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Abstract

The article investigates vestment (FDI) on economic growth in case of Pakistan over the period of 1990–2008 using quarterly data set. The Autoregressive Distributed Lag (ARDL) bounds testing approach is applied to examine the long-run relationship and the direction of causality is investigated using the Vector Error Correction Model (VECM) framework between the variables.

Our findings confirm the existence of cointegration, showing long-run relation between financial development, imports, FDI and economic growth. Financial development, imports and FDI have a positive and significant effect on economic growth of the country. Causality analysis reveals a bidirectional relation among the variables but strong causality is also running from financial development, economic growth and FDI to real imports.

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