

## External Sector and Its Impact on Economic Growth of Pakistan (1990-2010)

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**Abstract :** This study investigates the behavior of external sector of Pakistan economy and its impact on economic growth, using quarterly data for the period 1990:01-2010:04. External sector indices used in this study are financial integration, net foreign assets and trade integration. Augmented Ducky fuller confirms that all variables of external sector are non-stationary at level, but at first difference it becomes stationary. The co-integration test suggests one co-integrating variables in the study. The analysis is based on Vector Auto Regression model followed by Vector Error Correction Model. The empirical findings show that financial integration play important role in increasing economic growth in Pakistan economy while trade integration has negative effect on economic growth of Pakistan in the long run. However, the short run confirms that output lag accounts for error correction. The estimated CUSUM and CUSUMQ stability test provide information that the period of the study equation remains stable.

**Keywords :** financial integration, trade integration, net foreign assets, gross domestic product

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