

The good guys and the bad guys in the cradle of civilisation

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Iraq is back in the headlines and oil prices are soaring as Sunni fundamentalist forces march on Baghdad. These, by the way, are the same fundamentalist forces that the West and its allies in the Persian Gulf are supporting in the war against Bashar al-Assad in Syria. Now, however, the West is considering bombing them in Iraq. So, the good guys in Syria have become the bad guys in Iraq – but they are the same guys!

Maybe we should start again because it is so important to know the difference between the good guys and the bad guys. For decades now the Western narrative has been one where the Iranians are definitely bad guys. Saddam Hussein was also very much a bad guy, but when he fought against Iran between 1980 to 1988 he was a good guy, as he was fighting against Shia Iran. I could go on, but I best stop there.

Confused ? Good! Because everyone in Washington, Ri-yadh and Ankara is too.

But, actually, if we take a step back from the horrible inconsistency of Western foreign policy in the Middle East, it is not that complex.

What we are witnessing today in Iraq is a war within Islam, between Sunni and Shia, and it now appears to have escalated into a full scale regional conflagration.

On 5 September 2013, I wrote when referring to the civil war in Syria, "Ultimately, this is a war within Islam, between Sunni and Shia. Today, the battle is being fought in Syria. Tomorrow it could be fought across the whole region drawing in all the major players."

Tomorrow, regrettably, has arrived in the Middle East.

Today, in essence, we have a war between the Sunni regional power, Saudi Arabia, and the Shiite regional power, Iran, – and it's being fought by proxy in Iraq. The spiritual fountainhead of the Sunni fundamentalist forces marching on Baghdad can be found in the Wahhabi clerical establishment and their funding from nations occupying the western and northern flanks of the Persian Gulf.

It would appear, however, that these nations have created a Frankenstein which even they now agree they have lost control over, and which even al-Qaeda has disavowed. In intelligence circles this is known as blowback and what we are witnessing in northern Iraq today is the mother of all blowbacks.

So far ISIS/ISIL (The Islamic State in Iraq and Greater Syria / The Islamic State of Iraq and the Levant) have made extraordinary territorial gains in the west and north of Iraq, but this is about to change as they move south towards the Shia dominated regions. Last Friday, the Grand Ayatollah Ali Sistani, Iraq's most revered and powerful Shiite cleric, issued a call to

arms in the holy Shiite city of Karbala, saying, "Citizens who are able to bear arms and fight terrorists, defending their country and their people and their holy places, should volunteer and join the security forces to achieve this holy purpose."

I cannot overstate the significance of the Grand Ayatollah's words. This is one battle the Shia will win and, if they look like losing (which they won't), the Iranians will cross the border, if they haven't already, and complete the mission.

The scene is set for a very major escalation in the conflict.

This begs the obvious question and the one the markets are currently contemplating – will the Iraqi civil war mutate into a broader regional war thereby threatening oil supplies?

My answer is "probably not," conditional upon the US keeping Saudi Arabia out of the conflict. The cynics might say they are already involved by proxy, but any explicit intervention by Saudi forces will bring them into conflict with Iran. Then, all bets are off and oil goes to US\$200. The stakes are so high that surely Saudi Arabia can be kept out of it. Then again, if the stakes are so high, perhaps the US has to be involved. The irony of course is that if the US joins the battle, they will be fighting alongside Iranian forces, albeit they will be in the sky and the Republican Guard will be on the ground.

Having lived in the Middle East for nine years and having had a fascination with it for nearly 30 years – and having witnessed firsthand the enmity between Sunni and Shiite – I am fearful for the region in the weeks and months ahead.

All of you who have read my reports over the last few years will know how I have been much more optimistic than most about the outlook for the global economy. That optimism remains – but a full scale conflict in the Middle East would most certainly puncture the improvement in confidence that I see around the world.

I am certainly no military strategist but, as an analyst, it would appear that ISIS has very few friends and that there is a growing consensus in Washington, Ankara, Baghdad, Tehran and even in Riyadh that the ISIS forces under the command of Abu Bakr al-Baghdadi are the really bad guys. Even the leadership of al-Qaeda, heaven forbid, would appear to agree. This suggests that overwhelming force via US-led airstrikes will be used in the near future.

Hopefully, then we can get back to talking about all the good things that are happening around the world.



Jonathan Pain is Editor of The Pain Report, an independent and global perspective of financial markets and world economy, free of Wall Street spin. A self-confessed market and economic data junkie who spends far too many hours thinking about what the world will look like in the years ahead, JP is a regular key note presenter at PortfolioConstruction Forum's professional development programs. Over the years, he has debuted new investment theses and challenged delegates about how to build better quality investor portfolios.

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