



The Cambridge Security Initiative

## IRAQ EGING THROUGH 2020'S "PERFECT STORM"

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Since 2003, the political system in Iraq has weathered many storms, including insurgency (2003-2006; 2014-2017), civil war (2006-2008), oil price crashes (2015, 2018), and mass-scale protests (2015-16; 2019-present). Today, the system is facing its greatest set of challenges yet, thanks to the addition of the Coronavirus pandemic and plummeting oil prices. According to the World Bank, Iraq's GDP is projected to contract by [9.7 per cent](#) in 2020 (after 4.4 per cent growth in 2019), making it the worst year financially since 2003.

Official reports, though likely underreporting incidents, show COVID-19 has thus far not hit Iraq as hard as neighbouring Iran. However, should the outbreak worsen, Iraq is not ready. The [poor public health](#) system means that Iraq has 0.8 doctors and 1.4 hospital beds per 1,000 people and 13 ventilators per 1 million people. 85 per cent of essential drugs are in short supply or unavailable. Critically, citizens do not trust the public health sector, which they view as corrupt and repressive.

The bigger challenge for Iraq is the decline in the price of oil. As a rentier economy, Iraq requires oil revenue for [90 percent](#) of its budget. Economists predict that Iraq will soon become illiquid and is on the way to insolvency. Given that almost two-thirds of 2019 spending was on public sector salaries, pensions, welfare, and benefits, Iraqi citizens will be hard hit by resulting financial adjustments. According to a senior government official, they are already planning to [cut public sector salaries](#).

Another impact of the coronavirus lockdown is on the informal day labourer economy. Many of Iraq's lower classes make their living day-by-day, dependent on cash payments. The one-month lockdown has been strictly enforced, largely stopping this trade and leaving many without income. This could see many of these labourers return to the streets to protest.

This economic crisis comes at a time when the political system has suffered an extended impasse. The political elite is fragmented, as demonstrated by their inability to select a prime minister after Adil 'Abd al-Mahdi's resignation in November 2019. The confluence of crises finally pushed the Iraqi elite to put their differences aside in order to [protect the political system](#) by compromising on [Mustafa al-Kadhimi](#) for Prime Minister on 7 May.

Given the multitude of crises, ISIS, which lost its territory in 2017 but did not go away, is making a comeback. In the recently liberated and disputed territories, it has increased its [attacks](#) against

armed groups and civilians in the first quarter of 2020. An eventual U.S. departure from Iraq will give ISIS further room to re-emerge.

### **OUTLOOK**

As of 2020, Iraq placed [172 \(out of 190\)](#) countries in the doing business ranking, illustrating the depth and variety of challenges businesses operating in Iraq are facing. Despite the crises, however, the political system shows signs of muddling through, with a view to managing potential protests and unrest, continue negotiating with the U.S. over withdrawal timelines, and most critically to maintaining patronage networks. Prime Minister Kadhimi has several minefields to navigate in order to hold the country together, including a viral lockdown hindering the local economy, the global pandemic keeping oil prices low for the immediate future, renewed conflict with ISIS as well as between Iraq's two most influential external powers (the U.S. and Iran).