

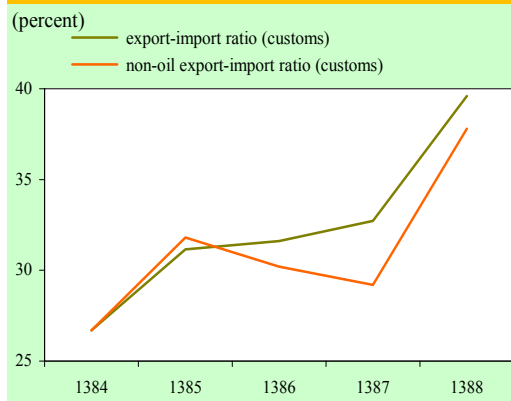
Trade

In 1388, a number of internal and external factors influenced foreign trade¹. Relative improvement of climatic conditions, rise in economic growth, continuation of trade support policies, and development of non-oil exports paved the way for exports growth and imports shrinkage.

Global financial meltdown as of 1387 and its spillover to real sector reversed the up-trend in global economic growth experienced in a decade; therefore, world economic growth fell for the second consecutive year in 1388. Research affirms the influence of global financial crisis on the economies by various degrees. The genesis of the crisis was such that the advanced economies were most affected. In the reference year, the volume of global trade of goods and services, influenced by global demand reduction, shortage in the supply of credits for the financing of trade, and rise in protectionism witnessed a downward trend. The global price of major commodities had an upward trend prior to intensification of world economic crisis in 1387. Therefore, the price of crude oil, metals, and various raw materials reached a record high. However, the declining trend of commodity prices started as of the first

half of 1387 and continued till 1388. Fall in the level of prices, decline in the demand for goods and services, global trade shrinkage, and intensification of international limitations were the main external factors affecting foreign trade in the review year.

Figure 12.1. Export-import ratio



In 1388, trade through customs went up by 3.8 percent, in terms of value, and 28.5 percent, in terms of volume, compared with previous year. Share of exports in trade, in terms of value and volume, increased by respectively 3.7 and 4.8 percentage points

¹ Figures and analysis mentioned in the present chapter are based upon the data released by the Islamic Republic of Iran Customs Administration.

to 28.4 and 47.8 percent, compared with the corresponding figures of 1387.

The upward trend of export-import ratio continued in 1388, and reached 39.6 percent, indicating a growth rate of 6.9 percentage points. This was due to 19.4 percent rise in the value of exports as well as 1.3 percent reduction in the value of imports.

Imports

In 1388, the value of imports (cif) decreased by 1.3 percent to \$55,287 million, compared with the year before. Meanwhile, the weight of imports reached 51,921 thousand tons, up by 17.6 percent compared with previous year. In the review year, the unit price of each ton of imported goods declined by almost 16.1 percent to \$1,065 per ton, compared with last year.

In the review year, rise in the value of consumer goods' imports and fall in the import value of intermediate and capital goods slightly changed composition of imports by use. Thus, shares of intermediate and capital goods decreased by 2.3 and 1.0 percentage points, and share of consumer goods increased by 1.5 percentage points.

Figure 12.2. Imports growth

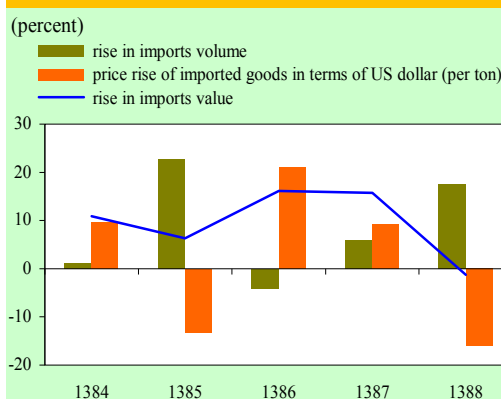
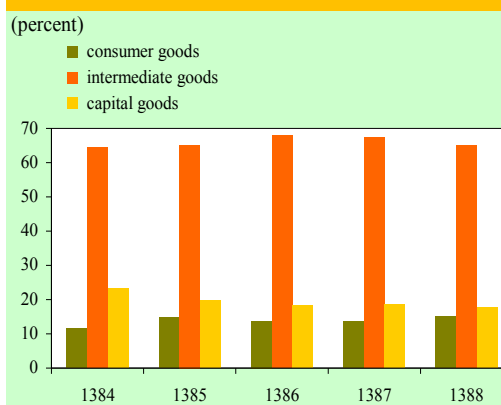


Figure 12.3. Composition of imports by use



Foreign Trade

	1386	1387	1388	Percentage change		Share (percent)	
				1387	1388	1387	1388
Value (million dollars)							
1. Imports	48,439	56,042	55,287	15.7	-1.3	75.4	71.6
2. Exports	15,312	18,334	21,891	19.7	19.4	24.6	28.4
Deficit (2-1)	-33,126	-37,708	-33,395	13.8	-11.4		
Total (1+2)	63,751	74,376	77,178	16.7	3.8	100.0	100.0
Weight (thousand tons)							
1. Imports	41,696	44,148	51,921	5.9	17.6	57.0	52.2
2. Exports	32,118	33,252	47,502	3.5	42.9	43.0	47.8
Total (1+2)	73,814	77,400	99,422	4.9	28.5	100.0	100.0

Source: Foreign Trade Statistics

Composition of Imports by Use (million dollars)

	1386▲	1387▲	1388	Percentage change		Share (percent)	
				1387	1388	1387	1388
Raw materials and intermediate goods	32,943	37,696	35,936	14.4	-4.7	67.3	65.0
Capital goods	8,798	10,505	9,812	19.4	-6.6	18.7	17.7
Consumer goods	6,645	7,637	8,345	14.9	9.3	13.6	15.1
Goods not elsewhere classified	53	204	1,193	285.7	484.3	0.4	2.2
Total	48,439	56,042	55,287	15.7	-1.3	100.0	100.0

Value of Imports by Major Components (million dollars)

	1386	1387	1388	Percentage change		Share (percent)	
				1387	1388	1387	1388
Grains and their derivatives	1,201	4,434	3,517	269.1	-20.7	7.9	6.4
Gasoline and gas oil	3,946	4,081	5,405	3.4	32.4	7.3	9.8
Iron and steel	8,803	9,307	8,166	5.7	-12.3	16.6	14.8
Machinery and transportation vehicles	16,493	19,171	18,060	16.2	-5.8	34.2	32.7
Chemicals	6,256	6,343	6,029	1.4	-5.0	11.3	10.9
Others	11,741	12,705	14,110	8.2	11.1	22.7	25.5
Total	48,439	56,042	55,287	15.7	-1.3	100.0	100.0

Review of imported goods, in terms of value, indicates that the lion's share belonged to "machinery and transportation vehicles" by 32.7 percent, "iron and steel" by 14.8 percent, "chemicals" by 10.9 percent, "gasoline and gas oil" by 9.8 percent, and "grains and their derivatives" by 6.4 percent.

Total share of the mentioned groups in the value of imports declined by 2.7 percentage points to 74.6 percent, compared with the preceding year. Among these groups, "gasoline and gas oil" experienced 32.4 percent growth, and other groups' imports, in terms of value, declined in the review year.

Figure 12.4. Composition of imports in terms of value

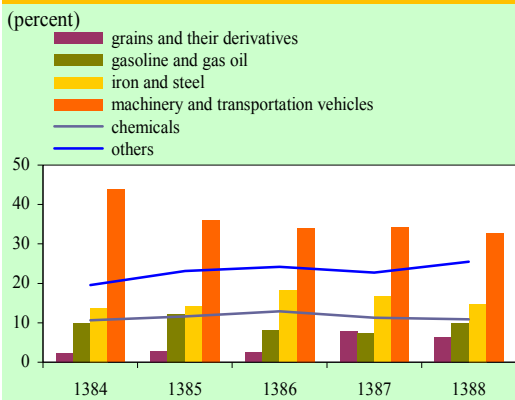
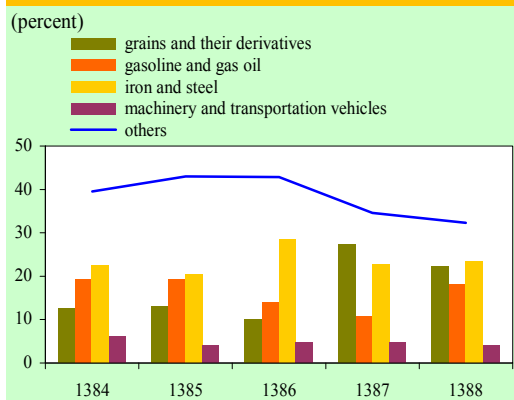


Figure 12.5. Composition of imports in terms of weight



Geographical distribution of imports changed slightly compared with previous year. The concentration indices¹ of the first 3, 5 and 10 exporting countries rose by respectively 4.0, 2.3 and 2.0 percentage points from 42.5, 54.3 and 71.0 percent in 1387 to 46.5, 56.7 and 73.0 percent in 1388. The United Arab Emirates, China, Germany, South Korea, Switzerland, Turkey, Italy, India, and France were the major exporting countries in 1388.

Distribution of imports by continents indicates that the share of Asia rose by 6.7 percentage points to reach 60.5 percent in 1388. Furthermore, Europe was the second large exporting continent, constituting 35.9 percent of value of imports. Therefore, the main importing continent to Iran was Asia in 1388, whereas, in previous years, Europe was the major importing continent.

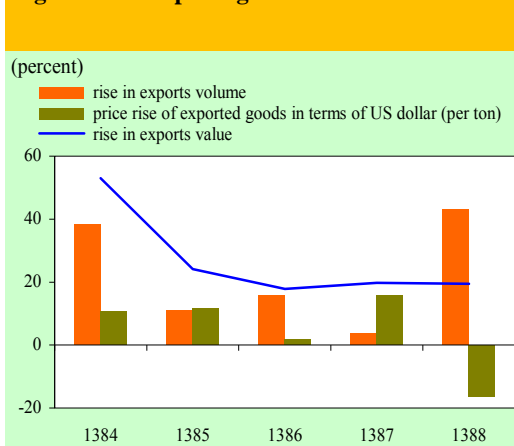
Review of imports by group of countries reveals that the highest share in total imports of goods belonged to ESCAP member countries by 42.2 percent, followed by the European Union by 25.7 percent.

Exports

In 1388, value of exports increased by 19.4 percent to \$21,891 million compared

with the preceding year. Meanwhile, exports, in terms of weight, rose by 42.9 percent to 47,502 thousand tons. Rise in the value of exports in 1388 was mainly due to increase in exports volume. The unit value of exported goods per ton decreased by 16.4 percent to nearly \$461, compared with 1387.

Figure 12.6. Exports growth



In the review year, share of industrial goods, including chemical and petrochemical products, in terms of value, declined by 2.2 percentage points to 77.7 percent, mainly owing to reduction in the value of exports of chemical products.

Value of Exports¹

(million dollars)

	1386	1387	1388	Percentage change		Share (percent)	
				1387	1388	1387	1388
Agricultural and traditional goods	3,482	3,304	4,133	-5.1	25.1	18.0	18.9
Metallic mineral ores	227	319	702	40.4	119.7	1.7	3.2
Industrial goods	11,548	14,662	17,017	27.0	16.1	80.0	77.7
Goods not elsewhere classified	55	48	39	-11.8	-19.1	0.3	0.2
Total	15,312	18,334	21,891	19.7	19.4	100.0	100.0

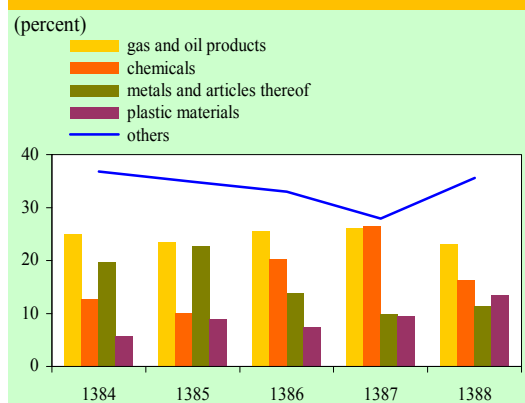
Source: Islamic Republic of Iran Customs Administration ¹ Excludes the value of electricity exports to neighboring countries, and the exports of NIOC and NIGC.

¹ Concentration indices are calculated from total share of the first 3, 5 and 10 exporting countries in total imports.

Value of Exports of Industrial Goods (million dollars)

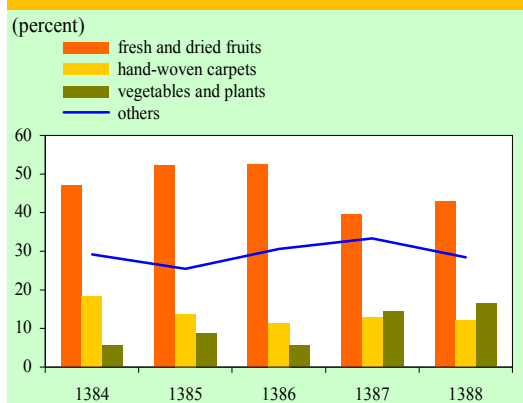
	1386	1387	1388	Percentage change		Share (percent)	
				1387	1388	1387	1388
Gas and oil products	2,956	3,819	3,925	29.2	2.8	26.0	23.1
Chemicals (organic and inorganic)	2,336	3,881	2,785	66.2	-28.3	26.5	16.4
Metals and articles thereof	1,592	1,456	1,956	-8.5	34.3	9.9	11.5
Plastic materials	859	1,411	2,301	64.3	63.1	9.6	13.5
Others	3,807	4,094	6,052	7.5	47.8	27.9	35.6
Total	11,548	14,662	17,017	27.0	16.1	100.0	100.0

Figure 12.7. Composition of exports of industrial goods in terms of value



In 1388, agricultural and traditional goods accounted for 18.9 and 5.7 percent of total exports, in terms of value and volume. Total exports of this group, in terms of value, increased by 25.1 percent to \$4,133 million, and in terms of weight, decreased by 1.0 percent to 2,693 thousand tons. In this year, "dried and fresh fruits" and "vegetables and plants" had the lion's share in total value of exports of "agricultural and traditional goods", accounting for 59.6 percent of the value, and 82.4 percent of the volume of this group, up by 5.7 and 3.4 percentage points, respectively.

Figure 12.8. Composition of exports of agricultural & traditional goods in terms of value



In 1388, Iraq, China, the United Arab Emirates, India, Afghanistan, Turkey, South Korea, Belgium, Italy, and Pakistan were the major importing countries in the review year. In this year, the highest increase in value of exports was related to the Philippines (105.9 percent), followed by Afghanistan (65.4 percent), Iraq (65.1 percent), and China (52.4 percent), ranking respectively 19th, 5th, 1st, and 2nd.

Geographical distribution of exports by continents indicates the lion's share of Asia by 82.5 percent in 1388, up by nearly 3.4

Value of Exports of Agricultural and Traditional Goods (million dollars)

	1386	1387	1388	Percentage change		Share (percent)	
				1387	1388	1387	1388
Dried and fresh fruits	1,826	1,307	1,779	-28.5	36.2	39.5	43.0
Hand-woven carpets	398	422	495	6.1	17.1	12.8	12.0
Vegetables and plants	192	474	685	146.2	44.6	14.3	16.6
Others	1,065	1,101	1,175	3.5	6.7	33.3	28.4
Total	3,482	3,304	4,133	-5.1	25.1	100.0	100.0

percentage points compared with 79.1 percent in previous year. Iran's exports to this continent grew by 1.4 percentage points to 24.5 percent, compared with the corresponding figure of 1387 (23.2 percent).

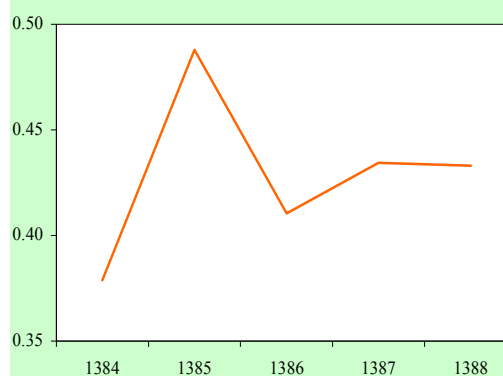
Geographical distribution of exports through Customs by group of countries reveals that ESCAP member countries had the lion's share in Iran's exports through customs by 49 percent.

Terms of Trade

In 1388, terms of trade through Customs, based on the ratio of the unit price of exported goods to that of imported goods, remained relatively unchanged. Due to 16.4 percent reduction in the unit price of exported

goods as well as a fall of 16.1 percent in the unit price of imported goods, terms of trade remained at 0.43.

Figure 12.9. Terms of trade



Terms of Trade (through Customs) (dollar/ton)

	1385	1386	1387	1388	Percentage change	
					1387	1388
Unit price of exports	468.1	476.8	551.4	460.9	15.6	-16.4
Unit price of imports	959.3	1,161.7	1,269.4	1,064.8	9.3	-16.1
Terms of trade	0.488	0.410	0.434	0.433	5.8	-0.35

Source: Foreign Trade Statistics

4th Five-Year Development Plan

Policy, Regulatory, and Institutional Changes

To attain the 4th Plan objectives of proactive and constructive interactions of the Iranian economy with the global economy and to raise Iran's share in global trade, the following trade policy measures were adopted:

- reorganization of cross-border trade;
- reduction in tariffs on various agricultural products;
- geographical extension of several free trade industrial zones;
- formulation of export policies and approval of sectoral plans;
- expansion of trade and economic relations with other countries;
- direct and indirect support to export companies by designing export incentive measures and bonus structure¹;
- support for exports of high value-added products;
- restructuring of export information system with due emphasis on export opportunities abroad;
- establishment of representative offices and trade centers abroad with emphasis on target markets for exports;
- support of non-public funds and entities in production and export activities;
- support of non-oil exports and trade and marketing missions abroad;
- support of Iranian export companies in international fairs;
- support of specialized export management companies;
- formation of export clusters and export consortiums;
- support of market research and training programs in the export sector;
- payment of subsidies on profit and commission on banking facilities extended to exporters;
- promotion of technical standards in line with international standards for export sector;
- support of projects on quality control of goods and services destined abroad;
- support of packing and packaging for exports in line with standards of target markets;
- freight cost subsidies for exports.

In spite of prohibition of setting any duty on the exports of goods during the 4th Plan period, considerations on the stability of domestic markets for some products led to introduction of export duties on some export products.

¹In pursuance of paragraph (b), Article 33 of the 4th FYDP Law

Major import policies formulated over the 4th FYDP are focused on transparency of procedures, and reduction of tariffs on various imported products for the regulation of domestic market.

The Parliament approved the ECO¹ Agreement – Economic Cooperation Organization Trade Agreement (ECOTA) – as well as Laws on Trade Agreements between Iran, Switzerland², and Bangladesh³ during the 4th Plan period. Moreover, in order to safeguard domestic producers against the dumping of imports, and in pursuance of paragraph (c), Article 33 of the 4th FYDP, the Cabinet approval⁴ pertaining to protective, reciprocal, and anti-dumping measures was communicated to the Ministry of Commerce and other concerned executive bodies.

Economic Indicators

Owing to the policies adopted over the years of the 4th FYDP, trade through Customs (sum of exports and imports) increased by 12.8 percent in terms of value and 13.6 percent in terms of volume, on an annual average basis. During this period, exports grew by respectively 26.2 and 21.3 percent, in terms of value and volume on average. The composition of exports improved remarkably; therefore, the share of agricultural and traditional goods decreased in terms of value and volume while the share of manufacturing products surged.

During the 4th Plan, the share of industrial goods in the value of exports rose by 7.2

percentage points, from 70.5 percent in 1383 to 77.7 percent in 1388. This rise was mainly due to the remarkable growth in the exports of chemical and plastic products. The value of exports of chemical and plastic products grew by respectively 39.5 and 62.7 percent, on an annual average basis, and their shares in the value of exports grew from 10.9 and 4.2 percent in 1383 to 16.4 and 13.5 percent in 1388.

Geographical distribution of exports changed during the years of the 4th FYDP in a way that the shares of Europe and America decreased compared with Asia, mainly due to the rise in the exports to Iraq and Afghanistan.

During the 4th FYDP, imports grew by 9.3 and 8.6 percent in terms of value and volume respectively, on an annual average basis. Shares of "foodstuffs and live animals", "gasoline and gas oil", and "iron and steel" increased while the share of "machinery and transportation vehicles" decreased. Therefore, shares of capital and intermediate goods fell from respectively 22.7 and 66.5 percent in 1383 to 17.7 and 65 percent in 1388. On the other hand, share of consumer goods rose from 9.9 percent in 1383 to 15.1 percent in 1388.

Geographical distribution of imports indicates a change of trends from Europe and America to Asia. Rise in the share of imports from United Arab Emirates, China, and South Korea, as well as the remarkable

¹ Member countries of the Economic Cooperation Organization (ECO) are: Iran, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan. Parliamentary Circular No. 203/162601 dated Dey 17, 1386

² Parliamentary Circular No. 440/78349 dated Mordad 24, 1386

³ Parliamentary Circular No. 509/78382 dated Mordad 24, 1386

⁴ Cabinet approval No. H32656T/77219 dated Mordad 16, 1386

fall in the share of imports from Germany, France, Italy, and Sweden are the main factors behind the decrease in the share of Europe and the increase in the share of Asia.

Foreign Exchange Market Developments

Although oil exports shrank in the review year, foreign exchange market remained stable. Rise in the value of non-oil exports and relative control of the imports of goods led to a fall in the sale of foreign exchange (in dollars) by the CBI. The misalignment of nominal exchange rate with the gap of internal and external inflation rates resulted in the appreciation of rial vis-à-vis hard currencies which could subsequently affect export profit margin, real sector competitiveness and current account deficit (non-oil).

Rial versus Hard Currencies

In 1388, the dollar exchange rate vis-à-vis rial slightly increased. Parity rate of other hard currencies vis-à-vis rial was also affected, mostly due to developments of international foreign exchange markets as well as the changes in dollar-rial parity. Thus, the exchange rate of the pound vis-à-vis the rial decreased in 1387, while other hard currencies vis-à-vis the rial increased.

Coefficient of variation¹ of reference rate of hard currencies in the main interbank market reveals lower fluctuations in the parity rate of the mentioned currencies (except Swiss franc) in the review year compared with 1387. The highest coefficient of variation belonged to rial versus pound and Japanese yen, and the lowest to US dollar and euro.

Review of the average rate of hard currencies in the main and offshore interbank

markets reveals that their parity in the offshore interbank market was largely affected by, and slightly higher than, the main interbank market.

Figure 12.10. Developments of US dollar in the official market

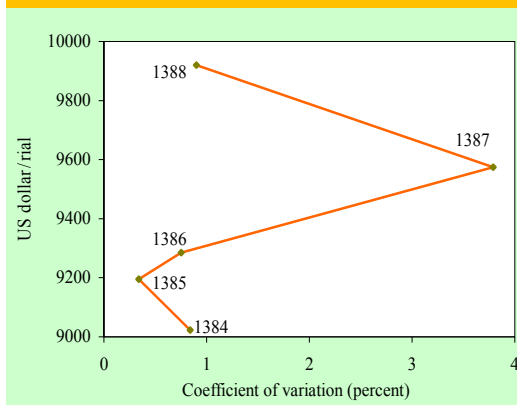
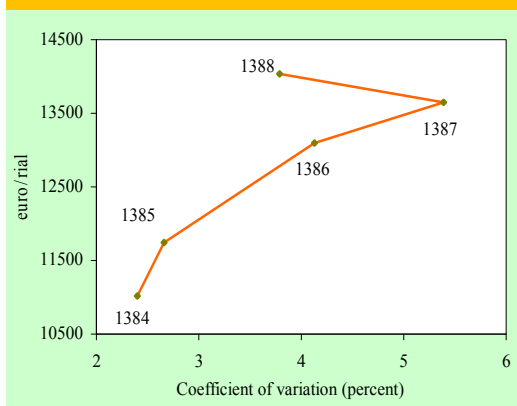


Figure 12.11. Developments of euro in the official market



Developments of the Interbank Foreign Exchange Market

In 1388, the total value of interbank market transactions (in US dollar, euro, Japanese

¹ Standard deviation divided by mean

Hard Currencies in the Main Interbank Market (rial)

	1386		1387		1388		Annual average (percentage change)
	Annual average	Coefficient of variation	Annual average	Coefficient of variation	Annual average	Coefficient of variation	
US dollar	9,285	0.75	9,574	3.79	9,920	0.90	3.6
Euro	13,096	4.13	13,650	5.39	14,033	3.79	2.8
Pound	18,635	1.97	16,565	10.25	15,846	4.04	-4.3
Japanese yen	8,107	5.18	9,565	9.50	10,677	3.99	11.6
Swiss franc	7,986	4.97	8,727	2.76	9,329	3.88	6.9

Hard Currencies in the Offshore Interbank Market (rial)

	1386		1387		1388		Annual average (percentage change)
	Annual average	Coefficient of variation	Annual average	Coefficient of variation	Annual average	Coefficient of variation	
US dollar	9,357	0.64	9,667	3.62	9,979	0.86	3.2
Euro	13,209	4.27	13,763	5.30	14,104	3.81	2.5
Pound	18,792	1.94	16,894	9.49	15,999	4.03	-5.3
Japanese yen	8,106	5.21	9,560	9.51	10,680	4.03	11.7
Swiss franc	8,033	5.04	8,828	2.21	9,396	4.08	6.4

yen, pound and other currencies) decreased by 5.5 percent to \$53,343 million compared with \$56,438 million in the year before. Surge in the share of the offshore market in total interbank market transactions continued in the review year and amounted to 71.3 percent from 67.0 percent in 1387.

The total value of main market transactions declined by 17.7 percent to \$15,320 million in 1388 from \$18,619 million in 1387. Central Bank held 77.6 percent of total foreign exchange sales in this market valued

at \$11,884 million, standing as the main supplier of foreign exchange as before.

The total value of offshore market transactions grew by 0.5 percent to \$38,024 million in 1388 from \$37,819 million in the preceding year. The CBI held over 98.0 percent of total foreign exchange sales in this market worth \$37,303 million in the review year. Hence, Central Bank remained the main supplier of foreign exchange in the offshore interbank market, and commercial and specialized banks were the purchasers of foreign exchange.

Foreign Exchange Transactions in the Main and Offshore Interbank Markets (million dollars)

	1386	1387	1388	Percentage change	
				1387	1388
Main market	16,795	18,619	15,320	10.9	-17.7
Share (percent)	39.5	33.0	28.7		
Offshore market	25,769	37,819	38,024	46.8	0.5
Share (percent)	60.5	67.0	71.3		
Total	42,564	56,438	53,343	32.6	-5.5