FOREIGN DIRECT INVESTMENT POLICIES AND REGULATIONS: A COMPARATIVE STUDY OF INDIA AND SRI LANKA

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ABSTRACT

In this review paper, the author compares the Foreign Direct Investment (FDI) policies and regulatory frameworks of two South Asian countries, namely India and Sri Lanka. The historical development of FDI regimes, sectoral dynamics, institutional processes, and the role of policy restrictiveness on investment performance are all examined. The paper determines key areas of the divergence and convergence between these countries by comparing the inflows, outflows, source countries, GDP indicators, and FDI openness indices. While India has already made steady liberalization of its FDI environment, attracting diversified investment in many strategic sectors and controlled by policy reforms and macroeconomic stability, Sri Lanka having a more restricted FDI flow is experiencing more economic disturbances and difficulties relating to regulations. The findings of this paper support the fact that transparent, stable, and sector-specific policies lead to the development of investor confidence. The research provides the conclusion that both countries are capable of raising their investment ranking within the world arena by implementing specific changes to the way in which the country strives to operate related to the best practices as defined by other nations.

INTRODUCTION

FDI ("Foreign Direct Investment") is considered a foundation of global economic association and improvement in the 21st century. FDI introduced a capital flow and also a channel for the transfer of market access, managerial efficiency, skills, and technology. In a period featured by liberalization and globalization, nations, particularly those in the emerging and improving economies, observe FDI as a strategic mechanism to strengthen economic progress, encourage innovation, produce employment, and optimize infrastructure. The importance of FDI depends on the financial investment and also on the wider socio-economic participations that attend such cross-border involvements[1].

FDI is generally discussed as an investment conducted by a foreign unit, such as an institutional or individual, in an organization practicing in a nation compared to the investors, with the desire of acquiring an enduring benefit and a robust voice in the organizational management. The IMF ("International Monetary Fund") demonstrates FDI as an investment conducted to gain a consistent benefit in an international organization, where the goal of the investor is to exert an important level of influence on the organizational management[2]. The UNCTAD ("United Nations Conference on Trade and Development") again underscores the developmental influence of FDI, emphasizing its possibility to provide export development, promote productivity, enhance consistent development, and produce jobs in host nations[3].

Sri Lanka and India are considered two different South Asian countries, which facilitate interesting similarities and diversities in case of their methods to foreign investment. Both the countries have incorporated liberalization determinants after the 20th century, though the regulatory infrastructure, pace, and scale of such reforms have changed substantially. At the same time, India has growingly started several industries to attract foreign investment with its wide and diverse economy through an amalgamation of government and automatic approval directions. On the contrary, Sri Lanka has upheld a more targeted and traditional method, depending largely on BOI-based ("Board of Investment") offers and sector-based incentives. Institutional reforms, financial crises, political dynamics, and colonial legacies constructed

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[1] Sah, Ash Narayan, and Avisha Malik. "Foreign Direct Investment and Economic Development: The Case of Global South Economies." In *Polycrisis and Economic Development in the Global South*, pp. 215-230. Routledge, 2024.
[2] International Monetary Fund (IMF) (1977). Balance of Payments Manual (4th ed.). <https://www.imf.org/external/np/sta/bop/bopman.pdf> accessed on 15 July 2025
[3] Annex, I. "2024 UNCTAD survey on the creative economy: National agencies and strategies." *Policy* 2021 (2024): 2035.

the conventional field of FDI in both nations. The transformation of Sri Lanka toward an open economy framework started before 1977, making it the first nation in the field to adopt market-based strategies. India started key structural reforms in 1991 under an emerging economic policy to prevent a strict balance-of-payments crisis. FDI inflow of Sri Lanka has persisted, comparatively uncertain to differentiate the India's, widely for regulatory irregularities, infrastructural challenges, and civil issues[4].

This study seeks to prepare a comparative evaluation of the regulatory model and FDI policies of Sri Lanka and India. The paper intends to determine the strengths and challenges of each system by analyzing the conventional changes, institutional instrumentations, investment performance, sectoral openness, and key reforms of both nations. Therefore, this study will investigate essential parameters, including the function of domestic political consistency, bilateral investment treaties, tax incentives, legal protections for investors, and business. Finally, the comparative perspectives stemmed from this study are aimed at facilitating strategic suggestions and policy lessons for increasing FDI robustness in the South Asian field.

ECONOMIC GROWTH

Financial or economic growth is the consistent expansion of a nation's ability to generate goods and services to address the needs of its citizens. Economic growth is closely associated with enhancing the entire competency, technological improvement, and productivity of sectors. In developing countries such as Sri Lanka and India, economic growth is observed as a mirror of industrial achievement and also a basis for national growth, employment production, and poverty minimization[5]. Therefore, both nations have followed several financial reforms over the years to encourage their progress, concentrating especially on foreign investment, privatization, and liberalization.

Gross Domestic Product

GDP ("Gross Domestic Product") is a highly implemented indicator of financial development. It is stated as the entire market value of all complete goods and services generated within a nation's regional limitations. As per the Organisation for Economic Co-operation and

[4] Sengupta, Pooja, and Roma Puri. "Exploration of relationship between FDI and GDP: A comparison between India and its neighbouring countries." *Global Business Review* 21, no. 2 (2020): 473-489.
[5] Kumar, Rakesh. "India & South Asia: Geopolitics, regional trade and economic growth spillovers." *The Journal of International Trade & Economic Development* 29, no. 1 (2020): 69-88.

Development (OECD), GDP is considered a total computation of production similar to the gross value added of all citizens and institutional elements involved in production[6]. The core formula to measure GDP follows:

GDP = *Investment + Consumption + Government Spending (Exports - Imports)*

Gross National Product

GNP ("Gross National Product") is another significant idea, which considers the aggregated economic output of a nation's citizens, including the income acquired abroad[7]. Therefore, GNP is measures is as follows:

GNP = *GDP + Net income from abroad – Net payments to foreign assets*

Sri Lanka and India have dependent on GDP as a major indicator to understand their financial performance and to generate national policies. India faced substantial financial acceleration following the liberalization measures presented in 1991, which opened different industries to foreign investment. In contrast, Sri Lanka started its liberalization before 1977 and stands as one of the initial South Asian nations to incorporate a market-based economic framework. Both nations continuously experienced barriers, including regional inequalities, income instability, and reliance on particular sectors for progress.

FDI has encompassed a crucial function in assisting financial progress in both countries. FDI has addressed the gap between local savings and investment requirements by implementing foreign capital into complex sectors. In the Indian context, the "manufacturing, telecommunications, and services sectors" have observed significant progress due to consistent foreign investment. At the same time, Sri Lanka benefited in contexts including "port logistics, infrastructure improvement, and tourism." FDI facilitates capital and also promotes sectoral productivity, generates jobs, and provides technology transfer.

Several studies have explored the association between economic development and FDI, and most of them summarize that FDI positively affects growth when accompanied by active institutional consistency and macroeconomic policies. The extent of such an effect often

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[6] Argandoña, Antonio. "Gross Domestic Product (GDP) and Gross National Product (GNP)." *Encyclopedia of Business Ethics and Society, Forthcoming, IESE Business School Working Paper* 1153-E (2016).
[7] *Ibid.*

differs based on determinants, including domestic market size, accessibility of skilled labor, ease of conducting business, and policy consistency. In the South Asian field, both Sri Lanka and India continue to regulate their policy models to associate with global standards and to influence quality investments and lead to participate relevantly in national growth.

IMPORTANCE OF FOREIGN DIRECT INVESTMENT

Enhancement of Infrastructure and Industrial Base

FDI plays an essential role in constructing and developing the industrial competency and infrastructure of an emerging nation. Foreign capital inflows come with FDI financial strength, and also worldwide project management standards, advance construction approaches, and technical expertise. Indian industries such as urban development, energy, and transportation have benefited substantially from foreign direct investment. The framework of the metro rail process in major cities, the growth of airports, the improvement of solar parks, and national highways have all observed robust foreign contributions. Moreover, FDI has leveraged the development of smart cities and industrial corridors under several public-private partnership frameworks[8]. On the contrary, the effect of FDI in Sri Lanka on infrastructure was especially transparent in the improvement of urban centers and ports. Projects including Hambantota Port and Colombo Port City have attracted significant foreign investments, particularly from East Asian nations. Such initiatives have optimized the logistics and also conducted long-term industrial centers aimed at presenting international and domestic trade directions. Finally, foreign participation in the hospitality and real estate sectors has constructed the tourism and skyline infrastructure of Colombo.

Expansion of Employment Opportunities

FDI is involved in employment production in both indirect and direct methods. Foreign organizations often prepare new practices and expand previous operations, conducting jobs in support functions, services, and manufacturing[9].

Foreign investors in India possessed a substantial presence in industries including retail, telecommunications, information technology, and automobiles. The initiative of “Make in

[8] Sadashiv, Kharat Rahul. "Foreign direct investment dynamics and economic growth in the case of India." *Journal of Business and Economic Options* 6, no. 1 (2023): 45-52.
[9] Id. at 47.

India" has stimulated international companies to develop production units, facilitating a wide range of jobs for skilled and semi-skilled workers. Furthermore, FDI in the service and informational technology sectors has enhanced demand for skilled experts and resulted in the development of innovation centers and tech parks. At the same time, Sri Lanka has supported FDI to create employment, especially in the labor-intensive and export-based textile and apparel sectors. The export processing zones and free trade zones of the nation have attracted different foreign-owned companies that employ thousands of employees. The BPO and hospitality sectors have also expanded with foreign participation, facilitating job scopes for the young generation in urban hubs. Foreign companies often employ structured training schemes and higher labor standards differentiated to domestic firms while employment quality differ.

Boost to Export Potential

A key advantage of FDI is the association of the host nation's sectors with worldwide value chains, which substantially strengthens exports. International firms implement the labor accessibility and cost benefits of the host nation by preparing production foundations in foreign markets, while availing of their global distribution channels[10]. FDI in India has improved exports in industries such as software services, electronics, automobiles, and pharmaceuticals. Therefore, foreign organizations have implemented India as a foundation to manufacture and distribute the products to Africa, Southeast Asia, and the Middle East, which has assisted in optimizing the nation's trade balance. Foreign investment in Sri Lanka in export-based sectors, including rubber products, tea processing, and garments, has helped to uphold a consistent foreign exchange flow. Different foreign companies practicing in Sri Lanka serve markets in the United States and Europe, taking advantage of geographic location and trade agreements. Moreover, FDI in port advancement has again allowed the nation to present itself as a logistics center for regional exports.

Macroeconomic Stability and Capital Formation

Foreign Direct Investment possesses a consistent role in the macroeconomic model of an emerging nation. FDI presents as a non-debt economic asset that assists the payments balance

[10] Sadashiv, Kharat Rahul. "Foreign direct investment dynamics and economic growth in the case of India." *Journal of Business and Economic Options* 6, no. 1 (2023): 45-52.

and minimizes reliance on external borrowings[11]. FDI in the Indian context has appeared as a major element of capital inflow, contributing to the creation of foreign exchange reserves and reinforcing investor confidence in the country. The existence of consistent foreign capital has assisted financial markets by decreasing volatility and increasing liquidity. Industries such as capital markets, banking, and insurance have benefited from regulatory advancements and foreign involvement. Sri Lanka has dependent on FDI to assist its foreign reserve placement, particularly during times of external and fiscal vulnerability. While the complete FDI inflow in the context of Sri Lanka is less differentiated from India, FDI plays a wider role in upholding macroeconomic balance. Therefore, investment in export processing zones, tourism, and infrastructure contributes to fixed capital development and optimizes the nation's productive ability. During the external shocks, including currency depreciation or debt crises, FDI presents as a barrier by facilitating long-term financial consistency without accumulating sovereign obligations.

STATISTICAL COMPARISON BETWEEN INDIA AND SRI LANKA

The fundamental research focus is on FDI regulations and policies; a general differentiation between Sri Lanka and India is required to assess the wider demographic and financial model of the two countries. Therefore, this comparative matrix highlights major national indicators significant to evaluating investment attractiveness, growth possibilities, and FDI patterns.

Table 1: Comparison Between India and Sri Lanka on Various Parameters

Basis	India	Sri Lanka
Official Name	Republic of India	Democratic Socialist Republic of Sri Lanka
Capital	New Delhi	Sri Jayawardenepura Kotte
Area (sq km)	32,87,263	65,610
Population (2024 est.)	1.45 billion	22 million

[11] Id. at 49.

Form of Government	Federal Parliamentary Republic	Unitary Semi-Presidential Republic
Highest Court	Supreme Court	Supreme Court
Official Language(s)	22 Scheduled Languages (incl. Hindi, English)	Sinhala, Tamil
Literacy Rate	77.70%	92.00%
Life Expectancy (2023)	~72 years	~77 years
GDP (2023 est., USD)	~3.7 trillion	~84 billion
GDP per Capita (USD)	~2,600	~3,800
Monetary Unit	Indian Rupee (INR)	Sri Lankan Rupee (LKR)
Total FDI Inflow (as per 2023)	~28 billion USD	~711 million USD
Major FDI Sectors	Services, Manufacturing, Technology	Tourism, Apparel, Port Development

Sri Lanka and India are geographically nearby and diverse substantially in their sectoral strengths, population, and economic size. India is the largest country by GDP in the world, with a diverse and extensive service and industrial foundation. India possesses a growing population and urban middle class, making it an effective marketplace for international investors throughout several sectors. On the contrary, Sri Lanka possess a smaller and more demographically balanced and literate population. The comparatively higher literacy rate and life expectancy of the nation contribute to an effective Human Development Index.

India acquires substantially higher inflows both in relative and absolute terms when it comes to foreign direct investment. Its technology-based sectors, demographic benefits, and large-scale financial reforms make it a worldwide investment destination. On the contrary, Sri Lanka is smaller in size, has developed a strategic application of its free trade zones and location to appeal to FDI, especially in tourism, apparel, and logistics.

At the same time, the structural diversities between the two nations are also reflected in their FDI approaches. Sri Lanka has concentrated more on export-based and infrastructure-based sectors, while India attracts capital throughout a wide range of sectors. The political environment, ease of developing business, and regulatory models are again involved in the observed changes in inflow trends and FDI attractiveness.

Sri Lanka and India have several similarities, sharing natural approaches in the South Asian context. However, England colonized Sri Lanka and India, and English was largely implemented in both nations, particularly in legal systems, governance, and education.

Similarities between India and Sri Lanka: India is one of the most populated countries in the world, while Sri Lanka, though much smaller in size, has a high population density. Indians are mostly characterized by a younger demographic profile, whereas Sri Lanka has a relatively aging population, with better indicators in education and healthcare. When it comes to their economic structures, both India and Sri Lanka operate welfare-oriented economies, with India having moved from a mixed economy with socialist leanings to a market-based model, while Sri Lanka was one of the earliest South Asian countries to adopt liberal economic reforms in the late 1970s. Both countries follow a mixed economic model, emphasizing both public and private sector roles.

Hinduism is the major religion in India, while Buddhism is practiced by the majority in Sri Lanka. However, both nations are home to diverse religious groups and are constitutionally secular in nature. Governments of both countries have affirmative policies—India for Scheduled Castes, Scheduled Tribes, and Other Backward Classes, and Sri Lanka for specific regional and linguistic groups, especially in the context of post-conflict reconciliation. Both countries also share a strategic maritime location in the Indian Ocean and have historically close cultural ties, particularly between southern India and northern Sri Lanka. The geopolitical positioning of both countries often leads them to navigate complex regional dynamics, including managing relations with larger powers like China.

FOREIGN DIRECT INVESTMENT IN INDIA

Over time, India has then evolved to be one of the most popular destinations of FDI in the world. The country has been gradually making all its policy considerations according to international investors trends, because of its large market size, demographic edge, and the growing economic composition. The inflow of foreign capital is not only regarded as a source of revenue but also as a way of increasing the industrial power, advancing the level of technology and creating employment opportunities in various sectors[12]. The government of India, especially since 1991 economic reforms, has been taking an active part in opening up its investment setting and assimilating into the international economy. Whereas the previous decades witnessed conservative and closed tendencies in viewing foreign ownership, consecutive governments have gone the block in embracing openness. Consequently, FDI in India has spread to a variety of sectors such as infrastructure, manufacturing, services, and digital technologies. The Department for Promotion of Industry and Internal Trade (DPIIT) and The Reserve Bank of India (RBI) institutions have played a key role in defining the administrative and legal framework within an investment environment[13]. Despite these benefits, challenges could still be seen in such spheres as infrastructure, compliance, and regulatory transparency. The below sections examine the historical evolution of FDI policies in India, assess the role of institutional frameworks that governs the rules and regulations of foreign investment, existing barriers, and the various factors that continue to attract global capital into the country.

Evolution of FDI Policies

The trend of FDI reforms in India merely demonstrates that India is undergoing wider economic transitions of a centrally planned system to the other level of liberalization and integration into the global market. India after its years of independence switched to Socialistic economic system with much value placed on self-reliance and control by the public sector. During this time, the foreign investment was much controlled and tight restrictions were put in place under the Foreign Exchange regulation act (FERA) of 1973. This act restricted ownership of the equities of the companies to foreign ownership and severely restricted inflow of the capital which discouraged the foreign companies to enter the Indian market. During 1991, when India was hit with one of the worst balance of payments crisis, the then government initiated the New Economic Policy. The attitude towards the foreign investment in the country was also majorly shifted in this reform agenda. Industrial licensing was eliminated and a number of industries were liberalized to entry by the foreigners. The creation

[12] Jain, Vandana. "Evolving Dimensions of Indian Outward Foreign Direct Investment." Focus: Journal of International Business 1, no. 2 (2014): 70-88.
[13] Gaikwad, Yukta. "Getting around Legal Framework: A Comparative Analysis of Cross-Border Investment law in India and US." Available at SSRN 5141344 (2025).

of foreign investment promotion board (FIPB) was a major institutional change that was meant to simplify the approval process and to promote foreign capital. Subsequently, in the succeeding years, India allowed a gradual relaxation of sectoral caps on foreign equity and allowed 100 percent FDI in some sectors through the automatic route. The further liberalization occurred at the beginning of the 2000s, and the policy steps were focused on the ease of procedures and integration with the global standards. The Consolidated FDI Policy document was introduced making the process a lot more transparent to the investor. In some areas like retail, defence, insurance, and telecom, the foreign investment caps were eased. It is during this time that India entered into a plethora of Double Taxation Avoidance Agreements (DTAAs) and Bilateral Investment Treaties (BITs) to enable cross border investment activity[14].

In the last decade, India has continued to develop its FDI policy with the concepts of the production of India (Make in India), the digitalization of India (Digital India), and the Production-Linked Incentive (PLI) program, which should turn India into a global leader in innovation and production. Removal of FIPB and the further widening of automatic route sectors by replaced with more decentralized system of approvals have been the major developments. Multifold regulatory relaxations, such as digitized approval platforms and single-window clearance systems have also been introduced in order to minimize procedural bottlenecks[15].

The history of FDI policy in India, in fact, shows willful transmutation of protectionism to openness. However, it is being pointed out that unlike earlier when the reforms aimed at attracting capital, the present pattern of reforms is aimed at making sure that capital flow will be instrumental in development of industries, creation of employments and economic development in the long run.

Institutional and Legal Framework

The history of India in terms of institutional and legal approach towards FDI has advanced significantly throughout the decades. The cause of this transformation has been the move towards the facilitative more liberal regime under the Foreign Exchange Management Act

[14] Agrawal, Kanu. "Bilateral Investment Treaties: A Developing History." Jindal Global Law Review 7, no. 2 (2016)

[15] Tripathy, Anshuman, and Sudha Madhavi Dastrala. "Make in India: So far and going ahead." IIM Bangalore Research Paper 674 (2023).

(FEMA) of 1999 as compared to the control-based regime under the Foreign Exchange Regulation Act (FERA) of 1973. Through FEMA, a friendlier environment in terms of attracting investments was envisaged whereby FEMA essentially tried to control foreign financial movements in the country and at the same time trying to welcome foreign investments. The entry routes are the major aspect of India FDI regulatory framework. There are two major channels that a foreign investor can invest under: the Automatic Route where there is no need of a prior government approval on the list of activities in the FDI policy; and Government Route where prior authorities need to be sought by the designated ministries or authority. Under the Ministry of Commerce and Industry is the DPIIT which formulates policies, issues consolidated FDI circulars and coordinates with the sectoral regulators. On the other hand, the RBI operates on the strength of rules that govern the way things should be done especially in terms of capital flows and foreign exchange policies as well as reporting mechanisms. The FDI regime also issues equity limits and stipulations based on sectors. Although the foreign ownership is allowed to 100 percent in the sectors like e-commerce marketplace platforms, renewable energy industry, greenfield pharmaceuticals, etc., there are certain sectors those are partially prohibited or subject to prior government permission such as insurance, print media, and defence. They are also demonstrated by the fact that India actively follows through on the simplification of regulations as every year the country publishes a single document, the Consolidated FDI Policy, that serves as a single-window resource on all the norms and conditions[16]. The government of India, in the recent times, has emphasized on clarity in regulation, protection and transparency to the investor. To enhance ease of access and lessen the delays in some procedures, online avenues like the National Single Window System and the Foreign Investment Facilitation Portal (FIFP) have been initiated. All these frameworks and institutions shape the regime in which foreign investors operate in India.

Barriers to Foreign Investment

Although India has experienced progressive liberalization, it still faces various regulatory as well as structural issues, which influence the FDI's effectiveness and flow. The regulatory environment in the country is considered to be one of the most frequently mentioned barriers. Despite the digitized approval mechanisms and online portals introduced by the government,

[16] Chauhan, Yug, and Dhruv Dedhia. "The Legal Framework for Foreign Investment in India: A Comparative Analysis of the Laws and Regulations Governing Foreign Investment." Issue 2 Indian JL & Legal Rsch. 5 (2023): 1.

starting a business, obtaining clearances and adhering to the local regulations can often turn out to be bureaucratic and time-consuming. A lack of consistency in the interpretation of rules across states, bureaucratic red tape in clearing new projects is one of the common things that put off potential investors, particularly where a government route permission is required. Another prohibitive bottleneck is infrastructure. Some of the Tier-II and Tier-III cities do not have proper waste treatment facilities, transport connectivity, power distribution, and logistics, when compared with relatively well-developed metropolitan infrastructural areas. This may upsurge the cost of operations to foreign companies and impact the extent of their investments. Despite the fact that the government has already launched infrastructure development programs, there also exists gaps between policy statements and real-time implementation at the working level. Retrospective taxation and legal uncertainty with regard to the investment environment are also an historical issue concerning investor confidence. Some high profile disputes between multinationals and the state on issues of tax and approaches to the interpretation of regulation have created impressions of uncertainty. Some of these issues have been aired out in the past years, especially with arbitration settlements and more straightforward tax regimes; however, the effects of such events still and will still be felt by investors. There are also other barriers concerning the labor and land acquisition laws. Implementation of land to be used in manufacturing folios usually entails going through various authorities and encountering complications in land ownership regulations. Even though the attempt to simplify labor laws by rolling them into four labor codes has been in the form of reforms, full implementation in various states has been awaited. Another issue is inconsistency in policies, especially in areas such as data governance and e-commerce. Business models can also be influenced by radical changes and excessive updates in policy, especially when it comes to the technological- and digital-oriented investments[17] [18]. Such barriers, which are by and by getting resolved to some extent, have remained factors in determining the international investor outlook on long-term investment in India.

Factors Attracting FDI

Despite these barriers, India is still one of the most appealing destinations of FDI in the developing world. The size and the growth potential of the domestic market is among some of key factors contributing to this appeal. Having traded its over 1.4 billion population with a

[17] Bajpai, Nirupam. "Foreign Direct Investment in India." (2009).

[18] Hoda, Anwarul, and Durgesh Kumar Rai. Trade and investment barriers affecting international production networks in India. No. 281. Working paper, 2014.

huge middle-income population, India will grant foreign investors an extensive spectrum of consumers all over rural and urban locations. The Indian market is very scalable with goods and services in all segments with rising levels of income, digital incorporation, and consumption levels. The other key strength is the presence of a talented human resource. India is a good destination to outsource, carry out research and development (R&D) work and conduct technical jobs because India graduates a huge number of English-speaking, IT graduates, and engineers each year. The evolution of Indian IT and software service industry has shown that the country can reconcile itself into the international production and service chains[19].

The presence of macroeconomic stability and long-term reforms have also helped improve the profile of India as global investor. The ongoing initiatives that are being used by the government to enhance and make ease of doing business include simplifying taxes structures, and upholding compliance burden, and liberalizing restrictions of sectors. The country has become an innovation and manufacturing hub through programs like, PLI, startup India, Make in India schemes, etc.,[20]

Another key role is its geopolitical considerations. Democratic political system, geo-strategic position and good bilateral relationship with mature economies have elevated the country as a good and permanent investment technology due to high level of attractiveness. Also, the existence of a powerful diaspora and participation in international economic forums increases creditability and visibility of India in the international investment arena[21].

FOREIGN DIRECT INVESTMENT IN SRI LANKA

Over the years, Sri Lanka has been considered an important island in the Indian Ocean[22]. Moreover, the amount of FDI in Sri Lanka has fluctuated over several decades. In the late 1970s, Sri Lanka was considered one of the first Asian countries to shift from a free-market

[19] Rajan, Ramkishen S., Sunil Rongala, and Ramya Ghosh. "Attracting Foreign Direct Investment (FDI) to India." (2008): 1-10.
[20] Tripathy, Anshuman, and Sudha Madhavi Dastrala. "Make in India: So far and going ahead." IIM Bangalore Research Paper 674 (2023).
[21] Vijayalakshmi, R., V. Palanisingh, G. Lingavel, and T. R. Gurumoorthy. "Factors determining in foreign direct investment (FDI) in India." *International Journal of Recent Technology and Engineering* 8, no. 2 (2019): 722-729.
[22] A. M. Priyangani Adikari, Haiyun Liu, and M. M. S. A. Marasinghe, “Inward Foreign Direct Investment-Induced Technological Innovation in Sri Lanka? Empirical Evidence Using ARDL Approach,” *Sustainability* 13, no. 13 (2021): 7334.

economy[23]. The existence of various challenges in political times of war within the country and unclear rules causes ups and down of FDI in Sri Lanka. Even though different kinds of challenges impacted the growth of FDI in Sri Lanka, various factors such as good location, skilled people, and business opportunities in areas like tourism, clothing, ports, and infrastructure help to attract investors from other countries to Sri Lanka. Since 1977, the economy growth of Sri Lanka has been dependent on enhancing the FDI in the country. The foreign participation in the national economy is encouraged by the establishment of a free trade zone, tax incentives, and export-oriented industrial policies. In recent years, to enhance FDI investment in the country, Sri Lanka has focused more on modernizing investment approval processes, stabilizing macroeconomic conditions, and expanding international trade agreements[24]. This section briefly explores various factors, such as the evolution of Sri Lanka's FDI policy landscape, regulations adopted for FDI, challenges faced by investors, and the principal factors that influence the country's ability to attract sustainable foreign capital.

Evolution of FDI Policies

The welcoming nature of FDI encouraged private business in Sri Lanka, which is recognized as one of the earliest countries in South Asia to switch to an open economy[25]. By 1977, under President Jayewardene, the government had gained tight control over the economy and had become a more open and market-based one. Compared with other neighboring countries, Sri Lanka began moving to a free-market economy earlier. Sri Lanka gains a major position in international Trade and investment in South Asia due to the attractive entry point made by the country in the past. An export-led industrialization country focuses on the creation of Export Processing Zones (EPZs), tariff reductions, and incentives introduced by the government. The coordinating and promotion of foreign investment in Sri Lanka is supported by the establishment of the BOI in the year 1922. BOI replaces the traditional older agency Greater Colombo Economic Commission (GCEC), in Sri Lanka BOI approves the investment project in Sri Lanka and provides various offers, such as a step office and tax breaks[26]. To attract foreign investment, BOI leadership focuses on creating special FDI policies that help enhance

[23] Devaka Gunawardena and Ahilan Kadirgamar, "Crisis and Self-Sufficiency: The Left and Its Challenges during the Long 1960s in Sri Lanka," *International Quarterly for Asian Studies* 52, no. 3–4 (2021): 253–282.
[24] Sakshi Thakkar, "Navigating India's Evolving Foreign Direct Investment Landscape: Trends, Regulatory Reforms, and Implications," *International Journal of Law, Management and Humanities* 7, no. 2 (2024): 1734.
[25] Sanjeewa Udara Rathnasekara, "External Trade and Foreign Investment Policy Reforms in Economic Growth of Sri Lanka," *Sri Lanka Journal of Social Sciences* 45, no. 1 (2022)
[26] Prema-chandra Athukorala, "Rethinking Sri Lanka's Industrialization Strategy: Achievements, Lost Opportunities and Prospects," *Asian Economic Papers* 21, no. 2 (2022): 14–37

various sectors such as infrastructure, tourism, and clothing factories.

Sri Lanka's political stability is strongly linked to its FDI policy evolution. The long civil war from 1983 to 2009 had created a major negative impact on FDI in Sri Lanka. The country's large-scale foreign commitment was impacted by unstable and unpredictable foreign investment, which discouraged large-scale investment. In certain areas and industries of Sri Lanka, FDI was still supported, but the overall confidence of investors in FDI went low due to the war.

Since 2010, the government has used foreign funding to focus on ambitious infrastructure and urban development projects, contributing to economic growth. The integration of a foreign partner, such as China, with Sri Lanka helps in the enhancement of Large-scale initiatives such as the Colombo Port City, Hambantota Port, and highway expansion projects. The very big investment deals for the country are accessed through a shift toward mega-investment models. Moreover, the implementation of large projects in the country was impacted by a lack of transparency, sustainability of debt, and was influenced by political interest.

The adoption of global best practices in recent years has helped Sri Lanka to reframe the strategy of FDI. The focus on improving coordination between the BOI, simplifying procedures, other regulatory bodies, and reducing approval times helps in the revision of policy. Sri Lanka considers FDI as a very important factor in recovering the economy from major economic problems caused from time to time, including the 2022 debt crisis and shortages of currency. The strategic ambitions and the constraints posed by the economic and political environment of the country are reflected in the evolution of Sri Lanka's FDI policy.

Institutional and Legal Framework

The promotion and facilitation of FDI in Sri Lanka is based on the BOI operates as the main government agency, helping in governing of institutional and legal framework[27]. The tax break, easy approval process, and special zone to set up the business were explored with the help of the BOI, which was initiated by setting up the law in the year 1978 and revised in the

[27] Mananage Shanika Hansini Rathnasiri, Narayanage Jayantha Dewasiri, and A. Arun Kumar, "Policy Framework and Implementation Strategies for Sri Lanka's Transition to a Net-Zero Economy," *in Net Zero Economy, Corporate Social Responsibility and Sustainable Value Creation: Exploring Strategies, Drivers, and Challenges*.

1990s. Moreover, BOI is responsible for coordinating with other governmental departments, monitoring project implementation, and issuing government agreements.

BOI takes complete responsibility for processing FDI using the single route system. On the other hand, India uses two separate approval routes for FDI. Various special privileges, such as exemptions from customs duties, concessions on repatriation of profits, and corporate income tax holidays, are offered to projects getting approval from the BOI. Moreover, the enhanced benefits from the parliament were acquired for certain sectors falling under strategic development projects (SDPs).

The incorporation and operation of foreign business entities in Sri Lanka is governed by the Companies Act No. 7 of 2007. The older exchange control act in Sri Lanka is replaced by the Foreign Exchange Act No. 12 of 2017. The implementation of the new law helps to provide more benefits, such as relaxed rules of moving money in and out of the country, profit, capital, and enabling foreign investors to remit dividends more easily. The various benefits provided by the new law help to acquire trust and offer more predictability for investors in handling international financial transactions. The monetary and exchange rate stability is monitored by the Central Bank of Sri Lanka (CBSL) helps in regulating FDI[28]. The legal compliance and corporate registration are managed efficiently by the Department of Registrar of Companies.

Barriers to Foreign Investment

Many challenges impact the full potential of FDI in Sri Lanka. The major challenge in implementing FDI creates uncertainty among investors due to unpredictability and frequent policy changes, especially in sectors such as land ownership, taxation, and foreign exchange. Moreover, the long-term plan of foreign businesses in Sri Lanka is heavily impacted by shifting government priorities and inconsistent enforcement of investment agreements.

Political instability and governance cause significant obstacles to FDI in Sri Lanka. Leadership transitions, public protests, and political volatility impact the continuity of investment-related policies. Foreign investors consider Sri Lanka risky for investment because of ongoing political instability, corruption, and an inefficient government system.

[28] W. M. M. S. Werake, "Monetary Policy Framework in Sri Lanka and Its Impact on the Financial Sector: A Review," *Sri Lankan Journal of Banking and Finance* 6, no. 2 (2023)

The major barrier impacting FDI in Sri Lanka is macroeconomic instability. The 2022 economic crisis in Sri Lanka exposed major problems in government debt management, leading to a severe shortage of foreign currency needed for imports and external payments. The unfavorable environment for new investment is created based on high inflation, currency depreciation, and restrictions on imports during this period. The government of Sri Lanka integrated with the International Monetary Fund (IMF) to address challenges to the economy. However, foreign investors are still hesitant and not fully confident about investing in the country.

Infrastructure limitations of the country impact the foreign operations in the country. The attractiveness of inland investment opportunities is affected by various factors such as irregular power supply in some regions, an underdeveloped logistics infrastructure that increases operational costs, and an inadequate transportation network[29]. Moreover, the implementation of new projects in Sri Lanka was impacted by the BOI making overlapping mandates with other government bodies, delays in approvals often create friction in the initiation of new projects, and complex permit procedures.

Factors Attracting FDI

Foreign investment in logistics, warehousing, and transshipment services in Sri Lanka is enhanced by the country's deep-water ports, particularly the Port of Colombo and Hambantota Port. Moreover, Sri Lanka's infrastructural assets, such as the existence of major maritime trade routes between the East and West, position it as a regional logistics hub, helping Sri Lanka to achieve the goal of becoming a gateway to South Asia.

Compared with other neighbouring countries, Sri Lanka has high human development indicators. The apparel manufacturing and business process outsourcing (BPO) industry in Sri Lanka is supported by high literacy rates, a well-educated workforce, and competitive labour costs. English proficiency among professionals enhances various operations in customer service, IT support, and back-office processing in the country.

To attract more investors from other countries, the government of Sri Lanka, integrated with the BOI, helps to provide various benefits to the country, such as getting quicker approval for

[29] Sumanasiri, E. A. G. "Exploring Barriers to International Trade Faced by Sri Lankan Exporters to the Indian Market." (2021).

projects, not paying taxes for a certain period, and not having to pay import taxes under the policy framework, the government prioritized various sectors such as tourism, renewable energy, agro-processing, and construction to increase FDI in the country[30]. The country's appeal as a production base for exports is strengthened by multiple Free Trade Agreements (FTAs) with countries such as India, Pakistan, and Singapore, enhancing its trade competitiveness.

COMPARISON AND DATA ANALYSIS

In a pilot study conducted by the author, while testing the hypothesis whether India and Sri Lanka have followed common FDI policy trajectory, it was observed that the study showed moderate to high agreement (50-70%) for most statements related to a common FDI policy trajectory, with the highest agreement (69.05%) for the influence of global economic trends. This indicates that while there are similarities, the trajectory is not uniformly common. Hypothesis was partially supported, as respondents acknowledge similarities but not a fully consistent trajectory.

In this section, India and Sri Lanka will be compared on the following basis using tables and pie-charts:

- Top sectors of attracting FDI inflow
- Top investing countries
- FDI outflows, Inflows and stocks in India and USA
- Gross Domestic Product and per capita income
- Forecast of Real GDP
- FDI restrictiveness

[30] H. R. Gurusinghe, S. D. Gallage, and T. P. Dalugoda, "Influence of BOI Approvals on Cost and Time Aspect of Apartment Construction in Sri Lanka," in *Proceedings of the 12th World Construction Symposium*, August 2024, 608

Top sectors of attracting FDI inflow

Under this sub-section, the 10 leading sectors which receive the highest FDI inflows in India and Sri Lanka are discussed with the use of tables and figures.

Table 2: Top Sectors attracting FDI in India and Sri Lanka

Sectors with Maximum FDI in India	Percentage	Sectors with Maximum FDI in Sri Lanka	Percentage
Computer Software & Hardware	16%	Ports & Logistics	10%
Services (Finance, Insurance, etc.)	14%	Real Estate & Urban Development	8%
Construction (Infrastructure)	9%	Tourism & Hospitality	7%
Power & Renewable Energy	8%	Apparel & Textiles	7%
Trading (Wholesale/Retail)	8%	Renewable Energy	6%
Automobile Industry	3%	IT & BPO Services	5%
Drugs & Pharmaceuticals	2%	Agro-Processing	4%
Chemicals	2%	Construction & Infrastructure	4%
Telecom	1%	Education Technology	2%
Construction Development	1%	Financial Services	2%

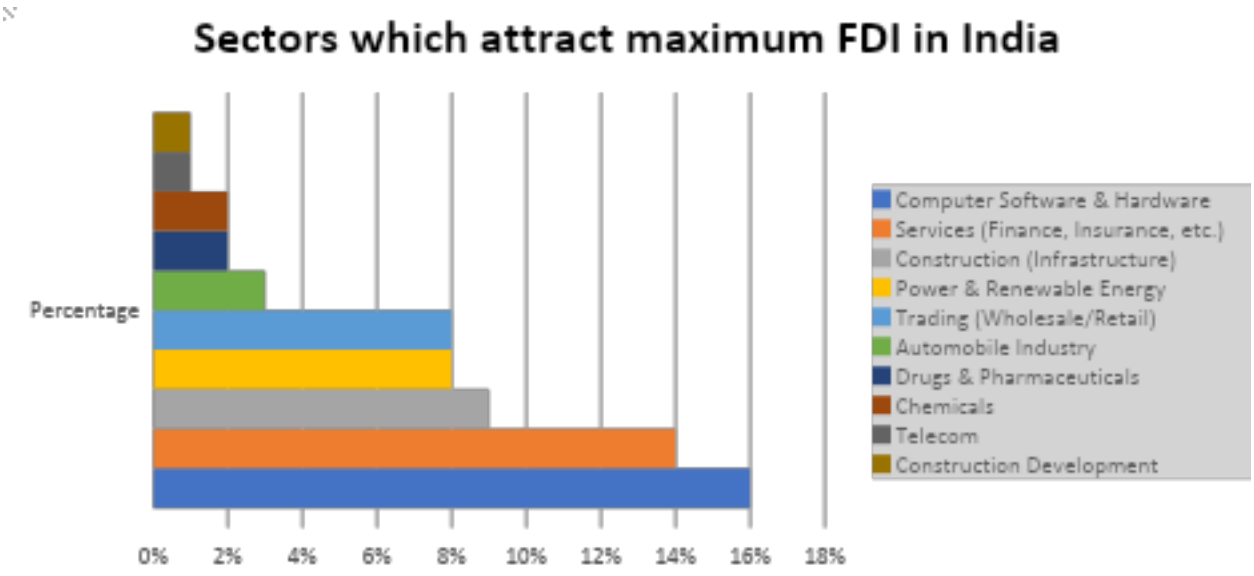

Figure 1: Pie Chart Depicting the Sectors which attract maximum FDI in India

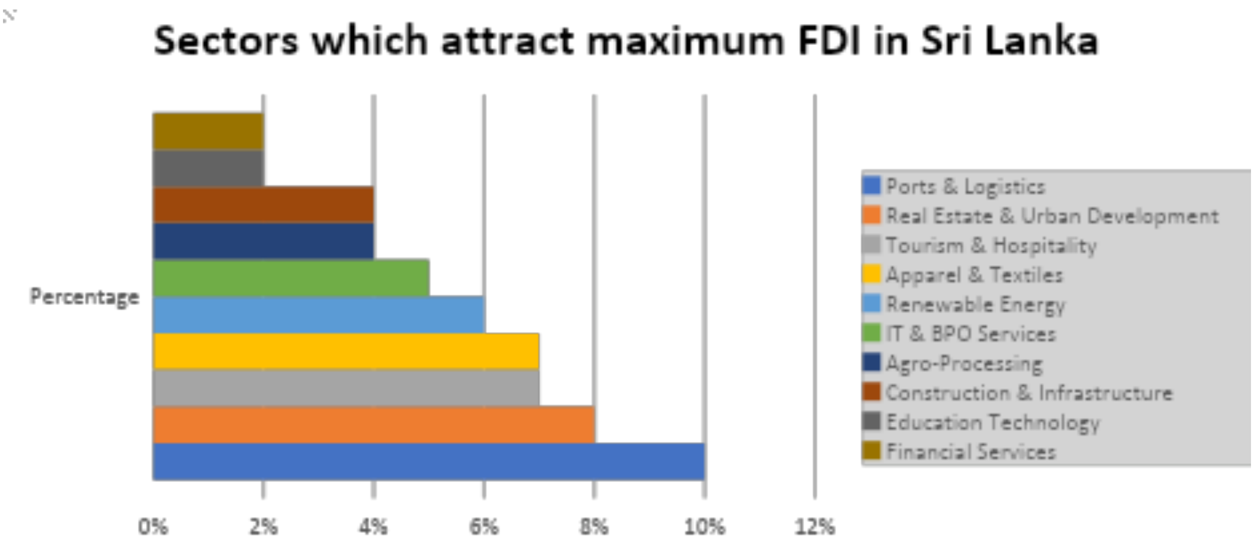

Figure 2: Pie Chart Depicting the Sectors which attract maximum FDI in Sri Lanka

Findings

Sector-wise analysis of FDI in India and Sri Lanka shows noteworthy differences along with determined policy effects. The highest proportion of FDI in India is on computer software and hardware (16 per cent) and the services sector, which includes finance and insurance (14 per cent). These numbers indicate the good IT environment, digital landscape, and good regulation of service-oriented business in the country. There is also strong investment in construction, power and trading, which reflects the focus of governments on infrastructure development and growth of renewable energy through national programmes such as the PLI and Make in India scheme. In comparison, the FDI inflows to Sri Lanka are more focused in some strategic areas. The largest investments are in the ports and logistics (10 per cent), as the country is at the strategic location in the Indian Ocean trade routes. There are other industries such as real estate, tourism, apparel and renewable energy plays a critical role, where the country has conventionally excelled in exported manufacture as well as hospitality. However, the area of FDI distribution is narrower in Sri Lanka than in India, and the investments here are to a large extent related to geographical advantage and specific development areas, instead of technological and industrial diversification. It is also an indication of the relative size of the two economies and the maturity of their investment ecology.

Top investing countries

In this subsection, the countries with maximum foreign investments towards India and Sri Lanka are discussed using tables and figures.

Table 3: Top Ten Countries Investing in India and Sri Lanka (in terms of %)[31]

	Country	**Percentage of FDI Inflows**		**Country**	**Percentage of FDI Inflows**
INDIA	Singapore	31%	**SRI LANKA**	Maldives	15%
	Mauritius	22%		India	14%
	United States	10%		China	12%
	Netherlands	8%		United Kingdom	10%
	Japan	7%		Singapore	9%
	United Arab Emirates	5%		South Korea	7%

[31] Yadav, Komal. "COVID-19 Outbreak and FDI Inflows in India: A Sector-Wise Analytical Study." International Journal 10, no. 3 (2022).

	Germany	4%	Malaysia	6%
	Cayman Islands	3%	Australia	5%
	France	2%	United States	4%
	Cyprus	2%	Germany	3%

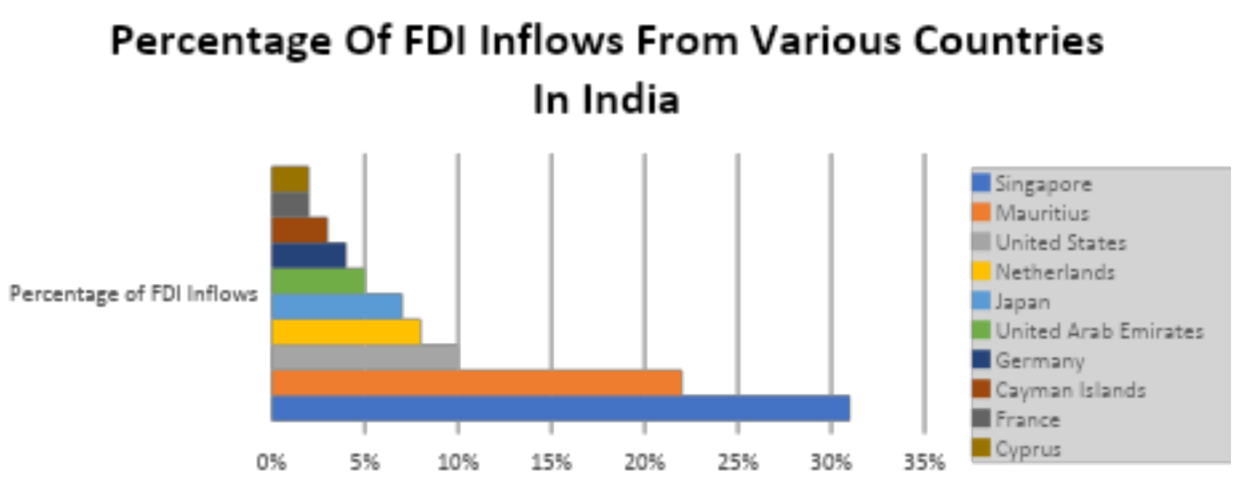

Figure 3: Pie Chart Depicting % of FDI Inflows from Various Countries in India

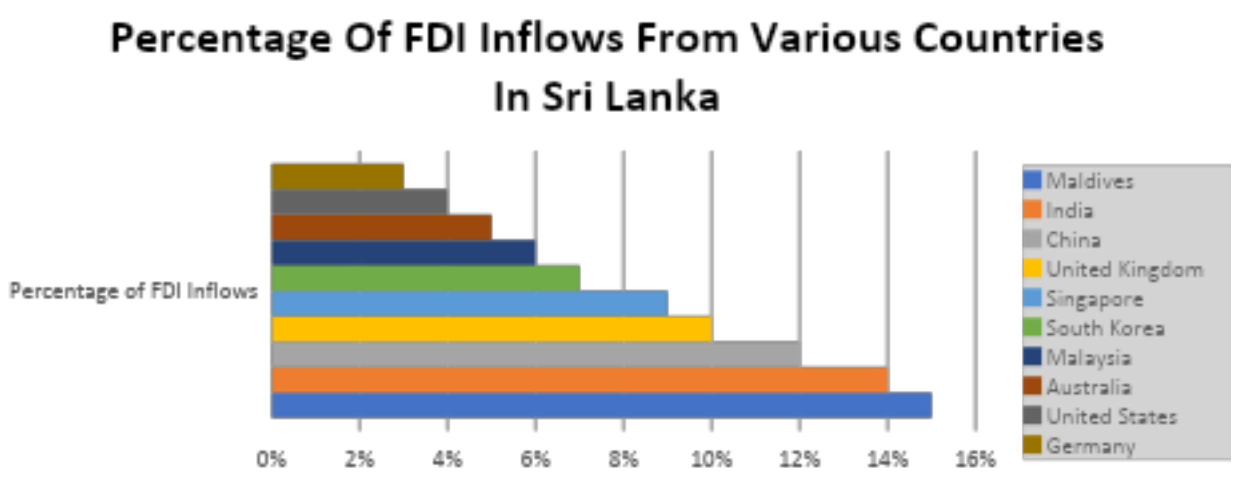

Figure 4: Pie Chart Depicting % of FDI Inflows from Various Countries in Sri Lanka

Findings

The proportion of the leading investing countries of India and Sri Lanka shows how these countries economically, history, and strategically aligned. In India, Singapore tops with 31 per cent of the total FDI inflow, and the major stake behind this is the fact that Singapore is a financial hub and has a favorable double taxation avoidance agreement with India. Mauritius ranks second with 22 per cent, due to the same benefits under the treaties and its historic use in the conduction of the portfolio and direct investment. The other countries like Japan, Netherlands and the United States also holds top ten position, thus, giving a feel of the trust of the world in the market structure and regulations within India, especially in the manufacturing, financial, and technology areas. Sri Lanka however exhibits more of a regional investment profile. Maldives has received 15 per cent of the FDI inflows which is focused on tourism and leisure development. The next two comprises 14 and 12 per cent respectively from India and China due to bilateral trade and infrastructural relations over the long run. The involvement of South Korea, Singapore, and the United Kingdom denotes that there can be varied sources of investments towards Sri Lanka even though it has a smaller market. Although the level of investment in the two nations varies tremendously, the findings shows that both have been dependent on the combination of the global and regional partners, but with different sectoral orientation and dependence.

FDI outflows, Inflows and stocks in India and Sri Lanka

In this sub-section, a comparative analysis of the FDI inflows, outflows, and stock investment position of India and Sri Lanka are provided briefly using tables.

Table 4: FDI Outflow from India and Sri Lanka

Year	**India – FDI Outflow (US$ million)**	**Sri Lanka – FDI Outflow (US$ million)**
2011	2,985	38
2012	15,947	42.5
2013	7,572	53
2014	13,341	–
2015	15,000	–
2016	10,000	–

2017	11,000	–
2018	12,300	–
2019	13,500	–
2020	8,000	–
2021	9,500	–
2022	10,000	–
2023	13,400	33.9

Table 5: FDI Inflow to India and Sri Lanka (2011-2023)[32]

Year	**India – FDI Inflow (US$ million)**	**Sri Lanka – FDI Inflow (US$ million)**
2011	36,190	477.6
2012	27,417	520
2013	44,064	600
2014	35,000	650
2015	44,060	700
2016	44,480	720
2017	39,900	680
2018	42,160	640
2019	50,560	530
2020	64,070	440
2021	44,740	592
2022	71,000	884
2023	28,100	711.8

[32] Jana, Shib Sankar, Tarak Nath Sahu, and Krishna Dayal Pandey. "Foreign direct investment and economic growth in India: a sector-specific analysis." *Asia-Pacific Journal of Management Research and Innovation* 15, no. 1-2 (2019): 53-67.

Findings

From tables 4 and 5, it is noted that there is a very significant difference between Indian and Sri Lankan foreign investment position. In 2023, the FDI inflows of India are projected to be about 70 billion U.S. Dollars (USD), outward investments as between 10 to 12 billion USD; where these figures indicate an increasing interest of Indian firms in the global business environment. The FDI cumulative stock amounts to about 570 billion USD, which indicates the country's long-term appeal as an investment destination. On the other hand, Sri Lanka has a less impressive investment data but yet significant when compared with macroeconomic environment in Sri Lanka. The expected FDI inflow in 2023 is approximately 1.1 billion USD with insignificant outflows of FDI and the FDI cumulative stock estimated to be 20 billion USD. Although the absolute size is not very significant, the ratio of cumulative stock and GDP indicates that the proportional role of foreign investment in the smaller economy of Sri Lanka is also significant. These comparisons lay the emphasis on the divergent investment paths and note the distinction in the scale of policy, the institutional capabilities and the economic scope of both India and Sri Lanka.

Gross Domestic Product and per capita income

Per capita income and the GDP are core determinations of the economic status and individual well-being of a country. Comparing India and Sri Lanka will help to know the quantity and quality of their products.

Table 6: GDP and per capita income for India and Sri Lanka

Country	**Nominal GDP (2023, US$ million)**	**GDP per Capita (2023, US$)**
India	35,67,550	2,236
Sri Lanka	84,356	3,807

Findings

The nominal GDP of India in 2023 is around 3.57 trillion USD, whereas the economy of Sri Lanka is much smaller, with a nominal GDP, which is about 84.36 billion USD. This is a sharp contrast to the large size problem of India in economic production and worldwide presence. Yet, the comparison of the GDP per capita suggests another point of view. The average income per person of Sri-Lanka in 2023 is 3,807 USD, which is quite high by comparison to that of India with only 2,236 USD. This is an indication of a relatively developed human development and a small population size in Sri Lanka. The combination of these numbers indicates the extent to which the two countries differ in the extent of income distribution and economic activity, whereby India is strong in aggregate market opportunity and economic size, and Sri Lanka is a leader in individual economic performance.

Forecast of Real GDP

Real GDP growth forecast induces an understanding of the potential performance and success of the economic policies of the country. This comparative analysis of India and Sri Lanka gives the understanding of the robustness and the ability of the two economies in post-pandemic and post-crisis phases.

Table 7: Forecast of Real GDP

Country	**2023**	**2024 (Projected)**	**2025 (Projected)**
India	7.80%	7.00%	6.80%
Sri Lanka	1.50%	3.00%	4.20%

Findings

Real GDP growth is forecasted to be strong in India over the medium term, where the growth rate was 7.8 per cent in 2023 and 6.8 percent in 2025. These numbers show the maintenance of domestic demand, good service and industrial performance, and the continuity of policies under reform programs. The growth trend of India makes it to be among the fastest growers of major economies in the world. Sri Lanka, in its turn, is slowly coming out of its 2022 economic crisis. The GDP will recover with IMF-sponsored reforms, debt restructuring, and the easing of importation, tourism, and remittances by an estimated growth of 4.2 percent in 2025, after dropping to 1.5 percent in 2023. Despite the slow rate of growth compared with

India, the trend is positive and investors are expected to strengthen and stabilize the macroeconomy.

FDI restrictiveness

A certain amount of restrictiveness in the FDI regime of a country indicates the ease in the access of important sectors by the foreign investors. In this subsection, a comparison between India and Sri Lanka has been made, which shows that both countries differ in philosophies of regulation and openness to world capitals.

Table 8: FDI Restrictiveness Index[33]

Country	FDI Restrictiveness Index
India	0.35
Sri Lanka	0.45

Findings

The FDI Restrictiveness Index discloses a sharp difference in the openness between India and Sri Lanka. India has a score of 0.35 that puts it in the moderately open group because of the liberalized caps in the sector and simplified automatic processes and a well-understood structure requiring the DPIIT and RBI. Initiatives such as Make in India, PLI program, and digital clearance systems and systems have further eased the entry of foreign investors towards India. On the other hand, Sri Lanka with an even greater estimate at the index of 0.45 FDI Restrictiveness Index, represents more restricted sides in some strategic grounds. The restrictions to foreign capital flow include land holding regulations, equity limits in utilities, and enforcement of inconsistent policy regime. The BOI provides concessions; however, short-term investment is avoided due to the absence of a clear FDI law and overlapping regulations. This comparison highlights the more open and transparent FDI regime in India that matches with the bigger and more diversified Indian economy and Sri Lanka still tries to

[33] OECD, Foreign Direct Investment (FDI) – Data Explorer, OECD Data Explorer, accessed July 31, 2025, https://data-explorer.oecd.org/vis?fs[...]TIME_PERIOD]=false.

balance the needs of the investor with the domestic sensitivity and post-crisis regulatory caution.

CONCLUSION

It is therefore concluded that several significant differences and common problems exist in the FDI-policies adopted in India and Sri Lanka, as well as the regulatory climate provided in the countries and investment performance level. The FDI system of India has been developed over the line of greater liberalization, supported by openness of sectors, digitalization of approvals, and institutional changes. The diversified nature of the inflows ranging between IT, manufacturing, and services has placed the country as one of the strategic players in the worldwide investments arena. Conversely, the FDI experience in Sri Lanka has been relatively less controlled as its market size is not very large and it has been affected by inconsistent policies and political changes. Even though it has prospects in special investment in real estate, ports and tourism, it remains limited in its FDI potential by the level of regulatory restrictiveness and economic volatility. However, the country is assisted with global support through various reforms and recovery strategies. This comparison study shows that India possesses structural advantage in its scale and policy momentum, whereas Sri Lanka has got the opportunity to capitalize on strategic sectors using strategic reforms. The FDI regime that is balanced, transparent and friendly to investors is very essential to the extent to which the two countries will continue to grow in the long-run. In response, the successful management of FDI toward the national developmental objectives can open more economic strength and international performance.

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