

The Impact of Foreign Direct Investment on Total Domestic Investment

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Abstract

Foreign Direct Investment (FDI) has been used by developing countries as a tool to solve their economic problems in the recent past. Sri Lanka is also not an exception to this practice. This research is aimed at tracing the impact of Foreign Direct Investment in promoting Total Domestic Investment (TDI) by using the Time series annual data from 1978-2009 in Sri Lanka. Multiple Regression analysis was used to estimate the impact of FDI on Total Domestic Investment. Estimation method was Ordinary Least Squares (OLS). The Minitab, SAS, Excel and EViews software were used for data analysis. The empirical evidence shows that there is a statistically significant positive impact of FDI and TDI. However, this study further reveals that the actual impact on TDI was realized immediately. Further, this research has identified various problems faced in attracting FDI including ideal sector identification and the appropriate recommendation have been presented in order to realize the major benefits from FDI inflow into the country.

Keywords: Foreign Direct Investment; Total Domestic Investment

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