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**Iran's Economic Diplomacy:  
An Assessment of Iran Economic and Trade Cooperation  
with Japan, China and South Korea**

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*Visiting Research Fellow Monograph Series*

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*In the memory of Behnam Fakhrejahani*

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## I. Introduction

### 1.1. Purpose of the Research

Iran in post revolutionary era has witnessed drastic changes, both in national and transnational dimensions. Generally speaking Iran's political and economic policies have had always a Western oriented tendency. This phenomenon could be studied in different layers of Iranian society, including bureaucrats and state institutions as well as private ones. But new situations in Iran, the region and the world have brought up new changes in the mentality of Iranian decision makers and consequently the implemented policies.

In this way, the most significant development could be highlighted as a shift in pure political oriented approaches of Iranian decision makers and elites towards the economic priorities. Such a shift has caused a considerable attention to the world economic realities and consequently necessitated an immediate revision of former regulations, structures and policies. In order to conduct appropriate policies to address new aims and goals, some new concepts came into agenda, among which *economic diplomacy* absorbed great attentions.

Anyhow, based on the historical background of Iran's relations with the Western countries and in order to diversify its economic partners, and also (being aware of the future powers of world economy) in order to explore the new potentials, Iran decided to take a very important shift in its strategies, and conducted new policies towards Asian countries.

New published statistics elaborate that during the last eight years and as the result of such a shift, now Asia is the first economic partner of Iran and has occupied the traditional position of Europe. Among the Asian countries also, Japan is the first Iran's economic partner, while China stands in the second grade.

In spite of these drastic changes and their implications, unfortunately very few studies have been done, especially in the framework of Iran's economic diplomacy. In fact, as far as the author has reviewed the produced literature on Iran's new policies and tendencies, few works has examined Iran's economic diplomacy; and those who have done such studies, mainly have used other alternative conceptual frameworks, even to understand Iran's economic policies. This is partly because of the elusive nature of economic diplomacy itself, and furthermore because of lack of knowledge about real practical cases, in which Iran economic diplomacy is engaged.

Based on this background the main purpose of this research is to provide a conceptual framework to understand Iran's new policies and developments by applying the economic diplomacy. In this framework, major actors involved in Iran's economic diplomacy and decision-making process will be explained.

In other words, this paper tries to illustrate why Iran has selected such diplomacy, how this country has practiced it and what has been the result of implementing economic



diplomacy for Iran. So, the case study on Iran's relation with Japan, China and South Korea is in the framework of the third question and there is no intention at this paper to prepare a detailed data and information about trade and economic relations between Iran and these three major Asian economies. Rather than the main attempt of this work is to provide an analytical assessment of these relations.

## **1.2. Research Methodology**

Based on the aforementioned point and in order to meet the purposes of the research, this paper can be served as a qualitative research. It is vital to be mentioned when we are speaking on a qualitative research it doesn't mean that the research fails to use data and statistics. However it indicates that it stands alongside and complements quantitative survey inquiry to provide depth and richness to an investigation. In other words, this research benefits from both qualitative and quantitative methods, but since the interpretations will be largely based on the research questions and objectives, the research is semi-structured. The first hand and second hand published statistics and documents in the case studies and interviews and comparative studies in the conceptual parts will be deployed.

Of course this point should be noticed that due to limitation of time and very wide scope of the issue itself and natural restrictions of all methodologies, this paper also will be selective in choosing sources and materials which should be used and analyzed.

## **1.3. Organization of the Research**

The present research is consisted of six parts. The second part which comes after this introduction will discuss very briefly the concept of economic diplomacy itself, in its historical context, by reviewing some of definitions. This part tries to answer to this question, what precisely economic diplomacy is about. The third part examines this concept as a conceptual framework to understand Iran's developments. Under this general topic some issue including economic diplomacy and developing countries; Iran's new trends; Iran as a developing country; changes at national, regional and international levels; and finally Iran's economic goals and strategies in the light of these changes, will be studied.

The fourth part is allocated to the main features of Iran's economic diplomacy. In this part first Iran's purposes in pursuing economic diplomacy will be addressed, and then major actors will be introduced. In order to understand the decision-making procedure in Iran's economic diplomacy a case study on Iran-EU negotiation on Trade and Cooperation Agreements is illustrated. The issue of foreign direct investment is another issue which is covered in this part. The fifth part is allocated completely to the assessment of relations

between Iran and Japan, China and South Korea. Finally in the last part some major findings as conclusion part will be described.

## **II. Economic Diplomacy**

### **2.1. Economic Diplomacy in Historical Context**

The following questions could serve as the most probable issues which first come to mind when dealing with the concept of “economic diplomacy”: What is economic diplomacy? What exactly does it mean? Is it as similar as other kinds of diplomacy currently in vogue such as, for instance, cultural diplomacy? In fact, what is economic diplomacy about? Is it a new concept or an old one? In order to answer all these questions, we should first review very briefly the historical background of economic diplomacy.

From the historical point of view, despite this not being a very new concept, it has been drastically developed in the past 15 years, particularly after the end of the Cold War. Using economic motives as leverage in the conduct of diplomacy has as old a tradition as the history of diplomacy itself and can be identified in the Westphalian model of state-centric world politics and inter-state relations (Teschke, 2002).

As a bipolar system developed in the aftermath of the Second World War and the discourses of superpower rivalry and negative security predominated, economic diplomacy was identified with how states could use trade and economic cooperation to fulfill their strategic goals and security priorities. In this period, different examples can be examined, among which the most popular cases are probably those related to the 1973 oil crisis generated by the Arab-Israeli conflict (Daoudi and Dajani, 1985) or the policy of imposing sanctions against certain countries (Bergeijk, 1994). One may claim that the main characteristic of this period is the supremacy of political and security issues. In other words, during the Cold War the economy, especially on the international stage, was in the hands of great powers keen to promote their goals around the world.

By the end of the Cold War, as the Soviet Union collapsed and the rules and regulations that had governed the bipolar system fragmented, new discourses such as “positive security” and “productive cooperation” came onto the agenda. Such changes in dominant discourses, coupled with the added complexity of the accelerating world economy, the growing effect of international organizations, the marginalization of state-to-state relation and the emergence of new actors in international relations and economy, all contributed to the growing importance of economic diplomacy.

Therefore, during the 1990s and early years of the third millennium, new approaches were highlighted that can largely be studied in the framework of positive cooperation.

In other words, if economic diplomacy occupied a relatively different position in the structure of world politics in the previous era, the abovementioned developments and the greater role that middle and small-sized powers came to play changed the methods of its conduct, as will be seen.

## 2.2. Review of Some Definitions

Keeping in mind the structural changes that have affected world affairs in the years after the end of the Cold War – the most important characteristic of which is the fragmentation of the state-centric Westphalian system and the coming into being of a unified economic system which spans almost the entire world (Saner and Yiu, 2001) and adopts itself to the specific domestic rules and regulations of the national system it inhabits, the classic definition of diplomacy itself has also changed:

In its classic definition, diplomacy was:

*“The conduct of relation between state and other entities with standing in world politics by official agents and by peaceful means” (Bull, 1995)*

or, as Melissen (1999) states:

*“[Diplomacy] is defined as mechanism of representation, communication and negotiation through which, states and other international actors conduct their business” (p.156)*

Based on the aforementioned evolutions and developments, the new definitions indicate that:

*“Diplomacy is concerned with the management of relations between states and other actors” (Bayn and Woolcock, 2003, p.5)*

This modern definition of diplomacy serves also as the basis for the author’s definition of economic diplomacy and highlights that diplomacy in the post-modern world is not practiced just by official members of foreign affairs departments. Needless to say, the growing complexity of international economic organizations and the methods by which their agents pursue their aims within such rule-based institutions, has rendered diplomacy – even in institutions that possess formal and transparent internal procedures – ever more multifaceted. This represents a fundamental shift from the traditional domain of diplomacy which was informal and less transparent (Bayn and Woolcock, 2003, p.6). It is also clear that “*other actors*” are not necessarily pre-selected, high-ranking and privileged authorities, indicating another way in which there has been a shift away from the pure and elitist nature of diplomacy.

Bearing in mind the definition presented by Bryant (1975) in his book on Japan’s private economic diplomacy,<sup>1</sup> and taking into consideration the fact that economic diplomacy faces a

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<sup>1</sup> "Japan’s private economic diplomacy is a systematic effort by businessmen and government to establish a favorable climate for improving economic relations with foreign countries."

vast range of issues in a number of domestic, bilateral, regional and international contexts, the following definition of economic diplomacy is posited as the most appropriate definition:

*“Economic diplomacy is concerned with the management of economic relations between state and other actors, conducted by government as well as non-governmental agents.”*

### **2.3. What is Economic Diplomacy About?**

Having defined economic diplomacy in the last section, we can now examine the boundaries of this concept. Economic diplomacy can be seen from different angles and characterized by a range of varying issues. This point should be kept in mind, as well as the fact that economic diplomacy is about *decision-making* and negotiating on different levels of economic relations.

In addition, an effort will be made to clarify how states conduct their international economic relations.

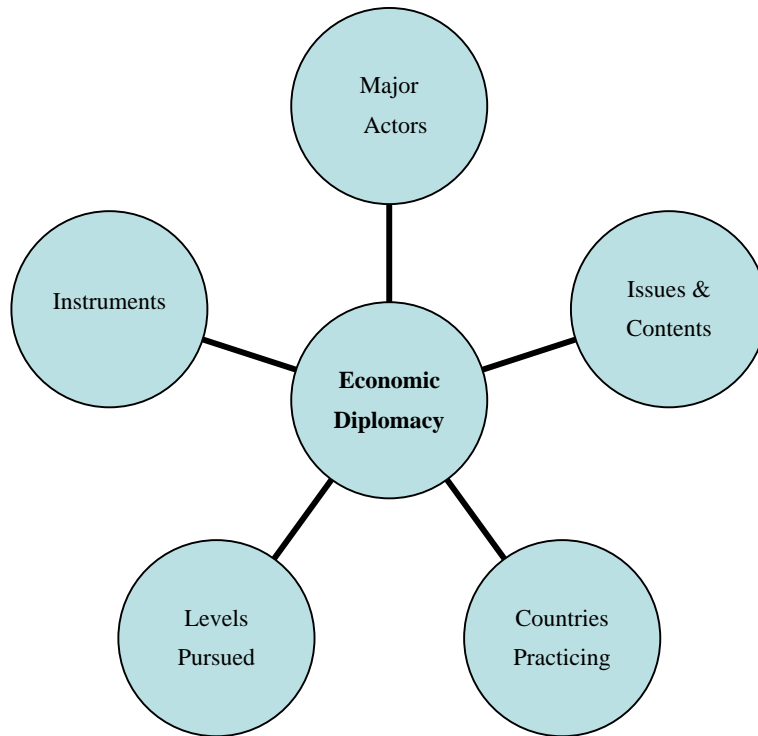
Summing up, economic diplomacy could essentially be examined from five different aspects. These include:

- Principal actors;
- Major issues;
- Primary instruments;
- Levels on which economic diplomacy can be pursued;
- Countries practicing it; (see Figure 2.1)

The first category relevant to a study of economic diplomacy is the principal actors involved in playing major roles. Despite all the changes in global economics and politics, state agents are still the most significant players. Undoubtedly, there is a consensus that non-state actors are gradually gaining power and amassing influence. All sorts of different kinds of agents are involved in economic diplomacy and these can be categorized as national and transnational actors.

At the national level, the major governmental players are the executive bodies (relevant ministries, governmental institutions, local government) and legislative branches (including parallel parliaments and even political parties). Finally, there are regulatory agents such as central banks. Non-governmental actors involved in economic diplomacy can be classified as business interest groups, trade unions and civil NGOs. At the transnational level, inter-state agents still occupy pole position, through institutions such as UN, IMF and WTO. At this level, non-state actors mainly include civil global NGOs, transnational companies, environmental organizations and others.

**Figure 2.1: Economic Diplomacy and Major Related Subjects**

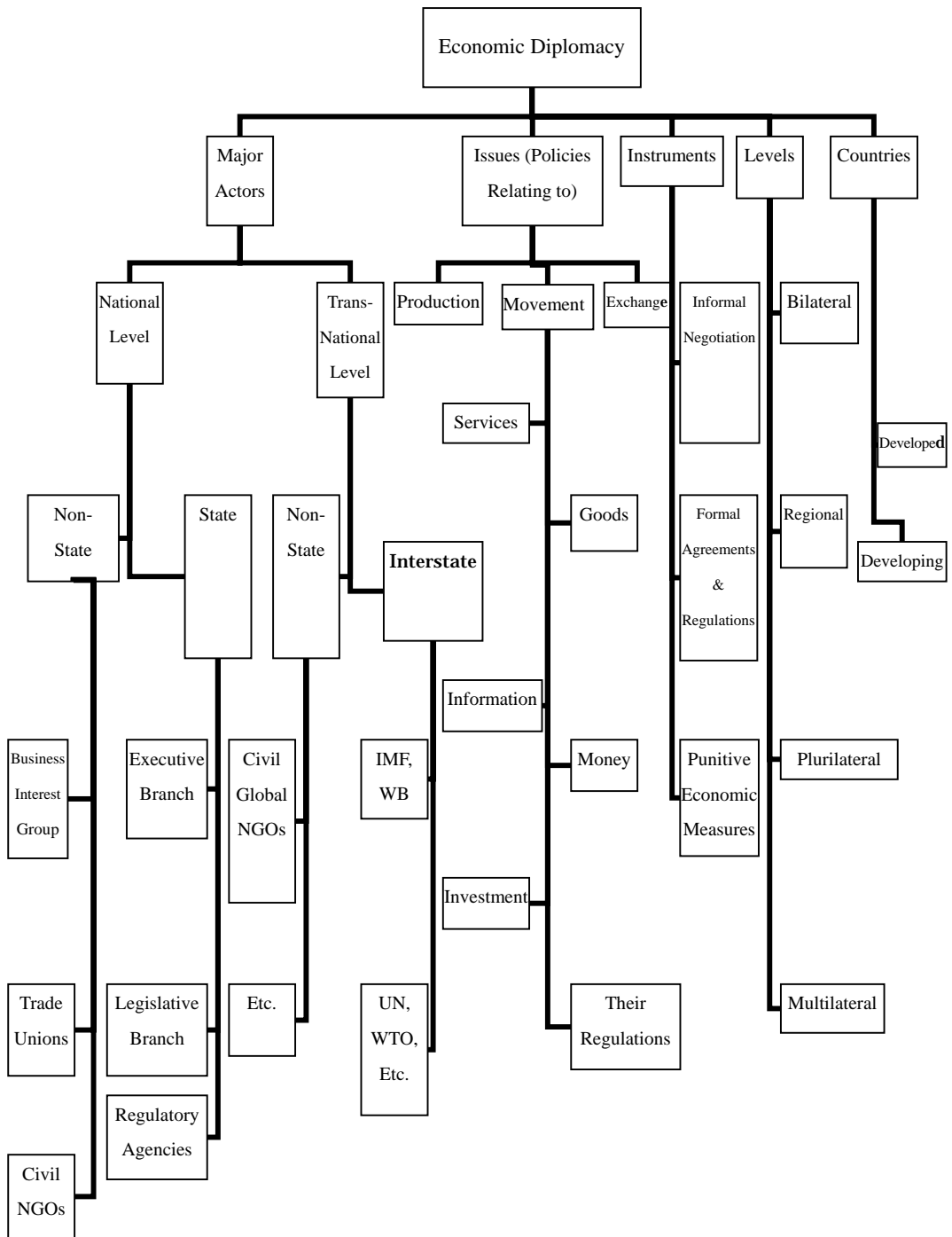


In discussing the issues immediately relevant to economic diplomacy and identifying its contents, we should not lose sight of the fact that, due to the layered nature of economic diplomacy and the changing environment of international affairs, it is impossible to accord all issues the space they might deserve. Therefore, all attempts to examine the issues and contents of economic diplomacy have been very selective. Suffice it to say, the scope of economic diplomacy includes policies relating to production; the movement and exchange of goods; services; investment; financial information and their assorted requirements (Bayn and Woolcock, 2003, p.8).

Examining the instruments which economic diplomacy benefits from is also very controversial and varies from one practitioner to another. Generally, it indicates a full range of measures, from informal negotiation and cooperation to formal agreements, regulations and interactions (such as joint bilateral economic committees or interacting in the framework of international organization), and even as Bergeijk (1994) argues, using punitive economic measures, as has been pointed out before in discussing different approaches to economic diplomacy and the use of embargo as leverage.

Economic diplomacy is also about economic interactions and related policies in different

**Figure 2.2: Economic Diplomacy at a Glance**



levels – whether bilateral, regional, plurilateral or multilateral. In other words, these are the levels on which economic diplomacy ought to be pursued.

Finally bearing in mind the varied roles which different countries play in the international economy, according to their capacities and capabilities, economic diplomacy can be studied on a country-to-country basis, with a further categorization accorded to developed and developing countries.

Figure 2.2 tries to illustrate more precisely and systematically our answer to the question regarding the boundaries of economic diplomacy.



### **III. Economic Diplomacy as a Conceptual Framework to Understand Iran's Developments**

Over the past three decades Iran has experienced defining developments which have influenced regional and, to some extent, even world equations. These dynamics have been studied by a great number of scholars and Iran experts who have examined them from different perspectives, applied various conceptual frameworks, and used different political, economic and cultural theories.<sup>1</sup>

This chapter seeks to demonstrate that economic diplomacy provides an appropriate conceptual framework for understanding and describing new trends and developments in Iran. It seeks to attain this aim by taking into consideration the new definitions and functions of economic diplomacy, as posited earlier; deeply interconnected changes in the world and the region; and the latest developments inside Iran which have had repercussions on its foreign policy conduct.

It is important to keep in mind that economic diplomacy is more about methods and management. In other words, it is about how countries take domestic decisions, how they negotiate and work with others on the international level and how these two interact (Byne and Woolcock, 2003).

#### **3.1. Economic Diplomacy and Developing Countries**

A large question hangs over how developing countries feel about and view the current international economic situation. It is true that some developing economies harbour a deep skepticism regarding the ongoing conduct of economic diplomacy and appear pessimistic towards it. Such an approach raises valid questions such as, for example, to what extent developing countries are in a position to practice economic diplomacy; what is the real position that developing economies inhabit in those policies; and whether this concept can provide them with practical recommendations or not.

In order to discuss the stance of Iran in particular and developing countries in general within the framework of the international economy and the concept of economic diplomacy itself, it should first be asked whether economic diplomacy has a multi-level nature. This would reveal much about the way in which economic diplomacy affects the domestic and international levels in the decision-making process. The links between the two should also be examined.

According to their capabilities and capacities, countries act differently in these domains.

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<sup>1</sup> For further study see: (Mottaghizadeh, 2003); (Katouzian, 1993).

One school of thought argues that developing countries are not capable of collaborating properly in complex environments because of the limits that constrain them. Inevitably, they are marginalized when it comes to economic diplomacy, at least on the international level, both on the multilateral and plurilateral spheres. The other group maintains that economic diplomacy is not completely about the industrial capacity of countries but also allows countries to promote their level of knowledge and skills in the framework of economic diplomacy. In other words, if smaller countries could equip themselves with better software and become more adaptable to the demands of the international scene, they could play crucial and productive roles on the different levels of economic diplomacy. Such commentators always hold up the track record of developing countries such as India and Brazil in the WTO and other related institutions to illustrate their arguments.<sup>2</sup>

While the first group argues that developing countries are usually not effective participants within the context of a multilateral trading system and that their only negotiating strategy is to stonewall, delay or plead for special treatment, the second group claims that ignoring developing countries will result in the further marginalization of the least developed or poorest members of the international community (Bayne and Woolcock, 2003, p.253).<sup>3</sup> The latter group states that developing countries should not feel that their marginalization is the inevitable outcome of participating in economic diplomacy or multilateral fora. They argue that the reason behind the discouraging of small countries from participating in such discussions has more to do with their opposition to the inevitable changes that would accompany such a development and the attendant discussions, target-setting, stakeholder-consulting and boundary-exploring that would come with it.

At the same time, such experts strongly recommend that developed countries collaborate and cooperate more actively with developing countries particularly in the plurilateral and multilateral negotiations and in international organizations and institutions. The WTO goes some way towards being an example of what such a process could look like. This would allow developing countries to participate in a process which is neither a zero-sum game, nor do rich countries determine all its rules.

In conclusion, regardless of which one of these approaches would be more appropriate in seeking to define the stance of developing countries, it can accurately be argued that the economic diplomacy of developing countries is at a relatively undeveloped stage (Bayne and Woolcock, 2003, p.251) and many challenges must still be faced. At the same time, by applying the descriptive aspect of economic diplomacy, we can effectively understand the nature of the economic decision-making process employed by those countries and their major actors. Given the nature of economic diplomacy and the strong tendency of the global

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<sup>2</sup> In the recent WTO ministerial meeting being held in Hong Kong December 2005, the role of developing countries even was more active and brilliant than previous Rounds in Doha or Uruguay, which obliged the Europe to accept their request for removing subsidies in agriculture sector by the year 2013.

<sup>3</sup> Based on the UN list, 50 countries identified as least developed countries, 32 of which are already member of WTO.

economy to move towards complete integration, it is essential that developing countries are aware of the vital issues involved in economic diplomacy and how a country can get to grips with it.

Now we can address this issue on why this concept appropriate is in describing Iran's new trends and developments.

### **3.2. Iran's New Trends**

Bearing in mind all aforementioned facts and also challenges which inevitably all developing countries face, it is worth asking if someone raises this question of why Iran should pursue such a policy when it is aware of the restrictions and limitations imposed on it as a developing country? On the other hand, why should economic diplomacy be an appropriate tool to understand the new trends in Iran? These questions will very briefly be addressed in this part.

#### **3.2.1. Iran as a Developing Country**

In order to answer the first question, we should examine Iran's position in the context of developing countries while identifying what sets Iran aside from the others.

For a better understanding of Iran's position among developing countries, some major factors should be taken into account. These may be divided into two main categories: *structural* and *situational* factors. In sum, with regard to the structural elements, factors such as the geo-strategic and geo-economic locations of Iran and, in particular, its proximity to the Eurasian heartland (which connects the two energy-rich areas of the Persian Gulf and Caspian Sea) should be taken into consideration. Because of its strategic location and given the close inter-connectedness between the region Iran is located in and the economic stability and security of the world, the region's affairs have transregional or global repercussions. There is obviously a very strong interconnectivity between this region and world policies, as well as a deep interaction between its countries' domestic issues and international developments.

Thus, it is appropriate to review the domains of economic diplomacy and on what levels Iran pursues its related policies. Economic diplomacy is pursued in four levels: bilateral, regional, plurilateral and multilateral. Based on the multi-level nature of economic diplomacy, Bayne (2003, p.165) has created a Figure (3.1) which illustrated the stance of different countries, in multi-level economic diplomacy. It should be said that some of its propositions could be strongly challenged, in particular those regarding small sized countries and their favors in multilateral fora.

Based on this explanation, while bilateral and multilateral economic diplomacy is available to countries with differing capacities and potentials, regional and plurilateral

**Table 3.1: Basic Taxonomy of the Levels of Economic Diplomacy**

	<i>Bilateral</i>	<i>Regional</i>	<i>Plurilateral</i>	<i>Multilateral</i>
Open to all countries:	x			x
Selected countries only:		x	x	
Requires organization:		x	x	x
Large countries favor:	x			
Medium countries favor:	x	x		
Small countries favor:				x

economic diplomacy is exclusive to selected medium-sized countries which benefit from specific geographical locations and/or meet the criteria of sharing a common (mostly strategic) good, such as oil.

Based on what we have discussed so far, all levels of economic diplomacy are applicable to Iran. Iran neighbors fifteen countries in the Persian Gulf, Central Asian, Caucasus and West Asian regions. Because of its geo-economic location, Iran is fortunate enough to sit at the center of different regional initiatives and cooperation organizations (such as ECO). At the plurilateral level, Iran is a member of OPEC. Therefore, it is clear that this concept can be employed in explaining the activities Iran implemented in those levels of economic diplomacy. On the other hand, it can be used by the country to enhance its position in international economic relations.

What was mentioned very briefly in this part, with due emphasis on the *structural* factors at the regional level, is one of the dimensions of why Iran is different; but in order to have a better understanding of the latter question on what makes Iran different, even within the countries of the region, and what generally shapes Iran’s characteristics, we should examine the situational and structural factors at the national level; the factors which refer to the particular capacities and potentials of Iran.

### **3.2.2. Iran’s Dynamisms and Developments towards New Iran**

In discussing what makes Iran’s case different from other developing countries at national level, the characteristics which derive from contemporary Iranian events, namely the Islamic revolution of 1979 and the consequent unique system of governance in the Islamic world and in the Middle East may formulate as Iranian identity, while in unison with traditions and ancient civilization of Persia and at the same time with the identity that is the result of interaction between Iranian civilization and culture on the one hand, and Shia Islam on the other.

Of course in this assumption other situational factors shouldn’t be marginalized. To this

end Iran's particular characteristics can be defined in terms of dynamism of interaction in three levels of analysis: domestic, regional and international.

### **A. National Level: Continuity and Change**

Iran's developments in contemporary historical context – particularly the events in the last four decades – can despite their diversity be formulated as continuity as well as change. From such conceptual framework's perspective, the nature of events and evolutions within Iranian society can be comprehensively explained.

For instance with regards to the economic indicators, the fact that Iran's economy has been principally reliant on oil industries acts as an indicator of continuity for several years, from Pahlavi dynasty to the early years of the Islamic Republic. Due to this fact almost all governments in Iran have possessed major independence of action in the sense that their economic dependence on the public has been negligible.<sup>4</sup> Such structural make up in Iran's economy has led to various implications for the Iranian society. Among them one may emphasis: weak private sector and its sparse role in Iran's economy in addition to infirm relations with the public sector; an economic system which is artificially maintained and balanced by measures such as subsidies, supremacy of political issues, etc.

Even great upheavals in the Iranian society such as the 1979 Islamic Revolution couldn't reduce this tendency and it continued for up to twelve years after victory of revolution following which certain rapid changes occurred.

One of the major events at domestic level was the end of the war imposed by Iraq's Saddam Hussein, which proved a very bloody conflict for both nations and destroyed a great deal of Iran's infrastructure. Great demand arose for reconstruction of the country after the end of the war while at around the same time, the incumbent President Rafsanjani began his tenure under the motto: "*reconstructing the country*".<sup>5</sup>

Iran's first 'Five-Year Economic, Social and Cultural Plan', was created with the pride of place given over to the economic issues. This translated into the government's use of all available resources to materialize the extravagant goals of its plan; the resources that were certainly insufficient. Therefore for the first time in Iran's contemporary history, the necessity for real international cooperation based on the requirements of the plan – above and beyond executive bureaucracy by high-ranking officials – was added to the agenda that transmuted into a dominant factor for discourse between the elite and the society. This latter event can be considered as the turning point in Iran's economic diplomacy.

In the years before the Islamic revolution under the atmosphere created by the Cold War and the bipolar world, the economic diplomacy practiced by the Pahlavi regime as the West's strategic ally in the Persian Gulf, was little more than leverage to achieve the Western global

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<sup>4</sup> In political economics states that are rich in highly valued natural resources such as petroleum and are undeveloped in domestic social and political affairs, are known as rentier states.

<sup>5</sup> His cabinet later became popular as "construction cabinet" and he himself, as the "Colonel of construction."

goals in the Middle East region and to confront Communism. Even after the revolution, the unwanted war imposed by Iraq on Iran with its own set of implications and emerging social requirements, forced the government to plan only for immediate public provision in pursuit of high priorities which of course under the circumstances consisted mainly of security related issues such as safeguarding the territorial integrity of the country. Hence all resources, capacities and capabilities and particularly economic considerations were naturally placed at the service of such priorities. However bearing in mind the former pointers, the gradual disappearance of such conditions gave rise to a new environment, assisting the government to consider the country's progress more systematically.

Another characteristic of this period of transition was the society's reach beyond ideological sloganism and revolutionary ideals to place practical goals and logical rationale on the agenda. The best manifestation of such pragmatism is reflected in the five-year economic, social and cultural plan, in whose titles the priority reserved for economic issues is obvious. During the first and the second five-year plans (the second plan only partly implemented by President Khatami), the GDP growth rates were put at 7.2% and 5.2%; well above forecasts and expectation.

All such programs with their achievements and resultant domestic transformations, illustrate the vital role of cooperating with other countries and international players to attain national goals for economic development.

## **B. Regional Level: New Opportunities**

At the same time as Iran was experiencing gradual domestic transformations, the region in which Iran is located was also witnessing new and profound developments; the emergence of new independent countries after the collapse of the Soviet Union, provided great opportunities to Iran's advantage.

Based on Iran's strong historic ties with the newly formed Central Asian and Caucasian Republics, they were prepared to boost relations with the country in search of their autonomous identities and new horizons beyond Russia in the prevailing atmosphere. Aware of such tendencies and in order to draw benefit from these new potentials, Iran as one of the founders of ECO played a very active role in expanding the regional organization to include the new CIS republics. From the economic aspect regional economic integration may be considered as the most important characteristic of such changes at regional level.

Moreover the point should be examined in detail that the region itself was rapidly changing and the region's adjacent countries (such as Turkey and Saudi Arabia) had ambitious plans. Hence their economic growth was to a certain extent triggered by the regional interstate rivalries for further progress, which was unfortunately partly offset by the wars in Afghanistan and Iraq.

### **C. International Level: Globalization**

Thousands of pieces of literature have been written to explain the new conditions in the world after the fragmentation of the bipolar system. The period can be studied from different angles on such level, but in proportionate relation to this paper, globalization itself accelerated the growing influence of regulated international economic systems, which had strong visible impact even on national policies of countries. This meant that all countries faced large numbers of fresh issues that they should be aware of and dealt with.

Finally another fact should be addressed that the September 11 attacks against the World Trade Center twin towers in New York had thrown up new approaches to global policies and economy. While one group, through referral to causes and roots of such phenomena, argues that the attacks were byproducts of globalization and the inevitable outcome of marginalization of the poorest players in world economy while pointing out the mistakes made by the developed countries in the ways through which they have pursued their economic goals on multilateral levels and asks for immediate revision in such policies as well as further economic integration in order to avoid such events, the other group led by the neo-conservatives in the US has selected a different approach to the global issues whose ultimate outcome would be securitization of world environment and economy, and will cause a wider rift between the marginalized (least developed countries) and the developed players. Acquiring optimum security is going to overwhelm the prevailing discourse in the prevailing circumstantial international atmosphere. Consequently international cooperation faces paradoxes against the background of economic diplomacy. On the one hand, we have concepts of expansion and declaration of positive security, peaceful coexistence, dialogue among civilization and coordinating peace which are the grounds for new economic integration in the framework of economic diplomacy in the world and are used by the former group, on the other hand the alternative outlook on international cooperation as argued by the latter group, is a promotion of and a return to the Cold War mentality. The latter approach has had immediate impacts on the Middle East as the region which has formed the phalange for the events while standing witness itself to two wars while suffering from their implications.

#### **3.2.3. Iran's Economic Goals and Strategies**

In the light of the developments in Iran based on all aforementioned changes in the region as well as the world affairs, Iran's main economic goals during the economic reforms years can be listed as:

- *Economic stabilization;*
- *Re-orientation of economic policy towards reduction of state control;*
- *Prevalence of the market forces and implementation of de-regulatory economic liberalization;*
- *Cutting the national economic dependency on oil;*

- *Privatization of economic activities and moving toward competitive market with maximum transparency;*
- *Downsizing the government;*
- *Promotion of sustainable economic developments;*

In order to achieve these goals and aims various strategies and methods have been adopted, including:

- *Dealing formally and informally with Iran's counterparts around the world on different levels of interactions;*
- *Applying the appropriate instruments and measures as well as using untapped potentials and capacities in Iran's international economic relations*
- *Multilateralism;*
- *Confidence and capability building;*

In brief, the abovementioned pointers should be seen in the context of Iran's overall policies as the paradigms of detente and engagement. So in other words the goals have been pursued through the ideals of dialogue and integration.

In conclusion, the revolution's logical evolution at the domestic level and the society's requirement for reconstruction and progression of Iran after the end of the war with Iraq and finally national plans for rapid development, presented economic issues as high priorities for successive Iranian governments. Furthermore, based on the mottos of the early years of the Islamic Republic, pursuing economic welfare became vital in order to demonstrate government efficiency and consequently working with the global economy became both a reality and a necessity. In addition, Iranian governments under mounting pressure for accountability tried to implement rational and logical plans and strategies.



## **IV. Iran's Economic Diplomacy: Main Features**

### **4.1. Iran's Purposes in Pursuing Economic Diplomacy**

In discussing Iran's purposes in pursuing economic diplomacy two major questions should be addressed; first, what are Iran's main intentions in applying economic diplomacy? And second, what can we predict from such conceptual framework when applied to Iran's case?

In order to answer the first question on Iran's reasons for pursuing economic diplomacy the following points could be highlighted:

- Improving Iran's popular image abroad and its position in the world economy;
- Special attention to selected countries and regions;
- Removing obstacles to trade and investment;
- Negotiating agreements on different levels;
- Information gathering and formulation of policy recommendations;

The question: what do we expect by applying this framework to Iran; can be addressed in more detail.

First of all this paper tries to bring some order to the examination of the complex processes of decision-making in Iran's economic diplomacy; and secondly with due attention to the wide scope of economic diplomacy issues and factors, seeks selectively to explain the role of major players in Iran's economic diplomacy, cover certain issues that are important in understanding the evolution of Iran's economic diplomacy, and finally point out principle measures assumed in this regard.

Selected case studies will be conducted along such lines.

### **4.2. Major Actors**

As Figure 2.2 (p. 9) demonstrates, the major players in the roles and the scope of the issues dealt with by the players, are generally very wide-ranging, so taking into account the restrictions in any general study as well as the elusive nature of economic diplomacy that always throws up new questions to the fore, any attempt to study those subjects should inevitably make a choice in its selection of issues to cover. Therefore the present study, in order to prevent inconvenience and to be precise, tries to examine solely the prominent features of Iran's economic diplomacy aware that other valid issues may remain untouched.

The major players involved in Iran's economic diplomacy based on our conceptual framework, can be divided into two main categories: government and non-governmental players. In discussing the government players, it should be taken into consideration that

although the governmental players are no longer the sole players in Iran (mainly because of emergence of non-governmental players and their growing independent influences), they still assume pivotal positions and are considered the point of departure for any study in the field.

#### **4.2.1. Executive Branch**

Because of the centralized structure of power in Iran's political, bureaucratic and economic system, the role of all executive institutions is highly significant. Among the most important ministries involved in economic diplomacy are: Ministry of Foreign Affairs, Ministry of Trade, Ministry of Economic Affairs and Finance, Ministry of Higher Education and Technology, Ministry of Petroleum, Ministry of Health, Ministry of Agriculture, Ministry of Labor and Ministry of Interior.

Among the above, because of its position in Iran's contemporary history as the first established ministry, its traditional approach to Iran's foreign relations as its reserved domain and consequently its firm resistance against changes in its structure, Ministry of Foreign Affairs makes the foremost candidate for examination in order to illustrate the extent by which the new trend and diplomacy has affected the executive branch.

Until recent years and despite major reforms in Iran carried out within the context of national development plans, Ministry of Foreign Affairs was mainly - except for some limited changes - closed to any structural reforms. The overall attempt of MFA authorities was mainly concentrated on maintaining the traditional position and role of the ministry to remain as the only competent player in Iran's foreign activities. The growing demands by other departments for their dues to provide them with a chance to take part in Iran's foreign interactions were ignored. The main argument tabled by the MFA officials was that other departments could not maintain Iran's interests and would fail to fulfill national goals because of their lack of knowledge and appropriate skills on how to deal with issues such as major ambiguities and complexities in international relations caused by their rapid progression.

However the other departments were arguing that it was exactly because of such complexities in international relations, especially in issues relating to economic affairs as well as natural changes in the tasks and the boundaries of diplomacy itself, that the Ministry of Foreign Affairs should implement structural changes to adapt itself to new conditions. They also argued that new players, new agendas and new working procedure at international level, in addition to emergence of diplomatic functions at multinational level - beyond the traditional terra firma of diplomatic missions - required immediate revision of the MFA structure. To summarize, their arguments were based on the assumption that there is actual coexistence between divergent diplomatic roles in the modern world, which indicate that the Ministry of Foreign Affairs' monopoly should end. These divergent diplomatic roles are demonstrated in Table 4.1.

In any case, the latter group finally managed to convince the elite and consequently

Khatami's administration proceeded to implement a key reform within the hierarchy of governmental players, which was announced by Dr. Kamal Kharazi, Iran's former Minister of Foreign Affairs at the Parliament meeting before receiving the vote of confidence, as structural reform in the Ministry of Foreign Affairs while promising to establish a new deputy to deal with economic affairs to bridge the gap between foreign and domestic frontiers.(Iran News, 20 August 1997)

Figure 4.1 shows the new branch in Iran's Ministry of Foreign Affairs that has up to now occupied a significant position in dealing with emerging economic issues, serving to connect other domestic players to their counterparts abroad, as well as provide practical training for Iranian officials involved in economic diplomacy. One of the major case studies in this part about negotiations between Iran and European Union on "Trade and Cooperation Agreement" (TCA) has been conducted under the chairmanship of this new department at MFA.

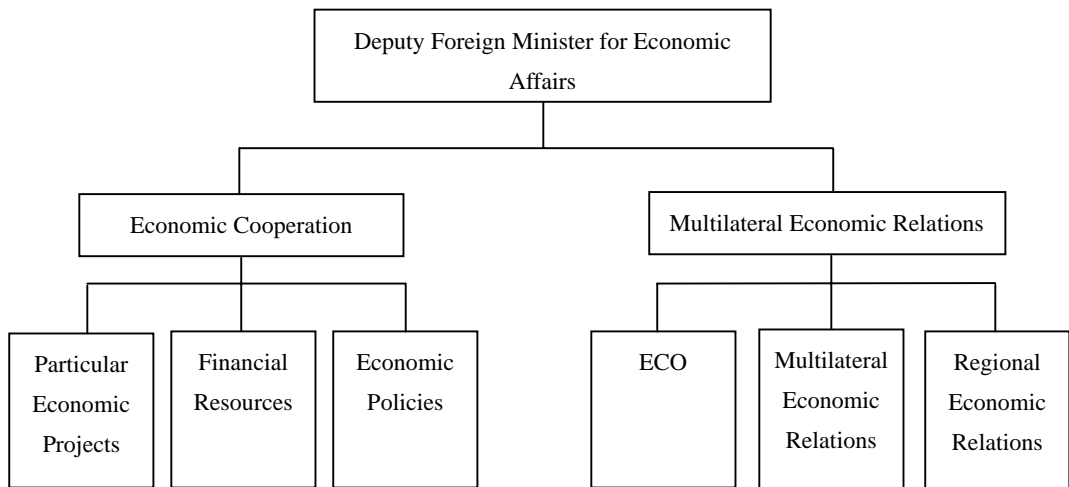
Finally in order to get a real perception of major players in the executive branch, other government players in the framework of regulatory organizations should not be ignored; In Iran's case two departments are of significance, one is the Management and Planning Organization and the other is Iran's Central Bank; both of whom as regulatory agencies play crucial roles in conducting Iran's economic relations and other general policies.

**Table 4.1: Divergent Postmodern Diplomatic Roles**

	<b>Function</b>	<b>Roles</b>
<b>State Actors</b>	Economic Diplomacy	Economic Diplomats
	Commercial Diplomacy	Commercial Diplomats
<b>Non-State Actors</b>	Corporate Diplomacy	Corporate Diplomats
	Business Diplomacy	Business Diplomats
	National NGOs	National NGO Diplomats
	Transnational NGOs	Transnational NGO Diplomats

*Source: (Saner and Yiu, 2001)*

**Figure 4.1: Structure of Newly Established Deputy for Economic Affairs, MFA of Iran**



#### 4.2.2. Legislative Branch

Iranian legislative branch is consisted of Islamic Consultative Assembly or Parliament, Council of Guardians and, as relates to this study, Expediency Council. Although, based on the Iran’s constitution (1368/1989), the Expediency Council is not part of legislative branch, but because of its function in settling deputed between Parliament and Council of Guardians, and also since its final decision must be implemented by all practices, therefore, to some extent, it could be named here.

With regards to the role of parliaments in economic diplomacy, it may seem that Iran’s parliament also has a great influence on domestic issues and its members are not necessarily familiar with professional details of economic affairs and diplomacy. Although it is to some extent true but since they have the real power of veto and also since at the stage of ratification of agreements, based on Iran’s Constitution, the Parliament is the only competent authority, so productive interaction with Parliament is essential. Such interactions can very well describe the level of authorities and real hierarchy in Iran’s economic diplomacy.<sup>1</sup>

#### 4.2.3. Non-State Actors

Although it is true if someone argues that in developing economies due to lack of strong

<sup>1</sup> In the year 2004, a strong dispute took place between the government and parliament over the case of a Turkish company which wanted to invest in telecommunication sector. Beyond all arguments from parliament, many experts believe that one of the main reasons that Iran’s parliament, almost for the first time at this level, opposed such a case, was the failure of the government to legitimize its negotiation by involving parliament members.

civil society, the role and power of non-state actors are so limited, but at the same time, in Iran's case, especially after the political reforms pursued by President Khatami, they have obtained an outstanding position and influence. The major non-governmental agents can be categorized in Iran as labor unions (which in historical context have had always strong traditional stances), trade confederations, and finally civil NGOs.

In conclusion, among non-state actors the central and crucial role is belonged to Iran's Chamber of Commerce, which has different activities inside and outside of Iran and has regular meetings with its counterpart around the world. It is also quite active inside the country to impact the decision-making process in order to satisfy and protect business interest groups. Therefore, Chamber of Commerce enjoys the best institutionalized relations with the state-actors inside the country.

#### **4.3. Negotiating Agreements: Iran's Decision Making Process**

As mentioned earlier, one of the Iran's purposes of using economic diplomacy is negotiating agreements especially in plurilateral and multilateral level. Traditionally and because of the geo-economic position of Iran, the country has been always very active in bilateral as well as regional level and consequently has been quite familiar with negotiation at these level with institutionalized procedures; but negotiating at multilateral level, especially with due attention to this fact that Iran is not still a member of WTO<sup>2</sup>—as the major organization in which economic diplomacy pursues at multilateral level— is new phenomenon in Iran's economic diplomacy.

Generally decision-making is a process as a sequence of six stages that could be identified as well in Iran's decision-making process as:

- Identifying the leading department;
- Three levels of consultation;
- Political authority and decision;
- Democratic legitimization;
- International negotiation;
- Ratification of agreement. (Bayne and Woolcock, 2003, p.75)

The first step is identifying the leading department, which should be responsible for negotiation and under its chairmanship, the negotiating body should act. In Iran, although there is a legal distribution of tasks and duties, but due to lack of absolute clarity in

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<sup>2</sup> Although request of accession was submitted by Iran to the general Council on 19 July 1996, but very late and after along period, ultimately a working party established on 26 May 2005 at General Council of WTO.

boundaries of the issues as well as the particular duties of departments, and also varied implementations that any agreement may cause, identifying the leading department always is controversial. While in cases such as WB, IMF and their related issues the responsible departments are identified, but the issues such as WTO is still remained undecided and is under consideration.

After identifying the leading department, based on Iran's political culture, consultation, formally and informally, is very crucial and any failure to meet the necessary requirements of such consultations may result in ultimate failure of negotiation itself. Such a consultation pursues at three levels. First, consultation within the leading department itself to clarify different dimensions of the issue; second, consultation will be expanded to outside forces, always non-state actors and individuals; and third, inter-departmental consultation which means interaction with other involved departments which have interests in the issue.

Due to centralized structure of power and traditional spiritual legitimacy and supremacy of governmental political authority, its decision is quite important, which embodies in endorsement. Another function of the government at this stage is settling disputes between departments on the current issue, which always occur in Iran. Initiative can be taken just after all disputes are settled.

Earlier in the session about the role of legislative branch in Iran's economic diplomacy, the significant position of Iran's parliament was mentioned. So, based on its stance in Iran's decision-making process and political system, and in order to prevent any inconvenience, democratic legitimization of the negotiation that may result in an agreement is vital. It always begins by inviting parliament members to participate in working sessions and/or sending reports to them describing the progress of negotiation.

The different stages of interaction in Iran's economic diplomacy at domestic level are explained; so, we can discuss a little about negotiating the agreement at foreign frontier. Agenda setting is the first step at this stage. After setting the agenda and before launching the negotiation, of course, negotiating body needs a mandate which will be given by government. In Iran's case, because of real complex domestic decision-making process, such a given mandate is somehow a tightly one. Launching the negotiation, informal adoption of agreement and examining its possible implementations are the next steps at this stage.

After signing the agreement by the Iranian government, for final ratification, it should be sent to the Iran's parliament that includes two main stages. One is ratification by the Parliament and then approve of this ratification by the Council of Guardians. In the case of any dispute between these two entities, as was mentioned before, the Expediency Council would declare the final decision.

#### 4.3.1. Iran-EU Negotiation: Trade and Cooperation Agreement (TCA)<sup>3</sup>

The best manifestation of these stages can be studied in the case of Iran-EU negotiation on Trade and Cooperation Agreement (TCA). In the framework of Iran-EU *Comprehensive Dialogue*, semi-annual troika meeting was established (1998) between two sides. At that time the responsible department for those meetings was related political department in Iran's Ministry of Foreign Affairs. But after establishing the new deputy at MFA of Iran to deal with the economic issues and by acceptance of the Foreign Minister, the responsibility of handling two working groups of Energy and Transportation, which later changed to the Trade and Investment, transformed to the new deputy.

This can be served as the basis of the later initiative of TCA. Both sides decided to take a new step to go beyond the day-by-day negotiation and move towards institutionalization of the relations. Both sides decided to explore possibilities for co-operation in the areas of energy, trade and investment, and in that respect a newly created *Working Group on Trade and Investment* met for the first time (2000) aiming to achieve the general agreement, later known as TCA.

From the Iranian side the leading department was identified and a mandate for such a negotiation presented by the Cabinet to Ministry of Foreign Affairs. On behalf of the Iranian Ministry of Foreign Affairs, the Deputy for Economic Affairs, MFA, took the responsibility to handle the negotiation. With consultation in different levels, the Deputy decided to establish a negotiating body including the plenipotentiary representatives of all involved ministries and institutions, such as Ministry of Trade, Ministry of Economic Affairs and Finance, Ministry of Petroleum, Central Bank, Management and Planning Organization, and by case, institutions such as Iranian Environment Organization, Ministry of Health, Chamber of Commerce, etc.

This negotiating body under the chairmanship of Department of Multilateral Economic Relations of the Deputy, MFA also established some working groups on: *Energy and Transportation* (headed by Ministry of Petroleum), *Trade and Tariff* (headed by Ministry of Trade), *Foreign Investment and Finance* (headed by Ministry of Economic Affairs and Finance), and *Other Cooperation* (headed by Ministry of Foreign Affairs). All these working groups and the negotiating body itself also had strong regular relations with a coordinating body which was consisted of deputy head of involved ministries and organizations. In fact the main task of this body was to consult with Cabinet, mostly for political authority and decision including settling possible disputes and confirming the initiatives; in other words, working as a linkage between the Negotiating Body and the Ministerial Cabinet. Simultaneously, the Negotiating Body worked with its counterpart from EU to setting the agenda of negotiation, which ultimately launched at the new form on 2001 at Brussels and till now eight rounds have

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<sup>3</sup> This section is mainly based on my interview with Mr. Sarmadi, former Head of Department for Multilateral Economic Cooperation, December 19, 2005 at the Iranian Embassy, Tokyo.

been hold.

TCA is still under negotiation and because of political situation has had ups and downs, but since it has been the first time that Iran was negotiating with 15 countries together (later with the expansion of EU 25) and since the declared criteria for negotiation were based on WTO standards, this negotiation considers as the best on-time exercise for Iran's economic diplomacy in the stage of negotiation with WTO.

Figure 4.2 explains the major actors in Iran-EU negotiation on TCA and their interactions with each other.

#### **4.4. Removing Obstacles: Foreign Direct Investment Act**

Among the main purposes of Iran's economic diplomacy which was described before, was removing obstacles to trade and investment. In this way one of the main reforms which has been taken, will be discussed in continuation.

Generally foreign direct investment (FDI) is defined as ownership and control of a business or part of a business in another country. It is broadly defined as all crossborder finances flows between parent firms and their affiliates. It takes one of three forms: an infusion of new equity capital (such as a new plant or joint venture), reinvested corporate earning, and net borrowing through the parent firm or affiliates (Trebilcock and Howse, 1995, P.274). FDI is no longer merely one of the so-called 'new issues' in global economy but in Iran, it has been always a very hot and controversial topic, although it has several attractions and advantages to a host developing economy such as Iran.

In spite of the history of foreign investment in Iran, which backs to the second half of the nineteenth century, Iran's related laws and regulations have always paid less attention to the protecting foreign direct investment and have been always suspicious about the intentions of foreign investors. This mentality should be examined in the light of Iran's historical developments and mainly in the context of presence of imperial, colonial powers and their intentions to dominate the region as well as Iran; although Iran has never been a colony. The best reflection of such a sense can be seen in nationalization of oil industry by Iran's nationalist Prime Minister, M. Mosaddegh, which was followed with a coup conducted by CIA and in Iran.

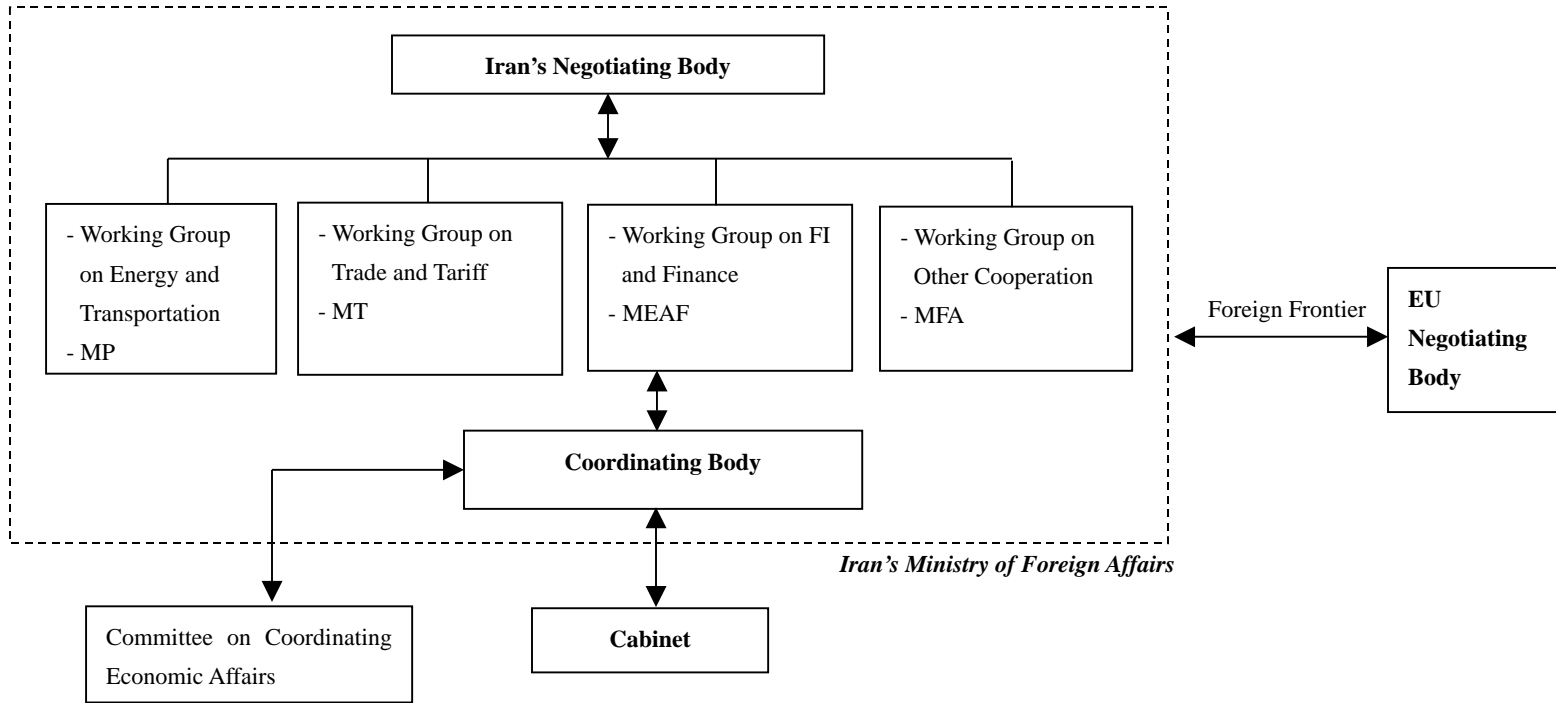
During the last century and in spite of all changes in the world affairs, the foreign investment law of Iran (1955) known as the *Foreign Investment Attraction and Protection Act* remained untouched. Table 4.2<sup>4</sup> very well shows the evolution of Iran's foreign investment laws and acts. Although the Act of 1953 should be considered a great achievement of its time but since the application of the law was optional and not obligatory (foreign

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<sup>4</sup> Source: A. Farahbakhsh (2001), A. Mortazavi (quoted in Mousavi and Tavakoli, 2003), and authors' collection.



**Figure 4.2: Major Actors in Iran-EU Negotiation on TCA**



- *Iran's Negotiating Body* includes plenipotentiary representative of involved ministries and institutions, under the chairmanship of Department for Multilateral Economic Relations, MFA.

- *Coordinating Body* includes deputy head of involved ministries and institutions, under the chairmanship of Deputy Foreign Minister for Economic Affairs.

**Table4.2: Foreign Investment Concessions and Acts in Iran (1872-2002)**

Period	Concession	Result
1872 to 1955	Baron Julius Reuter (1872) Baron Julius Reuter (1888)	The first foreign investment attempt signed by the government of Iran and the British government. This agreement was never implemented. The concession for establishment of Bank Shahi for a period of 50 years.
	William Knox D'Arcy (1901)  Russian Concession (1901)	The largest oil concession in the history of Iran granted to the British government for a period of 60 years. The agreement was revoked in 1932. A few months later another 60 year long contract was signed with a British company. Contract on fisheries in the Caspian Sea (northern Iran) and a few others concerning exploitation of strategic mines and underground resources of the country have left behind an unfavorable mentality about foreign investments.
	Trade and Firms Registration Acts of 1941	With the approval of the Trade and Firms Registration Acts in 1941, another kind of foreign investments or in other words private foreign investments began in country.
1955 to 1978	Attraction and Protection of Foreign Investment Act of 1955	The approval of Law giving necessary assurances to private capitals not be nationalized, and considered as a turning point in the history of foreign investment in Iran.
1978 to 1993	Act of 1955 (Continuing)	Foreign investments sharply dropped within 1978-1993 as a result of the revolution, confiscation and dispossession of property belonging to foreign companies, lack of a clear and transparent policy regarding foreign investments and existence of legal barriers.
1994 to 2001	Act of 1955	The resumed period for the attraction of foreign investments, but due to special political and economic conditions prevailing in the country, fluctuations in the rates of foreign exchange and various and contradictory interpretations of the Article 81 of the Iranian Constitution, not much success was achieved in attracting foreign capitals.
2002-	Act of 2002	Foreign Investment Promotion and Protection Act (FIPPA), As the first law in promotion and protection of foreign investment, it has removed some of the concerns and major impediments facing the foreign investment. Transparency of transfer of capital and profits, removal of restriction on the share for foreign ownership, guarantee of fair compensation, and non-discrimination between foreign and domestic investors have resulted in creation of positive environment for FDI. Statistics show a registered flow of FDI by an amount of about US\$ 48 billion up to December 2005.

shareholders must apply for legal permission and the government could apply the law to such foreign investments only if it deemed it economical and in its interests. Otherwise, foreign private investors could invest under the Trade and Firms Registration Acts), it wasn't able to

response to the new situations and demands.

The attraction of foreign investments, which as the result of the revolution and the war with Iraq was abandoned, resumed in 1994 after a long halt of 15 years, although mainly due to the situation in the region as well as Iran, the restrictions of the Law of 1955 and also contradictory interpretations of the Article 81 of the Iranian Constitution, not much success was achieved.<sup>5</sup>

In fact for several years, before and after revolution, any discussion to change this law was facing with strong oppositions. But with new policies of President Rafsanjani administration and also President Khatami, with due attention to the new international realities and circumstances and all restrictions of the former act of 1955, the new Foreign Investment Promotion and Protection act (FIPPA) was adopted (2002); although even this law approved with a great dispute between different parties and finally after a long negotiation and legal procedures ratified by the Expediency Council.

One of the main problems of the act of 1955 was the numerous competent authorities which a foreign investor had to meet in order to submit its application and convince them that its proposal economical and will bring up a considerable interests for the country. Figure 4.3 shows these authorities.

Being aware of this and to prevent any similar confusion, new act designed in order to decrease the number of authorities which should be met; in fact based on FIPPA, Organization for Investment Economic and Technical Assistance of Iran (OIETAI), Ministry of Economic Affairs and Finance (MEAF), is the only authority which applicants should refer to). Figure 4.4 indicates this decrease.

On the other hand, another big problem of the former act was its complexity and more importantly, the prolonged procedure that required long waiting periods from the application stage to granting of legal permission or license (Figure 4.5).

But the new law has simplified the procedure with effect and has also shortened the period for issuance of permission to a maximum of 45 days from the time of application (Figure 4.6).

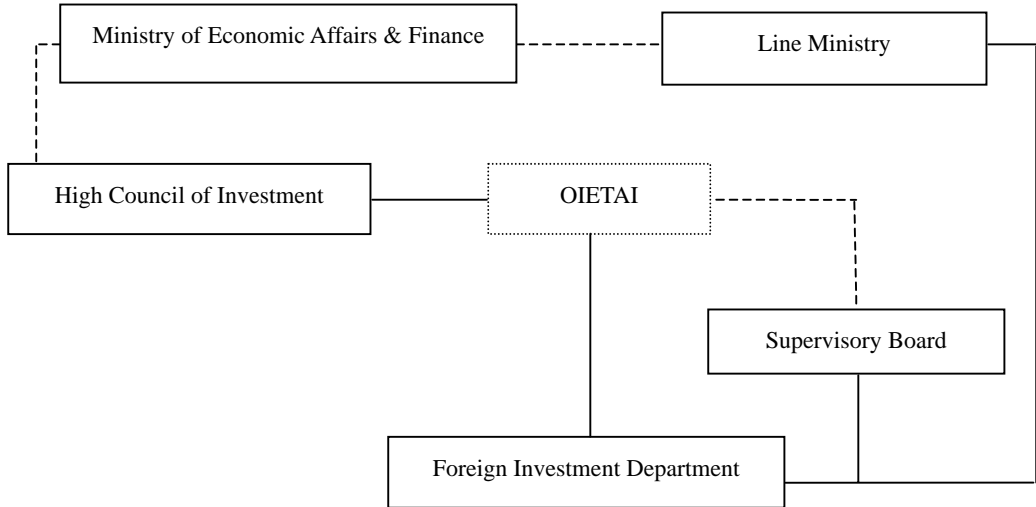
To sum up, investments approved under FIPPA are guaranteed by means of transferability of net profits in original investment currency, repatriation of the initial capital and accrued profits and proceeds of the sale of capital or shares and the remaining portion of capital in the event of liquidation (Chapter5) as well as government guarantees of compensation in the event of expropriation pursuant to law, calculated at the exchange rate of the Central Bank on the day of the actual transfer. The real value of the investment (Article 9)

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<sup>5</sup> The volume of foreign investments approved in 1994, increased nine folds to stand at US\$187.9 million. In 1995, foreign investments tripled in terms of the number of joint venture projects and increased by 34 percent in volume to US\$251.1 million. In 1996 the amount of investments had a drastic fall of 47 percent and reached US\$132.2 million. The trend of foreign investment reversed in 1997 by 54 percent to US\$203.8 million. By 1998, the volume of foreign investments made was five times as much as that of 1997 and increased to US\$1.21 billion. Between 1994 and 1998, the government approved 64 foreign investment plans totally worth US\$2 billion.

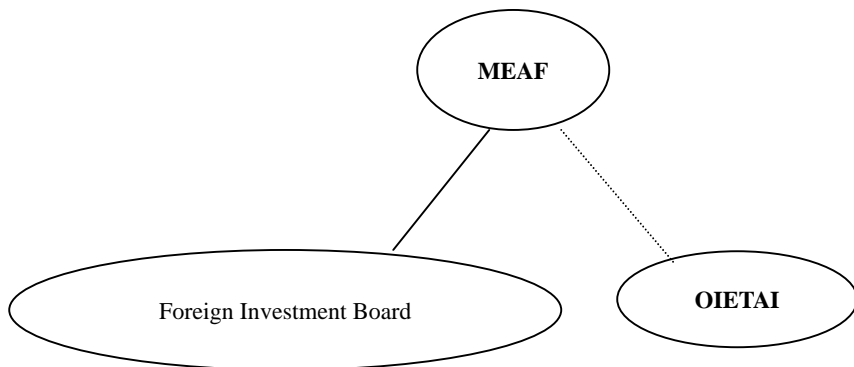
**Figure 4.3: Legal Entities Responsible for Foreign Investment**

Based on Former Law for Attraction and Protection of Foreign Investment (1995)



**Figure 4.4: Competent Authorities for Foreign Investment**

Based on the New Foreign Investment Promotion and Protection Act (FIPPA)

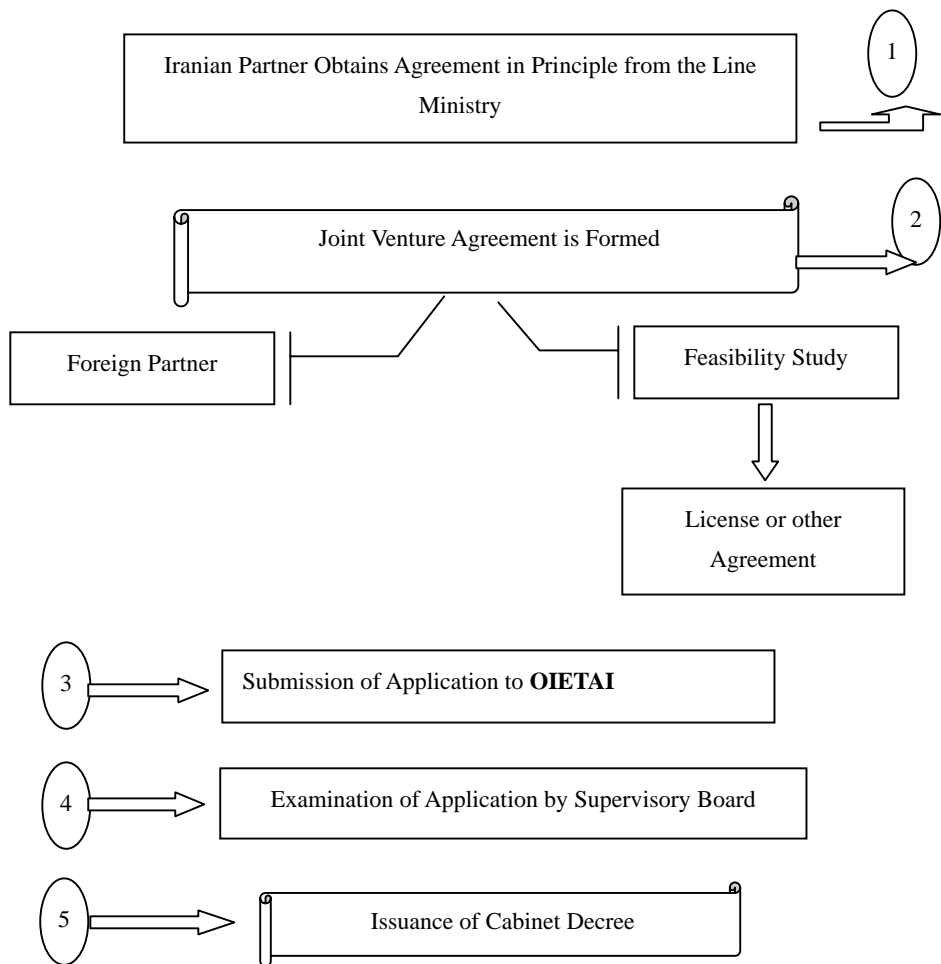


**Foreign Investment Board:** This Board shall be established under the chairmanship of the Vice Minister of Economic Affairs and Finance, who is ex-officio the President of the OIETAI, comprising of Vice Minister of Foreign Affairs, Vice President of the State Management and Planning Organization, Vice Governor of the Central Bank and Vice Minister of relevant ministries, as the case requires.

enjoys equal rights on the bases of foreign investment, protections, and facilities provided for domestic investment (Article 8); settlement of disputes between the foreign investor and the government can be referred to domestic courts or to any other method of settlement which has been agreed upon in “bilateral investment agreement” between the host government and the government of the foreign investor (Article 19), (MEAF, 2003), (Appendix 1).

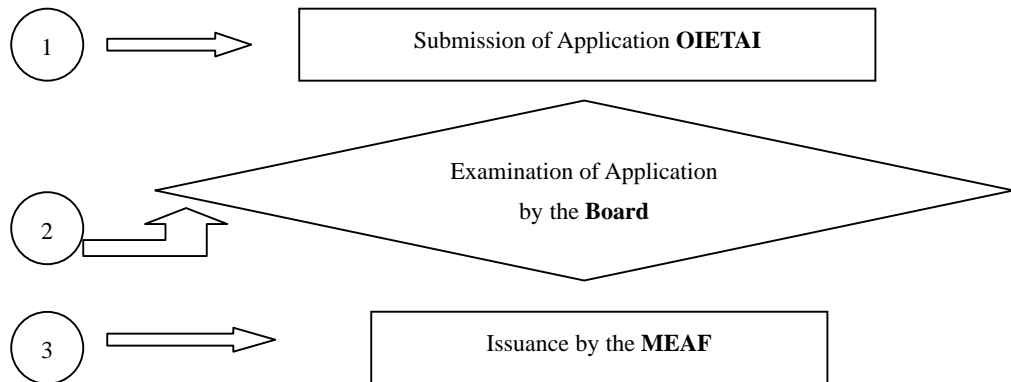
Through reviewing some of the written works about Japan’s economic diplomacy and also meetings with some Japanese officials as well as scholars<sup>6</sup>, it has become more clear for the author that an independent comparative study can be done on Iran and Japan’s economic diplomacy.

**Figure 4.5: Investment Procedure Based on the Law of 1955**



<sup>6</sup> Meetings with some officials including directors of Middle Eastern Division at JETRO and METI on different occasions.

**Figure 4.6: Investment Procedure Based on the New FIPPA**



To the extent that relates to this paper, from different point of views, Iran’s economic diplomacy can be compared with Japan in the historical context as well as in the framework of new developments in world affairs.

#### **4.5. Iran’s Economic Diplomacy in Comparison with Japan**

First of all, when we discuss Japan’s economic diplomacy, we are referring to a diplomacy that has been established exactly after the end of World War II, when Japan wasn’t able to send official diplomatic missions abroad to pursue its interests at global level (Bryant, 1974). At this time with regards to such restrictions, businessmen tried to act as the real ambassadors and promote Japan’s image abroad to fulfill its national goals. Therefore from such an angle, the most significant feature of Japan’s economic diplomacy is in its private sector. This is so important that Bryant (1974) called Japan’s economic diplomacy, the private economic diplomacy. In comparison with Japan’s private sector’s role, Iran’s economic diplomacy is mainly under the public sector control.

Hence such difference has brought up various implications for the two countries. Differing major players in the economic diplomacy of Iran and Japan could be examined in this regard where a long list of businessmen may very easily be found who have been involved in Japan’s economic diplomacy and even appointed as roving ambassadors by the Japanese government, and are active and influential in today’s Japanese economic diplomacy. In Iran’s case the role and influence of the private sector is very limited and they still follow their long tradition of being separated from governmental activities.

Consequently the decision-making processes in Iran and Japan also differ. While in Japan, consultation with the private sector is crucial and without such consultation nothing would ever be decided, in Iran’s economic diplomacy, consultation is undertaken mainly

within the governmental institutions or a very limited number of businessmen or business representatives would be invited for such consultations.

This fact guides us to another significant feature of Iran's economic diplomacy, that governmental organizations are still the main players. Hence because of their own interests they intend to influence the bureaucratic procedures; therefore the government can not act purely as a neutral referee. However in Japan's case the government tries to act only as an equalizer between various interest groups. In addition to the aforementioned points, with regards to Japan's economic diplomacy as a developed country as compared with the developing economy of Iran, it is obvious that Japan is fairly active at multilateral level and in its favor, where Iran is more active at bilateral, regional and to some extent plurilateral level.

## **V. An Assessment of Iran Economic and Trade Cooperation with Japan, China and South Korea**

Giving especial attention to selected countries and regions is one of the main purposes of Iran's economic diplomacy. Of course each country based on its national interests and priorities, selects some partners. Iran is not an exception in this regard but it should be noted that such an approach in paying attention to some selected countries has never been systematically conducted in Iran.

During the Cold War period Iran defined itself as an ally of the West, so it worked in the general framework of the Western policies and under its umbrella. Although such tendency was cut out after the victory of the Islamic Revolution and consequent fragmentation of the bipolar system, but because of the limited available alternatives, the unwanted war with Iraq, and also lack of proper economic diplomacy, any change in Iran's economic partners faced different problems and even the limited implemented changes were not long-term. Such trend changed drastically in line with deep changes in the political environment and through the application of active and influential policies.

### **5.1. Asia's Position in Iran's Economic Diplomacy**

In its contemporary history, Iran has always been a domain for Western influences and activities. This phenomenon has certain historic background and roots in the society's intellectual traditions and tendencies of Iran's elites. Generally speaking, the first intellectual movement entered Iran from France and largely impacted the political and social discourse of the society. Basing Iran's first constitution principally in the virtues and values of the French Revolution, after the victory of Iran's Constitutional Revolution (1904), can be noted within this framework.

In any case such influences continued to the extent that the waves of modernization of Iran dominated Iran's social developments. The model which was brought up to be adopted by the society was derived from its original Western form and was ultimately incorporated in Iran's legal, political and social structures and systems. So it is true somehow, if someone argues that during all the years of the Pahlavi reign the policy of institutionalization of Western interpretation and narration on modernity was the dominant policy.

Along such lines and in spite of the Islamic Revolution (1979), whose one pillar was the motto of independence, because of war with Iraq which was started immediately after revolution by Iraqi troops' invasion of Iran, and also the Western orientation deeply rooted mostly in a bureaucratic system, such tendency remained in the bottom echelons; so despite all their pressure and sabotage against Iran, Western countries continued to remain as Iran's



primary economic partners; this was also partly because of the vital necessities of Iran's armed forces, which had been designed and established by Iran's Western allies, chief among them the US, during the Cold War to confront the threat posed by the former Soviet Union .

However, after end of the war with Iraq and during the reconstruction period of the country, within the framework of Iran's general reforms and initiatives (assumed by President Rafsanjani) studying the possibility of opening a new perspective in Iran's economic relations with the Eastern countries was brought up in Iran's policy-making agenda that later became known as the policy of *vision towards East*. As an outcome of this strategy, expansion of relations with Asian countries was conducted as a long term policy. In order to understand this new policy certain important reasons can be highlighted:

- Diversifying Iran's foreign economic and trade relations and partners;
- Increasing the bargaining ability of Iran by creating a balance between East and West;
- Canceling the US sanctions against Iran and also Western countries' unilateral approach to the region as well as Iran;
- Exploring potentials in Asia to fulfill Iran's requirements in order to materialize its development plans;
- Being aware of the future tendencies in world economy and future markets of Asia and their capacities;
- Growing demand in Asia for energy;

Based on these reasons, Iran's approach towards the East can be considered as a long-term policy in the framework of its new economic diplomacy of giving especial attention to selected regions.

The future markets of Asia and their capacities can be examined in different sectors. In this regards this paper tries to elaborate on certain some aspects of the phenomenon. First of all the point should be taken into consideration that for all major Asian countries, the average economic growth rate is above the world average rate, that means a great increase in real GDP of Asian countries. For instance while the average rate of economic growth for the world in the next 20 years would be around 3%; China with 6% and India with 5.2% are well above the average rate.

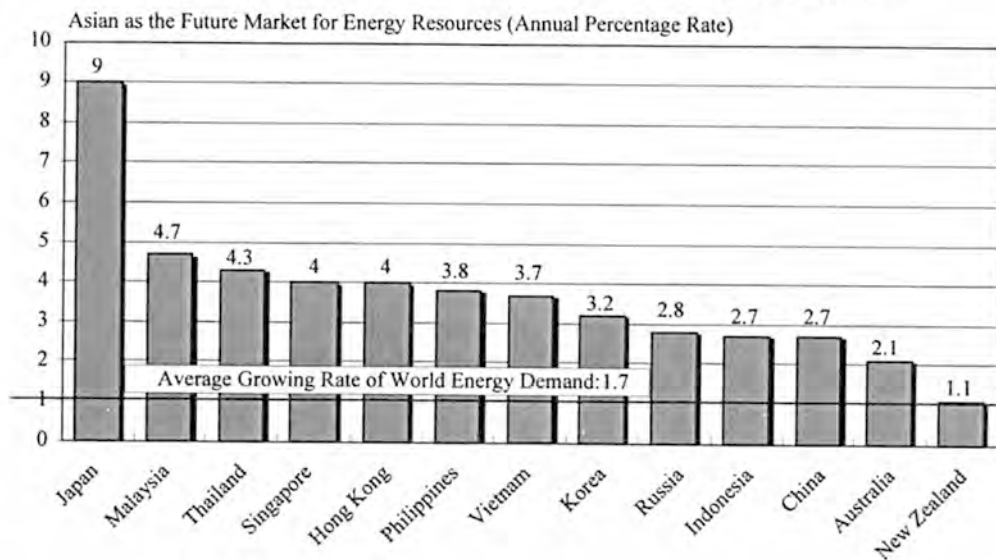
Such economic growth demands more energy and new statistics indicate that the demand for energy in Asia in 2020, compared with 2000, will increased by 75%. While the average world demand for energy is about 1.7%, this rate amounts to 4% for Asia and in the case of Japan reaches 9% meaning 5 times more than the average rate (Figure 5.1)<sup>1</sup>.

Based on these statistics, it is clear that during the next 20 years the dependency of the Asian countries on the crude oil will increase considerably. Figure 5.2 shows that while at present time, the dependency of countries such Japan and South Korea on importing crude oil

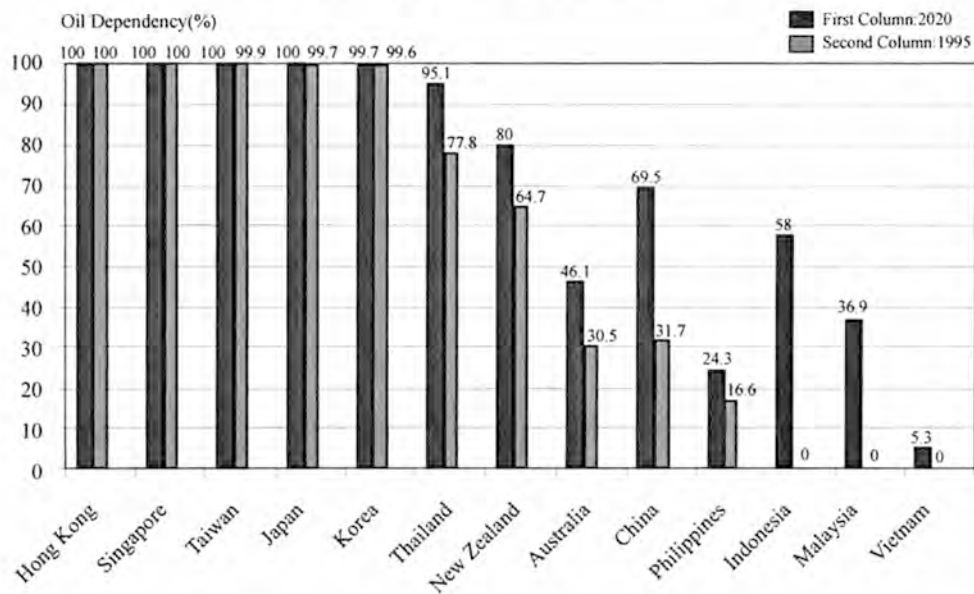
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<sup>1</sup> All figures given in this part except those identified as quoted from especial sources have been provided by the author based on the data released by Iran's Customs and the Ministry of Trade.

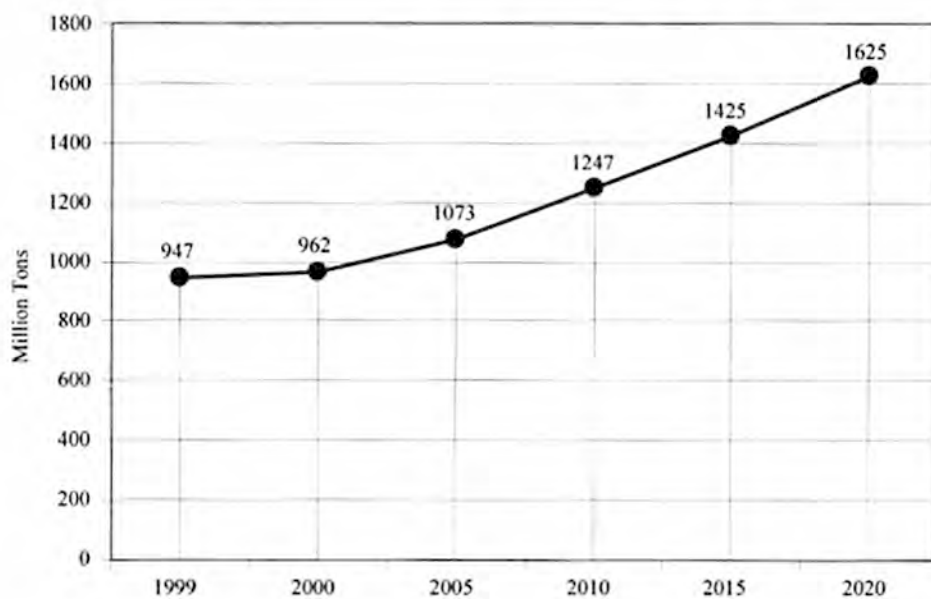
**Figure 5.1: Growing Demand for Mineral Fuel in Asia and Australia**



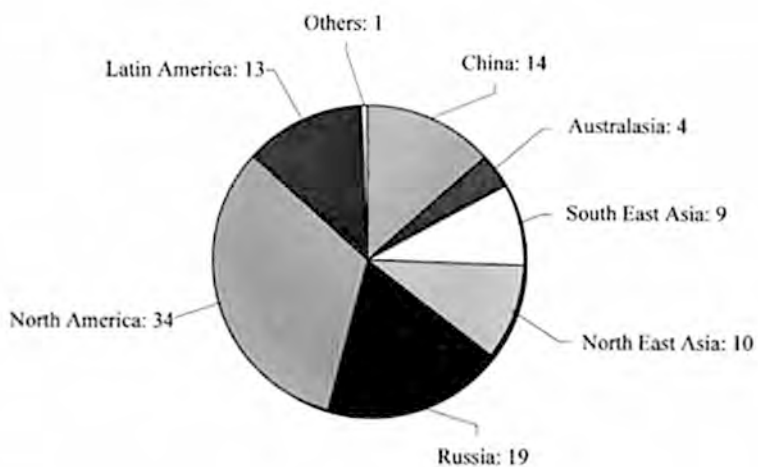
**Figure 5.2: Oil Dependency of Asian Countries**



**Figure 5.3: Growth of Oil Demand in Asia**



**Figure 5.4: Overview of World Growing Demand for Natural Gas (%)**



is almost 100%, in the next two decades the dependency of countries such as China will also shoot up. Figure 5.3 indicates the growing rate of oil demand in Asian countries.

This dependency and growing demand is not restricted to crude oil. Because of its advantages natural gas will occupy a prominent position in the future energy markets. Figure 5.4 shows the growing demand for natural gas. In fact Asia is the biggest market for LNG in the world. Japan itself consumes about half of all produced natural gas in the world; South Korea and Taiwan come second with 18%.

## **5.2. Iranian Economic Performance and Capacity to Meet Asian Market**

With a population of about 70 million and a GDP over US\$162 billion in 2004, Iran is the second most populous country and the second largest economy in the region. It is also the second largest OPEC oil producer and has the world's second largest reserves of gas. It holds 9 percent of the world's known oil reserves and 15 percent of its natural gas reserves. According to new estimates provided by the National Iranian Oil Company (NIOC), Iran's reserves stand at 130,000 billion barrels, placing the country among the first five world countries. The country is also equally rich in other strategic mineral resources such as iron ore, zinc, copper, gold, coal, lead, manganese, and uranium. Sar Chesmeh, located in the southern Kerman Province, is one of the world's largest deposits of copper as Anguran in Zanjan is the largest single zinc deposit. A new law passed in 1999 allows both domestic and foreign mining, in a 25-year renewable lease period. In addition, there is 10-year tax relief for particular mineral projects, and permit holders will possess right (license) of exploration as well. Government favors foreign investment through joint venture in non-hydrocarbon mineral resources. (Appendix 2)

The annual average growth in real GDP in year 2004 was 6.5 percent and the average during the 2000-2004 has been 6 percent (The World Bank Data profile). These figures were buoyed by major policies implemented via the three Five-Year Development Plans (1989-2005) which led to the implementation and development of comprehensive macroeconomic policies combined with a massive infrastructure development program.

Real GDP growth was 5.6 percent during 2000-2001, owing to strong growth in the oil sector as well as manufacturing and construction. Inflation rate as measured by CPI declined to an average 12.6 percent from 20.4 percent during the previous period. The external current account surplus was 13 percent of GDP (double that of the previous year) owing to a 50 percent increase in oil exports and imports grew by 13 percent, induced by the overall pick up in economic activity. Due to the significant decline in debt repayments (debt stock at less than US\$7.6 billion or about 7.5 percent of GDP), the overall balance of payments stood at US\$7 billion. Gross official reserves, including the Oil Stabilization Fund (OSF), increased to US\$12.6 billion (about 10 months of imports equivalent). While from the year 2000, the

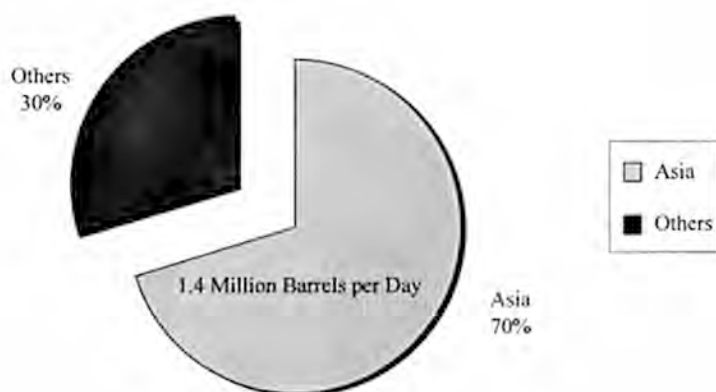
exchange rate has been floating, it has depreciated only by about 2 percent quoted at the Tehran Stock Exchange (TSE). Fiscal restraint (where country has a zero budget deficit policy based on a medium term oil projection of between US\$15 and US\$17 per barrel over the plan period 2000-2005) has led to a budget surplus of 8.6 percent of GDP.

Iran's current account surplus, low debt and comfortable level of reserves have helped to protect the economy from external shocks, such as the aftermath of September 11. Given the current high crude oil prices, Iran has had a substantial budget surplus in 2004 which is expected to almost double in 2005.

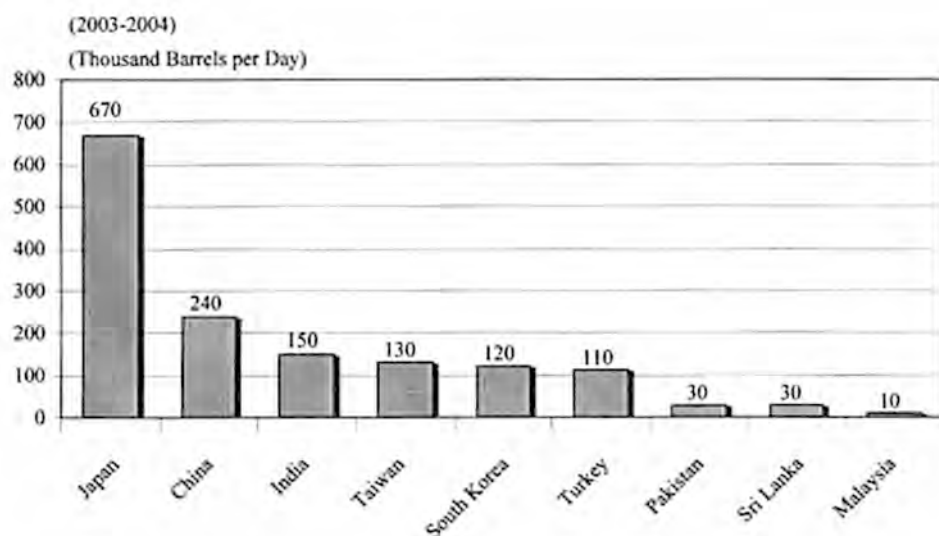
Based on all aforementioned factors Iran possesses great capacity to meet the future market of Asia in the energy sector. Alongside Iran's capacities and firm infrastructures in the oil and gas sectors, its geographic location on the North coast of Persian Gulf and shorter distance from the Asian countries, which results in reduction of final cost of transportation of oil and gas (between 5 to 10 percent) should be carefully noticed.

Figure 5.5 shows the Asian share in Iran's oil market, which has rapidly increased to a figure that just after 6 years, from 1997 to 2003, has amounted to 70% of all of Iran's oil exports; it indicates a 30% increase. Figure 5.6 shows this market in Asia by country.

**Figure 5.5: Share of Asian in Iran's Oil Market**



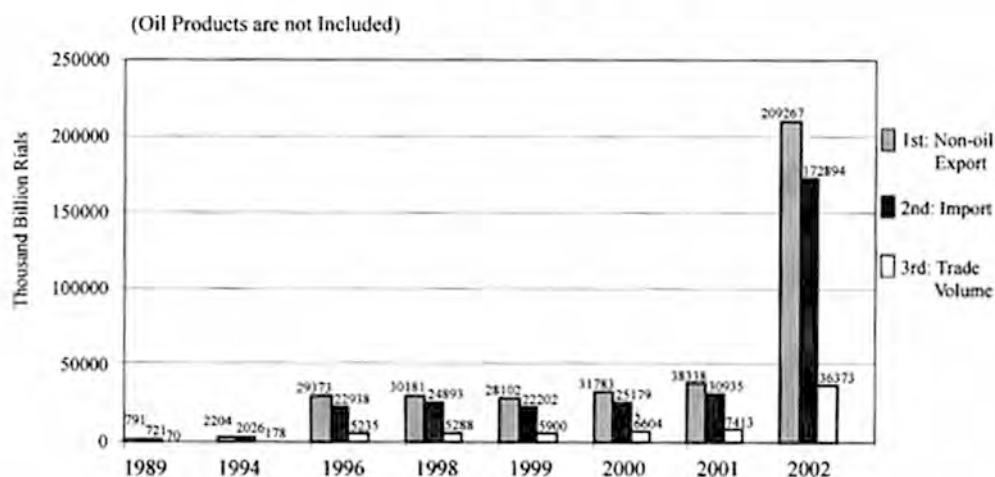
**Figure 5.6: Asian Countries in Iran's Oil Export**



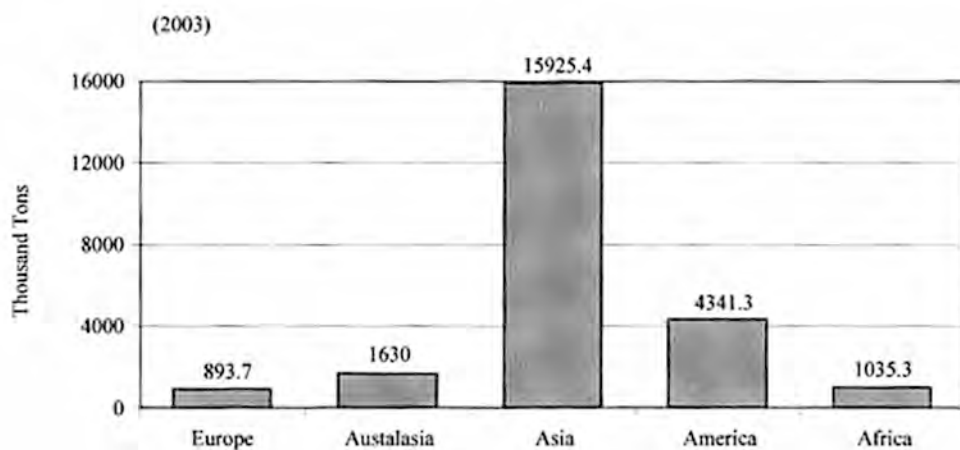
There is also growing demand for Iran's natural gas in Asia, taking into account the huge natural gas reserves and also good infrastructures and technical knowledge in this field in Iran. Some of the joint projects in this field have been started and certain others are under negotiation; among them the following are the most important: export of natural gas to Turkey by pipeline as the first Iran gas project in 2002; export of 2.5 million tones of LNG to India; final negotiation for export of annually 10 million tones of LNG to China over 25 years, starting in 2009; negotiation on the pipeline through Pakistan between Iran and India, and finally negotiation with South Korea to LNG export to the country.

Iran's overall trade with Asia also shows a tremendous increase. Figure 5.7 shows Iran's foreign trade volume during the years 1989 to 2002. The information released by Iran's Customs indicates that 75% of all Iran's imports in the year 2002 have been from Asia (Figures 5. 8 and 5. 9). There is a similar situation in Iran's export. Figure 5. 10 clearly demonstrates the Asia's position in Iran's exports. Asia has become Iran's first partner among all others. All presented figures confirm this fact.

**Figure 5.7: Iran's Foreign Trade Volume**

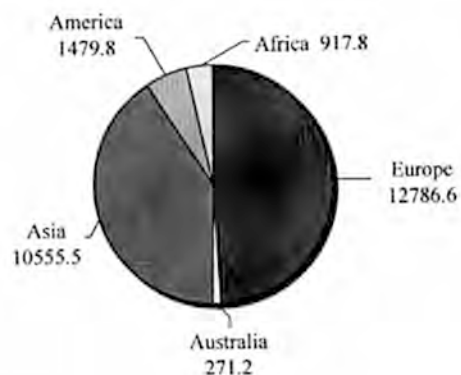


**Figure 5.8: Geographical Distribution of Iran's Imports (weight)**



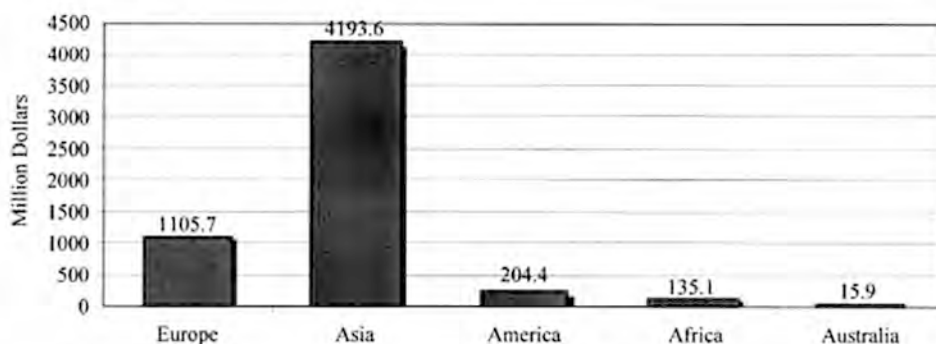
**Figure 5.9: Geographical Distribution of Iran's Imports (value)**

(2003/ Million Dollars)



**Figure 5.10: Geographical Distribution of Iran's Exports (value)**

(2003)

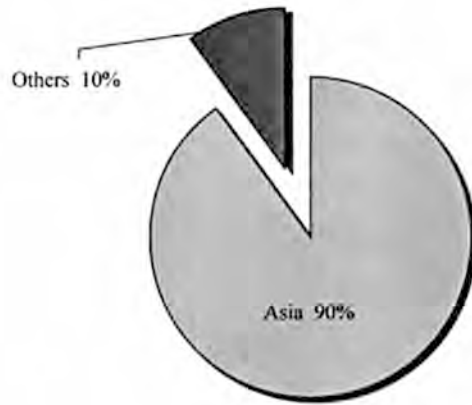


In the field of petrochemical production as a new domain for Iran, Asia also assumes the central market position. Almost 90% of all Iran's petrochemical exports have been dispatched to Asian countries, among which 40% of Iran's export has been allocated to Japan alone (Figure5.11).



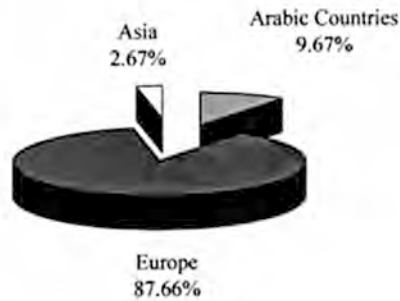
**Figure 5.11: Iran's Petrochemical Products and Asia**

Asia's Position in Iran's Petrochemical Exports (2003-2004)



**Figure 5.12: FDI in Iran, 1993-2003**

FDI during the Years 1993-2003 in Iran (Total amount: 6.7 b. \$)



The only field that the Asian countries, in spite of Iran's potentials in attracting FDI, have not participated actively in is the foreign direct investment sector (Figure 5.12). Some major reasons can be singled out in this regard, among which lack of effective publicity and experimentation in Iran are most important.

### **5.3. Overview of Iran's Economic and Trade Relations with Japan, China and South Korea**

As mentioned before, this paper is not designed to provide detailed data and information about different aspects of Iran's economic relations with these three major Asian economies to be used as a hand guide for such relations. Rather, the main attempt of this work has been to show how and why Asia gradually became Iran's first economic partner, which was mentioned in the framework of one of the main purposes of Iran's economic diplomacy.

Bearing in mind the figures and statistics which were presented in earlier parts, among the Asian countries, Japan, China and South Korea are the largest economies and with their capacities represent a suitable market for Iran's goods. On the other hand, developed industries and advanced knowledge of a country such as Japan could provide Iran with its technical requirements.

This comparative study on Iran's relations with these three countries will be based on the criteria: trade volume, cooperation in energy sector, and finally providing Iran with financial resources.

Among the three countries, Iran-Japan relations have enjoyed more stable and mature economic interaction before and – with some ups and downs – after revolution. This background can serve as the main basis for the current situation between the two countries. Japan at the moment is Iran's first economic partner. Of course other political and cultural factors in order to have a real understanding shouldn't be ignored. In any case because of the status quo between Iran and Japan, such relations need to be analyzed more profoundly. Table 5.1 shows the Iran-Japan Trade volume as well as Japan exports to Iran, export from Iran to Japan and also total amount of oil exports from Iran.

By reviewing the available data, we comprehend easily that around 85% of the Iran-Japan relation consists of cooperation in the field of oil and its related industries; for instance in the year 2003, out of the total amount of trade volume of 8.52 billion (dollars) between two countries 7.365 billion dollars has been allocated to mineral fuels section. This will amount to 8.190 billion dollars in year 2004 (out of total amount of 9.76 billion dollars). Figure 5.13 illustrates comparatively the ups and downs in trade relations between two countries.

Based on the presented statistics of economic relations, such cooperation seems very fragile and is polarized in some aspects. In fact for the first economic partners, it assumes natural and essential to work with each other deeply and in varied sectors. This polarization of the economic relations, which is limited mainly to the oil sector, may result in instability in economic relations. It is obvious that for Japan energy security is of vital significance, so expanding the relations based on the oil sector, makes sense and seems rational, but there are other requirements to securing the long term relations and stability which should be met by both sides. This means institutionalization of the economic relations by cooperating in other

economic fields as a necessity. The economic relations between the two countries have reached to a stage that requires real economic integration to maintain the current status quo.

With an overview of Iran-China relations, it is clear that because of benefits from a wide range of instruments for enhancing the economic relations, such as joint commissions and working groups on varied issues of bilateral interest (that the lack of similar mechanisms to promote the relations between Iran and Japan has suffered from) and in spite of, somehow, new established relations (compared with Japan), the economic relations between Iran and China have followed a rising trend. With the continuation of such a trend and also lack of new initiatives in Iran-Japan relations it is assumed that after next year, China will substitute Japan's position and will become Iran's first economic partner.

**Table 5.1: Overview of Iran-Japan Trade (1982-2004)**

Year	Export from Japan (Billion Dollars)	Export from Iran (Billion Dollars)	Trade Volume (Billion Dollars)	Crude Oil Export from Iran (Thousand Barrels per day)
82	0.93	2.57	3.5	230
83	2.81	4.23	7.04	395
84	1.69	2.87	4.56	257
85	1.34	2.5	3.84	246
86	1.14	1.38	2.52	221
87	1.36	2.60	3.96	231
88	0.809	1.16	1.97	189
89	1.907	1.762	3.67	293
90	1.61	1.46	3.07	386
91	1.61	2.79	4.40	380
92	2.649	2.603	5.25	374
93	1.451	2.419	3.87	374
94	0.910	2.758	3.67	454
95	0.660	2.820	3.48	394
96	0.715	3.280	3.99	447
97	0.884	3.556	4.44	458
98	0.850	2.441	3.3	495
99	0.571	3.160	3.73	511
00	0.537	5.02	5.56	502
01	0.737	4.63	5.36	540
02	0.812	4.95	5.76	513
03	1.11	7.40	8.52	670
04	1.16	8.60	9.76	630

Figure 5.13: Overview of Iran-Japan Trade Relations

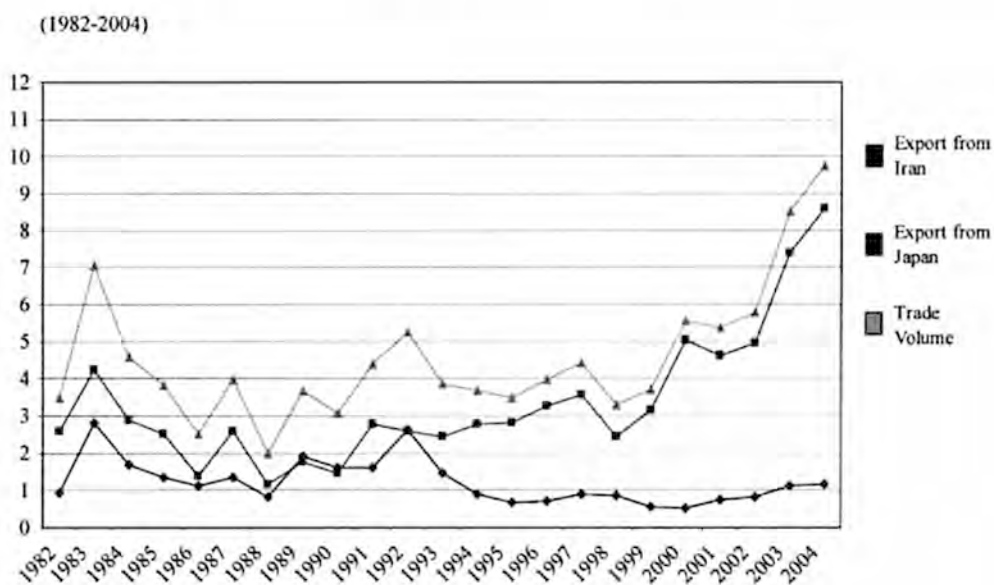
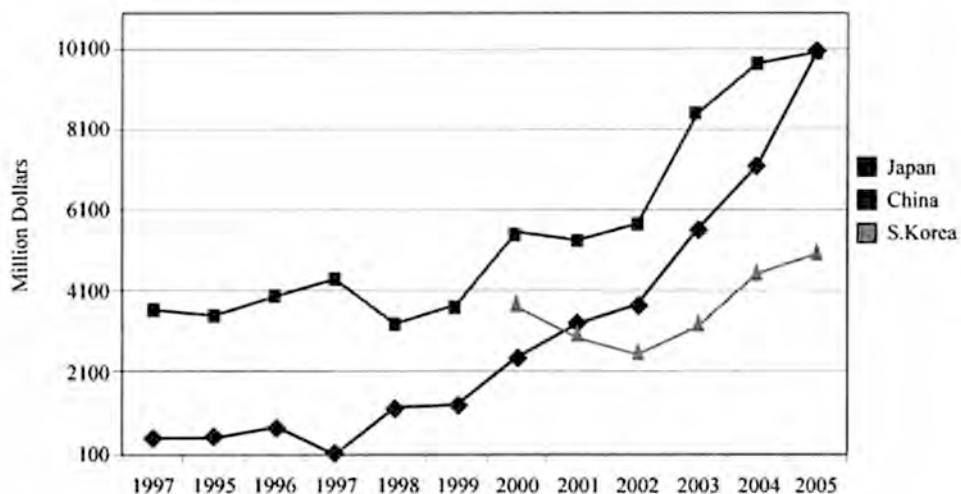
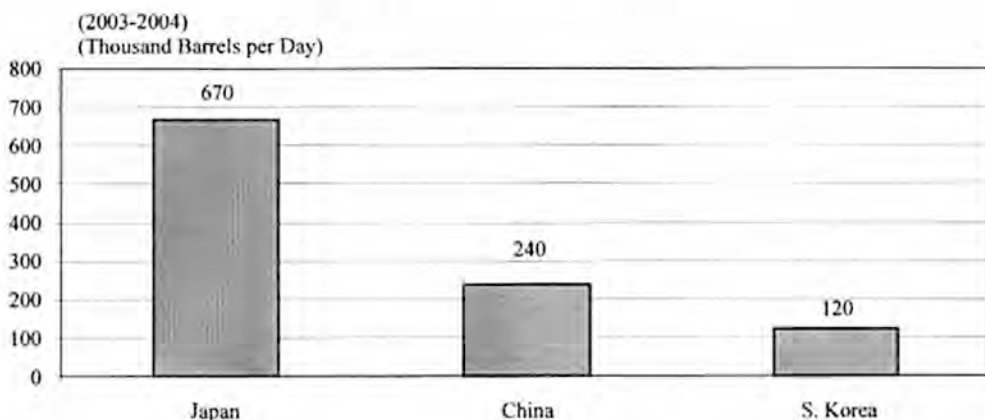


Figure 5.14: Trade with Japan, China and South Korea



**Figure 5.15: Position in Iran's Oil Export**



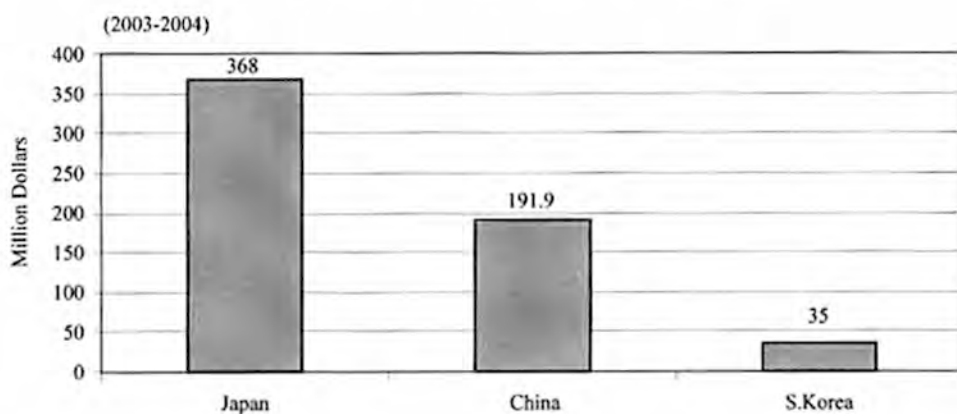
A common reality and feature in the relations of these countries with Iran, is the role of the energy sector. Bearing in mind that Iran is one of the main producers of oil and also these three countries because of their economic conditions, serve as suitable markets for Iran, such circumstances in the relations seem rational; but at the same time it indicates that still a lot should be done in Iran's economic diplomacy to institutionalize the relation between Iran and these countries. Figures 5.15 and 5.16 show the respective positions of these three countries in Iran oil and petrochemical exports.

The last criterion which this comparative study addresses is the shares held by these major Asian economies in financing Iran's economic projects. Although in buy-back projects and finance (with due attention to the recent agreement between Iran and China in the field of natural gas) the presence of these three countries in Iran has been considerable, but in discussing FDI, it has been very weak (Figure 5.17). For instance based on the general information available on the official website of the Japan's Ministry of Foreign Affairs, the total amount of foreign direct investment in Iran from 1979 to 1999 has been about 529 million dollars.

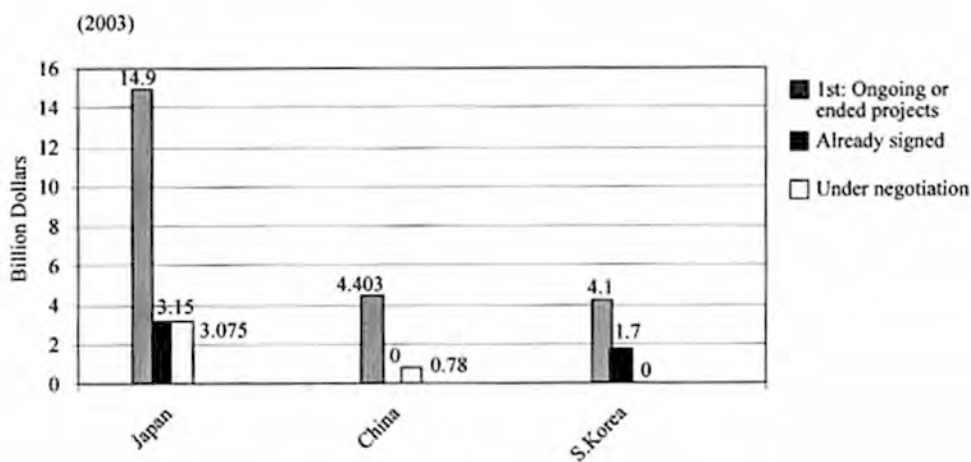
To sum up, it seems that basically while Iran-Japan relations are mostly polarized in the energy sector and we witness less interactions between private sectors, Iran-China relations is going to be expanded to different layers, which will result in more economic integration. Iran-South Korea relations in spite of their ups and downs are pursued in the manner so as to create a better balance between oil and non-oil sectors.

The major findings and recommendations in this regard will be presented in the next part as concluding remarks.

**Figure 5.16: Position in Iran's Petrochemical Export**



**Figure 5.17: Shares in Financing Iran's Economic Projects**



## VI. Conclusion

Firstly taking into account that this body of work is one of the first such attempts in its field, it should be clarified that in covering such concepts the scope of the issues is so wide that new questions always rise to the surface making it almost impossible to address all in detail, especially in three months. Studying Iran's economic diplomacy is quite a new field in Iranian studies, so the author is aware that many issues may not have been probed and also that this paper may have given rise to several questions that form subjects for future research on Iran's economic diplomacy.

### 6.1. What does economic diplomacy indicate?

It has been described that economic diplomacy is about *decision-making* and also negotiation on different levels of economic relations, as bilateral, regional, plurilateral and multilateral. It tries in addition to clarify how states conduct their international economic relations; so economic diplomacy could be examined from mainly five different aspects including:

- Principle players;
- Major issues;
- Main instruments;
- Levels in which it would be pursued;
- Practicing countries.

### 6.2. Does economic diplomacy provide an appropriate conceptual framework to understand Iran's policies and developments?

This question can be responded to from different aspects. Based on the levels in which economic diplomacy could be practiced all the varied levels of economic diplomacy are applicable to Iran. Iran as a country that neighbors fifteen countries in Persian Gulf, Central Asia, Caucasus and the Middle East, and because of its geo-economic location, is in the center of different regional initiatives and cooperation organizations (such as ECO) and at plurilateral level, OPEC. So from this aspect it is clear that this concept is quite convenient to explain Iran's activities implemented in those levels of economic diplomacy.

Furthermore Iran's new goals and policies, based on the changes at domestic, regional and international levels, are inside the boundaries and domain of economic diplomacy. Main new national goals could be summarized as:

- Economic stabilization
- Re-orientation of economic policy towards the reduction of government control
- Prevalence of market forces and the implementation of de-regulatory economic liberalization
- Cutting the national dependency on oil
- Privatization of economic activities and moving toward competitive markets with maximum transparency
- Downsizing the government
- Sustainable economic developments

Policies adopted in Iran to achieve these goals and aims are also in the framework of productive cooperation and economic integration, as:

- Dealing informally and formally with Iran's counterparts around the world at different levels of interactions.
- Applying appropriate instruments and measures and using unexplored potentials and capacities in Iran's international economic relations
- Multilateralism
- Confidence and capacity building

### **6.3. What are the main purposes of Iran in pursuing economic diplomacy? And what does economic diplomacy tell us about Iran?**

Following points could be highlighted as Iran's main purposes in pursuing economic diplomacy:

- Improving Iran's popular images abroad and its position in the world economy;
- Giving especial attention to selected countries and regions;
- Removing obstacles to trade and investment;
- Negotiating agreements on different levels;
- Gathering information and formulating policy recommendations;

What economic diplomacy tells us very briefly on the issue is that, first of all it raised certain order to examine the complex process of decision-making in Iran's economic diplomacy; and secondly could explain the role of major players in Iran's economic diplomacy, and addressed issues which are equally important in understanding Iran's economic diplomacy. Moreover, it showed confident ability to explain Iran's new developments and policies, especially when important recent cases are examined; Iran-EU negotiation as the first negotiation between Iran and fifteen (later twenty-five) countries based on the WTO criteria; changes in the major laws and regulations, among which was investment law of Iran; and also structural reforms of the Iranian governments.



However the fact should be noted that economic diplomacy is in its tentative early stages in Iran, and in certain parts is even undeveloped (especially at multilateral level);

#### **6.4. Iran-Japan Relations: Major Findings and Recommendations**

- It is clear that based on all presented statistics and earlier explanations about political, social and economic policies of Iran, the country is committed to diversify its economic relations, and consequently, its view of Asia is with long term policies in mind.
- In this direction and among all Asian countries, Iran-Japan economic relations have enjoyed the most stable of interactions.
- With regards to Iran-Japan economic relations, although at the moment Japan is Iran's first economic partner, but with continuation of the current processes, next year (2006) it will be replaced with China.
- Trade and economic relation between Iran and Japan have reached a scale that necessitates more economic integration, with participation from the private sectors.
- This relation should be expanded to non-petroleum fields. It can be started even from foreign direct investment in unexplored fields such as natural gas and then be expanded to other sectors.
- Due to the lack of strong private sectors in Iran and insufficient momentum in Japan's private sector for mutual cooperation, some supporting measure should be created to maintain the level of economic relations
- In this way initiatives such as joint economic commissions or committees can be established. This pattern has been successful in Iran-China relations.

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### Appendix 1: Registered Applications for FDI under FIPPA, 2005

Region/Countries	Numbers of Project	Region/Countries	Numbers of Project
<b><i>Asia</i></b>		Italy	15
Armenia	1	Ireland	1
Afghanistan	6	Belgium	3
U.A.E	8	Bosnia and Herzegovina	1
Bahrain	3	Turkey	24
Pakistan	1	British virgin Island	3
Taiwan	2	Denmark	3
Azerbaijan	3	Romania	2
Iran	5	Sweden	4
China	2	Switzerland	4
Japan	2	France	12
Singapore	3	Cyprus	1
Saudi Arabia	2	Luxemburg	4
Lebanon	1	Netherlands	6
Malaysia	4	Greece	1
India	13	<b><i>International</i></b>	1
Pakistan	1	International	1
South Korea	3	<b><i>Multi- National</i></b>	7
Kuwait	4	German-Iran	1
<b><i>Africa</i></b>		Turkey – Iran	1
Liberia	1	Singapore–Virgin Island	1
Mauritania	1	Sweden– German- British	1
<b><i>America</i></b>		France – Ireland	1
Panama	1	India – Pakistan	1
Jamaica	1	Canada - Barbados	1
Canada	5		
<b><i>Europe</i></b>			
Germany	45		
Austria	1		
Spain	5		
Slovakia	2		
U.K	8		

## Appendix 2: Basic Iran's Indicators

### Basic Indicators, Iran

	2000	2003	2004
<b>People</b>			
Population, total	63.7 million	66.4 million	66.9 million
Population growth (annual %)	1.5	1.3	..
Life expectancy (years)	..	69.4	..
Fertility rate (births per woman)	..	2.0	..
Infant mortality rate (per 1,000 live births)	36.0	33.0	..
Under 5 mortality rate (per 1,000 children)	44.0	39.0	..
Births attended by skilled health staff (% of total)	89.6	..	..
Child malnutrition, weight for age (% of under 5)	..	..	..
Child immunization, measles (% of under 12 mos)	99.0	99.0	..
Prevalence of HIV, total (% of population aged 15-49)	..	0.1	..
Literacy rate, adult male (% of males ages 15 and above)	..	..	..
Literacy rate, adult female (% of females ages 15 and above)	..	..	..
Primary completion rate, total (% age group)	104.6	..	..
Primary completion rate, female (% age group)	101.7	..	..
Net primary enrollment (% relevant age group)	79.2	..	..
<b>Environment</b>			
Surface area (sq. km)	1.6 million	1.6 million	..
Forests (1,000 sq. km)	72,990.0	..	..
Deforestation (average annual % 1990-2000)	0.0	..	..
Internal freshwater resources per capita (cubic meters)	..	1,943.0	..
CO2 emissions (metric tons per capita)	4.9	..	..
Access to improved water source (% of total pop.)	..	..	..
Access to improved sanitation (% of urban pop.)	..	..	..
Energy use per capita (kg of oil equivalent)	1,896.0	..	..
Electricity use per capita (kWh)	1,484.7	..	..
<b>Economy</b>			
GNI, Atlas method (current US\$)	105.0 billion	133.2 billion	154.0 billion
GNI per capita, Atlas method (current US\$)	1,650.0	2,010.0	2,300.0
GDP (current \$)	96.2 billion	137.1 billion	162.7 billion
GDP growth (annual %)	5.0	6.6	6.5
GDP implicit price deflator (annual % growth)	35.4	16.5	17.1
Value added in agriculture (% of GDP)	14.2	11.3	10.9
Value added in industry (% of GDP)	32.7	41.2	41.0
Value added in services (% of GDP)	53.0	47.6	48.1
Exports of goods and services (% of GDP)	22.1	25.3	23.5
Imports of goods and services (% of GDP)	21.9	22.9	22.3
Gross capital formation (% of GDP)	34.7	41.0	36.3

Revenue, excluding grants (% of GDP)	24.6	29.7	29.1
Cash surplus/deficit (% of GDP)	1.9	1.6	1.8
Technology and infrastructure			
Fixed lines and mobile telephones (per 1,000 people)	164.1	270.6	..
Telephone average cost of local call (US\$ per three minutes)	0.0	0.0	..
Personal computers (per 1,000 people)	62.8	90.5	..
Internet users (per 1,000 people)	9.8	72.4	..
Paved roads (% of total)	..	..	..
Aircraft departures	82,600.0	85,100.0	..
Trade and finance			
Trade in goods as a share of GDP (%)	44.4	45.0	..
Trade in goods as a share of goods GDP (%)	95.5	86.5	..
High-technology exports (% of manufactured exports)	1.9	1.7	..
Present value of debt (current US\$)	7.4 billion	10.4 billion	..
Total debt service (% of exports of goods and services)	10.7	3.9	..
Short-term debt outstanding (current US\$)	3.0 billion	3.2 billion	..
Aid per capita (current US\$)	2.0	2.0	..

Source: World Bank, *World Development Indicators Database*, August 2005

## **Author**

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## **Selected Publications on Research**

- 1) Regional Integration: Case of South-East Asia. Project for IPRS (under publication)
- 2) Regional Cooperation among Indian Ocean Countries. Presented at the conference in Punjab University
- 3) Comparative Study between ASEAN and ECO. Journal of IPIS
- 4) Regional Policies of Iran. Paper presented at ISSI, Pakistan

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