

# Free trade relations between Iran and India

Aref Jafari Sadeghabad, Sapna Sukrut Deo

**Abstract:** *In today's turbulent and complicated world, many developing countries have placed priority on free trade and investment in the various sectors of the economy in order to stay on the path of development and economic growth. Free trade and the formation of capital as one of the vital variables of growth Economic is considered, which will increase the productive forces of society through the production of capital goods, in order to enable them to produce the necessary commodities. The role of free trade and foreign investment in the planning of developing countries that now have high economic growth cannot be ignored. In India and Iran, the history of trade and investment has been formed more or less parallel to investment developments in different countries of the world. But the course of its evolutions and fluctuations in the course of international trade and the inflow of foreign capital have been more influenced by political developments and the specific political conditions of countries in different periods of time, and only economic goals have not been effective in this process. Hence, according to the information obtained through the primary and secondary data, India-Iran trade relations are positive and developing.*

**Keywords:** *developing countries, Free trade, economic growth, foreign direct investment, Import and export*

## I. INTRODUCTION

Free trade is an economic concept in which two or more other countries agree on the removal or reduction of trade barriers, such as tariffs and quotas. The difference in free trade with other business methods is that the allocation of goods among commercial countries is based on artifact prices that may reflect the real supply and demand. Free trade agreement is one of the key elements of free trade areas. This concept is fundamental in international class liberalism, and its supporters believe that free trade leads to cultural exchange and the exchange of ideas among nations involved in business. Also, from the classical liberal point of view that focuses on international relations, free trade is conducive to peace, because it strengthens interdependence among countries.<sup>1</sup> Economic liberalization in India refers to the economic liberalization that began in 1991, with the aim of pushing the economy towards serviceability, greater market orientation and the expansion of the role of private and foreign investment.

Changes made in this regard include reducing import ariffs, reducing government oversight of the market, reducing taxes and foreign investment. Proponents of economic liberalization in India claim that this liberalization led to economic growth in the 1990s and 2000s.<sup>2</sup>

## II. LITRATURE REVIEW

Investigations have already been carried out on free trade and trade relations between India and Iran. These studies show the development of positive trade relations between India and Iran after the liberation. Individuals and organizations that have studied in this area include: Ms. Elham Mohammadi, (2018), Report of TradeNews in 2016, Mashregh news 2017, Kathak et al.(1995), Mr. Sarmadi (2006).

## III. OBJECTIVE OF STUDY

The purpose of this topic is to investigate the role of world-class trade liberalization as well as the role of free trade in Iran-India trade relations. And how can help to improve relations between Iran and India in the period of sanctions against Iran by US. This topic is the pin pointed objectives of the study is to find out awareness about process of free trade in this two countries.

## IV. PROPOSED METHODOLOGY

The information is collected for this research based on both primary and secondary data. Therefore the relevant and needed information are collected from primary and secondary resources such as text books, national and international discussion, negotiation, websites and journals.

In this research, we tried to use the first-hand and reliable information and, according to the results obtained in the tables and charts, the information along with the commentary is mentioned. And according to research if Block diagrams, Algorithm, Flow chart are considered with regard to the research need.

## V. THE TERM FREE TRADE AND ECONOMY

The Indian economy is the fourth largest economy in the world. India has become an economic power with an average economic growth of 8% over the past eight years. This growth is close to the economic growth of the neighboring country of China. Based on purchasing power parity, the Indian economy is now the fourth largest economy in the world.

**Revised Manuscript Received on July 09, 2019.**

**Aref Jafari Sadeghabad**, Ph.D. Scholar, New Law College, Bharati Vidyapeeth (Deemed to be University), Pune, India,

**Dr.Sapna Sukrut Deo**, Assistant Professor & Head,Legal Research Centre, New Law College, Bharati Vidyapeeth (Deemed to be University), Pune, India

<sup>1</sup> <https://rationalwiki.org/wiki>, visited on 10 June at 18:30

<sup>2</sup> For a critique of the existing explanations and a comprehensive alternative explanation see: Sharma, Chanchal Kumar (2011) "A Discursive Dominance Theory of Economic Reforms Sustainability." *India Review* (Routledge, UK) 126–84

### A. Free Trade Features

Free trade has the following features:

- Trade of goods without tariffs and customs or other trade barriers
- Free access to markets
- The absence of divergent business policies for the benefit of some individuals and companies.
- Free access to market information
- Free movement of labor within and between countries
- Free movement of capital between and within countries

### VI. FOREIGN DIRECT INVESTMENT BETWEEN IRAN AND INDIA

The Indian government made it easy for foreign direct investment in 15 sectors, including maritime, military, private banking, trade, food, cable networks, TV programs, FM radio, news and non-news networks. The facilities of the Indian government are announced while many of the world's companies are looking for investment in India, as the costs and risks of investing in China are high. India's campaign of domestic and foreign companies has invited India to help improve trade facilitation indices. According to the World Bank, India is now ranked high in terms of this index.<sup>3</sup>

Foreign direct investment between India and Iran has grown dramatically in recent years due to business and friendly relations, as well as the structural reform of the law and the development of bilateral relations, including Indian development and investment in the Chabahar port.

#### A. Some Of The Improvements Brought About By The New Law On Foreign Investment Of Iran Include:

- Expanding the scope of foreign investors' activities, including the possibility of investing in infrastructure.
- Recognizing new ways of investing in addition to foreign direct investment, such as project financing, interdependent arrangements, and various methods of construction, operation and transfer,
- A short and fast process of accepting and approving foreign investment.
- Establishment of a unit called the Foreign Investment Services Center at the Organization for Investment and Economic and Technical Assistance of Iran in order to provide a focused and effective support to the activities of foreign investors in Iran.
- Further liberalization of foreign currency instruments for greater use by foreign investors.
- Introducing new legal options for relations between the government and foreign investors.

### VII. THE CONCEPT OF FREE TRADE IN INDIA & IRAN

One of the fastest growing economies in world is India's economy. In a way that in the next 10 to 15 years, India will be one of the great economic powers of the world. Improving 23 rankings in ease of doing business and gaining rank 77 According to the World Bank report, there are other notable cases. The driving force behind the economy is domestic demand. However, India's trade has increased dramatically. Despite the fact that global trade has increased 2.5 times since 1997, India's trade has been more than 10 times higher.

Major Indian exports to target markets include engineering products with a share of nearly 6 percent, precious stones and jewelry with a share of nearly 14 percent, petroleum products with a share of over 12 percent, agriculture and related products with a share of nearly 11 percent, and pharmaceuticals with The share is close to 6%. It also imports from source countries including oil products with a share of over 23 percent, electronic goods with a share of over 11 percent, organic chemicals with a share of over 10 percent, gold coins with a share of nearly 8 percent, and machinery with a share of over 7%. The main destinations for Indian exports are China, America, Saudi Arabia, UAE, Switzerland, Iraq, Indonesia, South Korea, Australia, Germany and Iran. Major import countries also include the United States, the United Arab Emirates, Hong Kong, China, Singapore, Britain, Germany, Bangladesh, Vietnam, Nepal and Iran.<sup>4</sup>

The trade between Iran and India amounted to 9 billion and 100 million dollars in 2015-2016, which is about 12 billion and 900 million dollars in 2016-2017 and reached 13 billion and 800 million dollars in 2017-2018. Therefore, the trade between the two countries has been rising.

#### A. The Opportunities That Exist For The Development Of Iran-India Relations Can Be Divided Into Several Categories:

- Exempt from US sanctions.
- Chabahar port exemptions from sanctions.
- Rupee Mechanism with UCO Bank.
- The Iranian money (rupee) in this bank can be used to import from India.
- Open an Iranian branch bank in India
- Opportunity to diversify the business portfolio.

Historical relations, cultural affinity, high level of interactivity in recent years, the Chabahar project, the international transport corridor of the north and south, the expansion and diversification of trade relations and the geopolitics of the two countries can be a powerful stimulus for the development of relations between the two countries.

Establishing a free trade agreement between Iran and each of the neighboring countries could also bring tangible political and security benefits to sides, thereby helping to strengthen the win-win (win-win) engagement and promoting mutual benefits. A free trade treaty between Iran and neighboring countries can be considered as an important step towards the establishment of a stable economic-political unity between Iran and neighboring countries and, at the same time, is a step forward for the gradual development of the competitive ability of manufacturers established in the countries of the Free Trade Agreement. As well as the free trade relations between Iran and India, will have the same effect.

<sup>4</sup> <https://donya-e-egtesad.com> visited on 6 June at 13:30

<sup>3</sup> IRNA report, Wednesday, November 11, 2015

**VIII. IRAN AND INDIA BUSINESS OPPORTUNITIES / BANKING PROBLEMS THE MOST IMPORTANT OBSTACLE:**

India has always been one of the most important trading partners of Iran and its oil customer. Nevertheless, Iran's economic ties with Asian countries, especially India, expanded with the lifting of sanctions after the 2015 nuclear deal was signed, which led to Tehran's withdrawal from isolation and joining the global free-market economy.

By Tejarat News report, in 2016, India was Iran's second-largest export destination, and the eighth largest exporter of goods to Iran. In 2017, Iran exported about 777 million barrels of oil to India, which turned India into the second largest importer of Iranian oil. In addition, India pledged to invest \$ 500 million in the Chabahar Port Development Project. This suggests that, in spite of Trump's hostile stance towards Tehran, India is developing this strategic port in Iran. The completion of this project will facilitate trade with Russia and European countries for India.<sup>5</sup>

With regard to the new US sanctions by Trump and the problems of the banking relationship between Iran and India, it has been difficult to pay for money from transactions and bank transfers.

**• The Factors For The Development Of Trade Relations Between Iran And India Go Beyond Sanctions:**

"Using the rupee mechanism with Yoko Bank's agency to facilitate trade relations with Iran during the sanctions period," "agreement for preferential trade," "India's extension of Iran's oil purchase", "accelerating the development of the Chabahar port", "facilitating The issuance of a visa to businessmen of the two countries "," defining a new trade horizon of up to \$ 20 billion "," establishing a private Iranian bank in India, "and" promising a tax exemption for Iran's oil sales to India "are developments and measures to maintain and expand Bilateral relations are on the agenda of policymakers and activists from both countries.

**IX. INDIAN BUSINESS SERVICES:**

Indian Trade Services was founded by a member of the Indian Parliament in 1965 as a professional and expert group for dealing with business in India and international trade.

**A. The Role of Indian Business Services<sup>6</sup>**

- Formulation of International Trade Policies
- Implementing business policies
- Export development through various designs
- Negotiations for International Trade and Commercial Diplomacy
- Unrelated and grouped responsibilities

**X. RESULT ANALYSIS**

Indian importers are importing from Iran mainly: Dry fruits, Oil additives, food products, Dates, Saffron, Bitumen, Apples, Kiwis, Chemical products, crude oil is the main product.

Indian exporters are exporting to Iran are mainly: Diesel occupying major portion, Engine oil, Tea, Spices, Rice,

Vegetables, Lubricant additives, Cosmetics, Bananas, and Cement etc.

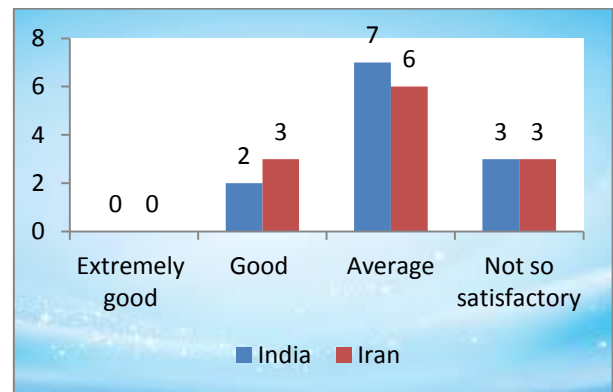
The respondents were asked from 50 exporters and importers to rate their trade experience between India and Iran on Likert scale which revealed the following:

**Table 1: Rating given by the importers and exporters (India-Iran) on the ease of doing business**

Respondents from	Extremely good	Good	Average	Not so satisfactory
India	0	2	7	3
Percentage to total respondents	0	16.66	58.34	25
Iran	0	3	6	3
Percentage to total respondents	0	25	50	25

**Fig.1**

**Table 1: Rating given by the importers and exporters on the ease of doing business**



**Interpretation:**

The above data reveals that no one has rated the experience as extremely good, 16.66 per cent of the Indian and 25 per cent of the Iranian respondents rated it as good. 8.34 per cent Indian and 50 per cent Iranian rated it as average, while the percentage of not-satisfactory respondents from both the countries remained the same at 25 per cent. It means that there is scope for further improvements in the systems and procedures that are currently followed by the concerned departments e.g. port authorities, customs authorities, banking so far as expeditious settlement of export proceeds etc.

**XI. CONCLUSION**

India's economy has grown tremendously as a developing country after trade liberalization, compliance with laws and accession to the World Trade Organization. Therefore, for developing countries such as Iran, it is recommended that steps be taken to reduce economic constraints, such as tariffs, on the one hand, and export development as well as the use of skilled labor (as human capital) to increase economic growth; It is



<sup>5</sup><https://tejaratnews.com>

<sup>6</sup><https://fa.wikipedia.org/> visited on 13 June 2019 at 05:15

possible to achieve a high rate of economic growth through trade liberalization through tariff cuts and export development, with the strengthening of expert and efficient forces, along with the adoption of policies in line with the trade liberalization policy. In this way, existing capacities and abilities are used optimally, and resources and factors of production are also used with maximum efficiency in production. Finally, with respect to the issues mentioned friendly trade relations between India and Iran is improving day by day.

### REFERENCES

1. For a critique of the existing explanations and a comprehensive alternative explanation see: Sharma, Chanchal Kumar (2011) "A Discursive Dominance Theory of Economic Reforms Sustainability." India Review (Routledge, UK) 126-84
2. "India, ASEAN Sign Free Trade Agreement". 14 August 2009. Archived from the original on 27 September 2010. Retrieved 13 August 2010.
3. McCulloch NA, Winters LA and Cirera X (2001). Trade Liberalization and Poverty: A Handbook. London, Centre for Economic and Policy Research.
4. Foreign Trade Policy document for India 2015-2020" (PDF).
5. Service Profile of Indian Trade Service" (PDF). Retrieved 3 August 2016.
6. <https://www.irna.ir/news/81834809/-15-هند-سر-مايه-گذارى-مستقيم-خارجى-در-بخش-راستشپيل-كرد>
7. <https://www.tasnimnews.com/fa/news/1393/01/25/337834/-گسترش-سر-مايه-گذارى-مستقيم-خارجى-ايران-و-هند>
8. <http://www.i-ibc.ir/rules-investment>
9. <https://tejaratnews.com>
10. <http://citttd.com/?p=194>
11. <https://donya-e-eqtasad.com>
12. <https://www.mashreghnews.ir/news>

### AUTHORS PROFILE



**Mr. Aref Jafari Sadeghabad**, (LLB, LLM, Ph.D Research scholar), New Law College, Bharati Vidyapeeth (Deemed to be University), Pune, India, [arefj65@yahoo.com](mailto:arefj65@yahoo.com), Advocate, Editor of International Journal for Innovative and Informative Multidisciplinary Research (IJIMR), Pune.



**Dr. Sapna Sukrut Deo**, (B.SL, LLM, PhD, DCL), Assistant Professor & Head, Legal Research Centre, New Law College, Bharati Vidyapeeth (Deemed to be University), Pune. [Sapna.deo@nlc.bvdu.in](mailto:Sapna.deo@nlc.bvdu.in)  
Designation: Editor in Chief and Founder, International Journal for Innovative and Informative Multidisciplinary Research (IJIMR), Pune-Sapna Deo and Associates, Pune.

Address: Sarkaar Apartment, 564/B, Shanivaar Peth, Opp New English School, Ramanbaugh, Pune 30.

Affiliated to: Sapna Deo and Associates, International Journal for Innovative and Informative Multidisciplinary Research (IJIMR), Pune