



**Original Article**

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## The Effects of Trade in the Eurasian Customs Union on the Process of Trade Liberalization in Iran

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**ABSTRACT:** Iran's failure to fully join the World Trade Organization and the experience of relative failure in the ECO and D8 trade organizations have led this country, for industrialization and experiencing a gradual liberalization of its tariffs and removing the non-tariff barriers to joining the WTO, to show much enthusiasm for joining the Eurasian Customs Union. With the acceptance of Iran's membership by this union in 2018, the level of free tariffs will gradually be applied to certain goods, with labor, transportation, energy and agricultural products being given priority in trade. The question of this research is what effects the membership in the Eurasian Customs Union (ECO) may have on Iran's trade liberalization? We further want to know whether Iran by joining this union is practicing the eventual membership in the World Trade Organization. Researchers say that although the Eurasian Union is not an organization with purely commercial and economic objectives, and that Russia is trying to form political alignment with its allies in Central Asia and the Caucasus, Iran can by engaging in the commercial fields of the union boost its export potential and upgrade its tariff standards according to the WTO criteria.

**KEYWORDS:** Eurasian Customs Union (EACU); trade; trade liberalization; Iran

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## 1. INTRODUCTION

The Eurasian Customs Union (EACU) was established with the aim of creating a new framework for cooperation among the post-Soviet states. Numerous efforts have been made over the past two decades by the Commonwealth of Independent States (CIS) to achieve more profound economic integration. Although there was no plan among the Commonwealth to achieve some form of reintegration, the EACU proposal almost served as a means of stabilizing the situation for the former members of the Soviet Union so that every member could continue its way in the customs union according to the previous methods (in the pre-collapse period) (OZDEMIR, 2015, p. 1). The goals of the union are not purely commercial, but also include the signing of agreements on the integration of security and peace, the result of which is the formation of a Collective Security Treaty (Soleimanpour, 2016). Thus, the CIS trade regime basically consists of bilateral trade agreements, which are periodically supplemented and accompanied by exemptions, and these bilateral and multilateral agreements are formed within the framework of the CIS countries aiming to harmonize specific matters. The Customs Union of Russia, Belarus and Kazakhstan was contrary to previous free trade agreements formed within the CIS (Commonwealth of Independent States). The new Eurasian Customs Union fundamentally differs in quality from its predecessors and has a deeper level of integration. The result of the negotiations and actions of the Commonwealth was the formation of the Eurasian Economic Union and its implementation in 2015. It should not be overlooked that, in fact, this classical theoretical model in Europe went through a forty-year process of forming the European Union, but the architects of the Eurasian Economic Union (EAEU) had only five years' time. The Eurasian Economic Union Treaty defines the main priorities in the field of transport policy, the formation and implementation of a commonly accepted agricultural policy, and the definition of long-term goals and operational objectives for industrial policies in the union based on the principles and mechanisms of industrial cooperation. It is stipulated that the development and implementation of the policies in the fields of trade and exchange, customs and tariffs, competition in public property, transport and infrastructure, business development, technical regulations and other areas should consider the interests of industrial development in the member states (Article 1 of the Astana Treaty, 2011). The policies and approaches of the Soviet government in the group of surrounding republics, especially in the two regions of Central Asia and the Caucasia with three interwoven characteristics of this government, namely modernization, totalitarianism, and colonialism, had a tremendous impact on the political, social and economic life of its societies (Moshirzadeh and Nezami, 2010) to the extent that under the influence of this historical background, the Russians, even after the collapse of the Soviet Union and the independence of the countries in this region, considered it an integral part of Russia's identity and a special region for their national interests (Karami , 2003, p. 54). Gradually, Russia came to believe that strengthening relationships with China would create a new balance of power in Asia that could benefit Russia. In this regard, plans were made for a strategic partnership with China, and also with India and Iran. These plans were primarily aimed to prevent Western influence in Central Asia and the Caucasus (Koozegar Kalji, 2017). With this approach, Iran was eventually granted membership in the union. Iran's membership in the EACU served some important purposes (Yazdani, 2016).

1. Iran has a strategic position in the design of a belt road and the revival of China's Silk Road, while as a member of the union it can play a role in Russia's Heartland theory as the north-south corridor.
2. Iran can take a good geopolitical position to swap the union's oil and gas resources through the seas.
3. Iran is not a member of the World Trade Organization and the platform for coordination with this country in reducing tariffs and creating a customs union (preferential tariff) according to the level of development and diversity of its agricultural products can be beneficial for other members of the union.



4. Iran ideologically is anti-Western and is of regional importance in forming political alliances, resolving Caspian Sea legal issues, and military cooperation.

Away from the criteria of the Russian Federation as the main member state of this union that seeks to revive the economic and political conditions of the former Soviet Union with this union (Adami, 2018, p. 13), Iran, too, does not have a purely economic approach, but membership in this union can affect many indicators of Iran's foreign trade, including the elimination, modification and reduction of non-tariff barriers (such as bylaws and the import and export law) and the integration of tariff rates according to the Harmonized Commodity Description and Coding System (HS), the exact names of the commodities are approved by countries. Given the failed experiences in ECO, Group D8, and the Framework Agreement on Trade Preferential System among the Member States of the Organization of Islamic Cooperation (TPS/OIC), with this membership and engagement in the EACU, it takes a serious step towards full membership in the World Trade Organization. The membership in this union also gives it the opportunity to increase joint products and exports based on the rules of origin through some members such as Kyrgyzstan that have unilateral preferential tariffs with the European Union, and gradually start removing the non-tariff barriers and tariff liberalization. In the following, these issues are discussed, using a descriptive-analytical method.

## **2. THEORETICAL BACKGROUND**

In order to have an adequate grasp of the research subject and its study objectives which are in the domain of trade, tariffs and trade liberalization, some basic terms and concepts are theoretically defined as follows.

### **2.1. *Tariff and types of tariff***

Tariff lexically means "introduction, identification, identification sheet, price list of products, etc." and in the usage of customs, it refers to list of goods classification (Banayee, 2006). Tariffs are used in two senses; In the first sense, it indicates the commodity classification table or commodity classification system, which is called the nomenclature, and in the second sense, it is the reference of customs duties and taxes, which is called "tariff" in the international trade language. For example, when it is said that the TV tariff is 50%, it means that the reference of its customs duties is 50%. It is noteworthy that the word tariff is basically derived from the root word 'arafa' meaning to introduce and make known (Rashedi Ashrafi, 2015).

There are two major types of tariffs (customs duties): customs duty by value and customs duty by specifications (fixed). Customs duty by value is the percentage of the value of imported goods. The customs tariff, which is based on the weight or other material characteristics (quantity) of the imported goods, is called the tariff by specifications (fixed). For example, 20 rials per kilo or per liter. A combination of the two types of customs duties is called mixed tariff (customs duty). Normally, customs duties based on value are levied on industrial goods and customs duties based on (fixed) specifications are levied on standardized and packaged products. That part of the customs duty which is based on specifications is used to compensate the tariffs of the raw materials industry of industrial goods and is called compensatory customs duties. The other part of the tariff which is based on value is an attempt to support the industries themselves and the manufactured goods (Pourmoghim, 2013). However, levying very heavy or "deterrent" tariffs does not solely rely on financial reasons, since it prevents the import of goods and reduces the taxes received by the importing country. Conversely, if purely financial considerations are taken into account, a uniform tariff should be supported that is set at a moderate level and does not discourage importers. Of course, the anti-inflation policy favors the setting of a minimum tariff. The customs tariff of each country reflects a specific



combination of the above policies that are implemented in that country. The following customs tariffs are also classified based on their structure (Oda Melina, 2016):

- (1) 'Single tariffs' are applied to all goods imported from any point of origin and the importing country unilaterally applies the tariffs and freely makes the necessary adjustments to them;
- (2) 'Multiple autonomous tariffs' apply two or more different tax rates to identical goods of different origins. The importing country decides unilaterally on how to deal with a single product from different sources, which can be in the form of retaliation against some countries or encouragement of import from other countries; and
- (3) 'Multiple conventional tariffs' generally predict the maximum level of taxation. This type of tariff applies to any commodity, unless explicit negotiations have been held with the exporting countries to set a lower level of taxation. Lower tax levels may also be set on the basis of bilateral or multilateral international trade agreements and apply only to goods originating in one of the countries party to such agreements. Therefore, in trade relations, countries try to implement policies to support domestic production by imposing tariffs for the following reasons (Pasban, 1997): protecting the domestic producer's right in the domestic market, equalizing the costs of imported goods with those of domestic products, creating employment in the country, controlling dumping actions in other countries, improving the balance of payments, supporting emerging industries, diversifying the economy, generating income, supporting industries that ensure national security, and protecting strategic agricultural and industrial goods. Another type of tariff targeted at the Eurasian Customs Union is preferential tariffs, typically due to differences in the level of customs duties and import taxes on imports of similar goods with the same tariff for the beneficiary country relative to other countries subject to foreign preferences, is considered an advantage for the exporting country and at the same time ensures the development of exports and the prosperity of that country's economy or the countries that need such protections so as if they are not supported by the advanced countries, they will not be able to export their goods outside the borders of the customs territory. Of course, this is true in the form of multilateral agreements and with the aid of developed countries to developing countries. But another form of such benefits is generated when two or three groups of countries that are in a more or less equal condition in terms of industry and economy enter into a barter agreement and give each other preference over other non-member countries. In this case, too, knowing the country of origin will be important, since in the absence of a certificate of origin, it will not be possible to use these preferences. For example, the European Union has special preferential tariff systems with countries such as Syria, India, Morocco, Israel, Algeria, Chile, Norway, Lebanon, Turkey and South Africa (European Commission, <http://www.eurlex.europa.eu>, 2018).

## ***2.2. Definition of customs union***

When at least two or more countries cancel all import duties on bilateral trade for all goods and also apply a single tariff table to all goods imported from the rest of the world, they form a customs union. A customs union is a free trade area, as there is a free trade flow between member countries. But it should be noted that a free trade area does not follow a common foreign tariff (Kazeruni, 2007).

## **3. OBJECTIVES AND FUNCTIONS OF CUSTOMS UNION**

Given the basic concepts presented in the section theoretical background, i.e. definitions of tariffs and customs union, in the following, the objectives and functions of customs unions which underlie the activities of the EACU are discussed.



### ***3.1. Objectives***

Basically, customs tariffs can be eliminated in two ways; one is that in customs unions, participating countries agree on a common customs tariff and then gradually reduce it to zero among member states. This gradual reduction will allow producers in the union member states to adapt themselves to the losses caused by protectionist tariffs. In a free trade zone, each member state itself sets its foreign tariffs, so only goods produced in one member state can be transported from one member state to another without paying customs duties, provided that the certificate of origin is attached to the goods (Kamali Ardakani, 2005). To this end, European societies were gradually established as a customs union, and the free trade zone model has been preferred by all countries that for various political reasons (neutral policy, maintaining preferential tariffs between the Commonwealth of Independent States) wanted to stay free in determining their foreign tariffs. This goal led to the creation of the European Union in 1960 and the conclusion of free trade agreements between European societies with Austria, Sweden and Switzerland in 1972, respectively (Feldern, 2014). The founder states of customs union or free trade zone in this way seek to create free and fair competition among all the inhabitants of their countries, because the elimination of tariffs alone is not enough to achieve this goal. For this reason, in the treaties on the establishment of the European Union (EU) and the European Free Trade Association (EFTA), there are rules against restrictive measures, abuse of superior position, hidden trade barriers, government subsidies, and monopolies (Shokouhi, 2002)<sup>1</sup>. On the positive side, the free movement of goods, services, capital, and freedom of establishment (the four freedoms of the European Economic Community) have been exalted in the "European Economic Community". The relative success of European societies in economic and trade discussions has become a model for the formation of the Eurasian Customs Union since the customs union is founded on political and economic unity (Andriamananjara, 2018). And for the same purpose, despite the request of several countries for the membership in the Eurasian Union, Iran's request has so far been approved.

### ***3.2. Functions***

How can the effects of the Customs Union on the international allocation of resources and trade liberalization be assessed? Does forming a customs union improve resource allocation and welfare? Classical economists often believed that the formation of a customs union was a step towards freedom of trade and therefore tended to increase prosperity, as this union reduced customs tariffs and thus moved towards freedom of trade. The formation of a customs union may not lead to a gradual reduction of tariff rates and the long-term harmonization of tariffs with the planned global standards of the World Trade Organization, and may lead to trade deviation flows. Where trade creation is desirable and tends to increase welfare, the undesirable trade deviation flow leads to a decrease in welfare, and the final effect on welfare

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<sup>1</sup> It should be noted that free competition does not mean unrestrained competition, but the principle of free competition means creating fair and balanced condition for the presence of all commercial actors in the market and removing barriers and exclusive and discriminatory behaviors in it. According to Article 81 of the Treaty on European Union; any agreement between commercial institutions, trade union decisions and collective activities that may affect trade between member countries and have a deterrent or destructive purpose or effect on competition within the common market shall be prohibited. Article 82 of the mentioned treaty also prohibits any misuse of one or more commercial institutions having a monopoly position in the entire common market or in a substantial part thereof, if it affects trade between the member states, will be considered an act against the rules of the common market.



depends on which of the two opposing effects, creation of trade or deviation from trade, is stronger. The formation of a customs union allows some goods, previously produced domestically, to be imported from other member states with tax exemption. Here the shift of production from a higher cost domestic producer to a lower cost producer in another member country results in a new flow of trade (trade diversion). In addition, due to tariff discrimination resulting from the formation of the union, some goods that were previously imported from the rest of the world are now imported from the member country because they are subject to unequal tariff conditions and by applying the rules of origin of production, the overall choice of people in those countries is limited due to lower cost of the goods produced by the member countries. This may slightly improve the level of welfare, yet it may affect the level of welfare quality in terms of the choice of goods (Hosseini, 1995). Consequently, it is the phenomenon of deviation in trade that has a relatively indeterminate effect on social welfare, and when the loss due to deviation of trade is greater than the welfare resulting from the creation of trade, social welfare declines, while the risk of investment and tariff reduction drastically decreases. As a consequence, the rules of origin to assess production of goods in countries exempt from import finds a wide use (Andriamananjara, 2011).

#### **4. Priorities of the Eurasian Economic Union and Iran**

Each of the founding members of the Eurasian Customs Union and Iran has some priorities for engagement in this union. Kazakhstan and Russia, for example, as members of the World Trade Organization, their main priority in establishing this union may not be trade issues, but transit and energy swaps, while Iran's priorities may differ from those of the other members. Therefore, in the following, we will examine the priorities of Russia as the leading member and regulator of the EACU strategies and those of Iran by joining this union.

##### ***4.1. Eurasian trade priorities***

To determine the Eurasian Customs Union's priorities in trade matters, it is necessary to first examine the tariff system in Russia, given the fundamental changes Russia's tariff policies underwent in 1890. Until 1890, customs tariffs in Russia were relatively comprehensive, and taxes on foreign goods were collected in equal amounts, regardless of the country of origin. Meanwhile, the tariff war between Western European countries led to the convection tariff system (two conventional tariff systems) and the trading countries one after another abolished the tariff for the goods they wanted to buy and sell. Such an agreement was reached between Germany and Austria, Hungary, Italy, Switzerland and Belgium, and entered into force in February 1892. Taxes increased by an average of 30 percent, and from July 20, 1893, customs tariffs doubled (Zeiler, 2011). The first agreement on the conventional tariff system was a trade agreement between Russia and France. The main effect was the declaration of reciprocity for the conditions of interest in exports, transit of imports and so on. In addition, both countries agreed not to grant benefits to producers from other non-negotiating countries. Under the agreement, France reduced kerosene tariffs by 50 percent. As a result, the French market opened up for Russian oil products. After that, similar agreements were signed with Germany, Austria, Hungary, Denmark, etc. The main ideas in the Russia's new trade policy which were derived from Yulievich's theories, were as follows (Bajlan, 2016):

1. Tariffs should regulate the interests of the private producer and the state treasury according to the priority of each, for a long period, not shorter than the return on investment period;
2. Tariffs must be transparent so as no one can hide them from rivals or the state treasury;



3. Tariffs should be mentioned in the government budget so that they cannot be changed arbitrarily or in favor of the market position;
4. Tariffs are not able to solve all the problems of market protection and attracting capital from abroad. Tariffs should be part of the long-term thinking and policy to support national economy;
5. Tariffs should correspond with people's ability to pay. It is possible to start with low tariffs and increase it in proportion to the growth of the country's welfare; and
6. Government tariffs must be documented by law.

Therefore, with the collapse of the Soviet Union, Russia, with the participation of Belarus and Kazakhstan, proposed the idea of a customs union and implemented the development of the customs union from 16 July 2012 by establishing a coordinated system of coding goods within the union. This provided the ground for operationalization of an integrated system of customs regulations between the three countries and, subsequently, created the necessary coordination of members with international customs regulations. Russia's agreements with other members were made based on her negotiations in the WTO Accession Working Group. Hence, the integrated customs system considered the possibility for membership of the members in the World Trade Organization so that the ground was prepared for Russia's accession to the World Trade Organization in 2012 (<https://www.wto.org>, 2019). Russia's accession to the World Trade Organization in 2012 was considered a good ground for the Customs Union, as the Eurasian Economic Commission following this presented customs tariffs in accordance with Russia's commitments to the WTO. Therefore, commitments of the WTO member countries formed part of the EACU law (Libman, 2011). It is clear that an active customs union that complies with WTO regulations can facilitate the membership of other members in the WTO, as the process of Kazakhstan's membership in the WTO was completed in June 2015.

#### ***4.2. Iran's priorities in trade area***

The existence of economic opportunities in the relations between Iran and the Eurasian Economic Union means that Iran, prior to its membership, has so far been away from the market of the CIS countries, but in case of close cooperation with the union, it can have access to this market for export of its products. Iran is also a country rich in oil and gas resources and is situated in the best transit position, i.e. between the Caspian Sea in the north and the Persian Gulf in the south, and in the east-west direction, it can serve as a good route of transit for the goods of the EACU member countries according to the north-south corridor and the new Silk Road plans. If the members of the Eurasian Union be able to provide a stable market according to their stated goals, profiting from this market will benefit Iran. In the meantime, Iran can sell the goods it has produced by investing in EU member states throughout the Eurasian Union. For example, even Kyrgyzstan (as a less developed country) which has received preferences from the European Union for the export of goods without taxes and duties (<https://europeanpta.weebly.com>, 2019) can give this opportunity to Iranian producers. However, it should be borne in mind that in today's world, with the emphasis on economic globalization, the existence of multiple economic partners can expand the country's scope of performance. Therefore, Iran, while can take advantage of geographical proximity, being in the best transit position, and oil and gas exports to the Eurasian Union countries, should not neglect its other economic partners such as the European Union and China and the benefits of cooperation with them (Mirfakhraei, 2005). According to the Law of the Sixth Economic Development Plan, Iran has several reasons to give priority to regional trade because its tariff standards are far from the World Trade



Organization. For example, Article 4 of the Law of the Sixth Five-Year Development Plan of Iran states: In order to provide at least two point eight (2.8) units of the percentage of the eight percent (8%) economic growth from the promotion of productivity of all production factors, as well as investment growth at an average annual rate of 21.4% during the plan implementation years, all executive bodies should take the following actions in coordination with the government. The responsibility for implementation is by the government.

Clause - The use of foreign financial facilities by the executive bodies with the priority of Islamic financing is permitted during the Sixth Plan implementation in the form of annual budget laws.

C - Economic priority in the foreign policy of the country with the aim of acquiring knowledge and innovation from countries with technology and developing export markets (as product and territorial markets), for Iranian technical and engineering services and goods, making effort to join the World Trade Organization to prevent unfair discrimination against Iran's exports in line with the interests of the country.

E - Attracting reputable international and regional companies directly into the domestic production chain and with the priority of partnership with domestic investors and producers to increase capacity, competitiveness and export of produced goods and services by removing legal barriers based on dignity, wisdom and expediency and away from the influence of the Western culture."

In the traditional literature, regional relations, which are a priority of Iranian policymaking, are defined as a collection of countries that share with each other in terms of geography and characteristics of the international region, such as level of development, culture and political institutions. Therefore, regionalism is applied when governments located in a geographical area have common interests and enter into political, military and economic cooperation with each other through regional organizations. Hence, mutual cooperation of several governments in a geographical area, pursuing common goals, is an example of regionalism (Firoozabadi, 2009). In regional economic convergence theories, trade promotion plays an important role. In the present era, signing regional preferential agreements is one of the most obvious examples of the countries moving towards regionalism in the economic dimension, because various economic measures in a converged region promote trade within the region, and while reducing internal competition, they help in creating a complementary production system (Omidy and Arsalani, 2009).

Therefore, beside of the trade priorities for Iran as set in the Sixth Development Plan, the formation of the Eurasian Economic Union and its geo-economics requirements are also a priority for Iran, because after the Crimean crisis and the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA), Iran has established vital relationship with Russia as the axis of strategic moves in Eurasia, as well as other countries in this region, with direct geopolitical interest in some regions, such as Armenia. On the other hand, strategic rivalry of Russia with other major players of the world has caused this country, by calculating the security variables and the flow of energy trades, to form the Eurasian Union, with the aim of leading the region to a higher degree of alliance as far as possible. What defines the situation of a third country like Iran in Eurasia more precisely is the concept of common markets and regulatory regimes for these markets. If Iran wants to supply its export goods to the Eurasian Union member states, it faces the issue of common markets, which are defined for each commodity and have specific time objectives for them. Although the principle of equal justice is at the top of Eurasia's agenda to prevent events such as dumping; Iran, as an economy that has chosen for the free market orientation, can understand the Eurasian common markets and through economic diplomacy play a fitting role for presence and supply of Iranian goods in these markets. This economic diplomacy must base its targeting on interaction with the union commissions in order to influence the enactment of the union laws that shape the common market model. Therefore, if Iran's customs tariffs



are set higher than the Eurasian tariff level, the establishment of geo-economics interactions will fail, and if it is lower than the appropriate level, it will ultimately give the means of economic superiority to the hands of competitor. Working with the union's customs rules could lead Iran to ask its European rivals to set its preferred customs levels, since from Perspective of the EACU founders, this union can create a large market under WTO rules, improve trade between the members, and provide many facilities in this regard for the member countries. Therefore, within the framework of this union, its members have expressed their agreement with the free movement of goods, capital, labor and services over the borders of Eurasia. They also announced that they will pursue a coordinated policy in the fields of energy, industry, transport and the agricultural sector, and they seek to create common oil and gas markets by the end of 2015, a single market for supply of medicine by 2016, and a single market for generation and supply of electricity by 2019 in order to deepen economic cooperation with each other (Eurasian Economic Integration: Fact and Figures, 2014).

Given the US withdrawal from the JCPOA and the possibility of resuming the past sanctions and imposition of new economic sanctions, interdependence through membership in institutions and unions, especially in regional and superregional economies, can significantly reduce the country's economic vulnerability. In particular, given the position of the Eurasian Economic Union in the world oil market, Iran's accession to the union and the creation of a joint oil swap with the member countries in this union, can facilitate the sales of Iranian oil in the event of sanctions.

## **5. The implications (consequences) of trade in the EACU for Iran**

According to the law of the Sixth Five-Year Development Plan, Iran must strive for membership in the World Trade Organization and take the necessary measures, but permanent membership requires the empowerment of domestic trade and industry according to international standards, assuming that the economic sanctions will continue. Considering these priorities, the authors decided to examine the trade effects that the Eurasian Union could have on the Iranian economy as follows.

### ***5.1. Reduction of non-tariff barriers***

Removing non-tariff barriers and replacing them with tariffs is the first legal step towards trade liberalization and tariff integration in the form of bilateral or regional agreements. Therefore, non-tariff barriers that are imposed on certain accounts are very closely related to trade policies. One of the important reasons for replacing non-tariff barriers with tariffs is the transparency of government support for trade, which facilitates evaluation and negotiation at different levels. Therefore, elimination of these obligations makes the additional protocols and the investigation of trade restrictions contained in the WTO rules and regulations easier. Normally, non-tariff measures to stabilize countries' domestic prices are extended to markets by conveying the adjustments to supply and demand fluctuations. Therefore, it is expected that by removing non-tariff barriers and converting them into tariffs, the world market price will become more stable and their more predictable. Agriculture is an important area in the application of non-tariff barriers to imports and exports, and countries by preventing the import of transgenic and toxic products to their country by passing environmental laws, while by paying direct and indirect subsidies, they try to reduce their production costs in their country.

Therefore, since the Eurasian member states (Armenia, Russia, Kazakhstan, and Belarus) are members of the World Trade Organization, the standards of this union have been set according to the principles of the World Trade Organization in order to remove non-tariff barriers in accordance with one of the agreed



codes in Tokyo Round. This agreement concerned the technical barriers to trade. Article 3 of the agreement stipulates that all the contracting states must accept the internationally accepted standards in granting or obtaining the certificates and implementation standards. The provisions of the General Agreement therefore cover both tariff and non-tariff barriers, with the primary aim of ensuring that each contracting state, in addition to accepting and properly observing tariff obligations vis-a-vis the other members, should also refrain from imposing non-tariff barriers restricting free trade and comply with the principle of non-discrimination. One of the founding agreements of the World Trade Organization is the "Agreement on Technical Barriers to Trade" which stipulates: although most countries have regulations that require their imported products to meet mandatory domestic standards for health and safety purposes and protection of environment, such mandatory standards should not be set in such a way as to create unnecessary barriers to international trade. However, while the agreement requires countries to necessarily refrain from imposing mandatory domestic standards, it emphasizes the application of the agreed international standards, which leads countries to use preferential agreements with arbitrary standards and tariffs. Therefore, one of the positive trade effects of membership in the Eurasian Union is the reduction of Iran's non-tariff barriers in various sectors, because Iran has the most non-tariff barriers among ECO and D8 countries (Marzooqi, 2003), which makes it difficult for trade liberalization. Among other positive functions of governmental organizations, such as the EAEU, is deregulation, as their role is to regulate and gradually eliminate the control of economic activities by member states. In this sense, deregulation is the process by which governments reduce, eliminate, or simplify the constraints on the business system in order to make the economy and the market working more efficient. Although it seems that simpler and less regulations lead to more competition, higher efficiency, lower cost of goods and services, and greater economic prosperity, there is no doubt that deregulation facilitates greater coordination and unification of economic and political systems: "Deregulation facilitates the entry of new enterprises into the competition arena and significantly reduces costs, and consequently, enables production of goods and services that were not previously economically justifiable (viable). Limitation of government power is one of the consequences of deregulation: WTO membership requirements such as non-discrimination and practices based on it, customs valuation, rules and regulations concerning exports and imports, elimination of quantitative restrictions and elimination of subsidies demonstrates the commitment of applicant states for membership to deregulation. One of the instruments of the principle of freedom of trade, as one of the fundamental principles of the World Trade Organization, is deregulation, which stipulates that none of the members has the right to impose any restrictions other than customs tariffs and taxes in the import or export of goods (Ashrafi and Islami, 2017). Obligation of governments to deregulation, phasing out tariffs, privatization, amending related laws, recognizing the conventions on intellectual property, resolving trade disputes within the framework of WTO regulations, the principle of national conduct, accepting the obligations of the most favored government, and not ratifying restrictive laws are considered the most important requirements and obligations of governments in the economic areas, indicating their limitations and responsibilities.

### **5.2. Reduction of tariffs**

In May 2016, a provisional cooperation agreement was signed between Eurasian Customs Union and Iran, and in the next three years, member states must reach a comprehensive agreement. In the final agreement for a wide range of imported goods, the reduction or elimination of customs duties is considered (<http://www.irna.ir>). Hence, immediately after this agreement, the parties can save on customs duties on imports. This list for the Eurasian Economic Union includes meat and fat products, certain types of sweets



and chocolates, cosmetics, electronic and mechanical equipment, and Iran will receive tariff benefits for a wide range of food products, vegetables, fruits, dried fruits, and construction materials. Iran's import duty rate is reduced by an average of 7 percent for industrial goods, 3.5 percent for EU countries, 19 percent for agricultural goods and 5 percent for the Eurasian Economic Union. Iran and five member states of the Eurasian Economic Union made an agreement in Yerevan, in 2017, on 530 industrial goods, including preferential tariffs or zero trade profits for imports,. According to the official statistics of the union, in 2017, the volume of imports within the union space decreased by 3%, and the policy of the Eurasian Economic Union on the topic of imports led to significant achievements for the union and industry and trade in industrial products grew among its members to the extent that about 30% of Belarus' industrial and agricultural exports has been to Russia (Dragneva, 2017).

Imports of Eurasian members from non-member countries decreased by about 3% from 25% to 22% relative to the indices of 2013 where sectors such as wood products with 3%, chemical industries with 3.4%, metals with 5.9%, transportation and various equipment with 5% had the greatest contribution. Such gains were the result of the Eurasian Economic Union's import substitution policy and approval of the Economic Commission's proposition by the members on the use of the Union's industrial capacity for the production of previously imported cars and equipment. Although Ukraine's non-membership was a fatal blow to the union, with Iran's membership, the union was able to increase the diversity of products produced by members within the organization (ibid: p 18 and Astana treaty, article 25 & 28).

In order for Iran to reduce tariffs in the Eurasian Union, it should be noted that most countries made their first experience in concluding a free trade agreement with one or more neighboring countries. Profound convergence includes customs union, common market, economic union and monetary union and shallow convergence involves cooperation's in the form of preferential trade agreements and free trade zones (Saeedi et al., 2014). The developing countries that are the WTO members or are becoming its members must comply with the rules and increase their production capacity and quality of their export goods by preparing the necessary conditions and reducing trade barriers, especially tariffs (because the biggest barrier to trade in developing countries are tariff barriers due to the need for the revenues obtained from it and the economic isolation) and by creation of appropriate conditions for expanding trade relations with target countries and the formation of a trade bloc should pass through the development phases as soon as possible.

The logic of transferring tariff barriers into tariffs is firmly rooted in the economic theory of trade disruption and the effects of international institutions dealing with trade liberalization. From an economic point of view, quantitative restrictions are in many cases the inevitable source of inefficiencies, because they restrict market performance more than tariffs do and have the opposite effect on the price competitive system. While non-tariff barriers lead to market segregation, tariffs create a clear link between countries' trade that allows market signals to be transmitted. Therefore, the use of tariffs instead of non-tariff barriers will lead to greater efficiency and stability of global markets. In the Statute of the World Trade Organization, "expanding the production and trade of goods and services while providing the facilities for optimal use of world resources in accordance with the purpose of sustainable development" is stated as the goal of the organization (Beigzadeh, ex: 363-364). The preamble to the Treaty of Rome also explicitly states that the purpose of the Treaty is to strengthen the convergence of member states and to create an economic and monetary union as well as a stable currency. In the preamble to the Amsterdam Treaty, the EU member states went even further, calling for strengthening the solidarity and economic unity of the member states for balanced development, the implementation of common trade policies and the removal of trade barriers and restrictions. Therefore, the role of government organizations such as the Eurasian Union



in reducing tariffs and monitoring based on WTO principles is very important because the most important of these tasks are: 1) the principle of the most favored government, 2) the principle of national conduct, 3) the principle of access to market, and 4) the principle of non-approval of laws restricting free trade, which are developed by observing, monitoring and approving joint actions in regional and global government organizations.

On the other hand, the Eurasian Customs Union can also be effective in reducing tariffs and reducing the system of subsidies for the domestic production sector by regulating and obtaining annual reports, as Article 16 of the GATT (1994) and the Agreement on Subsidies and Compensatory Measures deal with the Role of the government in development of exports and explain the limits and conditions regarding the granting of prohibited and unauthorized subsidies. According to this article, export subsidies are prohibited because they are against legitimate trade and provide grounds for unfair trade.<sup>1</sup> According to Article 1 of the agreement, a subsidy is defined as a grant from a state or any public institution in the territory of a member which results in the granting of a benefit. Therefore, what is considered as a subsidy in the agreement should have three characteristics: "financial assistance", "done by the government" and "benefit". In addition, Article 2 of the agreement sets out another condition for the review of subsidies, according to which only special subsidies are subject to the provisions of the agreement (Tarom Sari, 1997,; World Trade Organization, 2011).<sup>2</sup>

### ***5.3. Strengthening manufacturing industries for competition and export***

Preferential trade arrangements, such as the formation of customs unions, have two main features: first, trade liberalization among members and second, discrimination against third parties (in violation of the principle of appropriate national conduct) (Punyakumpol, 2018), something that governments within the framework of their governing practices turns to protectionism for the emerging domestic assembly industry. Sometimes, protectionism may be because of health and non-tariff standards, such as the regulations of European countries regarding the permissible amount of aflatoxin fungus in the exported pistachio from Iran to those countries, which is considered a protectionist measure that has resulted in reduced Iranian pistachio exports in some years in the past (cheraghali, 2010). Or in Japan, the high tariff rate on agricultural and fishery products has the highest tariffs among the country's tariff rows (for example, the import tariff on nuts at Japanese customs is generally 20%, but with the preferential tariff it concluded with the ASEAN countries, this tariff is zero, 3.3% for India and Peru, 6.5% for Australia and 8.7% for Mongolia (<http://www.customs.go.jp/english/tariff/2018>). Therefore, one of the most important ways to support domestic emerging industries is to guarantee the consumer market for industrial goods produced in the country. In this context, domestic markets are protected using different instruments. As competition between countries widened, governments came to the conclusion that they should support domestic

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<sup>1</sup> Section 16 (b) of the GATT: "The contracting parties acknowledge that the granting of a subsidy by a contracting party for the export of any product may have detrimental effects on the export and import of the other contracting parties, disturbing their normal interests and preventing their realization."

<sup>2</sup> In addition to the above, the subsidies are prohibited if their payment is legally or even in practice subject to the export performance of the recipient unit or to the greater use of domestic goods compared to imported goods (Article 3 of the Agreement).



producers, at least in the domestic market, against foreign competitors, as this would not only boost the economy but also create jobs.<sup>1</sup> Therefore, creation of a barrier for foreign competitors for entering the domestic market of countries by temporarily or specifically violating the principles of the most favored country and appropriate national conduct occurred in the form of preferential tariffs in the context of customs union or free trade zones, became a permanent approach in trade policy of governments. The rationale for this argument is that domestic producers have more right than foreign producers. Another reason that justifies the need for government support for domestic industries is that the lack of government support for domestic producers in competition with foreign manufacturers will lead to reduced employment. It is further argued that to deal with the country's trade deficit in trade relations with other countries, this support is necessary. However, increasing this support will reduce the ranking of countries in regard to the degree of trade openness, resulting in reduced foreign investment (Rahimi, 2004). For example, Section 301 of the 1987 US Commercial Law, titled "Super 301", required the US government to identify countries that had achieved significant trade surpluses in their trade relations with the United States and impose a trade restriction against them.<sup>2</sup> On the other hand, increasing the gross national product of countries using preferential tariff agreements in the form of a customs union will not be possible except by creating and identifying a relatively stable target market for traders and creating domestic production bases, which are influenced by the following two factors. (World Economy Newspaper, 2017):

**(1) Finding new technology.** Finding new procedures, tools, devices and instruments in the production of new products and services is one of the most important factors in the economic growth of countries and their distancing in the production of goods and services in global markets. Sometimes a country may have adequate human capital and a huge source of new ideas and designs in the production of various goods and services, but it has not established a proper mechanism to turn these ideas into practical technologies in the production of goods and services.

**(2) Increasing trade.** One of the most important factors in the economic growth of countries, which will sometimes facilitate the flow of other ideas, is the ability of a country to communicate effectively with other countries and increase the volume of trade. Under these conditions, production is possible at a lower cost price and while increasing the revenues of that country, the technology of manufacturing new products will also come into the country and the country's ability to produce various goods and services will increase. This is something that the commercial evidence regarding countries such as Malaysia, Singapore, Canada, India, China, etc. in establishing trade with preferential and sometimes free tariffs with the European Union and the United States by them in the long run, well proves validity of this claim about increase of GDP (Saqib, 2007).

#### ***5.4. Gradual integration in trade liberalization***

In addition to having one of the highest tariff averages in the world (18.5%), Iran also has the widest level of tariff protection coverage and, at an unprecedented rate, subjecting any imported goods to a minimum

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<sup>1</sup> For example, in 1397, the slogan "Support for Iranian goods" was chosen in Iran to boost production and increase turnover in the country instead of imports.

<sup>2</sup> The use of Article 301 of the 1984 US Act and Article 12 of the GATT Tariff and Trade Agreement, entitled "Balance of Payments Restrictions", has led to a dispute between China and the US over US tariffs in 2018 onwards.



customs duty of 4%. It should be noted that in this regard, Saudi Arabia and Japan with 4.8 and 4.9 percent, respectively, have one of the lowest percentages of simple tariff averages among countries. Also, the percentage of duty-free tariff rows in countries such as Malaysia, Japan and the United States reaches 65.6%, 52.9% and 47.8% of the total import tariffs, respectively. The move towards targeted and effective support at the scale of the national economic system as an important component shows the extent to which countries apply high and maximum tariffs in their protective coordinates. Since the maximum tariff in the structure of the World Trade Organization is 15%, this index measures the number of tariffs that have been set more than 15% for member countries (World tariff profiles, 2017, <https://www.wto.org>).

Iran and Pakistan rank first internationally in this regard. These two countries impose high entry tax rates on a larger number of their tariff rows than other countries. This means that the range of economic activities that are supported in Iran using tariff instruments is much higher compared to developed countries. In the European Union, Japan and the United States, 1.5%, 3.7% and 2.7% of tariffs are subject to import duties above 15%, but in Pakistan, Iran, India and China, the proportions are 36%, 35.9%, 19% and 15.6%, respectively. Iran ranks first in the world next to Pakistan in terms of the scope of activities covered by tariff protection. Interestingly, this ratio is only 0.2% in Saudi Arabia. That is, given the total number of tariff rows in each country, in Saudi Arabia only 15 tariff rows are subject to import duties above 15%. But in Iran 2628 rows and in Pakistan 2525 rows have this support (Maliki, 2015).

Moving towards the high average in the agricultural sector in the form of a tariff system and regardless of the prohibitions that are not included in this category, Iran has a relatively low range of tariffs in the agricultural sector compared to other countries. The main reason for the low tariff rate and its effects in the form of increased imports and increased dependence on foreign countries and in some cases reduced production can be sought in terms of consumer satisfaction. Iran is behind India, Turkey and South Korea with an average tariff on agricultural products of about 29%. In terms of applicable tariffs, Iran's agricultural sector has the lowest support compared to developing and developed countries, and if we exclude the United States, the average tariff support for Iran's agricultural sector is equal to that of a country like Saudi Arabia, which lacks diversified agriculture and employment. In contrast, in Iran, the tariff protection system generally targets the industrial sector instead of focusing on the agricultural sector. Iran has the highest rate among the selected countries with an average tariff rate of 17.2% in the industrial sector. This amount is 2.6%, 3.1% and 2.4% for the industrial products of Japan, the United States and the European Union, respectively. A noteworthy point is the high percentage of duty-free tariffs on industrial products in many countries. For example, Malaysia exempted 64.1%, Japan 55.7% and the United States 50.6% of their industrial tariff items from customs duties. In Iran, according to the law on customs affairs and receiving a minimum customs duty of 4% for all tariffs, in practice there is no tariff row exempt from customs duties. 33.2% of the tariff rows of industrial products in Iran have more than 15% customs duties, which shows that the tariff support for the industrial sector is completely non-targeted. Non-value tariffs have a high share in government revenue sources in developed countries (official website of the Customs Organization of the Islamic Republic of Iran at: [http://www.irica.gov.ir/web\\_directory](http://www.irica.gov.ir/web_directory)). Therefore, countries around the world are trying to join regional agreements in order to gradually liberalize tariffs, and according to 2010 statistics, 400 preferential trade agreements have been concluded in the world, of which 360 agreements have been registered with the World Trade Organization. Mongolia is the only WTO member that has not signed a preferential trade agreement with other countries (<https://www.wto.org>, 11 Jun 2018). Some countries, such as Australia, believe that free trade essentially by complicating the environment can pave the way for broader trade reforms in world trade, as the most important challenge facing the WTO in the



near future is the successful conclusion of Doha round negotiations (<https://www.wto.org/english/Australia:September2002>). Contrary to this claim, the annual supervisory (regulatory) reports of the World Trade Organization indicate that in 2017, the number of measures limiting the member countries in terms of quantitative restrictions, tariff increases, customs regulations, local government measures, etc., The average monthly restrictions of 15 per month in 2016 has reached 9 per month in 2017, which emphasizes the continuation of the process of integration of tariffs and liberalization and transformation of non-tariff barriers to tariffs at a declining rate, and the annual report emphasizes that from 2016 to 2017, the Organization's member states have adopted 108 trade restrictive measures, however, a total of 128 new measures have been taken to liberalize trade and integrate tariff rates according to their commitment table (trade Monitoring, 2017).

## **6. The need for amendment of the domestic laws in conflict with the objectives of the Eurasian Customs Union**

Joining the Eurasian Customs Union for Iran has positive outcomes in terms of tariff rates, level of development and trade priorities and planning for trade liberalization, but in order to reduce tariffs and remove non-tariff barriers, Iran must make amendments to its internal laws. For example, in Iran's Export and Import Regulation Law, inconsistencies are seen with Article 16 of the GATT (Subsidies) and the Agreement on Subsidies and Compensatory Measures; towards a gradual liberalization of tariffs and negotiations for the integration of tariffs in the Eurasian Union, the most important of which are:

Article 12 of the Law on Export and Import Regulations stipulates: the pre-export import of materials and goods used in production, completion, preparation, and packaging of export goods, by giving a valid surety or promissory note, is temporarily exempt from payment of all import duties, except those which are to be paid as fees or commissions. This article has been repealed on the strength of clause (d) of Article 165 of the Customs Law; However, Article 51 of this law amends the provisions of Article 12 of the Law on Export and Import Regulations under the heading "Temporary Entry for Processing". According to this article: "Temporary entry for processing is the customs procedure according to which the goods can be temporarily entered the customs territory to be manufactured, completed, repaired or processed and then exported. This procedure also includes items such as accelerators (catalysts) used in manufacturing, finishing and processing. Ancillary goods such as lubricants and tools are not subject to the temporary entry procedure for processing. "The resulting products are products obtained from the manufacture, completion, processing and repair of goods for which a temporary entry procedure has been authorized for processing." The legislator in this article, contrary to Article 48 of the same law, which makes the import of goods that are definitely imported subject to the payment of customs duties and service costs, temporary import of some goods are exempt from customs duties, provided that they are used for processing in export goods;<sup>1</sup> But if the same product is definitely imported, its import duty must be paid. Also, according to the provisions of Clause 4 of Article 27 of the Bylaws of the Export and Import Regulations: "The import of raw materials, parts, equipment and machinery required by manufacturing units in exchange for the export of their products is unimpeded."

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<sup>1</sup> Paragraph (c) of Article 119 of the Customs Law exempts temporary imports for processing from customs duties.



Therefore, according to the above regulations, the government has waived the receipt of funds for the import of goods used for processing in export goods. Which is apparently in conflict with paragraph 2 of Article 1 of the Agreement on Subsidies and Compensatory Measures, because according to the latter paragraph, if the government revenue which would be received in other circumstances is not collected or waived, the subsidy is realized in the sense meant by the agreement. Because by not paying the funds related to imports by some importers, they have practically been given an advantage.

Articles 66 and 69 of the Customs Law, which replace Article 14 of the Law on Export and Import Regulations and the following clauses, respectively, stipulate: the obtained import duties from the same imported goods which will be exported, and the used materials and foreign packaging accessories in the production, completion or packaging of exported goods must be returned to the exporter in accordance with the provisions of this law and its execution bylaws based on the time of arrival of the goods. "If the domestically produced goods are sold to the people who are exempt in import of similar foreign goods, the paid amounts for the import of goods, materials, components and parts used in its production will be returned to the seller in accordance with the provisions of this law."

Article 66 of the Customs Law complements the provisions of Article 51 of this law and the only difference is in the manner of initial import. In other words, Article 51 includes those imported goods that are temporarily imported for processing in exported goods, while Article 66 includes definitive imports of goods that are later consumed during the production of exported goods. The combination of these two articles pursues the single goal of removing duties from imported data used in the exported product. The provisions of the above articles, in addition to paragraph 2 of Article 1 of the agreement, are also prohibited under Article 3(a) (1) of the agreement, because according to the latter article, subsidies are deferred by law or in fact, alone or as one of several other rules are subjected to export performance, are part of the prohibited subsidies which according to Article 2-3 of the agreement, are considered special subsidies (Tarom Sari, 2006).

3. According to Article 19 of the mentioned law: "The government can allocate funds every year under the title of export encouragement in the annual budget and pay the export facilities to the exporters in the form of interest payments according to the proposal of the Ministry of Commerce and approval of the Cabinet." In this article it is referred to the "loan interest allowance", which refers to the payment of part of the interest on loans received by exporters from banks. Such funds are obvious examples of Part 1, paragraph (a) (1) of Article 1-1 of the Agreement on Subsidies and Compensatory Measures, according to which, "the action of the government which involves the direct transfer of funds (e.g. grants, loans and capital injections) and potentially direct transfer of funds or liabilities (for example, loan guarantees) is considered a subsidy."

In addition, the provision of Article 19, based on Paragraph (a) of Article 3-1 is also considered a prohibited subsidy. According to this clause, subsidies that are subject to export performance by law, or in fact alone or as one of several other criteria, will be prohibited. Since the funds mentioned in Article 19 are intended only for exporters and put them in a better position than other producers whose products are sold domestically, they are clear examples of prohibited subsidies. Therefore, there is a need for reforms in the Eurasian Union for compliance with the WTO system and trade liberalization.

In addition, in order to support the country's exports, Article 1 of the Law on Exemption of Exports of Goods and Services stipulates the payment of duties approved on 28/02/2001 stipulates: "From the date of approval of this law, the export of goods and services is exempt from payment of any duties." Also, according to paragraph (b) of Article 104 of the Fifth Development Plan Law: "It is prohibited to collect any duties and taxes from non-oil exports and services during the program." In the latest amendments to



the Law on Direct Taxes (2015/4/31), the legislator stipulates in Article 141: "One hundred percent (100%) of the income from the export of services and non-oil goods and products of the agricultural sector and twenty percent (20%) of the income from "Exports of raw materials are taxed at a zero rate." Given that the government is waiving some of its revenues in order to encourage exports under the above-mentioned regulations, it will need to be revised and amended if these provisions are inconsistent with the provisions of the Agreement on Subsidies and its compensatory measures and annexes.<sup>1</sup>

4. Pursuant to Article 20 of the Law on Export and Import Regulations, "beginning from March 21th, 1994, the government is required to receive customs duties and commercial profits of equal to 1 percent of the total funds received for customs duties and commercial profits, in addition to the prescribed customs duties and commercial profits, from importers of non-governmental sectors that import goods commercially as special duties and deposit them in the public revenue account of the country." Every year, the equivalent of 100% of the amounts deposited in the public revenue account will be provided to the authorized executive bodies with the approval of the Council of Ministers to be spent for promotion and development of non-oil exports according to the implementation regulations of this law, as well as for formation of an export guarantee fund, training and commercial advertising."

The provisions of this article are implicitly abolished based on Article 41 of the Law on Value Added Tax approved in 2008 and paragraph (d) of Article 1 of the Customs Law approved in 2011, and in practice, the 1% mentioned in this article is not collected from importers (Iran Trade Promotion Organization, the Bureau for Export and Import Regulations, 2015, 6) According to these articles, what is obtained as import duty is the customs duty equal to four percent (4%) of the customs value of the goods together with the commercial profit, which is determined by the Council of Ministers. The Note to Article 41 of the Law on Value Added Tax stipulates: "In addition to complying with other laws and regulations, the rate of import duty must be determined in such a way that: a) ... b) does not include preferential and discriminatory rates between governmental importers and importers from private, cooperative and non-governmental sectors." According to paragraph (b) of this supplement, the problem which existed in Article 20 of the Law on Export and Import Regulations, by discriminating between governmental and non-governmental importers, has been resolved.<sup>2</sup>

5. According to Article 12 of the executive by-law of the law in question, "Transportation of the country's export goods by foreign carriers is permitted and does not require the permission of the Supreme Council of Transport Coordination and the Ministry of Roads and Urban Development."

Note: The Ministry of Roads and Urban Development (Supreme Council of Transport Coordination), using economic methods, foresees the use incentives for promotion of the transportation of export goods by Iranian carriers.

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<sup>1</sup> Pursuant to Annex 1 of the Subsidies and Compensation Agreement, one of the cases of prohibited subsidies is exemption from direct and indirect taxes on exports.

<sup>2</sup> Paragraph 1 of Article 17 of the GATT 1994: "(a) each contracting party undertakes that if it establishes or maintains a state-owned enterprise, wherever it is situated, or grants, officially or practically exclusive or special privileges, that enterprise shall in its purchases and sales involving imports and exports act in accordance with the general principles of non-discriminatory conduct set forth in this Agreement concerning government measures affecting the imports or exports of private traders."



The recourse to this regulation is also explicitly in contrast with Annex 1 of the Agreement on Subsidies and Compensatory Measures,<sup>1</sup> and must be amended in order to accede to the World Trade Organization (Tarom Siri, ex: 186). Therefore, by explaining the legislative conditions of Iran and the need for its membership in the WTO and that structural reforms to join a government organization such as the WTO can have a significant impact on the liberalization of tariffs and the gradual reduction of tariffs and the qualitative expansion of PTA among countries, we state that the international exchanges of countries that contribute to the globalization of the economy and trade principles can be examined in four main categories (Jalali, 1998):

1. International trade means the exchange of goods and services with individuals and companies across borders;
2. Foreign direct investment means the establishment, operation and control of industrial or commercial enterprises of a country by individuals or parties from other countries;
3. Financial exchanges such as portfolio investments, lending and borrowing; and
4. Labor migration, i.e. the supply of labor services in one country by people from other countries.

In addition, the reduction of tariff barriers can be for all exchanged goods or just for a list of goods provided by each country (Saqib, 2011).

## **7. CONCLUSION**

The growing expansion of regional cooperation in the form of free zones, customs unions or the use of preferential tariffs bilaterally and multilaterally due to convergence and economic integration among allied countries in the 21st century is posing a serious challenge to the world in furthering the goals set in the Doha Round negotiations. The WTO member countries, pursuant to Article 24 of the General Tariff and Trade Agreement, are taking advantage of overseas trade in the form of customs unions and free trade zones. This was an important factor that caused Iran to explicitly put the use of regional treaties and cooperation on its trade and financial agenda in order to practice membership in the WTO and reduce tariffs and meet the standards of the World Trade Organization in its 5-year development plan, and by gradually adapting its manufacturing and agricultural industries and reducing import tariffs, it has started producing products of common quality with other countries and gradually replacing the non-tariff customs barriers with fixed customs tariffs aiming to prepare the grounds for gradual integration into international trade by identifying pre-identified permanent target markets. Although the realization of this goal requires several amendments to the current laws of import and export and customs tariffs and presence of a coordinated system of goods code line, it is made possible by planning and starting to work in unions with development level of Iran, such as the Eurasian Customs Union and ASEAN union. The move which begun in earnest in the Eurasian Union was undoubtedly inspired by the failed experiences with ECO, D-8 and the OIC Trade

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<sup>1</sup> Prohibited export subsidies are set out in Annex 1 to the Subsidies and Compensatory Measures Agreement, which generally includes:

Payment of direct subsidies by the government to an enterprise or industry on the condition of export performance; export award; providing facilities for the domestic transportation costs of export shipments; allowing special discounts in connection with export performance; forgiveness or refund of import costs; exemption from direct and indirect taxes due to exports; providing export credit guarantee or insurance plans with very low insurance rates; granting export credits at rates lower than the current rates.



Preferential System, and is further motivated by the hope for more favorable and growing industrial conditions and the current state of sanctions which made working in this organization inevitable. Researchers believe that although Russia, occupying a central position in the Eurasian Union, is busy with non-trade planning and forming political alignment and strengthening its geopolitical position in the union, in order for Iran not to miss opportunities for future trade negotiations with the European Union and the ASEAN, Should not enter into the political issues of the Eurasian Union and act according to its trade priorities, try to gradually liberalize tariffs and comply with WTO standards as Russia and Kazakhstan did for membership in WTO, in order to succeed in joining this organization. The Eurasian Union with a population of about 180 million of the member countries are a very good consumer market for Iranian products and the development of sustainable industries and export destinations that can even be effective in mitigating the effects of Western sanctions against Iran.

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Authenticity of the texts, honesty and fidelity has been observed.

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Sheikhzade, E., Esmaeilnasab, H .contributed to the design and implementation of the research, to the analysis of the results and to the writing of the manuscript.

**CONFLICT OF INTEREST**

Author/s confirmed no conflict of interest.