

Report on Bachelor Thesis

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

Student:	Bc. Tomáš Paul
Advisor:	PhDr. Jakub Seidler, Ph.D.
Title of the thesis:	Analysis of the Investment Development Path in the Central and Eastern European Countries: Can they move further?

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

The thesis titled "Analysis of the Investment Development Path in the Central and Eastern European Countries: Can they move further?" aims at analysing the development of FDI in 26 Central and Eastern European and Central Asian countries based on the concept of the Investment Development Path (IDP) introduced by Dunning (1981). The work inherits strong empirical approach to the investigation of three basic hypotheses and brings valuable, reliable as well as contributive findings. Combining the IDP theory with extensive econometrics analysis the authors conclude that:

1. examined countries follow the IDP suggested by the theoretical underlying concept;
2. these countries did not reach the third (middle) stage of the IDP yet, however, some of countries (including the Czech Republic) appear very close to the turning point between the second and the third stage;
3. reinvestment of earnings positively influences the future FDI via increasing the ownership advantage as well as spillover effects to domestic companies.

At the beginning of this report I would like to stress that the macroeconomic focus of the thesis lies far-away from my research interests and therefore due to my limited knowledge of the topic I am honestly able to assess only the overall quality of the thesis and the technical side of the data analysis and the econometrics part without really being able to judge the macroeconomic interpretation and discussion of results. However, Tomas definitely managed to convince me by the overall quality of the work that aggregate findings are reliable and contributive to the field.

There are two valuable contributions of the thesis which need to be highlighted the most. The first is that using the dataset containing also data from the period of the recent global financial crisis, authors are able to contradict findings of some other recent studies regarding the ability of some countries to reach the third IDP stage. Authors' interpretation of this contradiction is that the global crisis could have returned some countries from the third stage back to the second stage. The second contribution lies in the examination of the effect of the reinvestment of earnings to positively influence future outward FDI, the relationship which according to authors has not been studied in the literature yet. I also have to accentuate the authors' awareness of problematic or ambiguous details of the analysis and many explanatory comments regarding these issues.

The aim, structure, working hypotheses, and conclusion are clearly stated and the thesis is very carefully elaborated. The quality of the analysis is exceptionally high (although, as for majority of macroeconomic questions, there are many possible caveats, problems with data, or not completely clear conclusions).

Tomas must have devoted enormous time and effort to creating the datasets (and its analysis, summary statistics. etc.). I also highly appreciate the use of several "competing" model specifications in Chapter 5, where not only the final model is presented and estimated, but also two other variants and their drawbacks are discussed. All three models are then estimated using two slightly different datasets (to account for lack of data for some of countries and gain more reliable econometrics inference). The resulting comparisons of results of particular models together with discussion about their pros and cons offers the reader with a reliable "big picture" and understanding of results. Last but not least, I also like the idea of ratios used in Chapter 6 (perhaps invented by authors, the third interesting contribution) as those offer really easy way to straightforward interpretation via aggregation the results into one single figure.

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However, I have to mention several concerns I doubt about or do not agree with:

- 1) In the abstract, CEE countries are presented as the objects of analysis, but the dataset includes also e.g. Tajikistan, Kyrgyzstan, and other Central Asian countries, which simply do not belong to CEE. This is confusing and should be stated clearly. I happened to visit Tajikistan in June 2014 for almost one month and Kyrgyzstan in 2011. These countries are completely incomparable with CEE countries in almost all possible economic aspects and I have to say that putting these countries together into one dataset with e.g. Poland, Czech Republic or Estonia does not really seem as a good idea to me.
- 2) The use of the most recent dataset is presented as one of the main contributions of the work but might also be misleading in case that the discussed global financial crisis have caused a structural break in the IDP development (as suggested by possible backward shift along the IDP). Evaluating one single model on data containing a structural break is likely to bring misleading "average" conclusions which are no longer true at the moment. In this respect also the formal "correctness" of the answer to the second hypothesis is ambiguous. If a country reached the 3. stage of the IDP in the past but due to the global financial crisis returned back to the 2. stage, it should (strictly speaking, according to my understanding) belong to the set of countries that already reached the 3. stage, but in presented analysis it simply belongs to those that did not.
- 3) Last but not least, despite the fact that this is partially commented on in case of GDP and GDP per capita, I am afraid that multicollinearity could have caused problems with relevance and significancies of estimated figures. Checking the correlations matrices in the Appendix, one can find multiple variables with considerably high correlations exceeding 0.7 or even 0.8 in several cases.

Details to the evaluation:

Literature:

Very well and extensively elaborated part of the thesis, the most recent papers used not only throughout Literature Review but also in other chapters. Formal correctness of citations absolutely OK.

Methods:

Advanced, well chosen and described. The resulting empirical datasets very carefully elaborated.

Contribution:

As commented in the main text, important part of the work. Valuable and well interpreted conclusions which might have been extended to specific policy suggestions and recommendations for individual examined countries.

Manuscript form:

The aim, structure, working hypotheses, and conclusion, are clearly stated and carefully elaborated.

The work is well structured and formally more than meets the required quality of an academic text of this level. I highly appreciate the use of typographic software LaTeX. Higher formal quality of a university level work is very difficult to achieve. Moreover, the thesis is written using very good English, which also deserves to be highlighted.

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Suggested questions for the defense are:

- 1) Did you check the dataset for the possible (multi)collinearity issue (see the concern no. 3) and how? What might be the effects if the multicollinearity appears in here? How can it harm the interpretation of model results? In your opinion, is it still possible to create a dataset with similar explanatory power which would not contain highly correlated regressors?
- 2) Regarding the possible structural (see the concern no. 2) or "geographical" breaks (see the concern no. 1), did you during your research also try estimating your models only on data until the global financial crisis and/or using only real CEE (without CA) countries? If yes, can you comment on similarities and differences? If not, what similarities and differences in your conclusions would you expect?

Summary:

As large, I do find this thesis completely satisfying academic standards for masters theses both in terms of formal correctness as well as contribution to the field. Personally considered, the extensive empirical analysis together with careful macroeconomics interpretation and awareness of many caveats of both datasets and methodologies used are the most distinctive qualities of the thesis.

I am very pleased I can with no doubts recommend the thesis "Analysis of the Investment Development Path in the Central and Eastern European Countries: Can they move further?" to defense at the IES FSV UK and in case the Commission agrees, I suggest the grade "1". i.e. "excellent".

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

CATEGORY	POINTS
Literature (max. 20 points)	20
Methods (max. 30 points)	25
Contribution (max. 30 points)	25
Manuscript Form (max. 20 points)	19
TOTAL POINTS (max. 100 points)	89
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Jiří Kukačka

DATE OF EVALUATION: 21. 9. 2014


Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

Strong Average Weak
20 10 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.*

Strong Average Weak
30 15 0

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.*

Strong Average Weak
30 15 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.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě