

Post-Trade Liberalization: The Role of FDI and Tourism in Sri LankaA.M.M. Mustafa¹ and S. Thangamayan²

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ABSTRACT

Purpose: This paper has sought to quantify the contribution of foreign direct investment (FDI) and tourism receipts (TR) to Sri Lanka's gross domestic product (GDP) and account for their contribution to economic growth after trade liberalization.

Methodology: The paper uses annual time series data from 1978 to 2023. All the econometric estimations in this paper are made using EViews 12. Unit root tests are implied to check the stationarity of variables. Then, a co-integration analysis was tried to see the long-run relationship among the variables. Granger causality tests were conducted to observe the direction of causality.

Findings: The empirical estimation results indicate that the estimated TR-FDI and GDP have a statistically significant and robust long-run relationship. This means that FDI and tourism are significant contributors to economic growth in Sri Lanka. Furthermore, the Granger causality test supports the bidirectional causality between variables, clearly showing how the variables have mutually affected and depended on one another since the trade liberalization.

Implications: This suggests the strategic relevance of FDI and tourism to economic growth in Sri Lanka. Thus, policymakers must invest more in investment promotion policies, which may attract more FDI inflows, develop tourism-related infrastructure, and develop effective marketing strategies to ensure further sustainable economic development.

Originality: The present study contributes to the literature based on an empirical analysis, focusing on the impact of FDI and tourism on Sri Lanka's GDP in a post-war context. Such a contribution serves as valuable insights for policy-makers, researchers, and practitioners who aim to understand the dynamics of economic growth in developing countries.

Keywords: *Foreign Direct Investment, Tourism Receipts, Gross Domestic Product*