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Grim Outlook for Japan's Exports to Iran amid Intensifying Competitions

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Japanese exports to Iran have fallen to the lowest level as the Japanese government imposed in 2010 such sanctions as asset freeze and suspension of correspondence transactions with the banks in Iran following the adoption of the UN Security Council's resolution concerning Iranian nuclear program (Chart 1). The main items of Japan's exports to Iran in recent years include machinery and machine tools like automobiles and chemicals but the total exports for 2015 remained at 34.8 billion yen, less than 20% of the recent peak of 195.5 billion yen recorded in 2008 (Chart 2). The Japanese government lifted a series of sanctions after it was verified in January 2016 that Iran had implemented the final agreement with the US and other five countries on its nuclear development issue, but will this help Japan's exports to Iran recover steadily and satisfactorily?

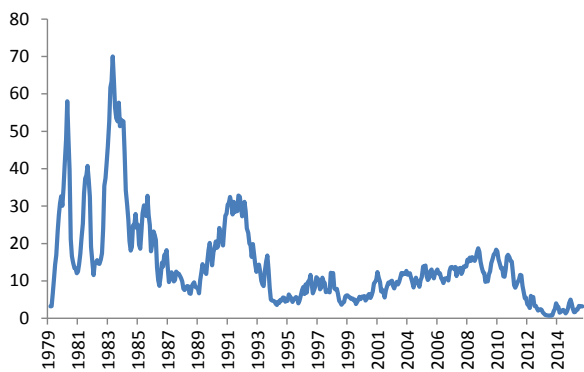
Although the imports from Japan, the UK and France have decreased, the Iranian imports have not fallen so sharply since the strengthening of sanctions as those from Korea and Germany have not fallen while those from UAE and China have even increased (Chart 3). The main partners for Iran's imports are represented by UAE with a share of 39.0% in 2015, China 22.0%, Korea 4.8%, Turkey 4.5%, India 3.9% and Germany 2.8%, whereas Japan accounted for only 0.4%, declining from about 2% before the sanctions were strengthened.

Further, business stance of companies in these upper ranking countries is more aggressive than those in Japan. In case of Germany, for instance, a trade delegation visited Iran just after the final agreement on nuclear development was reached in July 2015. In Korea, the Minister of Strategy and Finance revealed its policy intention to double the exports to Iran by 2017. More than 200 business people accompanied the President Park when she visited Iran in early May 2016. On the other hand, it was only in February 2016 that the Japanese government signed a bilateral investment treaty with Iran¹. Although Japanese companies have shown interest in the plentiful natural resources in Iran and consumption and labor force to be created by its population of about 80 million, they seem to be still cautious to take action given the possibility of re-imposition of US sanctions, among others. Amid the intensifying competitions on exports to Iran, significant difficulty would accompany the recovery of Japan's previous share in Iranian

¹ Iran has concluded more than 50 bilateral investment treaties (BITs) with countries by mid 2000s. The BIT with Japan ranks 66th for Iran.

imports, at least of the competing products with other countries.

Graph1. Japan's export to Iran (by month, bil yen)



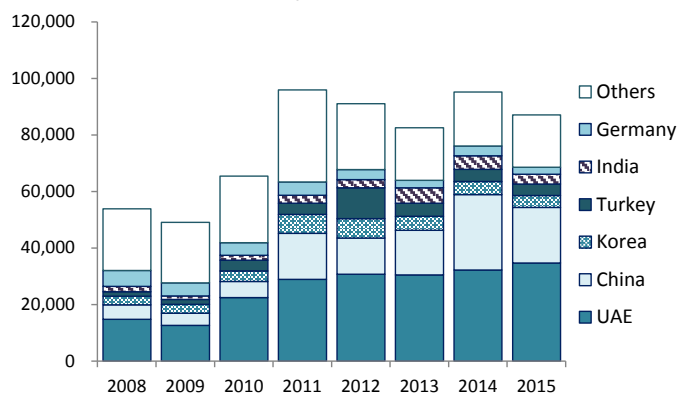
(Source) MOF Trade statistics

Graph2. Japan's export to Iran by major goods

	2008		2015		reducti on
	value (mil yen)	share	value (mil yen)	share	
Machinery	141,532	72%	25,094	72%	-82%
Transport equipment	77,917	40%	17,108	49%	-78%
Non-electric machinery	53,622	27%	5,386	15%	-90%
Electric equipment	9,993	5%	2,599	7%	-74%
Manufactured goods	25,120	13%	3,322	10%	-87%
Iron and Steel Products	17,846	9%	615	2%	-97%
Chemicals	14,355	7%	2,313	7%	-84%
Others	14,531	7%	4,046	12%	-72%
Total	195,538	100%	34,774	100%	-82%

(Source) MOF Trade statistics

Graph3. Iran's export by trade partners (unit: mil USD)



(Source) IMF

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