U.S. President Donald Trump’s administration is infatuated with the power of economic sanctions. It has used economic coercion to act forcefully and unilaterally and to achieve tactical aims such as dramatic reductions in Iranian and Venezuelan oil exports. But the administration has not been able to turn tactical advantages into strategic accomplishments. Nicolás Maduro is still president of Venezuela, and Iran is no longer abiding by nuclear restrictions and has increased its regional military provocations at least as dramatically as Washington has increased sanctions.

Now, the novel coronavirus has turned Trump’s overreliance on sanctions into an immediate threat to the health and well-being of the American people. As UN Human Rights Commissioner Michelle Bachelet said, “In a context of global pandemic, impeding medical efforts in one country heightens the risk for all.”

Right now, sanctions are shaping coronavirus responses. But both the virus and U.S. responses to it will also shape the future of sanctions.

THE SANCTIONS LANDSCAPE BEFORE THE PANDEMIC

Sanctions and other forms of economic coercion have become an almost inevitable aspect of the U.S. approach to any diplomatic problem. They are used to target relatively minor powers in order to achieve specific aims, such as constraining Iran’s nuclear program. They are used, perhaps fancifully, to push explicit or de facto regime change policies, often in conjunction with other coercive economic tools ranging from travel restrictions to prosecutions, creating both formal and informal restrictions on commerce and financial transactions with
the target. The United States has used cuts to bilateral assistance to try to force existential policy changes on the Palestinian Authority (PA), among others. It has sanctioned Russia with little apparent strategy beyond expressing disapproval.

The United States has used or threatened to use tariffs against its closest allies in order to extract concessions in trade negotiations and to force action in entirely unrelated policy areas (such as triggering the dispute resolution mechanism under the nuclear deal with Iran or releasing U.S. detainees). It has aggressively used other trade limitations, such as its Commerce Department’s Entity List to pursue varied economic and political goals.

These coercive economic tools have a mixed record. When well-designed and used to achieve carefully considered objectives, they can work reasonably well. But even when poorly designed, they are viewed as low-cost options in the U.S. diplomatic toolbox. To the extent that scholars and practitioners are worried about negative implications, these tend to be long term and thus inherently speculative, even if persuasively argued.

But the coronavirus is forcing an urgent reconsideration of tools and priorities across diplomatic and national security questions. Sanctions are not and should not be excepted. The UN Secretary General and the closest U.S. allies are pressing the United States to ease sanctions on Iran and other targets in light of medical shortages and other obstacles to sound public health policy. Democrats, ranging from progressives through centrists to Iran hawks, have called for sanctions relief and for restored bilateral and multilateral assistance, though they differ on the details. Advocates and analysts are calling for the same.

The prompt for reconsidering the costs and utility of sanctions is obvious: in a global pandemic, no population is safe until every population is safe, so if sanctions meaningfully damage the public health response anywhere, they need to be carefully reassessed. For example, return migration from Iran to Afghanistan is fueling the epidemic in a violent, poorly governed, ill-resourced country that still hosts thousands of U.S. troops and civilians, now themselves vulnerable to the virus. Even U.S. purchases of medical equipment from Russia were complicated by sanctions, involving a sanctioned manufacturer and financial firm.

This challenge to sanctions is based on three critiques, each begging for separate analysis and policy responses: the ways sanctions made target countries more vulnerable to the pandemic and shaped their early governmental responses; effective limitations on medical commerce; and limits on government flexibility in meeting the linked economic and public health challenges of the virus.

Considering each of these critiques in turn will lead to more specific questions about the Trump administration’s sanctions policy during the pandemic and how U.S. policy might shape the future application of sanctions and other forms of coercive economic diplomacy.

**PREEXISTING WEAKNESSES CREATED BY SANCTIONS**

The broadest claim is that severe sanctions preceding the pandemic created systemic weaknesses that made initial pandemic response more difficult. This is hard to evaluate because sanctioned jurisdictions tend to suffer from severe governance dysfunctions (they are not the only ones, of course). In effect, it can be difficult to separate the factors that prompted sanctions from the effects caused by sanctions. Even if the claim is true, this is also the hardest question to answer because the problems are inherently historical. Still, there may be a stronger imperative to support countries’ coronavirus efforts if their problem was caused in part or compounded by sanctions.
There are several ways that preexisting weaknesses caused or exacerbated by sanctions might contribute to poor pandemic response. First, broad sectoral sanctions are designed to create macroeconomic contractions to put pressure on target governments. However much U.S. leaders repeat that they “stand with” populations of countries targeted by sanctions, this is an abstract, long-term promise. Broad sanctions are intended to create economic stress for regular people so that they demand governance change. Advocates have identified this type of economic weakness as a kind of preexisting condition making both countries and individuals more susceptible to disease.

Second, as this author previously argued with Andrew Weiss, sanctions can strengthen the hand of quasigovernmental actors in the economy who are able to use both state and market tools to operate in black and gray markets. If these strengthened actors then play an outsized role in the coronavirus response despite a lack of appropriate competence—as Karim Sadjadpour has identified is happening with the Islamic Revolutionary Guard Corps (IRGC) managing Iran’s response as a military problem rather than as a public health problem—sanctions will have damaged pandemic response.

Third, the combination of underlying political dysfunction and strict sanctions can create extreme poverty and lead to displacement, making control of infectious disease more challenging. Venezuela has produced almost as many refugees as Syria despite not being in the midst of a civil war. Its people have fled for both political and economic reasons, and the country’s economic collapse stems from both domestic factors like corruption and gross mismanagement and also international factors like pressure from sanctions.

Fourth, sanctions can damage the target country’s medical systems in ways that create specific vulnerabilities to infectious disease. For example, there have been repeated reports of shortages of pediatric chemotherapy drugs in Iran, which can lead to poor management of immunocompromised cases now particularly susceptible to the coronavirus.

Fifth, sanctions can limit the policy options available to target governments. Severe U.S. sanctions on Iran heightened that country’s economic and political dependence on China, almost certainly playing a role in Tehran’s lagging decision to close air routes to China after the epidemic began and the IRGC’s willingness to continue flights with airlines under its influence even after that point, all of which contributed to Iran’s position as an early hotspot.

**SPECIFIC HINDERANCE TO MEDICAL SUPPLIES**

A somewhat more common critique of sanctions is whether they prevent normal commerce in medical supplies, including those necessary for an adequate response to the coronavirus.

For example, for reasons that remain unclear and may still be negotiated, a Palestinian Authority purchase of ventilators has been blocked by the United States, and the PA is currently largely dependent on China for coronavirus-specific medical imports. This is an urgent problem, with as few as sixty-five ventilators available to serve the Gaza Strip’s 2 million people.

Venezuela’s medical system is in full collapse, and there are concerns that financial institutions’ tendency toward overcompliance with U.S. sanctions might complicate even foreign assistance delivery to the country. Venezuela is reportedly not yet hard hit by the coronavirus, while Iran is a global hot spot. As a result, the problem has been described in more detail with regard to sanctions on Iran, which can serve as a case study.

Iran is perhaps the most heavily sanctioned target jurisdiction in the world, but the United States insists,
as Secretary of State Mike Pompeo said, “Humanitarian assistance into Iran is wide open. It’s not sanctioned.” He is wrong.

First, although some medicine and medical devices are excluded from the sanctions, Pompeo’s claim is greatly overstated. Some of the most essential equipment for the coronavirus response, ranging from personal protective equipment to ventilators and CT scanners, are not generally exempt and require licenses to export to Iran—licenses that have, perversely, become harder to obtain. (This is partially due to the fact that a great deal of this equipment can be used in other industrial processes.) Moreover, the United States has never resolved a paradox in sanctions implementation: there is no clear licensing procedure for transactions that might be subject to secondary sanctions—which would include sales of otherwise nonexempt medical supplies from European or Asian suppliers.

Second, no appreciable amount of international commerce is possible without robust financial channels to process payments. The United States’ most profound sanctions power is the centrality of New York to global banking, which forces non-U.S. banks to be extremely cautious about any potentially sanctionable transactions, including as they relate to medical supplies. The United States has taken two steps to facilitate financial transactions for medical supplies: it has issued a general license permitting humanitarian transactions involving the Central Bank of Iran and established a Swiss channel for humanitarian transactions. Yet neither effort addresses the actual issues freezing commerce, and they are highly restrictive both in terms of the steps commercial firms need to take to access the Swiss channel and because the license only authorizes explicitly nonsanctioned items—in other words, not personal protective equipment, ventilators, and so on.

In the meantime, the United States is purposefully combating more promising financial channels. The UK, France, and Germany have finally executed a single successful transaction through INSTEX, a mechanism designed to minimize financial sanctions risk for nonsanctionable transactions, but the mechanism has been painfully slow and remains severely limited, in no small part because of U.S. threats that its Treasury could broadly interpret its authorities to sanction participants. Even more pointedly, in October 2018, the United States designated Parsian Bank for secondary sanctions. Parsian is a Tehran-based financial institution that European exporters had previously used for humanitarian trade. The sanctions themselves are disruptive, but the nature of the designation even more so: the United States claimed that Parsian was linked to the IRGC through multiple degrees of separation, clearly warning potential Iranian trading partners that no amount of due diligence would protect them from zealous enforcement.

What the United States has not done is applied years of experience in how the private sector interacts with U.S. sanctions programs to provide clear and reasonable guidance to allow practical access to financial mechanisms during this crisis. The most official U.S. guidance has been inadequate and has been supplemented by less formal but highly effective warnings that Washington will define noncompliance aggressively.

Third, the United States has not allowed Iranian funds to be made available to purchase medical equipment. Sanctions hawks in the United States like to point to estimates of Iranian financial resources and argue that these are available for medical purchases. But however much money Iran’s government nominally controls, it is simply not available for this purpose. For example, the International Monetary Fund (IMF) estimates that in 2020, the Central Bank of Iran has international reserves of nearly $70 billion, mainly the proceeds of oil sales held in Asian and European escrow accounts. None of the banks holding these funds will permit their use without clear authorization from the United States. Venezuela similarly holds practically inaccessible funds abroad.
Fourth, and perhaps most damningly, the United States has been resolute in seeking to scare international businesses considering even nonsanctionable business with Iran. Given the modest sums at stake, it has become easier for most banks and firms to simply rule out Iran-related business than to risk being fined or even sanctioned for allowable transactions. So-called “road shows” of senior officials from the Departments of Treasury and State have encouraged this tendency to overcompliance, meeting with government officials and private sector compliance officers to assert that the IRGC dominates all aspects of Iran’s economy—in one such presentation in Europe last year, a senior official focused specifically on IRGC control of Iranian hospitals. Combined with the Parsian designation, this intended chilling effect was clear and broad.

What is truly shocking, foolish, and inhumane is that this same chilling message has been sustained through the coronavirus emergency. At the same time as the Swiss channel, the Central Bank of Iran’s General License, and Pompeo’s broad but false assertions of permissibility, the United States has continued to impose new sanctions under a broad range of authorities. Warning messages have come from Trump administration supporters with a strong track record of previewing official escalations. One such proponent who appears to speak for a faction of the Trump administration is Mark Dubowitz, from the think tank Foundation for Defense of Democracies, who tweeted a thread of stories of humanitarian transactions covering illicit transactions. United Against Nuclear Iran, a nonprofit advocacy group, is continuing a public campaign against pharmaceutical companies with business in Iran. The message to potential banks and trading partners is clear. The politically timed prosecution of Maduro has had a similar effect on trade with Venezuela.

The UN is establishing a fund to support the coronavirus response in Venezuela. The United States has publicly offered humanitarian assistance to Iran, but it is not clear what precisely has been offered. Even if the offer is generous and sincere, humanitarian assistance is a less flexible mechanism than commercial purchases for a country like Iran that can access international markets, and so it is not an adequate replacement for medical transactions.

To be clear, the key materials needed for the coronavirus response are in short supply everywhere in the world, so even immediate and effective sanctions relief is unlikely to allow Iran to fill all of its requirements quickly or completely. But it is not credible to argue that freer access to international markets would not have some ameliorating effect.

MACROECONOMIC FLEXIBILITY

Forceful calls for effective sanctions relief to allow export of medical equipment should not be surprising. They are responding to the same moral instinct that caused humanitarian commerce to be exempted from most sanctions regimes to begin with, even if those exemptions were too limited or ineffective. They are also clearly linked to the view that everyone has a common interest in effective pandemic response.

It is slightly more surprising that the debate about sanctions and the coronavirus has also encompassed the broad macroeconomic effect of sanctions. The argument for more extensive sanctions relief is an extension of domestic efforts to “flatten the curve,” which really have two components. One is to increase the medical system’s capacity for treating coronavirus cases by providing additional hospital beds, medical supplies and equipment, and medical professionals. The second is to keep the number of infections requiring hospitalization under the medical system’s capacity. The first step is equivalent to providing additional channels for medical exports to sanctioned countries. The second has proved to be less a public health challenge than an
economic one—how does the government convince people to stay at home without meeting basic needs like food purchases, childcare assistance, housing payments, and debt service?

Targets of broad and effective sanctions regimes are ill prepared for the economic challenge of flattening the curve. The mayor of Tehran has explained that authorities cannot meaningfully require “shelter in place” quarantines because they do not have the financial resources to provide support for those who cannot work.

Recognizing the need to provide greater macroeconomic flexibility to governmental responses to the coronavirus, some observers have called for broad, temporary sanctions relief, including on oil and other nonmedical sectors, while others have called for the United States to support Iran’s $5 billion request for access to the IMF’s Rapid Financing Instrument. Similar arguments apply to other controversial macroeconomic support options such as Lebanon or Venezuela’s IMF considerations.

All of these demands are of course opposed by sanctions hawks, either because they believe money to be fungible and likely redirected to nefarious purposes or because they hope that the target governments will buckle under the additional economic pressure. However, it is worth distinguishing between the various options for assisting sanctioned governments as they wrestle with the economic challenges of intentionally slowing productive activity for public health purposes.

IMF financing may offer real advantages to a concerned international community. For countries without sufficient international reserves, like Lebanon, it may be the only way to allow for public spending to address a crisis. Even for countries like Iran or Venezuela, which have frozen and inaccessible foreign reserves, an IMF loan creates opportunities for reform. Although not a full-fledged IMF program requiring detailed reform commitments, a loan through the Rapid Financing Instrument still allows a degree of conditionality that could begin to address at least technical concerns related to the dispute underlying the sanctions regime (such as, in Iran’s case, compliance with international banking standards represented by the Financial Action Task Force). A reluctance to invite such international leverage is at least one reason Iran has not sought IMF funding since 1962.

Iran and Venezuela could be provided similar flexibility if allowed greater access to international reserves, such as Iran’s substantial escrow accounts abroad. As was the case during the implementation of the Joint Plan of Action (the precursor to the Iran nuclear deal that froze Iran’s nuclear program and allowed some limited commerce during negotiations), such a relaxation of sanctions restrictions could be partial and monitored, but realistically, a program allowing public welfare disbursements within Iran would have some degree of opacity. Allowing access to funds held abroad would probably allow for less invasive probing or demands for reform, but it might also occasion somewhat less political opposition since it would involve only Iranian funds, not U.S. or other international funds.

Similarly, countries like Iran or Venezuela could be allowed greater macroeconomic flexibility by loosening restrictions on oil exports. It is true that in current oil market conditions, both the volume and price of sales will be dramatically constrained, but it is tendentious to claim that additional permitted oil sales—the proceeds of which could also be held in limited escrow accounts—would produce no significant revenue for the state. Broad sanctions relief would not be likely to have an appreciable effect beyond some increased oil sales as neither market nor public health conditions
currently allow serious consideration of longer-term, employment generating investment. In fact, it is the need to allow sanctions targets to pay for enforced unemployment that occasions this discussion.

THE TRUMP ADMINISTRATION

The debate about how to accommodate sanctions regimes to U.S. and worldwide public health requirements has engaged the UN, close U.S. allies and partners, members of the U.S. Congress, analysts, and advocates alike. It does not, to date, appear to have engaged the Trump administration.

As described above, Washington’s claims to have addressed the need for humanitarian exemptions to sanctions restrictions are false. The administration has gone so far to be disingenuous about the sanctions implications of its purchase of medical equipment from Russia. When the involvement of sanctioned entities was publicly identified, the administration claimed that the transactions “appear non-sanctionable,” but “to the extent that such sanctions apply, [the] Treasury has authority to license.” The first claim is almost certainly false, and while the purchase could have been licensed, the language of the statement suggests that the administration did not bother to do so. The most likely explanation is some combination of negligence and an unwillingness acknowledge the barriers created by sanctions to trade essential to the coronavirus fight.

For the broader question of macroeconomic stability, the administration seems stuck in its cowboy worldview that more pressure is better, even if the pressure is in the form of a pandemic. So tactical victories like the Rosneft divestment from Venezuela are celebrated with modestly edited demands for regime change and strategic aims ignored.

The administration should question its assumption that more pressure is better. In particular, it should consider the following:

1. What are actual U.S. priorities under the current circumstances? Are conflicts with minor regional powers more or less important than pandemic response?

2. How many successful examples of regime change based on coercive economic tools exist?

3. What is the mechanism by which those examples succeeded? If public health concerns prevent even small public gatherings, how else is pressure on the government expressed?

4. What are the long-term costs in the target country of if the United States is seen as complicit in a public health catastrophe that could lead to the deaths of an appreciable percentage of the population?

5. What are the international long-term costs? Will countries be less willing to accept U.S. leadership or will they be more willing to invest in parallel financial systems if the United States does not prioritize global public health concerns?

CONCLUSIONS

Sanctions and other forms for coercive economic diplomacy are already shaping responses to the coronavirus. But the virus will shape the future of diplomatic relationships and diplomatic tools, sanctions included. Countries are already questioning the reliability of U.S. judgments on the use of its sanctions power, and in many ways the wisdom of the U.S. response to the pandemic is likely to answer those questions.
The United States can, at least in part, be the author of the future character of sanctions. But, as with the rest of its role in the world, it remains the author only if it can find, in the words of Carnegie President William J. Burns, “character, vision, and discipline in applying American power.” That means being focused and purposeful in its use of its tremendous existing sanctions power, reflecting humanitarian concerns and, more importantly, its overwhelming self interest in the most effective possible pandemic response.

If the world concludes that the United States cannot be trusted with its current, powerful position in the global system—including the financial system and the sanctions power that flows from it—the United States will not long keep that position.

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**NOTES**

1 Private meeting in 2019 including the author.

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