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Collateral Consequences: The Impact of Sanctions on the Iranians of Dubai

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Kayvan Chinichian
Ryan Williamson

I. Introduction

The stalled negotiations between Iran and the West have dominated the agenda for policymakers for over a decade. In Geneva on November 17, 2013, there was finally movement with a tentative agreement between Iran and the P5+1. The results of these negotiations were promising and groundbreaking, putting Iran on a tenuous path to normalized relations with the West and the rest of the international community.

What altered the Iranian government's longstanding recalcitrance to make concessions? It is generally accepted that sanctions played a crucial role in Iran's concessions at the negotiating table. These sanctions have put immense pressure on Iran's economy and extracted a high price for the Iranian government's aversion to negotiation.¹

Hyperinflation, a growing black market, currency depreciation and a shrinking middle class have marked the last five years in Iran. All these in some degree or another stem from U.S. and international sanctions levied against Iran. It is likely that these effects combined with the poor management of the economy during the presidency of Mahmoud Ahmadinejad eventually prompted the Iranian leadership to adopt a more conciliatory, pragmatic position in an attempt to defuse tensions and allow the economy to recover.²

In his brief period in office, President Hassan Rouhani has made the nuclear negotiations a top priority of his administration because of the impact of sanctions on the economy. More progress has been made in these negotiations in the last few months than over the entirety of the Ahmadinejad administration. No guarantees exist that the negotiations will succeed, but with sanctions continuing to stifle Iran's economy, chances remain slim that the Iranians would walk

¹ "Talks on long term Iran nuclear deal open in Vienna," *BBC News*, 18 Feb. 2014. Web. Accessed on 12 Apr. 2014 <<http://www.bbc.com/news/world-middle-east-26236281>>.

² Thomas Erdbink, "Already Plagued by Inflation, Iran Is Bracing for Worse," *The New York Times*, 1 July 2012. Web. Accessed on 1 Apr. 2014 <<http://www.nytimes.com/2012/07/02/world/middleeast/inflation-plagued-iran-prepares-for-worse.html?pagewanted=all>>.

away. Although progress continues slowly, any result produced by the negotiations remains mainly linked to the sanctions imposed in recent years. The success of the sanctions has usually been measured by the changing calculus of Iranian leadership. However, sanctions have had many secondary effects, of which some are inadvertent, that have affected the lives of individuals not only in Iran, but neighboring countries.

Research Question: How have sanctions affected the Iranian community in Dubai?

Studying the totality of the effects of sanctions globally is a worthy endeavor because it would contribute to our understanding of the costs, benefits, and overall effectiveness of sanctions as a policy tool and help policymakers to make well-informed decisions regarding the imposition of sanctions. However, tackling such a broad study would require a great deal of time and resources. Instead, the principal researchers opted to commit to understanding one specific community's experiences with the sanctions, that of the Iranians of Dubai.

The Iranians of Dubai constitute one of the largest, oldest and – in relation to recent sanctions – most important communities in Dubai. Yet current information on the effects of American and European sanctions on the Iranians in Dubai remains scarce. In this fluid environment, any report that is one or two years old might have already lost relevance as the situation on the ground shifts. The aim of this paper is to provide an updated examination on effects of sanctions on Iranians in Dubai, and provide potential policy implications.

Literature Review and Methodology

In order for us to embark on this exploration of the effects of sanctions on Iranians in Dubai, we had to approach the project in three specific stages: literature review, firsthand

interviews with members of the community, and finally corroboration with Emirates watchers and other resources to provide perspective to these firsthand accounts and experiences. By employing this methodology and approach in the course of our research, we hope to provide the fullest picture possible on the experiences of this community.

The first step was to examine and understand the present literature available. The literature started with a historical assessment of the Iranian community in Dubai, understanding their role in the growth of the city. We reviewed journals, newspaper articles, and books and met with scholars that focused on this subject area. In addition to this literature review, we also consulted traditional primary and secondary resources. This includes reports from the Congressional Research Service, updates from U.S. Department of State regarding sanctions, House Resolutions, and Treasury documents discussing sanctions. They have all played a supporting role in providing us an understanding of what these sanctions mean and how they have been translated on the ground in Dubai.

Over the course of our literature review we realized that one of the key imperatives of our mission to understand the Iranians of Dubai and their experiences was to fully understand the context, both economically and politically, of the United Arab Emirates. Through understanding this context, the recent experiences of Iranians would best be understood.

The next stage was field research. In early January 2014, we traveled to Dubai to conduct interviews with Iranians involved in various industries, including shipping, finance, travel, tourism and academia. Through those first hand interviews, we collected a myriad of different observations and perspectives on both their experiences as well as their general observations for their community. Our reception was rather mixed, with some opting to inform and provide us with very intimate details of their experiences, while others felt the need to project outwards and

present us with a set of questions to examine our opinions on sanctions rather than enlightening us about their own experiences. Nonetheless, all but one requested anonymity, which we have provided in the pages ahead.

The experiences of these Iranians are obviously anecdotal. Most of them are experts in the specific trades and environments that they operate within, but they do not have the sole authority to speak for the entirety of the community writ large. Nonetheless, we observed themes that were present in all of the Iranians that we interviewed, which provided us with an idea of what the community is experiencing. These themes provided us the perfect segue for conducting our second set of scheduled interviews with experts familiar with issues in Dubai. We met with journalists from various outlets, and also had the opportunity to meet with an official intimately involved with the UAE security establishment. The goal of these interviews was to gain information on how Dubai and the UAE in general perceive the Iranian community. These interviews became crucial in providing us the analytical framework of understanding Dubai and its relationship with the Iranian community.

There were of course limitations in our research. The most challenging part of our research was the sensitive nature of the topic. We tried multiple times to reach out to UAE officials to speak with, but were instead presented with irrelevant data sets or told that no one could meet with us. The second issue stemmed from the lack of quantitative data from Dubai that would otherwise have provided us back up for our qualitative findings. With the exception of some macro trade data from before 2011 between Dubai and Iran, there is no publically available information. Additionally, there are also no official statistics available regarding the number of Iranians residing in Dubai, or their contributions in various sectors of the economy. This lack of data presented us with a challenge in assessing the full extent of growth or shrinkage of the

community in the last few years. Interviewees provided us estimates that helped in giving us the ability to infer the situation of Iranians in Dubai. This includes, but is not limited to, the number of Iranian businesses that have closed due to sanctions, changes in enrollment of Iranian students, and the drop in business and residential permits issued to Iranians.

Despite these difficulties in determining scale, our research still illuminates the Iranian situation in Dubai, and we were able to corroborate many of their claims through other sources, both primary and secondary. This research remains a timely and accurate depiction of the effects sanctions have had on the Iranian community in Dubai. The paper is structured to first provide context to our research by digging deeper into the history and background of sanctions, Dubai, and the Iranian diaspora. It is then followed up with a breakdown of our findings from our research trip and their policy implications.

II. Providing Context

The Background on the Iranian Community of Dubai

Dubai is a unique metropolis. A global city, has from its beginnings always needed to adopt a more lenient and open policy towards outsiders compared to sister Emirates. People continue to flock to Dubai for a host of reasons, whether it is to work, to play, or to make money. Different nationalities have different reasons for going to Dubai. In the case of many South Asians, the reasons have predominantly been for work, while Europeans travel there to vacation and shop. The stark differences found in the city and among the people that frequent it give rise to the observation that “Dubai was built on first world airlines, and third world muscles.”³

³ Anonymous UAE Official, Personal Interview, 07 Jan. 2014.

Iranians are no different than their global partners for their reasons to come to Dubai – they too come for work, play, and opportunities. For Iranians though, Dubai is unique in that it is in the backyard of Iran – a short flight across the Persian Gulf. And as time has gone on, this proximity has proven to be a major reason for Iranian interest in Dubai.⁴ There have been major historical, cultural, and trade linkages between Persian Gulf coast Iranians and the Arabs on the coast. Throughout the eighteenth and nineteenth century there were plenty of population exchanges between the two sides, with many tribes vying and contesting for power on both sides of the Gulf.⁵

It would be in the twentieth century though that the first sizeable groups would move from Iran to modern Dubai. The Iranians that arrived predominantly originated from the southern coast of Iran. The reasons for the migration ranged from religious freedom to profitable ventures. Throughout the 1920s, 30s and 40s a sizeable number of Iranians moved to Dubai out of opposition to Reza Shah's modernization policies, especially between 1936-41 when women were being forced to de-veil and adopt western clothing. Another contingent that arrived around this period did so because of Reza Shah's attempts at centralizing his authority throughout the state by increasing taxation and finally reining in independent power centers in southern Iran. As the new Shah continued to modernize and build up the foundations of Iranian industrial infrastructure, he increased tariffs and taxes on domestic constituencies, as he did not want to rely upon Western countries for loans. The hikes in tariffs for many merchants and traders in southern Iran would be the major impetus for their relocation, especially as Sheikh Maktoum bin

⁴ Anonymous Iranian (small business operator), Personal Interview, 06 Jan. 2014.

⁵ Christopher Davidson, *The United Arab Emirates: A Study in Survival*. (Boulder: Lynne Rienner Publishers, 2005) (chapter 1).

Hashar al-Maktoum of Dubai simultaneously removed the existing five percent customs duty.⁶ Many cities on the southern coast of Iran would alter radically, losing three-fourths of their population as Iranian merchants continued to realize that Dubai was a better locale to operate in.⁷ It would be this population of Iranians that would eventually build up the first trade networks of Dubai. Many Iranian merchants from this first wave realized soon after they had taken up temporary residence in Dubai that it would be beneficial for them to settle permanently. Eventually the United Arab Emirates would grant naturalization (and citizenship) to this group. “Today, after decades of naturalization, around 60,000 UAE nationals are of this Iranian origin (‘Ajam people’), and are undoubtedly the largest contingent of former foreign merchants in Dubai.”⁸

The second wave of Iranians that immigrated did so in the 1960s and onwards. Many arrived in Dubai for economic opportunities, especially around the time the UAE became independent (1971). Many of these Iranians became shopkeepers and small business owners. It would be the impact of the Islamic Revolution of 1979 and the subsequent breakout of the Iran-Iraq War that would solidify many Iranians’ desire to settle in Dubai. During the course of the war, Iranians migrated, especially those from areas that were on the frontlines of the war, such as the city of Khorramshahr. Throughout the conflict, many Iranians would begin to engage in the re-export trade, primarily because Dubai continued to build up its ports, specifically Port Jebel Ali. They also participated in the re-export trade since Iran during the course of the war was

⁶Christopher Davidson, “The Emirates of Abu Dhabi and Dubai: Contrasting Roles in the International System,” *Asian Affairs* 38(1) (2007), 34.

⁷Muhammad Mursī Abdullah, *The United Arab Emirates: A Modern History* (London: Croom Helm, 1978) 248.

⁸Davidson, “The Emirates of Abu Dhabi and Dubai: Contrasting Roles in the International System,” 35.

desperately in need of goods. The importance of this community and trade linkages became hardened as “Dubai served as a key transit point for war material destined for Iran.”⁹

Migration of Iranians to Dubai would continue through the 1990s and early 2000s for primarily economic motives. On the economic front, the promise of Dubai seems rather straightforward. Iran’s economy, hampered by sanctions and mismanagement, not surprisingly spurred many young Iranians to move across the Gulf to pursue opportunities available to them in Dubai. Investments have also flowed from Iran to Dubai, especially in the 2000s as many Iranians opted to invest in real estate, which they judged to be more stable and secure than domestic equivalents. According to Jim Krane, Iranians have invested tens of billions of dollars in the UAE rather than at home. “Some \$15 billion flowed out of Iran and into Dubai in 2007 alone, estimates Jean-Francois Seznec.”¹⁰ An article in *The National* points out that “In 2008, [Iranians] were the fourth-largest group of international buyers in Dubai, accounting for 5 per cent of sales, trailing only India, the UK and Pakistan.”¹¹

Many of the Iranian buyers were lured by the possibility of long-term residency visas, which were granted to Iranians that purchased property in Dubai. This policy was changed in 2008.¹² Iranians now oftentimes come to Dubai with either work visas, renewable every three years, or on student visas, renewable every two years.¹³

⁹Karim Sadjadpour, “The Battle of Dubai: The United Arab Emirates and the U.S.-Iran Cold War,” *Carnegie Endowment for International Peace*. (2011) <http://carnegieendowment.org/files/dubai_iran.pdf>.

¹⁰ Jim Krane, *City of Gold: Dubai and the Dream of Capitalism*, (New York: St. Martin’s Press, 2009), 22-25.

¹¹ Kevin Brass, “Sanctions spur surge in Iranians buying luxury homes in Dubai,” *The National*, 25 January 2012. Web. Accessed on 15 Mar. 2014. <<http://www.thenational.ae/business/industry-insights/property/sanctions-spur-surge-of-iranians-buying-luxury-homes-in-dubai>>.

¹² Anonymous Interview (former Iranian Re-exporter), Personal Interview, 17 Apr. 2014.

¹³ Anonymous Iranian (Islamic Azad University administrator), Personal Interview, 07 Jan. 2014.

The Changing Politics of the United Arab Emirates

Given the size and significance of the Iranian population in Dubai, understanding their position within UAE domestic politics is necessary to fully grasp the effects of sanctions over the last few years. To do so we must take one step back and look at Dubai's role in the UAE and its relationship with the central authority located in Abu Dhabi. Overall, the internal political conditions and realities have shifted significantly, especially since the 2010 bailout of Dubai World. The emirate of Dubai previously maintained significant sway and ability to act independently, but since the bailout has had to roll back and make concessions to the federal authority of Abu Dhabi. This has proven to be a significant readjustment and has had a major effect on how Iranians are treated in the Emirates, specifically in Dubai.

The United Arab Emirates is unique in the region as it is a federal system of seven independent sheikdoms, or Emirates. These Emirates are the remnants of the different independent parties that made up the Trucial States during the colonization period by the British during the early and mid-twentieth century.¹⁴ Although each of the Emirates retains a certain amount of authority within their respective territories, the central and federal government rests in Abu Dhabi. The Emir of Abu Dhabi has traditionally been and remains the leader and president of the federation (currently held by Sheikh Khalifa bin Zayed Al Nahyan). This position affords the Emir special powers and responsibilities, including those of issuing currency, providing state security, and other federal state powers.¹⁵

The preeminence of Abu Dhabi over the other seven emirates stems from its geographic and economic enormity, as it encompasses the largest territory and share of natural resources (namely hydrocarbons) compared to the other six emirates. This general acceptance of the

¹⁴ Christopher Davidson, *The United Arab Emirates: A Study in Survival*. (Boulder: Lynne Rienner Publishers, 2005), 48.

¹⁵ Ibid.

enormity of Abu Dhabi has driven the Emirate of Dubai to new approaches and thinking in order to increase its power and clout against total domination from Abu Dhabi. The preeminent role of Abu Dhabi has forged a competitive relationship between the different Emirates. Simon Henderson of the Washington Institute for Near East Policy says that much of this rivalry stems back to the founding of the state, going back to the original emirs themselves at the time of independence. Nonetheless, “federal lines of authority are opaque, if they exist at all. Muhammad of Dubai has no meaningful access to UAE finances -- Abu Dhabi's wealth is its own, to be parceled out or not as Khalifa thinks fit.”¹⁶

The reactionary approach of the six other Emirates to increasing their authority vis-à-vis Abu Dhabi is what drives the different characteristics of all the different Emirates. In the case of Dubai, under the ambitious leadership of Sheikh Mohammed bin Rashid al Maktoum, the city has become characterized as a gateway for foreign investment, real estate, and tourism. As time progressed, the character of Dubai became one of luxury and a getaway, and “a city designed for millionaires.”¹⁷ The Emirate of Dubai built its character around the idea of doing things that seemed impossible, building a ski slope in malls, or building an archipelago of small islands in the shape of palm trees in the Persian Gulf, and the blossoming of a metropolis in otherwise hostile desert.¹⁸ While other cities in the Gulf region share certain traits with Dubai, none of them have come close to attaining Dubai’s global appeal and establishing as Syed Ali coined, ‘Brand Dubai.’¹⁹

¹⁶Simon Henderson, “Icon or Omen? Dubai’s Debt Problem and the Gulf,” *Washington Institute for Near East Policy* 1 Dec. 2009. Web. Accessed on 11 Nov. 2014. < <http://www.washingtoninstitute.org/policy-analysis/view/icon-or-omen-dubais-debt-problem-and-the-gulf>>.

¹⁷ Anonymous UAE Official, Personal Interview, 07 Jan. 2014.

¹⁸ Ibid.

¹⁹ Syed Ali, *Dubai: Gilded Cage*. (New Haven: Yale University Press, 2010), 22.

Although for a majority of Dubai's recent history, the idea of luxury and rapid expansion has been the norm, in the last few years this perceived limitless growth came under immense pressures due to new economic realities. The attraction of foreign direct investment, emphasis on re-exportation, and the building of a tourist industry brought a lot of transient money through Dubai. By 2009, the transient nature of finance and risky fiscal policies (with little regulation) would produce a rather volatile environment. Economists Marcus Noland and Howard Pack claim that fast paced developments of this kind are risky due to the "distortion of the investment decisions," and because of the nature of the banking system in Dubai, the real risks were downplayed.²⁰ "Local banks are heavily invested in local real estate and have permitted borrowers to use their loans for stock market investments," which further compounds the already risky nature of these investments all that much more.²¹

Dubai ran into its first set of problems during the post 2008 financial crisis when the government-owned investment corporation, Dubai World, came close to defaulting on its debt as a result of massive losses in the real estate market. Acting as a canary in a coal mine, news of Dubai World's impending debt crisis triggered a massive slowdown in investment activity across the country, which in turn significantly shrank the economy.

With the risk of major default and loss of economic growth, the Emirate of Dubai turned to Abu Dhabi for assistance. These events cast "Dubai as the enterprising but reckless foil to Abu Dhabi's maturity and prudence."²² Publically, as a both a sign of solidarity and responsibility, the Abu Dhabi, and UAE Central Bank²³ authorities felt compelled to bail out the troubled Dubai

²⁰ Marcus Noland and Howard Pack, *The Arab Economies in a Changing World*. 2nd ed. (Washington, D.C.: Peterson Institute for International Economics, 2011) 131.

²¹Ibid.

²² Asa Fitch, "Abu Dhabi Taps on the Brakes as Dubai's Recovery Takes Hold," *Wall Street Journal*. 27 Mar. 2013, Web. Accessed on 30 Mar. 2014 < <http://blogs.wsj.com/middleeast/2013/03/27/abu-dhabi-taps-on-the-brakes-as-dubais-recovery-takes-hold/>>.

²³ The Central Bank of the United Arab Emirates is predominately supported by Abu Dhabi.

World. This translated to over \$20 billion dollars of bail out “and lifeline” from Abu Dhabi to Dubai.²⁴ On the public front, Dubai publically thanked Abu Dhabi. This gratitude was even further acknowledged with Dubai authorities renaming the world’s tallest building, the Burj Dubai, to the Burj Khalifa, paying homage to Abu Dhabi’s Sheikh Khalifa. In the end, cash rich Abu Dhabi came to the aid of Dubai World, and Dubai, and bailed them out.

The cost to Dubai for being bailed out was more than just a renaming of a building. As one journalist put it, “the spirit of federalism”²⁵ was reinvigorated by the 2010 bailout, and the machinations of policy formulation were altered, with Abu Dhabi in better control of producing unified state policies. This streamlining of policy emanating from Abu Dhabi significantly curbed the power of Dubai, and would bring them into line with Abu Dhabi thinking and considerations.²⁶

For Iranian residents of Dubai, this would be the watershed moment. Abu Dhabi, unlike Dubai, did not see the Iranians as an asset for trade, but rather as potential fifth columnists. Commonly believed by multiple sources, Abu Dhabi continues to be significantly more obsessed with the Iranian threat, at times going as far as falling into the trap of sectarian thinking. One journalist familiar with Abu Dhabi, and frequent contributor on UAE domestic politics stated that Abu Dhabi oftentimes “acts like Saudi Arabia, while Dubai traditionally acted like Oman,” a reference to the immense difference between the two Emirates and their views of Iranians.²⁷

In the post-2010 environment, this issue would only become further compounded with the difficulties presented by the troubles unleashed through the region by the Arab Spring, especially the turmoil in Bahrain. The Shiite opposition was interpreted as a clear sign of Iranian

²⁴ Fitch, “Abu Dhabi Tabs on the Brakes as Dubai’s Recovery Takes Hold,” *Wall Street Journal*. 27 Mar. 2013.

²⁵ Anonymous UAE Journalist, Personal Interview, 08 Jan. 2014.

²⁶ Ibid.

²⁷ Ibid.

interference in Bahraini politics, and for Abu Dhabi, the emergence of Iranian interference within Dubai and the greater UAE could not be far behind.²⁸

Now that the power dynamics had altered in Dubai, the Emiratis began using new tools and mechanisms to put pressure on Iranians in Dubai. Their best tools would come in 2010 with the passage of sanctions against Iran for its nuclear program.

Understanding the Iran Sanctions

The birth of the Islamic Republic of Iran goes hand in hand with the beginning of the constant presence of sanctions and divestment. This started immediately following the Iranian takeover of the U.S. Embassy in Tehran, whereby American policymakers used sanctions as a punitive measure in response to Iran's aggression. Various sanctions would follow through the 1980s, although these sanctions were predominantly designed to target Iran's need for military goods (as Iran at the time was preoccupied with the Iran-Iraq War).

Many of the sanctions imposed on Iran in the 1980s continued through the early 1990s, usually levied on Iran in tandem with, what was perceived at the time as the more geostrategic threat, Iraq. This would radically shift during the Clinton administration with the passage of new executive orders and sanctions. The first major shift came with the passage of Executive Order 12959, which listed multiple prohibitions when dealing with Iran. The most significant change was felt with the following directive:

The re-exportation to Iran, the Government of Iran, or to any entity owned or controlled by the Government of Iran, of any goods or technology (including technical data or other information) exported from the United States, the exportation of which to Iran is

²⁸ Anonymous UAE Official, Personal Interview, 07 Jan. 2014.

subject to export license application requirements under any United States regulations in effect immediately prior to the issuance of this order...²⁹

This directive would be significantly more far reaching than previous prohibitions against Iran from earlier acts and orders. The Clinton administration's position would be reaffirmed again later in 1996, with the passing of the Iran Libya Sanctions Act of 1996 (ILSA).³⁰ Unlike previous sanctions, this was significantly more restrictive on what American businesses could do in Iran. Whereas sanctions before prohibited the sale of military equipment to Iran, ILSA firmly prevented investment and interaction with Iran's petrochemical industry, in addition to others. Effectively, between Executive Order 12959 and ILSA, trade between the United States and Iran was brought to a halt.

Although this set of sanctions would be significantly more aggressive, it did not cause all trade to taper off in Iran, nor did it totally restrict the country from the international community. Iran continued to sell its hydrocarbon resources, albeit to non-Western markets, and it continued to be able to function and receive both Western and non-Western goods. During this period, Dubai became the main conduit from which Iran received its imports.³¹ Iranians, in 2007, spent somewhere in the ballpark of \$14 billion on importing goods from Dubai according to Jean-Francois Seznec.³²

One interviewee, formerly involved in the high tech computer components trade, discussed the perceived legal loopholes that allowed for goods to be shipped to Iran during the 1990s and early 2000s. Through the use of various re-export companies based in Dubai, Iranian

²⁹ Executive Order 12959, Section 1, b.

³⁰ The ILSA (Iran Libya Sanctions Act) would be renamed to ISA (Iran Sanctions Act) through an amendment in 2006, as Libya would no longer be targeted by this act for sanctions.

³¹ Anonymous Interview (former Iranian Re-exporter), Personal Interview, 17 Apr. 2014.

³² Jim Krane, *City of Gold: Dubai and the Dream of Capitalism*, (New York: St. Martin's Press, 2009), 25.

traders were able to facilitate the transfer of goods from Dubai to Iran.³³ According to him, anything produced in the West remained “easily attainable” in Iran, and the only prohibitive component became cost – the longer and more transshipment points an item went through, the more expensive that product would become when finally sold in Iran.³⁴ Generally, imports facilitated by this trade cause a hike in the ballpark of about 20 percent or so.³⁵

Plenty of evidence of side stepping sanctions via Dubai is available. For example, in 2008, Farah Stockman of the Boston Globe investigated the prevalence of Hewlett-Packard (HP) printers throughout Iran.³⁶ In her exposé, she outlined how HP retained trade links with a third party distributor, Redington Gulf, an Indian owned company operating out of Dubai.³⁷ According to the interviewee who formerly operated in this trade, many of these companies that had a focus on exporting these products to Iran were in fact themselves of Iranian origin, making it a very lucrative career for many members of the community in Dubai.³⁸

Through these companies, the full effects of sanctions from the 1990s were evaded, as Iranians continued to be able to get Western products, albeit at a slightly higher cost. Stockman mentions that the real impact of sanctions “is not any shortage of ink or spare parts, but rather in the mindset of people,” where all Western goods have a faint “allure of the forbidden” which

³³ Interviewee has since 2013 relocated to the United States from Dubai when his visa was not renewed. He had operated within Dubai for over twenty years before leaving for the United States.

³⁴ Anonymous Interview (former Iranian Re-exporter), Personal Interview, 17 Apr. 2014.

³⁵ Hossein Askari, John Forrer, Hildy Teegen, and Jiawen Yang. 2001. U.S. economic sanctions: Lessons from the Iranian experience. *Business Economics* 36, (3) (07): 7-19. Web. Accessed on 14 Apr. 2014. <<http://search.proquest.com/docview/199836052?accountid=11243>>.

³⁶ Farah Stockman, “HP uses third party to sell printers in Iran, Calif. firm’s sales soar in embargo.” *Boston Globe* 29 December 2008. Web. Accessed on 17 Apr. 2014 <<http://global.factiva.com/hp/printsavews.aspx?pp=Print&hc=Publication>>.

³⁷ Redington Gulf continues to operate at the Jebel Ali Free Zone, and continues to distribute HP products. It has since removed any reference to relations with Iran, but according to our interview, many of these companies continue to have some trade linkage with Iran, albeit at a significantly lower volume.

³⁸ Anonymous Interview (former Iranian Re-exporter), Personal Interview, 17 Apr. 2014.

makes them both incredibly popular and hot sellers.³⁹ Demand in Iran for Western goods remained strong.

Sanctions on Iran were targeted and narrow for much of the 1990s and 2000s. Other sanctions would be pushed onto Iran via the United States, as well as other states around the world. The latest round started with a fundamental shift starting late in the Bush administration, and the beginning of the Obama administration when efforts were refocused to bring Iran to the negotiating table. Faced with renewed Iranian disinclination to participate in negotiations with the P5+1 regarding its nuclear program, the United States amended the ISA with the passage of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). Unlike the previous sanctions, CISADA was significantly broader in levying restrictions on entities conducting business with Iran, specifically within its petrochemical industry. In addition to this, the language of the act expands the definition of “person” to include “financial institution, insurer, underwriter, guarantor, and any other business organization.”⁴⁰ Effectively, this shift in definition would alter who would be punishable for continuing their business relation with Iran in light of these changes. Whereas before, the focus fell upon individual actors, now the very mechanisms of trade would be liable to be targeted with these sanctions. This not only includes banks, but also insurance and reinsurance services, as well as shipping services.⁴¹

With such broad sanctions in place by the United States, Europe followed immediately afterwards with its own set of sanctions, implemented from 2010 to 2012. The major European Union (EU) passage was in 2010 with Council Regulation (EC) No. 423/2007, “which introduced restrictive measures concerning dual use goods, and imposed asset freezes on

³⁹ Stockman, “HP uses third party to sell printers in Iran, Calif. firm’s sales soar in embargo.” 29 December 2008.

⁴⁰ Congressional Research Service Summary, H.R.2194, 7 January 2010, 3.

⁴¹ State Department: Fact Sheet: Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA). Web. Accessed on 23 Mar. 2014. <<http://www.state.gov/e/eb/esc/iransanctions/docs/160710.htm>>.

designated entities.”⁴² These sanctions would further be expanded upon with entry into force of Council Regulation (EU) No. 961/2010, which “impacted on the oil and gas sector, (re)insurance, and introduced a far stricter asset freeze regime.”⁴³ The final amended set of imposed sanctions came through Council Regulation (EU) No. 1263/2012, which included a prohibition on the vast majority of financial transactions between the EU and the Iranian financial sector.⁴⁴ It was through this last amendment of sanctions that would force the Society for Worldwide Interbank Financial Telecommunication (SWIFT), based in Belgium to deny service to Iranian financial institutions. SWIFT is a member-owned cooperative through which the financial world conducts its business operations.⁴⁵ The cutting of service to Iranian banks limited the ability of those institutions to conduct payments and transfers with Iran, and even communicate with Iran, creating an unprecedented squeeze on the Iranian economy.⁴⁶ Although designed and implemented to put pressure on Iranian oil international trade by making it “more difficult for Iran to sell oil even to willing customers,” the implications and difficulties were felt throughout Iran, and communities that conducted business with Iran, including those in Dubai.⁴⁷

Despite the sanctions levied by the United States and the European Union, Iranians worldwide continued to try and keep Iran plugged into the world market for goods it desperately

⁴² “Key Sanctions Jurisdictions: Iran,” *Clyde & Co.*, 15 April 2014. Web. Accessed on 15 Apr. 2014. <<http://sanctions.clydeco.com/sanctions/key-jurisdictions/iran.aspx>>.

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ “Company Information – SWIFT,” Society for Worldwide Interbank Financial Telecommunication (SWIFT), Web. Accessed on 20 Apr. 2014. <http://www.swift.com/about_swift/company_information#>.

⁴⁶ Diaspora Iranians claim they are unfairly punished and have questioned the legitimacy of the SWIFT prohibition, and the overall blanket restrictions on Iranian banks. Many of these issues have been taken to court in the United Kingdom and European Union. Thus far, several rulings have determined that evidence linking several sanctioned entities to Iran’s nuclear program is insufficient to warrant the ban. However, to date SWIFT has not lifted the ban on any of the accused institutions and Iranians in Dubai remain mired in a hostile financial environment.

See “Iran/European Union: Iran's Tose-e Saderat Bank Ready to Re-Establish SWIFT Link with EU Banks.” *Asia News Monitor* 18 September 2013. Web. Accessed on 3 Apr. 2014 <<http://search.proquest.com.proxygw.wrlc.org/docview/1433066623>>.

⁴⁷ Don Melvin and Jonathan Fahey, “SWIFT Cuts Off Iran As Sanctions Vice Tightens.” *The World Post* 15 Mar. 2012. Web. Accessed on 20 Apr. 2014 <http://www.huffingtonpost.com/2012/03/15/swift-iran-sanctions_n_1347361.html>.

needed. Even with the Iranian banks being totally restricted from international finance, Iran would retain the ability to use novel ways of trading on the international market. For example, it could exchange oil for gold or other commodities, or even mask the Iranian origin of the oil by having its oil mingle “with oil from other countries in international terminals and pipelines to mask its origins. It could get [also solicit] help from the central banks of countries friendly to Iran.”⁴⁸

With a particular emphasis on Dubai, there have been many different ways that Iran has attempted to circumvent sanctions. One effective method was the use of gold bullion via Turkey and Dubai. Turkey is one of the few countries still allowed to purchase oil and gas from Iran, but because of all the “U.S. and European banking sanctions ban payments in U.S. dollars or euros,” Iranians were paid in Turkish lira. In turn, Iran took the lira and purchased massive amounts of gold, which was then transferred via personal couriers to Dubai. From Dubai, this gold was difficult to track, but it is suspected that it is used in a transactional manner for goods and services that Iranians would otherwise be unable to do through traditional banking mechanisms. This was possible because of ambiguities in the sanctions regime regarding private Iranian entities.⁴⁹ In January 2013, the so-called “golden loophole” was closed by additional U.S. sanctions on the trade of precious metals to Iran.⁵⁰ Clearly, Iranian ingenuity has its limits and as the sanctions regime holds firm authorities worldwide adapt to countermeasures and continue to crackdown on any lapses and discoveries of Iranian evasion. As a result of increased sanctions and stricter enforcement Iranians in Dubai, even those not involved in trade with Iran, have been greatly affected.

⁴⁸ Ibid.

⁴⁹ Humeyra Pamuk, “Turkish Gold Trade Booms to Iran, via Dubai.” *Reuters* 23 October 2012. Web. Accessed on 12 Mar. 2014 <<http://www.reuters.com/article/2012/10/23/us-emirates-iran-gold-idUSBRE89M0SW20121023>>.

⁵⁰ Jonathan Schanzer and Mark Dubowitz, “Iran’s Turkish Gold Rush.” *Foreign Policy* 26 December 2013. Web. Accessed on 13 Mar. 2014 <http://www.foreignpolicy.com/articles/2013/12/26/irans_turkish_gold_rush>.

III. Findings from the Iranian Community of Dubai

Lifelines Interrupted, Effects on Large Enterprise

Dubai is a hub for trade. The trade that has come to represent the bread and butter for Dubai has been through large enterprises and corporations, many of which have Iranian leadership or employees. Mr. Hossein Asrar Haghighi, Executive Vice President and co-founder of the Iranian Business Council (IBC) of Dubai, provided a snapshot of experiences that these large enterprises experienced from the recent set of sanctions. The IBC is a private organization that represents and advocates on behalf of the Iranian business community's interests in Dubai and the greater UAE. It also over the years has come to function as a social and cultural club for Iranians in the city, sponsoring events like a theatrical rendition of the Persian epic *Shahnameh*. Haghighi's personal background extends four decades in finance and trade, first beginning with the Central Bank of Iran for 25 years, and then moving over to becoming regional manager of Bank Saderat in the Middle East; both of which are now sanctioned entities. He has retired from banking and now lives in Dubai and manages the IBC while working part-time as a financial consultant.

Haghighi recounted how Iranian traders in Dubai were able to weather the sanctions against Iran relatively well until early 2012 when the U.S. and E.U. pressured SWIFT to block Iranian banks from using its network to conduct financial transfers.⁵¹ Since March 2012, Dubai traders wanting to conduct business with Iran, who happen to be predominantly of Iranian origin, have been unable to conduct business through Iranian banks solely because of the SWIFT sanctions.⁵² While most non-oil trade with Iran is not directly targeted by sanctions, without the ability to transfer money, activity in many Iranian trading firms grounded to a halt. According to

⁵¹ "Payments System SWIFT to Expel Iranian Banks Saturday." *Reuters* Mar 16 2012. Web. Accessed on 20 Mar. 2014 <<http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315>>.

⁵² Hossein Asrar Haghighi, Personal Interview, 06 Jan. 2014.

Haghighi, the lifeline of trade for Iran has been blocked – “no money transfers means that no trade happens.”⁵³ Reports indicate that in 2012 non-oil trade between Dubai and Iran dropped 31 percent from 2011.⁵⁴ By early 2014, the IBC experienced over a 50 percent decrease in membership as a result of Iranian firms being forced out of business, or owners relocating their firms outside of Dubai.⁵⁵ To provide a sense of scale, in a 2010 Bloomberg article, the IBC stated that 8,000 registered Iranian businesses were operating in the UAE.⁵⁶ This means that by 2014 potentially, up to 4,000 Iranian identified businesses either went out of business, or from various pressures decided to keep a lower profile and reduce their Iranian affiliations.

It is very clear that the re-export trading with Iran became severely affected once Dubai joined the international community sanctions efforts. According to the Economist, the strict controls levied on Dubai banks and stricter currency transfers to Iran would reduce the re-export trade significantly in late 2010. These controls would be so effective that it would send the Iranian rial to abruptly plunge 15 percent.⁵⁷ Haghighi, and other interviewees, discussed the continuing hemorrhaging effect and panic caused on traders since 2010.⁵⁸

A major trend that has not been fully investigated is the moving of businesses to new and more sanctions friendlier locales, such as in Oman, China, Turkey, and Kuwait. How much of these businesses are either remnants or successive businesses that formerly operated within Dubai is not known, but the general impression from the community is that much of the recent

⁵³ Ibid.

⁵⁴ Martin Dokoupil, “Dubai 2013 trade growth slows but Iran business stabilizes.” *Reuters* 9 March 2014. Web. Accessed on 10 Apr. 2014 <<http://in.reuters.com/article/2014/03/09/dubai-trade-idINL6N0M60DV20140309>>.

⁵⁵ Hossein Asrar Haghighi, Personal Interview, 06 Jan. 2014.

⁵⁶ Henry Meyer and Ali Sheikholeslami, “Dubai Curbs Iran Trade Under Sanctions Regime Hurting Business.” *Bloomberg* 14 July 2010. Web. Accessed on 29 Mar. 2014. <<http://www.bloomberg.com/news/2010-07-13/dubai-curbs-trade-with-iran-under-new-sanctions-regime-hurting-business.html>>.

⁵⁷ “Sanctions begin to bite,” *The Economist*, 7 Oct. 2010. Web. Accessed on 10 Mar. 2014, <<http://www.economist.com/node/17204603>>.

⁵⁸ Hossein Asrar Haghighi, Personal Interview, 06 Jan. 2014.

uptick in Iranian-owned businesses in these other countries is a direct result of the sanctions being fully applied in Dubai.⁵⁹

It remains relevant to note that many of these were businesses had no connection to Iran's regime, nuclear program, or leadership. Individuals as discussed earlier oftentimes moved to Dubai for a myriad of reasons, whether it was for political freedom or economic opportunities. On the latter point, as Haghghi put it, it is a cruel twist of irony that the very failing and mismanaged economy that drove Iranians to Dubai in the first place was now causing them to be the principal casualties of the sanctions against their former government.

Rampant Iranophobia: Financial Fears of Iranian Businesses

Despite the problems caused by the SWIFT sanctions, members of the Iranian community believe that the real consequence for Iranians in Dubai are not the sanctions against Iranians and Iranian entities like banks, but rather the fear generated across the financial world.⁶⁰ For many western financial institutions, Iranians have become persona non grata. An Iranian businessman referenced this phenomenon with an anecdote regarding the shuffling HSBC had to go through because of the sanctions. The story goes that even though HSBC does not directly conduct business transactions with Iran and Iranian entities, they themselves have customers and clients that retain relationships with Iran. This connection in turn makes HSBC liable and could potentially run them afoul of American laws (as well as jeopardize their business relationships in the United States). "This resulted in HSBC changing the head of their

⁵⁹ Ibid.

⁶⁰ Anonymous Iranian (Large enterprise), Personal Interview, 07 Jan. 2014.

North American operations. This is not unique, other banks have had to deal with this same issue as well.”⁶¹

In December 2012, HSBC was fined a total of \$1.9 Billion dollars by the U.S. government for breaches of the US Bank Secrecy Act, the Trading with the Enemy Act, and assorted money laundering offences involving sanctioned entities in Iran, Cuba, Sudan, Libya, Burma and Mexican drug cartels.⁶² Other major banks with U.S. branches that have been charged and targeted by the U.S. government for dealing with Iran include the Royal Bank of Scotland, ABN Amro, Barclays, Credit Suisse, Lloyds, ING, Standard Chartered and Deutsche Bank. Haghghi’s discussion of the HSBC experience remains indicative of the general state of international finance with Iranians. Ultimately, any banks with significant exposure to the West do not want to risk their holdings, so in turn, they will opt to erase their relationship with Iranians, legal or otherwise, to mitigate potential problems.

In Dubai, the skittish nature of banks is significantly more pronounced. The stipulations of American sanctions remain complex and difficult to interpret. Additionally, over the last decade, the business interests of Dubai have increased significantly with the West, more so than in the 1980s and 1990s. This ultimately means that the cost of doing business with Iranians, especially those in Dubai where connections to Iran can be difficult to discern, is inordinately high, especially following the financial crisis from a few years back.⁶³ The result has been one of total apprehension of financial institutions doing any business with Iranians, denying them services to conduct otherwise legal transactions for a whole host of businesses and industries,

⁶¹ Ibid.

⁶² “HSBC Holdings Plc. and HSBC Bank USA N.A. Admit to Anti-Money Laundering and Sanctions Violations, Forfeit \$1.256 Billion in Deferred Prosecution Agreement.” *Office of Public Affairs, U.S. Department of Justice*, 11 December 2012. Web. Accessed on 29 Mar. 2014. <<http://www.justice.gov/opa/pr/2012/December/12-crm-1478.html>>.

⁶³ Anonymous Journalist (Western Outlet), Personal Interview, 08 Jan. 2014.

whether it be for import-export of products, oil, or humanitarian goods. The risk of penalization remains high for banks, and hence banks throughout Dubai have fallen prey to an “Iranophobia.”⁶⁴

A rampant and well-known experience throughout the Iranian community in Dubai, the Iranophobia in the financial industry has led ordinary Iranians in Dubai being denied services, and even access to their existing accounts solely based on nationality. An Iranian businessman recounted a recent example:

As of even 28 days ago – a prominent Iranian man was called into a bank and told to close their business accounts. This man was tied to major business and trade, and had been well respected in the community for over 20 years – tied to only legitimate trade of Yamaha electronic products.⁶⁵

This was not an entirely unique story. Across Dubai we heard similar accounts, that many international banks came back to Iranians and forced them to close their accounts – often times followed up with a story about the difficulty in transferring their funds out of these closed accounts since no clearing mechanisms remain available. Recalling the prohibition of using SWIFT, all these banks ultimately retain the funds or liquidate them to their former owners since no legal transfer of funds is allowed.⁶⁶ These types of events have led to an overall community sentiment of victimhood, that the dignity of Iranians and Iranian passport holders is constantly degraded as a result of sanctions. The stigma of Iranian heritage has contributed to an exodus of Iranians from Dubai, seeking less restrictive environments. In the weeks following the SWIFT

⁶⁴ Jonathan Saul and Parisa Hafezi, “Western banks cold-shoulder Iran trade finance scheme.” *Reuters* 13 March 2014. Web. Accessed on 3 Apr. 2014. <<http://www.reuters.com/article/2014/03/13/us-iran-trade-banks-idUSBREA2C1DX20140313>>.

⁶⁵ Anonymous Iranian (Large Enterprise), Personal Interview, 07 Jan. 2014.

⁶⁶ *Ibid.*

sanctions, many Iranian enterprises relocated to Oman, Turkey, and Kuwait to conduct their business. In Turkey alone, roughly 6,000 new bank accounts were opened by Iranians shortly after the SWIFT sanctions were implemented.⁶⁷

On the one hand, the policies of sanctions have been effective. Iranians are desperate to gain access to world markets to sell their goods and conduct business. On the other hand though, the enforcement of sanctions has at times gone above the letter of the law, beyond the intention, and have in turn proven to be overly prohibitive towards Iranians. The community continues to feel targeted and the lack of ability to transfer funds or the forcible account closures generates a business and financial Iranophobia. Yet, this is only one element of a phobia that has come to dominate the tiny Emirates. The other fear is rather existential and significantly more pronounced throughout the UAE – the security fear.

Iranophobia Unleashed: The Fear of Fifth Columnists

As damaging as the Iranophobia has been for the Iranian community's efforts to conduct business, the UAE's security fear of Iranians has sparked policies that have impacted the community's perception of their future in Dubai. The bailout from Abu Dhabi and the continuing turmoil in Bahrain have influenced the Emirate of Dubai to adopt a posture that at times perceives the Iranian community as a potential liability rather than an asset. This in turn has bred within the community a fear of their status in Dubai, and also potentially propagating a discontent that endangers their future.

The perception of Iranians in Dubai over the course of the last few years has radically altered. Previous, there existed a separation of Iranians in Dubai then the Iranians of Iran proper,

⁶⁷ Anonymous Iranian (Large Enterprise), Personal Interview, 07 Jan. 2014.

but within the last five years this has changed immensely. Two moments could explain this radical shift in perspective. The first is the adoption by Dubai of policies parallel to the federal Abu Dhabi posture after the bailout of 2010. The anti-Iran, pro-West (and Saudi Arabia) policies of Abu Dhabi very much becomes entrenched in viewing all Iranians as potential agents of the Islamic Republic of Iran. No other state as far as Abu Dhabi is concerned presents a threat like Iran does, and hence anything with a linkage to that threat is in turn potentially a threat itself.

Nothing reaffirmed this perspective and position more than the second moment – the turmoil in Bahrain that started in 2011. The perception for Abu Dhabi (and eventually Dubai) is that the turmoil in Bahrain continues at the behest of Iranians, and that the Shiites of Bahrain are only rising up against the al-Khalifa family because of Iranian interference. In conversations with individuals who work within the security establishment of the UAE, this outlook is very much perceived to be the truth. This has in turn fed actions and policies that emanate from Abu Dhabi to reduce the presence of the Iranian community throughout the Emirates. This has sparked changes and reforms to visa requirements for Iranians, making it harder for Iranians to immigrate to Dubai. Additionally, pressure from Abu Dhabi has pushed Dubai to revoke residency and work visas for ‘suspicious’ Iranians. This came to a head in 2012 and 2013 when Emirati officials began denying renewals of Iranian visa holders, pushing a huge drove of Iranians to go back to Iran or to other more ‘friendlier’ communities.

A common perception of the Iranian community in Dubai is that they are targets, and that their population is forcibly being pushed out through the manipulation of visas and complications with businesses. The community hysteria from an outside perspective seems rather overcharged. Some members of the community mentioned that they are unfairly targeted to pay extra fees and licenses for their business, while others made more radical claims of “knowing”

that they were watched. Nonetheless, whether this is true or not, the damage of this perception has already been inflicted. Iranians within this community have internalized this view that they potentially are unwanted actors.

Community Avoidance of Banks

As a result of the SWIFT sanctions and the inability to utilize formal financial institutions, Iranians in Dubai have resorted to older methods of doing business. One type of informal value transfer system (IVTS) that is commonly used by Iranians is hawala. Hawala networks have existed for hundreds of years and are prevalent throughout the Middle East and South Asia. Many migrant workers in Dubai use hawala networks to send remittances to their home countries. It is a simple but effective way to move money internationally or between cities without having to go to a bank.

Consider the following example adapted from a U.S. Department of the Treasury report.⁶⁸ A person who wants to send a sum of money from his location, point A, to a person at point B, will go to a local hawaladar and give him the sum. He will also notify the intended recipient that he is sending money by hawala. The hawaladar at point A will then contact a hawaladar at point B and tell him to pay the sum to the intended recipient minus a small commission. When a transfer needs to be made in the opposite direction, the hawaladar at point B will then recoup the money he paid out by asking the hawaladar at point A to pay the sum being transferred. The hawaladars rely on trust and reputation to conduct business and are often members of the ethnic communities they serve. For Iranians in Dubai that have been shunned by

⁶⁸ Patrick M. Jost and Harjit Singh Sandhu (2000) "The Hawala Alternative Remittance System and its Role in Money Laundering." U.S. Department of the Treasury. Web. Accessed on 10 Apr. 2014. <<http://www.treasury.gov/resource-center/terrorist-illicit-finance/documents/fincen-hawala-rpt.pdf>>.

financial institutions, hawala has the benefit of not requiring any type of account or registration and it leaves no paper trail.

The informal nature of the system and participants desire to remain unnoticed make it nearly impossible to provide any type of estimate on the amount of transactions conducted by Iranians in Dubai. Haghighi noted that Iran's government has also resorted to hawala and estimates that up to \$20 billion for imports was transferred in 2013 using exchange houses in Turkey and Kuwait.⁶⁹ Given the heavy involvement of Iranians in Dubai in the re-export trade to Iran, it is likely that some of them are involved in these large hawala transactions. However, the reduction in the number of Iranian traders makes it clear that, outside of Iranian government involvement, hawala is not efficient enough to manage the scale and volume of larger private trading enterprises' financial activities.

In the wake of September 11, 2001, at the urging of the U.S. government seeking to thwart terrorist financing schemes, Dubai's central bank began efforts to register hawaladars and track their activities.⁷⁰ However, the central bank's efforts to regulate the hawaladars encountered difficulties because of Dubai's large migrant population's reliance on them to send remittances, as well as complications from sanctions that made using banks more expensive and time consuming.⁷¹ As a result, hawala remains one of the most effective financial transfer methods for Iranians to utilize in the face of sanctions.

⁶⁹ Hossein Asrar Haghighi, Personal Interview, 06 Jan. 2014.

⁷⁰ Robin Allen, "UAE to restrict unofficial cash transfers." *Financial Times* 5 November 2002. Web. Accessed on 13 Apr. 2014. <<http://search.proquest.com/docview/228698248?accountid=11243> (accessed April 25, 2014)>.

⁷¹ Suha Maayeh, "Hawala money transfers defy regulation efforts." *The National* 26 August 2006. Web. Accessed on 11 Apr. 2014. <<http://www.thenational.ae/news/uae-news/hawala-money-transfers-defy-regulation-efforts>>.

Small Businesses

Large enterprise is only one type of business affected. Small businesses owned and managed by Iranians in Dubai were also affected by, albeit in a very different manner. Whereas large enterprise was affected by financial restrictions and banking issues, the small businesses felt the impact of the Iranian currency devaluation, as well as increase in operating fees and licenses.

While SWIFT sanctions had crippled Iranian trading firms, smaller businesses in the service industry experienced different problems. Initially, SWIFT sanctions did cause problems receiving payments but the use of hawala for small transactions was able to facilitate business adequately. Currently, small payments can be received in as little as two minutes.⁷² For service businesses like travel agencies the real problem has been Iran's currency devaluation caused by a combination of sanctions and the Iranian government's own mismanagement of the economy. By 2013, Iranian currency had depreciated by 80 percent (although since the election of Rouhani and the P5+1 agreement of November of 2013, there has been a marginal recovery).⁷³

With the steep decline in purchasing power, Iranian travelers find it increasingly difficult to come to Dubai and the stream of Iranians coming for weekend stays has slowed. At one firm, some divisions of their business had lost upwards of three-fourths of their staff because of the loss of business.⁷⁴ This situation was supported across business in the service industries that rely on Iranian clientele to generate income.

⁷² Anonymous Iranian (small business operator), Personal Interview, 06 Jan. 2014.

⁷³ Jay Solomon, "Iran Curbs Spark Trade Shift." *Wall Street Journal* 22 April 2013.

⁷⁴ Anonymous Iranian (small business operator), Personal Interview, 06 Jan. 2014.

To compound the problem, Dubai continues to become a more expensive city, a trend that is forecasted to continue.⁷⁵ Iranians lament that their businesses continue to see decreasing margins, while costs continue to skyrocket. In addition to the increase in living expenses, even though Dubai has no taxes, the myriad of fees and registration costs for business operator also continue to increase. A common gripe among members of the community is that Iranian small businesses are often times the ones targeted the most for these increases.⁷⁶ There is some secondary support for these claims of Iranian targeting. In 2010, Simon Henderson in a brief policy piece wrote that in addition to clamping down on sanctions evasion, UAE officials also claimed that “they [were] making it more difficult for Iranian businessmen to obtain and renew visas and commercial licenses.”⁷⁷

A fascinating, and albeit counter intuitive finding was that despite the downturn in Iranian tourism in Dubai, flights between Dubai and Iran continue to increase. One interviewee explained that the sanctions have turned the large international carriers away from making direct flights to Iran, but the Emirates airline, owned by Dubai’s government, has stepped in to fill the void. Emirates has become Iranian travelers’ lifeline to the rest of the world. Approximately 200 flights take place each week carrying Iranians across the Gulf to Dubai where they can catch connections to other countries. This compounds in many Iranians worldview that for “Every problem we [Iranians] face, only makes them [the Emiratis] richer.”⁷⁸

⁷⁵ Mary Sophia, “Dubai Residents Priced Out As Living Costs Rise.” *Gulf Business*, 21 November 2013. Web. Accessed on 6 Apr. 2014. <<http://gulfbusiness.com/2013/11/dubai-residents-priced-out-as-living-costs-rise/>>.

⁷⁶ Anonymous Iranian (small business operator), Personal Interview, 06 Jan. 2014.

⁷⁷ Simon Henderson, “Dubai: On the Front Line of U.S. Iran Policy,” *The Washington Institute for Near East Policy*, 25 Feb. 2010. Web. Accessed on 25 Apr. 2014 <<http://www.washingtoninstitute.org/policy-analysis/view/dubai-on-the-front-line-of-u.s.-iran-policy>>.

⁷⁸ *Ibid.*

Visa and Residency Issues

Another common problem that has impacted the Iranian community adversely is the difficulty in obtaining or renewing residency visas. Three-year residency visas can be issued to non-nationals wishing to study, work, or live in Dubai. The visas can be renewed indefinitely, so long as Dubai authorities approve them. According to multiple interviewees, the length of residency visas for Iranians and other nationalities, predominantly from Shiite countries, have been reduced from three to two years. Additionally, all of them also claimed that it has become increasingly difficult in obtaining new residency visas and renewals. It is important to note that although this trend is rather troubling, no authorities from Dubai or the UAE corroborated or provided us any statistics that supported this claim. Nonetheless, there does exist an analytical value that multiple interviewees, not familiar with one another and from different industries, brought this up. One could possibly surmise that there exists an element of truth to these claims.

The one resource that we do have about these difficulties with visas comes from the Iranian Student News Agency (ISNA), which is a questionable source and one of the mouthpieces of the regime in Tehran. According to their estimations, between 2011 and 2013, hundreds of Iranian residents and more than 500 longtime Iranian residents had their residency visas revoked and were subsequently deported from Dubai. ISNA went further to claim that Dubai authorities were targeting individuals that were of Shia descent.⁷⁹ In another report, Iranian foreign minister in 2013 called on the United Arab Emirates to stop deporting Iranian nationals. Again, a linkage to religious sectarianism was argued by the report from another Iranian news agency.⁸⁰

⁷⁹ "Number of Iranians deported from UAE increased in past few weeks – agency," *BBC Worldwide Monitoring*, 6 July 2013. Web. Accessed on 6 Apr. 2014. LexisNexis Academic.

⁸⁰ "Iran calls on UAE not to deport its nationals," *Associated Press*, 12 July 2013. Web. Accessed on 15 Oct. 2013 <<http://news.yahoo.com/iran-calls-uae-not-deport-nationals-175157682.html>>.

The ISNA report of course is a rather sensationalized reporting coming from a questionable source that may have almost no contact with Dubai or the Emirates. There is no question that within the Dubai community, there are mixed opinions on the sectarian element to these deportations. One particular Iranian in fact offered a glimpse on quite the opposite, claiming that the deportations had nothing to do with religion but instead were entirely political or security related. Familiar with dealing with Dubai's authorities and helping Iranians obtain visas, this interviewee stated that the individuals deported were connected to Iran's Revolutionary Guard and were involved in nefarious activities, either in Dubai or elsewhere. In his opinion, "they were rightfully sent out of the country."⁸¹

Again none of this conversation regarding Iranian visa issues and deportations was supported by official Emiratis, and is entirely anecdotal. Some journalists and scholars have discussed Emirati officials targeting business licenses as a way to put pressure on the community.⁸² Nonetheless, there does exist a value in the lack of clarity on this particular question of visas. When pressed to collect this information, authorities continuously stonewalled or misled the principal researchers. Not to embrace the community's sensationalism, but the lack of clarity on this issue does raise a plethora of questions that remain unanswered. The difficulty in getting answers of which (and why) Iranians have had trouble getting visas (and why some were deported) does suggest a systemic policy.

⁸¹ Anonymous Iranian (small business operator), Personal Interview, 06 Jan. 2014.

⁸² Simon Henderson, "Dubai: On the Front Line of U.S. Iran Policy," The Washington Institute for Near East Policy, 25 Feb. 2010. Web. Accessed on 25 Apr. 2014 <<http://www.washingtoninstitute.org/policy-analysis/view/dubai-on-the-front-line-of-u.s.-iran-policy>>

Issues with Pursuing Education

Banking restrictions, currency devaluation and difficulties obtaining visas have caused Iranian students to join businessmen in their exodus from Dubai. For both current and prospective Iranian students it has become more difficult to afford attending academic institutions in Dubai. Application fees, visa fees and tuition and rising living expenses are increasingly unaffordable for families whose livelihoods are already suffering from the impact of sanctions. At the Dubai branch of Islamic Azad University, one of the world's largest private university systems, the enrollment of Iranian students from Dubai has dropped between 15 to 20 percent as a result of complications from sanctions.⁸³ The decrease in enrollment is not only a result of financial problems but also a result of Iranian students wishing to disassociate themselves from anything visibly Iranian.⁸⁴ In a reversal of the Iranophobia experienced in the banking industry, young Iranians of Dubai are actively avoiding public connections to Iranian institutions out of worries they may be putting themselves at a disadvantage in the future.

Currently, prospective Iranian students in Dubai prefer to attend local branches of foreign universities or leave Dubai to study abroad.⁸⁵ However, branches of foreign universities have also been affected by sanctions. In 2009, Michigan State University closed its branch in Dubai because it could not afford to continue operations and the only investor that stepped forward was an Iranian company that could not be confirmed as not belonging to the Iranian government.⁸⁶ With problems from sanctions decreasing opportunities some Iranian students are turning away from pursuing higher education altogether. This situation is at odds with U.S. public diplomacy

⁸³ Anonymous Iranian (Islamic Azad University administrator), Personal Interview, 07 Jan. 2014.

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ "US university closed Dubai undergraduate programmes over Iran spy fears." *Bloomberg* 9 April 2012. Web. Accessed on 7 Apr. 2014. <<http://www.thenational.ae/news/uae-news/us-university-closed-dubai-undergraduate-programmes-over-iran-spy-fears>>.

efforts over the last decade directed at Iranian students that were aimed at improving cultural and academic ties between Iran and the U.S. Now many Iranians in Dubai find it difficult to attend a branch of a U.S. university in Dubai, much less attend a university in the U.S.

IV. Policy Implications

Iranians of Dubai, Another Lever Against Iran

Iranians in Dubai continues to shoulder the burden of international sanctions and live with the effects of Iranophobia at the hands of Emirati nationals and international banks. However, it appears that even in the face of these pressures this community will remain resilient and maintain their presence in Dubai. One cannot fight culture and history, and over the last century Iranians have established a lasting connection to Dubai. This relationship is fortified by the long presence of Iranians in Dubai, and the UAE in general, and has made one in every three Emirati national able to trace some lineage back to the Iranian homeland.⁸⁷ Nonetheless, an important question to consider is whether or not this community's continued presence in Dubai is a benefit or liability for policymakers? Besides this community acting as a litmus test for the effectiveness of sanctions, does this community retain any other value? The short answer is yes. The community is intrinsically valuable to Iran, serving as a conduit for goods and income that it otherwise would have a significantly more difficult time acquiring. On the other side of the Gulf, this community has lost much of its value, and other groups have come to replace them in importance for Dubai's growth. This imbalance of value frees up U.S. policymakers to manipulate the predicament of this community, whether with carrots or sticks, to achieve greater strategic objectives with Iran – without concern that UAE officials will balk.

⁸⁷ Anonymous Journalist (Western Outlet), Personal Interview, 08 Jan. 2014.

When the UAE began participating with the international sanctions after 2010, the pressures that fell upon the Iranians in Dubai were immediately felt back in Tehran. For example, when the UAE began to comply with some financial sanctions, and put controls on currency transfers to Iran, the sudden squeeze “sent Iran's rial, which had held steady against the American dollar for years, into an abrupt 15% plunge.”⁸⁸ This is even more pronounced for trade, an industry which the Iranian community is very much involved in within Dubai. According to Karim Sadjadpour, a scholar at the Carnegie Endowment for International Peace, Iran came to rely on Dubai as its “Hong Kong,” where “foreign companies and traders nervous about dealing directly with Iran [found] eager go-betweens in Dubai.”⁸⁹

This stands markedly in contrast with what Iran represents for Dubai. Whereas Iranian trade and money was crucial in the founding years of Dubai, as time would go on, the Iranian role and relevance would be significantly reduced. This would become the case, especially as other foreign nationals, namely Russians and Chinese, began to invest heavily in to Dubai in the mid-2000s.⁹⁰ The curtailing of trade relations between Iran and Dubai in 2012 was cut by almost a third, dropping from \$9.8 billion to about \$6.8 billion. However, even with this precipitous drop in trade, the effects on Dubai’s economy was marginal, which continued to grow in 2012 at 4 percent, compared to 4.3 percent from the year earlier.⁹¹

This imbalance on the role of the community in Dubai presents policymakers with a major opportunity in future negotiations with Iranians. The Emiratis, although reluctant in implementing the international sanctions, have been unenthusiastic not because of the presence

⁸⁸ “Sanctions Begin to Bite,” *Economist*, 7 Oct. 2010. Web. Accessed on 3 May 2014. <<http://www.economist.com/node/17204603>>.

⁸⁹ Sadjadpour, “Battle for Dubai,” 21.

⁹⁰ Anonymous UAE Journalist, Personal Interview, 08 Jan. 2014.

⁹¹ Dokoupil, “Dubai’s trade with Iran shrinks a third in 2012,” 25 March 2013.

of this community but rather because of the fear of raising the ire of Iran.⁹² Now that the Dubai authorities are on board with the sanctions, this presents the United States with the ability to leverage this community to conform to the overall American (and Western) negotiating strategy when dealing with Iran. This community is a crucial link for Iran to the outside world, and without them they lose a significant ability to conduct business. American policies can be designed to either increase or soften pressure directed at this community, at a rather minimum cost.

This community is a lever that policymakers can and should take into account in overall negotiation. Increasing pressure on this community translates to imposing a cost on Iran and alternatively, relaxing restrictions on this community eases pressure on Iran. This argument fits James Sebenius and Michael Singh's analytical framework on what would be an effective cost to Iran. They specify that any cost to Iran needs to be credible, understandable (or as they put it, conducted in the "right 'currency'"), and finally must have sufficient magnitude.⁹³ The Iranian community in Dubai fits this criterion well. The first two elements of this framework have already been addressed with the implementation of the latest round of sanctions. The threat remains credible since the community is reeling from recent sanctions. Furthermore, the effects of these sanctions are being conducted in the right "currency" as Iran has felt the impact at home, with examples of inflation and currency devaluation, which by extension, also demonstrates the magnitude.

As one U.S. official in the UAE noted to Karim Sadjadpour, no "officials in Washington [toss and turn] at night worrying that the sanctions are harming innocent Iranian businessmen in

⁹² Anonymous UAE Journalist, Personal Interview, 08 Jan. 2014.

⁹³ James K. Sebenius and Michael K. Singh. "Is a Nuclear Deal with Iran Possible? An Analytical Framework for the Iran Nuclear Negotiations." *International Security* 37, no. 3 (Winter 2012/13): 52–91. 76-77. Web. Accessed on 3 May 2013, <http://belfercenter.ksg.harvard.edu/files/IS3703_Sebenius%20Singh.pdf>.

Dubai.”⁹⁴ Granted the experiences of this community are not the highest priority for policymakers, but dismissing the community as irrelevant or broadly categorizing them as part of Iran’s trade network fails to recognize the value that this community really holds. As defined by Sebenius and Singh, this community is a lever against Iran, and every lever that U.S. policymakers have is precious. With the acknowledgment that this is a lever, it can, and arguably should, be employed by negotiators in their efforts to curtail Iran’s nuclear ambitions. It is, of course, not a lever in lieu of kinetic action against Iran, or clandestine operations, but it is nonetheless a tool in the American arsenal against Iranian efforts, and employed in tandem with other policies can assist in keeping Iran at the negotiating table, and eventually bring about a resolution to the conflict.

Continuing Sectarian Tensions

The conveyed experience of the Iranian community as of January 2014 was one of victimhood. Across the community, a common set of terms the Iranians used to describe their predicament included statements like being victims of “unjust treatment” or “not trusted.” One particular interviewee went so far as to say that he felt Dubai “continued to betray Iranians” since according to his narrative, they [the Iranians] were the ones that built Dubai. Nonetheless, this vocabulary entrenches a widely perceived notion that this community for various reasons retains an antagonistic view of the authorities. For much of them, the impression received is that the antagonism stems from Dubai/Abu Dhabi doing everything that the United States demands of them.

⁹⁴ Sadjadpour, “Battle for Dubai,” 28.

On the other side of this relationship, the Emirates itself it seems has developed some intense views of the Iranians. In terms of banking, business, and their security apparatus, Iranophobia has clouded their vision. Elements of the establishment believe that all Iranians are potential fifth columnists and that Bahrain is a cautionary tale for Dubai should it not work to mitigate the Iranian influence.⁹⁵ Plenty of evidence exists of nefarious Iranian activities, both in Dubai and around the globe, but this obsession with the Iranian threat only works to reinforce both their own abstract fear of Iran, while further antagonizing and isolating the Iranian community.

It is worth noting that these experiences in Dubai, both from the Emirati perspective and the Iranian, work to reinforce much of the discourse that has come to dominate the Middle East for the past few decades. One, which is sharply divided between Sunni and Shiite, or Western, allied states versus the “Axis of Resistance”.⁹⁶ Regardless of the sanctions, it is worth noting that this experience is a microcosm of that conflict, and serves to reinforce it. The implications of this for policymakers is not to persuade them one way or another regarding maintaining the current levels of the sanctions, but rather recognize that sanctions propagate the harmful effects of suspicion and mistrust in the present sectarian conflict that exists across the Middle East.

Opportunity for Engagement

With all of the negative experiences that Iranians have gone through in Dubai, the Emirate continues to play an important role in U.S. efforts to uphold sanctions against Iran. Since 2010, Dubai’s government has taken an aggressive role in enforcing sanctions against Iran and the effects have been felt back in Tehran. However, proximity, historical ties, and influential

⁹⁵ Anonymous UAE Official, Personal Interview, 07 Jan. 2014.

⁹⁶ "Iran: We're in 'axis of resistance' with Syria". *CBS News*. Web. Accessed 5 May 2014, <<http://www.cbsnews.com/news/iran-were-in-axis-of-resistance-with-syria/>>.

Iranian residents make Dubai's long-term relationship with Iran supersede U.S. interests. The policy implication is that Iranians will always continue a presence inside of Dubai, and as such the U.S. should engage in public diplomacy with this community.

As Hossein Askari puts it, "International business is much more than merchandise trade. It is built on deep-rooted business relations. It is nurtured by continual contact and dialogue."⁹⁷ Over the course of Dubai's history, Iranians have played an integral role and although under immense pressure now, their role still remains crucial in the years ahead. They continue to be instrumental in the future of Dubai. There is no doubt that Dubai will resume full economic activities as soon as things improve, either with the negotiations or in general with the West. The interim agreement between Iran and the P5+1 has already started to incrementally unravel the some elements of the sanctions regime and Dubai is not curbing its enthusiasm. On January 13, 2014, on the heels of the agreement, UAE Prime Minister and ruler of Dubai, Sheikh Mohammed bin Rashid Al Maktoum announced that he believed Iran's government's claim that its nuclear program is for civilian energy and that it is time to lift the sanctions.⁹⁸ Although no actions have been committed, this announcement weakens the notion that Dubai sees Iran only as a threat. Additionally, "Sheikh Mohammed has often argued in private that he doubts Iran intends to acquire a nuclear weapon."⁹⁹ Between the recent statement, and this general sentiment of the highest authority in Dubai, it does not bode well for the future of sanctions enforcement. Within this changing environment, Iranians in Dubai hold both promise and risk for the U.S.

⁹⁷ Hossein Askari, John Forrer, Hildy Teegen, and Jiawen Yang. 2001. U.S. economic sanctions: Lessons from the Iranian experience. *Business Economics* 36, (3) (07): 7-19. Web. Accessed on 14 Apr. 2014. <<http://search.proquest.com/docview/199836052?accountid=11243>>.

⁹⁸ "Dubai's ruler calls for Iran sanctions to be lifted: BBC." *Reuters* 13 January 2014. Web. Accessed on 4 Apr. 2014. <<http://www.reuters.com/article/2014/01/13/us-iran-dubai-sanctions-idUSBREA0C08A20140113>>.

⁹⁹ Simeon Kerr, "Dubai eager to capitalize on Iran opening." *Financial Times* 21 Jan. 2014. Web. Accessed on 22 Jan. 2014. <<http://www.ft.com/cms/s/0/4acb7a40-7f6b-11e3-b6a7-00144feabdc0.html#axzz30fwODhNe>>.

For several years, the U.S. has used a “dual track” approach to Iran; applying sanctions while simultaneously pursuing diplomacy. However, Iranians in Dubai have mainly felt the effects of the former approach. Altering the heavy web of economic sanctions that have been carefully crafted over many years will take a long time and is dependent on progress with Iran’s government. However, the U.S. can engage in a more concerted effort of public diplomacy towards a population whose cooperation can support U.S. foreign policy goals towards Iran. Simply stated, public diplomacy is “Communication with foreign publics for the purpose of achieving a foreign policy objective.”¹⁰⁰ In this case, Iranians in Dubai serve as test subjects for public diplomacy initiatives designed to improve cultural and academic ties with Iran. This population remains accessible and can be reached in ways that the people in Iran cannot. Because of the hostile political environment and barriers erected by all parties, it is easier to disseminate media, communicate with advocacy groups, and implement academic exchange programs in Dubai than it is in Iran. This is not to replace any public diplomacy efforts currently aimed at Iran but rather to supplement them.

The U.S. retains an opportunity to show friendlier side to Iranians in Dubai. Although these Iranians are removed from Iran proper, they still retain linkages to Iran. Facilitating communication and trust can help mitigate and reduce tensions between US-Iran vis-à-vis this community. Public diplomacy programs aimed at Iranians in Dubai will not by themselves bring about any solution to the Iranian nuclear program or its continued support of terrorism, but they can influence the context within which progress takes place. Therefore, the pursuit of public

¹⁰⁰ Matthew Wallin (2012) “New Public Diplomacy Imperative,” American Security Project. Web. Accessed on 10 Apr. 2014.
<<http://americansecurityproject.org/ASP%20Reports/Ref%200071%20%20The%20New%20Public%20Diplomacy%20Imperative.pdf>>.

diplomacy may have the ability to pay dividends should Iran choose to become a responsible actor and reintegrate into the international order.¹⁰¹

Dubai also remains an important city for gathering information on Iran as well. As mentioned before, the gateway for Iranians to the world is through Dubai. This means that many Iranians, both friendly and unfriendly to American interests, have to pass through the city. According to Jim Krane, “Day after day, Iranians line up to spill their secrets to the U.S. government. How is this possible? Dubai and Abu Dhabi are the closest places that Iranians can apply for U.S. visas.”¹⁰² This is an information bonanza, and a strategic asset for American policymakers. The continuing presence of the community will help facilitate Iranians from Iran traveling to Dubai, whether for vacation or for business, and provide opportunities for American engagement.

IV. Conclusion

The effectiveness of sanctions against Iran has traditionally been viewed through the lens of effects on the Iranian economy. Although this is not conceptually incorrect, it does not fully demonstrate the power and capabilities of these sanctions. Through examination of the Iranian community in Dubai, it has become clear that the community there, although not necessarily the main target of the sanctions laws, have been adversely affected. Easily forgotten, the collateral consequence of sanctions policy does have implications for policy makers, and it certainly is something worth taking note of.

The anecdotes and experiences collected and observed are ones of a community that in general feels to be under attack. Businesses, both large and small, have had to adjust to the loss

¹⁰¹ Anonymous Journalist (UAE Outlet), Personal Interview, 08 Jan. 2014.

¹⁰² Jim Krane, *City of Gold: Dubai and the Dream of Capitalism*, (New York: St. Martin’s Press, 2009), 283-296.

of either formerly profitable trade networks or clientele. Then there is the issue of whether or not they can even operate out of Dubai, with the ratcheting up of Iranophobia, both in the financial and security realm, the community has at times had the hardest of times doing some of the simplest of business transactions. These negative experiences have been felt in other arenas as well, in education and immigration.

The intention of this research is not to grade whether or not sanctions as a whole are an effective policy tool in relation to our aims with Iran. That is outside the purview of this analysis – the aim is to not dismiss the effects on the Dubai community as irrelevant to policymakers. The policy implications for Dubai have generally been rather sparse, usually dealing with how the community assists in sanction evasion and other nefarious activities. Yet there are more implications, both positive and negative, worthy of consideration for policymakers.

The U.S. must be aware that sanctions are reaffirming many sectarian tensions that pervade the Middle East. The Iranian community has been in Dubai from the beginning of the twentieth century, yet the general consensus because of how they have been treated by the authorities is one of a pariah. Although many of them have made their livelihoods in Dubai, they tend to have a negative outlook of Emiratis, potentially breeding more discontent. This is also reaffirmed from the Sunni Emirati side as well with policies that will only further the dissonance between the two sides. The U.S. must also utilize the community in Dubai to its fullest, as a lever that can be used to achieve foreign policy goals with Iran. With the recent progress in negotiations, easing tensions with Iran has become more important. Understanding how Iranians in Dubai are being affected by sanctions and their position in broader U.S.-Iran relations provides insight into how tensions might be reduced. Iranians in Dubai are important to take into

consideration because, as one journalist put it, “any future synergy between the West and Iran will ultimately have to go through Dubai.”¹⁰³

¹⁰³ Anonymous Journalist (Western Outlet), Personal Interview, 08 Jan. 2014.

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