CHAPTER VI

FINDINGS, SUGGESTIONS AND CONCLUSION

One of the main economic activities in developing countries is agriculture. In addition to providing food security, this sector has an influential role in economic development, employment, and non-petroleum exports. Iran is not an exception in this regard and agriculture sector has specific importance, and since it long has played a remarkable role in non-petroleum export. Newly emerged phenomenon of economic globalization and removal of trade barriers of the countries are intensely getting shaped. Thus, it is expected that Iran will somehow manage to pace up with these commercial revolutions and get ready for competition and entering the international arena, and evaluate its potentials in the agriculture sector as quickly as possible, and come up with new ideas for business development regarding agriculture commodities. Because of its eminent and unique position among the Islamic developing countries and European Union countries, Iran can perform a crucial role in trade development.

The most accessible markets for Iran among the trade partners of EU member countries are Germany, France, Italy, England, and Netherlands. Therefore, the researcher has attempted to study more precisely the subject of mutual trade between Iran and the above-mentioned five countries. The issue of how a country can achieve high economic growth is one of the fundamental economic questions. An export-led growth hypothesis which states that exports are one of the keys to achieving high economic growth provides a possible answer to this fundamental question. Export of goods and services is an important source of foreign exchange reserves and can reduce balance of payments problems, and creates employment opportunities.

6.1. Finding

6.6.1. Finding of export model

The major finding of The Empirical Analysis of Primary Products Trade of Iran with European Union is as follows.
The result of the pooled, fixed effects and random effects models for exports models showed that, only fixed effects model results are considered for the analysis. The empirical results show that the influence of Iran’s GDP, population of partner countries and openness of the economy are positively influenced on export of Iran and all these variables are statistically significant. As expected priori, distance has a negatively influenced on exports. And other variables such as Inflation and distance have not influenced on export. Dummy variables TCA is improved exports and RC is insignificant in determining export of Iran.

- The coefficient of GDP is positive and significant as expected
- The coefficient of Trade-GDP ratio is significant at 1% level and has expected positive sign.
- Exchange rate variable is significant at 5% level. Because increase in exchange rate countries of EU in compared with dollar USA cause will be increase of commodity export to those countries.
- Coefficient of population of partner countries is also significant at 1% level and has positive sign.
- The results indicate that inflation rate variable for Iran is negative and significant. Because export of Iran have negatively responded with the inflation Iran. It means that with increase of inflation rate show to export will be decrease.
- A negative Change exchange rate coefficient is concerned with expectations that mean an increase in Change exchange rate of European exporting country versus our real currency rate causes an import decrease.
- The distance variable is significant even at 1% level and has negative sign which indicates that when distance between Iran and partner country
6.1.2. Empirical Results of Import Demand Function of Iran with EU

- To estimate the coefficients of Imports for the European Union members from Iran, panel data model has been used for the period 1987-2006 for five EU members (Germany, France, England, Italy and The Netherlands).
- Here model of fixed effects is chosen for estimate and has been explained nearly 78% percent of dependent variable by explanatory variable, so model
- The result show that 1% increase in GDP, import demand increases by 0.62 it means that GDP has most effect on import demand. So if exchange rate by 1% increases in cause to import demand increase by 0.48 and import price ratio to domestic price by 1% increases in cause to import demand reduce by 0.32

6.1.3 The finding of Export Model with use of time series data analysis for some member countries of EU

Germany

- In the model export GDP of Iran and Germany, population of Germany, exchange rate and openness economy have positive signs and significant, so have positively effects on Trade and variables inflation and distance have negative sign
- The study has revealed dummy variable such as TCA (Trade agreement Cooperation) and RC are positive and has impact positively on export
- Coefficient of population of Germany is significant because Increase in population of Germany results in increase in food demand, which in turn increase agricultural products demand from Iran. It means reduction in population of this country results in reduction in food demand; in cause to that will be reduce import partner country from Iran.
• Dummy variable RC is positive and has affects positively on Trade results in that Iran and Germany had pervious a Common Race.

• With compared variables GDP of Iran and Germany results in to GDP of Germany bigger than GDP of Iran it means that economy volume in Germany is bigger than Iran and influence more in Trade.

• The model has $R^2 = 0.86$ the problem auto-Correlation is corrected by Sochrane-orcutt method of estimation.

**England:**

• Results export models show that GDP of Iran and England, population of England, exchange rate and openness of England are significant and have positively influenced on export of Iran. As expected priori, distance has a negatively influenced on imports. And other quantitative explanatory variables have not influenced on export.

• Dummy variables include cooperation agreement (TCA), is positive and statistically. So, RC is significant but negative and has negatively influence on export of Iran to England.

• The results indicate that inflation rate variable for Iran is negative and insignificant. Because export of Iran has negatively responded with the inflation Iran means that with increase of inflation rate export of Iran will be decrease.

• The model has $R^2 = 0.84$ the problem auto-Correlation is corrected by Sochrane-orcutt method of estimation.

**France:**

• In the export function Iran’s to France, the exchange rate of has a positive on the export of Iran’s agricultural products; increase in the value Euro compared to Dollar is a reason for increase of export of Iran’s agricultural products.
• A dummy variable of TCA is improved export and all other dummy such as RC has sign negative on export.

• With increase Trade agreement and cooperation between two countries, exports Iran’s agricultural products to France will be to increase.

• Coefficient degree of openness economy (TR/GDP) of France is positive and significant in bilateral Trade but with compared results this coefficient by Germany and England researcher observe that impacts openness of economy England and Germany more than France on Trade with Iran.

• The model has $R^2 = 0.83$ the problem auto-Correlation is corrected by Sochrane-orcutt method of estimation.

**Italy**

• The empirical results show that the influence GDP of Iran’s and Italy, population of Italy and openness of the economy of Italy are positively influenced on export of Iran and all these variables are statistically significant. As expected priori, distance and Inflation have a negatively influenced on export of Iran. And other quantitative explanatory variables have not influenced on export. Dummy variables TCA and CU are significant and have positively influence on export and RC is insignificant and has negatively influence on export Iran to Italy

• The exchange rate of Italy is positive and has impact significant on the export of Iran’s agricultural products; increase in the value Euro compared to Dollar is a reason for increase of export of Iran’s agricultural products.

• The model has $R^2 = 0.85$ the problem auto-Correlation is corrected by Sochrane-orcutt method of estimation.
Netherlands:

- Export of Iran has positively responsive with the inflation of Iran. The inflation elasticity’s of export is negative for Iran. The openness variable Netherlands is also major determining factor of Iran’s export. Exchange rate is highly significant and has positive influences on export of Iran. An increase of 1% trade-GDP ratio of partner country leads to increase of 0.236%export of Iran.

- Population has negative sign. With increase of this variable, export of Iran will be decrease It means to lowest population Netherlands ration Iran cause to import that country from Iran will be decreases.

- The model has $R^2 = 0.79$ the problem auto-Correlation is corrected by Sochrane-orcutt method of estimation.

6.2. Suggestions:

On the basis of the findings the following suggestions are made for further research and study.

- As it is mentioned in the results, Iran has an extraterritorial trade with the other members in the European Union. However, the trade balance is negative, which is mostly related to the export of the industrial and agricultural products from the studied countries. Due to high domestic potential in producing the crops with relative benefit, the agricultural and chemical products can raise export standard level and reduce trade negative balance.

- Since geographical distance, indicating transportation expenses in reciprocal trade can be posited as a negative effect on transaction, it should be attempted to establish trade with short distance countries or those countries where the marine transportation is feasible.

- The obtained results drawn from various export-import models with the countries as members of the European Union demonstrates the effect of
foreign exchange fluctuation on mutual trade level. In particular, if the foreign exchange is accessible to the Iranian exporters, it can raise trade interaction between Iran and the traded parties. Then, it is suggested that the foreign exchange rate be tailed to the demands of the producers.

- Since the results reveal the positive effect of dummy variables on mutual trade between Iran and other European Unions, which is established based on memorandum of understanding, it suggested that the traded parties, specifically Iran, leave no stone unturned towards removing further customs hurdles on import and export of the goods.

- Due to the effect of the rate of foreign exchange, as an important variable, on the goods transaction and since Iran should change its currency into dollar and changed it into euro again, it is suggested that Iran's currency be directly changed into euro, and initiates euro exchange.

- To reduce inflation. It is suggested that the government of Iran impose restrictions on import of foreign goods and import only investment goods.

- Export and import rules are recommended to be eased to push the country towards linearization.

- It is recommended that Iran strengthen its local currency against dollar.

- Since the per capita income in a country is a contributing factor in enhancing the export level. It is advised that the per capita income for Iranians be increased by their government.

6.3. Conclusion
The following conclusions were formulated on base of in study

The greater GDP in the EU countries, compared to Iran, indicates the greater economy in these countries. The per capita income of EU countries is on of the reasons that increase their trade level. Therefore, the low per capita income of the Iranians compared to their Europeans countries May negatively affect the trade level. Trade agreements and bilateral cooperation have been
viewed as significant factors (compared to the other dummy variables such as shared language and single currency) in trades between Iran and the European Union. German’s share of trade with Iran is more and that of the Netherlands is less compared to other countries. The negative trade balance of Iran with the EU countries is due to the fact that the EU exports to Iran are industrial goods of higher value compared to the value of their exports from Iran.

The increase in prices in the countries as Iran’s trade partners leads to a decrease in imports to Iran as it will cause inflation in Iran’s economy. The cost of transport if goods results in a decrease in trade level. This is evident in Iran – Netherlands trades. Iran’s tendency toward ‘open market’ in its trades the EU countries is quite evident and this will increase Iran’s trades with those countries.

European Union countries have successfully managed to play a significant role in trades due to their single currency man along with the American dollar. Lack of a single currency with the regional countries has been cumbersome to Iran’s economy. Iran’s agricultural goods like Pistachio and saffron are viewed by the EU countries to be of high quality for which reason they constitute a considerable part of their imports from Iran.