THE ROLE OF FOREIGN DIRECT INVESTMENT IN ACHIEVING ECONOMIC GROWTH: EVIDENCE FROM THE SRI LANKAN EXPERIENCE AFTER LIBERALIZATION

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Sri Lanka is a developing economy strategically located in the South Asian region with economic valuable natural resources. The open market reforms introduced in 1977 in Sri Lanka had one of the key purposes of attracting foreign investment, by establishing an investor-friendly environment. Even though, Sri Lanka has huge potential such as its strategic location, natural resources, and low wages, to attract foreign direct investment (FDI) which is the key factor in boosting economic growth, there are many causes such as political instability and financial uncertainties limit the FDI inflows to the country. Amidst the ongoing socio-economic hardness situation in Sri Lanka, it is emphasized to absorb more FDI to revitalize the economy by increasing employment and income generation. This study aims to find out the role of FDI in upgrading economic growth in Sri Lanka. Secondary data from 1978-2023 was collected from the central bank of Sri Lanka, and the E-views software employed for the time series analysis. Economic growth has been considered a dependent variable and foreign direct investment, investment in education, tourism earnings, and domestic savings have been considered independent variables. The augmented Dickey-Fuller (ADF) test has been used to test the stationary level of selected variables. Results show that the selected independent variables have a positive relationship with the economic growth in Sri Lanka at a 5% significance. However, FDI has only a 9.6 percent positive impact on economic growth in the long run means that other variables accounted rest of the contribution. Therefore, the study concludes that the contribution of FDI to boost economic growth in Sri Lanka is very low and it is crucially responsible for lack of growth. Further, it has to improve FDI inflows by ensuring a stable political and economic environment, improving ease of doing business, developing robust infrastructure, enhancing workforce skills, offering competitive incentives, and strengthening trade and investment agreements.

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