

IRAN'S TRADE MODIFICATION UNDER SANCTIONS: AN EVIDENCE OF TRADE DIVERGENCE AND TRADE CONVERGENCE THROUGH THE GRAVITY MODEL

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Abstract: This paper uses a panel exports/imports gravity model to investigate Iran's trade pattern with its 50 top trading partners from Europe and Asia under sanctions. The empirical data are obtained from each of the 50 Iran's trade partners over the period 2006 to 2015. The main purpose of this study is to find out how Iran's trade pattern has been changed by sanctions. The empirical evidence revealed a significant negative effect of sanctions on Iran-EU bilateral trade (by an average of 38.1% on the Iran's export to the EU and 45.8% on the Iran's import from the EU), while it has a positive impact on trade between Iran and the Asian countries (by an average of 92.3% on the Iran's import from the Asian countries and by 77.4% on the Iran's export to these countries). Totally, these findings proved that the imposition of sanctions related to the Iran's nuclear program pushed the foreign trade policy of this country towards the Trade Convergence (TC) with Asia (Asianization) and Trade Divergence (TD) from the EU (Europeanization).

Keywords: Sanctions; Trade Convergence (TC); Trade Divergence (TD); Gravity trade model; Iran.

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