

## **Abstract**

From 1980's impact of FDI on economic growth is a major point of discussion especially in the developing countries. In this study we take the annual time series data of Pakistan from 1980 to 2011. To examine the impact and long run relationship among the variables we applied different econometric techniques such as unit root test, Johansen co-integration technique, VECM and granger causality test to examine long run relationship among GDP, FDI, EXP and IMP. The study analyzed the impact of FDI on economic growth. The results indicate that FDI has positive impact on economic growth and variables have long term relationship. Through granger causality we find that economic growth of Pakistan does granger the foreign direct investment causality. Also found causality between export with GDP and FDI. Government should provide the friendly environment for foreign investors to invest in Pakistan by making monetary policies.