International Journal of
Financial Management and Economics

P-ISSN: 2617-9210
E-ISSN: 2617-9229
Impact Factor (RJIF): 5.97
IJFME 2026; 9(1): 07-12
www.theeconomicsjournal.com
Received: 04-10-2025
Accepted: 07-11-2025

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The impact of geopolitical shifts on foreign capital flows in emerging markets amidst global economic challenges post-2020

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DOI: https://doi.org/10.33545/26179210.2026.v9.i1.704

Abstract
This research examines how geopolitical factors affect foreign investment in developing nations in light of global economic worries beyond 2020. First, the COVID-19 pandemic damaged the world economy, making investment harder. Due to the global crises between Russia and Ukraine, trade wars between major economic powers, and monetary policy adjustments by developed country central banks, international investors are becoming extra cautious. Money from impoverished nations is leaving the globe for stability, highlighting the necessity for a flexible monetary policy to survive conflict and market volatility.

Keywords: Geopolitical shifts, foreign capital flows, emerging markets, global economic challenges post-2020

Introduction
Over the last ten years, financial markets have become better, but since 2020, fears about the global economy have intensified. The COVID-19 pandemic slowed down the world economy, which made markets more volatile and increased financial risks. Political and economic instability has become worse because of rising tensions between Russia and Ukraine and between China and the United States. This has affected global investment. Countries that are growing. Projects funded by foreign investment funds assist developing nations keep their currencies stable and build up their foreign reserves. Concerns about global political or economic instability may affect investors' plans. Sanctuary funds may withdraw funds during crises, reducing transaction liquidity. As wealthy nations boost interest rates to battle inflation, global investment is plummeting, straining financial markets. Depreciation affects emerging market assets. One must understand geopolitics, international economics, and foreign investment to create monetary and economic policies that encourage stable markets and long-term growth even in hard times. Beyond 2020, this link's advantages for emerging nations amid geopolitical and economic turmoil will be studied.

Research Problem
The study tries to comprehend the complicated interaction between geopolitical events, global economic issues, and capital inflow into emerging economies to enhance financial stability and encourage foreign investment in uncertain times. This is the final goal: offer monetary and economic strategies to solve these difficulties.

Importance of The Research
Global economic concerns beyond 2020, geopolitical shifts, and emerging nation foreign money flows make this study interesting.

Research Objective
This research examines how geopolitical upheavals affect foreign investment in underdeveloped nations, focusing on global economic difficulties beyond 2020.

Research Hypothesis

Post-2020 geopolitical developments and global economic troubles hurt international capital inflows to impoverished states, although the effect varies by economic sector and risk and global monetary policy.

First: The Theoretical Framework of International Finance and Capital Flows

1. The Concept and Importance of International Finance

International finance is a branch of financial science that can be defined as the mechanisms provided by the international economic system with its various institutions (official, private, multilateral) to meet the transfer of capital, whether it is directed to settle imbalances in the balance of payments, to finance development, or for a self-serving purpose related to returns (International Monetary Fund, September 1999). It focuses on the movement of capital between countries, including loans, direct investments, and investments in global financial markets. International finance also enables countries and institutions to obtain the financial resources necessary to develop their economies and expand productive and commercial activities, regardless of domestic capital restrictions (Eun & Resnick, 2018: 15) [5]. International finance aims to facilitate the flow of funds between countries so that they are directed towards their optimal use in terms of economic growth and productive investment. Among its most important objectives in developing countries are supporting economic and social development programs and plans, raising living standards, addressing balance of payments deficits, and bridging the gap between required investments and savings the achieved, in addition to supporting local consumption and maintaining a certain standard of living (Al-Shammari, Hamza, 2019, 30-31) [13].

2. Types of Capital Flows

A. Net inflows and outflows

Net inflows and outflows refer to the net movement of capital between a country and the rest of the world during a specific period of time, whether in the form of direct investments or investments in securities, or international loans. Net inflows represent the money that enters the country from abroad after deducting the money that goes out abroad, while net outflows refer to the money that national capital leaves for foreign markets after deducting the money that comes in (Lane & Milesi-Ferretti, 2018: 25) [12].

B. Formal vs. Informal Flows

Formal flows refer to money that moves between Regimented banks and financial institutions facilitate formal and systematic transactions including government loans, financial aid, and FDI (Kose *et al*., 2019: 48) [11]. Informal monetary flows, such as unrecorded transfers, unlawful cash transactions, and unsupervised investments, are the opposite (Chinn & Ito, 2021: 57) [4].

C. Long-term versus short-term flows

Long-term flows are investments in an economy with the expectation of long-term growth. Long-term debt, FDI, and investment projects are instances of this. These fluxes are steady. Long-term flows show investor confidence in the economy's future (Kang & Shrestha, 2020: 34). Short-term flows include speculative cross-market capital transfers, investments in securities and portfolios with maturities under a year, and short-term loans.

3. Effect of Capital Flows on the National Economy

A. Positive effects

Foreign financial inflows provide the necessary resources to complete large productive projects that exceed local financial capacities, which is why augmented investments are seen as a big positive influence of international finance on developing countries and growing economies. Improving production processes, increasing economic efficiency, and modernizing industrial and service sectors are all outcomes of foreign investments, which allow host countries to transmit cutting-edge technology and managerial knowledge. Because it helps nations catch up to advanced economies in terms of technology, boosts innovation and product quality, increases exports and foreign trade, and increases national competitiveness, this effect is seen as a major positive of international financing (Javorcik, 2019: 142) [9].

B. Negative effects

Poor and growing nations that rely too heavily on foreign investment may be affected by global interest rate shifts or conflicts. Due to this dependency, the government may be unable to make economic choices and more subject to international market movements. This might cause massive budget deficits or national debt. Local investment hinders sustainable development, while foreign loan interest and accountability may increase long-term financial liabilities. (Forbes *et al*., 2021: 134) [6].

Second: Global Geopolitical Shifts After 2020

1. The Impact of the Coronavirus Pandemic

COVID-19 caused an extraordinary economic and geopolitical shock that disrupted worldwide financial flows, especially in developing economies. This pandemic placed immense pressure on government budgets as governments increased their spending in response. the pandemic, in order to meet urgent health needs and protect people, jobs and businesses, has increased budget deficits and debts. The pandemic has also caused a halt in economic activity in certain sectors and severely disrupted other sectors. This has negatively affected the stability of emerging economies and their ability to attract international financing (Al-Halawani).

2. Escalating competition among major powers

In recent years, significant economic and geopolitical competition has emerged among major powers such as the United States, China, and the European Union, directly impacting international capital flows and investment markets in emerging economies. These countries are now vying for control and influence in various regions. which contain energy sources, especially since most of the countries in these regions are developing countries that are unable to compete with these powers. Consequently, the major powers work to impose their hegemony over them. In addition, the importance of waterways in transporting energy sources has increased their strategic importance and made them vulnerable to international competition for the purpose of controlling them (Al-Ubaidi, Nafil, 2023, 79) [14]. in addition, technological competition between these major powers has put pressure on developing countries to adopt investment policies based on foreign technology, resulting in increased reliance on international financing in strategic sectors such as energy, communications and digital infrastructure.

3. The Russian-Ukrainian War

The Russian-Ukrainian war led to a global economic and geopolitical shock that directly impacted foreign capital flows, particularly in emerging markets reliant on external financing for their growth. This war resulted in significant disruptions to energy and commodity markets this led to a rise in global fuel and food prices and increased inflationary pressures in many countries. In addition, the war affected foreign direct investment decisions, with investments declining in sectors affected by global markets such as energy, transportation, and trade, while some defense and logistics sectors directly linked to the crisis increased International Security (IMF, 2022: 58).

Third: Analysis of Capital Flows to Emerging Markets

1. The impact of the Coronavirus pandemic on capital flows

The COVID-19 pandemic significantly affected foreign capital flows, especially in emerging markets, causing short-term capital outflows due to increased economic risks and global uncertainty these markets have witnessed a sharp decline in foreign direct investment and portfolio investment as a result of the slowdown in global economic activity and disruption of supply chains, which has affected the ability of countries to finance their development projects (Strategic Report, 2020, 69-71). this can be illustrated through the following table, which shows the impact of the Coronavirus pandemic on foreign capital flows in emerging markets and some accompanying economic indicators:

Table 1: Impact of the COVID-19 pandemic on capital flows in emerging markets (2020-2021)

Number	Market/State	FDI Decrease (%)	Decrease in net short-term flows (%)	Change in foreign reserves (%)	Inflation rate (%)	Comments
1	China	-5.1	-3.5	+2.0	2.5	It relied on flexible monetary policies to mitigate the shock
2	India	-12.0	-15.0	+1.5	6.0	The pandemic has affected the manufacturing and services industries.
3	Brazil	-18.5	-20.0	-1.0	6.7	Short-term capital outflows and increased currency risks
4	Mexico	-14.0	-16.5	-0.5	5.2	Declining investments in the manufacturing and tourism sectors
5	Türkiye	-10.5	-12.0	-0.8	15.0	The pandemic has increased inflationary and financing pressures
6	Egypt	-8.0	-10.0	+0.5	14.5	Reliance on official funding and international aid helped mitigate
7	South Africa	-16.0	-18.0	-1.2	6.5	The pandemic has led to extreme volatility in financial markets.

Source: Prepared by the researcher based on data from the International Monetary Fund, the World Bank, and the United Nations Conference on Trade and Development reports for the years (2020-2021).

From the table, we can see that the COVID-19 pandemic caused a significant decline in foreign direct investment and short-term flows in most emerging markets, as foreign investment fell due to increased economic risks and global uncertainty, and foreign reserves were also affected the situation varies between countries, as some countries such as China, India and Egypt were able to increase or maintain reserve levels due to flexible monetary and fiscal policies, while countries such as Brazil, Turkey and South Africa experienced a slight decline as a result of the shock of outflows and increased pressure on local currencies.

2. The impact of global inflation on capital flows

Rising global inflation in recent years has had a clear impact on foreign capital flows, particularly in emerging markets that rely on foreign investment to finance economic growth. Rising global prices have increased the cost of living and production, prompting investors to Foreigners are reassessing risks and returns, thereby reducing some flows or redirecting them towards more stable markets (Blanchard *et al.*, 2022: 59). this can be illustrated by the following table, which shows the impact of global inflation on foreign capital flows in emerging markets and some accompanying economic indicators:

Table 2: The Impact of Global Inflation on Capital Flows to Emerging Markets (2021-2022)

Number	Market/State	Global inflation rate (%)	Decrease in foreign flows (%)	Change in local interest rates (%)	Impact on foreign reserves (%)	comments
1	China	3.2	-4.0	+0.5	+1.8	Global inflation has increased production costs, but reserves have helped cushion the blow.
2	India	5.8	-8.5	+1.0	+0.7	Investors have reduced some short-term investments due to rising prices.
3	Brazil	8.1	-10.0	+1.5	-0.6	High inflation prompted Brazil to raise interest rates, affecting foreign inflows.
4	Mexico	7.5	-9.0	+1.2	-0.4	Reduced inflows have impacted domestic liquidity and increased exchange rate volatility.
5	Türkiye	19.0	-15.0	+2.0	-1.0	High global inflation has increased pressure on the economy and the local currency.
6	Egypt	14.0	-6.5	+1.5	+0.5	Flexible monetary policies helped mitigate the negative impact of inflation.
7	South Africa	6.7	-11.0	+1.0	-0.8	High inflation reduced short-term investments and increased market volatility.

Source: Prepared by the researcher based on data from the International Monetary Fund, the World Bank, and reports from the Bank for International Settlements, for the period (2021-2022)

The table shows that global inflation had a direct impact on foreign capital flows in emerging markets, as rising global prices increased the cost of living and production, prompting foreign investors to reassess risks and reduce or redirect some flows. safer markets, as the table shows the impact of inflation on foreign reserves, where some countries such as China and Egypt were able to maintain good levels of reserves thanks to flexible monetary policies, while they declined in countries such as Brazil, Turkey and South Africa due to inflationary pressures and high domestic interest rates.

Fourth: Emerging Markets Receiving Capital Flows

1. Global Emerging Markets

Emerging markets such as China, India, Brazil, Mexico, Indonesia, Turkey, and South Africa are among the most prominent markets receiving foreign financial flows, due to their economic size and high population growth, in addition to there are diverse investment opportunities across all economic sectors and infrastructure. Studies have shown that the diversity of emerging markets in terms of economic resources, growth rates, and development levels helps to distribute investment risks and achieve greater stability in financial flows, while also promoting innovation and technology transfer to various sectors productivity in these countries contributes to sustainable development and increases the long-term attractiveness of these markets to foreign investors (Alfaro & Chen, 2019: 74). This can be illustrated by the following table, which shows the most important economic indicators and the attractiveness of emerging markets to foreign capital inflows:

Table 3: Indicators of emerging markets receiving inflows foreign Finance (2022)

Number	State	GDP (trillion dollars)	Annual growth rate (%)	Population (million)	Foreign direct flows (billion dollars)	Short-term flows ($ billion)	Notes
1	China	17.7	5.2	1,411	163	90	Relative economic stability and attractiveness for long-term investments
2	India	3.7	6.8	1,400	83	55	High population growth and a strong services sector attract foreign investment
3	Brazil	1.6	2.9	214	62	28	Reliance on natural resources, agricultural exports, and energy
4	Mexico	1.3	2.3	128	38	22	A strategic location near the United States enhances investment attractiveness.
5	Indonesia	1.3	5.1	277	30	18	A large emerging market with a growing industrial sector, benefiting from economic reforms.
6	Türkiye	0.9	3.5	85	15	10	Facing economic volatility and a reform process to attract long-term investments
7	South Africa	0.4	1.8	60	5	3	Mining and energy dependent, exposed to short-term flow fluctuations

Source: Prepared by the researcher based on data from the World Bank, the International Monetary Fund, and the United Nations Conference on Trade and Development for 2022.

The table shows that major emerging markets such as China and India attract the largest volume of foreign direct investment (FDI) due to high economic growth, large populations, and diverse investment opportunities in the industrial, service, and energy sectors. Many nations are defined by their ability to attract such influx. Although progressive economic policies and an investor-friendly legal environment favor long-term capital inflows, short-term inflows are more subject to global volatility like increasing interest rates and geopolitical crises. As demonstrated in the wide range of growing economies in size and development rate, natural resources spread investment risk, stabilize financial flows, and promote innovation and knowledge transfer to productive sectors. Sustainable development makes these marketplaces more enticing in time.

2. Emerging Arab markets

Saudi Arabia, Egypt, and Morocco have large economies and strategic locations that are ideal for investment. Due to better investor protection legislation, simpler administrative procedures, and large tax incentives, these nations have attracted global investments in renewable energy, infrastructure, manufacturing, and financial services. Foreign investment brings cutting-edge technology and management expertise, which boosts productivity and economic growth. These governments must regulate currency exchange rates, depend on foreign finance, and reduce political and economic risks to maintain capital flow (World Bank, 2021: 104). Financial diversity and foreign investment are essential to building and sustaining the economy. The table below shows emerging Arab countries' economic metrics and investment appeal.

Table 4: Indicators of emerging Arab countries receiving foreign financial flows (2022)

Number	State	GDP (trillion dollars)	Annual growth rate (%)	Population (million)	Foreign direct investment (billion dollars)	Foreign investment portfolios (billion dollars)	Notes
1	Egypt	0.4	5.6	110	9.5	4.2	Ongoing economic reforms, improved investment environment, massive infrastructure projects
2	Morocco	0.14	3.3	37	3.1	1.2	Attracting investment in renewable energy and tourism, tax incentives, relative stability
3	Saudi Arabia	0.88	3.0	36	12.0	6.0	Vision 2030 projects: diversifying the economy away from oil, attracting investments in infrastructure and renewable energy

Source: Prepared by the researcher based on data from the World Bank, the International Monetary Fund, and the Arab Investment and Export Credit Guarantee Corporation for 2022.

Saudi Arabia, Egypt, and Morocco are likely to attract FDI and PI because to their big populations, increasing economies, and economic reforms. Vision 2030 seeks to diversify and attract international investment in Saudi Arabia. Connecting electrical systems and supporting green energy. Egypt's recent judicial and legislative reforms and enormous infrastructure projects, which have drawn foreign investment, have contributed to its economic development. Morocco prioritizes green energy and tourism. Foreign investors get tax incentives to steady capital inflows. These countries struggle to attract foreign investment because to political and economic instability, insufficient resources, and volatile currency exchange rates. We need targeted measures to diversify and preserve the economy. Revenue is rising rapidly.

Fifth: Proposed policies for managing capital flows to emerging markets

1. Improving the investment environment to attract FDI

FDI may be increased by improving the investment climate, since rules affect where foreign investors invest (UNCTAD, 2021: 88). In addition to establishing, equitably preserving, and maintaining private property rights, governments spend extensively in infrastructure and economic development. Positive benefits include increased operational efficiency, fewer taxes, and investor confidence in a company's long-term viability.

2. Strengthening foreign reserves to mitigate shocks

The goal is to store money overseas. Growing economies that depend on foreign investment frequently have huge reserves to withstand economic disasters. International investors trust central banks with large foreign currency reserves. These buffers reduce the impact of capital outflows and volatility in global interest rates on the currency's value. Maintaining considerable foreign reserves reduces reliance on short-term, possibly volatile external funding, while also facilitating international transactions and the acquisition of critical products. (Cheung & Qian, 2020: 78) [3].

3. Economic diversification to reduce dependence on short-term flows

Political and economic upheavals are less likely to affect short-term cash flow when the economy is diversified. Countries that rely on short-term investments or regular funding are at danger. Speculative traders might lose a lot if financial markets suddenly weaken local currencies and raise borrowing costs. The economy, particularly business, may be transformed to decrease these risks. Agriculture, services, and renewable energy provide more predictable returns, enabling long-term investments. (Rodrik, 2021: 102) [16].

Conclusion and Recommendations

Conclusion

COVID-19, global inflation, and increasing interest rates in wealthier nations have hurt foreign investment in underdeveloped countries, according to research. Many countries are seeing a fall in short-term investments and a decrease in long-term spending on critical industries as a result of increased risks and economic uncertainty. To limit the effect of unanticipated occurrences, they must establish flexible fiscal and monetary policies that can be adjusted to change. You may assess a country's investment possibilities by looking at its political and economic stability. Stable countries attract a lot of foreign direct investment (FDI). Political instability and financial carelessness increase investment risks while decreasing capital inflows. The study shows that diversifying an economy's funding sources reduces its dependence on major contributors and makes it more robust to shocks. A country's capacity to attract international investment and withstand economic downturns depends on its economic diversity. Developing markets provide enormous long-term investment possibilities. According to studies, a significant foreign currency reserve may protect an economy against interest rate volatility, global market shifts, and speculative investment losses. Large reserves let governments trade currencies, maintain stable currency rates, and meet international commitments. Investment increases and fund distribution improves. Studies suggest that tax incentives and private property protection legislation encourage foreign direct investment. These methods increase investor confidence and knowledge. Financial assistance for important industries and infrastructure helps developing nations compete globally and thrive economically. Research shows that diplomatic and military relations, the Russia-Ukraine conflict, and great power rivalry affect capital flow. Financial diversification and economic resilience are needed due to geopolitical threats and capital flight to safer assets. Foreign flows can only be stabilized under chaos.

Recommendations

Emerging nations require flexible monetary and fiscal policies to withstand global shocks and capital inflows. Maintaining interest rates in line with worldwide fluctuations, a stable currency, and financial liquidity may reassure foreign investors in a country's financial management. Economic growth and political stability attract foreign investment. Establish government agencies, address corruption, increase supervision and accountability, and prepare for long-term economic development. A stable environment decreases the danger of foreign investors withdrawing their money and supports long-term investment. According to studies, diversifying the economy may lessen transient influxes. Some nations have overcome external problems and attracted investment by diversifying their revenue sources and developing their industrial, service, agricultural, and renewable energy sectors. Foreign exchange reserves may reduce global interest rate and currency concerns. During economic downturns, liquid assets, a stable currency, market intervention, and trust in the government's overseas promises are essential. The only way to increase foreign direct investment is to improve the investment environment. This includes improving energy, transportation, and communication infrastructure, optimizing company processes, and preserving property rights. Tax incentives may be provided. Modernization increases a company's reputation and invites global investment. Developing countries must consider global geopolitical and economic trends to attract investors and boost economic development. A stable income stream, several investment and financing options, and a comprehensive worldwide risk assessment are needed.

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