

## The Impact of foreign direct investment for economic growth (A case study of Sri Lanka)

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The integration of developing countries with the global economy increased sharply in the 1990s with changing in their economic policies and lowering of barriers to trade and investment. Sri Lanka offers attractive investment opportunities for foreign companies and the country seems to offer perhaps one of the most liberal FDI regimes in South Asia. As a result, during the last decade FDI inflows in Sri Lanka has increased considerably by 8.5 in 1990 to 15.0 in 2000 as a percentage of GDP while Indian experience was 0.5 to 4.1 in the same period

However, previous literature suggests that the FDI inflows have a positive impact on economic growth of host countries. Although a large volume of econometric literature comprises on the impacts of FDI on economic growth in developing countries, there is not enough studies on the question of causality linkage between them. This paper focuses on the FDI-led growth hypothesis in the case of Sri Lanka. The study is based on time series data from 1959 to 2002 and the response of civil society and foreign firms. The econometric framework of cointegration and error correction mechanism were used to capture two way linkages between variables interest. It is evident in the results that the regression analysis do not provide much support for the view of a robust link between FDI and growth in Sri Lanka. It does not imply that FDI is unimportant. Rather, its analysis reduces the confidence in the belief that FDI has exerted an independent growth effect in Sri Lanka. But net attitudes of the civil society on the impact of FDI on opportunities for domestic business and economic activities is positive and net attitudes of foreign firms toward FDI reveals that the investment climate has not improved in Sri Lanka as a result of lack of good governance, corruption, political instability and disturbance, bureaucratic inertia, and poor low and order situation.

Key words: Foreign Direct Investment; Economic growth; Domestic business; Quality of products; Sri Lanka