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The Role of Financial Transparency in Attracting FDI to Pakistan: An Investor's Perspective

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Abstract
This study examines the key factors influencing Foreign Direct Investment (FDI) in Pakistan, focusing on economic growth, job creation, political stability, financial transparency, and regulatory challenges. Data were collected from 130 company managers in Pakistan through a survey, analyzing their perceptions of the role of FDI in shaping investment decisions. The findings reveal that economic growth (Mean: 4.32) and job creation (Mean: 4.12) are viewed as the most significant benefits of FDI, while political stability (Mean: 4.20) and financial transparency (Mean: 4.61) play crucial roles in building investor confidence. However, corruption (Mean: 4.23) and regulatory gaps (Mean: 4.58) are major hindrances to achieving greater financial transparency and attracting more FDI. The study compares these findings with international research, underscoring the universal importance of transparent financial reporting, stable political environments, and investor-friendly policies. The study concludes that addressing corruption issues, improving regulatory frameworks, and enhancing financial transparency are essential for Pakistan to maximize its FDI potential and support long-term economic growth.
Keywords: Foreign Direct Investment, Economic Growth, Financial Transparency, Political Stability, Pakistan, Corruption, Regulatory Gaps

1. Introduction
FDI is firmly established as an essential ingredient for the economic development of Emerging Markets, bringing in capital flows, expertise, and, importantly, jobs leading to overall growth (Gardezi et al., 2023). In the case of Pakistan, achieving long-term sustainability in economic progress is contingent upon attracting foreign direct investment. Foreign decision-making is for a multiplicity of factors influenced and the most important parameter in this regard can be expressed as financial transparency.
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. 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 (Gardezi et al., 2022)
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.

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 (Gardezi et al., 2024). 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, Gelb (2010) explains how financial transparency increases investor confidence and is a key variable for foreign investment in the long run.
Several researches have indicated the relationship of financial transparency with investment decisions (Farooq et al., 2022). For example, Bushman and Smith (2001) also find evidence that more transparent financial reporting leads to reduced cost of capital as shareholders perceive less risk from increased transparency. The result is consistent with their study, which shows that clear financial systems lead to higher FDI inflows across the board.

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Leuz and Wysocki 2016) 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. Djankov et al. (2007) claim 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. According to Khan and khan (2016), in Pakistan, the unavailability of financial information causes the perceived risk to happen more so that investors do not like foreign investment (Farooq et al., 2020).
Ahmed and Anwar (2017) determined in their study of the determinants of FDI in Pakistan that financial transparency is another important factor. According to them, like political stability, it greatly affects the foreign investors doing business in any other country. The authors believe better financial disclosure practices could go a long way toward increasing Pakistan's appeal as an investment destination. Moreover, Akbar and Akhtar (2019) highlighted that financial transparency is the key to resolving corruption amongst Pakistan Companies and allows investors to keep full faith in Pakistani companies regarding the accuracy of their provided financial information.
Financial Transparency is vital in Pakistan, but attaining financial transparency comes with a price. Corruption, poor regulatory framework, and lack of enforcement mechanisms are three plausible barriers that the literature identifies. Pakistan scores poorly in Transparency International's (2020) Corruption Perceptions Index, reflecting extensive corruption and hindering efforts to enhance financial transparency.
In fact, the quality of enforcement by the regulatory environment under which companies operate in Pakistan has yet to establish a fully implemented framework for stricter financial disclosures (Shahbaz, 2013). The Securities and Exchange Commission of Pakistan (SECP) has worked to strengthen corporate governance regulations and standards for financial disclosure. However, the enforcement remains inadequate. This discrepancy generates low trust between foreign investors and policymaking (Raza, 2020).
The nexus between financial transparency and FDI inflows has been a focus of interest for many studies in Pakistan. Similarly, in Pakistan, Javed and Ahmed (2018), using the economic growth model, conducted an empirical investigation on the determinants of FDI inflows to draw some relevant findings departure from the theoretical explanation supporting the positive relationship between financial transparency and foreign direct investment. They conclude that better financial disclosure might promote FDI, especially in sectors where transparency is now wanting. Also, a report (IMF 2019) on the economic outlook in Pakistan enlisted the dire necessity of improving financial transparency to allure sustainable FDI efforts since transparent countries get higher capital return standards and relatively reduced interest rates. IMF stressed that although Pakistan holds immense potential to attract high FDI, lack of transparency in financial reporting and the prevalence of corruption are key factors hindering it.
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. Hussain & Iqbal (2015) also emphasized that the SECP must be more sincere in playing their role as a regulator and enforcer of these standards.
The second source of progress in transparency may come from the control and possibly reduction of corruption through better governance practices and more stringent legal support systems (Khan & Zaman, 2017). Third, IFRS (International Financial Reporting Standards) and its uniform application throughout industries can improve the reliability of financial data (Rana & Alam 2016).
Eventually, Qureshi and Anwar (2018) proposed that additional transparency could be promoted by Jawari's directive to build capacity and improve financial reporting practices among local companies, as well as a focus on using technology for information access during the production process of Section 26 Transparency.

Research Questions:

1. How does financial transparency influence the decision-making process of foreign investors in Pakistan?
2. What are the key barriers to achieving financial transparency in Pakistan, and how do they affect FDI inflows?

Research Objectives:

1. To assess the impact of financial transparency on foreign investors' confidence and investment decisions in Pakistan.
2. To identify and analyze the main obstacles to financial transparency in Pakistan and their effect on attracting FDI.

3. 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. 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.

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?

Descriptive statistics (mean, standard deviation) were used to summarize the demographic characteristics of the respondents.

Table 1: Survey Questionnaire

1.	FDI Improves Economic Growth and Development	4.32	.783
2.	FDI is important to create jobs and employment in the host country.	4.12	.537
3.	Political stability is a very important factor for investors from different walks of like in making their FDI decisions.	4.20	.717
4.	Reliable financial account data Convey perception of FDI opportunities.	4.61	.779
5.	Accounting and financial data are the tools that investors use to assess their risk (presented as good or bad) relative to a host of FDI gains.	3.94	.977
6.	Financial reporting transparency affects the confidence foreign investors could have in their FDI opportunities.	3.98	.517
7.	Government policies, trade agreements and investment incentives are common grounds that facilitates movement of FDI into different countries.	4.58	.612
8.	When foreign investors are thinking about FDI, they consider the ease of doing business in a host country.	4.33	.767
9.	Factors such as the image of a host country in terms of securing investors right can determine FDI flows.	4.51	.612
10.	FDI enables companies to enter new markets and expand globally as well.	3.99	.523
11.	FDI has an impact on my investing decisions to hire or not do I trust the accuracy of financial information in Pakistan.	4.39	.643
12.	You simply need to follow the money when it comes to FDI opportunities in Pakistan and ensure financial transparency.	4.38	.699
13.	I am confident with the integrity and the completeness of Pakistani company's financial data.	4.51	.706
14.	The timeliness related to financial reporting influences my decision for in Pakistan.	3.88	.408
15.	Open Financial practices lessen facets regarding dubiousness related clubs of intuition in encapsulating within Pakistan.	3.91	.559
16.	Better financial transparency would make me more likely to invest a dollar in Pakistan	4.42	.876
17.	Corruption is a major hindrance in way of financial transparency in Pakistan.	4.23	.435
18.	Regulatory gaps have led to low financial transparency in Pakistan	4.58	.657
19.	Financial reporting standards in Pakistan are serving and delivering transparency as far as execution is concerned.	4.73	.567
20.	Whether or not Pakistan is a good place to invest your money affects my FDI choices.	4.08	.085

Drawing deep insights into the relevance of Foreign Direct Investment in Pakistan and what makes investors choose one segment over others, outperforming conventional investment vehicles, a survey found. Respondents overwhelmingly agreed that FDI has a noteworthy impact on economic growth and development, scoring an average of 4.32 out of five for this statement. A third important way that FDI is beneficial is creating jobs, receiving an average score of 4.12 because it decreases overall unemployment and supports the local economy. While the Economic Rise of the Rest remained most important to investors (Mean: 6.53), political stability also surfaced as critical; a mean of 4.20 was scored, and stability reduces investment risks.

Dependable financial account data is vitally important to communicate FDI possibilities (Mean: 4.61), as investors depend on exact money-related information to evaluate conceivable returns and risks. The support stated above is proven by accounting and financial data vital for comparing risks to FDI benefits and attaining a score of 3.94. Foreign investors might be hesitant due to financial transparency getting a score of 3.98, which is the most crucial factor and attracts FDI needs an accurate time reporting. So, government policies, trade agreements, or incentives are common grounds for attracting FDI inflows from various countries and an investor doing ease of business in the host country (Mean: 4.33).

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).

In summary, the survey shows that FDI can and still is causing growth, employment generation, and expansion in other countries where financial transparency, political stability, and regulatory reform are vital factors for attracting foreign investors. Resolving corruption and improving transparency in financial reporting would lead to even more FDI inflows into Pakistan.

When juxtaposed with international studies on the same subject matter, such a comparison reveals dark truths about where Pakistan stands in relation to other developing nations. More generally, FDI has positively impacted global economic growth and development. The highlighted theme of FDI, as anchored by studies such as Borensztein et al. (1998), demonstrates a high Mean value in the current survey underpinning how critically important FDI is for development and growth, especially in developing countries. After this, employment generation, being a direct consequence of FDI, gains international recognition as well, where Blomström and Kokko (2003) argue that FDI can create job opportunities through technology spillovers and productivity-enhancing effects, which is seen reflected in Table 4 showing its relevance towards employment creation within Pakistan with the average Mean indicating 4.12.

Political stability is also the most significant factor in this survey and globally. Another study by Busse and Hefeker (2007) 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 Hayakawa et al. (2013) also confirms that politically unstable economies attract lesser FDI flows.

This survey tracked trustworthy financial data and transparency internationally, with a Mean of 4.61. Leuz et al. (2010) show, for example that financial transparency matters importantly in driving the investment commitment of foreign investors because it allows them to price risks and returns better. In the Pakistan survey, confidence investors put in transparent financial reporting (Moiz et al., 2007) is similar to Bushman and Smith's study that revealed clear accounting facilitates foreign investment. The somewhat good score for the financial reporting standards (4.73) in Pakistan indicates that these standards are perceived as rising, but they still demand improvements in convergence with international norms, consistent with findings elsewhere among probably emerging markets.

The effect of corruption on FDI is also one important segment that supports global studies on the outcomes in Pakistan. Corruption hurts FDI inflows (Wei, 2000) 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. Kaufmann and Wei (1999) 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.

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).

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. However, to harness the FDI benefits in totality, even so much wider gains implied by international scholars (Leuz et al., 2000) require a substantial improvement in transparency, enforcement capacity, and anti-corruption actions.

Factors Affecting Foreign Direct Investment (FDI) in PakistanA 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.

Upon comparison with the international literature, it emerges that transparency, political stability, and financial reporting standards are similar key determinants of FDI in Pakistan. Though Pakistan has improved its transparency and financial reporting standards, additional steps in transparency, corruption minimization, and curbing regulatory inefficiencies are needed to achieve full potential FDI capital inflows into the country.

In a nutshell, FDI is still an important indicator of Pakistan's economic growth and employment generation. In order to solidify its status as an appealing domain for overseas funding, Pakistan will need to concentrate on economic visibility alongside political consistency in addition to developing a regulatory structure that makes transactions and investments less intimidating. This extraordinary support of benefits will increase FDI inflows and bring long-term economic growth and development to the country.

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