

A Study on the Impact of Foreign Direct Investment on Economic Growth in Sri Lanka

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Foreign Direct Investment plays a very important role in the growth of the country. It is very much vital in the case of developing countries. A typical characteristic of these developing economies is the fact that these economies do not have the needed level of savings in order to meet the required level of investment needed to sustain the growth of the economy. In such cases, foreign direct investment plays an important role of bridging the gap between the available capital and the required capital. It plays an important role in the long-term growth of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. This paper analyses the impact of Foreign Direct Investment on economic growth and development of manufacturing exports in Sri Lanka. Time series data were collected between 1980 and 2010. Simple linear regression was employed to analyse the relationship between variables. Empirical results indicate that Foreign Direct Investment has positive relationship with economic growth and manufacturing export and are statistically insignificant in the Sri Lankan economy. The study seems to suggest that other factors rather than Foreign Direct Investment determining economic growth should be strength and to admire Foreign Direct Investment inflow, country must take care on the political stability and infrastructure Development.

Key words: Foreign Direct Investment (FDI), Economic Growth, Manufacturing Export, Political stability and infrastructure development.

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