

CHAPTER-IV
ECO-POLITICAL
FOREIGN RELATIONS
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4.1. Overview of Foreign Relations

One of the most important factors of economic development is foreign trade. Experience of economies suggest that countries, which are active at the international exchanges, tend to be more productive compared to the countries that produce only for the domestic market. To determine the sources of growth and with regard to international trade, adopting appropriate domestic and international economic policies is crucial (Linder 1961, U.N. 2008; IMF 2007; Bidlingmaier 2007 and Sun & Heshmati 2010).

In a free trade system the principles and policies applied to the foreign trade are nothing rather than the usual financial and monetary policies that are followed by the government in order to regulate the foreign trade activities. In most developing countries where the government feels compelled to involve itself in directing and planning for economic development, foreign trade sector is also affected by certain policies. Nowadays foreign trade relations are frequently used as advantages in adjusting favorable foreign relations by almost all countries of the world (Krugman 1998; Nollen & Quinn 1994, and Haidar 2014).

Iran's economy, including foreign trade, has undergone numerous upturns and downturns since the victory of the Islamic Revolution of 1979. By distinguishing between pre- and post-Revolutionary periods, pre-Revolutionary period can be considered as an almost free trade system controlled by an imperial family, and post-Revolutionary period as more state oriented.

4.2. Pre-Revolution Foreign Relations

During the “Qajar Era”¹ (1795-1925), the traditional structure of economy affected by participating in the international market. In the last decades of the eighteenth century, several European powers, including Britain, The Netherlands, and France, gradually stopped their trading with Iran because their competition for new Asian markets was on the rise and the country’s market was no longer profitable for them. Consequently, the country's foreign trade was limited to its neighbors including India, Russia, Afghanistan and the Ottoman Empire including Iraq (Nashat 1981).

In the nineteenth century, the Qajars established relative political stability and the result was economic improvement. By the end of the nineteenth century, the volume of foreign trade increased nearly a twelvefold due to a rise in the general level of prosperity in the country, and an almost doubling of its population (Nashat 1981).

As for foreign trade, although it increased about twelvefold during the 1800-1914 period, the balance of trade became increasingly unfavorable to the Iranians (Keddie 1972:72).

In this period, total trade was 2.5 million Sterling and the main trade partners were neighboring countries (Nashat 1981).

¹ The Qajar dynasty is a personalized Iranian royal family of Turkic origin, which ruled Persia (Iran) from 1785 to 1925.

**Figure 4.1: Share of Iran's Trade Partners in Total Trade
Qajar Era
Percent**

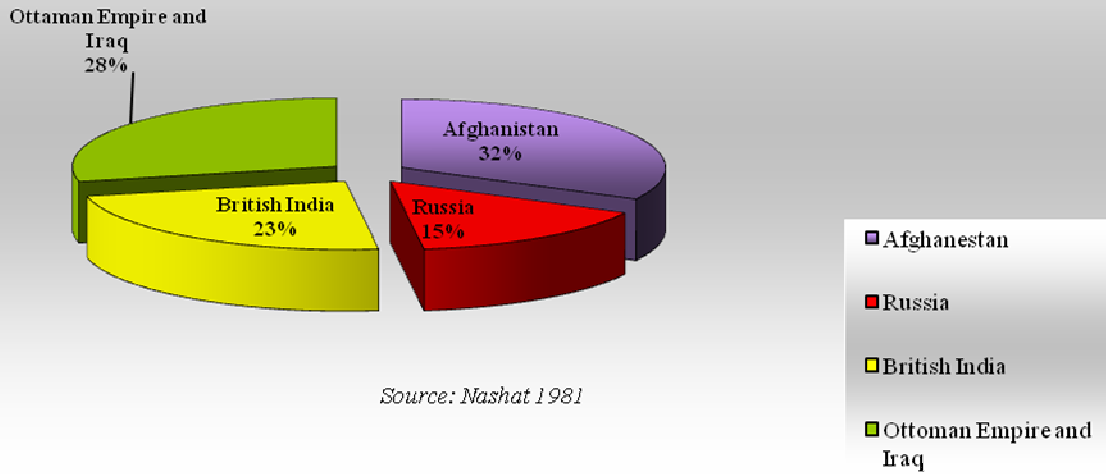


Table 4.1 :The Total Value of Persia' Trade with Foreign Partners during Qajar Era		
	Value (In £ Sterling)	Share(Percent)
Russia	450000	36.7
Ottoman Empire	40000	32.6
India	305000	24
Bukhara	50000	4.1
Persian Gulf	20000	1.6
Total	1225000	100

Source: Issawi 1971

From the middle of the 19th century to the beginning of the World War I, Persia's foreign trade underwent considerable structural changes (Issawi 1971). During the war and the

immediately following period there was dramatic drop in imports and especially exports, which were adversely affected by the Revolution of 1917 in Russia; a main trading partner at the time (Moghadam 1965).

The free trade regime originally enforced on trade following the treaties of Golestān (1813) and Torkamānčāy (1828) (Issawi 1971). The foreign trade policy of the country from 1919 to 1929 was characterized by continuing relatively free trade, and passivity in relation to external forces (Banani 1961:129).

Table 4.2: Composition of Trade 1850-1914(Percentage of Total)							
Main Imports	1850s	1880s	1911-1913	Main Exports	1850s	1880s	1911-1913
Cotton cloth	43	48	30	Silk and products	38	18	5
Woolen and silk cloth	23	15	5	Cotton and woolen cloth	23	1	1
Tea	9	2	6	Cereals	10	16	12
Sugar	2	8	24	Fruit	4	16	13
Metal goods	2	2	2	Tobacco	4	5	1
Cereals	N.A.	N.A.	4	Ra cotton	1	7	19
Kerosine	N.A.	1	2	Opium	N.A.	26	7
-	N.A.	N.A.	N.A.	Carpets	N.A.	4	12
<i>Source :Issawi and Philip 1971:135-135</i>							

The nation's imports included a variety of cotton fabrics, luxury European woolen and silk textiles, Venetian woolens, drugs, opium, cashmere shawls, rhubarb, spices, glass, chinaware, iron, steel, gold threads, indigo and vermilion for dyeing, and pearls. The exports consisted of silk and silk cloths, Kerman wools, brocades and printed calicos

from Isfahan, carpets, drugs, wheat, cashmere shawls, indigo, rhubarb, tobacco, and gall nuts. Half the goods arrived in Iran were for local consumption and the rest were transit goods (Nashat 1981:58).

Reza Shah Pahlavi¹ (1925–41) improved the overall country situation. He placed considerable emphasis on the development of the country's infrastructure. During this period, the nation went through social changes, economic development, and relative political stability. In the interwar period, modern industries with the intention of reducing dependency on imports were shaped and by 1941, more than 800 new industries have been established. The government supported industrialization by imposing tariffs and supporting modern industries. Establishing trade policies and tax structure attracted domestic financial resources (Curtis and Hooglund, 2008; Abrahamian 1982 and Issawi, 1971). The foreign trade policy from 1930 to 1940 was marked by the introduction of government controls and increasingly active state strictures (Banani 1961:129).

In the period 1921-41, oil exports were more than 60 percent of the country's total exports. However, due to the oil concessionary system in place at that time, the share of foreign exchange receipts from oil exports was relatively small, and non-oil exports were dominant in the country's trade balance.

In the period 1928-29, the value of imports exceeded of the non-oil exports by 63 percent of total non-oil exports .The country faced first foreign exchange crises under Pahlavi in 1930 due to the large deficit in the non-oil trade balance. The reason was spending oil's revenue for military purposes and capital goods imports instead of consumer goods imports. This crisis devaluated currency against the gold standard currencies and imposed more uncertainties to foreign exchange market. Government forced to impose foreign exchange controls in February 1930. These controls were then supplemented by the foreign trade monopoly law and giving the monopoly over all imports and exports to the government (Looney 1985; CBI 1963-78; IMF and WB).

¹ Rezā Shāh was the Shah of the Imperial State of Iran from 1925 until he was forced to abdicate by the Anglo-Soviet invasion of Iran on 1941. In 1925, Reza Shah deposed Ahmad Shah Qajar, the last Shah of the Qajar dynasty, and founded the Pahlavi dynasty.

Table 4.3 :Excess of Import over Non-Oil Export	
Year	Percent
1900-1905	82
1910-1914	61
1925-1929	63
1935-1939	16
1946-1948	97
1955-1960	263
1957-1960	363
<i>Source: Baldwin 1967:59</i>	

The government expanded foreign trade by using the foreign exchange controls techniques in 1936. Variety of good for needed industrialization like the military, railroads, and other areas of infrastructure investment were imported. Oil export expanded instead of traditional agricultural and the industrial export. By 1940, the nation's first trade partner with share of 42 percent of its foreign trade was Germany. The United States with 23 percent and the Soviet Union with 35 percent were also major trading partners in this period. Despite development in domestic and foreign economic policy, Iran remained an exporter of raw materials and traditional goods and an importer of both consumer and capital goods in the years before World War II (Curtis and Hooglund 2008).

Reza Shah Pahlavi was succeeded by his son, **Mohammad Reza Shah Pahlavi** (1941–79). The country's first development plan for seven years ended in 1955 because of the political and financial disturbances and shortages of funds due to the oil nationalization and replaced by another seven-year plan. In 1951, under Dr. Moḥammad Moṣaddeq¹, the

¹ Mohammad Mosaddegh was the democratically elected Prime Minister of Iran from 1951 until 1953, when his government was overthrown in a coup by the British MI and the American CIA.

nationalization of the oil industry imposed an embargo on exports of sugar, iron, and steel of the country and prevented the sale of oil on international markets, and referred the dispute to the International Court of Justice.

Depriving from oil revenues and political instability, depreciated the principal exchange rate to most imports and to non-oil exports by 100 percent between 1950 and 1953, and prices started to rise strongly again (Issawi and Yeganeh 1962).

With the fall of Moşaddeq's government a new period in economic development began. The resumption of oil exports with technical and financial assistance of the United States helped the government to start the second seven-year development plan based on import-substitution industrialization strategy that was expansionary monetary and credit policy (1956-62) (Amuzegar and Fekrat 1971). The result was an excessive monetary expansion. Consequently consumer prices which had stabilized over the 1954-55 period, started to rise again. Imports exceeded exports, and the foreign exchange reserves started to fall (Pesaran 1982). During 1954 -1960, oil revenues increased and with help of the foreign financial loan, investment and economic growth in the government sector improved, and resulted in inflation, fall in value of the Rial, and foreign trade deficit (Curtis and Hooglund 2008).

Oil was the main source of the foreign exchange supply and the earning of oil revenue was growing faster than the national income. In this situation export receipts grew faster than import payments and on a floating exchange rate system and liberal trade policy, the Rial was appreciating and consequently import substitution and manufactured exports have been discouraged (Kavoussi 1986) .

Reviewing foreign exchange receipts and payment of the country during 1959-1970 implied that highest current account deficit accounted to about \$675 million in 1970. Maximum amount of the current account surplus was about \$70 million in 1963. The annual average growth rate of current account during review period was about 17 percent. Annual average growth rate of oil and gas, and non-oil exports were about 13 and 9 percent respectively. During 1971-78, net current account was facing surplus in most of review years. The highest surplus and deficit were about \$80 billion and \$281 million

respectively in 1974. Oil and gas and non-oil export faced annual average growth rate of about 36 and 32 percent respectively during review period. (See Table 4.4)

Table 4.4: Foreign Exchange Receipts and Payment				
(Million \$)				
Year	Net current Account	Oil and Gas	None-Oil Exports (goods and services)	Net Overall Balance
1959	-109.5	335.4	166.2	-30
1960	-69.8	358.9	169.2	-55.4
1961	-27.2	391.3	147.4	61.4
1962	43.1	437.2	132.6	30.3
1963	70.7	470.8	148	30.6
1964	-57.8	555.4	146	95.4
1965	-115.2	607.5	209.8	-52.2
1966	-148.4	715.8	225	-24.4
1967	-213.3	857.4	318.1	-3.1
1968	-479.6	958.5	366.6	-99.7
1969	-553.5	1099	419.7	-70.9
1970	-675	1268.4	421.7	-239.3
1971	-281	2114	620	479
1972	-165	2536	801	493
1973	353	5073	1159	1151
1974	80529	18672	2250	5076
1975	2946	19053	2918	-991
1976	3530.9	20607.7	3497.3	2288.4
1977	10941.1	20904.7	4685.4	2014.5
1978	1499	18115.6	4622.4	-579

Source: Central Bank of Iran, Annual Report and Balance Sheet

To solve the foreign crisis, the government adopted an “Economic Stabilization Program”, which included restrictions on imports and private sector credits, and cuts in government expenditures, as suggested by the International Monetary Fund at the end of

1960. The import restrictions, high tariffs and government import protection policy granted to the private investors caused the development of new industries, which provided the needs of protected expanding home market and made a long period of fast steady industrial accumulation possible. This changed the composition of imports with greater emphasis on intermediate goods, and capital and durable goods by the end of the 1960s (Baldwin, 1967) (See Table 4.5). The result, however, declined the rates of nominal economic growth and per capita income by 1961. In response to this problem, the country began its third economic development plan with an emphasis on industrialization (Curtis and Hooglund 2008).

Table 4.5: Composition of Iranian Imports					
Categories of Import	1961	1966	1971	1976	1981
Manufactured import: Total	100	100	100	100	100
Consumer and non-durable goods	25.3	15	12.5	17.7	24.4
Intermediate goods	52.6	58.4	63.3	53.3	58.7
Capital and durable goods	22.1	26.5	23.9	29	17.1
Food	12.4	9.3	9.1	12.8	17.8
<i>Source: CBI and SCI</i>					

For most of 1970s, the overall external payments balance was positive. The trade and exchange system was liberal and Iranian Rial became effective currency in this period (Amuzegar 1992).

In the period of 1963-1978, by relying on oil export revenue for financing its expanded industries and services, the nation was one of the fastest growing countries in the world. In the first half of this period, the boom was result of increase in the volume of petroleum export. In the second half, growth was too rapid partly due to the increasing importance of OPEC in contract re-negotiations between producers and host companies. However, the main factor behind the country's huge oil revenues in 1970s was price increases in the world market. One important consequence of this boom was total dependency on

petroleum as a source of foreign exchange. The share of oil and gas export in foreign exchange earnings increased from 80 percent in 1963 to 97 percent in 1977 (Kavoussi 1986:453).

An increase in oil revenue along with improvement in the balance of payment resulted in import liberalization and a decrease in import restrictions in the period 1964-1970. However, import controls on goods with domestic substitutes were tightened. Despite that, trade policy focused more on import-substituting industries to produce consumer goods, but some efforts were made to establish industries producing capital and intermediate goods (Kavoussi, 1986).

A sharp rise in petroleum price and increase in oil revenue in 1973 resulted in a rise in domestic demand and intensified inflationary pressure. To respond to this situation the government adopted the broad import liberalization policy in 1974 and reduced customs duties on a large number of import categories. The result was an increase in value of import and decrease in the ratio of import taxes from 24 percent in 1973 to 11 in 1975 (Kavoussi 1986:458-459).

In the period of 1974-1978, the United States, by 18.5 percent, Western Europe, by 48.7 percent, and Japan, by 15.8 percent, were top ten import trade partners of Iran. Japan was the only Asian country among them (IRICA 1980). Prior to the 1979 Revolution, the country was considered America's closest ally in the Persian Gulf and trade between the country and the United States was prosperous. In 1978, American goods accounted for \$4 billion (or 21 percent) of all Iranian imports, making the United States the nation's number-one trading partner (Estelami 1999).

During 1931-76, main export and import partners of the nation were Soviet Union, West-Germany, United States, and Japan (See Figure 4.2 and 4.3).

Figure 4.2: Share of Iran's Non-Oil Export According to Country of Destination

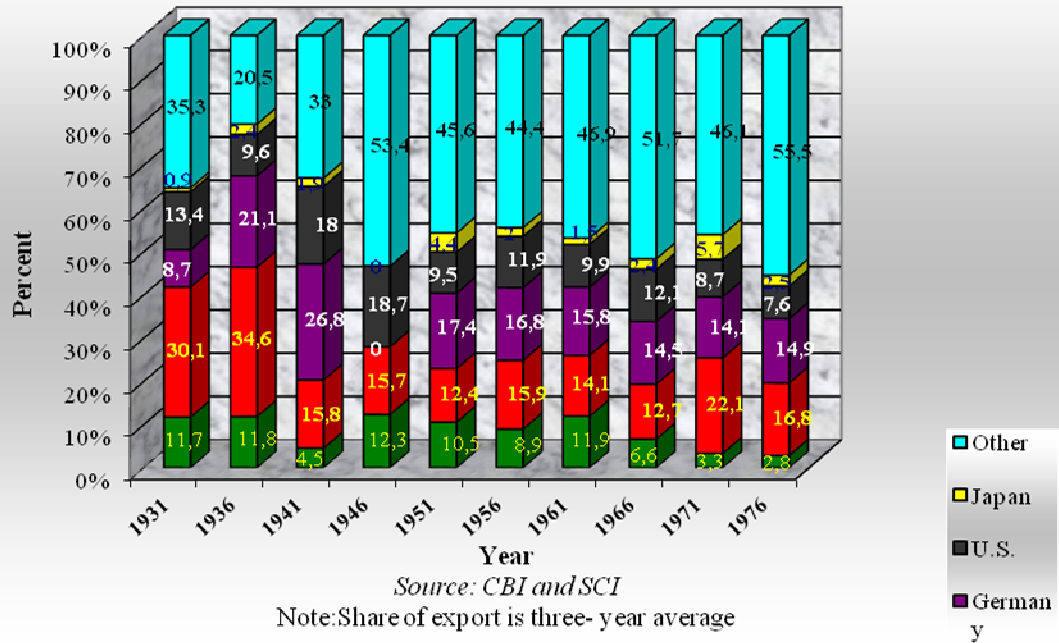
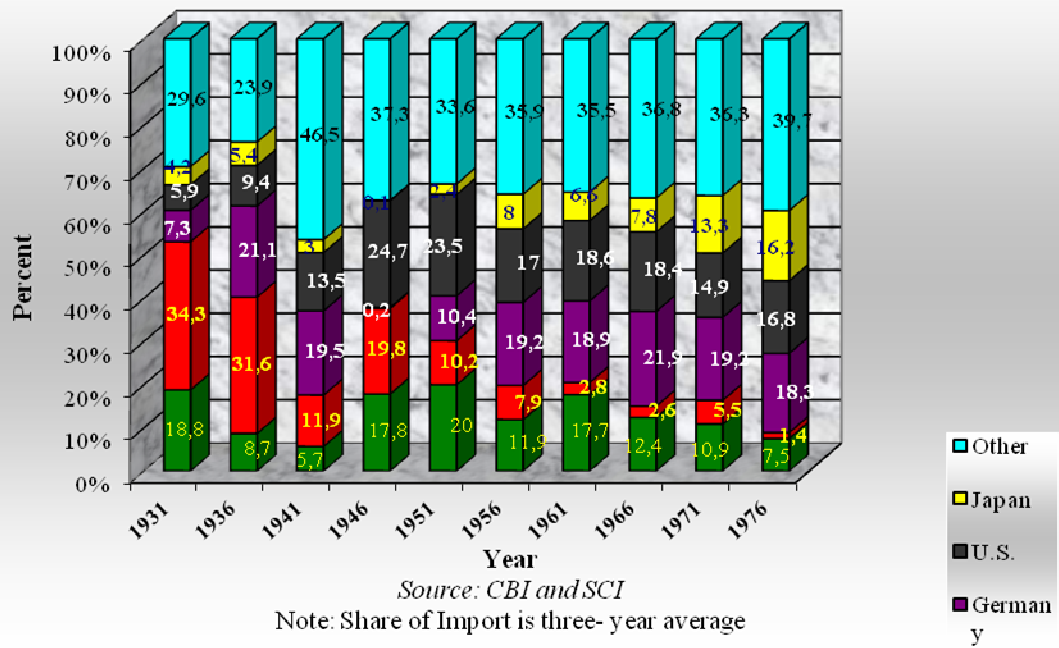


Figure 4.3: Share of Iran's Import According to Country of Origin



4.3. Post-Revolution Foreign Relations

4.3.1. Review of the Foreign Policy

Since the Islamic Revolution of 1979, the nation emerged on the international scene as a defiant, fiercely independent, proactively religious, and non-aligned power. The Revolution disrupted the regional order and ended the slowly emerging alliance of moderate powers in the Middle East. However, despite its revolutionary zeal, the country has always been a rational actor. Even some of its excesses can be seen as calculated risks or opportunist responses to difficult situations (Ehteshami 2002: 283-84).

The country's contemporary international view has been shaped by a wide variety of factors are given as follow: The early revolutionary ideology, the diplomatic dispute with the United States and the West (which resulted in international sanctions on import and export and freezing foreign assets), the Iraqi-imposed war (which reduced oil exports and increased war-related imports), instability in the global oil market, domestic political uncertainties (which encouraged capital flight), foreign exchange constraints, extreme national currency depreciation, high inflation rates, etc.

In response to such grave incidents, the country was not in a position to formulate a regular, planned and long-term economic and trade policy. Therefore, all economic policies adopted were in purpose of overcoming numerous crises plaguing the country (Amuzegar 1997 and Ministry of Commerce of Islamic Republic of Iran 2009).

In general, several factors influenced the nation's foreign economic relations and policies under the Islamic Republic including history, geography, religion, economics, and regional and geopolitical ambition (Jones 2009).

Geography has played a key role to determine the nation's foreign policy for centuries. A combination of factors-geography: the need to secure the country's territorial integrity, historical experiences, competition with other countries, meddling in the nation's internal affairs by Western-Eastern powers (Russia, Britain, and the United States) and the country's resource endowment, have come together to give a special place to geopolitics and an history to determine Iranian foreign policy. Historically, fears of foreign

interference and the search for autonomy have formed the basis of Iranian nationalism and the foreign policy for generations. After the Revolution of 1979, ideological legacy shaped by revolutionary Islam and traditional Persian nationalism, has led the nation into confrontation with many of its neighbors, Muslim governments beyond the Middle East, and the United States and its allies (Jones 2009 and Ehteshami 2002).

In the first ten years of the Revolution, the country's foreign policy orientation affected by several ideological principles as discussed below:

- After the Islamic Revolution of 1979, the Iranian rulers tried to create a foreign policy for the country that was, “Neither East nor West but the Islamic Republic”, which means that the country should not adopt policies toward dependency on Eastern or Western Bloc, in particular an aversion to Western (US) influence. In this direction, trade became regulated and in the line with ideological tendencies to “self-sufficiency”¹, nationalization of foreign trade and the strict public management of imports and exports took place (Amuzegar 1997; Rakal 2007; Jones 2009 and Friedman 2010).
- The country gave especial priority in its foreign relations first to its neighbors, Muslim countries, non-aligned countries and finally developed countries. To pursue this policy, the country abandoned the CENTO, joined the NAM and cancelled many weapons orders from the West. Even though the nation officially was a member of the NAM, in practice it was a partner of China and former Soviet Union. While relations with the US were very hostile, they were less hostile with the former Soviet Union. The nation also tried to maintain normal relations with allies of the two superpowers, such as Japan, and China (Ehteshami 2009; Boer 2009; Friedman 2010; Salehzadeh 2013; Jones 2009; Rakel 2007; Rezaei 2011 and Keddie 1990).

¹ “Self-Sufficiency”, which was one of the Revolution slogans, refers to the country's deep desire to reduce its economic dependency on Western powers. Iran regime argues that it is economic independence that will deliver political independence and not vice versa. Thus, successive governments pursued an import substitution strategy. For both practical and ideological reasons, state control and ownership of the economy became more severe after the revolution. (Ehteshami 2009: 286)

- “Export of the Revolution”. The Iranian Revolution was to be a “revolution without borders” in order to free Muslim countries and non-Muslim countries from their “oppressive and corrupt rulers” inspired by a certain interpretation of the Shi’s ideological doctrine. The Islamic Republic became a primary supporter of Lebanese Hezbollah and Hamas, and supportive influence on Islamist revolutionary groups in Iraq, Bahrain, Saudi Arabia, Kuwait, and Afghanistan. It caused many tensions in the country's relations with Saudi Arabia and other actors in the Muslim world (Jones 2009 and Rakal 2007).

Following the Islamic Revolution characterized by the slogan "down with America", diplomatic relations deteriorated with subsequent effects on trade. With the US embassy hostage crisis in November 1979, economic relations were also adversely affected. The first formal US sanctions against Iran were in April 1980, following the break in diplomatic relations between the two countries. The sanctions banned all US exports to Iran¹ (Estelami 1999; Rezaei 2011 and Salehzadeh 2013).

Economic factors had also considerable effect over the shape and direction of foreign policy. The country holds an important position in the world energy markets. This has had a large impact on the nation’s foreign policy practices. Oil had always been an important factor in modernization, but the rush of the 1970s to modernize society and industrialize the economy increased the country's dependency on its hydrocarbon resources. The Islamic Republic inherited an economy based heavily on hydrocarbons. In the early years of the Revolution, the new government tried to redirect the nation’s economy and trade relationships in order to reduce the country’s dependence on oil. In this way, the government sought to change both economic relationship with the international capitalist system and political and diplomatic relationship with the West (Ehteshami 2009; Boer 2009; Friedman 2010; Salehzadeh 2013; Jones 2009; Rakel 2007; Rezaei 2011 and Keddie 1990).

¹ Due to the important effects of disputes between the United States and Iran, and influences of sanctions on the country’s foreign policies and trade, one separated section will be allocated to the study of the effects of sanction on Iran’s foreign relations.

The war with Iraq, however, put an end to the plan for transforming the economy. The nation grew increasingly dependent on its oil revenues to finance the war effort and purchase weaponry. The country was unable to leave the international capitalist system and change its position in it. Under the Islamic Republic, the nation therefore remained a supplier of hydrocarbons and this heavy reliance on oil wealth increased the country's vulnerability to outside forces and international economic pressures (Jones 2009 and Boer 2009).

The Iran-Iraq war (1980–1988), was one of the bloodiest conflicts of the century; a border conflict and a conflict between two different ideologies. In fact, the conflict with Iraq defined the country's foreign policies in this period. For much of the 1980s and during the Iran-Iraq war, foreign policy issues were addressed directly by supreme leader¹. The country's conduct of the war reflected its aggressiveness and revolutionary zeal. It was not an inter-state conflict for territorial adjustment or limited political objectives. Instead, the conflict represented a contest of ideologies and a competition for power. The war was seen as a larger plan began by the United States, Arab leaders and even Israel to crush the Iranian Revolution. Throughout the conflict, the government portrayed the war as a battle between the forces of Islamic purity and the agents of the devil. The relations between the nation and the Persian Gulf states were severely damaged during the first years of Islamic Republic and the war. Although, they have declared themselves neutral, the Persian Gulf states provided logistic and financial support to Iraq during the Iran-Iraq war. By 1987 Iran was at a conflict with Iraq, Kuwait, Saudi Arabia, Sudan, Egypt, Israel, Jordan, Morocco, Tunisia, North Yemen and Afghanistan. It could only count Syria as its ally, and South Yemen and Libya as friendly countries. Moreover, it maintained normal relations with Algeria, Pakistan, and Turkey. The war with Iraq left a permanent scar on the Islamic Republic's international orientation. The war established ideas of self-sufficiency and self-reliance as a base of Iranian foreign policy (Ehteshami 2002; Rasmussen 2009; Salehzadeh 2013; Rakel 2007 and Jones 2009).

¹ Ayatollah Khomeini

The reorientation phase: a transition from radicalism to accommodation, and accommodation to pragmatism and the establishment of the pragmatist line in the nation's foreign policy started from 1988 to 1990. The pragmatist line can be detected in the country's decision to end the eight-year war with Iraq (Ehteshami 2002).

Since 1989, several factors have affected the foreign policy of the country included Ayatollah Khomeini's death and the new power sharing arrangement between the supreme leader and the President, the end of the Iran-Iraq war, the end of the Cold War and the disintegration of the Soviet Union (Boer 2009).

The new president, **Ali Akbar Hashemi Rafsanjani** (1989-1997), inherited an economic crisis. Economic factors were a key influence on his efforts to remodel the nation's international relations in a less confrontational manner and tried to moderate the country's image in the international community. A priority of his foreign policy was to improve relations with Persian Gulf countries, especially Saudi Arabia, but also with the newly independent states of the CEA and Russia. **Khatami's** presidency (1997-2005) aimed to continue Rafsanjani's foreign policy towards its neighbors, but also to improve relations with the EU and its member countries. Khatami's foreign policy reinforced the non-ideological aspects of Rafsanjani's foreign policy, but it also went further to preaching compromise, rule of law, and moderation. Khatami emphasized the importance of the nation adopting a pragmatic, responsible foreign policy, which was respectful of international norms. Both Rafsanjani and Khatami focused much of their efforts on a diplomatic push that attempted to improve the nation's relations with the community of states through strengthen relationship with international organization such as IMF and WB (Friedman 2010;Ehteshami 2009;Jones 2009; Takey 2009 and Rakel 2007) .

The **Ahmadinejad** period (2005-2012) is in contrast with the 1990s. It was known as an endless public attack on international system. In his period, the Islamic Republic did not continue the reconciliation policies of Rafsanjani and Khatami. Ahmadinejad referred to Ayatollah Khomeini's revolutionary foreign policy orientations and ideology has regained a more prominent place in foreign policy decision-making since his presidency. The election of Ahmadinejad signaled a prompt shift in the country's foreign policy

outlook and instantly destroyed the nation's reputation that it had so carefully tried to restore from the mid-1980s (Boer 2009 and Friedman 2010).

4.3.2. The Structure of the Foreign Policy¹

The foreign policy of the country is based upon the rejection of all forms of domination, both the exertion of it and submission to it, the preservation of the independence of the country in all respects and its territorial integrity, the defense of the rights of all Muslims, non-alignment with respect to the hegemonic superpowers, and the maintenance of mutually peaceful relations with all non-belligerent States. Any form of agreement resulting in foreign control over the natural resources, economy, army, or culture of the country, as well as other aspects of the national life, is forbidden. The nation has as its ideal human felicity throughout human society, and considers the attainment of independence, freedom, and rule of justice and truth to be the right of all people of the world. Accordingly, while scrupulously refraining from all forms of interference in the internal affairs of other nations, it supports the just struggles of the oppressed against the oppressors in every corner of the globe. The government of the Islamic Republic may grant political asylum to those who seek it unless they are regarded as traitors and saboteurs according to the laws of the country.

4.3.3. The Leadership and Foreign Policy Making in the Islamic Republic of Iran

Since August 1989 and the constitutional reforms of that year, a "presidential center" has been created at the heart of the executive power structure of the republic. "The constitutional reforms also brought into being the NSC, controlled by the president and his staff. This body has become the center of policymaking in the country and the key body where foreign policy is debated. Since 1989, the president has taken the main responsibility for foreign policymaking and has been allowed to use his new powers to formulate and direct the nation's international relations. Under the reformed constitution, the foreign minister reports directly to the president. However, the presidential office has emerged as the main foreign-policy making organ of the state, the president's foreign policy decisions are not made in isolation from other power centers. The faqih (Supreme

¹ According to Chapter 10, Articles 152 to 155 of the 1979 Constitution of the Islamic Republic of Iran

leader) is the individual whose support is crucial in implementation of foreign-policy decisions. The faqih's position and support is normally arrived at in the formulation stage of policies: through his personal representative on the NSC, he follows and conveys his views to this decision making body. In the policy formulation, in the time of the controversial decision-making he can and does make public statement in endorsement of decisions and providing justification for the president's foreign-policy initiatives (Ehteshami 2002: 291-293) .

4.3.4. The Trade System and Trade Policy¹

The country's export and import were totally in the government's hands. In support of trade nationalization, the government briefly argued that foreign trade in the private was against the national interest due to several reasons. It failed to meet national needs because of the private profit motives. It harmed domestic productions by allowing the import of non-essential goods. It encouraged the surge of unsavory practices such as non-payment of taxes, illegal transfer of foreign exchange from the country and fraud. It sacrificed country's ideological interests by neglecting the country's political and doctrinal principles for the sake of private benefit (Ministry of Commerce of the Islamic Republic of Iran 1981).

The revised bill of the Foreign Trade Nationalization abrogated the state's total monopoly over imports but assigned four-fifth of the import trade in all "essential" goods to the government within four years. Exports were also assigned to the state's hands within four years. Non-governmental imports had to be approved by Ministry of Commerce (Amuzegar 1997).

The post-Revolution trade system was in favor of a very active role for the government in particular and has been characterized as quantitatively restricted and protective of domestic industries. It was anti consumerist in intent and against luxury imports in practice to reduce consumption of luxury goods and create a new Islamic consumption pattern. It was selective in the choice of foreign partners to expand trade with Muslim and

¹ As mandated by Article 44 of the 1979 Constitution, the Foreign Trade Nationalization Act of 1981.

poor countries¹ and divert trade away from United State. It was increasingly controlled by the state to prevent the economic dominance of foreigners, to avoid dependency of politico-economic polarity and to stop transactions that are prohibited in Islam. Improvement of quality and diversification of exports and the balance of payment equilibrium were also other aspects of the trade system of the country (Amuzegar 1997 and Amid 2005).

The “Procurement and Distribution Center” was established in early 1980 to check imports and foreign exchange flows (Amid 2005: 35). Imports for commercial purposes were allowed under import licensing, and were subject to customs duties, a commercial profit tax, and a tax on letter-of- credit registration, a surcharge on certain items, and various fees and charges earmarked for specific purposes (Amuzegar 1997: 143).

The country imposed a complicated range of tariff and non-tariff regulations. Tariff rates ranged from five to 100 percent of import value. Commercial profit tax imposed annually by the Council of Ministers in a range of 5 to 400 percent on the top of customs duties. Non-tariff barriers included outright prohibitions, quantitative allocation, various conditions attached to the importation of specific products. Trade liberalization was adopted aftermath of war. According to new measures, private sector does not need foreign exchange licensing for imports. Since 1991, importers have not needed a specific import license. In July 1999, Importation of authorized items was freed from quantitative restrictions (Amuzegar 1997: 144-145).

The average tariff rate in the country was 38.62 in 2000. Its highest value in past 11 years was 25.69 in 2011 and the lowest value was 19.05 in 2004 (WTO 2012). Before 2002, the National Tariff Schedule (NTS) was a complex one and tariffs comprised several elements. However, after the enforcement of the "Act on Consolidation of Duties" in 2003, the NTS has been simplified. The average import duties in the nation's NTS was 25.5% in 2009. The figure was 25% for industrial goods and 29.6% for agricultural goods (Ministry of Commerce of Islamic Republic of Iran 2009). (See also Figure 4.4 and Table 4.6)

¹ Third World

Figure 4.4: Iran's Import Tariff Rates

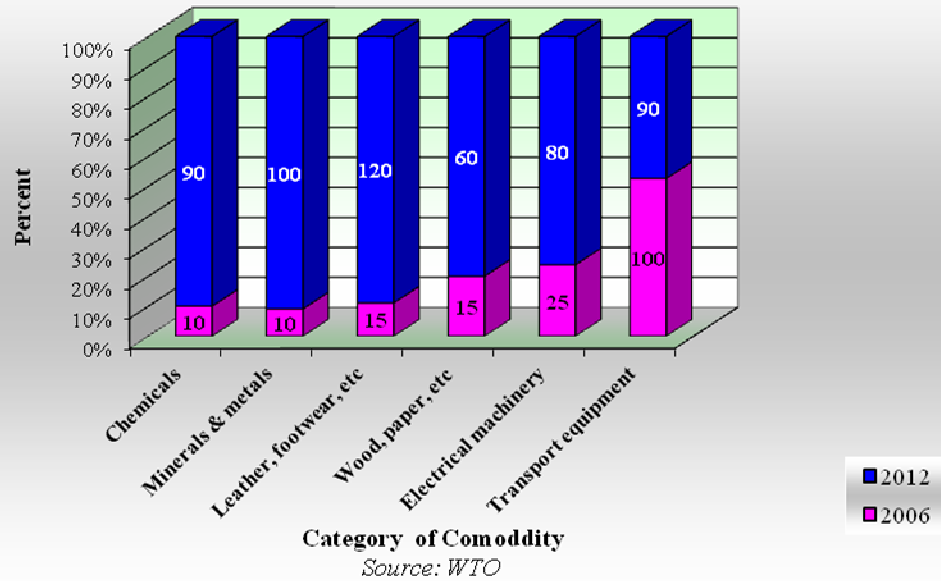


Table 4.6 : Import Tax in Iran

(Billion Rls*)

Type of import duty	2000-01	2004-5	2008-9	2012-13
Import duty	7963.7	32716.5	56473.5	76048.8
Others	129.5	370.7	215.6	354.2
Total	8093.2	33087.3	56689.1	76402.9

Source: CBI and IRICA

*1\$=26328

According to export and import law specified by Ministry of Commerce¹, all goods were classified into three categories: permissible goods that can be exported and imported freely without any permission; prohibited goods such as alcoholic drinks and weapons,

¹ According to Article 8 of the act on Export-Import Regulations

which are forbidden to export and import because of Islamic law and security reason, or goods such as cosmetics, jewelry and fur coats that were forbidden to import because of social causes, most likely they were presumed to be luxurious or unnecessary, or goods such as carpets and dried fruits, forbidden to import because of economic causes like protecting domestic products; and conditional goods that require permission to be exported or imported from Ministry of Commerce or other ministries. All goods have been subject to the payment of various taxes, whether they are permissible or conditional (Amid 2005: 35-36).

The country's foreign trade policy was based on non-alliance, non-dependence and relative self-sufficiency from East and West. According to these criteria, the country's import needs must be provided based on the mutual respect and healthy benefits. To minimize harmful over-reliance on any foreign power supplies both political and geographical diversification of sources of import must be applied. The country must tie a close relations with Islamic, non-aligned, Third World and oppressed nations. The closeness depended on the partner's ranking with respect to politics, ideology, Islamic affinity and economic advantage. High technology and modern technical skills must be possessed from politically sympathetic countries to the Islamic republic, non-hostile countries to the nation's interest and the countries that are willing to establish bilateral trade based on mutuality of treatment and equality of status. By this basis, the nation's trade direction, which had been focused on western industrial countries, had to change to Third World and Eastern blocs (Amuzegar 1997: 144).

4.3.5. Foreign Exchange System

Most developing countries try to keep the real exchange rate near its competitive rates to achieve external balance. During 1965-1985, oil-exporting countries in the Middle East, did not devalue their currency to achieve this goal. However, as in the mid-1980s oil prices began to decline, the exchange rate misalignment became a significant issue for these countries. Iran maintained a fixed exchange rate system with periodic devaluations before and after the Islamic Revolution of 1979. However, before the Revolution, the Rial was pegged to the US dollar and the official exchange rate between the Rial and the

US dollar was approximately 70 Rials per-dollar but during the 1980's, it was pegged to the SDR (Jalali-Naini 1996 and Tavkolian & Ebrahimi 2012) .

The country's foreign exchange system was transformed several times in direction of restrictions, quantitative controls, and a multi-rate structure. Following the Iran-Iraq war, the exchange regime was highly controlled until 1989-90 (Amuzegar 1997: 161). Despite relatively high inflation rates, reduction in oil revenues, political uncertainty, and the severe adverse impact of the Iran-Iraq war on the economy, the government adhered to the fixed official exchange rate during most of the 1980s, which had resulted in a highly overvalued currency. The overvaluation of the official exchange rate became a serious problem during second half of 1980s and led to a black market risk premium. Over the years, the country has experienced many forms of foreign exchange rate regulations, which caused an emergence of a black market beside the official market. The premium rose from 200 -300 percent in the early 1980s to 500-600 percent by mid 1980s and finally reached to 2000 percent by 1989 (Jalali-Naini 1996; Pesaran 1995 and Tavakolian & Ebrahimi 2012).

In the aftermath of war, foreign exchange controls were tightened. Available foreign currencies were allocated each year through the foreign exchange budget among various uses and users. An increase in imports during 1980-81 let the government to establish a Foreign Exchange Allocation Commission to allot foreign currencies for essential needs. Regulation related to import payments and non-oil export receipts were liberalized after ceasefire (1988) and in the line with the first-year development objectives (Amuzegar 1997:163).

Up to 1989-90, the country was trying a complicated system of 12 different exchange rates. The basic official rate was $RIs\ 92.3 = SDR^1\ 1$ applied to oil export revenues, essential imports, military items, some invisibles, and official capital transaction. In 1991, there were three different rates: 1) the official rate covered public sector transactions set at 70 Rials=1 US dollar, 2) competitive rate for selected essential imports by the private sector and 3) floating rate for private sector imports approved by the government. A free

¹The currency value of the SDR is determined by summing the values in U.S. dollars, based on market exchange rates, of a basket of major currencies (the U.S. dollar, Euro, Japanese yen, and pound sterling) (IMF).

market rate was out of any restriction and determined by free forces such as the development in global foreign exchange market, seasonal fluctuation in local demand and supply foreign currencies has existed along with other three. The exchange regime was modified in 1993 in direction of additional Rial devaluation and exchange unification (Amuzegar 1997:166-67 and Jalali-Naini 1996).

Over the past decades, the Central Bank of Iran has managed the fluctuation of nominal exchange rate to protect the competitiveness of the economy through monitoring the difference between domestic and foreign inflation. When domestic inflation is higher than foreign inflation, CBI tries to depreciate the Rial and it is used for the unofficial increase of the exchange rate due to market forces. In 2001, exchange rate unification took place. Since then CBI has been using a managed floating exchange rate regime. The unified exchange rate has increased gradually from 8,193 Rials per US dollar in 2003 to around 1,000 Rials per dollar in early 2011 (Tavkolian and Ebrahimi 2012:54-55) .

4.3.6. Value and Composition of Foreign Trade

4.3.6.1. Import

The Revolution deeply affected foreign trade in 1978-80. During this period, the value of import has been the subject of much fluctuation because the value of imports is closely related to the value of foreign exchange earnings¹. Thus, an imbalance in oil revenues has also caused an imbalance in the value of imports. In order to protect the country limited foreign currency revenues the import of some consumer and luxury goods was reduced after 1979 (Amuzegar 1997:148-149 and Ehteshami & Varastesh 2012).

As GDP and oil's revenue reached lower levels, total value of imports reduced by an average of 18 percent a year. The improvement of economic condition and higher prices for oil exports returned import trends to the pre-Revolution amount around \$1 billion a month on average in 1981-82. In 1983-84, total import values reached to a post-Revolution peak due to a growth in oil revenue. In mid-1980s, Iraqi attacks on the country's oil installations and facilities and the collapse of oil prices declined sharply the

¹ The amount of oil exports and oil prices

foreign exchange earnings and thus, the value of the country's imports has fallen sharply. The country relied on oil revenues to provide necessary massive amount of imports. As oil and gas export revenues increased in 1983-84, merchandise imports raised from nearly \$11 billion to \$18 billion in the same period. Decline in oil export earnings in 1984-85 and the sharp drop in oil income in 1986-87 reduced the volume of import gradually to \$10.6 billion in 1988-89. Foreign purchases in 1988-89 were only about 59 percent of the 1983-84, and 64 percent of the 1977-78. In 1991-92, imports increased nearly \$25 billion (Amuzegar 1997:148-149, and Ehteshami & Varastesh 2012).

Figure 4.5: Total Value of Iran's Import (1977-2013)

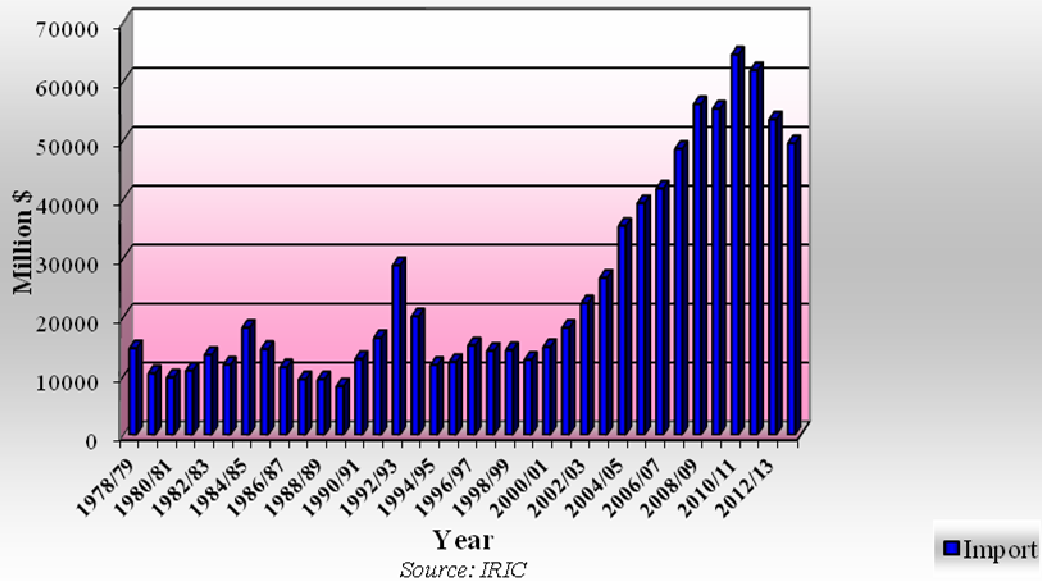
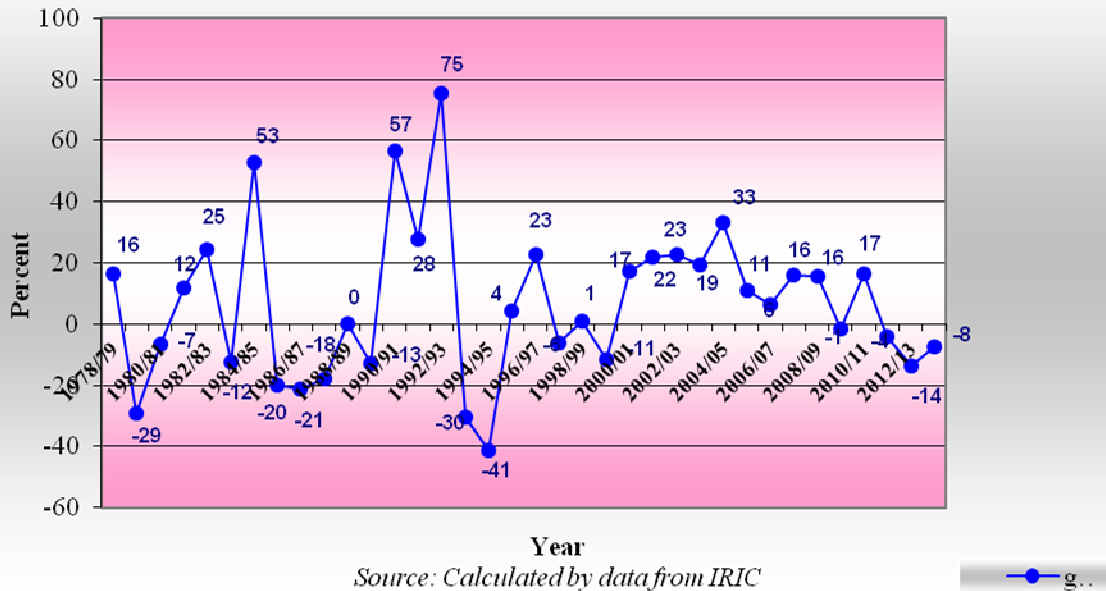


Figure 4.6: Annual Growth of Iran's Import



In the first decade after the Islamic Revolution, the value of import followed a downward trend. In the second decade, the import trend tended to rise gradually. In 1995, the country became a WTO observer state. In 1997-98 the nation's import of goods amounted \$14 billion with the growth of 0.8 percent compared to previous year. In the third decade, the value of import increased by the average of 59 percent a year (ICIR 2001; ICB 2001, UNIDO 2003).

The introduction of the floating exchange rate in 1999-2001 served to stabilize the exchange rate. In 2000, simplifying the regulations on foreign trade improved import situation and resulted in easing import conditions, tariffication of non-tariff barriers and increasing the coverage of authorized imported goods. About 23.4 million tons of goods with an estimated value of \$14.3 billion were imported from customs, registering 8.5 percent increase in weight and an 21 percent rise in value compared to the previous year (ICIR 2001; CBI 2001; UNIDO 2003 and Alvari Rad 2011:81) .

In 2002, to improve coordination of foreign exchange and trade policies, customs duties and commercial profit were modified according to new exchange rate and import policies. Moreover, import of spare parts and production machinery by the private sector

was authorized through short-term credit lines (refinance). In addition, import of assembly line machinery was exempted from order registration fee and the list of the mentioned tariffs was announced. The total value of imports reached \$22 billion in 2002-2003 (Alvari Rad 2011:82 and IRIC 2005). Imports of goods amounted to \$35,389 million in 2004-2005, and \$39,064 million in 2005-2006 respectively (Ministry of Commerce of Islamic Republic of Iran 2009).

Over the period of 2000-2009 and during third and fourth FYDP, the country's import grew continuously by the average rate of 18 percent. The import increased from \$14 billion in 2000-2001 to \$56 billion in 2008-2009. Since 2009-2010 to 2012-2013, the value of import has decreased. A new series of sanctions imposed by US and Europe in 2011, have triggered national currency devaluation, reduced oil and gas production and export, and sharply diminished import. In 2010-2011, import amounted \$64 billion by 16.4 percent raise, compared with 2009-10 and \$53 billion with 29 percent decline in 2012-2013, compared with the previous year (IRIC 2000-2010).(See also Figures 4.5 and 4.6)

The composition of imports in post-Revolution has shown no change compared to pre-Revolution era. Rapid rise in population and war related shortage intensified the demand for imported consumer goods. In 1979, 54.2 percent of the total imports were raw materials and intermediate goods, 27.2 percent were capital goods and 18.6 percent were consumer goods. Consumer goods, which accounted for about 18 percent of total imports in 1978-79, increased to 23 percent in 1982-83 and declined to 18 percent in 1990-91. Capital goods and intermediate items followed same fluctuations. In 1990-91 around \$3.5 billion, foods were imported (Amuzegar 1997:149).

Figure 4.7: Commodity Composition of Iran's Import

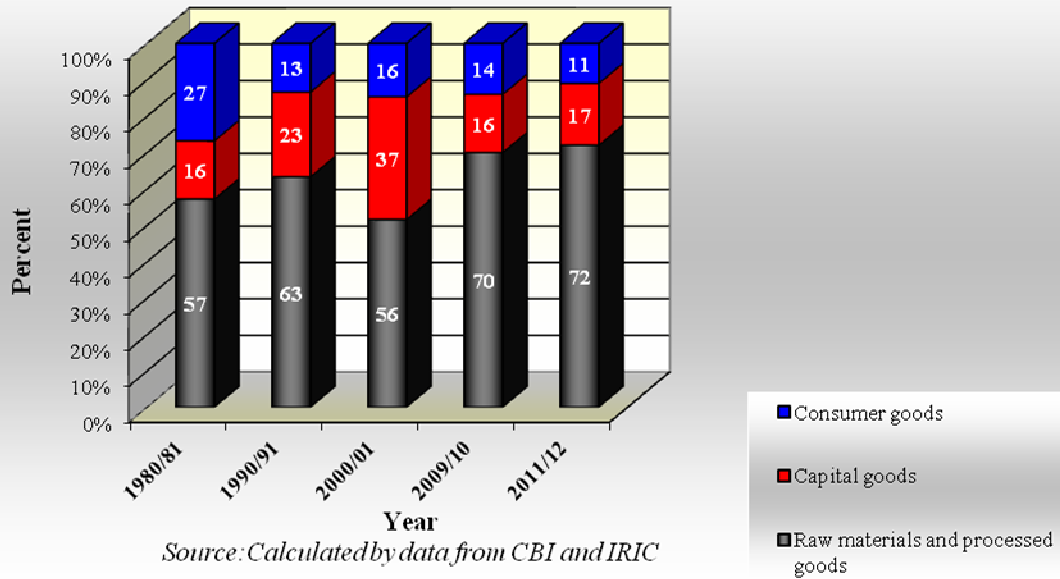
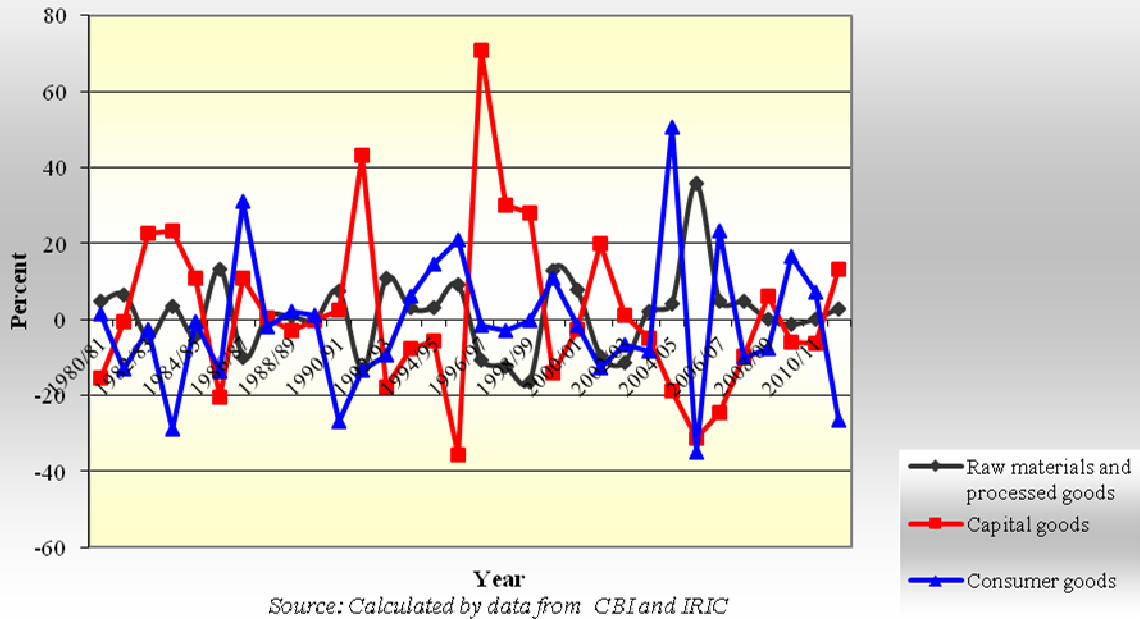


Figure 4.8: Annual Growth of Commodity Composition of Iran's Import (1980-2012) (Share of Total Value)



The industrialization of the country has been based on import-substitution strategy of development. Since the Revolution of 1979, the import dependency of the economy has increased. While in 1979 each 100 Rials GDP produced, required 33 percent of imported primary and intermediate inputs, by 1983, the relative figure has increased to 37 percent. In 1983, imported primary products accounted for 54 percent of total imports. Shares of chemical and basic metal industries were 69.7 and 71.5 respectively in the same year. (Ehteshami and Vrastesh 2012: 152) The value of intermediate and capital goods, which had reached \$17 billion in 1983, declined to only \$8.7 billion in 1986 (Behdad 2000).

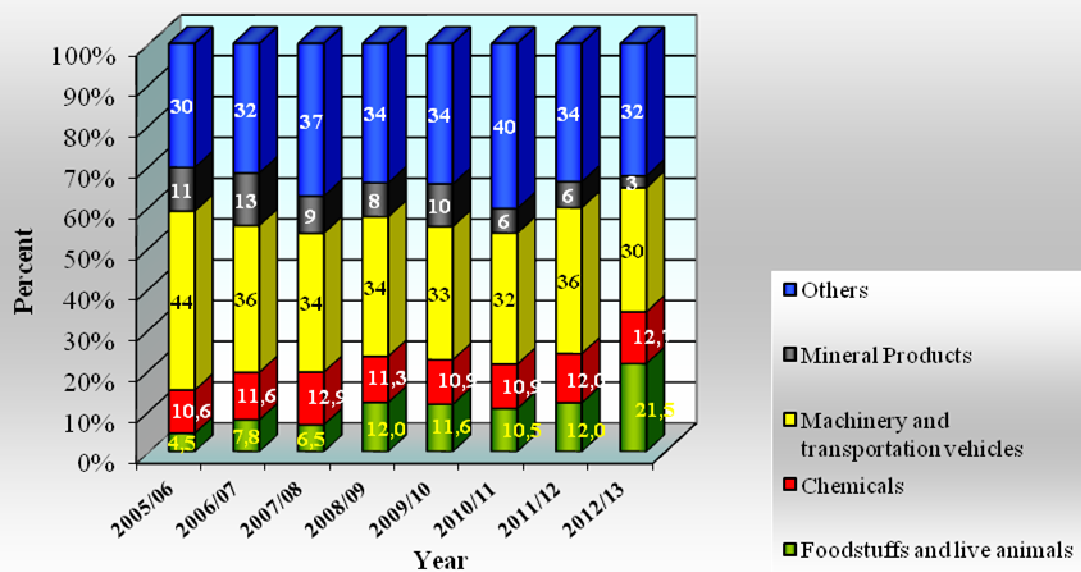
Over the period of 2000-2004, the highest share of total imports related to raw materials, intermediate goods and capital goods. The share of raw materials and intermediate goods, capital goods, and consumer goods changed from 51.6, 33.7 and 14.7 percent, respectively in 2000 to 67.1, 22.9, and 10 percent in 2004 (Alvari-Rad 2011:82-83 and IRIC 2000-2010).

In 2004-2005, the import of machinery and transportation equipment ranked first and accounted for 47.7 percent of the total imported goods. The imports of primary materials and intermediate goods, capital goods, and consumer goods respectively comprised 47.8, 34.2 and 18 percent of the total imports of goods in the same year. (Ministry of Commerce of Islamic Republic of Iran 2009) In 2006, commodities and transactions not classified elsewhere in the SITC accounted for 76.8 percent of imports (CBI 2009; IRIC 2009 and UN 2008). Composition of imports by use reveals that share of consumer goods in total imports rose to 15.3 percent by 1.6 percentage growth, compared with the previous year. Share of intermediate goods and capital goods decreased from respectively 67.5 and 18.8 percent in 2008-09 to 66.8 and 17.9 percent in 2009-2010.

In 2005-2006, "machinery and transportation vehicles", "mineral products", "chemicals", and "foodstuffs and live animal" by respectively 44, 11, 10.6, and 4.5 percent have the highest shares in total imports in terms of value. In 2009-2010, machinery and transportation vehicles", "mineral products", "chemicals" by respectively ranked three first and accounted for 55 percent of the value of total import, compared with 57.5 percent of the previous year. In 2012-2013, the highest share of imported goods, in terms

of value, belonged to "machinery and transportation vehicles" by 30 percent, followed by "Foodstuffs and live animal" by 21.5 percent, "chemicals" by 12.7 percent, constituted 64.6 percent of the value of imports in 2012-13, compared with about 60 percent of 2011-12. During 2005-2013, annual average growth of "foodstuffs and live animal", "chemicals", "machinery and transportation vehicles" and "mineral products" were about 25, 2.6, -5 and -17 percent respectively. (See Figure 4.9)

Figure 4.9: Share of Commodity from Iran's Total Import According to Main Components



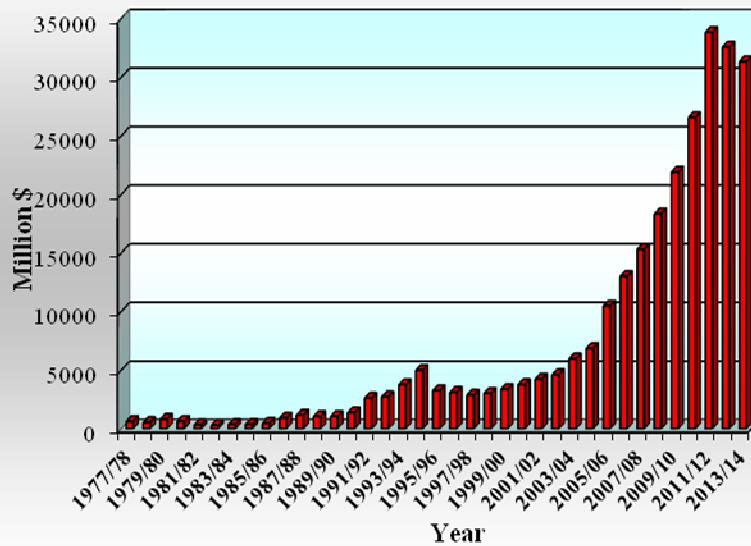
Source: Calculated by data from CBI and IRIC

4.3.6.2. Export

Since the Revolution, non-oil exports had a depressed market. The share of non-oil exports of the total value of exports fell from 5.6 in 1980 to 3.5 in 1986, mainly due to the rise in oil prices. In the period 1978-79 and 1986-87 the value of non-oil exports declined by 25 percent but increased again after 1988-89. In the first FYDP (1989-1993), the expansion of non-oil exports was strongly emphasized and as noted in the plan documents; the expansion of non-oil exports, including traditional, industrial and agricultural products is important for development and economic independence and it was planned that the non-oil exports would increase at an average annual real growth rate of 44 percent. The absolute decline of non-energy exports during first FYDP indicates

that the plan's goals are very far from what actually happened (Amuzegar 1997, and Ehteshami and Varastesh 2012).

Figure 4.10: Total Value of Iran's Non-Oil Export



Source: CBI and IRIC

■ Non-Oil..

Table 4.7: Planned and Actual Non-Oil Export (Million \$)

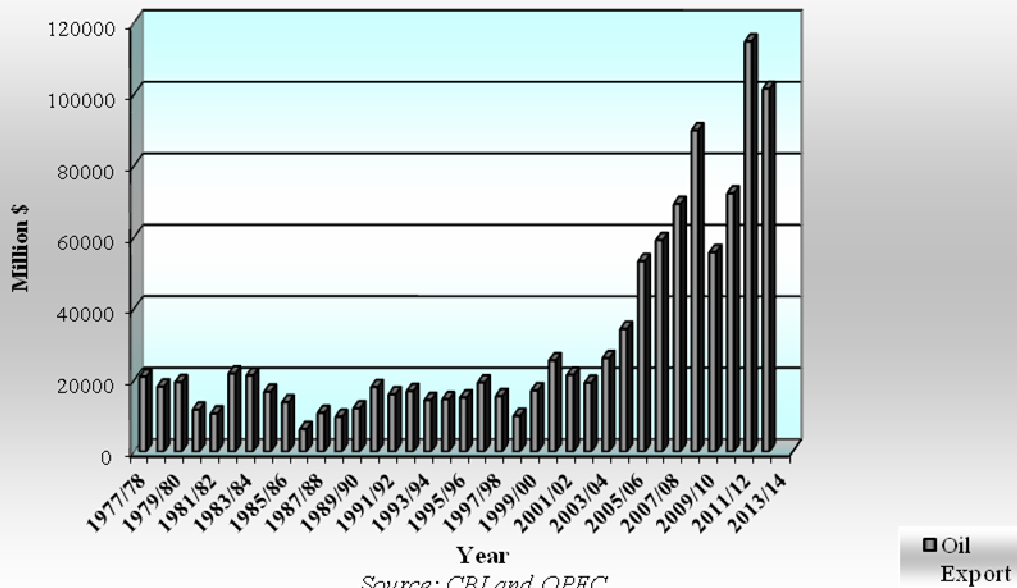
	Target	Actual
1988	N.A.	1035.8
1989	1739.3	1043.9
1990	2383.5	1312.2
1991	3149.6	2648.7
1992	4247.9	2989.7
1993	6115.5	3746.8
1994	4119.9	4824.5
1995	4466	3257
1996	4841.1	3120
1997	5247.8	3050
1998	5688.6	3013.3
1999	6165.3	3360.5
2000	4181	3809
2001	4565	4273
2002	5271	5288
2003	6636	5970
2004	7537	8353

Source: first, second and third FYDP

The actual level of non-oil exports show a significant gap between the goals as stated in the plans and the actual levels achieved. (See Table 4.7)¹

Since the Islamic Revolution, the country had become more dependent on oil revenues. During 1973-1988, oil exports had provided 91.5 percent of the total value of exports on annual average rate (UNIDO 1999, and Ehteshami and Varastesh 2012).

Figure 4.11: Total Value of Iran's Oil Export (1977-2013)



The country's main source of foreign exchange earnings is from exports of oil, which is independent from the Rial's rate of exchange. Oil prices are determined in dollars in the

¹ Data related to FYDP is not available after 2005. The main reason is in dissolving MPO. The Management and Planning Organization of Iran (MPO) was established in 1984 and since that time it had a variety of goals and duties, including the evaluation of the country's resources, the preparation of its medium and long term development plans and policies (which in post-revolution period called as FYDPs), the preparation of annual budgets, and the monitoring and evaluation of work done under the implemented plans. In July 2007, the MPO was dissolved after a direct order from President Mahmoud Ahmadinejad and he established a new budget planning body directly under his control to give him a freer hand to implement his policies. Bayazid Mardookhi, economist and expert of the Management Organization has asserted that when the Organization was closed down, a big piece of our management system was cut and removed. Moreover, the absence of the Planning Organization in the country caused big part of the confusion and negligence with regard to some economic problems. Finally, the Fourth Plan with all its specifications was put aside (Iran International Magazine 2013).

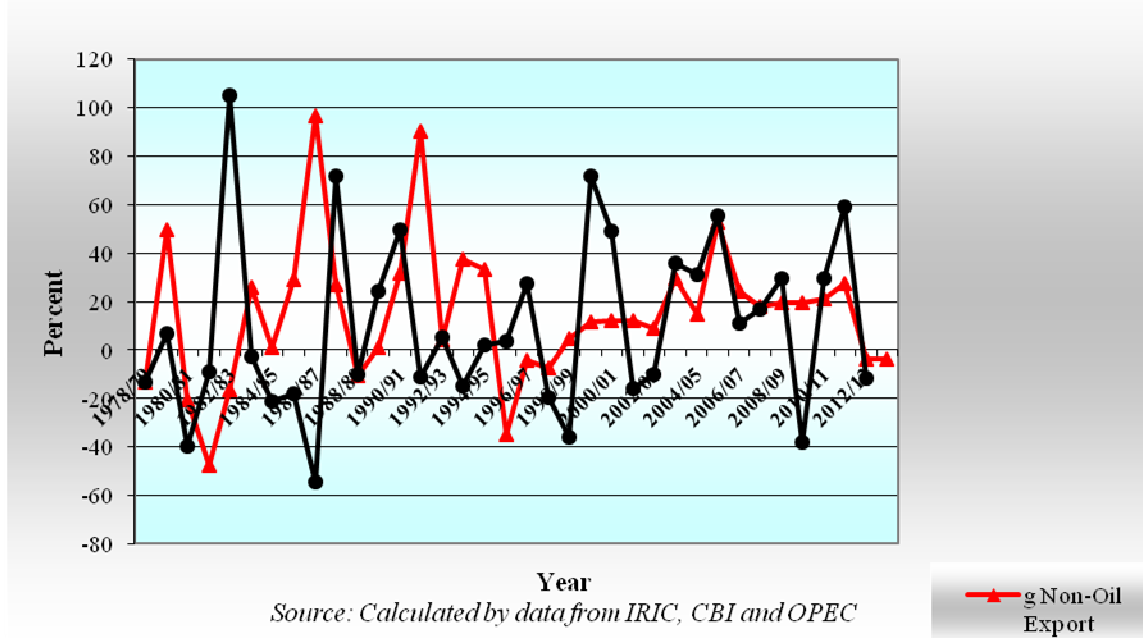
international market, and the volume of the nation's exports of oil depends on its international market considerations (determined by the OPEC quota, or on its own). The non-oil exports constitute such a small fraction of the total value of exports that only major increases in their earning can make an appreciable effect on foreign exchange gap considering the fact that non-oil exports have large import content (Behdad 2000).

After 1989-90, non-oil exports rose with remarkable growth rate and increased from 1043.9 million dollars in 1989-90 to 3746.8 million dollars in 1993-94. In 1996, a new provision made it possible for the exporters of manufactured products to use fifty percent of their foreign exchange earnings for importing items on the 'authorized' list. Exporters of other non-oil exports could use only thirty percent of their export earnings for buying imports. Rug exporters, however, managed to receive the special advantage of being able to use 100 percent of their earnings for imports. To give a further boost to non-oil exports, in 1997, exporters were allowed to transfer, through Tehran Stock Exchange, their foreign exchange allotment to others who would pay a premium to buy their 'right to import'. In the period 1995-1999, except for the years 1998 and 1999, non-oil exports has faced declining trend. In 1999-2000, non-oil export value was less than its value in 1993-94 and reduced to 3360 million dollars. Non-oil exports experienced increasing trend and reached 6847 and 21891 million dollars in 2004-05 and 2009-10 respectively. In this regard, non-oil export value experienced annually average growth rate of 33.3, 17 and 26.8 percent during the first (1989-1993), third (2000-2004) and fourth (2005-2009) FYDP respectively, and -4.2 percent in the second FYDP (1995-1999) (Amuzegar 1997; Amiri 2013 and Behdad 2000).

In 2010-2011, non-oil exports rose by 21.2 percent to nearly \$26 billion. Furthermore, value of oil exports went up by 29 percent to \$72 billion. This was mainly due to global oil price rise. Non-oil export accounted around \$34 billion in 2011-2012 with 27.3 percent growth compared to same figure in previous year. Non-energy exports increased to \$32 and \$31 billion in 2012-2013 and 2013-2014 respectively by around 3 percent decline in both years. (CBI and IRIC 2013)

The improvement of non-oil export values is mainly due to the realistic valuation of exports. It also affected by the introduction of a realistic equivalent rate for the foreign exchange, removal of bureaucratic laws and regulations, exporters freedom to sell their foreign exchange benefits in free market, converting non-tariff barriers to tariff barriers, increasing domestic financing of foreign trade, etc (Amuzegar 1997 and Amid 2005).

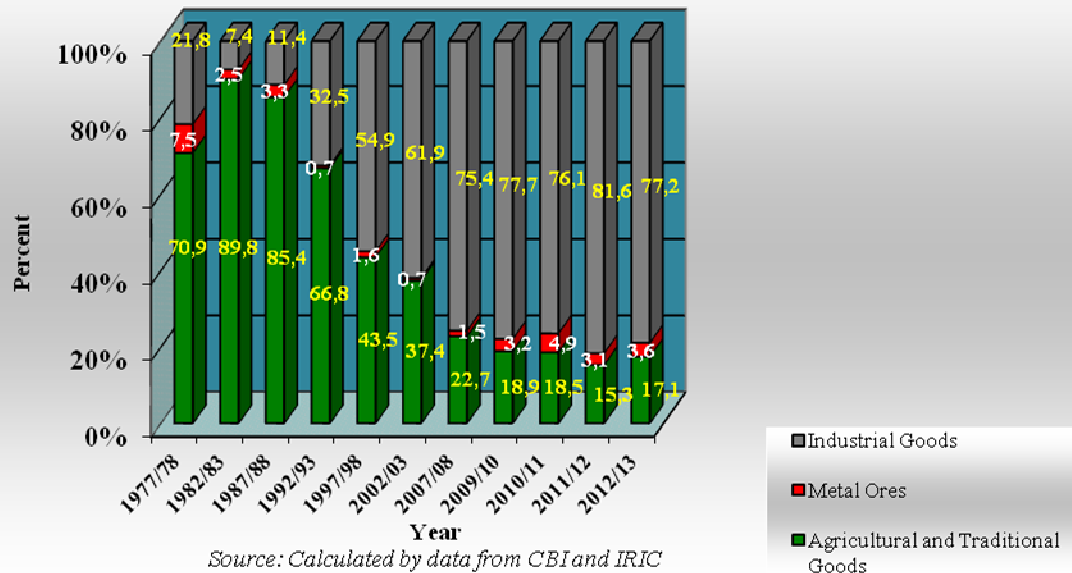
Figure 4.12: Annual Growth of Iran's Oil and Non-Oil Export



Since the Revolution, there has been some effort to change the composition of non-oil exports from traditional items to industrial goods.

Despite the upward trend in industrial exports begun in mid 1970s, the objective of changing composition of exports was far from being happened and in the mid of 1980s this trend was shifted toward traditional goods and raw materials. While in 1978-79, industrial exports accounted around 22 percent of total non-oil export, in 19901-92 this amount fell to less than 14 percent due to bad conditions in domestic industrial sector for most of the 1980s (Amuzegar 1997:150) .

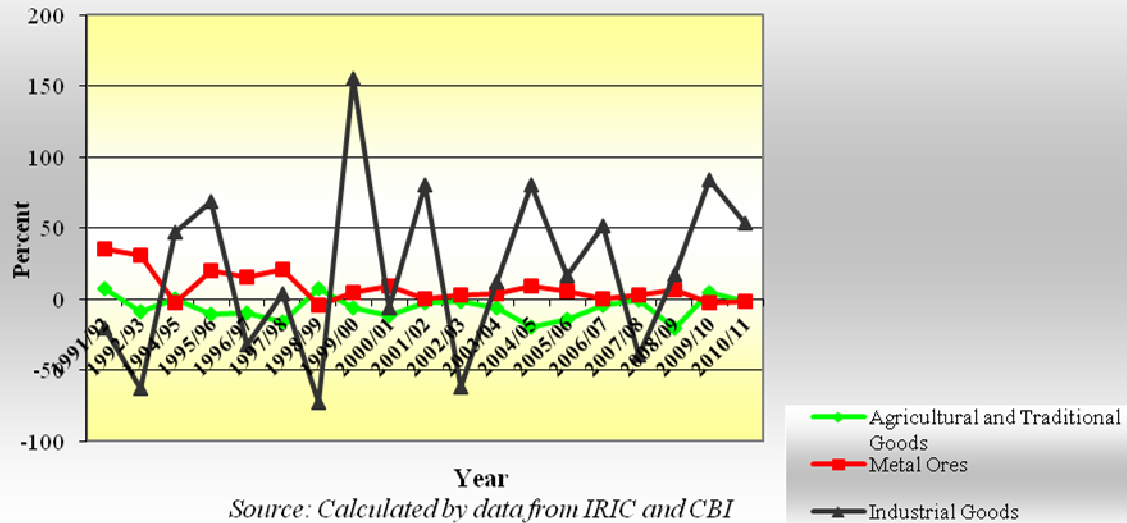
Figure 4.13: Share of Iran's Non-Oil Export Components from Total Non-Oil Export



Among the country's traditional exports, carpet is the largest one. In 1978-92, the nation exported around \$ 4.5 billion carpets but the strong competitors from other countries and immigration of carpet-makers after the Revolution weakened the nation superiority in export of carpets. The country's share of international handmade carpets market fell from 90 percent in 1980 to around 25 percent in 1990. The country's second and third largest non-oil export items are pistachio and caviar (Amuzegar 1997 and IRIC 1993).

Industrial exports responded very positively to the policies adopted during the FFYP period and the nature of the non-oil export commodities of the country has relatively improved.

Figure 4.14 :Annual Growth of Iran's Non-Oil Export Components (Share) out of Total Value of Non-Oil Export



Although goods such as carpets and pistachios have a major share in exports, those from chemical industries and the melting of metals have increased considerably. In 1994, between two development plans, the value of industrial exports rose by 26.7 percent to \$1,510 million, 31.8 percent of the total value of non-oil exports. While the agriculture accounted for approximately 24 percent, carpets and handicrafts for 29%, minerals and ores for 2 percent (UNIDO 1999 and The Institute of Studies and Research 1995).

Annual average share of agricultural exports out of total non-oil exports declined from 75.3 percent in the first FYDP to 49.2, 35.6 and 21.4 percent in second, third and fourth FYDP respectively. In 2004-2005, fresh and dried fruit, pistachio and carpet with respective shares of 45.7 percent, 28.1 percent and 25.1 percent ranked the top three of the traditional exports. Among industrial exports, petrochemicals stood first with 30.1 percent (Amiri 2013 and Ministry of Commerce of Islamic Republic of Iran 2009).

On the contrary, the share of industrial exports in total non-oil exports from 11.7 percent in 1989 reached 31.8 percent in 1993, and then increased by 54.9, 70, 77.7 and 76.1 percent for the years 1999, 2004, 2009 and 2010. During fourth FYDP, annual average share of industrial exports out of total non-oil exports increased by 76.02 percent and compared with third FYDP (63.18), second FYDP (49.47) and first FYDP (23.86) shows

significant increase. Most of the industrial exports in recent years were petrochemical products. Higher oil prices and increased consumption of oil products in the world provides the development of the export industry more than before (Amiri 2013 and IRIC 2013).

Table 4.8 Share of Non-oil Export Components out of Total Value of Non-oil Export						
	Share of Agricultural and Traditional Export	Growth	Share of Industrial Export	Growth	Share of Metallic and Mineral Ores	Growth
1991-92	73.1	-7.5	24.9	35.3	1.9	-20.5
1992-93	66.8	-8.6	32.5	30.4	0.7	-63.3
1994-95	67.2	0.6	31.8	-2.1	1.0	46.7
1995-96	58.5	-10.9	39.3	20.3	2.2	68.8
1996-97	53.0	-9.4	45.5	15.9	1.5	-32.4
1997-98	43.5	-15.8	54.9	20.7	1.6	4.1
1998-99	46.9	7.8	52.7	-4.0	0.4	-73.0
1999-00	44.0	-6.2	55.0	4.2	1.1	154.8
2000-01	39.0	-11.4	60.0	9.3	1.0	-6.5
2001-02	37.9	-2.6	60.2	0.3	1.8	80.4
2002-03	37.4	-1.4	61.9	2.8	0.7	-61.9
2003-04	35.2	-5.8	64.0	3.4	0.8	11.6
2004-05	28.4	-19.4	69.8	9.1	1.4	80.5
2005-06	24.3	-14.5	73.5	5.3	1.6	16.5
2006-07	23.2	-4.6	73.5	-0.1	2.5	51.9
2007-08	22.7	-1.2	75.4	2.6	1.5	-39.8
2008-09	18.0	-20.7	80.0	6.0	1.7	16.9
2009-10	18.9	4.7	77.7	-2.7	3.2	84.3
2010-11	18.5	-2	76.1	-2	4.9	53.1

Source: IRIC ,CBI and Amiri 2013

4.4. Direction of Foreign Trade

After the Islamic Revolution of 1979, the direction of foreign trade has been partly political due to harsh economic and political situations such as sanctions imposed by West during 1980s and forced the country to seek new economic partners. Moreover, direction of external trade has reflected the country's ideological preferences to expand economic relations with Muslim and Third World countries (Amuzegar 1997:151; Estelami 1999, and Ehteshami & Varastesh. 2012).

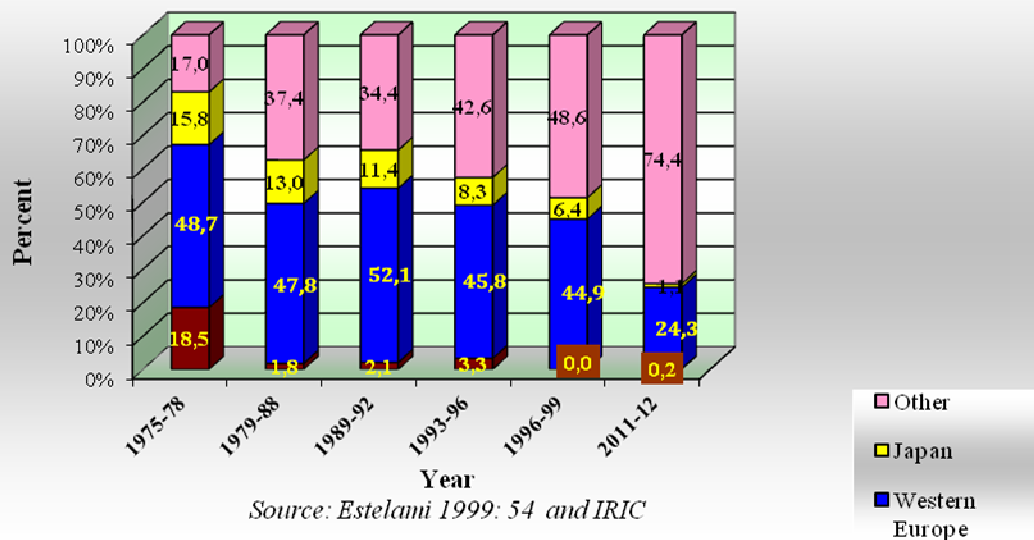
Especially aftermath of war, in order to combat US and West sanctions and reduce diplomatic isolation, the country has directed its trade away from its previous main partners in the developed industrial world and towards smaller developed countries. Trade with smaller European countries, Eastern European states and the Third World in Asia, Africa and Latin America (countries such as India, South Korea, Spain, Brazil and Romania) grew significantly, and cooperation with neighbors (former Soviet Union, Turkey and Pakistan) was intensified (Halliday 1980 and Amuzegar 1997).

The country intentionally avoided traditional pre-Revolution suppliers in Western European (Germany, France, and Britain) and Japan to reduce the nation's dependence on these countries and build relationships based on political, rather than purely economic considerations. Furthermore, government's control over international trade was intensified by a series of selective bilateral agreements. However, the United States had traditionally been the country's primary supplier of wheat, the US replaced by Australia and New Zealand quickly. Other requirements such as meat, sugar and iron, were met by small European countries (Sweden, Denmark, and Italy), and Eastern bloc countries (the Soviet Union, Yugoslavia, Poland, and Romania). During this period, the government undertook formal schemes to limit the trade imbalance with OECD countries by restricting the amount of permitted imports from specific countries (Japan, Germany, and the UK) (Estelami 1999:53).

As a result, imports from traditional suppliers (the United States, Western Europe, and Japan) faced a downward trend. While in pre-Revolution era, the share of these countries

accounted for more than 80 percent of total import, following the Revolution this share fell for only about 63 percent of total import. The share of the country's imports from non-traditional suppliers increased more than doubled in this period. By 1996, following another round of trade and investment sanctions, the US's share of the country's imports was zero, and Japan and Western Europe accounted for only half of the nation's import bill. Between 1995 and 1996, the volume of imports from the non-traditional suppliers grew by over 8 percent, as compared to 2 percent for its traditional suppliers. In the second half of 1980s, the newly industrialized countries (Argentina, Brazil, Turkey, South Korea, Thailand and Yugoslavia) increased their share of export (Amuzegar 1997 and Estelami 1999: 53-54).

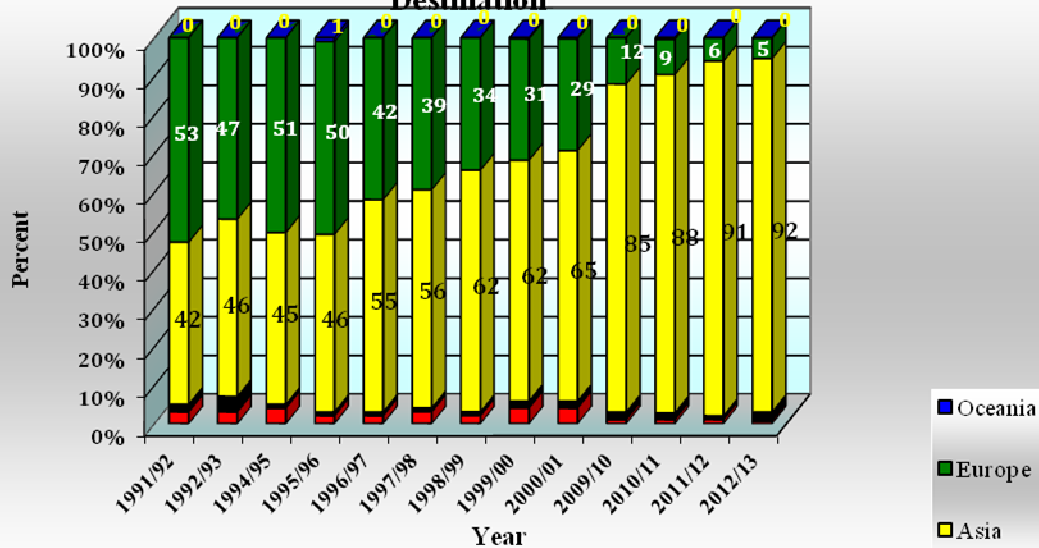
Figure 4.15: Share of Iran's Import from Traditional Exporters



On the other hand, it can be declared that since the Revolution Western European countries and Japan have substantially reduces their oil imports from Iran due to the fall in total Iranian oil exports, while the country has not declined imports from these countries. Consequently, it can be mentioned that, however there has been some diversification of trade direction in post-Revolution, the change was not strong enough to reduce the country's dependency on Germany and Japan, and in 1989, these countries were still main exporters to the nation (Ehteshami and Varastesh. 2012: 155) .

The review of Iran's trade (including export and import) with the world indicates that Europe provided 60 percent of Iran's Import in 1991-92. Moreover, the share of Iran's export to Europe was about 53 percent in the same year. Until 2009-2010, Europe has kept its role as the first importer of the country. However, Europe is losing its place as main trade partner of the nation and replacing by Asia. On the other hand, there has been a massive increase in the share of European countries.

Figure 4:16: Share of Iran's Export According to continent of Destination



Source: Calculated by data from IRIC

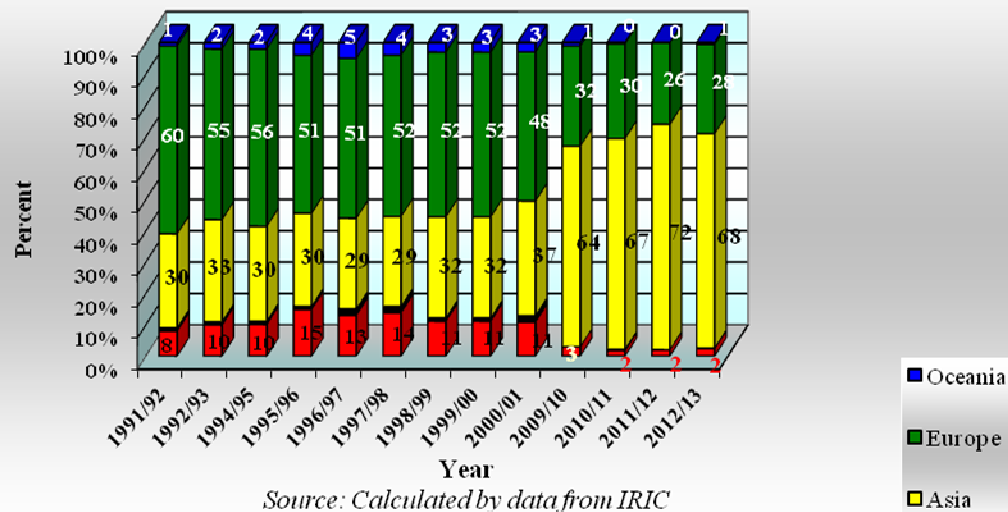
Since 2005, Europe's trade with the country has declined dramatically, especially after imposing new round of sanctions over the banking system, crude oil and petrochemical products exports. Europe had about 50 percent share in the nation's imports in 2005 and about 15 percent of the country's total non-oil exports. However, the latest date related to bilateral trade between the country and EU shows some improvement. The country's exports to the EU increased by 15 percent in 2014 compared to the same figure in the previous year. However, Europe's exports to the nation declined by 25 percent in the review year.

	Import	Growth	Export	Growth
2003	6964.8	23.9	10106.7	21.6
2004	8230.1	18.2	11933.4	18.1
2005	11538.1	40.2	12994.0	8.9
2006	14376.4	24.6	11294.9	-13.1
2007	14051.6	-2.3	10125.4	-10.4
2008	15941.9	13.5	11341.0	12.0
2009	9384.0	-41.1	10433.6	-8.0
2010	14528.5	54.8	11318.5	8.5
2011	17328.9	19.3	10497.2	-7.3
2012	5651.8	-67.4	7378.7	-29.7
2013	774.9	-86.3	5448.5	-26.2

Source: IRIC

Since 2009, Asian trade with the country has been growing significantly. The share of Asia's Export from the country was about 92 percent in 2012-13. In addition, share of the country's import from Asia in the review year was around 63 percent out of the total import.

Figure 4.17: Share of Iran's Import According to Continent of Origine



Since 1991, share of Africa has remained unchanged, accounting for about 1-2 percent of the total trade. In the review years, share of Oceania has not changed and remained

around 0.3 percent of the total trade. Reviewing the country's trade with America revealed a sharp decline in the share of the nation's import from American countries. While this share was, about 14 percent in 1989-99, decreased to 2 percent in 2010-11.

4.4.1. Major Trade Partners¹

Comparing pre and post-Revolution top trade partners of the country indicates considerable changes. Before the Revolution, the United States was the third largest exporter to and first largest importer from the country.(See also Figures 3.2 and 3.3) However, the 1987 US ban on imports from Iran and the 1995-ban on US exports to and investments in Iran, limited bilateral trade and bilateral trade between 2 countries dropped dramatically.

4.4.1.1. Germany²

In the post-Revolution period, Germany remained the country's main economic partner. Historically, Germany has been one of the most important trading partners of the nation for several decades. In 1978-79, total trade with Germany accounted to \$2 billion. In 1984-85, Germany was the first exporter to the country with share of 17.8 percent and the value of \$73 million. In the review year, import from Germany accounted \$1 billion with 14 percent decline compared to last year.

In 1992-93, German export to the nation increased by 75 percent and reached to the peak of \$701 million. In the same year, the value of German import was about \$7 billion. In 1994-95, Germany was the first trade partner of the nation with an import share of about 19 percent and an export share of 23.7 percent. Overall, in the period 1976-1995 Germany had the largest share of the country's trade in both export and import. After 1995, as the country's trade has grown with other countries such as United Arab Emirates, bilateral trade between two countries has declined gradually.

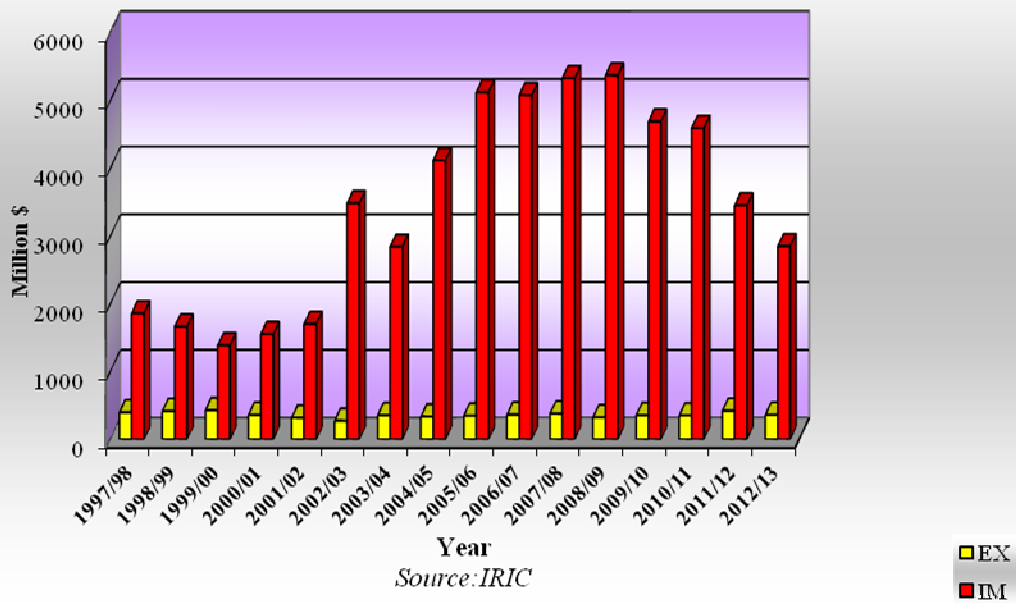
In 2005-2006, German export to the nation increased by about 4 percent and reached to about \$5 billion. In the review year, after UAE with share of 19.6, Germany was the second largest exporter to the country by share of 13.1. The value of total trade between

¹ See Tables Appendix I (4.12 and 14.13 Include Iran's top twenty trade partners in 2002-2012)

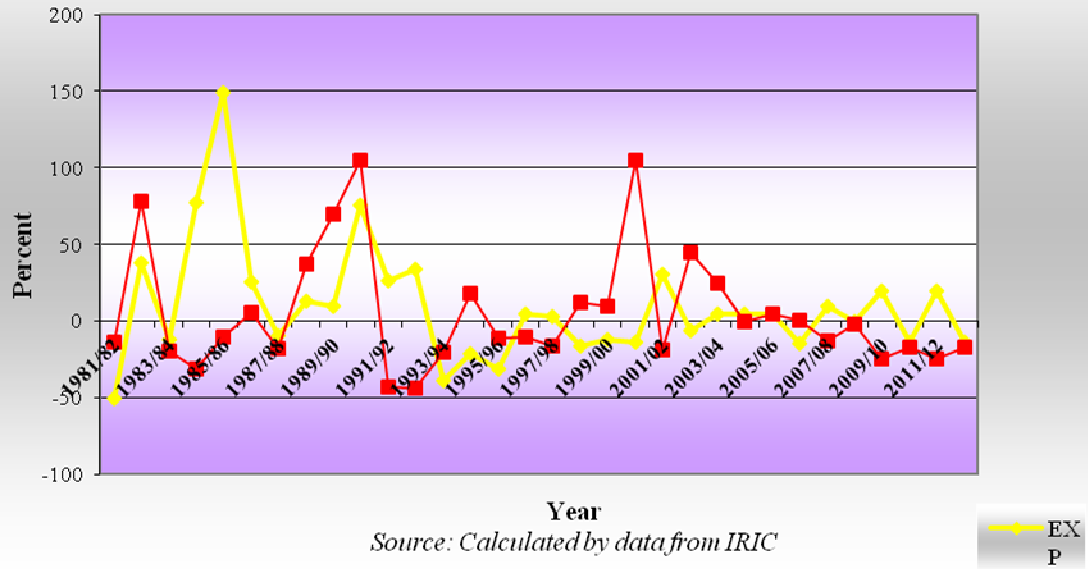
² See also Figures 4.23, 4.24 and 4.25

two countries with 17 percent decline reached to about three \$3 billion in 2012-13. In the review year, Germany was not among first ten trade partners. Several German companies were involved in major Iranian infrastructure projects, especially in the petrochemical sector and economic sanctions against the country dropped the amount of trade between two countries dramatically and hurt medium-sized German companies, which depend heavily on trade. However, Germany is still the leading trading partner of the country in West and one of the main export partners of the nation (Eurostat 2010 and IRIC 2012).

Figure 4.18: Total Value of Iran's Export to, and Import from Germany (1997-2013)



**Figure 4.19: Annual Growth of German's Trade with Iran
(Value of Import and Export)
(1981-2013)**



**Figure 4.20: Share of Iran's Export According to the Country of Destination
(1994-95)
Percent**

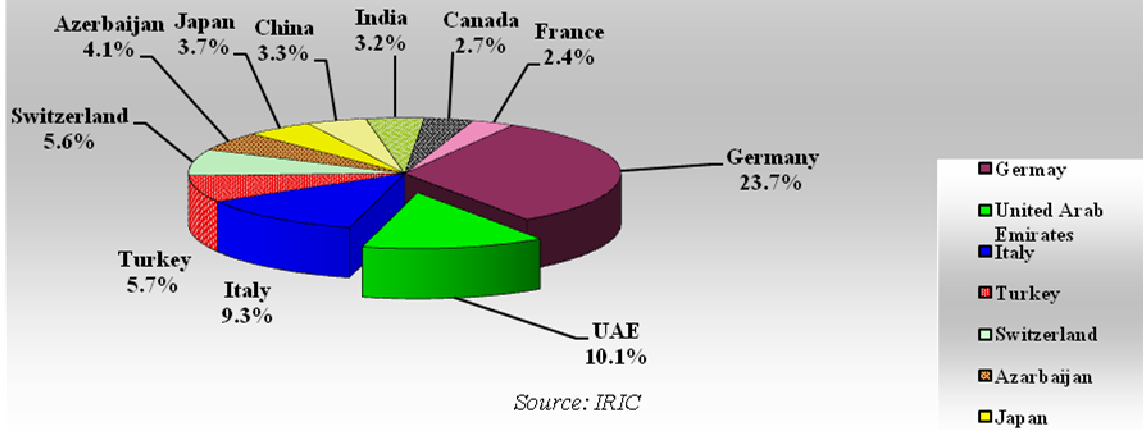


Figure 4.21: Share of Iran's Export According to the Country of Destination (2003-2004)

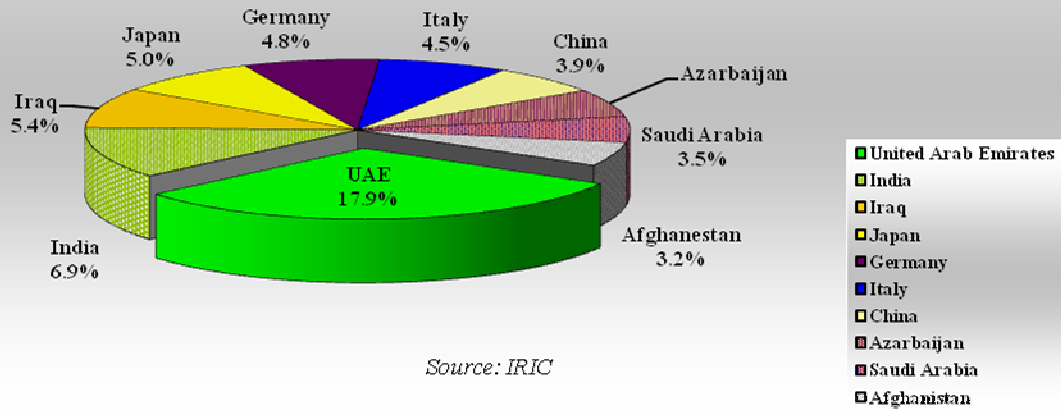
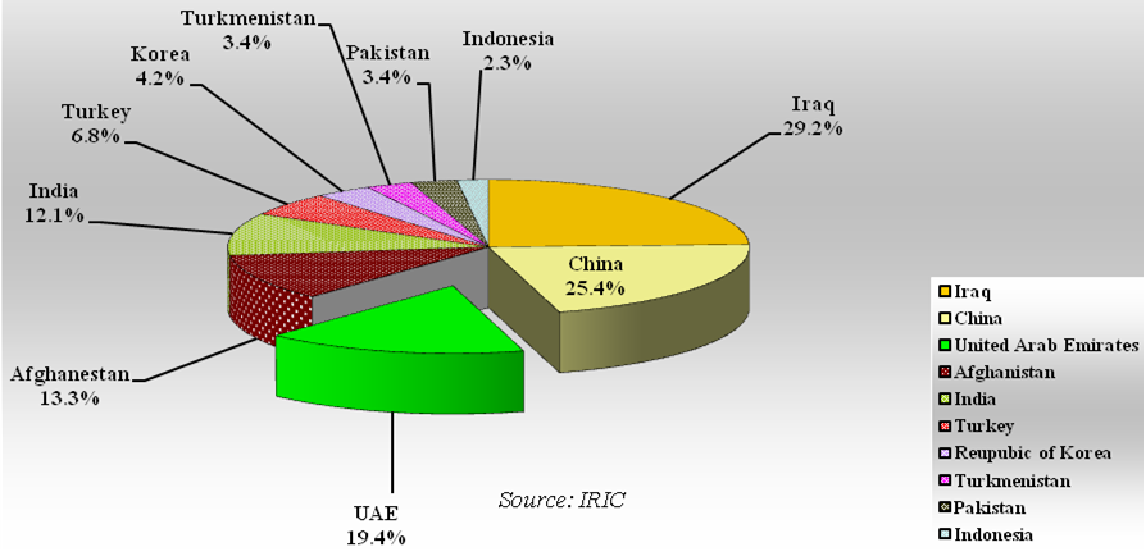


Figure 4.22: Share of Iran's Export According to the Country of Destination (2012-13)
Percent

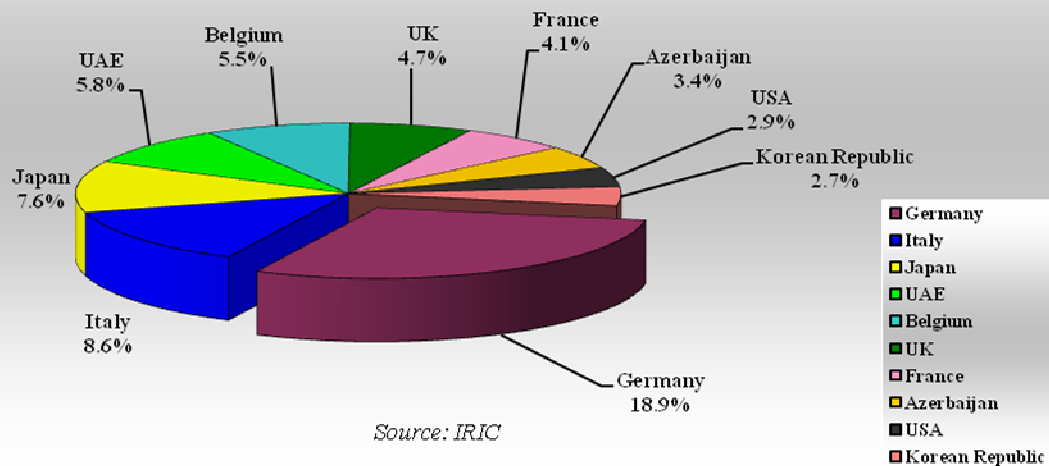


4.4.1.2. United Arab Emirates¹

Historically, Dubai was a key trading partner for the country. Ties between two countries date back to the centuries prior to the establishment of United Arab Emirates and they have enjoyed strong bilateral trade for many years. Dubai is also home to the second-largest Iranian community in the world and ethnic Persians are estimated to be about 10 percent of 2 million population of Dubai.

In the aftermath of war in 1988, the country selected UAE as an especial partner and in 1992; the UAE among Persian Gulf countries had the closest economic relations with the nation. In 1993-94, after Germany, the UAE was the second largest importer from the country with export share of 10 percent and import share of about 6 percent.

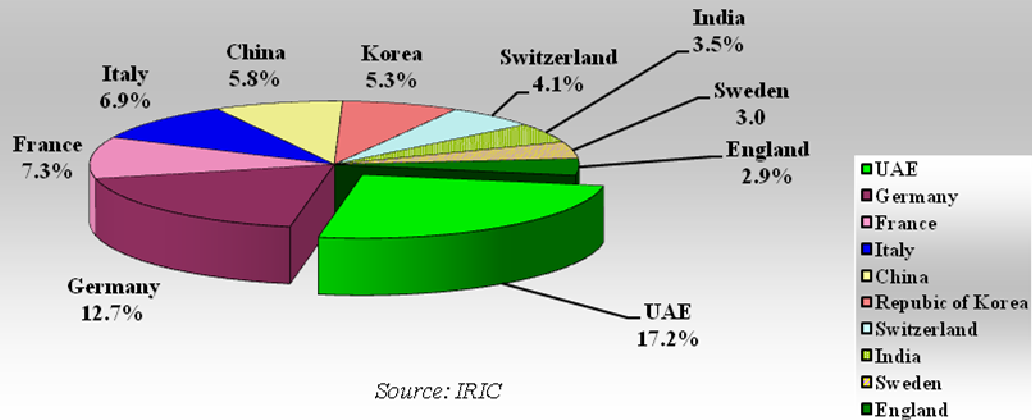
Figure 4.23: Share of Iran's Import According to the Country of Origin(1994-95)
Percent



The UAE was ranked as the first trade partner of the country in 2003-2004. In 2004-2005, the UAE had the biggest export share of 15.3 percent and the largest import share of 13.2 percent. Total value of export and import between two countries accounted \$916 million and \$3.5 billion respectively in the reviewed year.

¹ See also Figures 4.20 ,4.21 and 4.22

Figure 4.24: Share of Iran's Import According to the Country of Origin (2003-04)
Percent



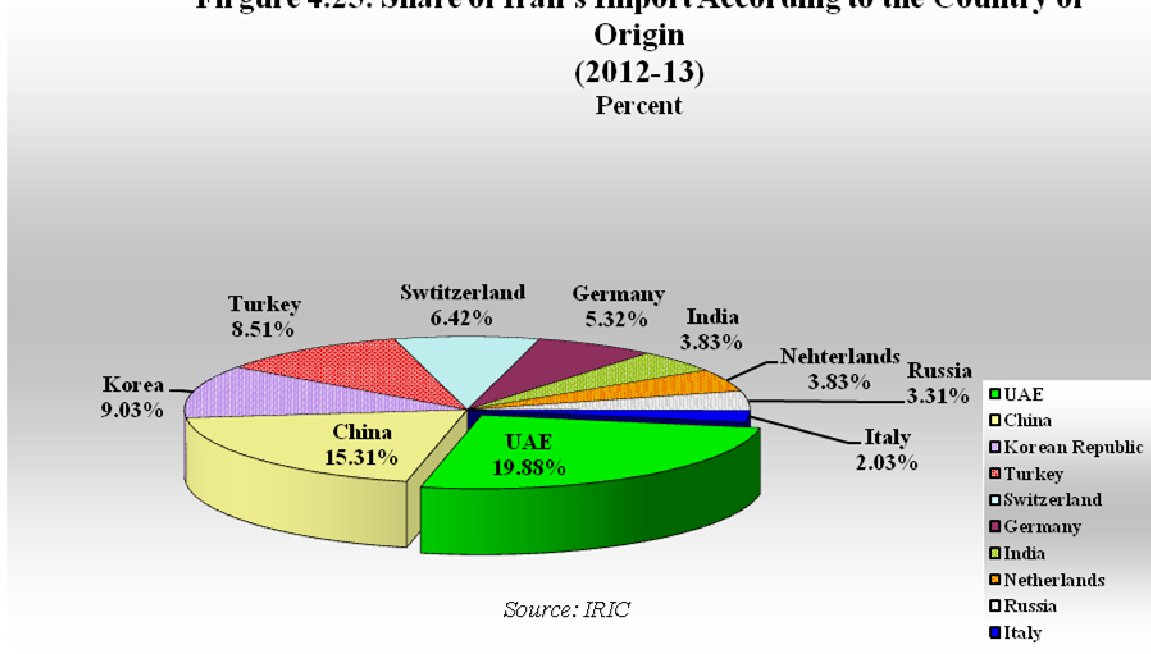
In 2006, total non-oil trade between the two countries was more than \$6 billion. The mass of products exported to the country was imports of the UAE (ranging from everyday foodstuffs to industrial equipment) from foreign markets, including the United States, European Union, China, and India that eventually repackaged for shipment to the nation. The UAE acts as a conduit and a third party trans-shipper for the nation. Countries such as China, whose commercial and energy relations with Iran are estimated to be more than of \$15 billion have begun to conduct much of their bilateral trade with the country through the UAE (Amuzegar 1997; Ilias 2008 and sadjadpour 2011).

The country represents about 14 percent of the UAE's total exports, including re-exports accounted for about 60 percent of the UAE's bilateral trade with Iran in 2006. The rest of the trade came from the UAE's free trade zones. The UAE is known as a re-exporting and distribution center in the Persian Gulf because of its low tax rates, free trade zones, lower delivery times, and a lax control for export. Dubai, in particular, is an important connection to the global economy. Through Dubai, Iran is able to import goods that cannot be imported directly as sanctions and other legal barriers have increased the difficulty of dealing directly with them. Bilateral trade between two countries rose steadily throughout the last decade, but in 2007, reached to the peak of about \$12 billion.

The country's traditional European trade partners such as Germany and Italy are replaced by the UAE (Ilias 2008 and Sadjadpour 2011).

The re-export trade between two nations has grown sharply over the past decade and was officially more than \$8.5 billion in 2010. The country is the UAE's second-largest re-export market, accounting for about 17 percent of total re-export volume, and the UAE is one of the country's top sources of imports, accounting for more than 15 percent of its total import (Sadjadpour 2011) .

Figure 4.25: Share of Iran's Import According to the Country of Origin (2012-13) Percent



The trade relationship is heavily weighted in the UAE's favor. In 2010, the UAE exported or re-exported over \$9 billion worth of goods to the nation and only imported \$1.12 billion. The country has the largest trade deficit with the UAE (Sadjadpour 2011 and IRIC 2014). (See Table 4.10)

Table 4.10: Iran's Trade Balance in Dollar (2008-2014) (Million \$)						
Country	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
China	-2894.03	-4430.98	-1,233	-1,886	-224	-2,231
Iraq	2695.061	4496.977	4,492	5,055	631	5,881
UAE	-11169.2	-13252.7	-17,846	-15,214	-544	-7,268
India	-659.454	-528.452	525	1,476	-180	-1,893
Afghanistan	621.6469	1031.57	1,366	2,243	254	2,385
Turkey	-978.022	-1431.76	-2,940	-1,882	-126	-2,006
Turkmenistan	-119.223	-45.9212	265	135	68	724
Pakistan	295.6928	52.09629	169	387	37	322
Egypt	-6.93992	-8.28811	-11	0	74	586
Azerbaijan	128.7222	202.1339	264	427	40	450
Germany	-5050.23	-4338.86	-4,244	-3,034	-197	-2,116
<i>Source: IRIC</i>						

The 2010 United Nations Security Council sanctions against Iran and the unilateral US and EU sanctions have led the UAE to take an action for sanction enforcement. Existing international sanction on the country adversely affected the bilateral trade, and the UAE's economy. The reduction in availability of trade finance and payment schemes was the main channel through which the sanction affected trade between two countries (IMF 2011). Recently, relations seem to be improving. The UAE was one of the first countries in the region to welcome the nuclear deal with the country. In 2012-13, UAE was the first exporter with the share of about 19.8 percent compared to about 32 percent in 2011-12, and third importer with the share of 19.4 percent in the reviewed year. The share of UAE from the country's export was 13.3 in 2011-12.

4.4.1.3. New Trade Partners

Due to the sanctions, total EU imports from Iran decreased by 86 percent in 2012-13 and total EU exports decreased by 26 percent during the same period. International sanctions and facing challenges in trade with West, forced the country to develop economic relations with its neighbors in the Middle East and other Asian countries such as China, India and Turkey. Merchandise trade with the Middle East has increased significantly. The nation also has reinforced ties with China and other Asian countries. Some analysts

expect that China may have been Iran's biggest exporter including export of mechanical and electrical equipment, and arms. Furthermore, several countries in central Asia including Tajikistan, Turkey, and Azerbaijan have showed their interest in economic engagement with the nation and enhanced bilateral relations in trade and travel (Ilias 2008 and European Commission 2014).

- **China¹**

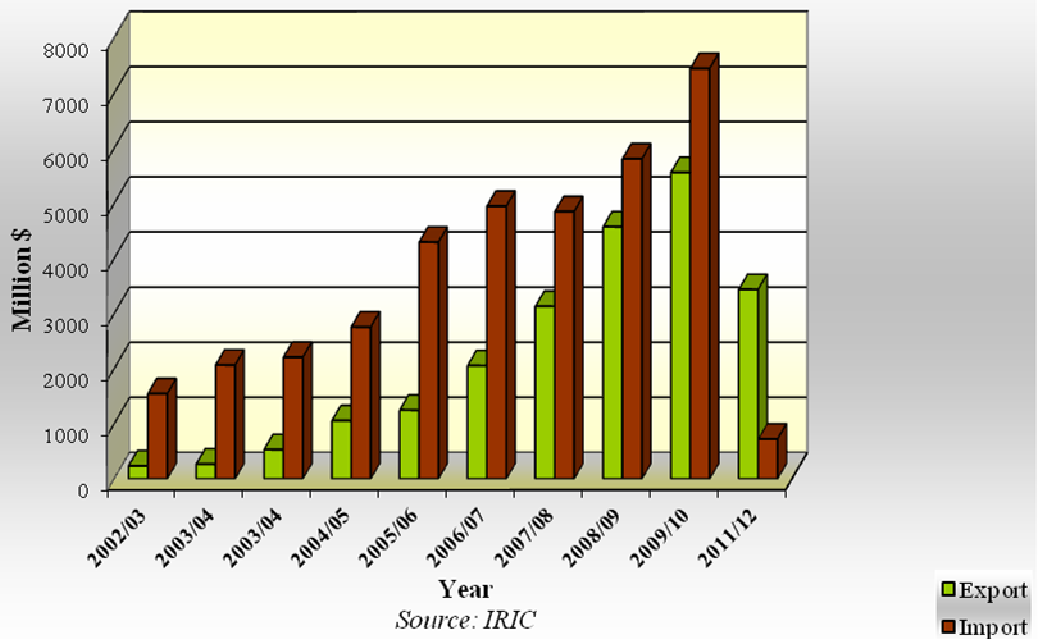
Relations between two countries date back to over many centuries. In 1971, diplomatic relations established and since then the tie between two countries has significantly deepened, especially in the economy, energy, security and politics sphere. In the early 2000s, Chinese-Iranian relations improved sharply especially due to international sanctions that reduced West trade and investment in the country and gave China more opportunities to become involved in the nation's domestic market and develop its energy resources. Economic and trade exchanges between two countries have developed mainly in general trade and oil-gas trade. Economic relations have grown at an annual average rate of 40 percent over the past few years, the level of trade between the two countries increased from \$400 million in 1994 to \$29 billion in 2008. According to an Iranian official, 166 Chinese companies attended Iran's Oil Show in 2011, as opposed to 100 Chinese firms in 2010, making the Chinese the most numerous foreign participants in this international commercial exhibition. Economic reliance on China is not limited to the energy sector. Non-energy trade and investments shape a substantial component of bilateral economic ties. China is currently one of the main economic partner of the nation in Asia, and third leading trade partner in the world (LIU & WU 2010 and Harold & Nader 2012).

In 2013-14, China's import from the country increased 34.8 percent compared to the same figure in the previous year and accounted about \$551 million. In the reviewed year, about 17 percent of the country's export went to China and made it as the country's second importer in this year. Total value of Import from China amounted

¹ See also Figures 4.20, 4.21, 4.22, 4.24 and 4.25

about \$8 billion and increased by 18 percent. China classified as second largest exporter to the country with an export share of 15.3 in 2013-14. The country's top exports to China are iron ore, methanol, propane, polyethylene, styrene, butane, ethylene-glycol, chrome stone, marble, oil and mineral seals, and purified copper. The main import from China included railroad and subway locomotives parts, oil and gas pipelines, car parts, polystyrene, and cars (IRIC 2014).

Figure 4.26: Iran's Total Export to and Import from China



- **India¹**

Since long ago, there have been strong commercial, energy, and cultural links between South Asia and the Persian Gulf. The two countries shared a border until 1947 and several common features in their language, culture and tradition tie them together. The Revolution of 1979 introduced a new phase of engagement between two nations (Ministry of Foreign Affairs India 2012 & 2014).

¹ See also Figures 4.20, 4.21, 4.22, 4.24 and 4.25

Economic and commercial relations covered many sectors in both countries. However, the trade relations have traditionally focused on India's import of Iranian crude oil and resulted in overall trade balance in favor of the country. Both nations hold regular bilateral discussions on economic and trade issues within the framework of India-Iran Joint Commission Meeting (JCM). The bilateral trade in 2012-13 was \$14.95 billion. India imported \$11.6 billion of goods mainly crude oil, which makes it the third largest market for Iranian crude and exported commodities of \$3.35 billion to the country (Ministry of Foreign Affair India 2012 & 2014) .

Table 4.11: Iran- India Bilateral Trade (2005-2013)				
(Million \$)				
	Export from India	Imports by India	Total Trade	Growth (Percent)
2005-06	1188.35	4822.65	6011.00	43.70
2006-07	1446.48	7818.55	9065.03	379.43
2007-08	1943.92	10943.61	12887.53	42.17
2008-09	2534.01	12376.77	14910.78	15.70
2009-10	1853.17	11540.85	13394.02	-10.17
2010-11	2492.95	10928.21	13421.16	0.20
2011-12	2411.35	13556.73	15968.08	18.98
2012-13	3351.21	11603.79	14955.00	-6.34
<i>Source: Ministry of Commerce of India ,GOI</i>				

India's exports include petroleum products, rice, machinery & instruments, manufactures of metals, primary and semi-finished iron & steel, drugs/pharmaceuticals & fine chemicals, processed minerals, manmade yarn & fabrics, tea, organic/inorganic/agro chemicals, rubber manufactured products, etc (Ministry of Foreign Affair India 2012 & 2014) .

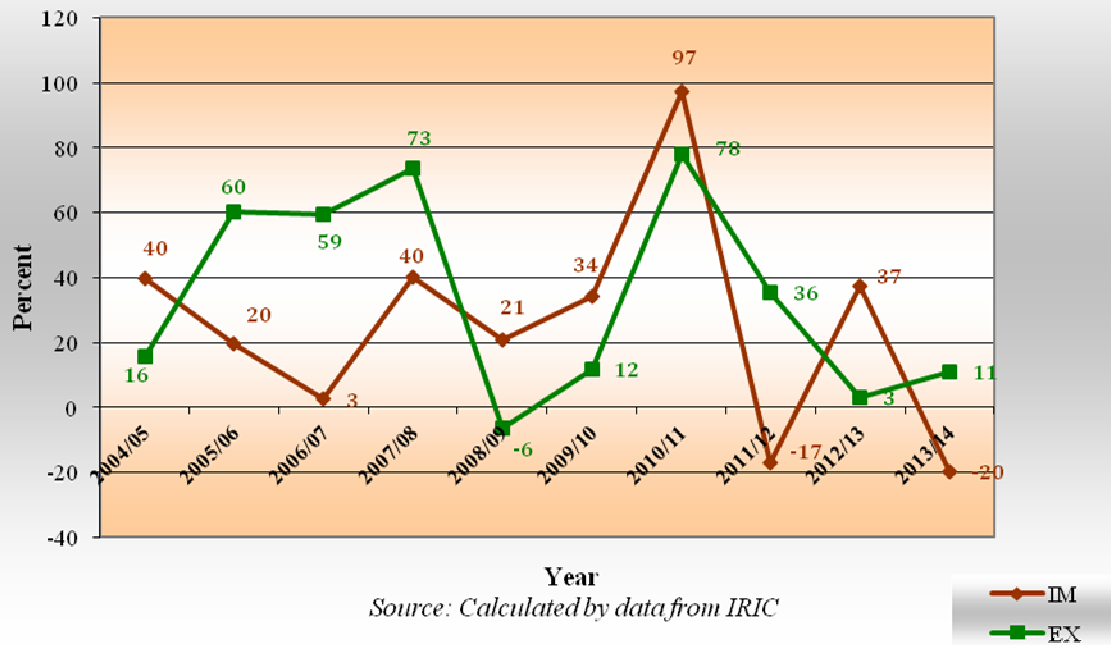
- **Turkey¹**

Two countries as neighbors are traditional trading partners. Several factors make the two nations closer to each other: common economic interests, political Islam, and collaboration against the birth of Kurdish federation. The two countries maintain good economic relations. Turkey, Iran and Pakistan formed a trade union called Economic Cooperation Organization (ECO) that has been trying to facilitate trade between them for decades now. The country is a major oil and gas exporter, while Turkey is entirely dependent on oil and gas imports, and these purchases are valuable for the country, since the economic situation keeps on getting worse due to international sanctions. In addition, economic isolation due to these sanctions has brought that country closer to Turkey for purposes of investment and trade in non-oil goods. The country is not only in a seller's role; each year, many Iranians choose to spend their holidays in Turkey, bringing money to the Turkey's tourism industry. An estimated 2.7 million Iranian tourists visited Turkey in 2010, compared with one million in 2008 (Habibi 2012, Salehzadeh 2013).

The latest trade statistics show that bilateral trade between two nations has increased sharply in the past ten years. Turkey's exports to the county include machinery, motor vehicles, iron and steel products, boilers, electric devices, tobacco products. Crude oil and natural gas are major exports of the country to Turkey (Habibi 2012; Salehzadeh 2013 and IRIC 2013)

¹ See also Figure 4.20, 4.22 and 4.25

Figure 4.27: Annual growth of Iran's Total Export to and Import from Turkey (2005-2014)



4.5. Impact of International Sanction on Iran's foreign Trade

4.5.1. An Overview of Sanctions against Iran

In April 1980 following the break in diplomatic relations between the country and the United States, President Carter ordered the first formal US sanctions against Iran. The sanctions banned all US exports to the country. In 1984, the Reagan administration renewed sanctions against the nation. The Arms Export Control Act and Export Administration Act of 1984 restricted the list of products, which American companies could export to the country. Moreover, exports of certain goods such as aircraft and vehicles, as well as products with potential military applications, were terminated. In October 1987, the US banned the import of all Iranian goods and services, and US oil companies were prohibited from importing Iranian oil into the United States. At the end of the war in 1989, US trade restrictions were slightly relaxed and the United States removed some of its prior trade restrictions. In 1996, the US imposed a new round of all bilateral trade and investment sanctions to stop development of the country's oil industry (Estelami 1999:52-54).

Since the mid-1990s, US sanctions have focused increasingly on persuading the nation to limit the scope of its nuclear program. Since 2006, and particularly since 2010, the international community has joined US sanctions in pursuit of that goal. Since the passage of Resolution 1929 in June 2010, European Union sanctions on the country have become nearly as extensive as the United States' one (Katzman 2014).

During 2011, the nation's progress towards a nuclear weapons capability led to a new round of stronger sanctions from the US and EU on both the Iran's energy exports and ability to trade and operate its financial system. The US applied sanctions on banks, companies involved in its nuclear industry and companies involved in the petrochemical and oil industries. The EU sharply increased its role in sanctioning by imposing an embargo on Iranian petrochemical imports and a ban on European investment in petrochemical industry (Cordesman, et al. 2012). In 2010, Japan and South Korea imposed significant sanctions on the country. Both imposed trade, banking, and energy sanctions similar to those of the European Union. Both countries have cut imports of Iranian oil sharply since 2011 (Katzman 2014).

4.5.2. Impacts of International Sanctions on Iran's Foreign Relations

4.5.2.1. Change in Iran's Trade Direction

In a short run, the sanctions imposed during the 1980s have forced the country to seek new economic partners. However, in diversifying trade, Iran intentionally avoided traditional pre-Revolution suppliers in Western Europe, and Japan. In the 1990s, Germany was Iran's largest trade partner but the sanctions affect bilateral trade adversely especially in recent years. In 1990, Germany accounted for 14.4 percent of the country's imports, but its share gradually declined. Economic sanctions historically have encouraged the country to develop strategies for diversifying trade to find new economic partners. In 1974, seven countries accounted for 70 percent of the nation's imports and exports. By 1994, 14 countries accounted for 70 percent of the country's international trade, and top seven trading partners accounted for only half of its total imports (Estelami 1999:59 and Habibi 2010).

While trade sanctions reduced exports of Iranian exporters by a third to US, Canadian, UK, EU, and Australian destinations compared to other destinations, aggregate exports

did not decrease, mainly because trade diversion to Asian, Latin American, and African markets helped Iranian exporters to compensate two-thirds of their sanctions related trade destruction (Haidar 2014) .

4.5.2.2. Impact of Sanctions on Iran's Economy

The effects of sanctions of 2011 and 2012 already reduced the country's energy exports and revenues, declined foreign direct investment and created serious banking and trade problems. The most important damage to the economy from the financial sanctions is due to the poor investment environment. In September 2012, daily oil production of the country fell to the lowest level since 1988. As Western sanctions are crippling the nation's vital oil industry, oil exports have fallen by an estimated 40 percent since the start of the year. The sanctions have caused the price of basic foodstuffs rise dramatically. The value of the Iranian Rial had lost 80 percent of its value since the start of the year. The Rial's decline is one of the clearest signs, which, the impact of sanctions has severely weakened economy (Torbat 2005:427-8).

The sanctions have restricted global trade with the country. Complexity and wide scope of the sanctions have caused uncertainties for international companies. Many companies cut their dealings with the country altogether. The UAE is one of the most important trading partners of the country. The application of US sanctions in the UAE has dramatically affected bilateral trade between two countries. The UAE authorities, as well as banks, insurers and transportation companies have applies daily restrictions to thousands of Iranian traders, which are based in Dubai and deal with Iranian trade. Another indication comes from South Korea. More than three-quarters of South Korea's small and mid-size exporters have discontinued shipments to the nation following Seoul's sanctions. China has significantly reduced its oil purchases during 2010 and Chinese oil imports decreased by 25 percent compared to the previous year (Gal & Minzili 2011).

In 2010, India reduced its economic relations with the country. Moreover, since 2011, India has declined imports of Iranian oil substantially and by the end of 2012, the nation was only supplying about 10 percent of India's oil imports. This percentage declined further to about 6 percent by mid-2013. The nation agreed to accept India's local

currency, the rupee, to settle 45 percent of its sales to India. Indian wheat, pharmaceuticals, rice, sugar, soybeans, auto parts, and other products are selling to the country by that local account funds. Still, there is a large trade imbalance (Katzman 2014).

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