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Libya Trade Brief

Trade Policy

In line with its WTO accession process, Libya has implemented numerous trade liberalization reforms, such as reducing the number of state importing monopolies, limiting the number of import bans, abolishing licenses for most goods, and reducing subsidies.[1] In 2005, the government abolished duties on 3,500 products, and subjected around 80 remaining products to duties between 5 and 50 percent. Today, Libya's simple average of the MFN applied tariff is 0 percent. Consequently, Libya appears to have the most liberal trading regime in the Middle East and North Africa (MNA) region and within the upper-middle-income countries. Indeed, based on its latest MFN applied tariff, it is ranked the least restrictive country out of 181 countries in the ranking, along with Hong Kong, China, and Macao, China. However, the country still has several non-tariff barriers to trade. For example, a service fee of 4 percent is imposed on all imported goods and the government maintains a monopoly over some imports.[2] Moreover, imported and domestic goods face different levels of the consumption tax.

In the context of the global recession, at the beginning of 2009, Libya imposed a new consumption tax on imported finished goods that does not apply to the same goods produced domestically.[3] According to reports in the Egyptian press, in June 2009, Libya has imposed a 10 percent import duty on imports of food from Egypt.[4]

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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External Environment

Libya's exports face an average rest of the world tariff (including preferences) of 5.6 percent in 2006. When weighted by its actual exports, Libya's exports have very good access to international markets with a weighted rest of the world tariff (including preferences) of 0.1 percent, much lower than the averages for its regional and income group comparators of 1.3 and 1.8 percent, respectively. Libya mainly exports hydrocarbons, which accounts for the low rest of the world tariff for non-agricultural goods of 0.1 percent. The Libyan dinar, which is pegged to the SDR, depreciated by 2.3 percent in nominal terms against the U.S. dollar in 2008.[5]

Libya is a member of the Common Market for Eastern and Southern Africa (COMESA), which established a customs union in June 2009 and plans to fully implement it by 2012. Also, at the end of 2008, Libya has started negotiations with the EU on a framework agreement which would also provide for a free trade area.[6] This would be of particular importance considering that over two thirds of Libya's exports go to EU countries. Moreover, Libya is a member of the Greater Arab Free Trade Area (GAFTA) through which it receives full exemption of customs duties to 16 other member countries since January 2005.

Behind the Border Constraints

Libya lags noticeably behind its regional and upper-middle-income comparators on several governance indicators. Its performance is poorest on regulatory quality. Access to information and communications technology (ICT) portrays a mixed picture. In 2006, 73 percent of the population had telephone and mobile connections, compared to the regional average of 56.8 percent, while only 4.3 percent had access to Internet, about half of the regional average. However, Libya's secondary school enrollment rate is significantly higher than that of its comparators.

Trade Outcomes

An exporter of hydrocarbons (which generated 98 percent of export revenues in 2007) Libya's trade flows are vulnerable to changes in commodity prices.[7]

As such, it benefited from the high oil prices for most of 2008 and, in nominal U.S. dollar terms, its exports grew by 49.9 percent compared to 2007.[8] However, the export growth trend reversed in the fourth quarter of 2008, as the EU economy (Libya's main trading partner, which accounted for 88 percent of its exports in 2007[9]) cooled, and oil prices declined from their peak of US$147 per barrel in July 2008 to around US$40 in early 2009. Exports fell by 14.4 percent in the fourth quarter of 2008 year-on-year, and then plummeted by 51.0 percent in the first two months of 2009 compared to the same period in 2008. Similarly, as the economy contracted, import demand slowed in the last quarter of 2008 to 21.8 percent[10] year-on-year (compared to an average growth rate of 48.5 percent in the first three quarters of 2008). Nominal import growth further slowed down in January and February of 2009 to only 6.9 percent on a year on year basis.[11] Foreign direct investment inflows accounted for 8 percent of the GDP in 2007.

Notes

1. Development Solutions, May 2009, p. 12.
2. Development Solutions, May 2009, p. 12.
3. World Trade Organization. July 15, 2009, p. 37.
4. EIU, July 2009, p. 13.
5. Oanda.com.
6. European Commission, November 12, 2008.
7. World Bank, April 2009.
8. EIU, March 2009, p. 16; August 2009, p. 17.
9. Development Solutions, May 2009, p. 8.
10. Import data does not include defense imports.
11. EIU, March 2009, p. 16; August 2009, p. 18

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