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RADIO 4

CURRENT AFFAIRS

**ANALYSIS
LIBYA'S ISLAMIC CAPITALISTS**

TRANSCRIPT OF A RECORDED DOCUMENTARY

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MILES: Imagine a country where the whole retail sector had been banned. No shops or market stalls, no cafes or restaurants. Well, that was Libya under Colonel Gaddafi in the 1980s. His policies forced the population into a constant hunt for food. As the child of a British diplomat posted there at the time, I remember the family having to import basic supermarket goods from England and growing mushrooms in a dark back bedroom.

ARCHIVE: CHANTING

But now the revolution is here and Gaddafi's bizarre ideology has been swept into the dustbin of history. What will replace it: Islamism or secularism; Tribalism or nationalism? Those are the sort of divisions we're used to hearing Western commentators fret about. Perhaps though that's missing the point. Islam may unite Libya's new leaders, and it turns out there's another ideology they're inspired by too.

ABUZAAKOUK: We consider the free market as the way for the future of Libya.

SEGUE:

JOFFE: I think what we're looking towards is a state which does accept a free market model, indeed Islam encourages that, and a state which intends to be moderate in the way in which it reconstitutes itself.

SEGUE:

MILES: **Do you think there's anybody in Libya who opposes a free market economy?**

AL GAMATY: Absolutely none whatsoever. I don't know or heard of anybody who is against free market economy in Libya.

MILES: **Guma Al Gamaty, a spokesperson for Libya's new ruling National Transitional Council. He's no doubt overstating things when he says there's absolutely no opposition to free markets, but there's certainly a lot of enthusiasm for them. I'm Hugh Miles and on this week's Analysis, I'll be examining the unique set of circumstances which have fuelled Libya's apparent eagerness to embrace capitalism.**

ABUZAAKOUK: I think after they have seen the chaotic socialist programme of Gaddafi people realise that the best remedy is really to have an open society, an open economy and an open market policy.

MILES: Aly Abuzaakouk is a Libyan human rights activist. He spent years in exile in the United States, where he's been a director of the Minaret of Freedom Institute, a free market think tank with an Islamic spin. In his opinion, it was the absence of capitalism under Gaddafi that made Libyan hearts grow all the fonder for it.

ABUZAAKOUK: People in Libya have seen when Gaddafi confiscated all their wealth, it was meant not because Gaddafi needs their money; it's just because Gaddafi doesn't want people to be free from his reign. They want everybody to become almost like a servant to his system, making the state the only employer. It's a servitude economy.

MILES: Colonel Gaddafi shunned mainstream economics for something he called the "Third Universal Theory" which he laid out in his Little Green Book. According to this theory, capitalism and parliamentary democracy should be rejected. In their place came direct democracy in the form of popular committees. That was the theory. In reality the entire country - its politics and economics - was controlled by the centre, by the Colonel and a small cadre of his family and friends. Libya was never like neighbouring Egypt, where crony capitalism supported a large privileged elite numbering tens of thousands. Many in Egypt are now turning away from the free market towards a more centralised economic model. In Libya, it would be hard to think of a model more centralised than Gaddafi's system. John Hamilton is a director of the consultancy Cross Border Information, and he has links with the rather small Libyan business community.

HAMILTON: You started with a situation when all private enterprise was illegal and everybody just had to work for the state. And Gaddafi, his Green Book philosophy, one of the slogans from it was 'Partnership, Not Hire'. And they're still in the airport. All over Tripoli you used to see the slogan. They've probably ripped them all down now.

THE GREEN BOOK

Income is an imperative need for man. In a socialist society, it should not be in the form of wages from any source or charity from anyone. In this society, there are no wage-earners, but only partners.

HAMILTON: What that meant was that it was a bad thing to be a boss and to have employees because that was creating divisions in society. But in the early 90s, the country was going bust, and in any case because of sanctions they'd had to sort of relax things in order to allow a trading economy to develop in order to bring in the things they needed from Tunisia and Malta and so on. So eventually private enterprise was permitted, and Saif al-Islam jumped on the back of this because I think he could see a constituency. And frankly also I think he and his brothers also liked the idea that business would come in because it held out the prospects of great riches and you know all sorts of business deals to be done.

MILES: Those half-hearted and self-serving attempts to reform the economy by Saif al-Islam, Colonel Gaddafi's son, never led to widespread prosperity. In fact, they never had much of an impact outside the ruling family's small circle.

So who are the leading lights in Libya's new governing body: the National Transitional Council or "NTC"? And what indications do we have of their enthusiasm for a more liberal economic order? Business consultant John Hamilton again.

HAMILTON: The most important figure in the National Transitional Council Executive underneath the Leader, Mahmoud Jibril, is Ali Tarhouni who's the oil and finance minister. It's a fantastically important portfolio. He spent most of his career in the United States. He is a supporter of liberal economic thinking. And Jibril, his boss, was brought in by Saif al-Islam in order to try and liberalise the Libyan economy several years ago.

MILES: The new finance minister Ali Tarhouni wasn't always an economic liberal. Once a socialist, his faith in left wing ideology perhaps collapsed with the Berlin Wall because by the mid-1990s he was part of a group of exiles pushing for free markets. In 1994 a Washington think tank, the Center for Strategic and International Studies, held a conference of Libyan exiles. A report from the event notes that most participants argued for 'privatization and a strong private sector economy'. But, as John Hamilton explains, not everyone on Libya's governing National Transitional Council is so enthusiastic.

HAMILTON: Opposing them, you've got a much more nationalist core of people who certainly don't believe that Libya should just adopt some sort of Western liberal economic model. They want Libya to go down a much more sort of Sharia compliant path, and they're not going to be happy to see it being taken over by an economic elite.

MILES: But isn't it possible that they could all agree on a Sharia compliant capitalist model?

HAMILTON: Yes, that's true. Islam and capitalism are not absolutely opposed ideologies. Quite the contrary. Mohammed was a merchant, and if you accept Sharia there's plenty of business to be done within that framework.

ABUZAAKOUK: Islam in general supports freedom of faith, freedom of religion, freedom of movement, freedom of expression and freedom of the economy.

MILES: Aly Abuzaakouk of the Minaret of Freedom Institute has spent years trying to promote the idea of Islamic capitalism. During his years in exile in the United States, he was also a senior activist in one of the most important Libyan opposition movements: the broad-based Libyan Human and Political Development Forum. He draws on Islamic texts in an attempt to persuade fellow Muslims that Islam is intrinsically pro enterprise.

ABUZAAKOUK: There is a very beautiful story of one of the companions of the prophet. His name is Abdur-Rahman. When he migrated from Mecca to Medina, one of the Medina citizens accepted him as his brother from Mecca. And Abdur-Rahman, he said, "I don't need anything from you except show me the market." And he, when he went to the market he started with almost scratch. They said when he passed away, he left a wealth that cannot be counted. That is the spirit of Islam, the spirit of private entrepreneurs and private initiatives. The only thing that is known about this famous individual is that he has always been one of the most supportive of the prophet's government with his money. So he knows that money is a tool to support any system or any policy that you will have. If you don't have the money, you cannot do it.

AL GAMATY: Islam actually encourages people to make money, to create wealth, to be independent and engage in economic activities as traders because the more people make money, the more they can donate to the poor and help the needy.

MILES: **Guma Al Gamaty, the London based spokesperson for Libya's National Transitional Council or "NTC", echoing the idea of Islam as a religion that promotes wealth generation and philanthropy. The draft constitution of the new Libya has much in it that Western economic liberals see as the essential underpinnings of a free market economy: democracy, freedom of speech and the rule of law. But the constitution also states that Sharia will be "the principal source of legislation." That scares those who fear that Libya could turn into an aggressively anti-Western, totalitarian Islamist state. Certainly there have been Islamists prominently involved in the revolution. They fall into several camps, but two of the most powerful are members of a former Jihadi group once dedicated to killing Gaddafi and the more moderate Muslim Brotherhood. George Joffe, a Libya expert at the Department of Politics and International Studies at Cambridge University, says neither group is out of step with the vision of a freer Libya.**

JOFFE: Neither has proposed that they should construct a caliphate, neither has proposed that it should be an Islamic state, although both agree that Sharia law should be the fundamental inspiration of the future legal system of Libya itself. But at that, they're in sympathy with the President of the National Transitional Council, Mustafa Abdul Jalil, who said precisely the same thing only two weeks ago in Martyrs' Square in Tripoli. So I think what we're looking towards is a state that is consonant with the religious values of most Libyans, which is not extreme, which does accept a free market model - indeed Islam encourages that - and a state which intends to be moderate in the way in which it reconstitutes itself.

MILES: **So Islam as a source of law and capitalism as a source of economic policy. Does Guma Al Gamaty of the National Transitional Council see any tension there? (to Al Gamaty) Mustafa Abdul Jalil has stressed that Libya is a Muslim country with Muslim values, so what do you think an Islamic capitalist Libya is going to look like? How is that going to work?**

AL GAMATY: I think an aspect of Islamic economics which will be probably apparent in Libya and will be required is that banks should not charge interest. However, some specialists in Islamic Sharia law say that banks can charge a small fixed rate as a servicing charge for these loans, but not variable high rates of interest. So that might have a positive impact that means people can, Libyans can actually borrow money at a very reduced fixed rate and benefit from these loans to set up businesses, and that would be very good for the private sector developing and diversifying the private sector.

MILES: No interest loans available for small fees? That might sound naïve, but not if you have oil money - more of which in a moment. The point is Islamic scholars take the Koran's ban on usury very seriously. Professor George Joffe thinks that could even provide a sort of buffer against the excesses of Western style capitalism.

JOFFE: There's no sense inside Islam of the future value of money, and indeed of the relationship between that and risk. Or rather there is a sense of risk, but it's catered for in a quite different way. It's catered for by shared endeavour. That's to say that if it's successful both sides are rewarded. If it's unsuccessful both sides bear the consequence. I think it's probably the case that the Islamic system, if it operates correctly, won't be open to the kinds of shocks that we've seen simply because you morally cannot engage in the kinds of misvaluation in risk that were so typical of the crisis that we've just lived through.

MILES: Besides the ban on interest, one undisputed principle of Islamic economics is that trading in certain goods prohibited in the Koran - like pork and alcohol - is strictly forbidden. In a conservative society, that's not necessarily a problem - unless you want to attract visitors. And Libya, with over a thousand miles of pristine coastline, world-class antiquities and a balmy Mediterranean climate, all so close to Europe, could easily set up shop as a prime tourist destination. Salim al-Mair is a Libyan natural resources expert with ideas about how the economy might develop - and how it might not.

AL-MAIR: At the moment we have five UNESCO heritage sites. What's needed now is what we call a cultural tourism. We would rather have you know the 50 to 100,000 visitors per annum than the few millions of what's known as mass tourism. It is a conservative society. If you open up mass tourism - as Spain did, which has destroyed it almost - the question of you know the nakedness and the provision of alcohol and you know the licences and so on, which is not favoured at the moment in Libya, every Libyan will tell you they don't advocate the policy.

MILES: So Libyans want capitalism, but not as we know it. They say spare us the jobs waiting on boozing, scantily-clad tourists, and spare us the sort of volatile banking system that triggered economic crisis in the West. But the Libyan economy is in danger of destabilisation by a far greater force than sub-prime debt and greedy bankers: oil. Oil is set to continue to be a huge source of wealth for Libya. But it is also a huge potential problem. In the words of one former Saudi Oil Minister: "We'd have been better off if we'd just struck water."

TRIPP: Within Libya the thing that dominates the economy is the oil industry, and there is a big question mark over that because that immediately privileges the state as the central planning distribution organisation and revenue collecting organisation.

MILES: Professor Charles Tripp is a Middle East expert at the School of Oriental and African Studies.

TRIPP: As other oil based economies have found, it's quite difficult to emerge as a private entrepreneur when the state can subsidise things, can skew the market, can do strange things with prices, and also politically it has a problem as well.

MILES: So would they be better off without oil?

TRIPP: Well if you're looking at them purely as a terrain for entrepreneurial activity, yes. But at the same time it is a huge resource of national wealth, and I suppose for many Libyans the question is how do we devise a system of distribution that doesn't allow the central control of the oil resource to dominate our politics. So some form, in other words, of accountability, some forms of fair distribution - not simply through the whims of those who happen to control Tripoli. That in a sense is the challenge for the Libyans now. There's no reason why they shouldn't meet that challenge, but clearly it's going to be something that's going to require quite a lot of ingenuity - and courage, I imagine, as well.

MILES: It's the oil curse - the idea that petroleum and pluralism rarely sit comfortably together. Wealth accumulates - Saudi style - in the hands of a governing elite. The rulers have no need to rely on support of ordinary taxpayers for income. The Marxists had a term for it: a rentier state. It's also a far cry from the vision of the sort of liberal capitalist democracy being talked up in Libya. Do people like Guma Al Gamaty of the National Transitional Council realise the dangers?

AL GAMATY: Funny you ask that because I have actually researched that particular point in detail, and it has been widely shown and argued that countries whose economy is based purely on natural resource don't tend to have a good democracy, thriving democracy.

MILES: And is that a possibility in Libya?

AL GAMATY: I don't think so. I think there will be an emphasis on diversifying the economy. We have a new Libya, we have very high expectations. The Libyan people will feel that they have sacrificed a lot and that they have achieved a great victory, and that their reward for this victory is total freedom and total political participation, so I don't think the income from oil will put them down. However, I think people will have to acquire new skills and new talents and educate themselves well, diversifying the economy, and that will stand them in a very good position to participate politically and that will be good for democracy.

MILES: Guma Al Gamaty should know what he's talking about: democracy and the oil curse was something he researched for a PhD thesis at the University of Westminster. But is he guilty of wishful thinking? Libya has a lot in common with Gulf states like the United Arab Emirates, Qatar and Saudi Arabia, places with high oil wealth and a relatively small population. Those states are wealthy, but they are not democracies. Government largesse is used to buy the political acquiescence of the people, and that in turn creates a social problem: a population that can get by on the generosity of its wealthy rulers lacks the drive to work hard for its money. Business consultant John Hamilton says it's easy to imagine Libya, where already 70 per cent of jobs are in the public sector, going the same way.

HAMILTON: Most business people who I've spoken to, foreign businesspeople who have run businesses in Libya, are quite grudging about the concept that you could really create a satisfactory work force out of the majority of Libyans. They just don't regard them as people who are really willing to get their hands dirty. If you want someone to do a hot and dirty job at an oil well in the desert, it's hard to persuade a Libyan that he should go and do it.

MILES: So how can Libya avoid the oil curse?

HAMILTON: To be honest, in the short-term I don't think they can avoid it. I think they'll end up doing it because I think the other choices are just going to be too disappointing for the population to accept.

MILES: So in the short-term the Transitional Council is just going to carry on Gaddafi's policies paying, subsidising everyone?

HAMILTON: Yes, but there'd be a big difference, which is that Gaddafi, although he legalised private economy in the early 90s, he was never that happy with it, and there's all sorts of terrible sort of bureaucratic impediments which make it very difficult. But a genuine opening of the economy to enable people to set up businesses, not to be overwhelmed by bureaucracy, to be able to trade and so on you know will do a lot because there are Libyans who won't be happy just to sort of take the government shilling, who will want to make more money and do better by going into business.

MILES: Oil not only poses political and social problems, but a fundamental economic one. Professor George Joffe.

JOFFE: In many respects it's very difficult to run an economy based on oil. Libya's currency, once oil begins to flow again, will be overvalued if it's open to open competition in a liberalised currency regime, as it almost certainly will be. And because it will be overvalued, it will render economic activity inside Libya outside the production and sale of oil inefficient; and because it'll be inefficient, the non-oil economy simply won't develop in the way in which it should. Now that's a problem that's known to economists as the Dutch disease because it was first identified in Holland in the 1960s over the sale of natural gas. But it's affected virtually every country that's got oil, even sophisticated Western countries too, and I don't see any way in which Libya can avoid those consequences either.

MILES: Beyond the oil sector, shifting the rest of the economy to a free market model is not going to be easy. Libya is unique - isolated - its total lack of infrastructure, the absence of even basic planning rules make it difficult to imagine a modern capitalist nation emerging. And yet there are signs that the economy is starting to function. Conditions seem better than in Iraq after the toppling of Saddam Hussein. That's the view of Robin Lamb, Director General at the Libyan British Business Council. He's just back from a visit to the Libyan capital.

LAMB: The good thing is that you can see in Tripoli, as we've heard before was achieved in Benghazi, that the Transitional National Council have been able to restore normality and restore utilities and services. For example in Tripoli, there weren't queues for petrol, there was electricity, there was water, the shops were full of vegetables and fruits and things and so food supplies are clearly good. And so was the atmosphere. A lot of very happy people - people celebrating, mourning their martyrs and commemorating their deeds, but clearly very happy at the new prospects that they've got.

MILES: So what if the good news continues? And what if Libya does become some kind of capitalist democracy, but with a powerful Islamist element - where does this leave Western foreign policy? George Joffe.

JOFFE: We're going to have to learn to come to terms with the fact that political Islam, in particular the application of Islamic principle to political action, is in some way going to play a major part in all the countries concerned. It's going to be true in Egypt, in Tunisia, in Morocco it's already the case, and it's certainly going to be true in Libya too. Now we either have a choice of accepting that, learning to live with it and learning to understand it, or we can continue to reject it. And of course the more we reject it, the more likely it is to become rejectionist of us too. So I think that's the major lesson that Western politicians and statesmen really have to learn, and they have to learn it very fast indeed.

MILES: If Libya can continue to avoid Iraq-style collapse and chaos, and prevent the looting of state resources by a small group of oligarchs, like in Russia, what country might post-Gaddafi Libya look like? There are plenty of alternatives to the autocratic oil-cursed Gulf states. Many mention Turkey or Malaysia - Islamic countries with booming economies. But others draw more surprising comparisons. Natural resources expert, Salim al-Mair.

AL-MAIR: To make me a happy man again, I would like it to be Singapore. But the least they can do is look at Tunisia, believe it or not, under the previous regime. Naturally they rely on tourism, which is a fragile industry, but the services available, the infrastructure, the hotels, the transportation, the IT, in terms of economical performance they were growing about 5 per cent per annum. It was the fastest growing economy in Africa. And Tunisia is a non-oil producer, by the way,

MILES: And when you ask Libyans to dream big, there's an even more surprising comparison they tend to make.

AL-MAIR: Ideally I would love it to be as in Norway, ideally.

SEGUE:

AL GAMATY: A very good example is a country I visited twice this summer, and that is Norway.

MILES: Norway - really? Is it crazy to even mention liberal, socially democratic Norway, one of the most highly developed countries in the world, in the same breath as Libya? Guma Al Gamaty, the coordinator for the new government in the UK, pointed out the similarities - and one big difference.

AL GAMATY: I've been to Norway and I sat down with officials and the foreign ministry and others and members of parliament, and I said to them, look, Libya and Norway have a few things in common and that is Norway is about five million population, Libya is about five million population; Norway relies heavily on oil and gas for its economy, Libya relies totally on oil and gas for its economy; Norway has got a huge national sovereign fund, Libya has a big national sovereign fund as well. I said to them there is only one key difference, and that is Norway is a very successful democracy which is highly developed, but Libya has been under a dictatorship. In other words, now we have to build a democracy, we have to build state institutions and we have to build democratic institutions, and hopefully we will catch up one day soon.

MILES: This picture you're painting is remarkable, because I mean the country you're describing is this liberal, free market democratic Arab Muslim country. There's not another country like it. It's a new paradigm.

AL GAMATY: Absolutely, it's a new discourse, but the whole of the Arab spring is a new paradigm. And why not? I think Libya could really be a very, very good model for all the other Arab and Middle Eastern countries to emulate. If Libyans make a good success of it, it will have a huge knock-on effect on everybody else.

MILES: Every country is unique, but after 42 years, labouring under Gaddafi's twisted and malevolent influence, the situation in Libya is truly unlike anywhere else. The idea that Libya could end up looking a bit like countries as different from one another as Norway, Singapore and Turkey is a sign of how wide open the horizon is. Of course Libya could never be exactly like any of those countries, as it is both Arab and Muslim. If the new leaders manage to forge an Islamic capitalist state, they may prove Aristotle's maxim: "Libya", he said, "is always bringing something new."