

Iran's Trade with Neighbors: Sanctions' Impact and the Alternatives

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Abstract

This article investigates whether sanctions have changed or influenced Iran's trade patterns, focusing on neighboring countries. The study concentrates first on the United Arab Emirates (UAE), considered Iran's main regional partner. We hypothesize that the sanctions should have had a negative impact on Iran's trade with the UAE, as the latter cooperated with US policies toward the Islamic Republic. By contrast, sanctions were likely to positively influence its trade with Qatar. Indeed, the research shows that Iranian trade with Qatar increased significantly after 2017, while its trade with the UAE declined as a result of the measures adopted toward Iranian businesses in Dubai. However, the results also indicate that despite the UAE's anti-Iranian stance, the country still constitutes a major trading partner for the Islamic Republic, which is trying to mitigate the paralyzing impact of sanctions by developing trade relations with Qatar and other countries, such as Turkey.

Economic sanctions against a country can include positive or negative intentions. The former aim to limit an undesirable action and encourage the adoption of more beneficial ones, while the latter seek to hamper the economic activities of a sanctioned country to put it under pressure or

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under the influence of the sanctioner, mainly for political reasons.¹ In this article, we will discuss negative sanctions, particularly those imposed on Iran.

Hufbauer et al.² show that sanctions can take three main shapes: embargo, financial measures, or boycott. An embargo is imposed to control or cut off exports to the sanctioned economy, whereas a boycott is imposed to restrict its imports. Either measure could result in damage to trade patterns and induce a country to seek new routes, origins, and/or destinations. Moreover, this might result in higher costs of imports if the prices of goods and services from the new sources are higher than the previous ones. Hence, the country's overall economic welfare would decline.

On the other hand, Van Bergeijk³ explains that financial sanctions take different forms. The sanctioning country may restrict or cut off financial transactions with the targeted country through its financial system. This process could involve the escalation of the sanctions to freezing the assets and capital of citizens of the sanctioned country and/or any related investments abroad. Financial sanctions mostly hamper trade indirectly by negatively affecting the currency exchange rate. When the sanctioned country's currency deteriorates, the prices of imported goods rise much higher for local consumers. The purchasing power of the currency declines, lowering people's welfare. This may lead countries to change their trade origins and destinations to lower overall costs.

Allen and Lektzian⁴ try to measure the impact of sanctions on a targeted country, with a focus on the consequences for public health. They control for the impact of military conflicts and public-health interventions. They argue that economic restrictions negatively affect health outcomes in the targeted country. While their analysis shows that the impact of sanctions on food supplies in the targeted country is limited, perhaps as a result of humanitarian assistance, these measures are found to negatively influence the rate of immunization and reduce government expenditures on public health. Moreover, although they find sanctions have no effect on life expectancy, their results show that, by reducing available resources, economic sanctions can negatively affect the probability that individuals will live healthy lives.

IRAN AND ECONOMIC SANCTIONS

Iran is one of the countries most affected by the political shocks and economic sanctions that have been imposed, usually for political reasons, by different countries, particularly the United States, considered to be the country that imposes the most sanctions,⁵ and the European Union. Around the beginning of the 1990s, the United States and the United Nations started to cooperate on sanctions. As the number of sanctioned countries increased, some scholars called this era of cooperation the "sanction decade."⁶ For the most part, US sanctions also became multilateral,

¹ Raul Caruso, "The Impact of International Economic Sanctions on Trade: Empirical Evidence over the Period 1960–2000," *Rivista Internazionale di Scienze Sociali* 113, no. 1 (January 2005).

² Gary C. Hufbauer, Jeffrey J. Schott, Kimberly A. Elliot, and Barbara Oegg, *Economic Sanctions Reconsidered, Third Edition* (Washington DC: Peterson Institute for International Economics, 2009).

³ Peter A.G. Van Bergeijk, *Economic Diplomacy and the Geography of International Trade* (Cheltenham: Edward Elgar Publishing Limited, 2009).

⁴ Allen, S. H., Lektzian, D. "Economic Sanctions: A Blunt Instrument?" *Journal of Peace Research* 30, no. 1, 121–135 (2013). Doi: 10.1177/0022343312456224.

⁵ Caruso, "Impact of International Economic Sanctions."

⁶ Gary Hufbauer and Barbara Oegg, "The Impact of Economic Sanctions on US Trade: Andrew Rose's Gravity Model," Peterson Institute of International Economics, April 2003, <https://www.piie.com/publications/policy-briefs/impact-economic-sanctions-us-trade-andrew-roses-gravity-model>.

especially after 2001, when, as Bapat et al.⁷ claim, the September 11 attacks induced the United States to impose financial sanctions to disrupt terrorism. However, most of the recent US sanctions are multilateral, including the financial measures.⁸

After the 2001 attacks, Iran was accused of supporting terrorism and was targeted by the United States. Moreover, in 2003, the International Atomic Energy Agency (IAEA) discovered Iran's project of nuclear technology and uranium enrichment, and the IAEA and European Union called on Iranian authorities to suspend nuclear-related activities. These calls for suspension came with support from Russia, the United States, and China. However, the Iranian authorities did not respond positively, leading to tensions between Iran and the international community.⁹ As a result, in 2006, the United States imposed sanctions on Iranian banks, restricting their access to the US financial system. The United States demanded that other countries cooperate in imposing sanctions to inflict as much harm as possible on the Iranian economy and put pressure on Tehran to suspend its nuclear program, which it finally did that year.¹⁰

Also in 2006, the UN started to cooperate with the United States in imposing sanctions. The permanent members of the Security Council, plus Germany, adopted a first round of sanctions through UN Security Council Resolution (UNSCR) 1737.¹¹ It put many Iranian entities and individuals connected with Iran's nuclear program on a blacklist, requiring all countries to freeze their assets. Moreover, the resolution prohibited the provision of any materials or equipment to Iran that could be used in the nuclear program.¹²

In 2007, UNSCR 1747¹³ was passed, imposing restrictions on more Iranian entities and individuals than Resolution 1737, including entities that previously were sanctioned only by the US Treasury Department. Furthermore, the resolution imposed a one-way embargo on the arms trade, prohibiting exports from Iran but not imports. A third round of Security Council sanctions took place in 2008, with the passage of UNSCR 1803.¹⁴ This resolution built on resolutions 1737 and 1747, mainly to increase the number of individuals on the blacklist but also putting more restrictions on Iranian imports and exports. Moreover, at this time, sanctions imposed limitations on Iranian financial institutions, particularly two banks, Saderat and Melli.¹⁵

As a consequence of Iran's insistence on enriching uranium, the UN imposed new sanctions in 2007 on investment in Iran's oil and gas sector and its trade in petroleum products. These were directly imposed on trade and differ from the financial sanctions on Iran's central bank, which influences Iran's currency and its terms of trade indirectly. Moreover, restrictions were imposed on

⁷Navin A. Bapat, Luis De la Calle, Kaisa H. Hinkkainen, and Elena V. McLean, "Economic Sanctions, Transnational Terrorism and the Incentive to Misrepresent," *The Journal of Politics* 78, no. 1 (2016): 249–264.

⁸"Sanction Programs and Information," US Department of the Treasury, 2018.

⁹Michael Jacobson, "Sanctions against Iran: A Promising Struggle," *The Washington Quarterly* 13, no. 3, (2008): 69–88.

¹⁰Nodir Ataev, "Economic Sanctions and Nuclear Proliferation: The Case of Iran" (master's thesis, Central European University, 2013).

¹¹"Resolution 1737," United Nations Security Council, December 27, 2006, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N06/681/42/PDF/N0668142.pdf?OpenElement>.

¹²Jacobson, "Sanctions against Iran."

¹³"Resolution 1747," United Nations Security Council, March 24, 2007, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N07/281/40/PDF/N0728140.pdf?OpenElement>.

¹⁴"Resolution 1803," United Nations Security Council, March 3, 2008, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N08/257/81/PDF/N0825781.pdf?OpenElement>.

¹⁵Jacobson, "Sanctions against Iran."

the possession of nuclear material by Iran. Iranian assets were also frozen during that time. This round of sanctions was considered one of the toughest ever on Iran. In 2008, the UN continued its restrictions on the Iranian banking system and the freezing of assets. Moreover, it sought to inspect Iranian aircraft and ships.¹⁶ As a result, Iran's relations with the Western community deteriorated. Iranian authorities considered the nuclear program a right and defended it with all their power.

After that, the situation continued without improvements. Iran did not cease its uranium enrichment or the military activities carried out by the Islamic Revolutionary Guards Corps. Its response resulted in the imposition of more sanctions on its economy and government during 2010. Many countries, including Japan, India, China, South Korea, Turkey, South Africa, and Singapore, responded by reducing their imports of oil from Iran. Canada followed in 2012, along with other countries, and the situation continued to deteriorate.¹⁷

During 2012, more sanctions were imposed by the United States and the EU on Iranian banks. Iran's exports of oil products to EU member states, the destination of 20 percent of the country's total exports, were banned in 2012. That same year, the EU took new action, prohibiting the inflow or outflow of money through any authorized formal channels. In 2003, the newly elected president of Iran, Hassan Rouhani, reached an agreement with the EU and the P5+1 (the United States, United Kingdom, France, China, Russia, and Germany) on the Joint Comprehensive Plan of Action (JCPOA), which stipulated that the sanctions would be relieved if, in return, Iran constrained its uranium-enrichment program. However, the agreement did not take effect until 2015.¹⁸

That year, the Iran nuclear deal led to a de-escalation in tensions with the international community and a decline in the sanctions. However, this situation did not last long, as US President Donald Trump fulfilled a campaign promise to pull out of the agreement. The US withdrawal, which took place on May 8, 2018, has led to an escalation in tensions and a deterioration of the relations between Iran and United States. As a result, the region witnessed several attacks on US drones and other targets such as oil tankers, especially in the Strait of Hormuz. After accusing the Iraqi Popular Mobilization Forces (PMF) of carrying them out, Washington designated the Iran-backed PMF a "terrorist organization," setting the stage for one of the toughest sanction regimes ever imposed on Iran's economy.

Political and economic pressures against Iran started around 1951 in response to the nationalization of the oil industry. However, this article's focus is on the most recent shocks Iran has faced since 2006 as a result of its nuclear program. After being terminated in 2015, when Iran signed the JCPOA, sanctions were re-imposed by the United States in 2018. While there are many empirical studies addressing the costs of the sanctions, the majority of them focus on the effects and influence on the targeted and sanctioning countries.¹⁹ Instead, our study will analyze and assess

¹⁶ "Security Council Tightens Restrictions on Iran's Proliferation-Sensitive Nuclear Activities, Increases Vigilance over Iranian Banks, Has States Inspect Cargo," United Nations, March 3, 2008, <http://www.un.org/press/en/2008/sc9268.doc.htm>.

¹⁷ Ataev, "Economic Sanctions and Nuclear Proliferation."

¹⁸ Elena Ianchovichina, Shantayanan Devarajan, and Csilla Lakatos, "Lifting Economic Sanctions on Iran, Global Effect and Strategic Responses," World Bank Group, <http://documents.worldbank.org/curated/en/298681467999709496/pdf/WPS7549.pdf>; "Iran Nuclear Crisis: What Are the Sanctions?," *BBC News*, March 30, 2015, <https://www.bbc.com/news/world-middle-east-15983302>; Michael R. Gordon and David E. Sanger, "Iran Agrees to Detailed Nuclear Outline, First Step toward a Wider Deal," *New York Times*, April 03, 2015, <https://www.nytimes.com/2015/04/03/world/middleeast/iran-nuclear-talks.html>.

¹⁹ Hufbauer et al., *Economic Sanctions Reconsidered*.

what has happened to Iran's trade with the GCC countries as a result of the shocks that sanctions exercised upon its economy.

Many studies indicate that Iran tried between 2005 and 2015 to modify the direction of its trade away from the countries that imposed sanctions, such as the EU—called in the literature “de-Europeanization”—to other destinations, such as Asia (“Asianization”), mainly to mitigate the detrimental effects of economic and political sanctions on its trade flows. Rasoulinezhad²⁰ investigates Iran's bilateral trade under sanctions with its 50 top trading partners from both the EU and Asia. Using Iran's export and import data with these states over the period 2006–15, he finds that there is a significant negative effect of the sanctions on bilateral trade between Iran and the EU for both exports and imports. On the other hand, the sanctions positively affected bilateral trade between Iran and many Asian countries for both exports and imports. The study concluded that the sanctions resulted in trade convergence toward Asian countries and trade divergence from the EU countries (de-Europeanization). Moreover, Torbat²¹ finds that the Iranian economy was damaged as a result of economic sanctions and political pressure.

It is important to note that until 2015, sanctions were imposed on Iran by the international community to put it under economic pressure. This took place mainly through measures restricting its crude-oil exports and prohibiting it from accessing foreign-exchange assets. In response to the international pressure, Iran accepted the JCPOA, and the sanctions declined after that, as the UN and EU sanctions were lifted. After 2015, the origin of sanctions changed from the international community to the United States. This took place in 2018, when Trump announced the US withdrawal from the JCPOA and re-imposed the sanctions in what became known as the Trump administration's “maximum pressure” policy.²²

While most of the sanctions on Iran have been imposed by the UN, the EU, and the United States, many other countries have implemented and adopted these sanctions. The Gulf states, most of which are considered US allies, were among them. They have contributed to supplying the world market with oil to compensate for any shortages resulting from sanctioning Iranian suppliers and producers. Furthermore, as the UAE is the location of a large number of Iranian businesses, several firms there have been sanctioned by the United States. In addition, the UAE authorities have adopted many US sanctions toward Iranian businesses. However, despite this, transactions between Iran and the UAE have not stopped totally. Accordingly, the United States in 2020 sanctioned several UAE entities because they were trading Iranian oil, viewed as “illicit Iran-UAE trade.”²³ This will be discussed in greater detail below.

Iran–GCC Trade under Sanctions

Iran and its neighbors in the Gulf (the UAE, Saudi Arabia, Qatar, Kuwait, Oman, and Bahrain) have been embroiled in conflicts and tensions for decades. While most of the literature focuses on the relevant political and security dimensions to explain the strategic situation of these countries, our focus will be on the economic dimension, particularly of the most recent sanctions imposed on

²⁰ Ehsan Rasoulinezhad, “Iran's Trade Modification under Sanctions: An Evidence of Trade Divergence and Trade Convergence through the Gravity Model,” *Journal of Economic Cooperation and Development* 38, no. 4 (September 2017).

²¹ Akbar E. Torbat, “Impacts of the US Trade and Financial Sanctions on Iran,” *The World Economy* 28, no. 3 (March 2005): 407–434.

²² Kenneth Katzman, “Iran Sanctions,” Congressional Research Service, February 2, 2022, <https://fas.org/sgp/crs/mideast/RS20871.pdf>.

²³ *Ibid.*

Country	Export destination	Import origin
United Arab Emirates	3	2
Qatar	19	70
Bahrain	67	99
Oman	10	14
Saudi Arabia	--	--
Kuwait	18	60
Iraq	2	45
Yemen	94	--
Turkey	7	6
Syria	23	87

FIGURE 1 The ranking of Iran's trading partners in the GCC region and some selected countries in the first half of 2018.²⁴

Iran, in addition to the tensions with the United States on issues such as its uranium-enrichment program and its sectarian, religious, and security plans in the region. It narrows the discussion of the role of the political economy of these sanctions and their effects on the economic relations of Iran with its neighbors through international trade. In other words, we will try to explain whether the economic sanctions on Iran affected its regional economic relations and integration through analysis of trade patterns before and after the imposition of sanctions.

According to the statistics of the Iran Trade Promotion Organization, among its neighbors, the UAE is considered Iran's main trading partner. At the beginning of 2018, the UAE was classified as the third-largest market for Iran's non-oil exports and its second-largest import partner (see Figure 1). On the other hand, Qatar ranked 19th in its export market, and 70th in market share, making it less important than the UAE. Oman was its 10th largest export market and enjoyed a 14th-place market share in Iran's imports. Kuwait was of less importance, ranking 18th in its export market and 60th in market share. By contrast, trade with Bahrain was almost insignificant, and trade with Saudi Arabia and Yemen was negligible in recent years. Iraq is the second-largest export market for Iran, though of less importance in terms of imports with a rank of 45th. Turkey was its seventh-largest export market and ranked sixth in market share. Syria was in 23rd place as an export market and 87th in market share in Iran.

From the data, one can see that UAE external trade does not heavily depend on Iran. It is the other way around: Iran depends too much on the UAE. Indeed, Iran is not of similar importance to the UAE, as imports from Iran accounted for only about 0.7% of the UAE's trade in 2017, and its exports to Iran were about 4.9% in the same year.²⁵ Qatar as a regional player was of less

²⁴ Thierry Coville, "Update on Trade Relations between UAE/Iran and Qatar/Iran," Fondation Pour la Recherche Stratégique, April 2019, <https://www.frstrategie.org/sites/default/files/documents/programmes/observatoire-du-monde-arabo-musulman-et-du-sahel/publications/en/201915.pdf>, Iran Trade Promotion Organization, <https://en.tpo.ir>.

²⁵ Coville, "Update on Trade Relations," 5. For more information see the International Trade Centre. These statistics include oil exports. <http://www.intracen.org/itc/market-info-tools/trade-statistics/>

importance to Iran during this time. Its exports accounted for only about 0.9% of its total in 2017, and its imports almost the same, about 0.9%.²⁶

In other words, the geographical position and strategic location of the UAE, as well as its transportation infrastructure and investment incentives for some industries, make it a trading cluster in the region. During this time, the Iranian economy was not open to the world at a similar level. Therefore, the UAE was considered a gateway for Iran to the world. Most Iranian imports first passed through the UAE, and were then re-exported to Iran. Similarly, most Iranian exports were first sent to the UAE and after that re-exported to their final destination. As will be presented below, this relationship between Iran and the UAE meant that many Iranian businesses and traders were based in the UAE, especially in Dubai. However, their number has declined recently due to the new political reality between the two countries. Moreover, these traders and businesses found themselves forced into moving to other places as a result of the hardships they faced in the UAE.

Iran–UAE: The Implications of Trump “Maximum Pressure”

As mentioned above, the UAE has long been Iran’s main trading partner in the Gulf region. By referring to the trade statistics, one can see that the trade flows for both exports and imports have been influenced by changes in political tensions between the two countries, which mainly emerged due to the nature of US-UAE relations. Because the UAE considers itself one of the main US allies in the region, it has implemented the UN and US sanctions against Iran since 2011. Moreover, UAE policy toward Iran is linked to its fears about security issues, which can be more directly linked to the Iranian military’s position within the nuclear program.

Trade finance measures were among the sanctions imposed by the UAE central bank on Iran. These measures led to a sharp decline in Iran’s trade with the UAE. According to data from the International Trade Centre, Iranian imports from the UAE increased for many years, reaching \$17.44 billion in 2011, before decreasing due to sanctions to about \$5.7 billion in 2016. Then, after the signing of the international agreement on the Iran nuclear program, imports from the UAE increased again to reach \$8.1 billion in 2017, but this increase did not last long. Imports declined again with the new round of sanctions imposed by the United States in 2018 to reach \$5.7 billion that year. Exports from Iran to the UAE were also affected by the sanctions. These exports, which had been increasing year after year, reached about \$4.5 billion in 2010 before declining over the next four years. After the JCPOA was implemented, though, Iran’s exports to the UAE increased, reaching \$7.4 billion in 2016. However, the rebound didn’t last long, as exports declined with the reimposition of sanctions in 2018, sliding to \$5.9 billion.

To sum up, one can say that the UAE has notably and fully cooperated with Trump’s “maximum pressure” policy toward Iran. This was done mainly by reducing its economic relations with Tehran to the lowest possible levels. It is worth noting that these trade reductions caused deterioration in the Iranian economic system, especially in recent years. Moreover, trade-financing measures have caused the Iranian currency to nearly collapse, depreciating about 70% in value from 2017 to 2019.²⁷ This currency deterioration makes the goods imported from all over the world much more expensive to Iran, which in turn degrades the Iranian people’s general welfare.

²⁶ Ibid. For more information see the International Trade Centre, <http://www.intracen.org/itc/market-info-tools/trade-statistics/>.

²⁷ Coville, “Update on Trade Relations.”

The UAE's adoption of and cooperation with Trump's "maximum pressure" policy, and the re-imposition of sanctions in recent years, have pushed the UAE toward lowering trade incentives and discouraging Iranian businesses and traders based in the Emirates from making deals with Iran. These measures took different shapes: limiting and restricting the renewal and issuance of residence permits for Iranians, and putting restrictions on the banking and financing activities related to deals with Iran in the UAE banking and financial system.²⁸ This created a number of obstacles for UAE-based companies that conduct financial and trade operations with Iranians. Moreover, many Iranian businesses in the UAE have been accused of terrorist activities. Therefore, the UAE is no longer a convenient environment for Iranians to do their business. The authorities placed a lot of obstacles in front of the Iranian traders, forcing many of them to look for other locations for their businesses and investments. Turkey emerged as one of the most common destinations for those traders.²⁹ This increased Iran's trade with Turkey significantly.

As a result of all these measures against Iranians and their businesses in the UAE, which were directly linked to the political tensions due to the UAE's adoption and implementation of the "maximum pressure" policy and the economic embargo, the government of Iran started to search for other regional partners. Qatar and Oman were among the early top choices.³⁰ However, limiting trade relations with the UAE was not an easy task. It had been Iran's main gateway to the world and its principal trading partner for decades. The UAE's trade with Iran remains much greater than that of any other country in the region.³¹

Iran–Qatar: Does the Blockade Help Iran?

Although Qatar emerged as a top choice for an alternative trading partner, we consider the question of whether it really constitutes a new trade destination and ambition for Iran, especially after the blockade of Qatar in June 2017 by Egypt, the UAE, Saudi Arabia, and Bahrain.

The Saudi-led blockade was imposed over Qatar's security and diplomatic relations with Iran and other Islamist groups, yet it was seen as pushing Qatar much closer to Iran. Before the blockade, around 80% of Qatar's food supplies were imported from the other Gulf countries. The blockade offered Iran a great opportunity to get closer to Qatar and compensate for its declining relations with the UAE. Qatar also benefited, as these new ties fulfilled its food needs. Therefore, the new developments in trade between Iran and Qatar during the period of the blockade were mainly in agri-food products and construction materials.³²

²⁸ Martina Fuchs, "Dubai Traders Fear Sanctions Impact on Iran Business," *Reuters*, November 30, 2011, <https://www.reuters.com/article/dubai-iran/feature-dubai-traders-fear-sanctions-impact-on-iran-business-idUSL5E7ML2E920111130>.

²⁹ Coville, "Update on Trade Relations."

³⁰ Faramarz Davar, "Sanctions and Spats Expel Iranian Money Changers from Dubai," *IranWire*, February 1, 2019, <https://iranwire.com/en/features/5817>.

³¹ "Despite Anti-Iran Stance, UAE Remains Its Key Trade Partner," *TRT World*, January 13, 2020, <https://www.trtworld.com/magazine/despite-anti-iran-stance-uae-remains-its-key-trade-partner-32905>.

³² "Iranian Exports to Qatar Continue to Rise," *The Economist Intelligence*, January 25, 2019, <https://country.eiu.com/article.aspx?articleid=87579392>.

However, as Qatar's blockade and the sanctions on Iran pushed the two sides economically toward each other, there was a need to facilitate the trade flow between them. Transportation and banking were among those areas that needed to be developed. The Iranian transportation industry switched most of its shipping lines toward Qatar instead of the UAE. For example, the Torang Darya Shipping Line, one of the largest and most famous Iranian shipping companies, intended after the blockade to boost its businesses and investments in Qatar, as it expected bilateral trade relations to expand. In addition, many other shipping companies have started to offer their services to Qatar. Valfajr, Rah Abrisham Marine Shipping, and Pasargad Shipping are among those companies.³³

This economic and political blockade against Qatar stimulated ambition in Tehran, where it was seen as a new window of opportunity for Iranian businesses because Iran constituted the only land route to Qatar. Moreover, with the blockade, Iranian authorities took a step to build rapprochement with Qatar by permitting it to use Iranian airspace.³⁴ In addition, Iran's ambition to increase its trade with Qatar emerged from the calculation that Qatar, after the blockade, would have to replace the UAE as a trading partner. While the UAE played the central role in trade in the region, and both Iran and Qatar during this time had to limit their trade for political reasons, they felt they might be able to reach an agreement.

According to Abbas Akhoundi, the former Iranian minister of roads and urban development, a joint committee was formed to bolster cooperation between the two countries in both air and marine transportation. The formation of a corridor to facilitate the flow of goods from Iran to Qatar was among their priorities. In addition, the Qatari authorities encouraged the movement of Iranian merchants and traders by supporting and facilitating business trips between the two countries, including by issuing six-month visas for the Iranians.³⁵

Further, the improvement in banking and financial relations to aid transactions between the two countries was among those steps taken to boost trade. As was reported just a few months after the blockade, Bank Saderat Iran worked to enhance the operations and transactions of its branches in Qatar to solve the financial and transactional problems facing Iranian exporters to Qatar.³⁶

As a result of these developments, Iranian exports to Qatar increased by 81% in the five-month period that began on March 21, 2018, compared with the same period in the previous year, according to statistics released by the Iran Customs Administration. Moreover, it was reported that Seyed Hossein, the head of Bushehr province's Industry, Mining, and Trade Organization, declared that the value and volume of trade with Qatar were expected to increase annually by 37% and 23% respectively.

These developments in political and economic relations between the UAE, Iran, and Qatar could be seen through their effects on trade. The data show that Iran's exports to Qatar increased from \$89.6 million in 2014 to \$146.5 million in 2015, when the nuclear agreement took place and the sanctions were lifted. Moreover, Iranian exports to Qatar increased sharply during the blockade, reaching \$248.5 million in 2017 and \$225 million in 2018. From the other side, Iranian imports from Qatar vacillated from year to year and barely exceeded \$20 million in 2017.³⁷

³³ Sepehr Arefmanesh, "Iran Exports to Qatar Up 117%," *Financial Tribune*, November 19, 2017, <https://financialtribune.com/articles/economy-domestic-economy/76398/irans-economic-ties-with-qatar-booming-exports-up-117>.

³⁴ Coville, "Update on Trade Relations."

³⁵ Arefmanesh, "Iran Exports to Qatar."

³⁶ *Ibid.*

³⁷ "Trade Statistics," International Trade Center, www.intracen.org/itc/market-info-tools/trade-statistics/.

However, the trade pattern with Qatar does not seem to meet the expectations and ambitions of Iran, as the level of UAE–Iran trade is much higher. It was not easy to replace the UAE with Qatar, especially considering the withdrawal of the blockade countries from the Qatari market. Some observers find that Turkey was the greatest beneficiary from the blockade of Qatar in terms of trade. Turkey had targeted the Qatari market since the blockade started, with exports in 2018 higher than those in 2017 by about 50%, reaching around \$2 billion.³⁸

Moreover, there were many other challenges that kept the Iranian authorities from achieving their expectations of developing more trade with Qatar. The sanctions imposed on the Iranian financial and banking system made the transfer of the Iranian currency and other currencies impossible. In addition, skepticism among Qatari consumers about the quality of Iranian products may have negatively affected the trade. Moreover, while Qatar was in a critical situation due to accusations of supporting terrorism, it did not want to also be accused of being Iran's ally in the region as a result of developing closer economic and trade relations.³⁹

Turkey, however, constituted a crucial trading partner for Iran even during US sanctions. Turkey still represents a new hope for Iran, especially amid the economic paralysis. The importance of Turkey to Iran emerged when it refused to abide by the US sanctions re-imposed in 2018. While most Western countries complied with the US orders and sanctions, Turkey refused. However, Turkey has decreased its oil imports from Iran as it boosted its import share from Russia and Iraq.⁴⁰

CONCLUSION

This article investigated the impact of US sanctions on Iran's trade patterns, specifically the impact of sanctions on Iran's trade with the UAE and Qatar. While Iran has been under many and varied sanctions, we focused on the last rounds, from 2015–18. The UAE was selected because it is Iran's key trade partner in the region and has cooperated and complied with US sanctions and Trump's "maximum pressure" policy over the years. Therefore, to mitigate the adverse effects of the sanctions on its economy, Iran had to find alternative trade partners to the UAE. Qatar was among those alternatives, especially after the blockade, which created a chance for Iranian businesses to enter the Qatari market and fill the gap that emerged as the flow of trade stopped between Qatar and its Gulf neighbors.

In 2018, Trump imposed severe sanctions on Iran, and many countries complied, paralyzing the Iranian economy. The UAE was among those countries that consider the US an ally and adopted and implemented the sanctions. As a result of this anti-Iranian policy, Iranian businesses started to face many problems and obstacles in their operations, forcing them to seek other targets for investment. These measures and actions have negatively influenced the trade flows between Iran and the UAE.

The Saudi-led blockade on Qatar in 2017 caused a shortage in the Qatari market of the goods previously imported from the blockading countries. This created an opportunity for Iranian businesses and traders to fill the gap and build close economic ties with Doha. At the same time, Qatar

³⁸ Gareth Smyth, "Doha's Iran Imports Jump and It Hopes US Doesn't Notice," *The Arab Weekly*, February 3, 2019.

³⁹ Ibid.

⁴⁰ Huseyin S. Cavdaroglu, "Iran Sanctions: A New Role for Turkey," *Ahval News*, January 25, 2020, <https://ahvalnews.com/iran-turkey/iran-sanctions-new-role-turkey-0>.

was in need of a trade partner to fulfill its needs. As Qatar started to diversify its economy after the blockade, it was pushed closer to Iran, increasing trade flows significantly.

Despite the fact that Iranian-UAE trade declined after the imposition of sanctions, Iranian-Qatari trade has increased. However, the numbers clearly indicate that the UAE is still a key trade partner for Iran, as the volume and value of this trade is much higher than that with Qatar. Iran cannot simply replace one with the other.

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