

Economic Cooperation between Korea and Iran

Potential and Opportunities for Joint Ventures

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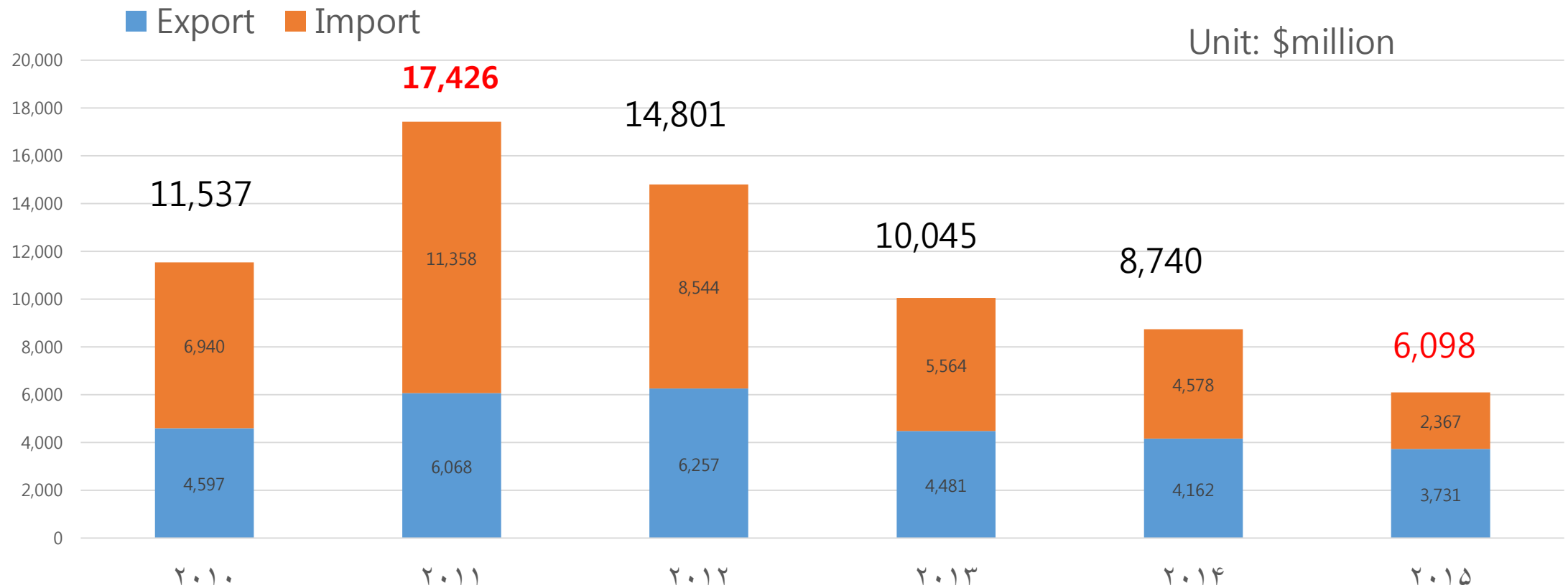
1. Recent Status of Bilateral Economic Cooperation

Impacts of the Sanctions quite strong

- Korea and Iran opened the diplomatic relationship in 1962, which was the first case in the Middle East for Korea.
- However, despite the formidable economic size and development potential of the two countries, economic cooperation in the meantime has been stagnant.
- **Economic sanctions** have especially hampered the relationship in the recent years.

Trade volume decreased to one third

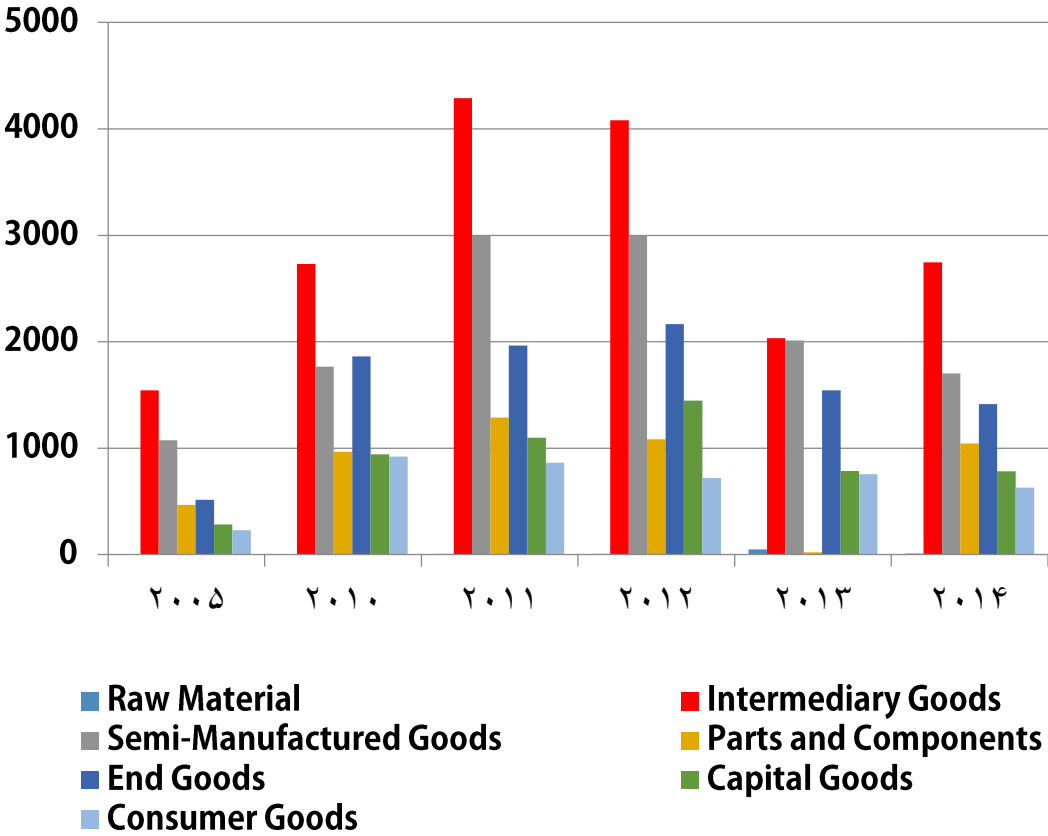
The trade volume has decreased from a peak of 17.4 billion dollars in 2011 to a low 6.1 billion dollars in 2015.



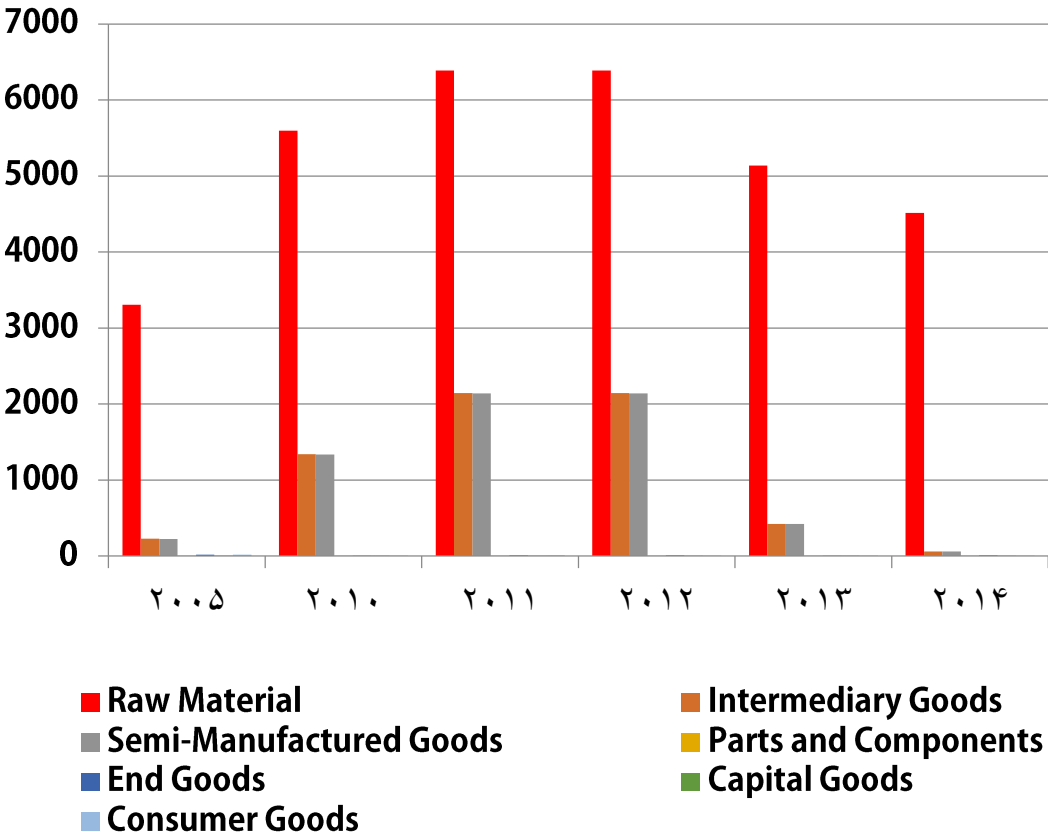
Major items of bilateral trade

- Major export items from Korea are synthetic resins, auto parts, cars and color TVs
- Major import items of Korea are crude oil, LPG, heavy oil, zinc bars and scraps

Changes in Korea’s exports to Iran
Unit: million dollars

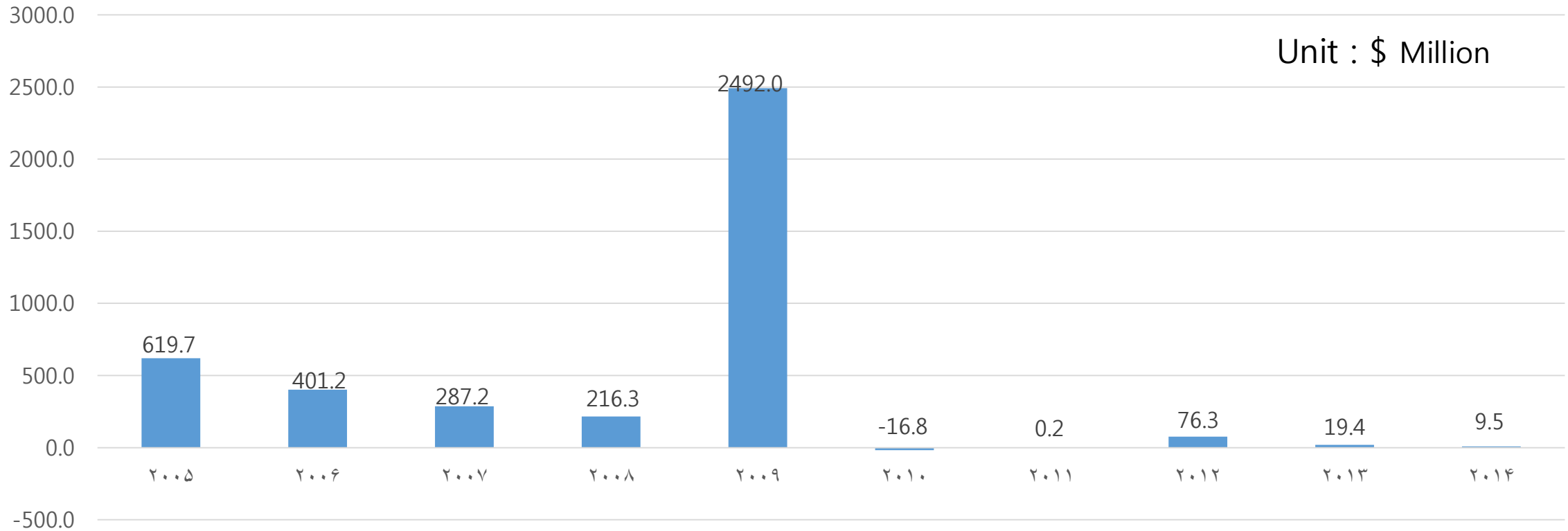


Changes in Korea’s imports from Iran
Unit: million dollars



Construction contracts also sharply dropped

Amount of Korean companies' contracts

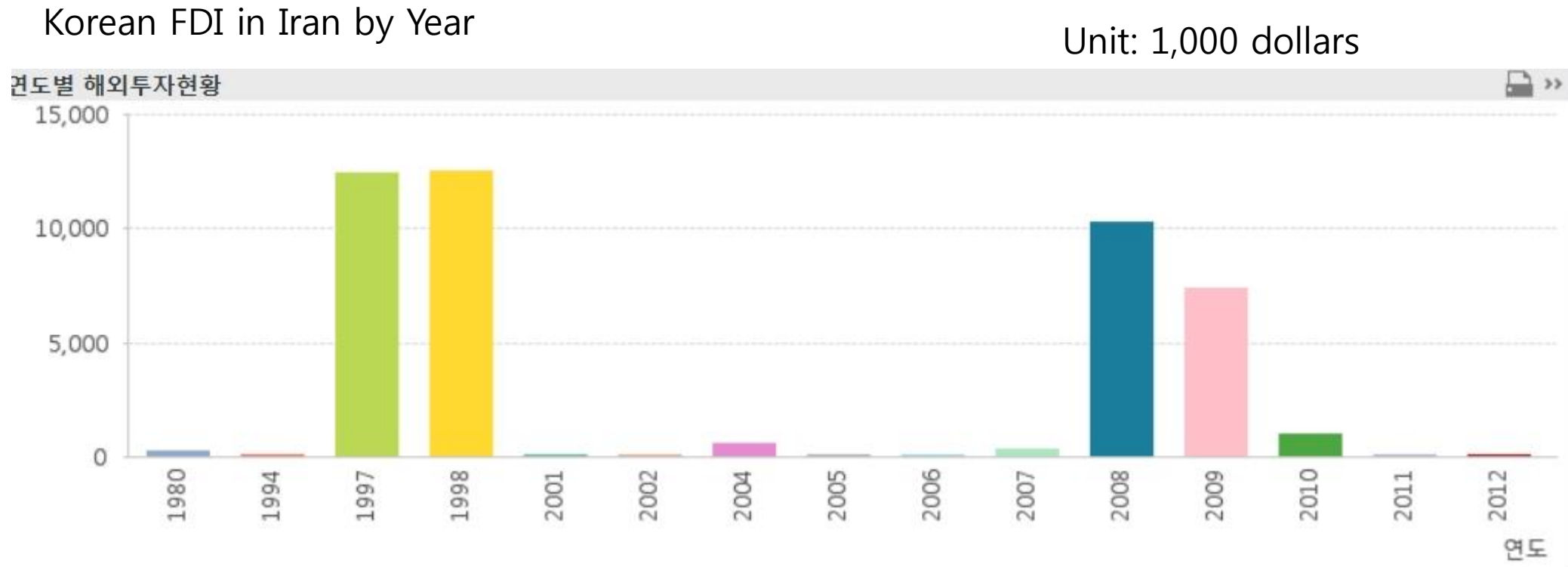


No. of Korean companies' contracts

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
No.	4	1	3	1	3	1	1	0	0	3

Source: <http://www.icak.or.kr/>

No more Korean investment after 2012



A total of \$45.2 million investment has been made during the period 1980-2012, which is negligible amount by the size of the Korean FDI in the world.

2. Potential for Future Cooperation

Restoration, then Progress

- Korea and Iran have enough potential to promote their economic cooperation, which has not been utilized at all.
- Even Restoration of their previous relationship can bring a new source of energy for the growth of their economies
 - Trade volume to triple in the near future
- Further, each can provide new stimuli for their exports, industrial development, and job creation.
 - Each other has the factors that each other is looking for

Korea as the World's 6th Largest Exporter , 2014

Sound and Strong Economy with an Open, Trade-oriented Structure

	Unit	Value	World Rank
GDP	\$ Billion	1,417	13
Per Capita	\$	27,971	28
Land Size	km2	100,210	109
Population	Million	50.5	27
Exports	\$ Billion	557.3	6
Imports	\$ Billion	542.9	7
Current Account Balance	\$ Billion	30.8	18
Human Develop.Index		0.909	12

Source: Assembled from IMF, World Bank sources

Korea as a Globally leading Industrial Producer

Global Ranking of Korean industries by Market Share

Industry	2000	2010	2020
Shipbuilding	1	1	1
Digital TV	-	1	1
Display	2	1	1
Petrochemicals	4	5	6
Automobile	5	5	4
Iron and steel	6	6	6
Communication Equipment	5	2	1
Semiconductor	3	3	2
General Electronics	12	8	6
Aerospace	20	14	7

Source : KIET

IRAN, A Huge Country with Proud History

The world's last major frontier market – CNN [Nov.11, 2015](#)

As of 2014	Unit	Value	World Rank
GDP	\$ Billion	415	29
Per Capita	\$	5,443	92
Land Size	km2	1,648,195	17
Population	Million	80.0	17
Exports	\$ Billion	95.7	38
Imports	\$ Billion	67.0	43
Current Account Balance	\$ Billion	63.0	11
Human Develop.Index		0.766	69

Source: Assembled from IMF, World Bank sources

Iran offers huge economic potential

<http://money.cnn.com/2015/11/26/news/economy/iran-economy-potential>

- **It's been described as the Germany of the Middle East, with nearly 80 million people, an educated workforce, and a proud tradition of manufacturing.**
- Throw in the world's largest oil and gas reserves, and it's easy to see why investors and international companies are getting very excited about Iran.
- After years of economic isolation, the prospect of **the world's last major frontier market opening up in 2016** -- assuming sanctions are lifted as planned -- has many executives already beating a path to Tehran.
- But it's been an extremely painful time for Iranians -- average incomes have fallen by more than \$2,000 since 2011, and Iran now produces just half the economic output of Turkey with roughly the same population. Closing that gap should mean opportunities abound.
- Sanctions have kept a tight noose around the economy for the past four years, holding businesses and the economy back.

A New 'Industrial Silk Road'

21C new 'Industrial Silk Road'

Global industrial powers

For Korea, Iran is

- A source of energy resources
- A major export and construction market
- A new partner for the new growth engines

For Iran, Korea is

- A stable market for oil and gas export
- A reliable contractor
- A partner for industrial development

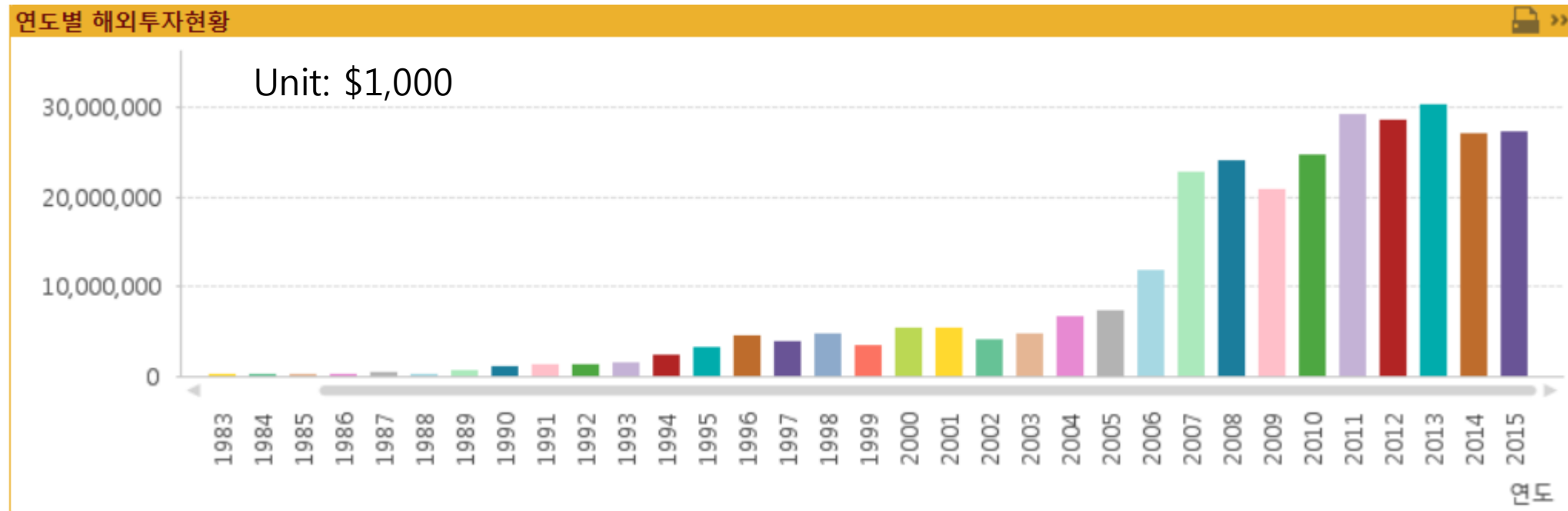
Mutually beneficial partnership for prosperity

3. Joint Ventures: Opportunities and Constraints

Dismaying Record of Joint Venture so far

- The first joint venture was the **Korea – Iran Petroleum Company**, established in 1976 in Korea by the joint venture of 50:50 between NIOC and Ssangyong Cement of Korea.
 - In 1980, NIOC had withdrawn its equity and the Korean partner reestablished it as **Ssangyong Petroleum**. In 2000, it renamed as the current **S-Oil**, and currently Saudi Aramco is the largest shareholder of the company
- After the 1980s, almost no investment and joint venture has been made bilaterally
 - As shown earlier, only one Korean company is operating in Iran now.
- Considering the huge volume of Korean outward FDI and the potential of Iranian economy, this record is astonishingly dismaying.

Total outstanding Korea's Outward FDI as of May 2016 reached \$309 billion dollars with the declared No. of 145,464.

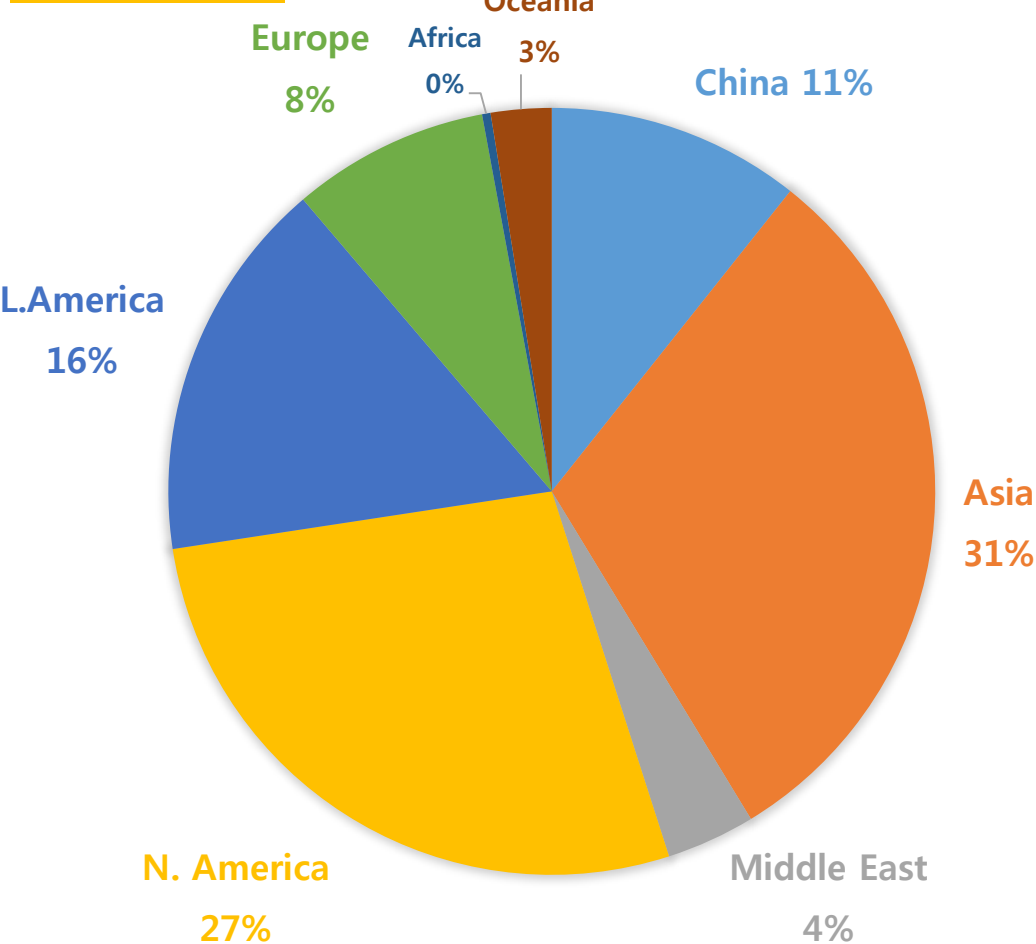


	2010	2011	2012	2013	2014	2015
No. Declared	8,123	7,921	7,676	8,062	8,204	8,898
Amount (\$ million)	24,658	29,083	28,540	30,193	26,999	27,180

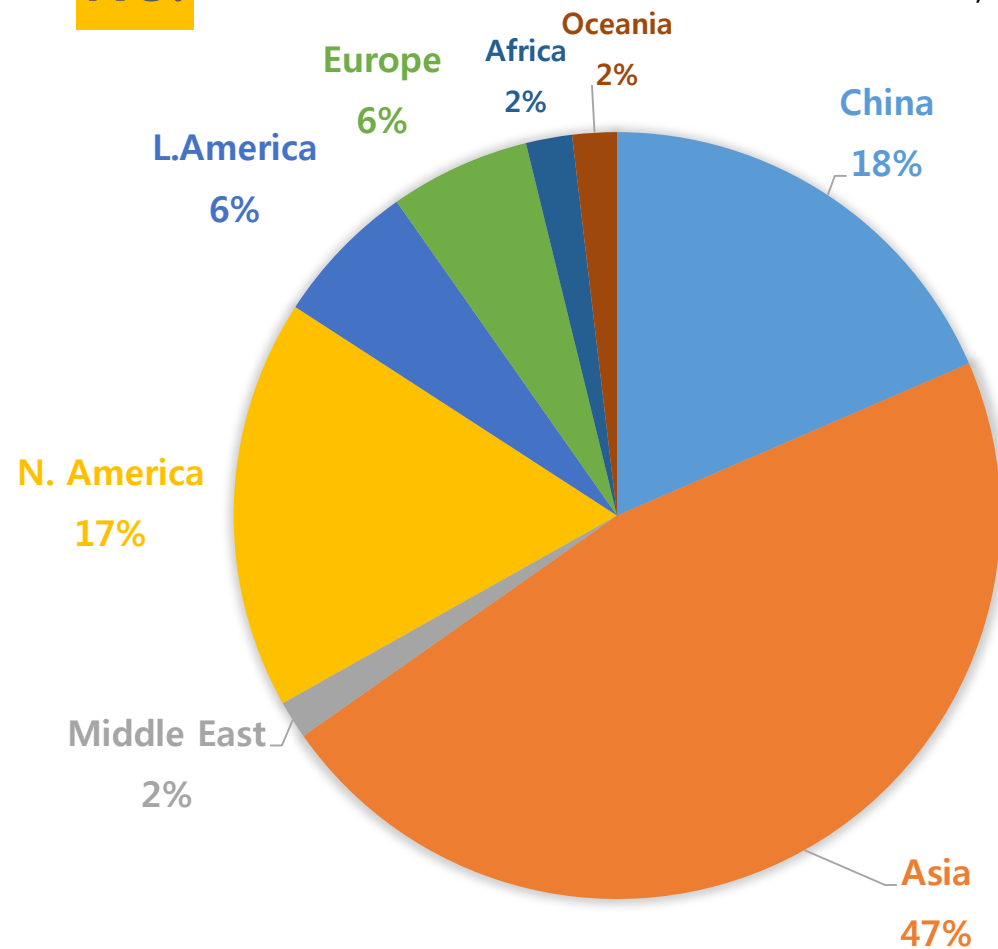
Source: EximBank of Korea

Regional Distribution of Korean Outward FDI

AMOUNT \$308,971 million



NO. 145,464



Source: EximBank of Korea

Korean Investment in Iran

A Korean record shows that 12 companies have invested in Iran so far, but as of 2012, only one company was operating, which is a quite dismaying record.

Korean Co.	Local Company Name	Products	Year	Equity (%)	Amount (\$1,000)
부흥	NAZPOUSH MFG. PVT CO.K LTD.	Clothing	1978	35	263
대우 자동차	KERMAN MOTOR COMPANY	Automobile	1994-1998		25,020
조일화성	POOYA POLYNER TEHRAN COMPANY	Plastic Motolutch	1999	50	50
파코개발	ASIAN INTERNATIONAL CO., LTD.	Technical Consutlting	2001	49	25
기은 캐스텍	NIKI YAZD CO.,LTD	Shoes sole	2002	49	51
대우건설	DAEWOO ENGINEERING & CONSTRUCTION IRAN	Construction	2003	100	-
위너콤	GOLDEN AND WINNER COM.	Auto Antenna	2004	40	264
엔케이	KAVOSH PRESSURIZED-VESSELS MANUFACTURING CO.	Auto Cylinder	2004	40	400
현대건설	ARIAN INTERNATIONAL CONTRACTORS CO.	Construction	2004	49	6
금아 슈미터	KOPAS NOVIN SANAT	Auto Parts	2007		105
에이스 전자	TOLID GHATAAT PISHRAFTEH ARIA COMPANY	Auto Parts	2007		199
KT&G	KT&G Pars	Tobacco	2007		7,772

Source: EximBank of Korea

The only Korean joint venture



KT&G Pars (tobacco)

2007 Joint Venture with ITC

2008 Local Company setup in Teheran

2009 started production (ESSE, Pine Tree)

Uncertainties and Sanctions being gone

- The stagnant, even halted joint investment in the meantime, has been largely attributable to the uncertainties surrounding the Iranian economy
 - 1980-88 War and the Sanctions after the 1990s onward
 - Uncertain legal system regarding foreign investment
- Now, as the uncertainties are gone, we expect a new era of booming joint investment, which will certainly help to revitalize both economies

Potential Areas for Joint Ventures

- Traditional Areas

- Energy
- Construction : Infrastructure & Plants
- Trade

- New Areas

- Manufacturing : Automobile & Parts, Petrochemicals, Electronics, Clothing, Steel & Iron, Metals, Medicines
- ICT : Network facilities and services
- Services (Healthcare & Tourism)

POSCO - PKP Steel Mill



POSCO has signed a memorandum of agreement (MOA) with Iranian steelmaker, Pars Kohan Diar Parsian Steel (PKP), to jointly build a steel mill in the Middle East country incorporating its FINEX technology, the company said Monday.

The world's fourth-largest steelmaker said it will cost about \$1.6 billion to construct the FINEX plant, capable of producing 1.6 million tons of steel annually, in Iran's Chabahar Free Trade-Industrial Zone (CFZ). POSCO Engineering & Construction (E&C) will build the mill.

- *Korea Times*, Feb.26, 2016

Lots of Constraints to overcome

- Unfamiliar market and Lack of Information
 - Geographical and Cultural distance
 - Lack of accessible information on regulations, market conditions, and partners
 - Lack of Business Motivation
 - Prospect of Business profitability
 - Incentives compared to other locations
- Business is business. Merchants and businessmen all the world seek profits. They do not move on altruistic motivation. But their movement, in proper way not in excessive way, ultimately brings benefits and jobs to all other people.

Doing Business 2016 by World Bank

Economy	Ease of Doing Business Rank ▲	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	10	1	6	17	19	1	5	41	1	27
New Zealand	2	1	3	31	1	1	1	22	55	15	31
Denmark	3	29	5	12	9	28	20	12	1	37	9
Korea, Rep.	4	23	28	1	40	42	8	29	31	2	4
Hong Kong SAR, China	5	4	7	9	59	19	1	4	47	22	26
United Kingdom	6	17	23	15	45	19	4	15	38	33	13
United States *	7	49	33	44	34	2	35	53	34	21	5
Sweden	8	16	19	7	11	70	14	37	17	24	19
Norway	9	24	26	18	13	70	14	14	45	8	6
Finland	10	33	27	16	20	42	66	17	32	30	1

<http://www.doingbusiness.org/>

Economy	Ease of Doing Business Rank ▲	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
St. Vincent and the Grenadines	111	77	59	79	160	152	66	97	68	31	189
Solomon Islands	112	95	58	90	158	79	105	68	141	160	137
Jordan	113	88	103	56	98	185	163	52	50	126	146
Ghana	114	102	132	121	77	42	66	106	171	116	161
Lesotho	114	112	172	147	108	152	99	109	36	85	117
Brazil *	116	174	169	22	130	97	29	178	145	45	62
Ecuador	117	166	74	97	69	97	115	139	120	99	148
Iran, Islamic Rep.	118	87	69	88	91	97	150	123	167	62	140
Barbados	119	100	158	87	134	126	166	99	127	164	34
Belize	120	159	81	73	128	162	122	69	117	133	81
Argentina	121	157	173	85	116	79	49	170	143	38	95
Uganda	122	168	161	167	120	42	99	105	128	78	104
Lebanon	123	114	130	116	103	109	134	45	147	135	134

Doing Business 2016, KOREA Abstract

Measuring Regulatory Quality and Efficiency

- World Bank Group

KOREA, REP.		OECD high income		GNI per capita (US\$)	
Ease of doing business rank (1–189)		4	Overall distance to frontier (DTF) score (0–100)	83.88	Population (m)
					27,090
					50.4
Starting a business (rank)	23	Getting credit (rank)	42	Trading across borders (rank)	31
DTF score for starting a business (0–100)	94.36	DTF score for getting credit (0–100)	65.00	DTF score for trading across borders (0–100)	92.48
Procedures (number)	3	Strength of legal rights index (0–12)	5	<i>Time to export</i>	
Time (days)	4	Depth of credit information index (0–8)	8	Documentary compliance (hours)	1
Cost (% of income per capita)	14.5	Credit bureau coverage (% of adults)	100.0	Border compliance (hours)	14
Minimum capital (% of income per capita)	0.0	Credit registry coverage (% of adults)	0.0	Domestic transport (hours)	1
				<i>Cost to export</i>	
Dealing with construction permits (rank)	28	Protecting minority investors (rank)	8	Documentary compliance (US\$)	11
DTF score for dealing with construction permits (0–100)	77.83	DTF score for protecting minority investors (0–100)	73.33	Border compliance (US\$)	185
Procedures (number)	10	Extent of conflict of interest regulation index (0–10)	7.0	Domestic transport (US\$)	216
Time (days)	28	Extent of shareholder governance index (0–10)	7.7	<i>Time to import</i>	
Cost (% of warehouse value)	4.3	Strength of minority investor protection index (0–10)	7.3	Documentary compliance (hours)	1
Building quality control index (0–15)	8			Border compliance (hours)	6
		✕ Paying taxes (rank)	29	Domestic transport (hours)	7
Getting electricity (rank)	1	DTF score for paying taxes (0–100)	84.53	<i>Cost to import</i>	
DTF score for getting electricity (0–100)	99.88	Payments (number per year)	12	Documentary compliance (US\$)	27
Procedures (number)	3	Time (hours per year)	188	Border compliance (US\$)	315
Time (days)	18	Total tax rate (% of profit)	33.2	Domestic transport (US\$)	568
Cost (% of income per capita)	39.8				
Reliability of supply and transparency of tariffs index (0–8)	8	Enforcing contracts (rank)	2	Resolving insolvency (rank)	4
		DTF score for enforcing contracts (0–100)	84.84	DTF score for resolving insolvency (0–100)	90.31
Registering property (rank)	40	Time (days)	230	Time (years)	1.5
DTF score for registering property (0–100)	76.22	Cost (% of claim)	10.3	Cost (% of estate)	4
Procedures (number)	7	Quality of judicial processes index (0–18)	13.5	Recovery rate (cents on the dollar)	83.6
Time (days)	6.5			Strength of insolvency framework index (0–16)	14.5
Cost (% of property value)	5.1				
Quality of land administration index (0–30)	27.5				

Doing Business 2016, IRAN Abstract

Measuring Regulatory Quality and Efficiency

- World Bank Group

IRAN, ISLAMIC REP.		Middle East & North Africa		GNI per capita (US\$)	6,063
Ease of doing business rank (1–189)		Overall distance to frontier (DTF) score (0–100)		Population (m)	78.5
Starting a business (rank)		Getting credit (rank)		Trading across borders (rank)	
DTF score for starting a business (0–100)		DTF score for getting credit (0–100)		DTF score for trading across borders (0–100)	
Procedures (number)		Strength of legal rights index (0–12)		Time to export	
Time (days)		Depth of credit information index (0–8)		Documentary compliance (hours)	
Cost (% of income per capita)		Credit bureau coverage (% of adults)		Border compliance (hours)	
Minimum capital (% of income per capita)		Credit registry coverage (% of adults)		Domestic transport (hours)	
Dealing with construction permits (rank)		Protecting minority investors (rank)		Cost to export	
DTF score for dealing with construction permits (0–100)		DTF score for protecting minority investors (0–100)		Documentary compliance (US\$)	
Procedures (number)		Extent of conflict of interest regulation index (0–10)		Border compliance (US\$)	
Time (days)		Extent of shareholder governance index (0–10)		Domestic transport (US\$)	
Cost (% of warehouse value)		Strength of minority investor protection index (0–10)		Time to import	
Building quality control index (0–15)		Paying taxes (rank)		Documentary compliance (hours)	
Getting electricity (rank)		DTF score for paying taxes (0–100)		Border compliance (hours)	
DTF score for getting electricity (0–100)		Payments (number per year)		Domestic transport (hours)	
Procedures (number)		Time (hours per year)		Cost to import	
Time (days)		Total tax rate (% of profit)		Documentary compliance (US\$)	
Cost (% of income per capita)		Enforcing contracts (rank)		Border compliance (US\$)	
Reliability of supply and transparency of tariffs index (0–8)		DTF score for enforcing contracts (0–100)		Domestic transport (US\$)	
Registering property (rank)		Time (days)		Resolving insolvency (rank)	
DTF score for registering property (0–100)		Cost (% of claim)		DTF score for resolving insolvency (0–100)	
Procedures (number)		Quality of judicial processes index (0–18)		Time (years)	
Time (days)				Cost (% of estate)	
Cost (% of property value)				Recovery rate (cents on the dollar)	
Quality of land administration index (0–30)				Strength of insolvency framework index (0–16)	

Doing Business 2016, Iran, Comparison

Starting a Business ^①

[View details »](#) [View methodology »](#) [Compare all economies »](#)

DB 2016 RANK	87	DB 2015 RANK ^①	82	CHANGE IN RANK	↑-5
DB 2016 DTF (% POINTS) ^①	85.73	DB 2015 DTF (% POINTS) ^①	85.68	CHANGE IN DTF (% POINTS) ^①	↑0.05

Information on new business density and number of newly created firms with limited liability can be found at [Entrepreneurship Database](#).

Indicator	Iran, Islamic Rep.	Middle East & North Africa	OECD high income
Procedures (number) ^①	8	8.2	4.7
Time (days) ^①	15.0	18.8	8.3
Cost (% of income per capita) ^①	2.7	25.8	3.2
Paid-in min. capital (% of income per capita) ^①	0.0	37.7	9.6

Doing Business 2016, Iran

- Procedures and costs for starting a business

No.	Procedure	Time to Complete	Associated Costs
1	Obtain a criminal record clearance	5 days on average	IRR 50,000 per criminal record
2	Reserve a unique company name, Register at the Companies Registration Office and Pay the registration fees	3 days	IRR 375,000 for registration and IRR 40,000 for name search and reservation.
3	Place a notice of the company formation in the Official Gazette and the selected newspaper of general circulation	1 day	IRR140,000 for official Gazette; IRR 240,000 for general circulation newspaper
4	Notify the State Tax Affairs Organization of the commencement of business activities	1 day	no charge
5	Register for VAT	2 days	no charge
6	Retrieve the officially sealed books of account within 30 days of registration	1 day	IRR 100,000
7	Pay the share certificate stamp duty within 60 days of company registration	1 day	0.2% of the par value of the subscribed share capital
8	Enroll workers in the social security program at the Iranian Labor Department and Obtain a workplace number	1 day	no charge

4. Where to go

Enhancing Familiarity through exchanges

- Mutual visiting of business delegations
 - Industrial Relationship, Exhibitions, business consulting
 - Even cultural exchanges (movies, arts, paintings, etc.) needed
- Exchange of Information and Knowledge Sharing
 - Utilization of public and private windows
 - Ex) KOTRA, KIET, KDI, KITA, Chamber of Commerce, etc. in KOREA
 - Expert meetings on regular basis
 - Ex) Korea – Algeria TF, Korea – Indonesia TF
- Manpower training on invitation basis
 - On the job training in the field
 - Scholarships at college level

Clear and Certain institutions

- Regulatory Reform to encourage businesses
 - Simplifying the procedures and reducing the costs
 - Reduction of Red Tape
 - Automatic approval of investment except special cases
 - From approval to declaration
- Stability of Business environment
 - macroeconomic, social environment
 - Labor cost and availability

Thank you for the attention!!