



The Dynamics of Globalization and the Uncertain Future of Iran: An Examination of Iranians in Dubai

Jonathan Thomas

To understand the complex challenges facing the Gulf region properly, it is important to examine not just the dynamics of aggression but also the dynamics of integration and globalization. Due to multiple causes and systemic pressures, Dubai — an economically developed and integrated actor in the global economy — has become home for a substantial Iranian expatriate community. This paper will examine the causes that have propelled Iranians from their homeland, the success of Iranians in Dubai and, finally, will explore those factors that have made Dubai an attractive choice for educated Iranians. The dynamics of integration demonstrate that the role of economic development and the forces of interdependency can be important moderating factors for a region seeking development and stability.

Each year almost 800,000 workers enter the labor force in Iran. About 300,000 of those are graduates of Iran's universities.¹ But of those students, official figures estimate that only a quarter are able to find employment.² This has led

to skyrocketing rates of unemployment and the disenfranchisement of much of the educated population. Young college graduates are forced to accept jobs well below their skill levels just to survive, if they can find work at all.

Job creation has been a perennial challenge and Achilles' heel for the Islamic regime. Efforts to address the problem have been hampered not only by economic mismanagement and corruption but by the resulting capital flight as well. Today, with more than four-fifths of Iran's economy controlled by the state,³ it has been so far unable to develop the necessary mechanisms for job growth. According to the Economist Intelligence Unit, for example, property rights are not adequately protected. "The rule of law in Iran is inconsistent and unsatisfactory" and "recourse to the courts is unwieldy and often counter-productive and rarely leads to the swift resolution of outstanding disputes."⁴ By failing to create an atmosphere where technology can be transferred and applied throughout the economy, the Islamic regime has

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Jonathan Thomas, Fletcher MALD 2006, is a former state legislator from Maine. He is also the author of a forthcoming book chapter on constitutionalism in the United States, as well as academic articles on non-proliferation law and Iran's national security policies. He is former joint Editor-in-Chief of al-Nakhlah and currently works as Project Manager for the Fletcher Abu Dhabi Joint Venture.

discouraged innovation and entrepreneurship. Not surprisingly, in the five years between 2000 and 2004 Iran registered a total of only two patents.⁵

In nearly all sectors, the results have been similarly disastrous by any metric. The stock market has experienced a prolonged slump since the election of Mr. Ahmadinejad amidst nervousness over his economic plans and defiant foreign policy. Official unemployment has remained around 16 percent but actual estimates range upward of 25 percent.⁶ There have been no serious efforts to make the structural changes and massive amounts of investment that would be needed to satisfy the demand for technical employment. With experts placing the cost of each additional job somewhere around \$18,000 in investments,⁷ it would realistically be nearly impossible for Iran to produce the required investment to do so.

Additionally, there are some disincentives for the Islamic regime to fully address the problem. Just as the exodus immediately following the 1979 revolution removed potential opponents to the then-vulnerable Islamic regime, so too does today's migration serve as a pressure valve against the growing discontent of the lower and middle classes who have lost the most over the last 26 years. Educated Iranians, who might provide the resources and ideology against the ineptitude and repression of the government, have instead been forced to leave the country in search of employment. In the end, says Dr. Mehrdad Mashayekhi of Georgetown University, the clerics don't see the "brain drain" as a short-term problem at all. It is possible that they view an uneducated population as easier to manipulate politically and, ultimately, to govern.⁸

Whatever the actual cause, the actions of the regime do not show an overwhelming motivation

to address the problem. For example, the Ministry of Science, Research and Technology, which is charged with providing leadership in research and technology policy-making, receives only 20 percent of Iran's current research budget.⁹ Instead, the majority of that funding is given to the oil ministry. It seems unlikely that Mr. Ahmadinejad will change this course. He brings with him a socialist program of government handouts (which include a \$1.3 billion "love fund" to assist low-income families organize weddings¹⁰) and a promise that interest rates would "definitely" be lowered.¹¹

But such expansionist fiscal and monetary policies will only provide short-term gains while worsening a rate of inflation that is already possibly as high as 20 to 25 percent.¹² His hard-line rhetoric and conservatism also risk alienating potential investors and damaging the intellectual atmosphere. Eventually the regime will have to make a choice of either continuing to follow this road of self-destructive policies or making tough economic decisions that will be unpopular and painful in the short-term. Whether they will have the political support necessary to do the latter seems unlikely.

Continued Migration

The International Monetary Fund reports that of 91 developing countries, Iran ranks first with somewhere between 150,000 and 180,000 of its citizens migrating abroad every year. The IMF estimates that one in four Iranians with a college education live and work in another country.¹³ That is in addition to four million Iranians who already live abroad.¹⁴ Besides the harmful consequences for the domestic economy, there are other more subtle effects that the country will be forced to confront if this intellectual and financial capital flight continues. For example, by essentially forcing this cohort into emigration, the

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regime has deprived society of the stabilizing effect on the middle class that they would otherwise have. These individuals are not only the professionals and technocrats needed in every economy, but represent those within the Iranian economy that would create jobs for the working-class and wealth for the entire population. Without them, the government will increasingly have to contend with a growing and dissatisfied lower class.

In Iran's traditional society, these youth represent the safety and security of their aging parents. Moreover, they are viewed as a gift from God in the Muslim faith.¹⁵ And since those that currently migrate from Iran are mostly educated, they are more likely to integrate quickly into their new environment, and therefore, more completely sever ties with their networks back home.¹⁶ Even the clerical regime estimates that the damage to the Iranian economy is on the order of \$38 billion annually, or about twice the amount of revenue brought in by oil reserves.¹⁷ Some experts place that figure even higher, at \$50 billion.¹⁸

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Iranian society has been plagued by leadership that has not allowed its indigenous resources and human capital to prosper. Ultimately, if the clerical government continues to eschew policies that foster and value intellectual ability, entrepreneurship, innovation, technical education, and social freedom, it will be doomed to a fate that it has long been bringing upon itself. The Islamic Republic will not be able to bear the regime's economic ineptitude indefinitely and,

More important than the financial costs, is the slow decline of Iranian culture and society. For the last 26 years Iran has been a country incapable of building a knowledge-based society under the oppressive watch of the clerical government. Through the fervor of a revolution, a war which tested its collective character and the promise and failure of reform,

whether or not the population is prepared for another Iranian revolution, the trajectory of the country seems poised for a dramatic shift.

The Success of the Iranian Diaspora in Dubai

In February 2004 an Iranian-Kish Air flight from Kish Island, Iran, to Sharjah in the UAE, crashed, killing 43 people on board. The flight was transporting Iranian immigrants returning from a trip to Kish Island where many had converted temporary visas into resident visas after receiving their work permits from Abu Dhabi. Such trips had been common practice for years as UAE laws required workers to leave the country in order to make visa conversions. Usually they would go only as far as another Gulf country such as Oman, Bahrain, Qatar, or Iran. But as the UAE's economic boom accelerated, the government loosened these restrictions, permitting visa payments and conversion from within the country.¹⁹ The move was consistent with Abu Dhabi's strategy of attracting highly skilled immigrant labor from countries such as Iran.

Unlike the migrants who flood across Iran's eastern border with Afghanistan who are *pushed* away from their homelands by violence and crushing poverty, those Iranians who find their way to places such as Dubai are *pulled* by factors such as the promise of education, political freedoms and prosperity. This class of immigrants is known collectively as mobility migrants; and they make up the majority of Iranians who seek a new home abroad. There are currently millions of Iranian mobility migrants living throughout the world. The United Arab Emirates is an obvious choice for these émigrés and has become extremely popular as an increasing number of Iranians become successful there.

Dubai in particular is an attractive destination. In 1999 the emirate opened a center for the promotion of cultural understanding in order to facilitate the contact with, and matriculation of, its foreign population.²⁰ Dubai affords Iranians the political and social freedoms that they are deprived of in Iran, while they are able to remain relatively close to their families. There is an average of 40 to 50 flights per month

between the UAE and Iran, often at low costs.²¹ The flight takes only 45 minutes to cross the Gulf, and from Dubai to Tehran takes only an hour and a half, non-stop on Emirates Airlines.

For its part, the Iranian government does little to discourage the emigration. The Iranian Club, financed by the Iranian government, is “the largest country club for a single expatriate community in the city, with nightly cultural events, soccer fields of lush grass and a renowned restaurant.”²² Located in the prosperous, and heavily Iranian, Deira section of Dubai, the club hosts musical groups, and Iranian pop stars who cross the Gulf in order to cater to the large Iranian population in the emirate. By some estimates, this community may be as large 400,000 people²³ and account for 25 percent of Dubai’s population.²⁴

According to one young Iranian quoted in the *New York Times*, “Dubai is building an environment of freedom that still fits our culture.”²⁵

Many Iranian students go to Dubai for just this reason. They are offered social freedoms and the ability to take advantage of a world-renowned education system at the Knowledge Village. As a group, Iranian immigrants often arrive in their host

countries well educated. In fact, they are usually more educated than the populations of the countries to which they travel. In the United States, for example, Iranians hold more master’s degrees than either Americans or any of the other 67 ethnic groups that were included in a recent study by the Iranian Studies Group at the Massachusetts Institute of Technology.²⁶ There are also now seven Iranian universities within Dubai in addition to several others that enroll large numbers of Iranian students. The Ajman College of Science and Technology, the Dubai American University and the Dubai Polytechnic University, for example, all have large Persian populations. The number of students studying in the UAE has increased nearly six times – from

1,700 to 9,000 – from 2003 to 2004 alone.²⁷ And while many of these students then go on to become successful, sometimes wealthy, businessmen in the region, most will not return to Iran with the money that they earn.

Since mobility migrants are typically more affluent, adapt more quickly to their new surroundings and have an easier time securing employment, they are also less likely to maintain contacts and networks within their countries of origin or send home remittances. Considering that some estimates place the total amount of assets controlled by Iranians in Dubai at \$200 billion, this does not bode well for the Iranian government which might otherwise reap large benefits from having such a prosperous group of expatriates only 100 miles away.

Iranian Businesses within Dubai

The Aria Media Group is an Iranian film marketing and promotion company specializing in e-commerce transactions. It offers worldwide shipping, delivery tracking and industry partnerships to guarantee its inventory. It is not located in Tehran, however, but rather in Dubai’s Media City. The Aria Group is an example of more than just a successful Iranian business in Dubai, however. Boasting more than 2,500 Iranian movies (the largest collection in the world)²⁸ the company also represents the suppression and forced exodus of culture and entrepreneurship from Iran since the Islamic revolution. And while the policies that push Iranian capital from the Islamic Republic become more institutionalized, the forces that attract much of that same capital to Dubai continue to accelerate its departure.

Although business connections between the two countries are now over 100 years old, they began to significantly accelerate following the Iran-Iraq War. Because the major Iranian ports had been severely damaged or destroyed by Iraq, commercial goods had to be offloaded onto smaller cargo ships and dhows in Dubai that were able to dock in small Iranian fishing villages across the Persian Gulf.²⁹ Additionally, due to stunted economic growth and U.S. - led sanctions, no serious domestic industries developed with the growth potential to attract significant investment

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outside of the oil and gas sectors. Finally, because the multiple fixed exchange rate system left the rial severely overvalued, exports were made very difficult.³⁰ Iranian businessmen were therefore among the first to arrive in Dubai when its markets were fully opened to foreign investment.

The Iranian Diaspora has been particularly successful in the real estate market, which was opened by Sheikh Maktoum Rashid al-Maktoum in 2002. They have only become increasingly wealthy as that market continues to be among the most lucrative in the world. Today, they control somewhere between ten and 30 percent of the buildings and construction projects in the city.³¹ According to the Damak real estate agency, Iranians rank only behind the British and the Americans “in terms of most important buyers of pre-constructions products.”³² Indeed, about a fifth of the shopping centers in Dubai have Iranian registrations and “during just one week at the end of June, 2005, Iranians bought 31 percent of the luxurious villas of al-Hamra, a tourist and residential complex located in Ras Al Khaimah.”³³

Dubai has also been a popular destination for the financial capital that has hemorrhaged from the Tehran Stock Exchange (TSE) since the election of Mahmoud Ahmadinejad. His recalcitrance against the International Atomic Energy Agency (IAEA) ultimately contributed to the organization officially finding Iran in non-compliance with its international obligations under the Nuclear Non-Proliferation Treaty in September of 2005.³⁴ Additionally, the Iranian president’s populist-socialist economic policies, and often shocking rhetoric (such as that regarding the destruction of Israel that came only a few weeks after the IAEA’s referral of Iran to the UN Security Council) led the TSE to plummet in October 2005. News reports have noted that several major shareholders immediately moved their investments into the Dubai stock market which had only recently opened to foreign investments.³⁵ Even in Dubai, where Iranian banks such as Bank-e Saderate and Bank-e Melli (the National Bank of Iran) do operate branches, most Iranian businessmen prefer to invest using the domestic Arabian banks because of their higher rates of return.³⁶

The Dubai stock market also experienced recent instability when thousands of middle and upper class Iraqis fled the deteriorating situation in that country. They brought substantial amounts of wealth, but also caused an overvaluation of the Dubai stock market. While it currently stands down 40 percent over its peak, its value has nevertheless increased over eight times since early 2002, becoming the region’s leading financial market.³⁷

There are now more than 4,600 Iranian companies, contributing to more than 45 percent of the total fixed investments in Dubai.³⁸ Moreover, as the number of Iranians in the country continues to grow, some estimates predict that by the end of 2006 Iranian investments will have topped the \$350 billion level.³⁹ And this phenomenon has not been confined to Iranian businessmen operating in the UAE, but has also led to an increase in commerce between the two countries as well. Last year, trade across the Gulf totaled approximately \$7 billion, an increase of \$3 billion in only two years.⁴⁰ This makes Iran the second largest importer of goods from the UAE,⁴¹ accounting for 20 to 30 percent of its total business.⁴²

In May 2005, Mohammad Ali Hadi, the Iranian ambassador in Abu Dhabi, asked the UAE Minister of Labor and Social Affairs to increase the visa quota for government officials from the Islamic Republic.⁴³ This change would give the Iranian regime a stronger presence in Dubai in order to monitor and affect a growing number of Iranian interests in the emirate. The President of the UAE, Sheikh Khalifa bin-Zayed an-Nhyan, later reciprocated by asking for an expansion of bilateral contacts between the two countries “as far as possible.”⁴⁴

Although there are several issues of concern between the two countries – including the Iranian “annexation” of Abu Musa and the Greater and Lesser Tunbs (three islands previously jointly administered by both Sharjah and Iran) – the increasing financial links between Iran and the UAE have colored the discussion on nearly all other topics. Were it not for such dramatic Iranian business interests in Dubai, for example, Abu Dhabi would almost certainly pursue a stronger

course regarding the disputed islands from which a substantial amount of petroleum reserves are accessed.⁴⁵

Formed in 2005, the Iran-UAE Joint Consular Commission is a vehicle created in order to address issues of mutual concern between the two countries. It could not only handle matters such as the current island dispute, but also those related to the growing economic and business relations that have become so important. The Commission's stated goals also include cooperation on energy issues, the economy, coastal issues and even limited police and judicial concerns. The establishment of the Commission opens a permanent and official channel of communication between the two countries and might possibly be used by Iran to stem its capital losses or facilitate the repatriation of finances currently invested in the emirates.

Conclusion: Looking Forward

As long as the Iranian regime can find ways to avert economic collapse, there are few incentives that will change the course of the self-destructive policies driving Iran's educated youth, businessmen, and capital from the country. The government will continue to repress the social and intellectual freedoms of its population in the name of protecting the values of the Islamic revolution. In turn, such policies will only have the effect of further devastating the Iranian economy. Although such policies are avoidable – major companies such as General Electric have stated their desire to expand their investments in Iran⁴⁶ – as long as the situation persists, massive capital flight will take place across the Persian Gulf to the UAE.

Even without the current exodus, the Islamic Republic faces monumental demographic challenges. Over the next two generations, a shift will occur within Iranian society that will see 21 percent of its population leave the workforce and become elderly dependents. By 2050 this age group will compose nearly a third of its population.⁴⁷ Meanwhile, all indications are that this capital flight will not only continue, but will accelerate in the near future. In fact, Iranians are

currently going to Dubai in record numbers. In the last year they have spent more nights in Dubai hotel rooms (635,000) than any other group of foreigners.⁴⁸ Additionally, the "[t]otal real estate transactions involving Iranians have increased by ten percent" in comparison with one year ago.⁴⁹

As the numbers and prosperity of Iranian émigrés in Dubai continue to grow and their visibility increases, their presence will only facilitate continued migration. Although the current mass departure has greatly contributed to the present state of the Iranian economy, according to majlis member Rassoul Seddiqi-Bonabi, the government "cannot keep investors at home at gunpoint."⁵⁰ Besides, considering the pressures currently facing the regime to create jobs, such a response would be unwise in the short-term.

The vast amount of Iranian wealth invested in Dubai is another story. The Iranian Chamber of Commerce has recently undertaken an effort to recapture some of its lost capital by concluding an agreement with the Iranian Businessmen Council in Dubai to find ways of facilitating the "repatriation of assets held by Iranian expatriates."⁵¹ In late 2004, the Islamic regime even considered a ban on imports coming from the United Arab Emirates, although it was ultimately rejected. Nevertheless, in making the announcement, Deputy Commerce Minister Mojtaba Khosrowtaj noted a "lack of willingness [on the part] of the wealthy Iranian businessmen to make investment in the domestic market" that is attributable to the Americans and Europeans.⁵² Without a significant shift in philosophy, such measures will only serve as temporary, insufficient, solutions to a seriously ill economy.

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Meanwhile, Dubai will continue to pursue the strategies of wealth attraction, production and retention that have made it one of the successful economies in the world. Its favorable location as well as opportunistic and forward-thinking policies will assist the emirate in remaining at the nexus of economic modernity and the region's traditional Gulf culture. Much as it has for over a century, Dubai will continue to attract businessmen and capital from across the region and beyond. Already the Emirate can boast what is perhaps the highest percentage of millionaires per capita at around 1.2 percent.⁵³ Those who come in search of an accommodating business climate will be rewarded by certain opportunity and the possibility of prosperity. In the proximate future, Iranians will continue to comprise the most successful cohort of an intellectual and capital influx into the UAE.

Indicative of its perpetual optimism, contractors within Dubai have begun work on

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what will soon be the world's tallest skyscraper.⁵⁴ Although no official figures have been released regarding the size of the Burj Dubai, scale models have revealed 189 stories reaching a half a mile above the desert skyline.⁵⁵ From the top, on a clear day, visitors will be able to look out over the Persian Gulf and see all the way across to the Iranian shore.⁵⁶ This spectacular view, unmatched anywhere in the world, will serve as a simultaneous reminder of the circumstances with which Iranians still struggle at home, and their continued presence and influence throughout the world.

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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