

Iran's Coronavirus Crisis: Implications for U.S. Policy

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Brief Analysis

Read or watch an expert conversation on the immediate and long-term effects of the Islamic Republic's response to the pandemic. How will Iranian politics change? How much aid can Tehran get under sanctions? How will the global economic slowdown affect daily life there?

On April 13, Amir Afkhami, Mehdi Khalaji, Patrick Clawson, and Katherine Bauer addressed a virtual Policy Forum at

The Washington Institute. Afkhami is the preclinical director at the George Washington University School of Medicine and author of A Modern Contagion: Imperialism and Public Health in Iran's Age of Cholera (2019). Khalaji, a Qom-trained Shia theologian, is the Institute's Libitzky Family Fellow. Clawson is the Institute's Morningstar Senior Fellow and director of research. Bauer is the Institute's Blumenstein-Katz Family Fellow and a former U.S. Treasury official. The following is a rapporteur's summary of their remarks.

AMIR AFKHAMI

A combination of economic, political, and ideological factors can be blamed for Iran's rapid, large-scale coronavirus outbreak. The country's initial exposure to the pandemic was predictable due to China's status as its principal commercial partner, but the government's failure to take preemptive measures allowed the virus to enter earlier and spread faster than in other Middle Eastern states.

Initially, officials were unwilling to restrict Iranian exports to China, impose travel restrictions, or implement the necessary quarantine measures for fear of harming the economy. Politics also played a role—the leadership may have delayed certain measures in order to ensure a larger turnout for the February parliamentary election, which was considered a litmus test for their legitimacy following the Ukrainian airline scandal in January and the mass protests that began last November.

Historically, Iran has been quite successful at combating epidemics. When the El Tor cholera pandemic came knocking in 1964, the country responded quickly and transparently, relying on the leadership of healthcare professionals and pairing international cooperation with indigenous capabilities to develop vaccines and an antimicrobial control approach. In contrast, the neighboring Soviet Union withheld reporting of cases, placed the security services in charge, and maintained a state of denial. The outcome was predictable: Iran got the situation under control within a matter of months, but the epidemic raged in the USSR for another five years.

Unfortunately, Tehran is using the secretive and militarized Soviet-style approach today. Lack of accountability and a state of paranoia are dominating the government's policies, which include shunning multinational collaboration, rejecting aid, and barring the entry of international organizations such as Doctors Without Borders. President Hassan Rouhani claims that Iran has "flattened the curve," but even conservative models from the University of South Wales and MIT-Virginia Tech predict that COVID-19 will not peak there until summer.

Through April 19, official Iranian statistics indicate the country has 55,000 virus cases and 3,500 fatalities. In the past few months alone, however, 178,000 cases of acute respiratory syndrome have been reported there, with 13,000 ARS-related fatalities—far higher than the 2019 average of less than 5,000 ARS cases per month. These numbers indicate inadequate testing and reporting for coronavirus; some Iranian experts estimate the country has actually experienced closer to 500,000 cases, including asymptomatic ones.

Whatever the exact tally, the coming months will place major pressure on Iran's healthcare sector, particularly with regard to intensive care units. The country has only 2,500 ICU beds for the 100,000 or more individuals who may need treatment for respiratory distress. To effectively combat COVID-19, the government needs to return leadership of the health system back to the civilian sector, which would allow for greater efficiency and cooperation with international entities.

MEHDI KHALAJI

I ran's pandemic began in the city of Qom, reportedly brought there by any number of the 700-plus Chinese citizens who study or work in the seminary. Similar to pandemics throughout history, coronavirus has sparked a [struggle between science and religion in Iran \(https://www.washingtoninstitute.org/policy-analysis/view/the-coronavirus-in-iran-part-1-clerical-factors\)](https://www.washingtoninstitute.org/policy-analysis/view/the-coronavirus-in-iran-part-1-clerical-factors), ultimately damaging the image of Shia clergy who failed to heed government health warnings and take the necessary precautions.

The virus has also weakened Iran's civil society and reduced public resistance against regime pressure. Previously, the leadership feared the outbreak of further protests due to ongoing economic hardship, but the pandemic has eased those fears.

Meanwhile, the Islamic Revolutionary Guard Corps have gained even more control over the healthcare system during the pandemic, including some of its best hospitals and most highly trained doctors. Khamenei ordered the armed forces to **[create a medical base for fighting the virus \(https://www.washingtoninstitute.org/policy-analysis/view/by-mobilizing-to-fight-coronavirus-the-irgc-is-marginalizing-the-government\)](https://www.washingtoninstitute.org/policy-analysis/view/by-mobilizing-to-fight-coronavirus-the-irgc-is-marginalizing-the-government)**, and this militarization effort has caused significant struggles between the IRGC and the civilian Health Ministry over how to handle the crisis.

The Guards have seemingly won that fight so far. Some civilian officials are still criticizing the militarized approach, but the trend of increasing IRGC interference in government policy seems destined to continue well after the pandemic—especially now that the incoming parliament will be heavily under its influence.

PATRICK CLAWSON

Even as the coronavirus takes its toll, the Islamic Republic has been emerging from a recession. According to the Statistical Centre of Iran, the non-oil economy was beginning to grow at the end of 2019. Unemployment fell 1.7 percentage points (though it remains high at 10.6 percent). These and other improvements are primarily due to an extraordinarily expansionist fiscal and monetary stance. It is difficult to assess Iranian government spending because the data is unreliable, but the Central Bank's rapid expansion of the money supply indicates that the country is running an enormous budget deficit. The Consumer Price Index for the year ending in March showed inflation at 34.8 percent, just below President Rouhani's target of 35 percent.

Regarding public assistance during the pandemic, Iran has excellent technical mechanisms for providing relief, including a decade-old program of direct payments to each family and another that provides cash to the poorest citizens. Currently, it lacks the resources to use those programs because of its already huge budget deficits. Yet the government has announced 750 trillion riyals in assistance, equivalent to \$5 billion at the free market rate. Although the head of Iran's Economic Association called that aid "insignificant," it is equivalent to more than half of the tax revenue the country collected last year. Tehran has also requested a loan from the IMF, but that is pure political theater given its **[existing access to various reserves \(https://www.washingtoninstitute.org/policy-analysis/view/opposing-an-imf-loan-to-iran-not-an-outlier-not-a-barrier-to-aid\)](https://www.washingtoninstitute.org/policy-analysis/view/opposing-an-imf-loan-to-iran-not-an-outlier-not-a-barrier-to-aid)** that would more than cover its needs.

In the end, the regime's decision to minimize the scope and duration of commercial shutdowns will likely render the pandemic's economic impact low compared to some other countries. Non-essential businesses outside Tehran are already open, and many inside the capital are expected to follow suit in the coming days. In prioritizing the economy, the regime has accepted that there will be a higher number of fatalities. Iranian economist Saeed Laylaz estimates the country will experience a 2-3 percent drop in GDP this year (which may be a bit low). The pandemic's effects will be felt most acutely within the urban service sector, and will hit some of the poorest Iranians hard. As for the **[oil price collapse \(https://www.washingtoninstitute.org/policy-analysis/view/will-the-opec-agreement-work-and-if-so-how-long-will-it-last\)](https://www.washingtoninstitute.org/policy-analysis/view/will-the-opec-agreement-work-and-if-so-how-long-will-it-last)**, it will not affect Iran much because the country exports so little crude oil—in sharp contrast to Iraq and Saudi Arabia, who will face effects an order of magnitude greater than Iran's.

KATHERINE BAUER

Iranian officials have pointed to U.S. sanctions as a major obstacle to an effective COVID-19 response, spurring renewed calls for sanctions relief. Yet it is vital to distinguish between sanctions relief and more effective

implementation of existing sanctions exemptions. Although the U.S. government maintains broad exemptions for the sale of medicine, medical devices, food, and agricultural commodities, many financial institutions and other entities are still leery of working with Iran due to widespread confusion about these provisions.

Accordingly, the Trump administration should signal that it has no intention of blocking firms and financial institutions from helping Tehran address pandemic-related humanitarian needs. It should also take **other steps** (<https://www.washingtoninstitute.org/policy-analysis/view/sanctions-relief-isnt-necessary-to-assist-irans-coronavirus-response>) that facilitate assistance without fundamentally altering the architecture of U.S. sanctions, such as providing greater clarity on allowable humanitarian trade, expanding dollar caps on NGO spending, and considering time-limited authorizations that support the rollout of medical interventions (including a vaccine once it is available).

At the same time, all parties need to keep in mind that Iran has access to ample funds abroad that would support humanitarian purchases. The U.S. Treasury's Office of Foreign Assets Control issued a license in March allowing the Central Bank of Iran to use its funds in foreign accounts for the narrow purpose of purchasing medical supplies and other allowable goods. According to Congressional Research Service, these accounts may hold up to \$90 billion in total. On April 6, the South Korean government announced that it was resuming humanitarian trade with Iran under this license.

Further assistance can be found in the framework that the Trump administration created last October to help foreign governments and institutions establish payment mechanisms for humanitarian trade. Yet many banks claim that the due diligence required by this framework is too onerous. Only Switzerland has made use of it so far, inaugurating the so-called "Swiss channel" in February.

To address these concerns, the administration should provide written clarification on existing exemptions in order to reassure financial institutions that they can legally participate in humanitarian trade with Iran. It would not be unprecedented for OFAC to issue a new license that consolidates existing authorizations and clarifies how they apply in the current crisis. Meanwhile, U.S. Treasury officials should make clear that Iran's Central Bank funds are now accessible abroad, including the escrow funds that were locked up in oil-importing countries after Washington discontinued its waiver policy for oil trading in May 2019. Such steps are not only in line with the Trump administration's policy of helping Iran through this crisis, they also echo past U.S. actions that facilitated the rapid deployment of disaster relief to the Islamic Republic following major earthquakes in 2003 and 2012.

This summary was prepared by Hannah Coupe. The Policy Forum series is made possible through the generosity of the Florence and Robert Kaufman Family. ❖

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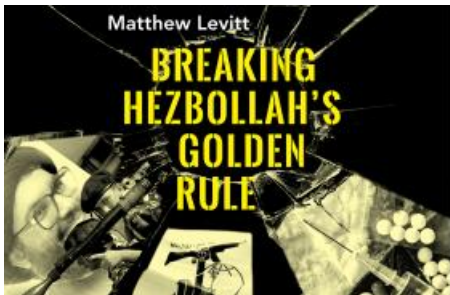
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