

# **IRAN-KOREA Trade Relationships, Survey of Trends and Coordinates**

**Amin Maleki**

Faculty Member of Institute for Trade Policy and Research (ITSR)

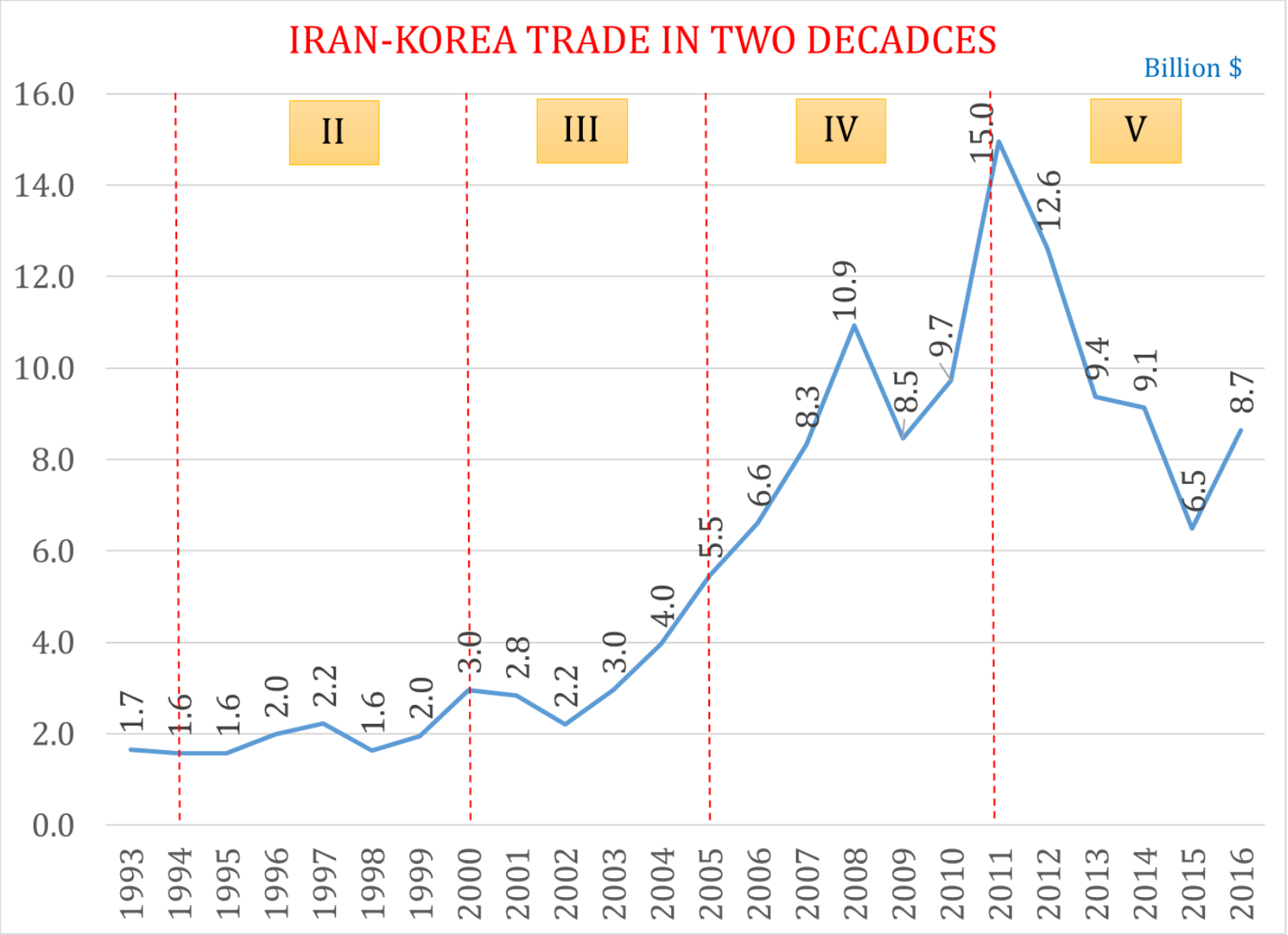
# TABLE OF CONTENTS

1. Look at the IRAN-KOREA Trade over Two Decades (the Four Development Plans of IRAN)
  2. KOREA Position in the IRAN Foreign Trade Relationships / PART I: Trends
  3. KOREA Position in the IRAN Foreign Trade Relationships / PART II: Coordinates
  4. KOREA Position in the IRAN Foreign Trade Relationships / PART III: Priority
  5. Potential to Enhance (A Gravity Equation)
  6. Survey of Last IRAN Administrative Policies
- Concluding Remarks

# **1.Look at the IRAN-KOREA Trade over Two Decades**

**(Four Development Plans of IRAN)**

# Look at the IRAN-KOREA Trade over Two Decades

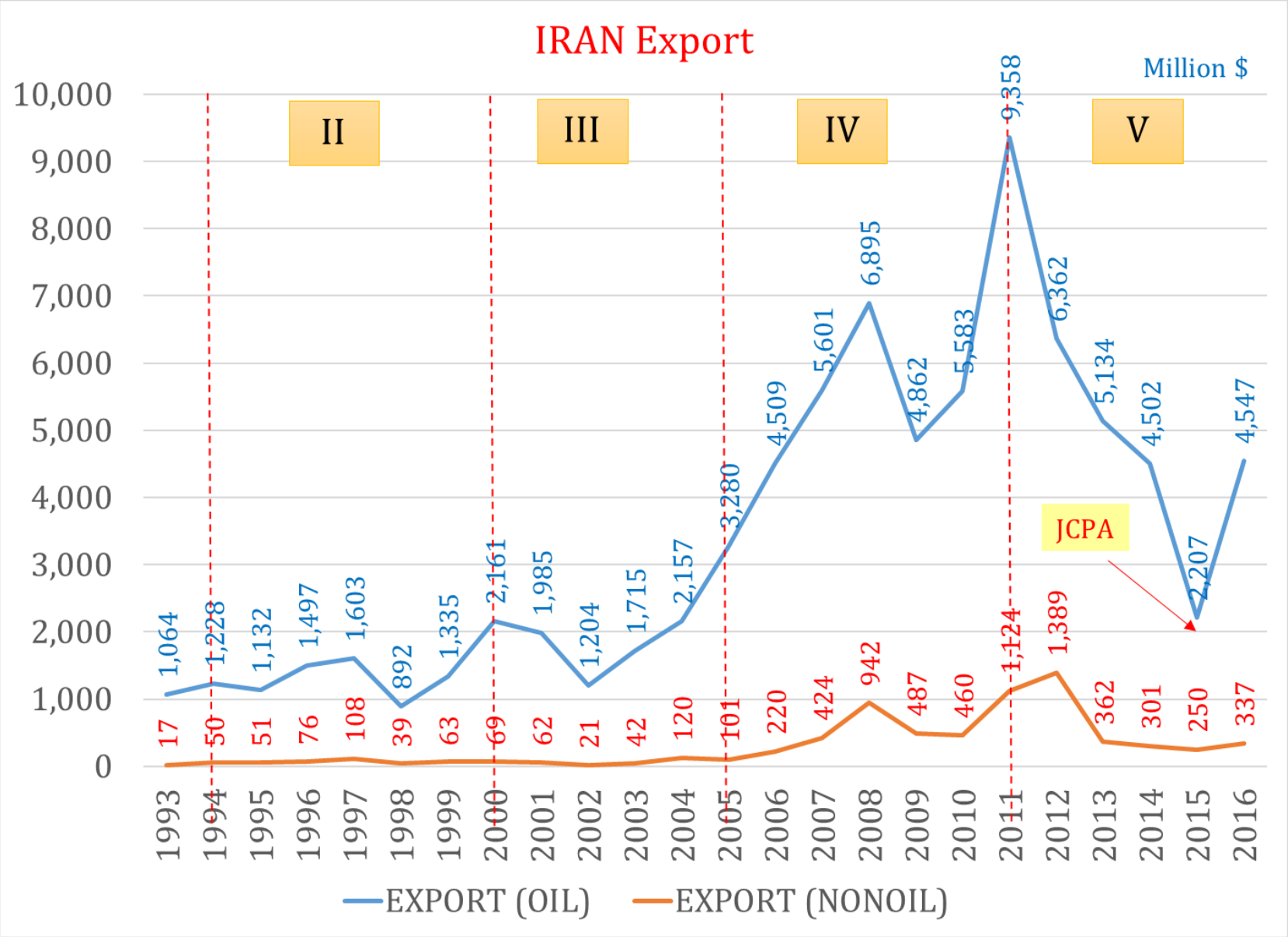


# Look at the IRAN-KOREA Trade over Two Decades

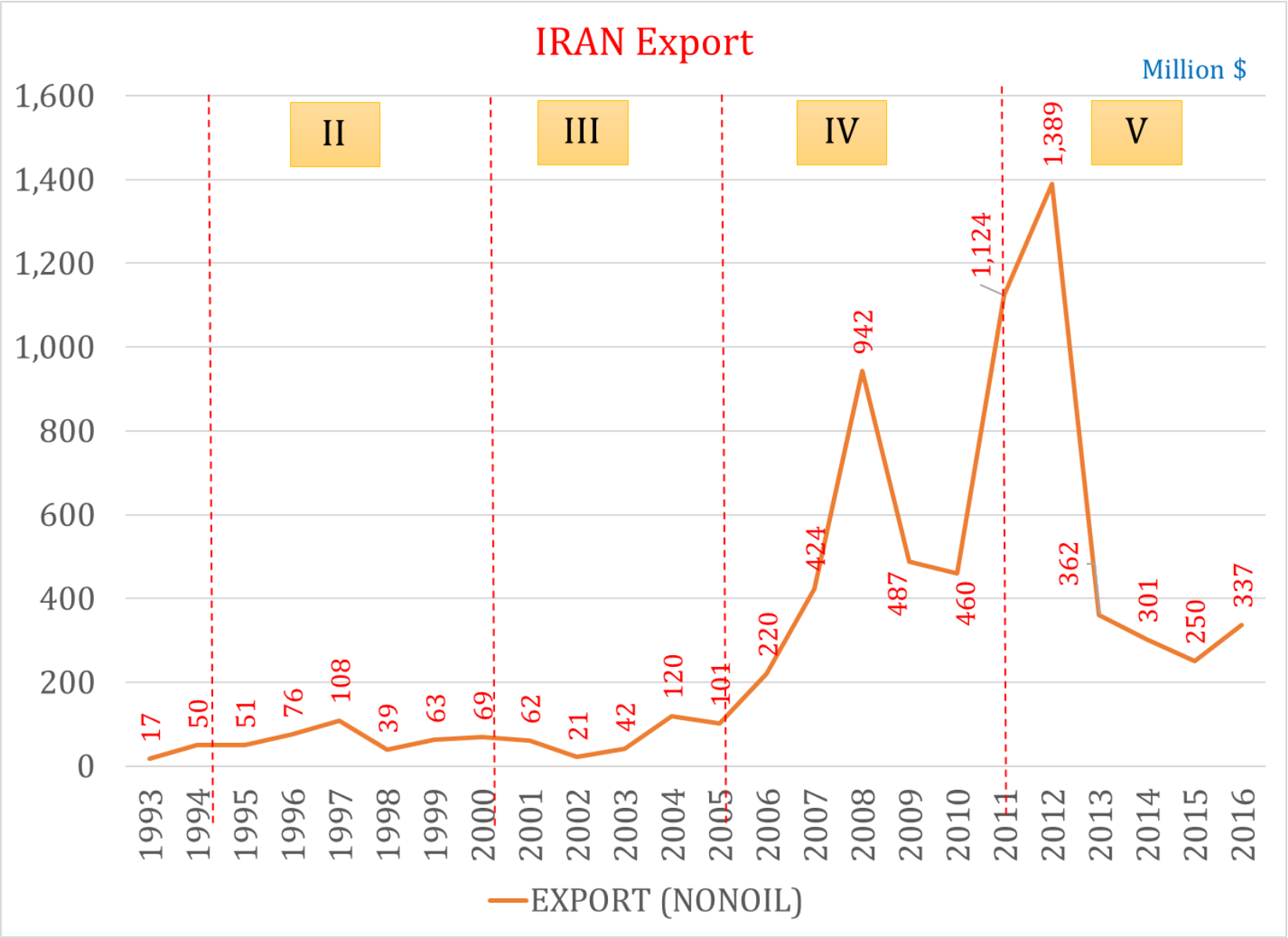
			IRAN	IRAN	KOREA	
			Ex.NONOIL	Ex.OIL	EXPORT	TRADE
IDP No.II	1995	1999	4.5	3.3	7.3	4.4
IDP No.III	2000	2004	11.5	0.0	18.4	6.1
IDP No.IV	2005	2010	28.7	9.3	9.9	10.0
IDP No.V	2011	2016	-18.2	-11.3	-2.8	-8.7

\* Geometric Growth Rates

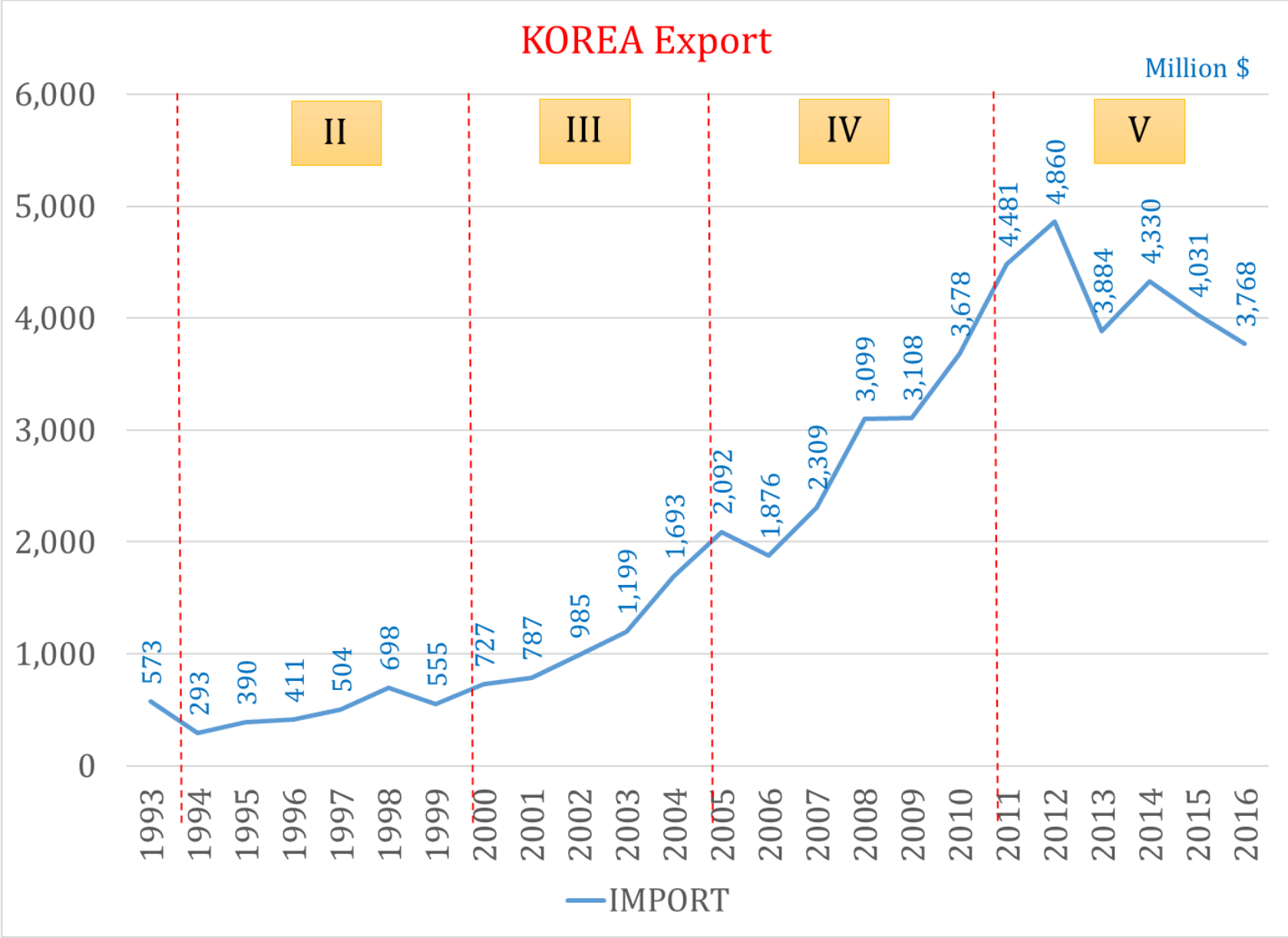
# IRAN Export: Oil & Non-Oil



# IRAN Export: Oil & Non-Oil

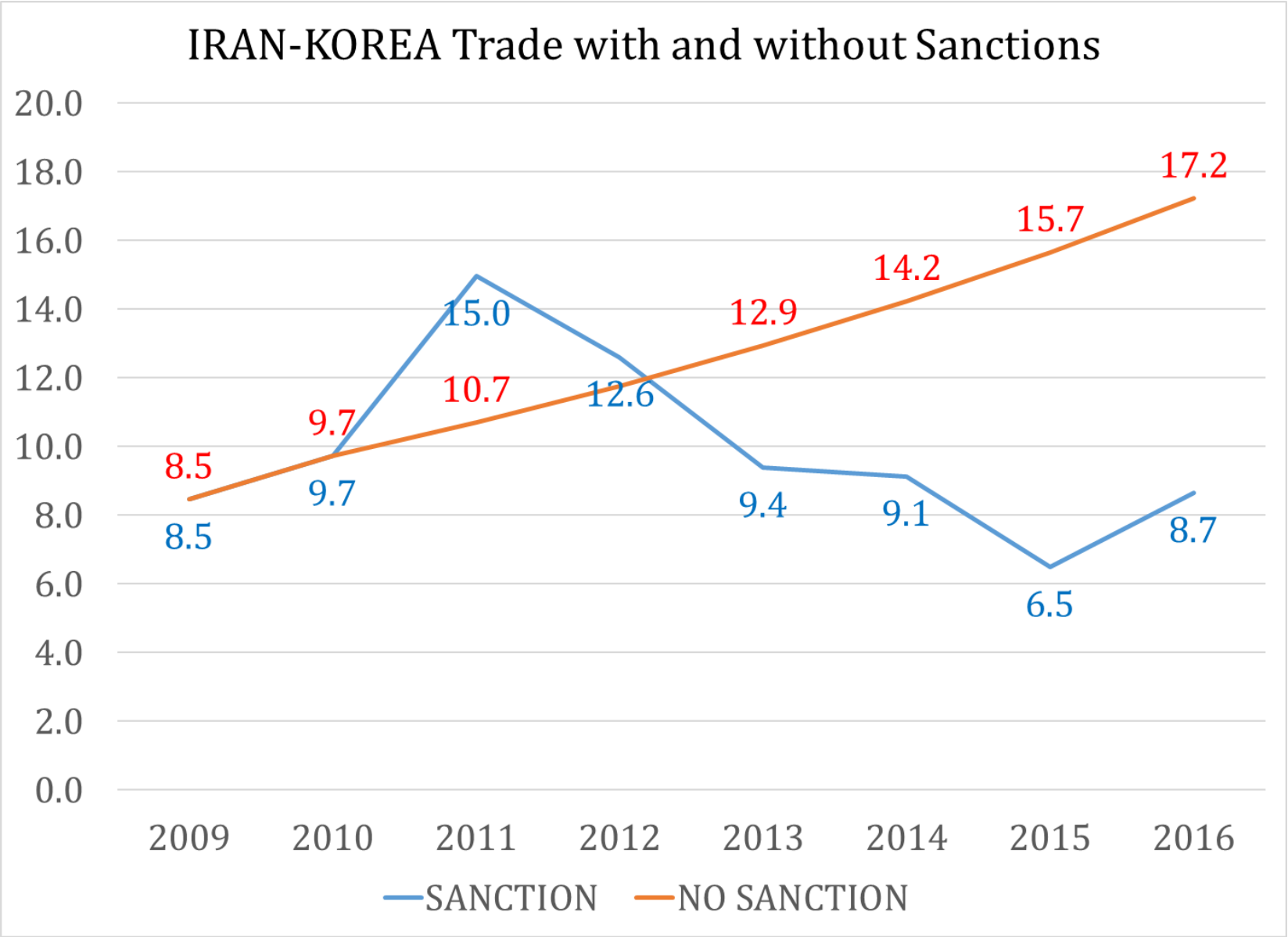


# KOREA Export

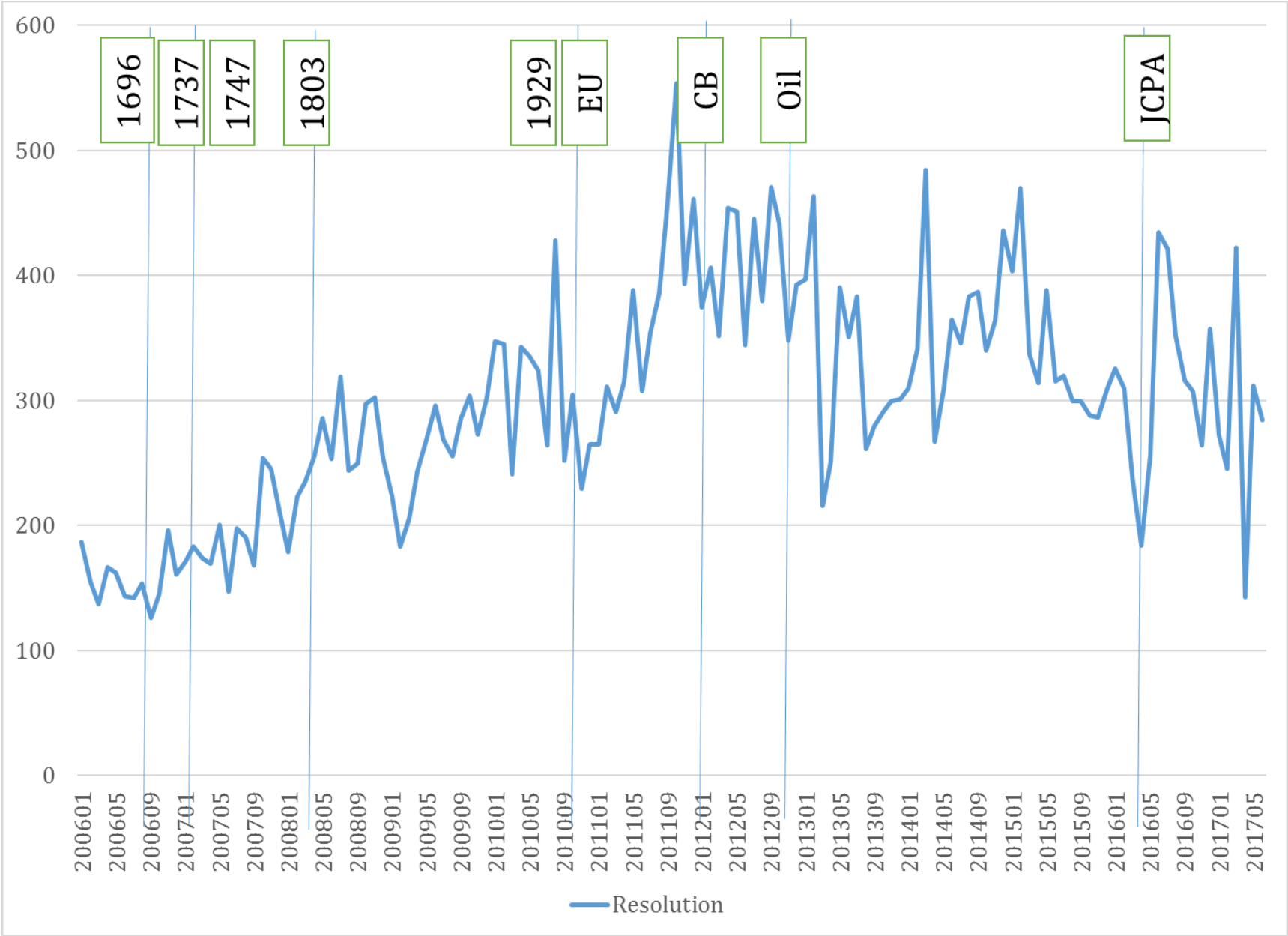




# IRAN-KOREA Trade & Sanctions



# KOREA Export & Sanctions (Korea Monthly Export) m\$



# Facts No.1

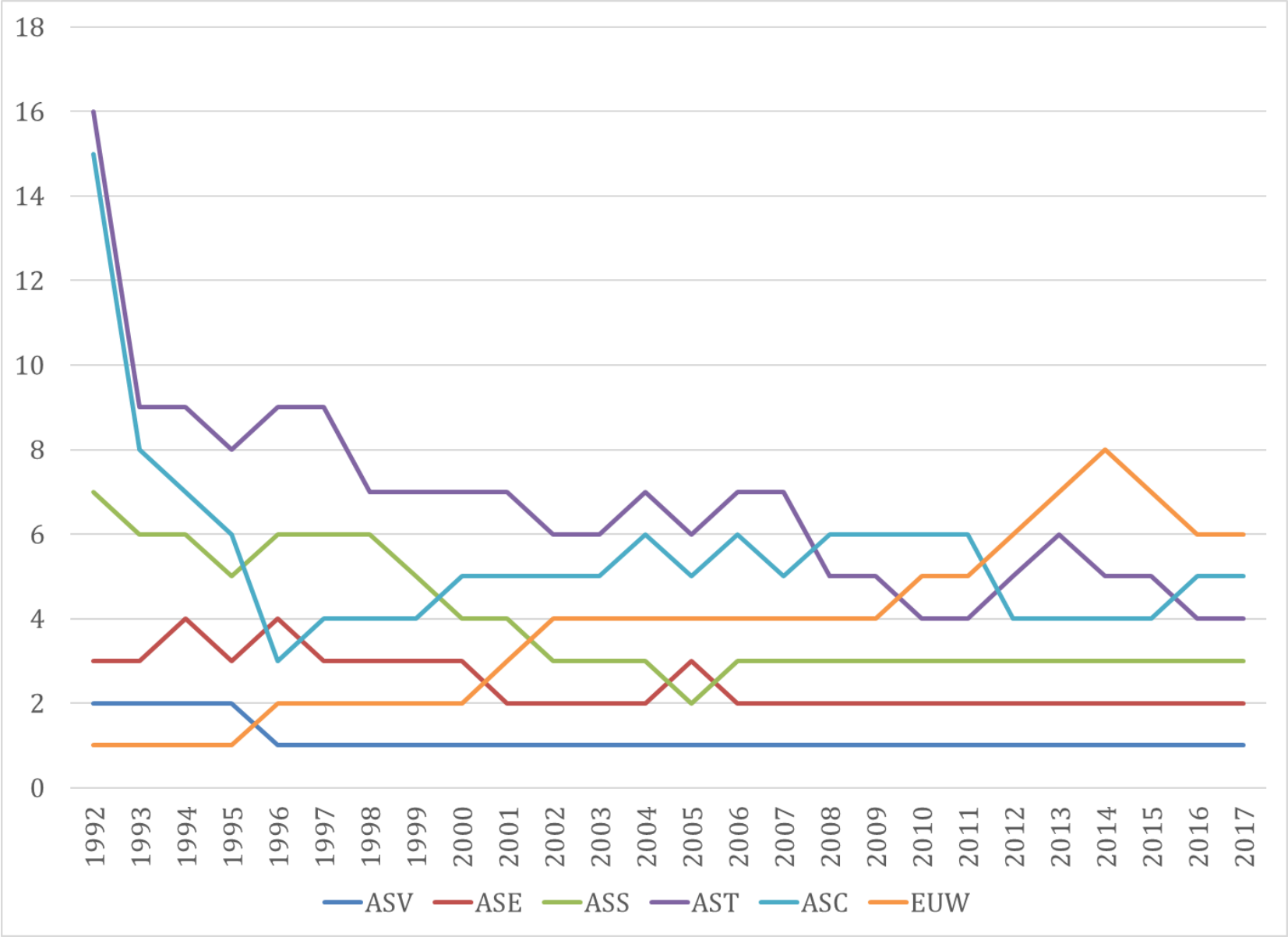
Looking at the highest level of trade relations in 2012 and the status of trade between two countries at the end of 2016 we reach to first trade facts of Iran-Korea:

- There is a minimum capacity of 100% growth in trade between the two countries in 2017 and next. 8.6 b\$ is exactly half of the trading capacity of the two countries
- Until 2012, a business boom is based on the relative advantage of two countries can be seen but sanctions had a great damage to the two countries' trade process
- After the sanctions, and especially after cutting Iran's oil exports to Korea, Korean export to Iran were subject to a lot of restrictions and a significant reduction
- This incident between the Iranian authorities has created the mentality that Korea merely intends to export from Iran's oil exports revenues
- In other words, Iran's and Korea's pattern of trade is more of a BARTER commodity to commodity than a new commodity-based business using banking resources, Same 2005 to 2012 period

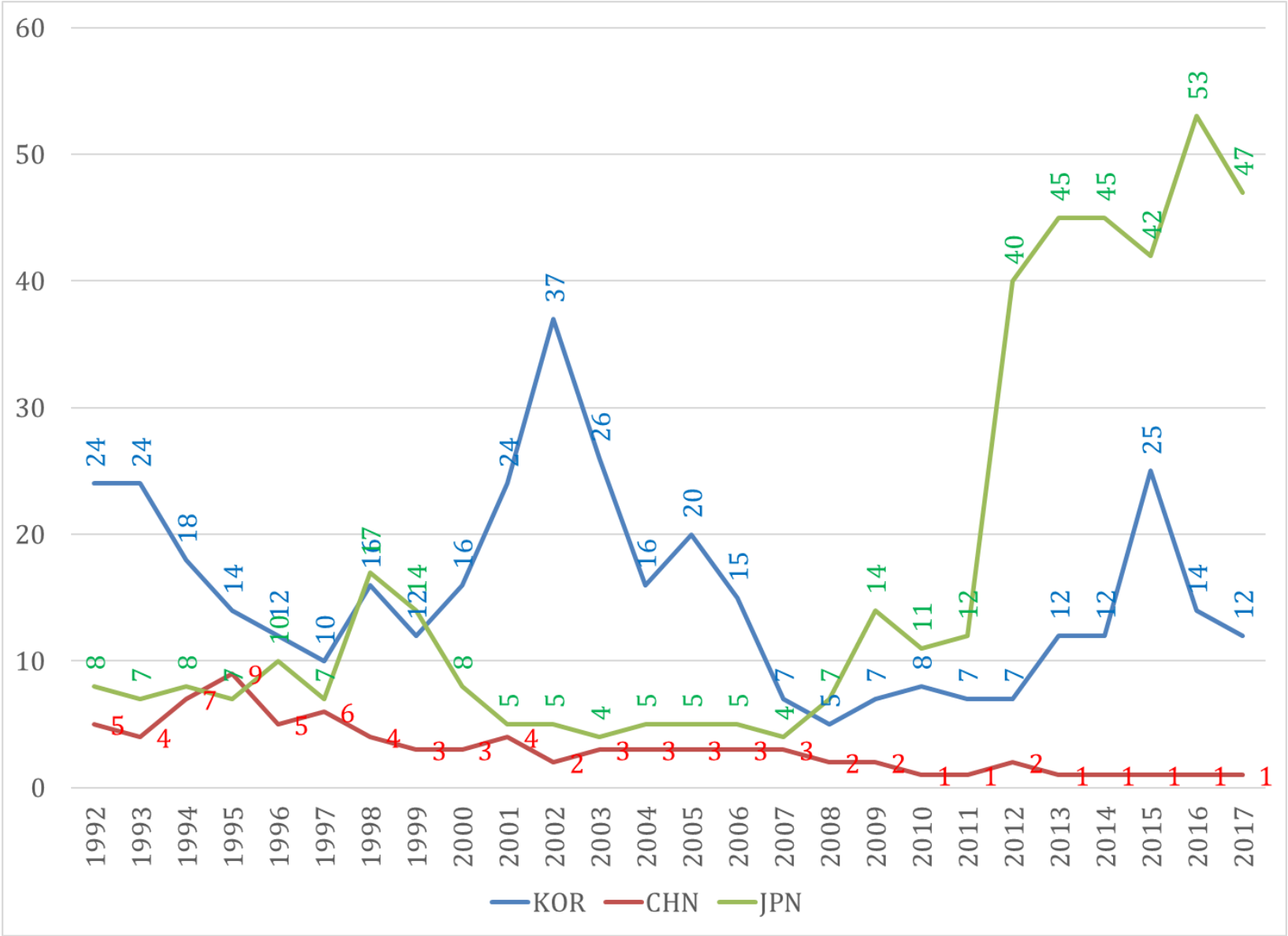
## **2.KOREA Position in the IRAN Foreign Trade Relationships**

### **PART I: Trend**

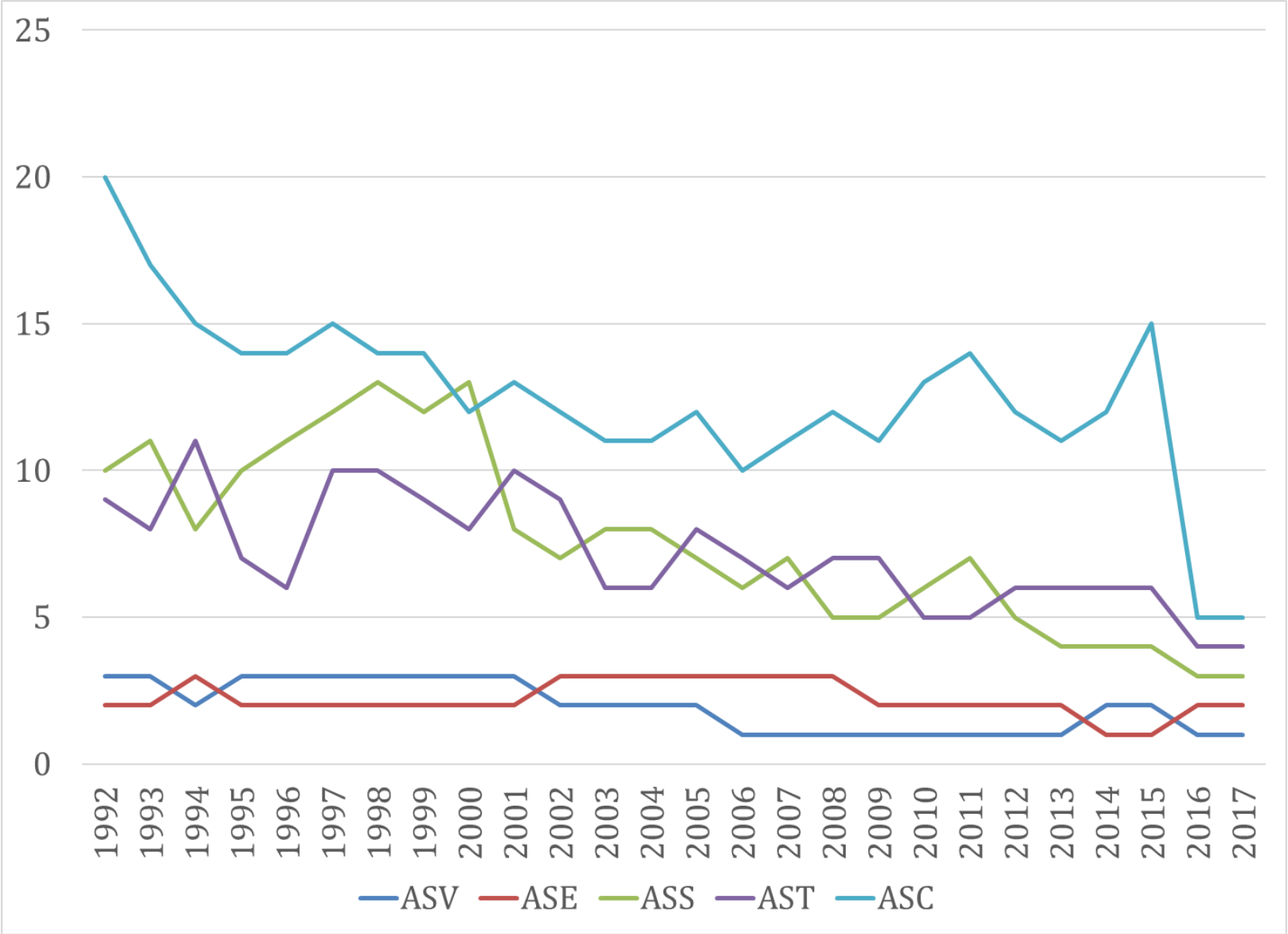
# East Asia Position in IRAN Export



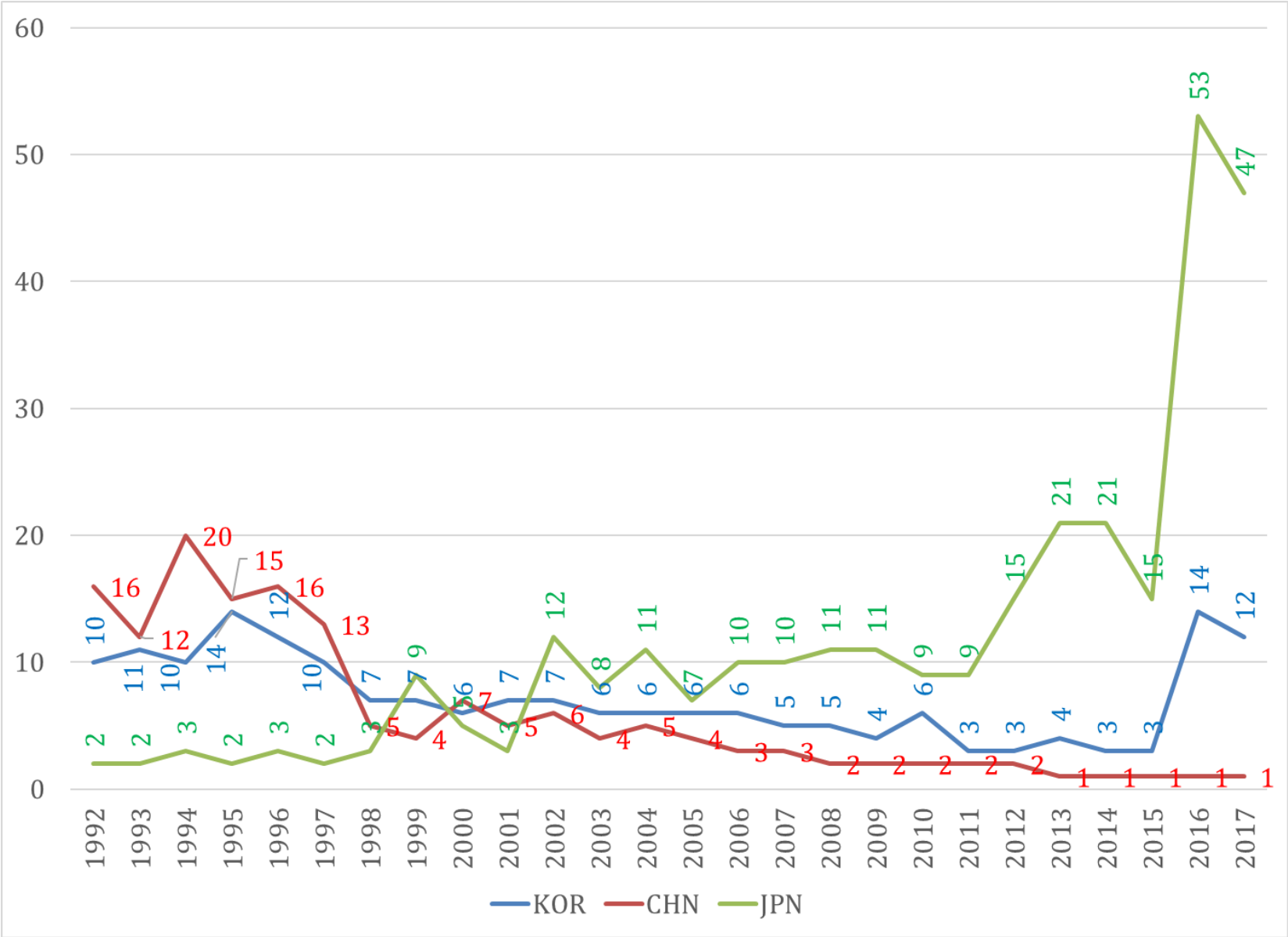
# KOREA Position in IRAN Export



# East Asia Position in IRAN Import



# KOREA Position in IRAN Import



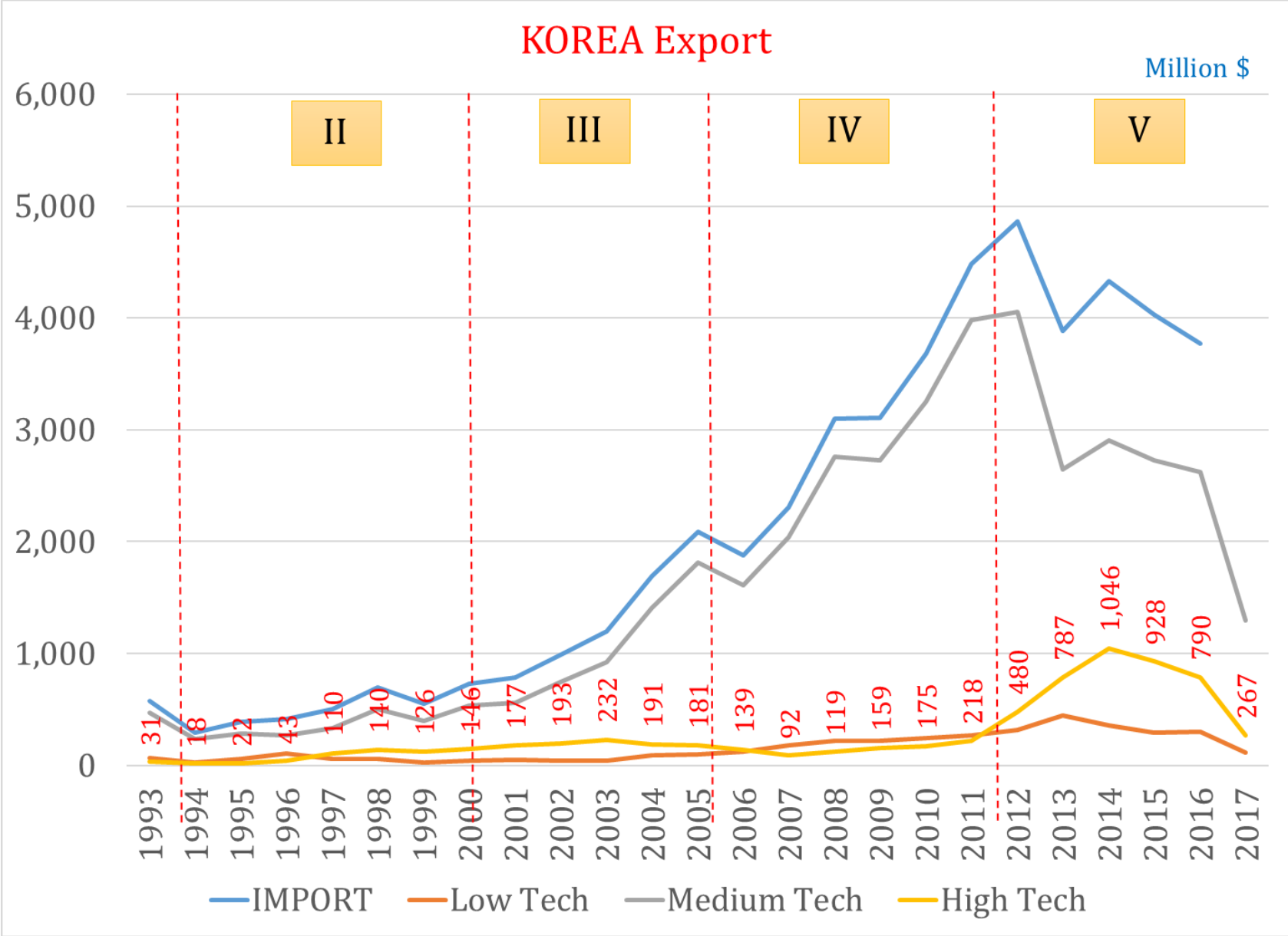


# **3.KOREA Position in the IRAN Foreign Trade Relationships PART II: Coordinates**

## **KOREA Position in the IRAN Import: Coordinates**

- Technology (High Medium and Low Tech.)
- Production (Intermediate, Capital and Consumer Goods)

# KOREA Export: Intermediate and Medium Tech Goods



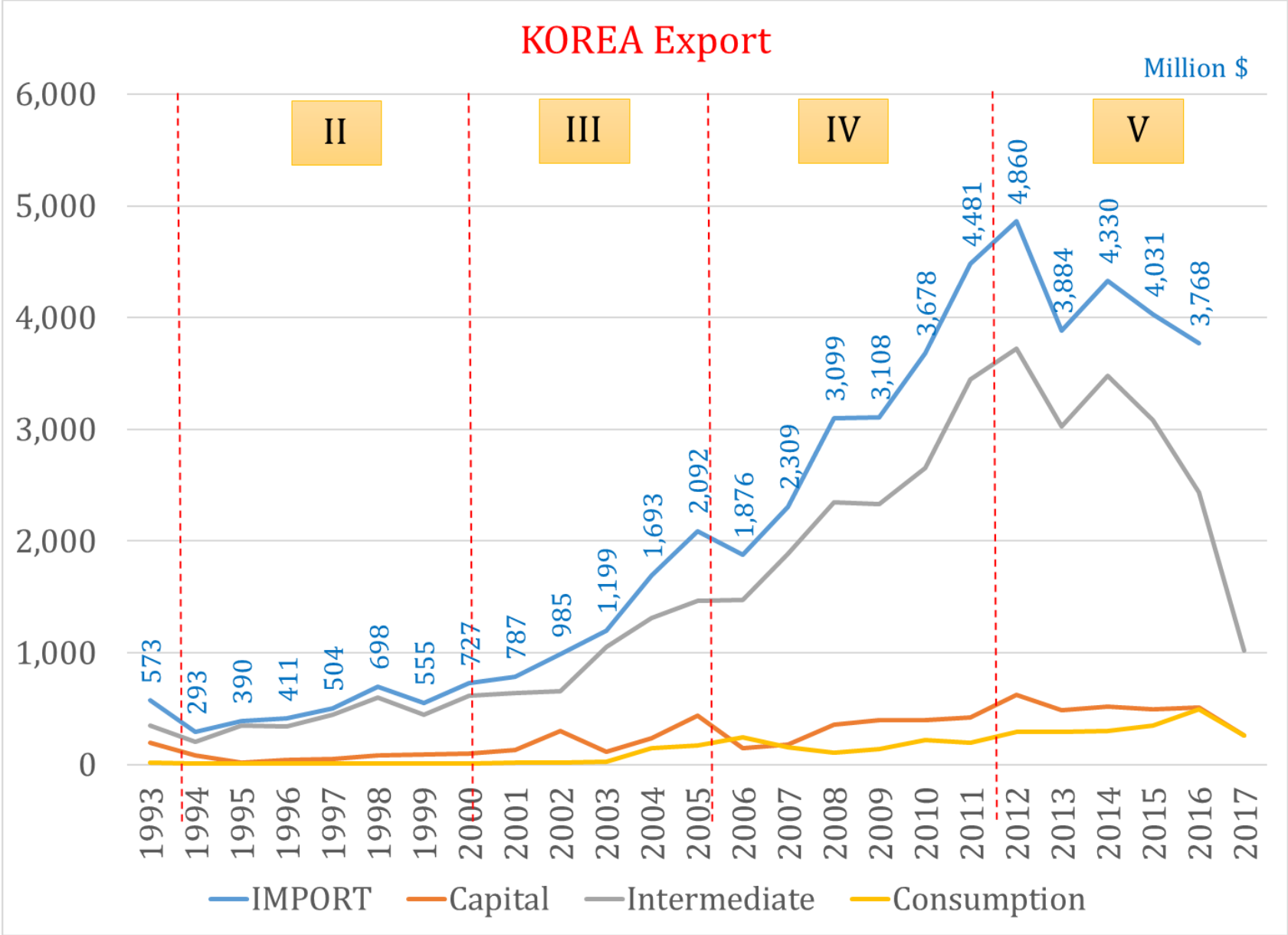
# KOREA Export: Intermediate and Medium Tech Goods

Technology Level	201701	201702	201703	201704	201705	201706	SUM	%
Non	482,375	102,790	249,615	721,948	277,734	291,754	2,126,216	0.1
Low	18,189,082	13,681,041	33,158,250	9,453,206	21,785,812	22,105,148	118,372,539	7.0
Medium	203,922,021	192,215,785	336,026,671	110,307,596	235,269,309	214,238,147	1,291,979,529	76.9
High	49,839,021	39,202,142	53,171,796	22,573,898	54,228,936	47,761,994	266,777,787	15.9
							1,679,256,071	

**Lall, S. (2000).**

**Monthly Import of Korea from 201701 to 201706**

# KOREA Export: Intermediate and Medium Tech Goods



# KOREA Export: Intermediate and Medium Tech Goods

	bec1	processed?	definition	201701	201702	201703	201704	201705	201706	SUM	%
Mix	51	processed	passenger motor cars	32,168,963	31,675,271	55,886,754	5,871,644	3,736,580	6,554,380	135,893,592	8.1
	32	processed	motor spirit	286,049	220,776	328,371	26,229	866,724	1,542,243	3,270,392	0.2
Intermediate	22	processed	industrial supplies not elsewhere specified, processed	102,980,304	99,759,704	197,909,749	65,101,497	128,788,824	128,108,799	722,648,877	43.0
	42	processed	parts and accessories of capital goods (except transport equipment)	44,497,240	26,984,026	29,077,204	11,636,251	36,881,562	38,586,902	187,663,185	11.2
	121	processed	food and beverages, processed, mainly for industry	14,850	0	0	0	9,900	0	24,750	0.0
	53	processed	parts and accessories of transport equipment	18,010,225	19,407,009	29,764,690	7,896,504	20,504,887	13,491,492	109,074,807	6.5
	322	processed	fuels and lubricants, processed (other than motor spirit)	267,850	211,076	246,071	13,125	188,844	258,219	1,185,185	0.1
	21	primary	industrial supplies not elsewhere specified, primary	482,375	4,290	267,079	66,253	104,845	437,030	1,361,872	0.1
	111	primary	food and beverages, primary, mainly for industry	0	0	0	721,948	157,549	0	879,497	0.1
Consumable	63	processed	consumer goods not elsewhere specified, non-durable	1,604,728	2,835,754	2,390,229	818,267	2,080,605	1,807,325	11,536,908	0.7
	62	processed	consumer goods not elsewhere specified, semi-durable	11,671,170	6,796,496	16,823,505	6,355,097	5,882,018	4,852,020	52,380,306	3.1
	61	processed	consumer goods not elsewhere specified, durable	19,673,431	24,715,419	31,125,748	25,490,263	45,233,216	40,372,266	186,610,343	11.1
	122	processed	food and beverages, processed, mainly for household consumption	1,195,592	1,110,592	2,506,700	310,842	411,675	1,075,165	6,610,566	0.4
	522	processed	transport equipment, non-industrial	0	0	0	0	0	0	0	0.0
Capital	41	processed	capital goods (except transport equipment)	39,571,177	31,452,145	56,280,232	18,748,728	66,571,297	47,116,497	259,740,076	15.5
	521	processed	transport equipment, industrial	8,545	29,200	0	0	143,265	194,705	375,715	0.0
										1,679,256,071	100

**UN Broad Economic Category (BEC)**  
**Monthly Import of Korea from 201701 to 201706**

# Facts No.2

Products that Iran Import from Korea have two main characteristics:

1- 84% of the imported items are low and medium technology

2-99.8% of the imported items do not use iran capacity for processing and making value added

- **So Import from Korea doesn't improve iran partnership at global value chains**
- **It is not A Leverage Growth**
- **olny help to continute productions with available scale of employment, industrial value added and etc.**

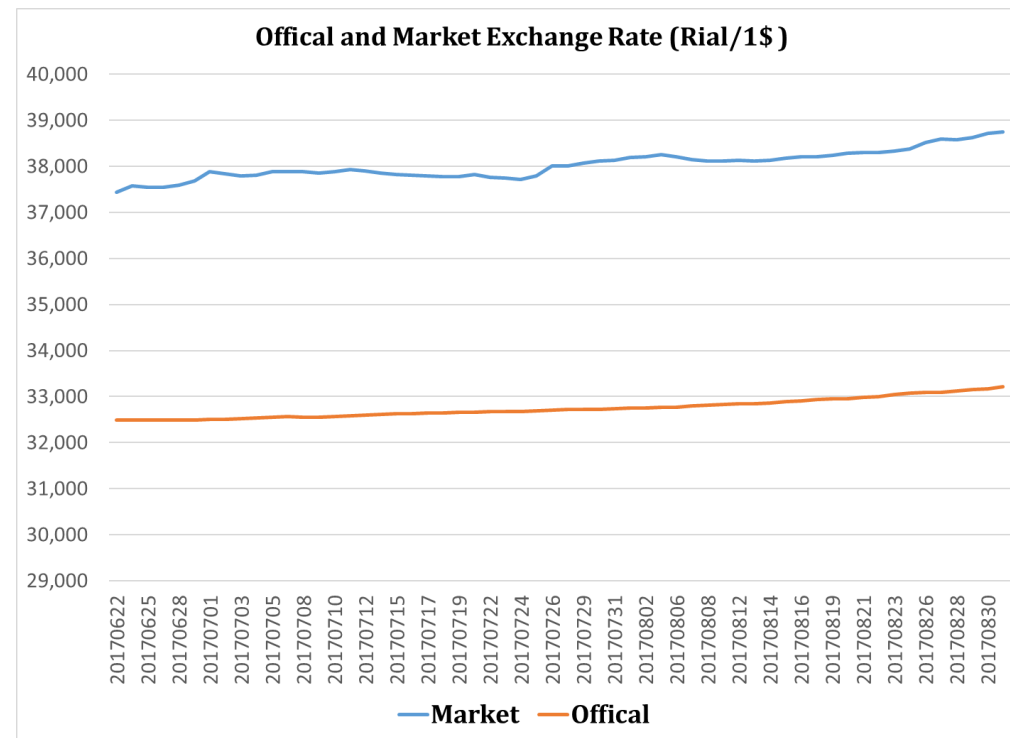
# **4.KOREA Position in the IRAN Foreign Trade Relationships PART III: Priority**



# KOREA Position in the IRAN Import: **Priority**

	Category	official exchange rate
1	Essential Goods	YES
2	Human medicines, livestock and medical equipment	YES
3	Basic materials for industrial and agricultural production	YES
4	Materials required for production units	YES
5	Materials and intermediates	YES
6	Components and parts of the car (CKD)	No
7	Semi-manufactured goods and semi-assembled (SKD)	No
8	Capital goods and industrial machinery (CBU)	No
9	Durable Final product	No
10	Final goods and consumables	No

for commodities in category 1 to 5 governments pay on average **14** cents per dollar to importers (an indirect subsidy)



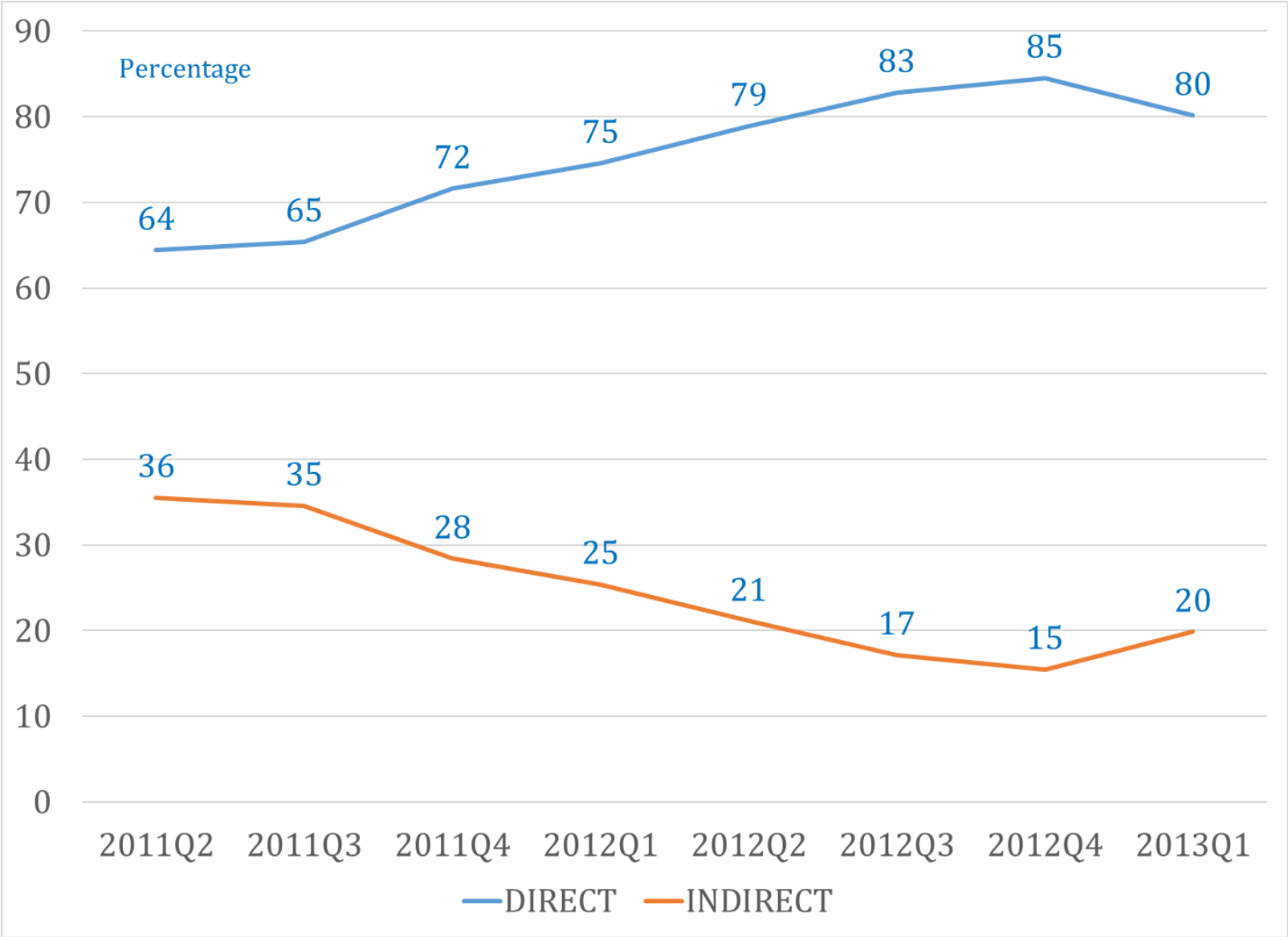
# KOREA Position in the IRAN Import: Priority (201701-201706)

Category	Dollar	%	
2	88,416,225	5.3	45.7
3	71,596,446	4.3	
4	252,556,427	15.0	
5	354,661,498	21.1	
6	252,881,910	15.1	54.3
7	172,936,717	10.3	
8	173,098,035	10.3	
9	257,207,308	15.3	
10	55,897,205	3.3	

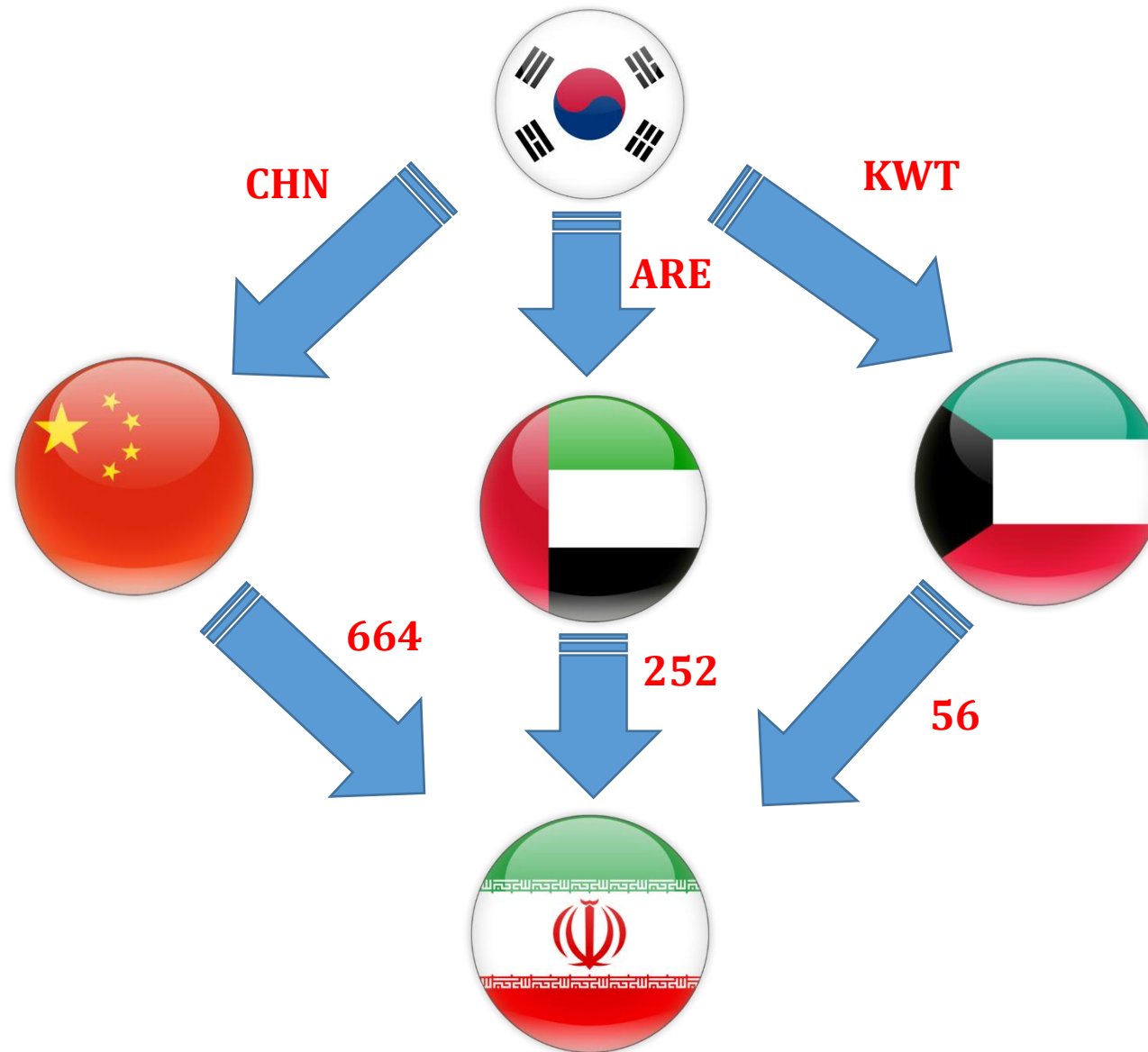
Rate	Dollar	%
Official	946,545,591	56.4
Market	732,710,480	43.6
	1,679,256,071	

	Dollar
Government Subsidy to Korean Products:	132,516,383

# Trace of Import (Direct and Indirect Import of Korean Products)



# Trace of Import (Direct and Indirect Import of Korean Products)



## KOREA Position in the IRAN Import: Priority (201701-201706)

	Dollar
Government Subsidy to Korean Products:	132,516,383
	0.25
Government Subsidy to Korean Products:	165,645,478

## Facts No.۳

- More than half of Korean products are not the top priority for Iran in the first six months of this year
- The government pays \$ 330 million subsidy to Korean exports this year

## **4-Potential to Enhance (A Gravity Equation)**

# Gravity Equation

**data:**

- gross Domestic Product Country importer
- gross Domestic Product Country exporter
- population of the country of importer
- population of the country of exporter
- Import value of the importing countries
- export price index of the exporting country
- export price index of importing country

**estimation:**

- Panel Least Square

View	Proc	Object	Print	Name	Edit+/-	CellFmt	Grid+/-	Title	Comments+/-	
		A		B		C		D		E
1		Dependent Variable: LOG(IMQWNA)								
2		Method: Panel Least Squares								
3		Date: 02/16/16 Time: 14:19								
4		Sample: 1996 2012								
5		Periods included: 17								
6		Cross-sections included: 26292								
7		Total panel (unbalanced) observations: 156170								
8		White diagonal standard errors & covariance (d.f. corrected)								
9										
10		Variable		Coefficient		Std. Error		t-Statistic		Prob.
11										
12		C		39.81959		10.15233		3.922213		0.0001
13		LOG(GDPI)		2.185299		0.081453		26.82887		0.0000
14		LOG(GDPJ)		2.771846		0.067611		40.99677		0.0000
15		LOG(POPI)		-1.231705		0.358090		-3.439649		0.0006
16		LOG(POPJ)		-7.493905		0.297913		-25.15468		0.0000
17		LPIMPW		-0.463924		0.005012		-92.55716		0.0000
18		LEXPVALI		0.370101		0.039850		9.287428		0.0000
19		LEXPVALJ		-1.186509		0.042758		-27.74924		0.0000
20										
21		Effects Specification								
22										
23		Cross-section fixed (dummy variables)								
24		Period fixed (dummy variables)								
25										
26		R-squared		0.845808		Mean dependent var				8.605686
27		Adjusted R-squared		0.814563		S.D. dependent var				3.953834
28		S.E. of regression		1.702617		Akaike info criterion				4.054688
29		Sum squared resid		376437.2		Schwarz criterion				5.732751
30		Log likelihood		-290295.3		Hannan-Quinn criter.				4.553946
31		F-statistic		27.06967		Durbin-Watson stat				1.265653
32		Prob(F-statistic)		0.000000						
33										



# Methodology

**The bilateral trade flows of Iran and South Korea based on an empirical Economic model; i.e. gravity equation**

## **-Methodology**

- Collecting data on bilateral trade flows among Iran, Korea, India, China, USA, Turkey, Azerbaijan and Japan,
- Using 6 digit HS codes,
- Constructing a huge panel data model with 43118 cross sections,
- Time span of 1996-2012,
- Then estimating this model

# Policy Implications

## Results:

- Bilateral trade of these countries has a strong relationship with their GDP,
- When the GDP of importing countries rises one percent, the imports rise by 2.2 percent indicating a high elasticity,
- When the GDP of exporting countries rises one percent, exports will rise 2.8 percent, indicating an even higher elasticity.

**If Iran-South Korea bilateral trade is liberalized, the exports of each country to the other will rise more than its imports, leading to current account surplus.**

## **Facts No.4**

**If Iran-South Korea bilateral trade is liberalized, the exports of each country to the other will rise more than its imports, leading to current account surplus.**

# **5.Survey of Last IRAN Administrative Policies Regarding to KOREA**

## New Policies:

- Iranian officials are currently facing a two-way deal for some of Korea's imports
- Since February, the first steps have been taken to restrict imports of cars from Korea, and since May, these restrictions have been intensified and strengthen
- Only cars licensed to import into the our country that producers invest in their production in Iran.
- due to the reluctance of Korean and Japanese automakers to invest in Iran, as the manufacturers of these countries have a large share in the car imports market, iran will go to hard-line policies
- As compared to Germany, France, and even China, the Korean producers do not have a clear vision of investing in Iran
- The continuation of these policies will turn Korea into Japan as the second in Iran's trade policy, and its role will gradually diminish in Iran's foreign trade.

# Concluding Remarks

- after sanctions, and especially after cutting Iran's oil exports to Korea, Korean export to Iran were subject to a lot of restrictions and a significant reduction.
- This incident between the Iranian authorities has created the mentality that South Korea merely intends to export from Iran's oil exports revenues.
- In other words, Iran's and Korea's pattern of trade is more of a BARTER commodity to commodity than a new commodity-based business using banking resources, Same 2005 to 2012 period
- So Import from Korea doesn't improve iran partnership at global value chains
- It is not A Leverage Growth
- More than half of Korean products are not the top priority for Iran in the first six months of this year
- The government pays \$ 330 million subsidy to Korean exports this year
- If Iran-South Korea bilateral trade is liberalized, the exports of each country to the other will rise more than its imports, leading to current account surplus.
- Korea look to iran market and new administrative policies in iran will turn Korea into Japan as the second in Iran's trade policy, and its role will gradually diminish in Iran's foreign trade.

Korean People have a Good Proverb, Fix the barn after losing the cow

It is Time to Fix the Barn And the use of new opportunities facing both countries



**Institute for Trade Studies and Research**



Ministry of Industry,  
Mine and Trade

# Thank You

*[Amin.maleki@itsr.ir](mailto:Amin.maleki@itsr.ir)*