

*Enhancing Sri Lanka's potential as a destination for Foreign Direct
Investment in post war scenario:
Some policy issues that need to be addressed*

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Introduction

There is a long – held belief that foreign direct investment (FDI) plays a vital role in the development process of recipient economies through spreading foreign capital, technology knowledge and managerial skills into the host economies and creating positive impacts on growth in trade, gross domestic product and social welfare of the host states. Hence, the need for developing countries to attract FDI is not in question and currently there is a mounting competition among the developing countries to attract FDIs.

After introducing open economic policies in 1977, Sri Lanka also adopts a more targeted approach towards FDIs for the purpose of pursuing its national development goals. Nonetheless, the bygone internal arm conflict in the country was a huge obstacle to attract to FDI to the country. Because due to increased risks and uncertainties associated with war, foreign investors were induced to locate their investment projects beyond the Sri Lankan territories.

However, the end of the internal strife offers new and more development opportunities to Sri Lanka. Improvement of economic growth in Sri Lanka has been given top priority in post war scenario. Furthermore, the end of the internal strife has increased the capacity of utilization of entire lands, natural resources and labour force in Sri Lanka in the context of post war economic revival. After the internal strife Sri Lanka's economic outlooks have become positive⁵⁶ and its economic growth is anticipated to exceed six per cent in the year

⁵⁶ www.sundayobserver.lk/2011/01/02/fin01.asp

of 2011.⁵⁷ According to the economic analysts, to arrive at over six percent economic growth rate at least country should attract investment up to forty percent of its GDP.⁵⁸

Objective and methodology

In this context, on one hand there is an urgent need in the country to increase the flow of FDIs towards Sri Lanka in the post war economic revival. On the other hand Sri Lanka has a great opportunity to utilize potential benefits of FDI in the process of post war development. Hence, to come across both above mentioned aspirations country should enhance the Sri Lanka's potential as a destination for FDIs. Because mere end of the internal strife and simply invite foreign investors to invest in the country, does not guarantee stable inflows FDI and it does not ensure the achievement of development benefits expected from FDI. This notion can be defensible as according to the Sri Lankan Central Bank Year 2010 Annual Report Foreign Direct Investment to Sri Lanka during 2010 had fallen by 14 percent to US\$ 516 million, as against the US\$ 601 million in the year 2009. Being so, this research sought to identify some of the key policy issues that will need to be addressed in order to enhance country's potential as a destination for FDI through a literature survey based on materials collected from the library and the internet.

Results

In order to uplift Sri Lanka as a destination for FDI in the post war scenario, initially country should pursue investment policies that are more effective in attracting FDI. In sum, such policies can be divided in to three categories namely first generation of liberalization of investment policy, a second generation of promotion and facilitation and a third generation of policies to enhance the investment environment.⁵⁹

In this context, paper attempts to critically evaluate the effectiveness of the existing policy regime of the country relating to FDIs for the purpose of assess whether they are sufficient enough to enhance Sri Lanka's potential as a destination for FDI in post war scenario. Depending on the outcomes of this assessment, paper attempts to identify more favorable

⁵⁷ <http://www.allvoices.com/contributed-news/6031978-sri-lankas-economic-growth-expected-to-exceed-6-in-2011>

⁵⁸ <http://www.sundayobserver.lk/2010/10/24/fin20.asp>

⁵⁹ *Investment policies that really attract FDI*, Briefing Paper No. 03/2003, published by the Center for Competition Investment & Economic Regulation, available at <http://www.cuts-ccier.org/pdf/CCIER-3-2003.pdf>

policies which assist to create a more constructive FDI regime within the country, to strengthen the flow of FDI in the post war scenario.

Conclusion

Paper attempts to conclude that, in order to enhance Sri Lanka's potential as a destination for FDI in post war scenario, policy entourage relating to FDI should be furthermore improved to create more favorable FDI regime within the country through plummeting all sorts of restrictions and confines on FDI that practiced by earlier regimes. Hence, several progressive measures should be launched in order to promote financial openness in the country.

Also the paper proposes that country should launch extensive policies to promotion and facilitation FDI for the purpose of improve second generation of policy issues. Under this category, country is supposed to reduce burdensome procedural and bureaucratic hurdles on FDI. In briefly, the Sri Lankan Board of investment (BOI) should become a truly *one stop shop* which is committed to maintain a streamlined processes on FDI to strengthen the flow of FDI in post war scenario instead of following traditional approach for attracting FDI.

Since most of the foreign investors can be effectively influenced in their decision-making on FDI by a strong and well-designed publicity mechanism, moreover BOI should play an imperative role in increasing awareness about the country's capability to host the FDIs in order to uplift Sri Lanka as a destination for FDI.

Furthermore, country ought to maintain a sound investment incentive regime including tax holidays and lower tax for foreign investors notably who desire to invest in the war ravaged geographical areas and in the industries such as tourism. Because such type of effective investment incentives are necessary to balance the disincentives created by the internal strife.

Finally, paper attempts to emphatically propose that, third generation of investment policies which considered as a pro-active approach to enticing FDI should be given more concentration. Because the key factors such as existence of an educated and skilled human resource, adequate transportation system, developed physical and technical infrastructure, political stability and macroeconomic stability, anti-monopoly policy, protection of

property right, etc. are significant factors in encouraging foreign investors. As the third generation policies directly deal with economic fundamentals of which investment decisions are primarily founded, country should straightforwardly implement these policies which are perceived to be the crucial to change the fundamental characteristic of the Sri Lanka as a destination for FDI in the South Asian context.

Rule of Law and Right to Democracy in International Law: To Contradict or Conform to Constitutionalism?

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Introduction

Rule of Law, a principle in constitutional law and a concept in political science discourse has been understood for more than a century as a heavily loaded tenet of democracy. Governments were to be tested for their qualitative character of democracy by employing the yardstick of rule of law. Constitutionalism has come into being as one of the best means of ensuring rule of law. By asserting the supremacy of the constitution the principle of rule of law was to be embodied into various constitutions around the world.

However, during the cold war period the Socialist block maintained that 'people democracy' should prevail over the 'western liberal democracy' and hence the quality of the rule of law could be tested only for its ability to safeguarding peoples' rule. As such, Constitutionalism for such States was nothing but the supremacy of the constitution that entrenched the peoples rule. Sovereignty of the people was thus explained not in the sense of ownership but in its characteristic of being possessed by the rulers.

With the collapse of the Soviet Union and other socialist regimes, debates over constitutionalism resurfaced with a new vigour in that international human rights regime