

## **Challenges and Prospects for Bilateral Trade and Investment between Iran and South Korea**

**Abbas Aminifard\***

*Department of Economics, Economics and Management College, Shiraz Branch,  
Islamic Azad University, Shiraz, Iran*

**Hyun Hoon Lee**

*Department of Economics, Kangwon National University, Chuncheon, South Korea*

**Kwon Hyung Lee**

*Korea Institute for International Economic Policy, Seoul, South Korea*

### **Abstract**

This paper aims to identify key challenges facing Iran and South Korea in their bilateral trade and investment relations. In particular, it is concerned with the policy implications which can be useful for policy makers and business people of both countries. For this purpose, we review and analyze the recent developments of the Iranian economy and bilateral trade and investment relations between Iran and Korea as well. Then, we discuss how the impact of the recent economic sanction imposed on Iran has affected the economy and the economic relations between Iran and Korea. Finally, this paper identifies the pattern of revealed comparative advantage (RCA) at the 2 digit sector level of the Harmonized System of classification. The analysis shows no similarities in the structure of comparative advantage for Iran and Korea. After identifying some key challenges, we discuss how both sides can overcome the obstacles to boost the mutually beneficial trade and investment.

**Keyword:** Iran, South Korea, Bilateral Trade, IIT, RCA, FDI

**JEL Classification:** F11, F14

---

\* Corresponding author, aaminifard@yahoo.com. I would like to acknowledge Kangwon National University and Korea Institute for International Economic Policy (KIEP) for support this research.

## 1. Introduction

This paper aims to identify key challenges facing Iran and South Korea in their economic relations. To this end, the paper analyzes the recent evolutions between two countries in case of bilateral trade and investment, and it is concerned with challenges and opportunities that play a crucial role in their future collaboration. That is, it discusses how the recent economic sanction imposed on Iran has affected the economic relations between Iran and Korea. Additionally, this paper measures the revealed comparative advantage (RCA) index for both countries at the 2 digit sector level of the Harmonized System of classification in order to show any similarity between specific sectors of both countries. This can be pertinent for expanding bilateral trade patterns especially in form of inter industry trade.

The remaining of the paper includes a history of economic relations between Iran and Korea (Section 2), Effect of sanctions (Section 3), IIT measurements (Section 4), measurement of the RCA (Section 5), A Comparison between RCA and IIT in both countries (Section 6), investment potentials for more collaboration (Section 7) and conclusion (Section 8).

## 2. History of Economic Relations

Over the last decades, Iran and South Korea have made considerable efforts to increase their bilateral trade relations. In 2005, the South Korea's

Chamber of Commerce along with the Iran's Chamber of Commerce, Industries, and Mines (ICCIM) discussed in a convention in Tehran and established strategies to increase economic and trade relations between the two countries' private sectors. At the gathering, both parties emphasized that they will do their best to take the appropriate steps for a greater level of bilateral trade relations. Consequently, they stressed on intimate collaboration between the two nations that pave the way for greater capital mobility, exchanging technological innovation exchange as well as monetary policy, which can be required for trade growth.

In May 2009, South Korean ministers took part in an important meeting on FDI in Iran. South Korea additionally attended the Iranian gas discussion board on September 26–27, 2009 along with Germany, the United Kingdom, Japan, the Netherlands and Malaysia. Table 1 shows a comparison between a number of economic indicators in Iran and Korea. Overall, Korea has a better condition in economic indicators than those of Iran.

**Table 1: Comparison of some economic indicators between Iran and Korea**

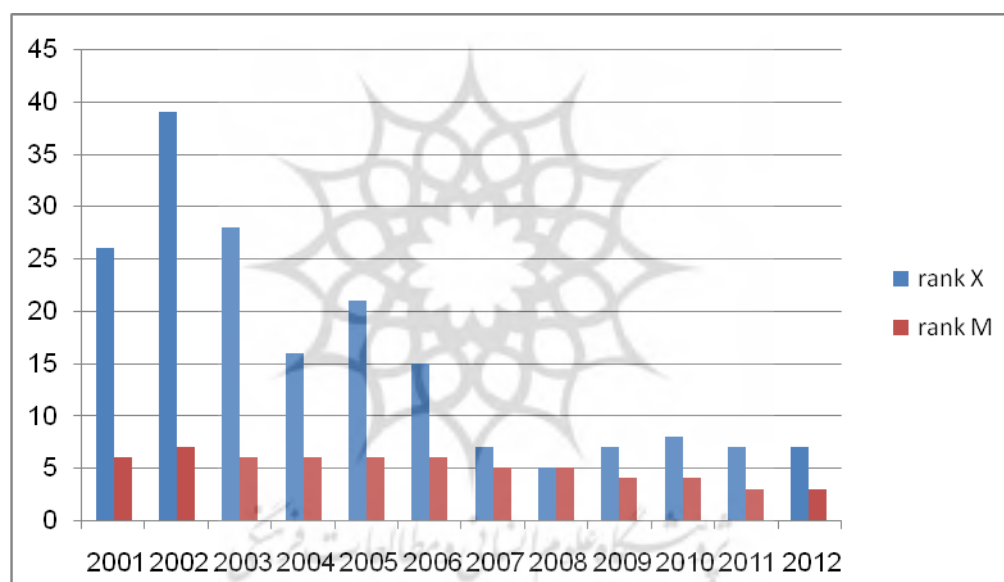
	Iran	Korea
Rank in the world trade		
Exports	33	7
Imports	47	9
Trade per capita (US\$, 2008-2010)	2,653	21,575
Trade to GDP ratio (2007-2009)	58	108
% change (2005-2009)		
Exports	4	9
Imports	6	7
Simple average of import duties		
All goods	26.6	12.1
Agricultural goods (AOA)	30.4	48.6
Non-agricultural goods	26.1	6.6
Share in world total exports	0.72	3.04
Share in world total imports	0.34	2.84

**Source:** IMF data bases (2012)

According to the latest data released by comtrade.un.org website, the volume of Korea's exports to Iran has reached USD 4.811 billion in 2012. The export value has risen 1.5 percent. This is while Iran's exports have been USD 6.072 billion during this time. The major of Iran's Exports has been oil, which has been the 12th main exporter to South Korea while Korea is the 20th exporter to Iran. The total volume of bilateral exchange between two countries has reached about USD 10.028 billion in 2012, an increase of 3 percent relative to 2011.

The data obtained from the Tehran Chamber of Commerce (www.tccim.ir) shows that in the past decade (2001-2011) Korea's rank based on volume

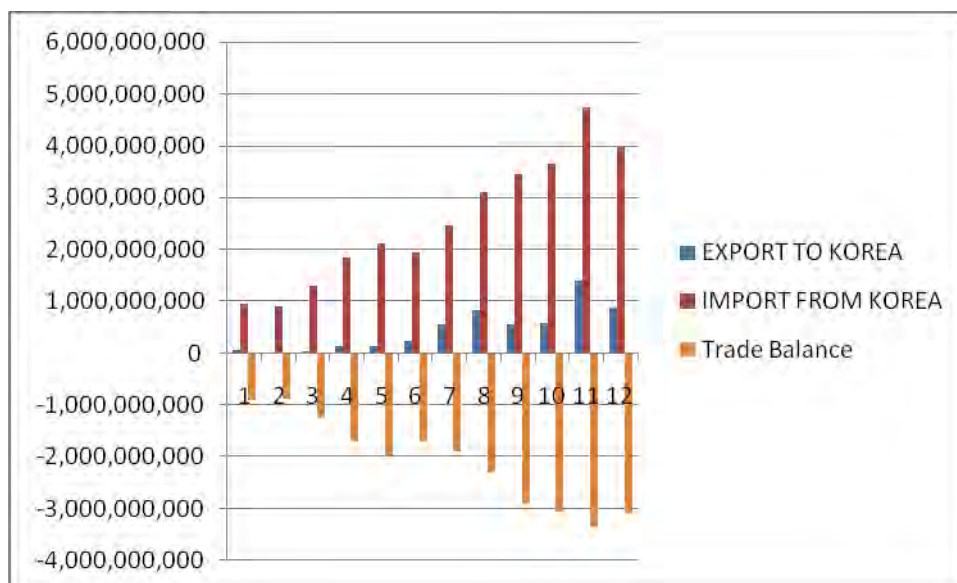
of trade with Iran has continuously improved. Accordingly, in 2012 ranking base on import was third (after UAE and Korea) and seventh on exports (after Iraq, Korea, UAE, Afghanistan, Iran and Turkey) while in 2002 this ranking was 39 and 7 respectively. This shows that Korea and Iran share common features in many respects. However, Korea has been more connected with trade world and advanced in some of the specific sectors, such as automobile industry, information and communication, electronic devices etc (IMF, 2012)



**Figure 1: Korea's Rank on Trade with Iran (2001-2012)**

*Source:* Compiled from official statistics of the Tehran Chamber of Commerce (www.tccim.ir)

It has been frequently recognized that Iran possesses limited non-oil exportable goods when compared with Korea. Due to the persistence of unequal balance between demand and supply of goods, the question of balance of trade and balance of payments has been in central when considered Iran-Korea trade relation. Trade imbalance in total with Korea in value increased significantly as shown in Figure 2.



**Figure 2: Iran merchandise trade with Korea, 2001–2012 (Million Dollars)**

*Source:* Compiled from official statistics of the Tehran Chamber of Commerce ([www.tccim.ir](http://www.tccim.ir))

### 3. Effects of Sanctions

The current global action to employ new in addition to the present trade sanctions against Iran is giving corporations as well as financial institutions involved in or possibly assisting business with Iran with fundamental problems. The sanctions are principally concentrated on limiting business in the energy sector, especially in the oil, gas as well as nuclear sectors, while additionally limiting investment and even financing of particular companies in Iran. The new sanctions aim to restricting imports and prevent the development of relevant facilities in Iran. However, the consequence of the sanctions may even resonate in the global trade; shipment as well as financial sectors.

There are types of sanctions imposed by United Nations, European Union, the US and other countries worldwide. In respect of the latter, several countries around the world possess launched or even are actually in the procedure for announcing national regulation to apply worldwide sanctions into home regulation and/or to initiate home sanctions plans of their own .

According to recent sanctions against Iran, Japan together with South Korea have joined the global coalition which is pressing Iran , not just to sustain their close relations with the United States but probably to force Iran . In September 2010, Japan together with South Korea publicized trade, banking, as well as energy of Iran sanctions much like the ones from the EU. On December 16, 2011, South Korea prohibited sales of energy industry equipment to Iran.

The two countries have decreased oil imports

from Iran and, consequently, both are issued sanctions exemptions (and succeeding renewals for the exemptions) under P.L. 112-81<sup>2</sup>. Both countries were worried about the side effects of the EU ban on insurance lines transporting Iranian oil; however they did the trick around that by establishing completely new insurance coverage systems. Consequently, both of them still import Iranian oil, although much below the year 2011 level.

Initiating the condition that oil purchasers pay back Iran in local currency would possibly not have an effect on Japan as well as South Korea's trading patterns with Iran radically. South Korea repays Iran's Central Bank via local currency exchange accounts at its own Industrial Bank of Korea and Woori Bank, and even its major exports to Iran have been iron as well as steel, along with appliances and electrical appliances produced by corporations for example Samsung and LG. Japan exports to Iran an excessive amount of chemical as well as rubber goods, along with consumer electronics. These types of exports are inclined to keep choosing local currency accounts.

Overall effects of sanctions on the Iranian economy can be summarized as follows:

#### 3.1. Reduction in Oil Exports

Oil revenue has accounted for approximately 80% of Iran's foreign currency income, and the

<sup>2</sup> Sanctioning Against Dealings With Iran's Central Bank/Section1245 of the FY2012 National Defense Authorization Act

government (Central Bank), not the privately owned sector, manages the proceeds. Sanctions possess halved Iran's oil revenue from the 2.5 million barrels on a daily basis of sales in 2011. This decline is anticipated to deprive the Iranian government of around \$50 billion for all of 2013. (Monthly Oil Market Report)

### 3.2. Declining Oil Production

To make attempts to handle dropped oil revenue, Iran started accumulating some unsold oil on tankers in the Persian Gulf, which is building new storage tanks on seashore. Iran stored around twenty million barrels to make sure to maintain production levels up—shutting down wells challenges damaging them, which is expensive as well as time-consuming to resume production at a shut well. Nevertheless, that method was ineffective and even Iran total oil production has decreased to around 2.6 million barrels daily from the amount of close to 4.0 million barrels daily by the end of the year 2011.

### 3.3. GDP Reduction

Sanctions have caused Iran to experience the first unpleasant domestic product contraction in 2 decades. An IMF international report released in late April 2013 declared that Iran's economy shrank 1.9% from March 2012-March 2013, and will probably reduce an additional 1.3% in the future 12 months' time. The IMF statement expected the economy would certainly go back to growth, at around 1%, for the one full year following that (March 2014-March 2015). The recession has raised the unemployment rate to around 20%, even though the Iranian government states that the rate is 13%. Economists assess that there are a burgeoning numbers of non-performing financial loans (extract of Central Bank of Iran, annually report)

### 3.4. Currency Collapse

The Iran government has been attempting to decrease the side effects of a currency collapse. The worth of the Iranian currency (Rial) dropped at unofficial marketplaces from around 13000 rials to 1 U.S. Dollar in September 2011 to almost 40000 rials to 1 dollar in at the beginning of October 2012. It was again appreciated to around 32000 to the 1 dollar in August 2013. (extract of Central Bank of Iran, annually report)

The currency collapse has led Iran to make attempts to strengthen its own hard currency. The economic authorities have restricted imports of luxurious products including automobiles or even mobile phones (the last two of the government's ten groups of imports, rated by their importance). The government remains providing hard currency for essential imports, which can be paid by the

official rate of dollar by about 28500 rials to 1 USD.

### 3.5. Inflation

A number of Iranians as well as outside economists fear that hyper-inflation may possibly cause the rapid currency crash. The late April 2013, government made an effort to unify the exchange rate set off a wave of hoarding of fundamental food stuff by Iranians who sadly are anticipating the price ranges of those products to increase rapidly. The Iranian Central Bank anticipated on January 9, 2013, that the inflation rate is around 27%—the highest possible rate ever admitted by the Bank—and the government admitted an even considerably higher 31% rate in April 2013 (extract of Central Bank of Iran, annually report). Several economists expressed that these official figures understate the genuine inflation rate substantially, that is certainly between 50% and 70%. Some assert that inflation is fed through the policies of Ahmadinejad, such as the substitution of subsidies with cash payments, along with this allegedly politically-motivated behavior just like extra cash payments to Iranians on March 2013.

### 3.6. Industrial Production

Most Iranian industries rely on imports; therefore the currency collapse has made them difficult for Iranian manufacturing to operate well.

Iran's car industry has dropped by around 40% from 2011 levels. Iran produces automobiles for the domestic market based on licenses from European car manufacturers such as Renault as well as Peugeot. (extract of Central Bank of Iran, annually report)

### 3.7. Shipping Issues

Beyond the problem of the cost of imported products, the Treasury Department's designations of affiliates and lines belong to Islamic Republic of Iran Shipping Lines (IRISL) apparently are negatively affecting Iran's capability to forward products in any way, and have additionally brought up the price ranges of products to Iranian import-export traders. A number of ships have been impounded by different countries for nonpayment of debts due on them.

### 3.8. Domestic Payments Issues

Proposing Iran's operating budget is struggling; several reports state the government is in arrears in wage payments to army staff as well as other government employees. In late 2012, Iran's parliament postponed phase 2 of an attempt to wean the population off subsidies, in return for cash payments of around \$40 monthly to sixty

million Iranians. Phase one of that programs started in December 2010 after quite a few years of debate and also delay, and was praised for rationalizing gasoline prices. Gasoline prices currently run on a tiered system in which a small increment is available at the subsidized price of around \$1.60 per gallon; however amounts above that threshold can be found merely at a cost of around \$2.60 per gallon, near to the world price. Before the subsidy phase out, gasoline was offered for around forty cents per gallon. Ahmadinejad is pushing the parliament to move ahead on phase 2 of the subsidies. (extract of Central Bank of Iran, annually report)

### 3.9. Flights Curtailed

Due to the decrease in Iran's trade with European union countries, KLM as well as Austria Airlines publicized in January 2013 which they would be stopping air flights to Iran later in 2013. Lufthansa and several other European Union

airlines, as well as the majority of airlines in the Persian Gulf, Middle East, and South Asia region still fly to Iran on a regular basis.

### 4. Measurement of Intra-Industry Trade

We calculated intra-industry trade (IIT) indices, which quantify the extent to which bilateral imports and exports are matched within sectors. After use of Grubel and Lloyd (GL) index at the 2-digit from the Harmonized System (HS), It could be found that Iran and Korea had the maximum levels of trade overlap, on average, in products coded by H2-29 (Organic chemicals) and H2-57 (Carpets and other textile floor coverings), while they had minimum values of IIT, on average, in products coded by H2-12 (Oil seeds and oleaginous fruits), H2-26 (Ores, slag and ash) and H2-30 (Pharmaceutical products) respectively. These data were extracted from www.com-trade for 2006 and 2011.

**Table 2- Measures of GL Intra-Industry Trade, on Average, for Iran and Korea  
(2-digit Level in 2006 and 2011 (%))**

Code	Product	2006	2011	Share of bilateral trade (2006)	Share of bilateral trade (2011)
H2-03	Fish and crustaceans	19	0	<1%	<1%
H2-13	Lac; gums, resins and other vegetable	6	0	<1%	<1%
H2-15	Animal or vegetable fats and oils	11	0	<1%	<1%
H2-17	Sugars and sugar confectionery	6	3	<1%	<1%
H2-19	Preparations of cereals, flour, starch or milk fill, baketc materials	0	5	<1%	<1%
H2-20	Preparations of vegetables, fruit	18	7	<1%	<1%
H2-22	Beverages, spirits and vinegar	0	33	<1%	<1%
H2-25	Salt; sulfur; earths and stone	23	1	<1%	<1%
H2-27	Mineral fuels, mineral oils and products of their distillation	7	3	6%	13%
H2-28	Inorganic chemicals	59	0	<1%	<1%
H2-29	Organic chemicals	53	98	3.5%	2%
H2-38	Miscellaneous chemical products	69	0	<1%	<1%
H2-40	Rubber and articles thereof	6	2	1.1%	1.2%
H2-44	Wood and articles of wood	0	3	<1%	<1%
H2-47	Pulp of wood or of other fibrous	0	11	<1%	<1%
H2-55	Man-made staple fibers	3	0	1.3%	<1%
H2-57	Carpets and other textile floor coverings	67	38	<1%	<1%
H2-59	Impregnated, coated, covered or laminated	4	0	<1%	<1%
H2-68	Articles of stone, plaster, cement, asbestos	13	6	<1%	<1%
H2-69	Ceramic products	2	0	<1%	<1%
H2-70	Glass and glassware	4	8	<1%	<1%
H2-72	Iron and steel	0	4	18%	13.5%
H2-74	Copper and articles thereof	3	0	1%	<1%
H2-76	<b>Aluminum and articles thereof</b>	<b>5</b>	<b>89</b>	<b>&lt;1%</b>	<b>&lt;1%</b>

*Source:* [www.com-trade.ir](http://www.com-trade.ir), and compiled by the authors.

### 5. Measurement of Revealed Comparative Advantage (RCA)

The concept of revealed comparative advantage (Balassa 1965, 1977, 1986) pertains to the relative trade performance of individual countries in specific commodities. On the assumption that the commodity pattern of trade reflects inter-country differences in relative costs as well as in non-price factors, it is assumed to reveal the comparative advantage of the trading countries. The factors that contribute to movements in RCA are interpreted economically: structural change, improved world demand and trade specialization.

The index of revealed comparative advantage has a relatively simple interpretation. If it takes a value greater than unity, the country has a revealed comparative advantage in that product.

The advantage of using the comparative advantage index is that it considers the intrinsic advantage of a particular export commodity and is consistent with changes in an economy's relative factor endowment and productivity. The disadvantage, however, is that it cannot distinguish improvements in factor endowments and pursuit of appropriate trade policies by a country.

In this paper, an analysis of Revealed Comparative Advantage (RCA) has been

undertaken at the sector level. The RCA indices have been calculated for Iran and Korea in all the 97 chapters of the Harmonized System (HS -2012) classification for the years 2006 and 2011. As it is possible that the pattern of comparative advantage may differ across different levels of disaggregation and sectors in which a country's exports may be typically strong may often include disaggregated sub-products in which they are not and conversely, the paper also analyzes revealed comparative advantage at the more disaggregated levels i.e. the 6 digit level of HS classification. The index of RCA (RCAI) is calculated using data on exports for both Iran and Korea as from UN COMTRADE.

#### 5.1. Iran

In the case of Iran, the index of RCA has been greater than one for 14 sectors in 2011, indicating that the country holds comparative advantage of these sectors in the world market. As a percentage of total exports, Iran enjoys comparative advantage in 89% of its total exports. Iran's comparative advantage has been arising from carpets and other textiles, mineral fuels and oils, edible fruit and nuts, Zinc and articles thereof.

**Table 3: Iran: Top ten sectors based on the RCAI in 2006 and 2011**

HS code	2006	HS code	2011
57	Carpets and other textile floor coverings	57	Carpets and other textile floor coverings
27	Mineral fuels, mineral oils and products of their distillation	27	Mineral fuels, mineral oils and products of their distillation
08	Edible fruit and nuts; peel of citrus fruit or melons	99	Commodities not specified according to kind
05	Products of animal origin, not elsewhere specified	08	Edible fruit and nuts; peel of citrus fruit or melons
79	Zinc and articles thereof	25	Salt; sulfur; earths and stone; plastering materials
14	Vegetable plaiting materials; vegetable product	79	Zinc and articles thereof
28	Lead and articles thereof	14	Vegetable plaiting materials; vegetable products nes
07	Edible vegetables and certain roots and tubers	31	Fertilizers
09	Coffee, tea and spices	78	Lead and articles thereof
13	Lac; gums, resins and other	07	Edible vegetables and certain roots and tuber

*Source:* [www.com-trade.ir](http://www.com-trade.ir), and Compiled by the authors.

The number of sectors for which Iran enjoys comparative advantage remains roughly the same between 2006 and 2011. In 2006 Iran enjoyed comparative advantage in 11 sectors and in the year 2011 in 14 sectors. While 10 out of the 11 sectors retain their comparative advantage in 2006, one sector loses its advantage (Coffee, tea and spices).

Of the ten most competitive sectors for Iran in

2006, seven retain their advantage in 2011. While sectors like articles of Products of animal origin (HS-05), Coffee and tea (HS-09), Lac; gums, resins and other vegetable saps and extracts (HS-13) drop out of the top ten set, sectors like commodities not specified according to kind (HS-99), Salt; sulfur; stone; plastering materials (HS-25) and Fertilizers (HS-31) make an entry as Iran's most competitive sectors in 2011.

### 5.2. Korea

In 2006, Korea enjoyed comparative advantage in 21 sectors and in the year 2011 in 18 sectors. While 16 out of the 21 sectors retain their

comparative advantage in 2011, 5 sectors lose their advantage (HS codes 92, 50, 65, 74, 41) and two sectors added in 2011 (HS codes 78 and 28).

**Table 4: Korea: Top ten sectors based on the RCAI in 2011**

HS code	2006	HS code	2011
89	Ships, boats and floating structures	89	Ships, boats and floating structures
60	Knitted or crocheted fabrics	60	Knitted or crocheted fabrics
54	Man-made filaments	54	Man-made filaments
59	Impregnated, coated, covered or laminated textile fabrics	79	Zinc and articles thereof
58	Special woven fabrics; tufted textile fabrics; lace, tapestries;	90	Optical, photographic, cinematographic, measuring,
85	Electrical machinery and equipment and parts thereof;	72	Iron and steel
90	Optical, photographic, cinematographic, measuring,	85	Electrical machinery and equipment and parts thereof;
79	Zinc and articles thereof	59	Impregnated, coated, covered or laminated textile fabrics
55	Man-made staple fibers	78	Lead and articles thereof
72	Iron and steel	29	Organic chemicals

*Source:* www.com-trade.ir , and Compiled by the authors.

Of the ten most competitive sectors for Korea in 2006, eight retain their advantage in 2011. While sectors like Man-made staple fibers (HS-55) and Special woven fabrics (HS-58) drop out of the top ten set, sectors like Lead and articles thereof (HS-78) and Organic chemicals (HS-29) make an entry as Korea's most competitive sectors in 2011.

### 5.3. Analysis of Spearman Rank Correlation

Dynamic structural changes over 2006-2011 are analyzed using the Spearman Rank Correlation (SRC) coefficients for Iran and Korea. The SRC coefficient, a nonparametric test, is often used to test for independence between two random variables. The range of possible values is from -1 to +1. A value close to +1(-1) will be interpreted to mean strong positive (negative) rank correlation while a value of zero indicates a complete lack of correlation. For the purpose of our analysis, a high rank correlation will be interpreted to mean the ranking of a country's industries by comparative advantage has changed little over time. A low coefficient will indicate the ranking has changed considerably, suggesting thereby rapid change.

The SRC coefficient analysis has been undertaken for Iran and Korea for the manufacturing sector as a whole as well as for individual sectors within manufacturing. The two steps help to analyze if there has been a structural shift in the economy as a whole as also within different sectors.

For the manufacturing sector as a whole, the SRC for Iran is 0.84 indicating no significant structural change over 2006 and 2011. For Korea

the SRC value is 0.94, again implying that the structure of industries enjoying comparative advantage does not undergo any change between 2006 and 2011.

### 6. A Comparison between RCA and IIT

By comparing results arising from RCA with IIT measurements, we conclude that most bilateral trade between two countries can be explained by inter industry trade. More than 80% of Iran exports to Korea is mineral fuels, mineral oils and products of their distillation while IIT for this sector are less than 10%, and a decline overtime from 7% to 3%. On the other hand, more than 70% of Korea's exports to Iran include which does not consist of IIT pattern. These include machinery and mechanical appliances (21%), Iron and steel (15.7%), vehicles except railway (12.6%), plastics and articles thereof (11%), electrical machinery and equipment (10%).

IIT index for aluminum and articles thereof, carpets and other textile floor coverings and organic chemicals were more than 50%. This means that Iran and Korea have the chance to promote bilateral trade in these sectors.

Finally, RCA for organic chemical sector has advantage for both countries in the world market.

### 7. Investment Potentials for more Collaboration

Iran is one of the richest regions in the world in terms of hydrocarbon resources. A total of 102 fields are oil and the remaining 43 are gas, and there are 205 oil reservoirs and 92 natural gas



reservoirs. According to Iran Energy Balance Sheet (2009, in Persian), 78 of these fields are currently active, with 62 onshore and 16 offshore, leaving 67 fields inactive at present. Some 23 hydrocarbon fields lie in border areas and are shared between Iran and adjacent countries, including Kuwait, Iraq, Qatar, Bahrain, UAE, Saudi Arabia and Turkmenistan. According to Iran Petroleum Ministry, Iran's proved natural gas reserves are about 1,045.7 trillion cubic feet (29.61 trillion cubic meters) or about 15.8% of world's total reserves, of which 33% are as associated gas and 67% is in non-associated gas fields. Iran has the world's second largest reserves after Russia. (OPEC annual statistical bulletin 2006)

### 7.1. Oil and Petrochemical Industry

The majority of Iran's hydrocarbon resources

activity is located in the southwest, both offshore and onshore. Around forty areas have been producing, and also some other areas are under expansion. The development of new hydrocarbon refineries, which includes the Anahita refinery at Kermanshah, the Caspian refinery in Golestan Province, the Horumuz refinery adjacent to NIOC's Bandar Abbas refinery, the Khuzestan extra heavy crude oil refinery at Abadan, the Pars refinery at Shiraz, the Persian Gulf Star refinery at Bandar Abbas, and the Shahriyar refinery at Tabriz, are supposed to start increasing the domestic supply of gasoline. International sanctions, nevertheless, have negatively affected the accessibility to financing for and international oil corporation participation in oilfield development and oil refinery development (U.S. Energy Information Administration, 2009;

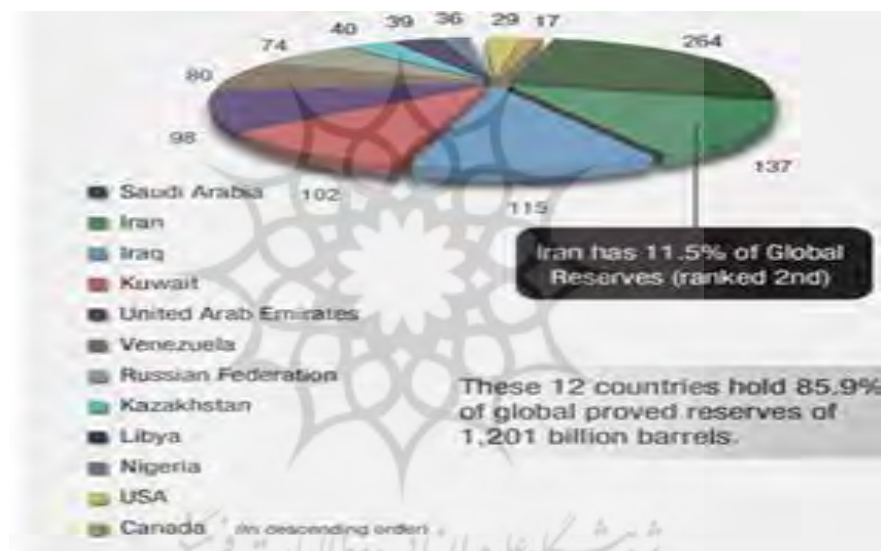
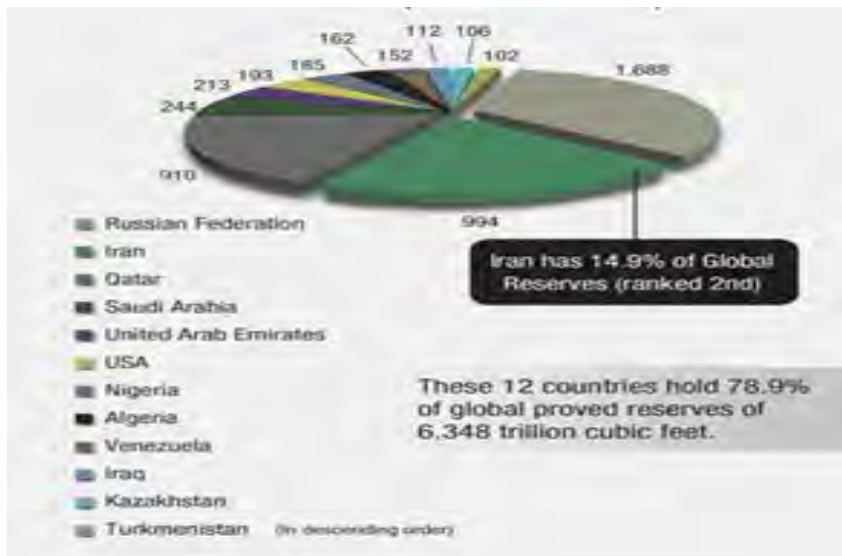


Figure 3: Oil Reserves- Top Twelve Countries Jan.1, 2006(Billion Barrels)

Source: OPEC annual statistical bulletin 2006



**Figure 4: Gas Reserves- Top Twelve Countries Jan.1, 2006 (Trillion Cubic Feet)**  
 Source: Statistical Review of World Energy



**Figure 5: Oil and Gas disparity reserve in Iran**  
 Source: OPEC Annual Statistical Bulletin (2006)

## 7.2. Tourism Industry

Tourism stands out most important sector in which Iran has a comparative advantage and vast potential due to its rich cultural heritage, and unrivaled natural scenic beauty. Tourism has emerged as one of the most dynamic and promising sectors in the country providing employment opportunities, and income generation for small and large entrepreneurs.

This sector provides a room for economic cooperation in a number of areas like tourism infrastructure, hotels and resorts, games and amusement centers etc. Tourism products like holiday homes, mountain sports, adventure travel and amusement parks are some other potential areas. The construction and operation of hotels and resorts offer very promising prospects for profitable investment. Similarly, investment in popular tourist activities and recreations are perceived to be successful undertakings. Foreign direct investment has been encouraged in capital-intensive tourism industries such as hotels, resorts and in the areas, which transfer modern technology and skills.

Iran currently ranks 68th in tourism revenues worldwide. (<http://www.irpedia.com/>) Iran with attractive natural and historical sites is rated among the 10 most touristic countries in the world in terms of its history. The landscape of Iran is diverse, providing a range of activities from hiking and skiing in the Alborz Mountains, to beach holidays by the Persian Gulf and the Caspian Sea. Over the next five years a number of tourism-friendly infrastructure projects will be undertaken on the Persian Gulf island of Kish, which at present attracts around 1million visitors per year, the majority of whom are Iranians.

## 7.3. Privatization in Iran

According to the Fourth Economic development Plan, Privatization Organization of Iran affiliated to the Ministry of Economic Affairs and Finance is in charge of setting prices and ceding shares to the general public and on the Tehran Stock Exchange. The privatization effort is primarily backed by reformist members of the Iranian government and society who hope that privatization can bring about economic and social change. (<http://www.ipo.ir/>)

It forms a key part of efforts to enhance private sector participation in the economy. This program

extends an opportunity to participate the private sector as well as the joint ventures in the national commercial domain of the country. Many large industrial, business and service-oriented enterprises should be selling in Tehran Stock Market.

Khozestan steel Company is the latest enterprise being privatized. This company is the second crude steel producer in Iran and one of the most pioneer economical agencies in the country which plays a vital role in the region and national interests. Few other enterprises are in the pipeline for privatization proceeds.

## 7.4. Education and Training

Trade also demands a fair amount of education and training in the respective field and areas. Korea is extending cooperation in the education and training since long back. In accordance with the changing scenario, both countries can promote mutual understanding and cooperation through a process of wide sharing of knowledge and professional talents in both academic pursuits and technical specializations.

## 7.5. Mineral Exploration and Exploitations

Mineral resources, which can be commercially exploited, are identified as iron ore, cooper, magnetite, clay, construction stone, lead and zinc etc. Several major iron ore deposits have been identified in Iran and exploitation of some of these deposits for the manufacture of cooper and zinc and industrial lime is already underway. Major iron ore deposits are found in Kerman and Yazd.

Due to international sanctions, the Government increased its own importance on the improvement of local self-sufficiency in the areas of mine as well as mineral-processing plant construction, design, and also planning. In addition to improved using domestic consulting engineering services for mine and plant design , the Government promoted local producing of mineral-industry-related equipment , machinery , and parts.

The Government's Fifth Development Plan for the years 2011 to 2015 offered that the manufacturing capabilities of several mineral commodities would be improved by 2015. Production capability expansions included that of the cement industry, that was planned to be increased to one hundred million metric tons annually ( Mt/yr ); crude steel , to 42 Mt/yr , and copper cathode, to 910 ,000 metric tons per year (t/yr). The \$27 billion Fifth Development Plan

targeted 108 mineral projects.

### 7.6. Information and Communication Technology

Developments in the areas of information and communication technology (ICT) are growing rapidly. Korea has already moved in the advance stage in the ICT components, particularly in the software development. The demand for ICT is likely to increase in the future as well. This has been one of the prominent service trades having potential of high value addition. Iran has well-educated and trained manpower in this sector. Science Technology Park has also been established to facilitate and promote such activities. A couple of joint venture in this sector has already been emerged. In view of the comparative cheap labor and the growing demand for information technology, the private sector also obtains a good opportunity to invest in this service trade. This sector offers a wide scope to go hand in hand to serve common interests.

### 8. Conclusion

Korea and Iran are two traditional trade partners. Bilateral trade between them has been quite increasingly. In the recent years, international sanctions imposed on Iran have caused restrictions on bilateral economic relations.

Also it is not expected to observe a high degree of IIT between two countries. In fact, Iran does not have adequate competitive power equivalent to Korea, while promoting diversity in IIT during a long period of time can yield useful insights for adopting suitable trade policies. The result shows that Iran and Korea have had the maximum levels of trade in such products coded by 29 (Organic chemical), 57 (Carpets and other textile floor coverings) and 76 (Aluminum and articles thereof).

By calculation of RCA index, there are 3 sectors where Iran and Korea both enjoyed comparative advantage in 2011 vis-à-vis 1 in 2006.

Iran is more advantageously placed than Korea in the world market in carpets and other textile floor coverings, mineral fuels, edible fruit and nuts, vegetable plaiting materials, salt, sulfur, earths and stone and Korea is more advantageously placed than Iran in ships, boats and floating structures, knitted or crocheted fabrics, man-made filaments, optical, photographic, cinematographic, Iron and steel, electrical machinery and equipment and parts thereof, impregnated and coated.

Overall, two countries have a number of opportunities for more collaboration and investment such as TV drama, movies, tourism

industry and education and training but there are some challenges still remained that can be explained briefly. Trade is governed, to a large extent, by the trade regulations and related administrative procedures. More often the entry and exit from the market as well as the volume of trade rely on the transparent and simplicity of trade and administrative procedures.

It takes relatively a fair amount of time to find a place in the market for goods and articles. On the other hand, market structure development depends upon many factors. Rules and regulations relating to exports and imports, and the import and export duties of the exporting and importing country play dominant role in the foreign trade. It has been frequently noted that the rules, procedures and duties are revised through the government budget on the one hand, and the provisions of the trade and transit treaties. Such types of changes and modifications create confusions among the business communities, which ultimately affects the trade in a great deal.

To promote their economic relations, Iran and Korea are to implement long-term strategies of collaboration without disturbing factors and instabilities which may occur during short – periods of time.

### References:

1. Aminifard, A. (2013), Challenges and Prospects for Bilateral Trade and Investment between Iran and South Korea, Korea Institute for International Economic Policy (KIEP), Working Paper, May 2013.
2. Annual Energy Review, USA Energy Information Administration, <http://www.eia.gov/totalenergy/data/annual/index.cfm>
3. Balassa, B. (1965), "Trade Liberalization and Revealed Comparative Advantage," *Manchester School of Economics and Social Studies*, 33, 99-123.
4. Balassa, B. (1977), "Revealed Comparative Advantage Revisited: An Analysis of Relative Export Shares of the Industrial Countries," *Manchester School of Economics and Social Studies*, 45, 327-344.
5. Balassa, B. (1986), "Intra-Industry Specialization a Cross Country Analysis," *European Economic Review*, 30, 27-42.
6. Batra, A. and Z. Khan (2005), Revealed Comparative Advantage: An Analysis for India and China, Working Paper, August 2005.
7. Central Bank of the Islamic Republic of Iran (CBI) 2009a. Economic Indicators: No. 54,

- Third Quarter 1387 (2008/2009): [http://www.cbi.ir/Category/EconomicTrends\\_en.aspx](http://www.cbi.ir/Category/EconomicTrends_en.aspx).
8. Hakimia, H. (2006), Institutional Change, Policy Challenges and Macroeconomic Performance: Case Study of Iran (1979-2004), ERF Annual Conference, Kuwait, December 2006.
  9. International Monetary Fund (IMF) (2008), IMF Country Report No. 08/284. IMF, Washington, DC.: [www.imf.org/external/index.htm](http://www.imf.org/external/index.htm).
  10. Kalbasi, H. (2003), Modeling and Patterns of Intra Industry Trade: Iran's Case Study, Paper presented at EcoMod2003 International Conference on Policy Modeling, Istanbul, Hotel Conrad, July 3-5, 2003.
  11. Monthly Oil Market Report, [http://www.opec.org/opec\\_web/en/publications/338.htm](http://www.opec.org/opec_web/en/publications/338.htm).
  12. OPEC Annual Statistical Bulletin (2006): [www.opec.org](http://www.opec.org).
  13. Rasekhi S. (2008), "A study of Intra Industry Trade in Agriculture Products of Iran," *American-Eurasian Journal of Agriculture and Environmental Science*, 2, 12-19.
  14. Statistical Review of World Energy: [www.bp.com/en/energy/statistical-review-of-world-energy.htm](http://www.bp.com/en/energy/statistical-review-of-world-energy.htm).
  15. Tayebi, S. K. and S. Arbabian (2006), "Impact of Implementing Economic Integration between Iran and Korea on their Intra-Industry Trade (IIT)," *The Journal of Korean Economy*, 7(1), 1-24.
  16. U.S. Energy Information Administration
  17. World Trade Organization (WTO), Trade Policy Review – Korea, WTO: Geneva, 2008.
  18. World Trade Organization (WTO), Trade Policy Review – Korea, WTO: Geneva, 2011.
  19. World Trade Organization (WTO), International Trade Statistics, (2006, 2011).
  20. [www.com-trade.ir](http://www.com-trade.ir).
  21. [www.ipa.ir](http://www.ipa.ir).
  22. [www.ipedia.com](http://www.ipedia.com).
  23. [www.tccim.ir](http://www.tccim.ir).

