

IMESS DISSERTATION



Note: Please email the completed mark sheet to Year 2 coordinator

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Please note that IMESS students are not required to use a particular set of methods (e.g. qualitative, quantitative, or comparative) in their dissertation.

Student:	Bin Yu
Dissertation title:	Corruption Distance and Foreign Direct Investment: Evidence from European Transition Economies

	70+	69-65	60-61	59-55	54-50	<50
	A	B	C	D	E	F
Knowledge <i>Knowledge of problems involved, e.g. historical and social context, specialist literature on the topic. Evidence of capacity to gather information through a wide and appropriate range of reading, and to digest and process knowledge.</i>		X				
Analysis & Interpretation <i>Demonstrates a clear grasp of concepts. Application of appropriate methodology and understanding; willingness to apply an independent approach or interpretation recognition of alternative interpretations; Use of precise terminology and avoidance of ambiguity; avoidance of excessive generalisations or gross oversimplifications.</i>	X					
Structure & Argument <i>Demonstrates ability to structure work with clarity, relevance and coherence. Ability to argue a case; clear evidence of analysis and logical thought; recognition of an argument's limitation or alternative views; Ability to use other evidence to support arguments and structure appropriately.</i>		X				
Presentation & Documentation <i>Accurate and consistently presented footnotes and bibliographic references; accuracy of grammar and spelling; correct and clear presentation of charts/graphs/tables or other data. Appropriate and correct referencing throughout. Correct and contextually correct handling of quotations.</i>	X					
Methodology <i>Understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.</i>	X					

ECTS Mark:	A	Charles Mark:	A	Marker:	Vilém Semerák, Ph.D.
<i>Deducted for late submission:</i>				Signed:	
<i>Deducted for inadequate referencing:</i>				Date:	June 11 th , 2019

MARKING GUIDELINES

A (UCL mark 70+) = A (Charles mark - excellent): Note: marks of over 80 are given rarely and only for truly exceptional pieces of work. Distinctively sophisticated and focused analysis, critical use of sources and insightful interpretation. Comprehensive understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.

B (UCL mark 69-65) = B (Charles mark – very good)

C (UCL mark 64-60) = C (Charles mark – good): A high level of analysis, critical use of sources and insightful interpretation. Good understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research. 65 or over equates to a B grade.

D (UCL mark 59-55) = D (Charles mark – satisfactory)

E (UCL mark 54-50) = E (Charles mark – sufficient):

Demonstration of a critical use of sources and ability to engage in systematic inquiry. An ability to engage in sustained research work, demonstrating methodological awareness. 55 or over equates to a D grade.

F (UCL mark less than 50) = F (Charles mark - insufficient):

Demonstrates failure to use sources and an inadequate ability to engage in systematic inquiry. Inadequate evidence of ability to engage in sustained research work and poor understanding of appropriate research techniques.

Please provide substantive and detailed feedback!

Comments, explaining strengths and weaknesses (at least 300 words):

The dissertation is focused on the tests the effects of corruption (and especially of differences in corruption) on foreign direct investment. The topic of the presentation is clearly explained, the text has a rather usual structure typical for similar papers. Gravity model used as the main workhorse of the analysis is a respected methodology, the actual specification used is highly inspired by a fairly recent contribution by Cezar & Escobar (2015). The author correctly cites the paper (and other sources).

Strengths of the paper:

The paper has a number of strong features which set it apart from similar attempts done (and often published) by other researchers in the past:

1. Possibly the most important positive feature is the discussion of the proper specification of the model and of the problems of many older papers which were using an “ad hoc” approach to gravity models. This, together with the decision to use more ambitious econometric methods than a simple OLS or simple fixed/random effects is one of the most valuable features which significantly enhances the value of the contribution.
2. The attempt to test not just the role of currently observed corruption but also recent exposure to corruption is very interesting.
3. The use of framework which can provide some details about the extensive/intensive contribution to the development of the overall value of investment.
4. The attempt to provide additional checks of the robustness of the results (chapter 6).
5. The explicit mentions of the interrelations between FDI and trade which show that the author was aware of the true complexity of the analysed relationships.

In general, this is definitely one of the better attempts to use gravity models on FDI data.

The paper also includes a decent and logically structured literature review, which provides a brief insight into the FDI theories, possible basic effects of corruption, and into the gravity model and its implementation. The paper is also very good language-wise, with just a few typos remaining in the text.

Weaker features of the paper:

The author focuses too much on the selected methodology (gravity model) and omits the “more basic stuff”, such as the discussion of the possibly highly relevant statistical details and institutional issues related to the FDI data and FDI flows. I can see some reasons for this decision (the length of the paper, the limited ability of such discussion to bring some newer insight), but I would still prefer to see at least some mentions of factors which might be relevant for the data and interpretation of the results:

- a) What do the FDI data used by the author actually tell us about the true origin/destination of the FDI flows?
- b) It seems that destinations known as “tax havens” and activities motivated by attempts to either redistribute tax base or to obscure ownership structures play a very important role in global investment flows. A relatively recent survey suggests that “*almost 40 percent of all foreign direct investment positions globally—is completely artificial: it consists of financial investment passing through empty corporate shells with no real activity.*” (Damgaard et al., 2018). And what is very important – locations used in similar activities appear to be statistically significant from an average sample of countries, see e.g. Dharmapala & Hines (2009) for details. Specifically, tax havens have (on average) better institutional quality (and presumably lower corruption) – this is what makes this issue directly relevant for the issues analyzed in the dissertation.

To be fair – there is not much that the author would be able to do about any of the issues directly, but it would be better to mention them and briefly discuss their implications for the results and their interpretation. The format of the dissertation would provide some additional space e.g. for a short descriptive section which show how some of the data on FDI actually look like and what seems to be e.g. the role of tax havens in the FDI activities involving transition economies.

The use of measures of corruption in the distance form suggests that the author assumes that the measure of corruption can be treated as a cardinal variable. Again, the author's approach is not unusual, but what is the data on corruption are more ordinal in their nature, i.e. what is they simply indicate whether the levels of corruption are similar or higher/lower, but not precisely how much higher/lower? At least a brief mention of this issue might be relevant e.g. in the chapter 6 (Robustness Check).

The author mentions that there can be some cross-effects between corruption and culture of the analysed countries (p. 49). Therefore, it might have been logical to try to test whether such cross-effects exist.

Additional Observations:

The author discusses the extensive and intensive margin of FDI, however, the conclusion of the relative contribution is based just on the results of regressions. As some countries do publish additional data on the role of foreign owned companies, perhaps there might have been a way how to compare the results with observed behaviour.

The use of FTA dummy is discussed on p. 33. It might have been mentioned that some FTA might include provisions concerning FDI directly (visa issues for investors, ISDS rules) or they may have an indirect influence (it is easier to export, investment might be less necessary). Therefore, it was definitely a sound decision to include the dummy, the author actually might have used it a bit more extensively (and possibly with additional details on what is included in the FTAs).

Table 13 (p. 61) – the author claims that insignificant results are marked as (-), which means that the right side of the table provides no details on the intensive margin. Using additional indication of the “insignificant results” seems unnecessary as significance is already highlighted by *.-*** in the same table). Or were there some other actual reasons not explained in the text?

Summary:

The objectives of the research are clearly defined, the author has opted for a respected and widely acknowledged methodology which he applied rather meticulously. The author also explicitly attempted to avoid quite a few traditional weaknesses typical for this type of work. All in all, the author definitely demonstrated the ability to act as an independent researcher and provided a very interesting contribution to the debate on the determinants of FDI.

Specific questions you would like addressing at the oral defence (*at least 2 questions*):

- 1. What happens if e.g. a Japanese company invests in a transition economy via its European branch located in the Netherlands. Which country of origin would be recorded for this investment operation in the data which you have used to create the analysed sample? Is this issue relevant for your results?**
- 2. What is so-called “Round tripping” in the context of FDI? Is it relevant for your analysis and how can it influence the results?**
- 3. How would you explain the significant role of religion in your results?**
- 4. Please explain the logic of the multilateral resistance term. Is the disappearance of distance (p. 17) the main issue behind the “gold medal mistake” or is the problem relevant also for specifications which include distance?**

References Used in the Report:

Damgaard, Elkjaer, Johannesen: Piercing the Veil, Finance and Development, June 2018, Vol. 55. No. 2, IMF.

Dharmapala, Hines Jr.: Which Countries Become Tax Havens? Journal of Public Economics 93 (2009), pp. 1058–1068

