Journal website : https://pse.razi.ac.ir

Razi University

Public Sector Economics Studies Qurterly 7 PSE
Department of Economics, Faculty of Social Sciences, Economics and Entrepreneurship, Razi University
Vol. 3, Issue 7, Spring 2024 | Online ISSN: 2821-2681

The Effect of Foreign Direct Investment on Employment in Selected Oil-Exporting Countries of the Persian Gulf

Javaheri, B.[1]; Mozaffari, Z.[2] ; Mokhtaripour, R.[3]

Type of Article: **Research**
10.22126/PSE.2024.10090.1084
Received: 31 December 2023; Accepted: 28 March 2024
P.P: 117-138

Abstract
Employment, as one of the factors of development, has a significant impact on economic growth, poverty reduction, and social welfare. Foreign direct investment flows in the world in the last two decades have had a noticeable impact on the labor market in developed and developing economies. The impact of foreign direct investment on employment levels can vary depending on the economic conditions and status of each country, as well as the type and amount of inbound investments. This current article evaluates the impact of foreign direct investment on employment levels during the period 2019-2000 in 6 selected countries in the Persian Gulf region, including Iran, Saudi Arabia, Qatar, Kuwait, Bahrain, and Iraq, using panel data methodology. The results show that foreign direct investment has a positive and significant impact on employment. Additionally, gross domestic product has a positive and significant impact on employment. Oil revenues, human capital, and institutional quality have a negative and significant impact on employment. Based on the results of the article, attracting FDI can be proposed as a strategy to increase employment levels in these countries. In other words, foreign direct investment and gross domestic product can significantly contribute to increasing employment and improving the economic and social conditions of countries in the Persian Gulf region.

Keywords: Employment, Foreign Direct Investment, Panel Data.

JEL Classification: F21, E24, C23.

1. Associate Professor, Department of Economics, Faculty of Humanities and Social Sciences, University of Kurdistan, Sanandaj, Iran (Corresponding Author).
Email: b.javaheri@uok.ac.ir

2. Assistant Professor, Department of Economics, Faculty of Humanities and Social Sciences, University of Kurdistan, Sanandaj, Iran.
Email: z.mozaffari@uok.ac.ir

3. Master of Economics, Faculty of Humanities and Social Sciences, University of Kurdistan, Sanandaj, Iran.
Email: rezamokhtaripoor1374@gmail.com

Citations: Javaheri, B.; Mozaffari, Z. & Mokhtaripour, R. (2024). "The Effect of Foreign Direct Investment on Employment in Selected Oil-Exporting Countries of the Persian Gulf". *Public Sector Economics Studies*, 3 (7), 117-138.
Homepage of this Article: https://pse.razi.ac.ir/article_2984.html?lang=en

1. Introduction

The Impact of Foreign Direct Investment on Employment is one of the important and widely studied topics in the economy of the countries in the Persian Gulf region. Given the abundant oil resources in this area, foreign investments are considered as one of the main sources of capital for these countries. This type of investment can have a significant impact on employment and the overall economy of these countries. With the increase in foreign direct investment, creating job opportunities for the local population is among the important effects of these activities. This type of investment usually leads to an increase in local workforce and employment by establishing and expanding production and service units. Additionally, these investments can contribute to technology transfer, upgrading the skills of local workers, and developing regional business insights. The main objective of this article is to investigate the impact of foreign direct investment on employment in selected countries in the Persian Gulf region (Iran, Saudi Arabia, Qatar, Kuwait, Bahrain, and Iraq) using data from the period 2000 to 2019.

2. Theoretical Framework

The type of activities carried out by Foreign Direct Investment (FDI) can also influence its impact on employment. For example, in some industries, FDI may lead to an increase in employment, while in other industries, it may have no positive or negative impact. On the other hand, some economic literature suggests that FDI may not affect employment. FDI could have a neutral impact because its relationship with other sectors of the economy may be complex and diverse. For instance, if FDI in a specific sector leads to an increase in demand for other products and services, its positive effects on employment in other sectors of the economy may be observed. However, in some cases, these relationships may have neutral effects.

3. Methodology

The topic of investigating the impact of Foreign Direct Investment (FDI) on Employment in selected oil-exporting countries in the Persian Gulf region is of interest. To examine these effects, the panel data methodology is considered as a suitable analytical approach. This method allows for the consideration of temporal and spatial variations in the data and manages fixed and random effects. By using this approach, the effects of FDI on employment over time and in different countries can be studied, and various factors that may influence this relationship can be controlled. This method is of great importance in analyzing the economic and social effects of foreign direct investment on employment in this region.

4. Discussion

The article discusses the results of a study on the impact of Foreign Direct Investment (FDI) on Employment in six selected countries in the Persian Gulf

Public Sector Economics Studies Qurterly PSE 7
Volume 3, Issue 7, Spring 2024

region, including Iran, Saudi Arabia, Qatar, Kuwait, Bahrain, and Iraq, during the period of 2000-2019. Employment is considered a crucial factor for development, significantly influencing economic growth, poverty reduction, and social welfare. The flows of FDI worldwide have had a considerable impact on the labor market in both developed and developing economies in recent decades. The effect of FDI on employment can vary depending on the economic conditions of each country and the type and amount of incoming investments.

The study utilized panel data methodology to evaluate the relationship between FDI and employment levels in the selected Gulf countries. The results indicated a positive and significant impact of FDI on employment. Additionally, Gross Domestic Product (GDP) had a positive and significant effect on employment, while oil revenues, human capital, and institutional quality had negative and significant effects on employment. Based on the findings, attracting FDI could be considered a strategy to increase employment levels in these countries. In other words, Foreign Direct Investment and GDP can significantly contribute to increasing employment and improving the economic and social conditions in the Persian Gulf countries.

By addressing these challenges and implementing targeted policies, such as improving human capital, economic diversification, and institutional quality, GCC countries can fully harness the potential of foreign investment to stimulate economic development and create permanent job opportunities.

5. Conclusion and Suggestions

The study examined the impact of Foreign Direct Investment (FDI) on Employment levels in selected countries in the Persian Gulf region over the period of 2000-2019. The results revealed a positive and significant relationship between FDI and employment, indicating that attracting FDI can be a viable strategy to increase job opportunities in these countries. Additionally, Gross Domestic Product (GDP) was found to have a positive effect on employment, highlighting the importance of economic growth in driving job creation. On the other hand, factors such as oil revenues, human capital, and institutional quality were identified as having negative effects on employment, suggesting the need for targeted policies to address these challenges.

Promoting FDI Inflows: Governments in the Persian Gulf countries should focus on creating a conducive environment to attract more FDI. This can be achieved through policy reforms, infrastructure development, and investment incentives. In conclusion, the findings of this study underscore the importance of FDI in driving employment growth in the Persian Gulf countries. By implementing targeted strategies to attract FDI, investing in human capital, diversifying the economy, and improving institutional quality, these countries can harness the potential of foreign investment to enhance employment opportunities and foster sustainable economic development.

6. Ethical Considerations

6.1. Compliance with ethical guidelines

The authors of the article declare that research ethics have been observed in this article.

6.2. Funding

The authors of the article have not received any budget from any organization or company to conduct the research.

6.3. Authors' contribution

The author of the article declares that all aspects of this research have been conducted by them.

6.4. Conflict of interest

The authors of the article declare that there is no conflict of interest in this research.

6.5. Acknowledgments

The valuable comments and suggestions of the respected reviewers are greatly appreciated for improving the status of the article.