

The Impact of Territorially Concentrated FDI on Local Labor Markets: Evidence from the Czech Republic

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Abstract

This paper investigates the impact of a large territorially concentrated FDI inflow on local labor market outcomes using district panel data from the Czech Republic. Toyota-Peugeot's joint investment in Kolín is used to quantify the effect of FDI on the district unemployment outflow and inflow rates, the aggregate unemployment exit hazard rates, and subsequently both the unemployment rate and the employment rate. Using difference-in-differences analysis, labor market performance of 'treatment' and 'control' districts for two periods (before and after the investment) are compared. Placebo simulations reveal that conventional least squares estimates lead to serious underestimation of standard errors. Therefore, in order to account for serial correlation, the block bootstrapping technique is used to compute consistent standard errors. The results indicate a positive significant impact of the investment on the local unemployment outflow rate driven mainly by increases in the aggregate unemployment hazard rates for durations less than nine months. However, the impact on longer unemployment durations remained negligible. Consequently, the local unemployment rate decreased and the employment rate increased in the 'treated' district.

Keywords: labor market, unemployment, employment, foreign direct investment

JEL classification: F21, J21, J61, J64

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[†] CERGE-EI is a joint workplace of the Center for Economic Research and Graduate Education, Charles University, and the Economics Institute of the Academy of Sciences of the Czech Republic.

Abstrakt

Táto práca analyzuje dopad rozsiahleho a územne koncentrovaného prílivu priamych zahraničných investícií na miestny trh práce na okresných údajoch z Českej republiky. Na základe skúseností v rámci spoločnej investície automobiliek Toyota a Peugeot v Kolíne skúma analýzou rozdielov v rozdieloch (technika difference-in-differences) efekt jednorázového prílivu PZI na rôzne ukazovatele trhu práce. Simulácie placebo intervencií odhalili významné podhodnotenie smerodajných chýb bežnou metódou najmenších štvorcov, preto bola na vypočítanie konzistentných chýb použitá technika 'block bootstrapping'. Z výsledkov vyplýva, že vplyvom investície stúpla miera odlivu z nezamestnanosti, čo bolo spôsobené najmä zvýšením pravdepodobnosti odchodu z nezamestnanosti kratšej ako deväť mesiacov (pravdepodobnosť pre dlhodobu nezamestnaných zostala nezmenená). Tieto zmeny sa následne prejavili poklesom okresnej miery nezamestnanosti a nárastom okresnej miery zamestnanosti.