Manufacturing and Construction sector in Libya

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Growth in Libyan industrial capacity began in force only after 1969. Earlier manufacturing efforts concentrated primarily on processing domestic crops and livestock products and on handicraft products. Before the revolution, 90 percent of Libya's manufacturing establishments were located in Benghazi or Tripoli, and 75 to 80 percent of these were owned by Italians. Nearly 90 percent of the manufacturing establishments were private, and most employed fewer than 20 workers.

This situation started to change after 1969. After marking time for almost a year, the new government opted for a restricted industrial policy resembling the policies of Egypt and Algeria. In the late 1970s, the industrial sector (including manufacturing) was planned by the government, which had assumed control over those aspects of industrial production that were deemed sensitive or too large for the domestic private sector. The new policy leaned heavily on freeing industry, including manufacturing, from dependence on foreign ownership or control. In what appeared to be in part at least a function of its new policy, the government required local companies that engaged in trade to be Libyan and nationalized the properties of Italians, who represented the bulk of the country's entrepreneurship and private sector.

Before 1980 the government concentrated on developing light processing and petrochemical industries. Processing of foodstuffs continued to remain a high priority, and the largest number of plants built during the 1970s were in this area. Other major manufacturing projects during the decade included textile complexes, a new oil refinery, two petrochemical plants, a fertilizer factory, and an electrical cable plant. Gains in value added from manufacturing over this period were impressive. In constant 1980 dollars, value added in manufacturing rose from US$196 million to US$760 million in 1983. Still, in terms of contribution to GDP, in 1983 manufacturing contributed only 4 percent of the total. In that year, an estimated 80,500 people worked in the manufacturing sector, about 7 percent of the total labor force. Light industries--mainly food processing--continued to comprise the largest share of total manufacturing capacity by the early 1980s.

Encouraging the development of heavy industry became a high priority for the government in the 1980s. The 1981-85 development plan called for the allocation of LD2.725 billion to heavy industry--15 percent of the total development plan allocation and second only to agriculture at 17 percent. However, as indicated earlier, because expenditure under the development budget was highly dependent on oil revenues, actual expenditures often failed to reach planned levels. Thus, the government's drive to build heavy industrial capacity in the 1980s has been hampered by declining revenues, and many projects were running behind schedule.

Key heavy industrial developments under construction in the 1981-85 plan included an expansion of the ammonium/urea plant at Marsa al Burayqah, a new ethylene unit at Ras al Unuf, and the large iron and steel complex at Misratah. The Ras al Unuf ethylene plant was completed in 1986, and the other two projects were nearing completion in early 1987.

Projects in the early stages of development in 1987 included a fertilizer complex at Surt, an aluminum smelter and coke plant at Zuwarah, and a further expansion of the Ras al Unuf petrochemical plant. However, all these projects were in serious jeopardy, as a result of the 1986 decline in oil prices, and Libyan planners were re-evaluating the impact of industrial projects on the balance of payments .

During the period of high oil prices before 1981, the development of import-dependent heavy industry seemed feasible. Libya enjoyed cheap energy costs in comparison to Europe and possessed the foreign exchange to pay for raw material imports. The 1980s decline in oil prices has reduced Libya's advantage in terms of energy costs and greatly cut into its supply of foreign exchange. Whereas in 1979 it may have been possible for the government both to import industrial raw materials and subsidize food imports, by 1987 it was becoming increasingly clear that the available foreign exchange was insufficient to accommodate both programs.

This problem was obvious in existing industry during the mid1980s , when production and productive capacity ratios for selected manufacturers varied substantially from year to year, depending on whether imported raw materials were available. To cite a dramatic example, in 1983 Libya had a productive capacity of 18,000 washing machine units but produced only 4,533. As a result of cutbacks in foreign exchange allocations in 1984, only

289 machines were produced (productive capacity remained unchanged); thus, used capacity decreased from about 25 percent to under 2 percent.

Used capacity in other manufacturing industries varied widely. In 1984 oil refining operated at 36 percent of capacity, methanol production at 84 percent, ammonia at 91 percent, and tractor production at 67 percent. The country's unused manufacturing capacity could be traced not only to the scarcity of foreign exchange but also to Libya's general shortage of labor.

The construction industry has played a prominent role in economic development, as one would expect in a country largely devoid of infrastructure before the mid-1960s. The construction industry got its start as a result of foreign oil company investment during the 1960s, but since 1969 it has grown in accordance with the government construction projects called for in the successive five-year plans.

In 1975 the government began to reorganize the construction industry to make it more efficient. At that time, there were about 2,000 contractors, many of them small proprietorships or partnerships. The minister of housing was given the authority to merge contracting firms into a smaller number of larger firms capable of carrying out large construction projects. Firms with capital in excess of LD30,000 were converted into corporations, and the majority shares were sold to the public or the government. Previously, the government had set up several state-owned construction companies to build factories and to carry out civil engineering projects. Among the firms were the National Industrial Contracting Company, the General Corporation for the Construction and Maintenance of Roads, and the General Corporation for Civil Works.

The many government-sponsored construction projects of the 1970s created a booming industry, so much so that by the end of the decade Libya had become the world's leading per capita consumer of cement. This was a significant economic achievement, particularly because the 1978 housing law effectively had eliminated private residential construction. In 1986 construction supplied about 11 percent of GDP, second only to public services in the nonpetroleum sector.

The construction industry, however, was damaged more than any other sector by the severe cutback in the number of foreign workers in Libya in the mid-1980s. Between mid-1983 and mid-1984, the number of construction workers dropped from 371,000 to 197,000, mainly because of the departure of foreign workers. Nonetheless, construction remained the number one employer during 1984.

The cutbacks in development spending, together with the foreign worker exodus, led to a decline in overall construction. As an illustration, in 1985 the cement industry, which had been expanded during the building boom, was capable of producing 6 million tons a year, but domestic demand had dwindled to only 4.5 million tons.

In addition to the construction decline, there has been a rapid decline in another economic area, that of traditional handicrafts. Rural artisans have taken up more lucrative employment, and utilitarian handmade products have been replaced by factory-made goods. In an effort to provide continuous employment for those artisans who desire to continue their trades, the government has set up several training centers and provided subsidies for raw materials. Most artisan production is purchased by the government for resale or export. The more popular craft items are carpets, pottery, leather goods, fabrics, and copperware.
Source: U.S. Library of Congress