

**Scrutiny for barriers to investment in Iran (case study in Investment Center of Khuzestan County)**Dr. Gholam Hossein nikokar<sup>1</sup>, maziar assef<sup>2</sup>, mohammad ali erfani<sup>3</sup><sup>1</sup>. Department of Management, Imam Hossein Comprehensive University, Tehran, Iran<sup>2</sup> Department of management, University of Tehran Kish International Campus, Kish Island, Iran<sup>3</sup> Department of management, University of Tehran Kish International Campus, Kish Island, Iran[Gh.H.Nikokar@gmail.com](mailto:Gh.H.Nikokar@gmail.com)

**Abstract:** One way of developing countries is Investment. Investment is use of capital in new or existing economic enterprise after obtaining a license. Attract investment capital is way to accelerate the move towards economic development and job creation, and can be used as a lever for development and economic growth. Due to our economic potential and ability and willingness of investors to attract foreign capital in our country has been unable to successfully acquire necessary. This lack of success due to a series of obstacles on the way in which investors are referred to in this paper.

[Gholam Hossein nikokar, maziar assef, mohammad ali erfani. **Scrutiny for barriers to investment in Iran (case study in Investment Center of Khuzestan County)**. *Life Sci J* 2012; 9(3):396-402]. (ISSN: 1097-8135). <http://www.lifesciencesite.com>. 55

**Keyword:** investment, barriers, economics, development

**1. Introduction**

Investment leads to reform management and exchange of economical experience and implementing new technologies. In Iran to achieve a share of the large volume of capital transfers many efforts are already in the world. And Overcome many obstacles, but Iran's share of the global capital is yet scarce. Despite Iran's possession of its strategic location, which provides access to regional markets, and have the necessary resources and potential for investment has ever been a remarkable share of the funds allocated to that? Iran's economic advantages can better identify with many attractions for foreign investment there. Iran has the capability to attract foreign and Iranian investment, but has been very weak in this area.

Iran's free zones have the ability to attract large investments, But due to lack of proper infrastructure investors are not willing to invest in these areas. The infrastructure problem is that Iran isn't membership in the WTO. Membership in this organization can help resolve some problems fundraising. As long as economies are completely public, the country should not expect to have funds, because investors are working in countries with liberalized policies, deregulation and privatization. We should note that foreign investment is complementary to national investment. While national investment do not find place in your country can not expect to, Foreign capital entering to my country

**2. Importance of investment**

Investment has long been considered as important issue. There are Motivations that can help increase investment such as consideration of tax

incentives, investment guarantees and financial assistance to foreign investors. It seems that the policy of investee countries, especially in the field of international investment is important. Therefore, accepting the fact that financial markets of these countries spend their early stages, the importance of understanding this phenomenon in recent decades has doubled. Recognizing the potential and our ability to attract foreign capital can destroy some of the difficulties in attracting investment. So how could we mention this is that despite these obstacles, to attract foreign capital, an important issue and can be considerable.

The Impact of Investment is one of the major issues for developing countries that are often receptive foreign and domestic Investment. Investment in projects such as dams, power plants, roads, airports, and similar cases, and also directly productive projects is very important. For implementing these projects, capital requirements and for funding capital there are different ways such as borrowing from international institutions and governments, foreign investment credit (indirect) and direct foreign investment and national investment. Proliferation of technology has a pivotal role in economic development. In addition, foreign investment by multinational corporations as the main way of access to technology for developing countries. Experimental studies have shown that FDI is more stable than other types of international investors and policy-making often has a positive effect on economic growth.

Much research in the field of impact of investment in industrial growth Iran has been done that show: Percentage of exports of industrial

participate production with the percentage of foreign direct investment has a direct relationship

### 3. The potential advantages of investment

The potential advantages of foreign investment are:

- huge oil and gas reserves,
- abundant natural resources,
- unique geo-strategic position in the region,
- long sea borders,
- intensive consuming market and
- Young & cheap educated labor force

### 4. Reasons for failure to attract investment

Due to our economic potential and ability and willingness of investors to attract foreign capital in our country has been unable to successfully acquire necessary. This lack of success due to a series of obstacles on the way in which investors are referred to in this paper. The following summary of the obstacles are considered:

1. Lack of national eagerness and determination in attracting foreign investment
2. Poor performance for Iran free zones
3. Failure in performing privatization
4. Restriction of private, local or foreign banks and insurance companies
5. Extreme bureaucracy
6. Economic barriers
7. Legal barriers
8. Cultural barriers
9. Political barriers
10. Instability in policies and laws
11. High risk
12. Lack of proper cultural ground
13. Inappropriate social security which waste about 30% of Capital and increase the production costs with no economic feasibility
14. External barriers like imposed sanctions
15. Poor advertising and marketing

#### 4.1. Economical barriers

Economic barriers such as: Excessive expansion of public sector, Currency fluctuations, Inefficient trade policies, lack of economic stability, lack of physical infrastructure, ports weakness, weakness of encourage and promote activities and services of investment, lack of adequate skilled manpower and...

#### 4.2. Cultural and social barriers

As of the elements discouraging foreign investment in Iran, cultural and social constraints can be mentioned. Lack of a suitable technology culture,

absence of efficient information and communication networks, lack of incentives for hard work among people, lack of institutionalization of law among people, burdensome bureaucracy, traffic problems in major cities, etc., are major instances that have greatly reduced productivity in the country. Low productivity on the large and small scales indicates inability in making good use of available resources. Encouraging extravagance after oil price hike in 1974 was a major reason for wastage of rare resources. Spreading culture of optimization on large and small scales in the society would require scientific education and research from elementary school up to higher education. Another cultural barrier is the risk of spreading corruption. Preventing corruption and bribery in the society is an important issue which calls for due attention. Administrative corruption will discredit laws and regulations and lead to heavy personal and social costs.

#### 4.3. Legal barriers

Despite the encouragement and protection of foreign investment law to attract foreign investors, implementing regulations. is faced with difficulties . Lack of coordination has caused confusion and uncertainty and complexity of various provisions of the Foreign Investor. and will intensify the ruling bureaucracy and government offices. Despite laws and regulations in many cases, due to the difficulty of implementing the above mentioned cases.

#### 4.4. variety of Centers of decision making

Although the law has tried to encourage and support foreign investment in all relevant institutions in order to concentrate investments in one place, However foreign investors in Iran are not the only one with this organization. Government offices and institutions in Iran's decision was not only multiple, they also suffer from some kind of mismanagement and lack of coherent planning.

#### 4.5. Administrative infraction

A major obstacle in implementing the laws and regulations, agencies and organizations at the level of corruption is Administrative infraction .This can be an obstacle in the way of investors in the country. It is likely that companies wishing to operate in Iran, despite having all the legal conditions for the start investment face to obstacles that the source is illegal behaviors.

#### 4.6. Foreign exchange regulations

Other factor that limiting the activity of foreign investors is the issues of currency transfers. Foreign investment law requires that foreign investors use only known of currencies by central

bank. All these activities are done by banking systems that approved by the Central Bank of Iran. If the foreign investor wants no foreign exchange to the country's official currency, is required to pay their foreign orders will oversee the organization.

#### 4.7. Political factors

The main obstacle is political sanctions against the laws of America. And then the lack of national consensus on how to attract and absorb foreign capital. This last factor has led to a lack of coherence and coordination between different devices is implemented. Other factors such as political instability, security problems, different interpretations of political independence, non-controversial and political trends in fundraising is also a political problem.

#### 4.8. Tax Law

It was old and hindering but recently has had a remarkable decrease in tax rates. The rate of income tax decreased from 54% to 25% that covers all shareholders and company owners as well as the investing companies do not pay any income tax.

#### 4.9 Information and communication factors

With Using information systems and telecommunications we can introduce investment opportunities in Iran in the shortest time to national and foreign investors, And marketing for projects. We will be introduced Capabilities, opportunities and foreign investment projects in different sectors of industry and mining, oil and gas, tourism, transportation and other sectors And also provides the opportunity for investors to select projects And the investment act. In this way it becomes possible for investors to register.

#### 5. Data collection tool

Using data collection tools in the investigation is different, Because the data collection tool to the subject, purpose and research design depends.

Basis points in the method of research tools are such as: interviews, library studies and questionnaires were used for data collection. A questionnaire to identify barriers investment is designed with Likert Scale that the Likert Scale is a five point scale that by SPSS software has been analyzed.

#### 5.1. Validity of questionnaires

Validity means that we are measuring what we want to measure. There are a number of types of validity including:

- Face Validity - whether at face value, the questions appear to be measuring the

construct. This is largely a "common-sense" assessment, but also relies on knowledge of the way people respond to survey questions and common pitfalls in questionnaire design;

- Content Validity - whether all important aspects of the construct are covered. Clear definitions of the construct and its components come in useful here;
- Criterion Validity/Predictive Validity - whether scores on the questionnaire successfully predict a specific criterion. For example, does the questionnaire used in selecting executives predict the success of those executives once they have been appointed; and
- Concurrent Validity - whether results of a new questionnaire are consistent with results of established measures.

To increase the validity of research were reviewed the research literature from the library of theses and research papers and several books. After interviews with managers and experts, research variables are identified and questionnaire was prepared. Finally questionnaire was reformed with faculty advisors consultation. We ensure that respondents understand the questions in the questionnaire does not have a problem with the final questionnaire it was distributed.

#### 5.2. Reliability of estimates of questionnaire

Reliability means the consistency or repeatability of the measure. This is especially important if the measure is to be used on an on-going basis to detect change. There are several forms of reliability, including:

- Test-retest reliability - whether repeating the test/questionnaire under the same conditions produces the same results; and
- Reliability within a scale - that all the questions designed to measure a particular trait are indeed measuring the same trait.

Questionnaire reliability is measured using Cronbach's alpha. value 0.89 has acceptable.

#### 6. Analysis of data

##### 6.1. Data analysis tool

In this study, has been used statistical analysis of a specialized SPSS software And the One-Sample Test was used to check Hypothesis and Friedman test for ranked barriers.

##### 6.2. Evaluation hypothesis analyze of questionnaire data

To check the hypothesis, the  $H_0$  hypothesis and the  $H_1$  hypothesis that expression is used as follows:

$$\left\{ \begin{array}{l} H_0: \mu \geq 3 \\ H_1: \mu < 3 \end{array} \right.$$

$H_0$  : The agent is an obstacle to investment.

$H_1$  : The agent is not an obstacle to investment.

This research is based on tests and One-Sample Test Test Value = 3 has been done. Sig for this test Shows that mean is larger or smaller than 3. This factor is shown that a factor is a barrier to investment or not. If Sig test is less than 0.05 and lower and upper limits for both tests are positive, it means the average case is larger than 3 And this factor is an obstacle to investment. If Sig test is over than 0.05 and lower and upper limits for both tests are negative, it means the average case is smaller than 3 And this factor is not an obstacle to investment.

**Evaluation The first hypothesis**

$H_0$  : Policy is an obstacle to investment in Iran

$H_1$  : Policy is not an obstacle to investment in Iran

Table (1): One-Sample Test To test for Political barriers

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
Policy	6.57	43	.033	.825	.57	1.08

According to the analysis that in Table (1) is shown, the test sig(P-Value) is 0.033 and is smaller than 0.05 and can be concluded that for Policy barriers is important for investment and  $H_0$  is accepted.

**Evaluation The second hypothesis**

$H_0$  : Cultural is an obstacle to investment in Iran

$H_1$  : Cultural is not an obstacle to investment in Iran

Table (2): One-Sample Test for Cultural barriers

Culture	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
Culture	6.26	43	.025	.861	.55	1.42

According to the analysis that in Table (2) is shown, the test sig(P-Value) is 0.025 and is smaller than 0.05 and can be concluded that Culture is important for investment and  $H_0$  is accepted.

Many people in iran have not motivation for investment and do not pursued for Investment issues.

**Evaluation The third hypothesis**

$H_0$  : legislation is an obstacle to investment in Iran

$H_1$  : legislation is not an obstacle to investment in Iran

Table (3): One-Sample Test for Legal barriers

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
egislation	3.42	43	.021	.895	.32	0.88

According to the analysis that in Table (3) is shown, the test sig(P-Value) is 0.021 and is smaller than 0.05 and can be concluded that legislation is important for investment and  $H_0$  is accepted.

**Evaluation The fourth hypothesis**

$H_0$  : Information and communication are obstacles to investment in Iran.

$H_1$  : Information and communication are not an obstacles to investment in Iran .

Table (4): One-Sample Test for Information and communication

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
Information	6.18	43	.042	.865	.97	1.28

According to the analysis that in Table (4) is shown, the test sig(P-Value) is 0.042 and is smaller than 0.05 and can be concluded that Information and communication is important for investment and  $H_0$  is accepted.

**Evaluation The Fifth hypothesis**

$H_0$ : Foreign exchange regulations are an obstacle to investment in Iran

$H_1$ : Foreign exchange regulations are not an obstacle to investment in Iran

Table (5): One-Sample Test for Foreign exchange regulations

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
Foreign exchange	4.52	43	.035	.575	.32	1.33

According to the analysis that in Table (5) is shown, the test sig(P-Value) is 0.035 and is smaller than 0.05 and can be concluded that Foreign exchange regulations is important for investment and  $H_0$  is accepted.

**Evaluation The sixth hypothesis**

$H_0$  : Economical barriers are an obstacle to investment in Iran

$H_1$ : Economical barriers are not an obstacle to investment in Iran

Table (6): One-Sample Test for Tax Law

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
Economic	5.53	43	.013	.546	.47	0.88

According to the analysis that in Table (6) is shown, the test sig(P-Value) is 0.013 and is smaller than 0.05 and can be concluded that Economic is important for investment and  $H_0$  is accepted.

**Evaluation The Seventh hypothesis**

$H_0$ : performance for Iran free zones is an obstacle to investment in Iran

$H_1$ : performance for Iran free zones is not an obstacle to investment in Iran

Table (7): One-Sample Test for Poor performance for Iran free zones

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
free zones	6.21	43	.018	.825	.78	1.98

According to the analysis that in Table (7) is shown, the test sig(P-Value) is 0.018 and is smaller than 0.05 and can be concluded that performance for Iran free zones is important for investment and  $H_0$  is accepted.

**Evaluation The Eight hypothesis**

$H_0$ : performing privatization is an obstacle to investment in Iran

$H_1$ : performing privatization is not an obstacle to investment in Iran

Table (8): One-Sample Test for Failure in performing privatization

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
privatization	6.5	43	.043	.825	.57	1.08

According to the analysis that in Table (8) is shown, the test sig(P-Value) is 0.043 and is smaller than 0.05 and can be concluded that performing privatization is important for investment and  $H_0$  is accepted.

**Evaluation The Ninth hypothesis**

Table (9): One-Sample Test for variety of Centers of decision making

	Test Value = 3					
	t	df	Sig	Mean Difference	95% Confidence	
					Lower	Upper
Centers of decision making	6.57	43	.029	.825	.57	1.08



According to the analysis that in Table (9) is shown, the test sig(P-Value) is 0.029 and is smaller than 0.05 and can be concluded that Centers of decision making is important for investment and  $H_0$  is accepted.

### 6.3Friedman test for ranked barriers

In this study, nine barriers were identified for investment, and Friedman test can be ranking barriers and compared barriers together.

Table (9): Friedman test for ranked barriers

barriers	Mean Rank
Political barriers	4.69
Cultural barriers	4.51
Legal barriers	4.28
Information and communication	3.66
Foreign exchange regulations	3.95
Economic barriers	4.22
Poor performance for Iran free zones	4.43
Failure in performing privatization	4.32
variety of Centers of decision making	3.70

Table (10): Test Statistics<sup>a</sup>

N	44
df	8
Asymp. Sig.	.000

According to The coefficients obtained the Friedman test sig in the table, barriers have a different effect. Ranked in order of importance of these dimensions in the table is based on the Friedman test. As can be seen the most important aspects are

- Political barriers
- Failure in performing privatization
- Cultural barriers
- Economic barriers
- Poor performance for Iran free zones

### 7.Suggestions to remove barriers of foreign investment:

- Speeding the process of privatization and reducing the State dominance
- Vast advertising for foreign investments inside and outside the country
- Mobilizing all necessary resources for investment opportunities in Iran

- A careful study and reforming the protective laws
- Empirical investigation on presence of Foreign Banks in Iran
- Creating a proper and safe system to provide trustworthy statistics
- Creating special zones and facilities for foreign investors to reside
- Vast advertising to restore trust with foreign investors
- Using local and foreign facilities to attract foreign investments
- Revising in Iran investment, technical and financial assistance organization

### Conclusion

The major obstacle to investment and the most fundamental problem is legal. The failure of existing laws and regulations in Iran is caused that investors do not have a clear vision of their investment. Among these problems can be pointed to some of the principles of the constitution. Investors prefer to invest in countries that are members of WTO or regional trade union. Because Membership in the WTO reduce trade barriers between member countries.

Another infrastructural barriers, lack of adequate transportation system in our country such as Short railways, locomotives and aircraft compared to other countries or for example, European countries do not allow us to enter the soil. Iran in terms of equipment and loading is low compared to neighboring countries. One successful way of attracting foreign direct investment is policy of liberalization and privatization.

- foreign direct investment can facilitate the state's economic growth which prepares the grounds to attract foreign direct investment in Iran's economy.
- The economic stability is a factor to draw foreign direct investment and instability factors such as inflation and fluctuation of foreign exchange will have a reverse effect.
- Other factors such as taxation, level of cooperation with other countries and existence of domestic capital are of other influential factors in foreign direct investment in Iran.

### Reference

1. Matteo Bugamelli & Patrizio Pagano, 2004. "Barriers to investment in ICT," Applied Economics, Taylor and Francis Journals, vol. 36(20), pages 2275-2286.

2. Evans , Kimberly , ForeignPortfolio Investment and Direct Investment , 2002,Retrieved from : 6/10/2012  
www.OECD.org.
3. Ricardo J. Caballero & Eduardo M.R.A. Engel, 1994. "Explaining Investment Dynamics in U.S. Manufacturing: A Generalized (S,s) Approach," NBER Working Papers 4887, National Bureau of Economic Research, Inc.
4. Ansari, A.R. (1993) "Practical Methods to Attract Investment!," Economic Magazine, Vol. 8, No.6, January .
5. Ansari, A.R. (1995) "Foreign Physical Investments and How to Attract them",Ministry of Economic Affairs and Finance, spring . Bilateral Investment Treaties.
6. Entezari, S. (1997) "In Search of Attracting Foreign Partnerships," Chamber of Commerce Letter, No. 12 .
7. Hajiali, M. (2000) "Foreign Direct Investment!", Ravand (in Farsi), Vol. 10, Nos. 28 ,29 & Spring & Summer .
8. Iranian Economy (2002) "Ambiguous, Bewildering but Promising," , No. 42 ,August .
9. Management and Productivity, (1998) No. 58, June & No. 61, September. 9 .
10. Nassirzadeh, Gh. "About Foreign Direct Investment," Industry and Safety, Nos. 16
11. Nazari, M. "A Review of Historical Reasons Behind Industrial Growth of Iran ",Political-Economic Ettelaat, No. 36 .
12. Mallampally, P. & Karl P. Sauvan (1999)!, "Foreign Direct Investment in Less developed Countries," Finance and Less developed, Vol. 36, No. I. March .
13. .Robock, S.H. and Simmonds, K. (1989) "International Business and Multinational Enterprises," The World Bank Group Directory. .
14. Sarfaraz, L. (1998) "A Review of Export and Import Impediments to Iran's Accession to WTO," Less developed of Non-Oil Exports Conference, August .
15. UNCTAD, (1998) World Investment Report, Trends and Determinants, Table IV. L .P. 91 .
16. Websites of CISID and MIGA. The World Bank Group Directory 1999.
17. Caballero, R.J., 1994. "Explaining Investment Dynamics in U.S. Manufacturing: Generalized (S,S) Approach," Working papers 94-32, Massachusetts Institute of Technology (MIT), Department of Economics.
18. Bernanke, Ben S, 1983. "The Determinants of Investment: Another Look," American Economic Review, American Economic Association, vol. 73(2), pages 71-75, May.