

## IMPACT OF ENERGY COST ON FOREIGN DIRECT INVESTMENTS IN SRI LANKA

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### ABSTRACT

Foreign Direct Investments (FDI) play a key role in the development process of a country. To attract potential FDI, Energy cost is a highly competitive determinant among the developing countries. This research study analyzed the impact of energy cost on Foreign Direct Investments in Sri Lanka. This argument is presented through suggesting that energy intensity causes FDI inflows, and that therefore, energy cost has a significant impact on FDI. The analysis was carried out in three aspects. The statistical relationship was analyzed by way of a regression analysis through a model designed to identify determinants of FDI. Energy use came up as a statistically significant variable to determine FDI. The Granger Causality test also suggested that energy use caused FDI inflows. The number of BOI projects approved is a measure that can be used to approximate the number of foreign direct investments made. This number was analyzed sector-wise to identify which sectors have attracted more investments during the past 10 years. Apparel and Other Manufacturing industries were identified as the sector with the most number of investments, as well as higher energy consumers when compared to other sectors. The regional comparison pointed out that in terms of electricity prices, Sri Lanka is among the highest in the region. However, close competitors of FDI for Sri Lanka such as India, Bangladesh, Pakistan, Taiwan and Indonesia charge much lower rates for electricity.

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