

Iran's Trade Policies: Connecting to the Markets



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Introduction

With the removal of at least part of the international sanctions imposed on Iran, the country can now start to increasingly seize economic opportunities linked to international trade and foreign markets. Iran's Sixth Economic, Social, and Cultural Development Plan, formulated for the period 2016–2021, highlights the role of trade, stressing the need to expand mutual economic and trade relations, to leverage economic diplomacy and benefit from the capacity of regional and international organizations, and to become a trade hub and establish special economic zones in strategic locations (Financial Tribune 2015). The strategies and roadmap to connect to foreign markets will naturally need to take into account current trends in international trade, the country's economic and geopolitical context, and its development objectives. In this regard, the formulation of a broad policy mix with a focus on structural transformation is required that must be pursued coherently and tailored to specific development needs to harvest pro-development benefits from international trade, including contributions associated with the 2030 Agenda for Sustainable Development (Agenda 2030) and to its Sustainable Development Goals (SDGs) which Iran has also endorsed.

This chapter begins by establishing the general linkages between international trade and development objectives. It then introduces the global context given by trends in international trade as well as some stylized facts on the Iranian-specific economic context. It continues with an analysis of the structure of the country's merchandise and services trade. This paves the way for several considerations on the multidimensional aspects of trade policy and on how it can support national

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development objectives, for example, through integration in the international trading system and accession to the World Trade Organization (WTO) with terms commensurate to the country's development. The chapter concludes by making reference to some concrete practices that can be part of Iran's trade strategies.

Trade and Development

Trade has had a significant role in the global economy, with exports of goods and services evolving from 11.2% of global gross domestic product (GDP) in 1970 to 30.5% in 2014, as reported by the United Nations Conference on Trade and Development (UNCTAD 2016c). This importance is acknowledged in the Sustainable Development Goals (SDGs), recognizing that trade can be instrumental for the Agenda 2030. In fact, international trade provides the means to connect suppliers and consumers of a country with foreign markets. Exports seize income-generating opportunities by, *inter alia*, expanding demand, benefiting from possible higher returns, and bringing production possibilities closer to full capacity. These can directly impact the achievement of goal 1 of SDGs on ending poverty. Such export-related mechanisms affect output and employment levels, which are of central importance to goal 8 on economic growth. Imports as well can increase the availability, variety, and affordability of goods and services, with important development effects, for example, in the case of medicines, vaccines, food, and environment-related goods and services (UNCTAD 2014). This matters for goal 2 on ending hunger, goal 3 on ensuring healthy lives, and goal 14 on the use of the oceans. International trade also allows for inflows of input factors as raw materials, intermediate inputs, equipment, technology, knowledge, and services—encompassing the infrastructure services sector (ISS). Therefore, supply capacity—including export capacity—in all economic sectors can become more efficient and more prepared to meet new and diversified markets and provide more value-added goods and services. This is central for goal 7 on energy, goal 8 on economic growth, and goal 9 on infrastructure (see Table 1).

Services and more particularly ISS are expected to play a significant role in SDGs. Several SDGs refer directly to ISS and basic services, while in others the role of the services sector is necessarily implied. More specifically, goal 1 on ending poverty aims at ensuring by 2030 “that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services.” Services like education, health, energy, telecommunications, water, sanitation, and finance—including financial inclusion—are present. This comprises goal 1 on ending poverty; goal 3 on ensuring healthy lives; goal 7 on ensuring access to affordable, reliable, sustainable, and modern energy for all; and goal 9 on building resilient infrastructure, promoting inclusive and sustainable industrialization, and

Table 1 SDGs: selected trade-related goals and targets

Goal 1. End poverty in all its forms everywhere
1.1 By 2030, eradicate extreme poverty for all people everywhere
Goal 2. End hunger, achieve food security
2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect
Goal 3. Ensure healthy lives
3.b Provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and public health
Goal 7. Ensure access to affordable, reliable, sustainable, and modern energy for all
7.1 By 2030, ensure universal access to affordable, reliable, and modern energy services
Goal 8. Promote sustained, inclusive, and sustainable economic growth
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading, and innovation
8.a Increase aid for trade support for developing countries including through the enhanced integrated framework for trade-related technical assistance to least-developed countries
Goal 9. Build resilient infrastructure
9.1 Develop quality, reliable, sustainable, and resilient infrastructure, including regional and transborder infrastructure
9.3 Increase the access of small-scale industrial and other enterprises to financial services
Goal 10. Reduce inequality within and among countries
10.a Implement the principle of special and differential treatment for developing countries
10.c By 2030, reduce to less than 3% the transaction costs of migrant remittances
Goal 14. Conserve and sustainably use the oceans
14.6 By 2020, prohibit certain forms of fisheries subsidies
Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development
17.10 Promote a universal, rules-based, open, nondiscriminatory, and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda
17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least-developed countries' share of global exports by 2020
17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least-developed countries, consistent with the World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least-developed countries are transparent and simple and contribute to facilitating market access

Source: Reproduced from the United Nations (UN 2015b)

fostering innovation. Access to financial services is mentioned frequently in SDGs¹ and is therefore a key element in implementing the Agenda 2030. Furthermore, goal 9 adds the requirement to “develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic

¹References are found in the following goals: (1) no poverty, (2) zero hunger, (5) gender equality, (8) decent work and economic growth, and (9) industry, innovation, and infrastructure.

development and human well-being.” The SDGs implicitly and explicitly rely on universal access for a set of ISS and basic services like health, water, energy, transport communication, and finance while encouraging the development of other services like research and development to eradicate totally extreme poverty (UNCTAD 2015).

Yet, the translation of international trade and economic growth into development benefits is not automatic. Income benefits can be diminished and not adequately distributed with market failures affecting efficient resource allocation, with income inequality arising between agents participating in trade-related activities and others who are not involved, and with trade-related structural changes bearing adjustment costs. In addition, international trade may create short-term incentives to specialize in activities that reflect already existing factor endowments, which can be nonaligned with structural transformation strategies toward diversification and upgrading aspirations of developing countries. Instead, it may lock and accentuate external and internal asymmetries and structural heterogeneity. In some cases, global value chains (GVCs) related to trade lead to “thin industrialization,” whereby a country specializes in low-skill and low-productivity activities that are less than conducive to long-term development (UN 2015a). For example, labor-intensive, resource-intensive, and low-skill technology-intensive manufacturing exports represented more than 85% of total manufacturing exports from least-developed countries (LDCs) in 2014, an increase from 1995 (UNCTAD 2016c).

It is therefore necessary to put in place a comprehensive set of policies from different areas—including macroeconomic, monetary, fiscal, labor, industrial, technology, trade, investment, services, infrastructure, regulatory, institutional, education, social, and development policies—to harvest development benefits from international trade. This policy mix must be pursued, designed, and implemented in a coherent manner and tailored to specific development needs in a no one-size-fits-all approach, taking into consideration the global and national trade context. To achieve this, it is critical to seize the important momentum created by the adoption of the Agenda 2030 and of its SDGs and translate the aspirations conveyed in these decisions into actions.

Global Context of Trends in International Trade

Trade in Goods

International trade performance has been sluggish in recent years. After a very modest increase of 2.6% in 2015, the lowest since the global crisis of 2008–2009, global trade is forecasted to have grown only 1.7% in 2016 and to grow 2.8% in 2017 (EIU 2016b). This reflects the slow pace of global economy that reduced import demand, not only from developed economies but increasingly from emerging economies, particularly in China—where economic slowdown accounts for one-third of the deceleration in non-OECD import volume growth between 2014

and 2015 (OECD 2015)—but also in Brazil and in the Russian Federation. In addition, there is a decline in trade's responsiveness to output growth. While the ratio of global trade growth to global output growth was closer to 2:1 before the global crisis, it was closer to 1:1 in the period between 2012 and 2016.² On the one hand, this happens because major players increasingly source inputs domestically, reducing the role of GVCs in a so-called backlash to globalization. For instance, China's imports of intermediate goods, as a share of total imports, decreased from 34% in 2000 to 19% in 2015.³ On the other hand, weak investment growth led to a reduction in exports of capital goods while consumer goods, with lower import content, increased. Again, China had a systemic role when trying to rebalance its economy from infrastructure investment and manufacturing to services and consumption.

Additional Context for Trade Downturn

This feeble performance is also linked to trade policy, in particular to insufficient tariff cuts—which are related to already liberalized markets and to the abundance of persistent exemptions—and an increasing number of behind-the-border measures which increasingly determine market access conditions, affecting developing countries more than tariffs. In 2015 there were more product groups contributing to the declining value of global trade. Resort to protectionism rose 50% in 2015, with G20 members being responsible of 81% of the measures implemented this year. While protectionist measures implemented in the first 4 months of each year since 2010 stood between 50 and 100, they have surpassed 150 in the similar period of 2016 (Evenett and Fritz 2016). This may derive from the backlash to globalization, compounded by unemployment rates in some markets, which has also materialized in the call for the separation of the United Kingdom from the European Union.

In addition to the deceleration in volume, the value of world trade in both goods and services contracted in 2015 for the first time since the global crisis. This derives from the depreciation of major currencies against the US dollar—which registered a nominal appreciation of around 20% between January 2013 and April 2016 (see Fig. 1), leading to the decrease in dollar-denominated trade value. The value contraction of world trade also results from the reduction of the value of commodity exports, a consequence of the significant fall in fuel prices since late 2014 and the downward trend of other primary commodities since late 2011 (see Fig. 2). Brent crude oil price reached a 5-year low of \$28 per barrel in January 2016, a 40% drop from January 2015, which was already a 50% fall from June 2014 (Bloomberg 2016). Although with considerable uncertainty, this trend is likely to be resilient due to oversupply, with increased quantities among members of the Organization of Oil

²UNCTAD calculations based on United Nations (2017) and EIU (2016b).

³UNCTAD calculations based on WITS (2016).

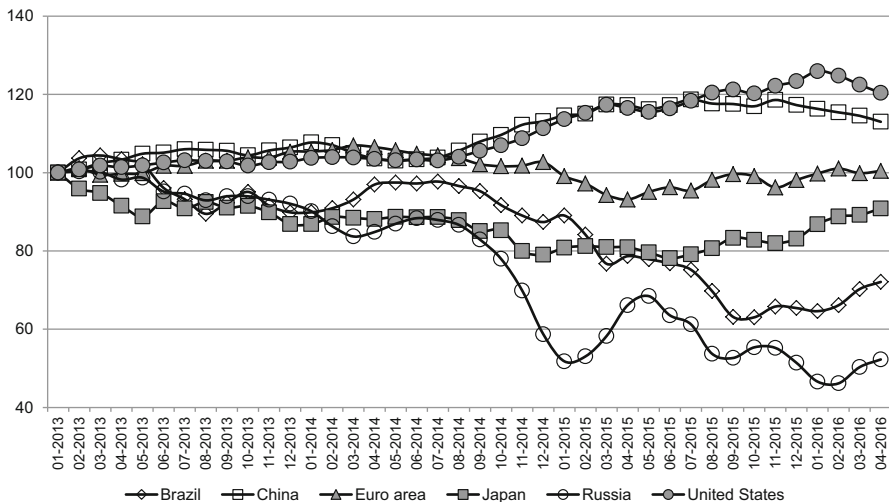


Fig. 1 Nominal effective exchange rates for selected countries (*index 2013/01 = 100*) [Source: BIS (2016), Effective exchange rate online data]

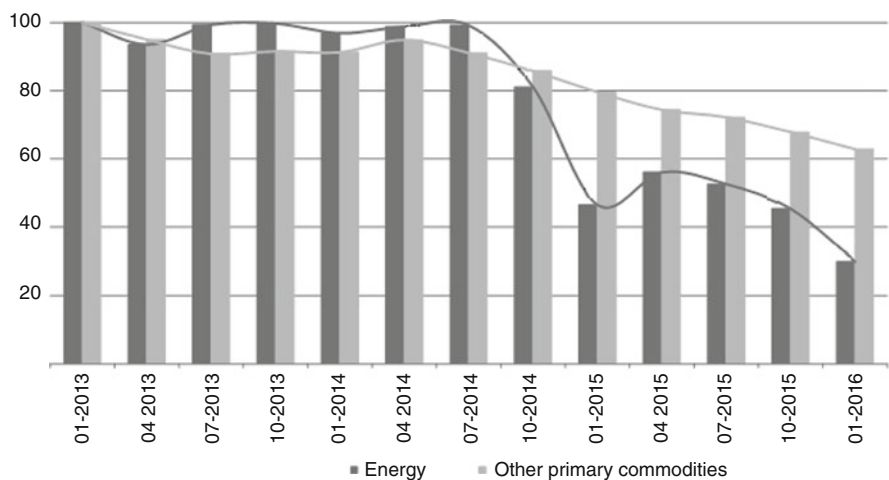


Fig. 2 Trade unit prices of energy and other commodities (*index 2013/01 = 100*) [Source: CPB (2016), World Trade Monitor]

Producing Countries (OPEC)—albeit somewhat slowed by recent agreements—as well as non-OPEC producers. This is augmented by some political stability in producing regions and by the market reentrance of Iran and to weak global demand, especially China. Against this backdrop, the nominal value of global merchandise exports dropped more than 13% from \$19 trillion in 2014 to \$16.5 trillion in 2015,

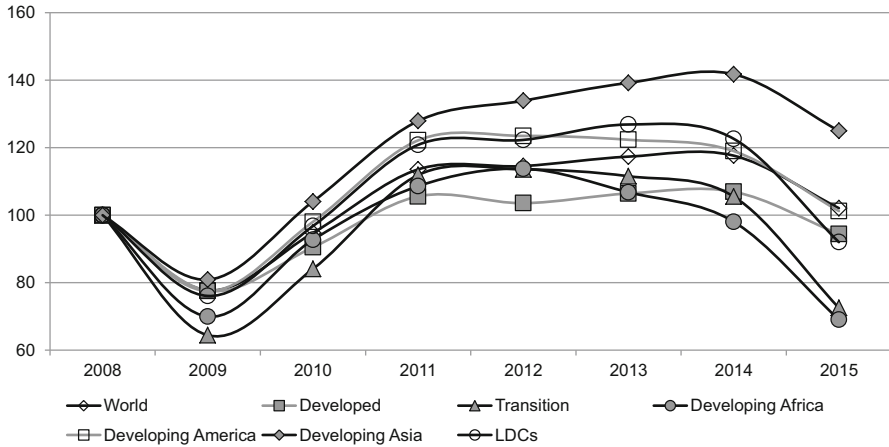


Fig. 3 Merchandise exports by region and development status (*index 2008 = 100*) [Source: UNCTAD (2016c), UNCTADstat]

with exports contracting for developed, transition, and developing economies (see Fig. 3).

Trade in Services

As in the global economic crisis, services have again been more resilient, although global services exports also experienced a decrease of around 6% from \$5.1 trillion in 2014 to \$4.8 trillion in 2015 (see Fig. 4). Exports contracted for developed, transition, and developing economies, with the notable exception of LDCs, which saw their services exports grow 1.3%. Some higher value-added services sectors have been more dynamic in developing than in developed economies—for example, telecommunications and computer and information services—due to growth in Asia and in Latin America and the Caribbean. This notwithstanding, developing countries still seem to be specialized in more traditional services such as transport and travel, particularly in Africa and LDCs, while developed economies retain the focus on higher value-added services such as financial and insurance services.

The Importance of Services Trade Is Underestimated

The share of services in total exports of goods and services was 27% in developed economies and 15% in developing economies in 2015. Be that as it may, these data underrepresent the importance of services trade as they focus on cross border trade, not capturing the very important contributions of services trade through commercial

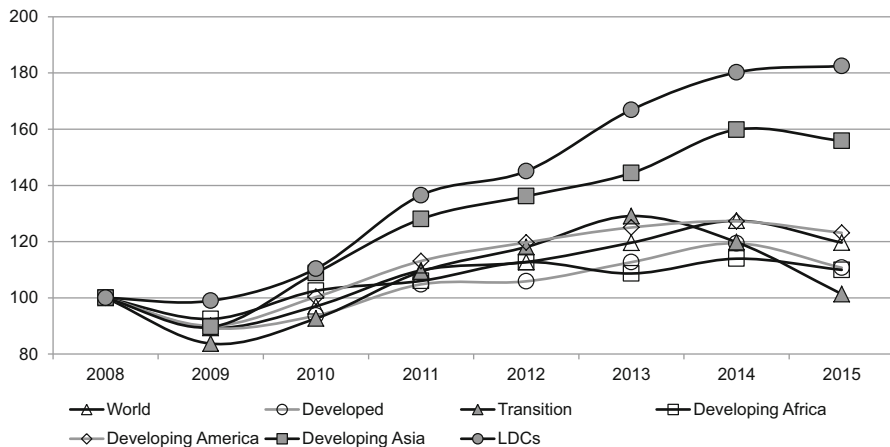


Fig. 4 Services exports by region and development status (*index 2008 = 100*) [Source: UNCTAD (2016c), UNCTADstat]

presence or temporary movement of natural persons. Services trade with commercial presence through foreign direct investment (FDI) is the major mode of supply as inferred by the increased sales by foreign affiliates, from \$32 trillion in 2013 to \$37 trillion in 2015 (UNCTAD 2016b) (assuming that this increase also derives from its services component). Services have in fact accounted for 53% of global announced greenfield FDI in 2015 or \$408 billion (UN 2016). Services exports through mode 4 are also expected to be on a rising trend, based on the growth of migrants and remittances that reached \$582 billion in 2015 (of which \$432 billion to developing countries) (UN 2016). In 2014, Iran received \$1.4 billion in remittances, representing a 3.9% growth over the previous year and a sizeable 14% of its total services exports in the same year (UNCTAD 2016c). In addition, cross border services trade data do not capture the significant value-added services embedded in goods exports. These comprised 59% of gross exports in developed economies and 43% in developing economies and economies in transition in 2011 (see Fig. 5), much above their shares of services exports in total exports. This is even more pronounced in sectors such as energy, chemicals, machinery, and transport equipment (UNCTAD 2016a). It confirms the importance of services as an enabler of all trade and makes services a major option for economic transformation, for export diversification, and for increased participation in GVCs. Indeed, the development potential of the services economy and trade is yet to be fully explored in many developing countries (Mashayekhi et al. 2011).

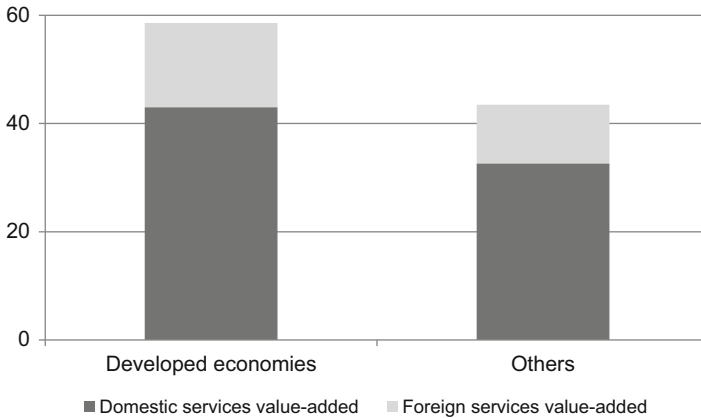


Fig. 5 Domestic and foreign services value-added share of gross exports, 2011 (*percentage*) [Source: UNCTAD calculations, based on OECD and WTO (2016), TiVA database]

New Paradigm of International Trade

Amidst the trade downturn, emerging economies have changed the paradigm of international trade and the international trading system, which are now operating in a multi-polarized world with important regionalization effects (UN 2014). Several developing economies have moved to central positions in global trading networks and have thus acquired a systemic importance. Moreover, regionalism and even GVCs have accentuated the geographic clustering of trade networks also in developing countries. Europe remains an intense trade cluster but now followed more closely by East Asia, in which 56% of the foreign value-added exports came in 2011 from within the region. To a smaller extent, there is also some trade clustering across countries within Latin America and the Caribbean regions. In this context, developing countries may contribute 55% to global GDP by 2025 and 64% to global exports by 2030 (World Bank 2015). China has a key role in this shift, also reflecting the asymmetry within developing countries regarding trade values and directions. Notwithstanding, developed economies retain an important influence on trade trends.

Iranian Economic Context

Output and Employment

The performance of the Iranian economy, measured by annual growth of GDP, was roughly similar between 2005 and 2010 to the performance of several groups where Iran is inserted, including the Economic Cooperation Organization (ECO) and the

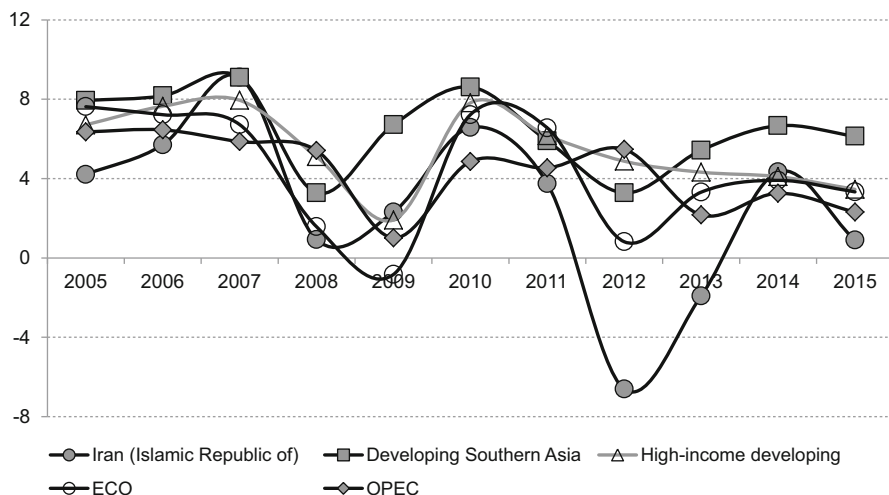


Fig. 6 Annual growth rate of GDP for selected economies, 2005–2015 (percentage) [Source: UNCTAD (2016c), UNCTADstat]

OPEC. It was also in line with the performance of its regional and income groups: high-income developing economies and developing economies of Southern Asia (see Fig. 6). This includes the reduction of GDP growth in the global crisis in 2008 and 2009 and the recovery in 2010. The important difference between GDP growth in Iran and in the related groupings occurred in 2012 and 2013, where international sanctions affected the Iranian economy and led to GDP growth of -7 and -2% , respectively (UNCTAD 2016c). Partial relief of sanctions was accompanied by positive growth in 2014. With the lifting of sanctions, GDP growth is estimated to be 4.6% in 2016 and forecasted to be 5.4% in 2017 (EIU 2016c), higher than in the period when sanctions were in force but still below the 8% target of Iran's Sixth Five-Year Development Plan (Financial Tribune 2015). This economic performance in recent years was explained mainly by the effects on international trade, which was the most responsive component of GDP. It also had negative growth during the global crisis and the period of sanctions and exhibited the highest growth before and after the global crisis and after the sanction period (see Fig. 7).

As indicated in Fig. 8, in 2014, output in Iran concentrated in services (with 60% of total GDP) and in mining and utilities (with 21% of GDP). Manufacturing represented only 11% of GDP and agriculture a mere 7% . This is approximately in line with the average OPEC profile. It is noteworthy that in Iran manufacturing contributes less to output than in other economies in the region (see Fig. 8). This servicification of the economy is also reflected on employment, with 48% of total jobs concentrated in the services sector in 2014—more than in 2005 (see Fig. 9). Industry accounted for 34% of employment and agriculture for 18% . The primary sector has the smaller number of jobs, is the only sector decreasing its contribution to employment from 2005 to 2014, and has the lowest productivity.

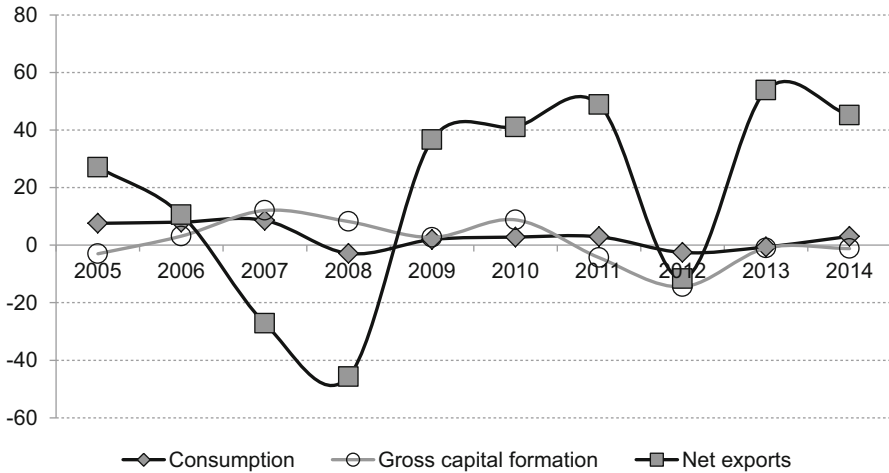


Fig. 7 Iran's annual GDP growth rate by type of expenditure, 2005–2014 (percentage) [Source: UNCTAD (2016c), UNCTADstat]

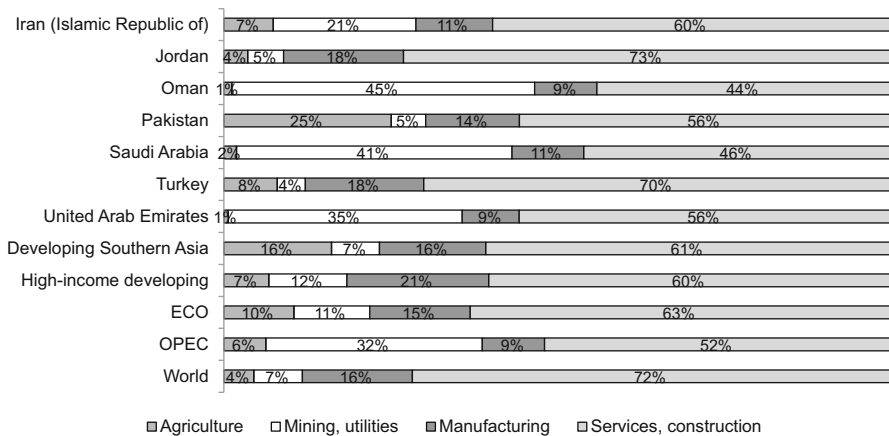


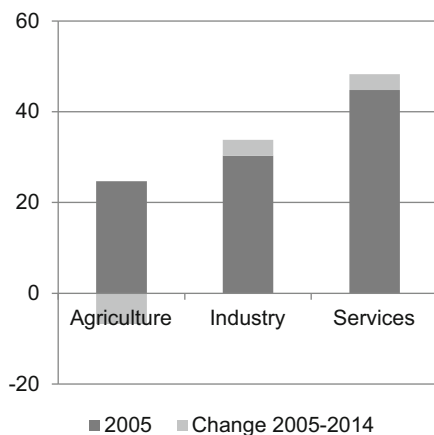
Fig. 8 GDP by type of economic activity for selected economies, 2014 (percentage) [Source: UNCTAD (2016c), UNCTADstat]

International Trade

As mentioned, the servicification of the economy is not fully translated into balance of payment-based statistics for international trade either in developed or in developing economies. Iran is no exception, with services exports amounting to \$9 billion against \$63 billion of merchandise exports in 2015 (UNCTAD 2016c). Still, this derives to some extent from the fact that these statistics for trade in services do not fully reflect the tradability of services, including the value-added services embedded

Fig. 9 Jobs by type of economic activity in Iran, 2005 and 2014 (*percentage*)

[Source: World Bank (2016a), World Development Indicators]



in goods exports. Using value-added data computed for 2011, and comparing it to traditional statistics for the same year, it can be confirmed that there is an important difference. While services trade accounted for only 5% of gross exports according to standard statistics, the value-added analysis reveals that services are responsible for 22% of the value added in exports.⁴

In any case, these services exports based on balance of payment statistics correspond to the same contribution to GDP as the OPEC average. Merchandise exports in Iran represented a lower contribution to GDP than in the average OPEC profile in 2015 (UNCTAD 2016c). This may reflect the gradual recovery of exporting activities from the crisis period in Iran. The value of the country's merchandise exports, as well as the value of OPEC's merchandise exports, is also being affected by the abovementioned downward trend in energy commodity prices (see Fig. 2). These hypotheses are supported by the evolution of merchandise exports in Iran (see Fig. 10), which grew before the global crisis, decreased in 2009 during the crisis, returned to growth after the global crisis, decreased in 2012 and 2013 with international sanctions, recovered slightly in 2014 with partial removal of sanctions, and plunged in 2015 with the fall in commodity prices.

There is a persistent services trade deficit, and international trade in Iran is strongly dependent on goods, where surplus has been constant (see Fig. 10). Be that as it may, a somewhat positive performance of goods trade is strongly supported by increases in the value and not in the volume of exports (see Fig. 11). This divergence is linked to the strong focus of Iran's merchandise trade on fuel exports, representing 58% of total exports in 2015 (see Fig. 12), which are associated with volatility risks—as confirmed by the recent drop in commodity prices and in goods exports in 2015. This underpins the need to diversify the composition of exports. Services exports have proven to be more resilient to external shocks, without any significant fluctuations during the international crisis, in the period of sanctions and

⁴UNCTAD calculations based on World Bank (2016c).

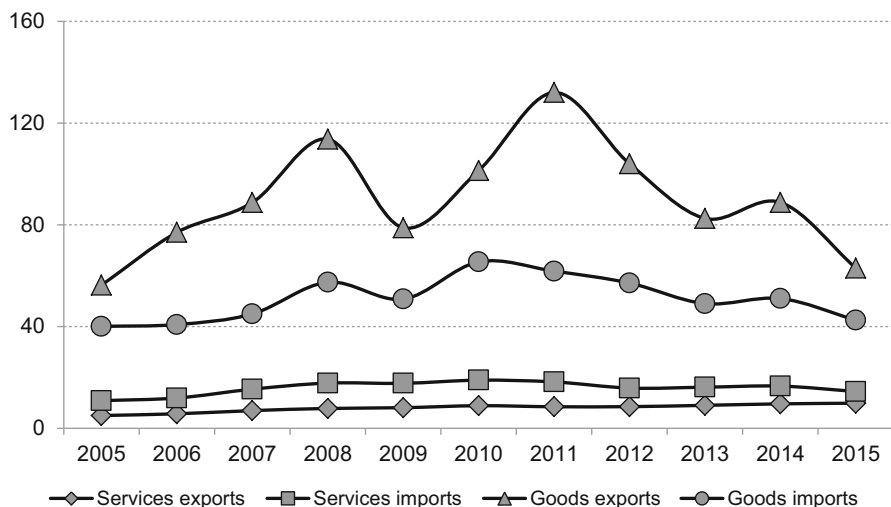


Fig. 10 Iran's exports and imports of goods and services, 2005–2015 (\$ billion) [Source: UNCTAD (2016c), UNCTADstat]

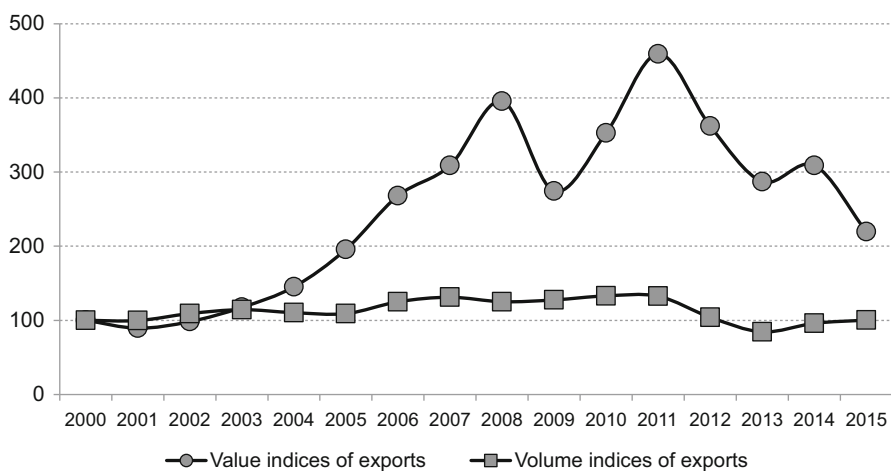
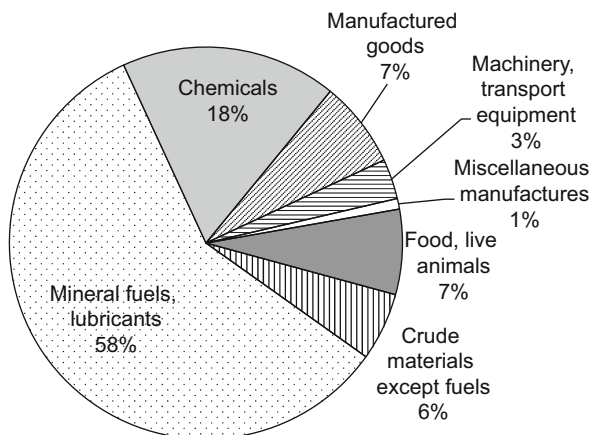


Fig. 11 Value and volume indices of exports for Iran, 2000–2015 (index 2000 = 100) [Source: UNCTAD (2016c), UNCTADstat]

in the current commodity price fall. In addition, services exports have displayed steady growth (see Fig. 10), standing as a valid option for diversification. Furthermore, the Sixth Five-Year Development Plan aims for a structural transformation by proposed investments in the agricultural, marine, and industrial sectors that can address volatility risks related to commodity dependence and favor economic and trade diversification.

Fig. 12 Distribution of Iran's goods exports, 2015 (percentage) [Source: UNCTAD (2016c), UNCTADstat]



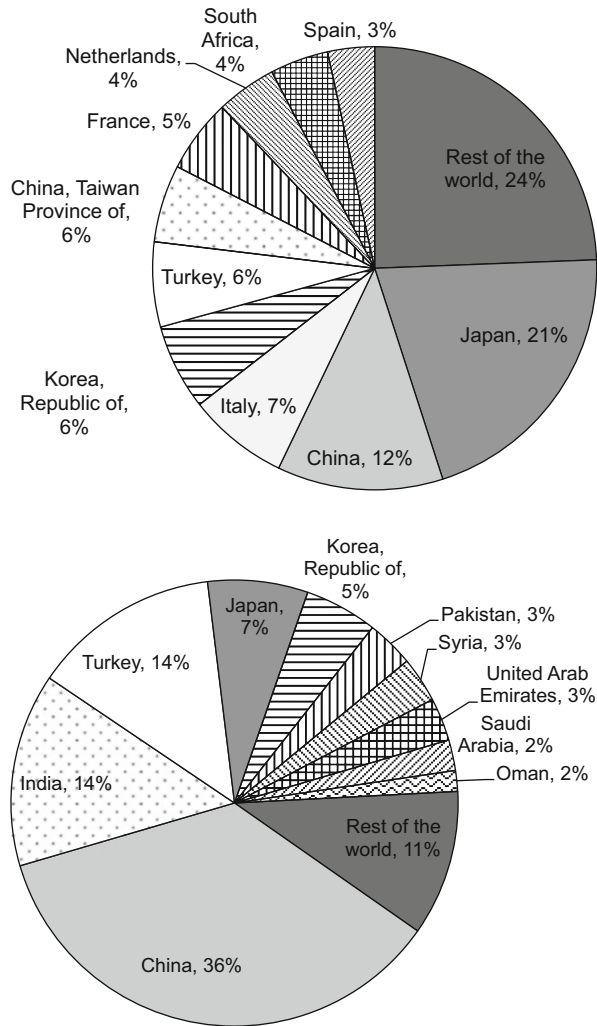
Destination Markets for Iranian Exports

In addition to diversify the product composition of exports, it is also important for Iran to diversify the array of export markets. Further to cause a decline in merchandise trade—and consequently in overall trade and output—sanctions caused trade to shift away from Europe toward Asia and the Middle East and to become more concentrated in terms of export markets (see Fig. 13). The ten main markets for Iranian goods exports received 76% of such exports in 2005, whereas in 2015 this number rose to 89%. The main goods export markets in 2015 were, in descending order, China, India, Turkey, Japan, the Republic of Korea, Pakistan, Syria, the United Arab Emirates, Saudi Arabia, and Oman. The focus on trade relations with countries in Southwest Asia, expressed in the Sixth Five-Year Development Plan, needs to be reconciled with diversification objectives.

Trade Perspectives

It is not yet fully clear if there will be developments in the US position toward the Joint Comprehensive Plan of Action, the agreement allowing the lift of sanctions, which may cast some uncertainty as to possible economic effects. As it stands, with the lifting of sanctions, oil exports are expected to increase in volume, with stocks partially compensating for the gradual recovery of recent underinvestments. Still, the positive effects of increased exports are being offset and outweighed by the negative effects of decreasing oil prices. In this context, the OPEC agreement from November 2016 is favorable for Iran as, on the one hand, it limits oil production and induces higher prices and, on the other hand, it recognizes the particular situation of the country—recovering from the period of sanctions—and grants Iran an increase in its quota. The post-sanction scenario has also facilitated the attraction of FDI, including

Fig. 13 Distribution of Iran's merchandise exports by partner, 2005 (above) and 2015 (below) (percentage) [Source: UNCTAD (2016c), UNCTADstat]



a contract with China to upgrade Iran's biggest refinery (EIU 2016c), improving its supply capacity in these products.

Non-oil trade, such as petrochemicals, automotive, and textiles, will also benefit from more open markets and by the reduction of foreign trade costs, supporting the goods trade surplus. In January 2016, Iran signed \$55 billion in deals on hydrocarbons, metals, transport, and automotive sectors (EIU 2016a). A contract was signed with India to develop the important Chabahar port and several Asian and regional banks committed to set up representative offices in Iran. Moreover, Iran has also reached an agreement with France's Renault to open a car assembly plant in the country (EIU 2016c), confirming the country's potential as a market on its own and as a regional hub. Lower costs of imports, investments, and production can increase

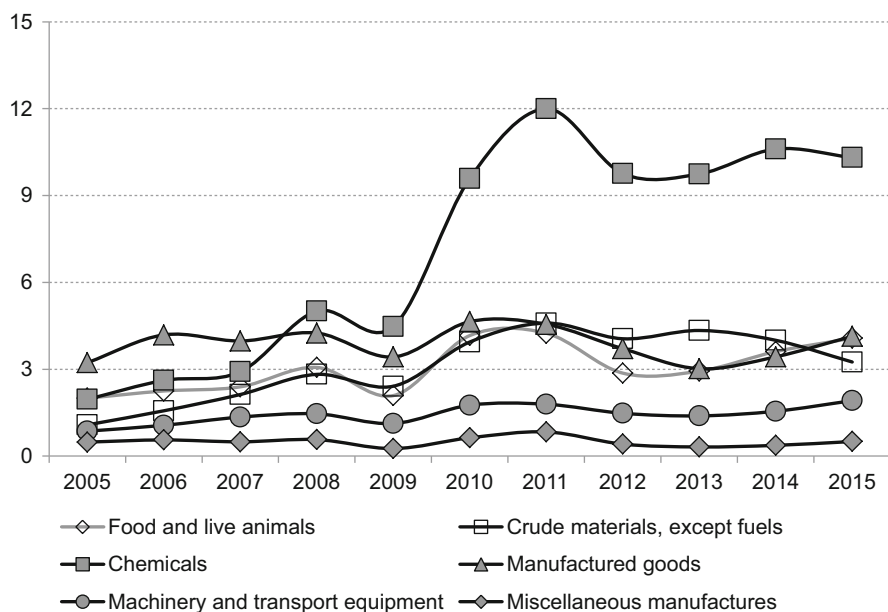


Fig. 14 Iran's non-oil goods exports, 2005–2015 (\$ billion) [Source: UNCTAD (2016c), UNCTADstat]

supply and export capacity, but an assessment of the structure, performance, and potential of both merchandise and services exports is required so that trade, industrial, and other policies can seek to benefit from comparative advantages to support exports and market diversification, especially in activities with higher value added and productivity. To some extent, some diversification results have been achieved recently. Iran's fuel export share of total exports has decreased from 71% to 58% between 2014 and 2015. In the same period, the importance of the ten main destination markets for Iranian goods exports decreased from 93% to 89% (UNCTAD 2016c).

Structure of Merchandise and Services Trade in Iran

Trade in Goods

Regarding trade in non-oil goods, exports of “chemicals” and of “crude materials except fuels” registered the biggest annual growth between 2005 and 2015—18 and 12%, respectively (see Fig. 14). The higher shares in non-oil exports in 2015 were registered by exports of “chemicals” and of “manufactured goods”—43 and 17%, respectively. Between 2005 and 2015, there was also a relevant annual growth of

Table 2 Revealed comparative advantages associated with Iranian trade in goods, 2005 and 2014

Product group	2005	2015
Gaining comparative advantage		
Food and live animals		1.0
Coffee, tea, cocoa		1.4
Crude materials except fuel		1.5
Hides, skins, and furskins		1.5
Metalliferous ores and metal scrap		2.4
Chemicals		1.5
Organic chemicals		3.3
Inorganic chemicals		2.5
Fertilizers		3.5
Plastics in primary form		3.7
Mineral fuels and lubricants		
Gas, natural and manufactured		2.2
Manufactured goods		
Leather, leather manufactures		1.2
Iron and steel		1.0
Increasing comparative advantage		
Food and live animals		
Live animals	1.2	2.4
Vegetables and fruits	2.1	3.1
Crude materials except fuel		
Crude fertilizers	2.1	6.1
Decreasing comparative advantage		
Mineral fuels and lubricants	5.8	4.8
Petroleum and petroleum products	7.0	5.7

Source: UNCTAD (2016c), UNCTADstat

“machinery and transport equipment” and “food and live animals”—8 and 7%, respectively.

As indicated in Table 2, in 2015, Iran had revealed comparative advantage (RCA) in “food and live animals,” including on the subgroup of “coffee, tea, and cocoa,” in “crude materials except fuel,” including on the subgroups of “hides, skins, and furskins” and “metalliferous ores and metal scrap.” In the same year, RCA was also found in “chemicals,” including on the subgroups of “organic chemicals,” “inorganic chemicals,” fertilizers,” and “plastics in primary form.” There was also a RCA in “leather, leather manufactures,” and “iron and steel” within the “manufactured goods” group and on “gas, natural and manufactured,” within the “mineral fuels and lubricants” group. These comparative advantages were not revealed in 2005. In “live animals” and “vegetable and fruits” within the product group of “food and live animals,” and on “crude fertilizers” within the product group of “crude materials except fuel,” RCAs were already found in 2005 but became more pronounced in 2015, most notably on “crude fertilizers.” In “mineral fuels and lubricants,” including in the subgroup of “petroleum and petroleum products,” RCAs are found, although less distinct than in 2005. Nevertheless, the RCA of “petroleum and petroleum products” is still one of the most prominent within

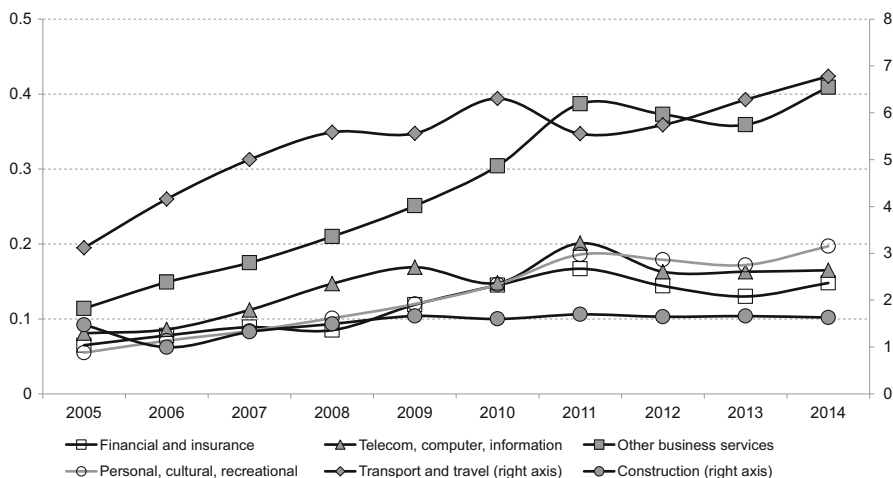


Fig. 15 Iran's commercial services exports, 2005–2014 (\$ billion) [Source: UNCTAD (2016c), UNCTADstat]

merchandise trade, second only to “crude fertilizers.” This evolution may also reveal some results in the diversification of the economy, with some specialization appearing or strengthening within food and live animals, crude materials except fuel, chemicals, gas, and manufactured goods, contrasting with a slight decrease in the specialization in petroleum.

Trade in Services

Between 2005 and 2014, the biggest growth in commercial services sectors was on “other business services” and on “personal, cultural, and recreational services”—15% annually in both sectors (see Fig. 15). In the same period, “financial services” and “telecommunication, computer, and information services” also had important annual growth—10 and 8%, respectively. Still, in 2014 all of these services sectors represented low shares of total services exports: 4% for “other business services” and 2% for the other mentioned sectors. In 2014, the biggest share in services exports is from transport and travel—with 73% of total services exports, which also had important growth between 2005 and 2014—9% annually. Deficit may remain due to rising imports, including from the growing presence of foreign oil firms. The impact should be partly offset by transport and tourism.

As shown by Table 3, in 2014, Iran had a RCA in “travel” which was not found in 2005. It also had a RCA in “personal, cultural, and recreational services,” which already existed in 2005 but became more pronounced. RCAs are also found in “transport” and in “construction” in 2014 but less evident than in 2005. However,

Table 3 Revealed comparative advantages in Iranian trade in commercial services

Product group	2005	2014
Gaining comparative advantage		
Travel		1.4
Increasing comparative advantage		
Personal, cultural, and recreational services	1.2	2.4
Decreasing comparative advantage		
Transport	2.1	1.8
Construction	17.1	8.3

Source: UNCTAD (2016c), UNCTADstat

the RCA of “construction” is still the most important within trade in commercial services.

Connecting to Markets: Trade Policy for Development

Policy Mix and Multidimensional Trade Policy

Both the external and the domestic environment need to be taken into account in the set of policies that allow harvesting development benefits from international trade and facilitate its enabling role toward SDGs. It is important to mainstream such concerns into national policy agendas, including on macroeconomic, monetary, fiscal, labor, industrial development, technology, trade, investment, services, infrastructure, regulatory and institutional frameworks, education, and social policies, in a whole-of-government approach. These policies must be pursued, designed, and implemented proactively and tailored to specific needs in a no one-size-fits-all approach. This policy mix should consider national and local, bilateral, regional, and multilateral dimensions. That is particularly important to ensure policy, regulatory, and institutional coordination. Institutional aspects are in fact critical to a successful developmental outcome, as an integrated policy action requires adequately mandated, fully financed, and coordinated institutions. The multiplicity of policy areas requires a coherent and integrated approach, including by unified guiding documents. This coherence of trade policy, particularly in trade in services, is envisioned on SDGs.

Trade policy itself is multidimensional and it should rely on a coherent set of initiatives. Trade negotiations and the international trading system are key instruments to provide market access opportunities, to remove barriers and reduce trade costs. They can be instrumental to generate confidence in investors and trade partners, providing a context where trade benefits can be reaped. The network of agreements should also contribute to product and market diversification—as called for by the current national context of Iran (see Figs. 12 and 13)—and enable linkages with industrial, investment, and other policy areas. Iran has trade agreements with Belarus, Bosnia and Herzegovina, Cuba, Iraq, Kyrgyzstan, Pakistan, Syria, Tunisia,

Turkey, and Uzbekistan, and conversations are under way with the Eurasian Economic Union and Vietnam. Market intelligence and export promotion are important to translate market access into market penetration, materializing the opportunities created by trade agreements. Regional and international cooperative initiatives should also be pursued to seize inter alia economies of scale, infrastructure development, trade facilitation, mobility of natural persons, and mutual recognition.

Multilateral Trading System and Accession

The multilateral trading system (MTS) is a global public good that has the potential to contribute to development benefits from international trade. This is in line with Iran's strategy that envisages to considerably expand trade and economic relations with trade partners while reiterating the commitment to principles of nondiscrimination, transparency, greater trade openness, and the rule of law in the MTS. Accession, as part of the reform process, will assure most-favored nation (MFN) treatment and national treatment for goods in a universal, rules-based, and nondiscriminatory system, more market access, and the use of the dispute settlement mechanism (see Box 1). The simple arithmetic average of import duties in Iran's national tariff schedule is currently 18.71%, 17.12% for industrial goods and 26.43% for agricultural goods. Around 34% of tariff lines have the minimum tariff rate of 4%. The highest tariff rate is 75%, applied to 6.5% of tariff lines (WTO 2009). The accession to the WTO with the right terms, appropriate level of special and differential treatment (SDT), and transition period commensurate to the level of development of Iran is in line with the Sixth Five-Year Development Plan by promoting trade and economic growth and encouraging investments. Concerns revolve around low competitive domestic industries and to the long and demanding process of adapting the extensive regulatory framework. This needs to be addressed by a thorough and strategic preparation and definition of objectives and targets. The economic adaptation should be ensured by a gradual, timed, and sequenced process of liberalization that ensures coherence with national and sectoral development policy objectives and takes into account the development potential of international trade. The Doha round has not delivered to the full needs of developing countries, and therefore a comprehensive and multidimensional trade policy needs to be pursued to harvest development benefits, including the regional integration and cooperation component.

Box 1 WTO Accession Process

The WTO received Iran's membership application on July 1996. The General Council established a working party to examine the application in May 2005, when the country became an observer. Iran submitted its memorandum on the

(continued)

Box 1 (continued)

Foreign Trade Regime in November 2009 and replied to questions posed by the WTO members in regard to the memorandum in 2011. The memorandum was subsequently updated. The way forward will involve designation of the chair and meetings of the working party. This is facilitated by less external opposition but requires the country to take several actions to be prepared for the challenges of joining the WTO.

It also requires the development of institutional frameworks and human resources to ensure the adequate coordination of relevant public and private stakeholders, to negotiate and set appropriate commitments, and to fulfill obligations. This process further requires a long-term commitment, at the highest political level. Other than working on trade-related legislation, it is necessary to adapt economic and trade policies and ensure their implementation, including at sectoral level. Training and capacity building are necessary to promote effectiveness in the accession process, as well as ownership and continuity.

Twenty-First Century Trade and Services Policies

The linkages between trade, investment, technology, and industrial policy are particularly important because otherwise international trade may create short-term incentives to specialize in activities that reflect only the existing structure of factor endowments. Iran needs to use its comparative advantages (see Tables 2 and 3), but it also needs to defy them in support of long-term development benefits, in particular when it promotes higher value-added activities against external and internal asymmetries and structural heterogeneity. This upgrading requires a focus on the technology, innovation, and development of collaborative networks among public institutions and private entities, academia, and civil society. The Sixth Five-Year Development Plan underscores that the adoption of modern technologies is also a part of the development plan for agriculture, industry, services, and infrastructure services. Technology- and upgrading-driven efforts to build supply capacity and to compete through differentiation are particularly important for Iran as the educated labor force in the country will be more expensive and may not adequately compete through low costs as it is often the case in low-technology industries. Structural shifts in recent years seem to be in line with these objectives, with high-skill and technology-intensive manufactures representing 44% of non-oil exports in 2015 (see Fig. 16), but need to continue to be actively pursued. A facilitating and developmental state needs to address externalities and coordination issues to promote upgrading and diversification. This includes improving competitiveness—including of micro, small, and medium enterprises (MSMEs)—through clusters and integration into value chains.

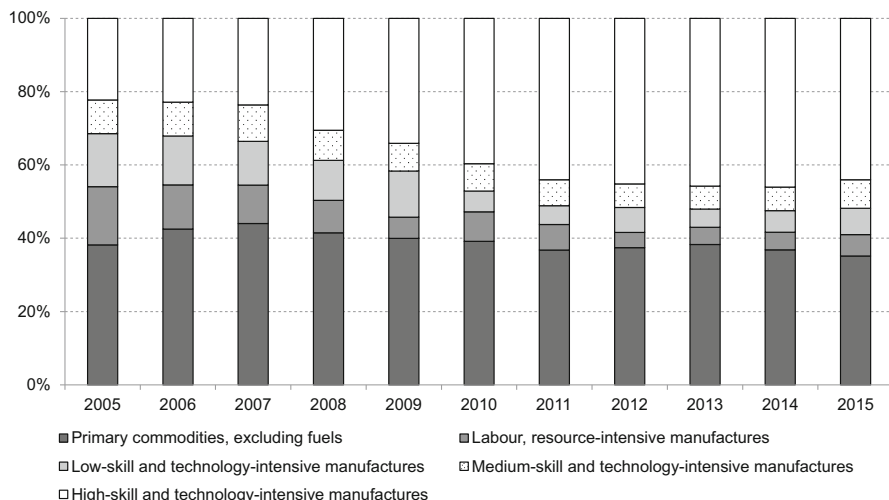


Fig. 16 Iran's non-oil goods exports by type of technology, 2005–2015 (percentage) [Source: UNCTAD (2016c), UNCTADstat]

The Sixth Five-Year Development Plan also underlined the importance of upgrading through the strengthening of value chains, impacting the country's export profile. This is envisioned for the oil and gas sector and also in upstream and downstream knowledge-based industries, including design, engineering, equipment manufacturing, and assembly. GVCs and regional value chains are by definition a connection to markets, providing opportunities for industrialization and diversification. An enabling policy mix and lead firm cooperation is required to avoid specialization in low-skill and low-technology activities. To foster participation in GVCs, it is necessary to reveal policy consistency and predictability, to have sound institutions, and to promote the ease of doing business. The elimination of labor market restrictions (including visa restrictions, openness to foreign labor, broader entry, and stay periods) and other restrictions (such as limits on foreign equity) facilitates the integration into GVCs. It is also important to develop adequate regulatory frameworks, intellectual property rights, and trade facilitation. Adequate data and statistics are also called for to have evidence-based policies and strategies. The policy approach should be best fit to development needs. Developed economies tend to promote sustainable business practices across value chains, while developing economies tend to aim for innovation and diversification to allow for upgrading within value chains.

Regional integration and cooperation can also promote the integration into regional and global value chains. It enlarges markets, creates economies of scale in investments, and enhances efficiencies in production, thus expanding capacity. Intraregional trade is important not only because of the important export shares it may achieve (see Fig. 17) but also because it tends to be more technological

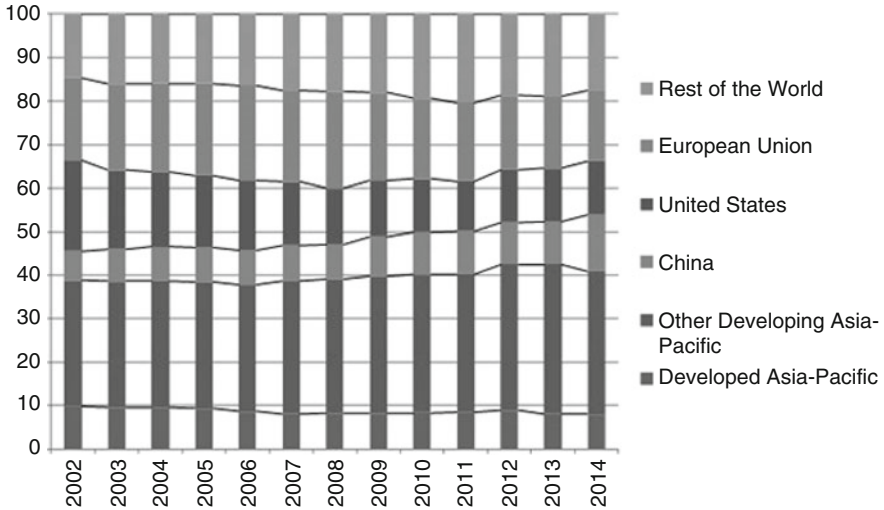


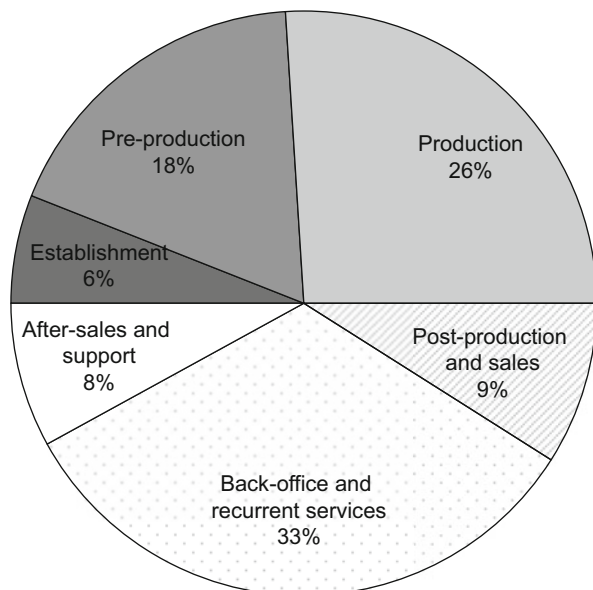
Fig. 17 Asia-Pacific’s export destinations, 2002–2014 (percent) [Source: Reproduced from ESCAP (2015)]

intensive and also enable exploring complementarities, leading to export diversification and enhanced resilience against international shocks.

Services as Enablers of Trade and Development Strategies

The availability of services is particularly relevant to enter GVCs, as they provide the required inputs to enable such participation. Either as input providers or through outsourcing, services participate in all stages of GVCs (see Fig. 18). More broadly, services contribute to improve efficiency and competitiveness for all economic sectors. Research and development, product design, and marketing services can often add higher value added, underlining the importance of considering the potential of the services sector to diversify and improve supply and export capacity. Within the services sector, infrastructure services such as energy, transport, and telecommunications and financial services are essential to the efficient functioning of productive capabilities and overall economies and are as such a direct determinant of countries’ competitiveness. Services accounted for 60% of GDP and for 48% of employment in 2014, and—as mentioned—for 43% of the value added in gross exports from developing economies and economies in transition in 2011 (see Fig. 5). Furthermore, services have an important potential to job creation, which is related to major concerns of policy-making in Iran, where unemployment has been identified to be around 10% and youth unemployment around 25% in 2014/2015 (see the chapters on scale economies and employment of highly educated labor in the present volume).

Fig. 18 Services in global value chains [Source: Reproduced from Asia Global Institute (2015)]



Box 2 Services and Structural Transformation

Services are providers of intermediate inputs enabling trade in all sectors and as direct determinants of productivity and competitiveness. The availability, quality, and affordability of services are therefore relevant to allow the participation, particularly of MSMEs, in GVCs. Services not only participate in all stages of GVCs but also have a coordinating function of production processes. Knowledge and technology-based services, in addition to adding higher value added, have an intermediation role that allows specialization. This contributes to a structural transformation consistent with the diversification and upgrading developmental objectives. This significant role of services is recognized in SDGs, which implicitly and explicitly rely on universal access for a set of basic and infrastructure services, while encouraging knowledge and technology services.

Notwithstanding, many developing countries are not fully benefiting from this potential. Policy, regulatory, and institutional frameworks are necessary to ensure efficient markets and to achieve development gains from services. These frameworks should address externalities and coordination issues, which are determinants of services' performance and need to be aligned to build complementarities between services sectors and the economy at large. The reduction of trade and investment barriers is also required as it promotes competition and allows for the inflows of knowledge, technology, financing, people, and other factors which can build supply capacity in services. This is

(continued)

Box 2 (continued)

particularly important for services which are still less tradable and benefit more from proximity. Furthermore, promoting international trade in services induces efficient services and may contribute to streamline regulatory requirements, thus enhancing positive effects in supply capacity. Favoring trade openness requires a multidimensional trade policy with negotiations, trade promotion, and market intelligence approaches.

A value-added analysis confirms the importance of certain services activities as providers of inputs and enablers of supply capacity, economic transformation (see Box 2), and participation in GVCs. The services value added incorporated in gross exports, which includes the contributions of services sectors to other economic activities such as agriculture and manufacturing, is much higher than the value of services direct exports. In Iran, this is found, for example, for the services sector as a whole and also for transport, financial services, and communications and information and communication technology (ICT) services (see Fig. 19), confirming these as key sectors for trade development strategies. Notwithstanding, Iran still lags behind several countries in terms of using the potential of services to improve economic competitiveness as its services sector accounts for a smaller share in its total forward linkages than in Brazil, India, South Africa, and Turkey (see Fig. 20). This is also found on certain services categories such as transport and financial services. Conversely, Iran has more ICT value added incorporated in exports than other countries, which is line with the abovementioned growth in technology-intensive manufactures.

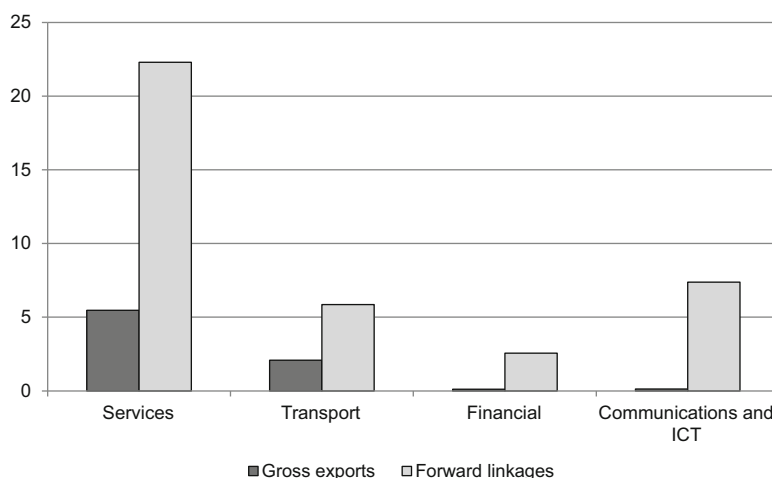


Fig. 19 Services share of Iran in gross exports and in total forward linkages value added, 2011 (percentage) [Source: UNCTAD calculations based on the World Bank (2016c), Export value added database]

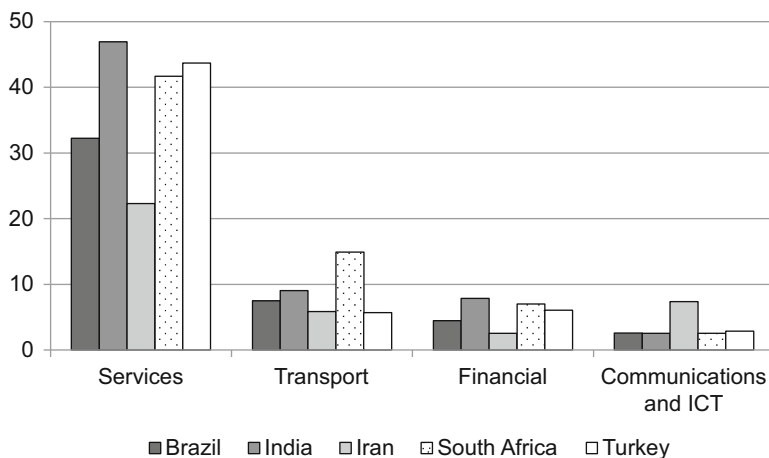


Fig. 20 Services share in total forward linkages value added for selected economies, 2011 (percentage) [Source: UNCTAD calculations based on the World Bank (2016c), Export value added database]

Iran has in fact made improvements in several of science and technology factors that support knowledge-based services. According to the UNCTAD Science, Technology and Innovation Policy Review of the Islamic Republic of Iran during the period 2005 and 2015, research activities have been emerging in areas such as nanotechnology, biotechnology, and renewable energy. The number of graduate engineering students has increased, and a law supporting knowledge-based start-ups, ratified in 2010, is benefiting—through financial and nonfinancial facilities—almost 3000 firms. The drive for diversification through knowledge-intensive activities has led to an eightfold increase in knowledge-intensive exports. ICT infrastructure has also improved with respect to mobile phone penetration from 12% in 2005 to 93% in 2015 and the Internet users from 8% in 2005 to 44% in 2015. Despite several policy actions, ICT infrastructure still requires higher investment to facilitate e-commerce and e-government and to improve ICT services and make them more efficient for businesses (UNCTAD 2016d).

The importance of developing infrastructure services, in addition to being acknowledged in SDGs, is recognized in Iran's Sixth Five-Year Development Plan in efforts to develop basic infrastructure, maritime trade, and rail transport. In particular, it aims to create comparative advantages on rail transport and developing rail freight transport through the upgrading of railroad and terminal facilities and connecting national railroads with regional and international transport corridors to boost export and transit sectors. The development of the financial and insurance services and markets and its instruments, and the use of development banks, is most relevant to facilitate investments, promote economic stability, and reduce the risks of business activities, strengthening the financial sector and trade financing. Financial inclusion is central to facilitate domestic and international transactions and to support the real economy, including households and MSMEs, toward poverty

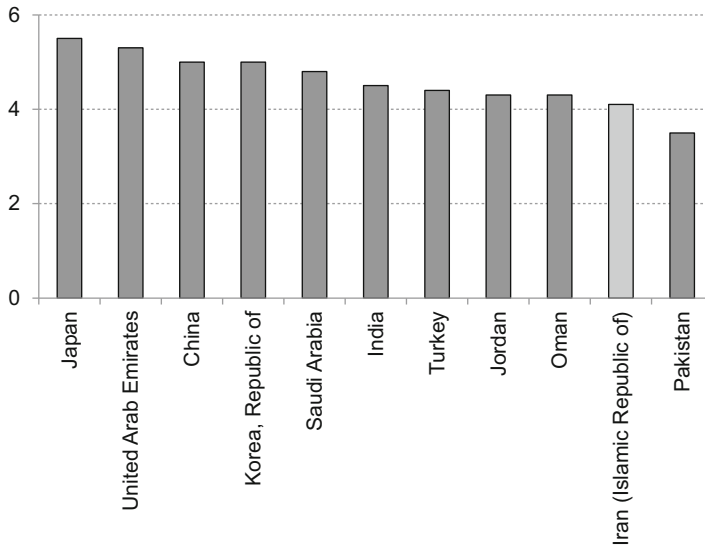


Fig. 21 Global Competitiveness Index 2016/2017 for Iran and selected economies [Source: UNCTAD calculations based on WEF (2016), Global Competitiveness Index]

reduction and economic and social development. The Sixth Five-Year Development Plan acknowledges the importance of developing the financial market and its instruments, including the money market, capital market, and insurance, toward facilitating investments, promoting economic stability, and reducing the risks of business activities. Iran's development plan also stresses the importance of favoring supply and export capacity by a continuous improvement in the business environment and in competitive market structures; by acknowledging the importance of the private sector and promoting its role in investment and development strategies; by encouraging domestic, diaspora, and foreign investments; by standardization and quality management systems; and by a comprehensive and efficient national statistic system.

Competitiveness

All these different dimensions of a trade-focused policy mix contribute to the improvement of the country's competitiveness. In the Global Competitiveness Index 2016/2017, Iran ranks 76 out of 138, below several countries in the region and several trade partners (see Fig. 21). This is a decrease from the previous year—where it ranked 74 out of 140 and improved from 2014 to 2015—where it ranked 83 out of 144, but it is still below the previous ranking of 66 out of 144 in 2012/2013. This places the country in a transition stage from a factor-driven economy to an efficiency-driven economy and still far from an innovation-driven economy. Detailing by pillar, Iran

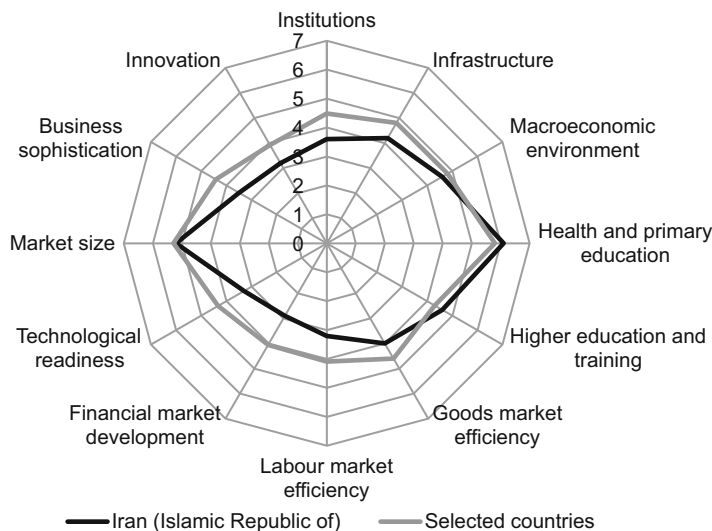


Fig. 22 Global Competitiveness Index 2016/2017 by pillar for Iran and selected economies [Source: UNCTAD calculations based on WEF (2016), Global Competitiveness Index]

ranks better in “health/primary education” and “market size” and worse on “financial market development,” “innovation,” “technological readiness,” and “labor market efficiency.”

In the comparison of Iran to the average of some other countries in the region and some trade partners, Iran performs somewhat better in “health/primary education” and in “higher education and training” and is almost equivalent in “market size.” It lags behind mainly on “financial market development,” “technological readiness,” “business sophistication,” “labor market efficiency,” “institutions,” and “innovation” (see Fig. 22). To a lesser extent, it also lags behind on “goods market efficiency” and “infrastructure.” According to the World Bank, national infrastructure is extensive in many dimensions but lacking quality, namely, in roads, the Internet, and telecommunication services.

In the Doing Business Index of the World Bank, Iran ranked 120 out of 190 overall in 2017, slightly decreasing from 2016 when it ranked 117 out of 189. In the Middle East and North Africa (MENA) region, Iran ranked 11 out of 20, the same than in 2016 and an improvement from 2015 when it ranked 13 out of 20. In 2017, Iran is outranked by the United Arab Emirates, overall rank 26; Oman, rank 66; Turkey, rank 69; Qatar, rank 83; Saudi Arabia, rank 94; and Kuwait, rank 102. Iran outranks India, rank 130, and Pakistan, rank 144. Between 2016 and 2017, the country slightly improved its rank in protecting minority investors, from 166 to 165, and trading across borders, from 171 to 170. The rank worsened for Iran in starting a business, from 97 to 102; getting electricity, from 90 to 94; and getting credit, from 97 to 101. Slight decreases also occurred in registering property, from 85 to 86; paying taxes, 99–100; enforcing contracts, 69–70; and resolving

insolvency, 155–156. Between 2016 and 2017, Iran maintains the rank for dealing with construction permits—rank 27 (World Bank 2016b).

A coherent and integrated whole-of-government approach is required to mainstream trade into a best-fit policy mix that supports the achievement of SDGs. This requires setting deliberate and supportive policies, regulations, and institutions. These policies need to promote investment, technology, innovation, and entrepreneurship that drive a structural transformation that supports productive capacity and the move from a resource-based economy to a knowledge and innovation focus. It is necessary to strengthen supply capabilities and to meet quality requirements, thereby facilitating the integration into regional and global value chains. Services, which together with trade facilitation can lower trade costs, have a key role in this regard and in overall promotion of diversification and competitiveness. Levering all dimensions of trade policy involves an appropriate sequencing, pace and content of reform, liberalization, and integration. Connecting to markets also needs a strong focus on strengthening education and human capital.

Trade Policy and Services Policy Frameworks

To address several of the mentioned topics on supply and export competitiveness, there is a need for strategic trade and services policy frameworks. These envisage strengthening capacities for the formulation and implementation of trade policies toward SDGs and the Agenda 2030. These strategies should assist in the implementation of the Sixth Five-Year Development Plan of Iran by focusing on the analysis of the trade development nexus toward achieving development goals, sustainable economic development, and employment. Following a customized assessment that considers the specific needs of beneficiaries, trade strategies should provide recommendations for the development of trade policies and for improving supply and export capacity, strengthening selected sectors. Consultations should be promoted with local government, academia, and private sector stakeholders to strengthen local capacities, to ensure that the work builds on what already exists, and to ensure usefulness of validated recommendations. Capacity building should be promoted through experience sharing and information exchange on best-fit practices.

Trade analyses should consider the specific national context on trade performance, policy frameworks, trade-related regulations and institutions, and trade agreements at the multilateral, regional, and bilateral level. They should aim to diversify export products and markets, to promote a desired structural transformation, and to reduce incentives that do not lead to expected trade and investment results. In addition, trade strategies need to seek to take advantage of market opening and trade agreements, taking into account the persistence of non-tariff barriers to trade, quality concerns in destination markets, and constraints in supply capacity such as in human capital and access to infrastructure. It envisages the creation of forward and backward linkages domestically, regionally, and internationally, including by clustering and participating in GVCs, by addressing enclaves with no linkages

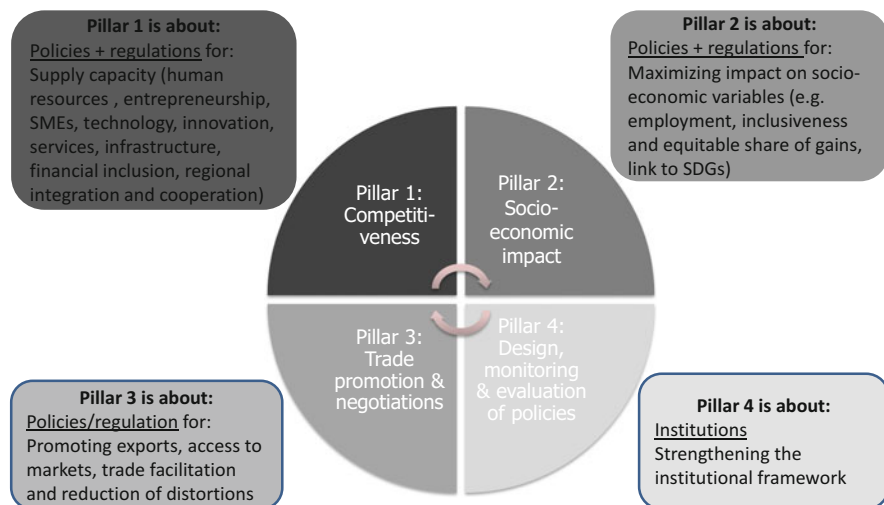


Fig. 23 Coherence between policy pillars as a driver for trade policy frameworks [Source: Mashayekhi (2015)]

with the rest of the economy, and by addressing the informal sector with low productivity. Trade frameworks should underline that an effective trade policy is based on the coherence among four pillars: policies and regulations to promote supply capacity, including the development of human resources, promotion of technology and innovation, infrastructure, and access to finance, pillar 1; policies and regulation to maximize the socioeconomic impact, including the promotion of employment and links between productive activities, and promotion of links to SDGs, pillar 2; promotion of exports and internationalization, trade facilitation, and reduction of trade distortions, pillar 3; and strengthening the institutional framework, pillar 4 (see Fig. 23).

Regarding the issues raised on services and infrastructure services, it is necessary to focus on regulatory and institutional frameworks as these are important to harness the potential benefits of services for economic diversification, structural transformation, and sustainable development. This is particularly important because, due to the intrinsically complex and multifaceted nature of services, harnessing their development potential remains a critical challenge. Services strategies should strive to improve human skills, aim to enhance productive and trade capacity in services, enhance economy-wide competitiveness, and meet development objectives, ensuring policy coherence and building institutional capacities.

Iran has RCA in several services sectors, which can be a basis for diversification in non-oil exports. In addition, services can help to develop comparative advantages in agriculture and manufacturing. A robust services strategy can help to materialize opportunities from these existent and potential comparative advantages, aiming to catalyze and institutionalize an endogenous process of services policy formulation, implementation, and review. Services strategies would benefit from an action plan

that provides clear steps, timelines, and funding for a reform process that is expected to lead to strengthened productive and export capacity and employment creation.

Changing Policy Direction and Establishing Linkages and Complementarities

There is need for changing national and international policy direction through deliberate, targeted, and interlinked actions to expand productivity growth, investment, and resource mobilization (public and private) and markets leading to development and employment creation. A national strategic agenda that promotes goods and services sector in general and identifies the individual priority sectors in particular is instrumental for optimizing the overall impact, interlinkages, and coherence of different policy measures including trade policy. Ensuring policy coherence horizontally and vertically requires an enabling institutional, regulatory, and human skills development framework. It would also require a cross ministerial and multi-stakeholder including public and private sector coordination to define strategic objectives and priorities, as well as to allocate resources—human, financial, and other—accordingly. For its effectiveness, such inter-institutional coordination mechanism would need to enjoy the endorsement at the highest political level and be institutionalized with requisite legal mandate, resources, and capabilities. This presumes effective institutional capabilities and requires capacity-building support. It is also important to experiment with different innovative policy approaches, learn lessons, and adapt them.

Particular attention needs to be given to the specificities of the services sector strategies and interlinkages. The horizontal and vertical coordination of sectoral policy initiatives is important in formulating a coherent overall national strategy for the services sector development. Services development strategies need to be consistent with other complementary policies. The overall services strategy should factor in different economic attributes of individual services sectors, as some sectors embody higher value added and more sophisticated skills, knowledge, and technology than others; they also make a greater contribution to economic development. Infrastructural services particularly financial services, energy, transport and logistics, telecommunications, etc. serve as backbone of the whole economy and have transformational impact on productivity growth and pace and pattern of structural change. Education, training, and research and development services are also key to building the right human skills including in the context of the fourth industrial revolution. In services activities, deploying a package of policy measures in a coherent manner and in the right sequence is particularly important. For instance, a combination of cooperation with the private sector to encourage investment and competition, as well as proactive public policy intervention to build ICT infrastructure and high-end technologies and to create effective demand and education, was instrumental for ICT sector development in the Republic of Korea.

The complex nature of services regulation is a key challenge, and appropriate regulatory frameworks need to be established for all services sectors to promote legitimate objectives including development of the sectors, universal access to key services, competition, and efficiency. Sectoral regulatory agencies, which are key to the regulation of specific sectors, particularly infrastructure services need to be strengthened. While different institutional models are possible, the presence of independent regulators is essential in ensuring a neutral, effective, and pro-competitive regulation. In telecommunications and ICT services in particular, adjusting the scope of regulatory mandates and enhancing cooperation with other regulatory agencies have been required. In Hong Kong, China, the Communications Authority was created from the merger of the broadcasting and telecommunications regulatory authorities. The development of mobile banking has called for a better coordination among telecommunications, financial, and competition regulators, as mobile banking entails various crosscutting regulatory issues, including consumer protection, interoperability, and roaming. International and regional cooperation is increasingly important for regulatory agencies, given the importance of standardization and harmonization under international standard-setting bodies. Regional regulatory cooperation can lead to the development of regional standards and stronger regulatory cooperation in addressing issues such as roaming fees.

The availability of reliable data is also a prerequisite for evidence-based policymaking. Measures to improve collection, treatment, and analysis of services data need to be placed high in the national regulatory agenda. In Brazil, the Integrated System of Foreign Trade in Services and Intangibles (SISCOSERV) provides an innovative approach to this matter and an opportunity for South–South cooperation. This system ensures an adequate classification of services activities based on the United Nations Central Product Classification. It also ensures the collection of statistics on the four modes of trade in services. SISCOSERV is fed by mandatory reporting from economic agents for all services transactions between residents and nonresidents. Its operation is facilitated by a strong institutional setting derived from a presidential decree and a country's experience in e-government and e-platforms (UNCTAD 2015).

Coordinated supply-side measures to build services' productive capabilities and potential stand out as the major national enabling factor on services. The development of productive clusters can promote intensive cooperation and coordination among firms and create economies of scale to reduce operational costs and enhance competitiveness, to help them better integrate higher value-added segments of regional and GVCs. Such policies are particularly supportive of small and medium enterprises (SMEs) and MSMEs. Enhancing a national innovation system is also an important factor enabling the integration of firms in higher value-added segments of global value chains. Formalizing the informal economy can help create an enabling environment, as informality affects many MSMEs, and formalized firms can create stronger linkages with the rest of the economy. Tax reforms reducing the tax burden on informal MSMEs and other incentives for formality, such as extending social protection coverage, can be pursued.

The shortage of qualified workforce remains a key impediment to the development of knowledge and technology-intensive services such as computer-related, business,

and professional services. Entrepreneurship needs to be strengthened and services firms supported through targeted measures. A strong education strategy to better match required skills particularly in science, technology, design, engineering and mathematics, and labor demand is critical for the development of these sectors and for upgrading of product activities. Policies to develop both technical and superior education are thus important. A strong link and dialogue between the academic, businesses, and policy-making bodies facilitates the identification of skills gaps and academic solutions, for example, postgraduate programs. Agreements with foreign universities to allow academic exchanges and the promotion of international accreditations for national universities would strengthen academic programs and their recognition. English language skills are of particular importance to reinforce labor supply, particularly in information technology-enabled services (UNCTAD 2015).

Deeper participation in international trade (both exports and imports) including through GVCs and pursuit of export-led growth needs to be given more focused attention. There is also a range of multilateral, regional, plurilateral, and bilateral approaches and mechanisms to be followed to diversify markets and negotiate better market access for goods and services exports. Accession to the WTO with terms commensurate to level of development of Iran is also an important approach to be pursued.

Acknowledgment The author would like to thank Bruno Antunes for his inputs and his research assistance.

Disclaimer The chapter reflects its author's personal views and is not to be taken as the official view of the UNCTAD Secretariat or its member states.

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