

# Libyan Political Impacts on the Economy: A Critical Analysis on the Period of Qaddafi Regime

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**Abstract:** Libya's economic stagnation has been closely related to its political environment. This paper aims to provide ideas for Libya's future economic development by analyzing the influence of politics on economy during Qaddafi's rule. To support the study, twenty important papers regarding the Libyan economy and politics have been selected and placed under review and research. Through careful analysis, it is found that although researches have been made on Qaddafi's government, including its economic reform and political policies, few have clearly analysed the relationships between the two. In this paper, three main aspects, namely foreign affairs, oil policy, and ideology, are underscored and analysed to identify the connection between Libyan politics and the economy. Through analysis, this paper concludes that the Libyan economy, under Qaddafi's regime, was positively influenced by its early economic policy under effective ideology and was negatively impacted in the following years by its radical foreign policies, problematic oil policies, and centralized unsuitable ideology for economic development.

## 1. Introduction

Libya's economic development has long faced difficulties, especially during the Qaddafi era. As the international situation continues to change, it is urgent to explore the root causes of Libya's economic stagnation, especially in the political arena.

So far, many researchers have succeeded in outlining the historical course of the evolution of Libya's economic system during the Qaddafi period based on the original data they have collected. Ronald Bruce St John, in [2], provides a detailed overview of the history of Libya's economic reforms, pointing out the uneven development of the Libyan economy, where the oil industry disproportionately overdid other economic sectors. In [3], Ronald Bruce St John clearly defined the similarities and discrepancies that existed between the early Qaddafi's regime and the late one, "Arab nationalism" was an important concept discussed as the main tool for country's unity that had been remained unchanged throughout the whole Qaddafi period. Charles O. Cecil, in [4], offered analysis on which this paper is based regarding the content about Libyan foreign policy. Dirk Vandewalle, in [5], strongly argues that the Qaddafi regime, domestic policies, including political liberalization and economic "infitah," all served only as outlets of popular dissatisfaction, providing this paper with a new perspective of viewing the Libyan reform.

Although the political and social change has been clearly depicted by several scholars and researchers, surprisingly few scholars have written about the connection between the political factors and economic changes. To support the study of Libyan economic reform, this paper analyses how the Libyan economy, under Qaddafi's regime, was influenced by its politics. In this paper, political factors are specifically divided into three main sectors that had evidently impacted the Libyan economy, namely foreign policy, oil industry, and Qaddafi's ideology. All these three aspects are included with careful research based on secondary researches that provide a comprehensive description of reform in Libya.

This paper uses "Qaddafi", "Libya", "Economy," and "Policy" as keywords to search papers from 1965 to the present on Google Scholar. After careful selection, a total of 20 articles were included in the analysis scope of this paper. Next, this paper will summarise and analyse the selected researches.

## **2. Libyan Political Impacts on the Economy**

The political impacts of Qaddafi can be specified as the domestic and foreign policies released by Qaddafi's government. The former was characterized by a high level of nationalization, with the latter being radical. Based on the literature review of 20 articles, this paper discusses three aspects to identify the relationships between Libyan politics and the economy.

### **2.1 Political policy towards foreign affairs**

Among the 20 papers selected, seven have meticulously analysed the influence of foreign policy on the Libyan domestic economy, and it has remained the most discussed field. Based on the selected researches, this paper thus indicates that:

Libya's foreign policy at the very beginning was radical. During the period 1969-1991, as pointed out in [3], the height of the revolution at the time, Libya was actively involved in many international conflicts while seeking pan-Arab unity and solidarity due to political factors caused by its geography, population, oil, which has been proven in [4]. However, its ultimate goal, as stated in [6], was to become a regional ruler. It engaged in a series of violent conflicts with Chad, Egypt, and the United States and deployed troops to fight Tanzania in Uganda, as listed by Senauth in [7]. Libya has supported many foreign insurgent and rebel groups than has maintained a nuclear weapons program for over thirty years. Most egregiously, it sponsored several acts of international terrorism in the 1980s, including the Lockerbie plane bombings, which are mentioned in [8]. It is special, as concluded by [6], that rarely has a country in the size of Libya had such a violent history of international affairs. All the mentioned disputes eventually led to sanctions from the U.N. and the USA.

Some analysis has been made by scholars on the influence and cause of the following foreign policies. Ronald Bruce St John included five aspects: Sanctions Regimes, the establishment of United States of Africa, European Interests, and War on Terror, illustrating that the foreign policy of Libya under the Qaddafi regime was radical at the beginning, bringing about dissatisfaction from the western society as well as the United Nations. As a result, [9] concluded that sanctions were put on that nation, which led the Libyan foreign policy into an even active one, seeking an end to the economic and diplomatic isolation. A similar point has been made in [10] by Ian Hurd, who claimed that normalizing relations with the western countries was a priority in Libyan foreign policy throughout the sanctions period and has continued since then, which was exactly the reason for Qaddafi's policy of economic liberalization.

[1] also pointed out that the foreign policy was concluded as a failure, however, which was attributed to both subjective and objective factors, the subjective reflected in the limitations of his diplomatic thinking, the objective reflected in the international political system, which was dominated by the western countries, leaving little space for Libya to accomplish its diplomatic goal. The failed foreign policy put Libya in a predicament where it had to balance the domestic political need of government legitimacy through centralization and external need of international support through liberalization, which were somehow conflicting to each other.

### **2.2 Political policy towards a specified field-oil policy**

Among all the researches about the Libyan oil policy, most are concerned with the relationships between the oil industry and the civil war, sparing huge space for research on the determinant influence of oil on the Libyan economy. However, it is still indicated by a limited number of researchers the influence of oil policy on the economy. Among the selected 20 papers, four did research in that field, and it is concluded that:

The government neglected the importance of investment in the oil industry since the mid-1970s, which led to a sharp decline in oil production, exports, and revenues throughout the 1980s. In addition

to the falling oil prices, as analysed in [11], nationalization also hurt the development of the oil industry, which was indicated by the fact that Libya's oil production and economic development during this period lagged significantly compared with other oil-producing countries that were also hurt by the fall in international oil prices. Another problem that remained was the low domestic consumption of oil, making a sharp contrast with the export, as was shown in Table 1. Even without U.S. sanctions, Libya was unable to expand oil production in the 1980s. Stagnating oil production and declining oil revenues have limited the government's ability to build a high-welfare state under the planned economy, as stated in [1].

Table.1. Oil reserves, production and consumption statistics in Libya

<i>Years</i>	<i>Reserves (billion barrels)</i>	<i>Production (billion barrels)</i>	<i>Consumption (billion barrels)</i>
1965	1.26	1.22	-
1970	2.90	3.36	-
1975	2.32	1.51	-
1980	2.03	1.86	0.10
1985	2.13	1.03	0.12
1990	2.28	1.42	0.15
1995	2.95	1.43	0.17
2000	3.60	1.48	0.21
2001	3.60	1.43	0.22
2002	3.60	1.38	0.23
2003	3.91	1.49	0.24
2004	3.91	1.62	0.25
2005	4.15	1.75	0.25
2006	4.15	1.84	0.28

Data Source: 1. B.P. Statistical Review of World Energy 2007 2. U.S. Energy Information Administration (EIA)

The crux of the matter was that the Libyan economy was too heavily dependent on oil and gas revenues, which in 1980 contributed 65 per cent to GDP and 95 per cent to export trade. World oil consumption was on a downward trend in the 1980s. However, and the oil prices collapsed in 1986, as shown in [12]. Libyan oil revenues fell dramatically in the same period. Therefore, faced with the economic crisis, the government adopted an austerity policy. Michael L. Ross in [13] found that in the early 1980s, Libya began cutting imports, tightening its budget, reducing the number of foreign workers, stopping paying debts to foreign contractors, and starting to drain foreign reserves to cover its budget deficit.

The dependence on oil benefited the Libyan economy at the early stage of Qaddafi's government. Edward L. Morse in [12] concluded that as a highly profitable natural resource, the oil itself could act as a huge incentive, providing a high economic drive to both domestic anti-government groups and foreign intervention forces; however, oil was also a "double-edged sword". If no reasonable policy regulates the industry, the oil will likely bring a "curse" to society, leading to severe social conflicts and even war. Michael L Ross in [13] emphasized that rational governance has also become important support and key to the oil economy. But unfortunately, Libya did not make it to find a key to the "oil curse," failing eventually to maintain the benefits brought by oil.

### **2.3 Ideological factor of the political leader**

Ideology was regarded as the guiding factor of Libyan economic transition and is thus frequently under scholars' research. Its academic popularity can also be shown by the number of papers searching in it among the selected papers, 9 in particular.

Metz, Helen Chapin, in [14], the importance attached to Arab nationalism in Qaddafi's diplomatic thinking is the most fundamental value of Qaddafi's "Arab nationalism," which, together with Islam,

formed the cornerstone of Qaddafi's "Third World Theory." Also, in [14], it is stated that the Green Book not only reflects Qaddafi's observations and reflections on the universe, the world, society, and life but is also an important basis for interpreting his diplomatic thinking. [3] concluded that although Qaddafi did not discuss his diplomatic philosophy in the Green Book, his comprehensive rejection of capitalism and communism and his full affirmation of nationalism implied the theory of Arab national unity, thus showing that the basic tendency of Qaddafi's diplomatic thought is to weaken the influence of Western powers and promote the unification of the Arab world. In [15], he stated that the national struggle is the basis of the historical movement and that nationalism is the basis for the survival of the nation. He saw the nation as a social structure whose connecting link was nationalism and the state as a political structure. If the political structure fit the social structure, as stated in [15], the state would survive; but if the political structure changed due to foreign colonialism or its own decline and became no longer suitable for the social structure, then it would reappear under the slogan of national struggle or national revival, national unity.

However, Liu Yun in [11] stated that, with the guide of that ideology, under the highly planned economic system, the economy's efficiency declined day by day. Living standards have been in decline since the mid-1970s. A chronic shortage of goods in state-run supermarkets, coupled with poor management due to corruption and mismanagement, has left the population in dire need of basic goods, and most of the goods needed have to be bought on the black market at high prices, which was clearly proved in [2].

Ronald Bruce St John also pointed out in [2] that amid the chaotic economic system of Libya, the oil and gas industry, compared to other economic industries, witnessed an exceptional development that has progressed efficiently. Under that situation, Qaddafi acknowledged the problems of economic development, criticized the inefficiency of the domestic economy, and took the criticism very seriously. In [5], it is found that, together with other leaders, Qaddafi recognized that political stability was under threat and felt that the existing state control policy of the economy was outdated and yearned for economic reform.

The change started to occur in the Libyan economic system, which was indicated as the transition of Qaddafi's ideology. In [3], Ronald Bruce St John illustrated that Qaddafi moved to reform the socialist economy he created, trying to find a new way between socialism and capitalism. However, as argued in [16], this was not a positive development, given the complex political condition under the Qaddafi regime. As proved in earlier research [17], Ronald Bruce St John pointed out that a highly centralized economy was harmful to long-term economic development. Still, it was politically effective in forming national identity. This view was then challenged by Dirk Vandewalle, who underscored in [5] that the low level of national identity among citizens combined with the Qaddafi's ideology being highly socialist facilitated the weak institutionalization between revolutionary and popular authority. Regarding the self-identity of the Libyan, Masli A. M. and Elwalda A, in their newly published research [18], found that among the Libyan market, the vast majority are local players who are concerned about the interests that are either geographic or ethnic, rather than central.

Nevertheless, something that remained unchanged regarding Qaddafi's ideology was the effort of Qaddafi to find a balance between communism and capitalism, as concluded in [19]. This is the concept that Ronald Bruce St John put under the term of the "Third Way" in [3]. Also, in this research, it is illustrated that as Qaddafi moved to reform the "socialist economy" he created, studies on 'popular capitalism' and 'people's socialism' suggested that he has continued to search for a hybrid economic system, which was more suitable for his system of direct democracy than a free market economy. In [20], it is argued that another important ideological concern that did not change was Arab nationalism, which has been proven effective in forming a universal national identity. Similarly, it was argued in [21] that what has been done was a fake political liberalization, as Qaddafi did not completely trust the masses and even created political organizations to control them.

### 3. Conclusion

With the help of previous studies, which provide with essential analysis of specific policies implemented during the Qaddafi regime, this paper finds that Qaddafi's government was capable of designing policies suitable for the country, as it was shown in the early period of the regime. However, it failed to continue the economic development in the following decades due to the policy fault, including ambitious but unrealistic foreign policies, self-defeating policies for the oil industry, and outdated political ideology for policy-making. The politics-economy study is essential for the research on the history of the Libyan economic reform, which in turn could be helpful to those who are devoted to promoting the current Libyan situation where it is struggling to survive its economy rather than developing it. By connecting politics with the economy of Libyan domestic condition, this paper provides the future study of Libyan economic reform with fundamental analysis, thus assuring a basis for the field. As a number of researches regarding separate social sectors have been made, the future study of Libyan politics and economy, based on the current researches, is projected to attach greater importance to the relationship analysis between different social sectors, establishing comprehensive theoretical models for the dynamic transformation of Libyan society.

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