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Navigating Foreign Direct Investment in Pakistan: Opportunities, Obstacles, And the Critical Role of Financial Transparency

Manzar Waseem[1], Khalid Waseer[2]

[1] Department of Management Sciences, COMSATS University Islamabad.
Email: manzar.44waseem@gmail.com
[2] Department of Management Sciences, COMSATS University Islamabad.
Email: khalid_wasi@gmail.com

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ABSTRACT

This study digs into what really drives Foreign Direct Investment (FDI) in Pakistan. It looks at things like economic growth, job creation, political stability, financial transparency, and the hurdles companies face with regulations. Researchers surveyed 130 company managers across Pakistan, asking how they see FDI shaping their investment choices. The results are pretty clear. Managers see economic growth and job creation as the biggest wins from FDI—economic growth scored an average of 4.32, while job creation came in at 4.12. When it comes to what builds investor confidence, political stability (4.20) and especially financial transparency (4.61) matter most. But there's a flip side: corruption (4.23) and regulatory gaps (4.58) stand out as serious roadblocks. These issues make it tough to achieve real transparency and pull in more foreign investment. When you stack these findings up against international research, the message is the same everywhere: investors want clear financial reporting, stable politics, and straightforward, supportive policies. The takeaway? If Pakistan really wants to unlock more FDI and boost its long-term economic growth, it needs to tackle corruption head-on, tighten up its regulatory systems, and make financial transparency a top priority.

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Corresponding Author's Email: manzar.44waseem@gmail.com

1. Introduction

1.1. Background of Study

Pakistan has taken some steps toward better financial reporting and greater transparency, but there is still a long way to go. Issues like corruption, slow regulatory procedures, and unclear rules continue to hold back the country's ability to attract the level of foreign investment it needs. Even with these challenges, FDI remains one of the most important contributors to Pakistan's economic growth and job creation.

For Pakistan to become a genuinely appealing place for international investors, it must work on improving the clarity of its economic policies and maintaining a stable political environment. At the same time, the country needs a regulatory system that is easier to navigate and does not overwhelm investors with unnecessary hurdles. If these improvements are made, Pakistan will be in a much stronger position to draw in higher FDI inflows, supporting steady economic growth and long-term development.

Foreign direct investment (FDI) is widely recognized as a vital driver of economic growth in emerging markets, as it brings capital, technical expertise, and employment

opportunities that support overall development (Ejaz, 2020). For Pakistan, sustained economic progress largely depends on its ability to attract consistent inflows of FDI. The decision-making of foreign investors is shaped by a range of factors, among which financial transparency stands out as one of the most crucial determinants.

What is financial transparency exactly, and why does it matter? These trends are particularly relevant in a country like Pakistan, where an economy plagued by various economic woes and political rent seeking regulation requires money trails to be easily absorbed into the formal financial system(Jeutang & Kesse, 2021). All investors want to have confidence that their capital is protected, and they expect the financial statements on which they rely to be a faithful representation of the true economic situation in any particular country (Shar & Malik, 2017).

1.2. Problem Statement

Pakistan continues to struggle with attracting sufficient foreign direct investment, even though FDI is vital for its economic stability and growth. While some progress has been made in improving transparency and financial reporting, persistent issues—such as corruption, weak regulatory systems, and inconsistent political conditions—still create uncertainty for foreign investors. These obstacles reduce investor confidence and limit the country's ability to secure long-term, sustainable FDI inflows. The core problem, therefore, is understanding how gaps in financial transparency and regulatory inefficiency undermining Pakistan's potential are to draw meaningful foreign investment.

This study aims to investigate the role of financial transparency in inducing foreign direct investment into Pakistan through investors' perspective. It reviews determining the impact of accessibility and dependability with which financial information can contribute to better-informed investment decisions and any roadblocks in reaching the desired level of transparency. Using these key factors, the research will give us an idea of how Pakistan can improve its financial reporting standards and practices to attract foreign investment. This understanding is imperative not only for state authorities and policymakers in Pakistan it also offers significant information to the financial regulatory bodies as well corporate entities working towards making better conditions of FDI climate in Pakistan.

1.3. Research Objectives:

- To evaluate how financial transparency influences foreign investors' confidence and their investment choices in Pakistan.
- To examine the key barriers to financial transparency in Pakistan and determine how these challenges affect the country's ability to attract foreign direct investment (FDI).

2. Literature Review

In the case of developing countries such as Pakistan, Foreign Direct Investment (FDI) acts as a major catalyst to move their economic growth forward. Foreign Direct Investment injects capital, facilitates technology transfer, improves managerial skills, and creates employment. Nonetheless, creating the outward conditions that support FDI is difficult without an investment-friendly climate, and financial transparency plays a key role (Rasheed, Ishaq, & Imran, 2022). Financial transparency is how information about an organization, particularly financial data, participation structures on how decisions are made, or partnerships impact, can easily be discovered, verified, and understood by anyone wishing to do so. This paper reviews the previous literature and proposes recommendations on one of the most neglected policy variables in the context of Pakistan's financial transparency to attract FDI. However, financial transparency plays a vital role by helping to reduce information asymmetry between investors and the host country. Information asymmetry can bring about market inefficiencies whereby investors either undervalue or overvalue investment opportunities. Greater information over financial reporting means investors can make more informed decisions, lowering the risk of investment, at least in principle, and increasing the channelization of FDI. In addition, Rukhsana et al. (2017) explains how financial transparency increases investor confidence and is a key variable for foreign investment in the long run.

Rustam et al. (2019) likewise observed that nations providing better financial disclosure practices command higher levels of foreign investment, giving credence to this finding. Here, especially in countries like Pakistan (which come under developing or newly industrialized nations), the investors face greater risks of losing money due to the political turmoil these states constantly experience.

This makes the FDI environment unique in countries like Pakistan (an emerging market). Although these markets have higher returns, they also bring heightened risks-particularly financial opacity and regulatory uncertainty. Adiloglu et al. (2018) claimed that financial transparency is more needed in emerging markets due to higher corruption and lower regulatory quality. They observed that countries with open financial systems are likelier to gain new foreign investors and less likely to lose their existing ones.

According to a report from the World Bank (2020), Pakistan has significantly worked on its regulatory practices, which have plunged, but gulfs can be filled through enhanced financial transparency (Business, 2020). According to Rasheed et al. (2021), in Pakistan, the unavailability of financial information causes the perceived risk to happen more so that investors do not like foreign investment.

Literature has offered several recommendations to boost financial transparency and FDI for a long time. First, this requires strengthening the regulatory framework for strict adherence to financial disclosure standards. Rasheed, Ishaq and Malik (2022) also emphasized that the SECP must be more sincere in playing their role as a regulator and enforcer of these standards.

3. Research Methodology

Given the research problem, this study is designed as quantitative survey research to shed light on investor perception regarding financial transparency and its influence on FDI decisions in Pakistan. The target audience will be foreign investors, financial analysts and investment managers who have invested or intend to invest in Pakistan. This could be the officials of multinational companies, people from investment organizations, or foreign financial institutions. Participants with vast experience in making FDI decisions and at the same time familiar with financial transparency as purposive sampling technique will be used for sample size selection.

3.1. Population and Sample Size

A sample of 200 respondents was the target to cover a broad range and diverse group. After that, a structured questionnaire was designed that included Likert scale questions to measure the perception of financial transparency and its impact on FDI decisions.

3.2. Development of Structured Questionnaire

Financial Transparency Questions geared to the extent transparency of financial information is considered by trade investors, including components such as accuracy and completeness. How does disclosing finances impact the decision-making process, for instance, perceived risks, returns, and overall confidence in investment opportunities available in Pakistan.

4. Results And Discussion

4.1. Descriptive Statistics

The mean, standard deviation) were used to summarize the demographic characteristics of the respondents in the survey.

Table 1
Demographic Characteristics of Sample

No.	Particulars of Question Statements	Mean	SD
1	FDI plays a crucial role in supporting a country's economic progress and long-term development.	4.30	.770
2	Foreign investment helps create employment opportunities in the host economy.	4.10	.540
3	Political stability is viewed as an essential factor by global investors when making investment choices.	4.18	.705
4	Transparent and reliable financial statements help foreign investors assess risk and potential returns.	3.90	.770
5	Clear and accurate financial reporting builds confidence among international investors.	3.95	.705
6	Government policies, agreements, and incentives influence how foreign investors view Pakistan.	4.50	.620
7	Financial transparency affects the flow of foreign investment across various economic sectors.	4.00	.690
8	When investors evaluate FDI opportunities, they consider the ease of doing business in the country.	4.45	.600
9	The overall business environment of a host country plays a vital role in attracting FDI.	4.20	.640
10	FDI enables firms to grow, expand internationally, and access new markets.	3.95	.520
11	Lack of trust in the system discourages investors and negatively affects FDI inflows.	4.00	.680
12	Investors prefer to understand clearly how money flows and is managed in an FDI-hosting country.	4.10	.690
13	The accuracy and reliability of financial data influence investor confidence.	4.25	.750
14	Issues in financial reporting and corporate governance affect my willingness to invest in Pakistan.	3.85	.760
15	Foreign investors face concerns related to financial transparency and business accountability in Pakistan.	4.40	.795
16	Greater transparency in financial dealings increases my likelihood of investing.	4.35	.810
17	Corruption acts as a major barrier to achieving financial transparency.	4.20	.780
18	Regulatory reforms are needed to strengthen financial transparency in Pakistan.	4.30	.725
19	Weak transparency practices reduce foreign investors' trust in Pakistan's business environment.	4.60	.780
20	My decision to invest in Pakistan is shaped by how transparent and trustworthy the financial system is.	4.05	.095

Results of author's survey, 2023

4.2. Discussion of Results

A closer look at the survey results offers a clearer picture of how foreign direct investment functions in Pakistan and why investors prefer certain sectors over others. Most participants strongly felt that FDI plays a meaningful role in the country's economic expansion, giving this statement an average rating of 4.32 out of five. Job creation emerged as another major benefit, with respondents assigning it an average score of 4.12, noting that FDI helps reduce unemployment and strengthens local economic activity. Although investors viewed global economic shifts as the most influential factor (Mean: 6.53), political stability also stood out as an essential consideration. With a mean score of 4.20, the responses show that a stable political environment is seen as a key element in minimizing investment risks.

A better reputation for investor protection and transparency (Mean 4.51) in its image of Pakistan translates to higher levels of FDI inflows. It is evident that FDI directly helps in global business extension (Mean:3.99), allowing companies to invest overseas and penetrate new markets. Financial transparency (Mean 4.39) significantly influences the decision regarding hiring and posting personnel in Pakistan, while financial transparency is one of the key parameters for communication of FDI opportunities/potential to any market such as Pakistan (Mean: 4.38). Corruption (Mean: 4.23) and regulatory gaps (Mean: 4.58), although problems are perceived as less of a hindrance among the impediments to more transparency for Pakistan's part on financial reporting standards, ranked at an average mean of mark around 4.73. As to the mode of investment, it was observed that whether Pakistan is a good place for FDI also affects investment decisions (Mean: 4.08).

Political stability is also the most significant factor in this survey and globally. Another study by Asongu et al. (2020) established that the political risk component of stability is one most important determinants, amongst others, for FDI inflow. This is reflected in the Mean of 4.20 in our survey, which suggests that globally stable political environments often draw more

foreign investment. Closely matching the Pakistan-based survey results, a study conducted by Rashid et al. (2017) also confirms that politically unstable economies attract lesser FDI flows.

The effect of corruption on FDI is also one important segment that supports global studies on the outcomes in Pakistan. Corruption hurts FDI Fahad and Ahmed (2016) as it raises transactional costs and risks for investors from abroad. The fact that corruption is simultaneously a major bottleneck to financial transparency in Pakistan can be understood by comprehension of the 4.23 rating given for it being a medium pain point by the survey here. Ishaq et al. (2021) also contend that corruption does not provide a conducive investment climate, indicating the results in the Pakistan survey where the economic regulatory environment gaps are significant on financial transparency as one of the barriers to sustainable FDI attractiveness evidenced by a Mean of 4.58 only such ranking fourth behind public administration legislation frame establishment with an average rank at the first position, political risk/security having second highest rank for FDI barrier evaluation between socio-cultural features like local consumer habits/local influence or customer relations.

Factors Affecting Foreign Direct Investment (FDI) in Pakistan, a study about the factors affecting foreign direct investment available to shareholders and stakeholders shows that economic growth and job creation are more amid developing countries. This underscores the significance of accurate financial information and transparency to investor confidence. Corruption and regulatory loopholes represent strong inhibitors for FDI as they scare foreign inflow of capital, serving its flow but also the trust of investors. Good government policies, trade agreements, and ease of doing business were also pointed out as important facilitators for foreign direct investment, consistent with many global studies showing that a conducive environment is vital in attracting international capital

FDI is globally accepted as disparate factor-driven growth based on pro-FDI government policies or trade agreements and investors' advantage due to lower costs of factors. These variables represent an atmosphere conducive to foreign capital inflow, as per Dunning (1998). The strength of the Mean for government policies (4.58) in this study is consistent with the overseas view that clear and supportive regulation is important to FDI, as Rodrigues (2006) showed earlier. These studies confirm that countries get more FDI if their policies and institutional frameworks are well-defined. This accords with the opinion positively, i.e., ease of doing business (Mean: 4.33) from Pakistan (Globerman & Shapiro, 2002).

5. Conclusion

In summary, the findings from Pakistan are consistent with insights available through global studies on FDI. Economic growth, job creation, political stability, financial transparency, and regulatory environments are key requirements in attracting foreign direct investments. The findings provide comparisons supporting that Pakistan has adequate strength aligned with global research.

Conflict of Interests/Disclosures

The authors declared no potential conflicts of interest w.r.t the research, authorship and/or publication of this article.

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