



A ROGUE REE

BY ANDREW MORAVCSIK

WHEN TONY BLAIR made his valedictory rounds last month, one of his most remarkable stops barely got any notice. On a short stay in Libya, Blair declared British-Libyan relations “completely transformed” and announced a \$900 million oil- and gas-exploration deal between BP and the

Libya has finally come in from the cold. But new threats are growing at home, which even an autocrat like Kaddafi is finding hard to manage.

Libyan government. In Surt, the hometown of Libyan strongman Col. Muammar Kaddafi, Blair signed a defense agreement allowing Libya—which just 20 years ago was bombed by the United States—to purchase air-defense and missile systems from Britain. Just a few years ago, Blair acknowledged, none of this would have been possible. But Libya has changed radically of late. Even Kaddafi, whom Ronald Reagan once called “the mad dog of the Mid-



CHANGE AGENT: Inside Tripoli's Women's Police Academy, a rare sort of place in the Arab world

antiterror efforts than virtually all its neighbors; it has allowed Guantánamo-bound flights to land on its soil and has participated in interrogations.

Yet the change in Libya's international image—from serious security threat to no threat at all—overlooks the fact that Libya remains a serious threat to itself. Kaddafi now faces worrisome challenges from within: an underdeveloped economy (outside the profitable oil sector), rising public discontent, high unemployment and, perhaps most threatening, a surge in Islamic fundamentalism. Al Qaeda has begun targeting Kaddafi, and Libyan relations with Saudi Arabia (arguably the birthplace of radical Islam) are poor. Lisa Anderson, a Libya watcher at Columbia University, argues, "Kaddafi has lost his position at the forefront of Arab political activism to Islamic fundamentalists. One need only look to Egypt or Algeria to see the threat [this poses] to his more-secular regime."

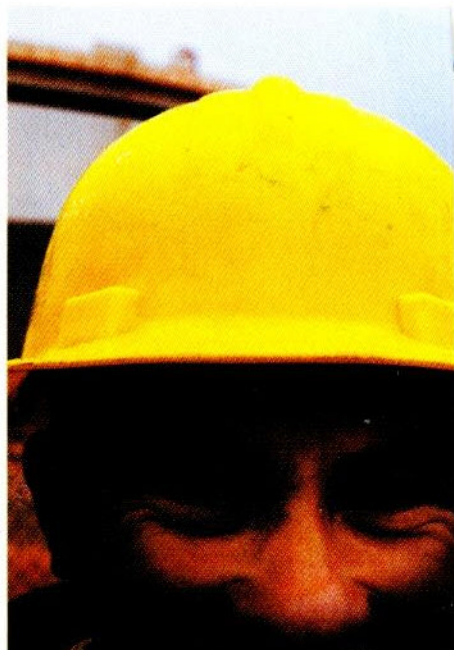
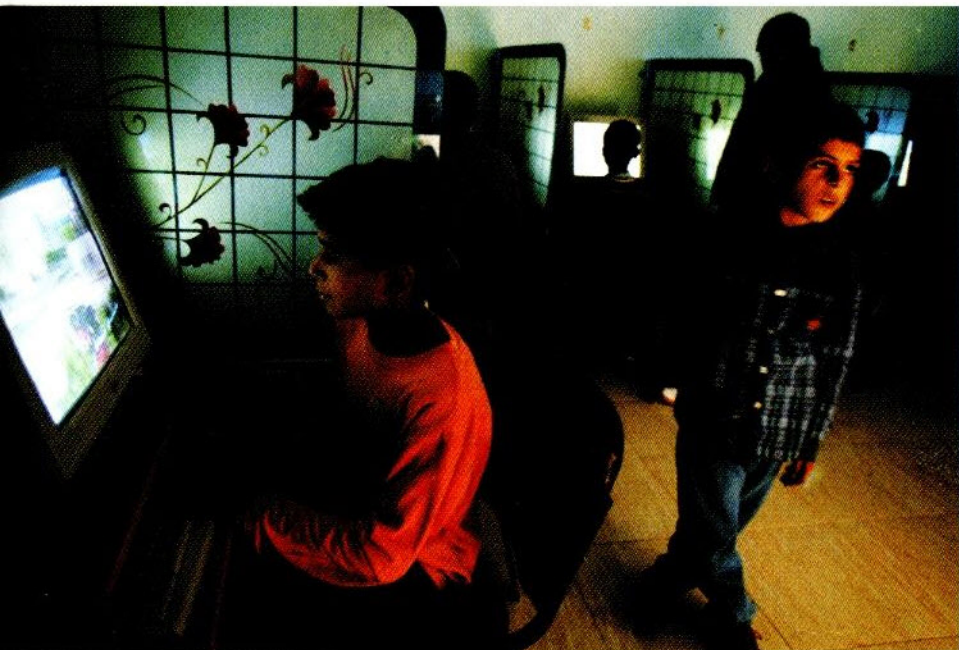
The warning signs are already evident. Women's rights in Libya remain relatively high by Middle Eastern standards, with women free to dress and work as they please, but the number of covered women is increasing all the time, experts say. A year ago, protests against Danish cartoons lampooning the Prophet Muhammad spun out of control and reportedly turned into an anti-Kaddafi melee in which police stations were attacked, participants were killed and neighborhoods left smoldering. The Italian ambassador to Libya has warned: "Islamic radicalism has joined forces with domestic opposition"—a dangerous mix indeed.

To bolster his legitimacy, the once revolutionary leader and his Western-educated son Saif are pushing Libya into the global mainstream: welcoming local and foreign investors, encouraging Libyans to travel abroad and trying to improve human rights and modernize the government. Yet this is easier said than done. Libya remains strangely decentralized, a thinly populated country with deep tribal divisions and a sprawling bureaucracy that make it surprisingly hard for the dictator to dictate change. The rebirth of Kaddafi—who once proclaimed revolution against the West, Israel and global capitalism—as a benign, religiously moderate autocrat has only compounded his trouble with fundamentalists. If the leader can't set his country on the track toward modernity, Libya could succumb to chaos or Islamist rule—a chilling outcome for other moderate, reform-minded leaders in the region.

dle East," has now become, in Blair's words, "very easy to deal with."

Much has been made of Libya's dramatic course change since September 11, when the U.S. response and patient British diplomacy convinced Kaddafi of the dangers of staying on London and Washington's bad side. Once the world's most notorious state sponsor of terrorism, the most roguish of rogue states, Libya has since come in from the cold. It has ended its support for armed

radicals around the world, started cooperating with Western intelligence agencies, ceased meddling in its neighbors' affairs. Libya has given up its illicit WMD programs, shipping all the components to the United States. Tripoli has even paid generous reparations for the 1988 bombing of Pan Am Flight 103 over Lockerbie, Scotland, as well as for the bombing of a French airliner and a Berlin nightclub. Libya now cooperates more closely with the CIA in



The biggest problem is an economy still overwhelmingly dependent on oil. While some gulf states have begun to move aggressively to diversify away from petroleum, Libya still relies on black crude for 95 percent of its exports and 60 percent of its total GDP. That remains true despite the fact that Libyan oil production has fallen by half since 1974, to just 1.7 million barrels a day, due to mismanagement and the sanctions imposed after Lockerbie. Libyan officials know which way the trend lines are pointing, and hope to increase oil production to 3 million barrels, plus untold amounts of gas, with the help of foreign investors (the sanctions were lifted in 1999). Perhaps Libya's biggest competitive advantage is that rival oil states are even more obviously troubled right now. As Stanford Prof. David Victor notes, "With Iran closed, West Africa in civil war, Russia beset with corruption and the gulf tapped out, Libya has become the world's most exciting spot for oil exploration."

But any big oil project takes at least a decade. And as a rule, "exciting" hardly describes Libya today. Libyans appear to be doing well, because oil prices have been rising. With an annual per capita income of more than \$6,000, Libya is by far the richest African nation, and one sees little of the grinding poverty and illness so characteristic of the rest of the continent. Libyans also enjoy egalitarian, albeit low-quality, health, education and poverty-reduction programs. Outside the oil sector, however, there is an overwhelming

mood of economic stagnation.

On the street, Libya feels like one of the former Eastern European states before the fall of communism, albeit with a desert climate and friendly populace. Only the barest signs of entrepreneurial spirit are visible. Storefronts are drab; plastic bags and paper litter the countryside. You can walk for an hour through the Tripoli souk (bazaar) without anyone offering to sell you anything.

Everyone from the IMF to Kaddafi seems to agree that the key to kick-starting the economy is diversification. With

RICHEST AFRICA: Libyan boys at a recently opened Internet café (left), a new oil project in Zwara (center) and a Nike store in the capital, Tripoli

Agriculture, housing, education and medicine would provide further opportunities, if only because they remain underdeveloped. But the vested interests of the bureaucracy, the personal investments of the Kaddafi family, complex and onerous regulations and outright corruption have kept foreign investors away. True, foreign direct investment is rising, but it is almost all in the oil and gas sector—a situation unlikely to change soon. For example, recent promises by Saif to privatize one of Libya's two mobile-phone companies seems unlikely to be fulfilled, given that both are now owned by Saif's older brother, Mohammad. Oliver Miles, former British ambassador in Tripoli, is skeptical of economic reform, seeing only "glacial movement in the right direction." The Heritage Foundation ranks Libya the third most repressive economy in the world.

The few young Libyans who have real management training despair of ever starting a successful small business at home. Private-sector job creation is nil, and one in three young people are now unemployed. The government is spending heavily on housing, sanitation and transport infrastructure, but a recent IMF report questioned whether this is sustainable without foreign investment and greater competition. The problems are due in part to the sanctions era, which depressed investment, shut down all air travel and deprived a generation of Libyans of Western education or other opportunities. Also to blame are disastrous economic experiments Kaddafi conducted over the years, such as

DESPITE KADDAFI'S REPUTATION AS A STRONGMAN, THE DICTATOR CAN'T SIMPLY MANDATE ECONOMIC REFORM.

warm weather, the cleanest and least crowded beaches in the Mediterranean, and striking Roman ruins—all just a few hundred kilometers from Europe—Libya could easily remake itself as a tourist paradise. Yet the country's most striking archeological site, the Roman outpost of Leptis Magna, still gets only a dozen or so foreign visitors a day, due in part to the lack of basic amenities like ATMs, cell-phone service and resorts.



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an effort to eliminate small retail shops in the name of "Arab socialism."

That past has left Libya with something of an attitude problem. Basic private-sector jobs go to foreigners because, as one Libyan told me who cannot be identified for safety reasons, "No Libyan works in the sun; we hire Egyptians and Africans for that." (Foreigners may total a third of the Libya's 5.7 million inhabitants.) Of those Libyans who do have jobs, half work in a bureaucracy with 900,000 employees. And Taher El Jehaimi, former Libyan chief of planning, estimates that half those public employees are unneeded. Tripoli has announced plans to cut one third of government jobs while raising salaries for the rest, but the opposition is fierce and no progress has yet been made. Plentiful oil revenues guarantee secure incomes at a relatively high standard, so most Libyans are understandably skeptical of reform. If anything, modernization in Libya remains a top-down project advocated by a tiny band of reformers, led by Saif and supported by his father.

Despite his reputation as an all-powerful strongman, Kaddafi can't simply mandate economic reform. To a greater extent than outsiders recognize, he has ruled his traditionally decentralized and unruly country by trying to satisfy the diverse interests of his citizens. While Kaddafi retains tight control over oil revenues, travel policy and the secret police, his power is limited in other important areas—hence his failure to curb corruption and bureaucratic bloat. Kaddafi's assertively pro-reform prime minister, the U.S.-trained economist Shokri Ghanem,

was forced from office in 2006 after severe criticism by local governments and some parliamentarians. And the dictator seems unable to control the lower reaches of his own bureaucracy. "You have a situation where no one knows who's in charge," says Harvard Business School's Michael Porter. Despite their best efforts, including public pressure from Saif, the Kaddafis have been unable to shelve the internationally embarrassing case against five Bulgarian nurses accused by Tripoli of infecting Libyan children with AIDS, because doing so would require admitting how weak Libya's own medical care really is.

The biggest boon Kaddafi could get in his reform project is help from the West. European and American leaders recognize that such reforms are in their interests as well, since continued mismanagement of Libya could speed the rise of Islamic fundamentalism and undermine a local ally. But so far only the British seem to have fully recognized this point, rewarding Kaddafi with state visits, diplomatic support and quiet assistance. The EU, worried about illegal immigration from Libya, has refused to negotiate the sort of aid and trade packages it has with other North African states. And Libyans complain that the United States has not done enough, either: no cabinet-level official has visited Libya, the educational exchanges Libyans desperately seek remain limited and the failure of the United States to open an embassy in Tripoli forces Libyans to travel abroad at least twice simply to get a U.S. visa.

The problem, according to Miles, the former British ambassador, is the U.S. Congress. While the White House and

State Department appear to cautiously favor closer relations with Libya, powerful neoconservatives like John Bolton remain hostile to Kaddafi and influential among congressional Republicans. One official recently sent by Tripoli on a back-channel mission complained that few Washington officials would even receive him. "We're on the same side now," he said, "but no one wants to take the domestic political risk of meeting with us."

Another obstacle is lawsuits filed by the victims of various Libyan-supported terrorist acts, who have interpreted Tripoli's generosity in the Lockerbie case (it gave victims' families \$10 million each) as an invitation to sue in U.S. courts. These litigants have pressured their members of Congress to block any U.S. concessions to Libya until their cases are resolved.

Despite the obstacles, it's still far too soon to count Kaddafi out. The man, above all, is a survivor; after nearly four decades in power he's now the longest-serving leader in the Middle East. While his country remains oppressive and erratic, it is also wealthy, educated and egalitarian, anti-fundamentalist, a strong supporter of the war on terror and—perhaps surprisingly—quite pro-American. Kaddafi may have no desire to surrender power himself—but he has come to see that embracing modernization and globalization is the best way to assure his survival. Thus the historical irony: after three decades of isolation, Libya may be emerging as the West's best hope in the turbulent Middle East.

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