

THE ROLE OF POLITICAL STABILITY IN ATTRACTING FOREIGN DIRECT INVESTMENT: A COMPARATIVE STUDY BETWEEN SRI LANKA AND SINGAPORE

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Foreign Direct Investment (FDI) is crucial to boosting economic growth in developing countries by closing the saving gap and generating new employment. Political stability is considered an important prerequisite to attract FDI inflows to the government because it is essential to build investors' confidence. Singapore and Sri Lanka had been ruled under British colonial power and gained independence in the late 1960s and 1950s respectively. After gaining independence, Singapore focused on the country's sustained economic development with huge industrialization by attracting FDI through maintaining political stability, uncorrupted government policies, and building competitiveness even though Singapore had scarce resources at the beginning of growth. However, Sri Lanka has long struggled to achieve economic growth because of uncertainties caused by political instability, ethnic conflict, corruption, and reliance on external debt. This article comparatively analyses how political stability affects FDI in Sri Lanka and Singapore using time series data from the Central Bank of Sri Lanka annual reports, and the World Bank's World Development Indicators from 1996 to 2023. The study aims to determine political stability's impact on FDI inflows in Sri Lanka and Singapore. E-views software is employed to analyse data with the help of tools and to figure out the impact of political stability on FDI in both countries. Results show that political stability does not impact FDI in both the short run and long run in Sri Lanka because political instability remained during the period. Conversely, political stability has a significant positive impact on FDI in the long run in Singapore at a 5% significant level. Therefore, the study concludes that political instability is the key barrier to attracting FDI in Sri Lanka. The government should take measures such as promoting national reconciliation, strengthening democratic institutions, anti-corruption measures, and constitutional and legal reforms to ensure political stability build investor confidence, and attract FDI.

Keywords: Political Stability, FDI Inflows, Investor Confidence, Control Corruption