

Foreign direct investment and economic development

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Foreign direct investment is often considered as an important source of Economic Development. The UN conference on Finance for Development (FfD) argues that 'private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts'. Other international policy documents (e.g. the Cotonou Partnership Agreement, NEPAD) also emphasize the importance of private sector investment for Economic development, both domestic and foreign.

The participation of developing countries in the total inflows of Foreign Direct Investment (FDI) has varied considerably over the last 25 years. During the 1980s, most FDI remained within industrialized countries, but by 1996, 40% of new FDI flowed to developing countries. FDI has attracted the attention of policymakers across the globe due to its increasing magnitude and to recent changes in its nature and direction.

The overall benefits of FDI for developing economies are: technology spillovers, assist human capital formation, contribute to international trade integration, improve the infrastructural condition, help create a more competitive business environment and enhance enterprise development. All these contribute to higher economic Development. Beyond the initial macro-economic stimulus for actual investment, FDI influences growth by increasing total factor productivity and, more generally, the efficiency of resource use in the recipient economy.

Sri Lanka just like any other developing country tries as much as possible to create a conducive environment for attracting investors. In order to do this it has tried to create a business friendly environment so as to promote foreign direct investment. Over recent years following the privatization programme and other developments we have seen commitment on investment.

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