

This study looks into the determinants of foreign direct investment and economic growth of four countries (Pakistan, China, Bangladesh and India) based on secondary data covering the period from 1970-2010. The selected three countries are from Subcontinent. China is included in this study because China is getting highest foreign direct investment and it is on the top of preferred destinations of foreign direct investment. Ordinary Least Square (OLS) is used in this study to reveal the relationship between variables through two equations.

The results, obtained from the analysis show that large market size and growth in the market of the host country are most significant determinants of foreign direct investment and foreign direct investment is an important ingredient of economic growth and economic growth. The relationship between foreign direct investment and economic growth is ilateral.

The results also reveal that domestic saving, growth in exports and employment are contributing to the economic growth. Depreciation in the exchange rate and deficit trade balance attracts foreign direct investment. When countries face trade deficit they adopt more favorable policies towards foreign direct investment.