
Libya Looming: Key strategic implications for China of unrest in the Arab World and Iran

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As violence flares in Libya and elsewhere across the Arab countries and Iran, we see a number of core interests that China will look to maintain. These include physical safety of PRC citizens in these countries, as well as energy security concerns, which could become especially significant if Iran's Green Movement protests against the ruling regime spark national unrest on a par with that which occurred in Egypt or that which is now gripping Libya. Some Chinese responses, such as tighter controls on internet content and phone text messaging, have been widely covered. Others have not received as much media attention: for example, the potential need to mount additional evacuations of PRC citizens in the Middle East or potential domestic unrest in Xinjiang, an issue *The Economist* recently touched upon, as well as Tibet.

Near-term challenge: Keep PRC citizens in these countries safe.

The Ministry of Commerce recently issued a statement saying Chinese businesses in Libya should “pay increased attention to their security” and recommends that they contact the Chinese Embassy and be prepared to move to safe zones. MOC's statement notes that riots in Libya over the past few days have damaged Chinese-owned businesses.

We have not yet located any discussion of Chinese evacuation flights out of Libya, Iran, or other trouble spots. During the recent uprising in Egypt, eight chartered flights evacuated more than 1,400 PRC and Hong Kong residents, according to *Xinhua*.

A major complicating factor in any potential evacuation operation from Libya is that the Libyan Air Force is apparently actively operating against demonstrators. Chinese civilian airliners are likely to be very hesitant to fly into a chaotic and potentially hostile air environment unless they have air escort, which we believe is unlikely at this time, or the Libyan government grants a safe air corridor through which foreign nationals can be evacuated. An air evacuation operation for PRC citizens in Iran would be more feasible.

A seaborne evacuation might be an alternative option for evacuating Chinese citizens from Libya. Chinese IL-76 aircraft operating from Xinjiang could also reach Libya with one refueling stop, but we see this as a very low probability event at present given the potential diplomatic repercussions of landing a military aircraft with embarked security forces. Such an operation would probably only be considered in the event that protestors began specifically targeting Chinese citizens in Libya.

Near-term challenge: Find replacement oil and LNG sources if exports disrupted.

Iran was China's 3rd-largest oil supplier in 2010, supplying roughly 426,000 bpd according to CNPC. Libya, meanwhile, supplied 146,000 bpd of crude to China during January 2011, according to the General Administration of Customs. This is up 250% from the prior supply level of around 58,400 bpd of oil. Serious production outages in one or both of the countries could cut supplies to China by at least 50,000 bpd in the case of Libya and potentially more than 400,000 bpd if Iranian production faced widespread disruptions. Outages from either country would tighten global supplies and drive up prices, a risk that is being reflected by the recent increase of Brent crude to around US\$105 per barrel.

Liquefied natural gas supplies are also potentially at risk from protests in Algeria, Yemen, and Oman. Here the risk to China's energy security is much lower because its baseload LNG supplies come from Australia and Indonesia, with occasional spot cargoes from Algeria or the Persian Gulf.

Longer-term opportunity: Deepen relationships with post-revolutionary governments that may be less pro-Western than their predecessors.

Once the smoke clears and protesters leave the streets, the resulting governments in the region will likely be less inclined to the West than before for two key reasons. One, a more democratic system of governance means statecraft will be more likely to reflect popular discontent with a range of American policies in the Arab World and Middle East. Second, even governments that remain autocratic and do not need to fully reflect anti-Western or anti-American popular opinions will likely perceive that Western backing offers little more than a friendship of convenience that will not help them if the going gets tough. U.S. vacillation as Mubarak's regime struggled to hold on to power is an instructive story to any potential successor governments in the region. U.S. aid will be accepted to the extent it can be obtained, but heads of state are unlikely to put near as much faith in U.S. support as their predecessors did. This creates a window of strategic opportunity for China to consolidate and deepen its political, commercial, and resource relationships with Egypt, Tunisia, Libya, Bahrain, Yemen, Algeria, and other countries in the region.

Keep this kind of protest from spreading to China.

Beijing is obviously very concerned with the idea of a "Jasmine Revolution" spreading to China. China has done a much better job of delivering economic growth and prosperity to its citizens than most Arab governments, and is far more adept at controlling the Internet and maintaining public order; but our sense is that like Arabs and Iranians, many Chinese also perceive similar pervasive corruption and sense of official impunity in many parts of their own government (particularly at the lower levels). The October 2010 Li Gang incident¹ is a clear case of a senior official and/or his kin believing that they are above the law, although this particular issue appears to have been resolved with public opinion in mind.

In the wake of the Middle Eastern and North African protests, we expect Beijing to continue to carefully censor online content and monitor dissidents. We also expect the Central Government to crack down more aggressively on corruption in the provinces. Any number of incidents like the Li Gang fiasco could inspire widespread public discontent and even spark unrest, but we believe that the places where events in the Arab world are at highest risk of inspiring turmoil in China are Xinjiang (with its cultural and religious links to the Middle East) and possibly Tibet.

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China SignPost™ 洞察中国 founders Dr. Andrew Erickson and Mr. Gabe Collins have more than a decade of combined government, academic, and private sector experience in Mandarin Chinese language-based research and analysis of China. Dr. Erickson is an associate professor at the U.S. Naval War College and fellow in the Princeton-Harvard China and the World Program. Mr. Collins is a commodity and security specialist focused on China and Russia.

The authors have published widely on maritime, energy, and security issues relevant to China. An archive of their work is available at www.chinasignpost.com.

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¹ On 16 October 2010, 22-year-old Li Qiming, driving drunk in Baoding, Hebei Province, hit two university students, killing one. Li fled the scene, and when arrested by security guards, shouted “Go ahead, sue me if you dare. My dad is Li Gang!” The revelation that the older Li was deputy director of the local public security bureau sparked outrage across the Chinese Internet. Following bureaucratic and official media tumult, Li Qiming was arrested in January 2011, sentenced to 6 years in jail, and ordered to pay \$69,900 to the family of the deceased student and \$13,800 to her injured friend.