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14 June 2011

Comments to the Dissertation of Marián Dinga (Prague):
“Essays on Labor Economics: Labor Market Laboratory in Central Europe”

Background & Overview

Marián Dinga’s dissertation is composed of three papers which focus on labour market effects of Foreign Direct Investment (FDI) in the Czech Republic and other countries. Chapter one, the first paper, is dealing with a case study, which concerns the largest direct investment in the Czech Republic by Toyota Peugeot Citroen Automobile (TPCA). Chapter two includes an analysis of investment incentives on the regional distribution of FDI in the Czech Republic. Finally, chapter three takes a broader international perspective by looking at the effect of the euro introduction on the allocation of Foreign Direct Investment in OECD countries. The dissertation has a clear focus in its empirical analyses, theories are mentioned only briefly. The author uses methods required to achieve results with great skill truly up to the standards of a Ph. D. dissertation. These results are important for the assessment of FDI and for the assessment of measures taken to structure the occurrence of FDI.

The major contents of the dissertation

Chapter 1 evaluates the impact of the TCPA investment project, which is the largest foreign investment in the Czech Republic in the time span of 1993 to 2006. It was written together with Daniel Münich and published as a separate paper in the well respected journal “Labour Economics” (2010). The authors are especially interested in the local labour market effects of the investment in the Central Bohemian district of Kolín. The identification strategy of the effects is based on a comparison of Kolín with control groups of districts. These control regions are similar to the ‘treatment’ region with respect to the labour market. According to the statistical analysis they have a similar propensity to attract foreign investment. Difference-in-differences estimations show a significant reduction by 1.7 percentage points of the unemployment rate. The numerical effect on the employment rate is even larger. The increase of employment exceeds the number of workers employed in the TCPA. The authors summarize, that the local labour market benefited from this large-scale investment. A counteracting crowding-out effect is not visible.

The effects on the labour market are assessed with a number of different methods, carrying out additional robustness checks. It is also assessed whether the investment incentives are counterbalanced by a corresponding decrease in the amount of unemployment benefits. It turns out that the investment project would pay off if the investor stays at the chosen place for at least 12 years.

In chapter 2 a regression discontinuity approach is used to assess the effects of investment incentives on the regional distribution of FDI in the Czech Republic. The estimates are based on differences around three cutoff discontinuity points. Regions are classified into one ineligibility and three eligibility categories. The purpose of this analysis is the evaluation of the functioning of investment incentives.

The design of the analysis is convincing, its results are mixed, however. The results in Table 2.12 vary wide due to the different specifications used. Most of the results are not significant. Though this could partly be explained by different institutional set-ups in different periods (see section 2.9), the lack of significant results remain. Conclusions drawn from this analysis should be interpreted with extreme care.

The note to Table 2.11 is partly copied from the note of Table 2.10 though obviously the mentioned time-invariant variables are wiped out by the fixed effects estimator.

Chapter 3 uses empirical evidence from a greater number of countries, since it analyses the effect of economic and monetary integration represented by the euro introduction on FDI. Co-author of this chapter is Vilma Dingova. The chapter describes the potential different effects a common currency can have on the development of FDI. The special focus of the chapter is the assessment of the monetary integration by using propensity score matching. The empirical result is that EU membership influences the level of FDI more strongly than does the introduction of the euro. The problem with matching procedures is that they require relatively far reaching assumptions. It is not completely clear whether they are met in the present case. The interpretation of the results is relatively brief, it would be helpful if a more detailed exposition were given.

Overall assessment

Marián Dinga treats the subject of Foreign Direct Investment very convincingly. Especially the reference to policy actions is nice, since he assesses and quantifies the size of the effects in relation to financial incentives. He evaluates the calculations of governments about special incentives schemes supplied to foreign companies. The dissertation is well written and therefore relatively easy to read – i.e. as easy as the difficult subject allows.

The final conclusion about Marián Dinga’s dissertation is that it warrants a defense and the subsequent award of a doctorate title.