

## Analysis of Foreign Direct Investment in Iran: The Role of Inhibiting Factors

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### Abstract

Foreign direct investment (FDI) plays a crucial role in the economic growth and development of countries. However, in Iran, sanctions have significantly impacted FDI across various dimensions. This research aims to analyze FDI in Iran, emphasizing the inhibiting factors during the period of 1369 to 1400 (1990 to 2021). Using the Mimic method, we calculated the volume of the shadow economy, and the Arch and Garch methods were employed to determine the uncertainties of the distress index and the real exchange rate. The Autoregressive Distributed Lag (ARDL) model with structural breaks was used to estimate the research model. The findings indicate that a one percent increase in the ratio of the underground economy to production raises FDI by 0.31 percent at a 90 percent confidence level. Similarly, a one percent increase in trade freedom improves FDI by 1.81 percent, and a one percent increase in human capital and research boosts FDI by 0.64 percent, both at a 90 percent confidence level. Additionally, a one percent decrease in the uncertainties of the real exchange rate and the distress index increases FDI by 0.32 percent and 1.96 percent, respectively, at a 95 percent confidence level. Moreover, a one percent decrease in the corruption control index results in a 0.22 percent increase in FDI at a 95 percent confidence level. To enhance the country's attractiveness for FDI, it is recommended to develop the necessary infrastructure and encourage foreign capital investment in both physical and social infrastructure. Furthermore, effective measures should be taken to improve the dynamics and efficiency of the financial system, promote tax incentives, increase economic stability, and enhance the productivity and skills of the workforce through appropriate training.

**Keywords:** Foreign direct investment; Misery index uncertainty; Exchange rate uncertainty; Shadow economy.

**JEL Classification:** F21, E31, F31, H26.

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