



Center of Excellence for International
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Korea Institute for International
Economic Policy

Main Characteristics of Bilateral Trade between Iran and South Korea by Focusing on Trade Diversification

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September 13, 2018

Presentation Outline



An Overview on the Historical Relations



Conceptual Discussion and Method



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Conclusion and Policy Implications



What to Expect in the Future

An Overview

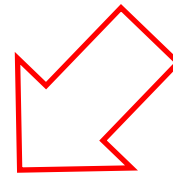
- South Korea and Iran enjoy economic ties covering many sectors activities.
- Iran is one of its largest trade partners in the Middle East and one of its **largest supplier of crude oil** in recent years
- South Korea imported **87 percent** of its oil from the **Middle East**, and Iran was as its top suppliers in that order.



An Overview

Iran and South Korea bilateral trade reaches a maximum of more than 12 billion US\$ in 2017

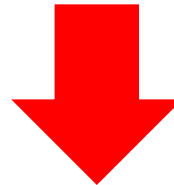
the US withdrawal from Iran nuclear deal on May 2018 and setting new plans for reimposing sanctions on Iran may affect Iran-Korea bilateral trade.



Earnings from Iran's trade relations are somehow **fragile against sanction**



the **expansion of nonoil exports** on the basis of export leap strategy can be considered as a major goal of Iran's development plans in trade and business.



South Korea should play a constructive role in collaboration with Iran

An Overview

Iran has special characteristics which distinguishes this country from the others in Middle East especially in case of **human capital**.

South Korea has a great development in **technological sectors** and great numbers of **expertise in high-tech industries**.

Major share of Iran's export to Korea is based on **petroleum** and there is just transaction between the major industries in two countries



Iran-Korea bilateral trade **has not been diversified**

trade relationship is fragile and diversification could play a key role in achieving **sustainable economic relations** between two countries.

An Overview on the Historical Relations

Bilateral trade between Iran and South Korea has fluctuated during recent years due to periodical sanction against Iran.

Bilateral trade between two countries **decreased** in **2012** due to **international sanctions** on Iran.

After receiving a **temporary waiver** by the United States, Korea continued to import Iranian oil.

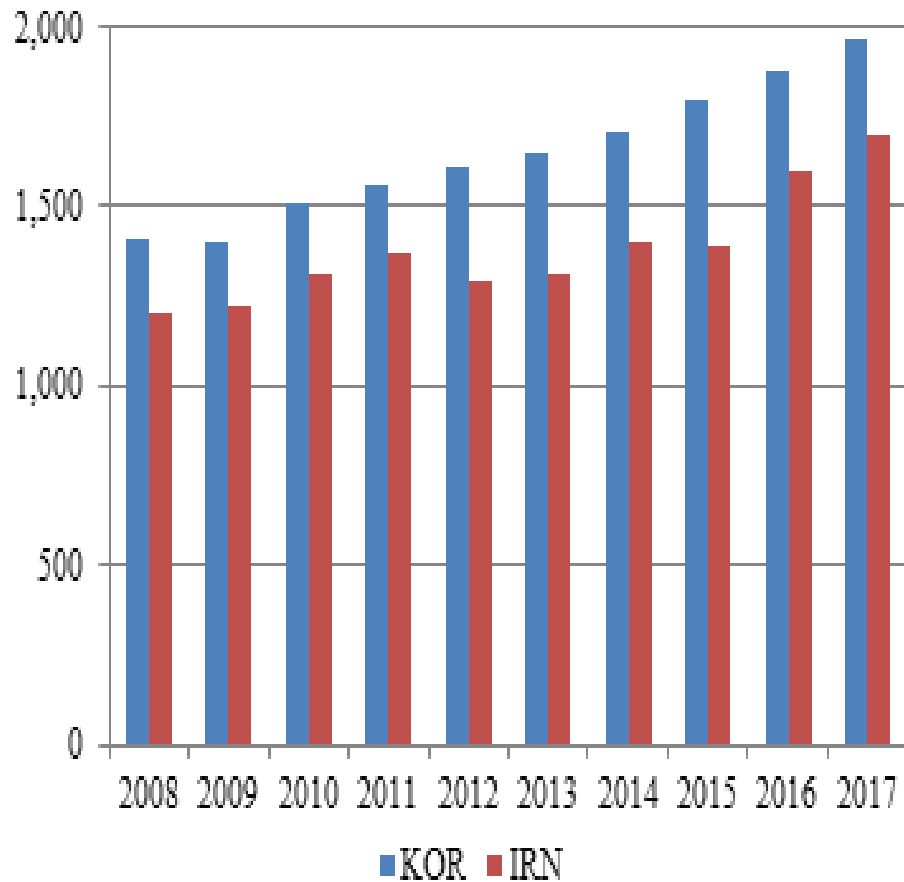
Iran's economy is important for South Korea because Iran has become an **emerging market** for Korean **auto parts, telecommunications, electronics, and refined oil products**.

Korean Companies such as **Hyundai, Samsung Electronics, Daewoo Shipbuilding, GS Engineering and Construction, Hanjin Group, and Daelim Group** have had major construction and other investment projects in Iran.

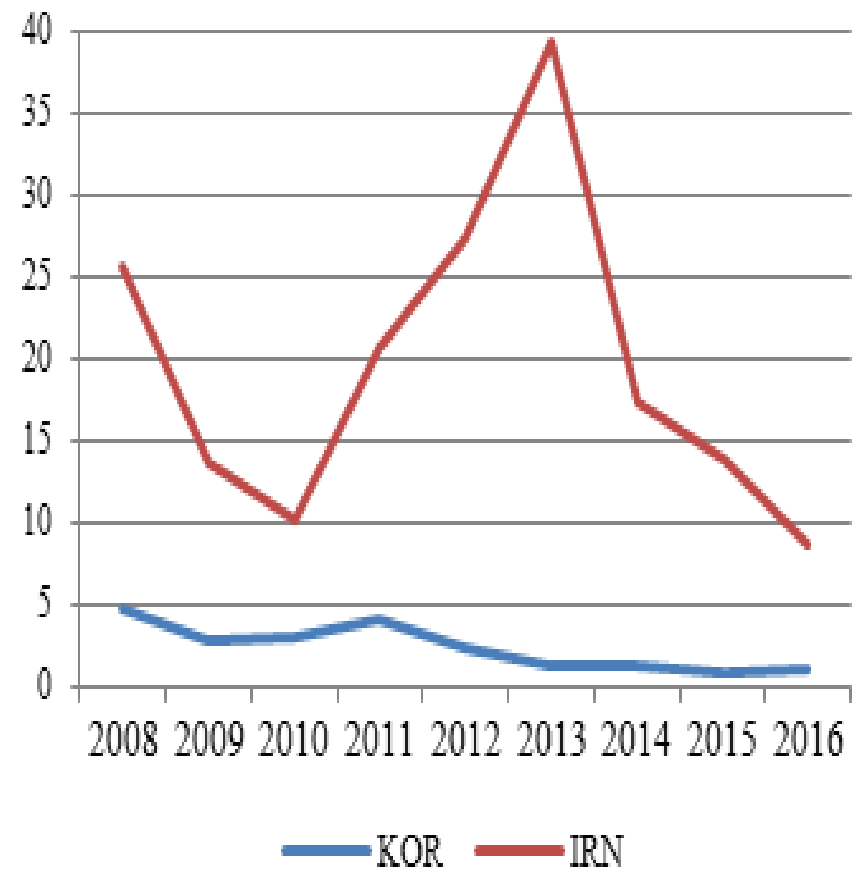
Comparison of some Economic Indicators between Iran and South Korea

Year	GDP (current Billion US\$)		GDP, PPP (Current International Billion \$)		Population (Million)		CPI (Annual %)		Trade (% of GDP)		Official Exchange Rate	
	KOR	IRN	KOR	IRN	KOR	IRN	KOR	IRN	KOR	IRN	KOR	IRN
2008	1,002	406	1406	1203	49	73	4.67	25.55	99.9	48.2	1102	9429
2009	902	414	1396	1224	49	74	2.76	13.50	90.4	43.7	1277	9864
2010	1,094	487	1505	1311	50	75	2.96	10.14	95.7	43.8	1156	10254
2011	1,202	584	1559	1373	50	75	4.00	20.63	110.0	43.2	1108	10616
2012	1,223	599	1611	1295	50	76	2.19	27.36	109.9	47.4	1126	12176
2013	1,306	467	1645	1313	50	77	1.31	39.27	102.8	50.3	1095	18414
2014	1,411	434	1704	1398	51	78	1.27	17.24	95.3	44.6	1053	25942
2015	1,383	386	1796	1394	51	79	0.71	13.71	83.7	39.0	1131	28805
2016	1,415	419	1877	1601	51	80	0.97	8.57	77.7	43.2	1160	32187
2017	1,531	440	1969	1700	51	81	-	-	80.8	46.1	1130	37197

Comparison of some Economic Indicators between Iran and South Korea



A Comparison of GDP, PPP



A Comparison of CPI Trends

Trends of Iran - South Korea Bilateral Trade

(Figures in Million US\$)

Table (2): Trends of Iran - South Korea Bilateral Trade (Figures in Million US\$)

Year	Exports From Korea	Exports From Iran	Total Bilateral Trade	Growth Rate (%)
2008	4,342.56	8,223.06	12,565.61	29
2009	3,991.90	5,745.75	9,737.65	-23
2010	4,596.72	6,940.24	11,536.96	18
2011	6,068.28	11,358.38	17,426.65	51
2012	6,256.53	8,544.43	14,800.95	-15
2013	4,480.90	5,564.40	10,045.30	-32
2014	4,167.30	4,578.07	8,745.37	-13
2015	3,730.94	2,367.37	6,098.31	-30
2016	3,716.57	4,647.66	8,364.22	37
2017	4,021.06	7,989.30	12,010.36	44

Trends of Iran - South Korea Bilateral Trade (Figures in Million US\$)



Trade Values and Ranks of the 10 Iran's Major Trading Partners (2017)

Rank	Country	Import Value (Million US\$)	Rank	Country	Export Value (Million US\$)
1	China	20,075.75	1	United Arab Emirates	32,619.27
2	India	10,342.67	2	China	18,493.10
3	South Korea	7,989.30	3	South Korea	4,021.06
4	Turkey	7,492.17	4	Germany	3,410.33
5	Italy	3,803.09	5	Turkey	3,260.00
6	Japan	3,581.19	6	Brazil	2,559.66
7	France	2,585.41	7	India	2,280.93
8	Afghanistan	1,490.47	8	Italy	1,952.63
9	United Arab Emirates	1,411.58	9	France	1,691.33
10	Netherlands	820.33	10	Netherlands	1,421.94

Conceptual Discussion and Method

New theories focus on export diversification which implies the access of **new** comparative advantages or **broadening** comparative advantages into new economic sectors.



Reduction in country's dependence on an especial product or a very **limited range of primary products** exported before processing



help countries to confront with **fluctuations in exports** of some products and access to **income stability** or **combat earnings uncertainty** and changing market conditions.

Conceptual Discussion and Method

Determinants of trade diversification between two countries

- GDP (GDP per capita),
- R&D,
- Technological Gap
- Geographical distance

To calculate the export diversification index, we apply the Aggregate Specialization Index $TDIV_{ijt}$ as:

$$TDIV_{ijt} = \sum_{k=1}^N \left(\frac{X_{kijt}}{X_{ijt}} \right)^2$$

where, X_{kijt} is the export of product k , being exported from country i to country j and N is the number of products measured. The index $TDIV$, indicates values $0 \leq TDIV \leq 1$

Empirical Results

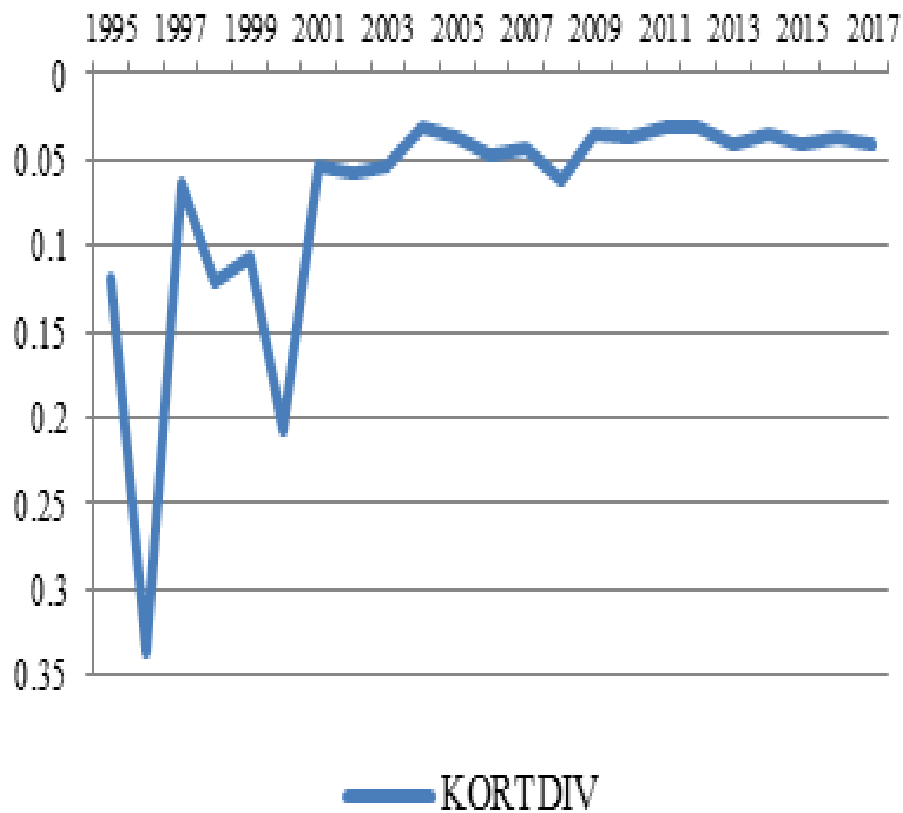
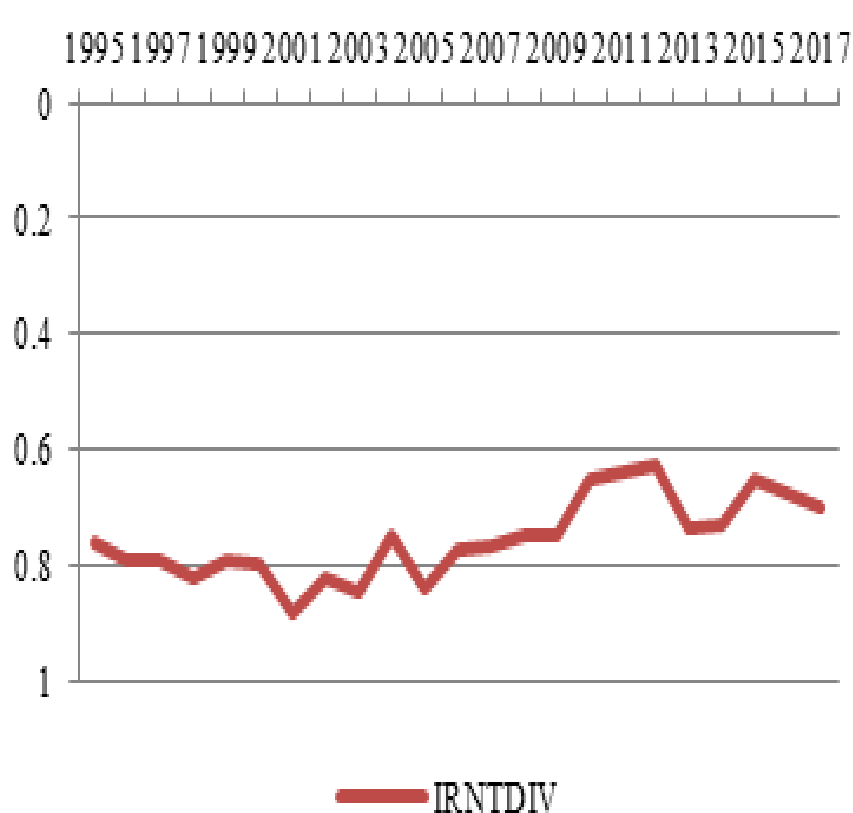
- In order to calculate the flows of Iran-Korea bilateral export diversification between Iran and Korea, we compute *TDIV* index by using data on bilateral trade at 8-digit classification from the Harmonized System (*HS*), 8-digit product aggregation level.



DIVERSIFICATION



Empirical Results



Iran and Korea bilateral exports diversification (TDIV)

Conclusion and Policy Implications

- The existence of **technology gap** has resulted in less benefit of their potentials toward more economic relations.
- **Reimposing sanction** against Iran will affect bilateral trade between two countries particularly Iran **petroleum** and its product export to Korea.
- There are some **SMEs in Iran and Korea** which are potentially able to cooperate in different sectors and make deep sustainable economic relationship between two countries.



Conclusion and Policy Implications

- To allow a deep cooperation in the SMEs' activities in **exchanging human resources and technical knowledge** should be an effective way for diversified trade relations between great nations.

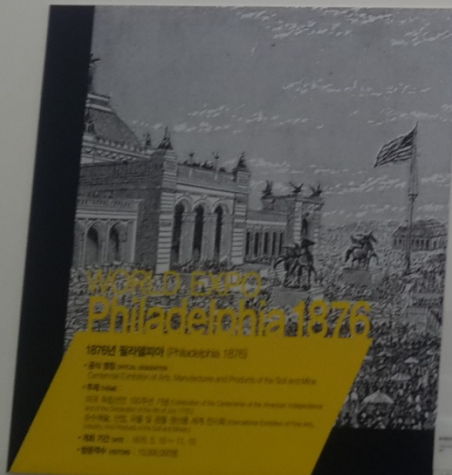


- Since decreasing technological gap between two countries can promote trade diversification, thus the implication is that **investment cooperation in technological equipment and related joint venture** will play an important role in expanding trade diversification and economic relations between two countries.

Daejeon EXPO Commemorative Center & World EXPO Souvenirs Museum

옛날부터 **사물**에도 **혼**이 있다고 생각하였다.
다양한 사물은 **창의력의 원천**이다.

It is said that every object has a spirit inside it.
Diversity of objects is the source of creativity.





**Thank you for your
attention**