

Abstract

This study investigates the relationship between India's GDP growth and trade openness (TO) and foreign direct investment (FDI). To accomplish this, data was collected between 1991 and 2017. The impact of TO and FDI on GDP was examined using autoregressive distributed lag (ARDL) model. The causal relationship between the variables was also examined using the Granger causality test. Before applying these models, unit root tests were performed. The results of the ARDL model provided strong evidence for a long-term relationship between FDI, TO, and economic growth. Nonetheless, the short-term impacts of FDI and TO on GDP are minimal. The results of error correction model (ECM) show that the equilibrium responds to a disturbance rapidly. TO, FDI, and GDP are found to be correlated in a unidirectional manner by the Granger causality test. The diagnostic tests show that there are no problems with serial correlation or heteroskedasticity, while the results of CUSUM and CUSUMSQ show that the model is structurally stable.

Introduction

One of the fastest-growing economies in the world, India's economy is recognized as a vital source of savings for the country's development. Although India's nominal gross domestic product (GDP) is the sixth largest in the world, Nagaraj (2013) states that the country's economy is rated third internationally with purchasing power parity.