



FOREIGN DIRECT INVESTMENT FLOWS TO IRAN IN THE POST-SANCTIONS PERIOD

Iran and P5+1 countries (China, France, Germany, Russia, the United Kingdom, and the United States), after 2 years of negotiations on the Iranian nuclear program signed the Joint Comprehensive Plan of Action (JCPOA) on July 14, 2015. Under the agreement, Iran agreed to significantly reduce its stockpile of enriched uranium and the European Union (EU) agreed to lift the sanctions while the United States (U.S.) agreed to lift the secondary sanctions against Tehran. After the approval of the International Atomic Energy Agency (IAEA) on Iran's compliance with the agreement on January 14, 2016, simultaneously both the EU and the U.S. have lifted their sanctions according to the agreement.

Agreement on lifting the sanctions could boost the economic growth by attracting foreign direct investment (FDI) flows and improve the trade relations with the European countries in Iran. In its first year of the post-sanction period, Iran managed to attract \$11.8 billion FDI, which is 6 times higher than in 2015. In February 2016, the Economy Minister of Iran, Ali Tayebnia, reported that Tehran expects \$15 billion FDI flows to the country until the end of the Iranian fiscal year (March 20, 2017). Moreover, lifting of sanctions paved the way for Iran to access to more than \$150 billion worth of its frozen overseas assets. To date, over \$30 billion of the Iranian frozen assets have already been released.

Looking at the sectoral distribution of the approved FDI flows, the largest share belongs to water and energy sector (including renewables) with \$8.1 billion FDI attracted to 35 different projects. The services and tourism sector have managed to attract FDI to 17 projects worth \$1.53 billion, while industry and mining sector received \$1.53 billion for 48 projects. Moreover, agricultural sector received investments totaling \$512 million for 8 projects, while transportation and telecommunication sector got \$259 million for 3 projects. In terms of regional distribution, the North Khorasan province received the biggest share of investments worth \$3.37 billion followed by the East Azerbaijan province with

\$1.5 billion and the Sistan-Baluchistan province with \$1.2 billion.

It should be admitted that the Iranian officials are trying to encourage investors to invest in sectors where payback period is short. For instance, payback period for hospitality sector in Iran is around 3-5 years, while this period is much longer for the oil industry. Moreover, small and medium-sized enterprises (SMEs) have attracted \$653 million investment from Turkey, Azerbaijan, China, Germany, France, the United Arab Emirates and others in 2016. In addition, the Government has granted \$3.5 billion loans to assist SMEs in 2016. As a result, 3,319 industrial units have been reopened by receiving funds from the Iranian Government.

The removal of sanctions dismantled barriers that prevented the EU members from developing their economic relations with Iran. For instance, in May 2016, representatives of over 300 German companies visited Iran in order to discuss the potential of investing in machinery, healthcare, automobile, and energy sectors. However, when we look at the FDI flows to Iran in terms of the size of the investments, Spain takes the first place with \$3.2 billion followed by Germany with \$2.96 billion. Moreover, in 2016 the FDI flows from France and the United Kingdom totaled \$389 million and \$260 million respectively.

Although the Iranian authorities managed to attract significant amount of FDI to the country in various sectors, there are a number of obstacles, which hinder the country's ability to attract even higher amounts of FDI. It is clear that after the implementation of the JCPOA agreement in January 2016, the Western investors started to resume their business contacts with Iran. For instance, the European banks such as KBC Bank and DZ Bank started to provide their European clients transaction services with Iranian companies. However, in the post-sanction period, the U.S. investors and banks have still hesitated to conduct business with Iran. It could be explained by the fact that the American companies do not want to take the risk of entering sanction lists by dealing with the Iranian partners that could be affiliated with the

Iranians in the U.S. Specially Designated National (SDN) and Foreign Sanctions Evaders (FSE) lists. Despite the fact that the Office for Foreign Asset Control (OFAC) of the U.S. Treasury Department and other responsible institution on the implementation of sanctions declared that the primary U.S. sanctions should not be seen as a hindrance to the companies, which conduct legitimate business with Iran, there are still concerns regarding the potential risk of unintentionally conduct business with prohibited persons in the lists persists. Moreover, the foreign policy of the new president Donald Trump introduces uncertainty over the future of the U.S.-Iranian relations.

Nevertheless, despite the lack of the U.S. investments in the post-sanction period, Iran started to strengthen its national economy. For instance, the GDP growth in the country reached 4.2% in 2016 compared to negative GDP growth rate of 6.8% in 2012. In addition, the inflation rate measured on the consumer price index (CPI) decreased to 12.6% in 2016 compared to 45.1% in 2012. Therefore, by attracting a large amount of FDI, Tehran could implement important reforms in the banking sector and improve business environment in the country that allowed Iran to become more integrated to international markets.

However, the country needs to attract larger amounts of FDI in order to further increase its economic development. For instance, in accordance with the sixth 5-year development plan (2016-2021) Iran aims to increase its electricity production capacity from 75,000 MW to 105,000 MW, which requires \$50 billion investment. Another \$50 billion needs to be invested in order to develop Iran's mining sector, \$30 billion of this amount needs to be invested in the steel industry and rest to copper, aluminum and other industries. As a result, the Iranian Government is planning to attract \$250 billion in total to 12 outlined sectors including oil, natural gas, mining, and electronics. Therefore, Tehran needs to gain the trust of concerned foreign investors and unify the political elite around the idea of seeing the FDI flows to the country as an opportunity rather than economic infiltration.

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Politics, Foreign Affairs and Security

- According to the Central Electoral Commission of Turkmenistan, the turnout in the presidential elections amounted to 97.27%. In total, 2,548 polling stations, including 39 at the Turkmen diplomatic missions in the foreign countries, were opened for the voting. 9 candidates took part in the elections, representing 3 main political parties in the country, while the remaining were independent candidates.
- During his official visit to Doha, the President of Tajikistan, Emomali Rahmon, and the Emir of the State of Qatar, Sheikh Tamim bin Hamad Al Thani, discussed prospects of bilateral cooperation in a number of sectors such as energy, agriculture, mining and tourism. As a result, the parties signed 8 new cooperation agreements on security, finance, education and health.
- During his official visit to Kiev, the Foreign Minister of Turkey, Mevlut Cavusoglu, and the President of Ukraine, Petro Poroshenko, discussed prospects for strengthening of economic relations emphasizing the importance of negotiations on a free trade zone between Ukraine and Turkey.
- During his official visit to Ashgabat, the Member of the Islamic Consultative Assembly of Iran, Hadi Shoushtari, and the Foreign Minister of Turkmenistan, Rashid Meredov, discussed the ways to intensify joint activities in the fields of transport and transit, construction of roads, as well as electric power and gas.
- Russia's Ambassador to Belarus, Alexander Surikov reported about signing contracts worth a record level of about \$500 million in the sphere of military and technical cooperation with Belarus.
- The Islamic Revolutionary Guards Corps of Iran announced that the country conducted second missile test in 2017. A new type of medium-range ballistic missile was launched from the Semnan launch pad located in 140 miles east of Tehran. This latest test comes less than a week after the U.S. placed new sanctions on Iran.

Economy, Finance and Energy

- According to February 2017 Oil Market Report of the International Energy Agency (IEA), the global oil

demand will increase by 200,000 barrels per day to 98 million barrels daily in 2017. The IEA also reported that in 2017 growth rates for oil demand would increase by 100,000 barrels daily to 1.4 million barrels per day. The IEA also increased its forecast of non-OPEC countries' oil production by 100,000 barrels daily to 58 million barrels per day in 2017. According to the report, the OPEC countries slashed oil production in January 2017 by 1 million barrels to 32.06 million barrels a day. The compliance rate with the oil production cut agreement reached 90%.

- The Karachaganak Petroleum Operating B.V. reported about decreased oil production in 2016. The company's stable and unstable liquids, raw gas and fuel gas production hit 139.7 million barrels of oil equivalent in 2016 compared to 141.7 million barrels of oil equivalent in 2015.
- China's liquefied natural gas (LNG) provider Guanghui Energy reported that the company invested 700 million yuan (\$101.73 million) to build two tanks for its Qidong LNG plant, new natural gas pipelines and natural gas service stations in January 2017. It was also noted that Guanghui Energy plans to invest a total of 7 billion yuan in 2017 for its previously announced projects, including the development of oil fields in Kazakhstan.
- The Customs Administration of China reported that the country's trade turnover with Russia grew by 34% year-on-year in January 2017 to \$6.5 billion. It was also stated that in the reporting period, China's exports to Russia rose by 29.5% to \$3.4 billion, while China's imports from Russia increased by 39.3% to \$3.1 billion.
- According to the National Bank of Kazakhstan, the current account deficit of the country increased from \$5.5 billion in 2015 to \$8.2 billion in 2016, while the trade surplus decreased from \$12.7 billion in 2015 to \$9.4 billion in 2016.
- Kazakhstan's Finance Ministry informed that 407 public properties have been sold within the privatization program, which started in June 2014, though 603 public properties were planned to be sold in this period. It was noted that about 8.57 billion tenge (\$26.6 million) privatiza-

tion revenues were collected for the state budget in this period.

- The Ministry of Economy and Development of Turkmenistan reported that the GDP growth rate in the country amounted to 6.2% in 2016. It was also stated that the growth rate in trade experienced 14.1% followed by the transportation and communication sector and services sector with growth rates amounting to 10.7% and 10.4% respectively. The total volume of investments amounted to 59.5 billion manats (\$17 billion) in 2016, which is 0.4% higher compared to 2015.

Society and Culture

- The President of Turkmenistan, Gurbanguly Berdimuhamedov, delivered an address to the people of the country in connection with the adoption of the resolution by the UN General Assembly at its 71st session that declares December 12 the International Day of Neutrality.
- The President of Tajikistan, Emomali Rahmon, ordered the Emergency Situations Committee to strengthen shore protection in the flood-prone areas of the country. It was also ordered to provide necessary material support to the relatives of those lost their lives as a result of natural disasters.
- Kazakhstan successfully hosted the 28th Winter Universiade in Almaty. Kazakhstan's athletes who took part in the winter student games finished second on the medal table with 11 golds, 8 silvers and 17 bronzes, behind only Russia who scooped up 29 gold medals.
- The Tajik airline Somon Air reported that the Boeing 737 owned by the company made the first commercial flight from Tajikistan to Uzbekistan in 25 years. A passenger jet carried 65 people from Dushanbe to Tashkent, including travelers, airline officials, and journalists.
- During his official visit to Kazakhstan, the UN Assistant Secretary-General and the Director of the Regional Bureau for Europe and the CIS at the UNDP, Cihan Sultanoglu, and the Chairman of Astana EXPO-2017, Akhmetzhan Yessimov, signed an agreement on the UN participation in the EXPO-2017. To date, 115 countries and 18 international organizations confirmed their participation in the exhibition.