

Analysis of the Impact of Foreign Direct Investment on the Integration of the Automotive Industry of Iran into Global Production Networks

Bahareh Mostofian

Charles University, Czechia

Abstract

Foreign Direct Investment (FDI) has long been recognized as a crucial driver of economic growth and development in less-developed countries and their integration into Global Production Networks (GPNs). FDI not only brings capital from the core countries but also technology, innovation, and know-how knowledge that can upgrade the capabilities of host automotive industries. On the other hand, FDI can also have negative impacts on host countries if it leads to significant import dependency. In the case of the Iranian automotive sector, the industry greatly benefited from FDI, with Western carmakers dominating the market. Over time, various types of know-how knowledge, including joint ventures (JVs), trade licenses, and technical assistance, have been provided, helping Iran upgrade its automotive industry. While after the severe geopolitical obstacles imposed by both the EU and the U.S., the industry became over-reliant on the car and spare parts imports, and the lack of emphasis on knowledge transfer further affected the growth and development of the Iranian automotive sector. To address these challenges, current research has adopted a descriptive-analytical methodology to illustrate the gradual changes accrued with foreign suppliers through FDI. The research finding shows that after the two-phase imposed sanctions, the detrimental linkages created by overreliance on the car and spare parts imports without any industrial upgrading negatively affected the growth and development of the national and assembled products of the Iranian automotive sector.

Keywords: Economic Growth, Foreign linkages, Geopolitical Obstacles, Import, know-how knowledge