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**FOREIGN DIRECT INVESTMENT (FDI) AND ITS ROLE IN
EMERGING ECONOMIES' FINANCIAL MARKETS**

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Abstract

FDI represents a critical non debt source of external capital for the emerging economics enabling the bridge structural financial gaps and supports the domestic needs. It is considered that steady inflows of the foreign capital increase the liquidity within the stock markets expanding market participations. Based on the introduction chapter, the research aims to analyse the importance of FDI and the role FDI plays in the financial markets of emerging economies. The chapter has also highlighted objectives and theoretical framework to represent key aspects related to FDI. As found from literature review, challenges like structural barriers, political instabilities, stringent regulations and skill gaps affect FDI flows in emerging countries. In context to FDI inflows, financial systems cause risk to emerging regions that experience challenges associated with declined market liquidity, declining performance of stock market, depreciation of currencies and others. In this way, FDI, which provides a form of non-debt external financing, became the solution to problems like shortage of technology and capital flow.

The methodology chapter has enlightened the core methods applied to meet the core objectives of this research. Additionally, the critical limitations of this research are also evaluated in this particular chapter. Lastly, the ethical considerations of this research are also illustrated in the methodology section. Findings and analysis chapter has focused on the thematic analysis of secondary qualitative data collected from peer-reviewed articles, company reports, government reports and news articles. Evaluation of the topic from diverse perspectives helps in dealing with the challenges observed in the adequate utilisation of FDI to accomplish success. This is followed by the chapter that focuses on the discussion and the critical analysis of the data taken from the literature review and the findings. It aligned the data to signify the authenticity of the research by aligning it with the research objectives and the research questions.

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1. Introduction

1.1 Chapter Introduction

The chapter has introduced the research aim to examine the role of Foreign Direct Investment (FDI) in emerging economies' financial markets. Moreover, a background of the research has been provided to demonstrate why the study is important along with its scope and focus. A problem statement has been provided to demonstrate the specific issue of emerging economies while sourcing stable FDI from external sources for maintaining its financial markets. Moreover, a clear dissertation structure and theoretical framework have been provided in this chapter.

1.2 Research Background

The phenomenon of Foreign Direct Investment (FDI) has become a determining factor of development and economic stability in the emerging economies. Moreover, Foreign Direct Investment or FDI is determined as an origin of external capital and agent of technological development, job creation, and market efficiency (Emeka, 2024). Furthermore, with the growing pace of globalisation, developing countries are increasingly depending on the inflow of FDI to grow their financial markets and maintain macroeconomic growth.

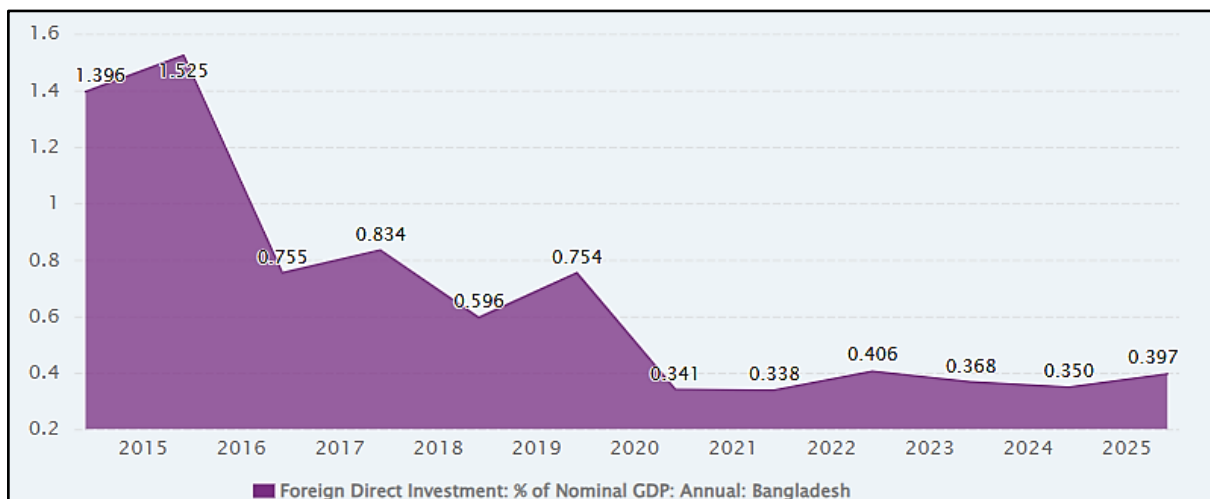


Figure 1.1: Foreign Direct Investment (FDI) of Bangladesh

(Source: CEIC, 2025)

The above figure depicts that Bangladesh's FDI has declined by 0.397% of the country's Nominal GDP this year, compared to 0.406% in 2022 (CEIC, 2025). Previously, India, Brazil and Indonesia have used FDI as a way of strengthening their

infrastructure and gaining access to global value chains thus increasing their economic competitiveness (de Sousa Filho *et al.* 2024). Nevertheless, the levels of regulatory control, institutional fragility, and market uncertainty affect the capacity of emerging economies to internalise and take advantage of foreign investment. Therefore, FDI is a multifaceted yet inevitable factor in the development of the financial environment of emerging economies.

The main research question is how government control and supervision are a source of political and financial risks that pose a risk to FDI currency devaluation, policy reversals, and threats of expropriation. These risks undermine inflows of capital and problematise financial stability, and thus it is significant for this study to investigate the relationships between FDI and advancing financial markets. In solving the identified problem, the study will evaluate the relevance of FDI and its role in ensuring financial market stability. Apart from that, the research will assess the positive effects and the inherent challenges of Foreign Direct Investment.

The research objectives are to examine the extent of FDI contributing to growth, barriers inhibiting stable investments, and effective policy interventions that can be used to attract sustainable foreign investments. In line with this, the research will also examine the stabilising effect of FDI, multifaceted effects of FDI, and barriers that the emerging economies encounter in providing investment. Nonetheless, the key strategic interventions that can be undertaken to reduce political risk and induce investor confidence will also be evaluated through this study.

The research adds value to the existing knowledge of the dynamics between FDI as an opportunity and a weakness in emerging markets. It also bridges a major gap in the literature by establishing a direct relationship between financial market stability and the dynamics of FDI. Moreover, examining the nature of governance will provide useful information on the role of policymakers, investors, and firms associated with FDI in the context of emerging economies' financial markets. Moreover, the analysis of empirical facts and policy reactions involves empirical evidence, contributing to the formation of strategies that will increase markets' resilience and inclusiveness of financial growth. Thus, the study will contribute to the discussion on international investment since it will reveal the transformational yet risk-sensitive position of FDI in the financial ecosystems of the emerging economies.

1.3 Research Aims and Objectives

Aim

The aim of the research is to evaluate the importance of FDI and the role that it plays in the financial markets of emerging economies.

Objectives

- To evaluate the importance of FDI and the role that it plays in the financial markets of the emerging economies
- To access the positive impacts that FDI has on the financial markets of the emerging economies
- To highlight the specific challenges faced by emerging economies in sourcing stable FDI from external sources for maintaining its financial markets
- To suggest effective interventional policies and strategies that companies in emerging economies can implement to attract FDI for maintaining its financial markets

1.4 Research Questions

- What role does FDI play in maintaining stability in the financial markets of the emerging economies?
- What are the multi-faceted impacts of FDI on the financial markets of emerging economies?
- What are the challenges faced by emerging economies while sourcing FDI from investors into their financial markets?
- What policies and strategic interventions can be implemented by companies in emerging economies for maintaining their financial markets?

1.5 Problem Statement

Foreign Direct Investment (FDI) involves oversight and regulation of different governments, leading to high political risks originating from currency fluctuations, changes in policy, and expropriation concerns in emerging economies' financial markets.

1.6 Rationale

Foreign direct investment (FDI) emergency as the driver that influences economic growth and foster advancement within the financial sector. Despite the contribution associated with strengthening the capital formation, and improving productivity, based on recent global trends, there has been a steady decline in FDI inflows towards challenges like uncertainties, restructuring of the global supply chain. These challenges created questions associated with sustainability of financial markets and resilience within these economies. In the year 2023, the developing economies received FDI of 435 billion dollars (World Bank, 2025).

Traditionally, the emerging countries encounter major structural limitations such as limited domestic capital, low savings, undeveloped financial markets, underdeveloped technology and managerial skills. These barriers may often prevent governments and private industry from generating sufficient resources to launch broad industrialisation, infrastructure development, and finance market development. However, Siripiet *al.* (2024) highlights that the implementation of Foreign direct investment (FDI) ensures seamless flow of capital, technology and knowledge. Also, Nguyen (2022) stated that FDI plays an important role for the countries that face shortages in terms of technology and capital. FDI also fostered access to global markets, enabled transfer of knowledge, created employment and enhanced the efficiency of the market.

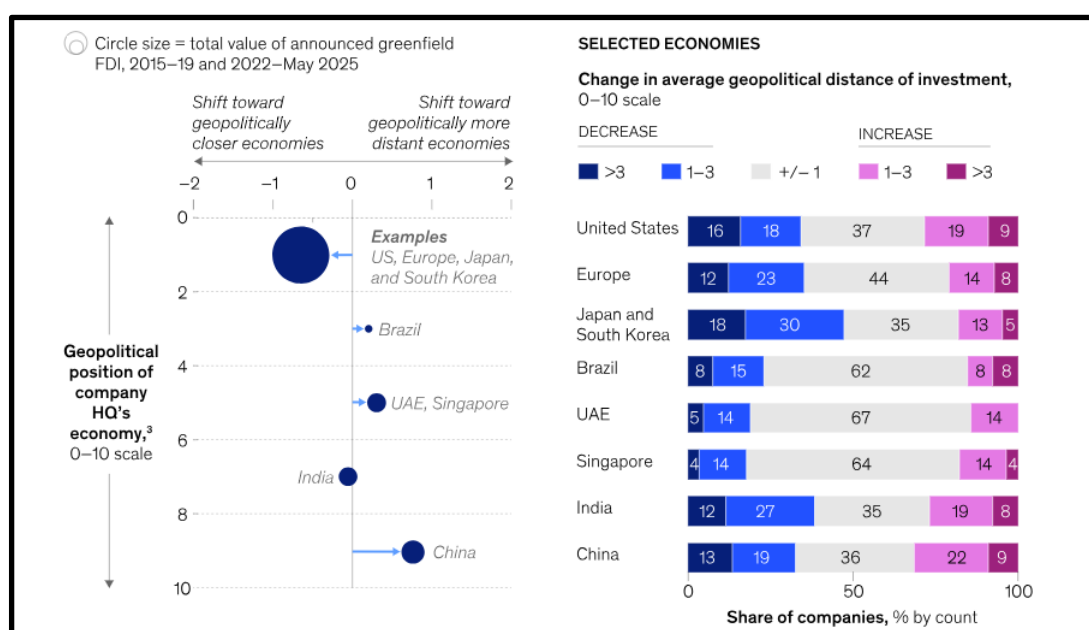


Figure 1.2: Geopolitical distance investment changes for FDI

(Source: McKinsey, 2025)

As per figure 1.2, it is observed that the investments in emerging economies have changed rapidly. For example, for China, the shift of FDI investment has directed

towards more distant economies. A large share of firms from countries like **Brazil (62%), Singapore (64%), and UAE (67%)** increased investments in distant countries (McKinsey, 2025). However, only **16% to 18% of companies** belonging to the US, Japan and EU reduced the geopolitical distance (McKinsey, 2025). Hence, it can be mentioned that the FDI is not only driven by the economic returns, but also depends on several other factors like trade security, supply chain risk management, political alliances and regulatory tensions.

However, the challenges related to weak savings, lack of domestic capital have been intensifying in emerging countries due to growing global economic instability, strict trade barriers and geopolitical tensions. In this way, the global FDI inflows have significantly decreased to 2% since the year 2008-09 especially accompanied by the financial crisis (World Bank, 2025). At the same time, capital flows have shifted significantly towards the developed markets which is leaving the emerging economies vulnerable to the exchange rate volatility, weak investor confidence and liquidity challenges.

In this way, the declining FDI has resulted in creating threats to the financial market stability for which the emerging financial markets depend heavily on the external capitals for maintaining liquidity, and exchanging reserves (Vasilyeva and Mariev, 2021). In case the issue remains unresolved, the emerging economies might experience severe economic consequences like financial instabilities, growing unemployment and high debt dependencies that might get reduced while competing in global markets. The long-term implications like falling down of investor confidence, financial crisis and investor withdrawal might cause failure to the emerging markets that could restrict the economic growth (Wells *et al.* 2024). Therefore, the rationale for this research lies in identifying such research gaps, and evaluating the way FDI influences market development for financial markets in emerging economies to foster financial resilience and promote sustainable economic performances.

1.7 Structure of Dissertation

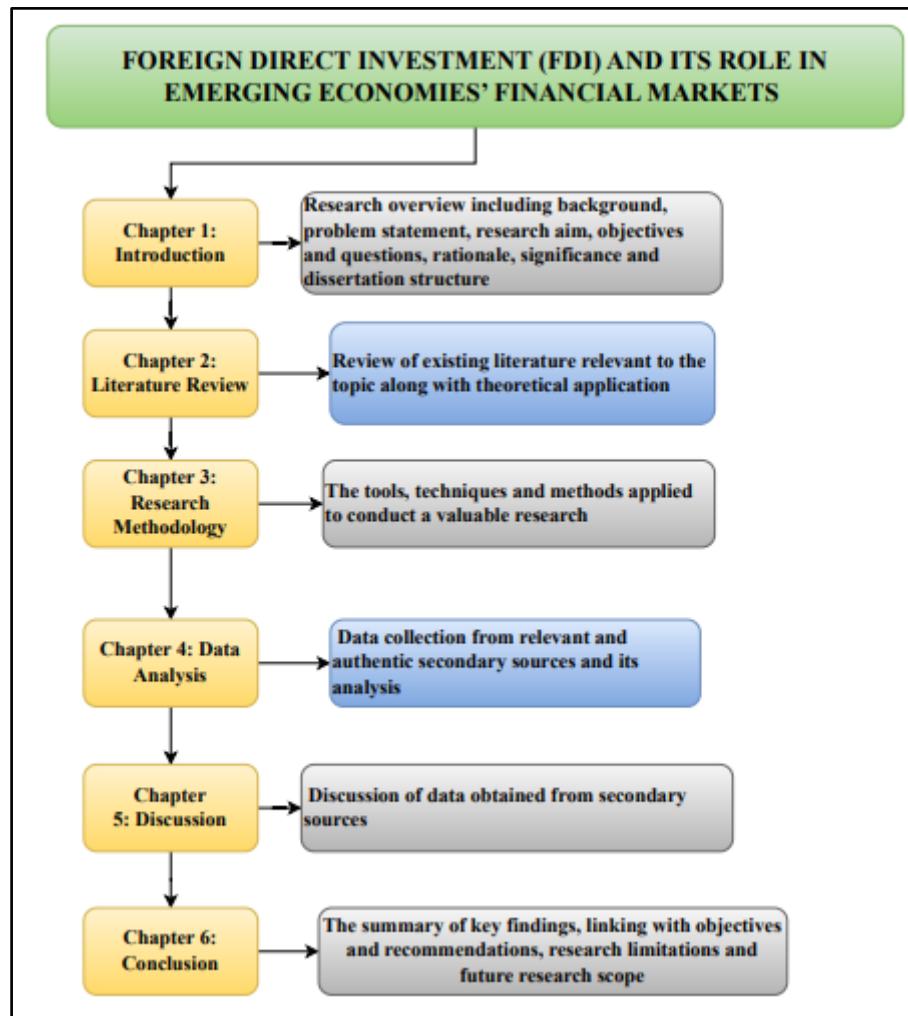


Figure 1.3: Dissertation Structure

(Source: Self-created)

The above figure depicts that this research has been conducted in six chapters including introduction, literature review, research methodology, data analysis, discussion, and conclusion.

1.8 Theoretical Framework

OLI Framework

The OLI framework effectively evaluated the investment decisions through the use of interrelated advantages like ownership, location and internationalisation. This OLI framework is beneficial for attracting FDI processes that influence financial markets (Batschauer da Cruz *et al.* 2022). Emerging economies effectively attract FDI through offering strong location-based advantages like large markets, stable regulations and low labour costs. However, the ownership advantage transfers both technology and skills, promoting financial market development, whereas internalisation provides

control and diminishes transaction risk. However, Internalisation may limit profit repatriation and, therefore, decrease reinvestment, leading to financial vulnerability. Therefore, the research questions to highlight FDI's role in emerging markets can effectively be addressed through OLI framework.

Internationalization theory

Internationalisation theory highlights that firms select the process of entering into international markets when controlling rotations internally, in opposition to external contracts in uncertain markets (Cha *et al.* 2023). MNEs will invest directly in emerging economies when institutions are weak legal institutions or higher market risk creating an unattractive environment for exporting and licensing. Though FDI will increase the supply of capital and investor confidence in financial markets, sudden withdrawal of capital during a crisis can exacerbate volatility in emerging economies. Hence, through internationalisation theory, research questions related to challenges and strategies required for emerging economies can be addressed.

1.9 Summary

The introduction chapter has justified why this study is significant to examine the role of FDI in emerging economies' financial markets. The research objectives and questions developed in the introduction chapter will benefit in themes development in the next chapter, literature review on FDI' role in financial markets of emerging economies.

2. Literature Review

2.1 Chapter Introduction

This chapter introduces multiple literatures relevant to the role of FDIs in promoting economic growth in the emerging countries. The previous chapter, introduction, has elaborated aims and objectives which are going to be addressed with the analysis of literature. This explanation includes reviewing existing literature relevant to the use of FDIs for supporting economic growth in emerging economies and reviewing its financial development in creating a stable market. Moreover, this chapter also critically analyses the theoretical framework and evaluates the real-world application of the insights obtained from this research. Thus, the insights from this chapter would help in identifying both positive as well as negative roles of FDI in promoting financial development in emerging countries.

2.2 Role and strategic importance of FDIs in the financial market development of the emerging economics

FDI as a source of capital and liquidity for emerging financial markets

FDI represents a critical non debt source of external capital for the emerging economics enabling the bridge structural financial gaps and supports the domestic needs. It is considered that steady inflows of the foreign capital increases the liquidity within the stock markets expanding market participations. Tsaurai and Danquah (2025) states that human capital has a major role in direct and moderating effects in financial development. Additionally. Human capital fluctuations often provide structural reforms in education, workforce skills to design targeted policies. In the emerging market characterised by low saving rates and limited institutional credits FDI enhances the availability of long term funds.

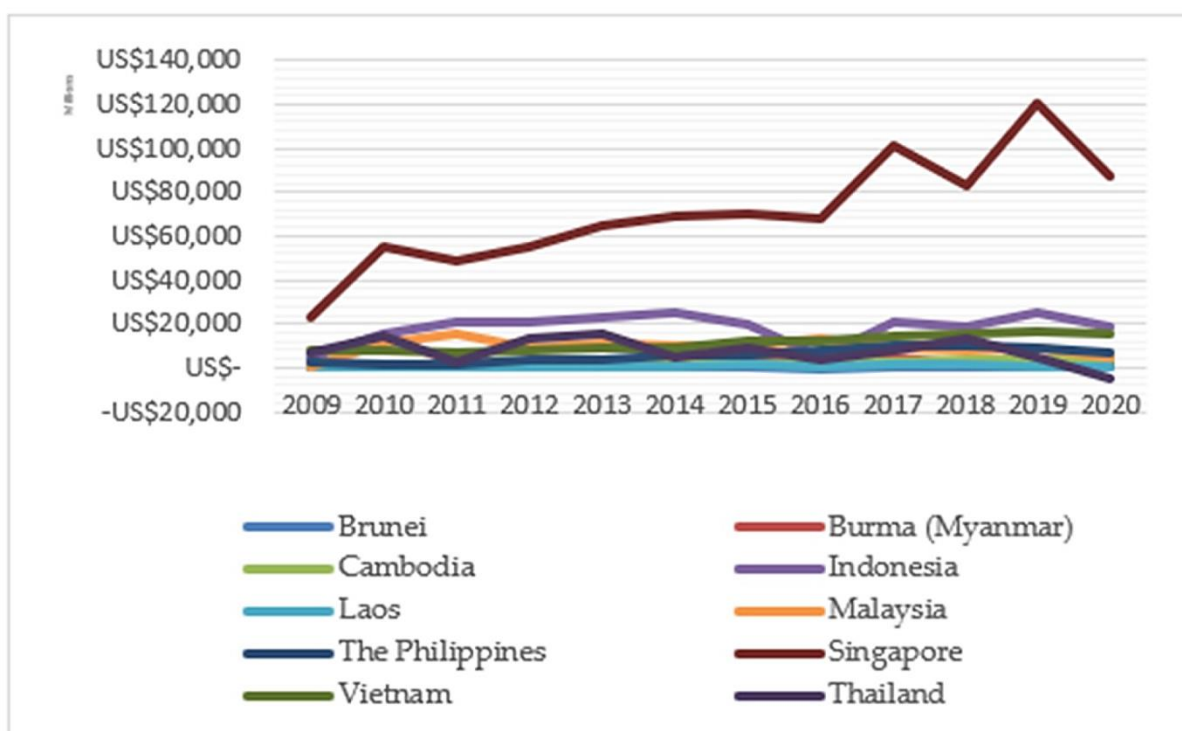


Figure 2.1: FDI source of capital and liquidity analysis

(Source: Sijabat, 2023)

FDI funds are important because it is essential for expanding the banking system, financing productive sectors and supporting capital intensive industries. According to Mbodj and Laye (2025) advances in the financial system often facilitate greater utilisation in the banking services and forming investment opportunities among the low income populations. In context to this, foreign capital reduces the dependence on short term, volatile portfolio contributes to the resilience of local financial markets. Abor *et al.* (2024) emphasised the impact of Foreign direct investment and FDI improving access to finance and use of financial services. The financial markets development and institutional quality can serve as the potential channels and moderating variables based on financial inclusion. Overall, FDI functions as both the capital catalyst and liquidity enhancer and improves the depth and efficiency of emerging financial markets.

FDI and Its contribution to financial market stability and Investor's confidence

FDI inflows are widely regarded as stabilising forces considered within the financial market because they are associated with the long term commitments. Continuous inflow contributes to the accumulation of foreign exchange reserves helping banks to stabilise exchange rates. Akpilic (2025) stated that there are different types of global uncertainties that can reduce FDI inflows based on the emerging middle income and

low income economics. Additionally investors in organisations based on FDIs seek safe projects that might not be long term projects.

The presence of multinational enterprises often sends a positive signal to the global investors regarding the host country's investor climate. Marozva and Magwedere (2025) implied long-term determinants of FDI like the global financial crisis in the financial statement are used to understand uncertainty in the financial market. Additionally, the presence of multinational Enterprises are often considered to be a positive signal to global investors as they provide information about long term determinants related to FDI. However, Excessive dependency on FDI can expose the market of several organisations to vulnerability such as profit fluctuation or investor's fluctuating behaviour towards investment. Despite of these limitations, the long term establishing effect of FDI can avoid the risk by making it a cornerstone of the financial system.

FDI-driven financial innovation analysis based on institutional development and Human capital enhancement

FDI plays a transformative role in advancing financial innovation by introducing sophisticated financial instruments and modern governance practices. Khan *et al.* (2025) insisted that there is an interactive relationship between foreign direct investment and economic progress in the developing countries. Financial developmental indicators such as domestic credit in the private sector and market capitalisation also have positive influence highlighting the contemporary role of finances. Shao *et al.* (2024) stated FDI plays a significant role in the industrial position and is quite vital in attracting FDI and green innovation. Moreover, developmental strategies not only have an impact on the FDI region but also has impact on the surrounding region. Additionally, human capital enhancement is a vital outcome for the FDI inflows. Multinational companies provide training, managerial expertise and form skill transfer mechanisms, which can elevate workforce capabilities. However, expansion of talent pool is needed for FDIs and stimulate competition while supporting emergence related to sophisticated financial ecosystems.

Structural limitations affecting FDI effectiveness in emerging financial markets

FDI effectiveness is often constrained by structural challenges with emerging economics and despite the benefits, these challenges pose significant barriers in the system. For example, Alobaidet *al.* (2024) described various capital markets in the developing countries that pose distinctive challenges while maintaining a concentrated

ownership structure. In addition to this insufficient governance, mechanism can lead to inconsistency in economic priority. In context to this institutional weakness reduces market credibility and forms an unpredictable business environment. Saada (2025) shared that growth of the stock market can lead to significant research while forming new forms and structure within the financial institutions. However, without adequate digital and financial infrastructure the ability of the market to absorb and utilise the FDI is limited. Additionally, barriers such as corruption and delay in administrative process are the major concerns of FDI in the emerging financial market.

Strategic public private partnerships for long term FDI growth

Strategic public private partnership can be the effective mechanism for ensuring long term and sustainable FDI growth. According to Raghutlaet *al.* (2024) there are several types of FDI investment like environmental investment or sustainable investment. Moreover, the basic idea is to have FDI in places, which would have long term benefits. PPP led investment promotion agencies significantly streamline administrative procedures, and increase the transparency within the system. For example, Mirzanov and Qosbergenov (2025) implied that PPPs in FDI is the bridge between public sector demand and private sector capital. Additionally public private partnership can support large scale projects such as digital financial platforms, capital market reforms and infrastructure development.

Moreover, Public private partnership handles the risk sharing factor reducing the burden on government's boiled encouraging private sector to make FDI. However, Hossinet *al.* (2024) suggests PPPs when added with sustainable technologies reveals a persistent funding gap, which can be fulfilled with the use of FDIs. For example, energy investment made around 52.6% can increase sustainable factors within the government operations. This in turn would motivate FDI investors to look forward for a better future. Overall, it can be concluded that Strategic public private partnership can help to take off the burden from the government and sustain long term FDI growth.

2.3 Positive impacts of FDI on the financial markets of emerging economies

Foreign Direct Investment (FDI) is a revolutionary factor that enhances the financial markets of the emerging economies by introducing capital that is highly required and promoting market growth. In case multinational corporations invest in direct business relationships, they not only invest capital but also highly developed technologies,

management and global business connections (Cumming *et al.* 2023). Moreover, the capital inflow is useful in liquidity enrichment of the financial market as it enhances the base of investors. Also, the capital inflow assists in the expansion of the local institutions like banks, stock exchanges, and insurance sectors (Nurasheva *et al.* 2024). Consequently, there is an increase in the financial intermediation that allocates resources efficiently and increases access to credit by businesses or individuals.

The other positive effect of FDI is that it helps increase market stability and resilience in the emerging economies. As per Sugoza *et al.* (2023), portfolio investment is less volatile than FDI since foreign investors are usually not invested in short-term earnings, however long-term development. Thus, the stability assists the emerging economies to absorb external shocks, including global financial crises or abrupt capital outflows. Furthermore, a reputable foreign company often increases investor confidence, brings in additional investment and influences the domestic company to implement superior governance practices (Pangestutiet *et al.* 2022). Therefore, the integrity and efficiency of financial markets are further enhanced by improved transparency and regulatory standards, which are mostly brought about or enhanced by foreign investors. Contrastingly, according to Qamruzzaman (2023), FDI boosts financial innovation and financial inclusion by creating new financial products and services. Multinational investors often launch digital banking, mobile payment systems, and risk management devices that increase the access to financial services by underserved communities. Hence, this does not only enhance economic growth, yet also social development as more people are incorporated in the formal financial system. Comprehensively, FDI is a driver of financial market modernisation, innovation, as well as opening an inclusive and robust financial system to emerging economies.

The foreign direct investment (FDI) has a strong effect on the financial market of the emerging economies by strengthening macroeconomic stability by long-term capital inflows. As opined by Siklar and SIKLAR (2022), FDI, in contrast to short-run flows of portfolios, is generally 'sticky' capital, which is associated with physical investments and long-term projects. This makes FDI less susceptible to abrupt halts and speculative attacks on the domestic currency. Moreover, the effect of stability induces more predictable conditions of liquidity, balance-of-payments pressure management, and reduction of sovereign and corporate risk premia (Breuer *et al.* 2025). Thus, as a result businesses experience the benefits of more stable interest rates and exchange

rate dynamics. Governments and companies in emerging economies tend to have a better access to the international capital markets at more favourable terms as the investors view less macro-financial risk (Sanders *et al.* 2022). Therefore, better access to the international capital markets helps to strengthen the resilience and depth of domestic financial systems.

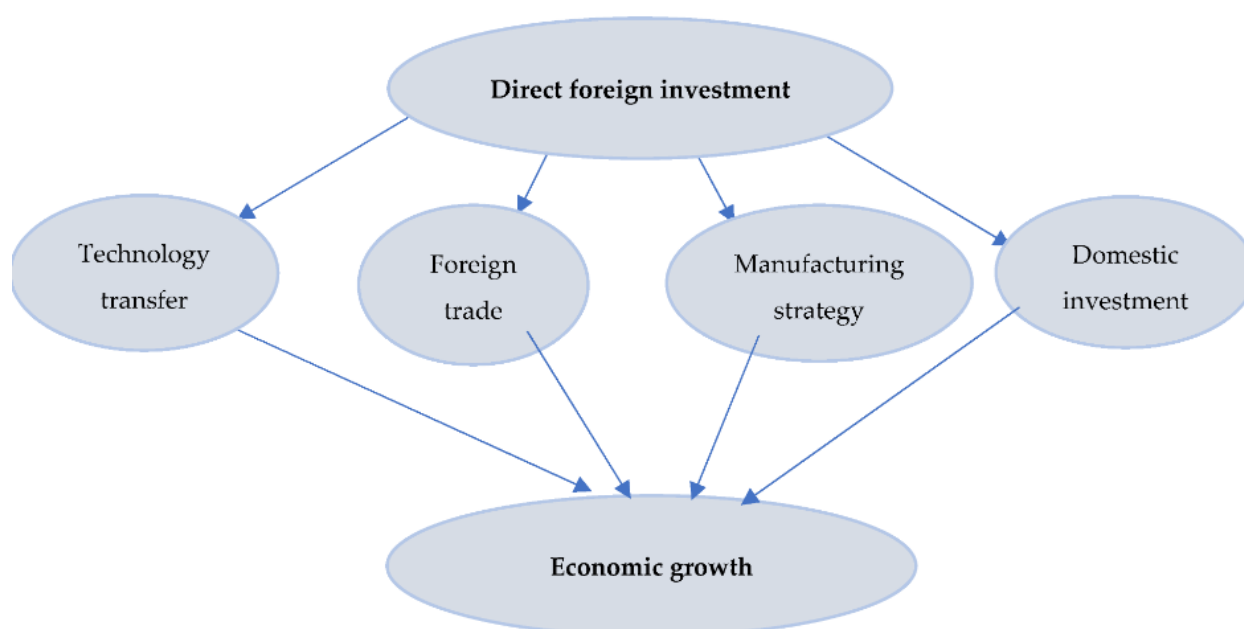


Figure 2.2: Positive impacts of FDI

(Source: Mohamed *et al.* 2021)

Other beneficial effects of FDI are based on its contribution to development of financial sectors by entry and engagement of the foreign financial institutions like banks, stock exchanges, and insurance companies. As per Li *et al.* (2025), entry of foreign banks, insurance companies, and asset managers in the emerging economies brings high competitive pressures. Thus, this encourages the domestic financial institutions to improve efficiency, risk management, and products' quality. Moreover, FDI encourages the implementation of improved credit evaluation methods, increase in regulatory adherence, and financial product diversification. The financial product diversification generally includes long-term financial products that are important to infrastructure, housing, and corporate investment (Maranga *et al.* 2022). In the long-term, these alterations increase the portfolio of savings and investment vehicles accessible to households and companies. Thus, FDI makes the intermediation of domestic savings more straightforward and encourages greater inclusion in financial activity by a wider population segment.

Moreover, institutional strengthening facilitated by FDI participation in the financial sector contributes to a larger benefit of the capital markets. As mentioned by Ahmad and Mahmood (2024), the necessity to meet the international regulatory standards and investor protection norms promotes changes in the securities regulation, accounting practices, and corporate governance systems. These reforms decrease information asymmetry, reduce market abuse and promote transparency thereby boosting investor confidence, which draws further types of foreign and domestic capital into stock and bond markets.

The other significant beneficial effect of foreign direct investment (FDI) on the financial markets is that it facilitates financial inclusion and enhances access to formal financial services (Abor *et al.* 2024). FDI flows into banking, microfinance, and fintech services improve access among the needy households and small-scale firms (mainly communities and rural areas with low-income) to credit, payments, and savings products. According to Mishchenko *et al.* (2021), with foreign investors investing capital and technology into local financial institutions, the businesses are able to reduce operating expenses, enhance risk evaluation. Furthermore, high capital and technological investment also allows the financial sectors in emerging economies to expand access to unbanked customer base along with broadening deposit or loan markets. Hence, this increased involvement leads to stability and funding heterogeneity of financial markets, with more small borrowers contributing to a more stable and domestic liquidity base.

Innovation and digital transformation at the financial markets are promoted by FDI, which makes their efficiency and competitiveness even stronger. Global investors tend to bring in new high-tech applications, mobile banking software, and data-based credit rating systems that enhance the speed, transparency, and security of transactions (Mishchenko *et al.* 2021). These technologies attract new customer and the increased use of formal financial services, which allows developing new market segments, such as online trading and electronic payment systems. Furthermore, as demonstrated by Putrevu and Mertzanis (2024), with the growth in infrastructure and digital networks, the emerging economies are becoming more integrated into global payment and settlement systems in diversified cross-border capital, supporting complex financial instruments. Therefore, these technological advancements not only modernise the financial markets, but also supports long-term inclusive growth through aligning domestic systems and international standards along with investor expectations.

2.4 Challenges witnessed by emerging economies while integrating FDI

There are several challenges that have been witnessed by emerging economies especially in regard to integrating FDI. A primary challenge that has been facing by the emerging economies relates to political risk and regulatory stability that generates uncertainty for multinational enterprises (MNEs). However, strict regulatory barriers also pose significant threats for conducting FDI inflows. For example, in India, the FDI is characterised as having stringent regulations for safeguarding the domestic industries (Sahu and Tiwari, 2024).

In this regard, inconsistent policy regimes, episodic regulatory changes, and weak legal institutions as deterrents to long-term commitments to investment. For example, the recurring debt crisis of Argentina and growing fluctuation of the capital control repeatedly affects the foreign investors which increases volatility within the investment cycles and creates constraints in financial markets (Santarcangelo and Padín, 2023). Likewise, Yalçiner (2024) identified that political uncertainty in Turkey, including unpredictable interest rate decisions and inflation levels, foreign investments were pulled out indicating political uncertainty as a contributor to instability in economic and financial markets. Yet, FDI allows economies to foster growth without unsustainable borrowing or a growing public debt burden, and it is done by facilitating domestic investments and stimulating economic growth. Though both of these articles provide theoretically enriching knowledge on the financial markets with real-world examples, methodologically it relies entirely on secondary sources. In secondary resources, there has been limited transparency on the process followed for collecting information, and the ethical considerations related to it. Hence, there might be challenges or bias present in secondary sources.

It can be mentioned that structural and infrastructural inadequacies have been significant challenges associated with emerging technologies. Hence, it can be mentioned that emerging economies might lack adequate transport, energy related support or digital infrastructure that are necessary for supporting international operations. As opined by Hendrawaet *al.* (2024), the insufficient infrastructure increases operational cost and transaction costs. These aspects make the emerging countries to be less competitive than the developing countries. For example, the unreliable electricity in Nigeria affects the supply and logistics operation (Adanlawo and Vezi-Magigaba, 2021). Hence, it also affects FDI and pushes the investors to

focus on other alternatives African countries like Kenya. However, methodologically, Hendrawa *et al.* (2024) focuses on addressing information through literature-based processes in a qualitative manner that affects reliability by solely relying on secondary sources. However, Adanlawo and Vezi-Magigaba (2021) collects information through survey methods and focuses on collecting quantitative information that cannot properly determine the FDI's role and impact in emerging markets.

On the other hand, the skill shortage and the weaker human capital development has been significant challenges for the emerging countries. For example, emerging countries in Brazil face challenges to find the right skills (Singh *et al.* 2022). It is observed that the lack of skills, require the MNEs or investors to heavily invest in the process of providing training or skill development. Hence, in this way, it increases the costs of the investors which affects investor's choices. Apart from this, growing market volatility, and exposure to the international shocks increases risks for the investors which also affects the geopolitical stabilities. The limited investment opportunities can minimise profit outflow and decline the accumulation of domestic capitals. Therefore, these challenges highlight that the FDI benefits are not evenly distributed across the emerging economies and require strategic interventions for destabilizing financial markets.

2.5 Effective interventional policies and strategies implemented by companies in emerging economies to attract FDI for maintaining the financial markets

Adoption of a strong corporate governance and transparency system is one of the effective interventional policies and strategies by the companies operating in emerging economies to attract FDI, sustaining the financial markets. Moreover, through voluntary compliance with the international standards of reporting, disclosure, or board independence, the companies witnessed a reduction in agency risks and enhanced protection to minority stakeholders (Kabara *et al.* 2023). This eliminates any information asymmetry between foreign investors and local companies, enhances the reliability of valuation, and removes the fear of opportunism and arbitrary regulation. Nonetheless, foreign institutional investors like pension funds and sovereign wealth funds, consider the firms less risky in investing long-term capital, which stabilises equity and debt markets to minimise the dependence on short-term or unpredictable flows.

Companies to operationalise a strong corporate governance and transparency system usually enforce strict internal controls and use international financial reporting standards (Manginte, 2024). In addition, the companies also reinforce audit committees and improve the quality and frequency of market-relevant disclosures. These steps are supported by open dividend policy, open risk-management, and trustworthy interaction with analysts and rating agencies that enhance the creditworthiness of firms and their reputation on the market. In contrast, strong governance is a complementary variable that exists in the environment where political and currency risks are high, and assure foreign investors with secure and predictable investments (Othman, 2022). However, firms that fail to acquire these practices will suffer with low quality of listed entities, resulting in reduced market capitalisation in secondary markets and lack ability to gain more funding. Therefore, this compounded impact encourages new FDI along with reinvestment of foreign shareholders to gain long-term stability and growth of financial markets in emerging economies.

The creation of strategic and successful public-private investment platforms as well as partnerships is an efficient and clear interventional measure (Tolstolesova *et al.* 2021). On this note, this strategy allows companies to take in emerging economies to draw FDI and facilitate financial markets. The companies, under this model, can work together with governments, development banks, and multilateral organisations in order to organise co-investment vehicles (Tolstolesova *et al.* 2021). These include infrastructure funds, blended-finance platforms, and special-purpose investment businesses that are structured to meet the risk-return profile of foreign investors. Moreover, the markets are aggregation of domestic and foreign capital, which is partial guarantees or first-loss tranches, supported through the policy concession of tax break, smooth approvals, or long-term concessions (Flammer and de Mariz, 2025). Comparatively, the co-investment vehicles lower perceived sovereign, regulatory, and project risks by sharing risks, signalling greater compatibility between the state, domestic firms and international partners (Luscombe *et al.* 2025). Therefore, through these the foreign investors can more easily devote long-term equity and debt capital to support the depth and resilience of domestic financial markets.

At company level, the involvement of the public-private investment platforms enables the firms to organise FDI to become globally compliant regarding governance, environmental and social protection (Tan, 2022). Apart from this, the public-private investment platforms also help the financial companies to increase credibility to its

institutional investors. Thus, the companies are able to securitise project-related revenues sources and issue domestic-currency linkage or asset-backed securities, introducing new local-currency instruments to domestic capital markets and eliminating currency-mismatch risks.

Furthermore, public-private investment platforms increase investor base, liquidity in secondary markets, and enhance proper pricing of risk in different financial sectors (Sonjaya, 2024). In the long-term, effective public-private, investment platforms produce demonstration effects like anchor investments by credible foreign investors to legitimise the market. This pressurises the foreign investors to invest follow-on FDI in the country and encourages other local companies to assume a comparable structure. The overall outcome is a virtuous cycle whereby strategically executed partnerships not only attract stable foreign capital, but also trigger financial innovation. Nonetheless, strategic partnerships can increase market confidence as well as improve the capacity of the entire financial systems in the emerging economies to mobilise and intermediate long-term investment.

2.6 Theoretical Application

The ***Eclectic Paradigm/OLI framework*** explains FDI using benefits such as ownership, location, and internalisation that are directly used to realise the role of FDI on the financial market of emerging economies. Ownership benefits are the company-specific resources like high-tech systems, financial knowledge, brands, and risk-reduction skills that multinational financial and non-financial firms import into emerging markets, established by FDI (Batschauer da Cruz *et al.* 2022). In case these ownership benefits are established through local subsidiaries, joint ventures, or acquisitions, it helps in updating skills, governance practices, and product offerings of domestic financial intermediaries. Thus, ownership helps the companies in enhancing the depth of capital markets and their efficiency in assembling and transferring capital. Furthermore, the location benefits are associated with the characteristics of the rising economies like high growth potential, underdeveloped yet rapidly growing financial markets, favourable demographic and gradual regulatory liberalisation (Kumar, 2024). Hence, this has the potential to transform the financial markets by appealing destinations to the foreign investors who are interested in yield, diversification, and first-mover advantages.

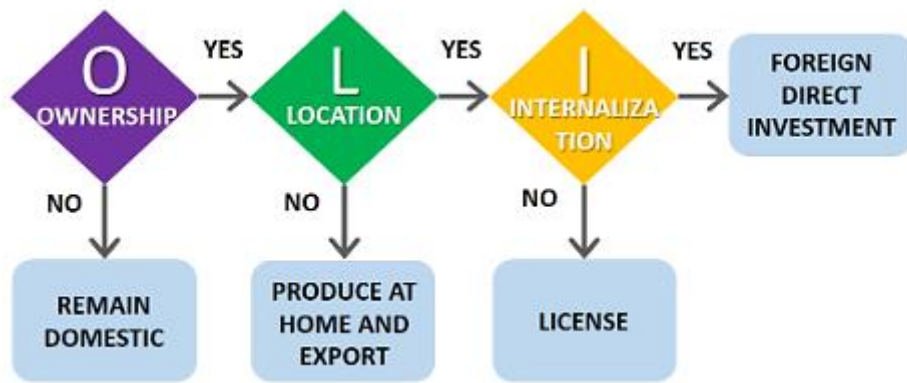


Figure 2.3: Eclectic Paradigm/OLI Framework

(Source: Bruin, 2025)

The internalisation benefits describe the reason why multinational companies prefer to use FDI rather than local relationships which include licensing or portfolio investment in new financial markets. The ability to internalise operation through entirely owned subsidiaries or majority stakes enables the investors to have greater control over proprietary technologies (Kumar, 2024). Also, it allows greater protection to sensitive risk models along with having uniform compliance and governance standards, which is useful in a regulatory uncertainty environment and information asymmetry. This internal control enables the foreign investors to better control political, currency and counterparty risks in addition to enjoying the location advantage.

In emerging economies, OLI-based decision of FDI instead of market-based entry modes implies more steady and dedicated capital, persistent knowledge flow, and connections between local and global financial systems (Mahbub and Khan, 2025). Therefore, the use of the Eclectic Paradigm to this issue identifies how the interplay of firm-level ownership resources, host country financial market attributes. Nonetheless, the OLI framework can also provide benefits of internalisation that jointly influence FDI's amount and quality, along with important implications on development, resilience and integration of emerging economies' financial markets.

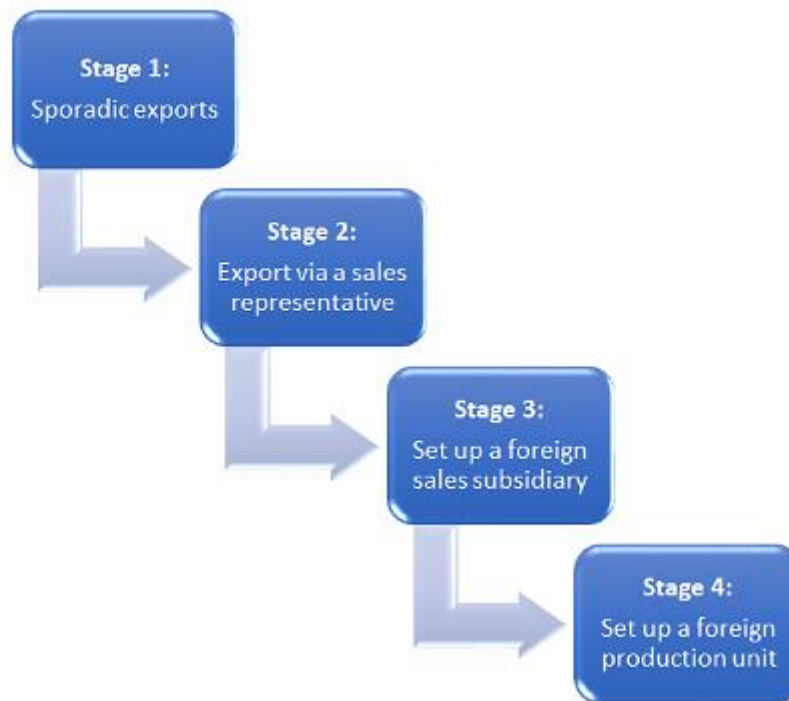


Figure 2.4: Internationalisation Theory

(Source: Self-created)

The **internationalisation theory** provides a useful alternative perspective to interpret the role of the Foreign Direct Investment (FDI) in the financial markets of the emerging economies (Khan *et al.* 2025). This theory focuses on the strategic reasons why firms choose to internalise their operations in foreign markets instead of depending on external market transactions. In the emerging market scenarios, companies generally deal with high market imperfections like poor enforcement of contracts, information asymmetry, and political risks that hinder the smooth operation of financial markets (Ali, 2024). Moreover, through internalisation, the multinational investors have direct control over their investments and reduce transaction costs, along with exposure to volatile local financial intermediaries. Therefore, this direct interaction has the potential to increase the stability of the financial markets and instil confidence in other investors since it is a demonstration of dedicated long-term capital involvement.

In addition, the internationalisation theory also emphasises the aspect of knowledge transfer and capacity-building in FDI. The foreign investors are also exposed to skills on risk analysis, management, and development of financial products, which are essential in building a sound financial market in the emerging economies (Tan, 2022). Thus, the theory describes why firms prefer FDI as a method of entry and shows how

this decision has positive effects on structural development and sustainability of financial markets in emerging economies.

2.7 Conceptual Framework

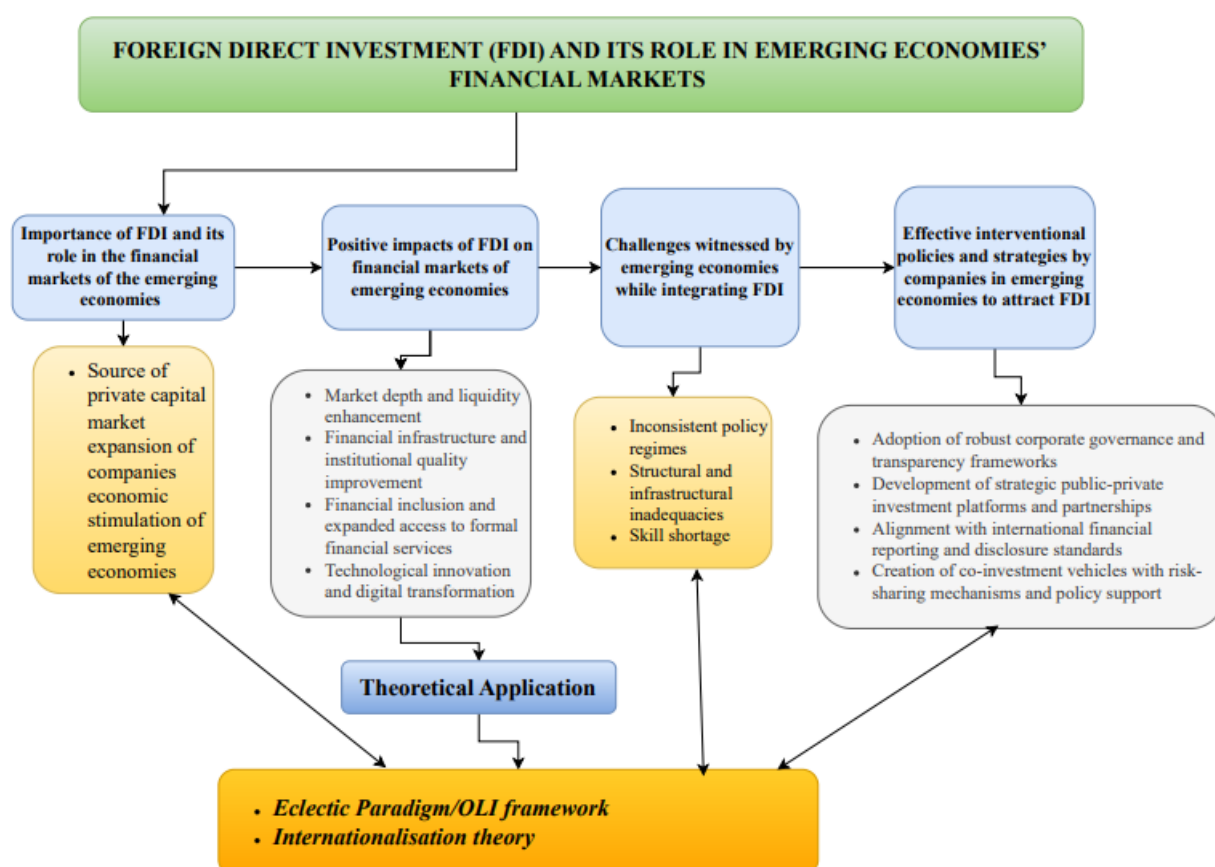


Figure 2.5: Conceptual Framework

(Source: Self-created)

2.8 Literature Gap

Although extensive studies have been conducted on the subject of FDI in emerging economies, there are gaps in comprehending micro-level processes that connect particular interventional policies to bearable positive changes in financial markets stability. In addition, the literature fails to provide an in-depth analysis of the impact of recent global transformations including digital transformation and geopolitical changes, on FDI trends and its effects on emerging financial markets.

2.9 Summary

This chapter has summarised the insights gained from comparing different existing literatures as well as theoretical aspects related to the role of FDI in the promoting economy of an emerging economy. The insights from this chapter explains that the rise of capital inflow through the introduction of FDI also makes a market get a large number of investors. This investment contributes to the infrastructural development of an emerging country along with improving the earning opportunities.

The key highlights of this chapter are the significance of FDI promoting economic growth and the way through which it contributes to the growth of a country's GDP. However, some of the challenges are also faced in the implementation of FDI for the promotion of a country's economy, which are also mentioned in this chapter. Hence, the way through which foreign investors invest in an emerging country's economy and improve its overall infrastructure proves the role of FDI in promoting the economy of lower-to-middle income countries. FDIs can accelerate economic growth by bringing in technology, capital, and management expertise from foreign countries. The next chapter is going to introduce the methods to be followed for identifying significant roles of FDIs in promoting economic growth of an emerging nation.

3. Methodology

3.1 Chapter Introduction

Selecting and applying appropriate methods play a determining role in terms of sourcing, acquiring and interpreting data to achieve the desired outcomes in research studies in an effective manner. In essence, this chapter serves the purpose of identifying and critically evaluating the methods that have been chosen to investigate the role that FDI plays in the financial markets throughout emerging economies. Furthermore, this section also intends to discuss the specific methods that are executed in order to accumulate and analyse data in the context of assessing the positive impact that FDI is having on the financial markets across emerging economies.

Besides, this chapter focuses on showcasing the methods adopted for examining the particular challenges that are encountered by emerging economies in acquiring stable FDI from external sources to maintain financial markets. Additionally, the methods applied to suggest significant interventional policies for companies in emerging economies to attract FDI are also evaluated in this section. Apart from this, the measures that have been valuable in enhancing the ethical standard of this research are conveniently discussed in a significant way. Lastly, the critical limitations that are prevailing in this research are also critically evaluated and illustrated in the methodological chapter effectively.

3.2 Research onion

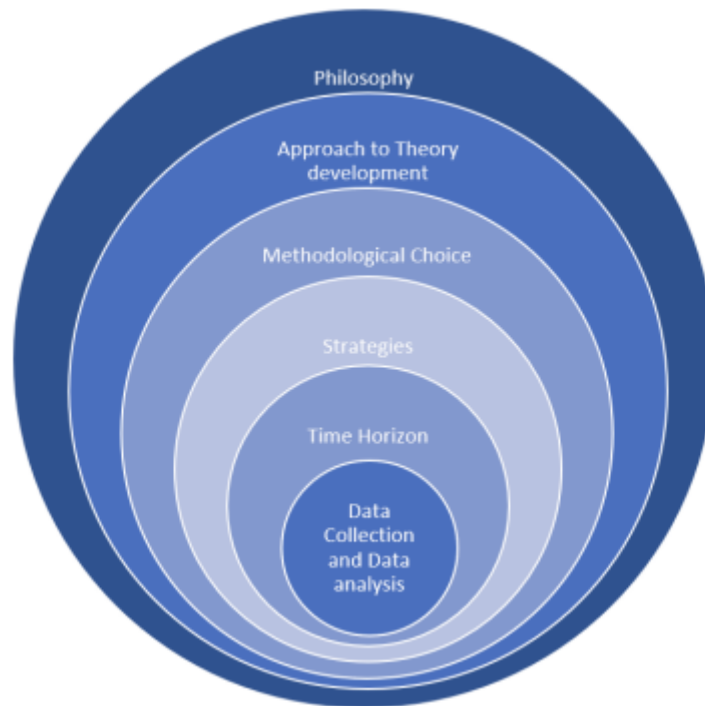


Figure 3.1: Research Onion

(Source: Gamage, 2025)

Research onion is an effective strategic framework, which eventually helps in accurately designing a proper and accurate research strategy for research (Gamage, 2025). In this research, the onion model by Saunders' help in selecting accurate research strategy for the current research by representing a systematic selection of methods from each layer of onion.

3.3 Philosophy of Research

Implementing an effective philosophical stance is crucial for individual researchers to generate accurate outcomes by utilising personal beliefs and values throughout the entire research study. In turn, this research proactively implemented the 'interpretivism research philosophy' in terms of exploring the role that FDI plays in the financial markets of emerging economies. In accordance with the comment of Lawler and Waldner (2023), the 'interpretivism philosophical stance' integrates a significant commitment to understanding a particular phenomenon with its meaning and relevant contexts. As a consequence, applying the 'interpretivism philosophy' proved beneficial in understanding the effects and impact that FDI is having within the financial markets throughout emerging economic environments. On the other hand, Junjie and Yingxin (2022) opined that the 'interpretivism philosophical stance' is dedicated to extracting

and explaining the subjective meaning of a specific content subject. However, the 'positivism philosophy' is discarded in this research, as it mainly focuses on objective reality and aligns perfectly with quantitative research studies.

Adopting the 'interpretivism research philosophy' also turned out to be appropriate in complementing and executing the 'qualitative strategy' to investigate the challenges companies are suffering in emerging economies to obtain FDI. As per the depiction of Ikram and Kenayathulla (2022), the 'interpretivism philosophy' is concerned with the utilisation of 'qualitative methods' and procedures to generate accurate results. Thus, the 'interpretivism philosophy' proved accurate in accomplishing the specific objectives of this study by conceptualising FDI's integration in the financial markets across emerging economies.

3.4 Approach of Research

The core processes and steps that are applied by individual researchers in relevance to achieving the desired results in research are collectively defined as the approach of a research paper. In this regard, the 'inductive research approach' is selected and applied to observe the actual pattern that FDIs follow to enhance the financial markets in emerging economies. Based on the view of Gamage (2025), the 'inductive research approach' is concerned with the gathering of specific data and generating new theoretical concepts or assumptions from the observed patterns. As a result, the 'inductive approach' emerged to be accurate in observing FDI patterns in emerging economies and further comprehending the positive effect that FDIs are having on companies operating in emerging economies. Apart from this, Proudfoot (2023) commented that the 'inductive approach' is necessary in the context of exploring complex and layered complications or problems in any given circumstance. Consequently, the 'inductive approach' assisted proactively in pointing out and exploring the critical obstacles faced by business firms in terms of obtaining FDIs to maintain financial markets in emerging economies.

However, the 'deductive approach' is excluded, as it only emphasises the use of existing theories in research, which might have stagnated the evaluation of new policies to address FDI issues among companies in emerging economies. As mentioned by Fife and Gossner (2024), the 'deductive approach' uses various existing theories in 'qualitative research'. In essence, using existing theories through the

‘deductive approach’ might have been difficult in investigating new strategies to help companies attract more FDIs in emerging economies. Thus, addressing the problem of integrating existing theories in this research is the core rationale behind applying the ‘inductive approach’.

3.5 Design

The ‘descriptive research design’ is significantly prioritised and executed in this research to conceptualise, explain and comprehend the process that FDI integrates in terms of regulating the financial markets in emerging economies. In accordance with the idea of Ghanad (2023), the ‘descriptive design or approach’ is committed to accurately defining and describing a specific situation and phenomenon and its adjacent characteristics. In this regard, the ‘descriptive design’ proved valuable in defining the challenging situations faced by companies while attracting FDIs to maintain financial market consistency in emerging economies. Based on the view of Saharan *et al.* (2024), a ‘descriptive research’ deals with describing and illustrating the core characteristics of the variables integrated in the research. Accordingly, the use of the ‘descriptive research design’ proved beneficial in comprehending the link between FDI (independent variable) and financial markets in emerging economies (dependent variable) in this research. Furthermore, Villamin *et al.* (2025) stated that the ‘descriptive design’ provides flexible and convenient utilisation of ‘qualitative methods’ to overcome obstacles in terms of achieving ‘methodological rigour’. Hereby, the ‘descriptive design’ proved appropriate in establishing and justifying the relationship between FDI and financial markets throughout emerging economies.

3.6 Key Variables

Developing and illustrating the link between the key variables of research is crucial in terms of accomplishing the specific research objectives in an effective manner. In essence, FDI is perceived to be the independent variable in this research and the financial markets across emerging economies are identified to be the dependent variables. Hereby, the ‘descriptive design’ proved beneficial in showing the relationship between the aforementioned variables in a significant way.

3.7 Strategy of Research

The 'qualitative strategy' is chosen and implemented in this research to maintain uniform data gathering processes based on the role that FDI plays in the financial markets throughout emerging economies. As per the depiction of Dehalwar and Sharma (2024), 'qualitative research' emphasises the exploration and understanding of relevant complications in specific phenomena through the utilisation of non-numeric data. As a consequence, the 'qualitative strategy' improved the investigation of the impact and challenges that companies face while attracting more FDIs to maintain financial markets across emerging economies. On the other hand, Pregoner (2024) illustrated that the 'quantitative approach' puts stress on collecting and interpreting numeric data. Hereby, using the 'qualitative strategy' proved valuable in avoiding statistical bias in suggesting effective interventional policies for companies to address challenges in attracting FDIs in emerging economies.

The 'qualitative strategy' also seems beneficial in conceptualising and comprehending the concept and role of FDI in determining financial markets across emerging economies. In accordance with the depiction of Rahimi (2024), understanding the core concept is a crucial approach to executing rigorous 'qualitative research'. Thus, applying the 'qualitative research strategy' proved appropriate in exploring the role, impact and challenges associated with FDI attraction in companies operating throughout emerging economies.

3.8 Data Collection

Sourcing and amalgamating relevant data is essential for individual researchers in terms of addressing bias in the process of data collection and successfully producing accurate outcomes. In essence, the 'secondary data collection' procedure is proactively implemented to obtain the required data and accurately explore the role played by FDI in financial markets across emerging economies. Based on the opinion of Mazhar *et al.* (2021), 'secondary data' incorporates and intends to use data that has already been collected or published. As a consequence, implementing the 'secondary data collection method' proved advantageous in assessing the impacts and challenges that are involved with FDI in emerging economies by observing other researchers' works. As depicted by Taherdoost (2021), books, magazines, research articles, internet articles and journals are considered to be the core sources of fetching 'secondary data' in an effective manner. In turn, gathering data from previously

published sources enhanced the understanding of new interventional policies and tactics to help companies overcome challenges to attract more FDIs in emerging economies. However, the 'primary data collection method' is discarded as it deals with engaging human participants for data acquisition.

Effective sources have been chosen and used in this research in the context of collecting adequate volumes of data based on FDI's role in the financial markets throughout emerging economies. As per the observation of Aprianto and Syaipudin (2022), 'secondary data' refers to the specific data that has already been documented. In essence, valuable information about FDI implementation in companies operating in emerging economies has been collected accurately through the 'secondary data collection method' in this research. Hereby, the 'secondary data collection process' proved appropriate in order to explore the role and positive effects of FDI in financial markets in emerging economies.

3.9 Sample and Technique of Sampling

Choosing and using an appropriate sample is important in the context of flexibly gathering data based on any specific process, situation or phenomenon and addressing research objectives. Accordingly, the 'non-probability convenience sampling technique' has been implemented to select and engage accurate data sources in this research. In accordance with the view of Kim (2022), 'non-probability samples' are proactively utilised in observational studies. As a result, the 'non-probability sampling technique' proved to be advantageous in complementing the collection of 'secondary data' by observing the published works of other researchers or scholars. Based on the idea of Khalefa and Selian (2021), the 'non-probability sampling technique' puts stress on selecting sample units through a subjective approach. In this regard, applying the 'non-probability sampling technique' has been accurate in complementing the 'interpretivism philosophy' in exploring the role that FDI plays in financial markets in emerging economies. This research has integrated 12 peer-reviewed journals and articles, company reports, news articles and government reports as the sample size to acquire 'secondary data' based on FDI's effects, challenges and role for companies in emerging economies. Henceforth, the 'non-probability convenience sampling technique' included data sources that are current

and published after 2021 and simultaneously excluded the data sources that were published before 2021.

3.10 Data Analysis Process

The ‘thematic analysis method’ is executed in terms of investigating the role and positive impact that FDI has on companies proactively functioning in emerging economies. According to the statement of Braun and Clarke (2024), the ‘thematic analysis method’ is significantly utilised in the context of developing and generating themes from large sets of ‘qualitative data’ in an effective way. Accordingly, the process of ‘thematic analysis’ turned out to be appropriate in relevance to interpreting the gathered ‘secondary qualitative data’ by creating fragmented themes based on the specific objectives of this research. Similarly, Squires (2023) stated that the ‘thematic analysis process’ is remarkable in analysing ‘qualitative datasets’. In essence, 4 themes have been created accurately to meet and link the specific objectives of this research by understanding the role, impact and challenges associated with FDI in the financial markets of emerging economies. As per the view of Ahmed *et al.* (2025), a flexible and accessible approach can be obtained and integrated in research through the ‘thematic analysis method’. In this regard, implementing the ‘thematic analysis process’ turned out to be beneficial in addressing the specific objectives of this research in an accurate process.

3.11 Ethical Considerations

The ethical approval has been proactively obtained from the supervisor, program manager and the University Ethics Committee in terms of collecting ‘secondary data’ in this research. Accordingly, obtaining the approval proved valuable in the context of ensuring the ethical standards and quality of this research in an effective manner. In addition, the University’s guidelines and measures based on anti-plagiarism have also been strictly followed and implemented to restrict plagiarism successfully. In this regard, avoiding plagiarism proved to be another remarkable factor in order to enhance the ethical standards of this research study conveniently. Apart from this, the guidelines of the Copyright, Designs and Patents Act of 1988 are also followed to restrict the misuse of the gathered data by any external party. The Copyright, Designs and Patents Act of 1988 states and provides protected rights for performers and

delivers provisions for patent agents (Gov, 2025). Hereby, this legal regulation enhanced the ethical value of this research by maintaining the valid ownership of the gathered data.

This research is also focused on implementing paraphrasing approaches without changing the original meaning of the data in order to strictly prevent misinterpretation of information in an effective manner. In addition, the credibility of the authors is accurately highlighted throughout this research by maintaining proper in-text citations to support the authors' statements and opinions. Thus, the aforementioned procedures proved effective in ensuring the validity of this research through enhanced ethical standards and values.

3.12 Limitations of Research

Choosing and incorporating an appropriate sample is vital in order to obtain adequate volumes of data to generate meaningful and accurate outcomes in research. In contrast, this research intends to integrate a small sample of 12 articles to fetch data about the role that FDI is playing in the financial markets across emerging economies. As a consequence, obtaining sufficient volumes of data has been challenging due to the integration of a small sample, which eventually emerged as a critical limitation of this research study. However, relevant and valid data have been obtained from the selected sample in terms of addressing this limitation and positively upholding the integrity of this research.

This research is completely determined and based on the utilisation of 'secondary data' from existing articles and journals to investigate the effects and role of FDI in the financial markets across emerging economies. However, certain articles or journals required monetary charges for providing complete access, which emerged to be another critical limitation. The shortage of an adequate financial budget proved as a major obstacle in accessing the specific sources that required monetary charges. Consequently, gathering specific and relevant data about the challenges encountered by companies in emerging markets to obtain FDI has been difficult due to budget constraints. Additionally, this research only integrated 'secondary data' and avoided the use of 'primary data', which is another severe limitation of this research study.

3.13 Timeline of research

[Refer to appendix 1]

3.14 Summary

This section has summarised the key methodological stances that have contributed remarkably in the context of exploring and comprehending the role that FDI plays in relevance to regulating the financial markets in emerging economies. Accordingly, it is comprehended that this research executed the 'interpretivism philosophy' in terms of assessing the favourable impact that FDI has on enhancing the financial markets throughout emerging economies. It is also observed that the 'inductive approach' is applied to obtain crucial information to assess the role that FDI has in the financial markets throughout emerging economies.

Further, this section has also provided a justified concept based on the integration of the descriptive approach into this research to interpret the effects that FDI is having on emerging economies' financial markets. It is concluded that the 'qualitative strategy' is applied in this specific research to successfully accumulate 'secondary data' in terms of evaluating the critical obstacles that companies in emerging economies encounter while acquiring FDI. Additionally, this specific section also depicted the use of 'thematic analysis' in relevance to interpreting data based on suggesting effective intervention strategies for companies in emerging markets to obtain FDI. Lastly, ethical measures and critical limitations of this study are also summarised in this chapter.

4. Data Analysis / Findings

4.1 Introduction

Foreign Investment (FDI) determines the flow of capital from one country to another that includes Greenfield investment, mergers, acquisitions, and joint ventures. FDI plays a multifaceted role in profit repatriation and economic sovereignty enhancement, determining the export-oriented value chain. An emerging economy is a country that is at a transitory stage that is characterised by the force of rapid industrialisation. The aim of the chapter is to analyse the role of FDI in the financial markets of emerging economies of different nations. This chapter has analysed the topic in reference to scholars' opinions with peer-reviewed articles, company reports, government reports and news articles.

4.2 Findings

[Refer to appendix 2]

4.2.1 FDI plays an important role in the financial markets of the emerging economies

FDI in emerging markets plays a significant role in the advancement of economic infrastructure and deals with the challenges observed due to the global socio-economic transition. Targeted sectorial policies help in strengthening international financial cooperation and investment in human capital (Abor *et al.* 2024). FDI is foundational in the determination of financial structure, access to natural resources, and proximity in new markets. Generating sufficient resources strengthens the industrial infrastructure and prevents barriers to private industry investment. For example, the tech industry boomed with the progress of 65% of Meta 62% of Tesla (The Guardian, 2025). It has affected the overall outcome of the financial market, and the consequences are found in value creation. Elon Musk's SpaceX acquired a profit of \$350bn with an investment increase in the priceshare buyback programme. Facilitating the integration of business dynamics with different foreign channels provides space to define the essence of the global value chain. Thus, the accomplishment of the benefits of FDI in shaping the progressive structure in the financial market of emerging economies can be helpful.

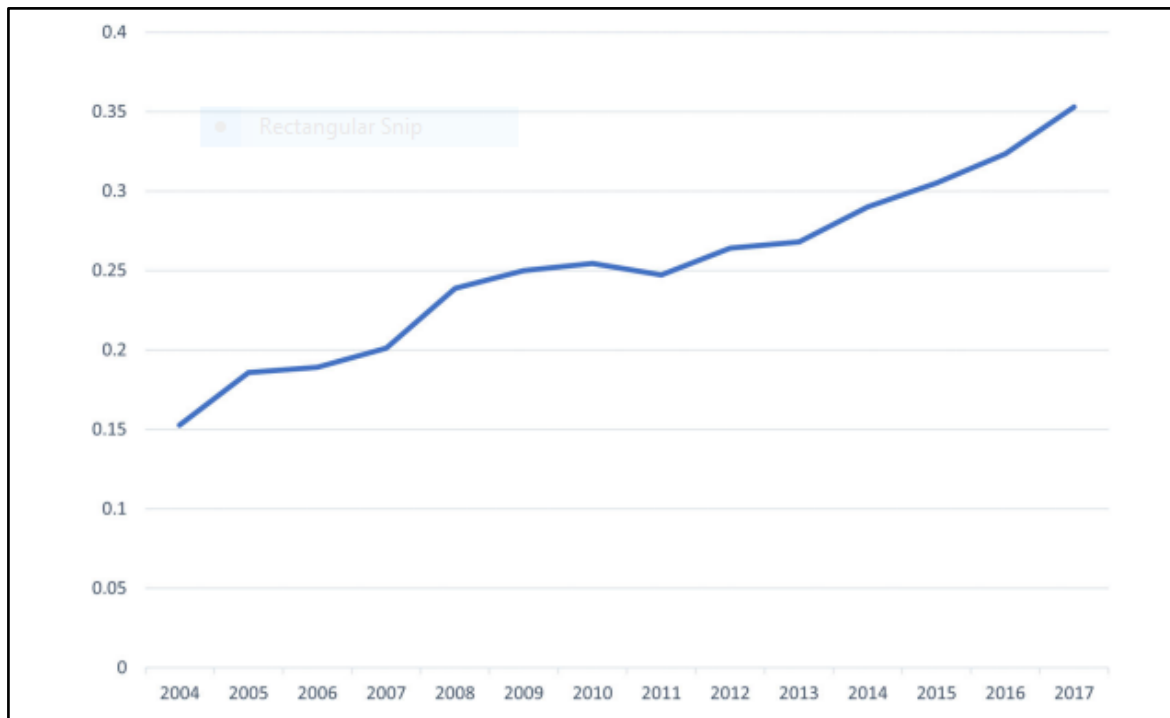


Figure 4.1: Trend of financial inclusion index

(Source: Abor *et al.* 2024)

FDI helps to foster the benefits of the global financial market, with a focus on knowledge transfer and enhancing market efficiency. The above figure highlights the trend of the financial inclusion index and its effect on overall output. Shaping an emerging economy is determined by injecting crucial capital, driving industrial growth and transforming industry infrastructure. For example, Tesco's primary FDI focus was on India, with a significant investment of \$110 million in the form of a 50:50 joint venture. The group sales ratio increase of Tesco in 2024 remained at the limit of 4%, and adjusted operating profit reached to 10.9% (Tesco, 2024). Tesco plays a major part in the financial market of the UK, with significant investment in blue-chip stock leaving a strong impact on investors' portfolios. As a consequence of the decision, the multi-brand retail sector investment has reached the overall market acquisition limit of 50%. External liquidity management and improvement of debt dependency determine the emerging financial market in the contemporary era. Consequences of the decision are observed in achieving the targeted objective of market expansion and gaining reliable market growth potential. Therefore, the accomplishment of success in financial decision-making and the creation of optimal value can turn out to be possible.

4.2.2 FDI plays a pivotal role in shaping the infrastructure of the financial markets of emerging economies

FDI helps to gain a significant positive impact on emerging economies in forms of capital infusion, job creation, and technology infrastructure planning and skill development. The development of the progressive infrastructure of the financial market is defined by the inclusion of capital estimation (Kaddouri and Benelbar, 2024). Economic growth and market capitalisation are associated with the identification of barriers observed in value creation and dealing with issues observed in value creation. Balance of payments and currency stability are two crucial features to increase the absorptive capacity of financial resources. For example, during 2022-2023, the FDI ratio remained £62.3 billion and £51.8 billion respectively, with 7.2% estimated increase by 2025 (ONS, 2025). Greater Manchester and Yorkshire indicated FDI investment limits of 64.7% and 63.9%, respectively, with a drastic ratio increase in the Cardiff Capital Region. It has provided an opportunity to address the aim of the research and gain practical insights. Henceforth, a progressive capital estimation strategy provides an opportunity to deal with the barriers observed in competitive positioning.

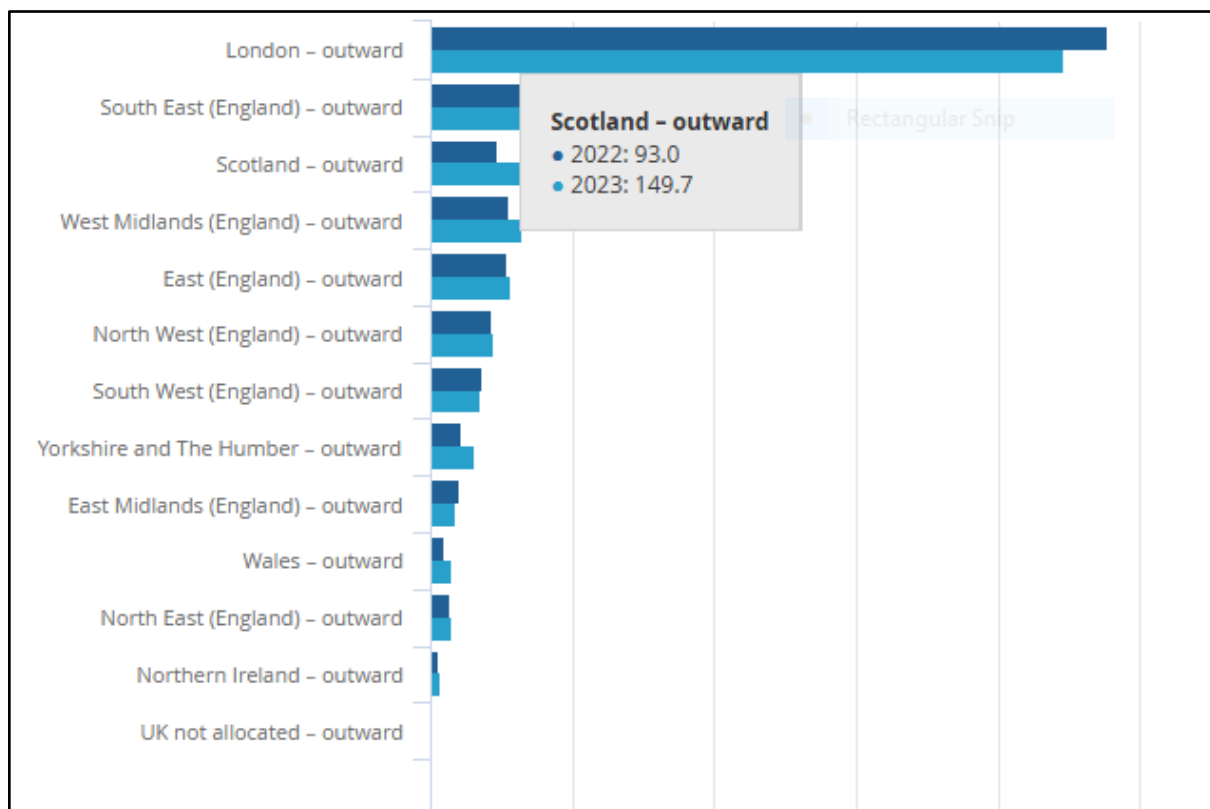


Figure 4.2: FDI Investment Limit

(Source: ONS, 2025)

FDI helps to maintain a two-way relationship in the market with a practical evaluation of the growth potential and identification of financial stability. Referring to the figure

above FDI investment limit has affected the overall outcome in capital estimation. Implementation of economic reform and the strategy of financial liberalisation are two notable measures to ensure progress of the emerging market. For instance, FDI inflow has experienced a significant increase in 2023, with an increase in the external capital inclusion ratio (Forbes, 2024). Despite the progressive outlook during 2024-2025, a decrease of 12% is observed with a decline in the project volume flow value. BREXIT-related uncertainty, post-pandemic cost of living crisis has caused a significant decline in the determination of long-term value. In reference to the situation, it has been stated that FDI has a significant positive impact on the financial market, such as increased capital inflow, financial market development, and enhancement of investor confidence. Foreign-market-oriented firms can successfully stimulate the scope of innovation, and the consequences are observed in achieving reliable results. Thus, cross-border trade interaction is an integral part to deal with the dynamism observed, and the development of long-term growth potential can be helpful in the banking sector.

4.2.3 Emerging markets face significant challenges in the inclusion of FDI from external sources into financial markets

Obstacles to FDI inclusion in emerging financial markets include political instability, regulatory complexity, an infrastructural gap, and foreign ownership restrictions. Evaluation of market dynamics is an integral part to determine opportunity for progress and implementing proactive measures of transformation (An *et al.* 2025). For example, the UK Government has made FDI in major economies of Europe, such as the Netherlands, France, Germany, and Luxembourg. The FDI limit of the UK in 2024 remained at 15.8%, and in 2023 it was at 17.3 considering the implications of external factors (Gov, 2024). Despite investment portfolio diversification UK has faced significant challenges in market portfolio maintenance, 13% decrease in 2023 due to the post-pandemic cost of living crisis. Infrastructural deficiency increases the cost of operational management, and addressing the limiting market uncertainty appears to be challenging. It is necessary to deal with the challenges encountered in developing the progressive economic outlook. Thus, regulatory compliance created a challenge in determining the value of FDI and ensuring alignment with external sources of investment in the banking sector.

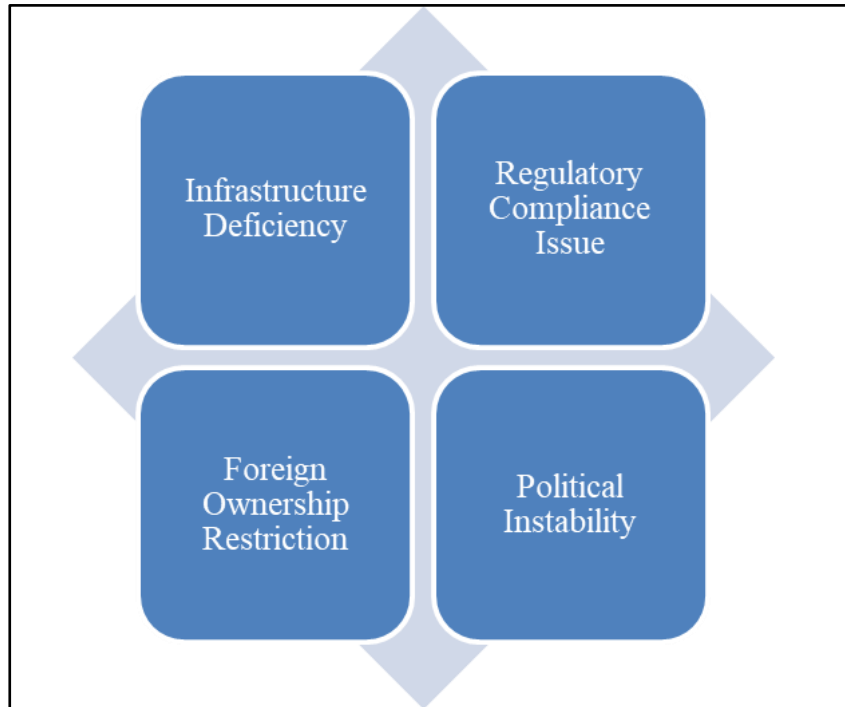


Figure 4.3: Challenges of FDI inclusion

(Source: Self-developed)

Challenges observed by the emerging financial market include economic and political volatility, public and private debt, and external events of economic shock. The figure above identifies the challenges observed in terms of FDI inclusion in the market. Foreign direct investment helps in financial capital estimation planning to access the opportunity of network expansion, generate optimal value (Khan *et al.* 2025). For instance, foreign ownership restriction creates difficulty in managing regulatory compliance in the financial markets. High debt level causes constraints in managing capital flow volatility, and understanding the financial infrastructure turns out to be difficult. For example, the FDI limit in 2023 was £51.8 billion and the estimated increase of 7.2% more by the end of 2025 (ONS, 2025). Shifting socio-political dynamics created constraints in the implementation of policy and developed transparency of the framework. The FDI growth limit of 1.5% in 2023 did not contribute to progressive output due to the decrease in per-capita income. Considering the index of progress, it can be stated that regulatory complexity causes impact in determination of long-term value. Henceforth, the need is to deal with the challenges observed and formulate the required measures to reach the desired objectives in the financial market.

4.2.4 Implementation of effective policies and strategies provides an opportunity to accomplish growth in the emerging financial market

Enhancement of regulatory clarity helps in the strategy of risk mitigation, and infrastructural development can turn out to be successful. Dealing with the challenges of financial capital diversification is crucial to get the desired scope of progress (Driffield *et al.* 2024). It is recommended to focus on a well-articulated strategy to implement a robust plan for risk management. Diversification of investment portfolio appears to be successful with a focus on regulatory transparency in the risk management process. For example, Sainsbury's focuses on Qatar Holding and Vesa Equity Investment to focus on a multi-brand retail innovation strategy (Sainsburys, 2024). The estimated limit of the multi-brand retail investment of Sainsbury's is \$100 million, and 50% invested in the back-end infrastructure. As a major investor in the financial market of the UK, Sainsbury's plays a key role as an economic contributor and determined cost-saving targets in the financial market. Therefore, the implementation of a practical strategy provides an opportunity to create a scope of long-term progress in the targeted market.

Foreign Direct Investment plays a multifaceted role in broadening the boundaries of the targeted economy, and the multiplier effect in the financial market is determined by adopted initiatives. For example, the emerging economy of India was estimated to increase 7.2%, and the Reserve Bank predicted a significant cut in the rate to boost the scope of economic progress (BBC, 2025). The fastest growing emerging market economy has experienced a boost of 9.2% during 2023-2024, focusing on market dynamism. Market expansion potential in India is determined by the opportunity to accomplish long-term growth. It is suggested to gain common ground to formulate an investment portfolio and enhance the opportunity to gain business output. In reference to the situation, it is necessary to deal with the barriers and accomplish long-term growth in the targeted vision of economic progress in banking services. Henceforth, it is important to deal with the barriers of foreign investment and accomplish the long-term goal in the emerging financial market.

4.3 Analysis

4.3.1 Theme 1

FDI provides an opportunity to ensure the expansion of the market structure and determine opportunities to ensure low-cost saving potential. Evaluation of market uncertainty is necessary to evaluate implication of the socio-economic scenario, and fostering the scope of financial resilience needs to be helpful (Abor *et al.* 2024). Non-debt external capital inflow helps in supporting domestic financial needs and mitigating market gaps. Limited institutional credit, FDI and low rate of saving are two barriers to predicting future market growth potential. Business capital estimation planning in Meta is based on liquidity inclusion of 62% and creates an optimal framework of support (The Guardian, 2025). Referring to the findings in the thematic analysis section, it can be analysed that capital fluctuations highlight the need to incorporate structural reforms. Expanding stock market participation helps in creating an adequate outlook of foreign market expansion and developing a stable framework of support.

FDI inflow determines the scope of economic scalability, ensuring long-term commitment to achieve a structured scope of progress. The blue-chip stock of Tesco determines the direction of progress observed in enhancing financial scalability and optimising financial output. An estimated progress of 10.9% and adjusted profit of 4% determine the opportunity for long-term progress in value estimation (Tesco, 2024). Tesco's FDI in India was of \$110 million, and the ratio distribution was at a 50:50 index. It can be analysed from the above findings that the improvement of efficiency observed in the emerging market is determined by the existing opportunities. Reduction of global uncertainty provides an opportunity to deal with the challenges and predict the potential of future growth orientations. Identification of the opportunity prevailing in the host country helps in dealing with the barriers observed in terms of competitive positioning. Thus, fostering adequate economic resilience provides an opportunity to deal with the challenges and economic interaction network.

4.3.2 Theme 2

FDI-driven financial innovation helps in gaining the benefits of a sophisticated investment index, and governance in the financial mechanism turns out to be possible. Financial development indicators are the domestic credit index and the ratio of value estimation for dealing with FDI inflow (Kaddouri and Benelbar, 2024). It can be analysed from the above findings that attracting FDI plays a crucial role in determining progressive results and gaining progress. Adequate managerial expertise helps in increasing the opportunity to deal with the issues and enhance the potential of capital

management in the financial market. Consistent shift in dividends provides defensive stock estimation planning, and the impact is visible in dealing with the market gap observed in the financial market. Considering the tenure of 2022-2023, a shift in FDI was observed from £62.3 billion to £51.8 billion (ONS, 2025). Therefore, it is required to address the market gaps and incorporate necessary measures to reach the desired objectives in the financial market.

The strategy of market portfolio diversification helps in encouraging business network expansion and ensuring success in terms of market scalability. It can be analysed from the above findings that the assessment of market competitiveness and evaluation of international market portfolio is required. As per the reports in 2023, FDI in the financial sector experienced a significant upsurge, and it has simplified the strategy of economic scalability (Forbes, 2024). During the tenure of 2023-2024, 12% increase in foreign investment estimation created an opportunity to gain progressive results. Accessing the benefits of the international capital market is linked with macro-financial risk estimation, and optimising the benefits of the domestic financial system can be beneficial. Furthermore, it can be analysed from the findings of the thematic analysis section that market network diversification helps in the creation of reliable results. Henceforth, it is required to deal with the issues observed in gaining reliable results and gain a scope of long-term growth.

4.3.3 Theme 3

Dynamism in regulatory compliance, a risk factor in policy implementation, infrastructural deficiency, and political instability, are notable challenges. Changing socio-economic dynamics contributed to the transformation observed in the determination of overall success in policy implementation. The changing economic index is responsible for the issues observed in the accomplishment of the desired scope of progress (An *et al.* 2025). It can be analysed from the findings section that financial market modernisation requires the addition of innovative measures, and strengthening the progressive financial system can be possible. Implementation of an authentic method of credit evaluation helps in increasing the efficiency of market infrastructure and predicting future growth potential. The FDI limit of the UK in 2023 remained at 15.8%, and the strategy of portfolio diversification helped in the optimisation of financial output (Gov, 2024). Therefore, the accomplishment of

success in decision-making and the creation of long-term value in the financial market can be increased.

Diversification of financial market network analysis helps in dealing with the challenges observed in the case of value creation in the banking sector. The FDI limit of £51.8 billion in 2023 created an opportunity to diversify the overall business network (ONS, 2025). Overall progress of 15.8% in economic value estimation in 2023 provided an opportunity to deal with the challenges observed in financial planning. It can be analysed from the above findings of thematic analysis; it can be stated that transition in the existing market creates an opportunity to develop an overall business outlook. Diversification of the network helps in creating opportunities to access reliable outcomes and the consequences are observed in the determination of success (Khan *et al.* 2025). Emerging economic infrastructure provides an opportunity to address the challenges observed in the determination of long-term vision. It is necessary to deal with the challenges observed in the accomplishment of the long-term vision with FDI portfolio analysis. Henceforth, it is necessary to deal with the barriers and increase opportunity of competitive positioning in financial markets.

4.3.4 Theme 4

The strategy of investment portfolio diversification plays a key role in dealing with the issues observed in the accomplishment of the desired goal. Diversification of investment portfolios helps in the development of success in terms of value proposition (Driffield *et al.* 2024). It can be analysed from the above findings that FDI in the market portfolio helps in enhancing the efficiency of the network and creates optimal scope for progress. Qatar Holding and Vesa Equity Investment in the financial market of the UK by Sainsbury's helped in increasing the efficiency of the investment framework (Sainsburys, 2024). Multi-brand retail investment of \$100 million helps in increasing the efficiency of the business network diversification. Thus, the development of an adequate regulatory framework provides an opportunity to deal with the challenges observed due to competitive positioning.

Development of coordination in the strategy of expanding the scope of innovation and ensuring opportunity to reach the desired success. It can be analysed from the findings that the need is to deal with the issues observed and accomplish progress in terms of reaching the objectives. Diversification of planning helps in dealing with the issues observed in the determination of long-term goals and creates potential for success.

Referring to the RBI report, the progress index of FDI in India remained at 7.2%, creating scope to enhance economic efficiency (BBC, 2025). Boosting the scope of economic progress is linked with the strategy to deal with the challenges and increase the potential for growth. Therefore, it is necessary to deal with the issues and increase insights to reduce the challenges in FDI planning.

4.4 Summary

It can be summarised from the above findings and analysis that the need is to ensure adequate planning in ensuring adequate utilisation of FDI. Changing dynamics of the financial market creates requirements to address the issues observed in portfolio diversification and planning. Additionally, the need is to address the barriers observed in the accomplishment of success in desired planning and gain the desired progress. Strategic evaluation of the investment framework helps in dealing with the barriers found, and consequences are observed in the determination of the long-term goal. It is important to deal with the challenges observed and accomplish scope of desired growth with FDI inclusion. Therefore, it is required to address the challenges observed in dealing with them and gain a successful outcome.

5. Discussion

5.1. Introduction

The discussion chapter aims to analyse the findings regarding the role of foreign direct investments in the emerging economic and financial market. This chapter tries to find out the positive aspects of the FDI on the financial market in the emerging economies. Additionally, the chapter discusses the theme-based findings regarding the challenges of FDI and suggestions to improve the economic enhancement that are mentioned in the findings chapter. Additionally, this chapter explores the literature reviews and tries to bridge the data taken from authentic journals along with the findings. This measure identifies the strength of the research by aligning research questions with the findings that indicate the authenticity of the research. Therefore, the discussion chapter comprises theme-based discussion from findings and critically analyses it with literature data to ensure the accountability of the research.

5.2. Discussion

The first theme discussed the importance and positive role of FDI in the financial market in emerging economies. FDI in emerging markets plays a significant role in the advancement of economic infrastructure and deals with the challenges observed due to the global socio-economic transition. As per the views of Abor *et al.* (2024), the international financial cooperation and investment in human capital have been strengthened by the targeted sectoral policies. It can be found from the findings that the foreign direct investments enhance capital flow and develop market liquidity that establishes a way to access fundings. In this context, the industrial infrastructure has been strengthened through generating resources that helps to prevent private industry investment barriers. Additionally, as per the report, the tech industry boomed with the progress of Meta and Tesla (The Guardian, 2025).

Referring to the findings in the thematic analysis section, it can be analysed that capital fluctuations highlight the need to incorporate structural reforms. On the other hand, according to literature reviews, advances in the financial system often facilitate greater utilisation in the banking services and forming investment opportunities among the low-income populations (Mbodj and Laye 2025). In this context, it can be stated that the foreign capital reduces the dependence on short term, volatile portfolios that

contributes to the resilience of local financial markets. Therefore, the FDI has a vital role in emerging economies' financial markets as it boosts the economic growth by injecting capital accumulation that leads to higher productivity and innovation of the business.

FDI focuses on knowledge transfer and enhancing market efficiency that helps to foster the benefits of the global financial market. The findings section explains that Tesco has increased its group sales ratio in 2024 and adjusted operating profit to 10.9% (Tesco, 2024). In this regard, Tesco plays a major part in the financial market of the UK, with significant investment in blue-chip stock leaving a strong impact on investors' portfolios. On the other hand, as per the data of literature review, Alobaidet *et al.* (2024) described various capital markets in the developing countries that pose distinctive challenges while maintaining a concentrated ownership structure. For instance, without adequate digital and financial infrastructure the ability of the market to absorb and utilise the FDI is limited and the barriers such as corruption and delay in administrative process are the major concerns of FDI in the emerging financial market. In this context, the discussion tries to explain the role of FDI in maintaining stability of financial marketing.

Here the ***Eclectic Paradigm/OLI framework*** explains that FDI using benefits such as ownership, location, and internalisation that are directly used to realise the role of FDI on the financial market of emerging economies. Therefore, the FDI plays a significant role in imposing liquidity in the market that helps to enhance the sales rate and eventually market growth but it faces some strategic barriers that shades down the work capacity of FDI and reduces the extreme capital growth of the financial market. Therefore, this discussion meets the research objective 1 of evaluating the role of the FDI in maintaining sustainability in the finance market of emerging economies through the analysis of the data from literature review and findings.

The theme 2 of the finding section explains the pivotal role of FDI in shaping the infrastructure of financial markets of emerging economies. The emergence of FDI focuses on the infusion of capital, job creation, technology infrastructure planning and skill enhancement that helps in the development of the progressive infrastructure of the financial market. Additionally, the identification of barriers observed in value creation is severely associated with the economic growth and the market capitalisation. As per the findings, the FDI ratio is estimated to increase 7.2% by 2025 than the previous years (Ons.gov.uk, 2025). In this context, the market gaps and

incorporating necessary measures plays a significant role to reach the desired objectives in the financial market that impacts on the FDI. On the other hand, the literature explains that portfolio investment is less volatile than FDI since foreign investors are usually not invested in short-term earnings, however in long-term development (Sugozuet *al.* 2023) . This is how stability assists to absorb external stocks, global financial crises and the abrupt capital outflows.

The literature review section explains the importance of FDI in long-term investments whereas the findings strengthen the fact by incorporating real-hand examples of increasing FDI ratio that is strategically aligned with the research objectives of the pivotal positive role of FDI on the financial market of emerging economies. Therefore, ensuring stability in the capital flow can be influenced by the long-term FDI that helps to create job opportunity and indirectly stimulates more jobs through increased economic activity that highlights the positive impacts of FDI in the financial market of emerging economies.

FDI enhances the practical evaluation of the growth potential along with identifying the financial stability that influences the economic policy regarding generating growth to the market. As per the findings, FDI inflow has experienced a significant increase in 2023, with an increase in the external capital inclusion ratio (Forbes, 2024). However, the BREXIT related circumstance and the post covid cost of living crisis situation affect the determination of long-term value. In this regard, it can be stated that the benefits of the international capital market are linked with macro-financial risk estimations. On the other hand, the literature signifies that according to Qamruzzaman (2023), FDI creates new financial services and products to boost the financial innovation and inclusions.

In this context, the launching of digital banking, mobile payment systems and risk management devices increase the access to financial services by underserved communities that includes a severe community in the advanced financial community. Here the ***internationalisation theory*** focuses on the strategies that why the market needs to choose the foreign direct investment over external market transaction that helps to identify the positive impacts of FDI in enhancing the financial growth. Therefore, the critical discussion tries to highlight the alignment with objective 2 regarding multifaceted impact of FDI on financial markets and emerging economies. Therefore, it can be stated the positive impact of FDI regarding creating job opportunities, capital flow and inclusion of unserved communities enhance the growth

of the financial market that eventually balances with the growth of emerging economies.

The theme 3 tries to highlight the challenges that the market faced during inclusion of FDI from external source to internal financial market. Obstacles to FDI inclusion in emerging financial markets include political instability, regulatory complexity, an infrastructural gap, and foreign ownership restrictions. The frequent changes in the government and abrupt policy reversal put the FDI in high risk by creating significant uncertainty for investors making long-term commitments. The findings mentions that the FDI limit of the UK is standing almost the same in 2024 in contrast to 2023 considering the implication of external factors (Gov.uk, 2024). In this context, the strategy of portfolio diversification helped in the optimisation of financial output that helps to analyse the effectiveness along with the challenges faced by the markets. On the other hand, the literature review indicates the first-hand example of the crisis in Argentina formed by the financial disbalance. As per the views of Santarcángelo and Padín (2023), the recurring debt crisis of Argentina and growing fluctuation of the capital control repeatedly affects the foreign investors which increases volatility within the investment cycles and creates constraints in financial markets.

In this case, the government has implemented the severe FDI policies and capital control policies that restricted the ability of the investors to move the fund in and out of the country leading the country to immense economic loss. The ***Eclectic Paradigm/OLI framework*** defines the relationship between the ownership, location and internationalisation that provides that clear framework of the whole FDI system to identify the gaps and understand the challenges faced by the financial market. The literature review example and the data from finding have been aligned with the research objective that highlights the specific challenges faced by emerging economies in sourcing stable FDI from external sources for maintaining its financial markets. Therefore, the critical analysis of the discussion reflects that the effectiveness of FDI is based on the well-structured government policies as the policies and rules build the route of the capital flow and the disbalanced policy brings robust economic loss for the country.

The emerging financial market includes economic and political volatility, public and private debt, and external events of economic shock faced challenges in the implementation of FDI in financial markets of emerging economies. The findings data indicates that the FDI limit in 2023 was £51.8 billion and the estimated increase of

7.2% more by the end of 2025 (Ons.gov.uk, 2025). The data indicates that the shifting socio-political dynamics creates constraints in the implementation of policy and regulatory complexity causes impact in determination of long-term value. On the other hand, the literature review states that as opined by Hendrawaet *al.* (2024), the insufficient infrastructure increases operational cost and transaction costs. In this context, the emerging countries become less competitive in this aspect than the developing countries. For instance, the unreliable electricity in Nigeria affects the supply and logistics operation (Adanlawo and Vezi-Magigaba, 2021). This case affects the FDI and pushes the investors towards the other African countries. Therefore, these real-examples show the explanation of research question 3 the challenges created by mis implementation of FDI that affects the revenue generation and the growth of the financial market as well as the country. This critical analysis explains how the findings keep the alignment with the research objective of figuring out and analysing the challenges faced by the markets in implementing FDI in financial markets of emerging countries.

The theme 4 tries to deal with the implementation of effective policies and strategies that provide an opportunity to the accomplishment of growth in the financial market. In this regard, the enhancement of regulatory clarity helps in the strategy of risk mitigation, and infrastructural development can turn out to be successful. The findings explained that the diversification of investment portfolio appears to be successful with a focus on regulatory transparency in the risk management process. For instance, Sainsbury focuses on the Qatar holdings and the Visa Equity investment to focus on a multi-brand retail innovation strategy (Sainsburys.co.uk, 2024). In this context, the multi-brand investment helps increase the efficiency of business network diversification that provides a framework to deal with the challenges due to competitive positioning. On the other hand, the literature review states that the voluntary compliance with the international standards of reporting, disclosure, or board independence helps the companies to witness a reduction in agency risks and enhanced protection to minority stakeholders (Kabara *et al.* 2023).

In this context ***the internationalisation theory*** emphasises the aspect of knowledge transfer and capacity-building in FDI that helps to develop strategies regarding the effectiveness of FDI. Therefore, the findings and the literature reviews provide several strategies that can help the FDI and the financial market to generate high revenue by establishing strong economic investments. Additionally, the critical analysis meets the

research objective 4 of suggesting effective interventional policies and strategies that companies in emerging economies can implement to attract FDI for maintaining its financial markets. Therefore, the diversification of business networks and voluntary compliance with international standards can be used in implementing FDI as a core strategy to manage internal policies to enhance the financial growth of the emerging countries.

5.3. Chapter summary

In conclusion it can be stated that the discussion chapter focuses on the results of the findings and tries to align it with the findings of literature review that strengthen the authenticity and the accountability of the research. Additionally, this chapter explains the data regarding the effectiveness, role, challenges and the recommended market strategies of FDI in the financial market of emerging economies and provides justification in the light of specific theories and research objectives.

6. Conclusion

6.1 Overview of the important findings as compared to the research objectives.

The reason why this research was conducted was to assess the relevance of Foreign Direct Investment (FDI) and how it affects the financial markets in emerging economies with particular emphasis on the stability of the market, financial development, and institutional fortification. The results prove that FI has been at the center of increasing the availability of capital, liquidity in the market, and promoting the growth of financial institutions like banks, stock markets, and insurance industries. In line with previous research, long-term FDI inflows were more consistent than portfolio investments thus affecting a decrease in capital market volatility and macroeconomic stability (Siklar and Siklar, 2022; Breuer et al., 2025).

It is also concluded by the study that financial innovation is enabled by FDI by introducing digital banking technologies and sophisticated risk management systems as well as international compliance standards, all of which enhance the efficiency and transparency of the financial sector (Mishchenko et al., 2021; Ahmad and Mahmood, 2024). These advancements boost investor confidence and other people engaging in formal financial market, especially underserved groups, hence promoting financial inclusion (Abor et al., 2024). According to the second research objective, the research proves the fact that FDI can lead to both quantitative and qualitative market growth, as well as enhance their governance and operational standards.

Nevertheless, when it comes to answering the third research objective, it can also be seen that emerging economies are experiencing enduring structural and institutional hindrances that lower the efficiency of FDI. Critical limitations were identified to be political instability, inconsistency in regulations, inadequate infrastructure, and shortage of skills, which reduce investor confidence and make operations more expensive (Santarcangelo and Padina, 2023; Hendrawan et al., 2024; Singh et al., 2022). All these difficulties inhibit the ability of financial markets to absorb and efficiently allocate foreign capital, and the conclusion drawn is that rather than automatic, the benefits of FDI are conditional.

6.2 Theory Implication and Knowledge contribution.

In theoretical terms, the usage of the Eclectic (OLI) Paradigm and the Internationalisation Theory offers solid explanatory models of how multinational

businesses act and what the outcome of such activities is in the respective financial markets of host economies. The proprietorship benefits describe why foreign companies can exchange technological, managerial, and financial knowledge that empowers local financial institutions, and location benefits explain the fact that emerging economies are the favorite destination of FDI because of the potential to grow and open new markets (Batschauer da Cruz et al., 2022; Kumar, 2024).

Internalisation benefits also underline the reason why companies choose direct investment instead of contractual investments within the setting that is a weak regulatory environment and information asymmetry, to manage the governance and risk exposure. In the same way, the theory of Internationalisation is consistent with the observation that companies internalize business in high-uncertainty markets in order to save on transaction costs and protect proprietary knowledge, which leads to stable and long-term capital commitments (Ali, 2024; Tan, 2022). The above theoretical implications augment the understanding that FDI is not only a reaction to market conditions but it also proactively creates financial structures by providing institutionalized interaction.

This research is significant to the current literature, as it connects the motivation of firms to investments with macro-economic financial market indicators, which is a gap in the literature because most studies consider FDI as a growth variable but not as a structural factor of financial stability. Also, incorporating the current variables including digital finance and quality of governance implies that the research applies classic FDI models into contemporary settings of the financial system and thus makes them more relevant to current market dynamics.

6.3 Policy and Managerial Implication to Emerging Economies.

The results show that in order to maximize the financial market benefits of FDI, policy coherence and corporate governance reforms are critical. Regulatory systems, predictable investment policies, and efficient legal enforcement systems decrease uncertainty and bring in long-term institutional investors stabilize domestic capital markets (Kabara et al., 2023). By implementing the international financial reporting standards, enhancing the independence of the board, and the disclosures, firms in

emerging economies can further boost investor confidence, which minimizes the agency risk and information asymmetry (Manginte, 2024).

The so-called public-private partnerships (PPP) also become a crucial plan of mobilisation of long-term investment in financial infrastructure, digital platforms, and capital market reforms. The PPP structures allow foreign investors to invest in areas which would otherwise be considered to be high risks by sharing project risks and offering regulatory guarantees (Flammer and de Mariz, 2025; Luscombe et al., 2025). It is also these mechanisms that encourage domestic financial participation which helps the growth of local currency instruments and diversified investment vehicles.

On the organisational level, businesses are advised to approach sustainable finance initiatives and ESG systems that are becoming more relevant in the investment decisions worldwide. By incorporating environmental and social governance standards, the corporate reputation is not only improved, but also firms are aligned to the investment requirements of the international development banks and sovereign wealth funds, thus expanding the availability of stable flows of FDI (Tan, 2022). All these combined show that strategic alignment between the government policy, corporate governance, and investment facilitation is critical in converting FDI inflows into sustainable financial market development.

6.4 Study Limitations and Future Research Direction.

This study has a number of limitations even though it has contributed. This is because the use of secondary qualitative data limits the possibility of capturing real time investor perceptions, firm-level decisions and a country-based institutional peculiarity. In addition, the small number of studies reviewed can be a limitation to the external validity of the results to various emerging markets. Another constraint of the study is the dynamism of investment flows globally especially following geopolitical tensions, digital disruption, and climate-related financial risks, which might change the patterns of FDI outside the focus of the reviewed literature.

Future studies can deal with these shortcomings by using the mixed-method designs that combine quantitative financial measures with qualitative interviews of policymakers, investors, and financial institutions. Greater causal support on the effectiveness of regulatory and governance interventions would be evidenced with

longitudinal studies on pre and post policy reform investment patterns. Also, more sector-specific research on fintech, green finance, and infrastructure investment might provide more specific policy implications based on the modern development priorities.

To conclude, this paper establishes that FDI has continued to be an important source of the financial market development in emerging economies, which has an impact on the availability of capital, the quality of institutions, and financial innovation. Its positive effect is however, very dependent on the domestic policy settings, governance and strategic investment systems. With institutional changes and mutual public- private arrangements, FDI can help to achieve sustainable financial market stability and inclusive economic growth. On the other hand, the absence of favorable structural conditions can subject emerging economies to foreign shocks and subject it to financial risks when it depends on foreign capital. Thus, where FDI is involved, strategic management is necessary in a way that the financial markets in the emerging economies will be resilient, competitive and development-focused.

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Appendices

Appendix 1: Timeline of the research

Tasks	Time Period						
	Week 1-2	Week 3-4	Week 5-6	Week 7-8	Week 9-10	Week 11-12	Week 13-14
Selecting research topic and gathering topic approval							
Deriving aim and objectives							
Accumulating and synthesis data from chosen literature							
Selecting and justifying methods							
Data collection and Analysing themes							
Proof reading the findings and deriving conclusion							
Final submission							

Appendix 2: Thematic Table

<i>Themes</i>	<i>Articles</i>
FDI plays an important role in the financial markets of the emerging economies.	Tesco (2024) <i>Tesco Report</i> Available at: https://www.tescopl.com/media/ky0bfwpo/tesco_ar25_interactive.pdf
	The Guardian (2025) <i>A Year of Two Halves</i> . Available at: https://www.theguardian.com/business/2025/jan/01/financial-markets-end-2024-strong-post-pandemic-recovery
	Abor, J.Y., Dwumfour, R.A., Agbloyor, E.K. and Pan, L., (2024). 'Foreign direct investment and inclusive finance: do financial markets and quality of institutions matter'?. <i>Empirical Economics</i> , 67(2), pp.773-815. Available at: https://link.springer.com/content/pdf/10.1007/s00181-024-02567-2.pdf
FDI plays a pivotal role in shaping the infrastructure of the financial markets of emerging economies.	Forbes (2024) <i>Global FDI</i> Available at: https://www.forbes.com/sites/robertginsburg/2024/08/19/global-fdi-trends-and-decision-making/
	ONS (2025) <i>Foreign Direct Investment</i> . Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/foreigndirectinvestmentexperimentaluksubnationalstatistics/2023
	Kaddouri, N. and Benelbar, M.H., (2024). 'The impact of foreign direct investment on economic growth: Empirical evidence'. <i>Financial Markets, Institutions and Risks</i> , 8(1), pp.123-132. Available at: https://www.cell.com/heliyon/pdf/S2405-8440(24)01707-9.pdf
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