

General Political Environment:

Libyan leader Muammar al-Qadhafi and the state security apparatus that surrounds him dominate the country's political system.

Economic reform has become a top policy priority. There is little expectation, however, that current efforts towards economic liberalization will be complemented by any significant political reform. In August 2007, Qaddafi's son Saif al-Islam outlined a new constitution for Libya which would guarantee the independence of the Libyan central bank and high court and allow for greater public participation in government, but warning that threatening his father's position as leader would be crossing a "red line".

As a result of Libya's acceptance of responsibility for 1988 Lockerbie bombing, final agreement on a USD 2.7 billion compensation package for families of the victims and renunciation of weapons of mass destruction, UN and US sanctions were lifted (in 2003 and 2004 respectively). Furthermore, the US administration announced Libya's removal from the US state sponsors of terrorism list on June 30, 2006 and in October 2007 the US did not prevent Libya's election to a two-year term on the UN Security Council.

Lingering tensions between the European Union (EU) nations and Libya eased somewhat after the July 2007 release of six Bulgarian medics and one Palestinian-born doctor held in Libya since 1999. The seven had been found guilty by the Libyan courts of intentionally infecting hundreds of children with HIV.

With these improved relations comes the hope for significant increases in foreign investment – which Libya requires in order to repair its decaying oil infrastructure and to realize its potential as an exporter of natural gas.

Investment Environment:

The 1997 Encouragement of Foreign Capital Investment Law (Law No. 5) provides incentives for foreign investment in specific sectors. Incentives include exemptions from customs duties on machinery and equipment as well as special provisions relating to leasing and ownership of land. However, Libya's business climate remains challenging due to the opaque nature of decision-making and concerns about policy predictability.

The Libyan government introduced the latest model of exploration and production-sharing agreements (EPSA-IV) in mid-2004. EPSA-IV offers foreign oil companies working in Libya's oil sector more attractive terms, such as reduced red tape and more transparent bidding procedures.

The government seeks to liberalise Libya's state-dominated economy and has announced plans to privatize a number of state-owned companies. Progress is likely to be piecemeal owing to vested interests and bureaucratic impediments. There have, however, been significant moves toward increased private sector involvement in the economy including privatisation of the mobile phone sector and the June 2007 sale of a 65 percent stake in Tamoil to a US investor. In September 2007, the government announced the planned construction of a USD 3bln eco-tourism complex on the country's northeast coast.

Political Violence:

External threats to Libyan regime stability are negligible and the Libyan security services have been generally effective at containing the threats posed by Islamic extremist groups. However, the Fighting Islamic Group in Libya, an erstwhile Libyan terrorist group, recently joined Al Qaeda and its announced goal of toppling the governments of Libya, Tunisia, Algeria and Morocco.

Civil unrest last occurred in October 2000 when Libya's Sub-Saharan migrant worker population became the target of racist attacks. Hundreds of workers were reportedly killed while many more fled the country. While such a situation could be repeated, it does not pose any serious risk to regime stability.

Political

Political Structure

Jamahiriyah (state of the masses)

Brother Leader of the Revolution

Muammar Abu Minyar al-Qaddafi (al-Qaddafi holds no official title)

Secretary General of the People's Congress

Mohammed al-Zanati

Secretary General of the People's Committee (Prime Minister)

Baghdadi Mahmudi

National Legislative Body

General Peoples Congress (GPC) 760 members

Major Parties

Illegal

Elections

N/A

Press Freedom Survey:

- 2007 Score: 96 (Not Free) freedomhouse.org

Control of Corruption Index:

- 2006 Score: -0.89 (-2.5: Worst; +2.5: Best) worldbank.org

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Political Outlook

Libya's opening to the west, combined with high oil prices should result in increased foreign direct investment inflows which, in turn, will serve to strengthen the Qaddafi regime's hold on power.

Libya's most significant long-term risk issue rests with the regime's failure to address succession issues. Although speculation is rife that the Libyan leader is grooming his eldest son, Saif al-Islam, to succeed him, no formal succession mechanism exists. In a post al-Qaddafi scenario, his inner circle would likely attempt to assume a leading role in the power vacuum that is left behind. Nevertheless, a credible risk remains that a power struggle could break out between competing groups vying for political power.