



# KCCI - Country Wrap: IRAN (Jun.'19)



## Islamic Republic of Iran – an overview

Iran became an Islamic republic in 1979, after monarchy was overthrown by clerics during its Islamic Revolution. Iran's art, music, architecture, poetry, philosophy, traditions, and ideology have made it an important nation in the global community. The important driver of Iranian economy is crude oil that benefited the country due to high price in the world market. Sanctions have led Iran to replace USD in its oil trade with China, India, and Japan with respective currencies.

## Key Agriculture products and industries

Wheat, rice, other grains, sugar beets, sugarcane, fruits, nuts, cotton; dairy products, wool; caviar are the main agri products. Industries include petroleum, petrochemicals, fertilizers, caustic soda, textiles, cement and other construction materials, food processing, ferrous and non-ferrous metal fabrication and armaments are the major industries of Iran.

## Iran's major trading commodities and partners

The major exporting commodities of Iran consist 60% of petroleum products while the rest consists of chemical and petrochemical products, fruits & nuts, carpets etc. The exporting partners of Iran are China (27.5%), India (15.1%), S. Korea (11.4%), Turkey (11.1%), Italy (5.7%) & Japan (5.3%). Commodities imported by Iran include industrial supplies, capital goods, food stuffs & technical services. Import partners are UAE (29.8%), China (12.7%), Turkey (4.4%), S. Korea (4%) & Germany (4%).

## Economic and trade relations between Pakistan and Iran

Economic relations between Pakistan and Iran have improved significantly giving way to further enhancement of bilateral trade. Some bilateral trade related issues were discussed during Prime Minister Imran Khan's last visit to Iran and positive response from the Iranian side is expected. These issues included implementation of the Pakistan-Iran Preferential Trade Agreement (signed in 2006) and efforts to introduce a barter trade mechanism in order to enhance bilateral trade for economic development of both countries.

## Bilateral Trade Relations Between Pakistan and Iran

Bilateral trade between the countries is much less than the potential of the two countries. Pakistan's exports to Iran stood at \$ 22.77Mn in 2018 against \$ 26.53Mn in 2017 depicting a decrease of 14.2% whereas Pakistan's imports from Iran stood at \$ 373.97Mn during 2018 against \$ 327.18Mn in 2017, an increase of 14.3%. Trade balance is in favor of Iran at \$ 351.2Mn in 2018, an increase of 16.7% as compared with \$ 300.7Mn in 2017.

## Pak-Iran bilateral agreements

- (i) **Free Trade Agreement:** Free Trade Agreement: The negotiations on Free Trade Agreement (FTA) between Pakistan and Iran are under way as both the countries have shared their desire of upgrading Preferential Trade Agreement (PTA) into Free Trade Agreement (FTA) for which initial drafts have already been shared.
- (ii) **Banking Paying Arrangement:** Pakistan's State Bank of Pakistan (SBP) has also shared draft of Memorandum of Understanding (MoU) for signing its Banking Paying Arrangement (BPA) with Iran's Iranian Bank Markazi Jomhuri.
- (iii) **Pak-Iran currency swap agreement:** Both countries have already signed MoU through which channels would be opened in the central banks of both the countries for trade transactions that would reduce the usage of dollar account for Letter of Credit (LC) clearance.
- (iv) **China Pakistan Economic Corridor:** The Iranian side has also expressed its keen interest in becoming part of China Pakistan Economic Corridor (CPEC) as it will improve Iran's trade linkages with China and Central Asian Republics (CARs).
- (v) **Preferential Trade Agreement:** Pakistan signed a Preferential Trade Agreement (PTA) with Iran on March 4, 2004 and the agreement became operational from September 1, 2006. Under the agreement, Pakistan offered concessions to Iran on 338 tariff lines, whereas Iran gave concessions on 309 tariff lines. Preferences granted by both countries to each other cover around 18% of MFN tariff of both countries.
- (vi) **Pak-Iran International Transport of Passengers & Goods Agreement:** Pak-Iran Agreement on International Transport of Passengers & Goods was signed in June 2008 at Tehran. Pakistan has completed the ratification process however Iran is yet to ratify this agreement.
- (vii) **Pakistan, Iran signed six MoUs to strengthen ties:** Pakistan and Iran signed six MoUs on Mar 25, 2016, to strengthen cooperation in health, commerce, finance and foreign services. In this regard, the two countries also signed an MoU on Five Year Strategic Trade Cooperation Plan.

## Major bottlenecks in expansion of Pak-Iran trade

The major bottlenecks in the expansion of Pak Iran trade are ever changing international political dimensions, frequent changes in import regime of Iran, insufficient banking channels and indirect trade via Dubai.

## Pakistan Iran gas pipeline project

Iranian President Ahmadinejad and Pakistani President Zardari inaugurated a gas pipeline project on March 11, 2013. The 1,600 km pipeline would enable export of 21.5Mn cubic meters of natural gas per day to Pakistan. However, sanctions imposed by U.S., E.U, U.K and Canada on expanding relations with Iran have caused a number of countries to back off from financing the IP pipeline project.

## Potentials for enhancing Pak-Iran bilateral trade relations

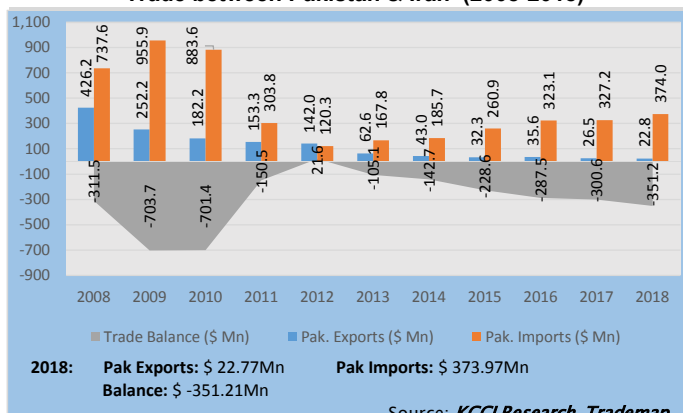
- Opportunities are available in Iranian sectors of dairy, livestock, meat and beverages for Pakistani traders and investors. Pakistan can also take benefit of Iran's petrochemical sector.
- Infrastructural constraints should be sorted out to enhance bilateral trade via Quetta-Taftan land route.
- Regular operation of "ECO container train" will lend impetus to cargo and transit facilities between the two countries.
- Starting special direct flights from Quetta and Gilgit to Mashhad is a potential avenue for enhancing trade.

## Economic Indicators

Indicators	Unit	2016	2017	Change
GDP (PPP)	\$ Bn	1,581	1,645	4.05%
GDP per Capita	\$	19,600	20,100	2.55%
GDP growth	%	12.5	3.7	-8.80%
Forex Reserves	\$ Bn	133.7	120.6	-9.80%
External Debt	\$ Bn	8.20	8.00	-2.45%
Exports of Goods	\$ Bn	83.98	101.40	20.74%
Imports of Goods	\$ Bn	63.14	76.39	20.99%
Trade Balance	\$ Bn	20.84	25.01	20.01%
Current Account	\$ Bn	16.28	9.49	-41.70%
FDI - at Home	\$ Bn	46.02	50.33	9.37%
FDI - at Abroad	\$ Bn	4.66	5.23	12.33%
CPI	%	9.1	9.6	0.50%
Avg. Prime Lending Rate	%	18.0	18.0	0.00%
Population	Mn	80.28	82.02	2.17%
Unemployment	%	12.4	11.8	-0.60%
Litracy Rate	%	85.5	86.8	1.30%

Sources: KCCI Research, CIA Factbook

## Trade between Pakistan & Iran (2008-2018)



## Iran Top 10 Trade Items (2018)

Iran Export Items	(\$ Mn)	Iran Import Items	(\$ Mn)
Mineral fuels & oils	47,632	Machinery, mech.appliances	7,769
Commodities NES	5,668	Vehicles other than railway	4,040
Plastics & articles	3,255	Electrical mach. & equip.	3,696
Organic chemicals	2,049	Cereals	3,376
Ores, slag & ash	1,770	Optical & photographic	1,483
Iron & steel	1,289	Articles of iron and steel	1,467
Edible fruit & nuts	945	Plastics & articles thereof	1,432
Fertilisers	568	Oil seeds & oleaginous fruits	1,275
Salt & cement	490	Pharmaceutical products	1,233
Copper & articles	372	Iron & steel	1,029

Sources: KCCI Research, Trademap

## Pakistan - Iran Top 10 Trade Items (2018)

Pakistan Export Items	(\$ Mn)	Pakistan Import Items	(\$ Mn)
Paper and paperboard	17.54	Mineral fuels & oils	242.96
Plastics & articles thereof	2.06	Edible fruit & nuts	29.39
Cereals	1.18	Ceramic products	28.50
Optical, photo. & surgical	0.72	Edible fruit & nuts	17.42
Other madeup textile	0.62	Iron & steel	10.58
Ships & boats	0.21	Salt, sulphur, earths & stone	8.60
Oil seeds & oleaginous fruit	0.10	Raw hides & skin	7.00
Aluminium & articles thereof	0.10	Carpets & other textile	4.48
Products of animal origin	0.07	Glass & glasswear	3.24
Articles of apparel & clothing	0.06	Organic chemicals	3.22

Sources: KCCI Research, Trademap