Chapter 9
A Political Economy Perspective: Attracting Foreign Direct Investments into Sri Lanka and Vietnam

Rupesh Selvaraj, Minh Xuan Dam, Lance DuBos, Haejin Jang, and K Thirumaran

Abstract Over the last three decades, developing countries in Asia have directed their economies to focus on increasing their foreign direct investment opportunities as a means of invigorating development and employment opportunities for their citizens. During this time, Sri Lanka has emerged from a destructive civil war while communist Vietnam has embraced market reforms. This paper attempts to record and analyze the foreign direct investment flow outlining the different strategies adopted under various political regimes. The significant contribution of this chapter lies in the identification of adaptive strategies for the two countries that seek to implement new domestic frameworks and international relations.

Keywords FDI · Investment flows · Tax · Incentives · Political stability · Skilled labor · Institutional framework

R. Selvaraj (✉)
Independent Scholar, Colombo, Sri Lanka
e-mail: rupesh.a.selvaraj@gmail.com

M. Xuan Dam
Hospitality and Tourism Institute, Duy Tan University, Danang, Hanoi, Vietnam
e-mail: Damxuanminh@duytan.edu.vn

L. DuBos · H. Jang · K Thirumaran
James Cook University, Singapore, Singapore
e-mail: lance.dubos@jcu.edu.au

H. Jang
e-mail: haejin.jang@jcu.edu.au

K Thirumaran
e-mail: k.thirumaran@jcu.edu.au
9.1 Introduction

Foreign Direct Investment (FDI) is a key development tool for many emerging economies. In the 1970s and 1980s, countries such as Singapore, Thailand, Indonesia, Taiwan and South Korea have benefited from this strategic economic policy. By welcoming foreign firms millions of dollars have been invested by foreign entities in a bid to establish new production, research and business facilities. In doing so, these organizations have reaped the benefits of low-cost labour and a highly skilled, productive and disciplined population base. This narrative partly explains the success of the economies of the region. In 2019, the FDI flow from around the world amounted to US$1.4 trillion and of this, developing Asia received over US$500 billion worth (Statista 2020).

In this regard, FDI flows into developing countries have normally occurred as part of merger and acquisition deals from multi-national enterprises (Globerman and Shapiro 2005; Kang and Johansson 2000; Stiebale and Reize 2011) or through stocks and bonds (Hasan 2004; Aduda et al. 2012). Since 2008, greenfield investments, in which a MNC forms a subsidiary in the host country as a new venture, have increased in size, growing from US$275 billion to US$325 billion in total market capitalization in the Asia Pacific region (United Nations 2020; see also Davies and Desbordes 2015). Evidence suggests that the region has opened itself up to FDI flows with key incentives such as tax breaks, subsidies and facilitating local supply chains. While FDI plays an important role in emerging economies that lack the capital wherewithal, the question remains as to why some countries continue to struggle attracting or be competitive in securing such investments.

FDI is an essential component to an economy that seeks to expand its production possibility frontier through technological improvements, capital investments and new production capacities and product development. However, weak states struggle to meet the demands of foreign investors for opportunities that can be exploited (Häberli and Smith 2014; Malikane and Chitambara 2018). Countries with internal strife often deter FDI where the initial requirement is a stable and conducive environment for business operations. In this chapter, we explore the Sri Lankan and Vietnamese economies by evaluating the FDI policy measures implemented in the aftermath of significant economic and political change. There are measured indications that with FDI, political stability and economic growth goes in tandem (Kuhre 2016; Nor and Masron 2018). This chapter attempts to unravel the extent to which FDI flows into Sri Lanka and Vietnam impacted their respective economies in the postconflict era.

This chapter adopts a political economy disciplinary approach to examine the politics and economics of two countries which are dependent on FDI to fast track their quest for national development. After reviewing the literature to locate the study of post conflict and new turn in economic policies, the country profile section identifies challenges and mitigation efforts to attract FDI. The conclusion explores future research trajectories in the areas of FDI and post conflict areas in the broader global context.
9.2 Literature Review

Ezeoha and Ugwu (2015) posit that rebuilding infrastructure damaged by conflict can attract FDI. Other in-country alignments such as institutional frameworks and market factors are relevant to the destination’s capacity to attract FDI (Chen et al. 2017). These alignments are essential in convincing foreign businesses to establish subsidiaries or other operations since changes in economic policy or instability in institutional policy frameworks, especially for a country emerging from a postconflict era, can have large impacts on both the structure and the size of FDIs (Da Rin et al. 2019).

When considering whether a market or a country is good for investing, several factors are considered desirable, including a healthy government fiscal balance, an appreciating real exchange rate (Goldberg and Kolstad 1994; Mercereau 2005; Kiyota and Urata 2004), low inflation (Singhania and Gupta 2011; Demirhan and Masca 2008), low interest rates (Siddiqui and Aumeboonsuke 2014) and a strong financial system and institutional bodies (Mercereau 2005). However, Hausmann et al. (2000) argued that an indication of large FDI inflows does not mean that a country has a strong and stable financial system and domestic institutions.

Al Nasser (2010) showed that FDI is an essential tool in developing economies. Governments favour FDI as a means of developing their economy and foster growth rates (Narula 2012). Demirhan and Masca (2008) noted FDI is favoured by developing countries, as it helps to alleviate the problem of a national savings shortage, and thus overcome an inability to finance investments with local sources of capital. He also said that those economies always need foreign capital, at first by taking international loans, but later changing to favour direct investment as well as indirect investments, such as mutual funds and directed partnerships, etc.

There are many positive benefits for countries receiving FDI. This type of investment allows for technology relocation (Potterie and Lichtenberg 2001; Loungani 2001), normally under the form of transfers from developed to developing economies. Balasubramanyam et al. (1999) and Dang (2013) pointed out that another benefit for recipient countries is the promotion of competition in local markets. When a new advanced technology arises, other local companies will face the threat of losing market share, which forces them to become more competitive. Blomstrom (1991) and Balasubramanyam et al. (1999) also identified labour force benefits in host countries, as FDI encourages businesses to offer training programmes for local employees that correspond with the introduction of more advanced technologies. As discussed by Nguyen et al. (2019a), Buettner et al. (2018), and Barry (2005), there has been much debate about the level of corporate tax revenues as a result of FDI projects in host countries since the emergence of transfer pricing, although FDI was originally meant to contribute to host countries in terms of corporate taxes paid (Balasubramanyam et al. 1999).

Post Conflict justice is also an important factor where it could increase the positive image of the host country (Appel and Loyle 2012). The risk of violence, unrest, war and conflict in the host country consistently provides a negative picture to investors
(Barry 2018). Also, some of the other indicators are law and order, the stability of the government, and bureaucracy related to investment (Busse and Hefeker 2007). Political risk indicators have negative influences on FDI inflows to any country especially emerging economies (Khan and Akbar 2013). Political instability creates an uncertain economic environment, one of the main factors impeding FDI inflows, thus requiring countries to take extra measures to attract FDI. Various studies in the past have shown negative correlation between increased political risks and FDI inflows. (Click 2005; Hayakawa et al. 2011). Such political risk factors include democratic accountability, government stability, socio-economic conditions, religious dissen- sion, internal and external conflicts, investment profile and ethnic tension. Sustained periods of peace create favourable conditions for new investment (Barry 2018).

When economic factors are considered, strong stability of the exchange rate was preferred as the key reason. Azam and Lukman (2010) found that a good set of FDI determinants include market size, external debt, domestic investment, trade openness and physical infrastructure in India, Indonesia and Pakistan. Bokpin (2017) elaborated further by pointing out that the more FDI that flows into a country, the less sustainable it would be if there is weak governance and vice versa. In any event, obtaining a healthy and sustainable level of FDI is among the top priorities for many countries. Garriga and Phillips (2014) studied the significance of foreign aid in a set of post conflict countries. In recent times, the barometer has shifted with investors beginning to depend less on foreign aid as a signal for investment opportunities with the ease of access to increasing amount of data driven investment decisions.

9.3 Study Approach

Attracting FDI involves three common precepts: (1) domestic stability and accessibility of various productive resources (2) the international relations environment concerning various stake holders and (3) the firm’s business decision based on factor costs and market proximity (Dascher 2015; Bédécarrats et al. 2019).

Country profiles are added in this chapter to provide a basis for contextual analysis. Similar approaches have been adopted in the context of FDI in post conflict destinations such as Nigeria, Nepal, Sierra Leone, Georgia, Kosovo, Angola and Myanmar (Goldberg 2008; Afram et al. 2012; Nyeadi and Adjasi 2020; Skovoroda et al. 2019). Sri Lanka and Vietnam were selected because they stand as unique cases in the tropics. Both countries are pursuing international market integration and are open to FDI. It is also important to notice that both share border with two of the Asian superpowers; Sri Lanka shares the territorial waters with India, while Vietnam shares land and sea borders with China. The countries were chosen not for the purposes of comparative study but to understand how both a democracy and a socialist government approach the goal of attracting FDI despite diverging political systems. Three primary research questions emerge:
R1: What are the political and economic conditions in both countries which impede FDI inflows?

R2: How does perception of doing business affect international interests?

R3: What efforts were made by the respective national governments to attract FDI?

In an empirical study of small economies that were politically stable and prone to violence, Kurecic and Kokotovic (2017) found a greater volume of FDI outflows in long-term relationships with economies that are politically unstable. In adopting a more political perspective, Pinto (2013) finds that FDI favours left-wing governments where the trade liberalism policies are more attuned to less unrestricted commercial transactions than is a right wing regime where regulatory measures tend to be a challenge to larger business interests. In this profile section, we examine the states of Sri Lanka and Vietnam. We attempt to coalesce the different political and economic factors that determine the FDI flow into these countries and examine national frameworks that filter or enhance them to make way for FDI.

9.4 Sri Lanka

Sri Lanka is a tropical island country situated just below the Indian subcontinent on an important strategic maritime trade route. In this post-independence period, Sri Lanka with a population of almost 22 million has all of the right attributes to become an international business hub: abundant natural resources, an advantageous geographical location, and a highly skilled low-cost labour force. Successive post-independent governments have implemented different economic policy agendas, all of which have failed to capitalize on these opportunities, creating political turmoil and disastrous ethnic conflicts (Snodgrass 1999). Due to these conflicts, the overall political climate, as well as the policies and macroeconomic conditions of the country, Sri Lanka has been poorly placed to attract investments. In the last five years, the country received USD5.3 billion in FDIs but the net inflow after excluding repatriation of profits, interest payments and debts remitted, the figure is estimated to be less than a billion dollar (Hettiarachchi 2020). Few studies have sought to develop an understanding of Sri Lanka’s deeper challenges. In this chapter, we analyze the political challenges that have impeded the economic progress needed for the country to emerge from the post-civil war era with a positive growth trajectory and how FDI is affected by those challenges.

The country’s ethnic civil war began in 1983 (Grobar and Gnanaselvam 1993) and ended in 2009. In the aftermath of this civil war, numerous studies have highlighted the degree to which Sri Lanka has missed FDI opportunities (Ravinthirakumaran et al. 2015; Konara and Wei 2017). At the same time, the world was facing a global financial crisis, and oil prices had reached historically high levels, leading to price increases in commodities, transportation and raw materials (Demyanyk and Hemert 2011). Moreover, Sri Lanka faced additional economic pressures, due to urgent reconstruction requirements, humanitarian efforts and increased government support for the
poor. As a result of the conflict, a series of significant economic problems emerged. These issues could be addressed through FDI growth which was needed to overcome the gaps in savings and investments as well as foreign exchange.

As a result of the conflict, a series of significant economic problems emerged. These issues could be addressed through FDI growth which was needed to overcome the gaps in savings and investments as well as foreign currency exchange. In early 2010, the incumbent president Mahinda Rajapaksha was re-elected for a second term. His election manifesto ‘Mahinda Chinthanya: vision for the future’ offered potential to rebuild the nation’s infrastructure. The strategic geographic location of the country was an important factor for commercial, aviation and naval activities but it was never exploited to achieve any comparative advantage. Sri Lanka was already producing/supplying knowledge and skills at a level that was competitive by world standards (Abeyratne 2010b). These factors attracted investments in diversified areas from many Indian companies following the signing of the Indo-Sri Lanka Free Trade Agreement. Sri Lanka’s other significant contributor was China, especially in infrastructure projects as part of China’s Belt and Road Initiative.

The tourism industry was expected to make an ambitious leap forward from 0.5 million arrivals in 2009 to 2.5 million by 2016. To support this rapid growth the government intended to fulfil its infrastructure ambitions and other requirements through private sector investment. In 2009, the total number of guest rooms was 15,000 while it was projected that a further 50,000 new hotel rooms would be available shortly. Such developments illustrated the kind of potential that induced many global hotel chains to start operations in Sri Lanka, including local partnership projects (Ravinthirakumaran and Lakshman 2010).

Given that studies show a unidirectional correlation between FDI and prices in the tourism industry, a more competitive pricing mechanism and government regulations might improve the investment opportunities in the current global business environment (Ravinthirakumaran et al. 2019; see also Mustafa and Santhirasegaram 2014). In July 2009, the Sri Lankan government entered into a Technical Memorandum of Understanding with the International Monetary Fund (IMF) which specified fiscal, monetary and external sector targets to be achieved by the government. This agreement provided foreign investors with the necessary confidence for portfolio capital inflow based on the projected macroeconomic performance and a higher return on investment (Abeyratne 2010a). The Strategic Development Projects (SDP), passed by the Sri Lanka parliament in 2008, empowered the minister in charge of the Board of Investment (BOI) to grant a five-year tax holiday period to attract FDI, with a minimum required investment of US$ 500,000 to qualify for the tax holiday (Athukorala and Jayasuriya 2012).

In the postconflict era, Sri Lanka while mired in domestic politics, continues to determine its place among trading ports and a development trajectory. For example, in 2018, on a business investment promotion in the United Kingdom, the minister stated that Sri Lanka is determined to transform its economy into a knowledge-based economy (Mena Report 2018). The successive governments since that of former President Rajapaksa’s administration have facilitated FDI participation in the Western
Region Megapolis Master Plan and the National Physical Plan. While international relations with both India and China may appear to pose volatility in Sri Lanka’s foreign policy, surely the fact that China remains the largest source of FDI means that the island country has to take into account national and economic interest as it carefully charts a development path (Fitch Solutions Group Limited 2020).

9.5 Vietnam

Vietnam, located in the mainland area of Southeast Asia, began to open its economy at a time when East-West tensions were easing following the collapse of the former Soviet Union and the acceptance of the Chinese capitalist model of growth. In the late 1980s, Vietnam introduced the Doi Moi economic reforms to revitalize the economy from the doldrums of its own heavy commitment in the Cambodian occupation and intermittent border wars with China. Fast forward to the 1990s and 2000s, and Vietnam has become one of the fastest growing economies in the region if not the world. Studies in recent decades on the flow of FDI have focused on spillover effects on local suppliers in the supply chain, technological transfer, benefit to locals and the varied international origins of capital investment into Vietnam as opposed to its competing neighbours (Ni et al. 2017; McLaren and Yoo 2017; Nguyen et al. 2019b).

Prior to the Covid-19 pandemic, Vietnam was poised to receive USD39 billion but estimates now hover around USD38.3 billion (Asia News Monitor 2020), which is still a remarkable advance in a climate of political uncertainty in relations with China on the South China Sea dispute, fluctuating relations between China and the United States over trade, Taiwan, Hong Kong and continuing territorial grabs in South China Sea. More importantly, Vietnam’s delicate balance of international relationships and gravitation towards the United States creates a multidimensional and dynamic situation in its efforts to attract FDI.

Vietnam is in a comfortable position having withdrawn from the Cambodian conflict and at peace with China along the land borders, moving at breakneck speed to develop its economy. As a member of ASEAN it has enormous links to business standardizations and skills transfer from countries within the region especially from the more advanced economies of Thailand and Singapore. With over 95 million people, Vietnam’s reservoir of labour and infrastructure provisions are quickly powering the country into competition with neighbouring states for foreign direct investments. Thang and Dung (2019), highlights the challenges with heavy bureaucracy within the country and lack of a system to compile FDI policies and measure their efficiency. There is also weak connection among different incentive policies, i.e. Custom duty incentives are for high-tech companies, while rental fee incentives are for all FDI recipients. Finally, many of the incentives are complicated with multiple subjective adjustments in rental fee incentives.

According to the Vietnam Communist Party (2019), there were a few challenges that the country faced when they initiated the Doi Moi reforms in 1987:
1. Poor infrastructure: No highway roads nor deep sea port, no industrial zones
2. High inflation rate: around 393% at the beginning of 1989.
3. High rate of bankruptcy in state own companies: monopoly with imbalance of private segment, but state-owned companies did not work productively
4. Collapse of provincial and state funds as a result of state own company bankruptcies
5. High unemployment rate and low skilled workers.
6. Heavy bureaucracy: local governments were puzzled on how to attract foreign investments and not affecting the local economy.
7. Lack of international trade as the US still maintained trade embargo on Vietnam until 1994 (Ngan 2016)

Apparently, Vietnam needed to rectify most of these challenges in order to lure a good flow of FDI into the country. According to Nga (2019) and National Assembly (2014), the most recent policies in favour of FDI are in three specific areas: corporate income tax incentives, customs duty tax incentives and rental fee reduction.

Labor force productivity has also been shifting towards higher skill categories (Le 2020). Through those policies, Vietnam has accumulated a healthy fiscal balance and created an attractive environment for international investors, while gradually attempting to equalize the tax treatment of local and foreign invested companies (Ministry of Finance 2020, trans) (Table 9.1).

| Standard customs duty | Incentives for FDI projects | Remarks |
|-----------------------|----------------------------|---------|
| Various depending on each good | • No tax (0%) on importing goods/facilities for fixed assets | Prioritised for importing materials for processing |
| • No tax (0%) on exported processed commodities | Joined ASEAN Free Trade Agreement and Common Effective Preferential Tariff (CEPT) |
| • No tax on exported goods and facilities for hi-tech, science and technology companies and organizations in first five years of operation | Enhance the custom duty system by joining 17 Free Trade Agreements (FTAs) |

Table 9.1 Customs duty incentives period
From Table 9.1, it is noticeable that Vietnamese policies on customs duties have been moving from accumulating assets and building a strong manufacturing foundation (no tax for fixed assets) towards a more open economy with priorities for high-technology and a more skillful labour force to create a fair investing environment. By joining 17 FTAs Vietnam is now open for even more FDI flows; however, this adds impetus for local companies to improve their human resources to meet higher productivity and greater efficiency.

9.6 Discussion

There are specific stages of economic policy that had huge impacts on Vietnam and Sri Lanka FDI. For Vietnam, it is the Doi Moi era (economic restructuring) since 1987, for Sri Lanka, the post-civil war period since 2009. Both countries have favourable conditions in natural resources, geographical location and labour force but nevertheless, their foreign policies appear to play a critical role in terms of attracting FDI (Table 9.2).

Apparently from Table 9.3, it is evident that while Vietnam is doing better than the regional average, Sri Lanka continues to lag behind its regional peers on average in receiving Foreign Direct investments. Data from the World Bank (2020) shows that Vietnam has had huge FDI fluctuations since the Doi Moi era began in 1987, with a then record high 11.9 billion USD in 1994 when the country established several favourable policies to attract FDI, a record low at 3.39 billion USD in 2005, and an all-time high record by far at 38.02 billion USD in 2019 (Vietnamplus 2019). Available statistics suggest that Vietnam has been establishing appropriate policies to lure FDI flow to the country.

Post-civil war (2009) SL established very strong political and economic ties with China and India compared to other nations which resulted in a special Free Trade Agreement (FTA) with India while China was granted special preferential opportunities to build infrastructure (i.e.: highways, power plants) projects which resulted in large amounts of FDI directed towards SL (Abeyratne 2010b). The government policies attracted FDI in the short-term, but due to lack of good governance, strong financial policies, healthy exchange rate systems, reductions in the budget deficit, trade openness and ease of doing business, etc. Weakening ties with western countries caused many global investors (private and public) to consider Sri Lanka’s situation as ambiguous.

The Doi Moi era has had a huge impact on Vietnam’s FDI ever since 1987. The country has welcomed foreign trade relationships with open arms regardless of partner, with the sole purpose of improving its economy. As a result, they attracted FDI sources from Korea, Japan, Hong Kong, Singapore and Thailand among 125 countries and territories investing in Vietnam (Vietnam Investment Review 2019). The country did not favour any specific one or two countries, in fact they have
Table 9.2  Synthesis of two countries’ policies in attracting FDI projects

| Country’s policies to attract FDI flow | Sri Lanka                                                                 | Vietnam                                                                 |
|---------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Reduce tax                            | Mainly Indian and Chinese FTAs, and main highlight is Tax holidays for longer period combined with other facilities (Ravinthirakumaran et al. 2015) | 17 FTAs, various incentives on corporate tax, custom duty and rental fee (Thuan 2019) |
| Obtain healthy and sustainable level of FDI | Priorities were tourism and infrastructure, and other areas considered were commerce, naval, aviation, knowledge and energy (Abeyratne 2010b) | Priorities in manufacturing, infrastructure development; high-tech; green energy (Hoa and Van 2017) |
| Seek more effective governance        | Reducing the bureaucratic and simplifying the existing complicated tax system (Nenova 2018) | Reducing paper works and simplified tax system but still somewhat complicated (Nga 2019) |
| Enhance physical infrastructure       | Public–Private Partnerships (Ravinthirakumaran and Lakshman 2010)          | Through mainly state-owned companies but starting to involve private segment (Tap Chi Tai Chinh 2018) |
| Improve trade openness                | Mostly India and China due to deteriorated relationship with western countries (Ravinthirakumaran and Lakshman 2010) | Through any possible foreign investors |
| Human resource enhancement and local resource advantage | FDI projects were mainly focused around cheap labour force rather than other factors such as the local reserve (i.e. oil) (Abeyratne 2010b) | FDI projects using local labour but barely using local resources (Nga 2019) |
| Appreciating real exchange rate       | Not directly driven by market forces, many times during this period (Abeyratne 2010b) | Driven by state adjusted accordingly to the global exchange (Do 2020) |
| Domestic investment vs foreign investment | Foreign investments were given more preferential opportunity than domestic investments (Abeyratne 2010b) | Through corporate tax income incentives, progressively making the 2 sides equalised (Ministry of Finance 2020) |

signed 17 FTAs so far, most recently with Europe and the US expressing openness to global investors. Further, the single party rule creates an advantage in managing macroeconomic factors to attract FDI such as maintaining a healthy exchange and inflation rates.
Table 9.3 Foreign Direct Investments in Sri Lanka & Vietnam in US$ Billion (The World Bank 2020)

| Year | Sri Lanka | South Asian Region | Vietnam | East Asia & Pacific |
|------|-----------|--------------------|---------|---------------------|
| 1970 | 0         | 0                  | 0       | 0.6                 |
| 1975 | 0         | 0                  | 0       | 0.4                 |
| 1980 | 1.1       | 0.1                | 0       | 0.4                 |
| 1985 | 0.4       | 0.1                | 0.7     | 0.3                 |
| 1990 | 0.5       | 0.6                | 4.2     | 0.7                 |
| 1995 | 1.1       | 1.0                | 3.4     | 1.1                 |
| 2000 | 1.1       | 1.5                | 6.9     | 2.1                 |
| 2005 | 0.8       | 1.8                | 6.1     | 1.8                 |
| 2010 | 0.8       | –                  | –       | –                   |
| 2015 | –         | –                  | –       | –                   |
| 2019 | –         | –                  | –       | –                   |

9.7 Conclusion

History and existing literature suggest that FDI brings many positive benefits to recipient countries, including technology transfer, better local market competition, higher quality labour force (through training programmes) and good revenue from corporate tax. With that in mind, most developing countries have been trying to attract a good flow of FDI. However, questions remain as to how well they have done, given the constrained conditions each country has. In this regard, this paper’s critical finding is that the diplomatic relation of each country play a crucial role in attracting FDI. The finding may give readers insights of what Vietnam and Sri Lanka have been doing to boost their economic growth by attracting FDI and why each country departing at somehow similar starting point of its own political and economic challenges ended up with different results.

Jensen (2012) in a study showed that there are inherent risks involved when assets or holdings are susceptible to regime changes. The number of expropriations of MNC assets in autocratic systems was four times higher than in democratic regimes during the period 1960–1990. If we were to juxtapose this notion about regime changes and nationalism as one of the causes of expropriation, a mixing of international relations in this day and age might also throw up some interesting posturing and risks (Barry and DiGiuseppe 2019). A regime that favours one country’s investments over the other might be biased politically in its policy to extend contracts to FDI that are actually investing in the infrastructure, and that may lead to downline developments and progress for the country that is backed by a foreign power. This type of exchange and regime patronage was not quite clearly enunciated in the literature, but international power rivalry certainly has an impact on the direction of regime and institutional frameworks.

Observations show that while Vietnam and Sri Lanka tries to improve transparency in governance and the financial system which are important factors that foreign investors are keen to see happen. While Vietnam increased its trade openness, signing 17 Free Trade Agreements and establishing massive incentives for foreign investors from 125 countries and territories, Sri Lanka entered into eight trade agreements (both bilateral and multilateral) and were in the process of signing them with many other countries (Central Bank 2019). The FDI statistics on Sri Lanka show the average FDI influx is around US$ two billion annually and thus far the largest amount of FDI
it has attracted was US$ 2.85 billion in 1997; comparatively Vietnam attracted its highest record of US$ 38 billion in 2019.

This chapter’s finding records the crucial role of diplomatic relations that both countries have been following, to suggest that developing countries should make themselves transparent and neutral in the eyes of investors, creating equal opportunities to foreign direct investors. Unless countries take measures to implement and sustain the factors favouring investor friendly climate for investments the governments would continue to struggle to attract large FDI which is evident in this chapter.

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