

Foreign Trade and Foreign Direct Investment as Tools of Economic Growth in Post War Sri Lanka

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ABSTRACT. According to the traditional theoretical arguments economic growth is mainly dependent on national capital accumulation, the level of labor and human capital as well. In a globalized world foreign trade and foreign direct investment are also considered as important determinants of economic growth. Especially after opening up the Sri Lanka economy, international has played a major role in the Sri Lanka economy. Recent literature indicates that liberalization agreements on foreign trade with other countries directly correlated with the economic performance at the home country. Whether foreign direct investment and international trade contributed to the economic growth of Sri Lanka remains an open question. Therefore it is relevant to examine the relationship between economic performance, international trade and foreign direct investment in quantitative terms. This paper is an effort to quantify the above problem econometrically. Especially Ordinary Least Squared (OLS) method has been employed to test the relationship between economic growth, foreign trade and foreign direct investment during the period of 1990 -2009. Mainly I used secondary data absorbed from the annual reports of central bank of Sri Lanka. The results show that there is a significant effect of said factors on the economic growth in Sri Lanka. The research recommends a strong emphasis on above factors in policy planning in order to ensure sound economic growth.

Key words: Economic Growth, Foreign Trade, Foreign Direct Investment, Econometric Analysis.

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