



Sanctioning Iran The View from the United Arab Emirates

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Since its momentous formation in 1979, the Islamic Republic of Iran has perplexed the United States and its policymakers. Sanctions have been a cornerstone of U.S. policy toward Iran throughout this period, but have proven scarcely effective in changing Iran's behavior on the key issues they target: nuclear proliferation, sponsorship of terrorism, and human rights abuses. Yet, with every successive dispute, the United States has expanded the breadth and depth of its sanctions. U.S. policy recently culminated in the July 2010 Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), by far the most exhaustive measure of its kind. Like any sanctions regime, the effect of CISADA was enhanced by multilateral support: the United Nations Security Council, the European Union, Japan, South Korea, Norway, Canada, and Australia have imposed unilateral sanctions as well.

While the United States has succeeded in forming an ever-growing coalition of the willing against Iran, its efforts have failed to subscribe a critical actor to unilateral sanctions: the United

Arab Emirates (UAE) and, in particular, its emirate of Dubai. Iran and Dubai are so economically intertwined that some analysts have dubbed the latter Iran's Hong Kong.¹ Seeing as

sanctions are only effective insofar as the nation(s) enforcing them has enough of an impact to make compliance worthwhile, and given the UAE's potential bearing on that impact, the question arises: how likely is the UAE to implement unilateral sanctions against Iran? In an effort to answer this question, this paper delineates the history and structure of Iran's economic relationship with the UAE during three phases: from the eighteenth century through the end of the Qajar dynasty, throughout the Pahlavi monarchy, and since the inception of the Islamic Republic of Iran. This paper focuses on political issues only to the extent that they influence the aforementioned economic ties.

Through an analysis of Iran's economic relationship with the UAE during these three phases, this paper concludes that the UAE, despite enjoying a strong bilateral security relationship with the United States, is unlikely to adopt the kind of unilateral sanctions that the United States advocates. The UAE, which not only enables Iran economically but whose growth is

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also fueled by Iran, is in a unique position to take on a more direct role in U.S.-Iran diplomacy. The United States should leverage the UAE's historic economic, religious, and cultural ties with Iran as a gateway to discussing the more consequential issue of regional security.

THE 18TH CENTURY TO THE END OF THE QAJAR DYNASTY

Although shortsighted analysis traces Dubai's status as a commercial powerhouse to its less substantial oil reserves relative to Abu Dhabi, a more historic approach reveals that Dubai's current position stems from its geographic fortune as well as centuries-old imperial and regional rivalries implicating the Persians.² Along with Abu Dhabi, Ajman, Fujairah, Ras al-Khaimah, Sharjah, and Umm al-Qaiwain, Dubai is one of the seven semi-autonomous emirates that constitute the United Arab Emirates. Situated between Abu Dhabi and Sharjah, Dubai, like most of its neighbors, is a sheltered creek that connects to the sea. But unlike its neighbors', Dubai's creek reaches further inland, making it an excellent harbor. The benefits of this natural endowment, however, remained unutilized by its original inhabitants, such that for most of the eighteenth and nineteenth centuries Dubai was nothing more than a fishing village.³

Dubai's subsequent economic flourishing was shaped largely in response to the Anglo-Russian imperial rivalries being played out across the Gulf on the Persian stage. Both Britain and Russia sought to control Persia's tariff schemes in order to, among other things, flood its markets with the surpluses of their burgeoning industrial revolution capacities.⁴ In outbidding one another, the British and the Russians intertwined manipulations of domestic economic policy with forced concessions and aggressive loan mongering, a combination that effectively resigned Persia's trade policies to their administration.

The inept members of Persia's ruling Qajar dynasty did very little to curb foreign influence,

and their incompetence had far-reaching consequences for Persia's trade with its maritime neighbors further south. In 1902, the reigning Qajar king, Muzaffar al-Din Shah (1896–1907), allowed for new, higher taxes on all imports and exports passing through Persian ports, shifting the balance of power between the Persian ports of Lingah, Bushehr, and their contenders on the opposite side of the Gulf. Muzaffar al-Din Shah had been buoyed by the procurement of loans from foreign benefactors, namely Russia. In 1900, the Shah borrowed from the Russian government and the loan was secured by the expected revenues from Iranian port customs. The British, however, had managed to gain exemption for the Persian Gulf ports, which primarily transported goods to and from colonial India. After using the Russian loan to repay the balance of earlier loans incurred from the British and bureaucratic salaries, the Shah and his entourage used some of the loan money to finance a trip to Europe. When the Shah returned to Persia, the remaining loan funds had been squandered and he, once again, resorted to Russian financing. This time around the Shah agreed to accept a Russian-mandated revision to Iran's customs system to ensure loan repayment: the Persian Gulf ports were now also subject to a five percent customs tax.

Dubai's ruling family, the Al Maktoums, strategically leveraged increasing tariffs in Lingah and Bushehr to direct the Gulf's trade to their port. While tariffs on the Persian coast increased at the start of the twentieth century, the prescient Maktoum bin Hashar (1894–1906), abolished the existing five percent customs duty in Dubai. Dubai's laxity towards tariffs and taxation was not unprecedented; the region had hosted a number of pearling boats in the mid-nineteenth century that were also exempt from paying taxes.⁵ Thus, commerce that had been traditionally conducted in the Persian port of Lingah now migrated south to the duty-free zone of Dubai. Dissatisfaction with the tariffs caused serious riots in Persia, but those only garnered stricter tariff enforcement by foreign administrators.⁶

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In addition to eliminating tariffs, Hashar offered Persian merchants a number of other incentives to redirect their business to Dubai, including financing for trade. As a result, Dubai became a critical entry point for distribution of goods further inland on the Arabian Peninsula, as well as a re-export hub where Indian goods were re-directed to Persia.⁷ A number of merchants, some of Persian heritage, welcomed Hashar's incentives and moved to Dubai in response, while still maintaining ties with their previous clients, ensuring that goods reached them despite the financial obstacles. Although essential to trade into Persia, this group of migrants was by no means the dominant merchant class in Dubai. The most eminent merchants were still Arab or Indian, as a significant community of Indians had settled in the ports of Lingah, Bandar Abbas, and Bushehr.⁸ Although this initial wave of Persian immigrants to Dubai was small in scale, it set the precedent for more substantial immigration and trade in the coming decades.

Following World War I, a number of policies were introduced to decrease British and Russian dominance over Iran's internal affairs, including significant changes to its tariff schemes. Political stalemate coupled with Qajar impotence had paved the way for substantial regime change in Persia. In 1921, Colonel Reza Khan (1925–1941) accompanied by Sayyid Zia al-Din led a coup d'état that displaced the last reigning Qajar king.⁹ Of the many new policies that Reza Khan implemented, the most relevant for Iran's relationship with the UAE were his advances towards Persia's political and economic independence, which he considered his top foreign policy priority.¹⁰ In order to cast off the menace of earlier capitulatory privileges granted to Britain and other European nations, the Persian government announced in 1927 that all capitulatory agreements would be cancelled by 1928. In an effort to minimize resistance to this move, the Majlis (Parliament) passed a new customs tariff just days before the capitulatory agreements were due to expire. The new tariffs—which could not exceed double the 1927 rates—applied to the imports of all nations that did not have non-capitulatory treaties or new treaties; the only way to enforce a new treaty was to terminate

all existing agreements, including those to capitulations.¹¹

The 1928 change in tariffs motivated another wave of Persian immigration and trade to Dubai. Furthermore, the fact that the tariffs showed no signs of abetting encouraged the previous wave of transitory Persian immigrants to accept Dubai's overtures for permanent residency. Not only did Dubai's ruling family extend residency to the Persians, it also donated land to incentivize their move.¹² This group of immigrants was much more inclined to permanent residency in Dubai as its members were now moving with their entire families as opposed to partially residing in that emirate individually, as they had done in the past.

The migrants of the 1920s were also strongly motivated by religion, as exemplified by the case of the inhabitants of Persia's Bastak region.¹³ When the historically Sunni Muslim population of Iran was converted to Shi'a Islam by the Safavids in the early sixteenth century, the people of Bastak had been able to withstand forced conversion by taking refuge in the Zagros Mountains. Following the Battle of Chaldiran, they reemerged to the foothills of the Zagros in a region they now called "Bastak," meaning barrier, implicitly in reference to the Safavids they had just evaded. The people of Bastak were thus particularly well-suited in terms of religious synchronization to integrate with the Sunni population of Dubai. In Dubai, they settled into an area they named Bastakiyah and introduced and implemented various elements of Persian culture, illustrated by the prominence of their wind-tower houses along Dubai's creek.¹⁴ The emirate of Dubai also provided religious sanctuary when Reza Khan's secular reforms became personally offensive and encroaching for Persia's religiously conservative merchant class.¹⁵ The immigrant waves of the 1920s were followed by another in the late 1930s as Reza Khan officially banned the hijab in 1936.

As the emirate of Dubai became home to a growing number of Persian merchants fleeing higher tariffs at home, it continued to gain preeminence as one of Persia's significant re-export centers. In 1941, Reza Khan was succeeded by his son Mohammad Reza Shah (1941–1979). Propelled by the rise of nationalist Arab leaders in the 1950s, he pursued "an unprecedented

campaign of befriending” the Arab Gulf states in the early 1960s, chiefly expanding economic ties to advance this cause.¹⁶ His father had followed a “good-neighbor policy” towards these states, paving the way for a more mutual exchange between the two.¹⁷

By this time, under Reza Khan’s centralized economic planning, Iran had finally acquired the industrial capacity to export both manufactured and agricultural goods to its neighbors, as opposed to merely exporting raw materials.¹⁸ Unlike before, when Iran’s trade with the Gulf States was the unintentional result of foreign intervention, or the desire to quash foreign interference, now there was a deliberate effort to create bilateral exchange between the two. In an unprecedented outreach to the Gulf States, Iran sponsored joint trade conferences, removed exchange restrictions on the export of fruits and vegetables, and reduced the cargo fees for fresh produce. Iran also initiated visits by merchants and high-ranking officials. By the mid-1960s, Iran’s targeted efforts had paid off. From 1958 to 1959, the states of Iraq, Qatar, Kuwait, and Saudi Arabia imported 1.31, 0.01, 2.59, and 0.09 percent of Iran’s total exports, respectively.¹⁹ In the course of a decade, these numbers had increased to 4.94, 0.32, 5.26, and 0.34 percent, respectively. By 1969, the percent value of Iran’s exports to the Persian Gulf states ranked second only behind its exports to the Soviet Union.²⁰

In the late 1950s, Dubai did not factor significantly in terms of Iranian exports to that emirate, but a decade later even Dubai had increased its receipt of Iran’s total exports to 1.36 percent.²¹ Throughout the 1970s Dubai maintained this share of Iran’s total non-oil exports, averaging at 1.81 percent from 1973–1978.²² Throughout this period, Dubai was a beneficiary of both improved economic and diplomatic relations with Iran. Iran had already opened a consulate in Dubai by 1952, and Iran recognized the 1971 creation of the UAE only 48 hours after its formal declaration.²³

Mohammad Reza Shah administered his government through development planning, a

tool he had introduced in Iran in 1947; oil royalties, income taxes, and customs revenues funded Iran’s development programs.²⁴ Increased dependence on customs revenues raised tariffs even higher, and in 1970 Lingah’s tariff neared 40 percent.²⁵ As expected, another set of Iranian merchants transferred their business operations to Dubai in response. By this time, Dubai was alluring for more than just its free-trade status; the emirate had also invested in the most advanced infrastructure at its Port Rashid and Port Jebel Ali, leading many Iranians to believe that Dubai was to emerge as the next best stop for long-distance shipping.²⁶ Already by this time, half of Dubai’s estimated 50,000 trading dhows were employed in re-export trade with Iran.²⁷ For their part, Iranians were not only avoiding transaction costs by operating from Dubai, they were transporting their entire business portfolios to the emirate, enhancing its overall business appeal.

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Thus, as we have seen, the foundations of Iran’s strong economic ties with Dubai were in place decades before sanctions took effect. Not only had trade motivated the exchange of goods, it also resulted in the movement of people and ideas, further

intertwining Dubai’s development with that of its Iranian community. Many Iranians sponsored educational, health, and other institutions that are still operating there today, and integrated into Dubai’s political elite.²⁸ By the time of Iran’s Islamic Revolution in 1979, Dubai was well-positioned for its eventual emergence as Iran’s preeminent re-export and financial partner.

IRAN AS AN ISLAMIC REPUBLIC

As an Islamic Republic, Iran faced unprecedented economic pressure from the United States, shifting its economic orientation even further towards the Gulf states. The UAE was in a prime position to mitigate the limitations of sanctions, as the infrastructure for the re-export of American and other goods to Iran had already been laid.

In its first decade, the Islamic Republic’s foreign policy was motivated by a desire to export

its revolution, yet tempered by the demands of the Iran-Iraq War (1980–1988). Iran's relationship with the United States was especially troubled and its actions garnered unilateral U.S. sanctions. This period was also marked by "mutual hostility and distrust" between Iran and its neighbors in the Gulf.²⁹ In 1981, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE formed the Gulf Cooperation Council (GCC), one of many measures intended to mitigate their security concerns in regards to Iran.

Despite membership in the GCC, the UAE often deviated from the policies of the other member states with respect to Iran: it refused financial assistance to Iraq, maintained its neutrality throughout the war, and tried to mediate between Iran and the other GCC members. Although the Saudis deemed the UAE a traitor to the Arab cause, the UAE's stance reaped its intended economic benefits and further strengthened its trade position vis-à-vis Iran. For most of the Iran-Iraq War, the UAE's exports to Iran were larger than exports from all the other GCC nations combined. This trend is especially robust during the latter half of the War. In 1986 and 1987 UAE exports to Iran amounted to more than seven times the amount of goods exported by all the other GCC countries (see Figure 1). The UAE continually ranked in the top ten exporting nations to Iran throughout the War, but it took the duration of the War before it could surpass countries like France and Italy.³⁰ By the conclusion of the War, the UAE was ranked as Iran's third largest exporter, exceeded only by Germany and Japan.³¹

In terms of imports from Iran, the UAE again trumped the other GCC nations and in all but three years during the War, the UAE imported more goods from Iran than all the other GCC nations combined (See Figure 2). The UAE's robust figures were not limited solely to their extent relative to its GCC peers; the UAE had gained a reputable share of Iran's non-oil exports relative to Iran's total international exports. In 1986–1987, Dubai's share peaked to 18 percent.³² Iran hailed the UAE's policies and in calling for an expansion of ties to other Gulf States, Iran's Deputy Foreign Minister praised the UAE's example. The affection was mutual. The president

of the UAE, Sheikh Zayed bin Sultan al-Nahyan, concurred by stating "that any disadvantage to Iran was also a disadvantage to the UAE."³³

In contrast, over the course of the same period, Iran's ties to the United States crumbled. President Carter first imposed sanctions against Iran in response to the November 1979 hostage-taking crisis. The United States initially limited these measures to freezing the assets of the Iranian government and its Central Bank in American banks and their foreign subsidiaries. By January 1981, a series of subsequent Executive Orders had expanded American sanctions to include an embargo of all exports and imports between the United States and Iran, U.S. travel to Iran, and all financial transactions between the United States and Iran. Once the hostages were released, all except the first measure were revoked. By 1987 however, the United States had once again banned all imports from Iran, including crude oil.³⁴

The sanctions enforced under the Carter administration had lasting implications as they set the policy tactics that still define the American stance towards Iran today. It is important to note that any policy tool that is intended to change the behavior of its target government and/ or firms and citizens within that government is considered a sanction, ranging from travel bans to trade embargoes. Depending on the logic motivating them, economic sanctions can be further characterized as purposeful, palliative, punitive, or partisan.³⁵ To this day the United States continues to enforce a combination of both purposeful and palliative economic sanctions against Iran. The former are intended to change Iran's policies by causing economic hardship, while the latter are used solely as a public signal of American dissatisfaction with Iran.

The end of the Iran-Iraq War coincided with the presidency of Rafsanjani in Iran (1989–1997), who deemphasized exporting the revolution in favor of more pragmatic issues, namely economic recovery after the War. In that vein, the UAE's export of goods to Iran continued its upward trend from the end of the War to 1992. This amount rose from \$863 million in 1989 to \$1.44 billion in 1992, an increase of 67 percent (see Figure 3). Dubai's share of these transactions

increased from \$571 million in 1989 to over \$1 billion in 1993, accounting for 6.46 percent of Dubai's total foreign trade.³⁶ Predictably, this relationship was more pronounced in the realm of re-exports. Iran was now Dubai's top destination for re-exports, which amounted to \$900 million, accounting for one third of Dubai's total re-exports alone.³⁷ Vice versa, Iran maintained a robust non-oil export trade with the UAE (see Figure 4), which accounted for anywhere from 9 to 15 percent of Iran's total exports throughout this period.³⁸ By 1997, the UAE ranked sixth in terms of leading importers of Iran's total exports; just a decade earlier in 1988 it had ranked fifteenth.³⁹

The significance of Dubai's re-export capacity was highlighted during this period, as another sweeping U.S. Executive Order embargoed all American exports to and imports from Iran as well as any American investment in Iran in 1995. The United States also attempted its first wave of multilateral sanctions by trying to influence third-party countries via the 1997 Iran-Libya Sanctions Act, which sanctioned non-American firms that invest over \$40 million in Iran's energy sector annually.⁴⁰

Rafsanjani's presidency was followed by that of Khatami's (1997–2005), an era marked by his administration's concerted efforts to engage positively with the rest of the world. The Gulf States were no exception to this outreach, exemplified by their positive reception when Iran hosted the Organization of the Islamic Conference's Summit in 1997 followed by Rafsanjani's visits to Saudi Arabia and Bahrain the next year.⁴¹ Although from 1992 to 1997, the UAE's overall exports to Iran decreased relative to prior years, its imports from Iran continued their increasing trend with a severe peak in 1999 (see Figures 5 and 6).

In terms of the sheer volume of trade, the year 2000 marked the start of an intense trade phase between Iran and the UAE. Up until this time, Iran's exports to and imports from the GCC hadn't surpassed the \$1 billion mark, but in 2000 GCC exports to Iran reached \$1.3 billion and increased to a peak of \$13.4 billion in 2008, an increase of over 900 percent (see Figure 7). Once

again, this sharp growth was dominated by the UAE (see Figure 8).

The trends emerging under Khatami have prevailed into the current Ahmadinejad presidency (2005 to present). Since 2000, Iran has been consistently importing over 80 percent of its total GCC imports from the UAE (see Figure 9). This trend climaxed in 2008, when Iran reported importing \$13 billion in goods from the UAE, almost 90 percent of the total \$14.7 billion in goods it imported from all six GCC countries.⁴² According to the UAE's Minister of Foreign Trade, the value of her country's re-exports to Iran was estimated to be \$7 billion in 2009, a 16 percent increase from the previous year.⁴³ These consistent and robust figures placed the UAE ahead of China, Germany, South Korea, and Russia as the number one importer into Iran in 2008.⁴⁴

The relative weight of these figures must be assessed with respect to Iran's overall international trade. Since 1995, Iran's trade with the GCC has steadily increased, peaking to 25 percent of its total imports in 2007. At the same time, the European Union's share was relatively stagnant or decreasing for that same period, with China's share increasing beginning in 2004. In general, Iran's imports from the GCC, namely the UAE, and China have displaced its trade with the European Union.⁴⁵

The lead-up to the 2008 peak in UAE-Iran trade coincided with the U.S. government's implementation of new policies that were intended to add yet another tier of pressure to their existing sanctions regime. In 2006, under the direction of Stuart Levey, Under Secretary for Terrorism and Financial Intelligence, the United States began to recruit members of the private financial sector to its cause. The U.S. Department of the Treasury provided banks worldwide a list of Iranian entities and individuals whose transactions they would like to halt, invoking the former's "reputational harm" of conducting business with entities the United States has deemed illegitimate.⁴⁶ In essence, some of the

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responsibility of impeding Iran has now been shifted from governments to the private sector.

In October 2007, the United States sanctioned Bank Melli, Iran's largest bank.⁴⁷ Together with the Saderat and Sepah banks, which have also been sanctioned by the United States, these institutions service about 80 percent of Iran's international transactions.⁴⁸ The European Union followed suit, freezing the assets of Bank Melli in June 2007.⁴⁹ The U.S. has also targeted a number of Dubai-based Iranian financial institutions such as the First Persian Equity Fund administered by Melli Investment Holding International.⁵⁰

Additionally, the U.S. government has tried to compound the effect of its broader trade embargoes by identifying specific Iranian entities and individuals deemed to be associated with nuclear proliferation, ballistic missile development, and support for terrorism. Executive Order 13382, originally issued in June 2005, has been continuously amended through August 2010 to add an assortment of Iranian construction, technology, insurance, and shipping firms and/ or government enterprises.⁵¹ For the first time in its history, the United States went so far as to sanction another country's military when it targeted the Iranian Revolutionary Guard Corps (IRGC).⁵²

Ironically, the U.S. sanctions of the past decade re-enforced the UAE's re-export relationship with Iran, further entrenching the financial infrastructure that underlies it. The United States is currently targeting that same financial infrastructure, at least to the extent that it is deemed to be involved with nuclear and weapons proliferation and terrorism. Differentiating between Iran's legitimate and illegitimate actions is difficult given that many of the firms in question are state or quasi state-owned enterprises. Consider, for example, the Islamic Republic of Iran Shipping Lines (IRISL), the country's state-run shipping company. Surely, IRISL ships ordinary consumer goods and non-sanctioned material, but the entity as a whole was sanctioned in September 2008.⁵³

Another byproduct of U.S. sanctions was the proliferation of Iranian firms operating from Dubai as entities of that emirate. Outside of Dubai's free-trade zone, foreign partners can only

own up to 49 percent of a corporate entity. Thus Iranians partnered with their peers in Dubai and the ultimate ownership for these ventures showed up as non-Iranian. In addition to allowing for imports into Iran, these companies also allowed Iranians to work with firms that would have otherwise been reluctant to conduct business with the Iranians. Iranian software companies in particular benefited from this arrangement.⁵⁴ As of 2008, an estimated 9,500 companies in the UAE were partly or entirely owned by Iranians.⁵⁵ Others estimate that around 8,000 Iranian companies operate from the UAE.⁵⁶ And, on average, 300 commercial flights take place between Iran and the UAE.⁵⁷

Despite cooperation from the European Union and other allies, the U.S.-led coalition still had limited success in influencing Iran's behavior. While ratcheting up pressure on Iran through its Department of the Treasury, the United States also turned to the UN Security Council (UNSC) in 2006, which acknowledges that its "universal character ... makes it an especially appropriate body to establish and monitor such measures."⁵⁸ The first of the UNSC resolutions (UNSCR 1737, 1747, and 1803) all model the U.S. sanctions in their goals and specified targets. In terms of the former, the UNSC's goal is also to inhibit weapons procurement and nuclear development. In terms of the latter, the UNSC delineates a similar set of individuals, banks, and other firms identified by the United States, including the IRGC.⁵⁹

CURRENT CONDITIONS

The next round of sanctions intended to tighten pressure on Iran took effect this past summer, when President Obama signed CISADA into law on July 1, 2010, expanding the provisions of the earlier decade's Iran-Libya Sanctions Act. The original law has been broadened to encompass: Iran's ability to develop its petroleum resources; exports of refined petroleum products to Iran; the transfer of nuclear technology; and limiting Iran's access to international capital markets.⁶⁰ In July 2010, the EU followed suit, imposing further restrictions on its member nations in trade of dual-use technology,

investments in Iran's oil, gas, uranium mining, and nuclear industries, and access to banking services as well as insurance and bond markets.⁶¹ UNSCR 1929 passed in June 2010 with similar restrictions.

Throughout the various iterations of unilateral U.S. and later UNSC and EU sanctions, the UAE was not interested in adopting U.S.-style, unilateral sanctions against Iran. However, given its concerns over Iran's nuclear development, the UAE is committed to "support[ing] and enforce[ing] United Nations Security Council resolutions barring shipment of sensitive materials and technologies to Iran."⁶² In accordance with UNSCR 1929, the UAE's Central Bank ordered banks under its administration to freeze the accounts of 41 individuals as well as stop money transfers registered by sanctioned entities and individuals.⁶³ As a result, transactions involving Iran have become increasingly difficult with some banks altogether forbidding transactions in dollars and euros to Iran. The Iranian Business Council in Dubai has also reported that the offices of 40 firms were shut down in compliance with UNSCR 1929. Other experts estimate that the cost of trade between Iran and Dubai has risen by 20 to 30 percent due to financial restrictions.⁶⁴

While there is no doubt that the sanctions have increased the difficulty and transaction costs of trade with Iran, it is unclear if they have had an unequivocally negative effect on the flow of trade. In October 2010, for example, the Dubai Chamber of Commerce & Industry reported that Iran continues to top its members' list of non-GCC export destinations, claiming 27 percent of total exports in that month.⁶⁵ At the same time, authorities such as Dubai's police chief has stated that "Dubai is the right platform for Iranian investors to stay connected with the rest of the world while growing with the re-export center in the UAE" further adding that "Dubai will not enforce any kind of bilateral sanctions under any circumstance."⁶⁶

LESSONS FROM THE PAST

Insofar as sanctions employ economic incentives and disincentives to resolve political issues, it is worth analyzing whether the UAE has utilized economic pressure in the past to resolve political issues with Iran. The ongoing dispute between the two countries as rival claimants to the Persian Gulf islands of Abu Musa, the Greater Tunb, and the Lesser Tunb provides the perfect case study. This conflict emerged out of the same nineteenth century regional rivalries that created such durable economic ties between the two nations in the first place. In brief, the Iranians lay claim to the islands by pointing to British documents and maps that identify them as part of Persia given their proximity to Lingah. The UAE stresses the fact that Lingah's Arab residents administered the islands, with Iran retorting that these Arabs became subjects of Persia once it incorporated Lingah in 1887.

The islands gained immediate relevance when the British announced their departure from the Persian Gulf, planned for the end of November 1971. Until then, the seven emirates that now compose the contemporary UAE were administered under the auspices of Britain's protection via treaties, hence their denomination as the

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"Trucial States." On the eve of the British withdrawal, the Shah of Iran had entered into negotiations with the emirates to resolve the status of the three islands. Sharjah had been willing to concede that the Tunbs would be jointly administered between the Qawasim of Lingah and Ras al-Khaimah, but stressed that it had always managed Abu Musa. The British had negotiated a Memorandum of Understanding (MOU) on behalf of the Arabs, according to which the emir of Sharjah subsequently yielded on Abu Musa. The emir of Ras al-Khaimah had also pledged to part with the Tunb islands in return for military and humanitarian support from Iran, but he reneged. Faced with increasing uncertainty

in the wake of Britain's imminent withdrawal, Mohammad Reza Shah decided to take over all three islands by force on November 30th, 1971, one day before the British were due to leave.⁶⁷

In the ensuing power vacuum, Iran reclaimed the Tunb islands and agreed to administer Abu Musa according to the 1971 MOU, which created a tenuous situation on that island. The MOU "stipulated that neither party would relinquish its claims of sovereignty or recognize the other party's claims;" instead Abu Musa would be divided into two parts, with Iran and Sharjah administering its northern and southern regions respectively.⁶⁸ This ambiguity, coupled with the details of joint administration such as control of the islands' entry points, flared up in 1992 and 1997.

Despite their geopolitical relevance, however, the islands have not soured relations between Iran and the UAE. In fact, to the contrary, the UAE has been able to maintain a strict dichotomy between its political and economic interests. Despite harsh language on both sides and inconclusive negotiations back and forth from 1992 to 1994, the two nations were able to quell any military confrontation and, most significantly, kept their economic relationship intact. Following the August 1992 incident, a trade delegation from Iran had been scheduled to visit Dubai and the Dubai Chamber of Commerce announced its willingness to make sure the trip would not be inhibited.⁶⁹ Furthermore, in 1993, Dubai's exports to Iran increased by 114 percent relative to the previous year.⁷⁰ The UAE's uncanny ability to separate its political imperatives from its economic ones was explained by its Director of the Foreign Ministry's Department of GCC and Gulf State Affairs:

Our policy towards Iran has two aspects: first, the dispute about the three islands, and second, our overall bilateral relations with Iran. The main feature of our policy is to try and isolate as much as possible the detrimental effects of the dispute from the economic and political relations, because Iran is our neighbor and we cannot have only a confrontational approach in our relations

with Iran. In certain ways, we would lean towards containing Iran more or less as put by the US, but we cannot be the frontrunners of such a policy.⁷¹

In 1997, as President Khatami engaged in improving bilateral relations with the GCC member states, Iran continued to maintain its position of readiness to discuss the islands "misunderstanding" in bilateral negotiations with the UAE. In the context of overall improving Iran-Arab diplomatic relations in the Gulf, the UAE also declared its readiness to engage in bilateral talks with Iran, but neither side actually organized a meeting between the two. Again, the continuing political tensions over the islands were not allowed to influence economic policy and trade relations proceeded without any impediments. The emir of Ras al-Khaimah stated his desire to "upgrade relations, especially in trade" with Iran. Both he and the UAE Defense Minister stressed the historical, religious, and cultural bonds between the two countries. The extent of this mutual outreach was epitomized when President Khatami met with the UAE's Foreign Minister, who declared "that the link between the two countries was so strong that no power could undermine it" and President Khatami reiterated that "there were no basic problems between Iran and the UAE which could not be resolved."⁷²

At the same time that the UAE was continuing to strengthen its economic ties with Iran, it also began shifting ever closer toward the United States for its security needs, starting with the 1994 Defense Cooperation Agreement between the two nations.⁷³ This relationship has been strengthened as estimates of Iran's nuclear capabilities grow more ominous. The UAE is in a precarious position as it tries to balance the competing interests between its overall security and the trade relationships of its specific emirates, namely Dubai but also Sharjah and Umm al-Qawain.⁷⁴ This tension, however, is not new to the UAE and is a consequence of the fact that component emirates of the UAE underwent "the reverse of the usual process of decolonization:

economic independence was achieved before de facto political independence.”⁷⁵

Under the protection and security ensured by treaty with the British, each of the emirates evolved independently and pursued independent economic agendas. Abu Dhabi’s development, for example, had been largely motivated by the discovery of oil. It was only once the British announced their departure from the Gulf to cut back the costs of imperial administration that these autonomous regions began serious deliberation on a federal arrangement that would ensure their security.⁷⁶ This arrangement reflected the independent development of the emirates in its “large number of emirate-specific clauses, including articles that permitted the individual emirates to retain control over their own oil revenues and local political institutions.”⁷⁷

Given the size and wealth of Abu Dhabi, the presidency of the UAE is based out of that emirate and represents the UAE in matters of foreign policy. From the start of negotiations on the structure of the federation, Abu Dhabi and Dubai were at odds.⁷⁸ Dubai “continued to believe that the relative autonomy of each separate emirate was the federation’s greatest strength, as it better preserved the region’s tribal democratic systems and all of the other emirate-specific characteristics that would be lost under a more centralized state.”⁷⁹ A continuing source of tension for the UAE has been the “relatively autonomous” management of foreign relations by its individual emirates.⁸⁰ While some would argue that in the case of sanctions, Dubai and other emirates will succumb to pressure from Abu Dhabi and hence the Americans, others emphasize that the “strained and loosely defined relationship between federal and emirate-level powers”⁸¹ continues to leave room for divergent stances on major policy issues.

CONCLUSION

As demonstrated above, the UAE has the potential to inflict tangible and widespread economic distress in Iran, making it an indispensable actor in the sanctions regime against Iran. In fact, the U.S. Treasury Department

has acknowledged that the UAE, and specifically Dubai, rest at the heart of its strategy toward Iran. At the same time, Iran is a major player in the UAE’s economic well-being and growth. Dubai relies on increasing exports to markets like that of Iran to signal its “position [as] a sound investment destination.”⁸² Dubai’s Economic Minister, Sultan bin Saeed al-Mansoori, recently reaffirmed that “Iran is an important trading partner for the UAE and we will always continue trading with Iran.”⁸³ Furthermore, the fact that the UAE has been able to maintain a strict division between its economic and political imperatives as exemplified by the islands dispute suggests the continuation of that stance into the near future. Thus, the depth and the duration of UAE-Iran trade, which has been cemented by cultural and religious ties, are unlikely to succumb to external political pressure.

The case of the UAE aside, in an era of fierce globalization, the United States may not be able to generate the kind of expansive alliance it needs to succeed through sanctions. Although the United States has been able to garner a significant coalition of nations willing to impose unilateral sanctions on Iran, it has not been able to enlist formidable actors such as China, Russia, and Turkey. Even American allies that have imposed unilateral sanctions against Iran do not have the same cost-benefit calculus as the United States, hence they fall short of adopting the sanctions to the extent that the United States envisions. South Korea, for example, recently sanctioned 102 Iranian firms but did not shut down Iranian Bank Mellat’s branch in Seoul. South Korea’s position is complicated by its political debt to the United States in regards to its stance on North Korean belligerence and the fact that South Korea imports almost 10 percent of its oil from Iran.⁸⁴

Like the instances recounted throughout this paper, Iran is again finding ways of adapting to the ever-growing restrictions. Germany, for example, is in the lead in terms of its trade

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volume with Iran, ranking only behind China, Turkey, and the UAE. According to an article by the German daily *Handelsblatt*, Germany's position is being maintained by the fact that business with Iran is shifting from large to mid-size companies, which are less vulnerable to pressure from the United States. As reported by Iran's ambassador to Germany, Ali Reza Shaikh Attar, German exports to Iran in the first three quarters of 2010 increased by more than 14.5 percent and is expected to continue growing.⁸⁵ Iran has also revived its financial infrastructure in unlikely places. For example, in 1975, Iran and Egypt founded the Misr Iran Development Bank (MIDB), sharing 60 and 40 percent of the enterprise, respectively. Egypt's stake is owned by its National Investment Bank and Misr Insurance Company. Iran's portion is owned by the Iran Foreign Investment Company, an extension of its sovereign wealth fund that invests the state's excess oil revenues. MIDB has recently exhibited a flurry of activity, transferring \$50 million to Iran in 2009 alone.⁸⁶

According to the U.S. Treasury, "by sharpening the choice for Iran's leaders between integration with the international community and, alternatively, increasing isolation" the sanctions aim to create "the leverage needed for effective diplomacy."⁸⁷ Yet, analysis of Iran's ties with

countries like the UAE demonstrate that the sanctions are acting to the contrary, entrenching their economies to a degree that makes it much more difficult for the United States to interject its policies. The details of today's highly globalized economies suggest that such bifurcated views of the world are naïve at best.

The UAE acknowledges the "difficulty of supplanting" Iran's ties with key players like China and the fact that, ultimately, "the implementation of new sanctions could still be ineffective."⁸⁸ Its understanding of the limits to the effectiveness of sanctions and its long-standing economic diplomacy with Iran make it a prime candidate for the United States to consult with on more effective means of engaging with Iran. The UAE's Foreign Minister has recently commented on the growing sentiment that it, and the other GCC members, are being "left out" of talks on sanctions and dealing with Iran.⁸⁹ The United States would do well to heed the concerns of such a crucial ally.

The views and opinions expressed in articles are strictly the author's own, and do not necessarily represent those of Al Nakhlah, its Advisory and Editorial Boards, or the Program for Southwest Asia and Islamic Civilization (SWAIC) at The Fletcher School.

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Figure 1
Gulf Cooperation Council Exports to Iran

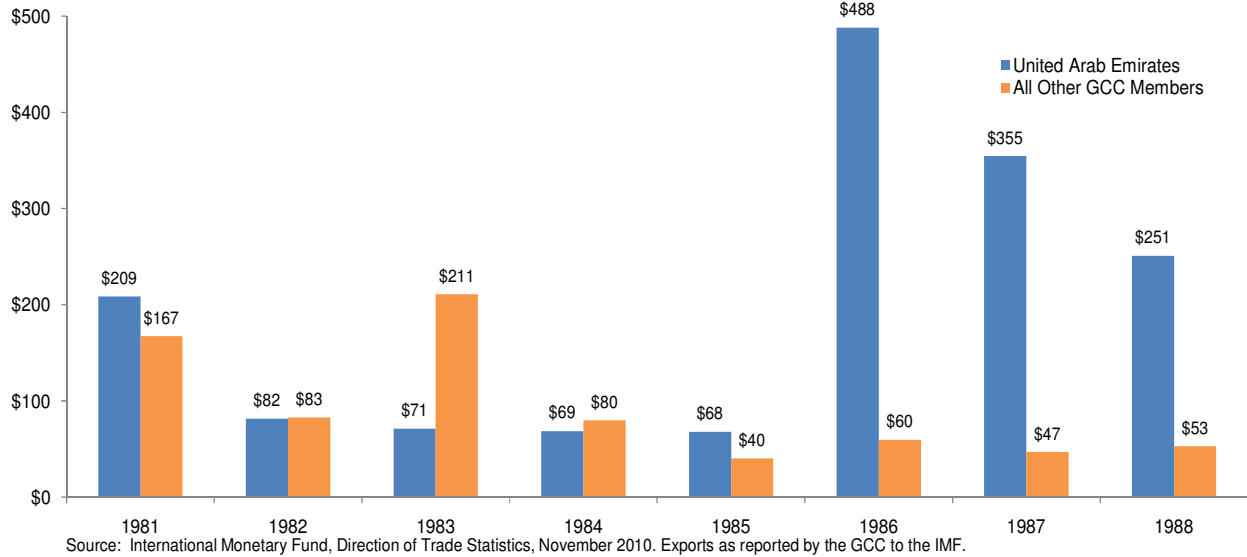


Figure 2
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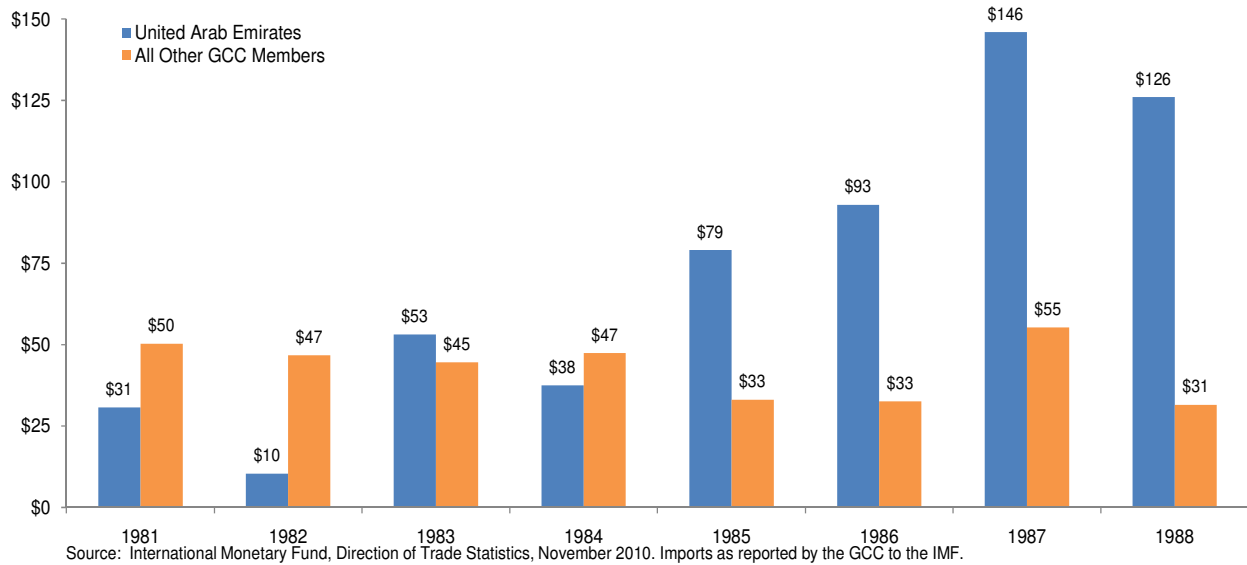


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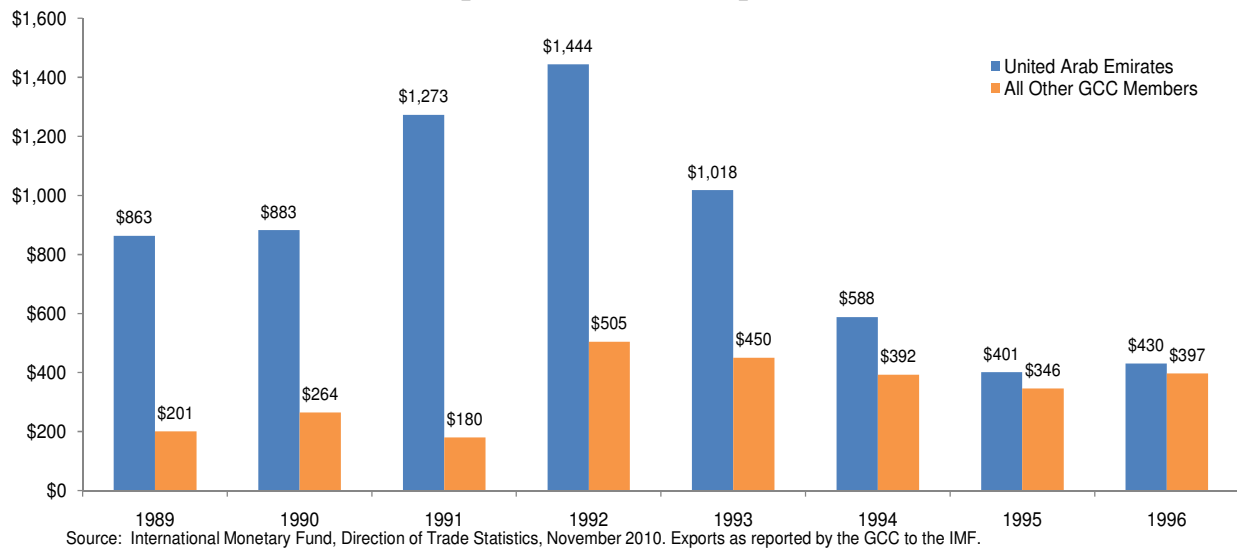


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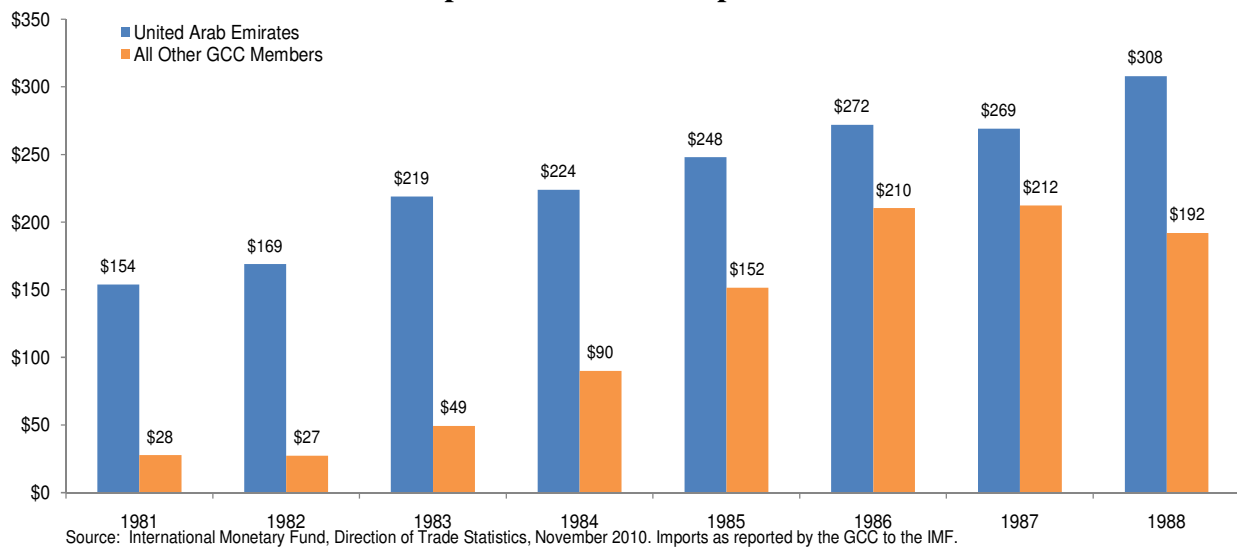


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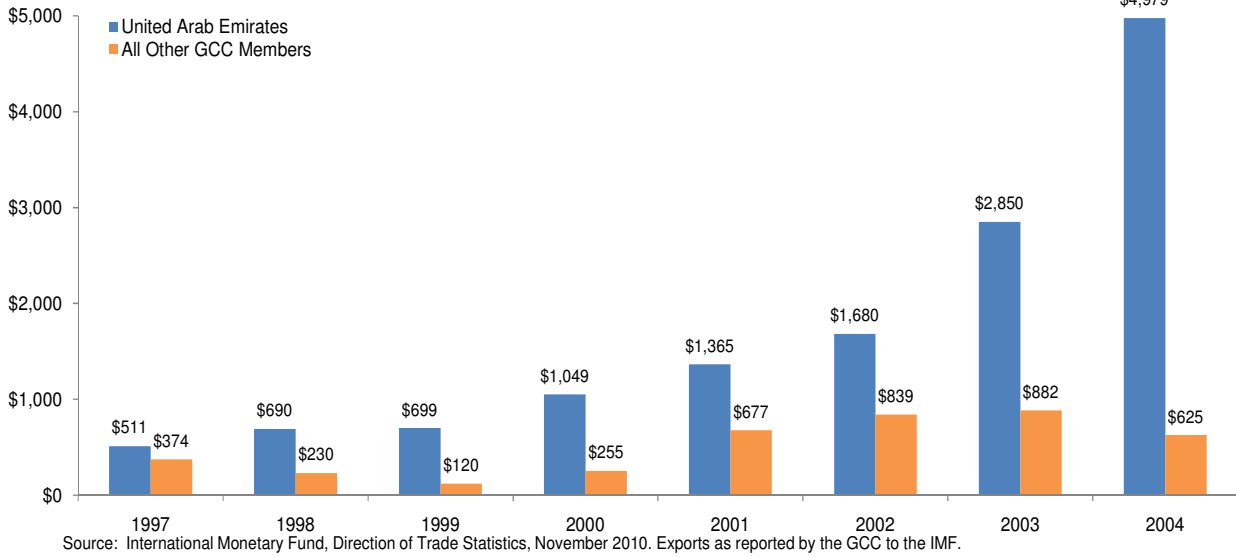


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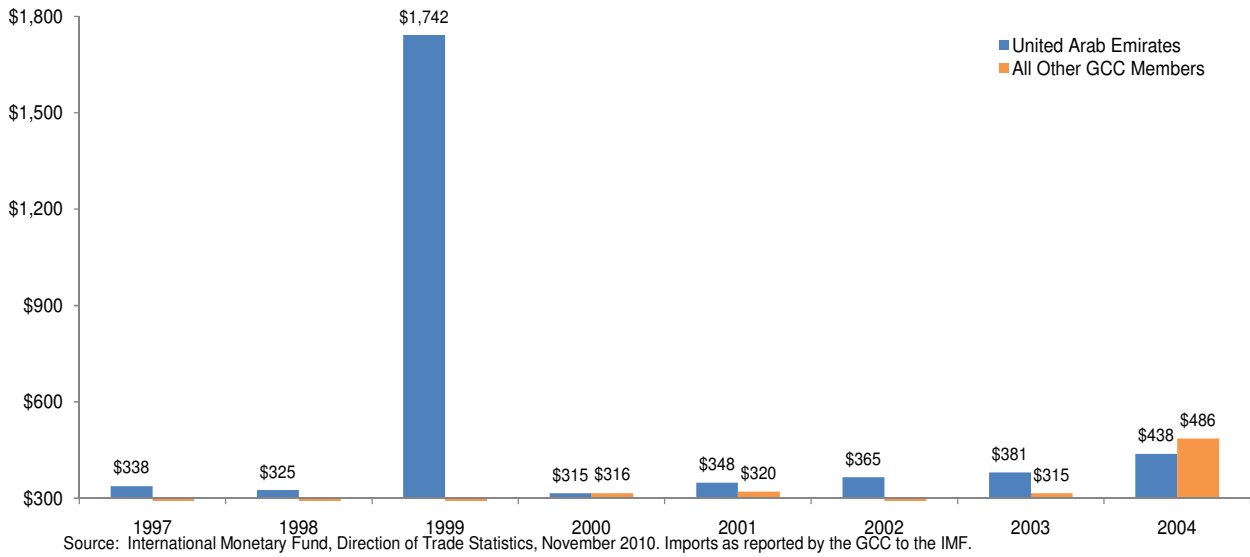


Figure 7
Gulf Cooperation Council Exports to Iran

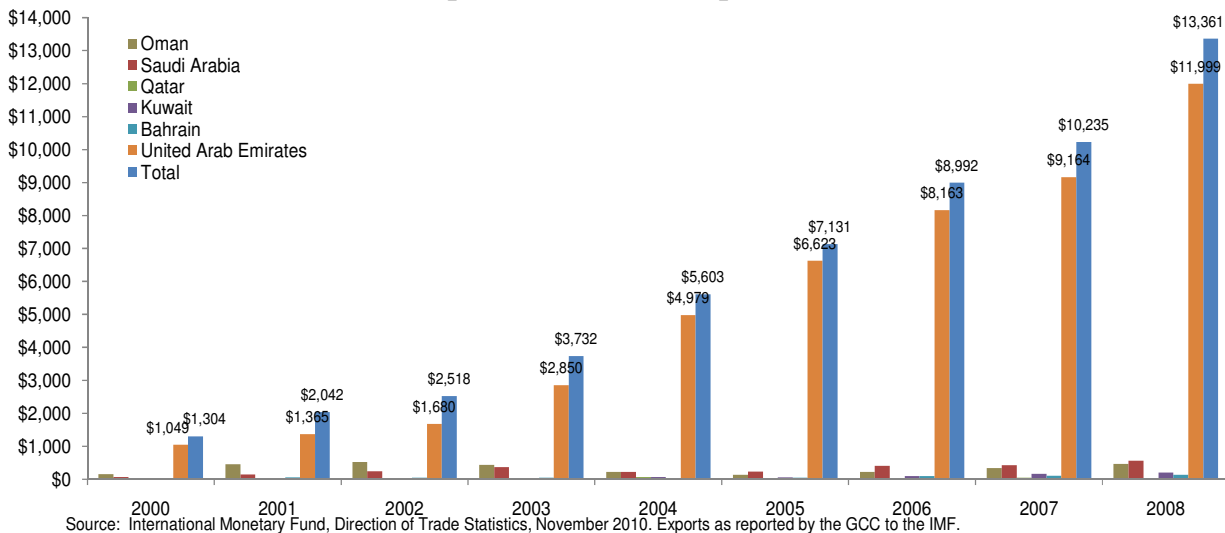


Figure 8
Gulf Cooperation Council Exports to Iran

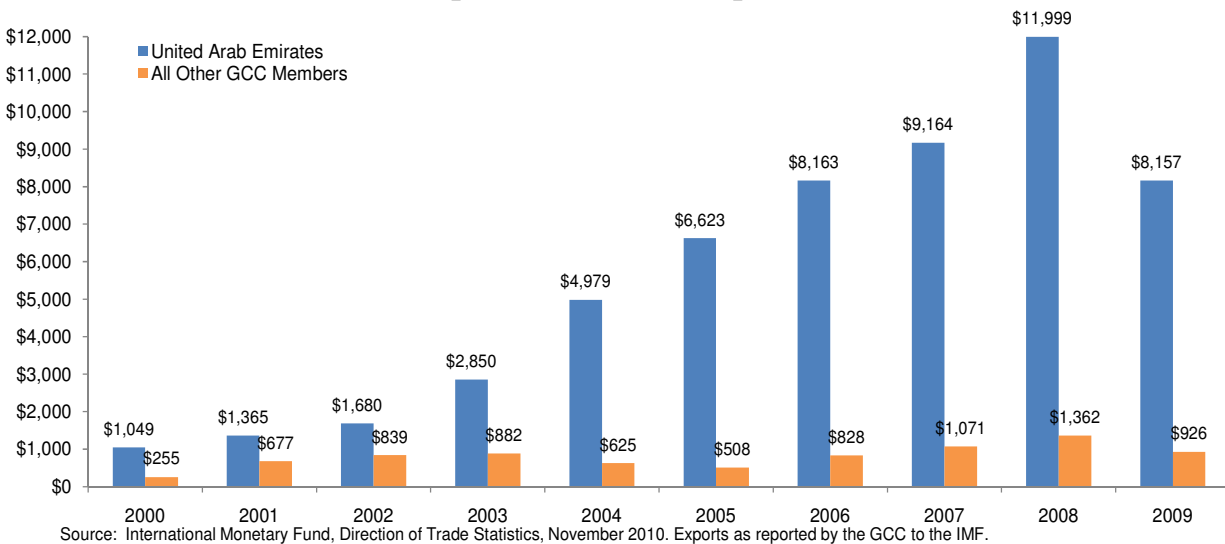


Figure 9
Iran Imports from the Gulf Cooperation Council

