

Iran: Market Profile

Major Economic Indicators

	2015	2016	2017*
Population (million)	79.5 [#]	80.5 [#]	81.4
GDP (US\$ billion)	374.3	376.8	368.5
Real growth (%)	-1.6	6.5	3.3
GDP per capita (US\$)	4,710 [#]	4,683 [#]	4,526
Inflation (%)	11.9	8.9	11.2
Unemployment rate (%)	11.0	12.5	12.5
Exports (US\$ billion)	64.6	71.9 [#]	76.6
YOY growth (%)	-25.3	11.4 [#]	6.5
Imports (US\$ billion)	52.4	57.7 [#]	59.4
YOY growth (%)	-19.5	10.0 [#]	3.0
Average exchange rate (Iranian Rial per US\$)	29,017	30,915	32,450 [^]

Note: [#]estimate, ^{*}forecast, [^]Jan-Jul 2017

Source: IMF, BMI, Central Bank of the Islamic Republic of Iran

- Iran is the second largest economy in the Middle East and North Africa (MENA) region after Saudi Arabia and the second most-populated country after Egypt. Tehran, located in north-central Iran, is the capital and largest city with a population of more than 8 million.
- Iran has the world's fourth largest proven crude oil reserves and second largest natural gas reserves. The country's economy consists of a large state-owned sector (including many energy companies) and smaller agricultural and services sectors, largely run by a number of government co-operatives and private operators. Economic growth is driven primarily by oil and gas exports, which form the bulk of government revenue.
- In January 2016, nuclear-related sanctions against Iran were removed in observance of the *Joint Comprehensive Plan of Action (JCPOA)* reached between Iran and the P5+1 (the *UN Security Council's* five permanent members plus Germany) in 2015. Along with the release of frozen assets held in international accounts, estimated at around US\$100 billion, the *JCPOA* helped restore business connections between Iran and the West, particularly with EU countries.
- Owing to outstanding primary sanctions of the US, American people and companies are banned from engaging with Iran (with the obvious exception of Boeing plane sales). In July 2017, the Trump administration slapped new sanctions on Iran for its



missile programme and weapons procurement, despite re-certifying that Iran had complied with *JCPOA*. In contrast, Many European companies have started re-entering Iran in sectors spanning transport, oil and gas, banking and finance and retail. In 2016, EU exports to Iran went up by 28% to €8.2 billion, while EU imports from Iran surged by 345% to €5.5 billion.

- In May 2017, the Iranian President Rouhani secured a second four-year term. Topping his economic agenda were initiatives to modernise the banking system, revitalise the oil and gas sector and improve of the FDI environment.
- The Iranian economy expanded by 12.5% year-on-year (YOY) in the fiscal year ending 20 March 2017, according to the Central Bank of Iran. Growth was driven primarily by an increase in oil output and exports following the lifting of *JCPOA*-related sanctions. Iran's non-oil GDP growth stood at 3.3% in this period, reversing a dip of 3.1% in the previous year.
- Following years of limited access to external capital, the Iranian government is now keen to attract foreign direct investment (FDI), especially in sectors where new equipment and technology are high in demand. An annual FDI target of US\$50 billion is set out in Iran's *Sixth Five-year Development Plan (2016-2021)*. It is further expected that Iran will create investment opportunities of US\$1.5 trillion between 2016 and 2025 for local and international investors.
- Iran offers attractive incentives to foreign investors such as tax holidays and import customs exemptions, Sectors including oil and gas, industry and mining, transport, agriculture, ICT, tourism and health are the main FDI promotion areas. Free zones and special economic zones (SEZs), many of which are industry-specific, are scattered across the country and provide additional incentives in attracting FDI.
- Iran's cumulative FDI climbed 7.5% to US\$48.5 billion in 2016 according to the *UNCTAD's World Investment Report 2017*. FDI statistics from China's *Ministry of Commerce* showed China's FDI stock in Iran surged to US\$2.95 billion in 2015 from US\$715 million in 2010, with the bulk directed to the oil and gas sector. Chinese companies, notably *China National Petroleum Corporation (CNPC)* and the *Sinopec Group*, have won major oil exploration contracts in Iran, including the oil field projects in Yadavaran and North Azadegan.
- Another recent example of Iran-China co-operation is found in the South Pars, the largest natural gas field in the world. Under a contract of US\$4.8 billion signed by Iran's *Petropars* and a consortium comprising *CNPC* and France's *Total*, this offshore field is expected to start supplying gas to the Iranian market from 2021.
- Iran lies on the *China-Central Asia-West Asia (CCAWA) Economic Corridor* under the *Belt and Road Initiative (BRI)* and is expected to benefit from the *BRI* focus on infrastructure development and technology collaboration. In the visit of Chinese President Xi to Iran in January 2016, the two countries agreed to increase bilateral trade by more than tenfold to US\$600 billion in the next decade, with co-operation areas including energy, trade and industry. In February 2016, the first direct cargo train from Shanghai arrived in Tehran, completing a journey of some 10,000 km.
- Located in Southern Asia and bordering the Persian Gulf, the Caspian Sea and the Gulf of Oman, Iran prides itself as a gateway to a regional market of more than 400



million people, spanning Afghanistan, Iraq, Turkey, Russia and the Central Asia countries. While the *BRI* is intended to enhance land and sea connectivity with countries along its key routes, the *International North-South Transport Corridor (INSTC)*, jointly established by Iran, India, and Russia in 2000, aims to connect the Indian Ocean and Persian Gulf to the Caspian Sea via Iran, and onward to northern Europe via St. Petersburg in Russia. As a multi-modal transport corridor, *INSTC* will make Iran a key link in connecting the three founding members and 11 other state members.

- With oil and gas exports far outstripping imports of industrial supplies and capital goods, Iran has continuously run a trade surplus. China has emerged as Iran's top trading partner, as Chinese firms gradually displaced those from the US and EU in the wake of sanctions. In 2016, Iran-China trade stood at US\$31.2 billion, and reached US\$18.1 billion in the first half of 2017. Iran's other key trading partners include Turkey, Korea and the UAE. Most imports are subject to 10%-25% tariffs while certain raw materials and machinery are exempted. Iran is proposing FTAs or securing and upgrading preferential agreements with a number of countries including Malaysia, Pakistan, Turkey, India and the *Eurasian Economic Union (EEU)*.

Hong Kong's Trade with Iran

(US\$ million)	2015		2016		Jan-Jul 2017	
	Value	Growth (%)	Value	Growth (%)	Value	Growth (%)
Total Exports	115	-5.7	135	+17.1	116	+35.9
Domestic exports	1	-50.5	*	-52.8	*	+94.3
Re-exports	114	-5.1	134	+17.6	116	+35.7
Imports	374	-28.3	256	-31.6	63	-48.1
Total Trade	489	-24.0	391	-20.1	180	-13.3

* insignificant

Source: Hong Kong Trade Statistics, Census & Statistics Department

- In the first seven months of 2017, Hong Kong's total exports to Iran went up by 35.9% YOY to US\$116 million. Major export items included telecom equipment and parts (US\$50 million, 43.1% of total, +118% YOY), civil engineering and contractors' plant and equipment (US\$10 million, 8.2% of total, +4.1% YOY), semi-conductors, electronic valves & tubes, etc. (US\$6 million, 4.9% of total, +158.1% YOY), miscellaneous chemical products (US\$6 million, 4.8% of total, -8.7% YOY) and electrical apparatus for electrical circuits (US\$4 million, 3.6% of total, +22% YOY).
- Hong Kong's imports from Iran dropped by 48.1% YOY to US\$63 million in the same period. Major import items included fruit and nuts (not including oil nuts), fresh or dried (US\$49 million, 78.3% of total, -56.3% YOY) and spices (US\$6 million, 9.6% of total, +69.7% YOY).

More Information

More information on the *Belt and Road* countries' economic and investment environment, tax and other subjects that are important in considering investment and doing business



are available in [The Belt and Road Initiative: Country Business Guides](#).

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