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## *Iraq Will be Hit Harder by Falling Oil Prices Than COVID-19 or ISIS*



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The shadowy figures of well-armed Isis gunmen can be seen making an attack in the plains of northern Iraq on an outpost held by paramilitary fighters loyal to the Iraqi government.

Some four of the latter are killed by a roadside bomb. Isis specialises in publicising its successful military actions online to show that it remains a force to be feared, despite the destruction of the so-called caliphate and the killing last year of its leader, Abu Bakr al-Baghdadi.

The appalling atrocities committed by Isis at the height of its power ensure that any sign that the movement is back in business creates a thrill of horror at home and abroad. But, while it is true that Isis has been launching an increased number of pin-prick guerrilla actions in Iraq and Syria in recent months, the effect of these can be exaggerated. The assaults are still very limited compared to what happened in the years leading up to Isis's capture of Mosul in 2014, along with much of western Iraq and eastern Syria. Without the advantage of surprise this time around and with no military vacuum to fill, it is unlikely that Isis can resurrect itself.

Coronavirus appears to pose another dangerous threat to Iraq with its ramshackle public health system and millions of potential victims packed together. Iraq shares a long common border with Iran where Covid-19 is rife. Perhaps it is only a matter of time and the pandemic may yet devastate Iraq, but it has not done so for reasons that are obscure, but may include a young population and stringent curfews.

This focus on Isis and coronavirus as the prime threats to Iraq diverts attention from an even greater danger that faces the country, as it does other Middle East oil exporters. In Iraq the threat is at its most acute because its 38 million people are only just emerging from 40 years of crisis and war.

Iraqis remain deeply divided and have the ill luck to live in a country that is the arena where the US and Iran have chosen to fight out their differences. It feels like a bygone era, but it was only in January that the US assassinated the Iranian general Qasem Soleimani with a drone at Baghdad airport and came close to war with Iran.

The problem for Iraq is simple but insoluble: it is running out of money as its oil revenues fall off a cliff, following the collapse in the oil price brought about by the cataclysmic economic impact of coronavirus. It derives 90 per cent of government revenues from the export of crude oil, but in April it earned just \$1.4bn when it needed \$5bn to cover salaries, pensions and other state expenditure.

It cannot pay the 4.5 million people on the government payroll and another four million receiving a pension. This may not seem like exciting news compared to an uptick in Isis killings or the potential ravages of Covid-19, but it may prove more profoundly destabilising than either.

“The government has not paid pensions so far this month, though it keeps promising it will do so in a couple of days,” says Kamran Karadaghi, an Iraqi commentator and

former presidential chief of staff. “They don’t have the cash.” Rumours are spreading in Baghdad that state salaries will be cut by 20 or 30 per cent. Immediate disaster can be fended off by borrowing and drawing down reserves, but there is a limit to how long these can replace lost oil revenues.

Iraq – and other oil exporters in the Middle East – will not get much sympathy internationally in a world suffering from lockdown and unprecedented economic turmoil. The future may be particularly bleak in Iraq, but the other oil states producers are under similar pressures. Indeed, the era of the super-rich oil producers that began with the great oil prices in the first half of the 1970s may be coming to an end.

The problem is that reliance on oil exports displaces most other forms of economic activity: everybody wants to work for the government because that is where the best jobs are. Private business becomes parasitic on a corrupt state to make money. Everything is imported and nothing is produced locally. A corrupt elite monopolises wealth and power.

Iraq has just acquired a new government headed by Mustafa al-Khadimi, a former intelligence chief who was a long-term opponent of Saddam Hussein, and who will now have to grapple with horrendous financial problems. One former Iraqi minister told me several years ago, that the only time he had seen an Iraqi cabinet really panic was not when Isis was battering at the gates of Baghdad, but when the price of oil had fallen more than usually sharply. This time around, the decline in the price is much worse than ever before from the point of view of the producers, and though the price has rallied from its nadir in April, there is little chance of its full recovery

Protests started in Baghdad in October last year when demonstrators demanded jobs, an end to corruption and better public services, such as electricity and water. At least 700 protesters were killed and 15,000 wounded. People did not believe they were getting a fair share of the economic cake then, and the cake is about to get considerably smaller.

The same anger is felt against predatory elites in resource-rich states from Angola to Saudi Arabia, but the elites are not alone in benefiting from the present system whereby anybody with the right connections – family, sect, ethnicity, political party – can get a job. Ministries become the cash cows of different interests. It would not take much for the protests to start again.

Isis is not the threat to Iraq that some imagine and a young population may not be vulnerable to coronavirus, but the knock-on effect of a prolonged drop in the price of oil

brought about by the pandemic will be profoundly destabilising for the Middle East as a whole.

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