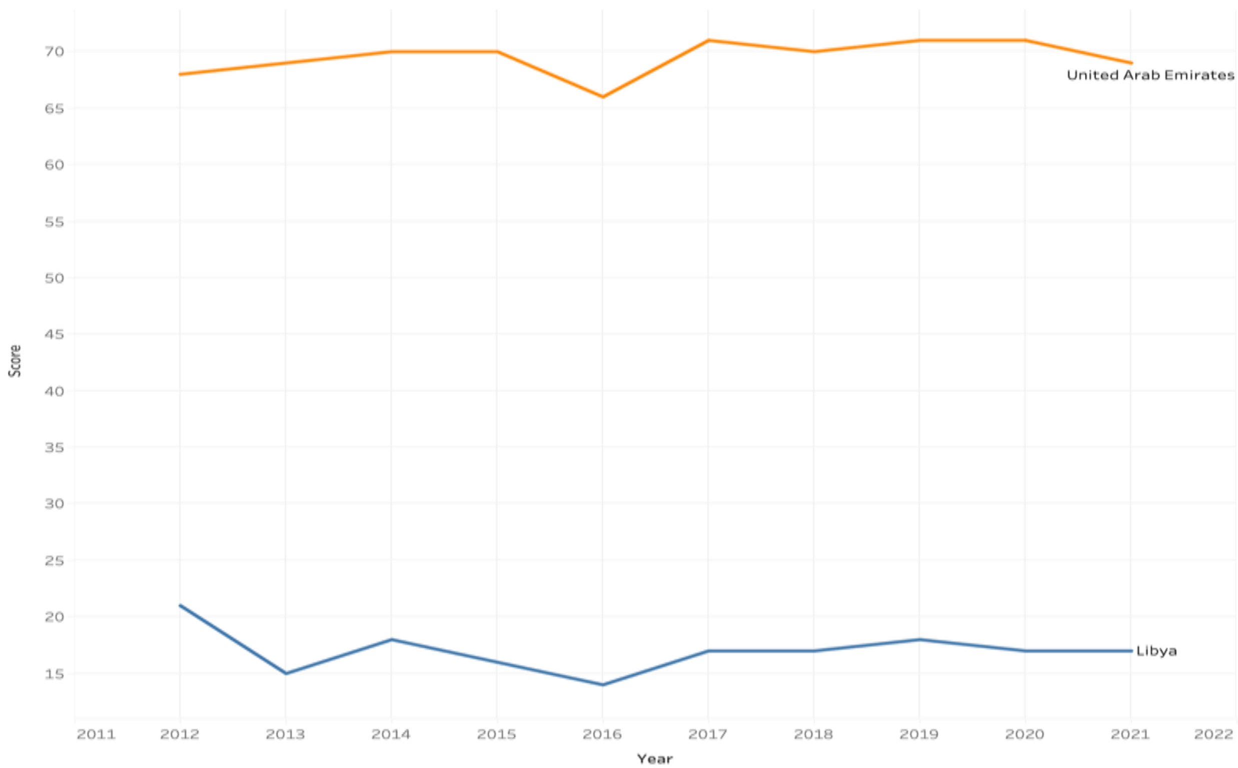

Figure 25
Corruption Perception Index Score Comparison between UAE and Libya (2012 – 2021)

5.2.1: Patterns of Corruption

Corruption pervades Libyan society and institutions, including the government, public sector, and private enterprises.[216] Corruption in Libya's governmental institutions takes numerous forms, which consider micro, and others regard as macro; the most prominent forms of this corruption are the following:

- Recruiting based on social relations and political allegiances resulted in underperforming institutions whose personnel needed to gain knowledge and competence.

[216] Andy FeftaWijaya Mda and Jaber Emhemed Shariha, "Comparison between Corruption in Libya during Ghaddafi's Rule and Corruption in Libya Post- Ghaddafi's," IOSR Journal of Business and Management (IOSR-JBM) 16, no. 5 (May 2016), 20.

- Prevalence of nepotism and mediation when it comes to appointment for public employees instead of depending on the merit system of qualification.
- Bureaucrats exhaust citizens and international partners by requesting unnecessary paperwork and documentation to conclude business.
- Employees are absent while their managers or coworkers cover them up.
- Workers arrive late for work and leave early.
- Public employment applications are not publicly disclosed for jobs and positions in public institutions.
- Employees perceive public office as a personal entitlement inherited by family and friends.
- Employees use governmental posts as a negotiating tool to secure further services, whether from the public or private sectors.
- Staffers declined to conduct everyday transactions with people or residents. Instead, they claimed that the system had failed or demanded unnecessary paperwork and documentation from individuals or residents to avoid performing the task.
- CEOs, top bureaucrats, and officials exploit their positions to contract their private companies as mediators between foreign importer firms and the public institution, reaping illegal profits that increase the cost of business and services supplied significantly to the public institution.
- CEOs, top bureaucrats, and officers exploit their positions to increase the cost of goods and services supplied to public institutions through private companies to earn the differences or to network with private businesses. Such inflation in the actual cost of

goods and services is pricey, harms public money, and is well documented by the Libyan Audit Bureau each year.

- In recent transitional years, thousands of citizens have become sudden millionaires, especially those groups who fall into the provocation of governments because they have weapons or who have benefited in the last decade from what is known as bank credits (*Aliaietimadat*) issued by the Central Bank. The Libyan central bank's letter of credit (LC) system (*Aliaietimadat*) has been exploited for "fraud on a large scale.[217]
- Government official frequently engage with impunity in corrupt practices such as graft, bribery, nepotism, money laundering, human smuggling, and other criminal activities.[218]
- Lately, workers, particularly those in middle or senior administration, refuse to be replaced as the regulations require. Instead, they rebel against internal organizational principles taking advantage of the state's overall weakness while it undergoes political transitions. This is particularly true of top department heads and CEOs of public corporations, government agencies, embassies, and consuls overseas.
- Recently, the phenomenon of booty government increased in which the new prime minister or minister hires friends and relatives and provides them public posts without regard for skill or expertise, as plainly reflected in Libyan legislation.
- The government does not enforce the anti-corruption law effectively.[219]

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[217] John Basquill, "Libya Letter of Credit System Abused for 'Rampant Fraud', Report Claims," Global Trade Review (GTR), February 25, 2021, https://www.gtreview.com/news/mena/libya-letter-of-credit-system-abused-for-rampant-fraud-report-claims/.

[218] "Investment Climate Statements 2021," - United States Department of State https://www.state.gov/reports/2021-investment-climate-statements/.

[219] Ibid

5.2.2: The Bottom of the Corruption Ranking

In Libya, corruption started during Muammar Gaddafi's reign from 1969 until 2011. According to Transparency International's 2018 Corruption Perceptions Index, Libya was rated 170 out of 175 nations as the least corrupt in 2018. However, the same year, Libya also performed poorly on the Corruption Perception Index, scoring 17 out of 100 in the Corruption Perception Index. The government, the public sector, and private corporations are Libya's primary sources of corruption.[220] Despite the governmental attempt to reduce corruption, regardless of whether those attempts are serious or not, which deserves a significant drought, corruption culture, financial irregularities, and circumventing of regulations within institutions have become pervasive across all sectors of Libyan society for decades.[221] Moreover, the World Bank 2020 Report for Finance, Competitiveness, and Innovation provided the information that the second most cited challenges faced by businesses in Libya are crime, theft, and corruption; following political instability, the corruption challenge shapes what accounts for almost 70% significance.[222] As stated in the 2021 Investment Climate Report of the United States State Department, corruption is unfavorable to foreign investment.

> Perceived corruption is deeply embedded in Libya and is widespread at all levels of public administration. The lack of transparency or accountability mechanisms in the management of oil reserves and revenues, the issuance of government contracts, and the enforcement of often ambiguous regulations continue to provide government officials with substantial opportunities for rent-seeking activities. 2021 Investment Climate Statements - United States Department of State.

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[220] Kim Thelwell, "10 Facts about Corruption in Libya," The Borgen Project (Kim Thelwell https://borgenproject.org/wp-content/uploads/logo.jpg, December 16, 2019), https://borgenproject.org/10-facts-about-corruption-in-libya/.

[221] Andy FeftaWijaya Mda and Jaber Emhemed Shariha, "Comparison between Corruption in Libya during Ghaddafi's Rule and Corruption in Libya Post- Ghaddafi's," 23.

[222] "World Bank Group 2020, Finance, Competitiveness & Innovation." Libyan Financial Sector Review

5.2.3: Corruption Examples Despite the Political Stage

Bureaucratic and institutional corruption in Libya is widespread. Indeed, political instability from destroying the constitutional monarchy's legitimacy in 1969 led to non-transparent political competition in Libya, which empowered corruption patterns. Still, this corruption prevailed regardless of the period of politics. There was corruption during the Gaddafi era, Saif al-Islam's reforms, and the post-2011 revolution. It would be helpful to give some examples.

5.2.4: Goldman Sachs Case During Saif's Reforms

Starting in 2008, Goldman Sachs softly grabbed wealth from Libyan foreign investment profile via seduction of Libya based on court evidence, witness testimony, and interviews with those engaged in the transactions and lost $1.2 billion. A London judge is currently hearing the case.[223] This fraud case squandered much Libyan money, and Libya is still trying to get some of it back. Libyan officials involved in Goldman Sachs's case lacked skill and knowledge in financial investment. Moreover, they were engaged with al-Gaddafi's Saif al-Islam, who also lacked expertise in financial investing. The deceitful deal comprised people from many countries, including Austrians and Moroccans, who worked in favor of the Goldman Sacks.[224] Recently, it was revealed that several Libyan officials were involved in another corruption case, with another foreign corporation embezzling 700 million dollars from the Libyan Investment Authority. Interpol has issued arrest warrants for four Libyans who have fled the country and are

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[223] Matthew Campbell and Kit Chellel, "Hot Mess: How Goldman Sachs Lost $1.2 Billion of Libya's Money," Bloomberg.com (Bloomberg, September 29, 2016), https://www.bloomberg.com/features/2016-goldman-sachs-libya/?leadSource=uverify+wall.

[224] Ibid

now their names under investigation for two cases of corruption.[225] The dilemma is that the political instability in the Libya makes it challenging to bring those people to justice and return the looted wealth, especially with such money protection for those individuals could be found internationally. The Goldman Sacks' scandal has taken on a global scale and is far from over. It has made it so that even ordinary Libyans know about it some information. It had already harmed the reputations of Saif al-Islam by that time, the Libyan Investment Authority domestically and internationally, and Goleman Sachs Bank.

5.2.5: Central Bank Letter of Credit (LC) System During the GNA Rule

As a consumer nation of imported goods and services, Libya's governments have traditionally sought to keep its currency's value high to maintain a fair cost of commodities and preserve peace and tranquility on the streets. In the years that followed the revolution, however, the state experienced internal strife, political competition, an interruption in oil and gas exports, a deterioration in security that crippled investment and internal trade, a loss of confidence in banks, a decline in foreign exchange reserves, and a lack of liquidity in banks led to a loss of confidence in the local currency and a desire for the dollar. In addition, due to the unstable political climate, a number of groups need the dollar overseas for medical care, education, tourism, and temporary residency. This has contributed to the dollar's rising demand. And as a result of the disruption in the usual condition of exports and imports on occasion, significant inflation struck the nation, reaching previously unheard-of heights. Consequently, the local currency depreciated against the US dollar on the black market, where individuals could purchase US dollars. However, the Central Bank maintained its rate of exchange at 1 dollar

[225] "Interpol Is Chasing 5 Libyans Accused of Embezzling $700 Million From the Investment Corporation," Alsaaa24 Newspaper, July 7, 2022, https://www.alsaaa24.com

versus 1.7, then 2.7, then 3.7 Libyan Dinars, but it became available through the Libyan central bank's letter of credit (LC) system (*Aliaietimadat*) to the influential in the country from large merchants and traders of foreign currency, and others from some landlords of security battalions and military brigades who established a trade that depends on obtaining the dollar at the official rate and selling it at a higher price to citizens, and under the guise of importing goods and selling them at a reasonable cost to the residents. The Central Bank used to offer credits consisting of amounts of U.S. dollars at an official exchange rate of $1.3, then $2.70, and most recently $3.70 to the country's foremost influencers and their import enterprises, the bulk of which are fraudulent. These influential individuals sell the dollar on the black market for twice the price, ranging from 6 to 8 Libyan dinars, ensuring a rapid profit. For example, whoever acquires a million-dollar provided credit may sell these dollars at twice or treble the price on the black market, where patients departing the country, students studying abroad, and the displaced outside the country must purchase the dollar owing to political and security concerns. Between 2015 and 2020, billions of dollars were lost in this manner, and the population was split between those very minority who plunged into poverty and the majority who became overnight billionaires. Ghassan Salame, the former head of the United Nations Support Mission in Libya (UNSMIL), who resided in Tripoli in an interview with him on Al Jazeera Channel, said that "the ruling class in Libya, which has a high level of corruption, employs positions to acquire wealth, seize public money, and then employ it abroad, adding that there is a new millionaire every day in Libya and a middle class that is shrinking day after another."[226] The interview took place in March of 2019, a month before the start of the 2019 battle over the control of Tripoli, Libya's third civil war. As

[226] "Bawaabat Alwasat, tran., "Ghassan Salame: There Is a New Millionaire Every Day in Libya and a Middle Class That Is Shrinking Day by Day," Alwasat News, March 27, 2019, https://alwasat.ly/news/libya/240073.

stated by the Los Angeles Times, the strategy for making profits in the foreign currency black market during that period was a matter of exploiting both the scarcity of money as well as the difference between the official exchange rate, where a dollar buys 1.4 Libyan dinars and the black-market rate.[227] Nabih Bulos, Los Angeles Times, took the below **photo (Figure 26)** on July 11, 2019, at Musheer market in Tripoli and showed a circle of unlicensed currency traders.[228]

Figure 26
Musheer Market in Tripoli

The merchants who kept their commitments and brought goods to the Libyan market with the dollars they obtained from the government banks at an official rate raised the prices of these goods excessively, arguing to the complaining customers that the dollar used to import these goods cost them pricey in the black market. For example, in April 2017, one dollar cost 8.9

[227] "What's for Sale at This Outdoor Market? Cold, Hard Cash," Los Angeles Times (Los Angeles Times, July 11, 2019), https://www.latimes.com/world/la-fg-libya-black-market-20190711-story.html.

[228] Ibid

Libyan Dinars on the black market.[229] Crisis merchants mostly used to sell their goods at the actual dollar price in the black market, adding the cost of transportation and other charges to this rate. In most instances, the dollar costs those traders merely the central bank rate, 1.7 to, depending on the year (2015, 2016, 2020, etc.) Therefore, without generalization, corrupt bankers, leaders of the armed brigades, and opportunist merchants got wealthy and amassed immense fortunes during a period in which many people fell into poverty. The money was seeding into the street in the wrong ways surging the real estate's value making life more difficult for middle- and lower-class individuals and families and contributing to inflation. It was challenging years for people who needed foreign cash for medical treatment, paying for study programs, or residing abroad for other reasons, as well as for ordinary Libyan customers in a nation where most commodities are imported.

The Government of National Accord (GNA) headed by Fayez al-Sarraj sought to relieve the situation by selling dollars to people based on the family book and the number of members, up to $500 for each member consecutively and at the official rate.[230] However, these efforts could have been more effective. Libyan bank cards loaded with those dollars used to arrive in Turkey, Europe, and the United States of America, where Libyans carried out those debit cards. Other Libyans, including students and medical patients, did not get a single card. They had to purchase these dollars from the black market at prices double their original value set by the central bank. The government also allocated sums of money for these students in allocated dollars at the official rate price each semester. Still, some of these students were asked for a

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[229] "Bawaabat Afriqia," tran., "The Selling Prices of Foreign Currencies Versus the Libyan Dinar Today, Towards a Better Understanding of Africa - Africa News Portal, April 23, 2017, https://www.afrigatenews.net.

[230] "Central Bank of Libya to Sell $500 to Every Libyan Family Member," The Libya Observer, December 21, 2017, https://libyaobserver.ly/economy/central-bank-libya-sell-500-every-libyan-family-member-2018.

compromise by local bankers for a portion of these allocations to complete the bureaucratic transaction. Declining the benefits to avoid participating in this corruption was the best choice for those abroad students. For example, in 2017, purchasing 9 thousand dollars to fund an abroad scholarship program from the black-market costs more than 80 thousand Libyan Dinars. Moving those funds to a foreign country carries transfer expenses. This transactional example was one that is mostly repeatable occasionally. But in the case of connected people with others involved in corruption, the same amount of money which is nine thousand U.S. dollars would cost merely 24.3 thousand from the government banks at maximum in the same year.

As far as I know, Libya did not experience a financial scandal comparable to the scandal of bank credits in foreign currency between 2015 and 2020, which was a direct cause of the country's fall into a tragic economic situation during those years and eventually led, without surprise, to the outbreak of a major war (the 2019 third civil war) that caused the death of thousands of people and lasted a year and two months. The socioeconomic harm was substantial for all ordinary Libyans, who constitute the bulk of the population. However, due to the existence of the state's financial institutions in the Tripolitania region, the socioeconomic damage to the Fezzan and Cyrenaica regions was more severe.

The case of corruption in the banking sector that followed the political circumstances created a feeling of mistrust in the domestic economy. Libya is a consumer nation sensitive to its local currency's depreciation. Derived from historical socioeconomic and political accumulations such as including living for an extended period under the Ottoman excessive tax policies in a dry country and living under the Italian fascist rule for decades and what was associated with the fascist occupation of hunger and deprivation hit the indigenous population Libyans freak out when it comes to economic shakes. Add to their experience the recent manipulation of sanctions during Gaddafi's regime and living under an economic environment of extreme socialism makes Libyans psychologically more sensitive to economic hardships. Those elderly still alive in Libya talk about the years of hunger in the 1930s and 1940s and label those years as hunger years (*Sinin Al-shar*). In the Libyan dialect, Al-shar also means evil, not just hunger. This historical economic approach can even help us understand why the "privatization" of public money is expected in Libya. When inflation hit after the arrival of Fayez al-Sarraj's government in 2015, the prices of Nutella chocolate rose, for example. Because Nutella is commonly used in Libyan cuisine, famous Libyan pages on social media started talking about the matter of *Nutella* price. People expressed their anger at this increase in the cost of Nutella imported by foreign currency (the U.S. dollar). The example of Nutella illustrates that Libyan discount talks about a policy of economic austerity and customs protection for developing national industry long-term on the South Korean growth style. Libyans overwhelming want is to ensure the arrival of goods and services at a reasonable price, and it does not matter if they were imported. Moreover, they tend to look for these foreign goods of high quality. Perhaps the essentiality of government money for survival also explains the great tendency of the Libyan tribes, villages, cities, ethnicities, and regions to reach power or to help representatives from them to participate in government, which applies to Mancur Olson's theory of the Logic of Collective Action and Private Goods and Public Goods. However, that pressure to participate politically constitutes pressure on the institutions that are immature and unable to absorb such political pressure of the transitional period. That is why those institutions sometimes collapse, and the phenomenon of civil wars emerges, which theoretically applies to what came in Samuel Huntington's theory of Political Order and Political Decay.

5.2.6: Audit Bureau Report of 2021

Unquestionably, the Libyan Audit Bureau, headquartered in Tripoli, is a historical organization with a degree of independence and a reputation for honesty. Yet, this institution was also subject to the strains imposed by the political climate in Libya. As a result, there are some complaints about the Bureau, the most notable of which is the delay in presenting the annual report for 2019 until after the end of the 2019 war between the Government of National Accord led by Prime Minister al-Sarraj and the Armed Forces Command in the East under the command of *Marshal Khalifa Haftar*. This 2019 report was published in the year after the 2019 Tripoli battle and detailed financial and administrative corruption committed by the Government of the National Accord in Tripoli. Yet, the Bureau has justification for postponing the report publication owing to the difficulties of functioning in 2019, the bloodiest year in modern Libyan history. The chairman of the Audit Bureau justified the delay in releasing the 2019 report to "extraordinary circumstances the country endured, including political instability and hostilities, as well as the breakout of the Corona epidemic in it."[231]

Accessing the website of the Libyan Audit Bureau on the internet enables viewing of detailed reports regarding the state's financial income and expenditures for the years following the 2011 Feb 17th revolution, which demonstrates the positive impact of the 2011 political change in Libya on the freedom of disclosure of information, even though the punishment for violations remains lax, which is in part of it the area of law enforcement play. Moreover, the Libyan Audit Bureau reports are comprehensive and prepared with competence and precision, which embarrasses the past governments in front of the public opinion since the audio statements

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[231] "The President of the State Audit Bureau Explains the Reasons for the Delay in Publishing the 2019 Report and the Date for the 2020 Report.," (Bawaabat Alwasat, March 12, 2021), https://alwasat.ly/news/libya/313937.

attracted the media attention of different types during the days after the day these reports were released. Yet, what does the 2021 Audit Bureau report reveal violations that deal with bureaucratic corruption in institutions associated with investment? **Table 6** below explores a few instances of those corruption cases.

Government Entity	Violations
National Anti-Corruption Commission	The ninth chapter of the 2021 audit report on independent entities said that the National Anti-Corruption Commission is institutionally divided, its employees have overlapping responsibilities, and its organizational structure needs to be followed. Other problems for the National Anti-Corruption Commission involve financial audits and accountancy. In addition, the report mentioned that the commission abused the financial system and inflated the expenditures in the incentives clause, rented costly flats in violation of rules and regulations, and gave borrowing without finalizing the status of these borrowing.[232]
National Customs Agency	The report did not exempt the violations found from reviewing the National Customs Agency information. In 2021, it was found that there was a shortfall of 232,565,170 LD between the amount of revenue collected and the amount the agency

[232] Ibid. 285

	transferred into the national treasury. In addition, the report revealed that Customs Agency should have received approval for its internal functional system from the Ministry of Labor. Moreover, it held deposits without transferring them to the public revenue account. According to the report, the Customs Authority did not collaborate with the Ministry of Finance in administering and monitoring the income as required by law.[233]
Tax Authority	The Tax Authority also had a decent share in administrative and financial violations, including the failure to transfer collected amounts to the public revenue account at the Central Bank of Libya, estimated at 108,844,714 LD for the year 2021. In addition, the audio bureau also recorded violations related to the documentation, recording, and archiving of documents and the absence of coordination between the Tax Authority and the Customs Authority.[234]
Investment Corporation	The Libyan Investment Corporation has assets totaling approximately 33 billion in several countries worldwide. The 2021 report revealed six administrative violations that constitute a violation of six articles of Libyan law and regulations of the corporation, including neglect of periodic meetings, failure to prepare reports, failure to adopt an estimated budget, and failure

[233] Ibid. 44

[234] Ibid. 56

	to adopt a governance guide, as well as other violations relating to the neglect of disclosure, transparency, and the independence of its members.[235]
Ministry of Economy	The Ministry of Economy also was under fire by the report. Violations of the ministry included discrepancies between the credit recorded and the financial expenditure. For example, in the salary item, only the differences reached 1,353,263 LD. Excessive spending by the Ministry of Economics was also recorded. The administrative violations were also numerous.[236]

Table 6
2021 Libyan Audit Bureau Report.[237]

The head of the Tripoli-based government, Abdul Hamid Dbeibeh, has accused the Audit Bureau of aiming to tarnish his government's reputation after publishing its 2021 report, which details the misappropriation of public money. Dbeibeh alleges that a report exposing government corruption has been politicized.[238] After the report's publication, Prime Minister Abdul Hameed al-Dabaiba attempted to arrange open sessions for his government's ministers to publicly replay the report's accusations in front of the media. Yet, Libyan street was dissatisfied with these responses alone due to their simplicity and fragility.

[235] Ibid. 541

[236] Ibid. 405

[237] "The Annual Report of the Libyan Audit Bureau 2021 AD," Annual Reports (Libya's Audit Bureau, May 31, 2021), https://www.audit.gov.ly/ar/reports/.
[238] "The Libya Updates, "Dbeibeh Claims Report Exposing Government Corruption Is 'Politicized. September 22, 2022, https://libyaupdate.com/dbeibeh-claims-report-exposing-government-corruption-is-politicized/.

Every year, after the release of the Audit Bureau reports, Libyan channels and social media sites are flooded with stories of new arrest warrants for government officials, including ambassadors and consuls abroad, on charges of neglecting or embezzling state money. State prisons are crowded with former officials at all levels of administration. However, this did not end the corruption that has become characteristic of Libyan institutions globally, even though those institutions contain a complex bureaucracy, so what is the reason for the spread of this corruption that has become embarrassing to Libyan citizens and the international community? Quite simply, the embezzlement of part or all the public money has cultural roots formed during the severe economic conditions in earlier periods of the country's modern history. Institutions can educate, reward, and punish, but what if the culture that should establish and sanctify these institutions is absent? This is a bold question, but it deserves to be asked, and it deserves diligence in trying to answer it.

5.2.7: Socioeconomic Roots of Corruption in Libya

A profound understanding of the reasons beyond the dominant status of low quality of the Libyan bureaucracy cannot be done only by investigating institutional flaws but instead requires an understanding of the historical socioeconomic culture have accumulated in Libyan society over centuries and have political roots. Corruption in Libya is a social and economic phenomenon that develops due to political circumstances until it becomes rooted and independent of other political factors.

One day, I walked into Western Illinois University's large library in Macomb, Illinois, which has frigid temperatures in the winter and a welcoming environment for international students. On the sixth floor, I noticed a bookshelf dedicated to Libyan literature. My hands came into contact with a book authored by a Western writer who had visited Libya years after the end of the second world war. I found a translation of Libyan wisdom that states (*His pocket became empty, his blunders increased*), and the author has devoted a page of his book to this Libyan wisdom. Even if this wisdom developed in people's brains due to their historical experience, it contradicts texts of their religion that emphasize and appreciate integrity and the needy people and their refrains from request. The wisdom generated from their living fact, even though it is not always accurate for all individuals as in certain situations the affluent are more likely than the poor to make mistakes if their lifestyle fluctuates while losing money. What is interesting about this wisdom is that it links the time of wealth inclination to improper conduct. This is compatible with sociological ideas arguing that crime rates grow during economic downturns and other ideas in international politics arguing that countries are aggressive during their downturns. But what if a country moves from one difficult juncture to another? The corruption will linger for centuries.

Before the discovery of oil, Libya was one of the poorest nations in the world, relying on foreign aid.[239] Since it is situated in a location with no flowing river, despite vast amounts of water beneath its land, the nation was never an easy place to live until discovering that it swims in an oil and gas sea. Major famines struck the nation throughout those times, and the suffering endured by its people was passed down from generation to generation. When the Spanish occupied Libya in 1510, they found little money there, so they turned it up to the Knights of St. John of Malta in 1524, and the Spaniards fled in their ships. Years later, in 1551, the Ottomans arrived and ousted the Maltese and remained. Libya was then governed directly or indirectly by Ottoman dynasties until 1911 when the Italians arrived on its coasts. These were challenging decades for the Libyans, and a portion of them waged a never-ending battle against the Ottomans

[239] Dirk Vandewalle, A History of Modern Libya (Cambridge: Cambridge University Press, 2012), 45.

in an environment defined mainly by a lack of fertile lands. At that time, Libyans were subjected to conscription into the Ottoman army as well as a punitive tax system known as the *AlMery*, which was levied on every adult male and economically depleted the population. Many men spent their lives resisting this harsh tax system, including tribal leader Ghouma El Mahmoudi 1858-1831, who became a national hero in popular circles after leading a decades-long armed struggle against the Ottomans, rejecting the heavy taxation policies that eventually cost him his life and the displacement of his prominent and strongest tribe at the time. Ghouma El-Mahmoudi was not only a tribal leader defying Ottoman authority but also using the contradictions of rival European powers to strengthen his position and had contacts with French consuls in the region.[240] A monument for him was established during the Gaddafi rule but recently was torn down by what seemed pro Turkey group. During those difficult years, some tribes withdrew to the desert, while others crossed the borders to the south. The past economic hardship in Libya is a feature well preserved in the Libyan old poetries.

Subsequent to the arrival of the Europeans as a new colonial power to North Africa, Libya was unlikely to fall into the share of Italy as what came later of the arrival of the fascist regime to power in Rome. The Italian authorities confiscated lands, the tribes faced displacement, and thousands died in detention camps in the southeast. Many people fled to neighboring countries, where some came back after independence including the Gaddafi's tripe, and others still inhabited those regions in huge numbers today. Disagreement between tribes and cities was always present, spreading warfare in that harsh land, most of which is either desert or mountains, with fertile coastal lands not deep to the south. An internal civil war broke out in

[240] Mohamed El Aziz Ben Achour, tran., "Un Épisode Des Relations Entre La Tunisie Et La Tripolitaine L'insurgé Ghouma El Mahmoudi Dans Le Sud Tunisien," Leaders. https://www.leaders.com.tn/article/29349-un-episode-des-relations-entre-la-tunisie-et-la-tripolitaine-l-insurge-ghouma-el-mahmoudi-dans-le-sud-tunisien.

which the tribes, villages, and ethnicities that make up the Libyan society participated during the 1930s, resulting in famine waves. This is a war that Saif al-Islam Gaddafi warned/threatened the Libyans by its return during his appeared-on state TV for the first time after the outbreak of the revolution in 2011. The living condition of the Libyans became more miserable after the outbreak of World War II, and most of the Libyans entered this war as conscripts with the Allied countries under the Senusiyya movement or *El Senussi leadership*. The coasts, villages, and simple primitive economy of Libya received significant damage due to the continuous bombing between European belligerents. People ate locusts and indigestible herbs, and these conditions created a kind of economic insecurity in their character. On the other hand, proximity to the rulers became a source of economic confidence, psychological stability, and a way to secure a living for the family and loved ones. This socio-political equation increased and was further refined after the state's approach to the rentier economy system after the discovery of oil. Excessive worries about the potential investment risk and a tendency toward corruption became characteristics of Libyan society.

The new independent authorities in Libya started obtaining financial support from the United Nations and the Allied countries as economic aid or as rent for military bases.[241] Social and economic programs were distributed in the country. People felt that the government could do something for them and began to return to the country from Tunisia, Algeria, Egypt, Chad, Niger, and Sudan. People competed for access to the government and parliament for better living opportunities. The ambitions were grand, but the kingdom's capabilities were limited. The monarchy had struggled to adapt to rapid social and economic change and had become paralyzed by the competition between Libya's traditional tribal and religious elite and a small but

[241] Dirk Vandewalle, “A History of Modern Libya”. 45

influential modernizing elite made up of students, technocrats, and younger military officers. This new elite, a byproduct of Libya's oil wealth, had become particularly dissatisfied with the monarchy's arbitrariness and inefficiency, the gross misdistribution of oil revenues, and what they perceived to be a poorly planned and managed development program that had largely failed to penetrate Libya's predominantly rural areas at that time.[242] That all paved the way for the coming of Gaddafi's group later. Nevertheless, the 18 years of their rule have laid the ground for solid political institutions despite the limited economic capability of the kingdom at the time and its neglect of the rural areas. But clearly that the initiation of good political institutions during the constitutional kingdom period was not enough, or Libyans needed to be patient enough.

Gaddafi arrived at power, exploiting the economic hardships in 1969. He bent the Libyan state to a curve hostile to investment, as explained in the previous part of this chapter. The Jamahiriya salary Law 15 limited the value of salaries. The regime reduced the income of people from different hooks. Bureaucracy expansion enhanced aspects of the economy in the state, and economic troubles began to appear, reviving people's psychological and economic ancient worry of the old days. Obtaining a government job in the era of the Jamahiriya became arduous but necessary for economic survival. The government confiscated money and left people in harsh living circumstances. Thirty years of economic deterioration in the style of what read about the medieval life struggle reinforced corruption. Obtaining a job in the government became essential even through illegal means. Access to the government at its upper, lower, or middle levels has become necessary to help oneself and socially associated ones. It has become socially somehow acceptable to help others with state money. There has become an expectation for people that their relatives, friends, or neighbors will help them when reaching a prestigious job with the

[242] El Fathaly Omar I., Monte Palmer, and Richard Chackerian, Political Development and Bureaucracy in Libya (Lexington, Mass: Lexington Books, 1979), 75.

government. Many types of assistance are involved in corruption by the judgment of modern countries' laws and bureaucratic regulations. In Libyan society, transferring public money to private is considered in the minds of a segment of the society as working on heads or personal establishment using other words. Some also think that those involved in corruption when they get the chance are smart. Corrupted officials could enjoy social prestige as long as they maintain their positions or power because losing such strengths turns people against them immediately. The story is about being smart, strong, and enjoying life using public money but being careful to avoid falling because the mistake is costly, even socially. People will remember that a thief is a thief when he falls, and the extended judiciary bureaucracy in Libya that Abdulbari Tirbel criticized in his 2021 book The *Extended Judiciary Between What Is Reality and What Is Desired* will guarantee an extended prison stay, even before the trial. Still, the thief is not easy to catch, and even if this happens, he will not lose everything because the stolen money will benefit his family, and they will try to have an effective and influential lawyer for him. The streets are not neatly or well maintained, but the houses and apartments are well-built and decorated with pricey Italian furniture. Of course, without generalization, since the subject is social behavior, these unfortunate acts exist in Libya and must be faced and admitted for the sake of reforms. An added strength recently counted to the corrupted politicians and officials is their personal and business ties with influential foreign partners, making it difficult to hold them accountable in Libya.

Talking about corruption publicly may also cause some social embarrassment. Gaddafi's regime knew that people sought the government to benefit beyond the limited salary, so it began to rotate positions among people in what was known as *Altaseid*. The term verbal has two meanings. First is the elevation or elevating of someone to the position of taking responsibility for people's behavior. The second is an escalation or escalating situation of confirmation. *Ataseid* is a chaotic system of local administration.

People from different families, tribes, and neighborhoods gather in each district in a primitive way as if they were attending to racehorses in a public park. Each candidate gathers as many as possible of supporters using blood relations or friendship or promises of benefiting others to motivate them to come and raise their hands and mention their voices loudly, calling the candidate's name. The meeting could occur in a sports field, a school, an agricultural association's headquarters, etcetera. The candidate with more people to be counted traditionally by countering raised hands and loader shouts will win the position in the office. The *Ataseid* system derived its philosophy from Gaddafi's Green Book and was chaotic, with clashes and violence between families, tribes, neighborhoods, and rivalries competing for the positions. As for the candidate's winning supporters, they have expectations and implicit or explicit agreement that the candidate would help them in one way or another after reaching the district or municipal office. Because the *Ataseid* system relies on the closed list, families had the chance to cooperate and ally with another candidate. The list comprises a head and several assistants each for a local minister like education, health, sport, etc. The head of the list is known, and he is the focus of the selection process. The head of the list is often a fat cat or connected to a cat fat, using Saif al-Islam’s terminology in describing those corrupted officials during the decade of the reforms (2000-2010). The losing competitor and his supporters will probably buy the prize for four years with their chances of getting public-sector appointments, which were crucial for survival. Represent the enemy of the winning candidate later on. Their appointment requests will remain in the drawer of the winning candidate for a long time, which is enhanced because people know each other at the local administration. They can remember who raised vice with or against them in that school or sports field or the building of the agricultural association. Corruption is enhanced and institutionalized here. Nevertheless, ironically, the philosophy of the Jamahiriya is that *Altseid* is intended for selecting committees to supervise the implementation of the decisions of the masses gathered in popular conferences only and not for deciding on them or ruling them.

The current competition for power in Libya between regions, cities, villages, and tribes has economic roots, even if people pretend that its origin is a struggle for political ideology. It is a comment when social differences appear in a time of economic hardship and disappear in a time of economic prosperity in Libya. This proposition is reinforced by the continuous change in allegiance in Libyan politics, and the emergence of temporary alliances breaks these social differences. The most notable bureaucratic corruption in the rentier state institutions in Libya has become part of the culture without absolute generalization. The wrong social conviction prevailed among transpirable people that good people do not seek public responsibilities facilitates the way for the corrupt people to take the lead. Corruption in Libya has socioeconomic sources. So, whoever talks about reducing this corruption must first change people's economic and living conditions because a society in need tends to fall into the vicious cycle of corruption because of need. Libya has an opportunity to neutralize bureaucracy from the political competition, and it has a more significant opportunity to enhance oil and gas exports to improve the people's economic circumstances before fighting corruption and convincing foreign firms and corporations to come to invest or at least do the two tasks at the simultaneously.

5.3: Bureaucracy of FDI Laws in Libya

Uncontrolled and expanded bureaucracy and its corruption are not only the attributed low-quality bureaucracy that this study presents, but it also presents the substandard bureaucracy of the foreign direct investment laws that have historically suffered flaws in Libya and contributed significantly to the overall low-quality bureaucracy, which is presented in this study as the main independent variable affecting Libya's low inward inflows of foreign direct investment.

Libya has had an unfriendly stance against international business since the onset of Muammar Gaddafi's military coup. As a result, it was linked to a new kind of imperialism. Regrettably, such beliefs were reflected not only in legislation and regulations, such as those that hinder foreign investment in the country but also in nationalizing foreign assets. As a result, Libya was never a haven for FDI, not only because of increased bureaucracy and corruption but also because of obstacles in its investment laws, such as how the country confiscated and nationalized foreign business ties, and what happened to foreign oil companies working in Libya from the 1970s to the 1990s provided a clear example of such practices, which certainly harmed the country economically. Those practices manifested after September 1969, when Gaddafi's revolution started nationalizing international petroleum corporations' assets and concessions. In addition, the nationalization statutes often contained compensation provisions.[243]

The risk that threatens the chances of FDI in Libya exceeded the overall low-quality bureaucracy to touch the cultural legacy it left in the society such as the low confident in FDI as mean of economic growth even among the intellectual Libyans who one day were school students observing the ideological discourses that foreign investment is a new mean of looting nations’ resources. Laws and regulation usually present the ideas and beliefs of the political regimes and even those regimes are gone such legacy is not easy to replace.

[243] König, Peter; Stern, Thomas (1987): Investment in Libya: A legal and economic survey, Diskussionsbeiträge - Serie II, No. 33, Universität Konstanz, Sonderforschungsbereich 178 - Internationalisierung der Wirtschaft, Konstanz. 5

The risk that threatens the chances of FDI inflow in Libya exceeds the overall low-quality bureaucracy to touch the cultural legacy it has left in the society, such as low confidence in FDI as a means of economic growth, even among intellectual Libyans who were once school students hearing to ideological discourses that foreign investment is a new means of looting nations' resources. Laws and regulations often express the ideals and beliefs of political regimes, and even if such regimes are no longer in power, such legacies are challenging to alter. The problems are multifaceted. The problems in Foreign Investment Law's underlying policy are the easiest to recognize. An example is the amended Law No. 5 for 1997 attempted to liberalize foreign and domestic investment when it also received policy challenges that are the product of long-standing practices that must be revised by foreign investors and adopt a comprehensive strategy to deal with it.[244] Those laws and rules dealing with the acceptance and organization of foreign investment significantly impact its inflows. While they have been updated in Libya over the past decades, they still have shortcomings when compared to their counterparts in other countries, such as the United Arab Emirates. The current investment promotion law of 2010 that was drafted during the influence of Saif al-Islam's reforms is an outstanding improvement. Yet, it has problems, while the story started decades before the FDI statute of 2010.

The investment sector in Libya was regulated starting with Law No. 37 of 1968 regarding the investment of foreign capital, which was repealed by Law No. 5 of 1997 regarding the encouragement of foreign capital, and then amended by Law No. 6 of 2003 regarding the encouragement of investment of national capitals, which were repealed by Law No. 9 of the year 2010 on promoting investment, which is still in effect. Law No. 9 executive regulations were

[244] Reema Ali, "Middle Eastern Laws," Bilingual multi-jurisdictional Middle East lawyers focusing on corporate and commercial law., http://www.mideastlaw.com/middle_eastern_laws_libya.html.

issued by Cabinet Resolution No. 499 of 2010.[245] Among these important investment laws, legislative decrees were periodically made to address them, update them, or cancel or modify their provisions in very unstable patterns.

5.3.1: Law No. 37 of 1968: Regulating Foreign Capital

Law No. 37 of 1968 governing foreign capital investment was signed by the prime minister's office during the constitutional kingdom on July 31st of 1968 and aimed to coordinate foreign investment treatments. The 1968 law of Regulating Foreign Capital established a regulating and organizing committee associated with the ministry of economy. Article No. 9 of the law considers any project as a foreign capital when the value of its capital is not less than two hundred thousand pounds, and the foreign capital in it is not less than 51 percent. The same article in point 2 considered each of the patents, trademarks, and licenses related to the business carried out by the project as foreign capital belongs to the foreign owner of the project, including considering the earned net profits as also foreign capital. Article 6 provided the foreign investors the right to return their capital in which form it was and guaranteed that foreign employees and workers had the right to transfer their salaries and net earnings outside Libya. Article 4 of the law granted and authorized the prime ministry the right to issue customs exemptions on machinery, tools, equipment, spare parts, raw materials, etcetera, used in the project for a period not exceeding five years. The prime minister can also exempt foreign capital invested in Libya from income taxes for a period not exceeding five years. The 1968 law also granted the government the advantage of facilitating visas and residency in and out of the country.[246] These flexible laws

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[245] Albudyry Shariha and Hudaa Althuluthii, "Provisions of Law No. 9 of 2010 Regarding the Encouragement of Investment," Al-Itqan Law Firm, September 30, 2022, https://itkan.ly.
[246] Milad Alfighi and Abdullah Abdulrahman, trans., "General Planning Council: Laws and Legal Regulations Related to Investment," n.d., 5-6.

regulating foreign capital in Libya before the 1969 coup were innovative and progressive for a newly independent nation. In addition, the institutional culture of the monarchy, which encouraged foreign investment in the form of money, machinery, patents, trademarks, and licenses, made Libya a regional hub for petroleum production at the time.

5.3.2: Complicated Changes in the Investment Law

After the arrival of Muammar Gaddafi, the Constitutional Declaration Bill of 1969 was adopted on December 11, 1969. The bill addressed basic societal concepts in several sectors, including economics. The measure restricted the formation of stock companies and simple partnerships by shares to Libyan nationals, created additional standards for the sound creation of joint stock companies, and capped foreign capital involvement in joint stock companies and simple partnerships by shares at 49%. In addition, the law establishes various restrictions pertaining to the rights and obligations of a company's board of directors and the operating areas where foreign companies are authorized to operate branches. It limited such activities to engineering consulting and technical assistance for oil and gas extraction companies and other businesses.[247]

Law No. 65 of May 2, 1970, significantly altered the corporate structure in Libya. Among the most significant stipulations is that only Libyans will be registered in the Commercial Registry. The law made it unlawful for non-Libyans to participate in any partnership. Each new joint stock company must have at least five Libyan founders, and no one shareholder may own more than 10 percent of the firm's capital. At least 90 percent of the total number of corporations, limited liability companies, and partnerships workers must be Libyan and earn at least 20 percent of the

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[247] König, Peter; Stern, Thomas (1987): Investment in Libya: A legal and economic survey. 10

enterprise's salary.[248] These rigidities in the 1970 amendments to the foreign investment law resulted in a progressive drop in modest foreign direct investments in Libya, causing the country to rank first in terms of losing foreign investments in 1975. **Table 7** shows the most examples of FDI decreases for 1975, with Libya at the top due to the passage of the 1970 unfixable alterations to its FDI rules.[249]

Country	Year	Value
Libya	1975	-576,300,000 $
Mauritania	1975	-122,702,518 $
Iraq	1975	-44,920,000 $
Botswana	1975	-38,268,702 $
India	1975	-10,326,247 $
Papua New Guinea	1975	-2,230,000 $
Tanzania	1975	-870,000 $

Table 7

Example Countries with FDI decreases in 1975

Then the 1997 Law No. 5 was issued and abolished all previous investment regulations by the People's General Congress, the legislative style of Al Jamahiriya, and executed by the General People's Committee, the government in Jamahiriya style.[250]

248 Ibid. 11

249 "Foreign Direct Investment, Net Inflows (BOP, Current US$) - Libya," Data, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=1975&locations=LY&most_recent_value_desc=false&start=1970&view=chart.

250 Khaled Mansour Ismail, tran., Problems of Arbitration in Oil Contract Disputes: an in-Depth Study in Accordance with National Legislation, International Agreements and International Arbitration Provisions Related to

5.3.3: Foreign Capital Investment Promotion Law No. 5 of 1997

Article 28 of Law No. 5 of 1997 legally repealed Law No. 7 of 1968 and the succeeding executive regulations of 1970. It was an effort to make certain changes to ease the Libyan investment climate, which had been complex and severe during the nineteenth century's seventies, eighties, and nineties. The new legislation, however, had flaws as well as benefits. Article 5 of the law establishes the Investment Promotion Authority, which has an autonomous legal mandate associated with the General People's Committee for Planning, Economics, and Trade (the Ministry of Planning in the Jamahiriya system). Article 8 permitted foreign investment in various industries, including industry, health, tourism, services, agriculture, and any other field determined by the government. Article 10 has also provided benefits and exemptions for established foreign projects, such as the exemption of machinery, equipment, and devices essential for the implementation of the project from all duties, customs taxes, and taxes, and the exemption of equipment, spare parts, and raw materials necessary for the operation of the project from all customs duties and taxes imposed on import and other fees and taxes for five years, unless it was previously permitted a similar exemption. Article 10 further exempts the project from income taxes for its activities for five years from the start of production or labor. The Committee of the General People's Assembly (the government) may extend this duration to three years based on a recommendation by the government. Exemptions also included reinvestment of earnings generated by the project activities. In addition, they permitted the foreign investor to carry forward losses incurred by his project during the exemption years to subsequent years and exempted goods destined for export from production tax. The taxes and

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Oil Disputes, version First Version (Riyadh, Saudi Arabia: Library of Law and Economy, 2015), https://www.google.com/books/edition, 38.

fees exemption also reached those imposed on export when exported. Article 12 also stipulates the right of foreign investors to re-export invested capital after the end of the project period, the right to liquidate the project, or the sale of the project in whole or in part. It also ensured the annual transfer of the net profits that the interested investor received. Article 16 gave the investor the right to open a bank account in foreign currencies to benefit his project in one of the country's banks operating from the inside or abroad, such as the Libyan Foreign Bank.[251]

Nevertheless, the 1997 law also introduced restrictions, such as what article 11 illustrated that the foreign investor may not dispose of machinery, equipment, devices, parts, and raw materials imported for the project by selling or abandoning them except when approval from the Authority is received, and after paying the customs duties and taxes prescribed for their import. The article also prohibited investors from using the mentioned capital elements for anything other than the purpose of their importation. Article 12 allowed foreign employees recruited from abroad the right to transfer a percentage of their salaries, wages, and any other benefits or rewards given to them within the framework of the project outside the Libyan state. However, it only allowed them to transfer some of their income abroad, which is an obstacle to foreign business investors when recruiting them. Also, Article 15 provided an exception from the applicable legislation related to ownership and granted the investor the right to own land and real estate for usufruct. Still, the phrase "possession for usufruct" remains vague and does not confidently guarantee property rights for foreign investors. For example, the article not upgrading the law to be a modern version like the one in the United Arab Emirates. Even though the 1997 law had defects, FDI began to find a better way into the country following its issuance. That was reflected by measuring the FDI inflows in the new millennium's first decade.

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[251] "Law No. 5 of 1997 Regarding the Law of Encouraging Foreign Capital Investment," Libyan Legal Academy, July 22, 2022, https://lawsociety.ly/legislation.

In 2005 the government (the General People's Committee) adopted a resolution revising the terms of Law No. 5 of 1997 on Promoting Foreign Capital Investment. Article 17 added a tax exemption for projects that are implemented in spatial development areas (remote), projects related to food security, and projects that take environmental preservation into account, including those that rely entirely or partially on solar energy or the intervention of an irrigation system that reduces water consumption, or use machines and equipment that minimize combustion and carbon dioxide emissions. In addition, article 25 ensures that foreign investors may transfer their capital outside of Libya in the same form it was received if they still need to secure the required permits or encountered hurdles that prohibit the execution of the project, while the foreign investors are not liable for such barriers.[252] Consequently, the value of FDI inflows into Libya increased from $ 1.04 billion in 2005 to $ 2.06 billion in 2006 to $ 4.69 billion in 2007.

5.3.4: Law on Investment Promotion No. 9 of 2010.

General People’s Congress (The Legislative Body of Jamahiriya), pursuant to the Decisions of the Basic People’s Congresses in the General Annual Session of 2009, has formulated the following Investment Promotion Law No. 10 of 2010. The 2009 law No. 9 came at the peak of Libya's economic and political openness to the world and Libya's attempt to immerse itself in the global economy, based on Saif al-Islam Gaddafi's vision and his reform project called the Libya Al Ghad (Libya Tomorrow). The following **Table 1.7** demonstrates the most prominent updated articles of the new law.

[252] Milad Alfighi and Abdullah Abdulrahman, trans., “General Planning Council: Laws and Legal Regulations Related to Investment,” 32-34.

Law Additions [253]	**Positive Reflections**
Law No. 9 of 2010 permitted foreign investors to own up to 100% of the investment project without needing a Libyan partner. Moreover, article 5 permits that if the foreign investor enters with a local partner, the capital required to obtain an investment license is reduced from five million to two million Libyan dinars.	Such a step granted foreign investors the flexibility that encourages their investment in Libya.
Law No. 9 of 2010 exempts the foreign investor from all taxes for five years, and it has been extended to 8 years with the approval of the Council of Ministers.	Such exemption represents an eight-year extension over the period stipulated in the previous law of 1997.
Law No. 9 of 2010 gave the foreign investor the right to long usufruct for 70 years.	Such a period reassures the foreign investor, even if it does not provide permanent ownership.
Law No. 9 of 2010 exempts the foreign project from customs duties for five years.	Such an increase represents an update of Law of 1997, which does not exempt foreigners from customs duties such as storage, handling, etc.

[253] "Law on Investment Promotion," Libya - Law on Investment Promotion | Investment Laws Navigator | UNCTAD Investment Policy Hub, https://investmentpolicy.unctad.org/investment-laws/laws/193/libya-law-on-investment-promotion.

Law No. 9 of 2010 stipulates that the foreigner may continue to arbitrate in case of dispute, transfer capital and profits, open bank accounts in foreign currency, and obtain a five-year long-term residency for work.	Such a step is a good move in facilitating the arrival of foreign investors to Libya, especially as Libya is known for its strictness when it comes to granting residencies and visas.

Table 8
Most prominent updated articles of the new law

Even though Law No. 9 of 2010 modernized the Libyan investment legislation and included several welcome improvements. Yet, the law has its challenges. For example, the article prohibits foreign investors from investing in oil and gas exploration, production, and export, limiting Libya's chances of attracting foreign direct investment in an essential economic field that provides a comparative advantage. Also, law No 9 of 2010 did not give foreign investors permanent ownership even if it extended the duration of the foreign investor's benefit from the real estate to 70 years at the latest, which is the opposite of what is the case in developed countries, which grant even citizenship and permanent residence to owners of large capitals. Article 9 also defines that provisions regulating the law do not affect provisions of the Libyan commercial law, which confuses the implementation of law No. 9 of 2010.[254]

The Libyan modernization of the investment law remains a positive thing that inspires hope for a bright future and a true reflection of the desire for bureaucratic reform in the field of investment derived from easing the rigidity of laws. Although the World Bank report for the year 2020 on Finance, Competitiveness, and Invention shows that the steps for applying for a business project in Libya are complex and require 13 different steps still the establishment of a particular

[254] Albudyry Shariha and Hudaa Althuluthii, "Provisions of Law No. 9 of 2010 Regarding the Encouragement of Investment," Al-Itqan Law Firm. https://itkan.ly.

investment authority with its financial independence and institutional influence that tends to stand in the side of the foreign investor is a good step in the direction to bring foreign direct investment to Libya. Libya's political system is trending toward democracy and transparency, which opens doors for additional potential improvements in investment rules and regulations in the upcoming years when the politics of Libya enhances its stability.

The electronic portal of the Privatization and Investment Board that has 1080 registered projects is a modern portal. It contains considerable resources needed by those who want to invest and shows the foreign investor the steps to complete investment requests. Moreover, the Libyan Privatization and Investment Board is a useful resource for anybody thinking about or already doing business in Libya. They should start by going to its website, which is mentioned in the following quotation.[255]

5.4: The Role of Political Stability, Incentives, and Leadership

Even though this study was mainly looking for (how) the absence of bureaucratic reforms discouraging foreign direct investment in Libya while adopting them led to the attrition of FDI in the UAE, searching for (why) these bureaucratic reforms were not adopted and undesired in Libya is essential for understanding the picture in its entirety in both cases.

Comparative political literature is replete with scholarly articles on the significance of political incentives and the effect of such incentives on different aspects of a nation. Political incentives are valid independent variables for comprehending dependent political and economic science phenomena. In modern states, the absence of political incentives led directly to the absence of bureaucratic quality. Moreover, when political incentives are against the

[255] "https://investinlibya.ly/."

improvements in state administration and institutions, their reforms become a thwarted process. Nevertheless, the political incentives in any political system, whether good or bad, are generated from the individual political leadership character, which puts great importance on the linkage between political incentives and political leadership character. Bueno de Mesquita, Bruce, James Morrow, Randolph Siverson, and Alastair Smith in *Political Competition and Economic Growth* (2001) amazingly examined how political institutions shape decisions about allocating government resources that promote welfare or discourse it. Their theory explained that under many political systems, good policy is bad politics, and bad policy helps leaders say in office in autocracies. But, on the other hand, in most democracies, good policy is also good politics.[256] Among the findings is that autocrats have political incentives to generate bad economic policies. De Mesquita's finding corresponds to Libya's case during at least 42 years of its modern history, which left a negative legacy on its bureaucratic institutions, especially the main state institutions dealing with investment and economic growth, as illustrated above in this chapter. Unlike the United Arab Emirates, Libya has lacked political incentives for policy and institutional reforms since, which negatively affected the development of the country's bureaucracy and prevented potential bureaucratic reforms.

The absence of political incentive for proper economic policies, institutional reforms, growth, and development was manifested in policies choices made by the 1969 political regime that was characterized by hostility in its foreign policy to countries that hold the keys to the global economy, which shows the lack of interest economy growth, and FDI inflows is not an exception. Moreover, the *Al Jamahiriya* regime's adoption of fierce socialism close to the communist approach and its obstruction of trade and investment for decades shows the absence

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[256] "Bruce Bueno de Mesquita et al., "Political Competition and Economic Growth," Journal of Democracy 12, no. 1 (2001): pp. 58-72, https://doi.org/10.1353/jod.2001.0011.

of a political incentive for economic development. In contrast, they presented the regime's preferences for ideological ideas far from investment.

Another manifestation of the lack of political motivation for development is also the predominance of the criterion of political loyalty in holding critical executive positions in the country, as the prevailing political system from the period 1969 to 2011 lacked political legitimacy since it is not a monarchical or Emiri system as prevails in the United Arab Emirates. Parties and elections were banned in Libya for decades, which made the political system at that time hostage to the criterion of political loyalty as a selection method to occupy the highest administrative and bureaucratic positions in most cases. This standard barred reforms' chances as a corrupt tool cannot provide reform to fight corruption. Moreover, reforms were not welcome because they could obstruct the personalized policies of the regime's leadership.

The biggest problem is that the policy of political loyalty lasted for a long time until it generated a prevailing culture that the reformers posed a threat to the status quo holders. Reforms were feared to appear because they would be like block stones in the way of the vast space of movement enjoyed by the corrupt. Moreover, clinging to the political, administrative, or diplomatic positions confuses the post-2011 consecutive Libyan government domestically and internationally.

The historical socioeconomic factor's role explained under the bureaucratic corruption section in this chapter should be recalled. The country went through centuries of significant economic constraints made the governmental position a tool of survival and a guaranteed valve for making a living. Therefore, the official's strategy and his most crucial effort lie in thinking and working to preserve the position. This is a superior entrance to corruption in Libya, but most dangerously, an adequate performance to obliterate all creativity, especially the creativity of the young and educated people.

Reforms in Libya are absent because of the absence of the necessary political push for them, as governments prefer to deal with the fait accompli to carry out their work without risking being hindered by the status quo holders. However, what we have mentioned is a semi-general case, and it is an exception. Of course, some try to initiate reform and pay the price for these positions. But unfortunately, individual attempts are less effective than the general policy adopted by the entire political system of the state. Government bodies such as the Administrative Control Authority and the National Integrity Commission deserve greater powers in the Libyan state and unlimited support to carry out their duties fully.

Political leadership impacts governments and Middle Eastern countries in particular, and Libya is not exceptional. The country lacked leadership as benevolent as the one that led the United Arab Emirates for decades and was primarily represented by Sheikh Zayed bin Sultan Al Nahyan, who was interested in the nation's development and steered the UAE's general policies toward this end. Comparing Muammar Gaddafi with Sheikh Zayed ignored development strategies and state-run reveals considerable contrasts and contradictions in the interests and characters of both leaders. The individual influence of Gaddafi brought the unstable and failing Jamahiriya political system to Libya, which glorified political loyalty, expanded state control, impeded investment, corrupted the state, and eventually made reforms and good policies unattractive to the political leadership, elites, and, to some extent, top bureaucratic officials in Libya.

5.5: Conclusion

Just like in the preceding chapter on the second case study, the UAE, this section of the study on Libya portrayed the bureaucracy attributable to three elements: bureaucratic expansion or uncontrol, bureaucratic corruption, and the bureaucracy of foreign direct investment laws.

Following achieving independence in 1951, Libya's constitutional monarchy leaned toward capitalism, attracting a respectable amount of international investment, particularly in the oil industry. State institutions in Libya grew after the 1969 military takeover and the formation of the Al Jamahiriya bureaucracy. This was due to the adoption of rigorous socialism with communist-like features. The 1970s and 1980s saw a number of semi-constitutional radical revisions and administrative restructuring that discouraged investment, as Max Weber alerted a long time ago, and, by extension, foreign direct investment. During this period, inefficient bureaucracy in the form of red tape, uncertainty, and instability made Libya an unappealing environment for foreign direct investment. The nationalization and expropriation of foreign assets only made matters worse. Once Muammar Gaddafi's regime came to power in 1969, foreign direct investment (FDI) plummeted for the next three decades. The ideology of the regime's leaders, as an application of socialism, drove the bureaucratic expansion in investment and the characterization of foreign investment as a new sort of colonialism. Political desires for increasing government control over society are also implicit in these options.

With the arrival of the new century, Gaddafi's son, Saif al-Islam, began to play a role in Libyan politics as an economic and political reformer with a scientific background and a tendency for economic liberalization. Several vital reforms of state institutions and administrations took place under his supervision, such as empowering good technocrats in government and updating administrative frameworks through the National Economic and Social

Development Board based in Tripoli, which increased foreign direct investment into Libya. The remarkable inflows of the FDI in that decade didn't last long, as the regime fell apart in 2011.

The absence of governmental oversight during the post–Gaddafi period has been seen as a major factor in economic liberalization in Libya. Because of the nature of the significant consumption culture in Libyan society and the fact that billions of dollars made their way out of government accounts to the people, international companies and businesses are expanding their marketing in Libya in a variety of ways, including exporting products, obtaining contracts, and giving franchises to Libyan business agents. Nonetheless, they remain hesitant to relocate and invest directly in Libya due to the country's continued cuffed in the bloated and corrupt bureaucracy of the previous regime. There was indeed a political change, but the old government's bureaucratic practices continued.

Bureaucracy at state institutions, including the Audit Bureau, Central Bank, Investment Authority, and the Ministry of Commerce and Economy, has been negatively impacted by the political transition in Libya since 2011. In addition, these institutions have been utilized in the previous years' enormous game of political contests, which has hurt Libya's prospects of attracting foreign direct investment. As a result, foreign direct investment (FDI) will have difficulty penetrating Tripolitania, Fezzan, and Cyrenaica despite the Libyan Privatization and the Investment Authority's extraordinary attempts to facilitate and enable such investment.

Corruption, the second characteristic of poor bureaucratic quality, places Libya at the bottom of the worldwide corruption rankings. Such corruption has rendered the nation unappealing to foreign direct investment. The corruption of public institutions in Libya required thirteen arduous steps. The replacement of the merit system stressed in Libyan legislation with a system based on mediation, nepotism, and other personal ties rendered institutions incapable of attracting international investment. FDI inflows to Libya have been impeded by bureaucracy, hiring transparency, political allegiance, bribery, unwillingness to work full-time, and the iron rule of seniority. With the 2011 democratic transition, the phenomenon of the booty government increased bureaucratic uncertainty and undermined its transparency and accountability.

No matter the political stage of Libya, administrative and financial corruption was always there. The Goldman Sacks case, for instance, was a major corruption scandal that occurred under Saif's reforms. It prompted foreign publications to doubt the competence of certain Libyan officials who had gotten their positions because of their friendship ties to Saif. Post 2011 example of corruption would be the Central Bank Letters of Credit, representing the most embarrassing pattern of governmental corruption in post-Gaddafi Libya. The Libyan Audit report for recent years sums it up, and the flow of information in post-2011 in Libya deserves applause.

Without fundamentally reforming Libyan public institutions to combat corruption, the country would not be able to attract large amounts of foreign direct investment. Yet, this can only be accomplished by examining the historical and socioeconomic factors that have contributed to corruption in Libya. Cultural tolerance to corruption has developed in Libya as a consequence of the country's difficult economic situation from Othman's rule till the present day. During the economic hardships of the Al Jamahiriya era, people often go to the government for economic backing, even though through public money, corruption is often seen as a method to aid those less fortunate.

Segments of the people in Libya have fought corruption while serving in high-ranking official posts. Nevertheless, the effectiveness of their attempts could be improved by lacking a comprehensive anti-corruption strategy and macro-institutional initiatives at the national level in Libya. Raising people's socioeconomic status is an essential first step in decreasing corruption.

To accommodate these improvements in housing standards, Libya possesses abundant energy resources that should be used to their full potential.

FDI inflows to Libya are affected not just by bureaucratic expansion and corruption but also by the bureaucracy of foreign direct investment laws. Since the 1969 coup, Libya's legal and procedural rules in dealing with foreign businesses have been unfavorable. The kingdom's law No 37 of 1968 aimed to facilitate foreign direct investment by granting advantages such as the ability to return capital and the right to employ foreign workers and employees. The statute was enacted in a progressive context and reflected the investment-friendly characteristics of the Libyan constitutional monarchy. Nevertheless, Law No. 65 of 1970, presented by the coup government, imposed considerable legal impediments on non-Libyan businesses, resulting in a decline in foreign direct investment (FDI) inflows during the subsequent years, with Libya being the country with the most FDI outflows in 1975. As a result, foreign capital started departing the country during the 1970s.

Libya attempted to modify its market investment and adopted Law No. of 1997 after decades of legislative and procedural obstacles and ideology that depicts FDI as a new sort of economic empiricism. However, although the new laws' provisions allowed openness to possible foreign investors, the legislation had faults, mainly regarding ownership. Limitations also included the availability of industries, the disposal of the project, and the free movement of employees' earnings. Significant modifications to Law No 5 of 1997 aimed at encouraging capital investment happened in 2005 during Saif's reforming phase. The reforms resulted from tax exemptions, capital transfer grants, and other modifications. As a result, the value of FDI inflows into Libya grew to $4.68 billion in 2007.

Law No. 9 of 2010, Investment Promotion Law, is regarded as an exceptional upgrade in the legislative and procedural legislation governing FDI. It allowed international investors to hold 100% of the investment project without the necessity for a Libyan partner. It also offered extraordinary tax exemption subject to renewal for up to 8 years and granted foreign investors the right to usufruct for up to 70 years, overcoming the property right obstacle. The law also granted foreign investors the ability to arbitrate in the event of a dispute and other notable benefits described previously in this chapter. Nonetheless, the legislation continues to prevent foreign companies from investing in the energy industry, causing Libya to lose a significant competitive edge in this critical area of its economy. Ownership remains to be determined, and the process for obtaining investment licenses is time-consuming, requiring 13 steps. However, the nation has yet to profit from this update due to the country's political instability since 2011, despite the enormous efforts made by the Privatization and Investment Authority in Libya to promote FDI routes to the country.

Shifting from how Libya's bureaucracy hindered the inflows of FDI to why Libya did not make the necessary changes to attract FDI is useful for understanding the whole narrative and illustrates the role of politics on the economy. The September 1969 overthrow of the constitutional monarchy and the rejection of elections by the military rulers left the military and political regime with no other option for choosing state officials and bureaucrats than via political allegiance. This appointment structure created opportunities for low bureaucratic quality, such as red tape, corruption, and poorly qualified officials and staff who took jobs primarily on political allegiance and trust rather than technical and knowledge qualifications. Hence, in such political circumstances, reforms are seen as insufficient measures. Although the state's policies seem detrimental to economic development and the people's level of life, they serve as a political necessity for the regime and its leaders.

Muammar Gaddafi's personality and impact on investment must be addressed due to his considerable engagement in Libya's prior politics and policies. His ideological and historical impulses at the cost of economic reality harmed Libya's growing status and hampered sound economic policy. Several policies were economically terrible, but they made political sense for the Libyan regime under Jamahiriya's reign. What is more important is that even though the Al Jamahiriya regime is gone, its legacy has become a part of society's culture. The vicious cycle of corruption invaded the Libyan institutions, except for humble attempts to fight them made by individuals, even though the social, security, and political cost for such normative and transparent standing are pricey.

The government in the post-Gaddafi period must tread lightly with the roots and heads of bureaucrats who have a role in Libya. According to international studies, the investment climate for foreigners in Libya still needs to be improved. Without a systematic governmental plan to reform bureaucracy and decrease corruption, FDI will always hesitate to enter Libya. Moreover, as previously said, Libyan authorities must seek to enhance the people's socioeconomic standards, making it easier to improve everything linked to quality bureaucracy.

The political authority in Libya that is supposed to lead reforms must be reformed. Unfortunately, political instability did not create an environment for bureaucratic reforms and proper economic policies, as politicians and state officials adopted insufficient policies in whatever they could to maintain their political positions. In such circumstances, the political incentives for reforms, growth, and development are absent, making it difficult for Libya to reform without altering such a negative political structure.

Chapter 6: Findings and Policy Recommendations

The Effects of Bureaucracy on the Inflow of Foreign Direct Investment: A Comparative Study Between Libya and the United Arab Emirates explored the effect of bureaucracy in state institutions on FDI inflows qualitatively and quantitively. Enthusiasm to discover why the United Arab Emirates is a popular global business and investment option was generated. After considering other explanations, the decision was made to investigate the function of bureaucratic quality. Comparing the 2019 maps of FDI inflows and bureaucratic quality led to observing that they are comparable. States with a high-quality bureaucracy also attract much foreign direct investment. The initial observation was that the quality of a country's bureaucracy correlates with its success in luring foreign direct investment. Statistical testing was performed, and the results were encouraging. The effect of government efficiency and trade openness on FDI inflows was then ruled out, theoretically and empirically, as potential intervening independent variables affecting the value of FDI in the two cases of the study. The two countries had decent levels of trade openness, while government effectiveness was theoretically presented as an indicator of high-quality bureaucracy.

The quantitative data utilized in this study came from the World Bank, Global Investment Trends and Prospects, Index of Economic Freedom, Global Competitiveness Report, Macro Trends, GovData360, and other sources. The qualitative data for this research came from books, journals, official pronouncements, observers' remarks, recognized events, governmental and nonprofit reports, and so on. Broad conceptual and operational definitions of bureaucracy and foreign direct investment and a short history of bureaucracy as a scientific study were presented. Three factors contribute to bureaucratic quality: bureaucratic expansion, bureaucratic corruption, and the bureaucracy of foreign direct investment laws. For both cases of this study, the three components of low-quality bureaucracy were studied qualitatively and bridged with statistical data display. Before delving into the hypothesis, a simple regression model including 160 countries was conducted to test whether what is intended to be articulated qualitatively regarding the link between bureaucracy and FDI inflows makes statistical sense. Elements such as the hypothesis, operationality, data, sources, and chosen cases were well explained and illustrated.

The bureaucratic growth depicted in this study is the same as the bureaucratic uncontrol that drew Max Weber's concern when he hypothetically portrayed it as destructive to the free market and innovation. Bureaucratic corruption in state institutions cannot be avoided as an attribute of bureaucratic quality since it is the primary indicator of poor bureaucracy quality. The bureaucracy of FDI laws was particularly critical since it directly impacts FDI inflows and outflows.

When the personality and ideology of the political leadership played a part in choosing this option, the bureaucratic expansion aspect was more of a political ideology choice. On the other hand, bureaucratic corruption was a combination and interplay of social, economic, and political aspects. The FDI laws reflected the economic institution decisions even if the government's perspective influenced such laws and regulations in the two cases of comparison, the UAE and Libya. Policies and choices in the UAE were found to be more technical than political, but policies and preferences in Libya were found to be more political.

A thorough evaluation of the literature on the issue was provided. Regardless of academic discipline, theories covering the factors that impact FDI inflows were given. The majority were pure economics, political economy, public administration, and policy or comparative politics theories. The major case study was Libya, and the minor case study was the UAE. Since the two nations had socioeconomic and cultural parallels in their formation and independence, those two cases were chosen for comparison under the comparative politics methodology. Nonetheless, their FDI inflows ended up being different. The UAE was successful in attracting reasonable investments, but Libya was not.

The adoption of bureaucratic reforms and the conduction of good economic policies in the UAE, including controlling bureaucracy, reducing corruption, and smoothing FDI laws, resulted in high bureaucratic quality that positively affected the inflows of FDI. Conversely, in Libya, the absence of such bureaucratic reforms and the conduction of bad economic policies led to low-quality bureaucracy and prevented the inflows of FDI. Furthermore, in the UAE, political stability without competition was a helpful factor that facilitated the reforms. In contrast, in Libya, the political instability did not create an environment for reform, as politicians and state officials adopted insufficient policies in whatever they could to maintain their political positions. This comparative study's most important results are in more detail as follows.

6.1: Comparative Findings

This section of the study highlights the most salient distinctions between the United Arab Emirates and Libya with respect to the dependent and independent variables. Moreover, all the elements that are found to differ and deserve to be compared briefly will be introduced as well, with the hope that what will come out of this comparison helps in reaching good policy recommendations for Libya to adopt while seeking to attract FDI, one of the effective means for economic growth in the era of globalization.

6.1.1: Bureaucratic Quality and FDI Inflows

The UAE successfully attracted a large amount of FDI, particularly beginning in the 1990s when the country began implementing bureaucratic reforms. In contrast, Libya only attracted a significant amount of FDI during the new century's first decade when it engaged in bureaucratic reforms. The quality of bureaucracy in the United Arab Emirates is high, as is the effectiveness of the UAE government. In contrast, the quality of bureaucracy in Libya could be better, as is the effectiveness of the government, which indicates the low quality of the country's bureaucracy. **Figure 27** illustrates FDI net inflows, Libya, and the United Arab Emirates in BoP, current U.S. $ [257]

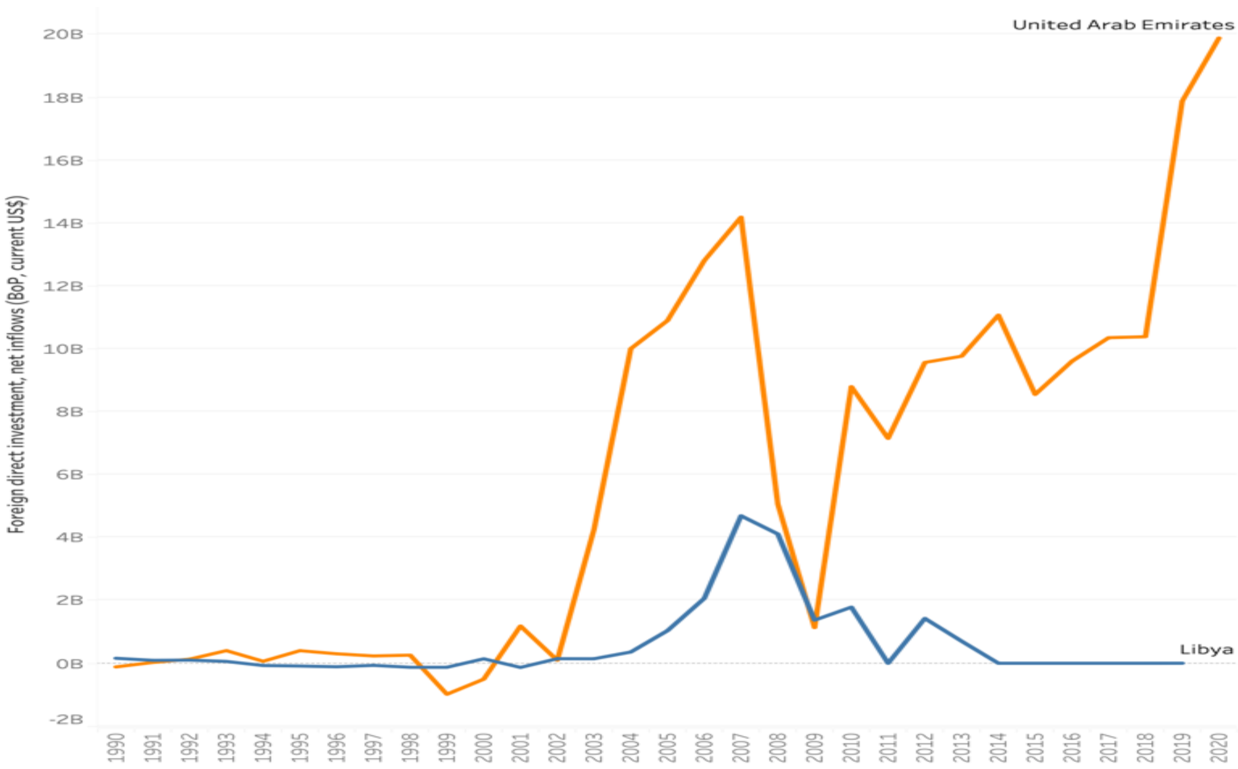

Figure 27
FDI net inflows Comparison Libya, and the United Arab Emirates in BoP, current U.S.$

[257] "The World Bank. 2022," World Development Indicators. Washington, D.C. http://data.worldbank.org/data-catalog/world-development-indicators

6.1.2: Trade Openness

In addition, the United Arab Emirates has a high degree of trade openness. At the same time, Libya is also open to trading with minimal taxation and tariff even though in less degree than the UAE, indicating clearly that what prevents FDI from desiring Libya are domestic factors such as bureaucracy, which is the independent factor in this study. **Figure 28** illustrates trade openness comparison between Libya and UAE [258]

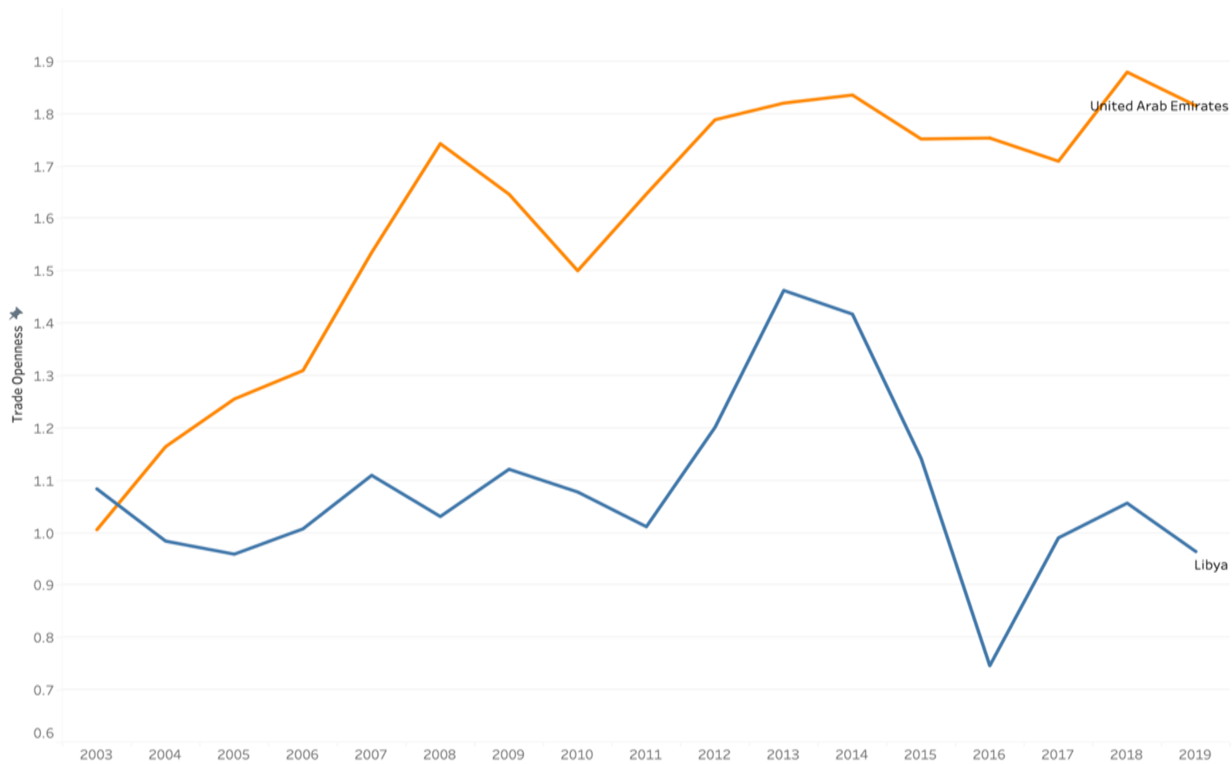

Figure 28
Trade Openness Comparison Libya, and the United Arab Emirates

6.1.3: Economic Ideology

The inclination toward capitalism emerged in the United Arab Emirates in the 1970s, leading to an increasingly restrained and controlled bureaucracy aimed at facilitating business.

[258] "The World Bank 2022," World Integrated Trade Solutions. Washington, D.C. http://wits.worldbank.org/visualization/openness-to-trade-dashboard.html

Libya followed a similar path throughout the constitutional monarchy until the Al Jamahiriya government came to power and implemented extreme socialism, prohibited private trade, and increased the state's influence in society. The expansion of the state bureaucracy resulted in corruption, and investment declined dramatically.

6.1.4: Bureaucratic Expansion and Uncontrol

The UAE gradually controlled its bureaucracy by adopting considerable measures, including the NPM system, small government, E-government, the bureaucratic behavioral competency framework, reducing red tape, implementing legislative reforms, and relaxing the bureaucracy of FDI laws. The outcome substantially impacted its investment promotion and was lauded by international investment and trade reports and organizations such as the World Bank, the Heritage Organization, and others. In contrast, Libya engaged in adopting anti-investment and privatization semi-constitutional radical changes, including nationalization and confiscation policies, the *Zuwara Speech*, the declaration on the establishment of the authority of the people, the green crawl "*Alzahf Alakhdar*," the use of sanctions for bureaucratic expansion, and the prohibition of trade and ownership, all of which hampered FDI inflows. Those measurements in Libya resulted in bad policy, policy confusion, policy instability, and state incursion in the economy.

6.1.5: Bureaucratic Corruption

The measures to decrease bureaucratic corruption in state institutions relating to an investment in the United Arab Emirates are noteworthy, and the investment environment in the UAE has an outstanding reputation. Using the behavioral competency framework, which enables citizens to assess and complain about public personnel, is the most visible step to eliminate corruption in the UAE. Consequently, the UAE ranks as the least corrupt nation in the MENA region and among the top countries in the world in terms of corruption. The expansion of bureaucracy in state institutions relevant to the economy, on the other hand, corrupts the investment environment in Libya and drives away FDI, which is highly sensitive and risk averse. As a consequence, Libya is considered among the worst in the world for corruption, with patterns ranging from macro to micro, from individual to institutional corruption. The UAE has a systematic government policy to combat corruption in order to attract foreign capital. Despite the country's political stage, such an approach is lacking in Libya. **Figure 29** illustrates a comparison between Libya and the United Arab Emirates in terms of corruption based on the Control of Corruption Percentile Rank.[259]

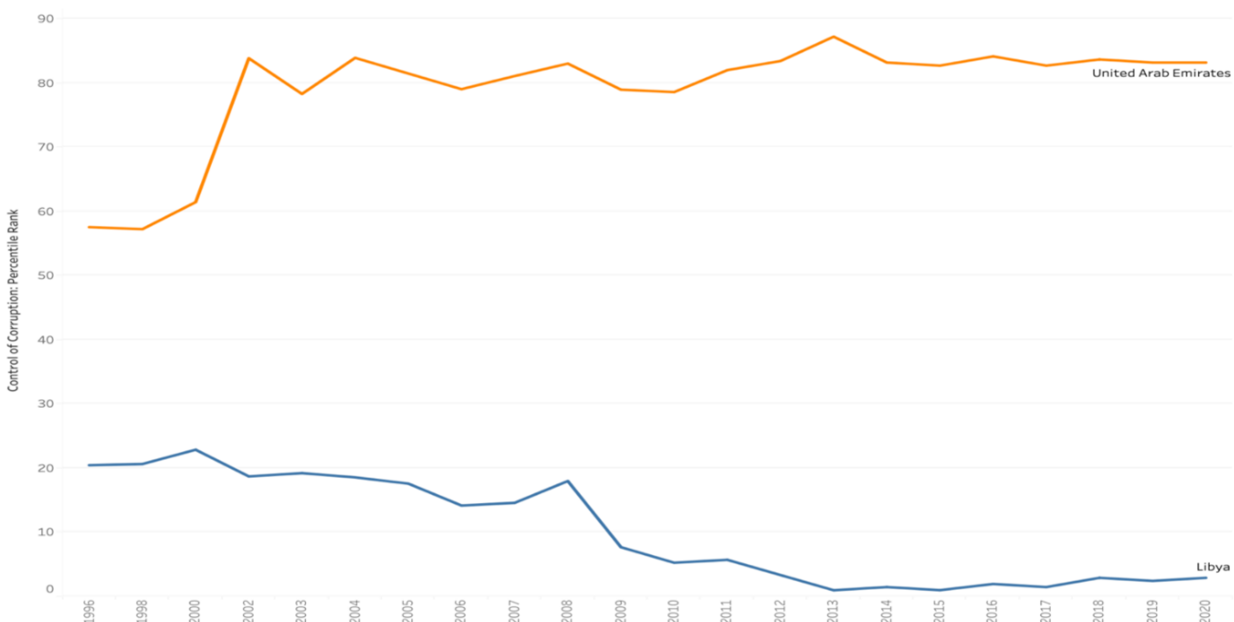

Figure 29
Trade Openness Comparison Libya, and the United Arab Emirates

[259] "The World Bank 2022," Worldwide Governance Indicators. Washington, D.C. http://data.worldbank.org/data-catalog/worldwide-governance-indicators

6.1.6: The Bureaucracy of the FDI Laws

Foreign direct investment laws in the United Arab Emirates were subjected to continuous updates such as 1988, 2018, and 2022 updates to cope with the demands of the global economy, which contributed to encouraging foreign direct investment in the country, as those laws did not reach the strictness of Libyan laws, which were historically affected by extreme socialism. The Libyan FDI laws amendments of 1970 and 1997 persisted in Libya for decades, leading the nation to lose out on considerable prospects to be a regional center for foreign direct investment given its strategic location, nice weather, and vast unexploited natural resource. The current Libyan FDI Law No. 9 of 2010 is progressive but needs a few modifications to define ownership rights more obviously, provide flexibility for modifying or terminating, or disposing of business activities, and release what remains of restrictions to earning transfer.

6.1.7: Political Stability and Leadership Character

At the end of the UAE and Libya chapters, the inquiry shifted from how the UAE reformed its bureaucracy and how Libya did not to why the United Arab Emirates reformed its bureaucracy and why Libya did not most of the time. The response to this question revealed two essential factors: political stability, which resulted in a unique interaction between political institutions and economic institutions and policies, and the personality of the political leadership, which is more personal than institutional.

The United Arab Emirates and Libya differed in political stability and the character of political leadership. The political legitimacy in the UAE is determined, while it has been under question in Libya since 1969. The lack of political legitimacy in Libya left an expansive room for political struggle and political instability that continues until now. As a result, politicians were busy in politics at the expense of economic growth and development. In contrast, the lack of political struggle in the UAE gave it political stability and room to engage in good economic policies. Those economic institutions and policies enhance the stability of the political system, which in turn feeds back good economic institutions and policies in a continuous process of self-enforcing reforms. In Libya, the situation is the opposite: the lack of legitimacy leads to political instability, distorting economic institutions and policies. Under such a distorted political-economic climate, unreadable economic policies are perceived by politicians as good political policies. As a result, politics, and the lack of political will to conduct bureaucratic reforms to promote investment are absent. The UAE's political incentives for economic growth and development are present while lacking in Libya. The UAE's absence of political competition provided political stability to the government and enabled it to initiate economic reforms, while in Libya, the lack of political stability and the continuous status of political struggle even under the Gaddafi regime incentives political and top officials to do whatsoever to maintain their ahead influential positions even though through harmful economic policies and corruption.

The personality of the political system's leader or the state's founder or ruler for a long time must be considered, due to its contribution to developmental decision-making, especially in the post-independence periods in the developing world. Sheikh Zayed, the first president of the United Arab Emirates after unity, was inclined to the ideology of the free market and the liberalization of the economy. Therefore, he pursued friendly foreign policies and facilitated the arrival of foreigners and their businesses to work in the UAE. These policy trends raised the standard of living in the Emirates, presented Sheikh Zayed as a benevolent ruler, and preserved the federation's unity. In Libya, the story is the opposite. Gaddafi came to power in Libya in

1969 and remained in it for more than four decades; they halted what the benevolent king Idris had begun of development policies in 1951, which were among the best in the Middle East and North Africa despite the lack of resources by that time. Moreover, Gaddafi adopted harsh socialist policies, radically overturned laws, regulations, and institutions, and always attempted to personalize the institutions in his image. Away from passion, a military person of only 27 years old should have never been allowed to take control of a country whose civilization extends back thousands of years ago.

The following **Table 9** demonstrates the three main aspects of the low-quality bureaucracy examined in this study and their differences in both cases under comparison preceded by the most time economic ideology of the country. The outcome is that the UAE succeeded in attracting a substantial amount of FDI, whereas Libya did not.

Attributes	**UAE**	**Libya**
Bureaucratic Expansion	Restricted / Controlled	Expanded / Uncontrolled
Bureaucratic Corruption	Low	Relatively High
Bureaucracy of FDI Laws	Appealing to FDI	Unappealing to FDI
Outcome	High FDI Inflows	Low FDI Inflows

Table 9
Three main aspects of the low-quality bureaucracy examined in the study

6.2: Policy Recommendations

Foreign direct investment is a recognized economic method of booming economic growth for developing countries because it domesticates exogenous developing elements such as the transfer of scientific knowledge, administrative organization, international trust, capital, machinery, and equipment.

In a general sense, Libya can benefit from its latent potential in foreign direct investment and take the opportunity to be a regional hub for foreign direct investment when it reforms its bureaucracy in state institutions related to investment. State economic institutions such as the audit bureau, the central bank, the privatization and investment authority, the ministry of economy and trade, the administrative control bureau, the integrity commission, and alike would allow Libya to benefit from its strategic location, wonderful weather, and enormous natural resources. More specifically, Libya should focus on four aspects to reform bureaucratic institutions and policies that impact FDI inflows and restructure particular characteristics of its political institutions to ensure the continuation of the reforming process whenever necessary.

6.1.1: First Recommendation About Bureaucratic Expansion

Some measurements are recommended for controlling the bureaucracy and restricting its expansion in the Libyan economy. Those reforms include preventing radical and sudden changes in laws and legislations and the adoption of bureaucratic behavior evaluation systems that enable people to evaluate employees and institutions. The procedures for obtaining an investment license should be uncomplicated, and the defects in the foreign direct investment law should be eliminated. The establishment and enabling of electronic governance and the moderating of the banking system should be a priority. Libya should also work to restructure the economy and eliminate the burdens of the past strict socialism by reducing the bureaucratic incursion in investment and market, liberalizing the economy, and relaxing the restrictions in laws and procedures on domestic and foreign investment.

6.2.2: Second Recommendation About Bureaucratic Corruption

Libya must also endeavor to remove public financial and administrative corruption, which has harmed the country's worldwide image and discouraged foreign investors from selecting it as a host country for their capital. To attain this purpose, Libya must develop and solidify political transparency in order to eradicate the criteria of political allegiance in state bureaucratic appointments and to alienate the corrupt unity of interest between political and bureaucratic interests. To facilitate this task, the government should improve the people's economic situation and living standards, which is crucial to close the socioeconomic entrance of corruption. Libya's energy sector's revenues could cover such a policy until further income diversification is achieved.

6.2.3: Third Recommendation About Bureaucracy of the FDI Laws

While amending or drafting FDI laws and regulations, Libya should also keep abreast of developments in laws and regulations relating to foreign direct investment in countries that have a successful track record in this regard and take into account the interests of the foreign investor in all aspects of social, economic, security, and justice. Libya's FDI law, for example, in its most recent update in 2010, is an advanced version that needs a few amendments to clarify ownership rights more explicitly, provide flexibility in matters of changing or terminating business activity, and eliminate any provisions of articles in it that conflict with the requirements of other laws and regulations such as Libyan commercial law.

6.2.4: Fourth Recommendation About the Impact of Politics

The policy recommendations for Libya in terms of FDI inflows should end with a core aspect: the influence of politics on economic policy and institutions. Libya should construct the political institutions that will ensure their stability and survival by relying on the development of sound economic policies. The behavior of the Libyan politicians should be institutionally formulated to sense that good economic institutions and policies work in favor of their interests and incentivize their political survival rather than threaten it. Moreover, political stability is required so Libyan politics can find room for economic growth and development. Also, the bureaucracy in Libya should be decoupled and neutralized from politics. The booty government phenomena that ruled after the February 17th Revolution should be eradicated. Politicians should be barred from employing bureaucracy in political competition and be barred from using bureaucratic posts as rewards to their friends, relatives, and political supporters. **Table 1.8** depicts the prominent nine factorial differences between the two cases that were discovered throughout the comparative case study.

Number	Factor	UAE	Libya
1.	Political System	Federal Presidential Monarchy	Central Transition to Democracy
2.	Political Competition	Low	High
3.	Political Stability	High	Low
4.	Economic Ideology	Capitalism	Socialism
5.	Political Incentives for Growth	Present	Non present
6.	Bureaucratic Expansion	Controlled	Uncontrolled

7.	Bureaucratic Corruption	Low	High
8.	Bureaucracy of the FDI Laws	Flexible	Less Flexible
9.	Quality of Bureaucracy	High	Low
Outcome	**FDI Inflows**	**High**	**Low**

Table 10
Prominent factorial differences discovered in this study between UAE and Libya

The fourth policy recommendation is more political in orientation and ought to be the focus of future studies. It addresses the connection between political stability and incentives with bureaucratic reforms and good economic policies. The already explained findings in the 4.5 and 5.5 sections of this study regarding the impact of political stability and the absence of political competition on adopting good economic policies sparked an interest in further comparative research at the level of nations.

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