CHINA AT THE LIBYAN ENDGAME

Unrest in the Middle East shows up the first gaps in China's economic diplomacy, says **Stephanie Erian**

Chinese firms have long enjoyed a competitive advantage over their Western counterparts when investing in developing countries, particularly in an environment as politically hostile as Africa. Where Western firms are often reluctant to invest, and are treated with suspicion when they do, Chinese firms have been welcomed—if not sought out—by African countries.[1]

To be sure, China is aided by the lack of colonial resentment against it. In foreign policy circles, one of China's greatest assets is considered to be its ostensible commitment to a doctrine of non-intervention and historical attachment to the principle of state sovereignty. China has also been acting as a refuge for numerous African autocrats—such as Sudan's al-Bashir or Zimbabwe's Mugabe—turned off by Western states lecturing about democracy and good governance.

However, China has not been able to effectively safeguard and manage its economic interests after the recent Arab Spring brought in a wave of political reforms, including new foreign policies, in formerly autocratic regimes. The effective role of NATO and the United States in the recent struggle to oust Gaddafi's administration in Libya provides a stark contrast to China's ineffectual presence on the sidelines—clearly identifying the deficiencies in the Chinese approach to African diplomacy. In fact, China is struggling to deal with the removal of Gaddafi's regime and the establishment of the National Transitional Council (NTC)—so much so that it is running the risk of being excluded in the post-war reconstruction of oil-rich Libya.[2] The policy of non-interference in troubled countries with strong economic ties is proving to be incompatible with China's mounting global ambitions. The longer China takes to adapt its foreign policy from one of non-interference in the internal politics of nations to a more pragmatic engagement in political processes designed to secure long-term state-to-state relations, the less will be its diplomatic and political stature in the world stage.

Beijing and Tripoli

Beijing had extensive ties with Tripoli before the uprising. In line with China's general rejection of economic sanctions, Chinese companies have remained highly active in the Libyan economy for decades, reinforcing the historical perception of each other as revolutionary allies. Chinese foreign investment at the beginning of 2011 was approximately US$18 billion, and Chinese companies had been awarded no fewer than 50 large-scale projects.[3] The full value of China's engagement with Libya became even clearer at the beginning of the conflict in February, with the Ministry of Commerce reporting attacks on at

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least 27 Chinese construction projects, resulting in a 45% fall in contracted projects.[4] China Railways Construction Corp, for instance, was forced to suspend the construction of three rail projects worth US$4.2 billion at a loss of US$3.6 billion.[5] At the same time, China State Engineering Corp suspended a half-finished US$2.7 billion housing project.[6] But perhaps China's presence is most significant in the volume of its nationals working on Libyan projects, with an estimated 36,000 workers forced to evacuate due to the rebel attacks.[7] With the majority of these nationals working in oil establishments held by the China National Petroleum Corporation (CNPC) and other state-owned Chinese firms, it is clear that the oil industry in Libya has long been at the core of Beijing's relationship with Tripoli.

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Although in previous years, Chinese imports of Libyan crude constituted only 3% of China's total crude imports, it is the third-largest purchaser after Italy and France, making it an attractive economic partner to any administration in Libya.[8] And while this percentage may be small in terms of overall Chinese oil imports, its quality is difficult to replace. Libya produces sweet light crude that is easier and cheaper to refine than the more sour, high-sulphur crudes produced by most other states in the Middle East and North Africa (MENA).

A step behind

Now that the rebel movement has succeeded in deposing Gaddafi, Beijing will need to adapt its economic and diplomatic strategy to the new balance of power in Libya. The possibility of losing out on oil contracts in Libya is not lost on Beijing, with Chinese officials having demonstrated intentions to improve ties with the NTC. For instance, after meeting Mahmoud Jibril, the former leader of Libya's interim government and leader of the rebel opposition, the Chinese foreign minister described the NTC as an 'important dialogue partner' and an increasingly 'important political force in Libya.'[9] Engaging with an insurgent group represents a monumental shift in China's foreign policy strategy, which for years has dogmatically adhered to a strategy of non-intervention in the national sovereignty of states, going so far as to oppose international pressure on pariah states such as Myanmar, North Korea and Iran. But any Chinese effort to foster ties with the NTC is already hampered by Beijing's delayed response to the liberation of Tripoli in early September.[10] Worse still, China was the last permanent member of the United Nations Security Council to formally recognise the NTC as the legitimate representative of the Libyan people after the fall of Gaddafi's regime. As the council continues to extract remnants of the old regime, Beijing's inflexible method of diplomacy may render it irrelevant in Libya's post-war reconstruction.

Concerns have been raised by members of the international community over the assumed legitimacy of the rebel NTC as the official, although unelected, interim government of post-conflict Libya;[11] further, the tribal nature of Libya's politics, which could weaken any efforts for a peaceful reconstruction, are worrisome. Nevertheless, a power vacuum in Tripoli remains a doomsday scenario—not an inevitability. The same factors that could give rise to a power vacuum—such as the absence of national institutions, an independent military establishment, or an old constitution in need of reform—could instead work to create a new Libyan state, free from the maligned self-interests of the sort that plague Egypt. Then there is the NTC's draft constitution, a remarkably liberal document promising to fill the post-conflict power vacuum with inclusive and pluralistic structures of government[12]—a far cry from the autocracy Beijing has long conducted business with.

Even continued militant activity by rebel forces that have yet to be disarmed since the end of the conflict should not dampen the optimism of a post-Gaddafi Libya; 42 years of ignorance takes time to dismantle and the value of any interim administration would be unfairly judged against a lack of success in bringing militiamen under control within several months of its operation. The transitional council has already extended an open offer for all militia members to formally enter into the national armed forces.[13] Alternatively, vast cash reserves estimated at $160 billion could be geared towards the creation of large reconstruction projects that would effectively create employment opportunities and facilitate the integration of such Libyans into the formal economy.[14]

Meanwhile Western states—notably France and the United Kingdom—are taking credit for their extensive role in ousting Gaddafi's administration. French President Nicolas Sarkozy is flush with his government's success in ousting defeated president of Ivory Coast, Laurent Gbagbo, in 2011. Unlike almost everywhere else in the region, Libyans are grateful to the West for its intervention, without which they could not have deposed Gaddafi. This timely intervention places Western states in a clearly stronger position than China, which continued to sell arms to the former dictator until as late as July 2011.[15]

Western states are now poised to secure their interests in the post-war reconstruction of Libya and kick-start Libya's oil industry, much to Beijing's discomfort. War-time damage to oil infrastructure in eastern Libya has halted oil production since April—the damaged Misla oilfield facilities have reduced production from the larger Sarir oilfield, while a booster station on the pipeline that connects these fields to the Marsa El Hariga port for transport has also been damaged.[16] Repairing such extensive damage to infrastructure will require foreign skills and capital. It is estimated that returning to pre-war production capacity will take around one year.[17] Achieving the NTC's target of increasing production to 3 million barrels per day will take even longer. But such assistance is readily available, with countries such as France and Italy eager to participate in the reconstruction efforts.[18] Italy's largest oil company Eni S.p.A, for instance, sent engineers to begin restoring war-damaged infrastructure in Libya as soon as the rebels advanced on Tripoli, pre-empting victory by the NTC.[19] Current economic activity already provides hope that Libya's post-war economic development will come swiftly. A recent staff visit to Libya by the International Monetary Fund has noted that crude oil production increased from 22,000 barrels per day in July in an average of 980,000 barrels per day in December 2011; hydrocarbon output is expected to increase by over 100% this year. Moreover, real GDP growth for 2012 is estimated to rise by 70% rise from 2011.[20]

Political agenda

From the start of the conflict, NTC leaders declared their willingness to use oil resources as a political weapon. In April 2011, NTC's then finance minister Ali Tarhouni announced that all oil contracts of the previous administration would be honoured 'as a matter of principle,' but warned countries that failed to support the uprising against Gaddafi and threatened to deny new oil contracts when the old regime was deposed.[21] This position was reaffirmed during a recent round of talks between the NTC and Western nations, with Libyan authorities admitting that firms from countries that helped them in the war will have priority. According to a statement by Mustafa Abdel-Jalil, Chairman of the NTC, contracts in Libya's post-war reconstruction will be dealt with 'according to the support which they gave [to the NTC].'[22] By contrast, investors from countries friendly with Gaddafi, such as Algeria's Sonatrach, may be less fortunate.

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This leaves China in an awkward position. With sales of Libyan crude oil in 2010 valued at $4.4 billion, Beijing would hate to end up on the bad side of a fiery democratic movement that has repeatedly stated its intention to dictate its export policy on allegiances. Although China has made tentative attempts to forge relations with the NTC, it has failed to consolidate any diplomatic influence that could help in securing its economic interests in post-war Libya.[23] A strategy of non-interference simply cannot satisfy the rigorous demands of international diplomacy. And economic influence, for all its benefits, can and does fall sway to the sentiments of politics.

Non-interference

Beijing has no interest in Middle Eastern politics; its investments are largely commercial, not political. But with the currency of doing business in Libya becoming politically motivated, Beijing has risked economic isolation for political isolation. From being an oil exporter in the early 1990s to importing half of its oil supplies, it would seem logical that China wants to be more actively engaged in dominant oil-industry regions such as the Middle East and North Africa. But a long-held doctrine of non-intervention gets in the way of any substantive reform of Beijing's foreign policy. A strategy of non-interference and reluctance to engage in national politics simply cannot satisfy the rigorous demands of international diplomacy and politics. And economic influence, for all its benefits, can and does fall sway to the sentiments of politics.

> China's leaders need to find a more efficient way of securing national interests abroad and avoid running the risk of falling foul of political movements.

Instead, this approach often leaves an air of mistrust in engaging with Beijing, resulting in political relationships mired with hostilities. As long as this remains the case, China will continue to find it difficult to gain influential and durable political allies, and secure its interests in politically volatile regions based on trade networks. And if internal voices looking to blame Western powers—namely the United States—for interfering in their investments abroad continue to place the burden of success on foreign governments, then Beijing will find itself falling further behind its Western counterparts. It is not often that China is taught a lesson, but the NTC has demonstrated that being an attractive economic *partner* does not necessarily make for an attractive *ally*. For all of Beijing's money, it cannot buy worthwhile alliances. On the other hand, Western states have been far more willing to extend a hand to the rebel cause. Having demonstrated loyalty when needed most—in the midst of conflict—they are also likely to enjoy the benefit of long-term relations.

China's reaction to the Libyan uprising also raises an important question as to how it will adapt to avoid another last minute scramble to secure its interests. Chinese companies could risk losing up to US$6.6 billion of bilateral trade and almost US$18 billion of infrastructure and assets should talks with the NTC collapse, in addition to the costs involved in finding a new supplier state, building new infrastructure, and securing more routes of transportation. China's leaders need to find a more efficient way of securing national interests abroad and avoid running the risk of falling foul of political movements.

This is particularly necessary in a region that accounts for almost 50% of China's imported oil, and where civil unrest is increasing. Libyan oil only provides 3% of China's total imports, and securing this amount has forced Beijing's leaders to reach out to an insurgent group.[24] If the events in Libya are replicated in Iran, the consequences for China would be far more severe. A civil war in Iran may not necessarily occur anytime soon, but current conditions resemble those that led to uprisings in regional neighbours Egypt and Syria—led by Western-oriented, tech-savvy youth population facing high rates of unemployment—and could prove disastrous unless China learns to navigate itself politically as well as it does economically.

Conclusion

Beijing needs to be more pragmatic about selecting states it aligns itself with, the manner in which it invests abroad, and flexibility in its foreign diplomatic strategy to account for political change. Otherwise, China could find its political isolation translating into economic isolation, jeopardising strategic interests as difficult to attain resources like sweet crude.

Leadership and diplomacy requires much more than throwing money at regimes, and if Beijing wants to continue to aggressively pursue giant interests abroad, it must assume giant diplomatic responsibilities to match.

Endnotes

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