

COVID-19: Political tipping points

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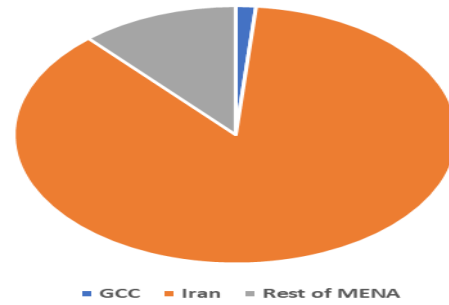
- Iran, the MENA country hardest hit by COVID-19, is leveraging the virus to push for sanctions relief internationally, while domestically struggling with an emerging factional rivalry.
- Political unrest defies the pandemic in various spots, and could regain momentum once lockdowns end if demands remain unmet, and as economies register the impact.
- We are witnessing a potential humanitarian disaster as civil war and the virus tax the poorly functioning medical sectors in Libya, Syria and Yemen.

The nail in the coffin for Rouhani

In Iran, the pandemic's Middle East epicentre, the virus effectively ended the political influence of President Hassan Rouhani's administration while setting the stage for a factional rivalry between the government in power and the military.

- Rouhani, who has been reluctant to put lockdown measures in place, found himself in a standoff with the Iranian Revolutionary Guard Force (IRGC) commanders supported by Supreme Leader Ayatollah Ali Khamenei.
 - The IRGC has taken matters into its own hands, directing local government to impose restrictions.
 - Rouhani demanded that the armed forces adhere to his command. The generals refused and said Khamenei had authorised them to act independently.
 - IRGC Chief of Staff Mohammed Baqeri said the army would be working alongside the health ministry, but pictures show the army meeting at separate headquarters to discuss the new action plan.
 - Ultimately, Rouhani has had to make concessions to agree to a lockdown which positions him as submitting to the will of Khamenei and the IRGC -- concessions which the Iranian people have been urging since the virus really began to spread in the country in February.
 - The alleged mismanagement of the virus is the final blow to Rouhani's presidential term -- one that has now ushered in a conservative parliament and set up a probable conservative presidency in 2021.
 - The lockdown is set to be partially lifted on 11 April but traffic already fills Tehran's streets and the bazaars.
- While domestically, the ruling parties are divided in how to confront the virus, they are unified in their willingness to put the onus on the US.
 - Conservatives continue to send out a message that the government can ride the crisis out alone and are eager to take aim at the failure of Europe and the US to bring the pandemic under control.

Figure 1 - COVID-19 Deaths in MENA (% of Total)¹



- Khamenei has continued to turn away humanitarian aid offers from the US as the Iranian administration continues to push for sanctions relief. It is unlikely that the US will respond.
- Britain, France and Germany, however, have finally carried out the first transaction on INSTEX -- a trade mechanism set up over a year ago to skirt re-imposed US sanctions -- to provide medical supplies.
 - But medical supplies were one of a handful of sectors that had been exempt from US sanctions.
 - Iran is pushing for more, saying that while the transaction was a positive step Europe now must meet its commitments on banking and energy. This will be harder while Donald Trump is still in office.

COVID-19 piles it on for problem countries

The virus is adding fuel to fire in MENA countries that were already experiencing political discontent. If social protection measures are not put in place and governments do not make concessions to meet protester demands, we could see protests come back stronger once the virus quells.

- The virus in Iraq adds more political uncertainty to a country struggling to find a new government that will assuage demonstrators demanding new elections under new rules.
 - General elections are currently scheduled for 2022, but protesters have called for them to be held this year. But the virus has put off, for now, any possibility of elections.
 - Even if restrictions on movement are eased, however, the government has been unable to address the complex electoral redistricting laws to meet protester demands.
 - The government's management of the virus, as well as the appointment of a new PM and cabinet, will determine what protests will look like when the pandemic calms down.
 - Adnan Al-Zurfi has been replaced by Mustafa Al Kadhimi -- the third Prime Minister-designate in 10 weeks -- in the ongoing quest for government formation. He has 30 days to form a government.
 - Al Kadhimi, like all potential Iraqi prime ministers, continues to face a Catch-22 between meeting protester demands, those of the Sunni and Kurdish old guard, as well as those of Iran-aligned Shi'a parties.

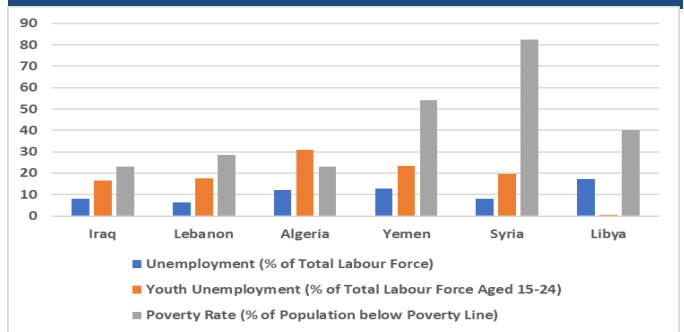
¹ Arabia Monitor; Worldometer. Data as of 7 April 2020.

- The longer the political vacuum persists, the more Iranian influence and security instability grow.
 - This is a particularly delicate time, as Iranian reprisals for the killing of General Qasem Soleimani continue to be rolled out in various forms, and as the US is rethinking its military presence in Iraq.
 - However things turn, Iraq will continue to be at the front in the struggle between the Trump administration and Iran.
 - None of the above, the virus included, will further political stability in Iraq in any way.
 - At the least, investors should continue to expect volatility and instability, now with added further delays in decision-making.
- In Lebanon, after months of unrest, protests have cooled with the spread of COVID-19, but not died down, as some remain defiant. But much like in Iraq, if the virus is not contained, we expect an even worse economic crisis to trigger stronger demonstrations.
- Businesses and the labour market now have to deal with the closure of all private commercial businesses except banks and food suppliers.
 - The economic crisis has penetrated Lebanon's medical infrastructure as hospitals lack basic supplies.
 - Hezbollah and other political parties have long filled the void of the country's weak state. The coronavirus pandemic is no exception. But this period is creating a timely opportunity for these traditional sectarian political parties to regain the support and legitimacy that was eroded by the protest movement. As unemployment surges, many may have to fall back on these parties.
 - The pandemic could serve as a short-term fix for the sectarian parties, especially since it requires them to provide the bare minimum as the country struggles to survive.
 - But with dwindling resources, both Diab's government and these parties will not be able to meet peoples' increasing needs over the medium and long term.
 - Local initiatives have also sprung up to fill the gaps, but they do not have the means to provide for all families who need assistance.
- Meanwhile, the HIRAK protest movement in Algeria remains resilient. While a drop-off in participation was expected, it has not stopped protests despite President Abdelmadjid Tebboune's announced ban on the marches.
- This has divided HIRAK militants, many of whom see it as an attempt to put an end to the protest movement, despite government statements that it is a measure to combat the spread of the virus.

Yemen, Syria, Libya slouch towards humanitarian collapse

In war torn countries, COVID-19 compounds existing strife, pushing barely-there medical sectors to the brink of collapse.

Figure 2 - Socioeconomic Indicators²



- In Syria, COVID-19 adds a weight of additional pressure to the country's healthcare infrastructure. The World Health Organization estimates there were 494 attacks against health facilities in Syria between 2016 and 2019.
- With 50% of hospitals functioning at or close to capacity, existing needs are not being met, let alone pandemic exigencies.
 - In Damascus, the government has continued to show that it has a handle on the crisis by arresting those violating curfews.
- In Yemen, warring parties have agreed to a ceasefire for the first time since 2016, but this is fragile, and the humanitarian crisis remains dire as disease and food shortages continue to ravage the country. The COVID-19 lockdown is expected to hamper relief efforts.
- The country's healthcare has been hit hard by the conflict as medical facilities have been repeatedly attacked by warring parties.
- As for Libya, in addition to the continuing civil war, oil revenue losses from supply stoppage and the price war have hampered the government's ability to import medical supplies which could make it harder to battle COVID-19.
- As coronavirus cases increase, fighting has spiked again between the internationally recognised administration of the Government of National Accord and General Khalifa Haftar's rebel forces.
 - The EU has launched Operation Irbini to deter the violence by sending forces to police Libya's maritime border with Turkey.
 - It is unlikely to be effective as alternative routes to secure weapons mean that fighting will continue in addition to the virus outbreak.
 - Oil production now stands at just 95 Kb/d, down from around 1.3 Mb/d before the blockade and from a recent peak of 1.3 Mb/d, only four months ago.
 - The government has no other sources of revenue, and reserves have become massively eroded since they peaked at USD 118B in 2012.
 - Lower prices will translate into lower revenue for the cash-strapped National Oil Company.
 - The struggling economy, lack of proper supplies and unending civil war have pushed the country to the brink -- in no position to confront a pandemic.

² Arabia Monitor; World Bank 2019.

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