

Foreign Direct Investment (FDI) in the Manufacturing Sector and the Potential Benefits in Sri Lanka

J. M. P. PATHIRAGE

This paper examines the manufacturing experience in Sri Lanka with the attraction of Foreign Direct Investment (FDI), following the outward-looking policy regime initiated in 1977. FDI is considered by many as essential for jump-starting economic growth through filling the investment-savings and export-import gaps and bolstering capital formation in a country. It is found that in the case of Sri Lanka, FDI helped to transform the agricultural sector based economy that was pre 1977, into the industrial and services sector dominant one. Improved performance in the manufacturing sector led by garments and apparel production contributed to increase the industrial output, exports and employment generation in the country to a certain extent. This outcome is remarkable given that it occurred during a period of persistent macro economic instability, ethnic conflict, disturbances and poor law and order situation in the country. However, attracting FDI in a diversified form in a process of rapid globalization period depends much on sound investment and financial policies that need to be well coordinated within the macroeconomic policy framework with the consistency and firm commitment to such policies.

Key Words: Foreign direct investment, Investment-savings and export-import gaps, Capital formation and economic growth, Manufacturing performance

1. Introduction

Foreign Direct Investment (FDI)¹ has become a major source of international financing during the past three decades for many countries. Until the early 1970s, the most important source of external financing for developing countries was foreign assistance (foreign grants and loans) from individual national governments and multinational agencies. Official Development Assistance (ODA) and private financing flows primarily in the form of syndicated credits from banks in industrial countries expanded rapidly in the 1970s. This expansion came to an end with the debt crisis that started in the 1980s. Total net capital inflows to developing

countries reduced sharply because of decreasing commercial bank lending. Official financing also stagnated while its terms and conditions became more stringent reflecting the policy of the major creditor countries and multinational institutions, which emphasized the importance of private financing for development. In the 1990s, the surge in private capital inflows was greatly influenced by rapid liberalization and privatization of economic activities in most developing countries. A considerable proportion of private inflows, however, has taken the form of FDI that has become an important source of private financing for most of the developing countries. Sri Lanka was not exception to this situation and made strong efforts to attract foreign direct investment to meet her development prospects since the late 1970s.

Until recently, FDI in Sri Lanka was concentrated on manufacturing production. In 1991 FDI contribution in manufacturing investment was as high as 79 per cent. However, by 2000 FDI in services had overtaken that of manufacturing sector as measured by value of investment. By 2004 FDI attraction to manufacturing sector reduced to 40 per cent from 79 per cent from 1991 and services increased from 21 per cent in 1991 to 57 per cent in 2004. The same trend can be observable in the world economy also where service related FDI has grown more rapidly than FDI in other sectors (UNCTAD, WIR, 2004).

The main purpose of this paper is to analyze the role of FDI in industrial development mainly the manufacturing sector development in Sri Lanka with the introduction of liberalized economic policies since 1977. Section 2 describes the trends and pattern of FDI in the world as well as in developing countries giving especial attention to South Asian countries. Section 3 identifies the external capital requirement in developing countries including Sri Lanka. Section 4 describes the potential benefits of FDI on development based on theoretical and Empirical evidence. Section 5 is the case of Sri Lanka. Section 6 presents the policy frame work adopted by the government in attracting FDI into the country. It analyzes the impact of FDI on economic growth in Sri Lanka in section 7. Then, the preceding sections 8, 9 and 10 analyze the FDI contribution to the manufacturing sector in Sri Lanka and potential benefits accrued to the economy. Finally the section 11 is the conclusions of this study.

2. FDI in Developing Countries: Trends and Patterns

Since 1980s, the policy environment worldwide has been more conducive to the growth of FDI flows. Over the 1990s the number of countries adopting liberalization measures rapidly increased and as a result FDI too was increased steadily. Before 1990s much of the FDI and its increase could be seen within the developed countries. But since the early 1990s, FDI flows to developing countries have increased in importance becoming this source as the most important component of capital flows to developing countries. While FDI inflows to developed countries decreased from 79.7 per cent during the period of 1978-1980 to 59.4 per cent during the period of 2003-2005, it increased in developing countries from 20.3 per cent to 35.9 per cent during the same period of time

South Asian countries have also in recent times begun to attract more and moiré FDI after replacing their inward-looking economic policies with more outward-looking economic policies. Due to the recent shifts in policies in South Asian countries, annual average of FDI inflows from 1989-1994, were around US\$ 816 million, but it has risen from US\$ 2945 million in 1995 to US\$ 4936 million in 1997. Since then, FDI inflows to South Asian countries have dropped considerably until the year 2002 because of the unstable political and economic situation in these countries. However, again increasing trend could be seen and it rose from US\$ 5729 million in 2003 to US\$ 9765 million in 2005 (See Table 1).

Table 1

FDI Inflows in South Asia: 1989-2005 (Millions of US\$)

	1989-1994 Annual average	1995	1996	1997	2000	2002	2003	2004	2005
South Asia	816	2945	3684	4936	3035	4528	5729	7301	9765
Afghanistan	-	-	-	-	-	1	2	1	1
Bangladesh	6	2	14	141	170	52	350	460	692
Bhutan	-	-	-	-	-	-	1	1	1
India	394	2144	2591	3613	2315	3449	4585	5474	6598
Maldives	6	7	9	11	12	12	14	15	14
Nepal	4	8	19	23	13	6	15	-	5
Pakistan	304	719	918	713	308	823	534	1118	2183
Sri Lanka	102	65	133	435	217	197	229	233	272

Source: UNCTAD (2001, 2005, 2006), *World Investment Report*.

Among the South Asian countries, India has substantially liberalized her old policy of severe restrictions and controls on FDI and joined the ranks of rapidly growing Asian FDI hosts in the second half of the 1990s. As a result, India has become the largest FDI recipient in South Asia showing the increasing trend of FDI flows after 2002. As a second largest FDI recipient in South Asia, Pakistan experienced a fluctuation pattern in the FDI inflows until 2003 due to the unstable economic and political situation, but it increased thereafter. FDI inflows to Afghanistan and Bhutan have started after the year 2002 in little amounts. Maldives and Nepal also are very poor in attraction of FDI flows during the past few years. In this development the emerging pattern indicates that bigger countries in South Asia such as India and Pakistan have made important advances through their economic reforms to attract FDI than that of Sri Lanka. The unsettled political, economic and war situation in Sri Lanka prevented it from attracting a higher level of FDI in the recent years and it shows considerable levels of fluctuations over the past years. FDI inflows to Sri Lanka has decreased from US\$ 437 million in 1997 to US\$ 197 million in 2002 but has increased thereafter. Yet, in Sri Lanka, FDI will be a factor that could have strong source on its modern economic development.

3. External Capital Requirements

Economic growth and economic development are the prime objectives of almost all developing countries. Various policy measures and strategies have been introduced prior to the introduction of economic reforms of these countries. However, one of the main obstacles to achieving success from them had been the lack of savings to meet the basic capital requirements. This is often explained in terms of what is popularly known as the "vicious circle of poverty" (Meier and Baldwin, 1957; Nurkse, 1952). The basic idea is that poor countries with low rates of savings and investment grow slowly, which in turn keeps the rates of savings and investment low. This is the main problem of developing countries including Sri Lanka for achieving their development targets.

The Harrod-Domar model (Domar 1946, 1947; Harrod, 1939) postulates that the rate of economic growth (g_y) in the steady state equals the productivity of capital (δ) multiplied by the rate of saving or investment (s), such that,

$$g_y = \delta s$$

If the productivity of capital (δ) is considered fixed, then economic growth is directly linked to the rate of saving. But, even when the rate of saving is low there is a possibility to promote the economic growth by supplementing such savings with investments from outside. Therefore, in an open economy with perfect capital mobility, economic growth may not be constrained by the low rate of domestic savings as it is assumed that there will be a smooth flow of capital. That is how shortage of domestic savings can be supplemented by foreign capital, which could ensure a high rate of investment and economic growth. In this context, basic Harrod-Domar model can be extended to an open economy in the following term.

Foreign capital inflows as a proportion of aggregate output can be denoted by k_f . Then the Harrod-Domar model can be written as,
 $g_y = \delta (k_f + s)$

This extension ($k_f + s$) of the Harrod-Domar model combines the rate of foreign capital with the domestic savings to ensure the economic growth in developing countries.

On this basis, it can be proved that any shortage of domestic saving can be supplemented by foreign capital and thereby increase the rate of investment and achieve economic growth in a sustainable manner, assuming that there are no exceptional restraint on mobility of foreign capital.

Not only Harrod-Domar but also many economists, consider accumulation of capital is the fundamental determinant of economic growth, at least during the early stage of economic growth and development (Hossain and Chowdhury, 1998:80). They have emphasized that there is a high correlation between growth and capital formation. The main sources of capital formation are:

1. Domestic savings
2. Foreign capital (grants, loans and foreign direct investment)

In developing countries, domestic sources are inadequate as there is a deficiency in savings leading to investment-savings gap. To supplement this deficiency, developing countries have to seek foreign capital from various foreign sources. Furthermore, foreign capital

becomes essential to overcome the balance of payment problems resulting from the import-export gap.

However, foreign capital through grants and other official aid flows have been decreasing over the past years. For example, the total Overseas Development Assistance (ODA) has dropped from US\$ 43 billion in 1997 to US\$ 3 billion in 2003 (UNCTAD, T&DR, 2004). On the other hand, heavy dependence on foreign aid through loans with rigid conditions created heavy external debt burden on poor countries since 1980s. The aggregate volume of external debt of developing countries that stood at US\$ 1336 billion in 1990 increased to 2755 billion in 2004 (World Bank, World Development Indicators, 2006). Therefore, concern has been expressed regarding adverse impact of debt servicing and repayments on their balance of payments. Debt service ratio in developing countries rose from 4.5 per cent of Gross National Income (GNI) in 1990 to 5.6 per cent in 2004 (World Bank, *ibid*, 2006). These debt services in developing countries absorbed a high proportion of foreign exchange earnings from exports typically in the region of 20-30 per cent (Thirlwall, 1983: 298). In this environment, developing countries are now placing much greater attention than earlier on alternative sources of capital to finance their national development. The decline of grants and other official flows has meant that private capital, particularly in the form of FDI has become a major source of external finance to developing countries. The above discussion reviews that domestic savings in these countries are in a short supply and therefore it is imperative to obtain foreign direct investment to meet the capital requirements of developing countries.

4. Potential Impact of FDI on Development

FDI may be viewed as a package of tangible and intangible resources and assets, many of them firm-specific that can contribute to economic development in host countries. Key elements of the package include capital, technology, skills and management techniques. FDI can also be a vehicle for host economies to access international markets by integrating into the international production, marketing and distribution networks of TNCs. FDI brings modern technologies and know-how that might not otherwise be available to developing countries. It raises the production efficiency, improving productivity and strengthening technological capabilities in the host countries (UNCTAD, T&DR, 2006).

Macro economic studies on the relationship between FDI and growth have yielded diverging results and empirical evidence points to considerable variation in the benefits that host countries actually reap from FDI inflows (UNCTAD, 1999, Moran et al., 2005). According to Kumar (2005), a multitude of recent empirical studies show that knowledge spillovers from FDI have been rare and in some cases FDI may have the negative effect of crowding out domestic investment. While the crowding out of the least efficient firms from an industry may not matter if incoming FDI raises average productivity and domestic value added across foreign owned and domestic firms. Crowding out of most of the competitors (and suppliers linked to them) as a result of the overwhelming market power of the incoming TNC may severely compromise the opportunities for favourable effects and externalities. Moreover, there is a tendency for TNC affiliates to acquire the bulk of their inputs from their parent companies or other already associated suppliers and hence generate few domestic linkages.

The varied experiences of host developing countries with respect to the role played by FDI and its impact on the development process and the importance of host country absorptive capacities for benefiting from FDI highlight the need for FDI policies to be in line with the identified development objectives of a country. Such policies should also aim at maximizing the potential benefits of FDI while minimizing the negative effects, such as those that could result from crowding out of domestic firms and the abuse of market power.

5. The Case of Sri Lanka

Sri Lanka is in a capital deficiency country to achieve its targeted rate of economic growth (Achieving 10 per cent growth rate according to Mahinda Chinthana: Regaining Sri Lanka, 2003). Growth rate in Sri Lanka as compared to many South Asian countries had been low in the past few years. For example, during the period of 2000-2004, Sri Lanka had an average growth rate of 3.7 per cent in comparison to 5.2 per cent in Bangladesh, 6.2 per cent in India, 4.1 per cent in Pakistan and 4.1 per cent in Pakistan (World Development Indicators, 2006). Apparently, with the heavy unemployment (unemployment rate as a percentage of labour force is 7.7 per cent in 2005) and increasing poverty (According to Central Bank Report in 2006, population below US\$ 2 a day for 1990-2004 is 41.6 per cent), the country requires a high rate of investment for economic

growth and poverty reduction. For this purpose, in addition to promoting high level of domestic savings which is at the low level of 17.1 per cent of GDP in 2006 (ibid, 2006) there is a need to absorb more foreign direct investment as Sri Lanka cannot depend much on foreign aid and loans to meet these requirements. Considering the rapidly growing Asian Economies such as Singapore, Malaysia, Thailand, Indonesia, Republic of Korea and China; domestic savings are nearly equal to investment, some of them even comfortably exceeding their investment as in Singapore, Malaysia and Thailand (Asian Development Bank, 2006).

However, the level of domestic savings in Sri Lanka from various sources indicates that, savings are inadequate to meet the necessary financial requirements in the economy. In other words, there is a gap between investment and savings, which is termed as investment-savings gap. Domestic savings, which include private savings and government savings, are not in a sufficient level for variety of reasons. Foremost among them are the low level of income, the smallness of the upper middle class which has better saving capacity, less developed capital markets, poor organization of saving institutions and high consumption pattern among the affluent classes with its demonstration effect on others who have the capacity to save. In addition, other factors influencing the saving habits such as social customs that necessitates spending on social occasions of the family and friends, also act as constraints on purposeful personal savings.

Government savings, which is defined as the current account surplus of the government budget, is also not at a satisfactory level. For decades, the government budget has been in deficit as the government expenditure exceeded its revenue thereby increasing the budget deficit year by year and it was averaged around 9 percent of GDP for the past ten years (CBSL, 2007). Therefore, government dis-savings further added to the reduction in available resources from domestic sources for investment.

At the same time, Sri Lanka had experienced an unfavorable balance of payments position for a long period of time. In recent years, the deficit in the current account of balance of payments of Sri Lanka widened significantly. It is required to import more to meet the growing necessities of development, but export earnings are not sufficient to meet

the increasing domestic needs. This is the so-called foreign exchange or import-export gap, which was averaged to 5.3 per cent of GDP during the post 1977 period (CBSL, 2006). This was the result of balance of trade deficit as export earnings have generally been unable to keep pace with rapid export expansion. However, Sri Lanka wants to import capital goods, technical-know-how, intermediate goods and raw materials to accelerate her economic growth. One method of paying for such imports is through increasing her exports. The exports can be increased either by producing more export goods or curtailing domestic consumption. But, as a developing country, Sri Lanka has only limited productive capacity and therefore, it is not possible to increase exports substantially particularly in the short term. Curtailment of consumption, on the other hand involves a lot of sacrifice and it cannot be adopted with much success in a democratic country like Sri Lanka.

Within this background, if Sri Lanka depends on her own resources it will have to sacrifice not only her consumption but also wait for a considerably long period of time to enjoy the fruits of development. Therefore, an alternative source that is foreign capital or external financing has become essential in one form or the other to overcome this problem and to accelerate the pace of economic growth.

Average investment in Sri Lanka in the last ten years has been around 25 per cent of GDP and savings rate has been around 18 per cent of GDP, keeping the Investment-Savings gap as 7 per cent (CBSL, 2006). If our targeted growth rate is 10 per cent and incremental capital output ratio (ICOR) is 5, we require to increasing investment from the current 25 per cent of GDP to about 50 per cent of GDP (Incremental Capital Output Ratio (ICOR)= Average investment ratio for a period of time is divided by the average growth rate of the same period of time). To reach this level of investment, it is needed to increase not only the domestic savings but also alternative sources of foreign capital or external financing. Among foreign capital, increasing attention is now being focused on FDI and its contribution to relieve the investment-savings gap and foreign exchange constraint. Sri Lanka has placed much emphasis on FDI to bridge the investment-savings gap by external financing resources since the late 1970s. It became still more essential with the declining trend of grants and other official flows and the increasing external debt problem since 1980s. It is noteworthy that in the post

1977 period FDI had commenced playing an important role in financing this gap, with its contribution increasing considerably from US\$ 1.5 million in 1978 to US\$ 451.1 million in 2006 (CBSL, 2006).

6. FDI Policy Environment in Sri Lanka

As a result of a deteriorating balance of payment situation, Sri Lanka introduced a regime of import substitution and import restrictions in the 1960s. These restrictions naturally resulted in the entry of several major multinational enterprises into manufacturing sector in Sri Lanka. During the period of 1960-1976, various tax and tariff incentives were introduced in order to attract private foreign capital both in export oriented as well as import substitution industries. However, during this period, some government policy framework prevailed in the country such as schemes of licensing and quotas, nationalization and restriction of capital out flows acted as disincentives for attracting FDI and therefore, net capital inflow was negative before the 1977 period.

The government policy towards foreign direct investment since 1977 mainly consisted of improving the export oriented manufacturing sector within the framework of a liberalized trade regime. These policy reforms were motivated by the failure of import substituting industrial strategies to reach the expected level of industrial development and therefore export oriented development strategy was adopted in 1977. In this context, promotion of foreign direct investment, particularly in export oriented manufacturing investment was given pride of place. Within this policy framework, the most important government initiative was the setting up of the Greater Colombo Economic Commission (GCEC) in 1978. It was given wide range of powers to establish and operate Export Processing Zones (EPZs) in the country. The investment promotion policy package offered to EPZs consisted of permitting complete foreign ownership of investment projects, a tax holiday up to 10 years with complete tax exemption for remuneration of foreign personnel employed, royalties and dividends of shareholders during that period; duty exemption for the importation of inputs and assistance with customs clearances; industrial services at substantial rates (such as service sites, building plants, power, water and telecommunication services) and unlimited access to foreign currency credit at interest rates prevailing in the world financial markets (Athukorala & Jayasuriya, 2004:7). At the same time, Foreign Investment Advisory Committee (FIAC) was given powers to

continue with approving and monitoring foreign investments in both export-oriented and import-substitution projects outside the GCEC area. As an important part of the FDI policy, steps were also taken to enter into Investment Protection Agreements and Double Taxation Relief Agreements with the major investing countries. A guarantee against nationalization of foreign assets without compensation was provided under the Article 157 of the new Constitution of Sri Lanka adopted in 1978.

While the GCEC had been given the power to act as the major instrument of promoting export oriented FDI, there were other elements of the 1977 policy package aimed at improving the general investment climate in the country. Removal of import restrictions, considerable relaxation of controls on capital and profit repatriation and real currency depreciation were some of them. The structure of Sri Lanka's foreign trade also marked unprecedented structural changes facilitated by more liberal external sector policies followed since the latter part of the 1970s. Restrictions on external trade were relaxed. The export licensing requirements were removed. Import controls and export duties were gradually removed. The tariff structure was rationalized significantly. In addition, a wide range of export promotion schemes were introduced under a newly established Export Development Board in order to increase the export production in the country.

In 1980, the duty rebate scheme (originally introduced in 1964 and revised in 1969) was completely reformulated with a view to introducing more flexible implementation procedure for non-traditional exports, which used imported inputs. Further market oriented policy reforms in the early 1990s were introduced as the "second wave of liberalization policy package. This included further tariff cuts and simplification of the tariff structure, removal of exchange controls on current account transaction and important changes to the foreign investment policy to facilitate the outward orientation of the economy. It also included abolition of various restrictions on the ownership structure of joint-venture projects outside the EPZs, provision of free trade-zone status to export-oriented foreign ventures in all parts of the country (in addition to the area demarcated by the original GCEC Act). In addition, FIAC was abolished and its activities were placed under GCEC in January 1990, with a view to creating a one stop investment promotion centre.

GCEC was responsible for facilitating and speeding up investment approval within a unified policy framework both for import-substituting and export-oriented investors. After enlarging its activities GCEC was replaced by the Board of Investment (BOI) in November 1992. Although the GCEC had been given a power to regulate and promote export oriented FDI only in the Greater Colombo area, BOI is given a country wide mandate for approving, administrating and facilitating foreign direct investment.

7. FDI and Economic Growth in Sri Lanka

As mentioned above Sri Lanka has made considerable efforts to attract FDI introducing various policies and incentives since 1977. Now it has passed nearly three decades in attracting FDI into the country and contributing to economic growth. It is believed that attracting FDI into Sri Lanka has contributed to lessen the investment-savings and import-export gaps and thereby contributing to economic growth filling the resource gap and in one way of being a source of capital formation (Fan and Dickie, 2000).

It stated earlier that capital formation in a country mainly consists of both domestic sources and foreign sources. Since 1978, among the foreign sources FDI has been increasingly important as a mean of capital formation in Sri Lanka (Table 2). FDI contribution to the capital formation has fluctuated according to the policy changes, civil disturbances and political and economic uncertainty in the country. However, the contribution of FDI to the Gross Domestic Capital Formation (GDCF) was averaged as 3.4 per cent during the period of 1978-2006. It was ranged from a maximum of 7.13 per cent in 1993 to a minimum of 0.28 per cent (1978) of Gross Domestic Capital Formation.

Not only for capital formation but also to the changing the pattern of sectoral composition of Gross Domestic Product (GDP) in Sri Lanka, FDI has played an important role in the post 1978 period. It is noticeable that the major immediate cause of output expansion in the manufacturing sector was the attraction of FDI due to the private sector led export-oriented industrialization policy package initiated in 1977. The main contributor to the industrial sector development in Sri Lanka during the last three decades was export-oriented manufacturing industries led by the apparel and textile industry with the attraction of FDI into the country.

Table 2
FDI flows as a Percentage of Gross Domestic Capital Formation:
1978-2006

Year	Gross Domestic Capital Formation (GDCF) Rs. Millions	FDI Inflows Rs. Millions	FDI as a percentage of Gross Domestic Capital Formation
1978	8521	23.8	0.28
1979	13226	731.5	5.53
1980	20845	710.0	3.40
1981	23279	946.5	4.06
1982	30527	1322.8	4.33
1983	35132	887.3	2.52
1984	39708	829.6	2.08
1985	38682	679.6	1.75
1986	42463	784.1	1.84
1987	45900	1726.5	3.76
1988	51461	1736.9	2.67
1989	54722	633.1	1.15
1990	71455	1683.8	2.35
1991	85156	2633.5	3.09
1992	103239	5315.2	5.14
1993	127675	9107.4	7.13
1994	156510	7815.2	4.99
1995	171825	1010.6	0.58
1996	186264	4756.1	2.55
1997	217103	7587.0	3.49
1998	255889	8846.0	3.45
1999	301728	12449.0	4.12
2000	352592	13119.0	3.72
2001	309644	7310.0	2.36
2002	330543	17281.0	5.23
2003	386621	16557.0	4.28
2004	506675	21948.0	4.33
2005	627199	23505.0	3.75
2006	803011	46971.0	5.85

Annual Reports (various issues), Central Bank of Sri Lanka

Table 3 shows the pattern of sectoral structure of GDP in Sri Lanka during the period from 1978-2006. Accordingly, the share of the agricultural sector in Sri Lanka declined from 28.7 per cent in 1978 to nearly 17 per cent in 2006, while the contribution of industrial sector increased its share from 26 per cent in 1978 to 27 per cent in 2006. The highest contribution of industrial sector to the GDP recorded in 1997 because of the increasing trend of manufacturing sector from 15.3 per cent in 1978 to 21.5 per cent in 1997. However, after the 1997, manufacturing sector contribution to the GDP remained around 16 per cent. The service sector, which has become a major contributor to GDP in post 1993 period, increased its share from 45.3 per cent in 1978 to 56.2 per cent in 2006. It was the result of a rapid increase in the service activities on trade, transportation and communication technology, banking and finance in the post liberalization period. As a result, industrial and services sectors have become the most prominent sectors in GDP composition in Sri Lanka since the late 1970s.

Table 3
Sectoral Composition of GDP in Sri Lanka: 1978-2006
(Percentages)

Sector	1978	1987	1996	1997	2000	2001	2004	2006
Agriculture	28.7	23.6	18.4	17.8	19.9	20.1	17.9	16.8
Industrial	26.0	26.1	30.4	30.8	27.3	26.8	26.5	27.0
Manufacturing	15.3	16.2	21.0	21.5	16.8	16.0	16.3	16.0
Other	10.7	9.9	9.4	9.3	10.5	10.8	10.2	11.0
Services	45.3	50.3	51.2	51.4	52.8	53.1	55.6	56.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GDP growth rate	8.2	1.5	3.8	6.3	6.0	-1.5	5.4	7.4

Source: Central Bank of Sri Lanka, Annual Reports (Various issues)

Comparing the rate of growth of manufacturing sector, which is the major contributor to the industrial sector with the rate of growth of GDP (Table 4), it is evident that GDP growth rate had little correlation with manufacturing growth rates from 1977-1986. However, it showed a significant correlation from 1986-2000 and it was higher than the rate of growth of GDP. However, the manufacturing sector, which recorded 9.2 per cent in 2000 contracted by 4.2 per cent in 2001 due to the power cuts, increased cost of production and the depressed demand for manufacturing exports in USA and EU countries and also economic depression in the country (CBSL, 2001).

Table 4
Comparison of GDP Growth Rate with the Manufacturing
Growth Rate: 1977-2006

Year	GDP Rs. Millions Constant Factor Cost Prices	GDP Growth Rate	Manufacturing Rs. Millions	Manufacturing Growth Rate
1977	16078	-	2357	-
1978	17401	8.2	2541	7.8
1979	18501	6.3	2659	4.6
1980	19575	5.8	2681	0.8
1981	20706	5.8	2820	5.2
*1982	94679	5.1	13601	-
1983	99375	5.0	13710	0.8
1984	104395	5.1	15390	12.3
1985	109570	5.0	16193	5.2
1986	114261	4.3	17558	8.4
1987	115922	1.5	18748	6.8
1988	119050	2.7	19622	4.7
1989	121729	2.3	20488	4.4
1990	129244	6.2	22427	9.4
1991	135204	4.6	23949	6.8
1992	140990	4.3	26059	9.0
1993	150783	6.9	28806	10.5
1994	159269	5.6	31418	9.1
1995	167953	5.5	34294	9.2
*1996	695934	3.8	112724	-
1997	739763	6.3	122929	6.5
1998	774796	4.7	130733	9.3
1999	808340	4.3	136498	4.4
2000	857035	6.0	149115	9.2
2001	843795	-1.5	142909	-4.2
2002	877248	4.0	145864	2.1
2003	930057	6.0	151951	4.2
2004	980720	5.4	159721	5.1
2005	1039763	6.0	169336	6.0
2006	1116215	7.4	178359	5.3

Source: Central Bank of Sri Lanka, Annual Reports (Various Issues and 2006).
 (*) Base Year

Accordingly, manufacturing growth rate was lower than the GDP growth rate in the post 2001 period. FDI inflows and the expansion of manufacturing sector significantly resulted in this changing pattern of GDP composition in Sri Lanka and also the rate of economic growth.

8. Manufacturing Performance in Sri Lanka

The contribution of FDI to industrialization in the post-liberalization period in the country had been more evident in the manufacturing sector. Manufacturing performance can be evaluated by the capacity utilization and value added of manufacturing sector, and also its contribution to GDP composition (Table 5).

Capacity utilization in the manufacturing sector in Sri Lanka was at a high level comparing with other variables. After introducing the liberalization policy, the availability of imported inputs and capital goods contributed to output growth in the manufacturing sector through greater capacity utilization. Encouraged by the fiscal incentives for utilization of advanced technologies, such as lower duty rates and tariff concessions for importation of machinery, many industries expanded their production capacity during the last two and half decades. It was about 72 per cent during the period of 1978-1980 and increased to 84 per cent in 1993-1995. But in 1996 the ratio has declined to 83 per cent mainly due to the power cuts resulting from the prevailing drought conditions at the time. In 1997 and 1998 the overall capacity utilization increased to 84 per cent and again declined to 83 per cent in 1999 because of the slower industrial production in the early part of the year. Then, it increased to 85 per cent in 2000 and recorded the highest rate compared to past two decades. The reason was the introduction of positive measures by the government, such as the Advanced Technology Incentive Scheme, Textile Restructuring Programme and Lower National Security Levy for the importation of machinery. And also, better prices received for exported items, growing markets and the relatively lower interest rates helped expand the existing capacity in the industrial sector (Central Bank of Sri Lanka, 2000). Again in 2001 and 2002 capacity utilization declined to 80 & 81 per cent respectively because investors delayed capacity expansion projects due to depressed domestic and international markets, structural impediments and political uncertainty in the country. After that, a recovery position can be seen in 2003 and capacity utilization increased to 89 per cent in 2006 resulting from the improvement of both international and domestic economic conditions.

Table 5
Percentage of Capacity Utilization, Value Added and Contribution
of the Manufacturing Sector to GDP: 1978-2006
 (In real terms based on 1996 prices)

Year	Percentage of capacity utilization	Value added as a % of GDP*	Share in GDP
1978-80	72	7.5	11.2
1981-83	75	7.2	11.1
1984-86	75	9.0	12.1
1987-89	79	10.4	13.7
1990-92	82	11.7	16.2
1993-95	84	13.5	17.7
1996	83	13.7	16.5
1997	84	14.9	16.6
1998	84	14.2	16.8
1999	83	14.4	16.4
2000	85	14.9	16.8
2001	80	14.4	16.0
2002	81	14.2	15.9
2003	85	14.3	15.6
2004	86	14.4	16.3
2005	87	14.0	16.3
2006	89	13.2	16.0

Source: Central Bank of Sri Lanka, Annual Report, 2006

Note: * value added is derived by subtracting the cost of raw materials and power and fuel from the ex-factory value of output.

The value added of manufacturing sector to the GDP was about 7.5 per cent in the early 1980s, but it increased to 14 per cent in the post 1996 period. The expansion of capacity utilization with the higher domestic demand, improved technology, stable exchange rates, which helped to contain imported raw material costs and advances in productivity had beneficial effect on value addition in the manufacturing sector. Firm level structural reforms such as closing down of non profitable production units, changes in technologies, reducing of excess labour and various cost reduction methods also helped to improve value addition. However, Sri Lanka has not been able to have a better or higher level of value addition in the manufacturing sector primarily due to the high imported input content of the apparel sector, which dominates Sri

Lanka's industrial output. However, these manufacturing performances show a close relationship with the GDP contribution of manufacturing sector changing its range from 11 per cent in 1980s to 17.7 per cent in early 1990s and reducing to 16 per cent in the post 1996 period.

9. Manufacturing Production: Changing Pattern

Manufacturing sector has contributed considerably to the changes in industrial production during the two and half decades from 1978. Table 6 illustrates that although most other sectors of manufacturing production show a decline, the textile, apparel and leather products group became the largest contributor to the industrial production in the post 1977 period. These products began to expand gradually from 11 per cent of the value of industrial production in 1978 and reached a much higher level of 42 per cent in 2000 although it dropped to 38 and 39 per cent in 2003 and 2006 respectively. It is worth mentioning, that FDI involvement even in a limited way in this sector was a strong contributory factor to this achievement.

However, it is observable that the share of the chemical, petroleum, rubber, and plastic products, which was the largest group accounting for 37 per cent of industrial production in 1978, had dropped to 20 per cent in 2003 and 21 per cent in 2006. The share of food, beverage and tobacco industries, which concentrate on processing of major agricultural products, that contributed nearly 30 per cent to the industrial output in 1978, decreased to 21 per cent in 2000, and slightly increased to 23 per cent in 2003 but again dropped to 22 per cent in 2006. Non-metallic products have increased its share from 6.7 per cent in 1978 to 8.0 per cent in 2000 and remained constant thereafter. Other products including metal products, paper products, wood products and others contributed 10 per cent in 2006 whereas it was 15.4 per cent in 1978. The reason was the closing down of many industries because of the high competition created by imported goods after the trade liberalization policy framework in the country.

Table 6
Percentage Distribution of Industrial Production by Sub-Sectors
in Sri Lanka: 1978-2006

Category	1978	1996	2000	2003	2006
1. Food, beverages and tobacco	29.5	26.2	21.0	23.0	22.0
2. Textile, wearing apparel and leather	11.4	39.1	42.0	38.0	39.0
3. Wood and wood products	1.4	0.8	1.0	1.0	1.0
4. Paper and paper products	4.2	1.9	2.0	2.0	2.0
5. Chemicals, petroleum, plastic and rubber products	37.0	18.0	19.0	20.0	2.1
6. Non metal products	6.7	7.3	8.0	8.0	8.0
7. Basic metal products	2.5	0.9	1.0	1.0	1.0
8. Fabricated metal products	6.7	3.4	4.0	5.0	4.0
9. Products (not elsewhere specified)	0.6	2.4	2.0	2.0	2.0
Total	100	100	100	100	100

Sources: Annual Reports (Various Issues), Central Bank of Sri Lanka.

It is noteworthy that the significant production expansion of the textile and apparel sector was the result of the establishment of Export Processing Zones (EPZs), commencement of 200 garment factory programme, the introduction of export oriented policies and the quota system under the Multi Fibre Agreement (MFA). But the share of apparel and textile to the industrial output has declined to 39 per cent in 2006, due to its inability to cope with the intense competition in the international markets. The global competition continued to intensify with the entrance of low cost manufactures from other developing countries, which had significant comparative advantages due to the availability of raw materials, cheap and productive labour, political security and firm policy structures. Vietnam and China are good examples in this respect. "China in particular with its massive production capacity, strong raw material base, continuous improvement of technology, lower utility costs and higher labour productivity has sharpened its competitive edge in the global market" (Central Bank of Sri Lanka, 2003: 93). However, foreign capital played an important role in this field providing financial, technical, and entrepreneurial resources, while also helping to access new markets.

Comparing with other developing countries, there are considerable differences in manufacturing production in Sri Lanka and developments in different production categories. Inadequate product diversification is a major weakness in the industrial sector in Sri Lanka. Manufacturing enterprises have been concentrating on a limited range of labour intensive and low value-added products. In comparison, the manufacturing in East Asian countries graduated from labour-intensive products like textile and garments, which were dominant in the 1960s to capital-intensive and high value added industries such as automobiles, computers and televisions in the 1980s. These are considered as dynamic products whose trade is growing faster than the world average. But Sri Lanka's industrial production is still confined to less dynamic products. Failure to identify and develop a dynamic mix of products has retarded industrial diversification and export growth in Sri Lanka (Colombage, 2003). Inadequate diversification in the industrial sector is also reflected in the export structure.

As shown in Table 7, cumulated foreign direct investment in the manufacturing sector increased from US\$ 41.3 177.5 million in 2001 to US\$ 234.8 million in 2006 and contributed significantly to increase manufacturing production in the country. However, FDI attraction to the services/sector/infrastructure is increasing overwhelming the manufacturing sector increasing its share from US\$ 83.4 million in 2001 to US\$ 368.3 million in 2006. It was the results of increasing trend of FDI attraction to Telephone & Telecommunication Network, Housing Property development and Power Generation. The highest FDI flows have gone to the Textile, Wearing Apparel & Leather production sector. FDI attraction to the production sectors such as Food, Beverages & Tobacco products also show an increasing trend of FDI attraction. Chemical, Petroleum, Coal, Rubber & Plastic Products indicate a reduction in the FDI attraction in 2004 but increasing trend can be seen thereafter. However, FDI attraction to other productions has been fluctuated during this period.

Table 7
Inflow of FDI in the Manufacturing by Sector: 1979, 1985, 1991,
1997 and 2006
 (Approved under Sec. 17 of the BOI Law)
 (Value in (US\$ Mn.)

Sector	2001	2002	2003	2004	2005	2006
Food, Beverages & Tobacco	-	8.3	10.4	23.0	29.4	34.1
Textile, Wearing Apparel & Leather	18.1	20.5	22.1	26.8	47.3	103.5
Wood and Wood Products	-	17.1	6.4	0.4	0.9	4.4
Paper and Paper Products, Printing & Publishing	-	9.0	0.8	0.1	8.2	0.8
Chemicals, Petroleum, Coal, Rubber & Plastic	18.0	2.2	14.8	8.9	20.1	43.2
Non-Metallic Mineral Products	0.3	11.0	8.65	1.7	5.9	5.3
Fabricated Metal, Machinery & Transport Equipments	1.8	10.4	10.5	3.6	15.3	14.1
Manufactured Products (NES)	3.2	-	6.9	8.1	8.2	29.5
Agriculture	-	-	-	-	0.5	0.7
Services/Infrastructure	42.0	163.9	130.1	111.7	151.4	368.3
Total	83.4	242.4	210.6	234.3	287.2	603.9

Source: Monitoring Department, Board of investment, 2006

The disaggregated composition of FDI inflows to the manufacturing sector indicates significant changes over this period; it resulted in increasing manufacturing output by providing not only the capital but also technology, production know-how and marketing intelligence and expertise and also expansion of export-oriented industries. However, FDI attraction has not been uniform in the manufacturing sector as a result of poor investment environment due to the uncertainty of political situation and continuation of ethnic conflict in Sri Lanka. Standard labour intensive

manufacturing has been the main attraction to foreign investors with a heavy concentration in the Garment and apparel industry. Since latter 1980s there has been a noticeable increase in the number of foreign firms in other manufacturing activities.

Data relating to BOI projects set up with FDI participation (named as foreign firms) points to a clear shift in FDI from domestic market-oriented to export-oriented manufacturing activities. The manufacturing projects approved under the sec, 17 of the BOI law increased from 13 projects in 1979 to 824 projects in 2006. It is also evident that FDI inflows to Sri Lanka were mainly confined to manufacturing industries rather than other areas of activity such as mining and quarrying, and construction activities of the industrial sector. As a result, there is an increasing trend of manufacturing production since 1977, with most of the production being export oriented.

10. Contribution to Exports and Employment Creation

There have been important changes in the export structure in Sri Lanka with the manufacturing sector development in the post 1977 period. Industrial exports have become more significant since the early 1980s and had outstripped the agricultural exports, which declined from 79 per cent in 1977 to 19 per cent in 2006. In comparison, industrial exports as the major contributor to exports increased its share from 14 per cent in 1977 to 78 per cent in 2006 (Central Bank of Sri Lanka, Various Issues). The textile and apparel sector, with considerable foreign investments has contributed significantly to the increase in manufacturing exports since 1986. It is a fact that such FDI inflows to Sri Lanka have concentrated on the industrial sector and therefore, FDI has played a significant role in changing the export structure of post 1977 period.

In spite of this contribution, it is evident that FDI had been less effective in its role of diversifying the industrial base in Sri Lanka. Its concentration in the textile and apparel sector, which was a major contributor to the industrial earnings accounting for nearly half of the country's export earnings since the beginning of 1990s (Average share of textile and apparel manufacturing exports was about 49 per cent during the period of 1991-2006) reflects this well.

Another aspect worth highlighting is low value added products, which originated mostly in the garment and textile industry. This was

due to the dependence on much of imported inputs as Sri Lanka has no forward and backward linkages in the industrial sector. In fact, with regard to the foreign exchange leakages in BOI related exports and imports revealed that the share of imported inputs in gross export value is high as 70 per cent (BOI, 2006). However, this has led the direct impact of FDI on the balance of payment in Sri Lanka being of modest scale in its net effect. This was obviously due to the limited entry of FDI in high-tech industries as compared to import-intensive, garment and other assembly industries.

In addition, FDI plays a dual role with increased manufacturing production to maintaining of both internal and external balance of the economy. Especially, the new FDI has made a notable contribution in generating employment opportunities in the manufacturing sector in Sri Lanka, though the full potential of employment creation through forward and backward linkages was not exploited. This is borne out by the assessment of employment creation in the manufacturing industries within the industrial sector, where such FDI participation was high as in the BOI ventures. At the end of 2003, it was estimated that foreign affiliates (wholly owned and joint ventures) employed 434347 people, which was about 38 per cent of total manufacturing employment. Hence, the creation of employment opportunities in the FDI related firms has been significant and helped to reduce the unemployment rate in the country, which was the highest rate from 15.8 per cent in 1978/1979 to 7.7 per cent in 2005. Accordingly, the prospect of Sri Lanka achieving higher rates of economic growth with the use of FDI to generate increased employment and production reflects considerably a positive trend during the past three decades.

11. Conclusions

Since the late 1970s a concerted effort had been made in Sri Lanka to attract FDI in order to meet the deficiencies in capital required for rapid economic development. The policy reforms that have been introduced since 1977, led to attract increased FDI in the manufacturing sector in Sri Lanka. However, by 2000, service sector attracted more FDI than the Manufacturing sector. This has led to a change in the structure of the economy under which the service sector is in a predominant position partly due to the growth of the industrial sector that occupied second place in its contribution to the GDP. FDI flows to

industrial sector contributed to make substantial structural changes in the manufacturing production, which was dominated by apparel products. During the period from 1990-2006, manufacturing sector contributed 16 per cent of industrial production to the GDP in Sri Lanka. The changing structural pattern of the GDP composition in Sri Lanka is mainly reflected in the export structure too. FDI attraction to the manufacturing sector resulted in creating substantial employment opportunities within the sector and it resulted in reducing the unemployment rate to 7.7 per cent in 2005 as a percentage of labour force. The prospect of Sri Lanka achieving targeted economic growth rate of 10 per cent of GDP will depend much on attracting FDI to overcome the deficiencies in capital, marketing, technology and management skills.

The role of FDI and its impact on host country development will depend on two factors (UNCTAD, T&DR, 2006.). One is the motivation and strategy of the TNCs involved and the specific assets they bring to a host country. Another is the national policies and characteristics of the host economy. Hence, the government policy initiatives are more important not only to attract more FDI but also to achieve maximum benefits of it. It is essential to device better policies and strategies to make purposeful use of FDI as a principle source of investment in the changing global situation. If so there is no doubt that FDI attraction to the manufacturing sector will promote rapid economic and social development that meets the national needs of Sri Lanka.

Bibliography

- Andreas J. (2005). "The Effects of FDI inflows on Host Country Economic Growth", *Working Paper*, Sweden: Jonkoping International Business School.
- Asian Development Bank (2004), *Asian Development Outlook, 2004: Part 3 Foreign Direct Investment in Developing Asia*, Manila: Asian Development Bank
- Asian Development Bank (2006), *Annual Report 2006*, Manila, Philippines: Asian Development Bank Publication Unit.
- Athukorala, P. (2002), "Foreign Direct Investment and Manufacturing for Exports in a New Exporting Country: The Case of Sri Lanka", Athukorala, P. (ed), *The Economic Development of South Asia*, Volume 111, Chenttenham: Edward Elgar Publishing Ltd.:205-225.
- Athukorala, P and Jayasuriya S. (2004), "Complementarity of Trade and FDI Liberalization in Industrial Growth: Lessons from Sri Lanka", *10 Years of ASARC an International Conference, 27&28 April 2004*, Australia South Asia Research Centre together with The Research School of Pacific & Asian Studies& The National Institute of Economics and Business, Canberra: Australian National University (<http://www.ips.lk/intecon/research/prospects/prospects.html>).

- Balasubramanyam, V.N., Salisu, M. and Sapsford, D. (1996), "Foreign Direct Investment and Growth in EP and IS Countries", *Economic Journal*, Vol. 106 (434): 92-105.
- Balasubramanyam, V. N., Salisu, M. and Sapsford, D. (1999), "Foreign Direct Investment as an Engine of Growth", *Journal of International Trade and Economic Development*, Vol. 8 (1): 27-40.
- Blalock G. and Gertler P. J. (2005), "Foreign Direct Investment and Externalities: The Case for Public Intervention", In Moran T., Graham E. and Blomstrom M. eds., *Does Foreign Direct Investment Affect Economic Growth?*, Washington, DC: Institute for Economic Growth and Center for Global Development: 73-106.
- Blomstrom, M. and Persson, H. (1983), "Foreign Investment and Spillover Efficiency in an Underdeveloped Economy", *World Development*, Vol. 11 (6): 493-501.
- Blomstrom, M. and Kokko, A. (1998), "Multinational Corporations and Spillovers", *Journal of Economic Survey*, Vol. 12 (2): 1-31.
- Board of Investment (2005), *Statistical Abstract, 2005*, Colombo: Statistical Unit/Research Dept. BOI.
- Borensztein, E., De Gregorio J and Lee J. W. (1998), "How Does Foreign Direct Investment Affect Economic Growth?" *Journal of International Economics*, Vol. 45 (1): 115-135.
- Bosworth, B. P. and Collins S. M. (1999), "Capital Flows to Developing Economies: Implications for Saving and Investment", *Brooking Papers on Economic Activity*, No 1: 143-169.
- Central Bank of Sri Lanka (1978-2006), *Annual Reports (Various Issues)*, Colombo: CBSL.
- Central Bank of Sri Lanka (1998), *Economic Progress of Independent Sri Lanka*, Colombo: CBSL.
- Chenery, H.; Robinson S. and Syrquin M. (1986), *Industrialization and Growth, a Comparative Study*, New York: Oxford University Press.
- Choe, J. I. (2003), "Do Foreign Direct Investment and Gross Domestic Investment Promote Economic Growth?" *Review of Development Economics*, Vol. 7(1): 44-57.
- Colombage S.S. (2003), Is Export-led Growth a Myth?, *Sunday Times*, February 23, 2003.
- De Mello, L. R. (1997), "Foreign Direct Investment in Developing Countries and Growth: A selective Survey", *Journal of Development Studies*, Vol. 34 (1): 1-34.
- De Mello, L. R. (1999), "Foreign Direct Investment-led Growth: Evidence from Time Series and Panel Data", *Oxford Economic Papers*, Vol. 51: 133-151.
- Dunning, J. H. (1994), "Re-evaluating the Benefits of Foreign Direct Investment", *Multinational Corporations*, Vol. 3 (1), February 1994: 23-51.
- Grieco, J.M. (1986), "Foreign Investment and Development", in *Investing in Development: New Roles for Private Capital*, Theodore H. Moran and Contributors, (eds.), Washington: Overseas Development Council: 35-60.
- Hossain, A. and Chowdhury A. (1998), *Open-Economy Macroeconomics for Developing Countries*, Cheltenham: Edward Elgar Publishing Limited.
- <http://www.southcentre.org/publications/fdi/fdifinaltrans-03.htm>, FDI part 11. *Foreign Direct Investment: Facts, Conceptual Issues and Costs and Benefits for Developing Countries*.

- Kelegama, S. and Foley F. (1999), "Impediments to Promoting Backward Linkages from the Garment Industry in Sri Lanka", *World Development*, Vol. 12: 105-127.
- Kelegama, S. (2005), "Impact of the MFA Expiry on Sri Lanka", *South Asia After the Quota System: Impact of the MFA Phase-out*, Edited by Saman Kelegama, Colombo: Institute of Policy Studies in Association with Friedrich Ebert-Stiftung: 89-98.
- Kelegama S. (2006), *Contemporary Economic Issues: Sri Lanka in the Global Context, Weekly Commentaries on Economic Issues Published in the Sunday Island: 2005-2006*. Colombo: Sri Lanka Economic Association.
- Kumar N. (2005), "Performance Requirements as Tools of Development Policy: Lessons from Developed and Developing Countries", In Gallagher K. P., ed., *Putting Development First: The importance of Policy Space in the WTO and International Financial Institutions*, London and New York: Zed Books: 179-194.
- Lipsey R. and Sjöholm F. (2005), "The Impact of FDI on Host Countries: Why Such Different Answer?", In Moran T., Graham E. and Blomstrom M. eds., *Does Foreign Direct Investment Affect Economic Growth?*, Washington, DC: Institute for Economic Growth and Center for Global Development: 23-44.
- Markusen, J.R. and Venables, A. (1999), "Foreign Direct Investment as a Catalyst for Industrial Development", *European Economic Review*, Vol. 43: 335-356.
- Meier, G. M. and Baldwin R.E. (1957), *Economic Development: Theory, History and policy*, New York: Wiley.
- Moran, T. H. and Contributors (1986), *Investing in Development: New Roles for Private Capital*, New Brunswick (USA) and Oxford (UK): Transaction Books.
- Moran T. Graham E. and Blomstrom M. eds. (2005), *Does Foreign Direct Investment Promote Development?*, Washington, DC: Institute for International Economics.
- Nanayakkara, A.G.W. (2004), *Employment and Unemployment in Sri Lanka-Trends, Issues and Options*, Colombo: Department of Census and Statistics.
- Narula R. and Lal S. (2004), "Foreign Direct Investment and its Role in Economic Development", In Narula R. and Lal S. eds., *Understanding FDI-Assisted Economic Development*, Special Issue of the *European Journal of Development Research*, 16 (3): 447-464.
- Nurkse, R. (1952), *Problem of Capital Formation in Underdeveloped Countries*, Oxford: Blackwell.
- Ozawa, T. (1992), "Foreign Direct Investment and Economic Development", *Transnational Corporations*, No.1, February 1992: 27-54.
- Papanek, G. F. (1973), "Aid, Foreign Direct Investment, Saving and Growth in Less Developed Countries", *Journal of Political Economy*, Vol. 1: 120-130.
- Prakash, L. and Assaf R. (2001), "How Beneficial is Foreign Direct Investment for Developing Countries?" *Finance and Development*, June 2001, Vol. 38 (2): 6-10.
- Shrivastava, O.S. (1996), *Economics of Growth, Development and Planning*, New Delhi: Vikas Publishing House PVT LTD.
- The World Bank (2002), *World Development Report, 2002*, Washington: The World Bank.
- The World Bank (2006), *World Development Report, 2006*, Washington: The World Bank.
- The World Bank (2006), *World Development Indicators, 2006*, Washington: The World Bank.

- Thirlwall, A. P. (1985), *Growth and Development with Special Reference to Development Economies*, 3rd edition, London and Basingstoke: Macmillan Educational Ltd.
- UNCTAD (1996), *World Investment Report 1996*, New York and Geneva: United Nations.
- UNCTAD (1999), *World Investment Report 1999: Foreign Direct Investment and the Challenge for Development*, New York and Geneva: United Nations.
- UNCTAD (2003), "Industrialization, Trade and Structural Change", *Trade and Development Report 2003*, Geneva: UNCTAD: 91-126.
- UNCTAD (2003), "Industrialization, Trade and Structural Change", *Trade and Development Report 2003*, Geneva: UNCTAD: 91-126.
- UNCTAD (2004), "Capital Flows and Finance", *Trade and Development Report, 2004*, Geneva: UNCTAD: 57-69.
- UNCTAD (2004), *Investment Policy Review: Sri Lanka*, Geneva: United Nations.
- UNCTAD (2004), *Trade and Development Report 2004*, Geneva: UNCTAD.
- UNCTAD (2006), "A Strengthened Role for FDI?", *Trade and Development Report 2006*, Geneva: UNCTAD: 105-122.
- UNCTAD (2006), *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development*, New York and Geneva: United Nations.
- Vidanapathirana, V. (1993), *A review of Industrial Policy & Industrial Potential in Sri Lanka*, Colombo 3: Sri Lanka Economic Association.
- Voivodas, C. S. (1973), "Exports, Foreign Capital inflow and Economic Growth", *Journal of International Economics*, Vol. 3 (4): 337-349.
- Wang, J. and Blomstrom, M. (1992), "Foreign Investment and Technology Transfer: A Simple Model", *European Economic Review*, Vol. 36: 137-155.
- Wanigaratne, R. A. M. C. (1991), *The Impact of Foreign Investment on Development Priorities, Growth and Development, A Research Paper*, Colombo: MARGA, Sri Lanka Center for Development Studies.
- Wijesinghe T. (1998), "Impact of Foreign Direct Investment on Industrialization", *Impact*, Vol. 1 (3), June/July 1998, Colombo: Association Newspapers of Ceylon Limited: 13-16.
- Xu B. (2000), "Multinational Enterprises, Technology Diffusion and Host Country Productivity Growth", *Journal of Development Economics*, August, 62 (2): 477-493.

