Trade of Iran

Trade of Iran

Iran – International trade

Following a strong balance of payments performance in 1996-97, mainly due to high oil prices, the period 1997-99 witnessed the deterioration of Iran's external accounts, triggered by tumbling oil prices and stagnant non-oil exports. Imports went down due to the resulting scarcity of foreign exchange, and Iran negotiated re-phasing part of its external debt in 1998 in order to alleviate financial pressure. When oil prices recovered during 1999-2000, and non-oil exports also grew by 9 percent,

TRADE (EXPRESSED IN BILLIONS OF US$): IRAN

	EXPORTS	IMPORTS
1975	7.963	10.343
1980	7.109	12.246
1985	13.328	11.635
1990	19.305	20.322
1995	18.360	13.882
1998	N/A	N/A

SOURCE: International Monetary Fund. International Financial Statistics Yearbook 1999.

the Islamic Republic's external position was enhanced considerably. Iran's trade balance had dropped from a surplus of US$2.8 billion in 1996-97 to a deficit of US$4 billion in 1997-98, although this was reversed again into a US$2 billion surplus in 1999-2000. The International Monetary Fund (IMF) in its 2000 country report on Iran estimated that exports during 1999-2000 totaled US$19.726 billion, while total imports that year amounted to US$13.511 billion. Changes in Iran's external balance are mainly dependent on oil prices. Thus, in 1999-2000, proceeds from crude oil exports rose by 60 percent, despite a decline in the export volume, reflecting the 77 percent increase in the average export price of Iranian crude oil.

Non-oil exports consist mainly of consumer goods (55 percent on average during 1997-2000), followed by raw materials and intermediate goods (about 38 percent). Carpets remain the single most exported Iranian non-oil product. Such exports have declined significantly over the second half of the 1990s, from US$2 billion in 1994 to US$570 million in 1998, which is attributed to competition from low-priced carpet-producing countries. Exports of fresh and dried fruits, at about US$600 million in 1998-99 (of which $416 million came from pistachios alone), have captured a larger share of the total. Chemicals are the most prominent export of raw materials and intermediate goods, hovering at about US$500 million during 1997-2000.

The direction of exports has also remained unchanged since the mid-1990s. While Japan and the United Kingdom are the largest importers of Iranian goods (absorbing about 16 percent and 17 percent of total exports, respectively), Germany and the United Arab Emirates (UAE) are the main destinations for non-oil exports, capturing 13 percent and 16 percent of these exports, respectively. Other important destinations for Iranian exports are Italy (6 percent of non-oil exports and 9 percent of total exports), Greece and South Korea (5 percent of total exports), and Turkey (5 percent of non-oil exports).

Iran imports mainly raw materials and intermediate and capital goods. Imports of consumer goods, at about US$2 billion per year, represent only 14 percent of total imports. Imports of machinery and tools average about US$4-5 billion, which cover the bulk of capital goods imports. Iran's imports of grains and derivatives fell drastically in 1998-99 from about US$1.8 billion the previous years to below US$900 million. Iran also imports a large quantity of chemical products, totaling about US$1.8-2 billion per annum. The most important sources of Iranian imports are Germany (12 percent), Japan (7 percent), and Italy (6 percent).

Since Iran's first application to join the World Trade Organization (WTO) in 1996, it has been constantly blocked by the United States. The application was blocked again in May of 2001, but the administration of U.S. President George W. Bush is thought to be considering dropping its objection now that Egypt has sponsored Iran's application. Iran is a founding member of the Asian Clearing Union (ACU), established in 1974 to provide a mechanism for the settlement of transactions among countries in the Asia-Pacific region. Members are Bangladesh, Burma, India, Nepal, Pakistan, Sri Lanka, and Bhutan. Iran undertakes only about 3 percent of its total trade within the ACU, with Bangladesh, India, Pakistan, and Sri Lanka importing oil and oil products, handicrafts, and machinery equipment. Iran's imports from these countries include machinery, spare parts, and spices from India, jute from Bangladesh, and rice and cotton from Pakistan.

FDI in Figures

The flows of foreign investment in Iran remain very weak compared to the enormous potential that the country can offer. This is due to several factors: the state's supremacy in the economy, external political risk (American embargo, economic sanctions, nuclear crisis) as well as internal (impoverishment of the population, social risks, inflation, crisis of the political regime), and heavy bureaucracy in all sectors.

Foreign investment was developed a little during the era of Khatami who offered an international opening to many foreign companies, notably French and Italian, which invested in oil and gas projects. However, the rate of investment in the country remains very associated to the political context and it is very difficult to predict the global situation of Iran in the next following years.

FDI Government Measures

A new law on incentive and protection of foreign investment and another one simplifying taxation have been voted in 2002. In 2004, a modification of articles 43 and especially 44 of the Constitution authorized the government to privatize many sectors, which had been previously protected, such as banking, transport and oil and gas industries in the downstream of the industry.

Sixteen special economic zones as well as six free-trade zones have been also introduced in the Iranian territory.

In order to attract foreign investment as well as obtaining knowledge, buy-back systems have been established in which the revenues of the foreign investor partner can be repatriated in the means of goods and services produced by the project. In terms of investment, the Iranians offer privileges to investors who can provide long term strategies and transfer of technologies.

Country Strong Points

Iran benefits of great potentials which are currently under-exploited due to its isolation on the international scene.

Iran represents an important market (70 million inhabitants) with a young population eager of consuming foreign products. It is a solvent market with an enormous need of consumer goods, equipment and large infrastructure projects (electricity, water, accommodations, transport, etc). Production costs (work, energy, etc) are low.

Iran, because of its geographical location, is also an ideal base for exports in the region and its energy resources are very attractive to foreign investment.

Country Weak Points

Iran hurts from its international isolation and this fact has an undeniable impact on its economy.

The influence of the State in the economy is very important with numerous organizations linked to the state and disposing of funds and important budgets without coherent management. Corruption is wide-spread in the country.

Geopolitical tensions, particularly with Israel and domestic instability are also major risk elements.

Foreign Trade Overview

Iran is a member of the Organization of Petroleum Exporting Countries (OPEC). The share of foreign trade (exports + imports) in the country's GDP is nearly 50%, with oil accounting for 80% of the exports income. The top three export partners of Iran are Japan, China and the European Union. Besides oil, Iran mainly exports pistachio nuts, carpets, petro-chemical products, organic chemicals, aluminum, and plastic materials. Its top three import partners are the United Arab Emirates (which plays the role of re-exporting center), Germany and France. The main goods imported are machinery, iron & steel, electric & electronic equipment and cereals.

The Iranian population is young and foreign consumption goods are in high demand, which could offer a dynamic market for imports into the country. It is important to mention that a large part of these foreign products are smuggled into the country through Dubai.

https://www.globaltrade.net