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The Effect of Foreign Direct Investment on Employment in the Provinces of Iran: with an Emphasis on Interregional Spillovers

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EXTENDED ABSTRACT

INTRODUCTION

Various factors affect the level of employment in a country. One of these factors is foreign direct investment (FDI), which has found a unique role in the economy of countries in recent decades. Like many countries, Iran faces a lack of investment resources to boost production, create employment, and achieve sustainable growth and development. Therefore, examining whether a foreign direct investment, as one of the critical factors providing investment financial resources, can play an influential role in increasing production and employment in the country can be very important in planning economic growth and development in the country.

The impact of investment at the national and regional levels can be different. One of these reasons is the existence of regional differences. Another reason can be seen in inter-regional communications and inter-regional spillovers. Based on this, a region can affect its surrounding regions. Therefore, changing a variable (attracting foreign direct investment) can have both intra-regional effects (changes in employment within the region) and inter-regional effects (changes in employment in surrounding areas). For this reason, it is necessary to consider interregional connections and spillovers in various studies, primarily regional studies.

Different views have been mentioned regarding the effect of foreign direct investment on employment at the regional level. For example, Rang et al. (2020) state that different regions have different labor markets in terms of structure and performance and even flexibility. Therefore, the entry of the same capital into different regions can have different effects on the production and employment of these regions. Also, based on the point of view of inter-regional spillovers, a region can affect its surrounding regions. Therefore, the

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entry of foreign direct investment into a region can have spillover effects on other regions. Therefore, it can be said that a region may not attract foreign direct investment, but its employment may change through inter-regional spillovers (spillovers from other FDI-attracting regions).

METHODOLOGY

This research investigates the spatial effects of foreign direct investment on employment in different regions of Iran from 2008-2019 using the spatial econometric model. The spatial econometric model considers direct and intra-regional effects, spillover, and inter-regional effects simultaneously. For this reason, this technique has been used to estimate the model. After examining the stationarity of the variables, the spatial dependence of different provinces should be tested, and finally, the desired model was estimated with the fixed effects Spatial Durbin Model (SDM).

FINDINGS

The estimation results showed that foreign direct investment has a positive and direct effect on the employment of the country's provinces. The coefficient of the direct effect of foreign direct investment on employment is estimated to be 0.022, and it indicates that one percent increase in foreign direct investment, the employment of provinces of the country increases by 0.022 percent. Also, its indirect (spillover) effects on the employment of the country's provinces (adjacent regions) are positive and significant, which shows that with a one percent increase in the gross domestic product of a province, the employment of the country's provinces increases by 0.356 percent. The direct and indirect (spillover) effects of the two variables of GDP and government spending in different regions have also had a positive and significant effect on the employment of the country's provinces.

CONCLUSION

Considering the positive and direct effect of foreign direct investment on the employment of Iran's provinces, it is suggested that policy-making to direct investments towards productive and value-creating activities should be put on the agenda for more optimal use. Considering the direct and indirect effects (spillover) of the credits granted by banks on the employment of the provinces of the country, it is suggested that banks grant more credits by increasing their financial resources; Of course, careful monitoring of it, directing it towards productive activities and facilitating the conditions for granting facilities can be beneficial in this vital matter.

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