

Impact of Foreign Direct Investment on Employment of Industrial Sector in Sri Lanka

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Foreign Direct Investment (FDI) is the most widely used means of attracting resources under the ambience where the country's own resources are inadequate to utilize for the economic development process. In Sri Lankan context, government's reorientation of economic policy towards investment and export driven growth has led to attract more FDI in industrial and services sector being a major dynamic force of creating employment opportunities and aiming at the acceleration of economic growth. Particularly, the export oriented manufacturing sector which is a main sub sector in industrial sector has become one of the outstanding economic sectors in attracting FDI. With this basis, the objective of the study is to examine the impact of FDI on employment of industrial sector in Sri Lanka covering the period from 1990-2016 using Autoregressive Distributed Lag (ARDL) approach. The empirical results show that FDI affects positively the employment of industrial sector suggesting incentives should be given for attracting more FDI. Moreover, trade openness, private investment and inflation rate affect positively the employment in industrial sector in long-run. These findings lead to have proper policy compilation on FDI and employment. Currently, in industrial sector particularly, manufacturing sub sector attracts more FDI requiring a higher level of employment. As this sector mainly uses manpower for its process of production, flowing more FDI into the sector gives incentives for requiring more labour. Therefore, FDI leads to increase the level of employment indicating the need of ensuring an investment friendly climate through the consistent macroeconomic policies, economic stability, guarantee of property rights and well-established law and order. Further, liberalized economic policies for trade is required to urge the employment level in industrial sector as this sector is mostly related to the international trade. Stimulating the private investment gives incentives to increase the level of employment of industrial sector and maintaining a moderate and bearable inflation rate causes to stimulate the employment level.

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