Collapse in oil prices threatens social and political unrest in Middle East and North Africa

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The collapse in oil prices earlier in the year, along with cuts in oil production and the world-wide recession following the COVID-19 pandemic, is having a devastating impact on economic and social conditions in the oil-producing countries of the Middle East and North Africa (MENA).

The repercussions spread far beyond the oil producers' borders.

Oil prices, which started the year at around $60 a barrel—nearly half that of a decade ago—fell to $40 in March and plummeted into negative territory before rising again to around $40 a barrel in recent weeks. This year, oil revenues are expected to be around $300 billion, down from $575 billion in 2019 and more than $1 trillion in 2012.

While oil production may just be profitable at $40 a barrel, none of the Arab states except Qatar can balance their budgets at this level. The worst affected, Algeria and Oman, need prices to rise to $157 and $87 a barrel, respectively. Even the largest oil producer, Saudi Arabia, which relies on oil for 70 percent of its budget, needs $80 a barrel to balance its books.

In June, the International Monetary Fund estimated that the economies of the Gulf Cooperation Council (GCC) countries—Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Bahrain, Oman and Qatar—would shrink by 7.6 percent this year, while Iraq's economy is expected to contract by 7.5 percent and Iran's by 6 percent, on top of a 7.6 percent decline in 2019 and 5.4 percent in 2018 due to Washington's unilateral pull-out from the 2015 nuclear agreement.

Since March, the Arab petro-states have slashed public expenditure—including the salaries of public sector workers, who form 90 percent of regular, full-time workers—raised sales taxes and petrol prices, all of which have fallen hardest on the poor.

Subventions, which for the corporate sector have far exceeded any poverty relief measures, have been borrowed on the international money markets and are eating into foreign currency reserves. Even Saudi Arabia, which faces a budget deficit for 2020 equal to 16 percent of GDP, has only two years' reserves left at current spending rates. More tax rises and privatisations are on the agenda, with its giant desalination plant, the world's largest, up for sale.

Saudi Basic Industries Corporation, known as Sabic, one of the world's largest petrochemicals producers, lost $592 million in the second quarter of this year compared to a $570 million profit in the same period last year, and is seeking to raise $1 billion via a bond issue.

The pandemic has also decimated all the sectors earmarked for diversification outside the oil industry: aviation—in particular, the airlines Etihad and Emirates—tourism, hospitality, real estate and logistics. While the annual Haj and Umrah to Mecca brought in 2.6 million pilgrims last year, this year's cancellation of the pilgrimages is expected to result in losses of some $15 billion. Iraq's religious sites have been similarly affected.

Unemployment is expected to rise to 13 percent in Saudi Arabia, where it is estimated that around 20 percent of its 34 million population already live in poverty, as it cuts back its social safety net.

The first and hardest hit have been the Gulf's 30 million migrant workers from South Asia, the Philippines and the MENA region, who outnumber citizens in four of the six Gulf states. As restrictions and curfews made work all but impossible, many found themselves stranded.

Unable to return home due to travel restrictions, and in some cases, notably India, the refusal of their home country to accept them due to fears they would spread the

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coronavirus, they were left without income, often with months of wages owing. While companies were ordered to provide them with food and accommodation, no action was taken to ensure they complied, forcing migrant workers to depend on charities to survive. Without work, most have lost their health insurance, leaving them without medical care and medication.

Now, as international flights resume, some states have begun deporting foreign workers to their countries of origin. Many are refusing to leave without receiving their unpaid wages and end-of-service gratuity payment—part of their employment contract—that is usually around one month's salary per year of employment.

Not only have migrant workers suffered appalling hardship during the lockdown, but they have also been unable to send home part of their wages in remittances to their families. Remittances constitute as much as 10 percent of GDP in several countries, with some of the worst affected in the Middle East, including the West Bank and Gaza (17 percent), Lebanon (14 percent), Yemen (13.7 percent) and Jordan (10 percent). The loss of remittances means the end of a vital lifeline for many.

As well as starting to deport migrant workers, most of the Gulf states are refusing to issue new work visas, as they implement long-planned "labour localisation" programmes and cut back on public sector jobs that have been the traditional source of employment for Gulf citizens.

This will have a major impact on neighbouring Arab countries. More than 2.5 million Egyptians, or nearly 3 percent of the total population, 5 percent of Lebanese and Jordanian workers and 9 percent of Palestinians from the West Bank and Gaza, work in the rich oil-producing states. If they can continue to work in the Gulf, it will be at lower rates of pay. If not, they will be back home in countries with some of the highest rates of unemployment and lowest pay in the world, particularly among young graduates. To cite one example, doctors earn $185 a month in Egypt, a fraction of what they earn in the Gulf.

The downturn in the Gulf states' economies will mean fewer imports from their neighbours and fewer jobs. About 21 percent of Egypt's exports went to the Gulf, 32 percent of Jordan's and 38 percent of Lebanon's. The pandemic and the recession have also affected regional tourism, which constituted 10 percent of GDP in Egypt and Jordan, and 18 percent in Lebanon in 2018. While most visitors come from Europe, Gulf tourists stay longer and spend more as they seek to avoid the crushing summer heat at home.

Oil revenues enabled the Gulf monarchies to placate sections of the working class at home and shore up suitably subservient ruling elites elsewhere as they suppressed their own working class, via grants and loans—particularly following the Arab Spring in 2011 that saw mass protests across the region against social inequality and hated governments.

For years, Saudi Arabia acted as banker of last resort for Jordan and Lebanon, until their foreign policies diverged from Riyadh's. Together with the UAE, in 2013 it provided $30 billion in aid to Egypt's brutal dictator Abdel Fattah el-Sisi (although its largesse evaporated after el-Sisi declined to send troops to fight in Yemen), and $3 billion to the new military-dominated regime in Sudan, while Qatar has provided aid for Hamas in Gaza. That generosity is not set to continue.

Ordinary people will be made to pay for the economic crisis accelerated by the pandemic. Mass unemployment, the gutting of welfare systems, such as they are, and a stepped-up assault on wages and conditions flow inexorably from the government handouts to the region's kleptocrats.

Economic developments in the Middle East's richest countries testify to the interconnectedness of the world economy and presage a mounting social catastrophe that will provoke a new revolutionary upsurge of workers throughout the region.

In the last year, there has been a fresh wave of working-class struggles across the region, including strikes and mass protests in Iran, Iraq, Lebanon, public service workers' strikes in Israel and mass teacher strikes in Jordan. These must be elevated into a conscious struggle for socialism that brings together all sections of the working class in each country, across the region, and throughout the world against capitalism for the socialist reorganisation of society.

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