

SCIENTIFIC ADVISOR'S REFERENCE

Program:	Master of International Business
Student:	Kirill Matalov
Title of thesis:	Foreign Direct Investment in Emerging Markets, Investment Climate and Innovative Growth

Justification of the topic choice. Accuracy in defining the aim and objectives of the thesis. Justification of the topic choice; accuracy in defining the aim and tasks of the thesis; originality of the topic and the extent to which it was covered; alignment of the thesis' topic, aim and objectives.

The choice of the topic is justified by its relevance to the current debates on the policy of improving the investment climate in Russia and the related changes in business environment. The topic is of interest for international and Russian businesses as well as for the Russian government. It focuses on the relationship between improvement in investment climate (one of the key formal goals of the government policy), attracting FDI, and innovation-led growth. Although the direct relationship between these three elements are taken for granted in the current debate, it appears as less straightforward after the empirical analysis in the thesis.

Structure and logic of the text flow. Logic of research; full scope of the thesis; alignment of thesis' structural parts, i.e. theoretical and empirical parts.

The thesis is structured in a logical way, starting general theoretical discussion of FDI and its possible relation to the investment climate, and moving then to methodology justification based on theory (when picking variables) and descriptive statistics of FDI (for choosing periods of analysis). Then the thesis contains three types of empirical analysis, concluded with discussions of its possible implications for companies and the government. Finally, the author presents his views on how these implications may be related to the intention to stimulate innovation-led growth in Russia. Theory is discussed where it is relevant for subsequent analysis, with a good balance between theoretical and empirical parts.

Quality of analytical approach and quality of offered solution to the research objectives. Adequacy of objectives coverage; ability to formulate and convey the research problem; ability to offer options for its solution; application of the latest trends in relevant research are for the set objectives.

All stated objectives are covered in the text. Hypotheses about the relationship between economic growth and FDI are formulated narrower than the coverage in the analysis which includes other relevant variables that might explain the variation in inward FDI between countries. But it seems to be fine if the author decided to track the impact of economic growth in detail since this variable reflects the impact of the recent crisis.

The author refers to the latest available research in the field that has been published over the recent years. The whole idea of looking at the investment climate and its components can only be fruitful if based on the vast empirical data, published only from 2004.

Methodology of the research is based on cross-sectional and panel data analysis. This combination provides an optimal coverage of the investment climate (or its indicators used as its components) and FDI relationship over the latest business cycle, and, in particular, in the period before and after the crisis.

Quality of data gathering and description. Quality of selecting research tools and methods; data validity adequacy; adequacy of used data for chosen research tools and methods; completeness and relevance of the list of references.

The primary sources of data are the Global Competitiveness Report by the WEF and the World Bank. Data coverage is adequate for the research objectives. Due to the problems with availability or reliability (different values for the same indicators obtained from different sources), it is not feasible to control all potentially relevant variables in the panel analysis, but those used explain very proportion of variation in FDI inflows between countries.

The author "cleaned" data from outliers to apply regression analysis correctly.

The list of references is complete.

Scientific aspect of the thesis. Independent scientific thinking in solving the set problem/objectives; the extent to which the student contributed to selecting and justifying the research model (conceptual and/or quantitative), developing methodology/approach to set objectives.

The author has demonstrated the ability to collect data, apply correctly cross-sectional and panel regression analysis and relevant postestimation tests, formulate solutions for the problems, and present the outcomes of the analysis with discussion of its managerial implications.

Practical/applied nature of research. Extent to which the theoretical background is related to the international or Russian managerial practice; development of applied recommendations; justification and interpretation of the empirical/applied results.

Some researchers already expressed serious doubts about applying the investment climate concept in governments' decision making about economic policy (see Yusuf, 2009). But, to the best of the advisor's knowledge, there were no publications with an empirical check of the investment climate relevance for FDI and innovation-led growth (endogenous growth, as introduced by Romer in 1990) in the presence of major macroeconomic shocks (like the recent crisis). The results obtained by the author – investment climate is not statistically significant in explaining inward FDI, but some of its components, predicted by micro theory of FDI, matter – is also supported by the panel data analysis over the business cycle.

Although the paper doesn't solve Lucas paradox or the opposite statement about the predicted and actual direction of FDI and its type, it demonstrates that the investment climate is not the solution. It also shows that the solution is much more complex and goes beyond factors under direct government control both in short run and long run. In this sense, the thesis contributes to the discussion of the feasibility of getting to the Top20 in the WEF ranking by Russia as well as to the discussion of adequacy and comprehensiveness of this goal for promoting growth in the country.

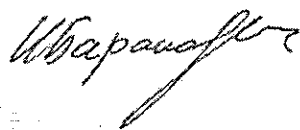
At company level, the thesis brings the idea that using the WEF ranking as one of the factors in investment decisions may lead to the wrong decisions. It argues instead that "classical" factors, predicted by the micro theory of FDI, really matter for FDI inflows in emerging market economies. It also warns about reliance on reaching the Top20 by Russia as an indicator of presence of real business opportunities in the country, even assuming feasibility of the goal.

Quality of thesis layout. Layout fulfils the requirements of the Regulations for master thesis preparation and defence, correct layout of tables, figures, references.

The layout of the thesis is done in accordance with the requirements.

The Master thesis of Kirill Matalov meets the requirements for master thesis of the Master in International Business program thus the author of the thesis can be awarded the required degree.

September 19, 2012



Scientific Advisor: *Associate Professor Igor Baranov*