Relationship between Foreign Direct Investment and Selected Macro Economic Variables in Sri Lanka - An Econometric Analysis

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After the independence, Sri Lanka has gone through three major trade policy phases relatively open, a trade regime biased against exports and strong liberalization effort respectively. Sri Lanka has been more or less following free market economic policies ever since 1977. Thus, Sri Lanka provides an interesting story of an individual country's experience relating choice of a trade regime to resource allocation and growth. The majority of past empirical studies have concluded that foreign direct investment inflows promote and increase the economic growth of relevant countries. This study tries to do descriptive analyses about the relationship between the Sri Lankan foreign direct investment and economic growth with empirical analysis. The main objective of the study is to examine the relationship between foreign direct investment and economic growth in Sri Lanka during 1980-2016. The data are taken from World Bank Reports, United Nations Conference on Trade and Development Reports. Data is analyzed using E-views 9. Gross Domestic Production is the dependent while Foreign Direct Investment, Employment, Gross Fixed Capital Formation, and Openness are considered as independent variables. Results conclude that foreign direct investment is a significant variable with a positive sign for interpretation of the economic growth. Developing countries such as Sri Lanka however, seek foreign direct investment because of its potential contribution to technology transfer and skill development, new industries and export markets and the creation of linkages with and associated upgrading of competencies of local enterprises to enhance the country's national competiveness in the world economy. Hence, foreign direct investment flows are crucial for Sri Lanka. The study highlights the importance of investigating the Sri Lankan context.

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