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IMPACT OF GLOBALIZATION ON FINANCIAL MARKET STABILITY IN DEVELOPING COUNTRIES

Yusubaxmedova Durdonaxon Shuxrat qizi
Student of Tashkent State University of Economics, Tashkent city
E-mail: Hdurdonao7989@gmail.com

Abstract

This study examines the impact of globalization on financial market stability in developing countries over the period 2018-2024, covering both pre-crisis conditions and major global shocks, including the COVID-19 pandemic and recent geopolitical tensions. The research focuses on a comparative analysis of key indicators of globalization, such as foreign direct investment (FDI) inflows as a percentage of GDP, trade openness and the scale of capital flows. To evaluate financial market stability, the study analyzes exchange rate dynamics, inflation rates and selected indicators of financial sector performance. By comparing these variables across countries and over time, the paper aims to identify the relationship between the degree of integration into the global economy and the resilience or vulnerability of financial markets. The findings are expected to contribute to a better understanding of how globalization affects financial stability in developing economies and to provide insights for policymakers seeking to balance openness with risk management.

Keywords

Globalization, financial market stability, developing countries, foreign direct investment, trade openness, capital flows, exchange rate, inflation, financial sector performance.

Introduction

Globalization has significantly transformed financial systems around the world, especially in developing countries, where integration into global markets has increased rapidly over the past decades. Globalization means the growing integration of national economies into the global economic system through the expansion of cross-border flows of goods, services, capital and financial resources. (International Monetary Fund, 2008) In the financial context, globalization is primarily associated with financial integration, which implies that domestic financial markets become closely linked to international markets. This process is controlled by several interrelated mechanisms. One of the most important is capital flows, including foreign direct investment, which is a long-term investment in productive assets, and portfolio investments, which consist of short-term financial investments in stocks and bonds. Another key aspect is trade openness, reflecting a country's degree of participation in international trade depending on the size of its economy. Financial integration also implies the growing interdependence of financial systems, which is often measured by external assets and liabilities, while cross-border banking activities reflect the role of foreign financial institutions and international lending in the national economy. Collectively, these elements reflect the overall level of globalization and its intensity.

Financial market stability, means the ability of the financial system to function effectively, maintain trust and withstand external and internal shocks without experiencing systemic disruptions. (World Bank, 2016) A stable financial system is characterized by relatively predictable exchange rates, moderate and manageable fluctuations in financial markets and a stable banking sector capable of withstanding economic shocks. The stability of the exchange

rate is usually assessed through measures of volatility and depreciation, while stock market stability is reflected in the degree of fluctuation in market indices. The stability of the banking system is often assessed using indicators such as non-performing loans and capital adequacy ratios, which demonstrate the ability of financial institutions to remain solvent under stress. At the same time, financial stability is closely linked to a country's vulnerability to crises that may result from sudden capital outflows, excessive external debt, or macroeconomic imbalances such as high inflation.

At the same time, financial stability is closely linked to globalization, and financial market stability is complex and multifaceted. On the one hand, globalization can make a positive contribution to financial stability by providing access to foreign capital, contributing to the development of the financial sector and improving the allocation of resources in the economy. On the other hand, it also increases exposure to global risks, making developing countries more vulnerable to external shocks. For example, while capital inflows may initially support economic growth and stabilize financial markets, a sudden change in the direction of these flows may lead to a significant depreciation of the exchange rate and financial instability.

Results and discussion

This paper aims to examine the impact of globalization on financial market stability in developing countries. For the purpose of this study, two countries were selected to provide a balanced and meaningful comparative analysis of the impact of globalization on financial market stability: Kazakhstan and Uzbekistan.

Uzbekistan and Kazakhstan were selected for this study as representative developing economies in Central Asia that are undergoing active integration into the global financial system. Despite their geographical proximity and shared historical background, the two countries differ in terms of economic structure and the pace of financial liberalization. Kazakhstan has a more open and globally integrated economy, with significant exposure to foreign investment and commodity markets, which makes it more sensitive to external shocks. In contrast, Uzbekistan has traditionally maintained a more controlled and gradually liberalizing financial system, allowing for a different trajectory of globalization and financial stability. This contrast provides a valuable basis for comparative analysis of how varying degrees of globalization affect financial market stability.

Integration of the Kazakhstan economy into the global value chain remains extremely relevant and crucial in the modern world context. In the context of world globalization, economic and trade ties between countries are becoming increasingly close and complex. Kazakhstan, as a country with a geostrategically important location, must actively participate in global production and trade networks to ensure sustainable economic growth, as participation in global value chains helps the country increase its competitiveness and provide higher quality and innovative products. (Doskalieva.B, Kenzhebekov.N, Kurilkin.A, Pupysheva.T, Puntus.Y, Biryukov.V; 2025)

Despite the global economic instability, Uzbekistan has demonstrated high economic resilience and adaptability. The reduction of inflation to moderate levels, the expansion of export-oriented production, and progress in import substitution policies have strengthened macroeconomic stability. Increased investment activity, especially in industry, infrastructure

and high-value-added sectors, provides a solid foundation for long-term sustainable development. (Norbekova. E; 2026)

The analysis will focus on comparing key indicators of globalization and financial stability across these countries over the period from 2018 to 2024, which captures both pre-crisis conditions and major global shocks such as the COVID-19 pandemic and recent geopolitical tensions. In terms of globalization, the study will examine indicators such as foreign direct investment inflows as a percentage of GDP, trade openness and the scale of capital flows. To assess financial market stability, the research will analyze exchange rate dynamics, inflation rates, and selected indicators of financial sector performance. By comparing these indicators across countries and by years, the study aims to identify how different levels of globalization influence financial stability.

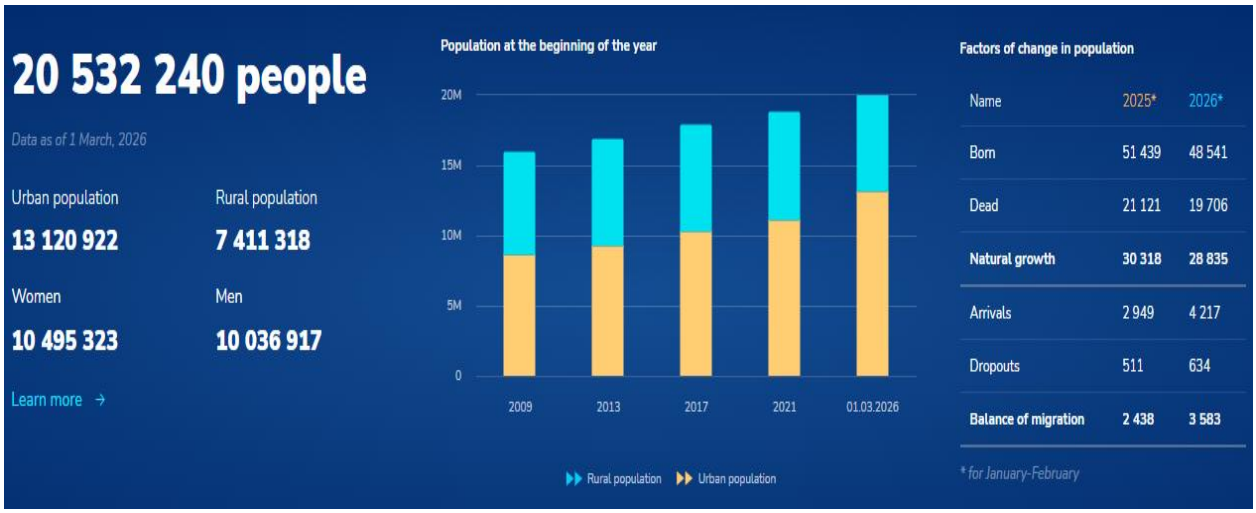


Figure.1. Population of Kazakhstan

Source: Bureau of National Statistics on the website of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan



Figure.2. Annual inflation, in %

Source: Bureau of National Statistics on the website of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

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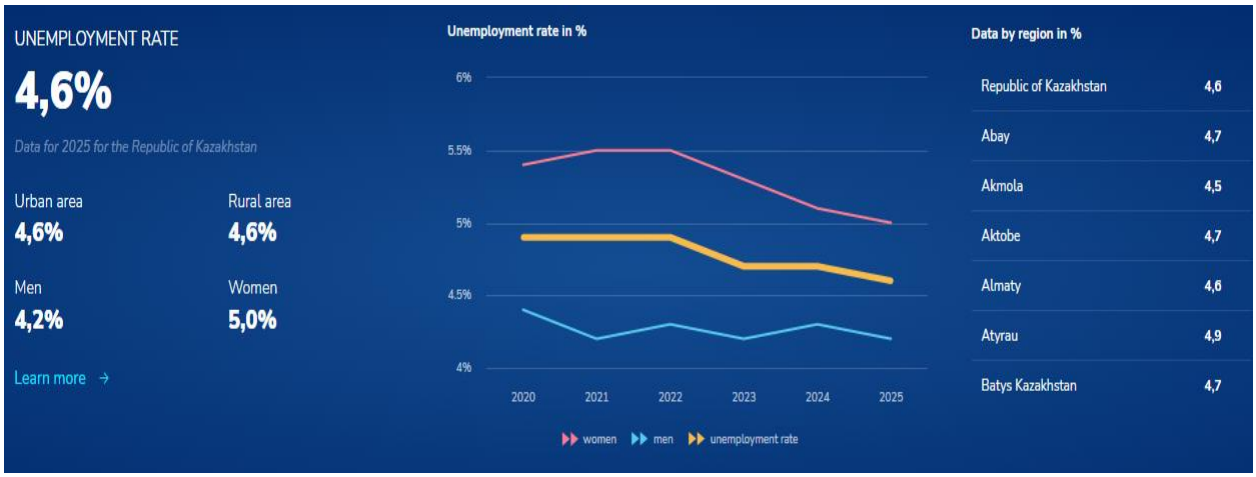


Figure.3. Unemployment rate, in %

Source: Bureau of National Statistics on the website of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

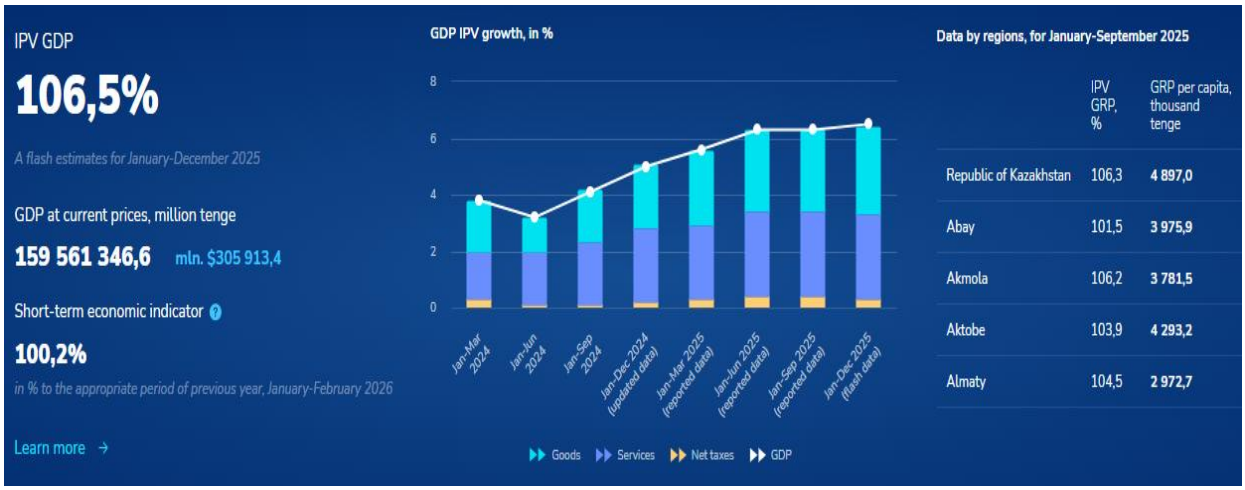


Figure.4. GDP IPV growth, in %

Source: Bureau of National Statistics on the website of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

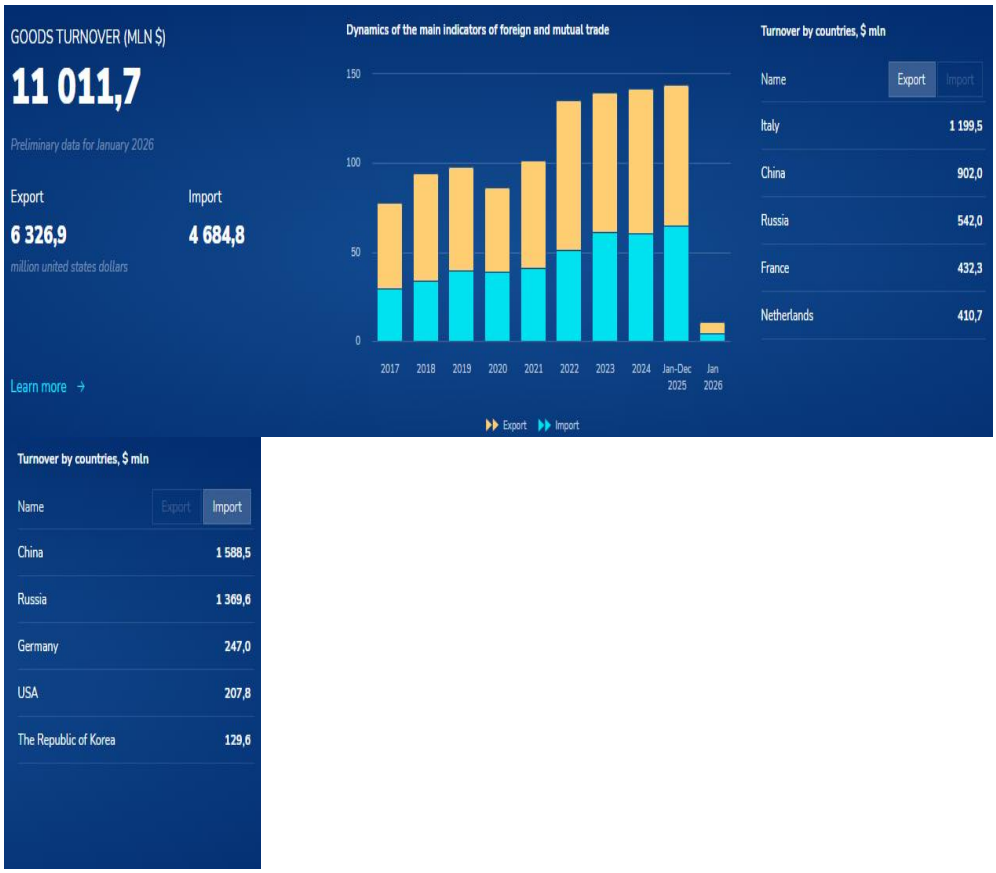


Figure.5. Dynamics of the main indicators of foreign and mutual trade (mln $)

Source: Bureau of National Statistics on the website of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

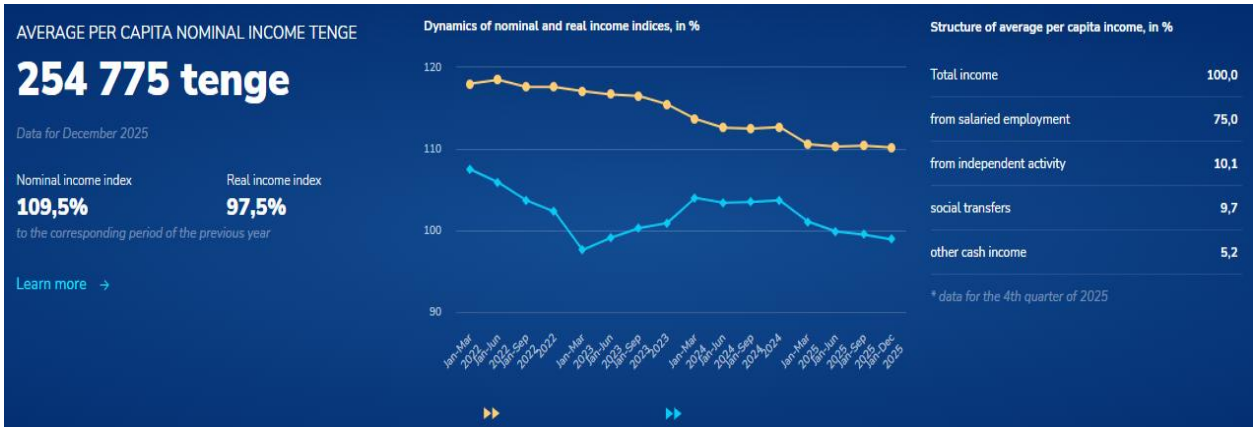


Figure.6. Dynamics of nominal and real income indices, in %

Source: Bureau of National Statistics on the website of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

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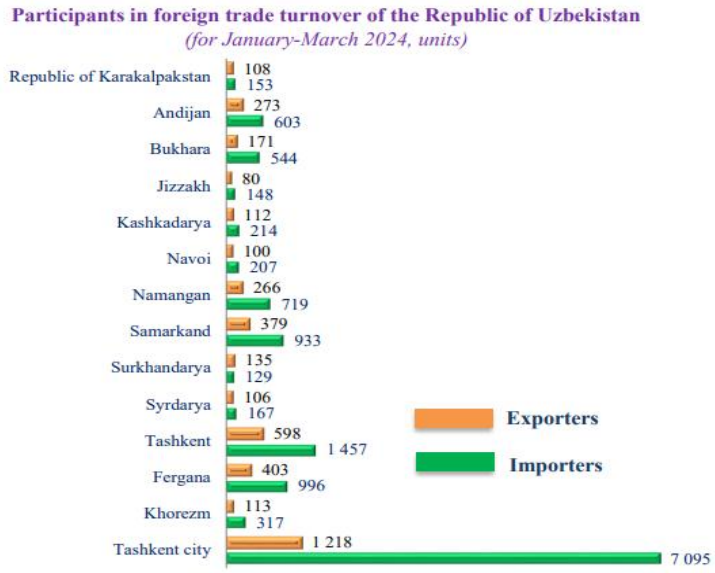


Figure.7. Main participants in foreign trade turnover of the Republic of Uzbekistan

Source: National statistics committee of the Republic of Uzbekistan



Figure.8. Countries with the largest share in foreign trade

Source: National statistics committee of the Republic of Uzbekistan



Figure.9. Dynamics of export volume

Source: National statistics committee of the Republic of Uzbekistan



Figure.10. Dynamics of import volume

Source: National statistics committee of the Republic of Uzbekistan

The selection of variables in this study is based on the objective of analyzing the relationship between globalization and financial market stability in developing countries. Each variable reflects either the degree of integration into the global economy or the level of macroeconomic and financial stability.

GDP growth is used as a key indicator of overall economic performance and reflects the ability of an economy to expand under both domestic and external conditions. Inflation is included as a measure of macroeconomic stability, as high and volatile inflation often signals economic imbalance and vulnerability to external shocks. Unemployment represents the condition of the labor market and indirectly reflects the resilience of the economy during periods of crisis.

Foreign direct investment (FDI) is one of the most important indicators of globalization, as it captures the extent to which a country attracts external capital and participates in global financial flows. Higher levels of FDI generally indicate deeper financial integration, but they may also increase exposure to global market fluctuations.

Population growth is included as a crucial indicator, reflecting demographic dynamics and the potential size of the labor force and domestic market. Finally, the exchange rate is a crucial indicator of financial market stability, as it reflects the strength of the national currency and its sensitivity to external economic conditions. Exchange rate fluctuations are often one of the first signs of financial instability in developing economies.

Table 1. Macroeconomic indicators of the Republic of Kazakhstan and the Republic of the Uzbekistan from 2018 to 2024

Country	Year	GDP growth (annual %)	Inflation, consumer prices (annual %)	Unemployment, total (% of total labor force)	Foreign direct investment, net inflows (% of GDP)	Population growth (annual %)	Exchange rate (LCU per US$, period average)
Kazakhstan	2018	4,1	6,1	-	0,1	1,4	344,7
	2019	4,5	5,3	-	2,0	1,4	382,7
	2020	-2,5	6,7	4,9	4,2	1,4	412,9
	2021	4,3	8,0	-	2,3	1,3	425,9
	2022	3,2	15,0	4,9	2,2	1,4	460,1
	2023	5,1	14,5	-	2,1	1,4	456,1
	2024	5	8,6	-	0,6	1,2	468,9
Uzbekistan	2018	5,5	17,5	9,3	1,0	1,7	8069,6
	2019	6,7	14,5	9	3,4	1,8	8836,7
	2020	1,5	12,8	5,2	2,6	1,8	10054,2
	2021	8,0	10,8	-	2,9	1,9	10609,4
	2022	6,0	11,4	-	2,9	2,0	11050,1
	2023	6,2	9,9	-	2,1	2,0	11734,8
	2024	6,4	9,6	-	2,5	1,9	12652,2

Source: World Bank, 2025

The data for Kazakhstan and Uzbekistan over the period 2018-2024 reveal several important trends related to globalization and financial stability. Kazakhstan demonstrates relatively stable economic growth before the pandemic, followed by a significant contraction in 2020, which reflects the impact of global shocks. In the post-pandemic period, GDP growth recovered; however, inflation increased sharply, especially in 2022-2023, indicating rising macroeconomic pressure. The exchange rate shows a clear depreciation trend, suggesting vulnerability to external factors. At the same time, fluctuations in FDI inflows indicate sensitivity to global capital movements, confirming the country's high level of financial integration. Uzbekistan, in contrast, shows more consistent economic growth throughout the period, even during the pandemic, which suggests a relatively resilient economic structure. Although inflation remains relatively high, it demonstrates a gradual decline in recent years. The exchange rate also depreciates, but in a more controlled manner compared to Kazakhstan. FDI inflows show moderate but stable growth, reflecting gradual integration into the global economy rather than rapid exposure to external risks.

The variables "exports of goods and services" and "imports of goods and services" as a percentage of GDP were selected as key indicators of globalization, specifically reflecting the level of trade openness and external economic integration. These indicators allow for an assessment of how actively a country participates in international trade and how dependent its economy is on global markets.

Exports represent the extent to which a country is integrated into the global economy as a supplier of goods and services, while imports reflect the reliance of the domestic economy on foreign products, technologies, and intermediate inputs. Expressing these variables as a percentage of GDP ensures comparability across countries and over time, as it adjusts for differences in economic size.

Table 2. Trade Openness Indicators of Kazakhstan and Uzbekistan (2018-2024)

Country	Year	Exports of goods and services (% of GDP)	Imports of goods and services (% of GDP)
Kazakhstan	2018	37,62	25,90
	2019	36,43	28,41
	2020	30,52	26,49
	2021	33,64	25,02
	2022	41,56	26,76
	2023	34,65	27,68
	2024	31,58	25,57
Uzbekistan	2018	24,17	39,96
	2019	25,35	39,61
	2020	21,91	34,13
	2021	21,30	36,15
	2022	23,26	39,57
	2023	24,42	41,68
	2024	22,76	37,96

Source: World Bank, 2025

The data reveal notable differences in the structure and dynamics of trade openness between Kazakhstan and Uzbekistan over the period 2018-2024.

Kazakhstan demonstrates a relatively high level of export orientation, with exports consistently exceeding imports throughout the entire period. This suggests that the country maintains a positive trade balance and is strongly integrated into global markets, particularly as a supplier of commodities. However, the data also show fluctuations in export levels, with a significant decline in 2020 due to the COVID-19 pandemic, followed by a sharp increase in 2022. Such volatility indicates a high sensitivity to global demand and commodity price changes, which can affect overall economic stability.

In contrast, Uzbekistan exhibits a different pattern, characterized by consistently higher imports than exports. This reflects a structural trade deficit and indicates a strong dependence on foreign goods and services, including capital goods and technologies necessary for economic development. While exports remain relatively stable, imports show an increasing trend, particularly in recent years, suggesting ongoing economic modernization and integration into global supply chains.

Conclusion

The combined analysis of macroeconomic indicators and trade openness for Kazakhstan and Uzbekistan over the period 2018-2024 demonstrates that globalization has had a differentiated impact on financial and economic stability in both countries.

Kazakhstan shows a higher level of integration into the global economy, reflected in significant foreign trade volumes, substantial foreign direct investment inflows, and strong export orientation. However, this high degree of openness is accompanied by increased sensitivity to external shocks. This is evident in the volatility of GDP growth, sharp fluctuations in inflation, and noticeable depreciation of the national currency, particularly during periods of global instability such as the COVID-19 pandemic and subsequent geopolitical disruptions. The structure of trade, heavily reliant on exports, further amplifies exposure to global demand and price changes.

Uzbekistan, in contrast, demonstrates a more gradual and controlled integration into the global economy. Although the country shows steady economic growth and increasing participation in international trade, its level of exposure to external shocks remains relatively lower. This is reflected in more stable GDP dynamics and a smoother adjustment of macroeconomic indicators over time. The trade structure, characterized by higher imports than exports, indicates an economy focused on internal development and modernization, with less immediate dependence on global market fluctuations.

Overall, the findings suggest that globalization contributes to economic growth and increased trade activity in both countries; however, it also introduces new risks. Kazakhstan's deeper integration enhances growth potential but increases vulnerability to external shocks, while Uzbekistan's more cautious approach provides greater macroeconomic stability at the cost of slower global integration. Therefore, the impact of globalization on financial stability depends not only on the degree of openness but also on the structure of the economy and the pace of integration into global markets.

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