IMESS DISSERTATION

Note: Please email the completed mark sheet to Year 2 coordinator (jiri.vykoukal@post.cz)

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

Student:	Xiaoyi Xiong
Dissertation title:	China's Outward Foreign Direct Investment in CEE Countries --Based on Gravity Analysis

	70+	69-65	64-60	59-55	54-50	<50
	A	B	C	D	E	F
Knowledge *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.*					50	
Analysis & Interpretation *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.*			62			
Structure & Argument *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.*			64			
Presentation & Documentation *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.*					56	
Methodology *Understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.*			61			

ECTS Mark:	59	Charles Mark:	D	Marker:	Vilém Semerák, Ph.D.
Deducted for late submission:	*No*			Signed:	
Deducted for inadequate referencing:				Date:	September 14th, 2023

MARKING GUIDELINES

A (UCL mark 70+) = A (Charles mark 91-100 - 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 81-90– very good)
C (UCL mark 64-60) = C (Charles mark 71-80 – 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 61-70 – satisfactory)
E (UCL mark 54-50) = E (Charles mark 51-60 – 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 0-50 - 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 author has opted for a relatively standard topic (analysis of FDI determinants – in the case of Chinese FDIs in CEE countries) and standard methodology (gravity models). The topic and the methodology are adequate for the IMESS study program; the methodology fits the analysed questions well. In fact, the gravity model in various renditions is definitely one of the most often estimated models for trade and investment data. The main contribution of the paper should be the efficiency frontier analysis, an addition to gravity models, which is a bit less common. Additional potential space for value-added was the opportunity to provide a really deep critical evaluation of investment relations between China and CEE countries which participate in 16+1 and BRI (as the 16+1 was initiated more than ten years ago). However, this latter contribution has not been quite achieved – the author did not seem to be willing to open more controversial issues in the relations of the analysed countries with China. This is a pity, but I understand that the author can have personal reasons for being cautious.

Comments on the historical overview and current status (chapters 1 & 2):

This is, in my opinion, the weakest part of the text.

Firstly, the author attempts to include quite a lot of sub-topics and logically ends up with a very shallow and often incomplete or unbalanced description. On the one hand, the author dedicates space to the functioning of Piraeus, on the other hand, other possibly important issues (methodology of FDI statistics and possible discrepancies in them) are not discussed.

Secondly, this part of the thesis contains very weak work with literature - there are many claims not supported by references in chapter 2. In fact, there are very few references altogether... Or there are very vague links such as "report provided by CMS" (p. 16), where the actual source is not even clearly specified. There are also important claims not supported by references or data - e.g. the claim that "China's trade structure with most CEE countries has been optimised" (p. 22). As a trade economist I am not sure how to understand the claim and indeed, it would be rather difficult to prove... Last but not least, even where the author uses references to academic (and quasi-academic sources), the student again seems to rely strongly on Chinese sources (in this section) or sources which repeat the official narrative of the PRC. Again, I can understand personal reasons and concerns which might motivate some students to adopt this attitude. However, I still did not quite like that the student does not clearly differentiate amongst sources with different degrees of reliability (speeches, theses, academic texts).

The overall impression is then, unfortunately, that the thesis in this section uncritically adopts official narrative from PRC documents and speeches or diplomatic statements - it does not keep the critical and impartial detachment that one would expect of academic work. The objective of a similar thesis is not to praise or emphasise positive experiences, but to analyse – even if it means discussing embarrassing and troublesome facts.

In fact, some problems are not mentioned at all (e.g. exaggerated investment plans mentioned at some summits, the extremely aggressive position of the PRC toward Lithuania in 2021/2, the CEFC scandal). Similarly, when describing the development of cooperation, the author uses a rather selective approach to statistics (e.g. p. 12) - e.g. better-looking data on the absolute nominal values of trade and investment rather than charts and tables with the relative role of the PRC in the stock of FDI in CEE countries or the on the shares of exports to China in total exports of CEE countries are provided.

Specific comments:

- The description of economic development (and of reforms such as privatisation) in Czechia, Hungary, and Poland on p. 15-16 is too brief and simplified to be useful. While I agree that privatisation can be relevant for the issue of FDI, why then does the author not try to track attitudes to the role of foreign capital in privatisation activities in these countries more systematically?

- The description of manufacturing might visually appear slightly better (section 2.1.2), but I still think that there might have been a chance to provide a more systematic and deeper descriptive analysis that would not just provide a soft outline of successes in two sectors in four countries (automotive and "power equipment manufacturing").

- The conclusion that the CEE countries have "become one the world's greatest success stories of growth" (p. 16) seems a bit too optimistic. In fact, their long-run convergence to EU levels was (with the exception of the years 2002-2008) disappointing for many. The claim also is not supported by any reference.

- The author seems to believe that the more reserved attitude of CEE countries in recent years is due to the EU (p. 28). This is not quite true; in fact, the CEE countries have had some own specific experience (often initial

enthusiasm was bitterly disappointed) and their own security concerns. The author might have e.g. mentioned the rather interesting case of the CEFC company. Similarly, when Montenegro is mentioned, the author omits the debt troubles that the country found itself in (and the fact that it pleaded for the EU to help it with the debt towards China in 2021).

- The author repeats the usual claim that trade surplus/deficit is a problem in trade relations between CEE and China. If the author attempted to search real academic literature (and check actual data on overall trade patterns of the countries) (p. 23), much of pages 23 and 24 would probably be omitted from the thesis. In short - as a reminder - bilateral trade deficits are not troubling for most economists at all. Especially countries that have overall balanced trade do not have to worry about bilateral deficits in trade with China (it would be like worrying about my deficit with a local supermarket if it is more than compensate by a surplus I might have with Charles University). Again, the student too easily adopts soft statements from soft sources without investing effort into analysing them critically. Had the student wanted to analyse dependencies and trade relations more seriously, then the data from TiVA statistics about trade in value added might have been used to provide a more interesting insight.

- You suggest that deglobalisation plus an increase in trade friction motivated China to strengthen its ties with CEE Countries (p. 11). But in fact, during the time you describe, the relations were becoming more tense (e.g. Lithuania).

- The description of changes in the role of China in exports of CEE countries (p.21) focuses just on nominal volumes. However, the nominal volume of exports tends to grow in general. It would have been much more convincing to show how the share of China in the countries' exports increased during the analysed period.

- If the author decided to describe the development of the 16+1 initiative, then it might have been mentioned that it followed after an earlier "12 measures plan" by Chinese PM Wen Jiabao.

Comments on the literature review (chapter 3):

This section of the thesis can be described as a mixed bag. The literature review on the factors influencing OFDI (3.4) is better; sections directly linked to the model estimated by the author are simplified but acceptable too (3.5, 3.6). However, section 3.2 is weak and contains not just simplifications but even significant misrepresentations of the cited texts.

Concerning section 3.2: Expected relevant names are mentioned, but both the survey and the explanations are rather simplified. I feel that Hymer's approach might have been better explained (market imperfections are wider than just imperfect competition) just like other approaches which are based on internalisation and FDI as a way to deal with market failures and imperfections. Similarly, while Dunning is mentioned, his eclectic paradigm (OLI) is not, in spite of being probably one of the most often mentioned concepts when simple theories of FDI are discussed. Even more critically, Knickerbocker(1973) analyses the motivation for FDI in oligopolistic markets. Xiaoyi copied or translated incorrectly that Knickerbocker sees the motive of FDI as following "the behaviour of oligarchs" (p. 43). And while these contributions are misrepresented, the author wastes space on Marx and Lenin eventhough their opinions can hardly be described as academic-grade concepts or empirical evidence.

Concerning section 3.5 (gravity model) - on the one hand, the author starts with the trade gravity model (p. 51-52, and in quite a few other places, she returns to this inspiration). On the other hand, the modern gravity theory of trade models is not mentioned. Any deeper foundations of gravity are not discussed at all - the design of the econometric specification remains rather ad hoc. This could be seen as a problem - if the student estimated a trade gravity model. Applications on investment, however, seem to be so far less rigorous in general, therefore, such an ad hoc design appears permissible. On the other hand, it would be fair to explain the logic of inclusion of, e.g., the unemployment rate in more detail. This ad hoc approach is partly corrected by the reduction of the number of variables due to multicollinearity (p. 65).

Comments on the econometric part of the text (chapters 4 & 5):

The decision to relay on two-way fixed effects conforms with typical results for this type of gravity models, and the results therefore appear to be plausible.

I liked that the author added additional regressions in which the sample was split. This makes sense - there research as well as other evidence suggesting that Chinese FDI indeed come in different forms - there FDIs to resource rich countries targeting these resources, FDI to rich countries which target technologies (and sometimes brands and "paperwork" necessary for market access). However, perhaps rather than dividing the sample into OECD & non-OECD, it might have been better to try EU vs. non-EU countries in the case of this particular sample.

I have four problems with the stochastic frontier part of the calculation. The first one is related to the relatively poor

explanation of the implementation (for example the issue which variables will be in the u_{ijt} - p. 87).

The other three issues concern the interpretation and information contents of the results:

(i) The author seems to interpret the results as if she was able to get some measure of absolute efficiency. But that seems improbable if a rather specific group of only 16 countries was in the sample.

(ii) I do not understand the claim that "the high efficiency value indicates that the home country can make profit after making outward foreign direct investment towards the host country". I do not think that anything in the design of the model and its results allows us to speak about profitability of the investment.

(iii) As previous results suggest, Chinese FDI can come in several forms - it seems that FDI to resource-rich countries have different determinants than FDI to rich and developed countries. It is perhaps a smaller problem here (the sample is less extremely differentiated than if she had data for the whole world economy), but still - does it make sense to calculate one efficiency frontier in this case?

Finally, it was difficult for me to analyse the application of the stochastic frontier model in more detail - the author of the thesis shares neither data file (except for the incomplete appendix in pdf format) nor the do-file. This is obviously not compulsory (and no points were deduced), but it is becoming a good practice to attach the files too.

Some additional minor issues and errors:

- The fact that there are no zeros in the sample does not per se indicate that PPML is not useful for gravity models (p. 60).

- The conclusion includes some claims and suggestions which do not appear to be linked to the models in the text at all (esp. section 6.2.2, p. 93).

- The inclusion a contiguity dummy (BON), although it is obvious that China does not share border with any of the countries. Similarly, the language dummy (LAN) appears completely irrelevant for any of the pairs in your sample. It is very well visible in table on p. 61-62. It is true that the author reveals this fact on p. 63, but she might have been able to save space by explaining this immediately. The same two columns of zeros even appear in the attached "pdf dataset".

- The author often speaks about trade (or terms including trade) when you are estimating and interpreting models with investment data?

- Why is the data appendix in a pdf format?

- There are at least four Master theses in the list of references, I would much rather prefer that the author uses original and peer-reviewed sources.

- Interestingly (and a bit unusually), the author seems to consider Greece a CEE country (p. 30)

- What is the meaning of the label Albania/country=Slovenia in Figure 4.3.1.1 (p. 61)?

Final conclusion:

Thanks to chapters 4 and 5, I can conclude that the author definitely proved to be capable of independent research work and that I recommend the thesis for defence.

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

1. How did you select which variables will be in the u_{ijt} for the stochastic frontier version of the estimates? What is the logic of including the TEC and UNE variables into this term?

2. So-called multilateral trade resistance (MRT) plays a rather significant role in the logic of gravity models applied on trade data. Based on the logic of the phenomena, would it make sense to assume that it should matter in gravity models for investment data too? What methods are used to mitigate the negative effects of the features of MRT in trade models?

3. Why do you assume a positive effect of trade openness on FDI? If there is a small and very open market, some types of FDI can be efficiently replaced by exports/imports – and many of the analysed countries are quite small, often too small to be interesting on their own.

4. Have you tried to compare Chinese data on FDI in CEE countries with data published by these countries or with OECD data? If yes, are there any differences in the form of reporting and in the reported values?