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## The Causal Relationship between Foreign Direct Investment and Current Account: An Empirical Investigation for Pakistan Economy

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### Abstract

This paper investigates the relationship between FDI and current account (CA) in Pakistan using the Johansen-Juselius cointegration technique and the Granger causality test. The study results indicate that FDI and CA are cointegrated and thus exhibit a reliable long-run relationship. The Granger causality test findings indicate that the causality between FDI and CA is uni-directional. However, there is no short-run causality from FDI to CA and vice versa. Therefore, as a policy implication that FDI inflows may cause to the deterioration of the balance of payments, in the long run, it should be taken into account when policymakers decide to implement policies to attract foreign investors.

**Keywords:** Asia, Pakistan, Cointegration, Granger, FDI, Causality, Current Account

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