

# Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

<b>Student:</b>	<b>Rubi Gjika</b>
<b>Advisor:</b>	<b>Mgr. Michal Paulus</b>
<b>Title of the thesis:</b>	<b>Does money laundering determine the direction of FDI?</b>

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

### **Contribution**

Rubi Gjika deals with an important topic in her thesis and I believe that there are interesting research questions related to money laundering to be answered by future research. Indeed, the thesis is a good undergraduate thesis.

Still, from the perspective of the research frontier (which is obviously not necessarily the right benchmark for an undergraduate thesis, but it does provide useful perspective for discussion at the exams), I am not sure the thesis represents a valuable contribution due to a few shortcomings that I discuss below.

The thesis seems to lack a proper conceptual or theoretical discussion of why money laundering is related to FDI and in what way. I accept that this is an empirical thesis, but there should be at least a discussion of what and why the relationship is or is hypothesised to be. The closes the author gets to this is on pages 15-16 and at the end of the literature review. She provides some conceptual discussion on the basis of the existing research such as Perez et al. (2012) and Nugraha (2013). The author concludes that "The hypothesis to be tested based on past findings remains: money laundering reasons determine positively foreign direct investment". I would like to see more of this, either with or without the use of existing literature.

With regards to the contribution of the thesis, I would like to see more of author's own evaluation of her contribution with regard to specific existing research papers in both conclusion and the results section, where are now only two brief comparisons made (in the sense that the results are broadly consistent with the cited paper). The author presents her own results, but a critical discussion why her results are similar or different than existing results seems to be included only in a limited way.

### **Methods**

My understanding is that the author has made good use of some of the relevant empirical methods – gravity model - employed for other purposes in the existing literature and she seems to have executed them quite carefully. The presentation of the methods and data is not always clear, but, with an effort, it seems understandable. I appreciate that the author is aware of some of the FDI data limitations (and even better would be of course if she was able to take them into account, e.g. the intermediary role played by FDI hubs such as Luxembourg and the Netherlands that may distort the data and thus the results, but that is beyond the scope of this thesis).

I would like to raise at least two data and methodological issues that I suspect could have implications for the results. The general solution to both might be to be more careful with methodological and data decisions and include more data or variables and provide more versions or robustness checks as a result.

First, the sample selection – even if I fully understood the reasons for the selection of the 6 specific countries, why not use data with all countries and focus on the selected ones in the interpretations of the results? One solution might be inclusion of dummy variables. By losing information on the many more than 6 countries, I wonder what biases there might be. Also, if the author kept all the countries in the data, she could clearly compare her results to the existing literature on developing countries that she discusses. Currently it is not clear whether any differences or similarities are due to methodological differences or changes over time or other factors.

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Second, I am not convinced by the independent variable representing money laundering collected from the United States Department of State website - International Narcotics Control Strategy Report (INCSR). I would like to see a critical discussion of its pros and cons. I would like to see discussion of alternative data sources. At the moment there seems to be none. For example, I am aware of the Basel Anti-Money Laundering Index 2017, but there are bound to be other measures that the author should have discussed (at least briefly why they are not suitable or why the author would use them as a robustness measure). Also, I am not familiar with the data source the author uses (and she does not discuss it sufficiently or too critically), but it seems that it might be US-focused and I wonder whether that makes it a suitable source for European countries.

## Literature

The section on related literature is relatively good. The review section is perhaps too long and not organised so well. For example, first things should go first – some of the literature discussed quite at length in the first part of the review does not seem to be too relevant to the questions at hand. Also, the relevant parts of the text at the end of the section might well be expanded.

## Manuscript form

The thesis is generally relatively well formatted and neatly presented. The use of English is OK in terms of grammar and spelling mistakes. The problem is that author's writing is not very clear or concise. At times I had problems understanding what the author is trying to convey.

An example of a text that would be worth substantially improving is the abstract. It is too short. It contains only three sentences, some of them too long. Overall, it is not very well written and, in particular, in the second part, it is not clear what the author wishes to communicate.

As a minor comment, I believe that the title of the thesis should include neither a shortcut (FDI might not be so understandable for people who are not so familiar with international economy) nor an open question (without an implicit or explicit answer). But opinions vary on this and this is my personal view only.

## Suggested questions for the committee

Can the author clearly explain her contribution to the existing literature by contrasting her methodology and findings with some of the most relevant existing research papers?

If FDI is related to money laundering, would FDI income or FDI stock be more suitable for laundering money and therefore for analysis of money laundering?

The author focuses only on a few countries by dropping all the other countries' data. To what empirical biases this could lead and has the author considered using the whole sample and then focusing on the selected countries in interpretation of the results?

Overall, I find the thesis a satisfactory piece of empirical analysis for an undergraduate thesis. I recommend a grade of **C**. However, the final grade could be anywhere between B and E, depending on the presentation and related discussion at the state exam.

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## **SUMMARY OF POINTS AWARDED** (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	20
Methods (max. 30 points)	21
Literature (max. 20 points)	15
Manuscript Form (max. 20 points)	15
<b>TOTAL POINTS</b> (max. 100 points)	<b>71</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>C</b>

**NAME OF THE REFEREE:** Petr Janský, Ph.D.

**DATE OF EVALUATION:** 14<sup>th</sup> August, 2018



**Referee Signature**

**EXPLANATION OF CATEGORIES AND SCALE:**

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

**Overall grading:**

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F