

Report on Bachelor / Master Thesis

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

Student:	Peng Liu
Advisor:	Vilém Semerák, Ph.D.
Title of the thesis:	Gravity analysis of outward Chinese FDI – tests of the Silk Road effect

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

Peng Liu has decided to analyze the determinants of FDI originating in China, tests the differences in the determination of FDI activities of Chinese companies in different types of countries (OECD/non-OECD, OBOR/non-OBOR) and use the results to evaluate possible “investment potential”.

I can identify two main contributions of the thesis:

- Tests which provide stronger foundations to the anecdotic evidence on differences in attitudes of Chinese investors to different types of countries.
- A relatively decent survey of literature which includes also publications by Chinese authors.

The tests were also based on a sample derived from Chinese statistics, while other similar attempts by European authors start with data from the target countries.

The paper also correctly clarifies the relationship between OBOR and FDI – which is less direct than many observers expected (section 1.1.1. shows that OBOR includes many other types of financial flows).

Methods

Besides providing some basic descriptive analysis based on charts (section 3) the thesis relies on the methodology of gravity models – either directly (tests of the determinants in section 4) or indirectly (by using predicted values for the calculation of potential investment in section 5).

The methodology is not too complicated to implement (the most difficult stage is usually the merging of various sources of macroeconomic and institutional data). The author attempted to map the development of gravity models, and he is clearly aware of the problems with adequate micro-foundations of the models. Unfortunately, typical applications of gravity models on investment data have not been upgraded as substantially as applications on pure trade data. The author is aware of this (and frequently refers to gravity models derived from trade microfoundations). His implementation of the gravity models and the selection of estimators applied on the data can be considered as standard.

The use of results of gravity estimates for calculations of trade- or investment potentials is again not unusual, but this type of calculations has been criticized in the literature. Again, the author is aware of the issues (e.g. p. 66), and he himself shows that the calculated indexes seem to include a systematic component, their values seem to be linked to distance (or location) of the target countries. He even tests this systematic relationship explicitly (p. 74). What he does not mention so clearly are possible implications for the underlying gravity model – which would in such a case suffer from an omitted variable bias.

Literature

The literature review is less concise, broader, but perhaps slightly shallower and less critical than literature reviews typically found in relatively narrowly focused papers. Still, it includes a very long overview of many theories and concepts relevant to foreign direct investment and gravity models. The author includes also many less formalized (and often more business-literature like) types of concepts. Some of the mentions appear oversimplified or not too relevant for the analysis (e.g. the mention of Krugman’s opinions on competitiveness – p. 16). The thesis also avoids discussing more recent factors (attempts to introduce security-motivated investment screening systems in EU countries), but it

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is true that such factors were less relevant in the period covered by his data. Similarly, the paper does not pay much attention to the possible effects of bilateral investment treaties.

Manuscript form

The manuscript includes some lengthier parts with numerous tables which will test the reader's patience (the overview of FDI-related concepts in section 1). However, the thesis is structured quite systematically and logically, the author attempted to streamline the structure by moving some additional charts and results to the appendix.

Some less critical issues remained:

- Some tables (esp. section 1) are not numbered
- Formatting of tables with econometric results could be nicer.
- Some strange or unusual phrases occasionally appear in the text.

However, because I saw earlier versions of the text and as I had a chance to evaluate the author's command of English language, I must really appreciate the language quality of the final version of the text and the effort that he had to exert in order to achieve it.

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Summary and suggested questions for the discussion during the defense

The submitted thesis is based on a relatively simple methodology. Still, its author proved that he can work very systematically and diligently and that he can arrive at interpretable results.

In my opinion, the thesis, therefore, meets the requirements for a master thesis at the IES, Faculty of Social Sciences, Charles University. Therefore I recommend it for the defense and suggest a grade B.

The results of the Urkund analysis show 12% similarity of the text (due to citations). This does not indicate significant or unusual text similarity with other available sources.

Question for the defense:

- The new investment agreement between the EU and China has been negotiated and it has already become the subject of heated political debates. Are your results useable for evaluation of possible effects of the agreement on the inflow of FDI from China? If not, how would you modify the model? If yes, what would be your predictions for the effect of the agreement on the Czech Republic?

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

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	26
<i>Methods (max. 30 points)</i>	24
<i>Literature (max. 20 points)</i>	18
<i>Manuscript Form (max. 20 points)</i>	18
TOTAL POINTS (max. 100 points)	86
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE:

Vilém Semerák

DATE OF EVALUATION:

January 28th, 2021

*Digitally signed (January 29th 2021):
Vilém Semerák*

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