



Global Political Drivers

LOOK TO IRAQ

Christopher Granville/ Marcus Chenevix

- The key to understanding the 'Soleimani crisis' – both causes and consequences – lies in Iraq.
- Although the US and Iran have remained locked in tense confrontation since 2018, the driver here is not these two antagonists' strategies but the recent breakdown of the Iraqi political system.
- The risk of a third Gulf War hinges on Iraq becoming an unavoidable battlefield as a result of that country descending further into chaos.
- For in that event, the US and Iran would be dragged into conflict even if, as may be the case, their present conscious intention is to avoid war.
- Conflict on Iraqi territory would be a wildfire that could set the Middle East ablaze.
- No plausible Iranian retaliatory action in other theatres would have the same potential to trigger an oil price shock strong enough to hit the global economy and financial markets.
- This conclusion assumes – and here is our one other confident prediction alongside our core judgment about Iraq as the decisive theatre – that Iran will not try to close the Hormuz strait.
- The possible positive case for Iraq would see patriotic leaders stabilizing the country: if so, the present crisis would recede.
- It is not yet possible to predict which way Iraq will go with any degree of confidence: but the global market-negative possibility of the country collapsing seems no mere tail risk.

Iraqi cry: "We Want a Country"

Predicting how a crisis will play out requires understanding its causes. While there will always be exceptions to such conventional wisdom, we think it certainly applies to the new Middle East crisis following from the assassination of Khassem Soleimani by the US at the end of last week in Baghdad. We argue in this note that the decisive cause of the crisis – and the key to its consequences – lie in Iraq.

In November last year protests against government corruption, misrule, and the influence of foreign powers (especially Iran), grew into an unprecedented national movement. The protests were the largest in Iraq's modern history with hundreds of thousands taking to the streets day after day. Security forces and pro-Iran militiamen killed hundreds of protestors and wounded thousands, but to no avail: the crowds only grew, bringing Baghdad to a standstill. "We want a country" was a frequent slogan of the protests, expressed a widespread and deeply felt public desire for an inclusive and sovereign Iraq. Symbols of Iranian influence in particular, from consulates to businesses, were torched amid a general, non-sectarian, rejection of the post-2003 order.

In a bid to try to regain control of the situation, pro-Iran militiamen of the Kata'ib Hezbollah ("the battalions of Hezbollah") launched a series of rocket attacks on US bases – including Baghdad international airport and a complex known as K-1, near Kirkuk. It seems clear that the leader of Kata'ib Hezbollah, Ibrahim al-Muhandis – along with his Iranian patron Soleimani – believed that such an attack might be able to spur a US reaction in Iraq that would whip up anti-American feeling, rebuild solidarity between the Iraqi people and Iran and therefore suck the air out of the protest movement. The attack on K-1, which used more than thirty heavy rockets, killed (amongst many others) a US contractor working at the base. Kata'ib Hezbollah had found its target.

The US responded with a series of airstrikes on Kata'ib Hezbollah that left 25 Iraqis dead and dozens injured. Shia Iraqis in particular were outraged – although Kata'ib Hezbollah has always been an Iranian puppet, the group is also semi-incorporated into the Iraqi state as part of the Popular Mobilization Units (PMU), which are government-salaried, self-organized, Shia paramilitary groups formed to fight ISIS after the fall of Mosul in 2014. Many Iraqis see the PMU as their saviours from ISIS; and up until the attack on K-1, the US had always shied away from targeting them. Their discipline was seen as a sovereign affair of the Iraqi state.

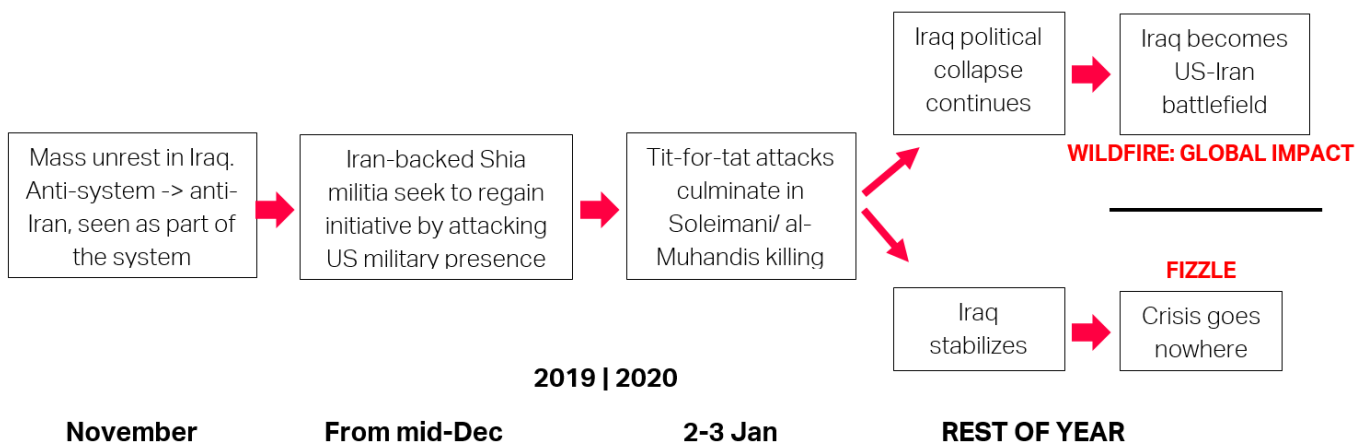
Following the US attacks on the Kata'ib Hezbollah positions in western Iraq, Iraqi allies of Soleimani and al-Muhandis (who was, in his more official capacity, the deputy head of the PMU) made much of the dead fighters' rather theoretical allegiance to the Iraqi government and presented the incident as a US attack on Iraqi sovereignty. They and their allies then organised anti-American protests which they hoped would complete the work of winning back the streets of Baghdad. These new, pro-Iran protestors, led by the families of those killed in the airstrikes, then did what anti-American protestors across the world do when they are angry: they marched on the embassy and surrounded it, occupying the area in a threatening way but doing little.

It seems that at this point Soleimani and al-Muhandis decided to meet in Baghdad to discuss their next steps. Most likely they were engaged in trying to discern the likely direction of a US counterstrike and calibrate their political response in such a way as to pursue their goal: the extinction of the popular protest movement in Iraq. Neither seems to have known that they themselves were in danger, assuming that the US would not contemplate such an escalation. Minutes after meeting, both were killed in a drone strike.

It is not clear why at this point the US decided to simply kill Soleimani and al-Muhandis. No American allies in the region or elsewhere were informed of the initiative in advance. No preparation seems to have been made to follow up the strike with a wider campaign against Kata'ib Hezbollah or anyone else. This suggests three, almost equally worrying, possibilities:

1. The assassination was ordered by President Trump in the heat of the moment, without careful thought or consultation.
2. The American security establishment more broadly has decided to cut the Gordian knot of Iran's endless shadow wars and bring the conflict into the open.
3. Just maybe, al-Muhandis was the real target; and Soleimani was simply in the wrong place at the wrong time.

The decisive Iraqi driver



The role of Iraq: the battlefield fights back

A typical mistake of casual Middle East analysis is to assign agency to a very few, normally, foreign powers: the US, Iran, Russia. In the last decade popular revolutions, without any significant foreign backing, have overthrown the governments of Egypt, Yemen, Sudan, Algeria and Tunisia. Precisely because of the region's widespread poor governance and lack of political legitimacy, no one is firmly in control of events. It follows that the strategies and ploys of external actors – in this case, in Washington and Tehran – are likely to be overtaken by developments 'on the ground' and/or go wrong.

Scenario 1: Collapse

Before the assassination of Soleimani, the Iraqi political system was on the brink of collapse. In rebuilding Iraq after the civil war that consumed the country under American occupation, both the US and Iran colluded in the establishment of a series of grand coalitions: essentially bringing all of the warring factions into government and then buying them off with control of government departments. These governments satisfied US interests by providing

enough stability to justify the withdrawal of American troops, and Iranian interests by producing governments too weak to obstruct machinations directed from Tehran. Under the weight of security priorities, neither side gave much thought to the quality of governance this system would produce. Unsurprisingly, it has produced dreadful governments. The Maliki, Abadi and Abdul-Mahdi administrations all presided over failing public services, sluggish growth and rampant corruption.

Starting in 2018 the Iraqi people began to grow sick of the continuous incompetence, and unchangeability of the sectarian coalition system. Serious protests convulsed southern Iraq throughout that year, focused on demands for an end to the rolling blackouts that make life in southern Iraq miserable through the hot summer months. Last year these protests reached Baghdad and exploded into a much larger national movement demanding better government and a new political system. In what has by now become a very familiar pattern across the region, leaderless protests grew to enormous size. In fact, the crisis created by last November's protests had reached such a pitch prior to al-Muhandis and Soleimani's intervention that it appeared that the whole government might be on the verge of collapse. The current Prime Minister of Iraq, Adel Abdul Mahdi has already been forced to resign and only remains in office in a caretaker capacity owing to the failure of the political parties to agree on a replacement.

Discredited, unpopular and caught between warring geopolitical factions, there is a real risk that the fragile Iraqi political system could collapse entirely. In principle, some upheaval may be a necessary staging post to more functional governance in Iraq. In practice, however, in the present fraught environment, with Iran and the US both treating the country as a protectorate, the collapse of the existing system could return the country to the apocalyptic days that followed the 2003 US invasion. A conflict between Iraq's competing external 'patrons' across such a chaotic landscape would be a recipe for unexpected escalation, with the both sides' proxies completely beyond control.

Scenario 2: Throwing out the Brawlers

Conversely there are possible scenarios in which Iraqi politicians are able to douse rather than feed the flames. There are powerful men in Iraq who are interested in more than money, sect and power. President Barham Salih, Grand Ayatollah Ali Sistani or even (more uncertainly) Muqtadr al-Sadr are all examples of powerful and able Iraqis who want to prevent their territory turning into an unbridled conflict zone. Although they have already failed to stop the first shots of Iran's retaliation, it is not too late rein in the leaders of the PMU, prevent Soleimani's successor from building new networks, and build a new governing coalition serious enough to force both sides to accept that Iraq is a country and not just a battlefield. If these men succeed, then this will starve the conflict of space in which to operate.

Given that Iran, as much as anyone else in the region if not more so, relies on oil exports through Hormuz, then a maritime conflict is something that the regime in Tehran will be keen to avoid. Iraq is probably the only logical battlefield in which both countries would be able to fight a war.

Investment conclusion

Two confident predictions

The safest prediction is that Iraq will be the key battlefield. Put another way, the situation in Iraq means that risks do not depend on the intentions and strategies of the belligerents. For

example, there is a plausible case that both the US and Iran will prefer to pull back from the brink. This sanguine view would appear to be supported by latest events at time of writing, with Donald Trump declaring in a set-piece statement that the immediate Iranian retaliation against the killing of Soleimani – that is, missile strikes on military facilities in Iraq being used by US forces – amounts to “standing down”. Raising the sights from such day-to-day developments, the fundamental reasoning behind such bullishness runs that both Trump and the Iranian leadership wish to avoid an all-out shooting war.

Escalation could take place even if the main actors wish to avoid it. This bullish view might prove wrong not because of any inherent fallacy, but rather because of chronic instability in Iraq. US and (pro-)Iranian forces in Iraq seem like fencers duelling on thin ice, focussed entirely on each other even as the cracks spread beneath their feet. If the Iraqi political order were to fall apart then both sides would probably be unable to avoid a war – even if their present intentions are to avoid that outcome. As noted above, any such conflict inside Iraq would be potentially calamitous. Alongside the principal belligerents, the ‘locals’ would run amok. A detail worth recalling here is that anti-Iran Sunni tribal fighters were previously instrumental in the emergence of ISIS. Here, then, would be a wildfire with the potential to set the entire Middle East ablaze.

A major escalation in Iraq is the only possible route to a global shock. No other plausible scenario arising from this crisis would supply the ingredients for a lasting oil price shock and hence, via the hit to global demand, a bear market. Underlying this conclusion is a further assumption that amounts to our one other confident prediction (alongside, that is, our main judgment that the risk of a third Gulf War hinges on the ‘availability’ of Iraq as the battlefield) – namely, that Iran will want to keep its own oil flowing. So the straits of Hormuz will not be closed – at least, not by Iran. Instead, this would only happen as a result of a generalized regional conflagration originating in Iraq.

What we are not predicting

It is hard to predict how else Iran might retaliate. Having stated our predictions, we end by highlighting other areas where we would not follow pundits in offering confident forecasts or futile speculation about further Iranian retaliation. While it seems complacent to assume that Iran is “done” after last night’s rocket attacks (especially with Iranian public anger and grievance further inflamed by the fatal stampede at Soleimani’s funeral in his hometown of Kerman), no one knows what might come next and when. Continued Iranian retaliation could take aim at the Arab Gulf states (e.g. attacks on Saudi Arabia and/or the UAE, subversion in Bahrain etc) and possibly include terrorist-style attacks targeting senior American officials abroad.

The crucial point is that such scenarios would mean little or nothing for global investment risk. Iran will not invade the Gulf States and Trump is clearly set on avoiding the ‘war of choice’ path taken by George W. Bush in Iraq. Only if the two sides were dragged into an Iraqi quagmire would the conditions come into place for an oil price shock strong enough to hit the global economy and financial markets.

So the market implications of the current confrontation depend on whether or not Iraq holds. We are **not** predicting such a calamitous outcome, but instead highlighting that the existence of this global market-negative scenario will depend on whether or not Iraq holds. We opt out for now from handicapping the extent of the risk of collapse in Iraq beyond noting that it now seems greater than a mere tail risk.

Authors



Christopher Granville
Managing Director,
EMEA and Global
Political Research



Marcus Chenevix
Analyst, MENA and
Global Political
Research