Foreign Direct Investment and Trade Components in
Context of Pakistan
5. Conclusion

In this paper, we evaluated the effect of FDI on trade components (exports and imports) of the country using annual data from 1975 to 2013. Engle and Granger two step cointegration method was used for conducting the analysis. This method was adopted because all the variables of interest were nonstationary in level and stationary at first difference. Results provide evidence of long run cointegrating relationship as well as short run relationship between FDI and trade components. A rise in FDI causes both exports and imports to increase. Based on these empirical findings, we strongly recommend Government of Pakistan to focus on the strategy of investment liberalization as well as trade openness.