Headlong into Iran

It's the government’s role to thoroughly study the potential risks in a new region.

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Much hoopla was raised about the business President Park Geun-hye drummed up during her recent three-day state visit to Iran, which was meant from the start to help Korea Inc. make headway in the country following the lifting of international sanctions. Park, who led largest-ever, 236-member economic delegation representing 146 small and mid-sized enterprises, 38 large companies, and 52 business organizations, public and medical institutions, deserves praise for the laundry list of new deals. According to the presidential office, Korea brought home 66 memoranda of understanding worth $45.6 billion. It lightened up the business news section of newspapers, which had been dominated by gloomy prospects of the shipbuilding and shipping sectors, forces restructurings, tax-funded bailouts and massive layoffs.

But there are always two sides to a coin. An MOU, first of all, is not legally binding. There are many political risks and complexities to consider.

First of all, there is the question of whether Iran will fully comply with the Joint Comprehensive Plan of Action it signed with the group of powers known as the P5+1, comprised of the United States, Britain, France, Germany, Russia, and China. International sanction waivers are issued according to the country’s good faith compliance with its commitments to dismantle its nuclear facilities. If Tehran breaks any part of the deal or is discovered to be involved in suspicious nuclear activities, the snapback provision, or the re-imposition of sanctions, will be activated. Korean companies engaging in business projects in the country would be caught in the crossfire. Ayatollah Khamenei, the Supreme Leader of the Islamic Revolution, in a meeting with the visiting Korean president, emphasized that Tehran-Seoul business ties should be pursued independent of sanctions and unaffected by the “U.S. and its ill-will.” In other words, he was saying Korea should continue with its business commitments to the country regardless of re-imposition of sanctions. But Seoul can hardly act beyond the international context and especially against Washington’s will considering our bilateral security alliance.

Geopolitical dangers remain high. Tensions have escalated to the brink of a war between long-standing rivals Saudi Arabia and Iran. For decades, the two have been fighting for dominance of the Islamic world with the Saudis representing a conservative Sunni Islamic kingdom with amicable ties with western societies, while Iran is a Shia Islamic Republic rooted in anti-western revolution. Their confrontation goes beyond the traditional sectarian divide of Sunni versus Shia and spills over to a wide range of geopolitical issues affecting their influence within the Persian Gulf region. The closer
Korea becomes with Iran, the more irritated other Gulf countries like Saudi Arabia and the United Arab Emirates will be. You cannot win all in diplomacy.

Then there is the internal political risk. In the Feb. 26 election for Majiis (the legislature), reformists and moderates supporting President Hassan Rouhani, who championed the landmark nuclear deal, won 158 sets out of the 290-member parliament, stealing the majority from the conservatives, who had dominated the legislature for 12 years. Moderates also secured a majority in the Assembly of Experts, the clerical body that elects the Supreme Leader. Rouhani has bought time to pursue his reform agenda, but traditional anti-western revolutionaries and hard-line clerics can always make a comeback. If the slump in oil prices is protracted, the Iranian government could experience a fiscal crisis. Korean companies could be burned.

Ahn Chong-bum, senior presidential secretary for economic affairs, said all deals carry risk factors. But it is the government’s role to thoroughly study the potential risks and map out contingency plans. Can the government fully guarantee the potential losses for companies that invested and entered business deals in the country with active government encouragement?

Of the $45.6 billion in purported deals, about $25 billion worth will be financed by state institutions like the Export-Import Bank of Korea and Korea Trade Insurance Corp. That amount is even bigger than the $20 billion state-guaranteed project financing pledged by China during President Xi Jinping’s January visit to Iran. If the deals fall through, the losses will be paid by the tax-payers.

Before it brags about its business diplomacy, the government should have been more prudent in choosing the companies and projects in consideration of the risks involved. Korea Inc. was hard hit by excessive competition when the economic and geopolitical situation in the Middle East soured following the last pursuit of a black gold rush in the 1980s. Korea should have learned from that lesson before rushing into the Middle East.

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