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Does Libya need the WTO? A Critical Analysis of the Potential Economic Impacts of Financial Liberalization in the Event of Libya’s Accession to the World Trade Organization

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SUMMARY

This paper sets out to undertake a critical examination of Libya’s proposed membership of the World Trade Organization (WTO). The primary purpose of the main research on which the paper is based is to explore the potential economic impacts on the Libyan economy of economic liberalization in general, and liberalization of the financial services sector in particular, in the event of Libya’s accession to full membership of the WTO. The paper, its key themes and its initial findings, are partly informed by ongoing doctoral research by the second author, for which the first author is one of the supervisors.

The paper poses the question whether Libya (an oil economy) needs the WTO for the promotion of its economic growth, and in exploring this question it sets out to test the hypothesis which holds that there is a correlation between economic liberalization and higher rates of economic growth. It examines the case that Libya could well invest its surplus income from oil revenues in economic diversification programmes (tourism, financial services, agro-industry and manufacturing, etc.) - and hence does not require an economic programme which is premised on future WTO membership. The paper argues the case that Libya (even with its surplus oil wealth) still requires FDI in the petroleum sector, and (in the event of economic diversification) will require access to overseas markets – hence the rationale for a policy of economic liberalization leading to accession to full membership of the WTO.

The main thrust of the paper will be directed at a critical analysis the potential economic benefits and disadvantages of Libya’s accession to full membership of the WTO - with the main focus being on the potential economic impacts on the financial services sector, in particular the banking and insurance industries in Libya. In the course of pursuing this main theme the following supplementary objectives will also inform the analysis: (a) an overview of Libya’s economic liberalization programme to date within the context of Libya’s status as a WTO observer country; (b) a critical analysis of the economic rationale and justification for Libya’s accession to full membership status of the WTO; and (c) a SWOT analysis based on a critical exploration of the potential economic benefits and opportunities, as well as the challenges and threats to the Libyan economy following accession to full WTO membership. Section 5 of the paper presents an overview of the ongoing doctoral research project which serves as the main inspiration for the paper, in particular the research methods and methodologies (including the use of econometrics and time series analysis), which will be employed in conducting the main research.
Key words:
Libyan Economy; WTO; GATS; Economic and Financial Liberalization.

JEL classification:
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Field & theme of proposal:
International economics; econometrics; banking and insurance.

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1. INTRODUCTION

International trade is one of the building blocks of any economic system and trading policies are therefore fundamental to every country’s economic plan. The last two decades of the twentieth century witnessed a significant growth and expansion in global trade in goods and services with the advent of globalization. At the forefront of this global phenomenon has been the World Trade Organization (WTO), of which Libya has ‘observer’ or ‘candidate country’ status. The increasing internationalization of commercial activities, especially in the financial services sector, brings with it many economic benefits but also many challenges. Some authors have argued that finance plays a key role in economic development, and that financial depth and economic performance in developing countries is low due to government intervention in the financial system (Khalaf, 2011). Faced with this situation “The developing countries have launched different policies to make their financial systems play a key role in the whole process of economic development and they continue to do so” (Khalaf, 2011). Such policies have included measures aimed at a restructuring of the financial system such as fiscal consolidation, the lifting of foreign currency and exchange rate controls, deregulation of the financial sector activities and financial markets, and privatization of financial institutions including banking and insurance.

Libya has not been isolated from the effects of globalization or the prevailing trends towards economic liberalization, including deregulation and privatization in the financial services sector. In reviewing the development of Libyan policy in this regard two main periods can be identified: the first covers the period from the 1970s through to the 1990s when public sector enterprises were the dominant force in the Libyan economy (Otman and Karlberg, 2007). However, by the year 2000 the Libyan authorities had realised that the public sector approach to economic management was not bearing fruits and consequently embarked on a change of economic strategy, thus ushering in a new period in the modern
history of the Libyan economy (Alaslam, 2002). The period from 2003 onwards saw the privatization of public firms and entities involved in the provision of financial services such as banking and insurance, and also witnessed the onset of policies aimed at general trade liberalization. Thus the many decades of excessive reliance on the public sector were followed by a policy transition from a planned economy based on public entities to a market-based economic system (Alafi & Bruijn, 2010). Since the year 2003 Libya has made steady progress with the privatization of public entities, the restructuring of the financial services sector, policy reforms on trade and general economic liberalization. These policy trends are consistent with its aspiration and strategy for accession to full WTO membership (IMF, 2006).

There are evidently many potential benefits which may accrue to Libya in general, and to the financial services sector in Libya in particular, in the advent of full membership of the WTO. These include the potential for economic growth and greater economic efficiency with the improved economic performance that comes with competition in the free market place. Indeed, it could be argued that Libya’s aspirations (and expectations) in this regard are very much in line with the McKinnon-Shaw hypothesis which argues that there is a positive correlation between economic liberalization and higher rates of economic growth – and that financial liberalization will lead to higher rates of savings, higher investment and ultimately to accelerated economic growth (McKinnon, 1973; Shaw, 1973). But it is equally evident that there are also many potential challenges and pitfalls which could be the undesired side effects of such a transformation of economic policy. Competition, for example, can be a double-edged sword - it may indeed offer the opportunity for improved economic performance which comes through exposure to market forces; however, local firms will in the process be open not only domestic competition, but also to the international competition that is borne out of market access to the financial services sector in Libya which
Libya’s membership of the WTO will offer to foreign competitors. It is thus axiomatic that before Libya becomes a full member of the WTO, it has to be confident of the fact that Libyan firms can withstand such competition; furthermore, it has to be confident of the fact that Libyan firms are well equipped to compete on the global stage – i.e. not only in the Libyan market but also in foreign markets by accessing the markets of fellow WTO member states.

This paper has the following key aims and objectives:

- To critically examine and assess the effect of economic liberalization and its impact on the financial sector and on economic growth in Libya.

- To ascertain whether WTO membership will promote higher growth rates in Libya: i.e. what are the potential advantages and disadvantages of Libya’s accession to full membership of the WTO?

- To identify and critically analyse the opportunities as well as the challenges facing Libya's economy in an increasingly competitive regional and global market, especially taking into consideration the increasing expansion of international financial institutions in the regional markets of the Middle East and North Africa.

- Using Libya as a case study, this study seeks to establish what economic lessons Libya (as a candidate country of the WTO) can learn from the experience of Arab countries which are already members of the WTO.

In the course of the analysis answers will thus be sought to the following key questions:

- What is the actual and potential economic impact of WTO membership on Libya based on the experience from the literature review of selected WTO member states from Arab countries? And what will be the potential economic effect of deregulation in financial services in Libya in the event of joining the WTO?
• Will WTO membership contribute towards activating and stimulating growth in the financial services sector in Libya, and in promoting overall economic growth?

• What are the strengths and weaknesses, and the advantages and disadvantages, in the structure of the Libyan economy, which may appear in particular in the financial services sector, following its WTO membership and economic liberalization? And what are the main prerequisites for successful financial services performance in Libya?

• What lessons can Libya, as a WTO candidate, learn from the Arab countries’ experience? In other words, using the experience of some Arab countries who are members of WTO, how can the policy of the financial services liberalization be applied if the Libya joins the WTO?

Before attending to these aims and objectives, and seeking possible answers to these questions, it is first of all pertinent to explore the general economic, policy and historical background to Libya’s aspirations towards accession to WTO membership. This forms the subject matter of the next section.

2. BACKGROUND TO LIBYA’S ASPIRATIONS IN JOINING THE WTO

International economic relations are undoubtedly one of the most important aspects of the national life of any country. However, international commercial transactions are not without their problems and controversies, especially in view of the interface between national trading policies and international political relations. Not only will countries sometimes adopt exclusionary trading policies through the selective designation of its trading partners based on political rather than economic considerations; moreover, countries with centralised or planned economies (such as Libya in the period before the year 2000)
may adopt trading policies based on ideological orientations which primarily aim at restricting access to the domestic market to foreign enterprises. Trading policies may thus be used as a tool to further political goals by restricting domestic market access to enterprises from countries which are deemed to be political hostile to the policies or government of the restricting nation. It is thus evident that the best way to address such problems and controversies is through the adoption of an international legal framework with a view to creating a level playing field for all nations based on negotiated and agreed principles and benchmarks – including provisions for dispute resolution in the event of trade conflicts between any of the signatories. The WTO in effect provides such as platform which sets out the rules, commitments and obligations of member states within the framework of a multilateral trading system.

The legal and institutional framework for the facilitation of international trade relations which emerged out of the WTO in the last decade of the twentieth century was borne out of an evolutionary process stretching back to the initial conception of the General Agreement on Tariffs and Trade (GATT) in 1947. This evolutionary process comprises of various rounds of multilateral trade negotiations – from the Geneva Round in 1947 through the all-important Uruguay Round from 1986-1994 and culminating in the Doha Round of 2001. The Doha Round is yet to be concluded, its latest instrument being the Bali Package which was signed on 7th December 2013. One of the key outcomes of the GATT was the General Agreement on trade and Services (GATS). Under the GATS, the largest service sectors including banking, insurance and other financial services are fully subject to multilateral trade rules based on open access to the domestic financial services markets of member states. The end product of the historical process can not only been seen in today’s multilateral trading rules but extends to institution building – i.e. the multilateral trade regulatory institution now known as the WTO.
The GATS is premised on the principle that open markets are the way forward to ensuring greater world prosperity. It came into effect in 1995 through the adoption of international rules aimed at removing barriers in the provision of services generally, including financial services, and facilitating the opening up of the domestic markets of member states to international trade and investment (http://www.gatswatch.org; 2003). Some neighbouring North African countries such as Egypt, Mauritania, Morocco and Tunisia joined the multilateral trading system in 1995 (http://www.wto/membersandobservers, 2013). Libya, however, did not become involved with the GATT or the WTO until 2001 when it decided to apply for observer status and commenced accession negotiations as a candidate country of the WTO (Malkawi, 2006). It is evident that the inability of the Libyan government to apply for membership of the GATT at an earlier date further deepened its political and economic isolation on the world stage which had been brought on by sanctions imposed under UN Resolution 883 of November 1993. Indeed, it was only after sanctions were lifted on 12 September 2003 that Libya was able to accelerate the pace of its preparations for joining the WTO. While it may be difficult to ascertain the precise intentions of the Libyan government in the 1990s regarding Libyan membership of the multilateral trading system, it is clearly the case that there were serious obstacles in the way of membership due to the very difficult and hostile international political and economic environment in which Libya found itself during this period.

In the introductory part of this paper reference was made to the fact that Libya had embarked on a process of general economic liberalization starting with the privatization of public entities. During the 1990s through to the early years of this century the Libyan government continued to encourage private sector growth by introducing changes to economic legislation aimed at facilitating sectorial diversification and reducing the nation’s
dependence on oil revenues. Various legal instruments such as Law No.21 and Law No.100 of 2001, Law No. 1 of 2004 and GPC Resolution 134 of 2006 were instrumental in effecting these policy changes (Najeb, 2009). The primary focus of this new economic strategy was aimed at promoting private investment in the service sectors with a view to creating employment opportunities, promoting diversification and ultimately stimulating economic growth. At the forefront of the quest for liberalization and diversification were legislative instruments such as Resolution No.447 of 1987, Law No.9 of 1985 and GPC Resolution No.313 of 2003 (Najeb, 2009). In addition there was also a revision of policies aimed at removing restrictions and promoting greater openness in Libya’s international political and economic relations (Central Bank of Libya, 2007).

One of the most important milestones in Libya’s economic liberalization programme came with its application in 2001 for accession to WTO membership (Alfaitori, 2003). Libya’s formal application was received at the WTO on 10 June 2004. On receipt of Libya’s membership application, a WTO Working Party was established under the chairmanship of H.E. Victor E. Ugarte of Spain and Libya was notified on 27 July 2004 that it could commence negotiations for accession to full membership (http://www.wto/accessions/libya, 2014). Subsequent political events in Libya following the fall of the Gaddafi regime in 2011 and the ensuing disruptions to political and economic life as well as the functioning of national institutions have, arguably, had a significantly adverse impact on the progress of these negotiations and it may yet take a while before Libya achieves its desired objective of full membership of the WTO. However, looking forward, what would accession to full membership of the WTO imply for Libya in terms of the specific requirements which it will be expected or required to comply with as part of the general framework of the multilateral trade agreement? In answering this question, the most important principles of the GATT
which underpin the current international framework for multilateral trade relations need to be identified.

In order to facilitate global trade liberalization, the GATT outlined the following key commitments on the part of signatories which now form part of the framework of the WTO, and which Libya, on accession to full membership of the WTO will be expected or required to comply with:

- **Most Favoured Nation (MFN) principle**: Non-discrimination is one of the important principles underlying the GATT, and now the WTO. This principle defines the rules of State conduct in international commercial transactions, requires each member country to grant each other non-discriminatory treatment which is at least as favourable as that which it gives to its most favoured trading partner. This principle expresses a legal obligation on the part of each signatory not to discriminate or engage in selective treatment vis-à-vis other member states.

- **The principle of national treatment**: Under this principle Member States are obliged to treat imported goods in the same way as the goods produced locally with respect to taxes, customs duties and other charges (Wilson, 1995). Pursuant to this membership of the WTO involves a pledge to abandon protective practices through the removal of trade tariffs and other barriers. This will imply for Libya, in the event of accession to full membership, the exposure of local firms to international competition within the domestic market.

These two key principles, inter alia, demonstrate the extent of the significant commitments taken by any nation, such as Libya, which aspires towards accession to full membership of the multilateral framework for global trade under the WTO. The potential advantages of membership are often greatly publicised and posited as self-evident by neo-liberal schools of thought founded on the premise or the hypothesis that economic liberalization leads to economic growth. But what about the challenges, not least that of
exposure of local firms to competition from much stronger international competitors in what was previously a domestic market, but has been transformed into an international market following the advent of WTO membership? This is one of the important aspects which aspiring candidates such as Libya need to contemplate in the run-up to WTO membership. Will the country prepare itself sufficiently and be ready in time for such competition from abroad? This question is even more pertinent vis-à-vis the liberalization of the financial services sector which is arguably at the forefront of the current economic trend in the globalization in trade and services.

In contemplating the questions posed above, it ought to be noted that there are under the multilateral trade regime some safeguards in the event of a sudden flow of commodities or unsustainable competition for domestic services following accession to WTO membership which may have an injurious economic impact on the domestic economy of a member state. In this eventuality, the State concerned may impose trade restrictions to protect local producers from a situation which may entail significant damage to the domestic economy. Such restrictions will remain in place until such a time that the threat has abated (Ayenagbo et al, 2010). It could thus be argued that this, in effect, amounts to a derogation or exception from the principle of national treatment. Still in this light, the multilateral rules accord more favourable treatment for developing countries in order to increase the rates of their development (Habash, 2002).

With specific reference to services and the financial services sector, the GATS, in its second paragraph indicates that trade in services involves provision of services within the following types (Akel, 1996):

- Cross-border supply: under this category the service provider resides abroad while the consumer remains in their home country; the provision of the required services does not
require the actual movement by the supplier or the consumer but transmission of the services itself. For example, banking services or software services supplied by a supplier in one country by mail or online to a consumer in another country.

- Consumption abroad: this involves the provision of services in a signatory member state to a consumer from another member state; i.e. consumption or utilization of the service takes place outside the home state of the consumer. Examples of services falling within this category include tourism and education.

- Commercial presence: this entails the supplier of services based in one country providing the service in another country on the basis of an agreement between the two countries. This could involve a foreign investment project in the host country or the provision of some other service which requires some form of presence to be established in the host country by the foreign supplier. This could well imply the presence of natural persons (i.e. the temporary movement of individuals to the host country) or the incorporation of a local subsidiary of the service provider.

As concerns the WTO itself, there are a number of key functions which ought to be noted in as much as they are expected to have an impact on Libya’s future trade policies and economic strategy in the advent of its accession to full membership of the organization. The WTO’s main functions are:

- To facilitate and monitor the implementation of multilateral trade agreements emanating from the previous rounds of negotiations.

- To manage and supervise the settlement of commercial disputes and disagreements on the implementation of trade agreements between member states through a transparent and effective dispute settlement mechanism (Low, 2009).

- Administration and review of the foreign trade policies of member states to ensure compliance with the provisions of the GATT and the principle of transparency.

- Encourage the continuity of negotiations with the aim of further trade liberalization especially in the services sectors (Ayenagbo et al, 2010).

- Cooperation with the International Monetary Fund and the World Bank in the coordination of global economic (financial, monetary and trade) policy (Auboin, 2007).
The foregoing principles signify to the extent of the legal obligations which Libya will be expected or required to commit itself to in the advent of its accession to full membership of the WTO. This will require a high degree of thorough preparation with a view to putting in place all the required policies and structures aimed at facilitating a smooth transition to membership and effective participation in the multilateral trading system. But with all of this still in the foreground of future aspirations, an important question still looms in the background and it is that of whether or not Libya (as an oil economy) actually needs to be a member of the WTO in the first place. It is proposed to examine this preliminary but nonetheless pertinent question as a complementary aspect of the background issues which have already been discussed in order that a more comprehensive picture of Libya’s position might be presented.

3. DOES LIBYA NEED THE WTO? THE ECONOMIC RATIONALE AND JUSTIFICATION FOR LIBYAN ACCESSION TO FULL MEMBERSHIP

Studies have shown that negotiations by countries towards accession to membership of the GATS and WTO have contributed towards the creation of more transparent policy and stable economic regimes in many developing and transition countries, and that the accompanying commitments have helped these countries to develop and pursue sound macroeconomic and regulatory policies (Mattoo, 1998). Furthermore, according to Hoekman, Mattoo and Saphira (2007, p.367), there is a body of growing empirical evidence suggesting that policy reforms increase competition in service industries, helping to boost growth prospects and to enhance economic welfare. It is the light of these studies and findings that many Arab countries started turning their attention towards policy reforms involving economic liberalization and aspirations towards WTO membership as a way of improving their economies. Libya was no exception, with the question of WTO membership attracting evermore increasing interest in debates within national circles.
However, Libya’s situation (as compared to other Arab and African nations) was far more complicated due to its economic and political isolation on the international stage over a number of years following the bombing of Pan AM Flight 103 over the town of Lockerbie in Scotland in 1988 and the imposition of international economic sanctions. It was thus evident that in order for Libya to aspire to WTO membership, it will have to institute policy reforms far beyond the standard economic prescriptions required for such membership. Political reforms will also be required, including a rethinking of its foreign policies and the admission of liability for a number of international criminal acts leading to compensation settlements and redress for the victims. This seems on the face of it a rather high price to ask in return for WTO membership. Hence the question: did or does Libya actually need the WTO? Would the institution of domestic economic reforms (including privatization, diversification and economic liberalization) in itself provide a sufficient platform from which to pursue economic growth?

It could thus be argued that Libya, as an oil economy, could simply utilize its surplus oil income through reinvestment in achieving its desired objectives. Libyan oil already had a ready-made world market without the need for the WTO, albeit with restricted access in some cases in view of prevailing economic sanctions. So why the need for WTO membership which, in order to be successful, would require a sea-change in political as well as economic policy as a pre-requisite to admission? And would economic liberalization with a view to future membership of the WTO necessarily lead to improved economic performance and economic growth, given that the Libyan economy is so heavily dependent on oil production?
These questions necessitate and call for a much wider perception and much deeper appreciation of the principal motivations and policy drivers which may have informed Libya’s initial desires for economic liberalization and future membership of the WTO. The economic rationale for WTO membership, even if it does seem to be a plausible one in Libya’s case, does not necessarily preclude the significance of an equally important political rationale aimed at freeing Libya from decades of isolation on the international stage. From an economic point of view it could be argued that Libya could well do without the WTO in view of its surplus revenues derived from oil exports. But given the stagnation in economic growth (GDP) up to the year 2000 (see Fig. 1, above), economic reform was bound to become sooner or later a policy exigency. It could also be argued that in view of the perennial volatility which had become the chief characteristic of oil markets and oil prices, economic diversification had become a pressing necessity. And with diversification comes the need for markets, both domestic and international, to provide outlets for the production derived from the new industries and sectors.

In addition to the economic arguments, the political strategy of ending Libya’s international isolation by becoming a member of a high profile global economic and trading club provides an
equally powerful motivation for accession. With the ending of international economic sanctions in 2003 it was important for Libya not only to re-instate itself in the international economy, but also to regain its political standing in the international community of nations. Taken together, these economic and political considerations clearly provide a sound rationale for WTO membership. There may well have been a high price to pay in terms of admitting international responsibility for acts of terror and the subsequent payment of compensation for such acts, or in the short term economic pain of restructuring and the impending challenge of competition on the global economic stage, but the potential economic and political benefits make a plausible (if not as yet a compelling) case in favour of having pursued the right course. It is thus to be submitted that the answer to the question as to whether Libya actually needed (or still needs) the WTO is one which elicits a positive response.

4. POTENTIAL BENEFITS AND CHALLENGES OF WTO MEMBERSHIP FOR THE FINANCIAL SERVICES SECTOR IN LIBYA

As seen above, in response to the UN Security Council decision on 12 September 2003 lifting the 11 year economic sanctions on Libya, the government of Libya put in place policies aimed at economic liberalization and the promotion of foreign trade with the view to improving economic growth while ensuring macroeconomic stability. Privatization of state owned or public enterprises, liberalization of trade and finance, restructuring of the economy and the admission of foreign direct investment are generally considered to be the most essential features of a transition from a planned to a market economy (Abdussalam, 2006). Such structural and policy changes will undoubtedly put great pressure on the Libyan economy, in particular when it accedes to full membership of the WTO in view of its exposure to market forces and international competition after such a long period of isolation and protection from such forces under the planned economy.
There is an abundance of academic literature which explores the benefits and disadvantages of WTO membership from which many lessons can be drawn when assessing the potential gains and challenges which Libya may encounter in the advent of accession to full membership of the organization (Hoekman et al, 2009). One of the key benefits of membership is that it will grant access to world markets and export opportunities for Libyan firms. The financial services sector in particular will stand to benefit from access to foreign capital markets under the GATS, and Libya could well capitalise on this in the future to establish itself as the leading regional financial centre of North Africa and the Maghreb. With the exposure to international competition which membership entails, the Libyan economy also stands to reap the benefits of greater competitiveness, improved performance, increased productivity and economic efficiency, which in turn will provide the stimulus for sustainable economic growth. The measurable or quantifiable economic indicators of such benefits will be in the form of higher GDP (and GDP per capita) and economic growth rates in post-WTO membership period.

At the micro-economic level the potential benefits for Libyan citizens will include greater employment opportunities (including improved technical skills and the acquisition of new skills) as a consequence of the expected growth of the economy – leading to more income generation and wealth creation opportunities. Libyan consumers will also stand to benefit from more choice and variety of products sourced from different countries within the WTO system. This in turn will entail cost of living benefits in the form of higher quality and competitively priced products.

From a legal perspective, WTO membership will also offer to Libya a forum for the transparent, efficient and effective resolution of international trade disputes with its trading partners through the organization’s dispute settlement mechanism. This is particularly important in ensuring that countries do not resort to unilateral or retaliatory measures, and that trade disputes do not become
too politicised and intractable - with the economic ramifications which this could entail in terms of lost trading opportunities.

There are also, of course, difficulties and challenges which Libya will expect to encounter following its accession to full membership of the WTO. Foremost in the list of perceived potential disadvantages is the exposure of domestic firms to international competition (Malkawi, 2006). Competitiveness in this case can be a two-edged sword which cuts both ways. It could thus be argued that international competition, following the elimination of tariffs and open access for foreign firms to the Libyan market pursuant to WTO rules, could be detrimental to the growth of Libyan industries. The most severely affected are likely to be new start-up industries, which in turn could impact negatively on any policy or programmes aimed at the diversification of the Libyan economy.

Next on the list of challenges will be how to deal with the risk of global economic contagion which may come with exposure of the financial services sector in Libya to the world’s financial markets following accession to full membership of the WTO. Modern economic history includes many examples of such events, the most recent being the sub-prime mortgage crisis which originated in the United States and quickly spread like a virus through the world’s financial system (Reinhart and Rogoff, 2011; ). The real risk for Libya in linking up the domestic financial sector of Libya with the world’s financial system through the GATS framework lies in the domino effect which a meltdown in one part of the system may have on Libya. This is something which Libyan policy makers will need to bear mind and aim to put in place contingency plans for dealing with such a crisis once access to international financial markets becomes available under the GATS to Libyan firms operating in the financial services sector.
From a political perspective Libya will not only need to be mindful of, but must also be prepared to accept, the fact that full membership of the WTO will entail curtailing some of its regulatory autonomy or even its legislative competences vis-à-vis local decision making on matters pertaining to both domestic and international trade. The extent to which a nation’s economic sovereignty with regard to matters affecting international trade can be impacted upon by WTO membership is still very much the subject of academic debate (Santos, 2012). However, it is nonetheless the case that submission to the rules of the WTO implies to a great extent the imposition of limitations on the sovereign will of governments to regulate trading policies purely on the basis of national interests.

One of the lessons Libya stands to learn from the experience of the Arab states who are already members of the WTO is how do deal with any issues of incompatibility between domestic polices and multilateral trading rules. A pertinent example concerns the possible tension which could surface in the financial services sector between the rules of the multilateral trading system under the GATS and the domestic requirements of the municipal legal system relating to Islamic banking and finance. Can foreign firms accessing the Libyan financial services market under the GATs be required under domestic Libyan legislation to subscribe to the rules of Islamic finance by offering only Shari’a complaint financial products? Or will such a prescription amount to a breach of the open access provisions of the GATS?

There are thus many lessons for Libyan policy makers to take on board as the country continues to make its slow but ineluctable progress on the long road towards attaining full membership of the WTO. There will undoubtedly be many more challenges in waiting once Libya fulfils its aspirations of becoming a full member, not least the challenge of dealing with the competing interests of other nations including those of its trading partners within the multilateral trading system (Feichtner, 2009). As part of the continuing preparations for membership Libyan policy makers will have to
design strategies for dealing with such challenges. They will need in particular to develop trade and litigation strategies within the framework of the WTO with a view to promoting and protecting the economic objectives and commercial interests of Libya (Santos, 2012). They will also need to devise strategies aimed at ensuring that Libya retains some measure of regulatory competence over trade policies without necessarily flouting the established rules of the multilateral trading system.

5. SCOPE OF THE STUDY AND ONGOING RESEARCH

As stated in the introductory part of this paper, the issues discussed herein form part of a much wider doctoral research project. The research is still ongoing and is now into its second year. The conceptual design of the research initially envisaged using Libya as a case study, with Jordan as a model, to test the McKinnon-Shaw hypothesis that economic liberalization leads to economic growth – Jordan having already achieved the status of full membership of the WTO on 11 April 2000 (http://www.wto/memberandobservers, 2014). The methodology envisaged in part exploring the literature review on Jordan to see what lessons Libya could learn from the Jordanian experience in its quest for full membership vis-à-vis the benefits and potential challenges of full membership status. However, in the course of time it became apparent that Libya and Jordan do not share a similar economic base, Jordan not being an oil economy like Libya. Therefore, any form of comparative analysis between the two countries will not be comparing like with like, especially in the measurement of GDP given that Libya’s oil revenues could have a significant impact on GDP, thus distorting any subsequent data analysis. For this reason it has been decided to redesign the concept of the research by including a country with the similar profile to Libya – i.e. a Gulf oil producing state which has already attained the status of full membership of the WTO. There are several potential candidates ranging from Bahrain to Kuwait, Oman, Qatar and the United Arab Emirates. A decision is yet to be made on which of these countries to use as a model for the research depending on the availability of the required data for the research.
The problem of a possible distortion by oil production figures and revenues of data collected on GDP remains a significant challenge for the researcher, especially with the inclusion of time series analysis in the methodology. The time series aspect of the research envisages collating and comparing data on Libya’s GDP in the period before and after economic liberalization with a view to testing the McKinnon-Shaw hypothesis that there is a correlation between economic liberalization and higher rates of economic growth. But the unknown variable in this approach remains the impact which volatility in world oil prices, as well as significant variations in year-on-year data on oil production and exports, may have on Libya’s GDP.

The literature review employed for the study reveal a number of results and hypothesis which may be instructive for Libya in its quest for economic liberalization in pursuance of full membership status of the WTO. The literature review has so far drawn on the fact that there are many theoretical and empirical frameworks in the recent literature on the impact of financial liberalization on economic growth such as, for example, the hypothesis of McKinnon (1973) and Shaw (1973). These authors argue that a repressed financial sector has a negative impact on economic development, where the growth rate of per capita income is regressed as a result of increased financial repression. James (2000) argued that trade liberalization and openness has provided an important base for economic activity - hence an increasing openness is expected to have a positive impact on economic growth. Sachs & Warner (1995) have likewise argued that open economies have grown about 2.5% faster than closed economies and the difference is larger between developing countries.

The model employed for the research project is based on the modification of the models discussed in recent studies (Banam, (2010); Bashar, Lau, & Sim, (2008); Khazri & Djelassi Sulaiman & Azeez, (2012); Yen Li & Nair, (2010). The model specifies the endogenous variable,
Gross Domestic Product (GDP) as a function of foreign direct investment, inflation rate, real rate of interest, trade openness (amount of exports and import), exchange rate, labour force, FL (financial liberalization) Dummy variable (with 0 before FL and 1 after FL). All variables are expected to have positive coefficients. In the other words, the expectation is that when the results are tested they will show that financial liberalization does have a positive impact on economic growth. The model is specified as follows:

\[ \text{GDP} = f (\text{FDI, INF, RI, L, TO, EXR, FL, } \ldots ) \] 

Where;

- GDP= Growths Domestic Product.
- FDI= foreign direct investment
- INF= Inflation rate
- RI= real rate of interest
- TO= trade openness (amount of exports and import)
- EXR= exchange rate.
- L= labour force
- Financial Liberalization (FL), Dummy variable (0 before FL and 1 after FL).

\( f = \) functional relationship

In order to examine the relationship between financial liberalization and economic growth in Libya, the growth rate of real GDP will be studied as an indicator of growth.

Form of equation 1 (above): the dependent variable is GDP; GDP depends on a large set of explanatory variables which are independent variables. In other words, the most important characteristics of this design of the equation are that the researcher can investigate the impact of one independent variable on a dependent variable, provided that all other variables which might influence the relationship between the two variables are kept neutral. The general framework of multiple regression model has the following form:
\[ GDP = \beta_0 + \beta_1 FDI + \beta_2 INF + \beta_3 RI + \beta_4 L + \beta_5 TO + \]

\[ \beta_6 EXR + \beta_7 FL + \epsilon \]

Where:

\( \epsilon \) is an error term of the equation

\((\alpha, \beta_0, \beta_1, \beta_2, \beta_3)\) are the coefficients of independent variables that are determined by the calibration of the equation.

### 5.1 Sources of data

The project envisages as part of the methodology to use time series analysis spanning a period of 33 years from the year 1978 to 2011. The study adopts an econometric model and the use of variables as secondary data sources. In order to ensure the reliability and the validity of the data, the data employed in the study are collected from various sources including:

- Central Bank of Libya.
- World Bank (GDP; trade volume).
- The Ministry of Planning in Libya.
- The Libyan Ministry of Economy.
- The Libyan Ministry of Finance.
- UNCTAD and OECD.
- National Board of Information and Documentation in Libya.
- Books, articles and journals.

### 5.2 Data analysis

A mixed approach analysis of qualitative and quantitative methods is employed in order to achieve both the research aims and objectives. Firstly, the primary data analyses (interviews) will be used in the financial services sector (banking, insurance and stock market) to elicit experts’ views on the impact of financial liberalization on economic growth in Libya. Secondly, data collected from the secondary sources will be processed to determine the variables for application in the
econometric model to assess the relationship between GDP and these variables with a view to establishing the potential impact of financial liberalization on GDP in Libya in the event of accession to full membership status of the WTO.

Significant progress which has already made with the doctoral research project include the identification of a suitable hypothesis and the development of an appropriate model which will be used to test the key benchmarks and arguments contained in the study, as well as the literature review and the econometrics analysis which forms part of the methodology for the study.

6. CONCLUSION

This study has highlighted a number of important issues which significantly impact on Libya’s future membership of the WTO. Libya’s transition to a modern diversified economy based on sectorial reforms and the promotion of service industries such as construction, financial services and tourism requires full and unfettered access to the international economic system, which in turn makes it imperative that Libya should accede to full membership of the WTO. It is thus submitted that Libya, notwithstanding its status as an oil economy, does need the WTO. But as a pre-requisite to achieving further progress on membership the political, security and economic situation in Libya will first of all have to be stabilised before continued progress towards accession to full membership can be realized. The road to the realization of this long cherished aspiration can be a long and sometimes difficult one full of many challenges, but also many potential benefits to be gained at the end of the journey.

The likely impact of membership on Libya’s financial services sector will be far reaching, both in terms of benefits and challenges. Increased competition is likely to lead to greater economic efficiency and improved performance, with the acquisition of new skills by employees in the sector. At the same local firms will be exposed to market forces and greater competition from international
firms. Libyan firms in the financial services sector will need to put in place effective strategies for survival in the face of such competition. In addition to this is the risk of worldwide economic contagion which comes with exposure to the vicissitudes associated with the volatility of global financial markets where a market collapse in one part of the world quickly spreads and infects other parts of the global financial system.

In concluding, it can be said that Libya certainly does have the advantage that there are many lessons to be drawn from the experience of other nations. These lessons are well embedded in economic literature and are readily available, and from them further lessons can be learnt by Libyan policy makers as the country embarks on the slow but seemingly inevitable path towards accession to full membership status of the WTO.
7. REFERENCES


