

DO PENSION FUNDS ATTRACT FOREIGN DIRECT INVESTMENTS?

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Abstract:

There are many factors determining Foreign Direct Investments, the most significant are trade openness, economic growth and institutional shape of the country. Among many FDI's determinants pension system privatization significantly attracts foreign investors, as it gives investor a signal that country's fiscal stance, macroeconomic stability, labor cost is going to improve. Investments from abroad are beneficial for economic growth and development, especially for developing countries and economies in transition. But the question arises if degree of pension system privatization attracts foreign investments to highly developed economies? To answer this question Dunning's Investment Development Path (IDP) was applied for 44 countries over the period 2006-16 from OECD database. The first step consisted of clustering data to obtain the IDP stage for each country in a given year. The second step was panel estimate. An outcome indicates that when country is in lower IDP stage (up to 2) the size of private pension fund positively affects FDI inflow. When country turns the higher stage private pension fund size seems no influence on the FDI inflow.

Keywords: Pension Funds, FDI, Investment Development Path, Panel Data