

The impact of Foreign Direct Investment (FDI) inflows on local economic growth: Evidence from Sri Lanka using time series data

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Abstract

Foreign direct investment (FDI) has been one of the defining features of the world economy, finding it to be a significant economic force from which developing countries can achieve economic growth as a result. This study explores the impact of FDI inflows on the economic growth (Gross Domestic Product – GDP) in the Sri Lankan context. Although many studies were carried throughout the world, due to the lack of studies within the country was made a great interest to carry a research study in the Sri Lankan context. As well as due to the empirical studies shown mixed results as positive, negative and no relationship, the willingness to carry the study was increased. As result, it created the main objective of this study as to emphasize the extent of FDI inflows influence on economic growth in Sri Lanka. The study was mainly based on FDI as the independent variable and GDP as the dependent variable. Further, the researcher has used labor force, exports, unemployment, and gross domestic fixed capital formation as mediating variables to identify the impact of FDI to GDP deeply. The study used secondary data for twenty-nine years from 1990 to 2018 and employed descriptive statistics, correlation and regression analysis to establish relationships between the variables. The Pearson correlation was computed for FDI inflow and GDP shows a strong positive correlation between the variables. The regression analysis showed that there is a significant relationship between the independent and dependent variables by mediating with labour force, gross domestic fixed capital formation, exports, and unemployment. These findings have led to the conclusion that there is a significant positive impact of FDI inflows on the Sri Lankan economic growth. It therefore suggests that opening up the country to international markets and attracting more foreign investments to the country and making it useful to the labor market will improve economic stability. By reducing the country's unemployment rate, foreign investors will have more confidence in bringing their investment to the country.

Keywords: *Foreign Direct Investment, economic growth, Sri Lanka.*