Abstract

This study investigated the economic and social implications of Foreign Direct Investment (FDI) in Pakistan. It analyzed the contribution of FDI and other major determinants in Economic Growth. The social aspects include the influence of labour force on economic growth. The method of the study includes an analysis of FDI, government expenditure, labour force, macroeconomic instability, exchange rate and capital formation on economic growth using 1970-2003 data for Pakistan. To this aim time series approach is adopted using yearly data. Results of short run dynamic behavior show that government expenditure capital formation, labour force, foreign direct investment and net exports have significant affect on economic growth. While macroeconomic instability and exchange rate have insignificant affect on economic growth. The results of Granger Causality provide support of a positive long run as well as short run Granger Causality going from FDI to economic growth, although not in the opposite direction in long run.