

**THE COMPARATIVE ANALYSIS OF THE LINDER
HYPOTHESIS:**

**THE BILATERAL TRADE MODEL BETWEEN IRAN AND
ITS TRADE PARTNERS**

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By
AZADMEHR KAHRAM

Under the Supervision of
Dr. KAILAS THAWARE



GOKHALE INSTITUTE OF POLITICS & ECONOMICS
(Deemed to be University)

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Number of Volumes	:	One
Name of the Research Student	:	Azadmehr Kahram
Name of the Principal Supervisor	:	Dr. Kailas Thaware
Degree	:	Doctor of Philosophy in Economics
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Date of Submission	:	13th February 2015

Gokhale Institute of Politics and Economics
Deemed University
Pune – 411 004 (India)

Dr. K.C.Thaware
Reader

CERTIFICATE

This is to certify that the thesis entitled “**The Comparative Analysis of the Linder Hypothesis: The Bilateral Trade Model Between Iran and Its Trade Partners**” is a record of original research work done by **Ms. Azadmehr Kahram** as a Full-Time Research Scholar under my guidance and supervision for the award of the Degree of Doctor of Philosophy in **Economics** at Gokhale Institute of Politics and Economics, Pune. I further certify that this research work has not previously formed the basis for the award of any other Degree or Diploma or Associateship or Fellowship or other similar title to any candidate of this or any other University.

Pune,
13th February 2015

Dr. K.C.Thaware
Research Supervisor

DECLARATION

I do hereby affirm that the thesis entitled “**The Comparative Analysis of the Linder Hypothesis: The Bilateral Trade Model Between Iran and Its Trade Partners**” submitted to the Gokhale Institute of Politics and Economics, Pune, for the award of the Degree of Doctor of Philosophy in Economics, is a record of original and independent research work done by me under the supervision and guidance of Dr.K.C.Thaware, Reader, Gokhale Institute of Politics and Economics, Pune and has not previously formed the basis for the award of any Degree, Diploma, Associateship, Fellowship or other similar title to any candidate of any University.

Pune,
13th February 2015

Azadmehr Kahram



Abstract

This study examines the “Linder theory” for bilateral trade of Iran. This theory is one of the main theories of the international trade based on the demand side. The Linder hypothesis implies that the more similar the demand structure of two countries is, the more intensive is the potential trade between these two countries. In the post-Revolution era, Iran’s trade direction and pattern have been changed. Presently, trade partners with higher per capita income are replaced by countries with lower per capita income. During the time period of this study 1992-2012, Iran has been considered as a developing country. It appears that Iran is trading more with developing countries. To test the validity of Linder theory, data related to 127 countries including Iran and its trading partners for the period of 1992-2012 is included as cross-sections in three models, which are fixed-random effects models, and two gravity models. Countries are divided into five groups which are Base group (Including all countries), high-income, upper-middle income, lower-middle income and low-income. In this study, Linder effects describe the effect of dissimilarity of Per Capita GDP of Iran and its trading partners on bilateral trade. Empirical estimations of this study suggest that there is a strong Linder effect for bilateral trade, which implies that there is also the Linder effect for trade in developing countries. Most of empirical studies have been testing Linder’s theory for developed countries. Since there are few studies about the Linder effect in developing world, this study also provides insight to prove Linder’s theory among developing countries. However, the Linder effect is not the only factor that affected trade pattern and direction of Iran. Political factors such as ideology of the Islamic Republic of Iran, international sanctions imposed on the country, domestic political instability, and other factors such as economics size of trading partners, distance among them as a proxy for transportation cost, common borders, etc affected bilateral trade.

Key words: International trade, Linder effect, Bilateral trade of Iran, Fixed-Random effects, Gravity model.

JEL Classification: F1, F5, C1, C4

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Abbreviations List

BTU: British Thermal Unit

CBI: Islamic Republic of Iran Central Bank

CEA: Central Eurasia

CENTO: Central Treaty Organization

CPI: Consumer Price Index

DPD: Dynamic Panel Data

EU: European Union

FYDP: Five-Year Socioeconomic and Cultural Development Plan

FGLS: Feasible Generalized Least Square

FOB: free on board

GDP: Gross Domestic Product

GNI: Gross National Income

GLS: Generalized Least Square

HIIT: Horizontal Intra-Industry Trade

IIT: Intra-Industry Trade

ILO: International Labor Organization

IMF: International Monetary Fund

IRIC: Islamic Republic of Iran Custom Administration

LS: Least Square

MBD: Million Barrels Per day

MENA: Middle East and North Africa

MPO: The Management and Planning Organization of Iran

NAM: Non-Alignment Movement

NA: Not Available

NIEs: Newly Industrialized Economies

NSC: National Security Council

NTBs: Non-Tariff Barriers

NTS: National Tariff Schedule

OECD: Organization for Economic Cooperation and Development

OLS: Ordinary Least Square

OPEC: Organization of the Petroleum Exporting Countries

SUR: Seemingly Unrelated Regression

PPP: Purchasing Power Parity

RLS: Rials

SCI: Statistical Center of Islamic Republic of Iran

TBD: Thousand Barrels Per Day

UAE: United Arab Emirates

UN: United Nation

UNIDO: United Nations Industrial Development Organization

USSR: Union of Soviet Socialist Republics

VIIT: Vertical Intra-Industry Trade

WB: World Bank

WDI: World Bank Indicators

WTO: World Trade Organization

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