



LIBYA'S FOREIGN TRADE WITH EUROPEAN UNION COUNTRIES

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Abstract

The subject of this empirical and theoretical work is the exchange of foreign trade of Libya with the countries of the European Union. The scientific objective of the research is to make a scientific classification of the volume of foreign trade between Libya and the European Union countries and to discover the factors that hinder foreign trade and explain them scientifically. European countries also support this cooperation and contribute significantly to the formulation of future cooperation policy with Libya in various social, political, and economic fields. However, this cooperation takes place in light of objective difficulties arising from the conflicting interests of Western countries in North Africa and Libya. Since these relations are burdened with many problems of different nature, we started in this paper from two assumptions: The first premise is that in the trade relations between Libya and the European Union, there are common interests for foreign trade that are more feasible. The second premise is that more encouragement and protection for investments by the countries of the European Union helps in new qualitative development and economic growth in Libya, which will significantly improve trade relations between Libya and the countries of the European Union.

Keywords: *trade, foreign trade, international trade, economic growth, investment.*

1 INTRODUCTION

Foreign trade plays a prominent role in economic growth by raising the production capacity of countries' economies and opening foreign markets to market their products. That contributes to increasing income and raising welfare levels for Libya, which, as a developing country, depends on the production and export of one commodity, oil. Oil is the only source of income. That is confirmed by the social role played by exports and foreign trade in the Libyan economy, and undoubtedly has clear effects on various sectors and economic activities.

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From the epistemological point of view, this paper analyzes growth rates and GDP growth rates in Libya, and the results of this analysis indicate the increasing role of foreign trade in economic growth and its significant impact on the various sectors of the Libyan national economy. Indicators of the degree of geographical concentration of foreign trade also indicate that the countries of the Union are Libya's largest trading partner.

An analysis of the content of the Libyan development budget allocations for some important economic sectors during the observed period, such as the allocations for the education, scientific research, and employment sectors, especially the allocations for the manufacturing and agricultural sectors, reveals the following results:

1. The allocations from the development budget for these sectors are gradually increasing but the evolution of the contribution of these sectors to the formation of the Libyan GDP is inconsistent with investments due to the presence of many structural problems.
2. The allocations from the development budget to the manufacturing sector during the observed period are much higher than the evolution of this sector's contribution to the composition of Libya's GDP. The reason for this is the transformation of the country's general economic policies into a policy of self-sufficiency in the agricultural, livestock, and marine sectors, whose contributions to GDP growth do not match the Libyan development budget allocations.
3. The state relies heavily on raw materials exporting as a means of maintaining people's standard of living and meeting the needs of the various local markets. It has become imperative for Libya to raise the bar for challenges through this resource on how to achieve sustainable economic development by properly investing oil revenues and providing funds for future development and prosperity.

2 THE CONCEPT OF INTERNATIONAL TRADE

"International trade means the process of trade in goods and services between several countries for the sake of mutual benefits for the sake of the exchange of parties." (Abdelazim, 2012, p. 13) Therefore, it differs from internal trade conducted in one country in that it crosses the borders of one country into several countries, regardless of whether those countries are contiguous or far apart.

It is indisputable that international trade and exchanges between countries are profitable. People need to provide services to each other. Therefore, the exchange of goods is a human need related to the social nature of man since the beginning of creation through negotiations between tribes.

International trade differs from domestic trade because it crosses the geographical and political borders and conducts in different currencies, opposed to domestic trade that understands only

one. Also, there appear different transportation means, market conditions, weather and natural factors, political factors, difficulties in transporting production elements, and ways and methods of financing. It should be noted that, in the case of international trade, there is an opportunity for trading blocs and monopolies.

"International trade is the most important and broadest field of international relations and the most influential in the growth of international relations due to the huge flow of goods and services at the international level." (Abdel, 1984, p. 28)

Relations between countries are not limited to the exchange of goods and services and go beyond some factors of production. The most important is capital transferred in the direct investment by individuals or institutions or in the form of loans granted from one country to another, whether it is a new real investment or payment facilitation because of trading. That implies the domestic currencies flow opposite to imports and the foreign currencies flow in the opposite direction of exports. This results in the so-called foreign exchange market. Each country keeps its payments balance in which all economic transactions with the outside world are recorded during some period, usually one year.

One of the factors that led to the development of international trade was the migration of millions of Europeans to new countries (America and Australia). These immigrants used the resources of the region to which they migrated, their production increased and there was a great trade exchange between them and other countries of the world.

Foreign trade is also an important economic activity that allows a country to acquire goods that cannot be produced domestically, or the cost of production is too high compared to the imports from abroad. It also allows a country to export goods and products beyond its needs, use revenue and pay for value and needed. In this regard, one of the economists pointed out that the importance of foreign trade is equivalent to the emergence of the Industrial Revolution in Europe, which radically changed the structure of its economy.

The value of the surplus in the trade balance during 2019 according to the groups of countries that Libya deals with commercially, we find that most of the trade surplus was with the group of European Union countries and with the Arab League countries and other European countries as shown in Table 1.

Table 1. The value of the trade surplus during the year 2019 by a group of countries

The countries	Exports	Imports	Surplus (+) Deficit (-)
Arab League countries	173,834	160,633	13,201
African countries	4,445	1,969	2,476
European Union group	2,853,965	1,037,517	1,816,448
Other European countries	308,638	193,864	114,774
North, Central, and South America	9,384	132,002	-122,618
Asian countries	228,484	379,964	-154,480
Australia and New Zealand	-	8,893	-8,893
Total	3,578,750	1,914,842	1,663,908

Source: (UN, 2020)

Table 2. Central Bank of Libya statement on revenues and expenditures for the year 2021

1. The revenue (Figures are in Libyan dinars)			
Statement		Actual spending	The ratio of total revenue [%]
Oil revenue		103.4 billion	97.8
Tax revenue		799 million	0.8
Customs revenue		311 million	0.3
Telecom revenue		198 million	0.2
Revenues from selling fuel in the local market		450 million	0.4
Services and other revenue		494 million	0.5
Total oil and sovereign revenues		105.7 billion	100
2. Tunnels			
Statement	Allotted 12/1	Actual expenses	Actual Total Spending Ratio [%]
Chapter One: Salaries	33.1 billion	33.1 billion	39
Chapter Two: Facilitation	8.0 billion	8.0 billion	9
Chapter Three: Development	17.5 billion	17.4 billion	20
Chapter Four: Support	21.0 billion	20.8 billion	24
Chapter Five: Emergencies	6.5 billion	6.5 billion	8
Total	86.1 billion	85.8 billion	100

Source: (WBG, 2021)

The Central Bank of Libya publishes these data and confirms the following:

1. It was agreed during the year 2021 based on 12/1 of the unified agreement for all sectors in

Libya. Considering the impact of the exchange rate adjustment on expenditure items. According to Cabinet Resolution No. (429) for the year 2021.

2. The triangle of oil revenues is about 98% of the total revenues supplied.
3. There are revenues from oil, owned by oil companies, estimated at billions of dollars, which have not been reported to the financial accounts of the Ministry with the Central Bank of Libya.
4. The Central Bank of Libya confirms that the returns, imposed on foreign exchange sales, will not be used for any imposition during the year 2021.
5. The first chapter includes the unified salaries, and the implementation of the salary increases in some sectors by the laws issued.
6. Chapter Three, "Development", included spending an amount of 12 billion dinars on projects in the sectors of 2.5 billion dinars for electricity. A billion for the National Oil Corporation. And 812 million dinars were granted to students studying abroad.
7. The total development spending amounted to 27% of the total expenditure, of which 20% of the third chapter "Development" represents 7% of the fifth chapter "Emergency". While the volume of development spending did not exceed 4% during the past years.
8. The expenditure of Chapter Four "Support" included an amount of 10 billion dinars for fuel. 4.4 billion dinars for children's allowance. 3 billion dinars for medicines. 2 billion for the Marriage Support Fund. 840 million dinars for electricity. 425 million dinars for public hygiene. 230 million dinars for water and sanitation.
9. The total foreign exchange of the Central Bank of Libya amounted to 22.9 billion dollars, while the use of foreign currency amounted to 24.5 billion dollars. The Central Bank of Libya covered the deficit in the use of foreign currency of 1.6 billion dollars from its reserves to maintain the stability of the exchange rate in case of non-performance of part of the due income and instruments, which would cover that deficit if it arose.

Table 3 The percentage of Libyan exports to the most important countries of the European Union

Country	2014	2015	2016	2017	2018	2019	2020
Italia	10.54	35.30	38.20	41.80	40.90	58.60	51.77
Germany	40.66	-	34.57	28.76	11.21	7.90	16.63
United Kingdom	22.15	20.64	6.96	0.36	1.90	2.18	2.00
France	9.94	18.32	6.45	6.21	14.35	7.53	7.54
Holland	8.43	12.87	3.61	3.81	11.86	3.42	0.86
Spain	3.48	6.20	8.96	11.10	11.84	11.26	16.15
Rest of the countries	4.80	6.67	1.25	7.96	7.94	9.11	5.05

Source: *Economic development in Europe and the Arab world*
Source: (UN, 2020))

The reasons that make the Arab countries and European countries have a close relationship are that the latter implement investment projects in the Arab countries, taking advantage of the availability of raw materials and licenses for manpower.

The Arab-European economic relations are gaining distinct historical importance for several decades. The common factor between these arrangements is the corresponding reductions in customs duties on their trade exchanges, and sometimes their complete exemption. Thus, we can say that the Arab economy was, and still is in dire need of European markets in the fields of export and import.

Table 3 shows the percentage of Libyan exports to these six countries. Also, it shows that in 2014, Germany acquired the largest percentage, as it obtained 44% of the total Libyan exports to the European Union, then the United Kingdom comes in second place with 22%, followed by Italy with a percentage of approximately 11%.

In 2015, we found that Italy received 35% of Libya's exports to the European Union, followed by the United Kingdom with approximately 21% and France with 18%.

In 2016, we found that Italy came first with 38%, before Germany with about 35%, and Spain with 9%. During 2017-2020, Italy retained first place in

terms of its share in Libyan exports with an average of 50%, followed by Germany and Spain. The United Kingdom has reduced its share of exports to only 2% in 2020.

Based on the figures in Table 4, we found that Libyan exports in 2014 were mainly in machinery

and transport equipment. Their value amounted to 9,434 thousand Libyan dinars, i.e., approximately 56% of the total exported from Libya. The manufacturers classified based on the raw material use, followed them with about 19%.

Table 4. *Libya's exports by commodity distribution during the period 2014-2020.*

Year Goods	2014	2015	2016	2017	2018	2019	2020
Food and live animals	3.71	7.75	4.55	3.13	1.77	1.48	1.25
Drinks and Tobacco	1.83	1.79	.47	2.14	1.18	.03	.02
Inedible raw materials	.46	1.21	.44	0.32	.054	.36	.081
Mineral fuel, fuel, and related materials	1.40	3.50	.80	.013	.087	.012	.0866
Animal oils and greases	.16	.13	.16	.02	.07	.30	.20
Chemicals	8.94	14.37	14.50	16.01	9.90	10.37	19.71
Raw materials	18.51	22.48	18.62	19.01	24.74	18.43	19.68
Machinery and equipment	55.58	38.31	48.86	46.20	47.00	58.44	47.89
Various crafts	9.39	10.47	11.60	13.03	13.92	10.74	10.06
Deals and goods classified by type	2	.01	0	0	0	0	0

Source: Author's search based on the (UN, 2020).

In 2015, exports of machinery and transport equipment decreased to 38%. At the same time, exported raw materials increased to 23%, which is followed in terms of importance by chemical materials by 14%.

In the years 2016, 2017, and 2018, the percentage of exports of machinery and transport equipment was on average 48% of the total exported from Libya during those years. The following in terms of importance is the raw material export with approximately 21% on average. And the third, with about 13.5% on average, are the manufacturers of chemical substances.

In 2019, about 58.5% of the machinery and transport equipment were exported, which decreased in 2020 to a bit less than 48%. In terms of importance, as the second, by an average of 16% appeared the export of raw materials during 2019 and 2020. As for chemicals, from 10% in 2019 of the totals exported from Libya, the export increased to almost 20% in 2020.

3 CONCLUSIONS

The most important results, obtained in this theoretical-experimental work, can be summed to the following compositional closing points:

- International trade plays a significant role in economic development for two main reasons. The first is that international trade is one of the main determinants of growth in developing countries. The second is that international specialization is necessary to increase production efficiency after establishing the industrial base for developing countries.
- Many countries have turned to economic integration for several reasons. The reasons are raising the welfare of citizens and the level of production resulting from specialization, the formation of an economy that reduces external dependence on the region, improves economic stability in the region, production levels, employment, prices, etc.

- The experience of Europe in establishing the European Union had a positive impact on these countries, removing several obstacles that were a barrier between relations between these countries, including the abolition of all customs duties.
 - The relations of the European Union countries with the Arab countries were in the interest of the European Union countries more than for the Arab countries because the European countries benefited from the cohesion of the Arab world and its small population and the wealth of raw materials. They lacked countries characterized by cheap labor and proximity to raw materials for strategic energy.
 - Libya's relationship with the European Union countries is close. That relationship goes back to the historical relations with Italy, where most of the trade took place, as the Italians and other European countries controlled foreign trade with Libya. Libya was the EU's 47th biggest trade partner in 2020. (EC, 2021)
- Libya. That policy can be based on respecting Libya's national interests in foreign trade.
- The lack of a commodity and geographical focus on Libyan exports allows for equal trade, increased quality, and price stability through bilateral or multilateral agreements.
- Increased interest in the agricultural sector and work on rebuilding land to increase agricultural production, especially after establishing the Man-Made River project, will allow Libya to produce and export market surpluses abroad. Together with paying attention to the navy, and health sector, they will ease the dependencies of oil exports and bring export advantages.
- These industries must be based on economic feasibility studies and focused on small industrial capacities, especially in the early stages of industrialization. Later they will become the basis for a new export industry policy.
- We recommend improving services and conditions related to export activities, such as providing packaging, shipping, marketing, providing means of communication and modern means of transport, especially rail and sea transport, appropriate and encouraging price setting, strengthening economic integration between Libya and neighboring countries, and activating the role of the Arab Common Market.

4 RECOMMENDATIONS

Focus on the export industries in which Libya has a competitive advantage in its production and exports, and since Libya is one of the oil countries. The petrochemical industries and other industries related to the oil sector can be a basis for developing a new policy for export development in

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