The Trump administration made two very different policy statements on sanctions Sunday. President Trump said in a tweet that an earlier decision to impose massive U.S. sanctions on the Chinese telecommunications behemoth ZTE, for selling equipment to Iran, might be open to renegotiation. Trump said he was working with China’s premier to end a ban on export privileges to a “massive Chinese phone company, ZTE,” because “too many jobs in China lost.” At nearly the same time, Trump’s national security adviser, John Bolton, told CNN’s Jake Tapper that European firms could face U.S. sanctions if they dealt with Iran.

These two statements send very confusing signals to other countries. The Trump administration seems to be telling China that a firm that did business with Iran, and that the U.S. government says has lied repeatedly about its dealings, may be allowed to wriggle off the hook. However, the Trump administration is also suggesting that European firms could face massive fines (previous sanctions have cost European firms billions of dollars). The United States is uniquely able to impose its will on foreign firms, but by behaving so unpredictably, it risks not only the U.S. sanctions regime but also the primacy of the U.S.-based financial infrastructure.

The U.S. has extraordinary power over international markets

The United States has a lot of power to bully other countries into doing what it wants. Over the past two decades, it has also developed power to bully foreign firms into implementing its preferences. As we argue in an academic paper setting out a broader research agenda on “weaponized interdependence,” the United States has figured out how to take advantage of globalization to push its interests abroad. Global networks in financial communication (such as the SWIFT financial messaging service) provide the United States and its European allies with the ability to monitor information flows to figure out what others are doing, and lock entire countries out of the international financial system. Much of the world’s financial flows involve U.S. dollars, which provide the United States with another angle of attack, through the U.S. dollar “clearing system,” on which large financial institutions depend.

Global economic networks are asymmetric, meaning that some “nodes” or points in the network are much more important than others. The United States can exert great influence over firms beyond its borders, because it has influence over nodes such as SWIFT, U.S. correspondent banks (which clear dollar transactions) and the U.S. financial system. It can threaten to exclude firms from these networks if they don’t comply with U.S.
demands. All this enables the United States to unilaterally regulate firms in ways that do not depend on treaties or international organizations.

The U.S. used this power to isolate Iran

The United States has used this power to try to isolate Iran from the international system. In the past, the United States and its European allies effectively excluded the Iranian banking system from SWIFT and correspondent banks, making it extremely difficult for Iranians to make international financial transactions. The United States also (with European support) imposed “primary sanctions” on U.S. companies, preventing them from doing business with Iran, as well as “secondary sanctions” on non-U.S. companies dealing with Iran, and banning the export of U.S. technology to Iranian customers. Many of these restrictions were lifted as part of the deal that the United States and Iran made over Iran’s nuclear program.

The United States imposed enormous fines on foreign companies that breached its sanctions. ZTE, for example, pleaded guilty to having violated U.S. rules concerning equipment exports to Iran. The company was fined $900 million, given a suspended seven-year ban from using U.S. technology and a suspended $300 million fine, and required to comply with several requirements, including dismissing four senior employees and taking action against others.

These aggressive actions terrified foreign companies. U.S. regulators such as the Office of Foreign Assets Control (OFAC), located in the Treasury Department, imposed enormous fines on foreign companies that breached sanctions. Sometimes those companies had clearly engaged in extensive and egregious behavior. Sometimes, those companies had engaged in transactions that they plausibly believed were permissible under U.S. regulations. Because those regulations were often unspecific, and because the U.S. legal system grants enormous deference to agencies in interpreting their own regulations, these companies had little legal recourse if they found themselves in the crosshairs (although the U.S. oil giant Exxon Mobil is now suing OFAC in a case that many companies are paying close attention to). This had a kind of multiplier effect — foreign companies often didn’t want to have anything at all to do with companies, individuals or countries that had attracted U.S. displeasure, for fear that they would be fined hundreds of millions or billions of dollars.

The U.S. has recently become more aggressive again

Last month, the Trump administration imposed ferocious new restrictions on ZTE, saying that ZTE repeatedly misled it before and after the settlement. ZTE is now banned from using U.S. technologies in its products. ZTE depends on U.S. companies like the chip manufacturer Qualcomm for critical components of its products. The company has stated that “the Denial Order will severely impact the survival and development of ZTE,” and the chairman, Yimin Yin, has warned that “such sanctions could put the company immediately into a coma.” ZTE is the fourth-largest telecommunications manufacturer worldwide and the second-largest in China, and employs 75,000 people across the globe.
After the U.S. withdrawal from the Iran deal, European firms could face similar penalties to those inflicted on ZTE. When the United States and its allies reached a deal with Iran, European companies started to engage in economic relations with Iran, with trade reaching \$25 billion last year alone. These numbers do not include substantial investments by European companies including Royal Dutch Shell, Renault and Airbus. Just last week, Richard Grenell, the U.S. ambassador to Germany, made the threatening-sounding statement that “German companies doing business in Iran should wind down operations immediately,” causing political outrage and consternation among German politicians and firms. Bruno LeMaire, France’s finance minister, has warned, “The international reach of U.S. sanctions makes the U.S. the economic policeman of the planet, and that is not acceptable.”

**The new U-turn threatens U.S. credibility**

The chaotic signals coming from the Trump administration threaten to seriously damage U.S. credibility. On the one hand, Bolton’s statement suggests that the United States wants to be tough on Europe, to force European companies to abide by U.S. sanctions, and to prevent possible European efforts to undermine these sanctions. On the other, Trump’s suggestion that he wants the ZTE sanctions overturned seems to imply that U.S. sanctions are open to being bargained away.

This puts U.S. sanctions officials in an extremely difficult position. They almost certainly already felt that they were being undermined by the administration elsewhere. Trump’s ambassador to Russia has agreed to appear at a Russian investment conference, speaking on the same panel as a Russian oligarch under heavy sanctions. One former OFAC official described this decision as “horrifying.” Now the president — their boss — has undercut them in a direct and humiliating way. Adam Segal, a senior fellow at the Council on Foreign Relations, told The Washington Post that he is “flabbergasted” by the decision. An Obama administration official told the same reporters that this will encourage foreign governments to impose new tariffs on the United States, to get Trump to bargain away sanctions penalties that have been imposed on their firms.

Most immediately, this could have important implications for Europe’s response to Trump’s reimposition of Iran sanctions. European governments are extremely unhappy with the administration’s decision on Iran but have thought that they had few options to push back against U.S. efforts to target their firms. Now, they may believe that they have the opportunity to push back more decisively against a U.S. sanctions regime that appears far more open to negotiation and political tit-for-tat than it did 24 hours ago.

In the longer term, this combination of unpredictability and draconian measures may encourage targeted states and companies, and even U.S. allies, to “diversify” away from the U.S.-led global financial system. Correspondent banks and dollar clearing are supposed to reduce the costs and uncertainty of complex global economic transactions. A certain amount of bullying is the price firms and states pay to enjoy the benefits of integrated markets. The whiplash back-and-forth decisions of the past few days, however, help to undermine the utility of the system and encourages states such as China and Russia to seek alternatives. Alienating Europeans and European firms may accelerate the long-term weakening of the dollar-based order.
Henry Farrell is a professor of politics and international affairs at George Washington University. Abraham Newman is a professor of international politics at Georgetown University.

Henry Farrell

Henry Farrell is professor of political science and international affairs at George Washington University. He works on a variety of topics, including trust, the politics of the Internet and international and comparative political economy. Follow

The Washington Post

Be the first to know.

Try 1 month for $1

Send me this offer

Already a subscriber? Sign in