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Examining the ineffectiveness of the government's approach in policymaking in the field of foreign investment in Iran; Analysis in the framework of Markovian equilibria

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Abstract

In economic literature, capital accumulation and foreign investment are always considered as essential factors in creating economic growth and development. The most important advancement of this study is to provide a framework for understanding the causes of ineffectiveness of the government's approach in facing the issue of foreign investment in Iran. In fact, understanding how the actors involved in the investment issue are motivated and how they interact in order to form cooperative behaviors can help to understand the reasons for the ineffectiveness of the government's approach in the field of foreign investment. For this purpose, in the present study, the interaction of the players involved in the foreign investment issue has been analyzed in the framework of Markovian equilibria. The results of the present study show that the socio-economic position of the people and the degree of credibility of the government's policies have an effect on how they interact with other actors (investors and the government). So, the higher the people's understanding of existing inequality (class gap) or the lower the credibility of the government's promises, the higher the probability of non-cooperative behavior from the people.Therefore, it is suggested that the government should pay special attention to the interests of actors in the field of action and how to motivate them in order to form cooperative behaviors when formulating policy programs. Also, considering that the interaction of the players involved in the issue of foreign investment has an impact on policy outcomes, therefore, when making policies, it is better for the government to avoid applying a top-down approach, which mostly ignores the interests of the players. The findings of this study can help to improve the government's approach to the issue of foreign investment and in this way, provide the grounds for attracting and promoting more investment.

Keywords: Markov equilibrium, foreign investment, Bellman equations.

JEL Classification: F23, C73, Q38.

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1. Introduction

During the last few decades, developing countries have made great efforts to attract foreign investment. These countries need high capital inflows to accelerate economic growth. The economic growth of these countries is influenced by factors such as infrastructure, the level of existing technology, the development of export markets and the growth rate of employment. Since foreign investment can lead to capital accumulation, increase in employment and transfer of technology and management knowledge, therefore, the mentioned countries are seriously trying to attract foreign investment (Kumari & Sharma, 2017; Ashurov et al, 2020). Nevertheless, the review of the existing literature shows that almost none of the studies pay attention to the government's approach, preferences and profit patterns of the players involved in the issue of foreign investment, which can lead to important mistakes in the field of politics. In fact, understanding how the players involved in the problem interact and how it affects policy outcomes is an important issue that has been neglected in the existing literature. This article tries to fill the mentioned gap. For this purpose, the interaction of actors involved in the problem (government, foreign investors and people) has been analyzed using the framework of Markovian equilibria.

2. Theoretical Framework

In economic literature, capital accumulation and investment are always considered as essential factors in creating economic growth and development, so that in many theories of economic development, investment is mentioned as a driver of economic growth (Sidnoorani et al, 2019). Various factors such as gross domestic product (Cahyono, 2013), institutional quality and political stability, degree of trade openness (Asiedu, 2013; Ojeng et al, 2015), tax policies, market size, access resources and cheap labor affect the attraction of foreign investment. Among the various factors influencing investors' decision-making, institutional factors are very important; Because they create the motivation of the actors present in the field of action and affect the amount of investment (Okara, 2022) .Good governance focuses on the fact that all stakeholders and actors involved in the issue should be involved in the process of policy making and effective implementation of policies.

3. Methodology

This research is based on the analysis of the behavior of the players involved in the problem of foreign investment in the framework of Markovian equilibria. It should be noted that in this study, in order to analyze the behavior of the players in the field of action and formulate their behavior, the studies of Acemoglu and Robinson (2006), Acemoglu (2003) and Olson (1965) were used. The income of the government in case of providing people's interests is equal to: $V^G=Y^G-PB$ where Y^G is the government's income and PB is the benefits considered for the people by the government to prevent them from threatening. On the other hand, if the government is indifferent to this issue, the government's income is equal to $V^G=Y^G-\Omega\bar{Y}-NF$, where $\Omega\bar{Y}$ is part of the lost resources due to threats from the people, and NF is the amount of benefit that could be given to the government if the investment is made (actually equivalent to the opportunity cost of not making the investment). When the government chooses between paying attention to the people's demands and being indifferent to satisfying the people's demands, the government compares the amount of PB with the sum of $(\Omega\bar{Y}+NF)$.

If $PB<\Omega\bar{Y}+NF$, the government provides benefits.

If $PB>\Omega\bar{Y}+NF$, the government does not pay attention to providing the interests of the people.

The government's ability to prevent people from threatening and dissuade them depends on how the benefits obtained by the people in the state of threat and non-threat. At this point of decision-making, if the government promises to fulfill the people's demands, in the next stage it is the people who must decide whether to threaten or cooperate with other actors.

If $V_{(after\ PB)}^P>V_{(after\ threat)}^P$, that is, people's reward after providing benefits by the government is more than people's reward after threatening, not threatening will be an attractive option for people. That is, the relationship (3) holds true:

$$Y^P+m[(\bar{Y}-Y^P)-\Omega\bar{Y}]>(\bar{Y}-\Omega\bar{Y})/n^p \quad (3)$$

If m is relatively large and θ is small, people may not have a strong desire to threaten; That is, $\Omega\geq\theta$. For the purpose of more detailed analysis, if a threshold level is defined for the threat cost and denoted by the symbol Ω^*, according to statement (1):

If $\Omega\geq\Omega^*$, the government can prevent the threat to the people by providing benefits.

If $\theta\leq\Omega$, the people do not consider the threat to be an appropriate measure and the government is not willing to provide the interests of the people.

4. Discussion

Taking into account the way actors interact and act in the field of action, it is possible to analyze the optimal actions of the players. In the field of policy-making, the government should pay basic attention to the demands and interests of the players involved in the issue, and by identifying and understanding how the players are motivated and including such issues in the policy agenda, adopt an optimal approach and avoid from the top-down approach that Following that, the demands and interests of actors in the field of action are ignored and avoided. Also, strengthen the credibility aspect of policies and adhere to the promises made in the future.

5. Conclusion and Suggestions

Based on the literature of institutionalism, the appropriate approach of governments can influence the decision-making process of investors by shaping market expectations. In fact, understanding how the players involved in the problem interact and how it affects policy outcomes is an important issue that should be considered by policymakers. For this purpose, the present study seeks to understand the mentioned mechanism by using the framework of Markovian equilibria and analyzing the interaction of the actors involved in the problem. The findings of the present research indicate that the socio-economic status of individuals and the credibility of government policies influence the interaction of the factors involved in the problem.

The findings of the present study lead to important policy suggestions. It is better for the government to pay attention to the fact that the interaction of the players involved in the issue of foreign investment has an impact on policy outcomes, and therefore, it should pay basic attention to the demands and interests of the players involved in the issue and by identifying and understanding how to motivate them, becoming players and including such issues in political agendas, adopt an optimal approach and avoid the top-down approach that ignores the demands and interests of actors in the field of action. For example, the government can use local people in order to provide the necessary labor force in investment projects. With this action, people consider themselves partners in the benefits of investment, and therefore their motivation to cooperate is strengthened. It is also suggested that the government should strengthen the credibility aspect of policies and stick to the promises it makes in the future.

6. Ethical Considerations

6.1. Authors' contribution

Supervision: R.F. Conceptualization, methodology, validation, formal analysis, resources, writing-original draft preparation, writing-review and editing.

6.2. Funding

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6.3. Conflict of interest

The authors declare no conflict of interest.

6.4. Acknowledgments

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