# Asia-Pacific Trade Briefs

# Islamic Republic of Iran

**Merchandise trade:** The Islamic Republic of Iran holds the world's 4th largest proven crude oil reserves and the world's 2nd largest proven natural gas reserves. Its economy and export sector is highly dependent on the export of petroleum oils and petroleum derivatives which account for over three-quarters (77.3%) of exports. Despite falls in global commodity prices, including for fuels, merchandise exports reportedly grew by 7.6% in 2014 – a significant improvement from average annual contraction of -3.2% between 2010-2014, and a better performance than the Asia-Pacific region overall (1.5%). Growth was lifted substantially by the signing of an interim deal on the nuclear issue in November 2013 which led to the loosening of some export sanctions. This resulted in markedly higher exports of condensate (a light petroleum liquid). In response to the global downturn in fuel prices, the nation also boosted oil production by 130,000 barrels a day to 2.81 million barrels a day in 2014. Export growth was also assisted by continuing demand from the country's main export partners – China, India and Turkey – which together account for 76.4% of exports.

**Services trade:** Services exports and imports also grew sharply, by 34.6% and 12.4% respectively in 2014. This is better performance than the Asia-Pacific region overall (4.8% and 6.1%). Transport, travel and construction are the largest sectors in services trade.

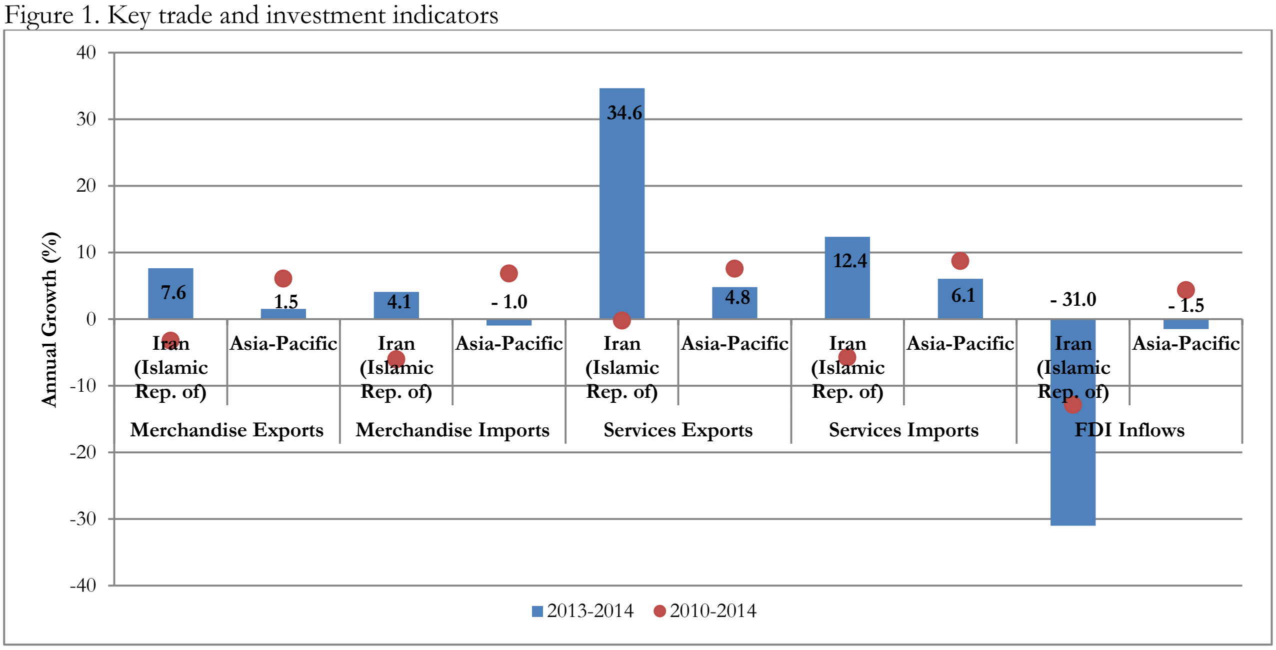
**Global value chains (GVCs):** The share of intermediate goods in trade – a proxy for participation in GVCs – is lower in the Islamic Republic of Iran (15%) than the Asia-Pacific average (18%) for exports, and higher (27%) than the Asia-Pacific (22%) for imports. The Islamic Republic of Iran's relatively low level of participation in GVCs results from its status as primary energy-exporting economy which hinders its economic diversification. However, intermediate inputs feature as an important share of imports chiefly because of its large domestic automotive industry.

**Foreign direct investment (FDI):** The Islamic Republic of Iran's FDI inflows contracted sharply, by -31.0% in 2014. FDI has more than halved, from $4.7 billion USD in 2012 to $2.11billion in 2014. Factors behind the slowdown include: geopolitical instability in the region; international economic sanctions which limit the pool of potential investors; and diminishing future prospects in the oil and gas sector – due to projections of lower oil prices. Nevertheless, recent improvements in diplomatic relations with several major economies and the prospect of sanctions being eased further may spell a more optimistic future for foreign investment.

**Trade costs:** Intraregional trade costs in the Russian Federation have fallen slightly since 2009. It is costlier for Asia-Pacific economies to trade with the Islamic Republic of Iran than with East Asia-3 (China, Japan and Republic of Korea) – the intraregional benchmark – and with EU-3 (France, Germany and United Kingdom) – the extraregional benchmark.

**Trade agreements:** The Islamic Republic of Iran has 4 trade agreements in force, lower than the Asia-Pacific average of 7 agreements. 15% of exports are to PTA partners, compared to 35% for the Asia-Pacific. 16% of imports are from PTA partners, compared to 45% for the Asia-Pacific.*

Figure 1. Key trade and investment indicators




*Country notes summarising results of the UNRC Survey 2015 are available at: http://unnext.unescap.org/UNTFSurvey2015.asp

Figure 2. Top merchandise markets

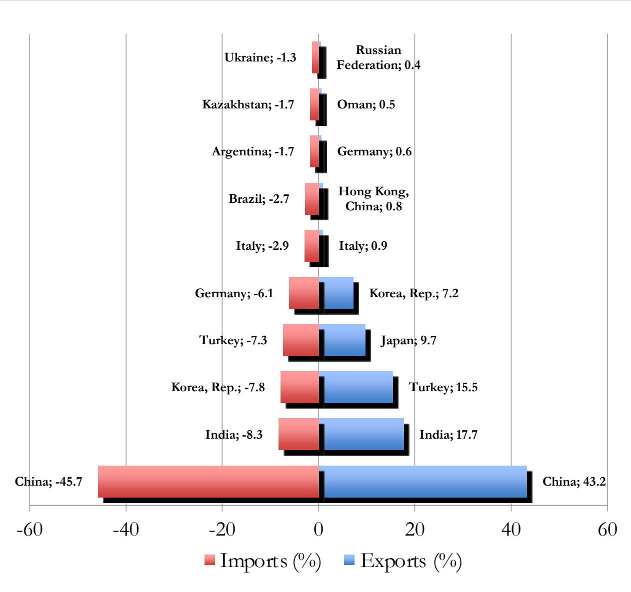



Figure 3. Top merchandise products

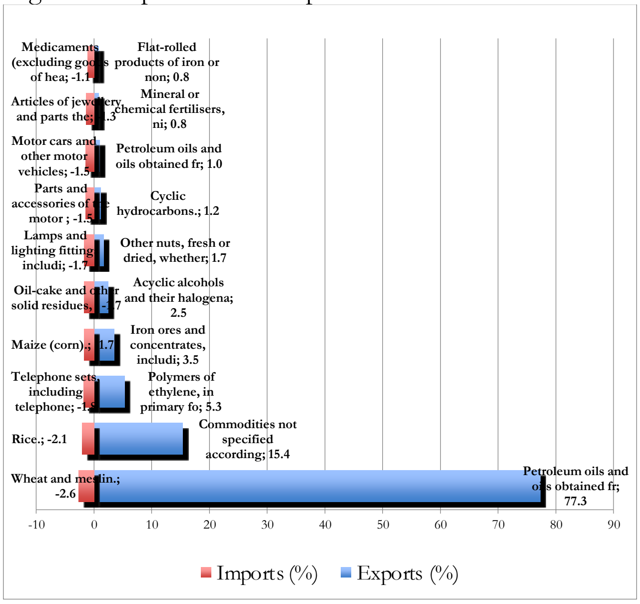



Figure 4. Trade in goods by their use

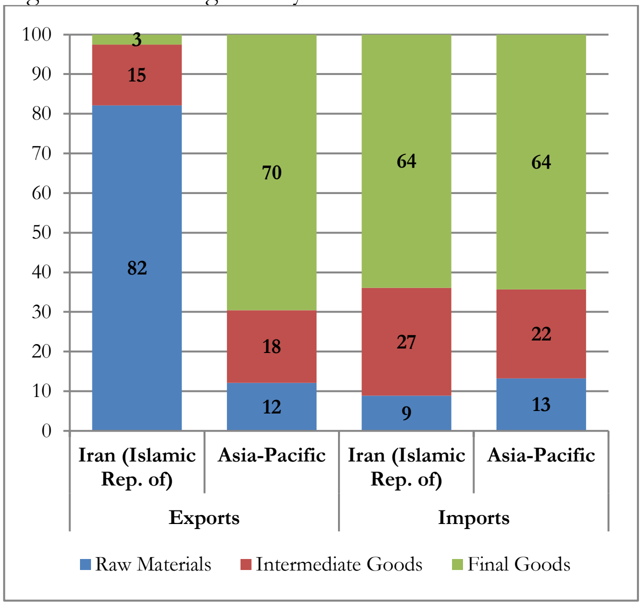



Figure 5. Foreign direct investment

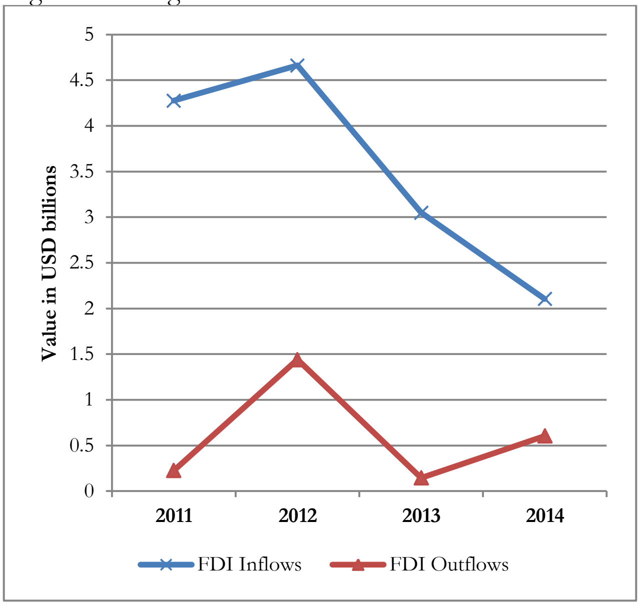
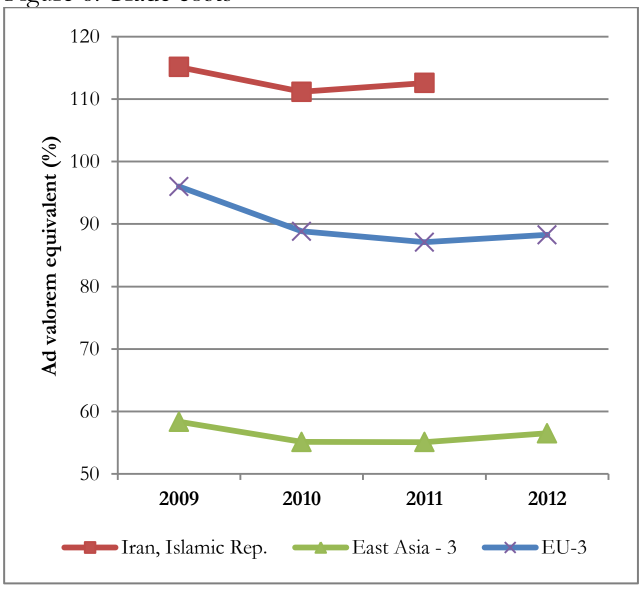



Figure 6. Trade costs




*Sources:* Trade and tariff data were accessed through WITS. FDI data was accessed through UNCTADstat.
*Notes:* Trade data follows the HS2007 classification. Mirror data is used. Products are defined at the 6-digit level.
*Definitions:* Primary, intermediate, consumer, and capital goods are defined using UNCTAD System of Accounts. Final goods are defined as the sum of consumer and capital goods. Bound tariff is the maximum most favoured nation (MFN) tariff permitted under WTO obligations. MFN applied tariff is the tariff applied on imports among WTO members. Effectively applied rate is the lowest tariff available, i.e. preferential rates where available.
*Authors:* Aman Saggu and Luca Parisotto; comments from Mia Mikic, Witada Anukoonwattaka, Rajan Ratna, and Adam Heal; contact: escap-tid@un.org.