

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

International Trade of Iran

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Shadi Saremi

Business Administration

Thesis title

International Trade of Iran

Objectives of thesis

The bachelor thesis is thematically focused on International trade. The main purpose is to analyze the process and obstacles of trading with goods and services in Iran.

Partial goals are:

- To make a current literature review and comparative study on theories of International trade
- To explain why trade restrictions exist and what type of barriers they consist

Methodology

Literature review should be based on books, scientific articles and conference papers.

To achieve thesis objectives, the author should use a survey conducted in Iran. Then statistical methods should be applied (hypothesis testing, descriptive statistics, multiple regression).

Based on the theoretical knowledge and results of the study conclusion will be formulated.

The proposed extent of the thesis

40 – 60 pages

Keywords

International trade, Macroeconomics, Iran, commodity structure

Recommended information sources

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Declaration

I declare that I have worked on my bachelor thesis titled "International Trade of Iran" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on date of submission

Acknowledgement

For all the helps, valuable notices and passion during fulfilling this assignment and writing my bachelor thesis I would like to thank the head consultant of my bachelor thesis Ing. Irena Benešová, Ph.D. I also would like to thank all the teachers who have helped me to increase my knowledge during these three years of study.

Mezinárodní obchod Íránu

Souhrn

V 21. století již nikdo nepopírá význam mezinárodního obchodu. Jeho důležitost je natolik významná, že zastíní i rasové, etnické či regionální rozdíly.

Země, které jsou zapojeny do mezinárodního obchodu, který jim přináší zisk, se snaží zvýšit svoji obchodní výměnu. Zároveň tyto země zakládají různé uskupení či organizace, které mají napomoci ke zvýšení a zlepšení obchodu. Irán patří mezi tyto země.

Mezinárodní obchod má prospěšný vliv nikoliv pouze na obchod, ale také na rozvoj. Může se jednat o rozvoj politický kulturní či ekonomický.

Klíčová slova

Mezinárodní obchod, Makroekonomie, Irán, bariéry obchodu, import, export, cla, teorie, sankce

International Trade of Iran

Summary

In 21th century nobody can deny the value of international trade, also its importance has spread so much that racial, ethnic and regional differences seem less important these days.

Today, those countries that have entered the international trade business and achieved the profitability are still trying to expand their trade volume and also have decided to establish different organizations and unions. Iran is one of these countries.

International trade not only promotes the growth and the level of economic expansion of countries but also involves the political, social and cultural development.

Keywords

International trade, Macroeconomics, Iran, Trade barriers, Import, Export, Tariffs, Theories, Sanctions

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1. Introduction

Indeed, international trade is the export and import of goods and services, the commercial relations between the different countries of the world. Because from the beginning there was no country which could provide their needs and requirements on their own without having any commercial relations with other countries.

So the International trade is the consequent of having relations of supplies and demands for the provision of benefit facility. Today the international trade has become advanced and more modern and has brought more convenience for trade relations. Also the speed of technological progress has affected the global supply and demand in the world market.

For example when the value of a American dollar increases against the value of Czech crowns, it will be reported in all areas of both countries, so this sample of ease and the speed of business progress is very important and has a very significance role in commercial development.

Also in the past the merchants were used to be physically in that country where they buy their goods and assort them, However these days because of the prosperity and progress in the trade, they can do their business with a phone call at the certain time to buy a certain good they need so this can be a great example of progress in world trade.

International economics is a field of study that assesses the implications of international trade, international investment, and international borrowing and lending. There are two broad subfields within the discipline: international trade and international finance.

International trade is a field in economics that applies microeconomic models to help understand the international economy. Its content includes basic supply-and-demand analysis of international markets; firm and consumer behavior; perfectly competitive, oligopolistic, and monopolistic market structures; and the effects of market distortions.

2. Objectives and Methodology

This thesis is divided into three parts. The first part is theoretical one. The second one represents own analysis. The final one conclude the findings.

2.1 Objectives

The bachelor thesis is thematically focused on International trade. The main purpose is to analyze the process and obstacles trading with goods and services in Iran.

Partial goal of thesis are :

- To provide an introduction to the multidisciplinary of International trade
- To describe the importance of trade in development during the time
- To describe the trade restrictions and tariffs

The aim of this thesis is to determine how obstacles of trading with goods and services influence the business men's total income for the year 2015 (Jan-Dec).

In order to measure the satisfaction levels with trading goods and services in Iran, a questionnaire survey is used. Those questions are in English and will be asked from random businessmen who are the managers of business companies in Iran. There are total of 40 respondents who participated in the survey. From the survey, gathered data will be processed with SPSS statistic software of IBM.

2.2 Methodology

In order to reach reliable data, literature review will be used through scientific articles, conference papers, journals, books, data from publication research and other sources available. The analytical study will utilize methods of analysis, questionnaire survey and statistical analysis of data. Based on the theoretical knowledge and results of the study conclusion will be formulated.

To achieve thesis objectives, the main method was based on the Linear Multiple Regression Model using SPSS from IBM as a statistical tool. There were 40 respondents who participated in the survey. Then the survey data were analyzed using the Descriptive Statistic Method and the Linear Multiple Regression Model method to verify whether the proposal hypothesis is true or false. In business statistics, there is a significant relationship between two or more variables.

The dependent variable was chosen as the total income in the year 2015 while obstacles were put as independent variables.

By using SPSS software of IBM, the function of statistical relationship will be created with the correlation equation:

$$Y = a \cdot X_1 + b \cdot X_2 + c \cdot X_3 + d \cdot X_4 + e \cdot X_5 + \text{const.}$$

Where Y is total income for the year 2015, X1, X2, X3, X4 and X5 are independent factors as following of sanctions (X1), high export prices (X2), poor productivity (X3), excessive growth (X4), non-price competitiveness (X5). A, b, c, d, e and constant are the correlation coefficients, which indicate the statistical relationship between independent and dependent variables.

For the hypothesis testing, p-value stands for the probability level of each correlation coefficient in the equation. If the p-value is higher than 0.05 (5%), the null hypothesis will be accepted as the statement “there is no statistically significant relationship between two variables”; however, if it is less than 0.05 (5%); the null hypothesis will be rejected as the statement “there is a statistically significant relationship between two variables”.

Five main statements from the research questions:

S1: The sanctions has a significant impact on the total income for the year 2015 in Iran.

S2: The high export prices has a significant impact on the total income for the year 2015 in Iran.

S3: The poor productivity has a significant impact on the total income for the year 2015 in Iran.

S4: The excessive growth has a significant impact on the total income for the year 2015 in Iran.

S5: The non-price competitiveness has a significant impact on total income for the year 2015 in Iran.

The data from the survey were analyzed using SPSS with descriptive statistics method and Linear Multiple Regression Model.

3. Literature Review

Literature review is based on gained knowledge by studying different books.

3.1 Patterns of International Trade

To better understand how modern global trade has evolved, it's important to understand how countries traded with one another historically. Over time, economists have developed theories to explain the mechanisms of global trade. The main historical theories are called *classical* and are from the perspective of a country, or country-based. By the mid-twentieth century, the theories began to shift to explain trade from a firm, rather than a country, perspective. These theories are referred to as *modern* and are firm-based or company-based. Both of these categories, classical and modern, consist of several international theories.

3.1.1 Mercantilism (Classical Period)

Developed in the sixteenth century, mercantilism was one of the earliest efforts to develop an economic theory. This theory stated that a country's wealth was determined by the amount of its gold and silver holdings. In its simplest sense, mercantilists believed that a country should increase its holdings of gold and silver by promoting exports and discouraging imports. In other words, if people in other countries buy more from you (exports) than they sell to you (imports), then they have to pay you the difference in gold and silver. The objective of each country was to have a trade surplus, or a situation where the value of exports are greater than the value of imports, and to avoid a trade deficit, or a situation where the value of imports is greater than the value of exports.

A closer look at world history from the 1500s to the late 1800s helps explain why mercantilism flourished. The 1500s marked the rise of new nation-states, whose rulers wanted to strengthen their nations by building larger armies and national institutions. By increasing exports and trade, these rulers were able to amass more gold and wealth for their countries. One way that many of these new nations promoted exports was to impose restrictions on imports. This strategy is called protectionism and is still used today. (*Backhouse, 1985*)

Nations expanded their wealth by using their colonies around the world in an effort to control more trade and amass more riches. The British colonial empire was one of the more successful examples; it sought to increase its wealth by using raw materials from places ranging from what are now the Americas and India. France, the Netherlands, Portugal, and Spain were also successful in building large colonial empires that generated extensive wealth for their governing nations.

Although mercantilism is one of the oldest trade theories, it remains part of modern thinking. Countries such as Japan, China, Singapore, Taiwan, and even Germany still favor exports and discourage imports through a form of neo-mercantilism in which the countries promote a combination of protectionist policies and restrictions and domestic-industry subsidies. Nearly every country, at one point or another, has implemented some form of protectionist policy to guard key industries in its economy. While export-oriented companies usually support protectionist policies that favor their industries or firms, other companies and consumers are hurt by protectionism. Taxpayers pay for government subsidies of select exports in the form of higher taxes. Import restrictions lead to higher prices for consumers, who pay more for foreign-made goods or services. Free-trade advocates highlight how free trade benefits all members of the global community, while mercantilism's protectionist policies only benefit select industries, at the expense of both consumers and other companies, within and outside of the industry.

3.1.2 Absolute Advantage

In 1776, Adam Smith questioned the leading mercantile theory of the time in *The Wealth of Nations*. Smith offered a new trade theory called absolute advantage, which focused on the ability of a country to produce a good more efficiently than another nation. Smith reasoned that trade between countries shouldn't be regulated or restricted by government policy or intervention. He stated that trade should flow naturally according to market forces. In a hypothetical two-country world, if Country A could produce a good cheaper or faster (or both) than Country B, then Country A had the advantage and could focus on specializing on producing that good. Similarly, if Country B was better at producing another good, it could focus on specialization as well. By specialization, countries would generate efficiencies, because their labor force would become more skilled by doing the same tasks. Production

would also become more efficient, because there would be an incentive to create faster and better production methods to increase the specialization. (*Arndt, 1987*)

Smith's theory reasoned that with increased efficiencies, people in both countries would benefit and trade should be encouraged. His theory stated that a nation's wealth shouldn't be judged by how much gold and silver it had but rather by the living standards of its people. It can be said that the positive effects of International Trade (IT) on Economic Growth (EG) were first pointed out by Smith .

However, although the dominant theoretical position tended, from the beginning (with the Classics), to indicate a positive relation between IT and EG, many studies linked the gains of IT only with static effects. But Baldwin, for example, concluded, in a survey of empirical studies, that the static effects were of little significance. The debate has widened in the last decades, precisely in the direction of pointing out and stressing the dynamic effects of IT. The theoretical development afforded by the models of endogenous EG [especially after the works of Romer and Lucas], which stimulated the creation of empirical studies, moved toward an integrated analysis of the EG and IT theories. So, the classical tradition, apparently interrupted by the neoclassical separation of those two areas of the theory, seems to have been recovered, assigning, as a result, a decisive role to IT on the countries' rate of EG. The recognition of this importance has even led to the ceaseless appearance of proposals from international organisations, such as the World Bank (WB) and the United Nations (UN). As a result, many countries began to reduce commercial barriers and other controls of economic activity and obtained a significant and lasting increase in the rate of EG, which suggests that extroversion has a dynamic effect on the economy, helping to speed up the rate of EG. Moreover, the processes of economic integration intensified.

(*Zhang, 2008*)

As far as the interaction between IT and EG is concerned, we found two main ideas to point out in Smith. On the one hand, IT made it possible to overcome the reduced dimension of the internal market and, on the other hand, by increasing the extension of the market, the labour division improved and the productivity increased. The International trade would therefore constitute a dynamic force capable of intensifying the ability and skills of workers, of encouraging technical innovations and the accumulation of capital, of making it possible to overcome technical indivisibilities and, generally speaking, of giving participating countries the possibility of enjoying EG.

3.1.3 Comparative Advantage

The challenge to the absolute advantage theory was that some countries may be better at producing both goods and, therefore, have an advantage in many areas. In contrast, another country may not have any useful absolute advantages. To answer this challenge, David Ricardo, an English economist, introduced the theory of comparative advantage in 1817. Ricardo reasoned that even if Country A had the absolute advantage in the production of both products, specialization and trade could still occur between two countries.

Comparative advantage occurs when a country cannot produce a product more efficiently than the other country; however, it can produce that product better and more efficiently than it does other goods. The difference between these two theories is subtle. Comparative advantage focuses on the relative productivity differences, whereas absolute advantage looks at the absolute productivity.

In turn, Ricardo presented a 'dynamic model of EG' with three forces and two restrictions. He characterized the progressive states as having high savings, capital accumulation, production, productivity, benefits and labour demand forcing the increase of wages and demographic growth. However, in view of the limitations of land, both in quantity and in quality, the additional alimentary resources were obtained in conditions of decreasing returns, in which the production is absorbed by wages in an increasing proportion, reducing the stimulation of new investments and, sooner or later, reaching the 'stationary state'. International trade could delay the fall in the rate of profit. Apart from the contribution of International trade, underestimating the importance of technology, he underestimated the positive effects of IT on technology.

Finally, among the Classics, Mill also explicitly reported the Classic point of view according to which the production resulted from labour, capital, land and their productivities. And just like Ricardo, he recognized that underlying the 'progressive state' there was the 'stationary state', and that ultimately the force capable of delaying this state was technical progress. *(Lewis, 1955)*

Accordingly, the emphasis that Smith had placed on the extension of the market decreases, even though he also defended free trade among countries. We think that this situation was the result of the expectation created by the Industrial Revolution (IR) in regards to technical progress.

3.2 Post Classical Period

Classical thought gave way to ‘marginalism’ from the 1870s onwards. This fact led to a ‘new theory’ (neoclassical) which, for some time, kept the main lines of the evolution of the economy in the long-term away from the studies. The structure of this section takes into account the separation that occurred between IT and EG theories, and takes also into consideration some reactions to the classical and neoclassical theories.

3.2.1 Neoclassical International Trade

The followers of Ricardo ignored the question of the foundations of comparative advantages and didn’t identify factors, resulting from International trade, that could raise, in a lasting form, the rate of EG and its tendency in the long-term. In general, the changes introduced in the ricardian theory demonstrated the increase of welfare caused by International trade, but ignored eventual gains in the rate of Economic growth.

Heckscher-Ohlin Theory (Factor Proportions Theory)

The theories of Smith and Ricardo didn’t help countries determine which products would give a country an advantage. Both theories assumed that free and open markets would lead countries and producers to determine which goods they could produce more efficiently.

It was in the context of neoclassical general equilibrium In the early 1900s that the model of Heckscher and Ohlin appeared, whose contributions Samuelson completed in the late 40’s.

They focused their attention on how a country could gain comparative advantage by producing products that utilized factors that were in abundance in the country. Their theory is based on a country’s production factors—land, labor, and capital, which provide the funds for investment in plants and equipment. They determined that the cost of any factor or resource was a function of supply and demand. Factors that were in great supply relative to demand would be cheaper; factors in great demand relative to supply would be more expensive. Their theory, also called the factor proportions theory, stated that countries would produce and export goods that required resources or factors that were in great supply and, therefore, cheaper production factors. In contrast, countries would import goods that required resources that were in short supply, but higher demand.

(Gandolfo, 1998)

In a rigid analysis of the model, we observe that it permits to advocate the opening of the countries to IT, showing that it is efficient, mutually beneficial and positive for the entire world. However, it limits the analysis to the static gains of welfare.

3.2.2 Post-classical growth, before Solow

Generically, the classical economists gave us an idea of the race between the increase of the population and EG, with an uncertain winner. This version gradually disappeared with the industrial revolution, because the product increased from decade to decade in increasingly larger areas. That might be the reason why EG was no longer seen as a problem and why it wasn't amply pursued in the studies and writings of the following economists.

Nevertheless, Marshall in *Principles of economics* (1890, p. 225) pointed out that "The causes which determine the economic progress of nations belong to the study of international trade". In effect, the expansion of the market that it represented led to the increase of global production and originated the increase of internal and external economies, which resulted in increasing income for the economy. But, although he understood the importance of those externalities, he also recognized the difficulties of his analytic treatment. Among his successors, only Young was concerned with EG when he considered, like Smith, that the dimension of the market limited the labour division (and therefore, the productivity). He also examined the inter-relation between industries in the process of EG, the creation of new industries due to the specialization resulting from the extension of the market, the importance of specialization and standardization in a vast market and the influence of this market on technological progress. Another exception of this period's remarkable was Schumpeter, who repeated old points of view concerning the tendency of the profit to reach a minimum and the dependency of the rate of EG on capital accumulation. But he went further, distinguishing 'invention' (advancement of useful knowledge to production) from 'innovation' (economic activity of exploring that knowledge). Considering the latter as the central element of EG, he described the exigencies for a successful innovation, which included the need for markets opened to the exterior.

Also some other authors made the restart of studies of dynamic themes and, consequently, of the EG theory – easier, thus laying a good foundation for future investigations. Ramsey in 1928

introduced the description of EG and the principle of research of an optimum EG. Cobb and Douglas presented production functions that became known as Cobb-Douglas production functions and which constituted an essential element of numerous models of EG. Harrod in 1938-1948 and Domar in 1937-1946 independently developed a model inspired in Keynes, which gave the research of EG an important momentum and a specific direction. (*Mundell, 1975*)

Finally, Rosenstein-Rodan in 1943 retrieved some of Young's ideas, when the problems of the Less Developed Countries (LDCs) attracted the economists' attention.

Leontief Paradox

In the early 1950s, Russian-born American economist Wassily W. Leontief studied the US economy closely and noted that the United States was abundant in capital and, therefore, should export more capital-intensive goods. However, his research using actual data showed the opposite: the United States was importing more capital-intensive goods. According to the factor proportions theory, the United States should have been importing labor-intensive goods, but instead it was actually exporting them. His analysis became known as the Leontief Paradox because it was the reverse of what was expected by the factor proportions theory. In subsequent years, economists have noted historically at that point in time, labor in the United States was both available in steady supply and more productive than in many other countries; hence it made sense to export labor-intensive goods. Over the decades, many economists have used theories and data to explain and minimize the impact of the paradox. (*Mundell, 1975*)

However, what remains clear is that international trade is complex and is impacted by numerous and often-changing factors. Trade cannot be explained neatly by one single theory, and more importantly, our understanding of international trade theories continues to evolve.

3.3 Modern neoclassical theory of growth

In the late 50's and early 60's the interest for the EG reawakened with the recovery of the classical approach, according to which the production was a function of labour, capital, land and their productivities. The question of the 'accounting of EG' was also raised.

We can be pointed out 1956 as the year of birth of the 'modern neoclassical theory of EG' with Solow [and Swan (1956)]. The proposed model describes the relation between savings, accumulation of capital and EG based on a function of aggregate production (crucial supply), and there was a point of sustainable equilibrium (steadystate), which would be reached regardless of initial conditions. By increasing the productivity of the factors, the exogenous technical progress created positive effects on the process of accumulation and made the model compatible with a balanced growth path. In economic terms, this means that it took into account the convergence between economies. Moreover, along with the diffusion of technical progress there would be a convergence of the rate of EG per capita for a common steady-state. Consequently, it can be said that, by facilitating the diffusion of technical progress, the IT would be important for the less developed countries.

As far as the 'accounting of EG' is concerned, Solow in 1975 used the function of aggregate production as a starting point to measure the sources of EG in the United States. The rate of EG springs from labour and capital growth rates (which we call traditional sources), weighed by the respective participation in production and technical progress or total productivity of factors (TPF). The TPF resulted from the difference between the observed rate of EG and the part of that EG explained by the traditional sources (thus the designation 'residual of Solow'). Clearly he distinguished 'EG effects' from 'level effects'. As a result, IT would, eventually, be a 'level effect' that would create positive effects in a transitory period of time.

From Solow on, many economists considered the advance of knowledge to be a source of the 'residual'. However, the 'accountants of EG' (post Solow) included as sources the contributions of many elements such as the accumulation of 'human capital', economies of scale, the improved allocation of resources and the new generations of more productive machines [among others, Kendrick (1961), Denison (1962, 1974 and 1985) and Griliches and Jorgenson (1967)]. However, they didn't quantify the advancement in knowledge, leaving a residual factor unexplained. Furthermore, they didn't include IT, at least not explicitly, as a source of EG. (*Gandolfo, 1998*)

As it's been said this situation is due to two factors that have already been mentioned. On the one hand, the separation that occurred between the theories of IT and EG, and on the other, the effects of IT on the level and not on the long-term rate of EG.

So, the works of the 'accounting of EG' widened the scope of studies of the sources and began studying different structural situations, abandoning therefore some neoclassical assumptions. Thus, studies done since the late 1960s considered, besides the traditional factors, other explanatory variables, maintaining the functional scheme proposed by Solow. In this context, in view of the need to determine the totality of growth sources and in view of the failure of introverted growth experiments, along with EG's association with the opening of IT, there was an increase in the research on trade and growth.

3.3.1 Modern or Firm-based Trade Theories

In contrast to classical, country-based trade theories, the category of modern, firm-based theories emerged after World War II and was developed in large part by business school professors, not economists. The firm-based theories evolved with the growth of the multinational company (MNC). The country-based theories couldn't adequately address the expansion of either MNCs or intra industry trade, which refers to trade between two countries of goods produced in the same industry.

Unlike the country-based theories, firm-based theories incorporate other product and service factors, including brand and customer loyalty, technology, and quality, into the understanding of trade flows.

3.3.2 Country Similarity Theory

Swedish economist Steffan Linder developed the country similarity theory in 1961, as he tried to explain the concept of intra industry trade. Linder's theory proposed that consumers in countries that are in the same or similar stage of development would have similar preferences. In this firm-based theory, Linder suggested that companies first produce for domestic consumption. When they explore exporting, the companies often find that markets that look similar to their domestic one, in terms of customer preferences, offer the most potential for success. Linder's country similarity theory then states that most trade in manufactured goods will be between countries with similar per capita incomes, and intraindustry trade will be common. (*J. K. , 1962*)

This theory is often most useful in understanding trade in goods where brand names and product reputations are important factors in the buyers' decision-making and purchasing processes.

Product Life Cycle Theory

Raymond Vernon, a Harvard Business School professor, developed the product life cycle theory in the 1960s. The theory, originating in the field of marketing, stated that a product life cycle has three distinct stages: (1) new product, (2) maturing product, and (3) standardized product. The theory assumed that production of the new product will occur completely in the home country of its innovation. In the 1960s this was a useful theory to explain the manufacturing success of the United States. US manufacturing was the globally dominant producer in many industries after World War II.

It has also been used to describe how the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s. Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico.

(Frankel, Jeffrey and Romer, David , 1999)

The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though research and development is typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China, offer both highly skilled labor and new research facilities at a substantial cost advantage for global firms.

Global Strategic Rivalry Theory

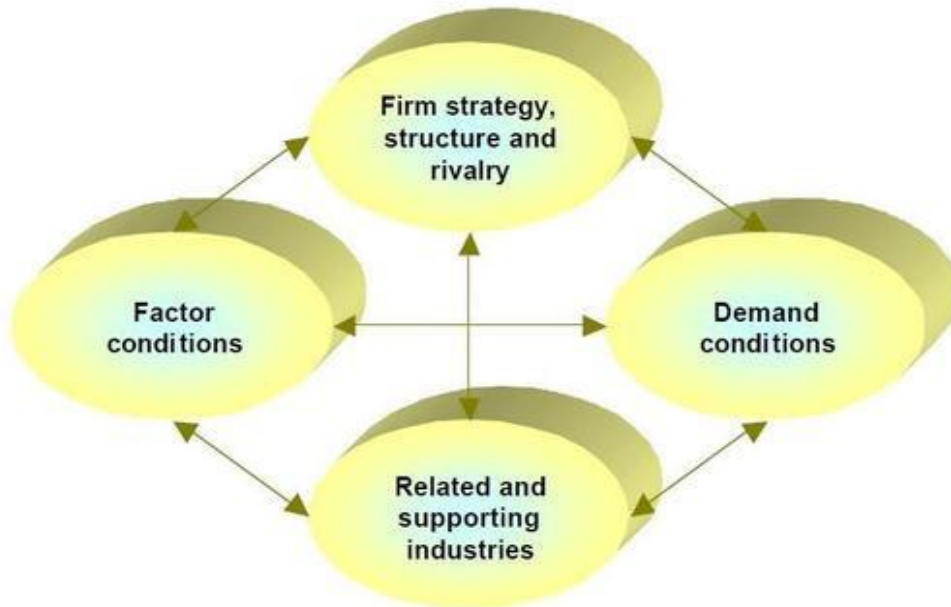
Global strategic rivalry theory emerged in the 1980s and was based on the work of economists Paul Krugman and Kelvin Lancaster. Their theory focused on multinational companies and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive

advantage are called the barriers to entry for that industry. The barriers to entry refer to the obstacles a new firm may face when trying to enter into an industry or new market. The barriers to entry that corporations may seek to optimize include:

- research and development,
- the ownership of intellectual property rights,
- economies of scale,
- unique business processes or methods as well as extensive experience in the industry, and
- the control of resources or favorable access to raw materials.

Porter's National Competitive Advantage Theory

In the continuing evolution of international trade theories, Michael Porter of Harvard Business School developed a new model to explain national competitive advantage in 1990. Porter's theory stated that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade. His theory focused on explaining why some nations are more competitive in certain industries (Figure 1). To explain his theory, Porter identified four determinants that he linked together. The four determinants are (1) local market resources and capabilities, (2) local market demand conditions, (3) local suppliers and complementary industries, and (4) local firm characteristics. Figure 1 :



Source:

https://www.google.cz/search?q=Porter%E2%80%99s+National+Competitive+Advantage+Theory&espv=2&biw=1366&bih=667&source=lnms&tbn=isch&sa=X&ved=0ahUKEwjkmc76_OPKAhXlq3IKHXI1BcgQ_AUIBigB#imgrc=ZSfG84b5u8Cf7M%3A

1. **Factor conditions** Porter recognized the value of the factor proportions theory, which considers a nation's resources (e.g., natural resources and available labor) as key factors in determining what products a country will import or export. Porter added to these basic factors a new list of advanced factors, which he defined as skilled labor, investments in education, technology, and infrastructure. He perceived these advanced factors as providing a country with a sustainable competitive advantage.
2. **Demand conditions.** Porter believed that a sophisticated home market is critical to ensuring ongoing innovation, thereby creating a sustainable competitive advantage. Companies whose domestic markets are sophisticated, trendsetting, and demanding forces continuous innovation and the development of new products and technologies. Many sources credit the demanding US consumer with forcing US software companies to continuously innovate, thus creating a sustainable competitive advantage in software products and services.
3. **Suppliers and complementary industries.** To remain competitive, large global firms benefit from having strong, efficient supporting and related industries to provide the inputs required by the industry. Certain industries cluster geographically, which provides efficiencies and productivity.

4. **Firm characteristics.** Local firm characteristics include firm strategy, industry structure, and industry rivalry. Local strategy affects a firm's competitiveness. A healthy level of rivalry between local firms will spur innovation and competitiveness.

In addition to the four determinants of the diamond, Porter also noted that government and chance play a part in the national competitiveness of industries. Governments can, by their actions and policies, increase the competitiveness of firms and occasionally entire industries.

Porter's theory, along with the other modern, firm-based theories, offers an interesting interpretation of international trade trends. Nevertheless, they remain relatively new and minimally tested theories.

All the theories that has been mentioned are the ones that have helped economists, governments, and businesses better understand international trade and how to promote, regulate, and manage it, these theories are occasionally contradicted by real-world events.

Not all the Countries have the absolute advantages in areas of production or services and because the factors of production aren't neatly distributed between countries. Some countries have a disproportionate benefit of some factors than others. In practice, governments and companies use a combination of these theories to both interpret trends and develop strategy.

However, what remains clear is that international trade is complex and is impacted by numerous and often-changing factors. Trade cannot be explained neatly by one single theory, and more importantly, our understanding of international trade theories continues to evolve. As a result, it's not clear that any one theory is dominant around the world.

3.4 Trade Barrier

What's trade barrier?

In fact the Trade barrier exists to restrict the international trade of a state according to the government policy or the regulation of the country. Trade barriers can either make trade more difficult and expensive (tariff barriers) or prevent trade completely.

3.4.1 Reasons for trade restrictions

To protect “infant industries”

The new industry which is in its early stages of development, and in need of protection from predatory competition is called Infant Industry.

Mainly the developing or under developing countries want to give newly developing industries time to grow and become competitive. However, in some cases the government protection never ends and these industries become competitive only because they have been given the benefit of the trade barrier.

The main objective behind this argument is to create an equivalent field between industries which produce similar products.

To improve a trade deficit

Trade barriers make imports more expensive and decreases demand for imports. However, trade partners can do the same and increase prices for exports. This policy also doesn't necessarily fix the problem, if domestically produced goods aren't competitive or might not be of good quality. So in fact there will be the Deficits due to Macroeconomic imbalance which means that the national savings will be less than national investment.

To protect domestic employment

One of the most important reason of trade restriction is to protect the domestic employment, because it can increase the possibility of competition from imported goods. However the effect of this competition is double. When domestic consumers buy imported goods rather than domestic production, domestic employment declines with the declination of domestic production. On the other side, domestic producers may shift production facility abroad to minimize the cost of production, which leads to higher unemployment in the domestic country.

Defend national security

Trade restrictions protect certain industries which are important for the safeguard of national security. This restriction prevents valuable technologies from being used to strengthen competition, especially militarily. Another matter of concern that often makes the policy makers of developed countries to restrict free trade is technological change.

3.4.2 Tariffs

The most common way to protect country's economy from import competition is to implement a tariff : a tax on imports. In general a tariff is any tax or fee collected by a government. Tariffs have been applied by countries for centuries and have been one of the most common methods used to collect revenue for governments. Largely this is because it is relatively simple to place customs officials at the border of a country and collect a fee on goods that enter. Administratively, a tariff is probably one of the easiest taxes to collect.

Changes in tariffs represent the primary way in which countries either liberalize trade or protect their economies so it's worth to be mentioned in international trade topic. However, It isn't the only way, since countries also use subsidies, quotas, and other types of regulations that can affect trade flows between countries.

When people talk about trade liberalization, they generally mean reducing the tariffs on imported goods, so they allow the products to enter at lower cost. Since lowering the cost of trade makes it more profitable, it will make trade freer. A complete elimination of tariffs and other barriers to trade is what economists and others mean by free trade. In contrast, any increase in tariffs is referred to as protection, or protectionism. Because tariffs raise the cost of importing products from abroad but not from domestic firms, they have the effect of protecting the domestic firms that compete with imported products. These domestic firms are called import competitors. There are two basic types of tariff : specific tariffs and ad valorem tariffs.

A specific tariff is imposed as a fixed charge per unit of imports. For example, If Iran government imposes a \$0.51 specific tariff on every perfume imported into Iran. Then, if one thousand perfumes are imported, the Iran government collects \$510 in tariff revenue. In this case, \$510 is collected whether the perfume is a \$40 perfume or a \$5,000 expensive one.

An ad valorem tariff is imposed as a fixed percentage of the value of the commodity imported. “Ad valorem” is Latin for “on value” or “in proportion to the value.” To give you an example, Iran currently put a 40% percent ad valorem tariff on imported automobiles. So, if \$100,000 worth of automobiles are imported, the Iran government collects \$40,000 in tariff revenue. In this case, \$40,000 is collected whether two \$50,000 BMWs or ten \$10,000 Hyundais are imported. Occasionally, both a specific and an ad valorem tariff are levied on the same product simultaneously. This is known as a two-part tariff.

As the above examples suggest, different tariffs are generally applied to different commodities. Governments rarely apply the same tariff to all goods and services imported into the country. Several countries prove the exception, though. For example, Chile levies a 6 percent tariff on every imported good, regardless of the category. Thus, instead of one tariff rate, countries have a tariff schedule that specifies the tariff collected on every particular good and service. In Iran, the tariff schedule consists of tariff code which is based on commodity classifications.

However the importance of tariffs has declined in modern times, because modern governments usually prefer to protect domestic industries through a variety of nontariff barriers, such as import quotas (limitations on the quantity of imports) and export restraints (limitations on the quantity of exports—usually imposed by the exporting country at the importing country's request).

(Markusen, *and* Melvin, James R. *and* Maskus, Keith E. *and* Kaempfer, William, 1995)

3.4.3 Quotas

While tariffs are the most known form of protection, a type of trade restriction in increasing use is the quantitative restriction or quota. Quotas are ceiling on the quantities of imports allowed for particular goods. For example a quota might state that no more than 500,000 cotton shirts are or no more than 100,000 automobiles are can be imported during some specific time period. Quantitative restrictions are widely used in many kinds of trade, including trade in agricultural goods and textiles. Where they are used, quotas are probably much more restrictive than tariffs. From 1966 to 1986, quota coverage ratios or the percentage of goods for which imports are restricted by quotas, doubled in developed countries, however the quotas are used even more widely for less developed countries.

Quotas are in sense, the opposite of tariffs, in that quotas directly restrict the quantities of imports and only indirectly affect prices through the artificial scarcity that the quantity restrictions create. Yet tariffs and quotas are fundamentally similar in that they both ultimately restrict the quantity of imports and raise their domestic prices.

3.4.4 Other nontariff barriers

Quotas are not the only nontariff method of restricting trade. There are many other policies included with quotas in a category economists call nontariff barrier (NTBs) , that can act directly or indirectly to restrict imports. There are corresponding measures that artificially restrict or promote exports in a way that tends to lower aggregate welfare for the export-promoting country.

Quantitative restriction

There are a number of other ways in which the imports can be restricted using explicit quantitative restrictions. However these other types of restrictions may differ from global quotas, they have many of the same general impacts, such as creating artificial shortages on domestic markets that drive up the consumer prices and lead to reallocation of resources.

While a global quota establishes a limit on imports of a certain good during some period of time, regardless of the country of the origin of the good, many countries employ country-specific quotas. A country specific quota is similar to a VER, but with the importing country retaining the quota rents. Country-specific quotas are commonly used in two ways, first they may imposed on a type of commodity. Another way in which country-specific quotas are used is to prohibit trade of several or all categories of goods with some specific country. This type of trade embargo is called an economic sanction and is used for political and diplomatic ends, although it does cause the same kinds of domestic market disruptions that other trade barrier cause.

Quantitative restrictions can interfere with trade even when they are no binding. It is often the case, particularly in developing countries, that importers must obtain license to import certain goods. These licenses require the importer to spend time filling out forms and waiting for official permission. Such activities represent very real costs even though they don't appear in

any official accounting figures. These costs includes the opportunity costs of the importer's time, interest costs due to time delays, the cost of uncertainty over whether or not a license will be granted, the resource costs of additional bureaucrats, and so on. Import licenses, whether from binding quotas or not, also present the opportunity for bureaucrats to engage in arbitrary and unfair practices in issuing licenses.*(Haberler, 1936)*

4. Practical part

4.1 Iran

Iran a nation of more than 75 million people, is situated in west Asia, in a region commonly referred to as the Middle East. Geographically, Iran's surface area is 1,648,195 km. Iran is a country with rich resources of oil and gas and other natural reserves. However, it's considered a developing country, In recent decades, Iran's population has been growing at an alarming rate.

The majority of Iran's population lives in urban areas, and relies on an oil-based economy. Wheat, rice and date are the main agriculture products. At the time of 1978, Islamic revolution, Iran had already enjoyed the almost two decades of rapid economic growth as well as huge changes in its social structures. The country attracted a number of multinational companies, some of which were listed on the Tehran stock exchange (TSE). After the Islamic revolution, Iran changed the course considerably and stablished new social, economic and political structures. (*Mehrara , 2008*)

The overthrow of Shah's government and the installation of the Islamic republic of Iran reflect instabilities in the direction of political power. Under the Islamic system, Iran's government focused it's policy on achieving the multiple objectives of social justice, modernization and Islamic institutions.

Gross national product (GNP) has increased during the last quarter of the past decade (excluding changes in oils prices). However, If one considers oil prices, there is no increase in GNP. (*Ezati , 2009*)

Because of it's special economic structure, foreign trade has always been one of the most important components of economic development in Iran. The people in charge of Iran's economy have been trying to balance the foreign export and import figures for years, but there has been no agreement on a single plan for balancing the foreign trade. Ever since the discovery of oil in Southern Iran, a reduction of the country's dependence on "black gold" and an increase of non-oil exports has been the subject of much debate and discussion. Numerous plans have

been proposed to that end. Although the foreign trade balance has been in deficit for a long time in Iran, imbalance in foreign trade has increased in recent years. (*Safavizadeh , 1930*)

Inflationary pressures assailed Iran’s economy, especially in 1974 when oil revenues increased fourfold, reaching their highest level in 1977. After the revolution, capital flight, economic embargoes, imposed war, and a huge compression of capital in service sector, led to price increases. Inflation is mostly the result of high demand. Besides, variables in economic demands, such as accumulation of cash by private sector, credits assigned to the private sector, components of governmental cost budgets, quantity and method of budget-deficit recovery, and the population growth rate, were not on the right track and have played a destructive role in Iran’s economy. (*Molaei , 2005*)

Table 1 : Iran Economy Statistics (2014)

GDP per capita (\$)	5.193
Government total expenditure (\$bn)	66.38
GDP (\$bn)	405.5
Real GDP growth	1.5%
Value of oil exports (\$bn)	44.5

Source : National bank of Iran

4.1.1 Import

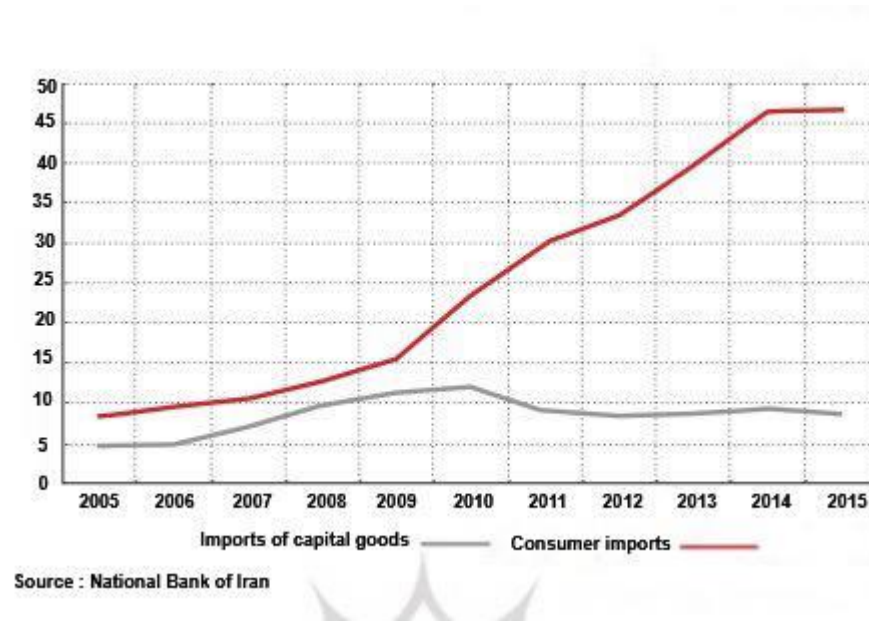
In general, import is the process of bringing a good or service into one country from another. Along with exports, imports make the base of international trade. If the value of the imports are higher compared to the value of exports it means that the country’s balance of trade is negative.

Import management has always been so important for policymakers and economic analysts. Import situation has a very significant role in the economy of each country.

There are some indicators for analyzing how well the import situation is operating, one of those indicators is the amount of imports. For example the figure 2 shows the Iranian imports in the

past decades. Imports in Iran had an upward trend from \$16 billion in 2009 up to \$47 billion in 2014. Regardless of the trend of imports, another important issue is that, how foreign exchange reserves for this enormous volume of imports is provided. However the non-oil trade deficit has steadily increased over the past decade. This would suggest that the majority of imports (more than 60%) in Iran is financed from the proceeds of oil sales. So the Iran's import is highly dependent on oil revenues.

Figure 2 :



Another important index, is the composition of imports. Imports can be divided into capital goods, intermediate and consumer obtained. The most important issue, is the imports of capital goods from abroad, because mainly this sector has the ability to increase the country's manufacturing technology carrier and production capacity.

The Import assessment indicators in the economy including the import volume, import financing and the share of capital goods in the combined Import, indicates a worrying situation in Iran.

In addition, it should be considered that the mentioned statistics only points the official imports of country. If the smuggled imports were also added, which are mainly smuggled for the purpose of consumer goods, the import situation gets even worse.

4.1.2 Export

Many manufacturing firms has started the International expansion by exporting their products. And later gradually turned to use the other methods of entering foreign markets.

Export just like any other business operation has its own pros and cons.

One of the main benefits is that the companies don't need huge investment to establish production facilities in the host country in order to export finished goods. Because exporting of goods enable companies to benefit from economies like saving the place and the experience curve.

On the other hand Exports in comparison with other methods to enter foreign markets also has many disadvantages. If the production of one good in other countries could be carried with lower cost, it means that if the company could produce these goods cheaper in other countries than in home country, then its production in the home country and its export abroad would not be justified. (*Omidi , 2015*)

The high transport costs, particularly for large or heavy goods makes the exports of manufactured goods non economical. Also while imposing tariffs on imported goods, the importer of this product has to increase their price because they've paid high customs duties. So this also ultimately reduce the export.

Nevertheless the exporters, especially those who are less experienced in foreign commerce can increase the possibility of their success by accessing to the information about opportunities in foreign markets and improve their export performance by understanding the perspectives of for and against of the use of export management companies, reviewing the strategies and studying the ways through which government helps and supports the local companies to assist in the export process. (*Sedighi ,2003*)

Iran's Export

Iran has a comparative advantage in the production of crude oil and natural gas. It's ranked as 6th producer and 4th exporter in the world.

Nevertheless the other main exports of Iran consists of agricultural products such as: wheat, rice, other grains, sugar beets, sugarcane, fruits, nuts, cotton; dairy products, wool; caviar. Among the export commodities, petroleum, petrochemicals, fertilizers, caustic soda, textiles, cement and other construction materials, food processing (particularly sugar refining and vegetable oil production), ferrous and non-ferrous metal fabrication, armaments can be mentioned as well.

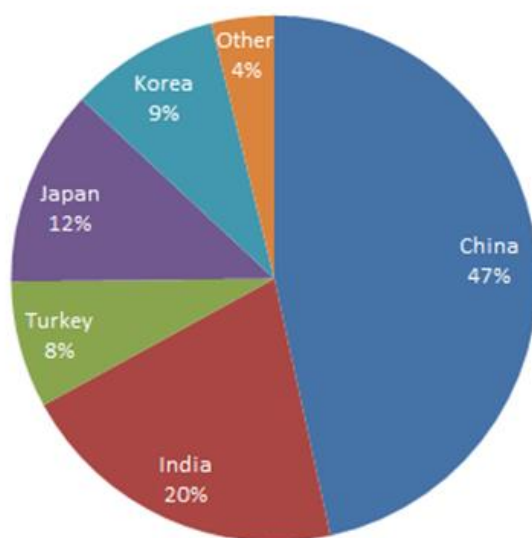
However, despite international restrictions, the country was able to develop exports and investment in the production of export goods that have value to achieve the desired results and managed to increase the non-oil exports to \$50 billion at the end of 2014.

The EU used to be the first trading partner of Iran, but due to the sanctions regime, China, the UAE and Turkey are now Iran's main trade partners, followed by the EU.

Most EU imports from Iran are energy related, while EU exports to Iran are mainly machinery and transport equipment and chemicals. Due to the sanctions, EU oil imports from Iran came to a complete halt. Total EU imports from Iran decreased by 86% between 2012-13, and total EU exports decreased by 26% during the same period.

The graph below shows the main importers Iranian liquid fuel :

Figure 3 :



Source: Roubini Economics

Trade Barriers Against Iran

Iran has witnessed difficult relations with the economies of the world after the US imposed a trade embargo in 2006 that led to economic sanctions on the country. Being one of the prime exporters of crude oil to many countries, the country experienced one of the worst economic contractions in its history. The sanctions followed as a result of Iran's refusal to halt its ambition of building a nuclear stockpile.

While the country insisted that its nuclear enrichment was for energy generation and for peaceful purposes, other countries (like US, Israel, Saudi Arabia) alleged that their motive was to build nuclear weapons.

Over the years, sanctions have taken a serious toll on Iran's economy and people. This included banking and insurance transactions (including with the Central Bank of Iran), shipping, web-hosting services for commercial attempts, and domain name registration services.

Ultimately, On April 2015, the group 5+1 (Russia, China, the US, Britain, France and Germany) and Iran, met in Lausanne, Switzerland and reached a provisional agreement on a framework that, once finalized and implemented, would lift most of the sanctions in exchange for limits on Iran's nuclear programs extending for at least ten years. As a result, UN sanctions were lifted on 16 January 2016.

Thanks to an increase in national and international investments, the Iranian industries have grown so much in the past few years, especially after lifting the sanctions. Also abundant in natural resources, a diversified economy, broad industrial base and young educated population, is leading Iran to become the largest power in the Middle East over the next few year.

5. Results and discussion

5.1 Results

Based on the collected data from the provided questionnaire for business companies in Iran, the outcome was that the majority of participants about 85% are male business managers who are highly educated and have been trading for more than 4 years in food and energy industries.

The main problem and the challenge they are facing with is the economic situation. Also more than 80% of participants have experienced nontariff barriers to trade such as administrative regulations and customs, which leads to less sales too. Most of them (about 85%) had very low total gross sales which was around \$50,000-\$150,000 .However 70% of participants have mentioned that they get financial resources from loans and private investors and also hoped to have an upward increase in income for more than \$150.000 for next year.

Nevertheless the main focus of practical part is to analyze the process and obstacles of trading with goods and services.

Obstacles of trading with goods and services in Iran :

Table 2: Sanction

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	27	67,5	67,5	67,5
Medium	8	20,0	20,0	87,5
Low	5	12,5	12,5	100,0
Total	40	100,0	100,0	

Source: Own calculation with SPSS

Using SPSS with descriptive statistics, general characteristics of the obstacles of trading with goods and services in Iran part has been generated in the above table.

There were 27 people, equals to 67.5%, think that the sanction is high when they while trading with goods and services. There were 8 people gave a medium response, equals to 20.0% and the rest of 5 people, which is equivalent to 12.5%, think that it is low.

Table 3: Statistics

Sanction

N	Valid	40
	Missing	0
Mean		1,4500
Median		1,0000
Std. Deviation		,71432
Range		2,00
Minimum		1,00
Maximum		3,00

Source: Own calculation with SPSS

From the collected questionnaire of 40 respondents, the indicator of mean is 1.45, and the median is 1.00. The indicator of mean lies between high answer and medium answer, which explains most people think that the sanctions are high when while trading with goods and services.

The fact that majority of people think that sanctions has high impact on trading is totally true. Because since 2006 that USA has imposed more sanctions against Iran, the total export of Iranian oil decreased which highly influenced the economic situation of all sectors in Iran.

Table 4: High export prices

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	24	60,0	60,0	60,0
Medium	11	27,5	27,5	87,5
Low	5	12,5	12,5	100,0
Total	40	100,0	100,0	

Source: Own calculation with SPSS

With the same method of descriptive statistics, there were 24 people, equals to 60.0%, think that the high export prices is high when they trade with goods and services. There were 11 people gave a medium response, equals to 27.5% and the rest of 5 people, which is equivalent to 12.5%, think that it is low.

Table 5: Statistics

High export prices

N	Valid	40
	Missing	0
Mean		1,5250
Median		1,0000
Std. Deviation		,71567
Range		2,00
Minimum		1,00
Maximum		3,00

Source: Own calculation with SPSS

From the collected questionnaire of 40 respondents, the indicator of mean is 1.52, and the median is 1.00. The indicator of mean lies between high answer and medium answer, which explains most people think that the high export prices is high when they trade with goods and services.

One of the main reason of high export prices is the inflation in Iran. Because as inflation increases, interest rates are often raised to help curtail the rising prices. Rising interest rates often mean falling stock prices.

Table 6: Poor productivity

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	2	5,0	5,0	5,0
Medium	17	42,5	42,5	47,5
Low	21	52,5	52,5	100,0
Total	40	100,0	100,0	

Source: Own calculation with SPSS

In this table, there were 2 people, equals to 5,0%, think that the poor productivity is high when they trade with goods and services. There were 17 people gave a medium response, equals to 42.5% and the rest of 21 people, which is equivalent to 52.5%, think that it is low.

Table 7: Statistics

Poor productivity

N	Valid	40
	Missing	0
Mean		2,4750
Median		3,0000
Std. Deviation		,59861
Range		2,00
Minimum		1,00
Maximum		3,00

Source: Own calculation with SPSS

From the collected questionnaire of 40 respondents, the indicator of mean is 2.47, and the median is 3.00. The indicator of mean lies between high answer and medium answer, which explains most people think that the poor productivity is high when they trade with goods and services.

Poor productivity refers to not having power to produce. Often the firms in developing countries are badly managed and have problem in decision making. In developing countries owners tend to make almost all major management decisions because of fears of expropriation by their managers. But, because the owners' time is limited, they have the capacity to make decisions for firms only up to a certain size. So, without delegating decision-making these firms find that growth becomes unprofitable, or even impossible.

Table 8: Excessive growth

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	13	32,5	32,5	32,5
Medium	21	52,5	52,5	85,0
Low	6	15,0	15,0	100,0
Total	40	100,0	100,0	

Source: Own calculation with SPSS

In this table, there were 13 people, equals to 32.5%, think that the excessive growth is high when they trade with goods and services. There were 21 people gave a medium response, equals to 52.5% and the rest of 6 people, which is equivalent to 15.0%, think that it is low.

Table 9: Statistics

Excessive growth

N	Valid	40
	Missing	0
Mean		1,8250
Median		2,0000
Std. Deviation		,67511
Range		2,00
Minimum		1,00
Maximum		3,00

Source: Own calculation with SPSS

The indicator of mean is 1.82, and the median is 2.00. The indicator of mean lies between medium answer and low answer, which explains most people think that the excessive growth is low when they trade with goods and services.

However according to the result the population growth in Iran is not the main issue of trading with goods and services but it is effective. Excessive growth leads to high consumption. In developing countries the high population growth creates pressures on limited natural resources such as oil and limits future economic growth.

Table 10: Non-price competitiveness

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	5	12,5	12,5	12,5
Medium	14	35,0	35,0	47,5
Low	21	52,5	52,5	100,0
Total	40	100,0	100,0	

Source: Own calculation with SPSS

In this table, there were 5 people, equals to 12.5%, think that the Non-price competitiveness is high when they trade with goods and services. There were 14 people gave a medium response, equals to 35.0% and the rest of 21 people, which is equivalent to 52.5%, think that it is low.

Table 11: Statistics

Non-price competitiveness

N	Valid	40
	Missing	0
Mean		2,4000
Median		3,0000
Std. Deviation		,70892
Range		2,00
Minimum		1,00
Maximum		3,00

Source: Own calculation with SPSS

From the collected questionnaire of 40 respondents, the indicator of mean is 2.40, and the median is 3.00. The indicator of mean lies between medium answer and low answer, which explains most people think that the Non-price competitiveness is low when they trade with goods and services.

The importance of non-price competitiveness in trading in Iran is very low. In fact the price competitiveness measures a country's ability to increase its share in world market by selling at a lower price than its competitors.

5.1.1 Generated model

Using the SPSS program of IBM, data collected from the questionnaire survey has been successfully imported and processed.

Table 12: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-,876	,357		- 2,456	,019		
High export prices	,300	,100	,241	2,991	,005	,552	1,812
Excessive growth	,154	,095	,116	1,625	,113	,699	1,431
Poor productivity	,292	,112	,196	2,603	,014	,631	1,584
Non-price competitiveness	-,104	,100	-,083	- 1,041	,305	,564	1,773
Sanction	,906	,103	,725	8,827	,000	,530	1,887

a. Dependent Variable: Total income in 2015

Source: Own calculation with SPSS

The table above is the Coefficient table with the dependent variable which is the total income in 2015 of respondents and independent variables are the sanctions, high export prices, poor productivity, excessive growth and non-price competitiveness. From these data, the model is generated as the function below :

$$Y = 0.906 * X1 + 0.300 * X2 + 0.292 * X3 + 0.154 * X4 - 0.104 * X5 - 0.876$$

In fact the independent and dependent variables help us to measure the results. Dependent variable is the value that result directly from the independent values and depends on their factors. So the independent variables are the reasons for making a change to Y which is the income.

Y ... the dependent variable of total income in the year 2015

X1 ... the indicator of sanctions.

X2 ... the indicator of high export prices.

X3 ... the indicator of poor productivity.

X4 ... the indicator of excessive growth.

X5 ... the indicator of none-price competitiveness.

5.1.2 Verification of statements

The verification of the statement is based on the comparison of each coefficient p-value with a significant level of 5%. In each statement of coefficient, null hypothesis is considered as equivalent to 0 (coefficients a, b, c, d, e = 0).

If p-value < 0.05, H₀ is rejected. In contrast, if p-value > 0.05, H₀ is accepted

S1: The Sanctions impact on the total income for the year 2015 in Iran. (X1 <-> Y)

H₀: a = 0; p-value = p-value < 0.0001 => H₀ is rejected.

After comparison of the p-value and significant level, the null hypothesis is rejected. It means the coefficient of indicator of the sanctions has a statistically significant influence on the total income in last 12 months in Iran.

S2: The high export prices has a significant impact on the total income for the year 2015 in Iran. (X2 <-> Y)

H₀: a = 0; p-value = 0.005 < 0.05 => H₀ is rejected.

The p-value in this case was equal to 0.005 and smaller than 0.05, so it was confirmed that there was a statistically significant relationship between the total income of trading with goods and services in Iran and the high export prices.

S3: The poor productivity has significant impact on the total income for the year 2015 in Iran (X3 <-> Y).

H₀: a = 0; p-value = 0.014 < 0.05 => H₀ is rejected

The p-value in this case was equal to 0.014 and smaller than 0.05, so it was confirmed that there was a statistically significant relationship between the total income of trading with goods and services in Iran and the poor productivity.

S4: The excessive growth has a significant impact on total income for the year 2015 in Iran (X4 <-> Y).

H0: $a = 0$; $p\text{-value} = 0.113 > 0.05 \Rightarrow H_0$ is accepted.

The p-value of this case was 0.113, which was bigger than 0.05. It is concluded that there was no statistically significant relationship between the total income of trading with goods and services in Iran and the excessive growth.

S5: The non-price competitiveness has a significant impact on the total income for the year 2015 in Iran ($X_5 \leftrightarrow Y$).

H0: $a = 0$; $p\text{-value} = 0.305 > 0.05 \Rightarrow H_0$ is accepted

The p-value of this case was 0.305, which was bigger than 0.05. It is concluded that there was no statistically significant relationship between the total income of trading with goods and services in Iran and the non-price competitiveness.

5.2 Discussion

From the summary of generated survey data, sanctions with $p\text{-value} < 0.0001$, high export prices with $p\text{-value} 0.005 < 0.05$ and the poor productivity with $p\text{-value} 0.014 < 0.05$ had influence on the total income in last year in Iran.

The results of this survey were still very limited since there were 40 businessmen who filled the questionnaire and all of them were from Tehran, the capital city of Iran. For sure there are more businessman in Iran but it wasn't easily possible to contact all of them since Iran is a vast country.

However, there was no statistical relationship between total income in the year 2015 with excessive growth and non-price competitiveness in Iran. The statistical results explain there is a relationship between sanctions, high export prices, poor productivity and total income in 2015 in Iran.

Therefore the activities that government of Iran or other international organizations should focus more are improving the political situation in order to lift all the international sanctions on Iran and provide a better circumstances for businessmen.

6. Conclusion

However, there was no statistical relationship between total income in the year 2015 with excessive growth and non-price competitiveness in Iran. The statistical results explained that there was a strong relationship between sanctions and total income in 2015 in Iran and in fact sanctions were the main reason why businessmen had so many difficulties while trading with goods and services.

Over the years, sanctions have taken a serious toll on Iran's economy and people. There was a huge decrease in share of export of oil products, many international companies didn't want to do any trade with Iran because they were afraid of losing access to larger Western markets. Moreover, by imposing sanctions on Iran not only foreign trade of country was destructed but also it had an effect on majority of people's life. The value of the Iranian Rial was devalued up to 80% which caused double-digit inflation. The country was facing shortages of drugs for the treatment of illnesses including cancer, heart and breathing problems, thalassemia and etc because Iran wasn't allowed to use the international payment systems and was disconnected from the SWIFT banking network.

Fortunately, on 16 January 2016 United Nations sanctions were lifted and this opened the door to better life for Iranian people and also rejoins Iran with world economy again.

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8. Appendix

1) You are:

Male

Female

2) Your educational background is:

Secondary

Bachelor degree

Master degree

Doctor degree

3) What is your title at your company?

CEO (Chief executive officer)

Administrative Assistant

Sales & Marketing

Financial Officer

Business Manager

Other

4) In which industry is your business?

Chemical

Energy

Food

Financial services

Construction

Other

5) How long has your company been in business?

1-3 years

4-7 years

10 years or more

6) How many people are employed at your company?

10-19

20-49

50-99

100 and more

7) What are your major financial resources for business?

Personal accounts of the company's founder

Loans

Financial institutions

Private investors

Other

8) Which business challenges are you facing?

Hiring employees

Marketing

Lack of revenue

Health insurance

Economy

Sales

Cash flow

Other

9) What was your company's total gross sales volume for last year?

< \$50,000

\$100,000 - \$500,000

\$1 million and more

Other

10) Do you experience any non-tariff barriers to trade such as:

Administrative regulations

Technical rules

Customs

Cultural differences

None

11) How do you rate the effectiveness of obstacles when trading with goods and services in Iran (1-the most important, 3-the least important)?

Sanctions

Excessive growth

High export prices

Non-price competitiveness

Poor productivity

12) What would you estimate your income to be this year?

<\$50.000

\$50.000 - \$150.000

150.000 – \$300.000

\$300.000 or more