

The Impact of Foreign Direct Investment on Economic Growth in Sri Lanka

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Abstract

Foreign Direct Investment contributes to economic growth of many developed and developing countries and it is considered as a key instrument which is more than flow of capital. This study aims to identify the influence of foreign direct investment on economic growth in Sri Lanka. Net foreign direct investment was used as measurement of foreign direct investment and economic growth rate was used as economic growth indicator. The study employed secondary data covering period of 1980-2017. Data were analyzed using Johansen's co-integration test to examine the long run relationship between foreign direct investment and economic growth in Sri Lanka. Besides, the vector error correction (VECM) was employed to examine the casual link between foreign direct investment and economic growth in Sri Lanka. Findings of this study show that FDI inflow has positive and significant impact on economic growth in long run and in the short run in Sri Lanka.

Keywords: Foreign Direct Investment (FDI), Capital flows; Economic Growth, VECM, Sri Lanka