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Management**

**Title:**

**FDI in Iran. The role of free economic zones**

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## **Abstract**

Lack of national saving is one of the main problems of developing countries for investment. Loans from international commercial banks was one of the ways for these countries to provide the capital. After the economic crisis in 80s, countries shifted their investment policies to FDI, as an attractive alternative, which entailed no risk in terms of debt.

The United Nations World Investment Report (UNCTAD, 1999) defines FDI as, “an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)”.

FDI plays a pivotal role not only in transferring technology as the consequence of spillover effect, but to provide complementary resources for those countries it is hosted. This is not possible without contribution of the multinational companies which have access to the latest technologies and are financially strong enough to provide the fund required for investment in a foreign country. But sometimes there are factors, for instance regulatory barriers, that impede these companies to enter the market of host countries. So, especially in developing countries, governments have tried to reduce obstacles and provide incentives to motivate multinational companies to invest.

Establishing special economic zones with particular economic advantages, where business and trade laws are different from the rest of the country, is one of the ways to absorb foreign direct investment through either multinational companies or even individuals.

The objective of this dissertation is to study the foreign direct investment in Iran and the role of special economic zones (SEZs). And to realize how much these zones have been able to absorb FDI.

**Keywords: Developing countries – FDI – Spillover – Multinational companies – Special economic zones**



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# 1. Chapter 1

## 1.1. Introduction

### 1.1.1. Economic activities

Economic activity is the process by which the stock of resources or the stock of capital, produces a flow of output of goods and services and distributes them among various members of the community. Every levels of certain variable at a point of time can be considered as stocks and a process occurring in a time interval can be viewed as a flow. Every absorbable or consumable good in the economy is a flow of output from some stock of human, capital or natural resources that produces it.

Economy is the capital stock, the set of institutions within which the economic activities conducted and the rules governing the behaviour of those institutions. Institutions such as business firms, partnerships, government agencies, single person enterprises and so forth (University of Toronto).

There are four types of economic activities:

1. Primary sector that includes the process of extracting natural resources like farming, fishing, mining and oil drilling.
2. Secondary sector that changes the raw material into the consumer goods. In other words, adding value to the natural resources and creating products.
3. Tertiary sector that provide services to the primary, secondary, communities and individual consumers.
4. Quaternary sector that consists intellectual activities. This sector can be found in countries with the highest level of economic development.

### 1.1.2. Foreign direct investment (FDI)

Lack of national saving is one of the main problems of developing countries for investment. They have always needed either direct or indirect foreign investments to help them improve their economic situations. Loans from international commercial banks was one of the ways for these countries to provide the capital. After the economic crisis in 80s, countries shifted their investment policies to FDI, as an attractive alternative, which entailed no risk in terms of debt.

The International Monetary Fund's Balance of Payments Manual defines FDI as, "an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise". The United Nations World Investment Report (UNCTAD, 1999) defines FDI as, "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)".

Governments in developing countries try to attract more foreign investments by providing incentives. According to the 2005 World Investment Report, no fewer than 2156 regulatory changes in investment regimes were introduced by 102 countries between 1991 and 2004, of which 93% were more favorable to FDI (UNCTAD, 2005). Increasing the productivity of domestic firms due to the possibility of spillover effects such as transferring technological and managerial skills, motivates host countries to facilitate the conditions for foreign investments.

There are three channels through which FDI can influence the macroeconomic performance of the host countries. The first one that mentioned earlier is to provide a less volatile source of funds than loans and portfolio investment. The second one is to boost the total funds available for investment to the host economy. And the third one is to contribute to the international integration and positive externalities or triggered structural reform beyond what domestically funded investment would have achieved. Besides the positive impacts of FDI in the host economy, it can have an adverse short-term distributional and employment effect. But with sufficient adaptability and flexibility, the long-term welfare effect will be positive (OECD, 2002).

Foreign direct investment is the most important way of transferring technology. Because, not only it comprises the technology itself but an entire package. FDI brings needed complementary resources such as management experiences and entrepreneurial abilities which can be transferred by training programmes and learning-by-doing (Baldwin et al., 1999). Unlike trade in goods, where countries have to try to imitate and learn from reverse engineering, FDI involves the explicit transfer of technology (Saggi, 2000). But both theoretical and empirical analysis indicates that the greater the technological gap between multinational affiliate and domestic firms, the less beneficial FDI is in the host country (Nakamura, 2002; Meyer, 2004).

Foreign direct investment as a dependant variable, can be affected by factors from recipient countries. Following factors are among the main determinants of a country's ability to attract FDI: market size and growth prospect, natural and human resource endowment, physical, financial and technological infrastructure, openness to international trade and access to international markets, regulatory and policy framework (Christiansen, H., 2004).

As Agiomigranakis et al. (2003) mentioned, FDI is mostly defined as capital flows resulting from the behavior of multinational companies. Hence, those factors that affect MNCs behavior may also affect the magnitude and direction of FDI.

### **1.1.3. Multinational companies (MNCs)**

Economic globalization requires looking first at foreign direct investment by multinational corporations. An enterprise operates in at least one foreign country is considered a multinational company. It can be a decentralized corporation or a centralized corporation with cost advantage wherever cheaper resources are available. Considering the increasing globalization of markets, MNCs tend to expand their international activities for a number of reasons like, exploitation of economies of scale/scope and benefiting from

specific advantages. Governments of hosting countries, to attract more investments, try to change key factors of their economic policies such as tariff barriers, corporate taxes, domestic labor market conditions and regulatory regime.

Forsgren (2008) represented six theoretical perspectives: Industrial organization theory, transaction cost theory, organizational capability theory, contingency theory, business network theory and institutionalization theory.

In industrial organization theory, the MNC is a company who tries to exploit a monopolistic advantage in foreign markets. The organizational structure is mainly hierarchical, and the headquarters play a pivotal role in the definition of corporate and business strategies.

According to transaction cost theory, the MNC internalizes market transactions across country borders, which are difficult to develop among independent firms. The foreign subsidiaries are in the direction of global efficiency. The organizational configuration is hierarchical, and the headquarters look for appropriate behavioral constraints to local affiliated firms.

Based on the organizational capability theory, the MNC requires a competitive advantage to create, transfer, combine and use unique capabilities in foreign markets. The major role of the headquarters is to provoke the creation of capabilities within the company.

Contingency theory highlights the capacity of the MNC to adapt to the complexity and changes that take place in the environment. The MNC can survive in long-term if it develops the ability to adapt the organization and control systems to changes in the environment. The role of the headquarters is to analyze the environment and shape organic structure for the organization rather than bureaucratic to respond to different local conditions. The emphasis is put on values that are shared by the members of the organization.

Business network theory says that the MNC can be viewed as a network. This implies the importance of suppliers, distributors, customers, governments and etc. The power is dispersed throughout the company, and each unit can thus influence strategic decisions through its local business network.

The institutionalization theory views the MNC as a political actor rather than as a business actor. The approach focuses not only on different institutional environments that the MNC needs to deal with, but also on the influence the company can have on these environments. Headquarters and subsidiaries need to manage political situations and conflicts in various institutional contexts, at both national and international levels.

#### **1.1.4. Special economic zones (SEZs)**

Special economic zones are geographical regions with particular economic advantages in which business and trade laws are different from the rest of the country. They are deemed as foreign territory for trade operations and duties and tariffs while they are located within a country's national borders.

For developing countries, special economic zones are beneficial in different aspects. They can enhance industry competition and attract foreign direct investment. Through these areas, governments can have more efficient supervision of enterprises and environmental control. SEZs have the ability of contributing in export development, not only in terms of accelerating export growth, but in export diversification as well (The World Bank Group, 2008).

At a public policy level, a 1992 World Bank study stressed the need to use zones as a supplement to the countrywide reforms, as opposed to creating isolated free market enclaves.

Special economic zones benefits are both static and dynamic. The static benefits are almost straightforward such as employment creation and income generation, export growth and diversification, government revenue and foreign direct investment. But the dynamic benefits are more difficult to measure like indirect employment creation, technology transfer, skills upgrading and regional development.

SEZs also entail costs including government workers salaries in the zones and other operating expenses, import duties and charges lost from leakages of duty-free goods, taxes foregone from firms relocating from the domestic customs to the zones. Public expenditures are the highest in the case that governments develop zones and providing subsidies.

One of the adverse impacts that may arise in special economic zones, is the unfair competition with domestic products. The other is the negative socio-economic impact related to the role of women, labour, and working conditions in zones (ILO, 1998).

Where economic data are not directly available, economists and social scientists resorted to light data. Nightlight data extracted from the defence meteorological satellite program, represents human activities from zero to sixty-three in roughly one-square kilometre cells. (size of the cells varies with latitude). Susanne A. Frick, Andrés Rodríguez-Pose & Michael D. Wong (2018), have done a research about factors influencing performance of the SEZ – proxied by economic growth – in emerging countries using nightlight data. They used two relative growth rate: Changes of nightlight emission within the zone compared to changes in entire country as well and changes of nightlight emission within the zone compared to changes in area within a fifty-kilometre radius surrounding the zone. And one absolute growth rate: nightlight emitted in the period of analysis. The key results were: zone growth is difficult to sustain over time – trying to upgrade technological component is challenging, zones focused on high-tech from the beginning performed worse than those with low-labor cost and labor intensive sectors – zone size matters, large zones have advantages in term of growth potential.

## 1.2. Objectives

The objective of this dissertation is to study the foreign direct investment in Iran and the role of free economic zones. And to realize how much these zones have been able to absorb FDI.

## 1.3. Outline of the dissertation

Iran's geographical and political situation, GDP, inflation, economic infrastructure, natural resources and other general information is covered in chapter two.

Chapter three is about FDI in Iran and Iran's free economic zones, five-year development plans, laws and regulations and incentives.

Chapter four consists of the economic activities of seven free economic zones in Iran and the amount of domestic and foreign investment and other economic information in these areas.

And finally, chapter five covers the conclusion of the dissertation.

## 2. Chapter 2

### 2.1. Iran General Information

#### 2.1.1. Iran's Geography

Iran has a unique geographic location at the heart of a cross road, linking the Middle East, Asia and Europe and is empowered by many inter and trans-regional trade, customs, tax and investment arrangements.

Despite different modes of transportation, Iran plays super strategic and crucial part in energy transformation, international commodities, road and maritime routes for oil and gas resources transit in Persian Gulf. The Strait of Hormuz is a strategically important as linking the Persian Gulf with the Gulf of Oman and Indian Oceans as one of the chokepoints, which is a sea route for the shipment of goods. The main product of which crossing through is oil from the Middle East.

The strait is only 21 to 60 miles wide. Iran and Oman are the countries nearest to the Strait and share territorial rights over the waters. However, the width of the shipping lanes is much narrower because the water is not deep enough for oil tankers throughout the strait's width. Iran dominates several new employments with a privilege strategic position in the Strait of Hormuz and the Gulf.

Vicinity to the Persian Gulf oil-rich countries such as Kuwait, Saudi Arabia and Iraq as the only transit path for fossil resources, the Strait of Hormuz is a safe option for Russia and provide energy for Central Asia, Eastern Europe and even Western Europe through Turkey.

The six important islands that make up the Iranian ethnic defence chain include Hormuz, Lark, Qeshm, Hengam, the Greater Tunb and Abu Musa are strategic and valuable for controlling waterways of Iran, adding to the size of Iranian water.

Iran is a reliable corridor of oil and gas transit for Turkmenistan and Kazakhstan; Also, being between Caspian Sea and the Persian Gulf, is the shortest route to transfer energy resources to the Caspian Sea bordering countries. Iran's another advantage is facilitating oil export to Europe, Western countries, Japan, China and the Southeast Asia countries.

Because of its numerous natural resources and geographical location, Iran has access to raw materials and benefits recourse-based economy. Comparing Iran's lower tax rate to other countries has led to an increase in production profit margin. Also, the geographic location is such that export is greatly facilitated by access to the international transport fleet along the East-West axis.

## 2.1.2 The Iran Top Ranking in The Global Scale

- The 18<sup>th</sup> largest economy
- 1<sup>st</sup> place in natural gas reserves
- The world 4<sup>th</sup> rank in oil reserves
- The Middle East 2<sup>nd</sup> largest producer of petrochemicals
- The world's 14<sup>th</sup> largest steel producer
- Iran is 10<sup>th</sup> ranking in iron ore reserves and production
- The 14<sup>th</sup> rank in installed power generation capacity
- The world 6<sup>th</sup> ranking in Nano-technology
- Iran as one of the top 10 countries in pharmaceuticals
- The world's largest saffron producer
- The world's largest pistachio producer
- The world's largest caviar producer
- The world's 2<sup>nd</sup> largest producer of dates
- Iran has the 1<sup>st</sup> rank on handicrafts in the world by variety
- World 3<sup>rd</sup> ranking in agricultural products variety
- The Middle East most diverse capital market
- The world 3<sup>rd</sup> rank in dam construction
- The world 7<sup>th</sup> rank in cement production

## 2.1.3. The Cheapest Tourism Destination

According to the travel and tourism competitiveness report published by World Economic Forum (WEF), Iran was ranked as the most affordable foreign tourists' destination for the third time. This report, which surveys 136 countries in 14 categories indicating how well these countries could deliver sustainable economic and social benefits through their tourism sector. In terms of price competitiveness, the report indicates that Iran is ranked among main players of tourism industry such as Egypt, Malaysia, Russia, Turkey, Greece, Spain, the US, France and Italy. Costs relating to travel such as ticket prices, fuel rates and taxes as well as cost accommodation and food prices are indicators for "price competitiveness". Iran Global Competitiveness Index (GCI) is 6.66 and holds the first rank.

**Table 2-1 Travel and Tourism Price Competitiveness Index 2017**

| Index component                          | Rank/136 | Score |
|--|----------|-------|
| Price competitiveness                    | 1        | 6.7   |
| Ticket taxes and airport charges (0-100) | 13       | 92.9  |
| Hotel price index USD                    | NA       | NA    |
| Purchasing power parity USD              | 10       | 0.3   |
| Fuel price levels USD cents/litre        | 5        | 18.7  |

Source: world economic forum

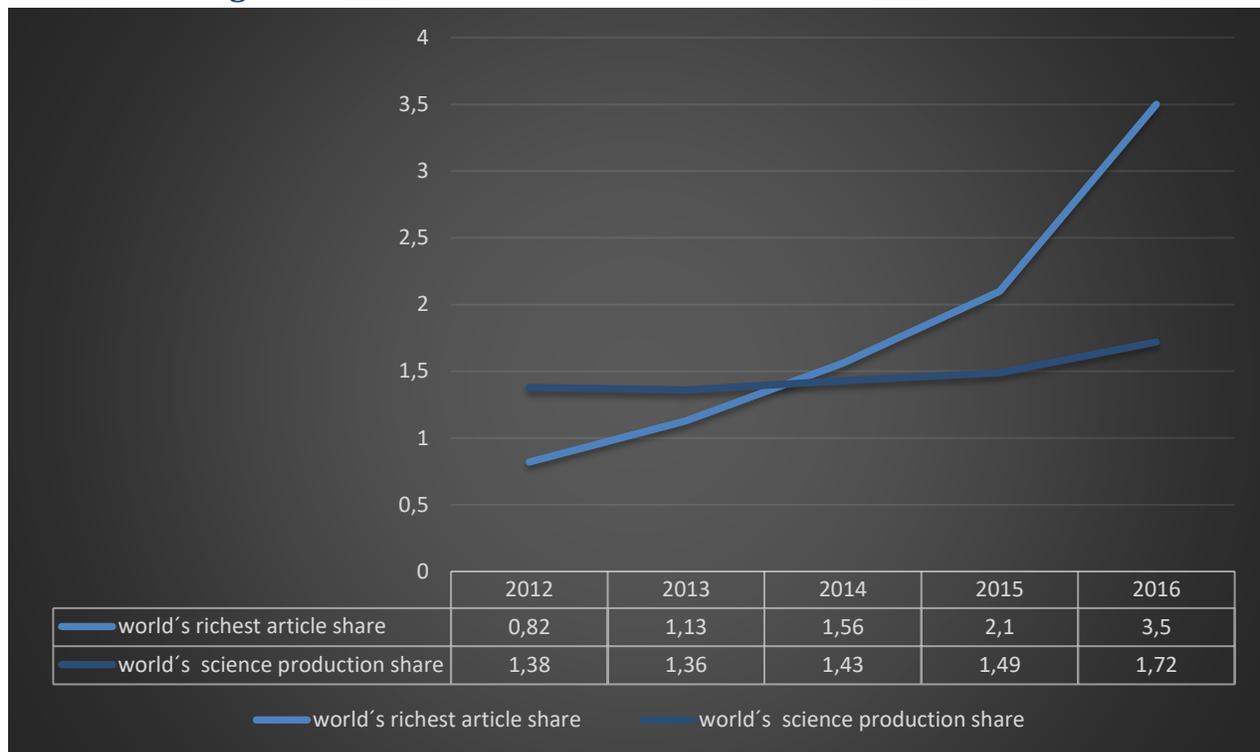
### 2.1.4. Languages, Religions and Ethnic Groups

Iran official language is Persian along with Indo-Iranian languages and ethnicities. In terms of religion, most of the population are Shia (about 89%), with 10% of Sunni and the remaining minorities such as Christian, Jewish, Zoroastrianism by 1%. The Persian and Azeri people contribute the largest ethnic groups. Persians contain 61% of the population, followed by Kurds (10%), Lurs (6%), balochs (2%) and the remaining 21% including the Azeri (16%), Arabs (2%), Turkmens and Turkic tribes (2%), as well as Armenians, Assyrians and Georgians (1%).

### 2.1.5. Science Production

Education has an undeniable role in the economic growth of all countries. The greater the proportion of the educated workers, the higher the productivity of a country's economy because tasks can be carried out more efficiently. In 2016, Iran scientific production increased by 18.9% and has had the highest rate in the last five years, with the world's first scientific growth compared to the global 25<sup>th</sup> large science producers. Iran's contribution to the world science production quantity reached 1.72% in 2016, however, its share was 1.49%, obtaining the world 17<sup>th</sup> rank while it was 19<sup>th</sup> in 2015. In terms of valuable articles, Iran gained the world's 3.5% compared to the previous year by 2.1%, in 2016.

**Figure 2-1 Iran Share of World Science & Article Production**



Source: ISI

Iran also made significant progress in stem cells technology among Islamic countries over the last few years and reached the 15<sup>th</sup> rank. The first spark of nanotechnology began in 2,000 when Nano was developed as a modern technology, known only to less than 10 university professors. Now, Iran holds 1<sup>st</sup> place in the region and Islamic countries and ranked the world's 6<sup>th</sup> in Nano-science and above countries such as Japan and France.

### 2.1.6. Natural Resources

Turkey's consumption potential, Saudi Arabia's oil, Russia's gas and Australia's mining reserves, all are found in Iran, holding the world 4<sup>th</sup> in oil and 1<sup>st</sup> rank in natural gas reserves. Also, the 15<sup>th</sup> rank in mineral resources with 68 types of various products with about 37 and 57 billion tons of proven and potential reserves, respectively.

Concerning natural resources i.e. coal, copper, chrome, lead, manganese, iron ore, oil, Iran possesses the world's 7% mining resource, that is the 4<sup>th</sup> rank in lead and zinc; 9<sup>th</sup> in copper; 12<sup>th</sup> in iron and 5<sup>th</sup> in strontium; it also holds the world 1.2% sodium chloride, 3.7% of barite, as well as the 2<sup>nd</sup> producer of gypsum by 9% after China.

**Table 2-2 Iran Mineral Resources**

| Mineral              | Reserve (mn ton) | Mineral         | Reserve (mn ton) |
|----------------------|------------------|-----------------|------------------|
| Oil                  | 158.4 (bbl)      | Kaolin, Fire    | 100              |
| Gas                  | 33.5 TCM         | Lead & Zinc     | 11               |
| Asbestos             | 120              | Silica & Quartz | 128              |
| Barite               | 24               | Turquoise       | 500              |
| Bauxite and Aluminum | 1,200            | Dimension stone | 300              |
| Phosphate rock       | 16.5             | Limestone       | 8,500            |
| Gold                 | 340 ton          | Gypsum          | 1,600            |
| Chromium             | 8.5              | Iron ore        | 2,700            |
| Manganese            | 9.7              | Copper          | 4,200            |
| Coal                 | 2,800            |                 |                  |

Source: Ministry of industry, mine and trade – USGS

### 2.1.7. Climate

Iran is one of the world's four-season climate country. While it is snowing in Ardebil province in the north of Iran, the Persian Gulf in the south enjoys sunlight with a moderate temperature. When Bandar-Anzali (north) has 1800 mm rainfall, Mirjaveh in Sistan and Baluchestan (south east) has less than 50 mm. This situation has led to diverse natural, which is hardly experienced in other countries. Abundant plants and animals are existing in this country compared to other parts of the world. There are 168 species of wild mammals which are equal to the total number of species in Europe. Iranian vegetation diversity is twice the size of European continent and equals the Indian subcontinent.

### 2.1.8. Energy Security

After Russia, Iran is ranked the 2<sup>nd</sup> among the oil and gas producing countries. This global position requires appropriate strategies for energy security. Concerning accessibility, Iran claims 158.4 billion barrels about 9.3% of the world's proven crude reserves. Given the current production and holding 33,500 BCM of gas, up to 18% of proven natural gas reserves, Iran's production will be for next 165.5 years. Being in the Middle East and Caspian Sea energy-rich regions; the country is not affected by the policies of major consumers. The West efforts to reduce its dependence on Middle East oil and gas will result in the Caspian Sea and Iran energy resources boost.

**Table 2-3 Comparison of Reserves, Production and Life Expectancy of Iran's Oil and Gas in 2016**

|                         | Oil            |                  |       | Gas            |                  |       |
|-------------------------|----------------|------------------|-------|----------------|------------------|-------|
|                         | Reserves (bbl) | Production (mbl) | R/P   | Reserves (TCM) | Production (BCM) | R/P   |
| Iran                    | 158.4          | 4.6              | 94.3  | 33.5           | 202.4            | 165.5 |
| North America           | 227.5          | 19.27            | 32.3  | 11.1           | 948.4            | 11.7  |
| South & Central America | 327.9          | 7.474            | 120.2 | 7.6            | 177              | 42.9  |
| Europe & Eurasia        | 161.5          | 17.716           | 24.9  | 56.7           | 1000             | 56.7  |
| The Middle East         | 813.5          | 31.789           | 70.1  | 79.4           | 637.8            | 124.5 |
| Africa                  | 128            | 7.892            | 44.4  | 14.3           | 208.3            | 68.6  |
| Asia Pacific            | 48.4           | 8.01             | 16.5  | 17.5           | 579.9            | 30.2  |

### 2.1.9. Young Educated – Human Resources

This can be a privilege for any country to have young population. According to the year ended March 2017 census, the average age is 31.1 years, with more than 25.1% of the population between 15 and 29 years old. The working-age population, which is ranged between 5 and 64, reached from 52% in 1986 to 70% in 2016 of the total population, providing a “demographic opportunity”.

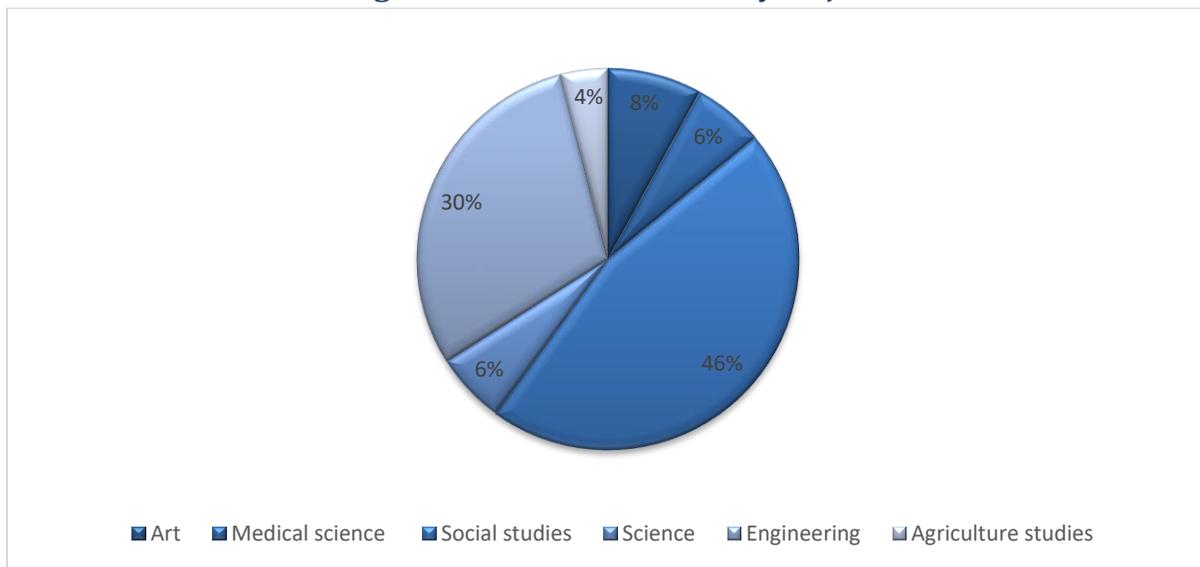
**Table 2-4 Total Population by Age Group (%)**

| Age   | Yr. ended March 1997 | Yr. ended March 2007 | Yr. ended March 2012 | Yr. ended March 2017 |
|-------|----------------------|----------------------|----------------------|----------------------|
| 0-4   | 39.5                 | 25.1                 | 23.4                 | 24                   |
| 15-29 | 28.4                 | 35.4                 | 31.5                 | 25.1                 |
| 30-64 | 27.7                 | 34.3                 | 39.3                 | 44.8                 |
| 65    | 4.4                  | 5.2                  | 5.7                  | 6.1                  |

Source: Statistical centre of Iran

The literacy rate is 87.6%. More than 11 million people have university degree, with the average of more than 4 million students enlisted in universities each year. The major part of the young population is educated, and more labour force compare to the other countries. Currently, with more than 2,500 active universities and related institutions, Iran is one of the world top states in secondary school graduate attending universities. The students in the academic year of 2015-2016 was over 4.3 million which 46.1% and 53.9% of that are women and men respectively.

**Figure 2-2 Iranian Student by Major**

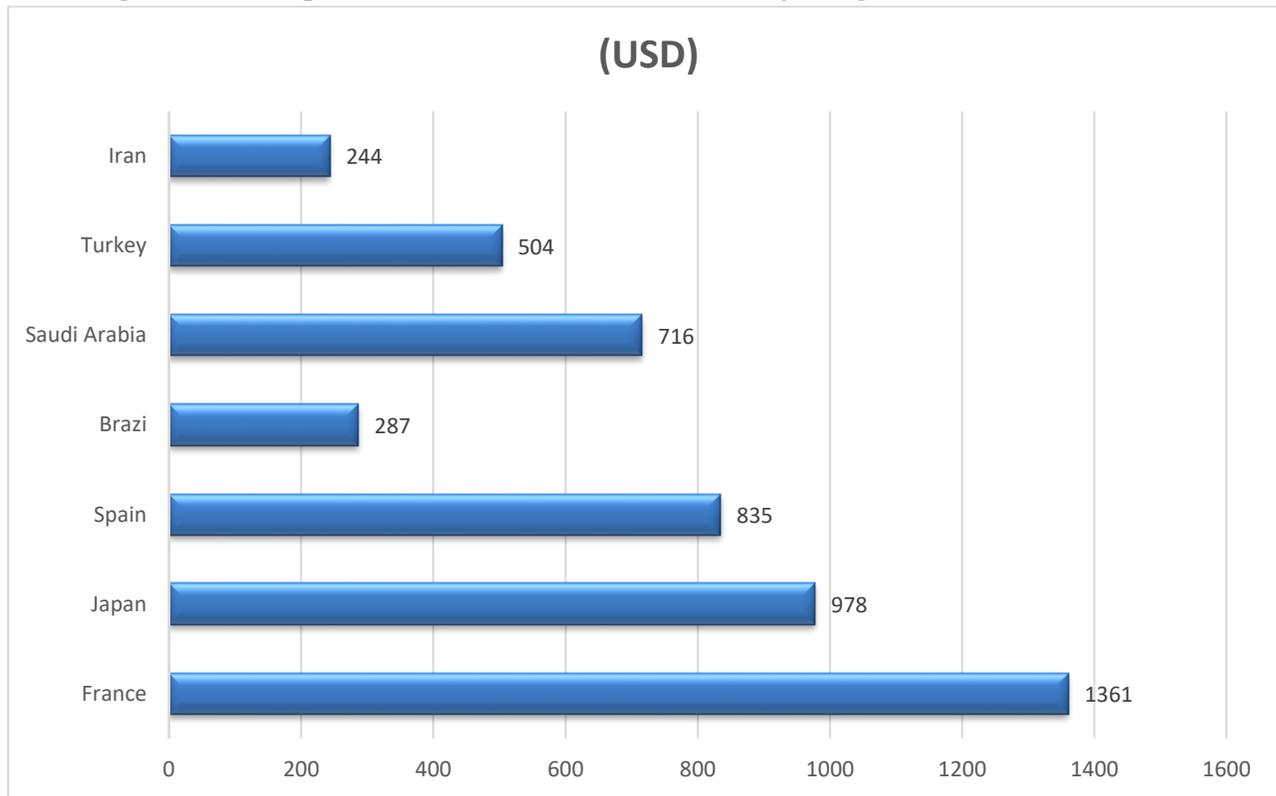


Statistical centre of Iran

### **2.1.10. Low Utility and Production Cost**

Despite the youngest and highest educated workforce in the region, Iran has the lowest salary in the Middle East. Foreign investors can enjoy highly trained workforce with the minimum monthly wage by 244 USD.

**Figure2-3 Comparison of Iran Minimum Monthly Wage with Other Countries**



Source: Iran labour organization

**Table 2-5 Infrastructure and Utility Cost**

|               | Unit  | Cost (USD) |
|---------------|-------|------------|
| Gasoline      | Litre | 0.319      |
| Gas oil       | Litre | 0.096      |
| Fuel oil      | Litre | 0.096      |
| Kerosene      | Litre | 0.048      |
| Liquefied gas | Kg    | 0.073      |

**Table 2-5 Infrastructure and Utility Cost**

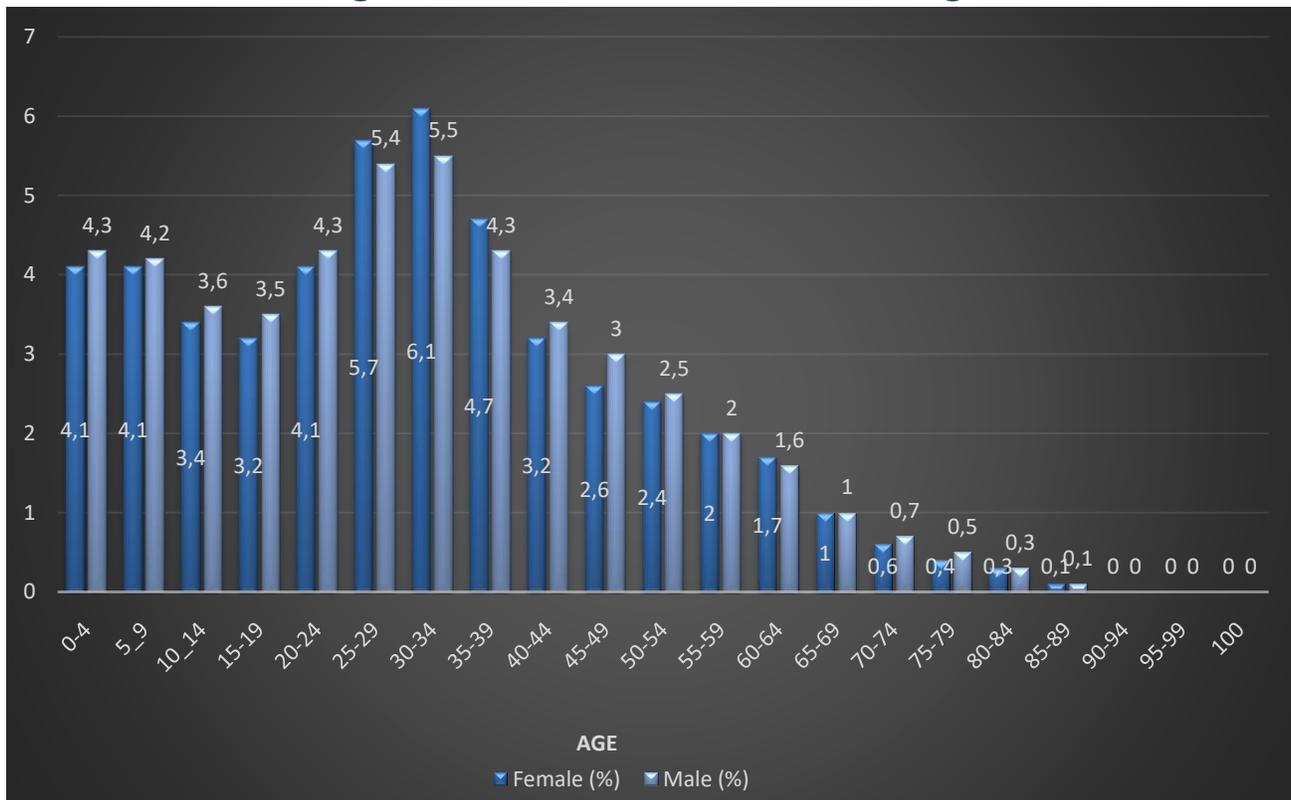
|   | Unit     | Cost (USD) |
|---|----------|------------|
| Fixed phone / domestic                                  | 1 minute | 0.011-0.02 |
| Cell/Fixed/international                                | 1 minute | 0.022-3.16 |
| Electricity   | kwh      | 0.022      |
| CBI official exchange rate in the year ended March 2017 | -        | 31389      |

Source: Central bank of Iran (CBI)

### 2.1.11. Population

According to census, Iran’s total population was 79.93 million of which 40.5 and 39.43 million were men and women, also 74.1% and 25.9% were urban and rural, respectively, in the year ended March 2017. The population growth has had a downward trend, reaching from 2.46% during 1986 – 1991 to 1.24% in 2016.

**Figure 2-4 Gender Distribution Based on Age**

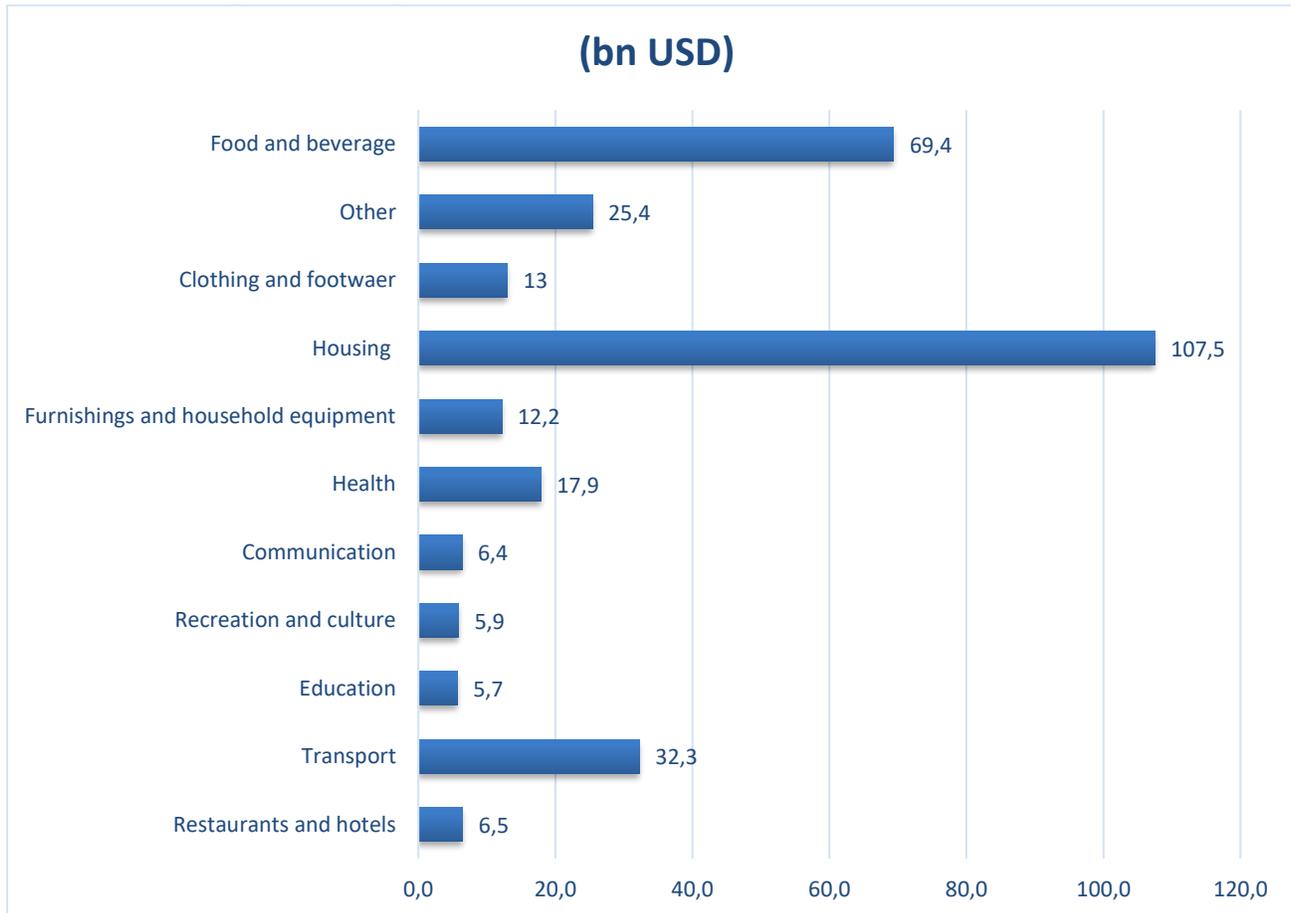


Source: Statistical Centre of Iran

### 2.1.12. Vast Domestic Market

Iran ranks 17<sup>th</sup> of the world with 80 million population which is the second country in the Middle East after Egypt. There are large middle-class households with increased income distribution equality, annual net expenditure and changing consumption patterns.

Figure 2-5 Expenditure of Iranian Household in the Year 2017



Source: CBI

### 2.1.13. Regional Market

Due to the lack of enough infrastructures for industrial development in Iran neighbouring countries, this country can hold the main part of importing required goods for them. Proximity to countries such as Armenia, Turkmenistan and Azerbaijan, have opened a unique capacity to enter into 300-million market of the Central Asia. Additionally, Iran plays a key role as a linking chain of North to South and East to West for the transit of goods, Swaps (oil swap) and connectivity to international electricity transmission networks.

### **2.1.14. The Transit Hub of The Region**

Caspian Sea on the north and Persian Gulf and Oman Sea on the south have provided Iran more than 5,800 km coastal access. Iran has a privilege position in transit, being connected to the Eurasian and the Central Asian countries from the north and east and to Turkey from the West, using a part of the Silk Road. The geographic location over the transatlantic crossroads has turned the country to a hub on the North-South and East-West corridors.

Iran is in the geographic centre of the ECO number states; therefore, this is an opportunity to play a main role in establishing trade and economic relations between the members.

Goods from China, Uzbekistan, Kyrgyzstan, Kazakhstan, Turkmenistan, Tajikistan must cross Iran to reach the Arab countries such as Oman, Qatar, Saudi Arabia, Kuwait and Iraq. The Black Sea and the Mediterranean Sea, the European Union, the Eurasia countries, and the continent of Oceania connect to Iran through Turkey, Azerbaijan and Georgia that creates advantageous position among the three international unions.

## **2.2. Iran's Economy**

### **2.2.1. The Economic Infrastructure**

Iran has the largest and the most extended industries in MENA region which has led to provide enough infrastructures in upstream, downstream and knowledge-based industries. It provides the world markets with an annual petrochemical production capacity equal to 60 million tons. In pharmaceutical sector, Iran has a wide range of medicine raw materials for 70 years of experience. Iran holds the world 4<sup>th</sup> ranking in cement, 12<sup>th</sup> in steel production (1<sup>st</sup> in the Middle East), 1.2% automotive. It has over 214,000 km of transit roads and 11,000 km of railway, with over 600 dams under operation and power plant capacity by 76,000 MW.

### **2.2.2. GDP and Economic Growth**

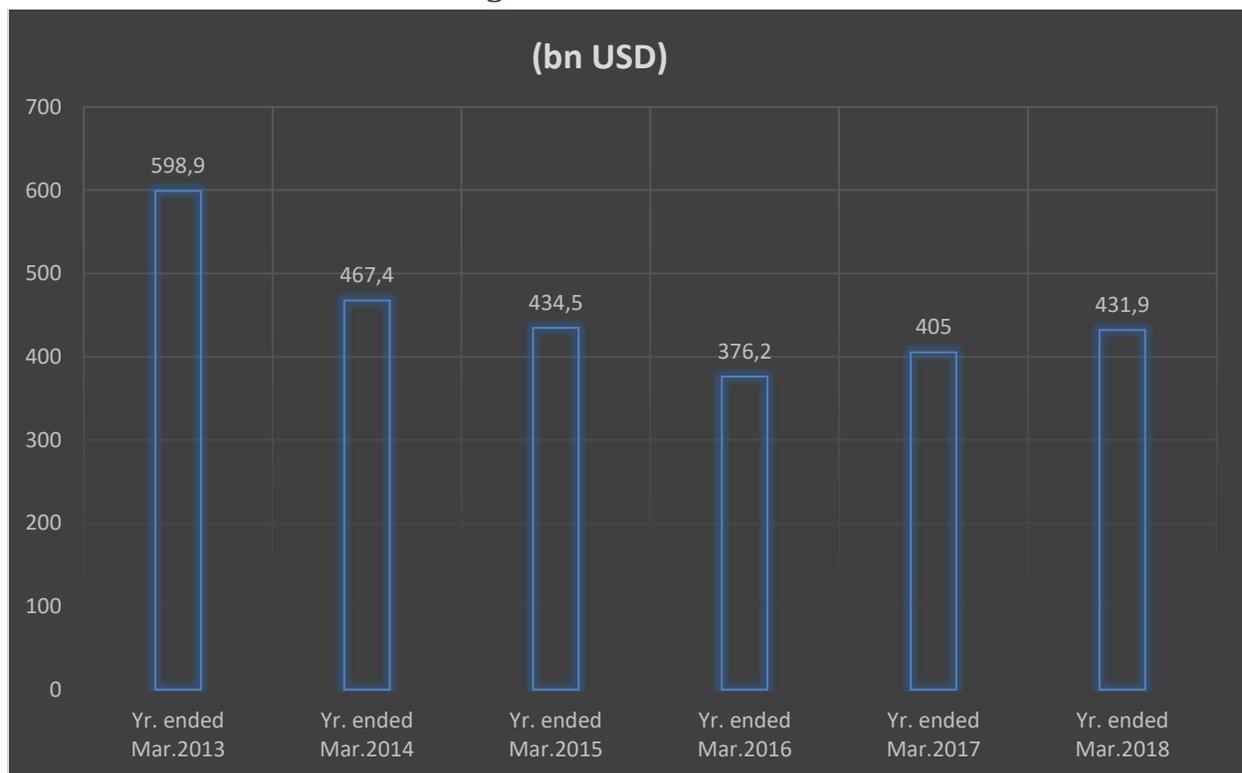
According to the central bank, the economy experienced 3.4% growth, from April to December 2017. The international monetary fund (IMF) predicted that GDP growth will touch 4% in the year ending March 2019 and given the financial sector reforms this trend will even increase to 4.5%, in the medium run, the GDP evaluated to 431.9 bn USD in the year ended March 2018.

**Table 2-6 GDP & Economic Growth (constant price; 2012)**

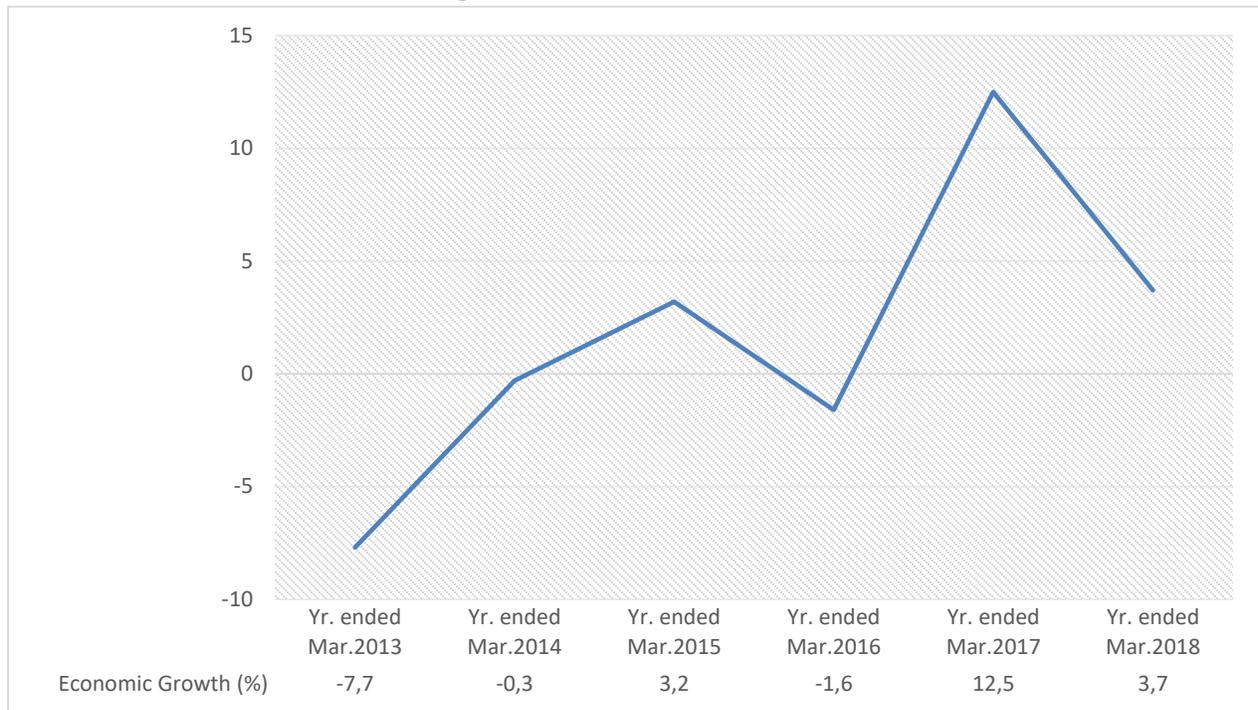
|                     | Yr. ended<br>Mar.2013 | Yr. ended<br>Mar.2014 | Yr. ended<br>Mar.2015 | Yr. ended<br>Mar.2016 | Yr. ended<br>Mar.2017 | Yr. ended<br>Mar.2018 |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| GDP; (K bn IRR)     | 5,873                 | 5,854                 | 6,043                 | 5,947                 | 6,691                 | 6,941                 |
| Economic Growth (%) | -7.7                  | -0.3                  | 3.2                   | -1.6                  | 12.5                  | 3.7                   |
| GDP; (bn USD)       | 598.9                 | 467.4                 | 434.5                 | 376.2                 | 405                   | 431.9                 |

Source: CBI, IMF

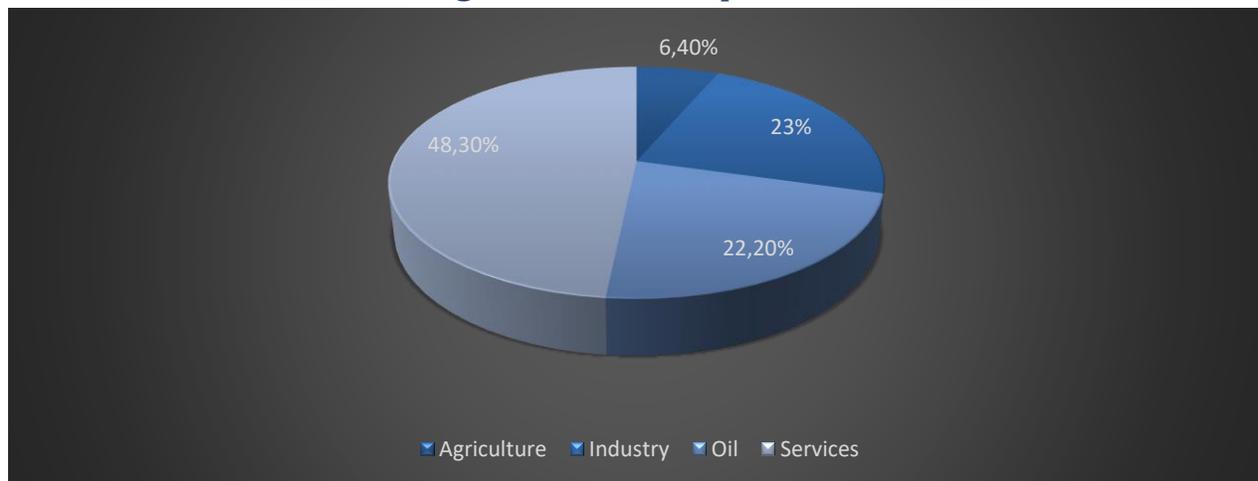
**Figure 2-6 GDP Growth**



**Figure 2-7 Economic Growth**



**Figure 2-8 GDP Composition**

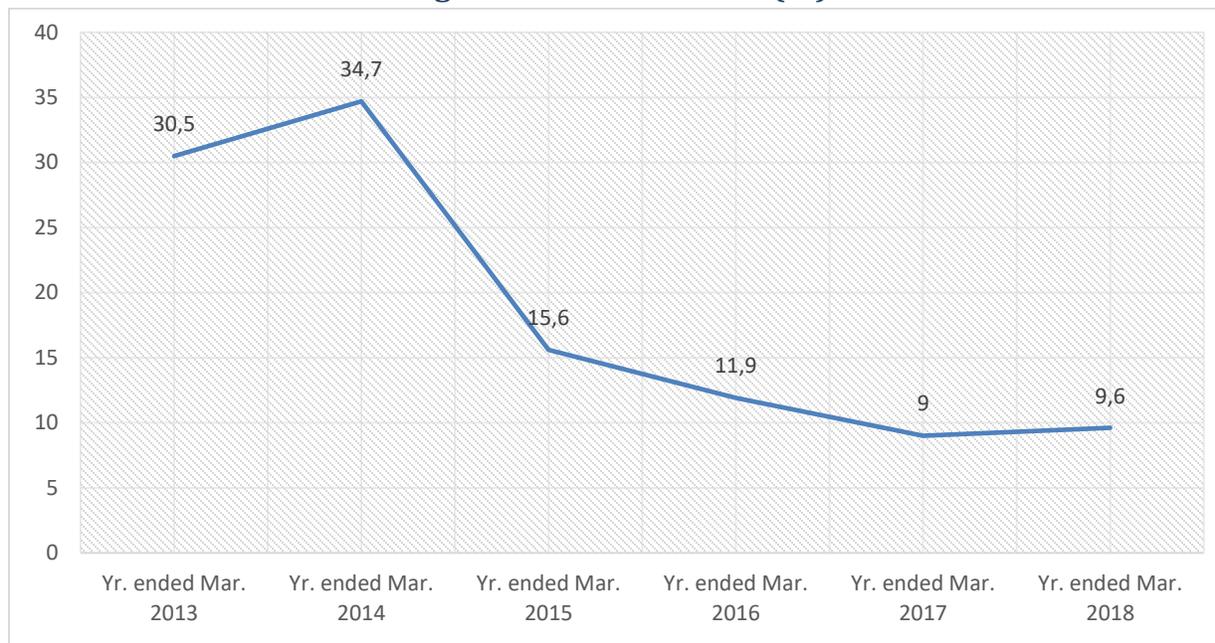


Source: CBI

### 2.2.3. Inflation

Currently, increasing of production cost and aggregate demand are among the main determinants of inflation. The average inflation rate reached 9.6% the year ended March 2018. According to the international monetary fund forecast, Iran inflation rate will be 10.529% to 10.1% from 2017 to 2018.

**Figure 2-9 Inflation Rate (%)**



Source: CBI

## 2.2.4. Employment & Unemployment

In the year ended March 2018, Iran working population was approximately 26.6 million, of which employed and unemployed accounted for 23.8 and 3.2 million, respectively. The unemployment rate was 12.1% in the year ended March 2018 and was predicted to reach 11.7% in 2019, according to the IMF.

**Table 2-7 Comparison Between Employment & Unemployment**

|                                 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | Changes   |       |
|---------------------------------|------------------------|------------------------|-----------|-------|
|                                 |                        |                        | Amount    | %     |
| Active population               | 24,701,177             | 25,791,177             | 1,090,000 | 4.41  |
| Employed population             | 21,972,085             | 22,587,779             | 615,694   | 2.8   |
| Unemployed population           | 2,729,092              | 3,203,398              | 474,306   | 17.38 |
| Unemployment rate (%)           | 11                     | 12.4                   | 1.4       |       |
| Economic participation rate (%) | 38.2                   | 39.4                   | 1.2       |       |

Source: statistical Centre of Iran

## 2.2.5. Foreign Trade

Foreign trade is a trade between different countries of the world. It consists of import, export and entrepot. The inflow of goods into a country is called import whereas the outflow of goods from a country is called export. Entrepot is re-export of imported goods after some processing operations. The Non-Oil export amounted to 132,300,000 tons, 46,931 million USD, declined by 2.05% in volume and 6.8% in value in the year ended March 2018. The import volume reached 38,736,000 tons and 54,302 million USD, equal to 13.9% and 24.3% in volume and value, compared to the same period of last year.

**Table 2-8 Non-Oil Export & Import**

|               | Yr. ended<br>Mar.2015 |                    | Yr. ended<br>Mar.2016 |                    | Yr. ended<br>Mar.2017 |                    | Yr. ended<br>Mar.2018 |                    |
|---------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|
|               | Value<br>(mn USD)     | Volume<br>(k tons) |
| Export        | 50,560                | 100,758            | 42,429                | 93,907             | 43,930                | 129,648            | 46,931                | 132,300            |
| Import        | 53,569                | 43,016             | 41,539                | 35,152             | 43,684                | 33,999             | 54,302                | 38,736             |
| Trade Balance | (3,009)               | -                  | 890                   | -                  | 246                   | -                  | (7,371)               | -                  |

Source: IRICA

## 2.2.6. Foreign Investment

European countries and China have had an increasing investment in Iranian markets over the past years. Significant opportunities for foreign companies to invest in Iran and the country's capacities to absorb investments and also incentives and advantages provided by the government, are factors that show the intention of the state for boosting foreign direct investment as a major catalyst to development. Although there are challenges due to political conflict specially with the US, the benefits are higher than to impede those who want to invest.

**Figure 2-10 Iran FDI**

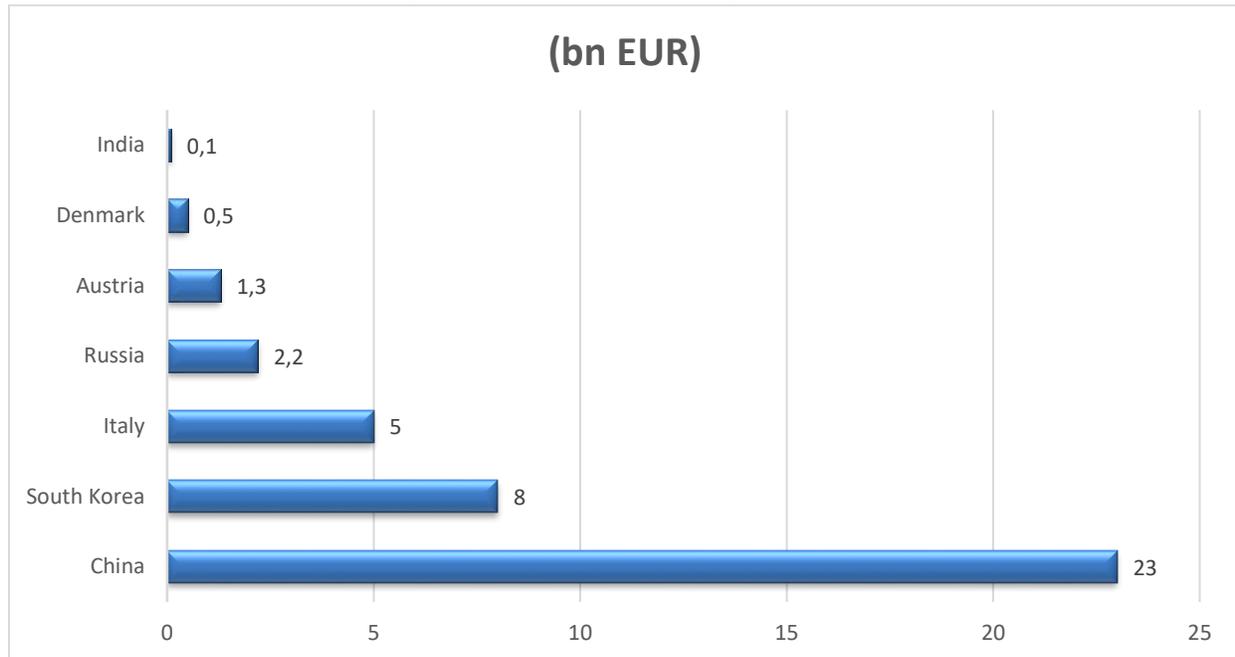


Source: UNCTAD, Official State Report

## 2.2.7. Financing Agreement

China, South Korea, Italy, Russia, Austria, Denmark and India have allocated the highest contribution in the line of credit (LOC), respectively by signing finance agreements with Iran for 40 billion EUR, after Joint Comprehensive Plan of Action.

**Figure 2-11 Financing Agreements**



Source: dolat.ir

## 2.2.8. Monetary Base & Liquidity

From April to October 2017, liquidity and monetary base were equal to 420.5 bn USD and 588.64 bn USD, respectively which grew by 23.3% and 18.3% year-on-year. The money and quasi money share of liquidity was 11.7% and 88.3% in the same period. The growth of liquidity was resulted by a synchronic increase in the monetary base and liquidity coefficient, in the year ended March 2017.

**Table 2-9 Liquidity & Monetary Base (bn USD)**

|               | Yr. ended<br>Mar. 2014 | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | Apr-Oct<br>2017 |
|---------------|------------------------|------------------------|------------------------|------------------------|-----------------|
| Liquidity     | 300.92                 | 295.14                 | 343.91                 | 399.31                 | 420.5           |
| Monetary base | 557.52                 | 494.74                 | 518.46                 | 572.91                 | 588.64          |

Source: CBI

## 2.2.9. Budget

A government budget is an annual financial statement which represents the revenues and expenses for a financial year that requires to be passed by the parliament. According to budget plan, the total budget growth will reach 3.7% in the year ended March 2019 compared to budget act of the year ended March 2018.

**Table 2-10 Budget (bn USD)**

|   | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | Yr. ended<br>Mar. 2018 |
|---|------------------------|------------------------|------------------------|------------------------|
| Revenues  | 303.05                 | 286.48                 | 311.75                 | 345.41                 |
| Public revenues   | 79.66                  | 79.87                  | 93.78                  | 103.92                 |
| Ministries and<br>governmental<br>institutions revenues                                       | 8.079                  | 12.89                  | 13.09                  | 15.62                  |
| Governmental<br>companies, banks &<br>governmental related<br>profit institutions<br>revenues | 225.25                 | 203.49                 | 217.53                 | 239.92                 |

Source: Iran Parliament

## 2.2.10. Gini Index

Gini coefficient which is also called Gini index or Gini ratio is a measure of statistical dispersion intended to represent the income or wealth distribution among people of a country. Actually, it is a measurement of inequality. The index is ranged between Zero and One. The higher the number, the greater the degree of income inequality. The income distribution indicates the Gini coefficient increase in urban and rural households to 0.4 in the year ended March 2017, since the highest rate of 2003. The status of the class distinction has improved more than previous years.

**Table 2-11 Gini Index**

|                        | Yr. ended<br>Mar. 2013 | Yr. ended<br>Mar. 2014 | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Total Gini Coefficient | 0.37                   | 0.37                   | 0.38                   | 0.39                   | 0.40                   |
| Urban Gini Coefficient | 0.35                   | 0.35                   | 0.36                   | 0.37                   | NA                     |
| Rural Gini Coefficient | 0.33                   | 0.32                   | 0.34                   | 0.34                   | NA                     |

Source: CBI

### 2.2.11. Stock Exchange Index

The Iranian stock exchange market grew significantly between November and December 2017. The main reason of which was the growth of metals and minerals price in global market, led to stock price increase which placed metal group at the top of the shareholder's interest.

**Table 2-12 Stock Exchange Index**

|                | Yr. ended<br>Mar. 2014 | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | Yr. ended<br>Mar. 2018 |
|----------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| TEDPIX         | 79,015                 | 62,532                 | 80,219                 | 77,230                 | 96,290                 |
| Industry Index | 65,837                 | 51,296                 | 66,994                 | 66,100                 | 86,082                 |
| Top 50 Index   | 3,336                  | 2,576                  | 3,254                  | 3,035                  | 4,036                  |

Source: TSE

### 2.2.12. Exchange Rate

Exchange rate is the rate at which one currency will be exchanged for another. Exchange rates are determined in the foreign exchange market. The fluctuation in exchange rate affects the foreign investment and increases the fear of loss especially in countries that have international political challenges. The official rate of the Central Bank and the market rose by 6.1% and 5.6%, while the exchange rate gap was 5,051 IRR, which has grown by 3%, in the year ended March 2017.

**Table 2-13 Average Exchange Rate (USD/IRR)**

|                      | Yr. ended<br>Mar. 2014 | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | Apr – Dec<br>2017 |
|----------------------|------------------------|------------------------|------------------------|------------------------|-------------------|
| Official CBI<br>Rate | 21,253                 | 26,509                 | 29,580                 | 31,389                 | 33,365            |
| Market Rate          | 31,839                 | 32,801                 | 34,501                 | 36,440                 | 38,838            |

Source: CBI

**Figure 2-12 Average Exchange Rate (USD/IRR)**



Source: CBI

### 2.2.13. Price Index

The consumer and the producer price index rose to 109.8 and 252.2 equal to 9.8% and 11.3%, respectively. Also, export price index reached 275.9 showing an increase of 26.4%, in November, compared to the same month of the previous year.

**Table 2-14 Price Index**

|   | Yr. ended<br>Mar. 2013 | Yr. ended<br>Mar. 2014 | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | By Nov.<br>2017 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------|
| Consumer Price Index (constant price; 2017) | 52.6                   | 70.9                   | 81.9                   | 91.7                   | 100                    | 109.8           |
| Producer Price Index (constant price; 2012) | 132.4                  | 178.1                  | 204.5                  | 214.5                  | 225.2                  | 252.2           |
| Export Price Index (constant price; 2012)   | 224.1                  | 273                    | 271.7                  | 228.3                  | 222.2                  | 275.9           |

Source: CBI

## 2.2.14. Doing Business Index

Doing business measures aspects of business regulation and their implications for firm establishment and operations. It does not include all the issues that are relevant for businesses' decisions, but it does cover the important areas that are under control of the policy makers.

In doing business, Iran ranked the world 120<sup>th</sup> by gaining the score 56.22, in 2017 and declined 4 ranks to 124<sup>th</sup> by 56.48, in 2018. In terms of the top 10 business facilities indices, Iran has improved in global ranking for 4 sub-indicators including start-up, licensing, credit and foreign trade compared to the last year. However, in other 6 sub-indices there has been a relative decline in its global rank, including electricity access, property registration, supporting minority investors, tax payments, contracts, bankruptcy and debt payment.

**Table 2-15 Iran Status in Ease of Doing Business Index**

| Description                       | 2017 |                             | 2018 |                             |
|-----------------------------------|------|-----------------------------|------|-----------------------------|
|                                   | Rank | Distance from leading index | Rank | Distance from leading index |
| Ease of doing business index      | 120  | 56.2                        | 124  | 56.5                        |
| Starting a business               | 102  | 85.1                        | 97   | 85.2                        |
| Dealing with construction permits | 27   | 78.5                        | 25   | 78.1                        |

| Description                   | 2017 |                             | 2018 |                             |
|-------------------------------|------|-----------------------------|------|-----------------------------|
|                               | Rank | Distance from leading index | Rank | Distance from leading index |
| Getting electricity           | 94   | 69.2                        | 99   | 68.4                        |
| Registering property          | 86   | 64.2                        | 87   | 64.6                        |
| Getting credit                | 101  | 45                          | 90   | 50                          |
| Protecting minority investors | 165  | 33.3                        | 170  | 33.3                        |
| Paying taxes                  | 100  | 56.6                        | 150  | 56.6                        |
| Trading across borders        | 170  | 46.1                        | 166  | 46.1                        |
| Enforcing contracts           | 70   | 59.1                        | 80   | 59.1                        |
| Resolving insolvency          | 156  | 25.3                        | 160  | 23.9                        |

Source: World Bank Group

## 2.2.15. Global Competitiveness Index (CGI)

Iran reached the 69<sup>th</sup> rank among 137 countries in the Global Competitiveness Index (CGI) in 2017 by going up 7 steps, compared to the previous year position, 76<sup>th</sup> among 138 countries. The comparison shows that Iranian CGI have improved other than health and education in 2017, since this has been due to the macroeconomic performance, followed by innovation as the next highest expansion.

**Table 2-16 Iran's Rank and Score Regarding Competitiveness Index**

|                              | 2016 - 2017 |       | 2017 – 2018 |       |
|------------------------------|-------------|-------|-------------|-------|
|                              | Rank        | Score | Rank        | Score |
| Global Competitiveness Index | 76          | 4.1   | 69          | 4.3   |
| Institutions                 | 90          | 3.6   | 85          | 3.7   |
| Infrastructure               | 59          | 4.2   | 57          | 4.4   |
| Macroeconomic Environment    | 72          | 4.6   | 44          | 5.2   |
| Health & Primary Education   | 49          | 6.1   | 50          | 6     |
|                              | 2016 - 2017 |       | 2017 – 2018 |       |

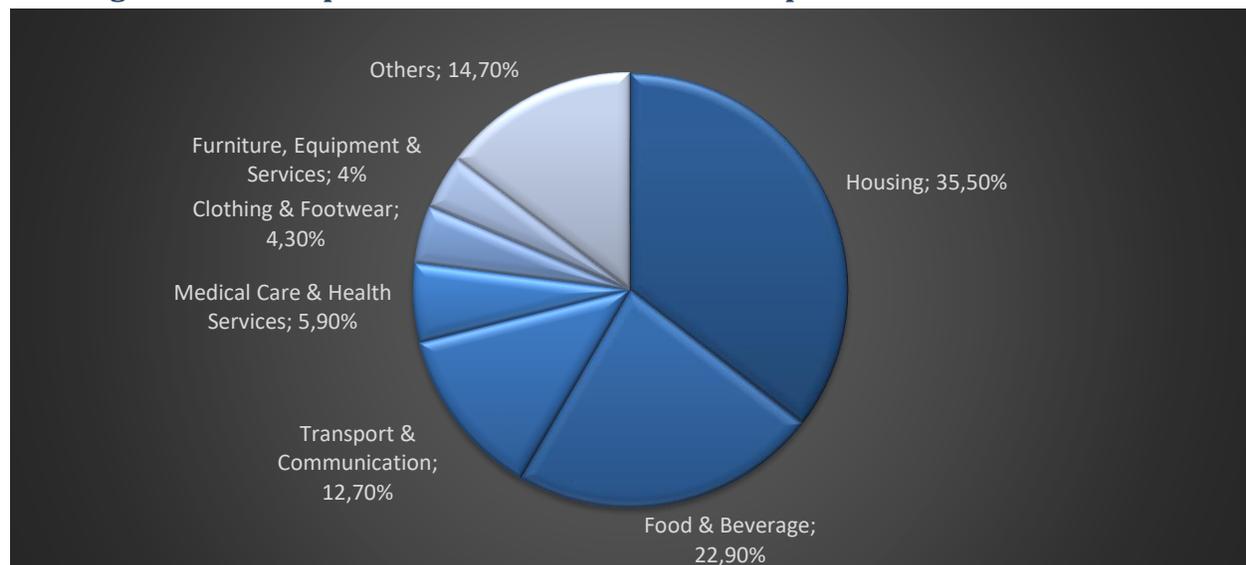
|                              | Rank | Score | Rank | Score |
|------------------------------|------|-------|------|-------|
| Higher Education & Training  | 60   | 4.6   | 51   | 4.7   |
| Goods Market Efficiency      | 111  | 4     | 100  | 4     |
| Labour Market Efficiency     | 134  | 3.2   | 130  | 3.3   |
| Financial Market Development | 131  | 2.9   | 128  | 3     |
| Technological Readiness      | 97   | 3.3   | 91   | 3.6   |
| Market Size                  | 19   | 5.2   | 19   | 5.2   |
| Business Sophistication      | 109  | 3.5   | 97   | 3.7   |
| Innovation                   | 89   | 3.2   | 66   | 3.3   |

Source: WEF

## 2.2.16. Household Budget in Urban Areas

The annual household expenditure increased by 11.4% equal to 12,520.5 USD, in the year ended March 2017 compare to the previous year. The composition of household budget indicates that the highest contribution belongs to the housing, food and beverage, in the year ended March 2017.

**Figure 2-13 Composition of Urban Household Expenditure in the Year 2017**



Source: CBI

## 2.2.17. Credit Rank

According to the Committee for Risk Assessment (RAC), Iran's OECD ranking upgraded one step from 6<sup>th</sup> to 5<sup>th</sup>. At the time of sanctions, Iran's credit rating was seven out of seven. After the implementation of the nuclear deal, the rating was upgraded.

**Table 2-17 Credit Bank of Iran**

|             | Yr. ended<br>Mar. 2014 | Yr. ended<br>Mar. 2015 | Yr. ended<br>Mar. 2016 | Yr. ended<br>Mar. 2017 | Yr. ended<br>Mar. 2018 |
|-------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Credit Bank | 7                      | 7                      | 7                      | 6                      | 5                      |

Source: Fitch Rating

## 2.2.18. Iran's Economy According to The McKinsey Institute

### Economic Diversity

Among the major oil producing countries in the Middle East, Iran has had the least dependence on crude oil and gas than tax revenues. In 2014, only 23% of gross value added (GVA) was related to oil and gas compared with those of UAE 30%, Saudi Arabia 40%, Kuwait 50% and Qatar 51%. Iran has strong non-oil sector, accounting for 50% of its economy, such as real estate and construction, wholesale, retail and factory production (about 10%) account for more contribution than oil and gas.

### Education

The number of engineering graduates in Iran is equal to the United States. In 2013, engineering-related degree held 36% of university graduates, almost equal to the United States and above Japan and South Korea, which rank Iran among top 5 countries.

### Welfare

Approximately, 45% of Iranian households have annual income by 20,000 USD, more than China, India and Brazil. Households at this income level are known as Consuming Households. According to the McKinsey (MGI), even without a transition to the post-sanction, the ratio is expected to increase by 48% over the next decade. The current share of consuming households is roughly four times that of China (12%) and India (11%).

### Urbanization

The GDP of Tehran is more than Mumbai. Among eight cities all having more than a million people, Tehran as the capital city has more than 10 million inhabitants. With about three quarters of urban population, it has doubled twice as many as India, and jointly abreast with several Western and Eastern European countries, including Italy, Portugal, Austria and Ireland. Also, it is much ahead of China, with an

urbanization of about 56%. The GDP of Tehran, which is the equivalent of Manchester and Helsinki, is greater than that of Mumbai, Dublin, Budapest, Manila and Warsaw.

## 2.3. Iran's political situation

After the second World War, the political history of Iran divides into three periods; Reza Shah Pahlavi (reign: 1925-1941), Mohammad Reza Shah Pahlavi (reign: 1941-1979) and Islamic Revolution (from 1979 up to now).

### 2.3.1. The beginnings of modernization

Between 1925 and 1941, the regime oil revenue was modest. So, the government income was also based on customs duties and excise taxes. Annual customs revenue increased from 5.6 million USD to 16.3 million USD due to higher tariffs. By the early 1940s, state monopolies on consumer goods such as tobacco, tea, sugar and fuel contributed roughly 46.5 million USD annually.

After consolidation of his power, Reza Shah's centralization plan helped him to control the economy fully. He started to create social, cultural and economic reforms toward modernization. The expansion of the transportation system was the first step of the economic development which encouraged industrial growth backed by the government financial incentives. These policies increased the number of modern plants to 346 which showed a huge progress in this field. Consequently, a new industrial workforce developed in urban centres where 75 percent of modern factories were located. During this period, the Iranian national budget mounted from 15 million USD to 166.5 million USD which indicated a 1800 percent increase.

In 1947, development planning initiated by Mohammad Reza Pahlavi as a series of seven-year cycles. The first plan (1948-1955) did not have any achievement but stabilized the Planning Organization which was responsible to provide guidelines for development strategy. The second plan (1955-1962) relied on foreign loans and 80 percent of oil revenues. The aim was to focus on public expenditure. In this period, the government faced high inflation and lack of foreign currency reserves due to the economic crisis began in 1959.

### 2.3.2. Oil revenues boom and its impact on modernization

In the 1960s, the regime pursued rapid development, using the latest technology, employment of foreign experts, encouragement of industrial profits and reallocation of savings from labour cost to capital investment. The series of national reforms in 1963 known as the White Revolution.

The third and fourth development plans with a new time frame of five years (1962-1972), coincided with the boom in oil prices and revenues. This resulted in the 1.9 billion USD national budget for the third plan and the regime's concentration on heavy industries, dam building and public utilities. During the fourth plan, the annual rate of growth in GDP averaged about 11.8 percent which was higher than target. In this

period due to lower priority given to the farming production, the gap between agricultural and industrial widened.

In the fifth plan (1972-1977), investment set at 36.5 billion USD, but surging oil revenues almost doubled this amount to 70 billion USD.

Pushing industrialization and modern mechanized military very fast, led to high inflation and intense rural to urban migration. Lack of technically trained Iranian staff brought a lot of foreigner consultants into Iran which caused unemployment especially among unskilled workers and increased the gap between poor and rich. Besides, availability of health and education resources in towns and cities and inequalities in income distribution made people dissatisfied.

### **2.3.3. The post-1979 period**

Iranian people perceived a contradiction between Shah's regime economic promises and its results which contributed to the Islamic Revolution in 1979.

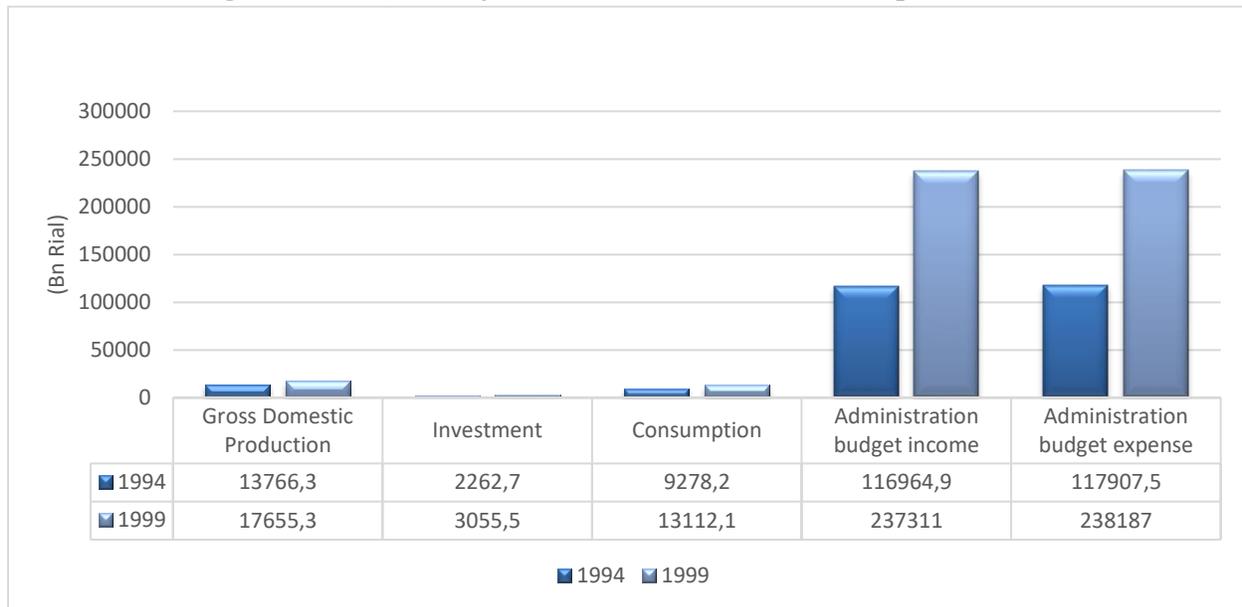
When the Islamic revolution came to power, to consolidate its power among rural, capitalized on the popular anger of Shah for ignoring the agriculture sector and promises self-sufficiency and economic independence.

The Islamic republic did not implement the sixth development plan designed by Shah's regime and started its own economic plan. From 1983 to 1988, the plan aimed at economic independency through self-sufficiency to reduce the dependence in oil revenues. The budget for this period was 166 billion USD with intention of expanding education, diversifying the economy to decrease the dependence on oil and gas and developing agriculture. But decline in oil revenues combined with the costs of the imposed war resulted in allocating approximately half of the budget to the military equipment and the reduction in imports goods to 50%. Consequently, austerity and unemployment were inevitable in that situation.

The first five-year economic, social and cultural development plan (1989-1994) started after the war to fulfil following targets; Birth rate reduction as a long-run goal - Annual GDP growth up to 8 percent - Absorbing investment - Decreasing the government spending - Lowering the liquidity rate - controlling the inflation.

In the second development plan (1994-1999), general policies were; Expanding foreign trade - Monetary policy and market setting - Fiscal policy (including: Public budget, Income policies, expenditure policies) - Controlling population growth - Increasing employment rate. Some of the quantity goals of the plan depicted below as a sample;

**Figure 2-14 Quantity Goals of the Second Development Plan**



The third development plan (1999-2004) was due to formalize the country's economy - diversifying from single product - removing subsidies and trying to make the government smaller - people's participation in economic decisions - increasing competition - stabilizing the economy in long term - cut off reliance on crude oil in export and low inflation rate.

The fourth development plan (2004-2009) main parts included; national knowledge oriented economic growth - conservation of the environment, territorial alignment and regional balance - development of health, human security and social justice - protection of the Iranian identity and culture and securement of national security.

The fifth and sixth economic, social and cultural development plan (2009-2014) and (2014-2019) had characteristics that some of them are; development of Iranian-Islamic pattern – fundamental transformation in higher education – realization of economic and social justice indicators – establishment of the national development fund – decreasing the number of ministries through integrating one or more ministries – improving the efficiency of the administrative system – reforming the central bank's structure to oversee monetary and financial institutions – implementing the water management system of the country and preventing unauthorized withdrawal groundwater resources and amendments to import-export regulations.

## Sanctions on Iran

One of the main factors that has had a great impact on the Iran's economy is its political policy in region, military defence system and nuclear program. The consequences of these policies have led to many economic sanctions on Iran from 1979 which can be seen obviously in the amount of investment that country has absorbed despite its enormous capacity.

There are two different views about sanctions. While some believe that it leads to challenges such as unemployment, inflation, depreciation of Iranian currency and reduction in foreign direct investment, there are factions within the government who think that it helps the domestic sectors to strengthen themselves by focusing on their own competences without relying on aliens. But statistics show that sanctions have decreased the foreign direct investment in Iran due to the strict punishment from the United States for those companies willing to trade with Iran. The economic power of the US and the huge volume of its trade with other parts of the world has made most of the countries and companies to trade with the US rather than Iran. In the table below, there is the history of sanctions on Iran.

**Table 2-18 Sanctions on Iran**

| Year | Sanctioned by  | Description/Target  |
|------|--|---|
| 1979 | United States  | Bans Iranian imports and freezes 12 billion dollars of Iran's asset.  |
| 1984 | United States  | Extends sanctions   |
| 1997 | United States  | Prohibits export/import of all goods and services to/from Iran.   |
| 2007 | UN Security Council                                    | Unanimously tightens sanctions on Iran in connection with its nuclear program.  |
| 2008 | UN Security Council                                    | Expands nuclear-related sanctions.  |
| 2010 | UN Security Council – United States and European Union | Tightens proliferation-related sanctions – Bans Iran from carrying out tests on nuclear-capable ballistic missiles. Target Iran's energy sector and banks. People, companies and sectors directly involved in Iran's nuclear program. |
| 2011 | United States  | Impose new sanctions on the Central bank of Iran and third countries banks who do not reduce their importing Iranian oil significantly.   |

| Year | Sanctioned by                    | Description/Target  |
|------|----------------------------------|---|
| 2012 | United States and European Union | Agrees to ban imports of Iranian oil.   |
| 2013 | United States                    | Limited sanction relief, including lifting the threat of sanctions on foreign companies dealing with Iran's auto sector or purchasing Iranian petrochemicals.               |
| 2016 | United States                    | Sanctions related to nuclear program lifted.  |
| 2017 | United States                    | Entities and members related to the ballistic missiles.   |
| 2018 | United States                    | Cut off Iran's oil export entirely - 50 banks and their subsidiaries - national airline - Iran's atomic energy organization – 200 members of shipping industry and vessels. |

## 3. Chapter 3

### 3.1. Foreign Direct Investment in Iran

The reconstruction and empowerment of Iran's economy at the end of 1980s and after the eight years-imposed war began with the definition of new economic policies. Closed, single-product and government dependent economic structure of the Islamic Republic of Iran to exit the existing situation, in addition to be knowledge-based, the entry of non-governmental sectors and the use of all its internal capacities and resources, required a major transformation and a positive approach to the global community and creating international partnership.

Iran's economy is dominated by the oil- and gas sector, and a considerable government presence in manufacturing and financial services. Economic activity and revenues of the country to a great extent depend on oil revenues and therefore remain sensitive to the global oil prices.

Iranian authorities have tried to focus on the market-based reforms strategy. This strategy expects reforms of state-owned enterprises, the financial and banking sector, and the allocation and management of oil revenues. The purpose is to shift from an oil-dependent economy towards relying on manufacturing, high-tech solutions and fortify a knowledge-based economy.

Even though the security situation in Iran is stable, in comparison to many of its regional neighbors, the political situation is somehow volatile. The geopolitical situation of Iran has always caused a combination of political risks and business opportunities. Besides, complex bureaucracy and blurred decision-making structure make it difficult to do business with the country. To overcome these difficulties, government has taken a constructive measure to encourage foreigners for investment.

Iran is a country with remarkable market for companies of different industries to invest. Its Geographical location with accessing to the Caspian Sea and Persian Gulf, young population keen on consuming foreign products, enormous need for consumer goods and equipment, infrastructure projects, cheap production factors such as labor forces, and abundant natural resources (oil and gas) are reasons that encourage foreigners for investment.

Foreign investment promotion and protection act (FIPPA) which was ratified in 2002, is the key legislation protecting foreign investment across Iran. Under FIPPA, foreign investment would enjoy the same rights, protections, and facilities which are available for local investment. For example, incentives for capital investment provided under different Iranian laws, such as the laws pertaining to taxation and agreements with other countries on avoidance of double taxation, will be applicable to foreign investors as well (HKTDG).

Based on global competitiveness report (GCR), global competitiveness index (GCI) combines 114 indicators that capture concepts that matter for productivity and prosperity. These indicators are grouped into 12 pillars: 1-institutions 2-infrastructure 3-macroeconomic environment 4-health and primary education which are categorized in basic requirements, 5-higher education and training 6-goods market efficiency 7-

labor market efficiency 8-financial market development 9-technological readiness 10-market size which are categorized in efficiency enhancers, 11-business sophistication 12-innovation categorized in innovation and sophistication factors.

It is important to keep in mind that the pillars are not independent: they tend to reinforce each other, and a weakness in one area often has a negative impact on other areas.

#### 1- Institutions

The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate income and wealth in the economy (Iran ranks 90).

#### 2- Infrastructure

Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy (Iran ranks 59).

#### 3- Macroeconomic Environment

The stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country (Iran ranks 72).

#### 4- Health and primary education

A healthy workforce is vital to a country's competitiveness and productivity (Iran ranks 49).

#### 5- Higher education and training

Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products (Iran ranks 60).

#### 6- Goods market efficiency

Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy (Iran ranks 111).

#### 7- Labor market efficiency

The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their best effort in their jobs (Iran ranks 134).

#### 8- Financial market development

The recent financial crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities (Iran ranks 131).

#### 9- Technological readiness

In today's globalized world, technology has increasingly become an important element for firms to compete and prosper (Iran ranks 97).

#### 10- Market size

The size of the market affects productivity since large markets allow firms to exploit economies of scale (Iran ranks 19).

#### 11- Business sophistication

Business sophistication is conducive to higher efficiency in the production of goods and services (Iran ranks 109).

#### 12- Innovation

The final pillar of competitiveness is technological innovation (Iran ranks 89).

So, based on global competitiveness index, 2016-2017 edition, Iran ranked 76th out of 138 countries.

According to United Nations Conference on Trade and Development (UNCTAD)'s latest report titled "world investment report 2018", foreign direct investment (FDI) inflows into Iran increased by nearly 50 percent in 2017 compared to the previous year.

Following the lifting of West-imposed sanctions in late 2015, the country's rich reserves started to attract significant foreign participation in the exploration and production of oil and gas.

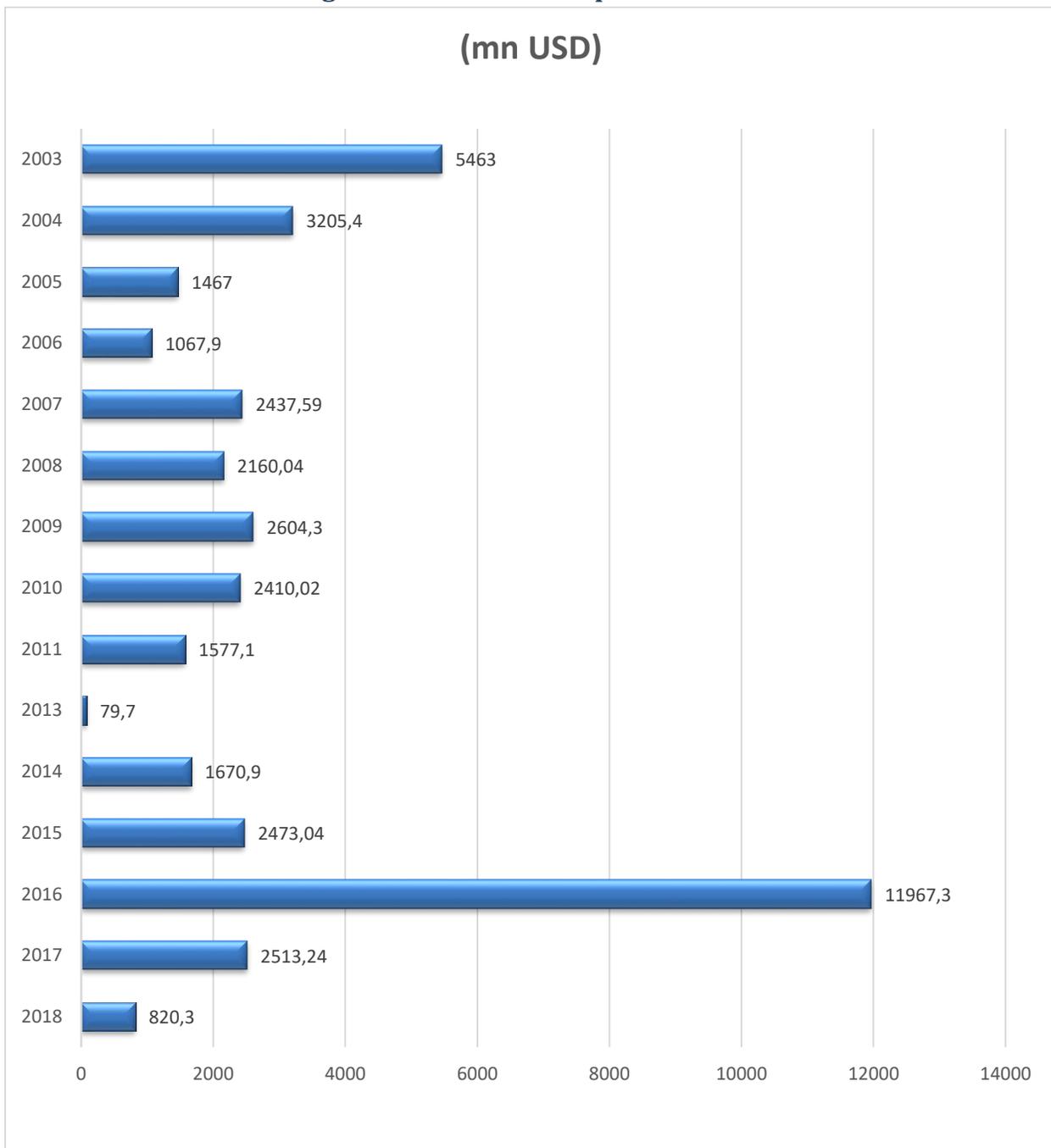
Foreign direct investment into Iran is affected not only by the US sanctions and uncertainty, but also by the challenging business environment.

This situation has led Iran to focus on its own resources, research and development and education. Some industries benefited from it and are today working efficiently and with high technology. The pharmaceutical industry and Nano-technology in general are just two examples.

Based on the document, investments by major foreign companies including France's Total, China's CNPC, Turkey's Unit International and Russia's Zarubezhneft into the country's energy sector has been the main driving force for the increase in Iran's FDI figure. However, the United States' decision to withdraw from the Iran nuclear deal has led to uncertain prospects for these investment projects (TehranTimes).

In the following pages there are figures that depict the foreign investment from 2003 to 2018 in Iran.

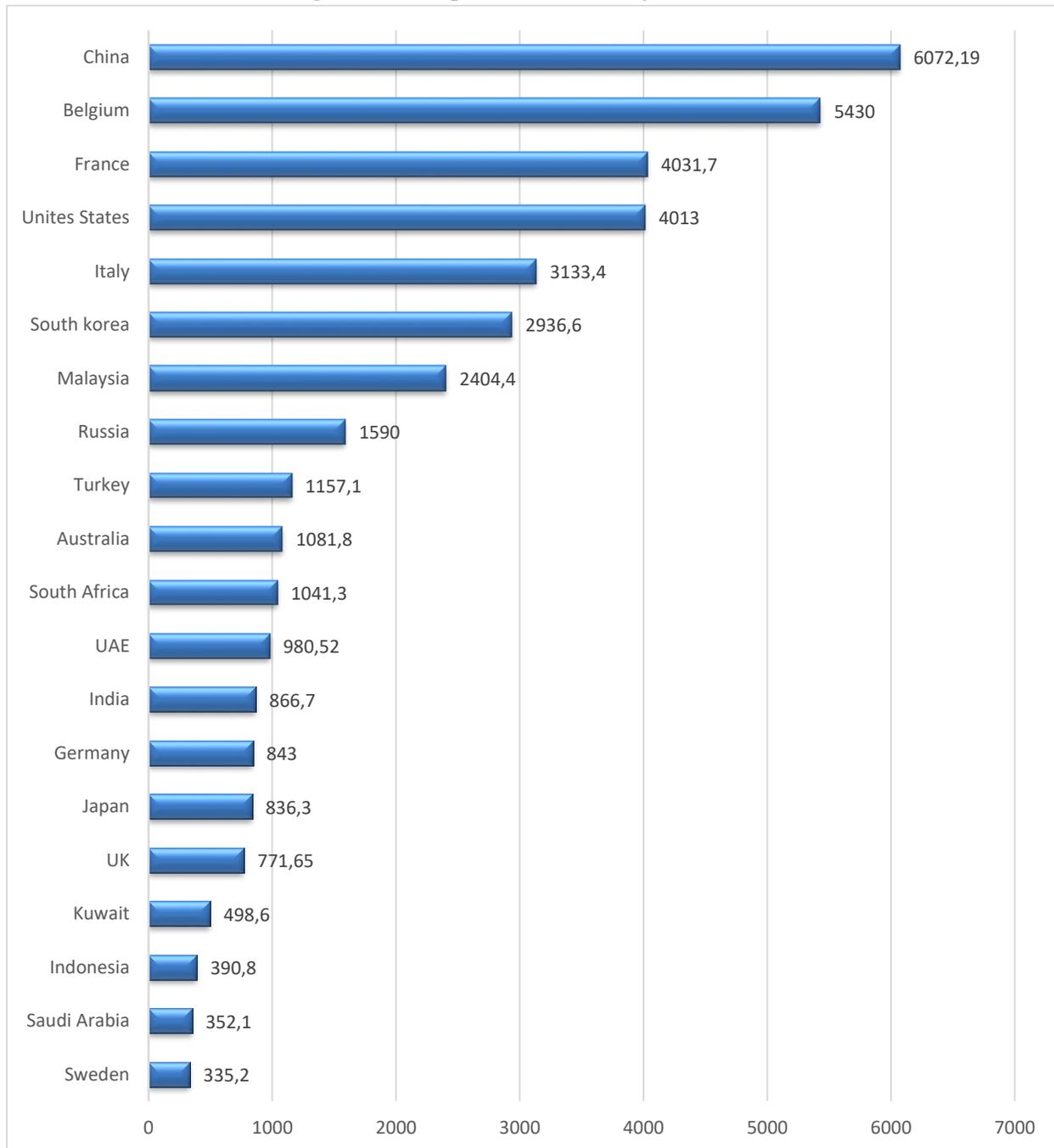
**Figure 3-1 Amount of capital invested**



Source: UNCTAD

The figure indicates that the highest amount of investment has occurred in 2016, the year after nuclear agreement, which shows the impact of politics in economy and attracting investment.

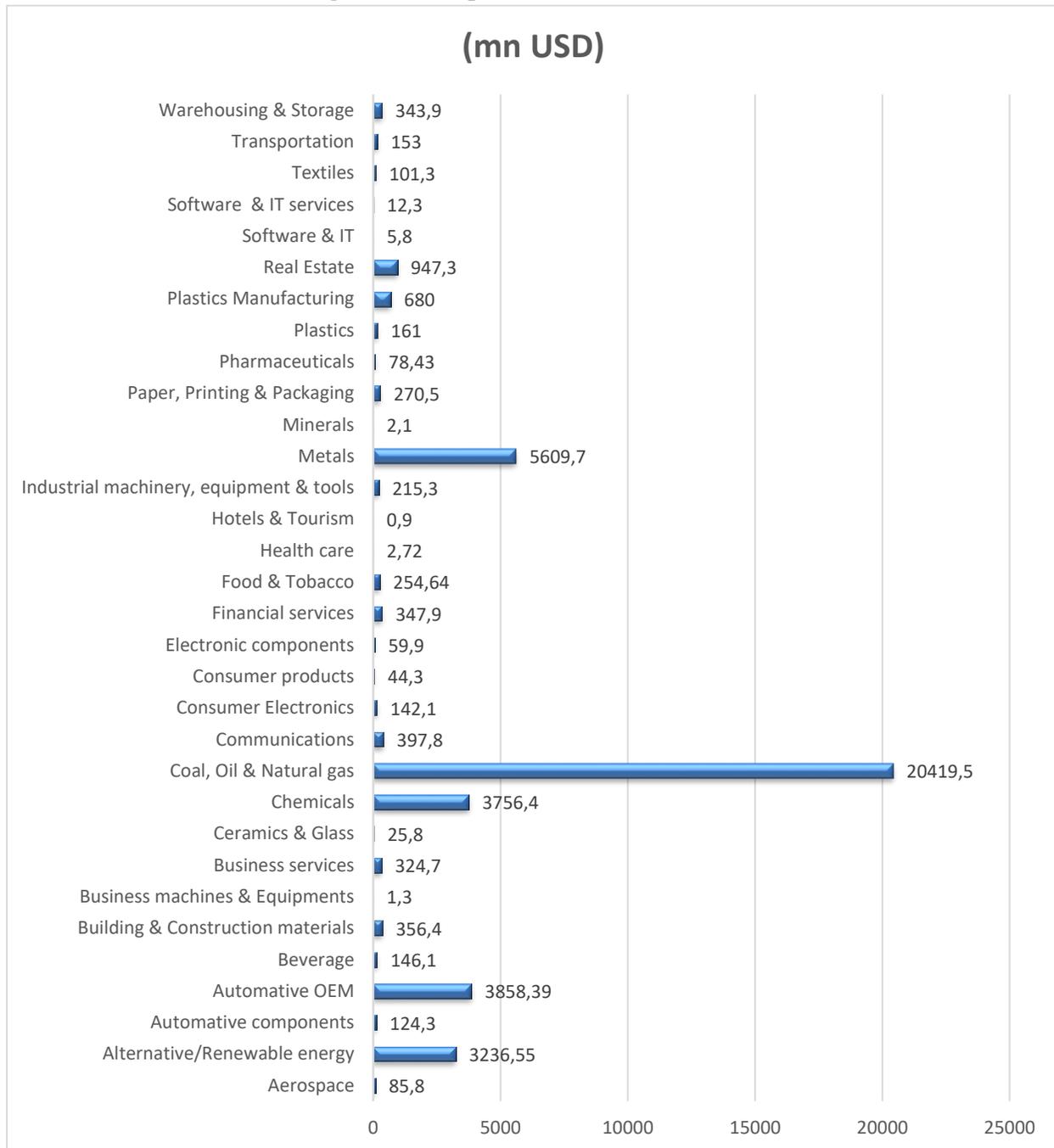
Figure 3-2 Capital invested by countries



Source: UNCTAD

As it is obvious, China has invested more than other countries in Iran from which we can realize that beside the economic power of this country, its good political relationship with Iran has led to a huge amount of investment by this country.

**Figure 3-3 Capital invested in sectors**



Source: UNCTAD

Due to the abundant of oil and gas resources in Iran which provide the main income for the country, it is the sector that attracts the major proportion of investment. The second sector that absorbs the foreign investment is metal.

## 3.2. Iran Free Economic Zones

### 3.2.1. Overview and History

Having an active role in international economy was hard without reduction in bureaucratic and legal limitations. On the other hand, advantages in production, transit and export of petroleum products, petrochemicals, metallurgy and non-metallic materials of the country which was considerable in comparison with the emerging economies, led many decision makers think about the effectiveness of free and special economic zones.

There are seven free economic zones in Iran which are mentioned briefly below, and more details about economic activities of these regions is going to be covered in the next chapter.



#### 3.2.1.1. Kish

Kish Island with 91.5 square kilometer area is one of the most beautiful islands in the Persian Gulf, located 18 kilometers southern part of Iran.

According to the 2016 census, total population of Kish is 39,853. There are 322 industrial and production units in the zone at the same time and about 4,000 business units are active in the various fields of trade, commerce, tourism and services.

Kish international airport one of the most active airports of the country and stands in the fourth rank in terms of volume of light operations, connecting the free zone to most of provincial centers of Iran and

some of international airport of region including Dubai, Muscat and Istanbul. Currently it is turning into the main tourism, trade and offshore industries destination in the region due to its proper infrastructure.

### **3.2.1.2. Qeshm**

Qeshm as the largest island in the Persian Gulf is in the south of Iran with 1,500 square kilometers area. This island is located on the Hormuz strait and enjoys an important geo-strategic situation between the Persian Gulf and the Indian Ocean.

The establishment of the Qeshm free zone was authorized on January 1991 by the approval of the board of ministers.

The strategic location of this zone in the Persian Gulf, its relationship with sultanate of Oman and the capacities of the sea-based industries beside other factors, has made this island so attractive to investors.

### **3.2.1.3. Chabahar**

The Chabahar free zone on the eastern Chabahar Gulf in the southeast of Iran, with 140 square kilometer area, determined by the board of ministers on May 1991. It is the only free zone close to the ocean with access to Indian sub continental markets.

Transit of goods, regional trade, loading and unloading heavy shipment and cargos, and transferring oil and gas products to neighboring countries including Oman, India and Pakistan are among the opportunities of the zone to invest or launch a business.

### **3.2.1.4. Aras**

Aras free zone was established on August 2003 by the approval of the Islamic consultative assembly in the 97 square kilometer area of Jolfa in the north of East Azerbaijan province. Its population is 19,383.

The location of the zone on the Aras riverside, fertile lands for large Agri-industrial complex, approaching Caucasian markets, eco-tourism and cultural tourism potentials; rich mineral resource adjacent to it and abundant water supplies, are appealing to investors.

### **3.2.1.5. Anzali**

Anzali free zone that was established on August 2003 by the approval of the Islamic consultative assembly on the area of Bandar Anzali in the province of Gilan which has become operational since 2005, is considered as the only free zone in the southern part of Caspian Sea and the northern economic hub of Iran with 86.1 square kilometer area, 40 kilometers shoreline and populations over 30 thousand. Having mild climate, attractive nature, beautiful beaches of the Caspian Sea, industrial zone with infrastructure facilities to establish production units in hi-tech industry, Nano and electronic, processing and packaging of agricultural products, medical and optical instruments and its transportation route, put this zone in the list of free economic zones.

### **3.2.1.6. Arvand**

The establishment of Arvand free zone in the northwest of Persian Gulf and neighboring to Iraq and Kuwait was approved on August 2003 by the Islamic consultative assembly.

This zone, with its border to southern Iraq, has the largest trade terminal with this country from one side, and is the refinery and production pole of Abadan oil and chemical products and major offshore industries. The Arvand free trade zone is perhaps Iran's fastest growing economic zone. What gives the Arvand an edge in economic activities, is its access to various modes of transport including air, road, railway and water.

### **3.2.1.7. Maku**

The establishment of Maku free zone has been approved by the Islamic consultative assembly in the city of Maku, on September 2010, north of West Azerbaijan province, covers an area of 3,970 square kilometer and a population of 192,603 people. Its ancient civilization with a rich history and a variety of cultural and natural attraction means it does have the potential to become a tourism hub.

This zone is in the land gate of Iran's exchange with Europe and the Turkish border, enjoying greatest geography and independent export terminal. The capacity of industrial development based on the supply chain in neighboring countries, particularly, Turkey is among the main reasons to become a free zone.

## **3.2.2. Special economic Zones in the Five-Year Development Plans**

### **3.2.2.1. The 1st Five-Year Development Plan**

Although the Kish island in the south of Iran had been exempted from the customs duties on import of permitted consumer goods since 1980 and considered as tax free island, the first legal act was conducted to create free zones in the present form under the first economic, social and cultural development plan. Subject to the terms of the 19<sup>th</sup> note of the law, the Islamic consultative assembly authorized the government to establish the special economic zones in three border regions, thus the first step of legislation in free zones was formed. In addition, according to note 20 of law, to support production, customs and port, maritime organization is obliged to establish protected areas in the entrance or in domestic customs for raw materials storage, foods and manufactured goods that are imported without payment order within six months from the date of the enactment of this law.

According to note 19, on October 1990, the board of ministers appointed Qeshm island as a special economic zone. Subsequently, on 08.05.1991, the region on the eastern shore of the Chabahar gulf was announced as a free zone by the board of ministers. On August 1993, with the approval of law on the administration of special economic zones, the free zones law was recognized as the legal regime of their activities.

**Based on this Act, the following items were determined as the basic goals of Free Zones:**

- Accelerating infrastructure-related development
- Economic progress
- Enhancing investment
- Increasing of public income
- Creating productive employment
- Regulating of goods and labour markets
- Active presence in regional and global markets
- Manufacturing and exporting industrial and processed goods
- Providing desirable public services

Later in the year 2,000, based on two separate acts by the Islamic consultative assembly, Arvand, Aras, Anzali and Maku were added to ex-three free zones and number of Iranian free zones increased to seven.

**Some of the main Incentives and Offers for Investors in Iran Free Zones are:**

- ❖ 20-year cooperate tax exemption
- ❖ 20-year personal income tax exemption
- ❖ No value added taxes (VAT)
- ❖ 100% foreign ownership
- ❖ No restriction on capital and profit repatriation
- ❖ Government guarantee and protection of legal rights of investors
- ❖ No currency restrictions
- ❖ No pre-entry visa requirement
- ❖ No import, export and re-export duties

### **3.2.2.2. The 2nd Five-Year Development Plan**

In clause (d) of note 25 of the second five-year development plan, approved on December 1994 the Islamic consultative assembly stipulated:

- To support domestic production and development of non-oil export and to boost the regional economy, the government can create protected areas at the entrance or customs points. Import of goods from the abovementioned areas for domestic consumption will be subjected to the import and export regulations and goods from these areas will be exported without any formalities.
- Special protected areas determined in accordance with note 20 of the first five-year development plan, will adapt their activities to the provisions of this note and its executive bylaws.
- The executive bylaw of this clause will be approved by the board of ministers. Also, in accordance with note 28 of this law, the administrator of free-trade zones was obliged for the establishment of health centres based on the ministry of health and medical education regulations and the current costs should be financed by the zones revenues equal to the standards of ministry.

### 3.2.2.3. The third five-year development plan

In this period, no special laws or regulations proposed by government to the parliament.

### 3.2.2.4. The fourth five-year development plan

Subsequently, after the drafting and approval of a large number of regulations, bylaw and guidelines free zone, under article 35 of the fourth five-year development plan, dated September 2004 and in order to exercise integrated management and create proper economic growth in the free zone, government was obliged to precede the following actions:

- The administrators of free zones organization, on behalf of the government, are considered as the highest authority in the zones. All the executive agencies in the free zones, excluding defense and security institutions, are required to comply with article 27 of the law on the administrations of special economic zone passed on August 1993 and must correct and resolve their regulatory contradictions with free zones regulations.
- Ministries, organizations, government affiliated companies, in the framework of legal functions and in coordination with free zones organizations will provide services such as electricity, water, telecommunications, fuels and other services at current approved rates in the same geographical region of the country to the free zones.
- Manufactured or processed goods in free zones when being imported to other parts of the country, in proportions to the total value added and the value of used raw materials and components from inside the country are considered domestic production and exempted from import duties. Note that the raw materials and foreign intermediate goods used in production, in case their import duties are paid, will be considered domestic raw materials and goods.
- The duties, fees and charges of the ports, which are received from ships and vessels for port services, in accordance with current laws, will be paid to the free zones organization if the ports and harbors are established by the private and cooperative sector. Free zones are allowed to register and issue clearance of international ships.
- The maritime of free zones that the territory of which will be approved by the Islamic consultative assembly, observing the defense and security issues, proposed by the Board of Ministers, will benefit the privileges of administrations of special economic zones law, approved on August 1993 and its subsequent revisions.
- Commodities exchange among free zones and abroad as well as other free zones are exempted from all import duties and taxes. (except for duties based on article 10 of law on the administrations of special economic zone of the Islamic republic of Iran, approved on August 1993).
- Concerning the expansion of scientific communications with authentic international educational and research centers and institutions, ministry of science, research and technology and ministry of health and medical educations will issue permissions on establishment of privet universities in the special economic zones, in the framework of the rules and regulations of the supreme council of the cultural revolutions.

### 3.2.2.5. The fifth five-year development plan

Subsequently, in accordance with article 112 of the five-year development plan of the Islamic republic of Iran approved by the Islamic consultative assembly on January 2011, for organizing free and special economic zone and their role in implementing integrated management and appropriate economic growth, the effective interaction and linkage with the global economy and providing national development model were emphasized in the following sections which are the same as the previous plan with only few changes:

- A. The administrator of the free zone organizations on behalf of the government, are considered to be the highest authority of the zone and are responsible for all functions and responsibilities of executive entities located in these zones (except for defense and security agencies). Free zone organizations are governed exclusively by labor law and law on the administration of free trade industrial zones and subsequent revisions.  
Note01. The delegation of duties, authorities and responsibilities of the organizations will be assigned under supervision of the supreme leader and his approval.  
Note02. Authorities of the governor pertaining to approval of the Islamic urban and rural councils will be delegated to the administrator of the free zone.
- B. Manufactured or processed goods in free zone when being imported to other parts of the country, in proportion to the total value added and the value of used raw material and components from inside the country, are considered domestic production and exempted from import duties.  
Note01. Raw materials and foreign intermediate goods used in production, in case their import duties are paid, will be considered domestic raw material and goods.  
Note02. Raw materials and foreign parts used in manufactured or processed goods in free and special economic zones that have been imported from other parts of the country to the zone in the past, in case of being used for manufacturing or processing of goods to be imported to the country, are assumed as raw materials and exempted from import duties.
- C. The duties, fees and charges of the ports which are received from ships and vessels for port service, in accordance with current laws, will be paid to the free zone organization if the ports and harbors are established by the private and cooperative sector or free zone. Free zones are allowed to register and issue clearance of international ships.
- D. Commodities exchange among free zone and abroad as well as other free zones are exempted from all import duties and taxes. (except for duties based on article 10 of law on the administration of free trade industrial zones of the Islamic Republic of Iran approved on August 1993.)
- E. Concerning the expansion of scientific communication with authentic international educational and research centers and institutions, the establishment of foreign and domestic universities representative in accordance with announcement of relevant ministries and the establishment of private universities in free trade industrial and special economic zones subjects to compliance with related laws and regulations are authorized.
- F. The maritime limits of free trade industrial zones with observance of the security and defense considerations approved by the army general headquarters is determined by 800 meters and benefit the

privileges of law on the administration of special economic zones approved on August 1993 and its subsequent revisions.

- G. To eliminate poverty from the free trade zone (local communities), the pertinent authorities are required to allocate at least 1% of the import and export of commodity and service duties of these zones to the local poor people through the relief institutions.

### **3.2.2.6. The sixth five-year development plan**

Finally, the sixth development plan, under article 23 authorized the establishment of any new free trade industrial and special economic zone, subject to approval of the Islamic consultative assembly and provision of the required infrastructures for the establishment of production units, the issuance of required permission, such as environmental, military and security permits, in compliance with the law on the administration of special economic zones approved on August 1993 and law on the establishment and administration of special economic zone of Islamic Republic of Iran, approved on December 2005.

It is worth mentioning that on October 1993 and following the approval of the law on the administration of special economic zones, including charging duties and tariffs, issuing visa to foreign nationals, exploitations of land and national resource, recruitment of human resources, insurance and social security, investment, export, import and customs affair, arrival and residence of foreign nationals, administration of public places, security and disciplinary regulations, border patrolling, registration of companies, industrial and intellectual property rights, executive bylaw on banking and monetary operations, establishment and activity of insurance institutions, registration and awarding nationality license to ship, financial and transaction by law of free zones organization, free zones establishment bylaw and etc., have been approved by the board of ministers.

### **3.2.2.7. Special economic zones in overall resilience economy policies**

The importance of free trade industrial zones for the country economic development and its role in strengthening the relationship between national, regional and global economies is such that utilizing this capacity once again in February 2013 in one of the most important documents of the country as the general policies of the resilience economy were emphasized by the supreme leader to establish the necessary operational measures by all forces, which is definitely a strong backing of the political support of the highest officials of the country from these zones.

Accordingly, based on the eleventh part the overall resilience economy, expanding the scope of action among free and special trade zones of the country with the aim of transferring advanced technologies, boosting and facilitating production exportation and other services meeting urgent needs and providing financial resource from outside has been determined as one of the main policies for achieving continual growth, improving the economy of resistance's standards and attaining the goals specified in the 20 years strategic plan and announced by supreme leader of the Islamic Republic of Iran.

### 3.2.3. Laws and regulations

The law on the administration of special economic zones, including 29 articles and 4 notes, was passed by the Islamic consultative assembly on August 1993 with further adjustments and extensions. All articles and notes are mentioned in the appendix A.

#### 3.2.3.1. Regulations on investment in the special economic zones

The majority of the ministers of the supreme council of the special economic zones at a meeting date May 1994 having regard to the authority empowered by the board of ministers (the approval date June 1994) and on the basis of article 20 of the law on the administration of special economic zone of the Islamic Republic of Iran adopted in 1993 passed the regulations on investment in the special economic zones. Related articles and notes are mentioned in detail in appendix B.

#### 3.2.3.2. Legal incentives and facilities of investment

##### Law of direct and value-added tax

- Any natural or legal persons engaged in various economic activities in the free zones is exempted from paying tax for 20 years on income and assets subject to the direct taxes act since the operation day stipulated in the license.
- There is no value added tax on commodities and services within the limits of the free zones.
- By permission from the free zones organization, providing the contract services of non-residents to the residents in any zone is exempted from paying to the value added tax.
- Exporting commodities and services from the zone to abroad is exempted from value added tax.
- Exporting the commodities and services from the free zones to the mainland are subjected to the rules and regulations of the value added tax.

##### Regulations of investment

- Foreign investors can invest in economic activities in the zone in any proportion.
- Foreign investors' requests received in any zone will be reviewed by the organization of the same zone and the investment license will be issued.
- The investor is obliged to import the specific percentage of the capital to the zone within a time set in the investment license to start the operations. The operating activity stipulated in the investment license is subjected to the issuance of operating license by the free zones organizations. Foreign investors in the free zones are entitled to enjoy the privileges of the foreign investment encouragement and protection act in Islamic Republic of Iran too.
- Transferring specific profit and the money related to the origin and the benefits from economic activities of the foreign capitals as well as the money gained from selling or assigning these capitals out of the zone is permitted. The investors are allowed to assign the shares or their own share to other investors if the free zone organization agrees. In this case, the assignee will be the successor of the first investor in any respects.

- The dispute cases between the foreign investor and Iranian party will be settled according to the written contracts and agreements.

### **Regulations of company registration**

- The registration of company is permissible with 100 percent foreign ownership in the companies and industrial and intellectual property rights registry office.
- Any company registered in the zone and run its principal office in the same zone is considered as Iranian registered company in the zone.
- The registration of any branch or agency for the foreign legal persons permissible in the companies and industrial and intellectual property rights registry office.

### **Regulations of exports, imports, and customs**

- Overseas trade transaction of the zones and/or transaction with other free and special economic zones, as well as transaction within the geographical territory of any free zone are subjected to the regulations on the export, import, and customs of the zones and executed within the framework of the law on administration of the free zones.
- The order of the goods imported to the free zones, with the minimum formalities, follows the regulations designed by free zone organization.
- The import of any good to free zones is allowed except for the goods that are forbidden or illegal as per the Islam orders, or under the rules of the state where the name of free zone is stipulated in, or according to the special regulations of free zone.
- Import of the goods by the purpose of storage, distribution, re-exportation, shipment, and foreign transit to the warehouse run under the control of the organizations of the free zones is permitted within the specific deadlines (set by the organizations of the free zone). Export of goods manufactured in the zone to foreign countries or other free zones of the country is authorized, regardless of whether the raw materials used in their production are originated from inside to country, foreign courtiers or other free zone of the country.
- Returning the goods imported to the zone from abroad or returning the goods imported from other parts of the country into the zone is permissible in accordance with the permit of the zone authority. The import of the goods manufactured or processed in the special economic zones is allowed without any limitations. Furthermore, there is no need to register the order or open any letters of credit and it is neither subjected to the unauthorized and limited authorized requirement.
- The rights of the imported component and foreign raw material (imported from foreign country to the zone) used in the goods manufactured or processed in the trade-industrial free zone and special economic zones will be calculated and applied upon the final product after the subtraction of the exemption gained by the added value. (determined by the commission which sets the added value)

- Remark: the commission setting the added value is comprised of a representative from any zone, a representative of customs of Iran, a representative of the ministry of industry, mine, and trade, and a representative of the secretariat of supreme council of the free zone.
- The exemption of the production line equipment and machineries (first and second hand) is from payment of the customs tariffs taken for the entry to the zones.

### **Regulations of visa-free residence, entry, and departure for the foreign nationals**

- For direct entry into the authorized points of arrival and departure in the free zone, foreign nationals need not to obtain a visa beforehand.
- A residence permit is issued upon arrival for the duration of one month and may be renewed, up to six months upon the personal by zone organization.
- Entering the free zones adjacent to other parts of the country where direct entry is not possible, foreign nationals must obtain an entry visa from the Islamic Republic of Iran legations abroad.
- The request for the issuance of residence permit for the foreign nationals is applied through the free zones organizations.

### **Transferring of the land regulations**

- By the permission of the free zones organization, the object of the sale or leasing land contracts is allowed to be transferred to the third part.
- The necessary time limit for starting and constructing the building is set in the land assigning contracts. If no action is taken within the time limit written in the contract, the organization can terminate it.
- Leasing the land to the foreign investors is permitted.
- In case where the foreign investment results in the establishment of Iranian company, the land ownership is allowed under the name of the company in accordance with the investment plan and at discretion of the zone organization.

### **Regulations of employment of workforce**

- Utilizing services, expertise, and skills of the foreign national experts in the workplace located in the free zone is allowed.
- Remark: under any circumstance, the proportion of the foreign workers should not exceed more than ten percent of the total staff of each zone.
- The work permit for the foreigners is issued at the discretion and request of the organizations of the free zones and by the labor and employment services office.

### **Regulations of monetary and banking**

- The establishment of a bank and a credit institute and operating of branches of the Iranian or foreign banks and credit institutes in the zones are subjected to the proposal of the zones

organization, the agreement of the secretariat of supreme council of the free zones, issuance of establishment permit by central bank of Iran and the registration of the company in the company registry office of the zones organizations.

- The banks and institutes, either with Iranian or foreign capitals and/or with the Iranian and foreign cooperation, are allowed to be registered in the zone.
- The establishment of representative office for Iranian or foreign banks and credit institutes is subjected to the agreement of the free zone organization and the secretariat of supreme council of free zone, and the approval of the central bank of Iran pertaining to the responsible person in charge of the representative and registry office in the zone.
- The capital of the banks and credit institutes can be owned 100 percent by the foreign or Iranian national or the combination of both.
- Under the authorized license, the zone banking units can perform offshore banking operations. The overseas banking units will not be entitled to perform banking operations and transactions by Iranian Rial. They have to do all their operations and transactions exclusively by foreign exchange.
- The establishment of a currency exchange in the zone is subject to the proposal of the organization and the issuance of the license by the central bank.
- The establishment of a currency exchange is exclusively authorized in a form of general partnership.

### **Regulations of insurance**

- Upon the observance of the regulations on establishment and operation of insurance institute and regulations on the registry in the free zones, the establishment of a branch by insurance institute is permissible.
- Upon the proposal of the organization, the insurance and reinsurance operations in the free zones are conducted by the institutions registered and acquired license from central insurance of Iran in compliance with the regulations.
- The registration permit of insurance institutes subject to the submission of registration will be issued by the central insurance of Iran.
- Under the provisions of the act on establishment of central insurance and insurance operation (including governmental and non-governmental), the insurance institutes are allowed to operate in free zones as one of the following forms:
- Establishing branch and creating agency by the observance of the act on establishment of central insurance and insurance operation. Or, the establishment of an insurance institute with the cooperation of domestic and foreign natural and legal persons is allowed within the respective regulations.

### 3.2.4. Iran free zones 2025 strategic map, vision, and strategic objectives

The strategic map of Iran free zones is in the framework of state 20-year strategic plan, overall policies of resilience economy and goals of the law on the administration of special economic zones of the Islamic Republic of Iran as follow:

Special economic zones of Iran, with vast economic, social and cultural capacities and capabilities and in the light of the effective planning and implementation of development and management plans, in 2025 horizon will be:

Pioneer free zones in the Middle East, southwest and central Asia and the Caucasus, where enjoy up-to-date infrastructure, a transparent, competitive and attractive business environment for investment, and play an important role in promoting national economic development and strengthening strategic links with regional and international economies.

#### The first strategic objective

Contributing to the consistent growth, improving the resilience economy's standards and achieving the goals specified in the 20-year strategic plan of the country:

Strategies:

- Expansion and facilitation of the production of goods and services in the businesses, based on the comparative advantages of the zones and attraction of domestic and foreign investment.
- Expansion of export of goods and services and active presence in regional and global market.
- Contribution to the transferring of the advanced technologies to various economic sectors and strengthening the knowledge-based economy of the country.
- Facilitating and accelerating the supply of essential and strategic goods and needs of the country.
- Facilitating and contributing to the finance from abroad through the development of money and capital markets in the zones.
- Improving the business environment of the administrative, financial and economic, reforming, simplifying and improving the procedures and promoting public services of the zones organizations and strengthening the single window services.
- Development of infrastructures of the zones (sites, access, utilities, transportations).
- Strengthening human capital, creating productive employment and helping to reduce unemployment at the regional and national level.

#### The second strategic objective

Contributing to the diversification of the country's economic ties with regional and international economies, especially neighbors and region countries.

Strategies:

- Defining investment opportunities in line with the needs, demands and the privileged resources of regions and neighboring countries markets to produce goods and services in the regional value and production chain.
- Attracting international and regional investors for activities in the zones.
- Facilitating and encouraging the export of goods and services to the global, regional and neighboring markets.
- Facilitating the foreign national's presence, visit and activity especially from the region and neighboring countries.

### **The third strategic objective**

Contributing to the development and acceleration of regional improvement construction and the cultural, social and economic empowerment of local communities.

Strategies:

- Development of zones within the framework of strategic and master plans.
- Development of the free zones utilities (water, electricity, gas, etc.).
- Development of the free zones transport infrastructure in synergy with national, regional and international networks.
- Development of the communications and information infrastructures of the zone.
- Development of technical professional efficient training centers at different levels based on the needs and demands of the zones basic businesses.
- Development of healthcare centers in line with the needs of local communities, investors and economic actors and visitors.
- Developing the capacities, capabilities and cultural social and economic talents of local communities and organization them toward value creation in the zones.
- Planning and implementing programs for the cultural and social promotion of local communities and attracting their maximum participation.
- Encouraging the employment of the skilled local labor in the active businesses and industries of the zones.

## 4. Chapter 4

In this chapter I am going into detail of economic activities such as infrastructure development, domestic investment, trade development and employment of the seven free economic zones in Iran and the amount of foreign direct investment that these regions absorbed.

### 4.1. Kish

#### 4.1.1. Overview

Kish Island with 91.5 square kilometer area is one of the most beautiful islands in the Persian Gulf, located 18 kilometers southern part of Iran. Although the Island has turned to free Island, subject to the revolutionary council approval in 1980, for the southern Islands exemption from customs duties on consumer goods import, it became a free zone at the time of approval of the law on the administration of free zones by the Islamic consultative assembly on August 1993 Subsequently, on December 2010, with the approval of the Islamic consultative assembly, the Hendurabi, the greater Faror, the lesser Faror island were annexed to this zone.

Some geographical features of Kish such as being located in Persian Gulf strategic geographical zone, fine climate in 8 months of year and coral beaches have provided this island with a so unique situation in term of tourism and trade.

Kish commercial port enjoys annual warehousing and product unloading capacity of 3.5 million tons and vessels with maximum tonnage of 12,000. This capacity will be increased to 7 million tons in the near future with possibility of hosting 35,000-ton vessels.

Currently Kish free zone is turning into the main tourism, trade and offshore industries destinations in the region since enjoys the proper infrastructure of the air and sea transportation. Specially development of the international airport by increasing its capacity to 8 million passengers, developing port and its modern passengers terminal, hotel, residential centers and modern tourism sites. The island has prepared ecofriendly infrastructures, including airport and sea port in Hendurabi to change it to the tourism island of relaxation. Close distance to oil fields and platforms has led to establish the headquarters of oil companies and offshore oil and gas industries, with more than 200 oil service companies.

International universities for under-graduate and post-graduate studies, knowledge-based industries with high technology and under establishment a new international capital market, are the efforts that government, with contribution of the private sectors, has done in this zone.

Main businesses

- Tourism industry
- Banking and financial services
- Cross-border medical services

- Electronic industries
- Persian Gulf oil support services
- International trade and commerce

#### Advantages

- Access and proximity to international ports and cities such as Dubai, Muscat and Doha
- The possibility of goods transit to central Asian and neighboring countries
- Independent customs near to international markets
- Harbor with a vessel berthing capacity of 35,000 tones
- International stock exchange and oil and petrochemical stock trading
- Strategic location and proximity to oil-rich regions of Asaluyeh
- Energy resource (gas) independent of the mainland
- Indigenous population and cheap labors compared to neighboring regions
- Independent airline and shipping lines with the possibility of car transportation

### 4.1.2. Performance in the last five years

#### Infrastructure development

During the period from the year-ended Marches 2014 to the year ended March 2018, a total of 467.9 mn USD from the internal resources and revenues of the Kish free zone organization spent for the development of the zone infrastructures.

**Table 4-1 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                               | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total Costs |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost                 | 83.2                       | 112.8                      | 92.2                       | 106.8                      | 72.9                       | 467.9       |
| CBI official exchange<br>rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

#### Investment

##### Domestic investment

In the Kish free zone, a total of 2,224.75 mn USD of domestic investment has been realized by the private sector and 3,141.9 mn USD of domestic investment has been licensed between the period from the year ended March 2014 and the year ended March 2018. Kish with a share of 20.7%, had the highest rate.

**Table 4-2 Domestic investment by private sector from 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(249.9)     | Realized<br>(376.2)     | Realized<br>(418.2)     | Realized<br>(911.1)     | Realized<br>(269.35)    |
|                                  | Licensed<br>(375)       | Licensed<br>(564.3)     | Licensed<br>(554.4)     | Licensed<br>(1,194.7)   | Licensed<br>(453.5)     |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Foreign investment

From the year ended March 2014 to the year ended March 2018, 149.4 mn USD foreign investment has been realized in the zone, in form of direct or with local partnership, while during the same period, licenses have been issued (direct and local partnership) for 43 mn USD foreign investment. Kish Island has a share of 12.4% of the realized foreign investment.

**Table 4-3 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Foreign<br>Investment<br>Volume | Realized<br>(0)         | Realized<br>(0)         | Realized<br>(33)        | Realized<br>(108.4)     | Realized<br>(8)         |
|                                 | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(43)        |
| CBI official<br>exchange rate   | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Trade development (export and import)

#### Export

During the period from the year ended March 2014 to the year ended March 2018, the total export and re-export value of goods and services from Kish free zone was 426 mn USD. The export value decreased from 2014 to 2015, however it increased dramatically from 2016 to 2018.

**Table 4-4 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and re-export of goods and services | 39                      | 9                       | 82                      | 128                     | 168                     | 426   |
| CBI office exchange rate                         | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services are presented separately in the table 4-5 and 4-6 as follow:

**Table 4-5 Export of goods and services from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services export | 2                       | 3                       | 33                      | 58                      | 95                      | 191   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-6 Re-export from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export                | 37                      | 6                       | 49                      | 70                      | 73                      | 235   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Import

The imported value of goods in Kish free zone is about 2,135 mn USD during the period the year ended March 2014 to the year ended March 2018. In addition, 28.4% of imported value for the total free trade zone are allocated to this area.

**Table 4-7 Import from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                   | 559                     | 339                     | 453                     | 434                     | 350                     | 2,135 |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

## Employment of non-governmental sector

The number of non-governmental employees in the Kish free zone until the year ended March 20018 was more than 18,800 persons.

While during the period from the year ended March 2014 to the year ended March 2018, a total of 6,939 new employment were created by the non-governmental sector.

**Table 4-8 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Employment created | 939                     | 1,950                   | 1,690                   | 1,710                   | 650                     | 6,939 |

## Number of tourist arrival

Tourism is one of the businesses in Kish free zone. According to statistics, approximately 6,710,000 tourists traveled to the island between the year ended March 2014 and the year ended March 2018.

**Table 4-9 Tourist from 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|---------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Tourist | 1,280                   | 1,280                   | 1,300                   | 1,350                   | 1,500                   | 6,710 |

## Active industrial units

The active industrial units in the Kish free zone are electrical and electronic, chemical, metallic, cellulose, non-metallic minerals, textile and leather, food, pharmaceutical and sanitary products. Among 255 active units, non-metallic mineral industries are the most active sectors in the region.

**Table 4-10 Active industries**

| Active industries                          | Unit        |
|--|-------------|
| electrical and electronic                  | 11          |
| Chemical                                   | 21          |
| Metallic                                   | 61          |
| Cellulose                                  | 53          |
| Non-metallic minerals                      | 63          |
| Textile and leather                        | 7           |
| Food, pharmaceutical and sanitary products | 39          |
|  | Total = 255 |

## 4.2. Qeshm

### 4.2.1. Overview

Qeshm as the largest island in the Persian Gulf is in the south of Iran with 1,500 square kilometers area. The seaway from Bandar-Abbas in the main land to Qeshm is about 22 kilometers, and the shortest distance between the island and the shore is 1.8 kilometers. Morphological and ecological diversity of land status and specific geographical position and young population are Qeshm, s important features. According to the census in the year ended March 2016, the total population of Qeshm Island is 148,993 people and hosts more than 2 million tourists from different parts of Iran and the world every year. The Island, with all its features, is a gateway to the Persian Gulf. So Qeshm stands on the canal where a large amount of the global oil and gas will be transported for the next 100 years thereafter. The privileged situation distinguishes Qeshm from other islands of the Persian Gulf.

The establishment of the Qeshm free zone was authorized in Qeshm Island on January 1991 by the approval of the board of ministers. By passing the law on the administration on free zones by the Islamic consultative assembly of the Islamic Republic of Iran on August 1993, it officially became active in 30,000 hectares land of the Island.

The location of the zone in the Persian Gulf and its relationship with sultanate of Oman, has put it among the most strategic regions of the country. The enormous capacities of the island that are mentioned in the following, has provided the opportunity of attracting investment for the country.

Sea-based industries, steel, processing intermediary industries, abundant and cheap local natural resource, gas field around the island to establish energy park, capacities for the fishers and the related upstream and downstream industries, utilizing biotechnological product such as cosmetics, sanitation, anti-cancer drugs, gelatinous foodstuff, biotechnology educational and research centers, services to ship passing through the Persian Gulf, very short distance to the south coast of the island for deeper anchoring of ships and valuable products of ecotourism, are all the resource and capacities of this zone that can be exploited more effectively within the framework of action plans. By doing so, higher numbers of domestic and international companies and individuals are expecting to invest which will result in increasing the share of the zone in the country's GDP along with development of local community.

#### Main businesses

- Energy intensive industrials
- Energy park and petrochemical industries
- Steel industries
- Trade and business services
- Biotechnology and marine resource industries
- Tourism industry
- Fishery industry

- Oil support services
- Transportation and transit industry

#### Advantages

- Access to international waters and centrally located on north-south trade corridor and one of the major transit routes from Asia to Europe
- Locating right in the middle of the energy market regarding the existence of the oil and gas field of Gavardin, Salakh, and Hengam regions and exceptional advantages for related industries
- High potential for using unlimited aquatics sources of Persian Gulf in terms of producing and breeding
- International airport with competitive domestic and international flights
- Connecting to the cross-country power network
- Appropriate deep shores and special loading and unloading jetty for heavy vessels
- Rapid customs services and cargo clearance
- Recreational and tourism sites such as beautiful southern beaches and mangrove sea forest
- The Persian Gulf bridge, already under construction, designed for both road and rail traffic, connects the island's main port, Kaveh, to Bandar Abbas railroad which facilities transit of goods to the north and northeast countries of Iran

## 4.2.2. Performance in the last five years

### Infrastructure development

Between the year ended March 2014 and the year ended March 2018, a total of 133.4 mn USD from the domestic resource of the free zones organization in Qeshm Island spent for the development of infrastructure.

**Table 4-11 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                               | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost                 | 29.6                       | 21.8                       | 32.9                       | 24.2                       | 24.9                       | 133.4       |
| CBI official exchange<br>rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

## Investment

### Domestic investment

From the year ended March 2014 to the year ended March 2018 in the Qeshm free zone, a total of 1,076.7 mn USD of domestic investment has been realized by private sector and 213.3mn USD of domestic investment has been licensed.

**Table 4-12 Domestic investment by private sector from 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(398.3)     | Realized<br>(110.2)     | Realized<br>(189.2)     | Realized<br>(229.1)     | Realized<br>(149.9)     |
|                                  | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(213.3)     |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Foreign investment

The amount of foreign investment realized in the zone during the year ended March 2014 to the year ended March 2018 was 87.1 mn USD which was in form of direct or local partnership. While during the same period, licenses for 2,583.5 mn USD foreign investment have been issued (direct and partnership).

**Table 4-13 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Foreign<br>Investment<br>Volume | Realized<br>(0)         | Realized<br>(2)         | Realized<br>(73)        | Realized<br>(0)         | Realized<br>(12.1)      |
|                                 | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(2,554)     | Licensed<br>(29.5)      |
| CBI official<br>exchange rate   | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

## Trade development (export and import)

### Export

The total export and re-export value of goods and services from Qeshm free zone was 211 mn USD between the year ended March 2014 and the year ended March 2018. The export value was not stable in this the period. In March 2015 it was the lowest, 27 mn USD, however, it reached 69 mn USD in the year ended March 2018.

**Table 4-14 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and re-export of goods and services | 40                      | 27                      | 33                      | 42                      | 69                      | 211   |
| CBI office exchange rate                         | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services are presented separately in the table 4-15 and 4-16 as follow:

**Table 4-15 Export of goods and services from 2014 to 2018 (mn USD)**

|                                | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services export value | 35                      | 24                      | 31                      | 40                      | 68                      | 198   |
| CBI office exchange rate       | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-16 Re-export from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export value          | 5                       | 3                       | 2                       | 2                       | 1                       | 13    |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

## Import

The imported value of goods in Qeshm free zone was about 1,790 mn USD during the period the year ended March 2014 to the year ended March 2018. In addition, 23% of imported value for the total free trade zones were allocated to this area.

**Table 4-17 Import from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                   | 475                     | 400                     | 319                     | 281                     | 315                     | 1,790 |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

## Employment of non-governmental sector

Until the year ended March 20018, the number of non-governmental employees in the Qeshm free zone was more than 41,074 persons. While during the period from 2014 to 2018, a total of 13,560 new employment were created by the non-governmental sector in this zone.

**Table 4-18 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total  |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------|
| Employment created | 6,020                   | 2,962                   | 971                     | 1,798                   | 1,809                   | 13,560 |

## Number of tourist arrival

According to statistics, about 8,850,000 tourists traveled to the island between the year ended March 2014 and the year ended March 2018.

**Table 4-19 Tourist 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|---------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Tourist | 1,400                   | 1,540                   | 1,710                   | 1,900                   | 2,300                   | 8,850 |

## Active industrial units

**Table 4-20 Active industries**

| Active industries                          | Unit        |
|--|-------------|
| Electrical and electronic                  | 9           |
| Chemical                                   | 28          |
| Metallic                                   | 30          |
| Cellulose                                  | 22          |
| Non-metallic minerals                      | 16          |
| Textile and leather                        | 4           |
| Food, pharmaceutical and sanitary products | 42          |
| Services                                   | 3           |
|  | Total = 154 |

## 4.3. Chabahar

### 4.3.1. Overview

The Chabahar free economic zone on the eastern Chabahar Gulf in the southeast part of Iran, which had been determined by the board of ministers on August 1991, and later like the two previous zones by the adoption of the law on the administration of free zones on August 1993, officially started its activities with an area of 140 square kilometer. One tenth of which are allocated for industrial projects and the remaining space is designed to host commercial and tourism industries. According to the latest census of the country, the population of the free zone is about 15,000 people. This region is the only free zone close to the oceanic water with access to Indian sub continental markets, India's international corridor, and linking central Asia and Afghanistan to free water, is going to be the investment, trade and transit center among these countries.

Utilizing of fishery and seawater resource like seaweed capacity of the zone and economic development of upstream and downstream sectors of it for the development of local community with traditional experience in this field, using the renewable energy capacity such the production of related equipment and products, supply of required energy for many industries, agricultural activities and services, taking advantage of mineral capacities and processing industries for non-metallic and metallic minerals, capacities of steel industry and Negin Mokran development petrochemical company, completion and development of transportation and energy resource infrastructure, are considered as the main bases of the development and attraction of investment programs.

Transit of goods, regional trade, loading and unloading heavy shipment and cargos, and transferring oil and gas products to neighboring country including Oman, India and Pakistan, transit of goods to Afghanistan and central Asia republics and heavy steel industry, are among the opportunities of the zone to invest or launch a business in it.

#### Main businesses

- Petrochemical industries
- Steel industries
- Trade and logistic to central Asian countries and Afghanistan
- Food industry cluster
- Ecotourism and marine sports
- Marine-based industries

#### Advantages

- Cheap labor force of labor-intensive industries
- Proximity to energy source and enjoying markets in India, China and Pakistan
- Energy-intensive industries, energy storage and transshipment

- Proximity to growing consumer markets in central Asia and Afghanistan, middle east and south Asia consumer industries (international support services and shipping)
- Proximity to international shipping lines for the construction and repair of ships
- Access to abundant aquatic resource in the Oman sea and the Indian ocean (fisheries industry)
- Access to agriculture products such as dates (agricultural processing industries)
- Access to minerals in neighboring areas, e.g. limestone and granite (mineral processing industry)
- Access to the beach and retail shops (tourism industry)
- Capacity to build huge energy industries such as steel (set up methane and ethane gas transit from Assaluyeh to Chabahar)
- The possibility of ships berthing due to having one-sixth of southern border of the country
- Possibility of goods and export transit to neighboring countries for the region sea-harbor special position
- Possibility to take advantage of the sea economy and developing sub region in the province strategic role in case of crisis
- Being connected to the mainland and reducing shipping costs
- Having two harbors of Shahid Kalantari and Shahid Beheshti with a capacity of about 31,000 ton

## 4.3.2 Performance in the last five years

### Infrastructure development

A total of 56.9 mn USD from the domestic resource of free zone organization in Chabahar Island spent for the development of infrastructure from 2014 to 2018.

**Table 4-21 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                            | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost              | 11.9                       | 14.5                       | 14.1                       | 9.5                        | 6.8                        | 56.9        |
| CBI official exchange rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

### Investment

#### Domestic investment

From the year ended March 2014 to the year ended March 2018 in the Chabahar free zones, 1,665.8 mn USD of domestic investment has been realized by private sector and the amount of 5,286.1 mn USD has been licensed.

**Table 4-22 Domestic investment by private sector 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(294.2)     | Realized<br>(1,160.2)   | Realized<br>(67)        | Realized<br>(84)        | Realized<br>(60.4)      |
|                                  | Licensed<br>(546.3)     | Licensed<br>(2707)      | Licensed<br>(270)       | Licensed<br>(478)       | Licensed<br>(1,284.8)   |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Foreign investment

The amount of 131 mn USD has been invested in the free zone as a foreign direct investment. Also, partnership and licenses up to 9.6 mn USD have been issued.

**Table 4-23 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Foreign<br>Investment<br>Volume | Realized<br>(5)         | Realized<br>(38)        | Realized<br>(8)         | Realized<br>(17)        | Realized<br>(63)        |
|                                 | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(5.6)       | Licensed<br>(4)         |
| CBI official<br>exchange rate   | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Trade development (export and import)

#### Export

During the period from the year ended March 2014 to the year ended March 2018, the total export and re-export value of goods and services from Chabahar free zone was 44 mn USD. A reduction is obvious from 2014 to 2015. But from 2016 to 2018 the zone experienced a fixed amount of export value.

**Table 4-24 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and<br>re-export of goods<br>and services | 15                      | 5                       | 8                       | 8                       | 8                       | 44    |
| CBI office exchange<br>rate                            | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services are presented separately in the table 4-25 and 4-26 as follow:

**Table 4-25 Export of goods and services from 2014 to 2018 (mn USD)**

|                                   | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services<br>export value | 7                       | 5                       | 8                       | 8                       | 7                       | 35    |
| CBI office exchange<br>rate       | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-26 Re-export from 2014 to 2018 (mn USD)**

|                             | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export value             | 8                       | 0                       | 0                       | 0                       | 1                       | 9     |
| CBI office exchange<br>rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Import

The imported value of goods in Chabahar free zone was about 1,451 mn USD during the period the year ended March 2014 to the year ended March 2018. In addition, 15.3% of imported value is related to this area.

**Table 4-27 Import from 2014 to 2018 (mn USD)**

|                             | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                      | 291                     | 182                     | 220                     | 280                     | 478                     | 1,451 |
| CBI office exchange<br>rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Employment of non-governmental sector

In the Chabahar free zone until the year ended March 2008, the number of non-governmental employees was more than 17,403 persons. However, from 2014 to 2018, a total of 12,022 new employment were created by the non-governmental sector in the Chabahar free zone.

**Table 4-28 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total  |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------|
| Employment created | 1,400                   | 1,600                   | 3,003                   | 3,616                   | 2,403                   | 12,022 |

### Number of tourist arrival

Around 3,310,000 tourists traveled to the island between the year ended March 2014 and the year ended March 2018.

**Table 4-29 Tourist from 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|---------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Tourist | 510                     | 570                     | 630                     | 700                     | 900                     | 3,310 |

### Active industrial units

Among 122 active units, food, pharmaceutical and sanitary products are the most active sectors in the region.

**Table 4-30 Active industries**

| Active industries                          | Unit        |
|--|-------------|
| Electrical and electronic                  | 7           |
| Chemical                                   | 29          |
| Metallic                                   | 18          |
| Cellulose                                  | 6           |
| Non-metallic minerals                      | 6           |
| Textile and leather                        | 11          |
| Food, pharmaceutical and sanitary products | 43          |
| Renovation                                 | 2           |
|  | Total = 122 |

## 4.4. Aras

### 4.4.1. Overview

Aras free economic zone was established on August 2003, in the 97 square kilometer area of Jolfa in the north of East Azerbaijan province, 135 kilometers northwest of Tabriz. Following the approval dated on July 2015, its area increased to 54,611 hectares with four separate points of Jolfa city, Nourduz (Iran's border with Armenia), Khod-Afarin and Gholi-Baiglu, neighboring with the independent Republic of Nakhchivan, republic of Armenia and republic of Azerbaijan. According to latest census of the country, its population is 19,383.

The location of the zone on the Aras riverside, fertile lands for large Agri-industrial complexes approaching in export to Caucasian markets, its proximity to Tabriz as the commercial and industrial center of the region and industrial potentials thanks to the industries located in East Azerbaijan seeking the expansion of production and market, have led the zone to play an effective role in trade and economic relations with the Caucasus and middle Asian countries.

Eco-tourism and cultural tourism potentials, rich mineral resource adjacent to the zone and abundant water supplies due to Aras river, are among top natural resource of this region.

Jolfa-Tabriz railway is the first and Iran's only electrical railway, which connects Aras free zone to CIS (Commonwealth of Independent States) countries, Caucasus, Russia, Turkey, Black sea and Europe in the north, and to Persian Gulf and Oman sea in the south. Tabriz-Jolfa axis provides entrance and exit link through Jolfa, Nourduz and Khoda-Afarin with autonomous Republic of Nakhjivan, Armenia, and Azerbaijan. Tabriz international airport and Nakhjivan airport are distanced 120 KM and 35 KM away respectively, from Aras free zone. The zone airport construction is under planning.

As a result of investment during the years, about 70,000 tons of agriculture production are produced annually in this region.

Special position of Aras free zone in terms of road, rail, aerial exchange and regional development programs, have provided conditions that allow processing products of tropical and subtropical areas of country to be exported to the northern hemisphere countries, especially Russia and Europe.

Continuous growth of the industrial segment of the zone, as the most industrialized free zone of Iran, is expected. It is considered as the leading zone among others in the fields of industry, agriculture and related exports. Some of the products of Aras free zone are: bitumen, shoes, textile truck, pickup truck, motor vehicles, plastic sack, electric oven, sofa, towel, surgical gloves, MDF and HDF sheets, car and motor cycle battery, PVC and aluminum profile, dry fruit and nuts, gasoline, tomato, eggplant, pepper, cucumber, strawberry, rose and medical flower. In addition, it should be mentioned that there are a lot of natural, cultural and historical tourism attractions and products, which are well backing for investment in tourism industry and related services in the zone.

## Main businesses

- Greenhouse Agri-products
- Cellulose industrials
- Transportation
- Tourism, recreation and sports activities
- Specialized healthcare facilities
- Business and commercial services
- Automotive assembly and manufacturing industries
- Development of agriculture, animal husbandry and conversion industries

## Advantages

- Geostrategic position and neighboring with CIS and Euro-Asian countries, the market of 300 million people
- Proper infrastructures development
- Lands for investment in various industrial, agricultural, tourism and science-based industries
- Prepared warehouse and workshops
- Aras river
- Universities and training centers

## 4.4.2. Performance in the last five years

### Infrastructure development

The amount of money spent in Aras island as one of the free economic zones, from the domestic resource of free zone organization, was 111.7 mn USD for the development of infrastructure.

**Table 4-31 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                               | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost                 | 19.5                       | 22.5                       | 31.8                       | 21.9                       | 15.9                       | 111.7       |
| CBI official exchange<br>rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

### Investment

#### Domestic investment

During the period from the year ended March 2014 to the year ended March 2018, a total of 921 mn USD of domestic investment has been realized by private sector and, 1,868.2 mn USD has been licensed.

**Table 4-32 Domestic investment by private sector from 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(29.1)      | Realized<br>(177.2)     | Realized<br>(131.9)     | Realized<br>(156.6)     | Realized<br>(426.2)     |
|                                  | Licensed<br>(48.5)      | Licensed<br>(612.1)     | Licensed<br>(611.7)     | Licensed<br>(135.9)     | Licensed<br>(460)       |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Foreign investment

From March 2014 to March 2018, 229.7 mn USD foreign investments have been realized in the free zone in the form of direct or local partnership. In the same period, licenses for 518.6 mn USD foreign investment have been issued.

**Table 4-33 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Foreign<br>Investment<br>Volume | Realized<br>(17)        | Realized<br>(48)        | Realized<br>(49)        | Realized<br>(80.4)      | Realized<br>(35.3)      |
|                                 | Licensed<br>(0)         | Licensed<br>(504)       | Licensed<br>(0)         | Licensed<br>(13)        | Licensed<br>(1.6)       |
| CBI official<br>exchange rate   | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Trade development (export and import)

#### Export

The total export and re-export value of goods and services from Aras free zone was 508 mn USD. It surged from 43 mn USD in 2014 to 139mn USD in 2016. However, the zone experienced a drop in the value of export in 2017, it moved up again in 2018 and hit 143 mn USD.

**Table 4-34 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and re-export of goods and services | 43                      | 68                      | 139                     | 115                     | 143                     | 508   |
| CBI office exchange rate                         | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services are presented separately in the table 4-35 and 4-36 as follow:

**Table 4-35 Export of goods and services from 2014 to 2018 (mn USD)**

|                                | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services export value | 42                      | 65                      | 43                      | 35                      | 65                      | 250   |
| CBI office exchange rate       | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-36 Re- export from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export value          | 1                       | 3                       | 96                      | 80                      | 78                      | 258   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Import

The imported value of goods in Aras free zone is about 963 mn USD during the period the year ended March 2014 to the year ended March 2018. In addition, 11.6% of imported value for the total free trade zone are allocated to this area.

**Table 4-37 Import from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                   | 79                      | 157                     | 163                     | 304                     | 260                     | 963   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

## Employment of non-governmental sector

The number of non-governmental employees in the Aras free zone until the year ended March 2018 was more than 12,843 persons.

While in the last five years, just 3,947 new employment were created by the non-governmental sector in the Aras free zone.

**Table 4-38 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Employment created | 1,217                   | 1,143                   | 305                     | 868                     | 414                     | 3,947 |

## Number of tourist arrival

The number of tourists traveled to this zone was approximately 7,040,000 between the year ended March 2014 and the year ended March 2018.

**Table 4-39 Tourist from 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|---------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Tourist | 1,090                   | 1,200                   | 1,350                   | 1,500                   | 1,900                   | 7,040 |

## Active industrial units

**Table 4-40 Active industries**

| Active industries                          | unit        |
|--|-------------|
| Electrical and electronic                  | 2           |
| Chemical                                   | 44          |
| Metallic                                   | 14          |
| Cellulose                                  | 21          |
| Non-metallic minerals                      | 14          |
| Textile and leather                        | 12          |
| Food, pharmaceutical and sanitary products | 9           |
| Pharmaceutical and sanitary products       | 1           |
|  | Total = 117 |

## 4.5. Anzali

### 4.5.1. Overview

Anzali free zone that was established on August 2003 through the approval of the Islamic consultative assembly, located on the area of Bandar Anzali in the province of Gilan. This region that has become operational since 2005, is considered as the only free zone in the southern part of Caspian Sea and the northern economic hub of Iran. The zone has an area of 86.1 square kilometer, 40 KM shoreline and populations over 30 thousand. In addition to the legal incentives of all free zone, there are special advantages such as strategic transportation and transit position by being in the north-south corridor and new corridor of China-Kazakhstan-Anzali, the most active port in the north of Iran. Its adjacency to Caspian sea, north ports and big populous markets of the Caucasus and central Asia countries, mercantile exchange hall activity, having international exhibition center and under construction Caspian port complex, having mild climate, attractive nature, beautiful beaches of the Caspian sea, aquarium, birds garden, sport complex, residential complexes, commercial complexes, industrial zone with infrastructure facilities to establish production units in hi-tech industry, Nano and electronic, processing and packaging of agriculture products and medical and optical instruments are the other features of this region.

These are factors that have made Anzali free zone as an excellent opportunity for investment. There are more than 120 active Iranian and foreign industrial units and factories in the region and since 2005 up to now 2,262 companies have been registered.

Due to access to one of the most important trade corridors through the Caspian Sea and Baku in Azerbaijan, Turkmenbashi in Turkmenistan, Aktau in Kazakhstan and Astrakhan of Russia, utilizing the hybrid rail-sea transit, Urumgi railway in China linked to Aqtau port of Kazakhstan and then to the Caspian port, the zone will be turned to a regional trade hub. Additionally, the free zone has tried to exploit its capacities and complete the maritime transport infrastructure in Caspian port and establish terminals, warehouse, cold stores, multimodal transportation system, domestic and foreign banks, insurance services, commercial and transportation offices, logistic and support services, to attract more investments and economic activities.

The two major goals that the zone is following:

- Providing infrastructure, real and virtual networks for global flow of capital, science and technology, tourism industry for positive interaction between Iran and the world in the heart of the Caspian Sea.
- Strengthening and empowerment of organizations, institutions and people by increasing social welfare through development process, along with the development of ICT, linked to a network of knowledge and the development of knowledge-based economy and innovation.

Main businesses

- Transport, logistics and transit
- Agricultural and fishery industries
- Tourism industry
- Trade and business services
- Clean and Hi-tech industries

#### Advantages

- Operation of the Caspian port complex as the largest port in north of Iran and providing logistics services and establishment of industrials complex
- Strategic position in transit path in the region locating in the north-south corridor
- Suitable climate and very pleasant weather with four seasons' nature and fertile soil
- Access to skilled manpower
- Unique and untouched natural tourism resource such as Caspian Sea beautiful beaches, forest and wetland area
- Adjacency to the capital (Tehran)
- Rasht international airport
- Adjacency to Caspian Sea countries, CIS and the Caucasus markets with a population over 300 million people

### 4.5.2. Performance in the last five years

#### Infrastructure development

Between the period from the year ended March 2014 to the year ended March 2018, a total of 181.5 mn USD from the domestic resource of free zone organization in Anzali Island spent for the development of infrastructure.

**Table 4-41 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                               | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost                 | 6.9                        | 22.4                       | 35.3                       | 61.5                       | 55.4                       | 181.5       |
| CBI official exchange<br>rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

## Investment

### Domestic investment

In the Anzali free zones, 910.4 mn USD of domestic investment has been realized by private sector and also, 3,300.9 mn USD of domestic investment has been licensed from 2014 to 2018.

**Table 4-42 Domestic investment by private sector 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(111)       | Realized<br>(175)       | Realized<br>(198.4)     | Realized<br>(135.4)     | Realized<br>(290.6)     |
|                                  | Licensed<br>(290.6)     | Licensed<br>(282.7)     | Licensed<br>(271.8)     | Licensed<br>(1,059.5)   | Licensed<br>(1,396.3)   |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Foreign investment

During the period from 2014 to 2018, the amount of foreign investment was 136 mn USD have been realized in the form of direct or partnership.

**Table 4-43 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Foreign<br>Investment<br>Volume | Realized<br>(0)         | Realized<br>(0)         | Realized<br>(3)         | Realized<br>(40)        | Realized<br>(93)        |
|                                 | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(0)         |
| CBI official<br>exchange rate   | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

## Trade development (export and import)

### Export

The total export and re-export value of goods and services from Anzali free zone was 1,097mn USD from March 2014 to March 2018.

**Table 4-44 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and re-export of goods and services | 5                       | 12                      | 271                     | 355                     | 454                     | 1,097 |
| CBI office exchange rate                         | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services are presented separately in the table 4-45 and 4-46 as follow:

**Table 4-45 Export of goods and services from 2014 to 2018 (mn USD)**

|                                | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services export value | 5                       | 9                       | 42                      | 55                      | 64                      | 175   |
| CBI office exchange rate       | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-46 Re- export from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export value          | 0                       | 3                       | 229                     | 300                     | 390                     | 922   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Import

The imported value of goods in Anzali free zone is about 467 mn USD from the year ended March 2014 to the year ended March 2018. In addition, 5.5% of imported value for the total free trade zone are allocated to this area.

**Table 4-47 Import from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                   | 37                      | 64                      | 71                      | 102                     | 193                     | 467   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

## Employment of non-governmental sector

The number of non-governmental employees in the Anzali free zone until the year ended March 2018 is more than 20,308 persons.

However, in the last five years, 17,863 new employment were created by the non-governmental sector in the Anzali free zone.

**Table 4-48 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total  |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------|
| Employment created | 4,219                   | 3,426                   | 5,400                   | 2,498                   | 2,320                   | 17,863 |

## Number of tourist arrival

The number of tourists visited Anzali free zone is approximately 13,260,000 between March 2014 and March 2018.

**Table 4-49 Tourists from 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total  |
|---------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------|
| Tourist | 2,110                   | 2,350                   | 2,600                   | 2,900                   | 3,300                   | 13,260 |

## Active industrial units

**Table 4-50 Active industries**

| Active industries                          | Unit        |
|--|-------------|
| electrical and electronic                  | 14          |
| Chemical                                   | 29          |
| Metallic                                   | 21          |
| Cellulose                                  | 11          |
| Non-metallic minerals                      | 7           |
| Textile and leather                        | 9           |
| Food, pharmaceutical and sanitary products | 21          |
|  | Total = 112 |

## 4.6. Arvand

### 4.6.1. Overview

The establishment of Arvand free zone in the northwest of Persian Gulf and neighboring to Iraq and Kuwait, was approved on August 2003 by the Islamic consultative assembly in the range of Abadan and Khorramshahr cities in Khuzestan province. On May 2005, the board of ministers assigned free economic zone for Khuzestan. By the year ended March 2014, adding Abadan and Khorramshahr cities to the territory of the zone, the area increased from 172 to 374 square kilometer. According to the latest census of the country, population of this zone is more than 500,000 people.

This zone as the largest trade terminal with Iraq, refinery and production pole of Abadan, major offshore industries with eight small refineries and large companies of marine facilities, is seeking to expand trade and export to southern Iraq. The other targets of the free zone are, exporting technical services for marine, oil, gas, and petrochemical industries and at the same time, the development of Khorramshahr and Abadan cities, which have been annexed to it.

The Arvand zone is perhaps Iran's fastest growing economic zone. The reason is its access to various modes of transport including air, road, railway and water. Arvand is an ideal spot for infrastructural development due to its long history of interaction with oil drilling companies and most of the world's energy giants. Its strategic transit routes, access to international waters and proximity to Iraq's second biggest province, Basra, makes this zone a potential paradise for international investors and entrepreneurs.

#### Main businesses

- Refineries and offshore industries
- Tourism industry
- Fisheries and processing industry
- Downstream, oil, petrochemical and supporting industries
- Business services
- Heavy industries such as steel and pipe
- Marine industries

#### Advantages

- Vicinity to Iraq and the possibility of transit and export of goods to this country
- Access to the Persian Gulf and free waters through Arvand river
- Active Abadan International airport
- Connecting to road transportation network
- Connecting to the rail network through the Khorramshahr railway station
- Khorramshahr port as the second container port and the port of Abadan

- The specific tourist potential of the region
- Abadan rich oil and refinery reserves for investing in oil, gas and petrochemical industries

## 4.6.2. Performance in the last five years

### Infrastructure development

Between the periods from the year ended March 2014 to the year ended March 2018, a total of 336.4 mn USD from the domestic resource of free zone organization in Arvand Island spent for the development of infrastructure.

**Table 4-51 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                               | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost                 | 37.4                       | 42.3                       | 96.9                       | 78.9                       | 80.9                       | 336.4       |
| CBI official exchange<br>rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

### Investment

#### Domestic investment

From 2014 to 2018 in the Arvand free zones, 1,534.7 mn USD of domestic investment has been realized by private sector and 3,038.6 mn USD has been licensed.

**Table 4-52 Domestic investment by private sector 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(177)       | Realized<br>(202.5)     | Realized<br>(439.5)     | Realized<br>(431.7)     | Realized<br>(284)       |
|                                  | Licensed<br>(288)       | Licensed<br>(340)       | Licensed<br>(514.4)     | Licensed<br>(543.5)     | licensed<br>(1,352.7)   |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

#### Foreign investment

The foreign investment in this zone was 366 mn USD from March 2014 to March 2018 in form of direct, and the amount of partnership and licenses up to 3,402 mn USD have been issued.

**Table 4-53 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014            | Yr. ended<br>March 2015             | Yr. ended<br>March 2016             | Yr. ended<br>March 2017               | Yr. ended<br>March 2018                  |
|---------------------------------|------------------------------------|-------------------------------------|-------------------------------------|---------------------------------------|--|
| Foreign<br>Investment<br>Volume | Realized<br>(1)<br>Licensed<br>(0) | Realized<br>(23)<br>Licensed<br>(0) | Realized<br>(53)<br>Licensed<br>(0) | Realized<br>(19)<br>Licensed<br>(456) | Realized<br>(270)<br>Licensed<br>(2,946) |
| CBI official<br>exchange rate   | 21,253                             | 26,509                              | 29,580                              | 31,389                                | 33,365*                                  |

\*Average value of CBI official exchange rate from April-December 2017

## Trade development (export and import)

### Export

During the period from the year ended March 2014 to the year ended March 2018, the total export and re-export value of goods and services from Arvand free zone was 679 mn USD. The export value accelerated strikingly from 2014 to 2015 and then decreased remarkably in 2016. However, it surged again in 2017 and 2018.

**Table 4-54 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and<br>re-export of goods<br>and services | 50                      | 229                     | 92                      | 120                     | 188                     | 679   |
| CBI office exchange<br>rate                            | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services are presented separately in the table 4-55 and 4-56 as follow:

**Table 4-55 Export of goods and services 2014 to 2018 (mn USD)**

|                                   | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services<br>export value | 50                      | 216                     | 86                      | 112                     | 175                     | 639   |
| CBI office exchange<br>rate       | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-56 Re-export from 2014 to 2018 (mn USD)**

|                             | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export value             | 0                       | 13                      | 6                       | 8                       | 13                      | 40    |
| CBI office exchange<br>rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Import

The imported value of goods was 1,162 mn USD during the period from March 2014 to March 2018 in Arvand free zone. In addition, 14% of imported value for the total free trade zone allocated to this area.

**Table 4-57 Import from 2014 to 2018 (mn USD)**

|                             | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                      | 11                      | 268                     | 228                     | 263                     | 392                     | 1,162 |
| CBI office exchange<br>rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Employment of non-governmental sector

During the period from the year ended March 2014 to the year ended March 2018, the number of new employments created by the non-governmental sector was 24,713 persons.

**Table 4-58 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total  |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------|
| Employment created | 1,312                   | 9,815                   | 2,892                   | 7,211                   | 3,483                   | 24,713 |

### Number of tourist arrival

The free zone approximately attracted 8,290,000 tourists between March 2014 and March 2018.

**Table 4-59 Tourist from 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|---------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Tourist | 1,310                   | 1,460                   | 1,620                   | 1,800                   | 2,100                   | 8,290 |

## Active industrial units

The active industrial units in this zone are mentioned in the table below. It indicates that chemical industries have had the highest contribution among all others.

**Table 4-60 Active industries**

| Active industries                          | Units       |
|--|-------------|
| electrical and electronic                  | 9           |
| Chemical                                   | 54          |
| Metallic                                   | 26          |
| Cellulose                                  | 5           |
| Non-metallic minerals                      | 17          |
| Textile and leather                        | 2           |
| Food, pharmaceutical and sanitary products | 25          |
|  | Total = 138 |

## 4.7. Maku

### 4.7.1. Overview

The establishment of Maku free zone has been approved by the Islamic consultative assembly in the city of Maku, north of West Azerbaijan province, on September 2010 which covers an area of 3970 square kilometer. According to the latest census of population and housing in this free zone, in the year ended March 2017, there were 192,603 people. The fact that the region has been home to an ancient civilization with a rich history, boasts a variety of cultural and natural attraction which means it does have the potential to become a tourism hub. Perfect climate with rich fauna, beautiful rivers, caves, waterfalls, ancient forts and castles, historical monuments, handicrafts, colorful plantations and most importantly the hospitality of local people, can attract many tourists.

This zone is located in the land gate of Iran's exchange with Europe and the Turkish border. Maku with a great geography, by completing infrastructure such as the airport, is following the effective utilization of service capacities related to transportation and transit, independent export terminals, welfare services and road rest complexes, and transport-based development in all its dimensions.

Moreover, existing capacities for the establishment of greenhouse cultivation complexes with valuable export products, investment in packaging and agricultural supplement processing, non-metallic minerals, the capacity of industrial development based on the supply chain in neighboring countries, are among the main opportunities of Maku free zone.

## Main businesses

- Logistic and transit services
- Trade and business services
- Tourism
- Agricultural processing and complementary industries
- Mining and its downstream industries

## Advantages

- Being in east-west corridor, vicinity to European market and easy, cheap and quick access to Europe and middle east market
- Abundant construction materials
- Possibility of leasing land to foreign investors
- Inexpensive labor force
- Adjacency with Turkey and Azerbaijan autonomous republic
- Having the largest and the most significant customs between Iran, Turkey and so Europe
- Having vast plains and fields for variety of industrial, agricultural, animal husbandry, tourism, and trade applications
- Having tourism potentials and amazing monuments
- Minimum bureaucracy thanks to integration of all affairs under Maku free zone organization supervision

## 4.7.2. Performance in the last five years

### Infrastructure development

Between March 2014 and March 2018, a total of 120.3 mn USD from the domestic resource of free zone organization in Maku Island spent for the development of infrastructure.

**Table 4-61 Infrastructure development costs from 2014 to 2018 (mn USD)**

|                            | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost              | 1.7                        | 13.6                       | 25.5                       | 38.2                       | 41.3                       | 120.3       |
| CBI official exchange rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

## Investment

### Domestic investment

During the period from March 2014 to the year ended March 2018 in the Maku free zones 2,090 mn USD of domestic investment has been realized by private sector and 2,094.1 mn USD has been licensed.

**Table 4-62 Domestic investment by private sector from 2014 to 2018 (mn USD)**

|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(323)       | Realized<br>(331)       | Realized<br>(160)       | Realized<br>(402)       | Realized<br>(874)       |
|                                  | Licensed<br>(694)       | Licensed<br>234.3       | Licensed<br>(48.1)      | Licensed<br>(127.6)     | licensed<br>(990.1)     |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

### Foreign investment

From March 2014 to March 2018, the amount of 141.1 mn USD foreign investment has been realized in the zone in the form of direct or with local partnership whereas during the same period, licenses for 1035.2 mn USD have been issued.

**Table 4-63 Foreign investment from 2014 to 2018 (mn USD)**

|                                 | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Foreign<br>Investment<br>Volume | Realized<br>(4)         | Realized<br>(2)         | Realized<br>(30)        | Realized<br>(85.1)      | Realized<br>(20)        |
|                                 | Licensed<br>(0)         | Licensed<br>(0)         | Licensed<br>(1,032)     | Licensed<br>(3.2)       | Licensed<br>(0)         |
| CBI official<br>exchange rate   | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

## Trade development (export and import)

### Export

The total export and re-export value of goods and services from Maku free zone was 101 mn USD for five years, from March 2014 to March 2018. The export value grew until 2018 but in this year, it plummeted significantly.

**Table 6-64 Total export and re-export from 2014 to 2018 (mn USD)**

|  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Total export and re-export of goods and services | 0                       | 19                      | 19                      | 46                      | 17                      | 101   |
| CBI office exchange rate                         | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

The export and re-export value of goods and services is presented separately in the table 4-65 and 4-66 as follow:

**Table 4-65 Export from 2014 to 2018 (mn USD)**

|                                | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Good and services export value | 0                       | 19                      | 18                      | 41                      | 10                      | 88    |
| CBI office exchange rate       | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

**Table 4-66 Re-export from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Re-export value          | 0                       | 0                       | 1                       | 5                       | 7                       | 13    |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

### Import

The imported value of goods in Maku free zone is about 174 mn USD from March 2014 to March 2018. In addition, 2.2% of imported value for the total free trade zone are allocated to this area.

**Table 4-67 Import from 2014 to 2018 (mn USD)**

|                          | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Import                   | 0                       | 20                      | 59                      | 56                      | 39                      | 174   |
| CBI office exchange rate | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |       |

\*Average value of CBI official exchange rate from April-December 2017

## Employment of non-governmental sector

The number of non-governmental employees in the Maku free zone was more than 35,075 persons until March 2018. But from 2014 to 2018, only 9,443 new employment were created by the non-governmental sector in the zone.

**Table 4-68 Employment created from 2014 to 2018 (person)**

|                    | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------|
| Employment created | 300                     | 439                     | 2,338                   | 3,181                   | 3,185                   | 9,443 |

## Number of tourist arrival

The number of tourists travelled to the zone was 3,650,000 between the year ended March 2014 and the year ended March 2018.

**Table 4-69 Tourist from 2014 to 2018 (Thousands of people)**

|         | Yr. ended<br>March 2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 | Total |
|---------|-------------------------|----------------------------|-------------------------|-------------------------|-------------------------|-------|
| Tourist | 580                     | 650                        | 720                     | 800                     | 900                     | 3,650 |

## Active industrial units

Here is the list of active industrial units in the Maku free zone. Among 83 active units, non-metallic minerals are the most active ones.

**Table 4-70 Active industries**

| Active industries                          | Unit       |
|--|------------|
| electrical and electronic                  | 5          |
| Chemical                                   | 18         |
| Metallic                                   | 10         |
| Cellulose                                  | 2          |
| Non-metallic minerals                      | 33         |
| Textile and leather                        | 2          |
| Food, pharmaceutical and sanitary products | 13         |
|  | Total = 83 |

## 4-8 Assessment of the economic performance of free zones

To study the economic performance of free zones, some macroeconomic variables have been evaluated for last five years including infrastructure construction and development cost, investment attraction (domestic and foreign), trade development (export and import), employment, active industrial units (degree of industrialization), and the number of tourists arrival to the zones.

### Infrastructure development

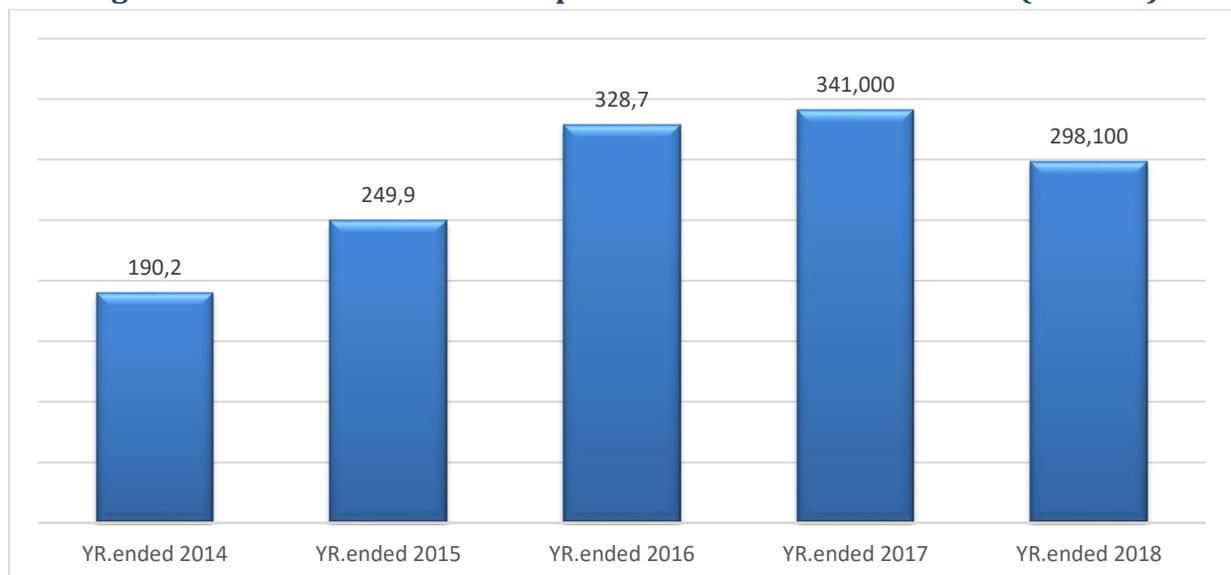
The largest share of capital expenditure of free zone organizations is related to the projects of infrastructural development. Free zone organizations spent 1,407.9 mn USD in construction projects from the year ended March 2014 to the year ended March 2018.

**Table 4-71 Infrastructure development costs from 2014 to 2018 (mn USD)**

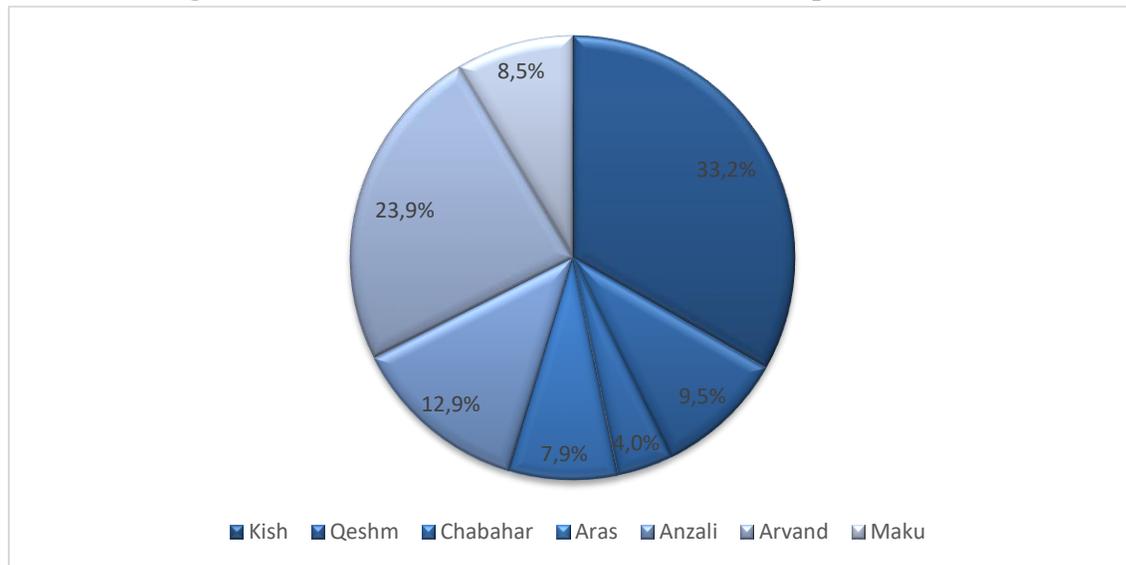
|                               | Yr. ended<br>March<br>2014 | Yr. ended<br>March<br>2015 | Yr. ended<br>March<br>2016 | Yr. ended<br>March<br>2017 | Yr. ended<br>March<br>2018 | Total costs |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------|
| Projects cost                 | 190.2                      | 249.9                      | 328.7                      | 341                        | 298.1                      | 1,407.9     |
| CBI official exchange<br>rate | 21,253                     | 26,509                     | 29,580                     | 31,389                     | 33,365*                    |             |

\*Average value of CBI official exchange rate from April-December 2017

**Figure 4-1 Infrastructure development costs from 2014 to 2018 (mn USD)**



**Figure 4-2 Share of the infrastructure development costs**



Kish free zone organization allocated about 467.9 mn USD to infrastructure development cost which shows the highest share, Arvand 336.4 mn USD, Anzali 181.5 mn USD, Qeshm 133.4 mn USD, Maku 120.3 mn USD, Aras 111.6 mn USD and Chabahar with 56.8 mn USD has the lowest share.

### Domestic investment

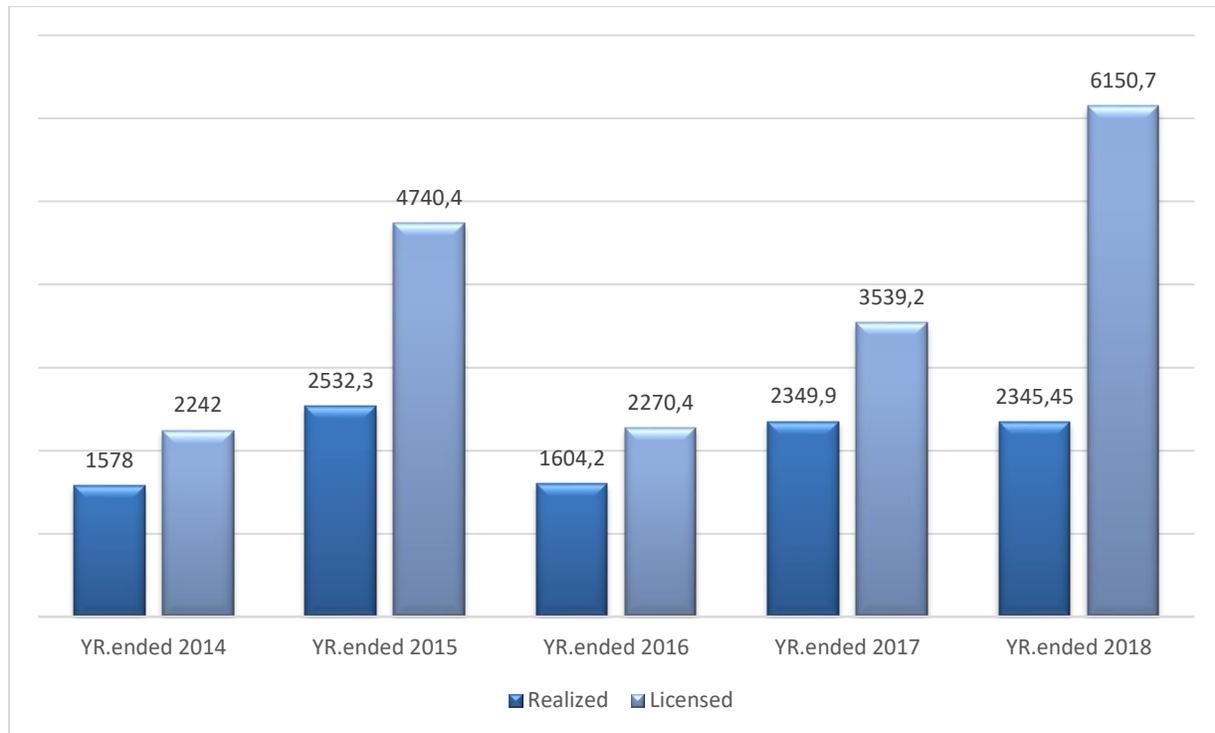
Total domestic investment in free zones from 2014 to 2018 was 10,418.85 mn USD in form of realized and 18,943.1 in form of licensed. In this regard, the free zones of Chabahar, Kish and Arvand show the highest yield, each having 21.8 %, 20.7% and 18.1%, respectively.

**Table 4-72 Domestic investment (realized – licensed) from 2014 to 2018 (mn USD)**

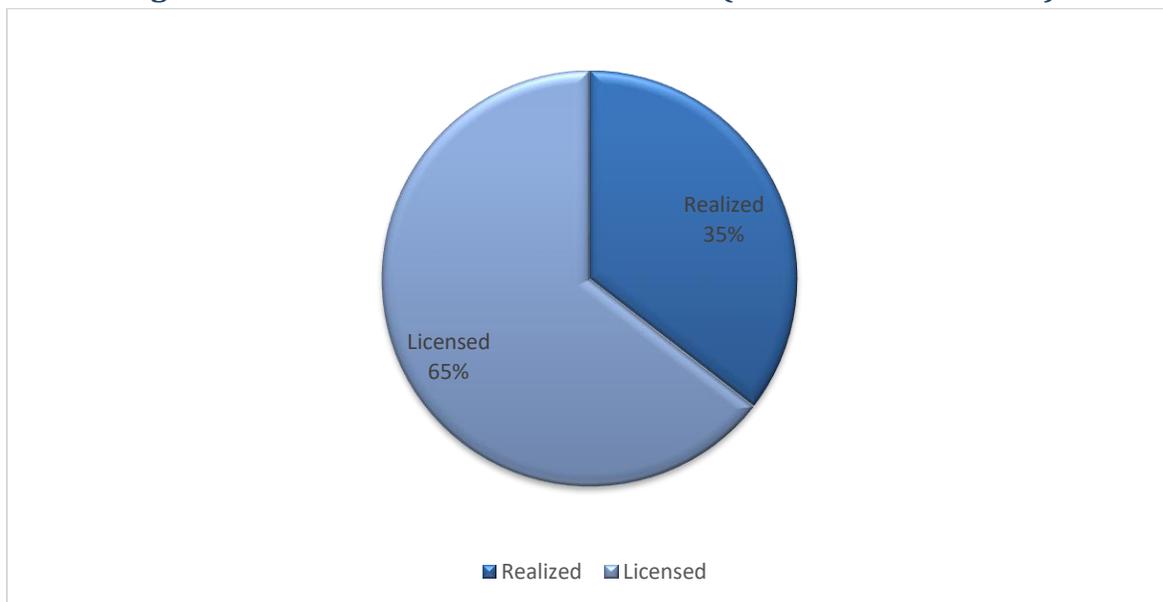
|                                  | Yr. ended<br>March 2014 | Yr. ended<br>March 2015 | Yr. ended<br>March 2016 | Yr. ended<br>March 2017 | Yr. ended<br>March 2018 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Domestic<br>Investment<br>Volume | Realized<br>(1,578)     | Realized<br>(2,532.3)   | Realized<br>(1,604.2)   | Realized<br>(2,349.9)   | Realized<br>(2,354.45)  |
|                                  | Licensed<br>(2,242.4)   | Licensed<br>(4,740.4)   | Licensed<br>(2,270.4)   | Licensed<br>(3,539.2)   | Licensed<br>(6,150.7)   |
| CBI official<br>exchange rate    | 21,253                  | 26,509                  | 29,580                  | 31,389                  | 33,365*                 |

\*Average value of CBI official exchange rate from April-December 2017

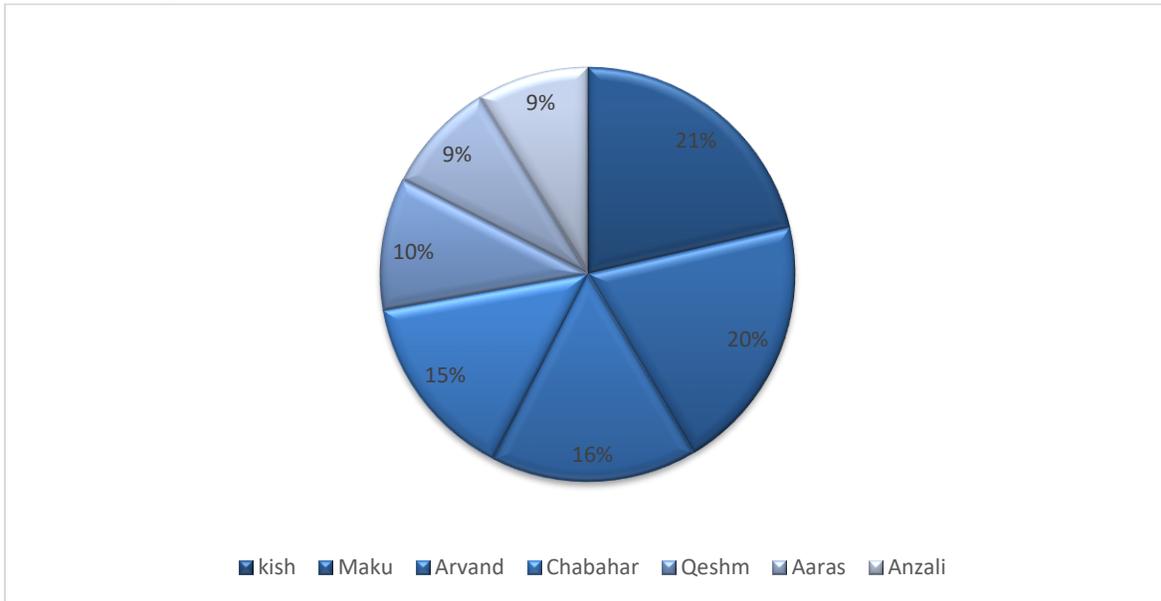
**Figure 4-3 Domestic investment (realized and licensed) from 2014 to 2018 (mn USD)**



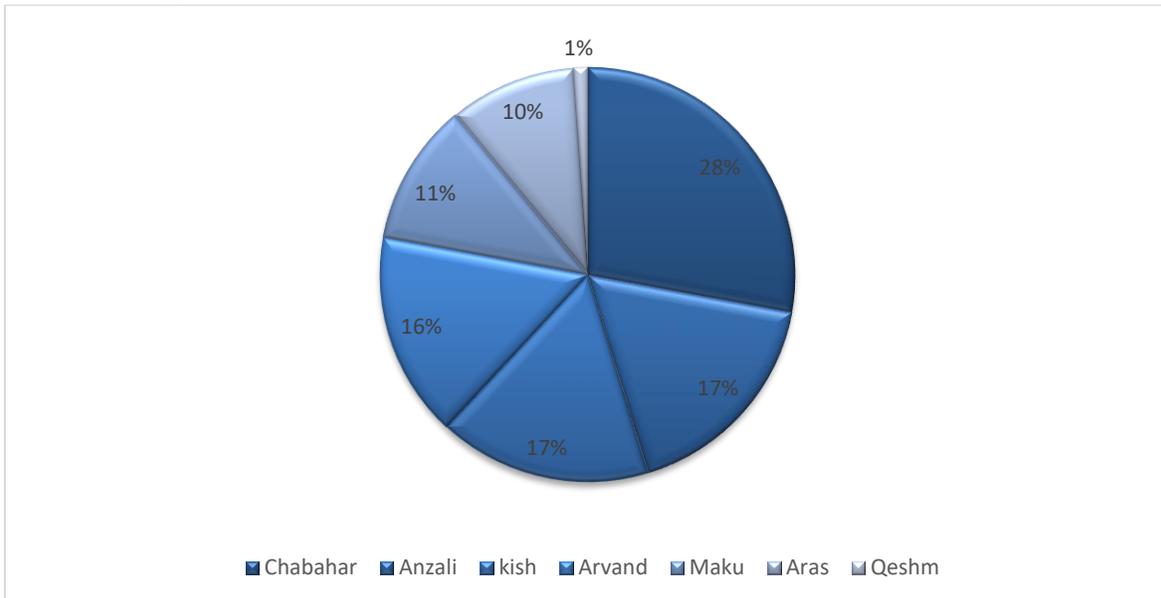
**Figure 4-4 Share of domestic investment (realized and licensed)**



**Figure 4-5 Share of each zone of realized domestic investment**



**Figure 4-6 Share of each zone of licensed domestic investment**



## Foreign investment

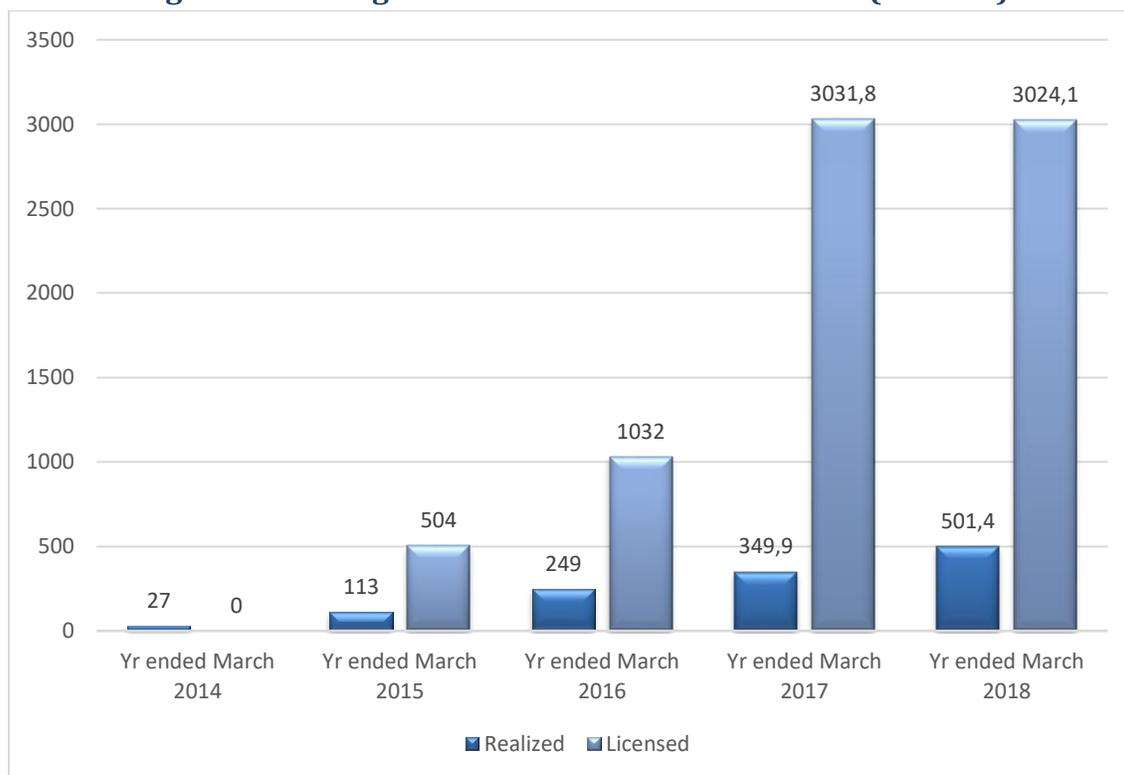
During the period from the year ended March 2014 to the year ended March 2018, total amount of 1,240.3 mn USD foreign investment have been realized in the free zones and 7,591.9 mn USD licensed for foreign investment have been issued. Among all the free zones, Anzali, Maku and Aras had the highest shares in total foreign investment with 28.13 %, 16.05 % and 15.8 %, respectively.

**Table 4-73 Foreign investment (realized and licensed) from 2014 to 2018 (mn USD)**

|                            | Yr. ended March 2014 | Yr. ended March 2015 | Yr. ended March 2016 | Yr. ended March 2017 | Yr. ended March 2018 |
|----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Foreign Investment Volume  | Realized (27)        | Realized (113)       | Realized (249)       | Realized (349.9)     | Realized (501.4)     |
|                            | Licensed (0)         | Licensed (504)       | Licensed (1,032)     | Licensed (3,031.8)   | Licensed (3,024.1)   |
| CBI official exchange rate | 21,253               | 26,509               | 29,580               | 31,389               | 33,365*              |

\*Average value of CBI official exchange rate from April-December 2017

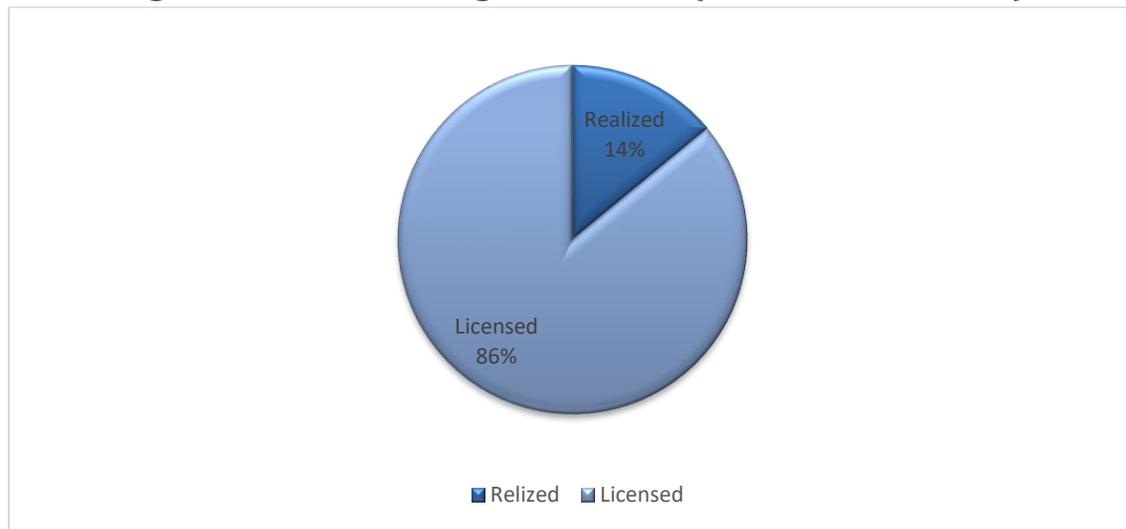
**Figure 4-7 Foreign investment from 2014 to 2018 (mn USD)**



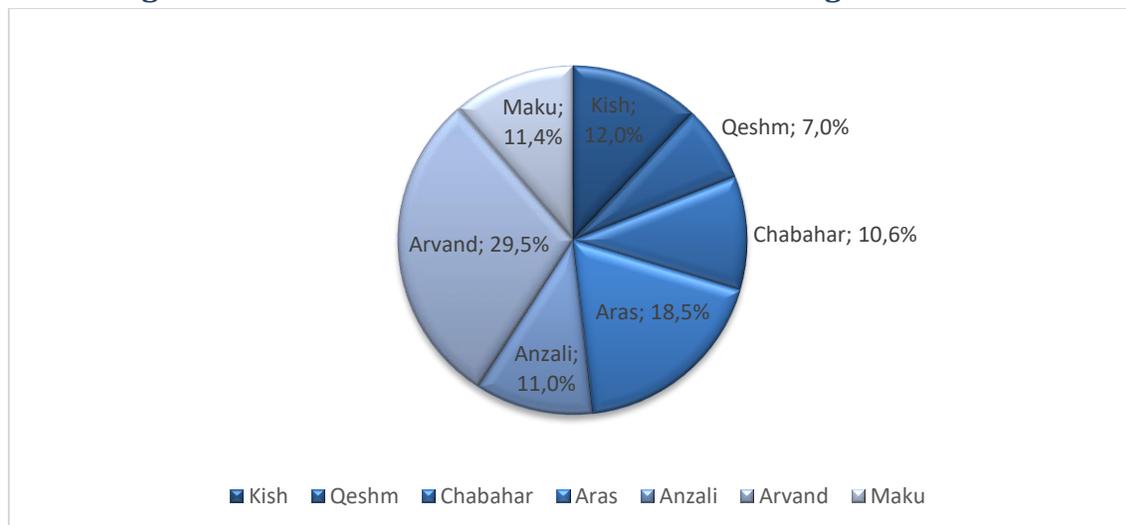
**Table 4-74 Foreign investment for each zone from 2014 to 2018 (mn USD)**

| FEZs     | Realized | Licensed |
|----------|----------|----------|
| Kish     | 149.4    | 43       |
| Qeshm    | 87.1     | 2,583.5  |
| Chabahar | 131      | 9.6      |
| Aras     | 229.7    | 518.6    |
| Arvand   | 136      | 0        |
| Anzali   | 366      | 3,402    |
| Maku     | 141.1    | 1,035.2  |

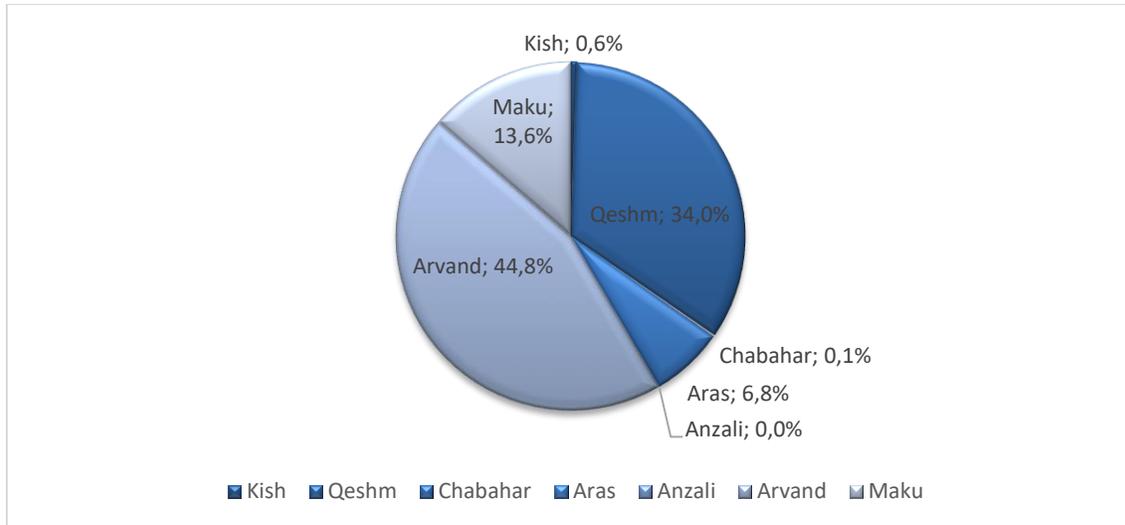
**Figure 4-8 Share of foreign investment (realized and licensed)**



**Figure 4-9 Share of each zone from realized foreign investment**



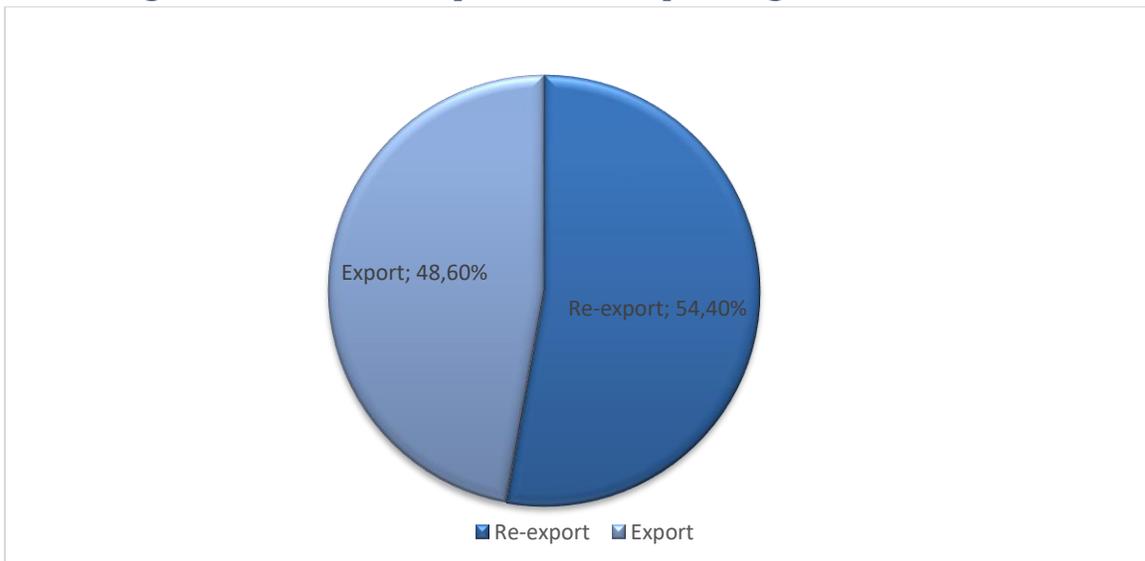
**Figure 4-10 Share of each zone from licensed foreign investment**

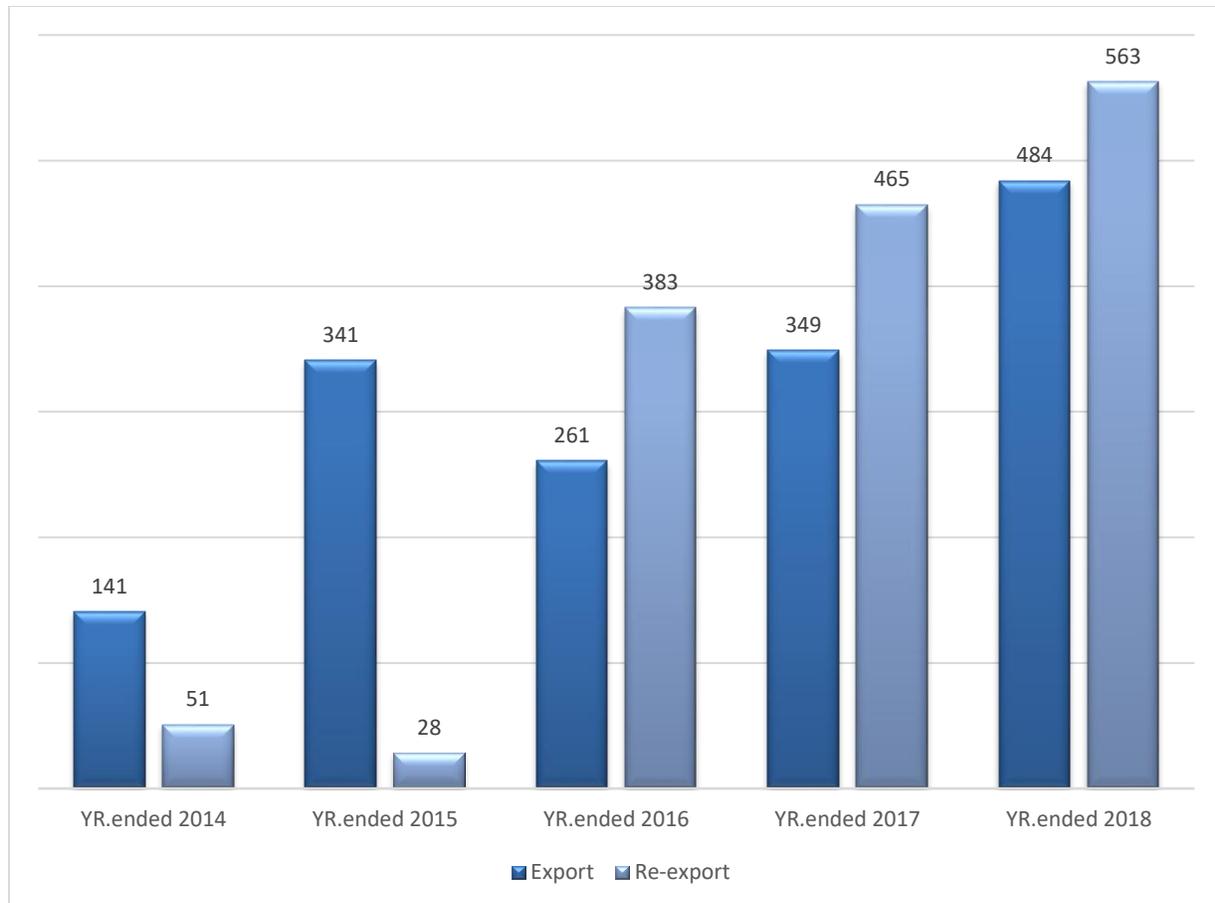


## Export

According to statistics, the total export value of goods and services produced by free zones and re-export, were 3,066 mn USD from March 2014 to March 2018. The amount of export and re-export in the zone were 1,576 mn USD and 1,490 mn USD, respectively. Anzali free zone with 1,097 mn USD, had the largest share of export and re-export of goods and services.

**Figure 4-11 Share of export and re-export of goods and services**

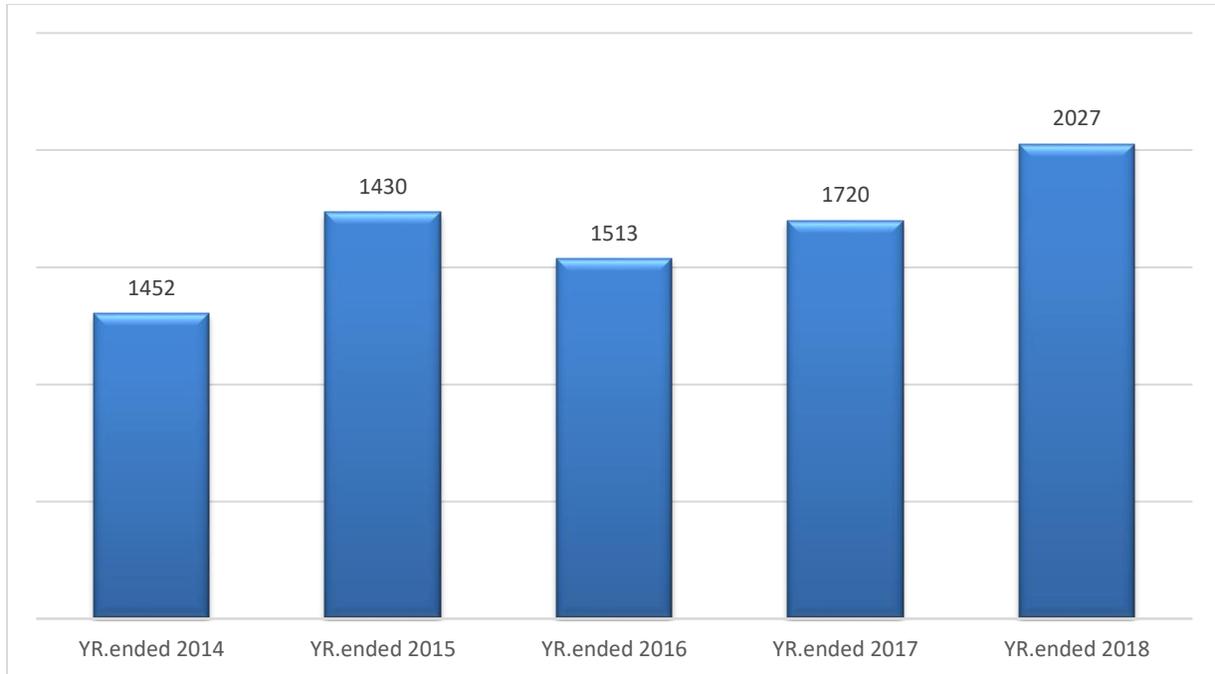


**Figure 4-12 Total export (export and re-export) (mn USD)**

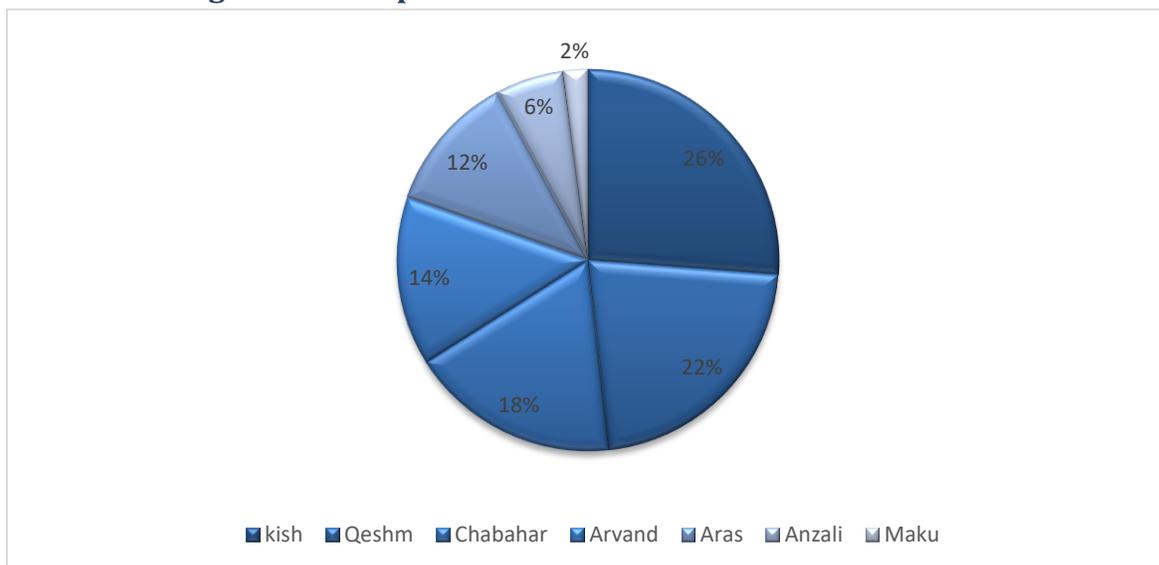
## Import

The total value of goods imported to be used in production, consumption and supply in free zones for industries, manufactures, economic activities, residents and visitors during the period from March 2014 to March 2018, reached about 8,142 mn USD. The largest share of import allocated to Kish and Qeshm free zones, with 28% and 23% respectively.

**Figure 4-13 Import to free zones from 2014 to 2018 (mn USD)**



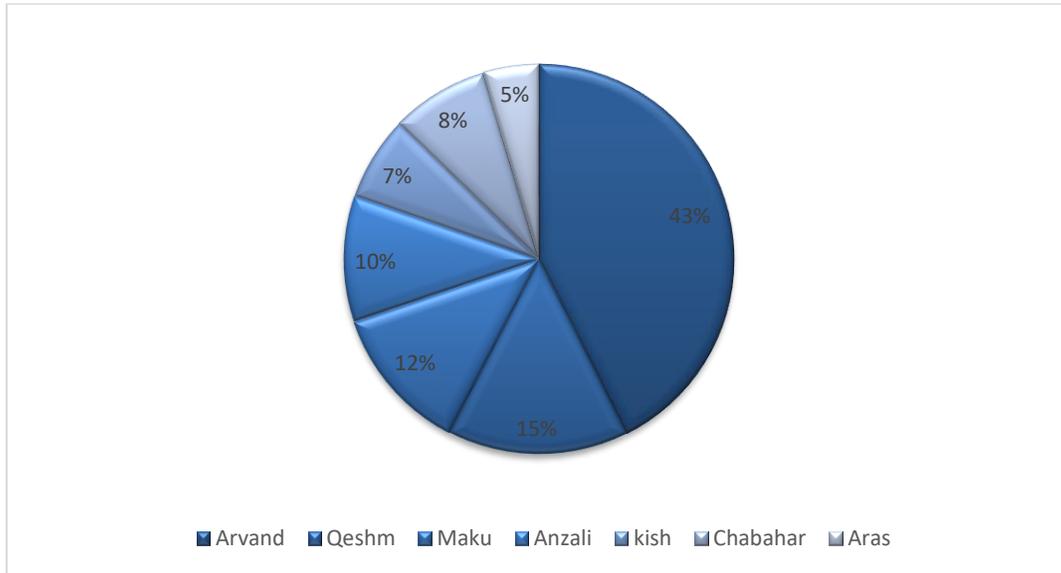
**Figure 4-14 Import to each free zone from 2014 to 2018**



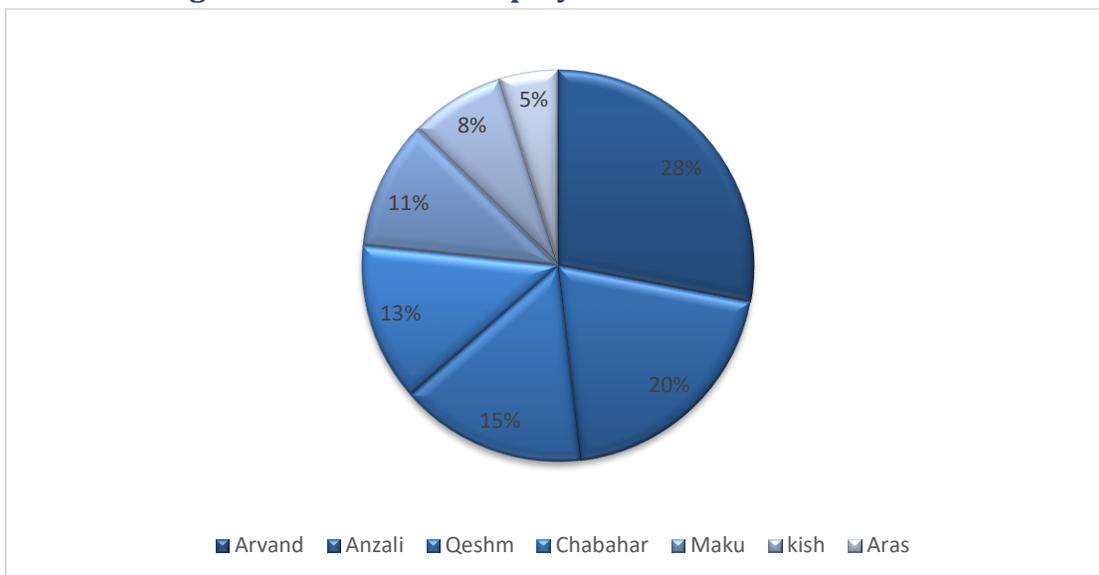
## Employment

The number of employees in private sector activities in free zones reached 276,047 persons by the year ended March 2018, however, during the period from the year ended March 2014 to the year ended March 2018, a total of 88,487 new employments were created by the private sector in free zones.

**Figure 4-15 Share of employees in each zone**



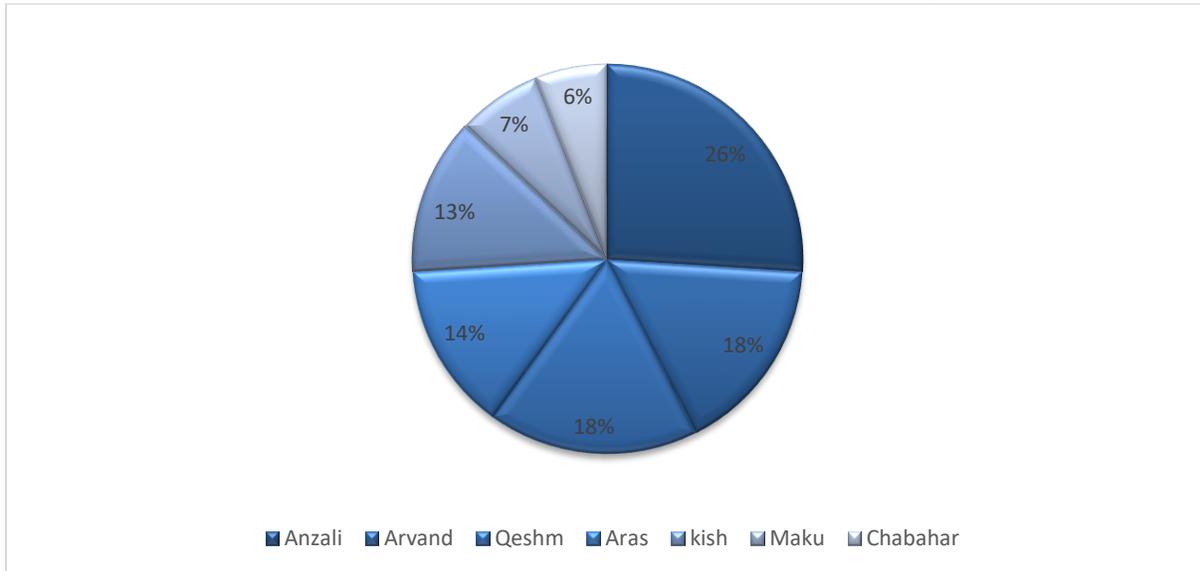
**Figure 4-16 Share of employment created in each zone**



## Number of tourist arrival

Considering the significant historical, cultural and natural attraction in all the free zones, tourism industry is an important business of these regions. Accordingly, more than 51 million people traveled to these zones between the year ended March 2014 and the year March 2018.

**Figure 4-17 Free zones tourists (Thousands of people)**



## 5. Chapter 5

### Conclusion

Foreign direct investment as an alternative way that can help countries to improve their economic situation, has been also used by Iran. To do so, Multinational companies are those that can implement the foreign direct investment due to the amount of capital it requires. But this sort of investment cannot be easily attracted or be effective. There are factors that can influence the attractiveness of a country for investment.

Iran as a developing country with high capacities, has the ability to absorb investments from different part of the world in many fields. Its abundant natural resources such as oil and gas, has put it among favourable countries for investment. With a population about 80 million and its vicinity to countries such as Armenia, Turkmenistan and Azerbaijan, has provided this opportunity to access to a 300-million market of the Central Asia which is appealing for foreign companies for selling their products.

Iran with low cost production factors like labour forces and energy, and also young educated generation, is a suitable option for foreign investors.

Unfortunately, political conflict with some countries, especially United states, has created some problems for the country. Although the US sanctions on Iran has tried to impede other countries to invest in the country, Iran's unique geographical location such as accessibility to the Strait of Hormuz as the main transit path of fossil fuels and its natural resources, still motivate foreign investors.

To encourage powerful economic countries to invest more in the country, Iran has offered many incentives in its seven free economic zones in which business and trade laws are different from the rest of the country.

The total amount of foreign investment in Iran from 2003 to 2018 has been around 69.8 billion us dollars. The oil and gas industries and metal are those that absorbed the highest proportion of the foreign investment with more than 20 billion US dollars and 5 billion US dollars respectively.

China with more than 6 billion USD is the country with the highest amount of investment which somehow indicates that besides its economic power, its good political relationship with Iran has had a great impact on the amount of investment. China has always supported Iran in many political conflicts.

In the last five years, although total domestic investment with 29,3 billion USD has been higher than total amount of foreign direct investment with 8.8 billion USD, the total amount of FDI across the country with about 20 billion USD Indicates that these regions were able to attract about 44% of the total investment of the country.

The difference among realized and licensed in FDI shows the uncertainty in the country situation.



So, in Iran, as a developing country or even emerging market, free economic zones play a vital role in absorbing foreign investment. Especially, in the situation that political and economic pressures are imposed to the country, these regions provide incentives that propel foreign countries to continue their capital flows to Iran.

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# Appendix A.

## Articles and notes on special economic zones

### Article.01

Accelerating infrastructure-related development, economic progress, enhancing investment, increase public income, creating productive employment, regulation of goods and labor markets, active presence in regional and global markets, manufacturing and exporting of industrial and processing goods and providing public services.

### Article.02

Revenues of free zones will be spent solely based on annual budget approved by the board of ministers.

Development aid for areas outside the free zones (neighboring areas are prioritized) will be granted solely upon approval by the board of ministers and any other aids will be considered illegal use of public property.

### Article.03

In this law, the following terms are used instead of the following phrases:

Country: Islamic Republic of Iran

Zone: special economic zone

Organization: organization in charge of the administration of each special economic zone

Parliament: Islamic consultative assembly

### Article.04

The board of ministers is responsible for:

- A. Approval of regulations and coordination of all activities of each zone.
- B. Approval of articles of association of the organization and its subsidiaries.
- C. Approval of the annual development, cultural programs and budgets, and projected financial statement of organization of the zones.
- D. Approval of security and law enforcement regulations of the zones after confirmed by the top commander of the armed forces.
- E. Overall supervision of the activities within the zones.

#### Article.05

Each zone will be administered by an organization of independent legal status. The capital of the organization will belong to the state. Such companies and their subsidiaries will be exempt from the law and regulations governing state-owned companies and from other general regulations; they will be administered solely based on the present law and relevant statutes. With respect to cases not pointed out in this law and articles of association, these companies will be subject to commercial law.

#### Article06.

A board of directors, consisting of three or five individuals, will administer the organization. The board of ministers will appoint members of the board of directors. The managing director, as ex officio chairman of the board, will be appointed from members of the board of directors by presidential decree and will be the highest executive authority in the economic and infrastructure affairs of the zone. Managing director and members of the board of directors will be appointed for tenure of three years and their reappointment is permissible.

Dismissal from the office of the managing director and the board members rests with the same appointing authorities. The responsibility for and the power of general meetings of each zone organization are vested with board of ministers.

#### Article.07

Upon approval of board of ministers, organization of each zone is empowered to set up, as deemed necessary, companies in accordance with the provisions of the commercial law.

#### Article.08

The organization and its affiliated companies are permitted to conclude necessary contract with natural or legal person, whether foreign or domestic. It is also permitted to cooperate with domestic or foreign investors for the implementation of development and productive projects, in compliance with the due provisions of the constitution. Disputes and claims arising out of the concluded contracts will be examined and settled in accordance with the mutual agreements and contractual commitments of both parties concerned.

#### Article.09

Ministries, organizations, institutes and companies owned by or affiliated to the government, may enter into contract with the organization or its affiliate companies to provide facilities or services in each zone, within the condition that board of ministers define. The term and

conditions of such contracts should be defined in a manner that safeguards the competitive position of the zone against free zones of other countries.

#### Article.10 (amended in 12.11.1996)

Upon approval by the board of ministers, the organization of each zone is empowered to collect charges from natural or legal persons within the zone in return for provision municipal services and communications, health, cultural, educational and welfare means.

#### Article.11

Issuance of licenses for any kind of permissible economic activity, construction of buildings, installations and embarking on various occupations by legal or natural persons could be conducted by the organization if such occupations lack persons-in-charge.

#### Article.12

Regulations governing employment of workforce, social insurance, security and issuance of entry visa to foreign nationals will be based on rules which are to be approved by the board of ministers.

#### Article.13 (amended in 27.05.2009)

Natural and legal persons engaged in economic activities in a zone are exempted from payment of income and property tax as determined by direct taxes law for duration of 20 calendar year from the date commencement of the operation, mentioned in the permit with respect to any type of economic activity in the free zone. Upon the lapse of the initial 20 years, the issue will be subject to the tax regulations proposal by the board of ministers and passed by the parliament.

#### Article.14

Commercial trades between and foreign countries after being registered at the customs office, is excluded from provisions of export-import regulations. Governmental regulations of export and import of goods and customs formalities within each zone will be approved by board of ministers. Trade transactions between the zones and the rest of the country, whether of commercial nature or by travelers, is governed by the general export-import regulations of the country.

#### Article.15

Importing of goods, up to the amount of added value, produced into a free zone to other parts of the country will be exempted, upon approval of board of ministers, from payment of all or part of custom duties and commercial benefit tax.

#### Article.16

Importing of goods and raw materials of which are wholly or partly supplied domestically will be exempted from certain taxes, some or all of customs fees and business profit taxes.

#### Article.17

Goods transported from the rest of country for use and consumption in a zone will be regarded as domestic movement of goods, but their exportation from a zone to foreign countries will be subject to general export-import regulations.

#### Article.18 (Amended on 21.07.1999)

Establishing a bank and credit institute as public or private joint stock company, under a title for conducting banking operations should be exclusively based on this law and its executive by law which are developed by the central bank and approved by the board of ministries.

#### Note.01 (Amended in 21.07.1999)

Iranian bank and credit institute in the zone operating through domestic and foreign capital sources may be established upon the proposal of zone.

#### Note.02 (Amended in 21.07.1999)

Opening a branch by banks and credit institutes, whether Iranian or foreign, will be based on proposal of the zone authority, and approval of the central bank.

#### Note.03 (Amended in 07.02.2008)

Board of ministers will determine the dominant currency system for the exchange rate.

#### Note.04 (Amended in 07.02.2008)

Transactions of banking units located in free zones will be based on the Iranian Rial and subjected to the Islamic banking regulations. Banking units, having obtained the license for offshore banking operations, are banned from transactions in Iranian Rial.

#### Article.19

Upon approval by the board of ministers, zone organization is empowered, within the framework of its approved plan and budget, to obtain and guarantee credits from domestic and foreign sources for implementing infrastructures and productive projects. Repayment of these credits will take place only through revenues of the zone concerned.

#### Article.20

Inflow and outflow of capital and profits generated by economic activities in each zone are permitted. The required regulation for attraction and protection of investment and also arrangements and participation of foreigners in activities of each zone will be approved by the board of ministers.

#### Article.21 (Amended on 21.07.1999)

The legal rights of investors and their capital investments which have been decreed by the board of ministries will be guaranteed and protected. Should the capital of such investors be nationalized to the favor of the public or their properties being dispossessed, a fair compensation will be paid by the government. The regulations on manner of admitting such investments and manner of compensation will be in accordance to the bylaw approved by the board of ministries.

#### Article.22 (Amended on 21.07.1999)

Registration of companies, intellectual and industrial property rights, as well as registration of ships, vessels and the aircraft in zone, will be based on article 81 of the constitution 48, and in accordance the bylaw approved by the board of ministries.

#### Note (Amended in 21.07.1999):

Registration of the companies and intellectual and industrial property rights in each zone will be accomplished by the organization of that zone.

#### Article.23

The zone organization is entitled to open representative offices wherever deemed necessary.

#### Article.24

Utilization of land and national resources belonging to the government within each zone and sale or lease to Iranian nationals will be determined by regulations approved by the board of ministries and based on development plans of each zone. The organization of each zone will be responsible for the enforcement of relevant regulations.

#### Note.01

Lease of land to foreign nationals is permitted but selling such land is strictly forbidden.

#### Note.02

Iranians residing in the islands turned into free zones will enjoy the same rights of ownership of the land and improvements as the rest of the country. The registry of the deeds and properties organization is obliged to issue ownership title to individuals in accordance with laws and regulations.

#### Article.25

The head and directors of each zone organization, managing directors and board members of affiliated companies, all the ministers and the heads of government organizations, head of the judiciary power, supreme court and administrative justice tribunal, public prosecutor, chief of state inspectorate, their respective deputies and advisors, MPs, governors-general, mayors and their deputies and their respective first degree relatives are not authorized to hold shares in companies operating in zones.

#### Article.26

The executive bylaw of this law will be approved by board of ministries.

#### Article.27 (amended on 12.11.1996)

To coordinate activities carried out in the free zones, one of the two following procedures will be done based on the approval of relevant minister:

- A- The executive departments (affiliated with the executive department) will entrust their authorities to the chair and managing directors of the free zones.
- B- Managers, head and director of executive departments located in free zones should be assigned based on suggestion of head of board of directors, general manager of organization or decree of top official of executive department.

#### Article.28 (Ratified on 21.07.1999)

Establishment and operation of Iranian insurance institutes, branches and representative as well as insurance agency representative in the special economic zones of the Islamic Republic of Iran base on domestic and foreign capital investment, is permitted and will be only subject to the regulations proposed by the central insurance of Iran and approved by the board of ministries.

Note (Amended by parliament in 29.07.2009 and by expediency discernment council in 06.03.2010): the directive in this article will cover branches and representative of foreign institutes and foreign insurance bodies.

Article.29 (Amended by parliament in 29.07.2009 and by expediency discernment council in 06.03.2010)

Establishing and activity of stock exchanges, funded by domestic and foreign capital, in free zones should be based on regulations and bylaw 60 that are enforceable in 6 months after data of approval by board of ministries. The supreme council of the securities and exchange should offer the relevant regulations.

## Appendix B.

### Regulations on investment in the special economic zones

#### Article.01

In this approval letter, the following abbreviated terms are used:

Mainland: Islamic Republic of Iran minus special economic zones.

Authority: Administrative organization in each special economic zone in Islamic Republic of Iran.

Investment: Application of capital in different forms in economic activities for production of item and offering services.

Foreign investors: All capital initiatives addressed in article 3 of present law (except for Rial-based values) that foreign investors put into the zones.

#### Article.02

All real and legal persons and entities (Iranian and foreign) as well as international organizations could invest in the zones independently or in cooperation with authority and its subsidiaries. The resulting capital covered by current set of regulations.

#### Article.03

Based on existing regulations, capital defined as:

- A- Real-based capital and convertible currencies in zones.
- B- Machineries, equipment, tools and tools.
- C- Industrial ownership rights such as patent of invention, technical knowledge, and trademarks.
- D- A part or all of transferrable special profit obtained in free zones and added to main capital reservoir or used in another legally authorized activity.

Note (Amended in 09.06.2001)

In special cases, admission of raw materials and half-manufactured parts could be regarded as a part of foreign investment.

#### Article.04

The capitals will be admitted based on the following conditions and regulations:

- A- If they are used in permitted activities of each zone.
- B- If they go through complete steps of investment and capital registration as describe in articles 6 and 7.
- C- (Amended in 09.06.2001) if they do not require assignment of an exclusive right or privilege to investor by authority.  
Article.05 (Amended in 09.06.2001)

Foreign investors could invest in economic activities of the zone as much as they desire

Article.06

As stated article 2, investors who desire to enter their capital into free zones should fill in an application form and a questionnaire developed by secretariat and authorities of the zones. They should deliver the forms to authority in each zone. The received applications forms should be reviewed by authorities within the zone. Investment license should be issued by authority of each zone.

Note.01 (Amended in 09.06.2001)

Foreign investor's request, which require offering guarantee (as addressed in article 21 of amended law on administration of special economic zones of Islamic Republic of Iran), should be managed and planned by a committee made up of representative of secretariat of the supreme council of free zone (head of committee), organization for investment, economic and technical assistance (ministry of economic affairs and finance) and management and planning organization of Iran. Based on committee's suggestion and approval of majority of member ministers of supreme council of free zones, an investment license will be issued for them.

Note.02 (Amended in 09.06.2001)

Any modification of specification in the questionnaire or investment license should be communicated to the authority and approved by license entity.

Note.03 (Amended in 09.06.2001)

The investors who apply for investment license should receive exploitation license from the authority.

Article.07

The recipients of investment license should import a definite part of the capital into the zone for initialization of operational operations as highlighted in investment license.

Article.08

Entry and registration of capital in free zones should be done in the following manner:

- 1- Capital addressed in paragraph A of article 3 of current regulations should be deposited into relevant banking accounts based on type of investment. In addition, equivalent Rial of foreign currency rate should be registered at date of depositing as investment capital in authority branches of each zone.
- 2- Capitals covered by paragraphs B to D in article 3 of these regulations should be within limits denoted in investment license as well as related documents. After review by authority of each zone, the capital should be changed. In addition to currency rate, equivalent value of capital (based on market value) should be registered as investment capital in representative branches of authorities in every zone.
- 3- Capitals addressed in paragraph E of article 3 of current law should be verified by authority of each zone and registered as capital in representative branches of authorities in each zone. Scheduling of assignment of technical knowledge to investment accounts is presumed to be equivalent with transfer of technical knowledge.
- 4- Capitals addressed in paragraph F of article 3 of current law should be approved by accounting institutes that authority of each zone authorize. The capitals are registered in books of authority in each zone as capital investment. The capital should have following characteristics:
  - A- Aimed to increase capital to develop investment in the same unit after receiving approval of authority in each zone.
  - B- Aimed to increase capital for expending on other items in the same unit after informing authority in each zone.
  - C- Aimed to invest in other activities than those for which license has been issued (after satisfaction of article 6 of current law).
- 5- Whenever a part or all of non-cash capital is recognized by authority as partial, defective or unusable, if it does not match specifications in the application form or if it is overestimated, that part of price which has not been approved by organization will not be included in capital account.
- 6- If capital goods as addressed in paragraphs B and C of article 3 of current regulations belong to foreign investors and have been previously used in mainland, the goods could be transited from mainland to free zone after receiving license from relevant entities. Transfer of these products is considered as a case of domestic capital transfer and it will be subjected to regulations of current approval letter.

Article.09

Investors could insure the capital they import into the zone. In the case of accidents, the insurance company should substitute for investor based on insurance regulations. The substitution will be possible by paying for the losses, but it will not be recognized as transfer of capital.

Article.10 (Amended in 09.06.2001)

Capital of final investors that are covered by article 6 of present regulations are supported by existing regulations and possess the same advantages and facilities.

Note (amended in 09.06.2001)

The capital of foreign investors the admission of which (as addressed in note 1 of article 6) is approved by majority of member ministers of the supreme council of free zones should be fairly compensated by government of Islamic Republic of Iran if it is nationalized on investors are dispossessed. Compensation, in this case, should be done in equivalent amount of foreign currency before nationalization or dispossession. In 3-month form date of nationalization or dispossession, foreign investor should apply for compensation of losses. The application should be delivered to authority in each zone.

Article.11

All units established in the zone based on investment license should forward a report of their performance and financial statements to the authority. The financial statements should be confirmed by an accounting body selected by the authority.

Article.12

Exit of special profit, main capital and profits of conducting economic activities based on foreign capital and capitals offered by Iranians in foreign currencies as well as resource earned by sale or transfer for these capitals from these zones are permitted. Based on request of these investors, authority in each zone should issue a license in 1 week from reception of investors request after verifying the fact that whether capitals exiting the zone are aligned with terms of investment license and the following note is observed.

Note.

In every zone, its authority should consider tax exemptions as discussed in article 13 of law on 133 administration of special economic zone and finality of values to be exported.

Article.13

Payments of installments of main load and its relevant expense, patent contract, technical knowledge, technical and engineering aids, business signs, and similar contracts could be done based on investment projects, associated contracts and financial statements after notification to authorized organization.

Article.14

After agreement of authority of each zone, the investors could transfer their shares to other investors. In this case, recipient of shares will substitute for first investor.

Article.15

Transfer of capital from a zone to another should match investment regulations in zone of foreign and destination.

#### Article.16

Disputes between foreign investor and Iranian investor should be settled based on written contracts and agreements.

#### Article.17 (Amended in 09.06.2001)

If foreign capital belongs to foreign state(s), it will be regarded as private capital and covered by business regulations. As a result, it is not covered by governmental and diplomatic exemptions.

#### Article.18

The authority is obliged to act, within the framework of mutual obligations in relation to the issuance of visa, residence permit, activity license for investors, managers and foreign experts for the private sector related to foreign investment subject to these regulations and first-degree relatives, based on the organization request.

#### Note.

Disputes between the organization and the related entities are resolved with the consideration of secretary of the high council of special economic zones, in accordance with applicable laws and regulations.