Abstract

The Covid-19 pandemic has had a considerable influence on international economic cooperation mainly due to a prolonged shock on global aggregate demand. This paper assembles a review of the relevant literature on institutional FDI policy pre- and post-pandemic to provide an insight on further study of the institutional matter and policy impacts of Covid-19. We gather evidence pertaining to the shock of FDI flows over the past 3 years as well as the impact of the most recent global recession of 2008-09 on FDI, to form a base of discussion and provide an anecdotal account of anticipated long-term FDI trends following Covid-19. This paper also reviews country level FDI policy responses and post-pandemic literature on institutional policy pertaining to multinational corporation investment decisions. In the capacity of a literature review, the research and documentation reviewed can provide the framework for further analysis of the impact of Covid-19 on the international economy.

Keywords: Covid-19, FDI, institutional quality, foreign investment policy, international economy

The Institutional Matter and Policy Impact of the Covid-19 Pandemic on Investment for International Economy – Winter 2020

1 – Introduction

During normal times, foreign direct investment is greatly influenced by national and international conventions, norms, and customs in both host and origin countries. The Covid-19 pandemic has tested the boundary and revealed both strengths and weaknesses of prevailing institutions which determine the flow of investment across borders. While traditionally FDI has been studied with the guidance of macroeconomic determinants, there is a growing field of research focussing on the institutional qualities which determine investment by multinational companies. It is therefore appropriate to investigate the impact of Covid-19 in the scope of this emerging research direction, while taking into consideration the foundational literature on the subject from the field of international economics.

A number of academics in the field of foreign direct investment and institutional policy have shown interest regarding the economic crisis set forth by Covid-19 and the potential impact that institutional responses will have on FDI. Although, the published literature on the topic is not yet comprehensive. Therefore, we will begin by developing an anecdotal account of the literature regarding the institutional matter of FDI and attempt to conceptualize our findings within the current situation. This research in its capacity as a literature review attempts to synthesize the existing literature of the economics of Covid-19, and global trends in institutional FDI policy.

Global health governance and movement of both humans and goods, have been the clearest examples of barriers generated by international institutions during the pandemic. In countries with federal political systems, the relationship between regional and national governments have revealed benefits and disadvantages in comparison with unitary systems for the management of this crisis. In Canada, the responsibility of mitigating the economic impact of the pandemic has fallen in large part to provincial hands, reducing any benefit that comes with a top-down approach from the central government. An effective response has been characterized by the ability of national governments to mobilize resources on hand, countries such as South Korea and New Zealand have shown strong coordination at the federal level which may be the key to an effective crisis response.

When it comes to FDI flows during the pandemic and global recession, the primary factor preventing the flow of goods has been a reduction in potential output in both host and origin countries. A large part of the economic slack reducing investment has been due to uncertainty of the length and severity of the recession creating a greater tendency to save rather than invest. Travel restrictions have also substantially prevented cross-border exchange of information and business expansion. The Covid-19 pandemic has also been supportive of long-term globalization trends. Protectionist trade policies and increasingly nationalist political regimes have overshadowed international relations in recent times and indicate a tougher international market to foster multinational business growth.

In this paper, we will begin with a review of FDI trends during the most recent global recession, the financial crisis of 2008-09, as well as studies of economic conditions throughout previous great pandemics. The next section of the paper will assess policy responses to Covid-19 in selected regions of the global economy, primarily in line with the continental boundaries and economic zones of the following areas: North America, East & Central Asia, South East Asia & India, Africa & the Middle East, and Europe. We will then illustrate the implications of our region-specific findings by providing a review of institutional policy impacts on FDI during and after Covid-19. This work has the aim of revealing the potential impact on international relations and the flow of FDI preceding the Covid-19 epoch.

1.1 – Institutional FDI Policy and Covid-19

An essential starting point of an analysis of Covid-19's economic impact is Eichenbaum et al.'s formative work on the macroeconomics of pandemics. The authors rightly claim that the key challenge confronting policymakers during the Covid-19 recovery is a trade off between the severity of the recession and health consequences. However, a unique trait of Covid-19 in comparison to other economic crises, is that a pandemic will not require a rebuilding of infrastructure or other structural economic policy changes for a recovery. It follows that if the pandemic is to cause a significant shock to international relations due to country-level institutional change, it must occur through Eichenbaum et al.'s framework. Therefore, any institutional change due to Covid-19 stems from the pandemic's influence as a domestic shock and may only be another factor of the overarching trend in globalization and international relations, rather than a drastic deviation from the path over the last decade.

The implications of institutional policy change on the behaviour of transnational actors has been well documented in the past. As such, our research review framework is an overview of transitioning institutional paradigms due to Covid-19 while referencing the existing study of institutional factors determining foreign investment.

In his foundational work on the politics of transnational economic relations in the 1970s, Robert Gilpin provides an insightful account of the multinational corporation's developing role as an actor in international affairs. He argues that the MNC is in part supplanting the role of the nation-state in international affairs and hypothesizes that the future role of the MNC will be the critical force in shifting international economic relations. As Gilpin puts it quite clearly in his essay, "transnational actors and processes are dependent upon peculiar patterns of interstate relations." no matter the century, "transnational actors have been able to play an important role in world affairs because it has been in the interest of the predominant power(s) for them to do so. As political circumstances have changed due to the rise and decline of nation-states, transnational processes have also been altered or ceased altogether. Thus, the world economy did not develop as a result of competition between equal partners but through the emergence and influence of great national economies that successively became dominant." Gilpin's work is seminal to an understanding of shifts in institutional structures at the nation-state level and the implications for international relations.

2 – FDI: Current Trends, 2008-09 Recession, and Previous Pandemics

A review of recent global FDI trends, as well as the behaviour of FDI flows due to institutional responses in cases of previous global economic shocks, will develop the fundamental knowledge that is required for further study of institutional policy responses to the pandemic.

2.1 – Global Recessions and FDI

Studying the implications of the 2008-09 global financial crisis, Poulsen and Hufbauer (2011) describe the scope of foreign direct investment during times of crisis. They note first that the global financial crisis led to a constraint of liquidity for domestic firms and MNCs, which reduced FDI. However, in response to the Covid-19 pandemic, central banks have been successful in easing liquidity constraints and have already done so at a greater magnitude than the entirety of the 2008-09 crisis (Mosser, 2020).

Contessi and De Pace (2012) document the contraction of FDI flows in the United States during the 2009-09 global financial crisis. They analyze the relationship between the cost of financing in host countries and total U.S. FDI inflows, finding little supporting evidence. However, for U.S. industries which are more financially vulnerable, the authors found statistically significant shifts in the debt components of FDI inflows following variations in the cost of capital that occurred in source countries during 2008-09.

McKibbin and Vines (2020) argue that there is a need for international cooperation to allow emerging market economies which have been prevented from high levels of public debt. They argue that international cooperation will allow these countries to undertake the recommend fiscal response to recover from the pandemic. The authors use a global macroeconomic model to explore the benefit of international cooperation and find very favourable results, also noting that international cooperation during Covid-19 has been remarkably low in comparison to the global financial crisis in 2008. They recommend the cooperation should be led by the G20 with support from the IMF.

In a recent paper, Sharif et al. (2020) analyze various transmission channels of the Covid-19 shock to oil prices, the stock market, geopolitical risk, and policy uncertainty. The authors put a particular emphasis of their analysis on the interconnectedness of the global economy and the spread of Covid-19. They begin by noting that unlike the financial crisis of 2008-09, the shock from Covid-19 can be characterized as an external factor requiring policy reaction, whereas recovery from the financial crisis required structural change in the financial industry. Therefore the 2008-09 crisis was subject to prolonged uncertainty due to unknown changes in financial regulations and new findings during the investigation of banks. On the other hand, all immediate government responses to Covid-19 have been distinct reactions to mitigate pandemic contagion. Sharif et al. focus their analysis on US financial market reactions to Covid-19 and view the pandemic as a source of systematic risk. US investors perceive Covid-19 as a risk which is inherent to the tumultuous spread of Covid-19 causing Baker's economic policy uncertainty index to rise drastically. The authors conclude that the US government must avoid creating additional uncertainty by designing a coherent Covid-19 economic policy strategy that fosters opening the markets.

2.2 – Recent Global Trends

According to the World Investment Report (UNCTADa, 2019), during the 10 years following the 2008 financial crisis, the global economy continued to recover until 2018 when global growth rates began to slow. Against the international background of severe challenges to globalization, trade tensions, and increasing geopolitical risks, the forecasts of world economic growth in 2019-2020 issued by the global organizations, including United Nations, International Monetary Fund, and the World Bank, have repeatedly lowered. The international organizations cite sluggish development on foreign investment, which deeply reflects the escalating inadequacies of international economic environments and conservative tendencies of foreign investment policy. During the period when uncertainty began to trend upward, the recovery of global trade and foreign investment encountered bottlenecks, and the downside risk of the world economy increased (OECDg, 2019; UNCTADa, 2019).

Global FDI has been on the decline for three consecutive years, in 2018 global FDI inflows dropped from 1.5 trillion US dollars to 1.3 trillion, a year-on-year decrease of 13% (OECDf, 2018). Although the rate of decline has narrowed compared with the previous year, growth of global FDI inflows in recent years remain at 2010 levels. UNCTAD points out three main reasons for the successive decline in global FDI, the impact of US tax reform on multinational companies, uncertain prospects of Sino-US trade frictions, and investment protectionism in Europe and the U.S. (UNCTADc, 2019).

The World Investment Report (UNCTADa, 2019) established in 2019 that net FDI inflows from developing economies have grown steadily, with more than 70% of them flowing into Asia. In the nearly ten years after the financial crisis, global FDI has consistently maintained a net inflow of more than 200 billion US dollars per year to developing economies. In 2018, the net inflow of FDI to developing economies has a year-on-year increase of 26%. Since the 2008 financial crisis, global FDI has flourished in Asian developing countries due to their promising potential of economic growth (UNa, 2018). Developing countries remain attractive to FDI despite greater barriers due to weak institutional policies related to contractual trade and investment (CCG, 2020).

As for outward FDI, Europe has surpassed North America and taken the lead as the world's largest contributor to outbound investment flows (OECDf, 2018). However, developed countries in Europe and the U.S., have shown signs of caution toward foreign investment; the number of restrictive foreign investment policies has hit a new high in recent years. The trend is especially prominent in high-tech and critical infrastructure areas whereas Asian developing economies have become a key force in promoting international investment freedom and facilitation (IMFa, 2019). In 2018, 32 out of the 42 international investment policies administered by developing economies in Asia were categorized as investment liberalization and facilitation policies, while developed countries in Europe and America issued a total of 29 international investment policies, of which 21 were considered restrictive.

In 2018, the total number of foreign investment policies promulgated by OECD countries was 112, a year-on-year decrease of 22.2%. Among them, the number of liberal investment facilitation policies and the number of neutral policies all dropped significantly, down 33.7% and 30.4% respectively. In sharp contrast with this, the number of restrictive policies has risen sharply by 34.8%, 31 restrictive policies were introduced throughout the year, a record high since 2011. Subsequently, the European Council has passed a new review framework for foreign investment, and the US House of Representatives and Senate have successively passed a Foreign Investment Risk Review Modernization Act (FIRRMA) to further expand the review authority of the Committee on Foreign Investment in the United States (CFIUS) (OECDb, 2020). As well, the UK parliament amended their Enterprise Act in early 2018 to allow for more government intervention in foreign investment and passed a National Security and Investment legislation designed to prevent or mitigate the risks that mergers and acquisitions may pose to national security (OECDc, 2020).

As a result of the changing approach to international trade and investment among countries, Japan has replaced the U.S. as the world's largest outward foreign investment country (UNb, 2019). In recent years, Japanese companies in the telecommunications, finance, and retail industries have actively expanded overseas. China followed Japan, rising from third to second place for total OFDI flows. Among the world's top ten sources of FDI, France and the Netherlands have achieved substantial growth, with growth rates of 148.2% and 110.5% respectively, in which France reached its highest in the past ten years. The U.S. has struggled to achieve growth levels of the top 20 global foreign investment economies due to retained profits of the country's multinational companies, and a near mercantilist approach to economic development in recent years. However, the U.S. remained the world's largest foreign investment destination country in 2018, absorbing 251.81 billion US dollars in foreign investment throughout the year. At the same time, China invited 139.04 billion US dollars in foreign investment, a year-on-year increase of 3.7%, ranking second.

3 – FDI Policy Responses to Covid-19 Internationally

3.1 – East and Central Asia

According to reports of the Policy Responses to Covid-19 (IMFb, 2020) and Investment Policy Monitor (UNCTADe, 2020), in the interest of fortifying industries which foreign investment may pose risks to national security, the Foreign Exchange and Foreign Trade Act of Japan (FEFTA) was subject to amendments on May 8th, 2020. The new regulations were enacted for the purpose of tightening FDI policy and lowering the dollar amount threshold for pre-transaction approvals of acquisitions from 10% to 1%. Considering the Covid-19 pandemic, the prior notification requirements of the manufacture of medical products and devices for infectious diseases was amended in the FEFTA on June 15th, 2020. As of February 2020, the Republic of Korea (ROK) had signed bilateral investment treaties with 91 countries or regions, In April 2020, bilateral tax agreements with 93 countries had been signed, which shows signs of a positive institutional approach toward FDI (OECDe, 2020).

In China, the emergence of Covid-19 in December 2019 caused a remarkable decline of economic growth, only sustaining 1.9% growth in real GDP (CSIS, 2020). From the update of Investment Policy Monitor, China did not update any policies or amendments related to foreign investment as a response to the pandemic since the release of new Foreign Investment Law on January 1st, 2020 (UNCTADe, 2020). Su-hua, T. and Xiao-yan, L. (2020) draw a conclusion that, generally under the global pandemic, China and Japan implemented positive investment regulations which encouraged FDI during the pandemic period, however, the sentiment of stabilization and protectionism remains.

International partnerships in the region also had some developments, the signing ceremony for the Regional Comprehensive Economic Partnership (RCEP) Agreement among the ASEAN countries was held on November 15th, 2020. The ten ASEAN countries, as well as China, Japan, South Korea, Australia, and New Zealand formally signed the RCEP agreement, marking the largest global free trade agreement officially reached. According to the ASEAN Policy, the signing of the RCEP is a crucial partnership for the region to take concrete action toward establishing a multilateral trading system and fostering leadership in an interconnected world economy. It is of symbolic significance for deepening regional economic integration and stabilization (ASEAN, 2020).

3.2 – South East Asia and India

A study of trends in India's foreign strategies during the Covid-19 pandemic (Foreign Affairs Review, vol.5 2020) concludes that India's foreign policy had three major directions which embody an active participation and cooperation in international epidemic prevention and control. India has enhanced their participation in global governance by reformed approaches to multilateralism, promoted the Indo-Pacific Strategy integrated with the epidemic prevention diploma with South Asia, the Indian Ocean island countries, and the Quadrilateral Security Dialogue (The Quad) countries, and launched the Aatmanirbhar Bharat plan to promote diplomacy in global supply chains. A more specific change, on April 17th, 2020, the Indian government updated its FDI policy changing the Article 3.1.1 from "automatic approval path" to "government approval path" in the name of "preventing foreign investment in speculative acquisition of Indian companies during the pandemic". This new policy is geared toward national security concerns originating from countries that have land borders with India, namely Pakistan, China, Nepal, Bhutan, Bangladesh and Myanmar (UNCTADb, 2020).

On June 15th, 2020, after an unprecedented conflict broke out between China and India in the Kalwan River Valley, India took advantage of the onset of public anti-China opinion to accelerate the decoupling process of its local Chinese industry. It has successively banned mobile applications with Chinese backgrounds, prohibited Chinese companies from participating in India's public procurement, and cancelled partial extant contracts signed with Chinese companies. Regarding the effort of reshaping the industry chain in post-pandemic with the Aatmanirbhar plan, by the support of the U.S. government, the Quad established the Economic Prosperity Network. On September 1st, 2020, a ministerial meeting was held and reached a consensus on strengthening cooperation and improving the resilience of supply chains among the four countries.

According to the updates on Southeast Asia Covid-19 Tracker (CSIS, 2020), on 28 May 2020, the ninth session of the 14th National Assembly of Vietnam discussed the final approval of the draft law on investment in the form of Public-Private Partnership. The purpose of this draft law is to vigorously support individuals and organizations to invest in the country's economic and social infrastructure under the background of limited national budget resources. Four important areas in which the public-private cooperation would be implemented include transportation, energy, education, and electricity (UNCTADd, 2020). Public-Private Partnerships model was also established in the heath sector in Vietnam. According to the OECD Economic Surveys of Thailand (OECDd, 2020), the Thai government plans to push toward completion of the six Eastern Economic Corridor (EEC) projects by the end of 2020. The projects will develop infrastructure and a series of investment preferential policies to build eastern Thailand into a world-class economic, trade, transportation, and logistics center. The Board of Investment (BOI) is providing tax incentives to companies, establishing special investment zones, and amending business regulations to attract foreign investment, especially from China, Japan, and South Korea. The government has increased special incentives to attract more funds for Thailand's EEC projects, with the growth of economic strength and the maturity of communication infrastructure, Thailand has become one of the most worthwhile markets among ASEAN countries (Bank of Thailand, 2020).

3.3 – Europe

According to the report of Investment Policy Responses to Covid-19 updated on June 4th, 2020 (IMFb, 2020), many European countries have responded to the pandemic by changing their FDI policies. A great deal of focus has recently been protection of national security against threats associated with acquisitions. France, Italy, and Spain have already made temporary changes to their inward investment targets, in lieu of the protectionist policies. On May 1st, 2020, the government of France published a list of technologies which would be subject to foreign investment screenings and enacted a decree to lower the threshold for the French listed companies to have FDI screenings with stakes acquired by non-European Union (EU) / European Economic Area (EEA) investors from 25% to 10% (UNCTADe, 2020).

As for Spain, due to public safety, the new Spanish regulations adopted emergency measures to suspend the liberalization system for certain foreign direct investment. Upon the promulgation of this regulation, departments and fields among critical infrastructure, technology, dual-use items, provision of basic inputs as well as departments that can obtain sensitive information and media will be affected. In terms of investment authorization, it is generally under the jurisdiction of the Council of Ministers (over 5 million euros) or the Directorate General of International Trade and Investment (1 to 5 million euros). If it is not approved, the foreign investment will have no legal effect and will be subject to administrative sanctions.

Taking into account the serious impact of the current pandemic on the national economy, the Italian government has passed a temporary extended decree of Golden Power, with the purpose that its key assets and technologies would not be controlled by foreign countries by taking advantage of the weak situation to its economics caused by the pandemic. The German government passed the 15th amendment to the Foreign Trade and Payment Ordinance. This amendment requires governmental authorization for foreign acquisitions of companies among key public health sectors (IMFb, 2020). It is worth noting that, according to the World Economic Situation and Prospects (UNc, 2020), the EU foreign investment screening mechanism, the first FDI regulation at the EU level, came into effect on April 10th, 2019, and became fully operational on October 11th, 2020. It is the first bill at the EU level aiming to ensure that EU is better equipped to identify, assess, and mitigate the risks for security or public order, and may have a significant impact on the investors from non-EU countries.

3.4 – Africa

Bouchoucha and Benammou (2017) use a system GMM method to investigate 6 key indicators of institutional quality among African countries, effectiveness of government, quality of regulation, control of corruption, and the voice of accountability variables are found to be significantly positively correlated with FDI attractiveness in Africa. Government effectiveness, and the voice of accountability variables had the largest positive effect in terms of institutional quality measures. The work by Bouchoucha and Benammou provide supporting evidence that policies which operationalize good governance and reduce uncertainty associated with investment can improve the business environment that foreign MNC's prefer.

Nketiah-Amponsah and Sarpong (2020) investigate the empirical relationship between ease-of-doing-business indicators and foreign direct investment in sub-Saharan Africa. The authors provide evidence of the role that institutional qualities have when attracting FDI. The authors find that the results suggest the ease-doing-business indicators play an important role in attracting FDI into the sub-region. Not only the size of a host country's market, natural resource rent, and cost of labour affect the movement of FDI into sub-Saharan Africa but also factors influenced by institutional aspects of the ease-of-doing-business, such as quality of human resources, trade openness, infrastructure, and financial development, significantly affect the movement of FDI into sub-Saharan Africa as well. A percentage point improvement in their calculation of an ease of doing business index, results in a 0.79 percentage point increase in FDI. The findings prioritize the need for governments to implement private sector development to attract multinational corporations.

3.5 – North America

In Canada, Inward FDI has risen steadily as the country is one of the most open among the G7 countries to FDI. Canada's FDI flow is positively related to commodity prices as IFDI primarily channels through the primary sectors oil, gas, and other mining industries in the country. In an article on labour issues and Covid-19 in Canada, Larue (2020) develops an analysis of the current domestic labour shock in the agriculture and food sector. Governments in developed countries have announced fiscal expenditures to combat the economic shock from the virus through social assistance programs such as wage subsidies, unemployment insurance programs, and business loans. The author finalizes the paper with a note that in agriculture and food industries, the most pronounced change may arise from changes in consumer demand and protectionist trade policies.

An analysis conducted by Welfens (2020) is contributory to an understanding of global economic growth in recent years, his paper is a concise summary of President Trump's trade policy, the Sino-US trade war, and the following policy responses of international institutions such as the EU and ASEAN. During Donald Trump's presidential career, he has insisted on anti-multilateralism. In particular, the American withdrawal from, or dissidence of relationships with several major international institutions such as the Trans-Pacific Partnership (TPP), the Paris Agreement, Iran Deal, the United Nations Human Rights Council (HRC), UNESCO, Intermediate-Range Nuclear Forces Treaty, WHO, and NATO. In response, various new regulations have come into effect among EU countries in recent years on the grounds of national security. Government screening on direct investment by investors from non-EU countries partially explaining the continuous decreases of overall global FDI volume over the past 10 years.

4 – Institutional FDI Policy in the Covid-19 Epoch

4.1 – Economic Uncertainty

Apart from the Covid-19 pandemic there has been a growing level of policy uncertainty challenging international relations. To quantify this uncertainty, Baker et al. (2016) set forth to develop an economic policy uncertainty (EPU) index based on newspaper coverage to analyse uncertainty shocks in the economy and develop a measure of relative policy uncertainty. In a follow-up paper Baker et al. (2020) give a detailed account of research on infectious disease outbreaks and transmission through the stock market using data on 120 years of newspaper headlines. They find an unprecedented reaction in the financial markets to the Covid-19 pandemic in comparison to the last century of infectious disease outbreaks despite modest health consequences of Covid-19 relative to other pandemics. The authors postulate that this unprecedented reaction in the stock markets could be due to rapid information diffusion of the internet age, or the role of disruptions to international supply chains, however they find little evidence of either of these potential effects. Instead, the authors conclude that more promising explanations of the unprecedented shock focus on the role of government restrictions on individual mobility and commercial activity unlike responses seen during past infectious disease outbreaks.

Hsieh et al. (2019) go on to study the impact of economic uncertainty on foreign direct investment outflows using the economic policy uncertainty (EPU) index developed by Baker et al. (2016). The findings of Hsieh's paper are particularly relevant to the study of policy impacts of Covid-19 due to the unprecedented level of uncertainty involved with epidemiological aspects of the pandemic, and the popularity of the index in recent recession literature. Infection rates, vaccine administration, and lockdown policies are a source of high economic uncertainty in the short term. In the long-term, structural change in labour markets alongside a shift in profitable sectors is a source of uncertainty (Brodeur, 2020). Hsieh et al. found that there is strong evidence of a causal relationship between outward FDI flows and the level of the EPU index developed by Baker, in both host and origin countries.

4.2 – Global Value Chains

Coveri et al. (2020) provide an insightful account of the prevailing dynamic of global value chains in international economic structures particularly during the spread of economic shocks due to Covid-19. GVC's have become ever more present in a highly globalized world, and particularly the impact of Covid-19 has been significant on these international supply chains, despite remarkable resilience in developing countries.

In research contributing to the literature on Covid-19 and global value chains, Strange (2020) considers the change in firm strategies and reconfigurations during the recovery from the pandemic and provides a comparison of different firm level governance rearrangements of GVC activities. The author is optimistic that a wave of new business opportunities will arise during the pandemic but cautions that a wave of anti-competitive M&A's and market consolidation may occur in normally profitable industries with firms that are unable to meet their cash flow requirements. In response, governments may strengthen foreign investment policies to prevent takeovers of strategic assets, supporting the protectionist trend leading up to the pandemic.

4.3 – Institutional Quality

A substantial amount of research has been conducted studying the effect of institutional characteristics on foreign direct investment in both directions (Chengchun, 2020; Contractor, 2020). For many regions, both developing and developed, the result is similar; institutional quality has a positive effect on foreign direct investment inflow. There are many facets of institutions which have been measured in relation to FDI development, of particular importance to the literature on Covid-19 will be a nation's ability to recover from the pandemic. As we know foreign direct investment is positively correlated with strong macroeconomic variables such as employment and aggregate demand. As the Covid-19 Pandemic has not shown signs of altering the underlying foreign investment desire of multinational businesses, but rather has prevented FDI due to policies surrounding spread of the pandemic and mitigation of the economic shock. Therefore, to study the impact of Covid-19 on FDI with a focus on institutional determinants, it is necessary to the literature on the institutional qualities which will characterize the recovery process to pre-Covid-19 levels of FDI at the country level.

In recent literature, Nam et al. (2020) study the institutional micro-factors of financial efficiency and accounting quality on FDI using survey data from the World Economic Forum. They find that FDI inflow is positively correlated with the strength of financial audits, reporting standards, and venture capital availability for all countries in their sample. Their results support the hypothesis that financial markets and accounting quality affect FDI and have strong policy implications for governmental regulatory agencies. Similarly, in a paper studying regulations and business environments impact on FDI inflows, Contractor et al. (2020) address the relationship between regulatory variables and FDI. They examine which host country regulatory factors influence inward FDI and find that MNCs engage in a forward-looking trade off strategy when making a foreign investment decision taking regulatory variables into consideration. Alfaro et al. (2008) find the difference between institutional quality rankings from the 25th to 75th percentile results in a country receiving $79.00 more FDI per capita.

Contractor et al. (2020) develop a comprehensive review of the various institutional qualities that influence FDI and study a combination of market structure and regulation influences on MNC's foreign location choices. The authors research priority is to develop an improved understanding of institutional constraints which influence FDI flows. They argue that regulations and national norms are ultimately "human constructed constraints, and conduits of opportunity", regulations shape firm behaviours and potentially limit optimal choices. Acemoglu et al. (2005) find that institutional variations across host countries account for a greater influence on firm’s investment location decisions than variations in the host countries’ available resources relevant to the firm, or variations in per capita GDP. This is due to regulations posing potential business activity restrictions in contrast to freedom in another host country.

Kostova and Zaheer (1999) find that an MNC’s potential capacity to gain legitimacy in a host country is a critical consideration when deciding to invest, there may be a greater willingness for a firm to consider investing in a country where cultural distance with the origin country is small relative to other options. Contractor et al. (2020) note that informal societal and cultural norms do affect FDI flows, and there is little ability of a government to influence or alter its country’s cultural norms in the short or medium term. However, governments can quickly change laws and regulations, or formal rules which directly affect an MNCs ability to locate in their country. Hitt (2016) supports the idea that the relative strength of formal rules has a greater impact on an MNC’s foreign investment decision than cultural variables in the host nation.

5 – Conclusion

Institutional FDI policy change during the Covid-19 pandemic will be a critical determinant of international business relations following a recovery from the economic shock that it has caused. Researchers must consider the literature on FDI and institutional policy pre-pandemic as well as institutional trends and FDI flows in recent years. To develop a comprehensive understanding of the long-term impact that the Covid-19 pandemic will have on international business relations, one must seek guidance from research carried out before the pandemic as well as the characteristics of immediate institutional responses. This paper set out to review some of the relevant pre-pandemic literature on institutional policy and FDI, lay out a map of FDI flows in recent years, put forth a study of current institutional trends, and comprehensively reviewed literature published during Covid-19 on the topic of institutional FDI policy responses to the pandemic.

The research carried out was quite relevant to policy makers and academics in the field of foreign investment policy and international relations who are interested in studying the effect of Covid-19 on international business relations. Domestic institutions are the framework of international relations and are a significant factor to consider when studying multinational corporation investment decisions. Institutional barriers in developing and developed countries are a considerable factor determining the flow of international investment into and out of the country. If it is the case that institutional incompatibilities exist as hypothesized by several authors, economists must take this into account when forecasting investment flows and ingrain these institutional qualities into their framework of analysis.

There has been a considerable amount of research conducted in the growing field of institutional matters and policy regimes determining FDI flows. This paper has attempted to provide an account of the impact of the current crisis on FDI policies in various regions of the global economy. As well as a comprehensive review of the relevant literature on institutional implications for the flow of FDI in the scope of knowledge building for further analysis of global economic growth following the Covid-19 recovery. As there continues to be great uncertainty of the path that the pandemic will take and the structural changes that will follow, the research reviewed in this paper provides support to ongoing study on the topic of institutional change following Covid-19.

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