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CAUSAL RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH: AN EMPIRICAL STUDY OF BRICS COUNTRIES

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Abstract

Foreign direct investment has played a significant role in the development of any economy. It enables to achieve a certain degree of financial stability, growth and development. As a developmental tool, it plays an important role in the long-term development of a country, not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. So, this paper have made an attempt to probe the granger causal relationship empirically between the foreign direct investment and economic growth and also compute the long run relationship for the BRICS countries. To achieve these objectives, the data were collected for the period of 1991 to 2018 and were analysed by using technique of unit root test, granger causality technique and Johnson co-integration test. By applying Johansen Co-integration model, they found that the Brazil alone co-integrated among the selected countries at levels. Further, Vector Error Correction Model (VECM) was employed to trace the existence of long run relationship. The results of VECM found that Growth leads FDI bi-directionally for Brazil, Russia and South Africa and FDI leads Growth uni-directionally for India and China respectively. In India, Gross Domestic Product causes Foreign Direct Investment which reveals that there is unidirectional relationship between Foreign Direct Investment and Gross Domestic Product.

Keywords: Foreign Direct Investment, Economic Growth, Granger Causal, BRICS.
