

The Nexus Between Economic Growth, Foreign Direct Investment and Environmental Pollution in Sri Lanka

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ABSTRACT

Introduction - Globalization, liberalization and the exchange of capital flows are the most significant features in modern economics that have played a vital role in almost every economy. In the recent past, the world heavily moves onto several manufacturing industries with highly pollution intensive. Thus, the aim of the study is to examine the nexus between economic growth, foreign direct investments and environment pollution in Sri Lanka. Therefore, the study focuses on the bidirectional and multidirectional nexus between these three variables over a long-time horizon.

Design/ Methodology – The sample is based on Sri Lanka covering the period from year 1978 to 2019. Data was collected through secondary data sources, such as United Nations Conference on Trade and Development and the world development indicators. The data was tested using time series ARDL regression model.

Findings –Foreign Direct Investments and Gross Domestic Production has a significant impact towards each other's, while, Gross Domestic Production and Carbon Dioxide and Foreign Direct Investment does not have a significant impact. Form the Bound test it was proven that Gross Domestic Production and Carbon Dioxide does not have a long term relationship indicating that there is no cointegration.

Conclusion – The study revealed that in order to promote economic development, energy consumption should be carried out in a more thoughtful way. Environmental management is very important as a result of sustainable progress. The Sri Lankan authorities should take the requisite measures to resolve environmental problems and safeguard the environment, as environmental conservation does not in the long run, conflict with economic growth.

Keywords: *Economic Growth, Environment Pollution, Foreign Direct Investments*