

A STUDY OF FOREIGN DIRECT INVESTMENT (FDI) INFLOWS INTO THE SRI LANKAN CONSTRUCTION INDUSTRY

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DECLARATION

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ABSTRACT

Foreign Direct Investment (FDI) plays a vital role in any industry as it provides several advantages in many aspects. This research attempted to find out the impact of FDI on the construction industry in Sri Lanka. Accordingly, the aim of the study was to analyse the relationship between construction FDI and the construction industry development. The prime objectives of this research were to identify the trend of FDI in the Sri Lankan construction industry, to find out the relationship between construction FDI and the construction industry development and to provide strategies to promote FDI into the construction industry. A mixed research method was used to achieve the objectives of the study. Data required for this research were obtained from the archival of Central Bank of Sri Lanka for the year 2005 to 2019 and through semi-structured interviews. MS Excel and SPSS software were used to generate the results of quantitative analysis and content analysis was used to analyse the qualitative data obtained through the semi structured interviews.

Initially, it was studied the trend of FDI in the construction industry within the study period and analysed it with other key economic sectors of Sri Lanka. It was identified that there is a considerable FDI inflow into the construction industry in Sri Lanka within the study period and the second highest average FDI inflow was in the construction industry. It was also identified that, there are various factors such as economic conditions, policy changes and the social and environmental factors made a considerable impact on the FDI inflows into the construction industry in Sri Lanka.

Moreover, it was analysed the relationship between the economic development parameters and the construction industry development parameters using the graphical analysis and the correlation matrix and found out that there is a positive relationship between construction industry development and the national economy in Sri Lanka. Further, it was analysed the relationship between construction FDI and construction industry development using graphical analysis and correlation matrix and found out that, FDI inflows into the Sri Lankan construction industry makes a considerable positive impact on the development of the industry which ultimately makes a positive impact on the economic development of Sri Lanka.

Finally, some recommendations are provided to promote the FDI inflows into the Sri Lankan construction industry through the semi structured interviews carried out among six professionals who involved with FDI. Accordingly, proper implementation of government policies, improving the technical knowledge of construction professionals, developing infrastructure facilities, creating international banking facilities and giving flexibility and confidence for the foreign investors were the key recommendations.

Keywords: *FDI, construction industry development, Sri Lanka, promotional strategies*

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LIST OF ABBREVIATIONS

BOI-	Board of Investment
CBI-	Confederation of British Industry
CBSL-	Central Bank of Sri Lanka
CHINCA-	China International Contractors Association
CHEC-	China Harbour Engineering Company
CIDA-	Construction Industry Development Authority
FDI-	Foreign Direct Investment
FEA-	Foreign Exchange Act
FTZ-	Free Trade Zone
GDP-	Gross Domestic Product
GNI-	Gross National Income
IMF-	International Monetary Fund
IPA-	Investment Promotion Agency
IRD-	Inland Revenue Department
IT-	Information Technology
LRA-	Land Restrictions Act
M&A-	Mergers and Acquisitions
MNE-	Multinational Enterprises
OECD-	Organisation for Economic Co-operation and Development
SDPA-	Strategic Development Projects Act
SPSS-	Statistical Package for the Social Sciences
UNCTAD-	United Nations Conference on Trade and Development
USA-	United States of America
USD-	United States Dollar
WRMMP-	Western Region Megapolis Master Plan

1.0 INTRODUCTION TO THE RESEARCH

1.1 Background

Construction industry mainly covers the creation of buildings, infrastructure facilities and other industrial facilities (Szymanski, 2006). It is responsible for the development of the physical infrastructure which is required by all other sectors in the economy. Therefore, it is an important factor or variable of advancement in the process of economic development of any nations, particularly for the developing countries (Ekpo, 2010). While construction industries may boost jobs and growth temporarily during the construction period, they have little long-term impact as well compared to other industries such as factories or IT firms (Nenova, 2018).

It was further stated by Crosthwaite (2000), construction is the key industry accounting for a considerable GDP proportion in most of the countries all over the world. Giang and Sui Pheng (2011) have found out through a research study carried out considering a 40-year time span that, the construction industry development and economic growth of developing countries have a significant relationship. It is also mentioned in Daily FT (2019), the performance of the construction industry is often considered as an indicator of the economic development of any country.

On the other hand, Jin, Leung, Lu and Yiu (2004) studied the relationship between the construction industry output and the GDP in Kong Hong and obtained the results as the real GDP growth rate influences positively in the construction output in the country from the period of 1984 to 2002. However, Lopes, Balsa and Nunes (2011) identified that there is a weakly unidirectional relationship between construction output and country's GDP in the long-run. Further, it has been identified by Ramachandra, Rameezdeen and Rotimi (2013) through a research study conducted in Sri Lanka from the period of 1990 to 2009 that, the economy of the country drives the construction sector and not vice versa.

Construction industry faces many challenges all over the world. It was stated by Bennett (2005); Abdel-Wahab and Vogl (2011) and Wilkinson, Johnstone and

Townsend (2012) that, the construction sector faces significant variations in its output, sales and employment. These variations can be based on the availability of credit, general economic or the political cycles (Stawińska, 2010). As an example, it was found out through a research study done by Nistorescu and Ploscaru (2010) that, there is a considerable impact of economic crisis in the European construction sector.

In order to overcome the financial related industry challenges, many countries started to attract FDI due to its benefits such as advanced technology, income generation from capital inflows, management skills and market expertise (Joong-Wan, 2006). Graham and Spaulding (2005) defined FDI as investors transferring their assets from one country to another country where they have control of the profits and the management of their assets. Moreover, it was defined by the International Monetary Fund (IMF) , FDI is an investment which involves a long term relationship with a lifelong interest of a home entity (direct investor) of an economy into another country's economy (De Mello, 1999).

Bevan and Estrin (2004) identified that, FDI inflows in European countries encouraged economic growth, innovation and facilitated the restructuring of sectors and firms. Further stated by Bevan and Estrin (2004); Estrin and Uvalic (2014); Gorodnichenko, Svejnar and Terrell (2014); Jensen (2006) that, FDI flows help to introduce knowledge, technology and new opportunities into the evolving market.

Buffie (1993) and Hill and Athukorala (1998) stated that, FDI has a positive impact on the construction employment. Similarly, Eimers, Toorman and Nouwens (2004) identified that, there are positive effects of FDI such as easier access to capital, improved management and technical skills and productivity improvement on the construction sector in Poland. It was further evidenced by Ebekozen and Okoyo (2015), the construction industry growth rate and FDI inflow into the construction industry in Nigeria had a significant relationship in the period of 1989 to 2008. Puapan (2014) identified that, most of the industries in Thailand including construction experienced a significant impact of FDI in the period of 2005-2013. Boakye and Li (2015) stated through a research study conducted in Ghana that, the construction industry gets direct and indirect benefits from FDI inflow specially in employment. In

contrast, Banaitiene, Banaitis and Mindaugas (2015) identified through a research study in Baltic States that, the construction industry growth rate and construction FDI does not have any causal relationship.

New investment favorable policies implemented by the Sri Lankan governments over the period of past three decades given rise to the FDI inflows into Sri Lanka (Ravinthirakumaran, Selvanathan & Selvanathan, 2015). Pravakar (2006) explained that, Board of Investment (BOI) of Sri Lanka is functioning as the apex agency of Sri Lankan government which is responsible for all the foreign investments specially for identifying, facilitating and promoting FDI by offering the required services to the investors.

Research study done by Ganesan and Kelsey (2006) revealed that, Sri Lanka has attracted FDI around 200 million USDs in the post 1990 period. In the period of 1990-2011, the FDI in Sri Lanka was mainly focused in few sectors; communication sector (over 50% of FDI) and textile and garment sectors absorbed one third of FDI (UNCTAD, 2012). With the increase of country's infrastructure development, the construction and infrastructure sector had the highest inflow of FDI in post war period from 2009 to 2017 (Samantha & Liu, 2018). According to the Central Bank of Sri Lanka [CBSL] (2020), largest investors of our country are China, Netherlands, India, Singapore and Malaysia and most of their investments are made in construction and infrastructure development. For example, investment in the port city development project by China and proposed west container terminal construction project by India.

1.2 Problem Statement

Construction industry holds a very important position in the development of both physical infrastructure and economy in Sri Lanka as it falls in fourth place in the economy after manufacturing, services and agriculture (De Silva, Rajakaruna & Bandara, 2015). According to the researches done by Andrew (2016) and Topku (2010) it is evidenced that, construction industry is mostly played by FDI in many countries specially in developing countries. It was reported in Daily FT (2018) that, construction industry in Sri Lanka is mostly involved with FDI rather than locally-generated funds. Therefore, it is essential to understand the contribution of FDI to the

growth of construction industry in order to implement strategies to ensure its sustainable development.

There are various studies carried out to analyse the relationship between FDI inflow and country's economic growth. However, there are lack of detailed studies to find out the causal links between the inflow of FDI into the construction industry and the construction industry development in Sri Lanka. Therefore, this research study was mainly attempted to find out the relationship between the inflow of FDI into the construction industry and the contribution of construction industry to the country's economy.

1.3 Aim

The aim of this research study was to identify the relationship between the inflow of FDI in construction industry and construction industry development in Sri Lanka.

1.4 Objectives

1. Analyse the trend of FDI inflows in the Sri Lankan construction industry
2. Investigate the relationship between FDI inflow into the Sri Lankan construction industry and the construction industry development in Sri Lanka
3. Propose strategies to promote FDI into the construction industry in Sri Lanka

1.5 Research Methodology

A comprehensive literature review was undertaken by referring various journals, books websites and other publications in order to be familiar with the research area.

A pilot survey has been carried out through interviews with the relevant personnel from CBSL, BOI Sri Lanka and the Department of Census and Statistics in order to find out the data sources and availability of research data. Since the aim of the study was to identify the relationship between FDI inflows and construction industry development which required to analyses the time series data of FDI and the development parameters of construction industry, archival data collection method was selected as an appropriate data collection method for this research study. Trend analysis and correlation matrix were used as the data analysis techniques in order to achieve the objectives of the research study. MS Excel and SPSS software were used

to generate the results of data analysis. Further, semi structured interviews were carried out among few experts from the relevant organisations and the results were analysed using content analysis method in order to achieve the third objective of this research.

1.6 Scope and Limitations

Main scope of this research study was to analyse the trend of FDI inflows into the Sri Lankan construction sector and to identify the relationship between construction FDI and construction industry development. Due to the data availability, it was considered only the BOI registered projects to do the research and it was validated through the pilot survey that, the projects which are registered under BOI are the topmost contributors of construction industry which are involving with FDI. According to BOI categorization, the activities which are included in construction sector are housing, property development, hotels, restaurants, shopping and office complexes.

Further, it was considered a 15-year time span from 2005 to 2019 in order to do the time series analysis which was selected based on the data availability.

1.7 Chapter Breakdown

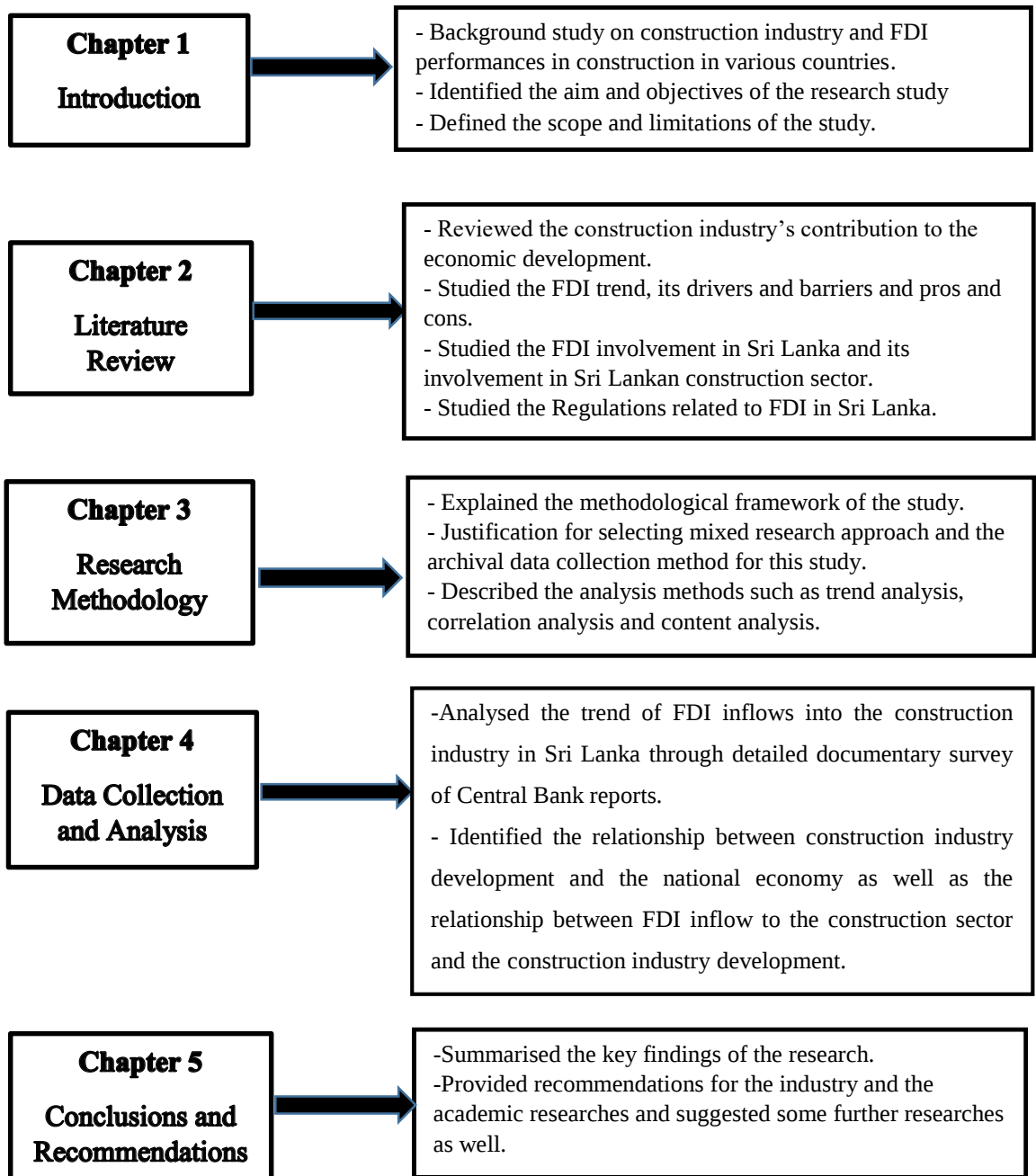


Figure 1.1 Chapter Breakdown

1.8 Chapter Summary

Background study of this chapter described the construction industry's contribution to the economy of any country with the evidence of various research studies. It has been further identified that, the construction industries all over the world are facing many challenges such as lack of finance, low wages, poor technologies etc. According to some research studies, the FDI can assist to overcome these challenges and to improve the construction industry's performance through introduction of new technology, improved management skills, and employment opportunities. Background study further explained the involvement of FDI in Sri Lanka and mainly into the construction industry and identified that, there is lack of evidence to explain the relationship between FDI inflow and the construction industry development.

Aim of the study was generated to find solution for the research problem which is to identify the relationship between FDI and construction industry development. Three main objectives were established to achieve the aim. Mixed research approach was adopted to this study. Statistical analysis was used to analyse the archival data on FDI, and the development parameters of construction and the national economy obtained from various sources for the period of 2005-2019. Content analysis was selected to analyse the data obtained from semi structured interviews.

This chapter further explained the scope and limitations and the detailed chapter break down of following chapters.

2.0 LITERATURE REVIEW

2.1 Introduction

The construction sector is one of the main contributors to the development of any country and it also plays a vital role in the economy of the country. Therefore, it is an important factor of progress in the advancement of the economy of any nation, especially in the developing countries.

Construction industry faces many challenges all over the world in terms of finance, employment and technology. Researchers suggest that FDI can be a solution to overcome the major challenges of the industry. FDI plays an important role in most of the countries including Sri Lanka. However, the contribution and the performance of FDI in major industries differ from country to country.

Therefore, this chapter mainly focused on the above facts and studied the construction industry's contribution to the national economy, FDI trends, FDI involvement in construction, drivers and barriers of FDI and the involvement of FDI in Sri Lanka in various industries including construction and finally the strategies to promote FDI in developing countries.

2.2 Significance of Construction Industry into the Country's Economy

Moavenzadeh (1978) explained, construction industry is an economic sector of any country which transforms various resources into constructed facilities through planning, design, construction, maintenance, repair and operation. It contains all the organisations which involves professionally in the process of initiation works such as planning and designing, management process and the handing over of the facility (Ofori, 1990).

Construction industry was initially categorized into three sub sectors such as construction of roads, buildings and highways; other infrastructure developments and specialty trades (Szymanski, 1997). It contains all the activities involved in the development of houses and office buildings or highways and bridges, and the

specialized activities as well such as plumbing, masonry and electrical works which are usually included in the construction process of all kinds of structures. Pheng and Hou (2019) defines, the major components of the construction industry are labour, materials, source of finance, construction equipment and technology.

Tarawneh (2014) mentioned, the prime characteristics of construction environment are high level of competition, complex in nature, high-risk and well informed clients. It was further stated by Arditi, Polat and Makinde (2008), construction industry is capital intensive; depends on weather conditions and it involves long term complex procurement procedures. The construction industry is sensitive to economic change, highly competitive and fragmented compared to other project based industries (Kangari, 1988).

2.2.1 Global context

Construction industry plays a considerable proportion of GDP in most of the countries (Crosthwaite, 2000). It was identified by Wigren and Wilhelmsson (2007) through a research study carried out among European countries, there is a statistical relationship between construction industry and the country's GDP in most of the countries. Similarly, it was identified by Giang and Sui Pheng (2011) that, there is a significant relationship between construction industry development and the national GDP in developing countries as the construction sector is having cyclic and seasonal works in comparison with other industries. Sitsabo (2011) explained that, the construction sector primarily involves with the investment infrastructure which has a greater impact on economic development of the country and the supply of such infrastructure makes significant job opportunities for the country, which produces further investment opportunities in other economic sectors as well. Similarly, Confederation of British Industry [CBI] (2012) and Crowe, Dell'Araccia, Igan and Rabanal (2013) identified that, construction activities promote job creation in construction sector as well as in other related businesses which supports to the economic and industrial development of the country. According to Ozkan, Ozkan and Gunduz (2012), construction industry plays major role in economic policies of the country and governments yield GDP by increasing the construction investment and developing the sector.

On the other hand, Jin, Leung, Lu and Yiu (2004) identified, there is a causal relationship between the growth rate of construction industry and the GDP growth rate of Hong Kong through a research study conducted for the period of 1984 to 2002 in Hong Kong. It shows that, GDP growth influences the construction output and construction growth rate influences the GDP. Similarly, Habibi and Nasir (2020) mentioned that, the construction sector is depending on the GDP for short term and construction investment has long term impact on GDP. It was further mentioned by Habibi and Nasir (2020) that, construction can influence other sectors like services, health services and agriculture.

According to the above statements, it can be understood that there is a significant relationship between construction industry growth and the country's economic growth and both construction growth rate and GDP growth rate have a causal relationship.

2.2.2 Sri Lankan context

It was stated by Wedikkara and Devapriya (1999), the construction industry in Sri Lanka experienced a considerable change after the economic liberalization occurred in the year of 1977. The public investments guided to major infrastructure projects such as Greater Colombo Economic Commission and urban development programme and accelerated Mahawali programme with the focus of creating a capital base in the country during that period (Wedikkara & Devapriya, 1999).

Authors further explained, the provisions of incentives and the support of infrastructure made an increase in both private and foreign capital. This change driven the construction sector growth in a faster rate which was 14.3% in the period of 1978-1981 and there was a moderate growth rate registered in the period of 1983-1988 followed by the economic boom in 1990s, the construction industry started to grow again and reached at its peak of 8.1% growth rate in 1992.

After the end of ethnic war reconstruction and rehabilitation works tremendously increased the scope of the construction industry in Sri Lanka. In the period of 2011 to 2012, the construction industry recorded the growth rates of 26.3% and 21.2 % respectively (Construction Industry Development Authority [CIDA], 2020). It was

stated by Hashim (2018), the Construction sector in Sri Lanka has achieved remarkable contribution of nine percent to the GDP and has generated direct and indirect employments for over 800,000 people in the period of 2010-2018. Figure 2.1 shows the construction industry's contribution to the Sri Lankan economy in the period of 2010-2018.

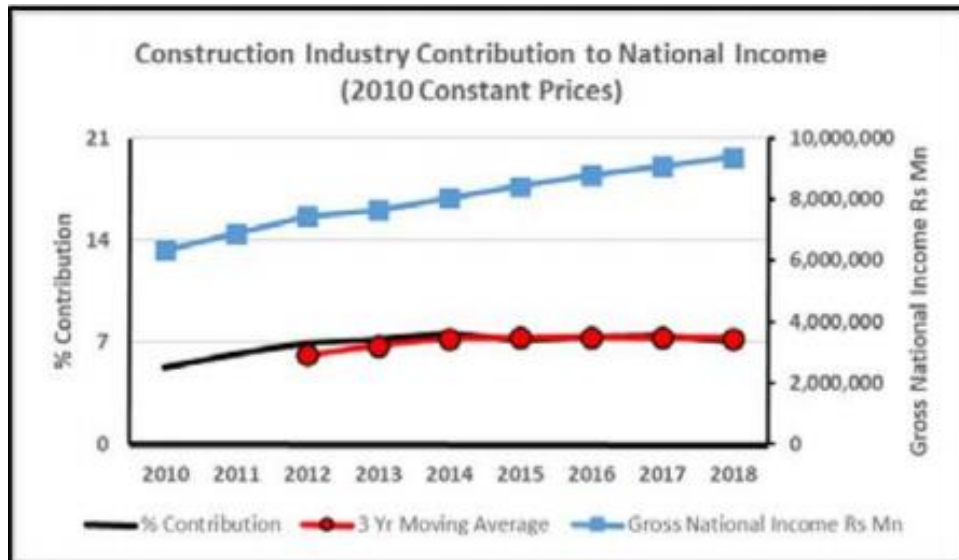


Figure 2.1: Contribution of construction industry to national income from 2010-2018
Source: (CBSL, 2019)

Figure 2.1 shows that, the construction industry in Sri Lanka contributed approximately 7% in the Sri Lankan economy during the period of 2010 to 2018.

It was further stated by Jayalath and Gunawardhana (2017), the advancement of the construction industry in Sri Lanka was related to the economic changes during the past ten years. Later, the trend of supply and demand of the construction industry was influenced by the economic conditions of the country.

2.3 Challenges in Construction Industry

Windapo and Cattell (2013) identified that, construction industry faces lot of challenges all over the world such as inadequate capacity of public sector, mismatches between available and required skills, critical global issues, poor procurement practices, poor technology, poverty and regulations. Further stated by John (2018) that,

labour shortages, stagnant productivity levels, technology adoption and safety are the key challenges faced by construction industry.

According to CBSL (2005), the key challenges faced by the construction industry in Sri Lanka are the inconsistency of construction workload, unfair competition by foreign contractors, shortages of skills and high cost for the skill development. Further mentioned by Oxford Business Group (2019), the key challenge of Sri Lankan construction sector is negotiating the country's complex network of overlapping regulations and the extended process of obtaining approvals for the new developments. Construction Industry Development Authority [CIDA] (2020) further mentioned that, the construction industry faces shortage of skilled labours with many contractors face the challenge of recruiting well trained labours from local populace and they tend to hire workers from overseas.

De Silva, Rajakaruna and Bandara (2007) identified the key challenges faced by Sri Lankan construction industry which are shown in table 2.1;

Table 2.1: Challenges faced by Sri Lankan construction industry

Financial Challenges	Rapid changes in the national economy
	Inadequate support from banking sector
	High inflation rate
	Narrow profit margins
	High interest rates
	Limited credit facilities
Government Policies / Practices	Government policies on taxes
	Political instability
	Low level of government support on construction
	Bribe/corruption and favourism
Technology	Low level of new technological development
	Inadequate technological knowledge
	Low level of technology transfer
	Low level of usage of IT
	Poor cost planning
	Poor documentation process

Management and Coordination	Extensive time slippage in contracts
	Poor communication
	Lack of progress monitoring
	Low level of administrative flexibility
Research and Development	Government involvement in R&D
	Limited allocation of funds for R&D
	Lack of opportunities for R&D
	Reluctant in using innovative building materials
	Low level of participation of institutes in industrial oriented R&D
Resource	High labour turnover
	Insufficient integration on design and built operation
	Lack of high technical construction equipment

Source: (De Silva, Rajakaruna and Bandara, 2007)

2.4 Definition of FDI

FDI is the transfer of capital and human resources from one country to another which plays an essential part of the international economic system and the major catalyst for the development (Organisation for Economic Co-operation and Development [OECD], 2002). Though FDI is an international transfer of capital, it also involves with an extension of enterprise from its home country into foreign host country. The extension of the enterprise involves flows of capital, technology, business and managerial skills combined with the local factors in the production process of goods and services (Ekpo, 2010). In order to adhere to this definition of FDI, it is required to hold not less than 10% of shares by the investing company or the investing company should have the voting power on the board of the registered companies or their equivalent of other companies where the local companies are considered as subsidiary units or associates (Ali, 2014) and (Shernanna & Elfergani, 2006).

According to Zeqiri and Bajrami (2016), there are three major types of FDI as follows;

- 1- Greenfield investment where foreign investors establish new production house in the host country. This is mostly welcomed by host countries as they serve employment opportunities and new technologies.
- 2- Mergers and Acquisitions where the existing assets of local firms are transferred to foreign firms in order to establish a legal entity. This method is beneficial to improve the productivity of the existing companies.
- 3- Joint ventures which is the combination of both local and the foreign company. There will be atleast two countries involved. This method is beneficial in terms of technology transfer.

2.5 Advantages and Disadvantages of FDI

FDI in any country brings various benefits such as increasing the international trade and competitiveness of the country, improve labour skills through training and improve the access of domestic products into foreign markets which are ultimately leads to economic efficiency of the country (Wakil, 2004). It can also help to industrial upgrading, poverty reduction and sustainable development in lower-income countries (Kolk, Kourula & Pisani, 2017).

Hansen and Rand (2006) revealed that, the greenfield investment is most preferred by the developing countries as it will be directly and immediately added to the prevailing industrial capacity of the country, while mergers and acquisitions transfers the ownership of local assets to the foreign investors which may create positive impacts on the local investment as new production is introduced. It further creates new jobs which makes direct positive impact on employment levels and it makes competition effects in the domestic firms which may improve the efficiency of workers (Meyer, 2003). However, all the direct investment will not lead to the benefits of technological transfer and other positive spillovers. As an example, the foreign affiliates in the local economies can be brought down to lower value added activities by limited benefit from the technology acquisition when the direct investors want to safeguard their patented technology (Ali, 2014).

It was stated by Balasubramanyam, Salisu and Sapsford (1996) that, FDI can also adversely affect the growth process of some countries. Regardless of the many

advantages that FDI brings to the host countries, it is criticized by economists as scale of economic development. When the investment firms get back their initial investment and starting to make profits, the investing countries make more profit than the host countries. Therefore, FDI is not beneficial for long term (Bartels & Crombrugghe, 2009). Similarly, Lipsey and Sjöholm (2004) mentioned that, the local enterprises which are associated with foreign investors may try to grab the major part of the market which leads the local firms to produce less amount of goods and sometimes in lower quality as well. These situations can adversely affect the competitiveness of the local market and FDI might not bring positive implications on the economic advancement of the host country (Akulava, 2011).

Table 2.2 shows the advantages and disadvantages of FDI in host and home country's perspective;

Table 2.2 Advantages and disadvantages of FDI

Advantages	Disadvantages
To Host Countries	
FDI bring competition in the host economy which leads to reduction in price and increase in output	There can loss of revenue due to the provisions of favorable tax policies to FDI
Involvement of foreign firms may encourage the firms in domestic economy to function more efficiently	Frequent changes in the labour sector can cause employment related
Provide access to foreign markets in terms of exports through improving ability to obtain the foreign market	Reduce the progress of local industries as the foreign firms have more experience and financial resources
Helps to improve the foreign exchange gap of the host country when there is insufficient domestic savings in the host country	Manipulation of the raw materials and labours in the domestic economy
Increase the demand and consumption of the products of local firms	Foreign investors won't have much concern about the host country's economy which may affects the value of the business
Productivity improvement	Harm to the environment due the improper regulations implemented to attract FDI
Positive impact on employee salary and reduce unemployment	

Introduction of advance and modern technologies	
Innovations in production and its process	
Domestic products can get access to international markets	
Development of tourism and infrastructure	
Bring solutions to deficit balance of economy and the foreign exchange scarcity	
To Home Countries	
Market growth and the diversification	Reduction in domestic investment the investors focuses on other economy
Human capital advancement due to increased employment opportunities	Risk and expropriation when there is political change in the host country
Helps to create more jobs and opportunities to build new firms in other foreign countries	Exchange rates can be negatively affected
Can obtain the special tax incentives from host economy	High production costs
Enhance the country's national income generation	Non viability of the economy
Knowledge sharing and technology transfer	Can make negative impacts on the investment of the country when there are investment ban imposed on the investors

Sources: (Ram & Zhang, 2002), (Meyer, 2003), (Bartels & Crombrugghe, 2009), (Akulava, 2011), (Ali, 2014), (Czerniak & Blauth, 2016) and (Ayres, 2018)

2.6 Drivers and Barriers of FDI

Grosse and Trevino (1996) categorized FDI determinants as pull and push factors where the characteristics of the host country which attract the FDI inflows are referred as pull factors. These can be low labour costs, lower transaction costs with geographic and cultural proximity and open market policies with large markets. Push factors can be described as the characteristics of home countries such as the currency deflation and appreciation, increase in labour cost and increase in capital in a country which stimulates the outflows of FDI. Table 2.3 shows the host country determinants of FDI identified by Lall (1997).

Table 2.3: Host country determinants of FDI

Economic conditions	Resources	Location and natural resources
	Markets	Growth and stability, size, demand and distribution, urbanization and income level
	Competitiveness	Labour Skills and availability, training and development, management and technical skills and physical infrastructure
Policies of the host country	Private sector	Promotion of private ownership, efficient financial markets, flexible entry and exit policies
	Macro-economy	Access to foreign exchange, managing the macro variables
	Trade and industry	Regional integration and access to market, competitive policies and trade strategy
	FDI related policies	Stable and transparent policies, easiness of access and incentives on ownership
Strategies of MNEs	Location, sourcing, integration and transfer	Company strategies on location, sourcing of product inputs, training and technology and strategic associations
	Risk insight	Awareness of risks based on political factors, labour market and macro management

Source: (Lall, 1997)

Patibandla (2001) and Dunning (2006) identified three categories of FDI determinants as follows;

1. Demand side factors- income distribution and market size
2. Supply side factors- infrastructure, trained labours and research and development
3. Institutional factors- political instability, cultural diversity, intellectual property rights, cost of transaction, corruption, and administrative factors

It was further identified by Willem Te Velde (2001), the FDI determinants in developing countries can be divided into two categories such as economic policies

controlled by the governments, other investment policies and social and environmental factors. The economic policies can be further categorised into industrial policies relating to FDI, and other macroeconomic policies of the country. Table 2.4 shows the policies and factors affecting the FDI inflows identified by the author.

Table 2.4: Policies and factors affecting FDI inflows

	Economic policies largely under domestic control		Other policies and factors
	Industrial policies	Macro-economic policies	
Factors affecting potential foreign investors (Determinants)	1. Bargaining power and the financial incentives 2. Efficient administrative mechanism 3. Development of export processing zones 4. Developing key sectors of the country	1. Sound macro-economic performances 2. Well established infrastructure facilities 4. Skilled workforce 5. Development of financial markets 6. privatization opportunities	1. Availability of natural resources 2. Non-existence of corruption 3. Financial conditions of the home countries 4. International trading policies 5. Location and the language used
Factors affecting the established foreign investors (Upgrading)	1. Employee training and development 2. Performance requirements 3. Encouraging research and development 4. Taxation	1. Development of financial markets 2. Policy of the labour market 3. Competitive market policy 4. Trade policies	1. Civil society of the country 2. Regional and international investment treatments 3. Integration of global economy
Affecting the responses of the domestic firms (Linkages)	1. Supply side management 2. Encouraging the entrance of international market 3. Training and development of labours 4. Improving the technological capability	1. Lab our mobility 2. Promotion of exports 3. Competitive policies 4. Training and education	1. Integration of global economy

Source: (Willem Te Velde, 2001)

According to Globerman and Shapiro (2002), both FDI inflows and outflows are greatly influenced by the infrastructure of the governance. Because, there can be open and transparent policies and regulatory regimes in a good governance and the service delivery will be effective to promote competition on both domestic and international level.

Paez (2011) stated that, many countries which intended to absorb FDI have gone through various modifications in their economic policies and infrastructure of the country to create a friendly investment platform for the foreign investors which also increase the competition among them. They have further implemented various policies to provide incentives and to ensure the higher degree of protection in order to attract more potential investors. Further mentioned by Masron and Hassan (2016), the impact of FDI on the economic growth of the country does not depend only on the amount of FDI inflow but also on its structural composition and type. Both developed and developing countries faces uncompromising economic and financial challenges and labour related challenges in order to attract foreign enterprises to invest in their local markets. It also outweighs their moral and the legal norms of doing the international businesses in order to be consistent in this direction. UNCTAD (2017) mentioned that, developing countries are dominated by the developed countries by the level of financial capital obtained from FDI. FDI inflows of developed and developing countries in the UNCTAD study period of 2015 and 2016 are shown in Figure 2.2

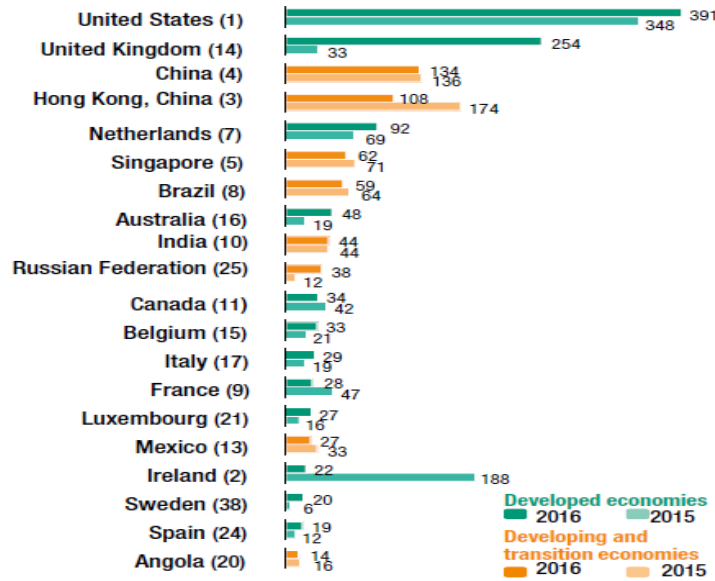


Figure 2.2: Top 20 economies based on the FDI inflows in 2015 and 2016 (USD Billion)

Source: (UNCTAD, 2017)

According to the figure 2.2, the amount of FDI inflow into the developed countries is comparatively higher than developing countries in the certain study period as the developed countries fulfill all the prerequisites to attract more FDI. Similarly, Saini and Singhanian (2017) identified that, developed countries have higher efficiency index than developing countries which drives higher FDI inflows. Poor infrastructure facilities, less financial investments in the activities of capital formation prevent the developing countries in grabbing the business opportunities required by foreign investors. Figure 2.3 shows the determinants of FDI listed by Saini and Singhanian (2017).

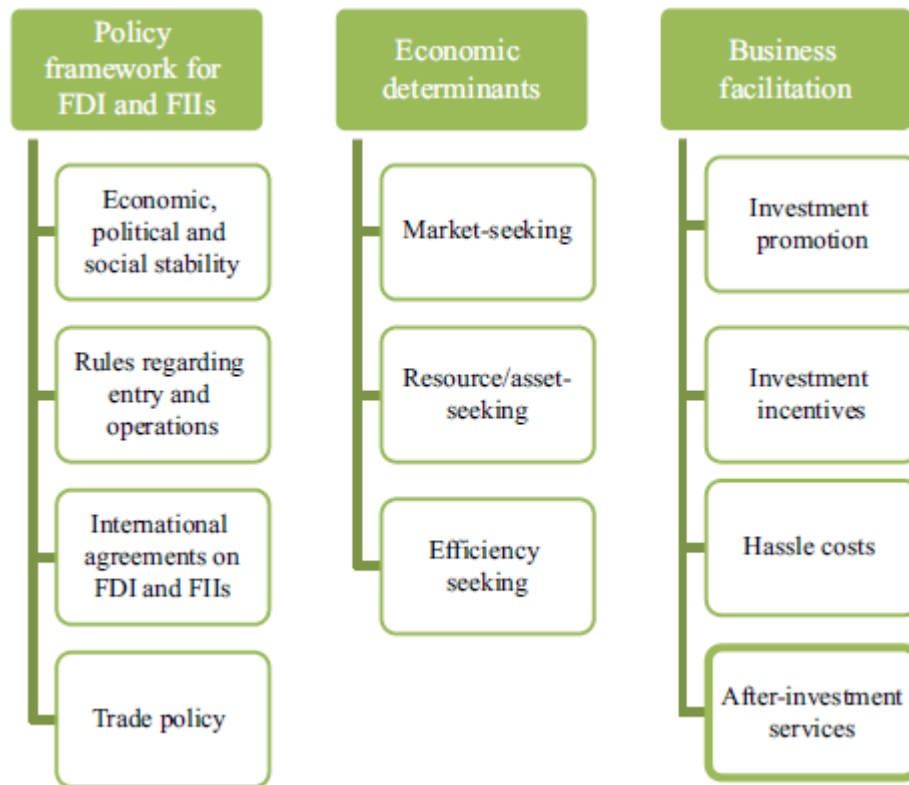


Figure 2.3: Determinants of FDI

Source: (Saini & Singhania, 2017)

Gunathilaka and Mustafa (2019) identified some influential factors of Sri Lanka which attract the foreign investors such as level of transportation facility, market size, level of communication facility, growth rate of the economy, geological position, cultural diversity and the end of ethnical war.

In contrast, there are factors which are considered as the barriers of inward FDI in host countries. It was explained by OECD (2002) that, the factors hinder the full benefits of FDI in developing countries are poor technology of host country, low level of general education and health, insufficient openness to trade, inadequate regulatory frameworks and weak competition among local enterprises. It was further identified by Mottaleb and Abdul (2007) that, factors which negatively affects the FDI inflows are high cost incurred in communication, information and transportation, poor infrastructure facilities and the prevailing corruption which increase the cost of transaction of FDI and increase the risk for the investors. In some countries, the

political instability which refers the change of government and political violence in host country such as political assassinations and frequent riots have created negative impact on the inflows of FDI (Demirhan & Masca, 2008). Further stated by Zheng (2009) that, major reasons for poor FDI inflows into the developing countries are corruption, rigid laws and regulations, slow moving economic development and bureaucracy.

As a summary, it can be listed the drivers and barriers of FDI inflow as shown in table 2.5;

Table 2.5: Drivers and Barriers of FDI

Drivers	Barriers
Higher GDP growth rate of host country	Low GDP growth rate
High per capita income	Inadequate per capita income
Improved information, communication and technology	Poor technology and educational facilities
Political stability	Political instability
Trade openness	Weak competition among enterprises
Availability of quality human capital	Inadequacy of skilled human capital
Larger market size	Small market size
Easier access to export market	High cost of information, transportation and communication
Better physical infrastructure	Poor infrastructure facilities
Stable macro-economic environment	Weak banking system
Economic stability	Corruption
Friendly investment policies	Weak court system
Tax incentives	Complicated tax system
Appropriate geographical position of the country	Infringement of intellectual property rights
Low wages of host country employees	Contradictory and insufficiently transparent legislation
Flexible environmental and social standards	High administrative barriers

Availability of natural resources	Civil wars
Depreciation of exchange rate	Inadequate regulatory framework

2.7 Global Trend of FDI- An Overview

According to UNCTAD (2008), there is a strong considerable growth in the global FDI from the 1990s up to 2008. In fact, table 2.5 indicates that the total FDI has grown from 481.91 million USD in 1997 to approximately 958.69 billion USD in 2005. Following the strong growth for more than four years' time, the FDI inflow reached to 1.9 trillion USD in 2007 and started to decline afterwards from 2008 which was (-16%). Due to the global economic crisis, it further declined in the year of 2009 which amounted (-37%). The economic crisis caused the stock market crash which led to strict credit policies, reduction in asset value and the fall in corporate profits. In order to face these challenges the multinational companies had to restructure their investment plan due to the collapse in major economic regions (UNCTAD, 2011).

Table 2.6: Global FDI inflows in the period of 1997-2010 (Mn USD)

Year	world	developed countries	developing countries	share of developing countries by %
1997	481.91	269.65	193.22	40.09
1999	1079.08	824.64	222.29	21.25
2001	823.83	589.38	209.43	25.42
2003	632.59	442.16	166.34	26.29
2005	958.69	611.28	316.44	33.07
2007	1970.94	1306.818	573.032	33.69
2008	1744.101	965.113	658.002	37.72
2009	1185.030	602.835	510.578	43.08
2010	1243.671	601.906	573.568	46.12

Source: (UNCTAD, 2011)

Figure 2.4 illustrates the trend of FDI in the world economy for the period of 1997-2010;

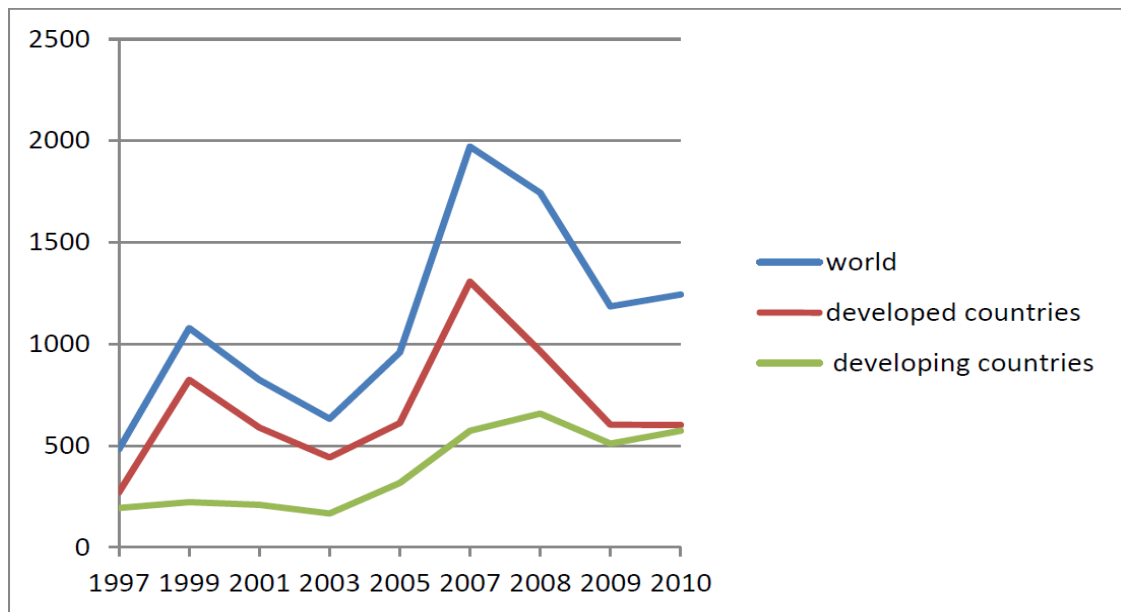


Figure 2.4: Trend of FDI in the world economy from 1997-2010 (Mn USD)

Source: (UNCTAD, 2011)

When considering the performance of FDI by region, China, Hong Kong and the Russian Federation were the three developed countries which were holding the top 20 positions of FDI investors in 2010 while India and Brazil were holding very close position to the top 20 (UNCTAD, 2011). However, there is a big difference between the FDI inflows and outflows of developing countries because they are mostly recipients of FDI rather than providers (UNCTAD, 2011). According to UNCTAD (2012); Asia, European Union and North America will remain as the most preferred locations for the foreign investments and they have been ranked in the top 10 popular FDI locations with BRICK (Brazil, Russia, India and China) region and it is expected to have a remarkable growth of FDI due to the availability of natural resources and the liberalization of economy. This statement was further ensured by Ali (2014) in a research study.

According to UNCTAD estimates of year 2020 shows a 19% decline in the global FDI inflows in 2018 due to the decline of FDI into the developed countries. Figure 2.5 shows the Global FDI inflows in the period of 2007 to 2020.

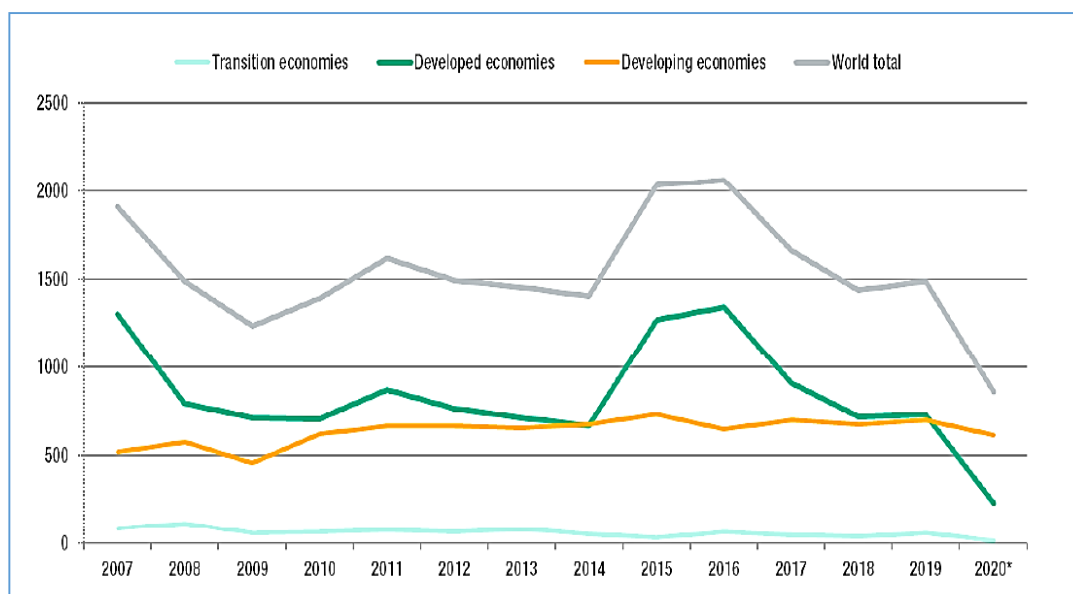


Figure 2.5: Global FDI inflows in the period of 2007–2020 (Bn USD)

Source: (UNCTAD, 2020)

Figure 2.5 shows that, there is a decline in the global FDI inflows in both 2017 and 2018. UNCTAD (2020) further explains, the decrease of inflows to the developed markets in 2017 was due to the nonexistence of large mega investment which gave higher increase of FDI inflows in the year 2016 for the United States and United Kingdom. Further, there was a decline in the global FDI inflows in the year of 2018 because of the changes implemented in the economic policies of United States called US tax cut in the end of 2017. It was further mentioned in UNCTAD (2021) that, the global FDI collapsed in the year of 2020 and there was a decline of 42% from 1.5 trillion USD in 2019 into an estimated amount of 859 billion USD in 2020. This was the third largest fall followed by 30% fall in 1990s and the period of 2008-2009 when the global financial crisis occurred.

2.7.1 Sector wise performance of FDI

It was mentioned in UNCTAD (2001) that, the influence of FDI in each economic sectors are different as they have their own aspects. Economic sectors of any country can be categorized as primary, secondary (manufactory) and tertiary (services) sectors. The primary sector includes the production of foods and raw materials where the secondary sector includes agriculture, fishing, forestry and mining and quarrying

(Akulava & Vakhitova, 2015). It was stated by Alfaro (2003) that, the growth of the primary sector and the FDI inflows into that sector have negative relationship while the growth of the manufacturing sector and FDI inflow into that sector are positively related. Akulava and Vakhitova (2015) further stated that, the relationship between the growth of service sector and the FDI inflow into that sector are uncertain. Similar statement was made by Noy and Vu (2008).

Moreover, Mathiyazhagan (2005) stated that there was a negative relationship between the growth of food proceeding and industrial machinery sectors in India and the FDI inflows into those sectors, while there is a positive relationship between the growth of transportation and metallurgy industries and FDI inflows. In contrast, Aykut and Sayek (2007) stated that there was a negative relationship between the service sector growth and the FDI inflows into that sector where the relationship between FDI inflows with other two sectors were uncertain. Waldkirch, Nunnenkamp and Bremont (2009) argued that, FDI had a quantitatively modest but significantly positive impact on manufacturing employment in Mexico. Akulava (2011) stated, the FDI inflows into the primary sector can create rise of the wages of labours involved in that sector which can attract the labours from the other economic sectors. It can cause for less competition in the other economic sectors as well as the deindustrialization into the country. Hence, FDI inflows into the primary sector does not enhance the economic development of the host country as it makes negative impact on the economy (Akulava, 2011).

Above findings show that, the FDI performance of the industrial sector varies from country to country and it cannot be predicted whether it will be positive or negative based on its results of other countries.

2.7.2 FDI in construction industry

Knowledge and productivity are the key aspects of construction industry. The proper mechanism for the management of those factors needs to be implemented in construction industry in order to imply those factors in an effective way. FDI inflows into construction industry supports the industry in obtaining several benefits from multinational enterprises such as improved management skills and improvement of

knowledge and productivity. Involvement of FDI provide better access to financial resources, competition effect and finally the productivity improvement (Eimers , Toorman & Nouwens, 2004). It was identified by Paupan (2014) that FDI inflows into the construction industry had a statistically strong positive relationship with the growth rate of the industry in Thailand in the period of 2005 to 2013.

It was further evidenced by Salim, Zakaria and Aminuddin, (2016), when the Malaysian government required excess funds for the infrastructure development project called “Iskandar Malaysia” FDI has been used to fulfill the financial requirement. The top countries invested on the said projects were USA, China, Singapore Japan and Spain. It was further suggested by Andrew, Chukwudi and Uchenna (2015), there must be a considerable amount of FDI inflows into the construction industry in order to enhance the sustainable growth and development of the industry.

In contrast, Aitken and Harrison (1999) mentioned that, inflows of FDI does not provide lot of benefits to the local industries of the developing countries including construction. The main disadvantages of FDI are the restrictions in hiring local employees for the higher level positions and the labour mobility between foreign subsidiaries and the local firms are very small. Table 2.6 shows the key advantages and disadvantages of foreign investment and globalization into the construction industries in developing countries.

Table 2.6: Advantages and disadvantages of FDI involvement into the construction industries in developing countries;

Advantages	Disadvantages
FDI in construction projects leads to increase in construction demand, creating work opportunities for the local firms	Local construction companies lack the technical and managerial capability to undertake most of foreign-funded construction projects
Competition among foreign firms lowers the cost of projects to developing countries	It is possible that the local firms will be deprived of the opportunity to grow

Involvement of international finance make ways for the implementation of several projects such as major infrastructure projects	Local construction firms have no funds or expertise to participate in the sponsorship of privatized projects
Presence of large number of international firms offer scope for the technology transfer and the development of the local firms and upgrading of the country	Foreign construction firms may pay lip service to technology transfer or take measures to avoid it. Moreover, the local companies may not be in a position to benefit from technology transfer, or to subsequently utilize the acquired expertise

Source: (Ofori, 2000)

2.8 FDI in Sri Lanka

Prior to the liberalisation of trade economy introduced in Sri Lanka, there was an inward looking economic policies which had several limitations for the free flow of FDI and the foreign investment. However, there were some measures introduced to attract FDI. Establishment of the foreign investment advisory committee in 1968 was the initial step taken to investigate the FDI related policies and to manipulate them (Athukorala, 2003). It was further stated by Jayasekara (2014), because of the low domestic savings; the internal investment capability of Sri Lanka was limited and it had to rely on external finance such as FDI. Due to this reason, Sri Lanka opened up for the foreign investment in 1978 by moving away from its socialist orientation. As a result, Sri Lanka was able to attract a considerable amount of FDI in all of its economic sectors such as infrastructure development, manufacturing, IT and tourism and the average total FDI inflows in Sri Lanka in the period of 1978 to 2018 was amounted approximately 16.5 billion USDs (Sri Lanka Country Profile, 2018).

It was further mentioned by Thilakaweera (2009) that, Sri Lanka recorded a higher amount of FDI inflows compared to the other South Asian countries which were having larger GDP values in the 1980s which was in the early liberalisation period. There was an annual average FDI inflows of 40 million USDs registered in the country during that period. It was mentioned in the UNCTAD (2012) report that, there was a drastic change in the FDI inflows in Sri Lanka during the past three decades which

was 47 million USDs in 1979 and 752 million USDs in 2008. However, the FDI inflows into Sri Lanka had a considerable decline in the period when the country lost its investment potential due to the internal ethnic war. Due to the boom of ethnic problem into civil war in 1983, the foreign investors were reluctant to bring their capital into the country (Thilakaweera, 2009). Withdrawal of the plant establishment project inside the Katunayaka free trade zone in 1982 by Motorola and the Harris Corporation who were the electronic manufacturing giants in India was the great example of the impact of civil war on the FDI inflows into Sri Lanka (Kelegama, 2006).

In contrast, Jayasekara (2014) stated that, the FDI inflows in Sri Lanka increased approximately five times from 1988 to 1999 which was amounted 43 million USDs in 1988 and 201 million USDs in 1999 which also had a similar total net inflow of the global trend. In the beginning of the 21st century, the FDI inflow has been further increased and the highest amount of FDI inflow was recorded in 2012 which was amounted 1,338 million USDs (CBSL, 2012). In 2009 Sri Lanka had the opportunity to join the region of fast developing countries due to the end of the ethnic war. Even though, there was a high cost for entering into global investment markets and low rate of domestic savings which hindered the investment capability of Sri Lanka at that time (Jayasekara, 2014). Figure 2.6 shows the trend of FDI inflows into Sri Lanka from the period of 1970 to 2010.

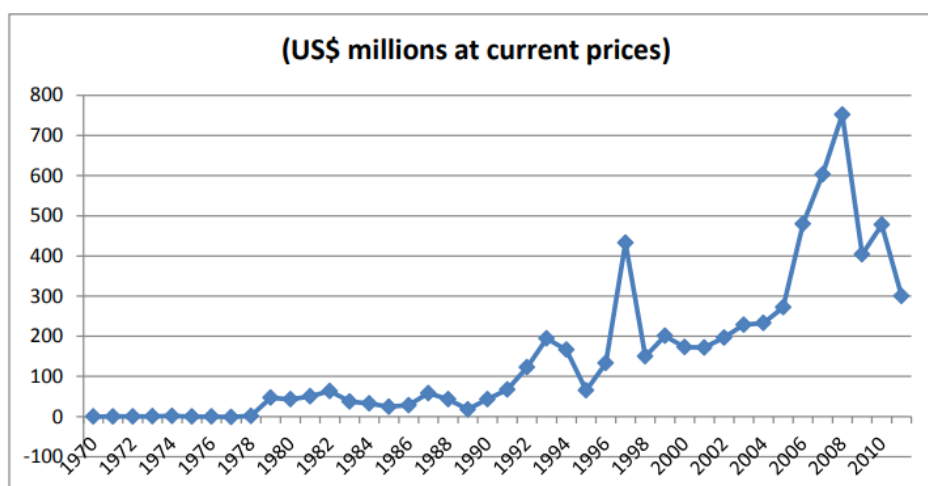


Figure 2.6: FDI inflows in Sri Lanka from 1970 to 2011 (Mn USD)

Source: UNCTAD 2012

According to UNCTAD (2021), FDI inflows to Sri Lanka gradually increased in past decade. However, there was a decrease in FDI inflow from the year 2018 to 2019 which was amounted 1.6 billion USDs in 2018 and 793 million USDs 2019. According to CBSL (2020), there was a fall in the FDI inflows into Sri Lanka in 2020 which was from 793 USDs in 2019 and 528 million USDs in the third quarter of 2020. The decline was due to the poor performance of tourism sector and the loss of confidence of foreign investors as a consequence of COVID-19 pandemic as well as on the repercussions of the Easter Sunday attack in 2019 (CBSL, 2020). Figure 2.7 explains the FDI inflows of Sri Lanka in a quarterly basis in the period of 2010-2019.

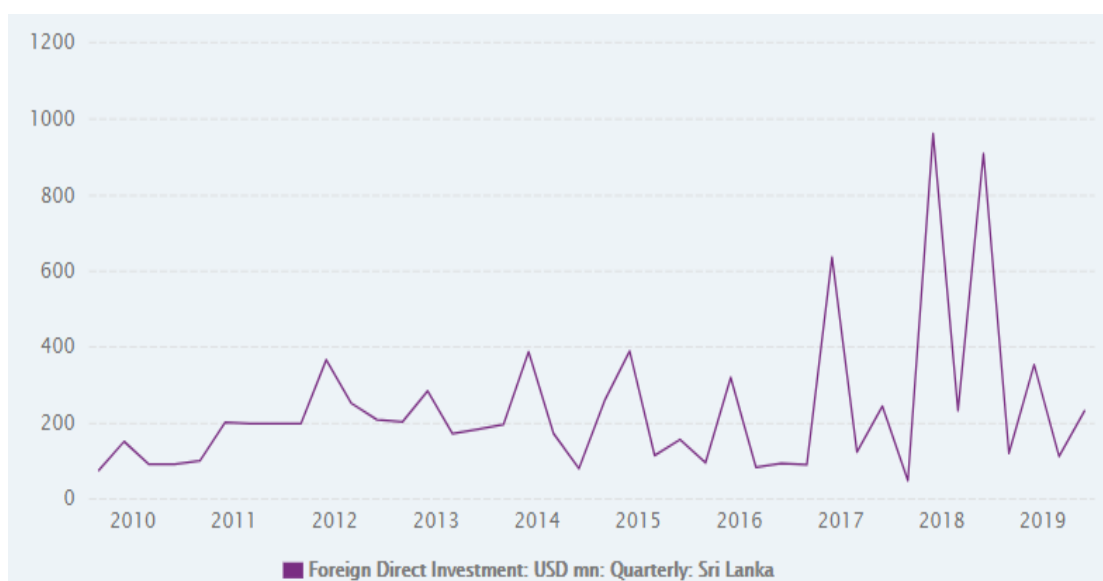


Figure 2.7: FDI inflow in Sri Lanka in USD (Mn) from 2010-2019

Source: (Census and Economic Information Centre [CEIC], 2020)

According to World Bank (2020), Sri Lanka's FDI inflow is lower than in peer countries even it has attractive factors in terms of FDI such as open access to foreign market and attractive geographical location. It's remaining at less than 2% of GDP, as compared with Malaysia and Vietnam. Figure 2.8 shows the comparison of FDI inflows into Sri Lanka with Malaysia, Vietnam and South Asia.

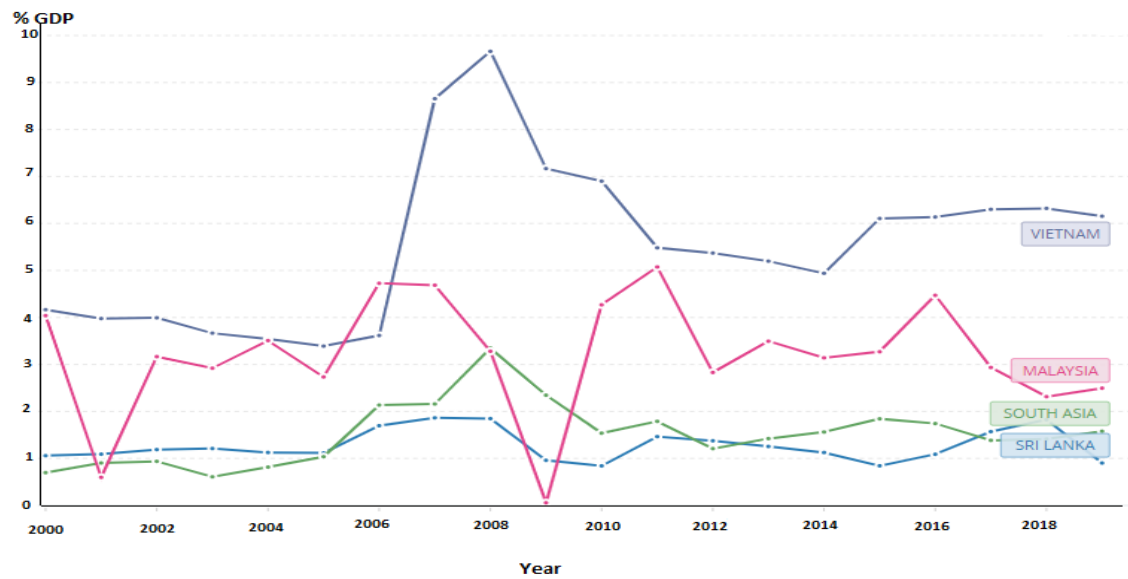


Figure 2.8: FDI net inflows (% of GDP) from 2000-2019

Source: (World Bank, 2020)

2.8.1 Regulations related to FDI in Sri Lanka

There were primarily two phases of policies related to the private investment in Sri Lanka after the independence in 1948 where the period of 1948 to 1977 was named as the first phase. During that time of first phase, there were mixed policies followed and the public sector of the country was dominant (UNCTAD,2004). Second phase was in 1977 when Sri Lanka introduced economic liberalization and there were quantifiable restrictions on the imports with tariffs. In the second phase of private investment policies, there were less economic barriers and incentives introduced for the export oriented foreign investments through the attractive FTZ scheme (UNCTAD, 2004). According to Athukorala (2005), the privatisation policy was introduced in the year of 1987 in order to reduce the burden on the budgets of state owned firms and enterprises and to improve their profitability and efficiency.

The main turning point of policies related to FDI in Sri Lanka was the introduction of BOI which was established in 1992 with the purpose of promoting the FDI inflows into Sri Lanka. BOI is holding the power of all the administrative matters related to FDI in Sri Lanka which also offer tremendous service for the foreign investors such as issuance of approval, provision of incentives, facilitation of import export clearances

and arrangement of utility services (Ravinthirakumaran, Selvanathan & Selvanathan, 2015).

According to Pravakar (2006) and Bureau of Economic (2012), though BOI has extensive power to administrative decisions in all FDI related matters; the major investments such as infrastructure projects need to obtain the cabinet approval. Economic Bureau (2012) further explains, foreign investors were able to purchase the privately owned lands of the country on a 100% tax basis until February 2013, even though the government lands were usually leased on 99-year period or 50-year period on case by case basis. But, the sale of private owned or state owned land to foreigners was prohibited in the new regulations implemented by government in February 2013 (Reuters, 2013). According to BOI (2014), the sectors which were given priority to FDI inflow are tourism and leisure, utilities, manufacturing of exports, infrastructure, exports services, knowledge and educational services, apparel sector and agriculture.

According to Peiris (2021), below stated are the main regulations related to FDI in Sri Lanka at present;

The Constitution of Sri Lanka (2004)

Constitution of Sri Lanka was implemented with the prohibition against violation of territorial integrity of the country. According to Article 157 of the regulation, it is prohibited to establish a separate state within the land of Sri Lanka by the foreign investors involve in any activities within the country (The Constitution of Sri Lanka Article 157 of 2004).

The Immigrants and Emigrants Act No. 20 of 1948

It provides regulations on the visa procedures and exemptions of visa of foreign personnel who are entering into Sri Lanka for any purpose (Peiris,2021).

The Board of Investment Law No. 4 of 1978 (the BOI Law)

BOI law No. 4 of 1978 and its amendments are the principal laws which is applicable to investments in Sri Lanka. Under this law, the national investment promotion agency

called the BOI Sri Lanka was established and it functions as the key facilitation point' for the foreign investors. It has the sole authority to make agreements with local and foreign investors and it also provides incentives to attract more foreign investments into the country (BOI Sri Lanka, 2020).

The Companies Act No. 7 of 2007

According to the Companies Act No 7 of 2007, the projects which are approved under sector 16 or 17 of BOI law need to be obtained prior approval from the legal department of BOI for the articles of association of the company before submitting the registration documents to the registrar of companies (Companies Act No. 7 of 2007).

The Strategic Development Projects Act No. 14 of 2008 (SDPA)

The SDPA act was implemented to provide specific case by case basis tax relaxations for the projects which have the provisions for economic and social advancement of the country and the projects which are having the national interest or the projects which are expected to change the landscape of the country in following ways;

- Where the proposed goods and services have the intention to provide benefits to the public
- Which brings considerable foreign exchange inflow to the country
- The considerable employment generation and the enhancement of income generation opportunities
- The envisaged technological transformation (SDPA No.14 of 2008))

The Customs Ordinance

It provides regulations on duty and levy imposed by customs on imported goods and services

Land Restrictions on Alienation Act No. 38 of 2014 (LRA)

Land Restrictions Act accommodate provisions to the foreign investors to acquire the land of host country. Below are the regulations provided in this act for the foreign investors;

- Investor can lease out the land on a maximum lease period of 99 years with tax exemption
- The foreign investor can acquire the complete ownership of the land when they have less than 50% of the shareholding of a company
- Investors on condominium properties can acquire the complete ownership without any restrictions on their nationality (LRA No. 38 of 2014)

The Foreign Exchange Act No. 12 of 2017 and Foreign Exchange Regulations No. 1 of 2017

Chapter 423 of the Exchange Control Act was repealed by the Foreign Exchange Act as it introduced the liberal exchange system in Sri Lanka. It contains the provisions for the relaxation of the controls on foreign exchanges and it made easy access for the foreign investors to directly deal with the local banks for their transactions except for the transactions required to obtain special approval from CBSL. Inward investment accounts and outward investment accounts allows free flows of transfers (The Foreign Exchange Control Act No.12 of 2017).

The Inland Revenue Act No. 24 of 2017

Inland Revenue Act (IRA) 2017 was one of the incentive regime in Sri Lanka which was implemented in order to simplify the taxation law. It has provisions for tax reduction for some economic sectors such as education, tourism, construction, healthcare and agro processing where the tax rate applicable is 14%. It also has provisions for exemption of corporate income tax for the sectors like IT, agro framing and export services when there was a standard value of corporate income tax maintained at 24%. This Act further offered greater amount of allowance for the fixed capital investment of the investors which are over and above the normal depreciation (The Inland Revenue Act No.24 of 2017).

The Commercial Hub Regulations No. 1 of 2013 issued under the Finance Act No. 12 of 2012

In order to promote Sri Lanka as an evolving center of trading and to enable the specific trading related services, the Commercial Hub Regulations was implemented

in the year of 2013. Free ports and bonded areas were set up under this regulation to create an appropriate infrastructure facility for the import and export of goods and services in Sri Lanka. It also provides convenient to undertake the transactions in an exchangeable foreign currency (The Commercial Hub Regulations No. 1 of 2013).

2.8.2 FDI involvement in major sectors in Sri Lanka

The World Bank (2014) explained that, the policy reforms introduced in Sri Lanka in 1977 helped the industrial and trade structure to move to the labour intensive manufacturing from the traditional plantation exports which were land intensive. In 1983, more than 90% of FDI were allocated in manufacturing industry (Konara, 2013).

In 1990s, the FDI involvement in services sector started growing and reached to 70% of total FDI while FDI in manufacturing was around 30%. In 2000s, communication sector has attracted over 50% of FDI and was continued to dominate other sectors in the period of 2005-2010 (UNCTAD, 2004). After the end of ethnic war, the tourism sector started to attract more FDI and it was dominating other sectors in 2011 (Central Bank of Sri Lanka, 2011). BOI Sri Lanka (2020) reported that, there was a highest mark of FDI in 2019 throughout the history of Sri Lanka which was amounted 3.85 billion USDs and brought through the overseas joint venture investment to a new oil refinery. BOI further mentioned, Adani Group which is a private port operator of India signed an agreement with Sri Lankan government to build and operate the west container terminal of Colombo port. The agreement was signed for a 35 years contract with an estimated cost of 750 million USDs (Sri Lanka: Foreign Investment, 2021).

In construction sector

Due to the privatization policy implementation in Sri Lanka in 1990s, FDI in construction sector started to increase and become more prominent than FDI in other sectors (Konara, 2013). It was further stated by Samantha and Liu (2018), the construction and infrastructure sector has the highest inflow of FDI in the period of 2009 to 2017 due to the increase of country's infrastructure development after the end of civil war. According to Central Bank of Sri Lanka (2020), the largest investors of the country are China, India, Singapore, Malaysia and Netherlands and most of their

investments are made in construction and infrastructure development. For example, investment in the port city development project by China and proposed west container terminal construction project by India.

Similarly, FDI.LK (2021) mentioned that the construction sector and the real estate are the main attractive factors of FDI in Sri Lanka. It was further mentioned in Daily FT (2018), the construction sector in Sri Lanka is mostly involved with FDIs rather than the internal funds of the country and there is an annual output value of 3 billion USDs in construction industry. Moreover, there are upcoming huge investments like Colombo Port City and the port related constructions in Hambantota which may increase the value of construction FDI (Daily FT, 2018). Apart from the above two projects, Chinese firms have taken up more than 40% of the construction projects in Sri Lanka (CBSL, 2018).

Though there was a decline in public infrastructure projects in the first half of 2018, there were some new projects implemented in and around Colombo city which are invested by the private sectors particularly by the investment of China. The study of Oxford Business Group (2019) says the Port City Colombo which is carried out by China Harbour Engineering Company (CHEC) aims to attract 13 billion USD as an initial investment of the project. The Port City Colombo is forecasted to have 140 big developments which will function as the core to the Western Region Megapolis Master Plan (WRMMP) is planned to be carried out in a 15-year period with an estimated cost of 40 billion USDs. Further, the parent company of CHEC named China Communications Construction Company (CCCC), is also intended to bring some mega projects including the 40-MW liquefied natural gas-fueled power plant in Hambantota which is estimated to bring 500 million USDs as investment (Oxford Business Group, 2019).

2.9 Strategies to Promote FDI in Developing Countries

It is mentioned in the World Bank (2020) report that, there must be clear and effective implementation policies and strategies in order to obtain the maximum benefits of FDI. As a part of this, countries required to market their available investment opportunities through highlighting their comparative benefits related to other economies in order to

face the competition in the global market. Clear strategies and effective marketing to attract are important for countries with little track record of attracting FDI (World Bank, 2020). It was further stated by Nunnenkamp (2004), the policy makers of the developing countries need to understand the key factors which affects the positive impact of FDI and the barriers which hinder the development of the country in terms of FDI prior to implementing the broader strategy for obtaining the favourable effects of FDI. Below are some factors described by Nunnenkamp (2004) to promote FDI inflows and its benefits to the developing countries;

- Developing host countries need to implement proper training and education which improves the qualified supply of skilled labours and improve the opportunities of getting benefit from technology transfers and spillovers.
- Host countries can implement more sophisticated local financial markets in order to attract more FDI.
- Open trade policy can be implemented in order to get benefits from both efficiency seeking and export oriented FDI.
- Corruption control, protection of property rights and proper administrative regulations should be implemented to attract more FDI through the development of local institutions

It was further stated by Loewendahl (2018), it has been established the national investment promotion agencies (IPAs) as a mandate to attract FDI in most of the countries in the world. The prime objective of these agencies were attracting FDI to their country and encourage foreign investors to continue to invest and expand. Figure 2.9 shows the main activities of IPAs under four categories;

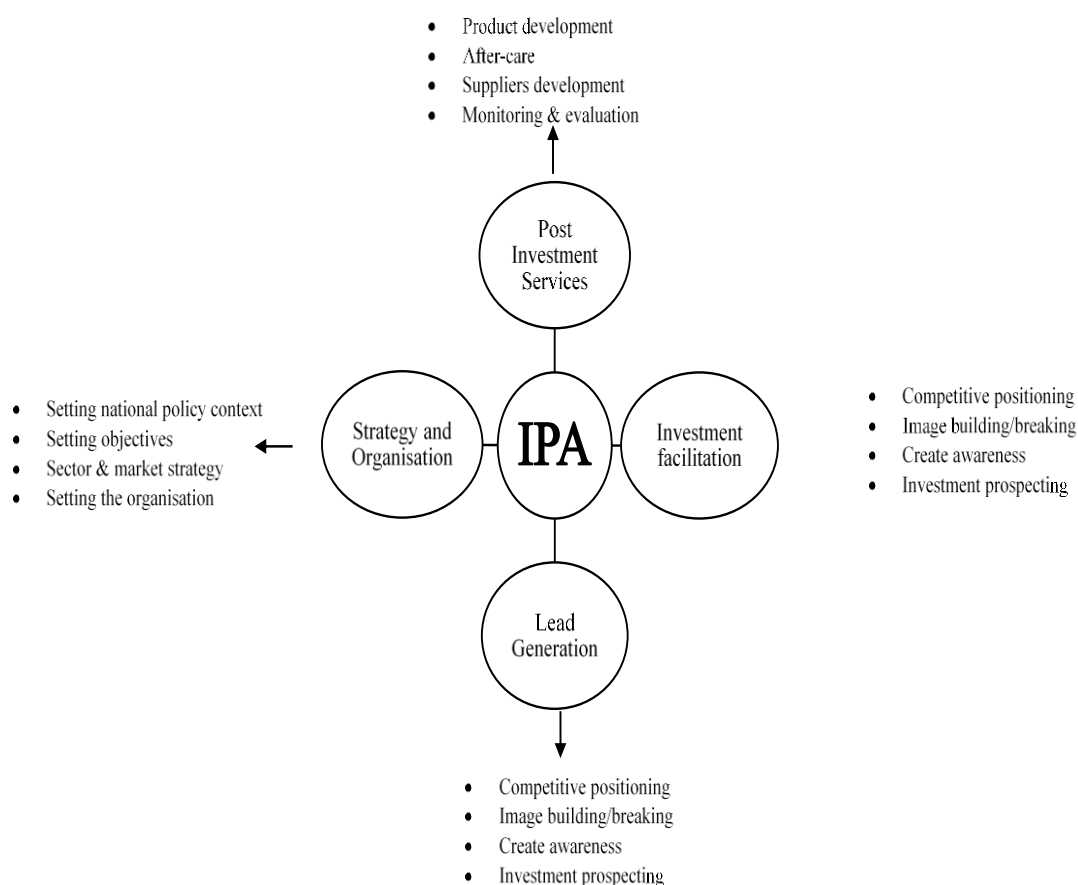


Figure 2.9: Framework for investment promotion

Source: (Loewendahl, 2018)

Finally, table 2.9 summarises some strategies to attract quality FDI into the host country explained by various researchers

Table 2.9: Strategies to Promote FDI inflow into developing countries

Strategies	References
Open and transparent markets <i>Provide flexible labour markets, reduce restrictions in FDI policies, provide open and transparent conditions for all firms.</i>	(Moran, Gorg, Seric, & Krieger-Boden, 2017)
Establishment of IPAs	(Moran, 2014) and (Barnes , Black, & Techakanont, 2015)

<i>IPAs provide links between suitable foreign investors and domestic economy, it should fulfill investor's demand and also promoting the host country to fulfill the prerequisites to attract the investors.</i>	
Implement the vendor development programme to ensure the smooth relationship between supplier in the host country and the foreign <i>Create opportunities to the domestic suppliers through economic advancement which can bring more contracts from the foreign buyers.</i>	(Moran, Gorg, Seric, & Krieger-Boden, 2017)
Encourage first-time foreign direct investors <i>Bring new investors who are not already a part of an extensive network.</i>	(Amendolagine, Boly, Coniglio, Prota, & Seric, 2015)
Encourage knowledge gaining of the native country through FDI <i>The managers of local firms who are brought from multinational enterprises can contribute to adopt for new technologies and marketing techniques using their experience in multinational firms.</i>	(Javorcik & Spatareanu, 2005) and (Boly, Coniglio & Prota, 2015)
Infrastructure development to attract more FDI <i>Improving the quality of skilled workers and the transport facilities can help to attract more FDI in the host countries.</i>	(Moran, Gorg, Seric, & Krieger-Boden, 2017)
Analyse the international market and find out which sector should be improved <i>The host country supply can be decided by the prime international investments in the host country.</i>	(Javorcik, Keller & Tybout, 2006)
Promote the multi sector investments by FDI <i>This can improve firms in host country in order to contribute to the internationalization process</i>	(Boly, Coniglio, Prota & Seric, 2014)
Improve the backward relations from FDI into the country's economy <i>Provide access to domestic firms to obtain multiple advantages through FDI in terms of implementation</i>	(Godart & Gorg, 2013) and (Gorg & Seric, 2016)

<i>of production lines, management training advice on strategic planning etc.</i>	
Reforming the local financial markets with credit facilities to foreigners <i>Implementing a friendly financial system in the local firms helps to attract more FDIs.</i>	(Alfaro, Kalemli-Ozcan & Sayek, 2009)
Improve the Export Processing Zones (EPZs) of the domestic economy <i>Improve the policies and regulations of EPZ in order to ensure the supplier relationships</i>	(Moran, Gorg & Seric, 2016)

2.10 Chapter Summary

Initially, it was discussed about the construction industry and the contribution of construction industry to the economy of any country and identified that, there is a significant relationship between construction and the country's economy. Further, it has been discussed about the theories of FDI and its advantages and disadvantages. It further explained the drivers and barriers of FDI, Global FDI trends and determinants of FDI on a theoretical framework. It also explained the FDI involvement in various industries across the world specially in construction industry.

Moreover, this chapter discussed about various challenges faced by construction industry and identified that, FDI can contribute to mitigate those challenges. Finally, it focused on FDI in Sri Lanka and its trend, the regulations related to FDI in Sri Lanka and the involvement of FDI into various industries. It also identified that, there is a considerable FDI involvement in Sri Lankan construction industry. Moreover, the strategies to attract the FDI into developing countries were discussed in the final section of this chapter.

Since there is lack of literature on the impact of FDI in construction industry and the promotion strategies to improve the FDI performance in construction industry in Sri Lanka, a detailed documentary survey and semi structured interviews were carried out and the following chapter will explain the research methodology to carry out the detailed survey.

3.0 RESEARCH METHODOLOGY

3.1 Introduction

Following the detailed literature survey about the research topic in chapter two, this chapter explains the methodological framework adopted to achieve the aim and objectives of the research study. Further, the research process and the research design of this study is described. It also explains the research approach and research techniques in detail.

3.2 Research Process

Research process contains of a sequences of activities or steps which are necessary to carry out the research effectively (Bahadur Bist, 2014). Below mentioned is the research process of this study;

- Defined research problem: - lack of evidences to describe the relationship between FDI inflow and construction industry growth in Sri Lanka
- Established the aim: - the aim of the study was to identify the relationship between FDI inflows in construction industry and the construction industry development in Sri Lanka
- Defined objectives: -
 - Analysed the trend of FDI inflows in the Sri Lankan construction industry
 - Investigated the relationship between FDI inflow into the Sri Lankan construction industry and the construction industry development in Sri Lanka
 - Proposed strategies to promote FDI into the construction industry in Sri Lanka
- Literature synthesis: -
 - Construction industry's contribution to national economy
 - Advantages and disadvantages of FDI
 - Drivers and barriers of FDI
 - FDI trend globally and within the country
 - FDI involvement in various industries
 - Regulations related to FDI in Sri Lanka

- FDI performance in various industries
- Strategies to promote FDI into developing countries
- Research design: -
 - Research approach: mixed research approach
 - Data collection techniques: archival method and semi structured interviews
 - Data analysis techniques: trend analysis, correlation analysis and content analysis
- Conclusions and recommendations: Summarized the research findings and provided recommendations for promoting FDI into construction

3.3 Research Design

Research design has been defined by Kerlinger (1986) as the process of planning, organizing, structuring and creating investigation strategy to find the solutions for the research questions and problems. It includes all the activities of the researcher from writing a hypothesis and its impact on the final results and analysis of the data. The main processes which included in research design are, research approach, and the collection and analysis of final data.

3.3.1 Research approach

Mertens (2009) explained that, the research approach is the plans and procedures of the research from making assumptions to detailed data collection and analysis methods as well as the interpretation. According to Williams (2007); quantitative, qualitative, and mixed methods are the three common approaches to carry out a research study. Quantitative research approaches are objective which are mostly used in explanatory researches which are investigating, causal relationships, associations and correlations (Leavy, 2017). Qualitative research approaches are subjective and it is commonly used to answer questions about the ‘what’, ‘how’ or ‘why’ of a phenomenon. (McCusker & Gunaydin, 2014). Mixed approaches are the combination of both quantitative and qualitative approaches in a same research study or studies which examine the similar fundamental phenomenon (Leech & Onwuegbuzie , 2008).

The aim of this research study was to identify the relationship between construction FDI and its development. In order to achieve the aim, it was required to use statistical

numeric data from the archival which was objective. Further, semi-structured interviews were carried out in order to find out the strategies to promote FDI inflows into construction industry in Sri Lanka. Therefore, the mixed approach has been selected as appropriate for this research study.

3.3.2 Research techniques

Establishing appropriate research techniques is the next step to conduct the research followed by the research approach. Research techniques are generally categorized into data collection techniques and data analysis techniques (Mertens, 2009).

3.3.2.1 Data collection techniques

Pilot survey

Non-structured interviews were conducted with some higher officers from Department of Census and Statistics, BOI Sri Lanka and CBSL in order to identify the data sources, to check its availability and to confirm the accuracy of available data.

Archival data

Archival method draws from materials which are already exist and the research conclusion will be established through a review of such data (Saunders, Lewis & Thornhill, 2009). Archival data can be found in many sources such as published textual materials, governmental and other public official records, collections of data envisioned for the future use of researchers and records and documents stored in school, hospital, police and organisations which are called secondary data (Vogt, Gardner & Haef, 2012).

In order to identify the mathematical relationship between construction FDI and construction industry development, the time series data of FDI, GDP, construction employment and capital formation were required in this study. Annualized archival data of total FDI inflows and the sector wise FDI inflows for the period of 2005 to 2019 was obtained from CBSL. Further, the data on macroeconomic parameters such as GDP, inflation, national income and unemployment rate and the construction industry development parameters such as capital formation of construction,

construction employment and construction value added were extracted from Central Bank annual reports from the year 2005 to 2019.

Semi structured interviews

In semi-structured interviews, it is allowed to ask additional questions by the researcher other than the standard questions in order to follow up on the answers of the respondents (Mitchell & Jolley, 2009). Further, Klenke (2008) explained that, it can be reduced bias and irrelevant answers through raising the follow up questions in the semi-structured interviews and it also gives flexibility to the interviewer. The promotional strategies of FDI were obtained through semi-structured interviews.

The purposive sampling or judgmental sampling is a type of non-probability sampling where the researchers choose the most suitable population based on their own judgement (Saunders, Lewis & Thornhill, 2012). It helps the researcher to gather information from the most appropriate participants and it lowers the error margin as it closely focusses on the research context (Black, 2010). In this research, the participants were selected based on their involvement in FDI related construction projects and having experience of more than 10 years using the purposive sampling method. *(Please refer appendix 5 for the interview guideline)*

3.3.3.2 Data analysis techniques

Trend analysis

Initially a trend analysis has been carried out using MS Excel in order to identify the trend of FDI in various economic sectors of Sri Lanka. Simple bar charts and line charts were used to analyze the FDI inflow in construction industry and to compare the FDI inflow in other industries as well.

Correlation analysis

Correlation analysis is intended to identify the degree of relationship between two variables and to quantify such degree of relationship correlation coefficient is used. Correlation analysis was used in this study to identify the relationship between the parameters of construction industry development and the economic development of

the country as well as the growth rate of construction FDI and the construction industry development parameters. Senthilnathan (2019) stated, the Pearson's simple linear correlation coefficient (R or r) is generally used to find out and measure the degree of linear relationship between 2 or more variables where the variables should be distributed normally. Below mentioned is the Pearson's mathematical formulation to measure the degree of relationship (R) between variables, namely X and Y;

$$R = \frac{n(\sum XY) - (\sum X) \cdot (\sum Y)}{\sqrt{n(\sum X^2) - (\sum X)^2} \sqrt{n(\sum Y^2) - (\sum Y)^2}}$$

Where,

n= Number of observations

x= Measures of variable 1

y= Measures of variable 2

$\sum xy$ = Sum of the product of respective variable measures

$\sum x$ = Sum of the measures of variable 1

$\sum y$ = Sum of the measures of variable 2

$\sum x^2$ = Sum of squared values of the measures of variable 1

$\sum y^2$ = Sum of squared values of the measures of variable 2

Basically, the value of the coefficient of correlation R will falls between -1 and +1 and it can be interpreted as shown in figure 3.1;

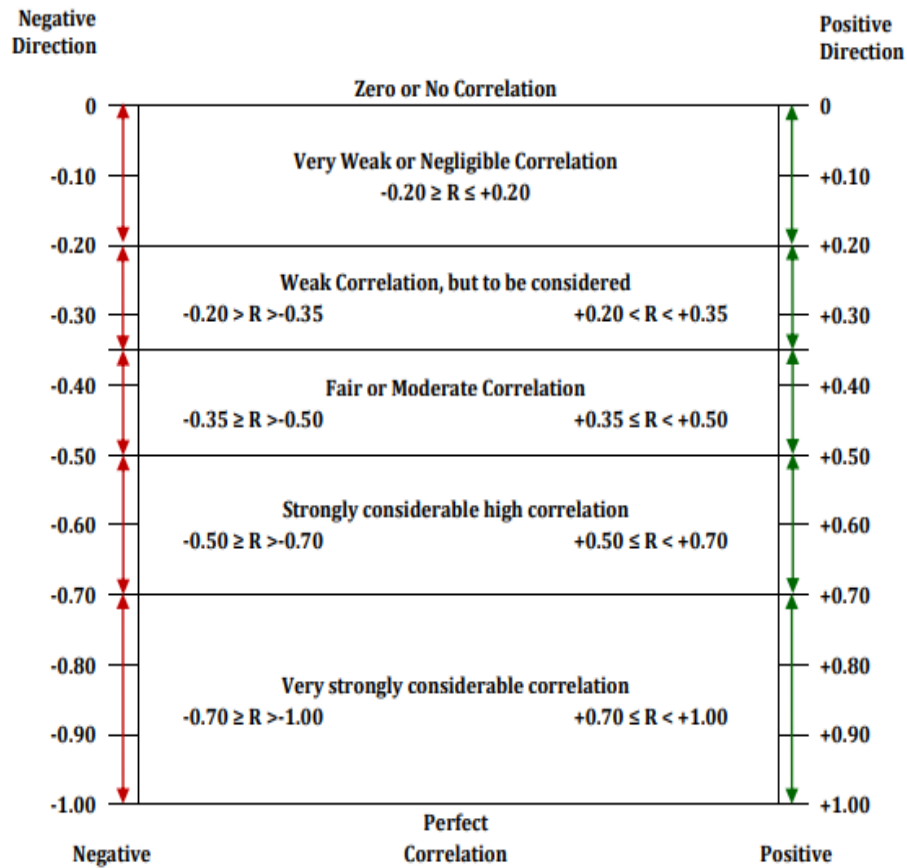


Figure 3.1: Basic interpretation of correlation coefficient

Source: (Gogtay & Thatte, 2017)

Content Analysis

Smith (2000) stated that, the content analysis is a qualitative analysis technique which is used to abstract required information from a set of data or body of contents. In content analysis, the contents received from the qualitative data such as interviews and communications are coded using separate label for each category of content based on their meanings (Fellows & Lui, 2003). In this study, it was conducted the semi-structured interviews to find out the promotion strategies of FDI in Sri Lanka and the code based content analysis method has been chosen as an appropriate method to analyse the data obtained from semi structured interviews.

3.4 Chapter Summary

This chapter mainly discussed about the research methodology selected to this study in order to achieve the main objectives of the research. Mixed research approach was selected as suitable research method for this study. Archival data collection method was used to obtain the time series data required for the research. In order to find out the data on promotional strategies of FDI, semi structured interviews were selected.

Trend analysis and correlation matrix were selected to analyze the data obtained from archival. Content analysis was selected to analyse the data obtained from semi structured interviews. MS Excel and the SPSS statistical software have been selected to generate the results of the above tests. The findings of the analysis will be discussed in the following chapter.

4.0 RESEARCH FINDINGS AND ANALYSIS**4.1 Introduction**

This chapter aims to discuss the findings of the research which have been obtained through quantitative and qualitative analyses carried out with the purpose of achieving the main objectives of the research study. Following sections of this chapter explain the detail discussion of research findings based on the objectives of this research.

4.2 FDI involvement in major economic sectors in Sri Lanka

Initially, the sector wise composition of FDI inflow into the major economic sectors in Sri Lanka such as manufacturing, agriculture, construction, infrastructure and services sector for the period of 2005 to 2019 were collected from the CBSL reports from 2005 to 2019. According to CBSL, below are the list of activities included in each of the above sectors;

Table 4.1: List of activities included into the major economic sectors in Sri Lanka

Sectors	Activities
Manufacturing	• Food, beverages and tobacco • Textile, wearing apparel and leather • Wood and wooden products • Paper, paper products and printing • Chemicals, petroleum, coal, rubber and plastics • Non-metallic and mineral products • Fabricated metal, machinery and transport equipment • Other manufactured products (not elsewhere specified)
Agriculture	• Horticulture and cultivation of fruits & vegetables
Construction	• Hotels and restaurants • Housing, property development and shopping and office complexes
Infrastructure	• Telephone and telecommunication network • Power generation • Fuel, gas, petroleum and others (i.e. Cairn Lanka Project) • Port container terminal

Services	• IT and business process outsourcing • Other services

Table 4.2 shows the year wise FDI inflow in each sectors, the average FDI inflow in each sectors and the percentage share of each sectors as an average within the study period.

Table 4.2 FDI inflow into major economic sectors in Sri Lanka from 2005 to 2019 in USD

Year	Manufacturing	Agriculture	Construction	Infrastructure	Services	Total
2005	135.321	0.473	135.794	127.524	8.027	407.139
2006	234.777	0.672	235.449	271.239	32.484	774.621
2007	174.016	0.417	174.433	496.313	25.634	870.813
2008	189.183	2.652	191.835	640.957	33.146	1057.773
2009	164.47	3.689	168.159	363.796	46.994	747.108
2010	159.653	6.448	166.101	278.66	23.906	634.768
2011	322.418	17.971	340.389	364.994	53.538	1099.31
2012	307.655	7.169	314.824	540.846	309.427	1479.921
2013	359.765	8.473	368.238	569.207	168.414	1474.097
2014	333.899	5.719	339.618	343.243	437.99	1460.469
2015	256.989	3.865	260.854	241.321	73.478	836.507
2016	247.723	1.885	249.608	260.04	70.592	829.848
2017	347.596	1.409	349.005	502.875	65.126	1266.011
2018	291.479	0.459	291.938	1375.903	77.892	2037.671
2019	319.461	1.342	320.803	188.433	70.333	900.372
Average	256.29	4.18	260.47	437.69	99.80	1058.43
%	24.21	0.39	24.61	41.35	9.43	

Source: Adopted from CBSL

According to table 4.2, it can be understood that the infrastructure sector has the highest average percentage of FDI inflow within the study period compared to the other sectors. It can also be understood that, the lowest percentage share falls into the agriculture sector which was 0.39% while construction sector and manufacturing

sectors hold approximately the same percentage share within the study period. Figure 4.1 shows the percentage shares of each sectors in a concise manner;

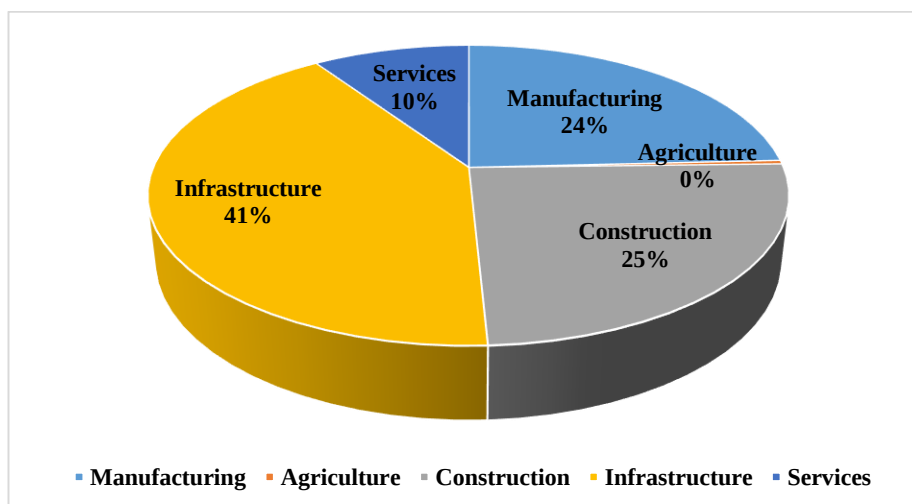


Figure 4.1: Average sector wise FDI inflow (%) for the period of 2005 to 2019

As shown in figure 4.1, the highest percentage of FDI inflow was registered into the infrastructure sector which was 41% and the second highest FDI inflow was into the construction sector which was 25%. Manufacturing sector involves with 25% of FDI inflow which was approximately same as construction industry.

Finally, the sector wise comparison of FDI growth rate has been explained in a line diagram as shown in figure 4.2;

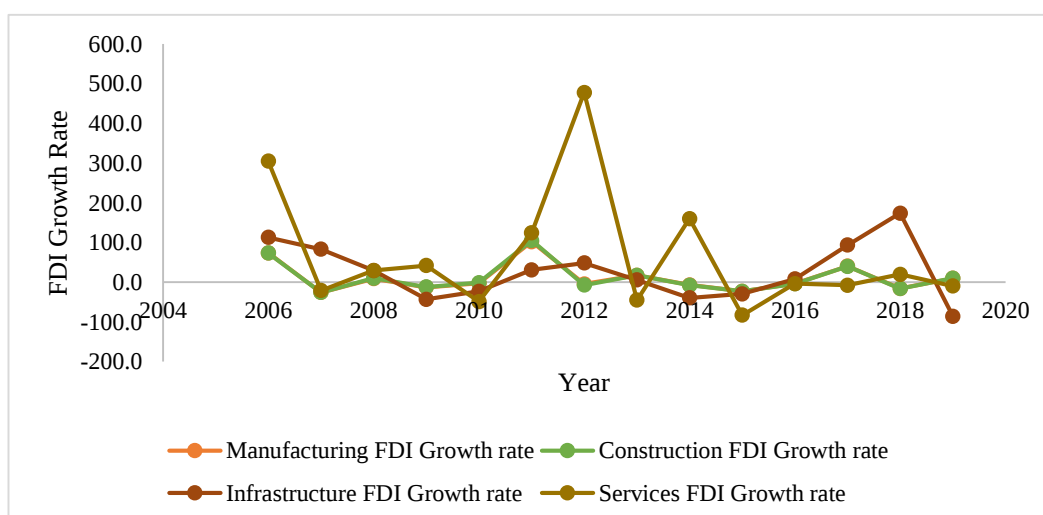


Figure 4.2: Comparison of FDI growth rate into the major economic sectors in Sri Lanka

Figure 4.2 shows that, the highest FDI growth rate has been registered in the agriculture sector in the period of 2007 to 2008 which was 536% and the second highest FDI growth rate was in the services sector which was 478% occurred in the period of 2011 to 2012. Though there was a highest growth rates identified in agriculture and services sector, the total value of FDI inflow was very low compared to the other sectors.

The highest construction FDI growth rate was registered in the period of 2010 to 2011 which was 104.9%. In this period, there was a highest FDI inflow into the construction industry which was 69.35% of total FDI inflow into Sri Lanka (CBSL,2011).

4.3 Trend of FDI inflow into the construction industry in Sri Lanka

In order to analyse the trend of FDI inflow into the construction industry, the pattern of line diagram has been analysed using the Central Bank annual reports and the various FDI related policies implemented in the study period.

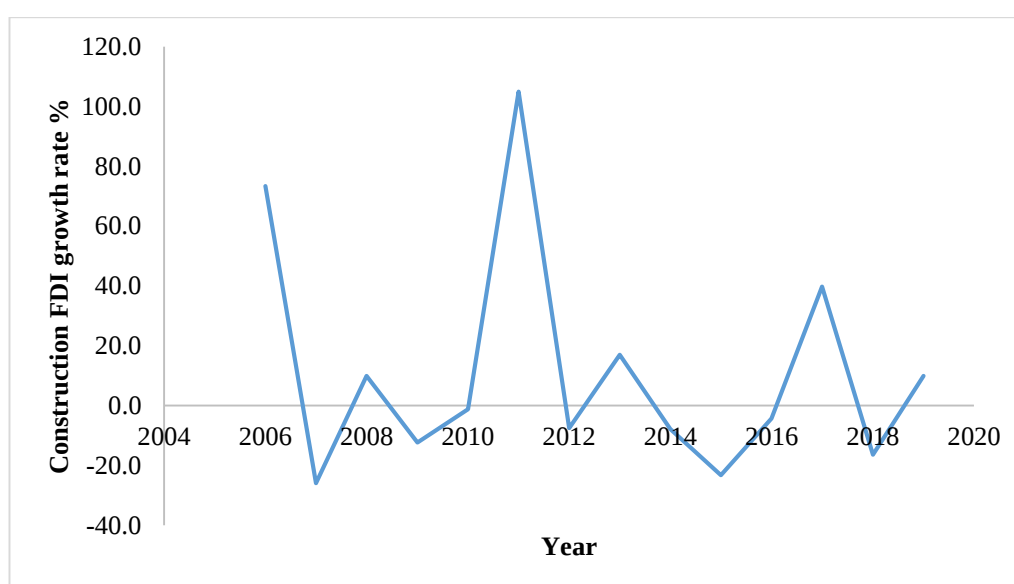


Figure 4.3: Trend of construction FDI growth rate

According to figure 4.3, it can be identified that the FDI growth rate was considerably high in the year of 2006 which was 73.4%. This growth was achieved through the

promotional activities carried out by BOI in order to attract FDI and the growth in private investment was also supported by increase in FDIs (CBSL, 2006). CBSL (2006) further explained, the construction industry growth rate in 2006 was 8% which was 8.9% in the year of 2005. The higher growth rate registered in these 2 years due to the Tsunami related construction works, particularly the housing projects. However, the construction FDI growth rate had a sudden fall in the year of 2007 which was (-25.9) %. This was the lowest growth rate registered in the whole study period. In this period, more than 50% of total FDI inflow was invested into the telecommunication sector. The infrastructure projects including roads and highways were the second priority (CBSL, 2008).

In 2011, the construction FDI growth rate was at its peak which was 104.9%. This was due to the increase in total FDI inflow in Sri Lanka by 107% amounted 1,066 million USD. The major FDI contributors in this year were tourism, hotels and the infrastructure sector. There was an estimated amount of Rs.495 billion foreign and local investments which were approved by BOI under the section 16 and 17 of the BOI law during 2011 (CBSL, 2011).

Due to the implementation of public infrastructure development projects and the involvement of private sectors in the construction of commercial and residential buildings, the growth rate of the construction sector increased by 14% during 2011. But, in 2012 it has fallen to (-7.5) %. Total FDI inflow in 2012 was 1,338 million USDs and 45% of it was accounted in infrastructure projects. Eventhough, the major contributors of the FDI investment in this period was infrastructure projects such as fuel, gas and petroleum related projects, development of telephone and telecommunication network, power generation and the development of port container terminals (CBSL, 2012).

In the year of 2015, there was another fall of construction FDI growth rate which was (-23.2) %. The main reason of the decline was the decrease in inflows to construction infrastructure and housing & property development projects by 33.6% and services including restaurants and hotels by 49.6%. Construction sector growth rate also declined by 2.7% in this period. Following to that, there was another decline in the

year of 2018 which was (-16.4) %. There was a decline of 2.1% in the value added growth of construction activities due to the poor performance of the large scale construction activities especially related to infrastructure development projects.

4.3.1 Impact of FDI policy changes on construction FDI growth rate

During the study period, the first major change in government regulations related to FDI was made in 2008 which was the introduction of the SDPA No. 14 of 2008. The SDPA regulation provides tax exemption for the projects which bring social and economic development of the country, changes the landscape of the country in positive way and brings employment opportunities to the country. It can be noted that, the construction FDI had a highest increase in the growth rate in 2008 which was (-25.9) % in 2007 and 10% in 2008. This shows that, the policy changes which give benefits to the foreign investors can impact positively in the FDI inflow into the construction sector.

Following the enactment of SDPA Act, the Land Restrictions Act was implemented in 2014 to control the land acquisition by foreigners which prohibits the transfer of title of a land to a foreigner or a foreign company having shares in a local entity. This act also consists of provisions for land leasing by foreigners on a 99-year lease period with a leasing tax imposed. It can be identified the negative impact of this policy change into the construction industry growth rate which had a fall from 17% in 2013 to (-4.8) % in 2014.

The Land Restriction Act has been further amended in the year of 2017 and 2018 with the provisions for some tax exemptions to foreign investors specially the leasing tax. In addition to that, the IRA No. 24 of 2017 was introduced in the year of 2017 which brought the tax reduction for imports for some economic sectors including construction and services as explained in chapter 2. Further, FEA No. 12 of 2017 and Foreign Exchange Regulations No. 1 of 2017 have also been implemented in 2017 in which foreign investors got freedom to deal with local banks directly and the control on exchange has been liberalized. It can be noted that, the above policy changes have brought a drastic change in the construction FDI growth which was (-4.3) % in 2016

and 39.8% in 2017. However, there was a fall in the construction FDI growth rate in the period of 2018 which was (-16.4) %.

According to the above findings, it can be understood that, the policy changes related to FDI can impact the construction FDI growth rate positively and negatively based on its provisions. However, there are considerable changes occurred in the construction FDI growth rate in some years without any major changes in the FDI policies and regulations of the country. For example, the highest construction FDI growth rate was registered in the period of 2011 which was 104.9% and there were not any new policies introduced in this period. Therefore, it cannot be predicted that the construction FDI growth rate depends only on the FDI policy changes of the country. There are various other factors which also can influence the construction FDI growth rate of the country such as infrastructure, economic position of the country, educational level, level of technology etc. as discussed in chapter 2.

4.4 Construction Industry Development and the National Economy in Sri Lanka

Initially, the development parameters of the construction industry development and the economic development of the country were identified based on the literature findings. Accordingly; employment growth rate, capital formation and the value added were selected as the basic parameters of the construction industry development and the GDP, inflation, national income and unemployment levels were identified as the macro economic factors which measures the economic development of the country. It was also considered the total FDI inflow into Sri Lanka with the construction industry development parameters to analyse the relationship between total FDI and the construction industry development. The required data were obtained from CBSL reports from 2005 to 2020. The growth rate of each parameter were calculated as shown in table 4.3.

Table 4.3: Growth rates of construction industry development parameters and macro-economic development parameters from 2005 to 2019

	Growth Rates in %							
Year	GDP	Inflation	unemployment	GNI	FDI	Value added	Construction employment	Construction capital formation
2006	20	10.02	6.50	19.63	96.82	29.07	(3)	27.32
2007	22	15.84	6.00	22.13	19.62	21.80	8	28.11
2008	23	9.64	5.20	21.64	18.96	23.87	3	31.20
2009	10	3.43	5.70	11.01	(25.06)	11.96	(4)	13.76
2010	16	6.25	4.90	32.73	(16.43)	15.61	(3)	24.14
2011	14	6.72	4.20	12.66	69.35	6.68	(0)	(20.50)
2012	36	7.54	4.00	20.02	55.37	37.51	15	37.50
2013	10	6.94	4.40	9.19	0.75	15.18	(15)	15.20
2014	8	2.76	4.30	8.10	0.22	13.73	5	(0.35)
2015	6	2.24	4.70	5.44	(40.40)	2.06	(2)	(7.18)
2016	10	3.99	4.40	9.37	6.31	12.57	13	17.97
2017	11	6.58	4.20	11.12	59.75	11.36	11	13.03
2018	8	4.27	4.40	7.14	71.55	1.28	3	8.07
2019	5	4.3	4.80	4.89	(51.39)	6.39	(3)	7.58

Source: Adopted from CBSL

Table 4.3 shows the growth rate of all the economic parameters and the construction industry development parameters. In order to find out the relationship between those parameters, graphical analyses were carried out using MS Excel. Figures 4.4, 4.5, 4.6 and 4.7 show the relationship between the construction industry development parameters and each of the economic parameters.

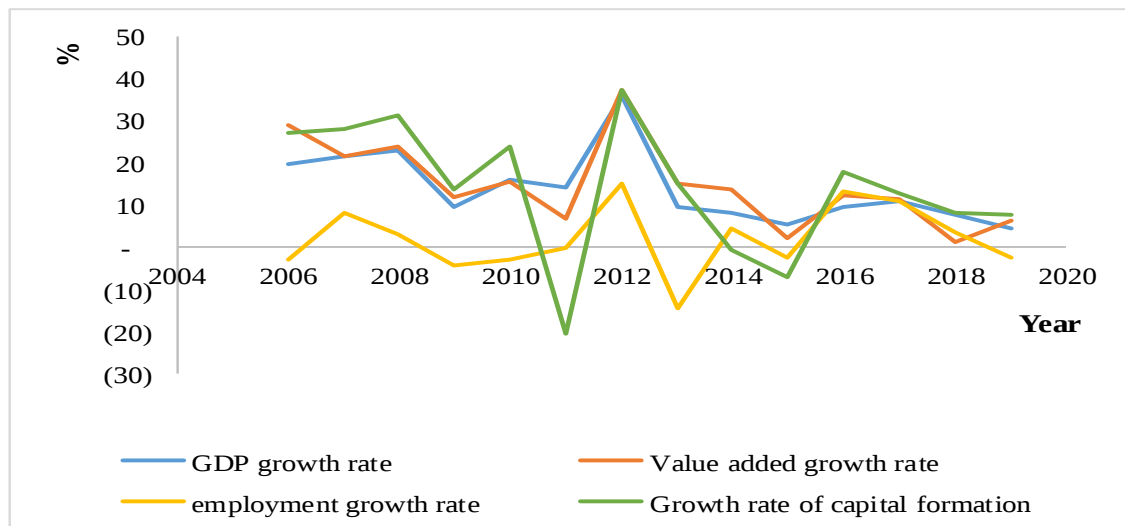


Figure 4.4: GDP growth rate and the construction industry development

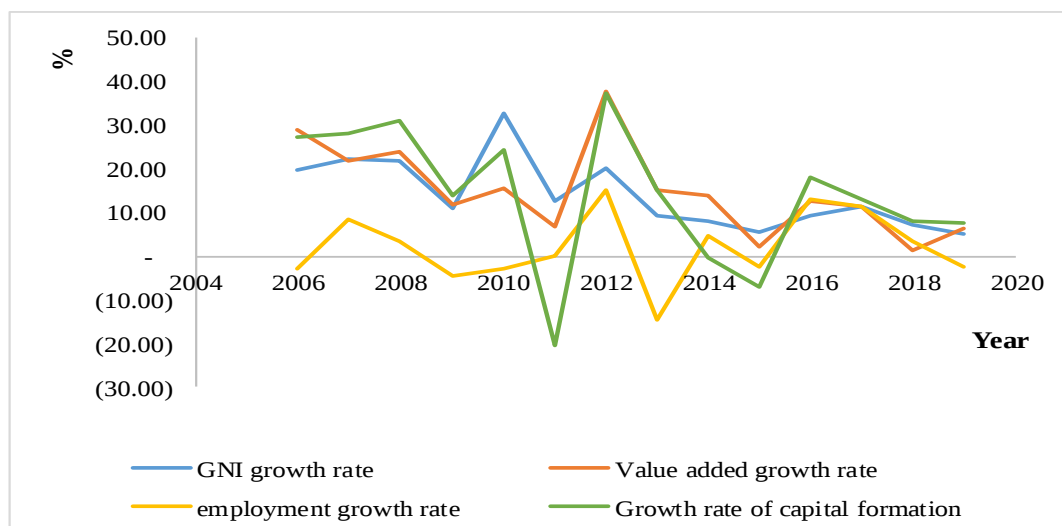


Figure 4.5: GNI growth rate and the construction industry development

Figure 4.4 shows that, there are similarities in the patterns of GDP growth rate and the growth rates of construction industry development parameters. Similarly figure 4.5 shows that, the GNI growth rate and growth rates of development parameters of the construction industry also have the same pattern of graph. However, differences can be noticed in some years.

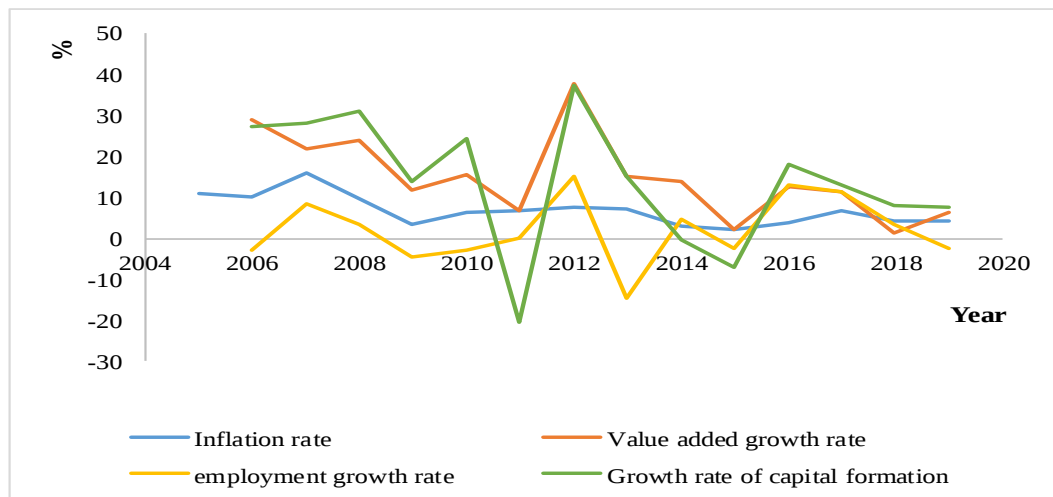


Figure 4.6: Inflation rate and the construction industry development

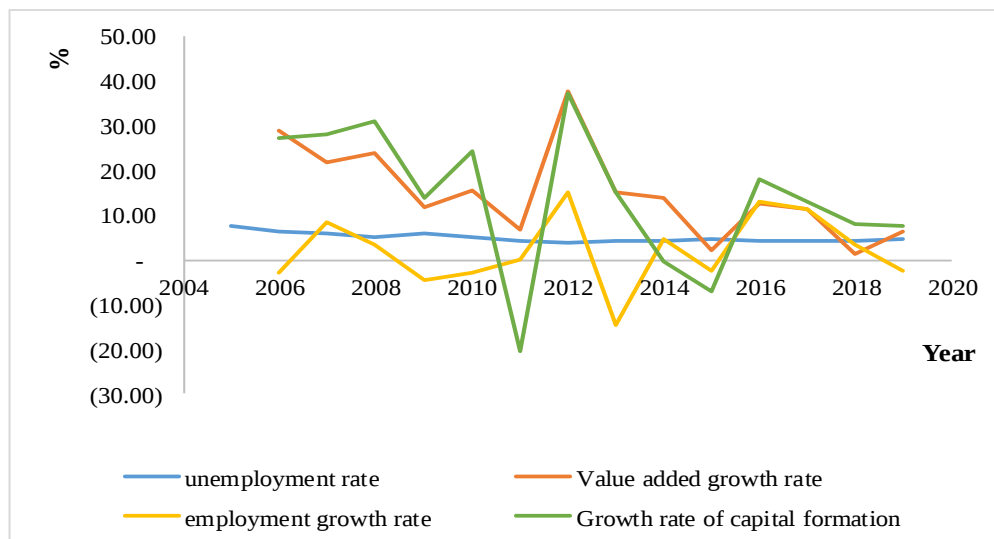


Figure 4.7: Unemployment rate and the construction industry development

Figures 4.6 shows that, there is less similarities in the patterns of inflation rate and the growth rates of construction industry development parameters. Similarly figure 4.7 shows that, the patterns of the unemployment growth rate and growth rates of development parameters of the construction industry do not match in most of the years. However, there are exceptions in some years as well.

In order to check the validity of the results obtained from the graphical analysis, the correlation analysis has been carried out among the economic parameters and the

construction industry development parameters using SPSS software and the results are shown in table 4.4.

Table 4.4: Correlation matrix for economic development parameters and construction industry development parameters

4.4.1 National GDP and the value added of construction industry

As shown in table 4.4, the correlation value between national GDP and the construction value added is 0.992 which indicates a very strong considerable correlation between both variables. It means that, when there is higher value added growth in construction industry, there is a higher GDP growth in the country's economy.

4.4.2 National GDP and the construction employment

According to the results shown in table 4.4, the correlation value between national GDP and the construction employment is 0.761 which indicates that there is a strong positive relationship between both variables. So, it is understood that the growth of employment in construction sector will make a positive impact in the country's GDP growth.

4.4.3 National GDP and the construction capital formation

According to table 4.4, the correlation value between national GDP and the construction industry capital formation is 0.977 which indicates that both national GDP and the construction capital formation have very high strong positive correlation. Therefore, it can be concluded that the increase in capital formation of the construction industry will make a positive impact on national GDP.

4.4.4 Inflation and construction value added

Table 4.4 shows that, the correlation value between inflation and the construction value added is (-0.659). It shows that, there is a strong negative correlation between both variables. It reflects that, when the value added in construction sector is low, the inflation of the country will be high. High inflation rate reflects the low contribution of the construction sector to the national GDP.

4.4.5 Inflation and the construction employment

The correlation value between inflation and the construction employment is (-0.258) which shows that, there is a weak negative correlation between both variables. It shows

that, the increase in construction employment makes the inflation rate to fall down which reflects the growth of country's economy.

4.4.6 Inflation and construction capital formation

According to table 4.4, the correlation between inflation and the construction industry's capital formation is (-0.673) which proves that there is a strong negative relationship between both variables. It means, whenever there is fall in the capital formation of construction industry, there will be an increase in inflation. It ultimately makes negative impact in the country's economy.

4.4.7 National income and construction value added

Table 4.4 shows that, the correlation value between national income and the construction value added is 0.984 which proves that, there is a very strong considerable positive correlation between both variables. When there is an increase in the construction value added, it makes a considerable positive impact in the national income.

4.4.8 National income and construction employment

Table 4.4 shows that, the correlation value between national income and construction employment is 0.748 which reflects a strong positive correlation between both variables. It means, when there is an increase in construction employment there will be a positive growth in the national income as well.

4.4.9 National income and construction capital formation

According to table 4.4, the correlation value between national income and the construction industry's capital formation is 0.980 which indicates a very strong positive correlation between both variables. When there is an increase in the construction industry's capital formation, it makes a great positive impact on the national economy.

4.4.10 Unemployment levels and the construction value added

The correlation value between the unemployment rate and the construction value added is (-0.682) which proves that there is a considerable negative correlation between both variables. It shows that; when there is an increase in the construction value added, the employment opportunities will be high and the country's unemployment rate will fall down.

4.4.11 Unemployment levels and construction capital formation

The correlation value between unemployment rate and the construction industry capital formation is (-0.749) which proves that, there is a strong negative correlation between both variables. As the capital formation of the construction industry reflects the development of construction industry, the increase in capital formation makes a considerable growth in employment as well. Therefore, it will reduce the country's unemployment level.

4.4.12 Unemployment levels and construction employment

The correlation value between unemployment rate of the country and the construction employment is (-0.436) which indicates a considerable negative correlation between both variables. It is obvious that; when there is an increase in an industry's employment level, the country's employment rate also will increase. So, the unemployment rate will fall down.

4.4.13 Country's total FDI and the value added of construction industry

According to table 4.4, the correlation value between the total FDI inflow into Sri Lanka and the construction value added is 0.721. It shows that there is a strong positive correlation between both variables. Whenever there is an increase in total FDI inflows into the country, there will be more chances for new investments in construction industry as well. It will lead to increase in the construction value added.

4.4.14 Total FDI and construction employment

The correlation value between total FDI inflows in Sri Lanka and the construction employment is 0.700 which indicates that, there is a strong positive correlation between both variables. As discussed in the literature review, the increase in FDI will increase the employment opportunities in any country. Accordingly, it will also make a positive impact on construction employment as well.

4.4.15 Total FDI and construction capital formation

The correlation value between the total FDI inflow in Sri Lanka and the construction industry's capital formation is 0.745 which indicates a very strong positive correlation between both variables. When there is an increase in total FDI inflow into the country, there will be an increase in construction capital formation as well.

According to the above observations, it has been understood that there are positive relationships between all the construction industry development parameters and the macroeconomic development parameters. So, it can be concluded that the development of construction industry will make a positive impact on the national economy. Further to the above observations, it has been analysed the relationship between the construction FDI and construction industry development parameters. The following sections of this chapter will explain the results of the analysis.

4.5 Construction FDI and construction industry development

In order to analyse the relationship between FDI inflow and the construction industry development, the key indicators such as construction value added, capital formation and construction employment which represent the construction industry development were compared with the construction FDI growth rate.

The data on construction capital formation, construction employment and the construction value added have been obtained from the publications of CBSL and Department of Census and Statistics. The growth rates of each parameter have been calculated in order to analyse the relationship between FDI growth rate and the construction industry development.

4.5.1 Construction value added growth rate and the growth rate of construction FDI

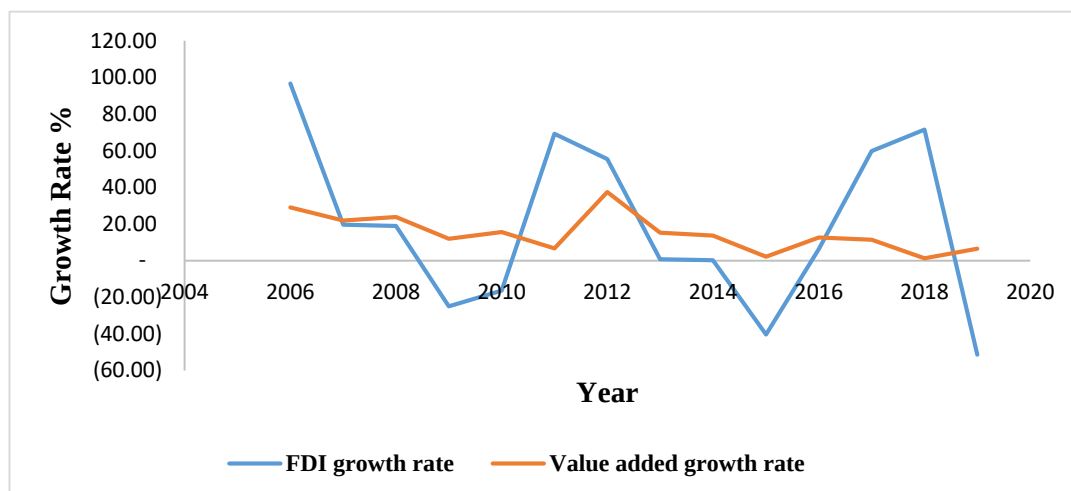


Figure 4.8: Comparison of construction FDI growth rate and construction value added growth rate

According to figure 4.8, it can be identified that the construction FDI growth rate and the construction value added growth rate have almost similar pattern which shows there is a positive relationship between construction FDI and construction value added growth rate. It means, when there is increase in FDI inflow into the construction industry, there is an increase in the project quality and value with lesser cost and time which ultimately improve the construction industry development.

However, there are differences in the following time periods.

- 2007-2008, 2011-2012, 2013-2014, 2018-2019: industry growth rate increases while FDI growth rate decreases
- 2016-2017, 2017-2018: Industry growth rate decreases while FDI growth rate increases

The above variations could be occurred due to some external factors such as political changes, environmental issues and policy changes which affects the industry in both positive and negative way.

4.5.2 Construction FDI and construction employment

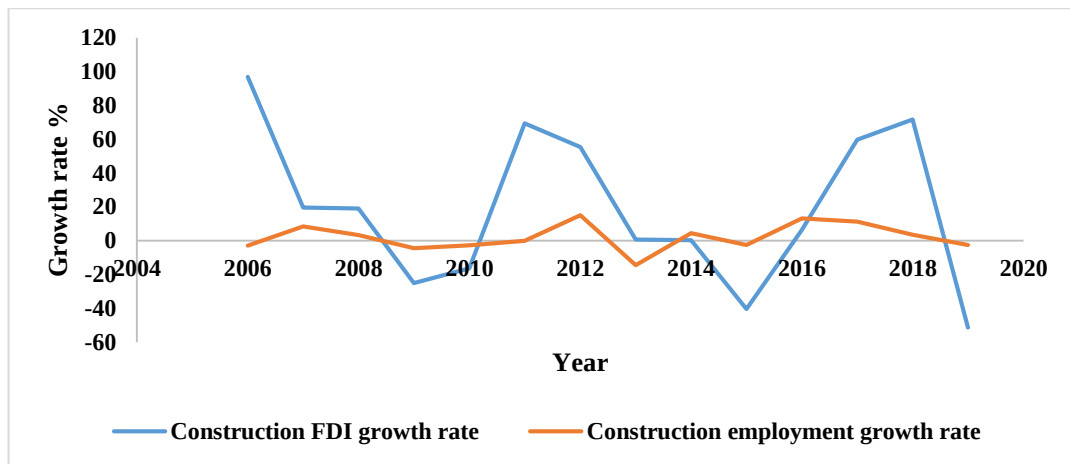


Figure 4.9: Comparison of construction FDI growth rate and construction employment growth rate

The key factor used to measure the construction industry growth is the employment growth of the industry. According to figure 4.9, both the construction FDI growth rate and the construction employment growth rate have a similar pattern in the study period except for the below years;

- 2006-2007, 2011-2012, 2013-2014 where employment growth rate increase while FDI growth rate increases
- 2016-2017 and 2017-2018 where employment growth rate decrease while FDI growth rate increases

Results shows that, the increase in the FDI Inflow into the construction industry will positively impact on the industry's employment growth rate. As discussed in the literature review, the construction industry is labour intensive and the improvement of employment of the industry will leads to the development of the industry.

4.5.3. Construction FDI and construction industry capital formation

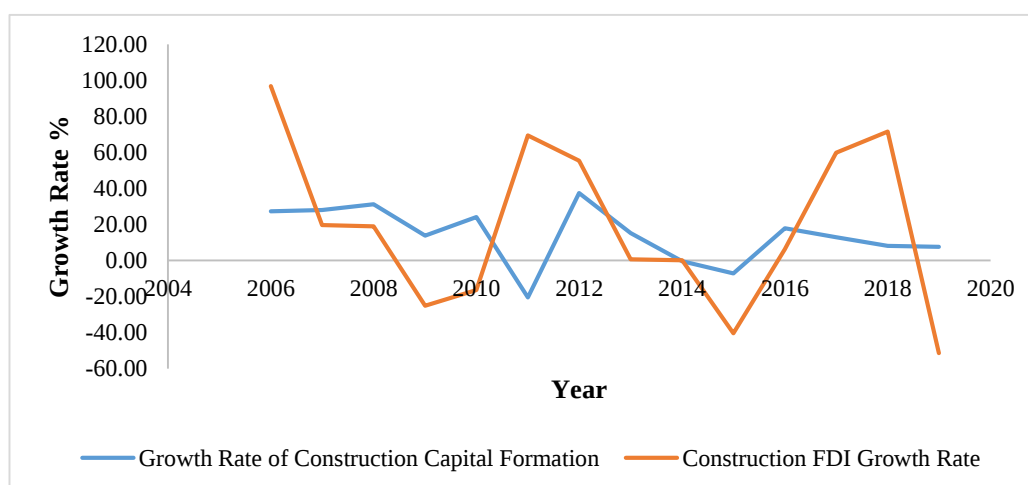


Figure 4.10: Comparison of construction FDI and construction capital formation

Figure 4.10 shows that, the growth rate of capital formation of construction industry and the construction FDI growth rate have almost similar pattern. However, there are differences in some period of time specially in 2007, 2011 and 2012.

It means, when there is an increase in FDI inflow into the construction industry; the stock in raw materials and semi-finished and finished products of construction industry also increase. Since the capital formation of an industry is considered as a leading indicator of its future development, the positive growth of capital formation will result in the development of construction industry which ultimately contributes the construction GDP growth.

According to the above illustrations, it was identified that there is a positive relationship between FDI inflow into the construction industry and the parameters of the construction industry development. In order to check the validity of the above results, the correlation analysis has been carried out using the SPSS software. Table 4.1 shows the values of the correlation matrix obtained from the analysis.

Table 4.5 Correlation Matrix for construction FDI and construction industry development parameters

		Construction FDI	Construction industry Capital Formation	Construction Employment	Construction value added
Construction FDI	Pearson Correlation	1	.876**	.652**	.875**
	Sig. (2-tailed)		.000	.008	.000
	N	15	15	15	15
Construction industry capital Formation	Pearson Correlation	.876**	1	.765**	.972**
	Sig. (2-tailed)	.000		.001	.000
	N	15	15	15	15
Construction Employment	Pearson Correlation	.652**	.765**	1	.752**
	Sig. (2-tailed)	.008	.001		.001
	N	15	15	15	15
Construction Value Added	Pearson Correlation	.875**	.972**	.752**	1
	Sig. (2-tailed)	.000	.000	.001	
	N	15	15	15	15

** . Correlation is significant at the 0.01 level (2-tailed).

Construction FDI and construction industry capital formation

According to table 4.5, the correlation between construction FDI and the capital formation of the construction industry is 0.876. It shows that, there is a very strong positive correlation between both variables.

Construction FDI and construction employment

Table 4.5 shows that, the correlation value between construction FDI and the construction employment is 0.652. It indicates that, there is a comparatively strong positive correlation between construction FDI and the employment of construction industry.

Construction FDI and the construction value added

The correlation value between construction FDI and the construction value added is 0.875 which also indicates a very strong positive correlation between both variables. Therefore, it can be concluded that the increase in FDI inflow result in the increase in construction value added to the GDP.

Construction industry capital formation and construction industry employment

According the correlation matrix, the correlation value between construction employment and the construction industry's capital formation is 0.765 which indicates that, there is a strong positive correlation between variables. It is obvious that, the increase in capital formation result in the increase in the employment opportunities.

Construction employment and construction value added

The correlation value between the above two variables is 0.752 which also indicates the strong positive correlation between the two variables. As the construction industry is labour intensive, the increase in the employment growth rate will result in the construction industry's contribution to national GDP.

Construction industry capital formation and the value added of construction industry

Table 4.5 shows that, the correlation value between both variables is 0.972 which shows a very strong positive relationship between both variables. When the capital formation of the construction industry increases, it's contribution to the national GDP also increases.

As discussed in sections 4.4 and 4.5, it can be concluded that FDI plays a major role in the development of construction industry and the construction industry development has a positive impact on the national economy in Sri Lanka.

Therefore, it is required to promote the FDI inflows in Sri Lanka specifically in construction industry to improve the industry's development as well as the national economy.

4.6 Strategies to Promote FDI Inflows into the Construction Industry in Sri Lanka

In order to identify the promotional activities which needs to be carried out to increase the FDI inflow in Sri Lankan construction industry, Semi-structured interviews were carried out among 6 participants. Most of the participants were selected from BOI since it functions as the only promotional agency of FDI in Sri Lanka. The details of participants are as follows;

R1- Senior deputy director from the Investment Department of BOI

R2- Deputy director from the Investment Department of BOI

R3- Director from the Research Department of BOI

R4- Deputy director from the Research Department of BOI

R5- Former director from CBSL

R6- Senior officer from CBSL

According to the opinions of the interviewees, the promotional strategies have been categorized into policy related factors, environmental related factors, infrastructure facilities, technological factors, and the economic factors.

Policy related factors

R1, R2, R3 and R5 mentioned that, the regulations related to FDI are not in a satisfactory level in Sri Lanka specially it was mentioned by R2 that, those regulations are not implemented properly. Though the IRD has all the power to impose the regulations, it does not have proper administrative mechanism implemented. According to R1 and R2, the prime issue is the long duration for tax collection which makes the investors to suffer. Therefore, it was advised to improve the administration of those regulations by the IRD.

R1 further mentioned that, due to the restrictions to buy land by the foreigners which is included in the Land Restrictions Act, they are reluctant to invest in construction projects as they can make the investment only in the leased land. He provided the suggestion to introduce exemptions in LRA when there is a higher volume of investment. It can bring more foreign investors to the construction industry. Further

stated that, the FEA can provide more freedom to the foreign investors which may increase the confidence of investing in Sri Lanka.

As a summary of the responses, it can be concluded that fostering investor confidence, minimizing policy uncertainty by implementing consistent and foreseeable regulations and policies are vital factors to attract more FDI towards the country as well as the construction industry.

Environmental related factors

R2, R4 and R5 mentioned that, the bio diversity and the location of the country are the key factors which attract more foreign investors in Sri Lanka specifically in construction projects. According to R1 and R2, there are restrictions imposed by the Environmental Protection Authorities and the approval process from those authorities takes longer period to proceed. This can negatively affect the foreign investment inflow into the construction industry in Sri Lanka. Therefore, those regulations must be amended to provide some flexibility to the investors in order to get more FDI.

Infrastructure facilities

R5 stated that, there are development activities carried out by the government in order to enhance the infrastructure facilities of the country after the end of ethnical war. However, there is a requirement to improve some infrastructure facilities such as road networks and logistic facilities. Further stated by R2 and R4 that, introducing modern office complexes; luxury resident apartments; prestigious hotels; leisure facilities and international banking facilities can help to attract more foreign investors into Sri Lanka.

Technological factors

All the respondents stated that, the technical knowledge of Sri Lankan construction industry professionals is not in a satisfactory level. This can lead to lack of skilled workforce to carry out the large scale construction projects. As a result, the foreigners are reluctant to invest in large scale as they need to bring their own employees which is not an easy process.

They have provided suggestions to strengthen the technical knowledge of construction professionals by providing vocational training and provide education by bringing experts from other countries. It is also required to make awareness among people about the advantages of working in such FDI related projects.

Economic factors

All the respondents specifically mentioned about the economic crisis which occurred in Sri Lanka after Covid-19 pandemic made a huge impact on the economy and it made the negative impact on FDI as well. To overcome this situation, Sri Lanka needs to introduce new strategies to attract more FDIs. Below are the recommendations provided by the respondents;

- Rationalize business procedures and carryout urgent reforms to improve the country's business environment to attract large amount of FDI
- Negotiation with several countries for comprehensive trade agreements
- Increase efficiency, reliability, consistency, transparency and data integrity through digitalization
- Simplify investment policies and introduce FTZs to accommodate more investors
- Provide incentives to the investors to minimize the upfront cost

4.7 Chapter Summary

In this chapter, it was discussed about the outcomes of the analysis carried out in order to achieve the main objectives of the research. It was explained the involvement of FDI into the various economic sectors in Sri Lanka in the section 4.2 of this chapter. It was also analysed the trend of FDI inflow into the construction industry in Sri Lanka and the impact of policy changes on the construction FDI in section 4.3.

Moreover, the relationship between construction industry development and the national economy in Sri Lanka were analysed using correlation matrix and discussed the findings in section 4.4. The relationship between construction FDI and construction industry development has been explained in section 4.5 by analyzing the relationship between the development parameters of the industry and the FDI inflow. Finally, the promotional strategies for FDI inflows were discussed based on the opinions shared by the selected interviewees. The conclusions of the research will be discussed in the following chapter.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter concludes the research based on the research findings and synthesis from the literature findings, statistical analysis conducted with the secondary data obtained from relevant authorities. Consequently, this chapter emphasizes on how the research objectives were achieved. Further, recommendations are provided based on the findings of the content analysis in order to improve the FDI inflow into the Sri Lankan construction industry. It also elaborated some further researches of the study area.

5.2 Achievement of research objectives

The aim of the study was to identify the impact of FDI inflows into the construction industry development. Through the literature review, it was identified the FDI involvement in various industries and the advantages and disadvantages of FDI. Further, studied the Global and Sri Lankan trend of FDI and the determinants of FDI inflows into any country. It was also discussed some strategies to promote FDI inflow explained in various studies. However, there was lack of information found on the impact of FDI inflow into the construction industry in Sri Lanka. In order to fulfill the research gap, the following objectives were generated and achieved using mixed research methods.

Objective-1

Analyse the trend of FDI inflows into the construction industry in Sri Lanka

This objective was achieved using graphical analysis for the data obtained through documentary survey from CBSL, BOI and the Department of Census and Statistics. It was found out that, there was a significant FDI inflow into the construction industry in Sri Lanka for the past 15 years from 2005-2019. It was also identified that, there was significantly similar FDI inflow into the construction industry and manufacturing industry in Sri Lanka and the highest FDI inflow was in the infrastructure sector. It

was also identified that the FDI related policy changes had significant impact on the FDI inflow into the construction industry in Sri Lanka.

Objective- 2

Investigate the relationship between FDI inflow into the Sri Lankan construction industry and the construction industry development in Sri Lanka

This objective was achieved through graphical analysis and correlation analysis. Initially the relationship between construction industry development and the country's economic growth has been analysed using correlation matrix and found out that there was a considerably positive relationship between construction industry development parameters and the macroeconomic development parameters.

Moreover, it was identified the relationship between construction FDI and the construction industry development parameters such as capital formation, employment and value added of construction industry using graphical analysis and correlation matrix and found out that there is a positive relationship between construction FDI and the industry's development in Sri Lanka. Finally, it was understood that FDI into the construction makes positive impact on the industry development which ultimately leads to the economic growth of the country.

Objective- 3

Propose strategies to promote FDI into the construction industry in Sri Lanka

Semi-structured interviews were carried out with some FDI related professionals in order to identify the promotional strategies to improve the FDI involvement in construction industry. According to the participant's view, below are the key strategies to attract more FDI into the construction industry in Sri Lanka.

- Implementing consistent and predictable regulations and policies; introducing proper administrative mechanism to regulate it.
- Improve the construction technologies by providing proper education and training to the construction professionals

- Provide more sophisticated local financial markets to attract more foreign investors into the country
- Improve the performance of investment promotion agencies such as BOI to promote more FDI inflows into the country
- Develop the infrastructure facilities of the country in order to attract more FDI specifically in terms of construction projects

5.3 Recommendations to the academic researchers

This study has investigated the trend of FDI in Sri Lanka, the contribution of FDI inflow into the construction industry in Sri Lanka and the relationship between FDI and construction industry development and its impact on the national economy in Sri Lanka. Further research areas relating to the problems arose during this study period has been provided in section 5.5 of this chapter.

5.4 Limitations

It was revealed that the results obtained from research findings have validity as it has similarity to the literature findings. Since the archival data was obtained for a 15-year time period due to its availability, it cannot be considered the results of the research findings are 100% accurate.

5.5 Further research

This research study leads to suggest further researches as follows;

- Determinants of FDI inflow into the construction industry in Sri Lanka
- Impact of policy changes to the FDI inflow in Sri Lanka
- Impact of FDI on the other key economic sectors in Sri Lanka

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APPENDICES

Appendice-1

Sector wise composition of FDI inflow

**Foreign Direct Investment of BOI Enterprise
(2005- 2019) - by Sector**

Sector	FDI (US \$ Mn.)															
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Cumulative (2005 -2019)
Manufacturing	135.321	234.777	174.016	189.183	164.470	159.653	322.418	307.655	359.765	333.899	256.989	247.723	347.596	291.479	319.461	3,844.405
Food, Beverages & Tobacco	29.382	34.100	25.932	14.742	11.338	17.542	41.827	75.896	102.563	44.685	42.668	21.29	62.551	22.273	26.105	572.894
Textile, Wearing Apparel & Leather	47.278	103.479	62.600	72.281	51.398	37.559	94.989	86.683	49.702	83.092	45.404	49.457	78.191	90.598	104.853	1,057.564
Wood & Wooden Products	0.916	4.392	0.769	2.208	1.693	1.430	2.065	2.412	1.732	2.529	2.824	3.093	2.302	4.91	7.249	40.524
Paper, Paper Products & Printing	8.156	0.760	0.000	0.858	20.773	8.713	3.921	4.045	2.098	36.274	2.224	3.058	7.918	8.958	1.306	109.062
Chemicals, Petroleum, Coal, Rubber & Plastics	20.136	43.157	49.037	39.927	15.398	44.401	66.135	59.165	114.382	91.922	75.405	99.549	105.013	97.316	108.368	1,029.311
Non-Metallic & Mineral Products	5.901	5.266	4.712	12.769	11.178	10.495	17.157	17.701	45.221	29.708	13.663	31.195	28.145	20.99	7.495	261.596
Fabricated Metal, Machinery & Transport Equipment	15.337	14.078	12.544	14.383	14.035	14.913	68.332	38.817	16.98	6.974	46.071	11.915	8.954	7.839	9.509	300.681
Other Manufactured Products (Not elsewhere Specified)	8.215	29.545	18.422	32.015	38.657	24.600	27.992	22.936	27.087	38.715	28.73	28.166	54.522	38.595	54.576	472.773
Agriculture	0.473	0.672	0.417	2.652	3.689	6.448	17.971	7.169	8.473	5.719	3.865	1.885	1.409	0.459	1.342	62.643
Horticulture & Cultivation of Fruits & Vegetables	0.473	0.672	0.417	2.652	3.689	6.448	17.971	7.169	8.473	5.719	3.865	1.885	1.409	0.459	1.342	62.643
Infrastructure & Services	151.410	368.237	559.929	697.100	434.091	350.195	725.670	1023.331	1023.167	1188.791	708.805	551.389	1361.287	2074.921	867.934	12,086.257
Infrastructure	140.957	329.560	526.470	660.821	381.536	320.719	456.527	596.595	786.825	682.451	453.426	339.498	1,043.518	1,773.659	643.712	9,136.274
- Housing, Property Development and	13.433	58.321	30.157	19.864	17.740	42.059	91.533	55.749	217.618	339.208	212.105	79.458	540.643	397.756	455.279	2,570.923

Shopping & Office complexes																
- Telephone & Telecommunication Network	111.740	263.426	403.632	553.097	296.064	205.164	196.756	242.08	359.765	152.488	138.84	243.6	208.99	522.177	138.13	4,035.949
- Power Generation	15.784	7.813	92.681	87.860	67.732	58.441	57.704	30.295	5.254	7.865	4.416	13.23	0.001	0.005	2.26	451.341
- Fuel, Gas, Petroleum, Others (<i>i.e. Cairn Lanka Project</i>)						15.055	109.034	66.246	39.688	4.65	46.843	1.581	1.052	3.742	0.852	288.743
- Port Container terminal							1.5	202.225	164.5	178.24	51.222	1.629	292.832	849.979	47.191	1,789.318
Services	10.453	38.677	33.459	36.279	52.555	29.476	269.143	426.736	236.342	506.340	255.379	211.891	317.769	301.262	224.222	2949.983
- Hotels & Restaurants	2.426	6.193	7.825	3.133	5.561	5.570	215.605	117.309	67.928	68.35	181.901	141.299	252.643	223.37	153.889	1,453.002
- IT and BPO	2.155	14.341	8.712	15.219	12.612	11.481	14.101	25.872	19.269	24.702	13.571	22.981	25.009	58.742	39.99	308.757
- Other Services	5.872	18.143	16.922	17.927	34.382	12.425	39.437	283.555	149.145	413.288	59.907	47.611	40.117	19.15	30.343	1,188.224
Non BOI Projects										87.849	0	0	0		0	87.849
GRAND TOTAL	287.204	603.686	734.362	888.935	602.250	516.296	1,066.059	1,338.155	1,391.405	1,616.258	969.659	800.997	1,710.292	2,366.859	1,188.737	16,081.154

	Construction			Other Infrastructure		Services	
	Housing and property dept	Hotels & rests	Total	Total	Except H&PD (E-B)	Total	Except hotels & rests (G-C)
2005	13.433	2.426	15.859	140.957	127.524	10.453	8.027
2006	58.321	6.193	64.514	329.56	271.239	38.677	32.484
2007	30.157	7.825	37.982	526.47	496.313	33.459	25.634
2008	19.864	3.133	22.997	660.821	640.957	36.279	33.146
2009	17.74	5.561	23.301	381.536	363.796	52.555	46.994
2010	42.059	5.57	47.629	320.719	278.66	29.476	23.906
2011	91.533	215.605	307.138	456.527	364.994	269.143	53.538
2012	55.749	117.309	173.058	596.595	540.846	426.736	309.427
2013	217.618	67.928	285.546	786.825	569.207	236.342	168.414
2014	339.208	68.35	407.558	682.451	343.243	506.34	437.99
2015	212.105	181.901	394.006	453.426	241.321	255.379	73.478
2016	79.458	141.299	220.757	339.498	260.04	211.891	70.592
2017	540.643	252.643	793.286	1043.518	502.875	317.769	65.126
2018	397.756	223.37	621.126	1773.659	1375.903	301.262	77.892
2019	455.279	153.889	609.168	643.712	188.433	224.222	70.333

Appendice-2

Calculation of FDI growth rate in each sectors

Year	Manufacturing	Manufacturing FDI Growth rate	Agriculture	Agriculture Growth rate	Construction	Construction FDI Growth rate	Infrastructure	Infrastructure Growth rate	Services	Services Growth rate
2005	135.321		0.473		135.794		127.524		8.027	
2006	234.777	73.5	0.672	42.1	235.449	73.4	271.239	112.7	32.484	304.7
2007	174.016	-25.9	0.417	-37.9	174.433	-25.9	496.313	83.0	25.634	-21.1
2008	189.183	8.7	2.652	536.0	191.835	10.0	640.957	29.1	33.146	29.3
2009	164.47	-13.1	3.689	39.1	168.159	-12.3	363.796	-43.2	46.994	41.8
2010	159.653	-2.9	6.448	74.8	166.101	-1.2	278.66	-23.4	23.906	-49.1
2011	322.418	101.9	17.971	178.7	340.389	104.9	364.994	31.0	53.538	124.0
2012	307.655	-4.6	7.169	-60.1	314.824	-7.5	540.846	48.2	309.427	478.0
2013	359.765	16.9	8.473	18.2	368.238	17.0	569.207	5.2	168.414	-45.6
2014	333.899	-7.2	5.719	-32.5	339.618	-7.8	343.243	-39.7	437.99	160.1
2015	256.989	-23.0	3.865	-32.4	260.854	-23.2	241.321	-29.7	73.478	-83.2
2016	247.723	-3.6	1.885	-51.2	249.608	-4.3	260.04	7.8	70.592	-3.9
2017	347.596	40.3	1.409	-25.3	349.005	39.8	502.875	93.4	65.126	-7.7
2018	291.479	-16.1	0.459	-67.4	291.938	-16.4	1375.903	173.6	77.892	19.6
2019	319.461	9.6	1.342	192.4	320.803	9.9	188.433	-86.3	70.333	-9.7

Appendix -3

Calculation of growth rates of construction industry development parameters and the economic parameters

Year	Total GDP (Rs. Mn)	GDP growth rate	Inflation rate	unemployment rate	GNI Rs. Mn	GNI growth rate	Total FDI (Rs. Mn)	FDI growth rate	Construction Value added (RS Mn)	Value added growth rate	Construction Employment	employment growth rate	Construction capital formation	Growth rate of capital formation
2005	2,452,782		10.98	7.70	2,422,733.00		40,917.07		167,999.00		541,296		329,611	
2006	2,938,680	20	10.02	6.50	2,898,256.00	19.63	80,531.40	96.82	216,833.00	29.07	525,770	(3)	419,662	27.32
2007	3,578,688	22	15.84	6.00	3,539,634.00	22.13	96,332.15	19.62	264,104.00	21.80	569,954	8	537,633	28.11
2008	4,410,682	23	9.64	5.20	4,305,651.00	21.64	114,592.53	18.96	327,138.00	23.87	588,896	3	705,374	31.20
2009	4,835,293	10	3.43	5.70	4,779,498.00	11.01	85,876.17	(25.06)	366,248.00	11.96	562,548	(4)	802,445	13.76
2010	5,604,104	16	6.25	4.90	6,343,892.00	32.73	71,769.85	(16.43)	423,414.00	15.61	547,197	(3)	996,190	24.14
2011	6,413,668	14	6.72	4.20	7,147,065.00	12.66	121,545.44	69.35	451,714.00	6.68	546,624	(0)	791,978	-20.50
2012	8,732,463	36	7.54	4.00	8,577,574.00	20.02	188,842.88	55.37	621,140.00	37.51	629,076	15	1,088,969	37.50
2013	9,592,125	10	6.94	4.40	9,366,039.00	9.19	190,260.27	0.75	715,455.00	15.18	537,670	(15)	1,254,493	15.20
2014	10,361,151	8	2.76	4.30	10,125,078.00	8.10	190,687.40	0.22	813,689.00	13.73	562,100	5	1,250,116	-0.35
2015	10,950,621	6	2.24	4.70	10,675,880.00	5.44	113,645.26	(40.40)	830,411.93	2.06	548,170	(2)	1,160,410	-7.18
2016	11,996,083	10	3.99	4.40	11,676,431.00	9.37	120,810.66	6.31	934,787.00	12.57	619,944	13	1,368,928	17.97
2017	13,328,103	11	6.58	4.20	12,975,247.00	11.12	192,998.84	59.75	1,040,978.00	11.36	689,472	11	1,547,232	13.03
2018	14,366,103	8	4.27	4.40	13,901,306.00	7.14	331,083.02	71.55	1,054,287.00	1.28	713,335	3	1,672,160	8.07
2019	15,016,142	5	4.3	4.80	14,580,704.00	4.89	160,936.93	(51.39)	1,121,659.00	6.39	695,385	(3)	1,798,990	7.58

Appendice-4

Calculation of growth rates of construction industry development parameters

Year	FDI in Rs Mn	FDI growth rate	Construction GDP (Rs. Mn)	GDP growth rate
2005	40,917.07		167,999	
2006	80,531.40	96.82	216,833	29.07
2007	96,332.15	19.62	264,104	21.80
2008	114,592.53	18.96	327,138	23.87
2009	85,876.17	(25.06)	366,248	11.96
2010	71,769.85	(16.43)	423,414	15.61
2011	121,545.44	69.35	451,714	6.68
2012	188,842.88	55.37	621,140	37.51
2013	190,260.27	0.75	715,455	15.18
2014	190,687.40	0.22	813,689	13.73
2015	113,645.26	(40.40)	830,412	2.06
2016	120,810.66	6.31	934,787	12.57
2017	192,998.84	59.75	1,040,978	11.36
2018	331,083.02	71.55	1,054,287	1.28
2019	160,936.93	(51.39)	1,121,659	6.39

Year	% of total employment	Total employment	Con Employment	C. emp growth rate
2004				
2005	7.20	7518000	541296	
2006	7.40	7105000	525770	-2.87
2007	7.70	7,402,000	569954	8.40
2008	7.70	7648000	588896	3.32
2009	7.40	7602000	562548	-4.47
2010	7.10	7,707,000	547197	-2.73
2011	7.20	7592000	546624	-0.10
2012	8.40	7,489,000	629076	15.08
2013	7.00	7681000	537670	-14.53
2014	7.30	7,700,000	562100	4.54
2015	7.00	7,831,000	548170	-2.48
2016	7.80	7,948,000	619944	13.09
2017	8.40	8,208,000	689472	11.22
2018	8.90	8,015,000	713335	3.46
2019	8.50	8,181,000	695385	-2.52

Year	Gross domestic capital formation of construction industry Rs Mn	Growth Rate of Construction Capital Formation	Construction FDI Growth Rate
2005	329,611		
2006	419,662	27.32	96.82
2007	537,633	28.11	19.62
2008	705,374	31.20	18.96
2009	802,445	13.76	-25.06
2010	996,190	24.14	-16.43
2011	791,978	-20.50	69.35
2012	1,088,969	37.50	55.37
2013	1,254,493	15.20	0.75
2014	1,250,116	-0.35	0.22
2015	1,160,410	-7.18	-40.4
2016	1,368,928	17.97	6.31
2017	1,547,232	13.03	59.75
2018	1,672,160	8.07	71.55
2019	1,798,990	7.58	-51.39
2020	1,628,809	-9.46	

Appendix 5

Interview guideline

Name (Optional):

Designation:

Department:

Years of Experience:

Strategies to promote FDI into the Sri Lankan construction industry

1. Are the government policies related to FDI in a satisfactory level in Sri Lanka?
2. If not, what are the suggestions you would provide to improve those?
(Specify which policy need to be improved)
3. Do you think that, environmental related factors in Sri Lanka are attractive to bring more foreign investors?
4. If so, what are the key factors which influence the foreign investors or what actions need to be taken to improve the environmental related factors?
5. It was identified through the literature that; Sri Lanka doesn't have enough skilled workers in construction industry which leads to foreign investors move backward. Do you agree with this statement?
6. If yes, please suggest some measures to overcome these issues
7. What are the infrastructure related factors need to be improved to attract more foreign investors into the construction industry?
8. According to your opinion, what are the key factors influence the FDI inflows into the construction industry in Sri Lanka?
9. What are the current strategies BOI follows to promote FDI into construction?
10. Are there any future implementation plans to attract more FDI through BOI?
11. What are the financial related concessions you would suggest to attract more FDI towards construction industry?