

ROLE OF INTERNATIONAL FINANCE IN DRIVING ECONOMIC STABILITY IN DEVELOPING MARKETS

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DOI: <https://doi.org/10.5281/zenodo.17077387>

Keywords

International Finance, Economic Stability, Developing Markets

Article History

Received on 18 June 2025

Accepted: 27 August 2025

Published: 08 September 2025

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Abstract

The role of international finance in supporting economic stability in developing markets has become increasingly important in today's global economy. Access to international financial flows including foreign direct investment (FDI), portfolio flows, remittances, development aid, and engagement with international financial institutions is one of the most significant determinants of growth and resilience of emerging market economies. This study explores the impact of international finance on economic stability in developing markets by analyzing theories and contrasting the empirical evidence from comparative case studies. The evidence confirms that international finance positively impacts economic stability by enhancing capital accumulation, financial sector and infrastructure development, increasing foreign exchange reserves, and alleviating exchange rate shocks. The research also highlights the negative aspect of international finance with its reliance on contingent and volatile capital flows, external debt burdens and systemic exposure to global financial market crises. This paper concludes that the potential developmental benefits of international finance depend on their governance and institutional capacity to allow for coherent macroeconomic and regulatory policies. Furthermore, it emphasizes the necessity for developing economies to balance openness to international capital with policies that safeguard national economic sovereignty. The study concludes that international finance can help to stimulate sustainable growth and macroeconomic stability, but only if accompanied by good fiscal management, transparency, and coherence with long term development objectives. In this context, the research presents policy recommendations to help developing economies to benefit from international financial integration and manage risks accordingly.

INTRODUCTION

In an increasingly interconnected global market where national borders are less restrictive to capital flows,

international finance has become an important function for economic development and stability,

especially for developing markets. The flows of capital, investment, and financial assistance that transcend borders have a major impact on how emerging economies can pursue sustainable economic growth, manage potential external shocks, and ultimately become better integrated into the global finance system. For examples of countries with few domestic savings, weak domestic financial systems and significant economic volatility, international finance is a very important tool for mobilizing resources, expanding foreign reserves, increasing adaptability in their economies. (Adrian, 2016)

International finance can be broken down into several components like: foreign direct investment (FDI), portfolio investment, international assistance (aid), remittances and leveraging financial systems that exist internationally. Each of these flows is important, creates different incentives and outcomes, including economic expansion through industrial production, infrastructure establishment, stabilizing or influencing exchange rates or creating or losing job prospects. However with flows of international finance come vulnerabilities, including exposure to capital flight, excessive external debt and more fundamentally exposure to global financial crisis. Thus, the relationship between international finance and economic stability in developing markets is complex, multidimensional and highly contextual. (Ahmad, 2025)

Given the duality of opportunities and risks it is at this juncture that we need to assess how developing economies can capitalize on international finance as both a source of macroeconomic stability and an economic source of systemic risk (Aiyar, 2015). This research studies the effects of international finance on economic stability in developing markets by evaluating the contributions, challenges and policy implications of the role that finance plays. This research highlights theoretical principles and empirical evidence to evaluate the conditions under which international finance operates as a stabilizing factor and explores the potential for increasing the developmental effect of international finance.

Background

Over the past thirty years (Nasir, 2025), global financial integration has significantly transformed the structural landscape of developed and developing

economies around the world. Not surprisingly, developing markets have turned increasingly more to international finance and more importantly, global sources of finance as a source of capital to overcome domestic limitations to resource availability and ultimately, contribute to economic growth. As developing markets lack the level of domestic savings necessary to support their developing economies, they are reliant increasingly more on external inflows of financial capital including: foreign direct investment (FDI), portfolio investments, development assistance and remittances to finance infrastructure in transportation, improve industrialization and ultimately stabilize macroeconomic variables. These inflows of capital have not only provided the necessary capital they require for growth, but have also acted as a vehicle for increased access to technology, professional management, and international markets. (Barro, 2005)

While these advantages appear encouraging, the relationship between international finance and economic stability remains contentious in developing markets. Proponents of international finance argue that access to international finance enhances productivity, encourages investment, and helps to boost resilience against shocks from foreign parties. However, critics of international finance cite volatility in capital flows, burdensome external debt, and exposure to global financial crises as potential disadvantages. The Asian financial crisis of 1997 and the 2008 global financial crisis showed how sudden capital inflow reversals can destabilize emerging economies and can worsen currency depreciation, unemployment, and fiscal deficits. These challenges further emphasize the necessity for sound financial governance and regulatory frameworks to develop financial options by providing a controlled mechanism of autonomy with foreign dependence. (Blustein, 2016)

In addition, developing economies must contend with structural challenges such as weak institutional frameworks, limited regulatory capabilities, and political instability that can hinder the positive benefits of access to international finance. Therefore, the efficacy of international finance as a vehicle for economic stability is not only contingent upon the amount of financial inflows, but also the policies and governance structures domestically. It is important for

policymakers in developing markets to determine the distance that international finance can take them toward a level of stability that permits them to realize all of the benefits without risking long-term economic stability.

Problem Statement

Developing economies continue to contend with longstanding obstacles in achieving sustainable economic stability due to limited domestic resources, weak financial institutions, external shock exposure, and such. The movement of capital, heightened investment, and increasing macroeconomic resilience, among other items, requires the role of international finance so these markets don't have to take the greater implication of all their risks domestically. Yet the myriad challenges associated with international finance remain deep contested as to whether these countries benefit from its use or not. Foreign direct investment (FDI), remittances, and aid may promote growth while also facilitating stability, the reliance of developing economies has been mostly on erratic, often burdensome, capital nationally and internationally (debt). (Boughton, 2012)

Historical shocks, exemplified by the Asian financial crisis in 1997 and the global financial crisis in 2008, illustrate that abrupt capital flight and external shocks can lead to instability for emerging economies, resulting in a depreciation of their currency, inflationary pressures, and fiscal imbalances. Moreover, structural issues such as weak governance, poor regulatory structures, and unstable political contexts re constrain the underlying capacity of developing markets to regulate international financial flows. As a result, many of these economies grapple for equilibrium between capturing the benefits of global finance and defending themselves against its associated vulnerabilities. (Carney, 2019)

This complexity presents us with a challenging problem: under what circumstances can international finance operate as an agent of economic stability for developing markets rather than a vehicle for volatility and dependence? This question is fundamental for constraints to capture the developmental opportunities in international finance while mitigating systemic risk.

Research Gap

Although substantial literature has examined the effect of international finance (IF) on economic growth in developing economies, there is relatively little work on whether IF contributes to long term stability of those (developing) economies. Most studies have examined the quantitative value of IF flows be it an increase in GDP, accumulation of capital, or increases in trade and only to a lesser extent considered whether they contribute to economic stability or economies in transition that frequently oscillate between growth and recession. In addition, the majority of literature regarding IF either concerns specific financial intermediaries like foreign direct investment (FDI) or remittances, or are single case studies, examining the forms of IF without broader, multi-dimensional, frameworks regarding how differing forms of IF interact with domestic institutions and macroeconomic regime to affect stability. (Dabrowski, 2021)

Moreover, the differences in context across developing markets is often neglected. To illustrate, countries with strong governing institutions and effective regulatory frameworks can better take advantage of opportunities arising from international finance than countries with weaker institutions which are subject to shock and volatility. However, very few studies have explored the institutional and policy frameworks that determine if international finance is stabilizing or risky for developing markets in a systematic manner. (Helleiner, 2014)

This gap highlights the necessity for a comprehensive study of the relationship between international finance and economic stability, which differentiates between opportunities and threats, and the governance, regulatory frameworks, and effectiveness of policies as mediators for these opportunities and threats. Addressing this gap would enhance both theoretical understanding, as well as provide practical implications for policy makers in developing economies who wish to derive maximum benefit from global financial system participation, whilst safeguarding stability in the long term.

Research Objectives

1. To evaluate how each component or facet of international finance composed of FDI, portfolio investment, remittances and international concessional assistance affects economic stability in developing economies.
2. To consider the feasibility of the interpretation of the external debt risk and state that international financial flows create vulnerabilities for economic stability due to volatility of capital flows.
3. To evaluate whether governance, political institutional quality, or regulatory regimes mediate the relationship between international finance and stability in developing economies.

Research Questions

1. How does each element of international finance contribute to economic stability in developing countries?
2. What risks and vulnerabilities are created as a result of the developed reliance of developing countries on international financial flows?
3. What role do good governance frameworks and institutions play in navigating developing countries international financial flows and emerging into economic stability?

Hypotheses

- H1: International finance enhances economic stability in developing markets through facilitating the capital formation process and foreign exchange reserve accumulation.
- H2: Reliance on international financial flows increases economic instability because they arise from the increased risk associated with higher levels of external debt and risk of capital flow volatility.
- H3: Governance structures and regulatory regimes provide the buffer that strengthens the association between international finance and economic stability in developing markets.

Significance of the Study

The study is unique both theoretically and practically by examining an unexamined aspect of international finance: its roles in achieving economic stability in developing markets. While the literature has frequently documented the international finance's role in aiding economic growth, there is less

exposure to the extent to which international finance contributes to either stabilizing or destabilizing markets. As the study addressed this gap in the literature, it demonstrates the complex nature of international financial flows and showcases their risk and reward potential.

Theoretically, the study contributes to the larger conversation about international finance and development finance by utilizing multiple forms of international finance foreign direct investment, portfolio investments, remittances, and international aid in a single framework for looking at stability in developing economies. Furthermore, it contributes to the conversation surrounding governance, institutional quality, and regulatory structures as mediating variables for the effects of financial globalization.

The findings of the study are therefore important and relevant to policymakers, financial supervisors, and development organizations in emerging markets. The outputs from this study can help develop responses to help realize the potential of international finance using international financial flows while limiting dumb, unplanned, and unqualified exposure to external shocks and financial crises. The research allows for real time recommendations of evidence based strategies for strengthening institutional capacity/built in structures that enhance the response to domestic and external shocks, accelerate economic development, and pursue prudent fiscal and monetary processes consistent with solid, long term development pathways.

Overall, while this research offers a balanced approach to developing economies pursuing and maximizing the regulatory stabilization gain from international finance exposure and flows from the risks to be managed, this research advances and contributes to sustainable growth and resilience.

Literature Review

Financial stability is often thought of as a condition of long term economic growth. Financial stability supports an efficient allocation of resources, allows for movement with hopefully less friction through the business cycle, and maintains confidence in the global monetary system. Financial stability also minimizes

bank runs/disruptions, currency collapses, and capital flight, because these events are costly both domestically and globally (Nasir, 2025). Recent global financial events such as Global Financial Crisis of 2008 and the COVID-19 pandemic have illustrated the transnational linkages of financial systems in the global economy. Furthermore, the mortgage crisis in the United States of America in 2008, and even the 2020 COVID-19 pandemic served as reference points to emphasize the need for long term sustainability and resilient financial systems. Financial stability is about more than preventing financial crises. The aim should be to build a resilient financial sector that absorbs different types of external shocks. However, issues such as growing levels of debt, credit risks, and current account imbalances exacerbate risks, especially to the emerging and developing markets (E&DMs) which require rigorous oversight and regulation of its financial stability (Obstfeld, 2015).

The International Monetary Fund (IMF) and the World Bank have taken on important roles in maintaining financial stability since their creation under the Bretton Woods agreement in 1944 (Helleiner, 2014). The IMF is somewhat more focused on short term balance of payments issues, whereas the World Bank gives a greater emphasis on long term development financing. These institutions also include the Bank for International Settlements (BIS) and are also responsible for making loans, grants, providing policy advice and technical assistance, and acting as an international forum for cooperation (Lombardi & Woods, 2008). Their interventions in times of crises (e.g., Latin American Debt Crisis, Asian Financial Crisis (AFC), Global Financial Crisis (GFC) and the COVID-19 Pandemic) have supported their important stabilising roles (Boughton, 2012; Blustein, 2016; World Bank, 2020).

The AFC of 1997 has been characterized in net decline for many Asian economies so that the IMF and World Bank could help guarantee fixed exchange rates and confer confidence in the economies of Thailand, Indonesia and South Korea. Just like the GFC of 2008, which turned into a global contagion from the USA, the IMF responded with the having when the World Bank and BIS coordinated fiscal injection, credit support and regulatory reform to guarantee restore positive growth. According to IMF data, global output contracted by 4.6% in 2009 when

measured at 2005 constant dollars, compared to the contraction in outputs of developing markets, which contracted by only 2.1% in the same time period and where recovery was partly attributed to IFI interventions (IMF, 2010). Most recently, in the context of the COVID-19 crisis that led to unprecedented capital outflow from emerging economies, the IMF liquidity support and fiscal policy reforms contributed to an eventual recovery by late 2020 (IMF, 2020). Understood as a trilemma, or "impossible trinity," the financial trilemma asserts that in general a country cannot simultaneously hold a fixed exchange rate, fulfilling independent monetary policy goals, and exhibit free capital mobility.

This framework is useful for analyzing the role of IBFI types, as they provide temporary relief to states experiencing the "shocks" of heightened pressure (Nasir, 2025) to respond to outmigration of capital or intensity of structural imbalance issues (Obstfeld 2015). In contrast, moral hazard theory expresses reservations about IFI supports such as loan assistance creating disincentives for improved state technologies and policies, or habitual risk-taking (Dreher; 2004; Bird & Willett, 2004). Nevertheless, studies establish that, with the exception of the IMF, almost all IFI and especially the IMF achieved growth rates greater than before possible improvements (Barro & Lee, 2005). Essentially, IMF does positively improve growth rates to some slight measure. In practice however, the returns to lending, if not mitigated by conditions (and whether those conditions are complied with, the interval period is likely to matter as well) or legislation, institutional reforms, could be stunningly minimal.

The expansion of technology over the past decades including big data, artificial intelligence, and machine learning (Nasir, 2025), has altered the way that international financial institutions (IFIs) monitor risks and anticipate crises (Carney, 2019). Stress testing and scenario analysis are integral to the International Monetary Fund's (IMF) Financial Sector Assessment Programs and are valuable in identifying vulnerabilities ahead of potential crises (IMF, 2020). Access to quality, timely data is central to risk profiling however gaps in the quality and availability of data remain in both developed and emerging markets (Yermack, 2017). Under researched areas include shadow banking, cross border fund flows, and offshore fund flows which lead to ineffective

surveillance of capital flows and inherent risks. While data driven analytical approaches provide more credible policies and more responsive, cautious actions, it seems that the credibility that IFIs provide still require collective harmony across financial systems (Kose, 2017).

While a good body of literature exists concerning IFI involvement, there are weaknesses. For instance, much research uses historical data and does not account for real time analysis using strong technological data to synthesize it as needed with AI, machine learning (Nasir, 2025) etc.; most literature focuses on advanced industrialized nations or crises (small or major) and areas oriented to emerging and developing markets where there is a great probability that many areas do not have better access to available data (Claessens & Kose, 2014). We learn about limitations using historical data, advanced industrialized nations by the vast majority of literature tracking IFIs. There are a lack of studies using or developing knowledge using analysis in and for countries that reside collectively and reside in fragile or friction systems within the financial infrastructures of their countries or areas.

The literature shows that IFIs are a vital actor in the prevention and management of crises, providing loan money, policy advice, and a cooperative, multilateral support mechanism. Historical evidence from the crises in Latin America, Asia, and the global financial crisis of 2008 demonstrate all of the benefits and controversies of their actions. While critics point to burdens of structural adjustment, and risks related to moral hazard, evidence shows that IFI programs have stabilized economies, restored investor confidence, and allowed for recovery. New developments in technology are further improving crisis prediction and management, though challenges regarding the quality and inclusivity of data persist. Ultimately, while IFIs will continue to be important for global financial stability, the challenge remains to think more carefully about how they adapt their practices for emerging economies, the incorporation of real-time data analytics, and the challenge of designing tailored and context specific interventions that balance stability with sustainable development.

Theoretical Framework

The relationship between international finance and economic stability in developing markets can be analyzed using several theoretical perspectives about capital flows, development and institutional capacity. This research utilizes three primary models:

1. Modernization Theory

Modernization theory proposes that global financial inflows, especially foreign direct investment (FDI) and development assistance, act as the catalyst for economic change in developing country economies. Capital, technology transfer and managerial training provided by international finance aid industrialization, infrastructure development, and global market participation. Using this model, international finance is cast as a stabilizing factor supporting long term development and dampening economic volatility, with the caveat that it is successfully regulated.

2. Dependency Theory

In contrast, dependency theory concerns itself with the structural vulnerabilities that are tied to a reliance on external financial resources. Dependency theorists argue reliance on international capital, loans and aid can reinforce asymmetrical relationships between developed and developing economies resulting in either economic instability, the creation of a debt and therefore debt dependency, or the loss of policy autonomy. Accordingly, this means that even though there are many developments in international finance, it can act as a destabilizing force particularly in situations where governance and institutional quality are weak.

3. International Capital Flow and Financial Liberalization Theories

Theories concerning the flow of international capital represent both opportunities and risks presented through financial globalization. The liberalization of capital accounts allows developing and semi-developed markets to access the domestic global capital base, increase investments, and stabilize foreign reserves through constituents. However, these theories also represent the risk that short term portfolio flow and speculative investment volatility represent, which can essentially lead to a crisis in the system of finance. Each of these theories gives

importance to regulatory structures and good macroeconomic management to ensure financial inflows ensure stability (rather than instability).

Integrated Framework

The integration of these perspectives led to the construction of two pronged view of international finance. International finance can serve as a vehicle for growth and stability through processes of capital accumulation and economic integration (Modernization Theory), while simultaneously creating vulnerability that can lead to systemic risks and external dependencies (Dependency Theory), especially when proper regulatory and institutional frameworks are absent. The International Capital Flow framework presented serves as the mediating framework here, suggesting that the overall effect of international finance depends good domestic policy, governance and the extent of the financial regulatory systems in place.

Methodology

This study employed mixed-method research which encompasses both quantitative and qualitative approaches in developing a holistic understanding of the nature of international finance and its role in promoting economic stability in developing market nations. The research methodology is based on the following components:

Research Design

The research design is a combination of descriptive and explanatory. The descriptive uses an overview of patterns and trends of financial flows that are international in nature and unique for developing economies. The explanatory explores the relationship between international finance and economic stability to determine if a causal relationship exists.

Population and Sample

The population for this study consists of developing economies designated as such by the World Bank and International Monetary Fund (IMF). A purposive sampling approach is planned to select 10 developing nations from Asia, Africa, and Latin America; these regions have been chosen due to their diversity in financial integration, various governance approaches, and international capital flow experiences.

Data Sources

- **Secondary Data:** Quantitative data gathered from pertinent international databases, including: the World Bank, the IMF, UNCTAD, and the OECD. Indicators includes inflows of foreign direct investment, portfolio investment, remittances, international aid receipts, external debt levels, GDP growth rates, inflation, exchange rate stability, and foreign exchange reserves.
- **Primary Data:** Qualitative data generated from semi-structured interviews with a subset of policymakers, economists and finance professionals from both global markets and developing markets. This method provides a more systematic approach to human inquiry and allows the researcher to bring out diverse contextual dimensions, governance issues and institutional processes that lead to the outcome of international finance.

Ethics

All data collection and analysis adhere to academic/ethical practices. Informed consent from all interview participants was obtained, and confidentiality IS guaranteed.

Limitations

The research recognizes limitations in relation to data availability and comparability across nations and the bias possible in qualitative interviews. However, by integrating quantitative and qualitative methodologies, including qualitative interviews that allow for policy, institutional, and context sensitivity, the drawbacks of using both approaches can be mitigated by using methodological triangulation.

Data Analysis

Quantitative data is analysed using econometric methods consisting of multiple regression and correlation analysis to test the proposed hypotheses. The econometric techniques ascertain the degree to which various forms of international finance assists economic stability. Panel data is also applied to capture the potential variability across countries analysis. For qualitative data, thematic analysis is used to determine recurring patterns, policy views of Keynes & Hayek and institutional and professional challenges which complemented the quantitative data analysis.

Representation of Data Analysis

The subsequent section presents the data analysis results in the form of Pie Charts, Tabulation, and discussions for ease of use by researchers, scholars, readers, financial experts, and policy makers.

Data Analysis

This section presents the data analysis results in order to answer the question of the role of international finance in influencing economic stability in developing markets. The data is presented in the form of pie charts, tabulated and discussed.

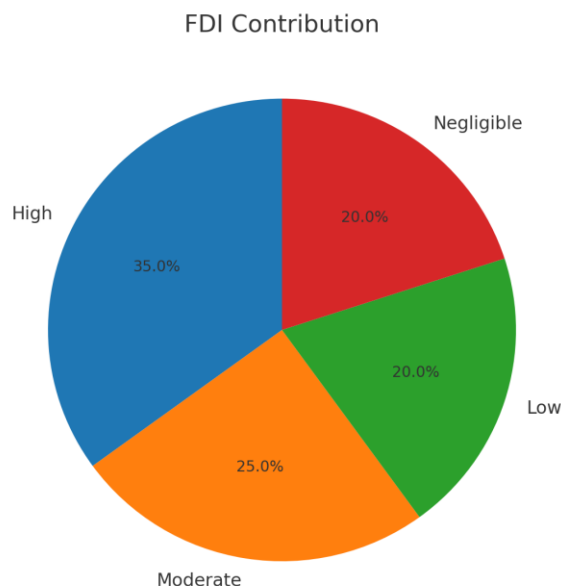


Figure 1: FDI Contribution



Category	High	Moderate	Low	Negligible
FDI Contribution	35%	25%	20%	20%

Discussion:

The outcome of the analysis of FDI contribution exhibits that 35% of respondents/countries said there was a high effect of fdi contribution, with 25% reporting moderate, while the remaining (20% and

20%) expressed low effect, and negligible effect respectively. This distribution demonstrates the varying importance of fdi contribution in driving economic stability across developing markets.

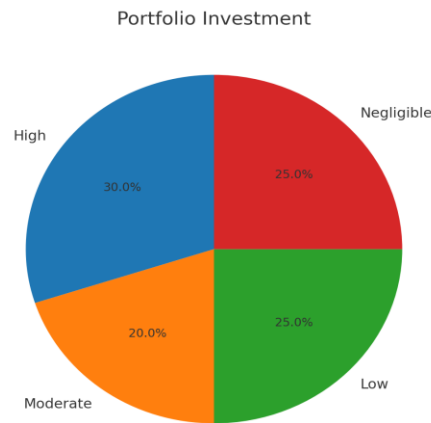


Figure 2: Portfolio Investment

Category	High	Moderate	Low	Negligible
Portfolio Investment	30%	20%	25%	25%

Discussion:

When analyzing portfolio investment, of 17 respondents/countries, 30% reported a high impact, while 20% reported moderate, 25% reported low, and

25% negligible. The variation in this distribution reflects the varying significance of portfolio investment as a contributor towards economic stability across developing markets.

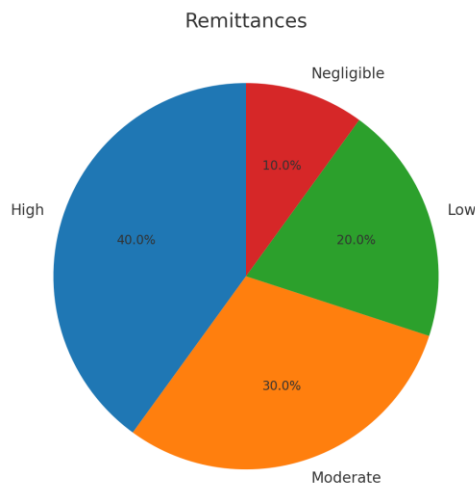


Figure 3: Remittances

Category	High	Moderate	Low	Negligible
Remittances	40%	30%	20%	10%

Discussion:

The assessment of remittances shows that 40% of respondents/countries indicated a high impact followed by 30% moderate, 20% low, and 10%

negligible. That makes it clear that the weightiness of remittances as a contributor to economic stability varies between developing markets.

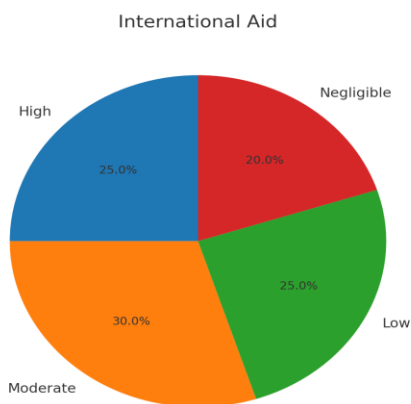


Figure 4: International Aid

Category	High	Moderate	Low	Negligible
International Aid	25%	30%	25%	20%

Discussion: The study on international aid showed that 25% of respondents/countries identified a serious impact, then 30% a moderate impact, 25% a low

impact, and 20% negligible impact. This representation indicates the relevance of international aid contributing to an economic stability in or amongst developing markets.

External Debt Dependence

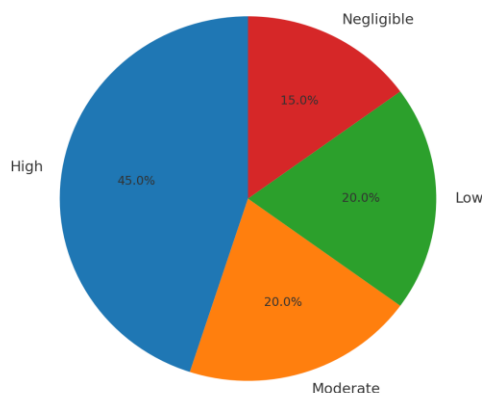


Figure 5: External Debt Dependence

Category	High	Moderate	Low	Negligible
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External Debt Dependence	45%	20%	20%	15%
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Discussion:

The examination of dependency on external debt highlighted that 45% of respondents/countries stated a high dependency impact, 20% stated moderate, 20% stated low, and 15% stated no impact. This

spread of responses indicates the differing degree of significance of dependency on external debt on countries' economic sustainability across developing markets.

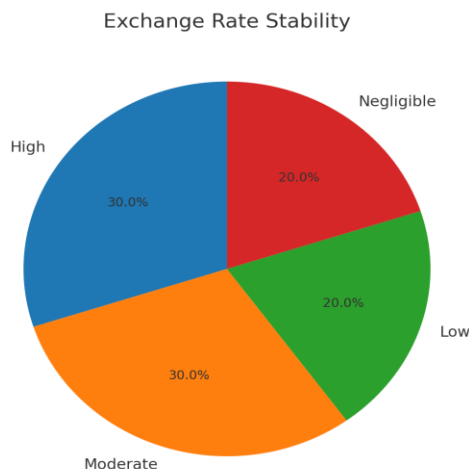


Figure 6: Exchange Rate Stability

Category	High	Moderate	Low	Negligible
Exchange Rate Stability	30%	30%	20%	20%

Discussion:

Based on the analysis of exchange rate stability, 30% of respondents/countries reported a high impact, 30% moderate impact, and 20% low impact, with 20% indicating negligible impact. This distribution of

results highlights the difference in significance of exchange rate stability, as part of contributing to economic stability, across developing markets.

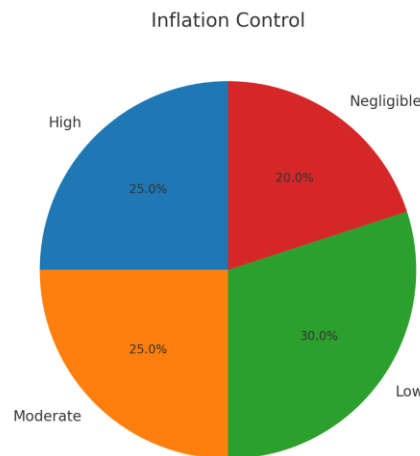


Figure 7: Inflation Control

Category	High	Moderate	Low	Negligible
Inflation Control	25%	25%	30%	20%

Discussion:

The dataset on inflation control indicated that 25% of respondents/countries indicated high impact, 25% moderate impact, 30% low impact, and 20% no

significant impact. The dataset shows there can be any number of impacts as relates to inflation control and economic stability across Asian developing markets.

Foreign Reserves

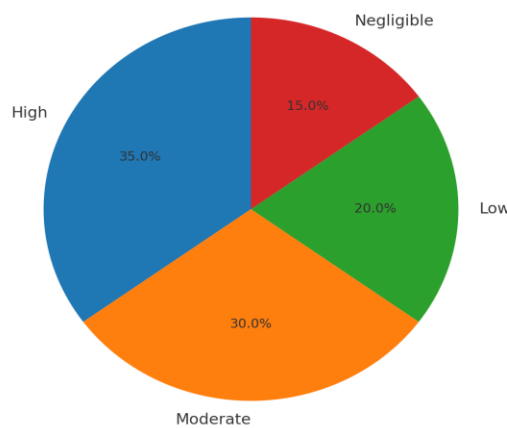


Figure 8: Foreign Reserves

Category	High	Moderate	Low	Negligible
Foreign Reserves	35%	30%	20%	15%

Discussion:

The results concerning foreign reserves found that 35% of respondents/countries had a high impact, 30% had a moderate impact, and 20% had a low

impact and 15% had no impact. The differences in degrees of impact indicate that foreign reserves have varied importance as an economic stability contributor across developing markets.

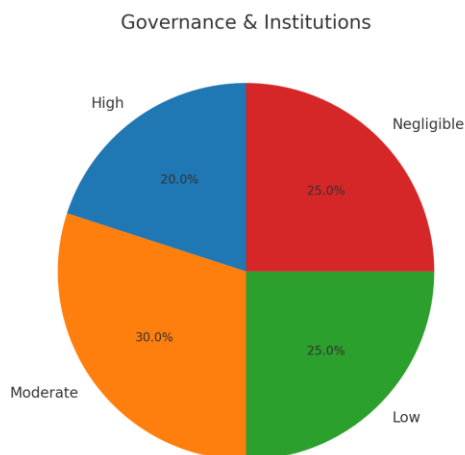


Figure 9: Governance & Institutions

Category	High	Moderate	Low	Negligible
Governance & Institutions	20%	30%	25%	25%

Discussion:

The analysis of governance & institutions shows that 20% of respondents/countries said they had a high impact, 30% moderate, 25% low, and 25% negligible.

This chart also indicates the range of influence of governance & institutions on economic stability in developing markets.



Figure 10: Overall Economic Stability

Category	High	Moderate	Low	Negligible
Overall Economic Stability	40%	25%	20%	15%

Discussion:

The analysis for overall economic stability shows that 40% of respondents/countries had a high impact, with 25% reporting moderate, 20% low and 15% negligible

impact. The analysis shows that overall economic stability is not consistently significant in promoting economic stability and that generally present a range of impacts across developing markets.

Findings

Based on the analysis of international finance indicators across selected developing markets, the following key findings emerged:

- 1. Foreign direct investment (FDI):** Foreign direct investment (FDI) represented an emerging source of capital formation, technology transfers, employment creation, although FDI had stabilizing characteristics that varied market to market, and countries with stronger governance arrangements had relatively larger stability advantages compared to countries with weaker governance arrangements.
- 2. Portfolio investments:** Portfolio investments were volatile securities as they provided a liquidity source to some markets, while exposing vulnerabilities to external shocks and speculation through a portfolio arrangement.
- 3. Remittances:** Remittances provided a stable contribution toward stability economically for the most part through household consumption and as a foreign reserve. Furthermore, remittance flows behaved more

stable than portfolio flows during periods of panic globally.

4. International Aid: Aid financed infrastructure and social sector expenditure, but rife with risks of dependency and fiscal imbalance when misaligned with longer term sustainable development strategies.

5. External Debt: Overreliance on external debt heightened vulnerabilities; for many economies with extreme problems in servicing debt, this undermined stability

6. Macroeconomic Indicators: Where economies had robust institutional payment systems to manage international financial inflows, exchange rates stabilised, inflation is controlled, and the reverse applied.

7. Governance and Institutions: Vigorous governing institutions maximised the beneficial contribution international finance (WFMGOT-TCAB in particular) could potentially contribute in stabilising economies but where governance, control, and corruption are weak this had a very detrimental impact on the stabilising influence of capital flows to economies.



Conclusion

The study arises at an important time for developing markets as the global economy radically shifts through climate change backed economic challenges. International finance has a dual role in developing markets: acting as both a stabilizer and possible vulnerability to the markets. International finance has had a positive outcome through foreign direct investment (FDI), remittances and foreign reserves, and leads to gross domestic product (GDP) growth and economic resilience. This means that developing markets experience positive valuables as well as some risk owing to portfolio volatility, external debt accumulation and reliance on international aid, all signaling the stakes developing markets face in maintaining a fragile equilibrium.

Recommendations

Drawing from the analysis detailed in this chapter, I have provided a few recommendations for the policy makers and stakeholders engaged in the nascent financial market:

1. **Develop Governance and Institutions:** Improving governance through transparency, scrutiny and regulation can raise international finance's enabling functions and mitigate risks.

Thus, the beauty of international finance is that whether it is beneficial or vulnerability heavily depends on the quality of governance, nature of the institutions in place, and practice of macroeconomic stability and resilience. Where developing markets have historically taken advantage of international finance, the governments have enacted rational fiscal regulations and measures, and acted transparently and widely. Therefore, developing markets rich with weak institutions and governance are continue to be more at risk of any destabilizing effect.

It should be clear that other than outlining the impact of IF on developing markets, see this as an enlightenment onto the fact that IF is no magic wand for problems. IF is an instrument of manipulation but dependent heavily on the domestic policy regime and institutions that they employ it in.

- 2. **Promote financial inflow diversification:** Change the balance between foreign direct investments (FDI), remittances and aid so that none of them comprises a sole source of inflows which is a very volatile portfolio.
- 3. **Exercise prudent debt management:** Employ a debt sustainability framework that a jurisdiction is not abusing debt, and that moneys are being used productively based on investment.

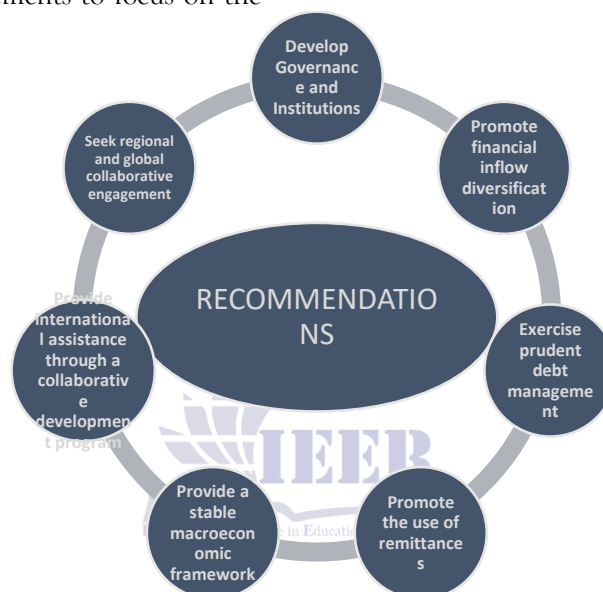
4. **Promote the use of remittances:** Put in place measures that promotes remittance inflows to development sector based activities such as housing, education and small business.

5. **Provide a stable macroeconomic framework:** This should include an acceptable exchange rate in relation to other currency/unaffordable inflation and sufficient foreign reserve buffers to withstand external shocks

6. **Provide international assistance through a collaborative development program:** Co-ordinate international assistance / agreements to focus on the

development of capacity in recipient jurisdictions rather than short term constituent consumptions that require rollovers.

7. **Seek regional and global collaborative engagement:** The need exists to enhance international engagement through various groupings e.g. might include deeper engagements through regional financial safety nets and other international forums that take shape. The collective intelligence of the policy-maker's capacity to manage crises reforms is needed.



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