

Report on Bachelor / Master Thesis

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

Student:	Jakub Reinštein
Advisor:	Mgr. Michal Paulus
Title of the thesis:	The Belt and Road Initiative: Effects on eastern Europe and post-soviet republics gravity analysis.

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The author has opted for a relevant and up-to-date topic; he decided to test the presence of effects of the Chinese Belt and Road Initiative (BRI, OBOR) on trade relations of Central and Eastern European countries. Given the political sensitivity of the relations with China as well as the attempts to distort possible effects of the relations which have appeared in political discussions, any attempt at providing unbiased results estimated with a reliable methodology constitutes a valid contribution to such debates. The author does not analyze entirely new data; he uses no really new methods either.

Nevertheless, the form of implementation (which includes some minor innovations in the form of combinations of data on logistics and corruption), his attempt to analyze disaggregated data, as well as the apparent transparency of implementation still imply that his thesis can be considered a relevant contribution to the debate.

Methods

Econometric part of the thesis is based on the gravity model of trade. This is a standard and respected methodology often applied to similar types of analysis. It is obvious that the author is aware of the problems typical for the older "naïve" approaches to gravity and he explicitly designs his specification in line with what has become known as the micro-founded gravity model and that he follows recommendations (e.g. Baldwin & Taglioni, 2006) which should reduce the risk of specification and other biases. He opted for the simpler form of implementation of such recommendations (adding three levels of fixed effects to the model) and opted for the PPML estimator (Santos-Silva & Tenreyro). This can be considered a standard and acceptable approach, especially at an undergraduate level. Still, it might have been interesting to experiment with either alternative specifications of fixed effects (the widely recommended combination of pair-fixed effects and time-varying effects for exporters/importers) or the Baier-Bergstrand "Bonus-Vetus" method.

BRI-related effects entered the specification in the form of dummies; the author was clearly inspired by the traditional literature, which uses similar specification for the analysis of trade-creation and trade-diversion effects. This is again a relatively standard approach, although it includes several risks:

- This approach estimates a one-off comparative static effect of BRI on trade. In fact, we can expect that the effect will not be static, it might have been interesting (and perhaps not too difficult) to check whether the number of years of participation in the BRI matters too.
- Data on the actual participation in the BRI are more troublesome than it may appear. Some countries participate officially (but have not implemented any effects). Other countries might perhaps experience positive/negative effects simply because of being on the right "route", without participating. Nevertheless, the issue is much more difficult to deal with.

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- The BRI appears to be by design rather asymmetric due to the size and specific role of PRC in the scheme. Effects on trade with China and with other BRI countries are not necessarily identical.

Finally, it should be mentioned the author decided to share both the data and Stata do-files in a special appendix to the thesis (downloadable from the SIS). This is a nice touch which makes evaluation of the methods and verification of the results much more convincing.

Literature

Literature review summarizes nicely recently published literature on the effects of the BRI. The author seems to have included most of the relevant papers, perhaps he might try to be a bit more critical about their methodology.

The author also provides a fairly good overview of the literature on gravity models which includes a brief outline of the history of the concept as well as a bit deeper discussion of the problems with traditional gravity models. He pays adequate attention to the microfoundations and to the implications of the advance in the theory of gravity models for econometric specifications. Possible additional problems with endogeneities are discussed too.

Some newer options are not described (tetrads, etc. – it might have helped to include e.g. the survey text by Head & Meyer), but the gravity model is definitely discussed at a level quite adequate for an undergraduate text.

Manuscript form

The thesis is very logically structured; it also contains a voluminous appendix with additional results and details. A few typos can be found in the text (Tinbegren, Sheprhed- sic, p. 17), the author's use of articles also clearly reveals his nationality, but the language quality is quite acceptable otherwise.

Similarly, a few additional imprecisions can be found in the text – given the structure and context of the thesis they seem to be caused rather by imprecise formulations rather than by factual errors:

- the old trade patterns were changing multiple reasons (e.g. interaction with the Muslim world) and they were changing even before the discovery of the New World (p. 3).
- some sources also include a possible Northern route for the MSR (compare with p. 4)
- form of citations of Chinese authors is not entirely correct in some cases - e.g. Liu Zuokui should be referred to as Liu (surname), not Zuokui.
- description of the problems with time-invariant variables (the author instead mentions problems with country-specific indexes - that would be the case for time-varying dummies)
- Specifications - missing indexes (i, j) for some variables in the equation. However, their features are at least described in the tables.

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Summary and suggested questions for the discussion during the defense

All in all, the text definitely meets criteria for an undergraduate thesis and I recommend it for the defense.

Questions for the defense:

1. Why did you opt for the BEC classification?
2. Can there be a relationship between corruption and participation in the BRI? Or between corruption and the logistics performance index? What would this mean for the estimation procedure?
3. Some papers on the BRI suggest the possibility of higher effects on Chinese exports in comparison to effects on other countries' exports to China. Can your specification be used to test such effects? If not, would you be able to propose some modification that might make this test possible?

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	28
<i>Methods</i> (max. 30 points)	25
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	91
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE:

Vilém Semerák, Ph.D.

DATE OF EVALUATION:

June 1st, 2020



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.*

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.*

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

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.*

Overall grading:

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