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REVIEW PAPER

Systemic Risks of Financial Management in the International Projects: Global Investments and Financial Management as a Component of National Security

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ABSTRACT

The article attempts to investigate the landscape of today global financial system and instabilities observed in it. Special emphasis is placed on geopolitical factors determining disturbances and risks for financial security of the state as a crucial part of national security. It is shown that, due to rapidly growing action of geopolitics as non-random influence factor, systemic risks in the international projects are acquiring very complex and multifaceted nature, and global investments and financial management are among the most important components of national security.

HIGHLIGHTS

- The article is devoted to analysis of today trends and shifts in the functioning of global financial system and its influence on systemic risks of financial management in the international projects.
- The obtained results demonstrated ever growing effect of geopolitics influence on financial markets and close interweaving of political and financial risks, acquiring the system character and posing a threat of entropy.
- The research findings can be used by financial regulators, national security agencies, and market players in making appropriate decisions on forecasting and mitigating risks.

Keywords: Global financial system, Geopolitics, Financial management, National security, Financial security

The globalization of world economy forces governments to take greater responsibility for maintaining the economic security of their countries, since in the context of globalization, economies move beyond national borders and their interdependence increases, which creates certain threats and places new demands on national economies in terms of security and sustainability, as well as the ability to respond to changes in the environment conditions.

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Global economic development is determined by two contradictory trends: the subordination of the world economy to the interests of transnational capital and the competition of national economic systems accompanying with the formation of an economic model in each country in a complex struggle and cooperation between representatives of transnational and national capital. Transnational capital strives for total control over the world market and each of its country components, erasing economic boundaries between countries, subordinating the competitive advantages of countries to its interests, forming a global information, legal, and power infrastructure (Chaliuk *et al.* 2021a).

The openness of economies and the international movement of factors of production not only accelerate economic processes, but also cause instability and economic crises. This is explained by the fact that, under the influence of globalization, states are losing control over the movement of factors of production and their participation in the economic process, and since transnational capital is not tied to a specific place, and financial flows are beyond the control of national governments, many traditional levers of economic security are losing their viability.

In conditions of economic openness, the role of foreign capital increases as one of the factors in the socio-economic development of the recipient country, which is woven into the national economy and becomes an integral part of reproduction processes. But when attracting foreign capital, it is necessary to respect national interests so that foreign capital cannot establish control over sectors of national production, so that it does not displace national producers not only from the world one, but also from the domestic market (McBride, 2018; Lu, *et al.* 2020). The impact of foreign capital on the development of national economy must be assessed as the difference between its positive and negative impacts, therefore it is necessary to determine the optimal ratio of foreign and national capital, which allows accelerating the pace of development of the country and avoiding the negative consequences of foreign investment (Piam Creations, 2017).

Analysis of real processes and comprehension of national and world experience in solving problems of economic and financial security allows us identifying three most important elements of national security, the unity of which is the essence of economic security. These are: economic independence, which in the global economy is not absolute, since the international division of labor makes national economies interdependent on each other; stability and sustainability of the national economy, which involves the protection of property, the creation of reliable conditions and guarantees for entrepreneurial activity, and the containment of factors that destabilize the situation; the ability for self-development and progress: creating a favorable climate for investment and innovation, constant modernization of production, increasing the professional level of workers (Kuzmin *et al.* 2023). This becomes necessary condition for the sustainability and self-development of the national economy. Economic security is a set of internal and external conditions conducive to the dynamic growth of the national economy, its ability to satisfy the needs of society, the state, the individual, and ensure competitiveness in foreign markets; it can only be achieved when the degree of dependence of the country on the dominant country or group of countries, and also the degree of aggravation of the internal political, socio-economic situation does not exceed the limit that threatens the loss of national sovereignty (Klement, 2021).

The development of the global economy gives rise to new specific challenges to national security. The most important element of economic globalization is the globalization of financial markets, the globalization of finance. Namely in the sphere of finance, the process of globalization of the economy has gone especially far. Financial capital is much more mobile than any other economic resource, especially in the modern world, where the exchange of capital has acquired an electronic form, due to which the movement of capital occurs instantly.

The concept of financial security does not have an unambiguous definition today, but one of the existing definitions is as follows: "financial security is a state of security and ensuring stability, sustainability of the development of financial relations emerging at various levels and in various areas of the financial system, which is achieved through implementing measures to neutralize internal and external threats" (Mostrous, Gue, and Dittman, 2010).

The problem of financial security is complex.

It is generated largely by challenges from the transnational economy, which is changing the configuration of economic and political relations(Avedyan, *et al.* 2023). The geopolitical situation, in particular, affects the global and national investment landscape and represents one of the systemic risk factors in financial management and international projects.

The fragmentation of the global economic space, which began after the global financial crisis, intensified after Brexit, the arrival of Donald Trump in the White House, the COVID-19 crisis, and Russia's invasion of Ukraine. In this regard, one can talk about the implementation of the model of financial regionalism developed by the World Economic Forum in Davos in 2009 as a basic scenario for the long-term development of the global financial system (Kawai and Lombardi, 2013). Subject to extrapolation of this scenario to the modern geopolitical situation, it is possible to assume the division of the world economy into three economic blocs (in accordance with the dominance of the respective reserve currencies and the structural features of the economies): the Anglo-Saxon bloc led by the United States (with the predominance of the US dollar and the financial sector as the main growth factor), the European bloc (with the dominance of the euro and the proportional importance of the financial and real sectors in economic development), and the eastern bloc led by China (with a gradual increase in the role of the yuan as a regional currency and the priority of developing the real sector of the economy over the financial sector).

In such conditions, systemic risks in international projects become very complex and multifaceted, and global investments and financial management are among the most important components of national security.

MATERIALS AND METHODS

The theoretical basis of the study was the works of scientists and practitioners on financial market research, financial market strategy, geopolitics, national security, economics, methods of multidimensional analysis and forecasting. The empirical basis of the research was: geopolitical realities, indicating the influence of geopolitical factors on the global financial system.

Methods of qualitative factor analysis, a systematic approach, and inductive and deductive logic of research were used as research tools. The constructivist approach was chosen as the research philosophy.

LITERATURE REVIEW

The main component of national security is national economic security, the importance of which in modern conditions is evidently increasing under the influence of globalization and integration of the world economy. In turn, financial security is the most important aspect of economic security. This is the main condition for the state's ability to implement independent financial and economic policies in accordance with its national interests (Arivazhagan, *et al.* 2023). As follows from the very phrase "financial security", this concept is complex. The structure of the analyzed concept consists of two independent terms "finance" and "security", each of which carries a certain semantic load.

Financial security is the creation of conditions for the stable, reliable functioning of the financial system of a state or region, preventing the occurrence of a financial crisis, default, destruction of financial flows, failures in providing the main participants in economic activity with financial resources, disruption of the stability of monetary circulation, the level of efficiency of public administration and its branches of government and their institutions (Chaliuk *et al.* 2021b; Lu, *et al.* 2020).

At the same time, in the literature it is rightly noted that modern global financial architecture is a "strange mixture" of Bretton Woods institutions, originally created to regulate exchange rates and international capital flows, but in modern conditions pursuing goals different from those that were prescribed in the statutory documents at the time of their creation, and liberalized financial markets, which are beyond the influence of the above-mentioned institutions (Lin, 2015).

Experts believe that current geopolitical tension in the world is due to the exhaustion of the neoliberal model of minimizing the costs of global development (Zhang *et al.* 2023). The transformation of modern global monetary and financial system is an extremely conservative process, which is due to the inertia of social trust in the key reserve asset. Taking into account the growing role of China in the global economy and the attempts of the EU and the United States to maintain financial power in the regions under their control, it is most likely that the transition from a unipolar to a multipolar world order will be carried out through the application of a model of financial regionalism and the formation of a multicurrency standard. Such a transition will invariably be accompanied by the adaptation of the global financial architecture to the regional features of regulating financial flows (Vasconi, 2014).

In addition, the development of financialization processes has led to the emergence of alternative decentralized forms of money, created privately using digital technologies and unregulated at the government level (Tiesнeva and Smyrnov, 2023). In this regard, a number of leading central banks are preparing to launch sovereign digital currencies, which are designed to maintain centralized control over the national monetary space (Hellendoorn, 2022).

For nation states, the proliferation of transnational capital poses significant sovereign risks. In fact, at the present stage of globalization, transnational capital is everywhere replacing the state as the main subject of economic relations (Bazaluk *et al.* 2023). Further implementation of the neoliberal model of the global economy (democratic in form, but unequal in content) may ultimately lead to the elimination of the most important social gains of the 20th century and the loss of control and regulation of the reproduction process by the state. The modern transformation of the global monetary and financial system in the direction of monetary polycentrism and regionalization is a unique response to this challenge (Hentov, Petrov, and Zumbo, 2018).

Moreover, it is important to mention the caveat of a number of authors that a particular typology of FDI is evident in some countries while absent in others (Klement, 2021; Zhang *et al.* 2023). To shed light on this topic, it can be recognized that first of all, any proposed classification of FDI is useful only if it is based on the underlying motives, since firstly, they directly affect both the determinants and the country the investor and recipient country; second, a clear distinction must be made between internalization and locational determinants.

Indeed, the question of the motives of FDI has not generally been treated as a separate area of research, but rather has crossed various streams of economic literature such as international business, international trade models, and the theory of the firm(Troschinsky, *et al.*2020). Moreover, motivations are subject to change over time as they depend on the structure of the firm and the characteristics of the host countries in which the firm invests.

Meanwhile, the place of political risk among the determinants of FDI is not clearly identified, as evidenced by a review of various sources.

In overall, emerging financial stability challenges for the next decades is seen as follows (see Table 1 below).

Table 1: Emerging financial stability challenges for the next decades (Lin, 2015)

Inside risk	Outside risk
1. Rapid deposit runs in the digital age	1. Geopolitics
2. Spillovers from entities that are not individually systemically important	2. Operational risk
3. Higher interest rate volatility	3. Climate change

The issue of ensuring the security of the financial components of the national economic system, to one degree or another, has been the subject of research by a number of economists. However, at the scientific, empirical, and practical level, the scientific problem related to financial security has not yet received a proper systematic generalization (Zilinska, *et al.* 2022; Ortina, *et al.* 2023). Therefore, the determination of its essential characteristics, systematization of the specific components of financial security, and the formation of a system of indicators for its assessment are relevant and require further research.

Globalism, currently demonstrated by economic civilization, precisely creates the conditions for the establishment of a special financial power, which, through the ownership of world money and the disposal of value, management of financial flows, makes it possible to influence both the entire world economic space and individual states (Yermachenko, *et al.* 2023). Despite such great significance, the analyzed phenomenon remains poorly studied. The developments available in this area are clearly not enough (Byrkovych *et al.* 2023). In the economic literature, there is no systematic definition of the concept of "financial security" in the context of national security in its integrative understanding, its criteria that are understandable, "tangible" and accessible to each security subject, the specificity and composition of threats have not been established, the correct initial categories and effective mechanisms for the use of financial security tools and assessment of systemic risks of financial management of international projects have not been developed.

RESULTS

The problem of financial security has now grown beyond national boundaries. In the modern world, the level of integration and consolidation of financial markets is growing, the size of capital flows is increasing, and the intensity of its circulation is raising. Financial markets are experiencing revolutionary transformations caused by the introduction of modern technologies and the development of communication tools. The problem is that international capital movements have become much freer than anyone could have imagined (Bian, 2020). The globalization of financial markets is creating a more complex financial environment.

It is important to note that a significant source of economic turbulence is geopolitical instability, which undermines economic growth (Rosenberg, 2017). For much of the post-Cold War period, most states shared a desire for stable development within the context of formally agreed rules governed by multilateral institutions. Geopolitical problems from border conflicts to terrorism have often been resolved through institutions of international cooperation in the interests of global economic progress. However, the current situation is forcing states to reconsider their approach to geopolitics (Deyneha, *et al.* 2016; Panasiuk, O. *et al.* 2021). Geopolitical turbulence today is the unpredictability of who is in the lead, who the allies or adversaries are, and who the eventual winners or losers will be.

An important feature of the current period is the erosion of international cooperation institutions. Some states view them more as obstacles than as tools to advance their interests.

Turbulence as a characteristic of the modern world order is obvious and in the coming years will determine the development of the world economy and politics, which is due to the preservation of both existing and the emergence of new sources that shape it (Gaievska, *et al.* 2023). In this regard, the future of the global monetary and financial system as a key element of the world economic order is of greatest interest.

The war in Ukraine has fueled the fragmentation of the global economy. The division of the world into two geopolitical camps contributes to the process of fragmentation of world trade (Panasiuk, I. *et al.* 2020; Gaman, *et al.* 2022). When choosing partners and objects for investment, Western businesses are now forced to take into account geopolitical factors, and not just profitability. As a result, the flow of direct Western investment into countries of the global South (which did not support sanctions against Russia) began to decline, and trade between the countries of the two informal camps after the outbreak of war between Russia and Ukraine grew several percent slower than trade between countries within these blocs (Oliinyk, *et al.* 2021; Gavkalova, *et al.* 2022). Autocracies today generate 46% of global GDP, which is twice as much as three decades ago, when globalization was just gaining momentum. Much of this growth was ensured by Western investment. Now the exports and imports of autocracies depend much less on democracies they trade increasingly more actively with each other. But the dependence of democracies on autocracies in trade has increased greatly in recent years (Gupta, M. *et al.* 2021). The increasing concentration of business on geopolitical risks will lead to a large-scale restructuring of investment flows and trade.

In its report devoted to concerns of global financial stability, IMF attempts to systematize and trace the relation of geopolitical tensions and global financial fragmentation (see Fig. 1).

Russia's full-scale invasion of Ukraine and the non-alignment of countries in the global South with sanctions against the aggressor have intensified the trend of fragmentation of global trade and the economy as a whole (Donnan and Curran, 2023). When choosing trading partners or making investment decisions, businesses are now forced to take into account possible geopolitical risks sanctions, interruption of supply chains, blackmail, loss of assets. Such considerations are increasingly on the minds of CEOs of major companies. In total, since the beginning of 2023, top managers of American companies included in the S&P 500 stock

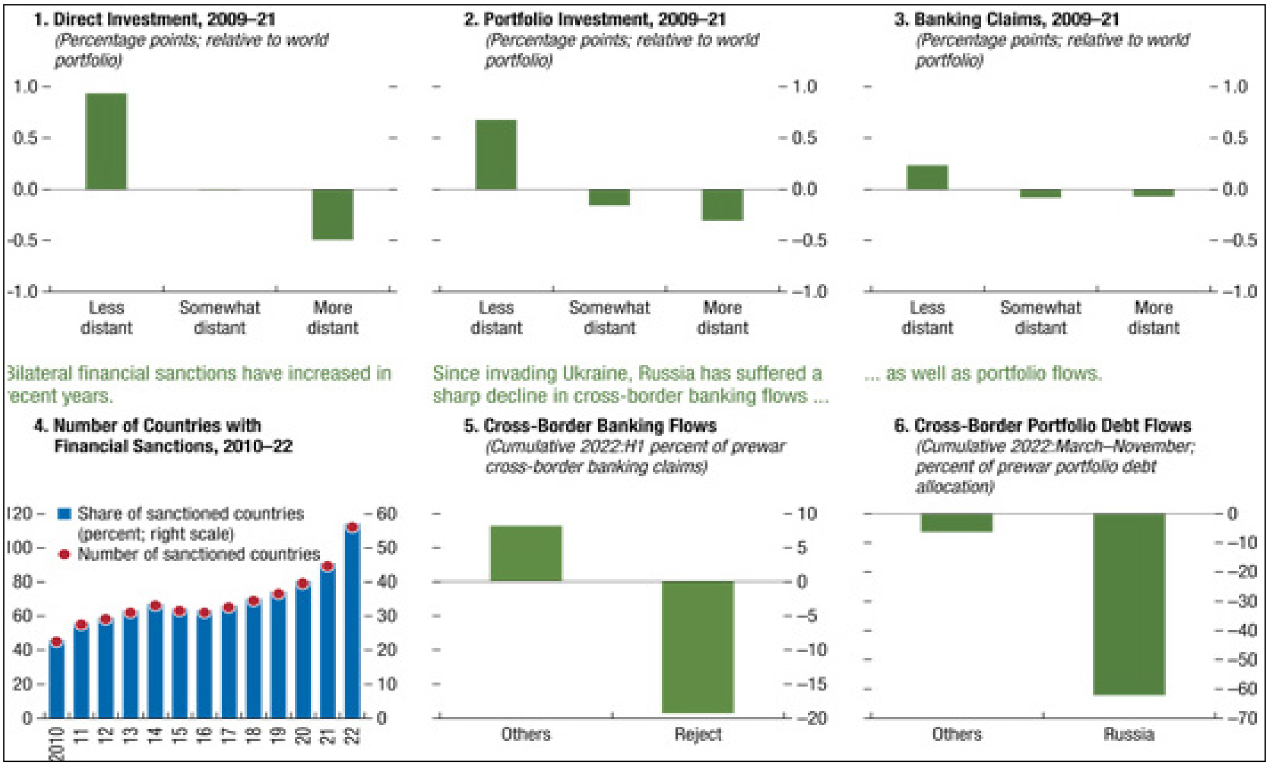

Fig. 1: Geopolitical tensions and global financial fragmentation (IMF, 2023)

index have used the word "geopolitics" in their public speeches 12 thousand times three times more often than in pre-war 2021 (Novak, *et al.* 2022). As an example of this new logic, the IMF cites a recent statement by Tesla and SpaceX co-owner Elon Musk, who rarely follows trends: "The best thing we can do now is to build factories in different parts of the world. If there are difficulties somewhere, we can support production in other places" (Donnan and Curran, 2023).

Western governments point out geopolitical factors for business. As an example, Bloomberg cites the strategy for developing relations with China recently adopted by the German government. It recommends that the largest German companies BASF, Volkswagen, Siemens, etc. "properly take geopolitical risks into account when making decisions". At the same time, the document emphasizes that if such risks materialize, businesses should not count on assistance from the state. For Germany, this topic is especially relevant, given the scale of local business losses from the severance of relations with Russia, into the market of which many companies were deeply integrated (Donnan and Curran, 2023).

P. Mehta (2023) claims that in today's geopolitically unstable world, financial regulators face an increasingly difficult challenge: governments using finance to influence financial institutions, transactions, and instruments to accomplish political or strategic goals. As the globe grows more linked and rising technologies transform the financial environment, both state and non-state actors are leveraging financial instruments and infrastructure (Gupta, S. *et al.* 2024).This is eroding the frontiers between economics, politics, and security, resulting in new and unexpected risks that cross conventional boundaries (Chaliuk *et al.* 2023). The confluence of these twin factors, rising technology and unknown hazards, raises worries among financial authorities throughout the world. The fast growth of new technology contributes significantly to the weaponization of finance. While these technologies provide enormous benefits in terms of efficiency, inclusiveness, and financial innovation, they also create new vulnerabilities and hazards (Isaieva *et al.* 2020). The growth of digital currencies, blockchain, fintech, and artificial intelligence (AI) has brought both benefits and difficulties.

IMF proposes its vision of conceptual framework describing how geopolitical tensions can affect financial stability (see Fig. 2 below).

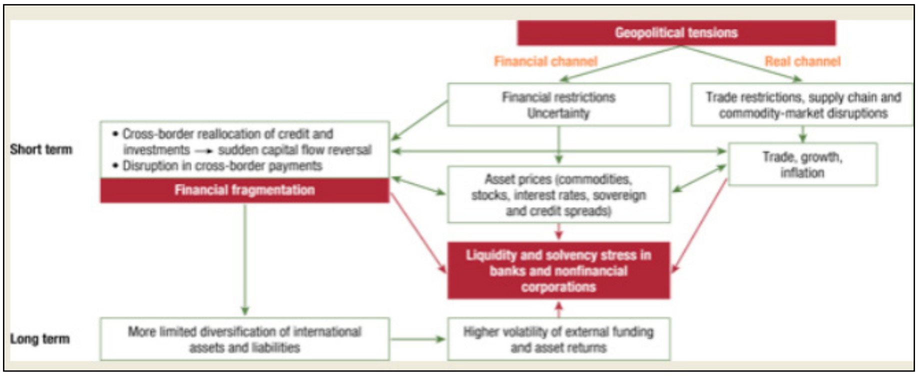

Fig. 2: Key Channels of Transmission of Geopolitical Tensions and Macro-Financial Stability (IMF, 2023)

Thus, political and financial risks in the implementation of any international projects are closely intertwined, making up a system that requires the use of a systematic approach and systemic analysis.

DISCUSSION

A financial system can be considered stable when conditions are provided for the efficient distribution of resources in time and space. That is, it means that the course of economic processes (such as: savings, investment, provision of loans and credits, creation of financial liquidity at various levels, distribution of funds, asset valuation, accumulation of property and production growth) was not disrupted, assessment and management of various financial risks, and also the performance of other basic functions of the financial system should be possible even in the event of an external shock or the formation of certain imbalances.

However, external shocks are becoming increasingly unpredictable and severe (Kalyayev, *et al.* 2019). An analysis by a number of authors of the impact of changes in the macroeconomic and geopolitical situation on the investment climate for cross-border cooperation in 2022-2023 identified the following key factors (Li, Lin, and Bian, 2023):

- An increase in the number of protectionist measures introduced in 2022, associated with the "energy crisis, high inflation rates and growing geopolitical mistrust between Eastern and Western countries"
- The adoption by Western countries of large-scale anti-Russian sanctions in 2022-2023 led to the complication and lengthening of logistics chains when carrying out foreign economic activity (delivery through third countries), that is, to an increase in transaction costs, a complication of organizing export and import deliveries and an increase in delivery times for goods (Karpa, *et al.* 2021). At the same time, the shadow sector of international trade and finance is growing players resort to 'gray' and even illegal schemes in an attempt to circumvent sanctions
- - Increased volatility of national currency rates
- - A sharp increase in the role of "geopolitical factors and national security considerations in decision-making in the monetary sphere by countries with emerging markets. Cases of blocking ("freezing") accounts of residents of the russian federation (including international reserves of the russian federation) in financial organizations of "unfriendly" countries led to changes in payment schemes within the framework of foreign economic activity, including an increase in the number of intermediaries, a decrease in the transparency of foreign economic transactions, and the transition to settlements in national currencies and currencies of neutral countries (Khomiuk, *et al.* 2020). In particular, after a meeting between the top leadership of Russia and China in March 2023, a gradual transition to the use of the yuan in foreign trade settlements between Russian companies and counterparties from Asia, Africa, and Latin America began to be considered.

There are other non-random influence factors that do not lend themselves to standard scientific justification. In particular, it should be noted that credit rating agencies are an integral part of modern financial markets (Shamne, *et al.* 2019). Their ratings affect the borrowing costs of corporate and government bond issuers, as well as the ability to manage financial flows. Due to the existence of a rating oligopoly, an interest rate differential is formed between the yield of US debt securities and the yield of debt securities of other countries, primarily developing countries, which have an increased demand for reserve assets (Bian, 2020). Empirical research also confirms the existence of a statistically and economically significant Big Three bias towards international financial centers. For example, issuers originating from cities represented in the Global Financial Centers Index (GFCI) are in fact assigned a higher rating category than it is warranted by fundamental factors (Ernst & Young, 2022).

As a result of the above factors, the investment climate has changed, and systemic risks in financial management in international projects have increased significantly and become more complex.

Since the beginning of this year, concerns among international investors regarding the development of the geopolitical situation against the backdrop of escalating hostilities in the Middle East have sharply increased (Klymenko, *et al.* 2016). Fears of a global economic recession have faded into the background amid the softening of the Fed's rhetoric and the recovery of the American economy. As a result, investors give preference to the US stock market, however, increasing the share of cash in their portfolios. A January survey of portfolio managers conducted by Bank of America (BofA) analysts shows growing geopolitical risks. Representatives of 256 funds, managing assets worth $669 billion, took part in the survey. According to the survey, 25% of respondents named the risk of a deterioration in the geopolitical situation in the world as a key risk on the horizon of 2024. In December, this risk was in third place with a share of 17%. Interestingly, the risk of a global economic recession, which previously dominated, moved into second place (24%) (BofA Global Research, 2024).

Growing attention to security issues, maintaining positions in strategically important industries, and ensuring competitive advantages is leading to stricter rules regarding the admission of foreign direct investment (FDI). Recent changes in US and EU FDI laws and policies are setting current trends and shaping future trajectories for inward investment regulation (Kostiukevych, *et al.* 2020; Vorobei, *et al.* 2021). One can state that the formation of a global trend towards more selective regulation of foreign investment, rethinking liberal approaches and open border policies as the global confrontation between new centers of economic power becomes increasingly tougher. Of particular scientific interest is the study of how it is possible to ensure a significant influx of foreign investment into the national economy without undermining the leading positions of these economies in key and strategically important industries (Kryshtanovych, *et al.* 2022). An important tool of the new strategy is the launch of a foreign investment screening mechanism.

It is interesting to trace the dynamics of worldwide financial and trade restrictions (see Fig. 3 below). As one can see from the chart, there is crucial growth of restrictions recently.

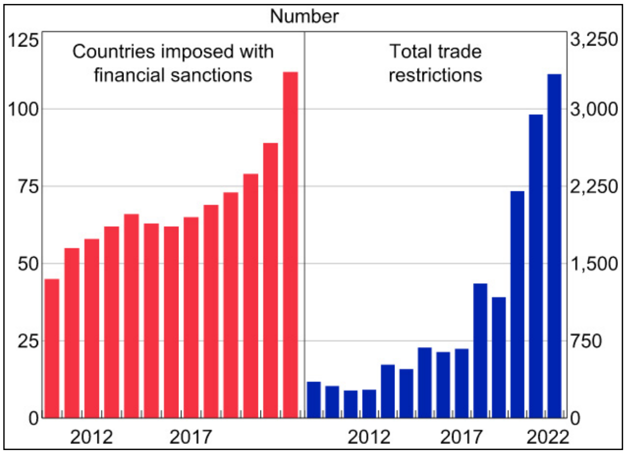

Fig. 3: Dynamics of worldwide financial and trade restrictions, 2012-2022 (Jones, 2023)

Although the United States ranks first in terms of foreign direct investment, questions have arisen in recent years about the potential threat to national security, especially in connection with the flow of investment from China (Shavarskyi, *et al.* 2023). Even before the passage of the Foreign Investment Risk Analysis Modernization Act, the Committee on Foreign Investment in the United States (CFIUS) significantly strengthened its oversight of investments from a number of countries, including China, aimed at acquisition of US companies. As a result, the four largest transactions were not agreed upon. Thus, in January 2017, Ant Financial Services Group (Alipay) was denied approval for a deal to acquire the American company MoneyGram

International, which deals with operations in international financial markets; China's Hubei Xinyan Equity Investment Partnership's did not receive approval for a deal to acquire Xcerra Corporation, a leading American Semiconductor testing equipment manufacturer Chinese heavy-duty commercial vehicle was denied approval to acquire UQM Technologies, and Chinese conglomerate HNA Group appeared unable to obtain approval for an investment deal in hedge fund SkyBridge Capital (Bian, 2020).

President D. Trump, by his executive orders of September 13, 2017 and March 12, 2018, prohibited two transactions for the purchase of American companies Lattice Semiconductor (a chip manufacturer) and Qualcomm (specializing in the development and research of wireless communications) by foreign investors from China and Singapore, indicating that these transactions could harm US national security (Bian, 2020).

The nature and essence of the provisions enshrined in the Foreign Investment Risk Analysis Modernization Act are clearly determined by mapping the processes that have taken place to correct the approaches of US political elites to assessing foreign investment in the US economy in the context of its possible impact on national security during the existence of a special institution for control of foreign investment in the US economy (Kubiniy, *et al.* 2021; Omarov, *et al.* 2022). Namely these processes determined the nature and direction of the evolution of institutional platforms for ensuring national security and ultimately led to the adoption of the Law on the Modernization of Risk Analysis Associated with Foreign Investment.

The concept of "national security" in the 2007 Law unfolded in the configuration of new criteria, namely as "issues that relate to internal security, including those related to critical infrastructure." The legislator's attention, in the context of determining the correct components of the mechanism for ensuring national security, was drawn to consolidating the system of categorization and differentiation of objects of protection (Maksymenko, *et al.* 2020; Mishchuk, H. *et al.* 2020). Thus, the legislator names objects of "critical infrastructure", "critical technologies", and "critical resources" as objects of protection. It was these concepts, taken from the then existing provisions of Section 1610 "Protection of Critical Infrastructure" of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism – US Patriot Act of 2001 and Homeland Security Act of 2002, that became the key elements of the 2007 Act: it defined Critical Infrastructure as "systems and facilities (including "critical resources and materials"), whether physically or virtually existing, that are so vital to the United States that the disruption or destruction of such systems and facilities would have consequences that undermine the national security (Kulikov, *et al.* 2022). Regulatory acts of the executive branch identified (and then constantly refined) sectors of "critical infrastructure", including telecommunications, energy, financial services, water supply and transport, critical industries as an independent sector, key resources, designated as "resources under public or private control, vital to the minimal functioning of the economy and government", cyber and physical infrastructure services critical to maintaining national security, government stability, economic well-being and quality of life in the United States, and several others (Jacson, 2018).

The 2007 Act established an open list of factors to be considered by the President of the United States when deciding whether to block transactions (including primarily those that could have a negative impact on technological leadership in areas affecting national security, US national defense needs, military industry, critical infrastructure, critical technologies, critical resources and materials) (Kussainov, *et al.* 2023). The provisions of the 2007 Law detailed the three-stage procedure for preparing and making a decision on the possibility of a transaction with foreign investment in the module "foreign investment - national security": review of the situation by the Committee, investigation by the Committee of the situation (with the involvement of all necessary other institutions of government and management within the competence of each of them) with the study of direct and related factors in their relationship and decision-making by the President of the United States.

In the future, the question of the special status of critical industries, critical infrastructure, critical technologies, and critical materials as objects of protection in the context of ensuring national security and the search for the most optimal mechanisms for protecting these very objects in all their diversity continued to remain the focus of attention of government authorities and management bodies (Levytska, *et al.* 2022). The results of a study of Chinese investment targets in the US economy for the period 2015-2018, conducted by the Defense Innovation Unit, presented in the report "China's Technology Transfer Strategy: How Chinese Investments in Emerging Technology Enable A Strategic Competitor to Access the Crown Jewels of the U.S. Innovation", clearly showed that China, having announced its global technological breakthrough program "Made in China 2025," began to predominantly invest in those American companies and startups that develop dual-use and military-use products and technologies (capable, among other things, of changing the nature and course of future wars), the production of which can ensure victory in the war for those who manage to establish production faster than the enemy and/or competitor (Dongmei, 2018).

Global investment has become inseparable from national security, and the geopolitical component of financial management is becoming increasingly important. Specifically, the statistics demonstrate that a smaller percentage of foreign direct investment, portfolio investment, and bank credit flows between nations with less alignment on foreign policy problems (see Fig. 4). Some nations are now often referred to as 'uninvestable', which was not the case a few years ago.

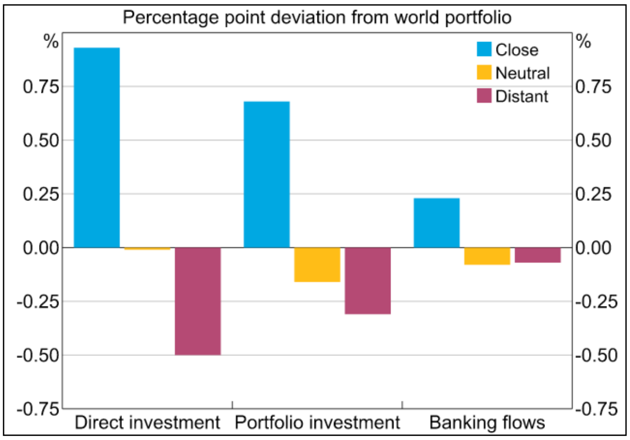

Fig. 4: Geopolitical blocs and financial flows (Jones, 2023)

The authors of this graph state that it demonstrates how investment flows between nations differ from international benchmarks based on the idea of 'geopolitical proximity', which is often evaluated by voting records at the UN General Assembly, based on 2009-2021 data (Jones, 2023).

The powerful investment company BlackRock, one of the largest in the world, announced the beginning of a new era in global financial markets. This is directly related to a number of geopolitical challenges affecting the world in recent years. Experts highlighted Russia's full-scale invasion of Ukraine, the coronavirus pandemic, trade wars, and the worsening situation in the Middle East. They called it the avalanche of crises that the world has faced in the last few years. This has a direct impact on the dynamics in the markets. It is even argued that stocks and bonds may not cope with geopolitical challenges as they once did (KPMG, 2016).

In such conditions, the risks of financial management of international projects acquire a truly systemic and "multi-layered" character.

Analysts at Ernst & Young (2022) warn that "cross-border agreements have declined as a percentage of worldwide M&A, in favor of more regional and intra-area transactions. In this evolving multipolar world, businesses are expected to experience increasing government engagement in their supply chains, constraints on or rejections of cross-border investments, export controls, restrictive trade policies, and higher regulatory scrutiny" (Lola, *et al.* 2022). They selected three key businesses that can incorporate to adapt to the current geopolitical climate:

- Evaluate present and future political threats every year
- Create a cross-functional geostrategic team.
- Refine the firm strategy to reflect the current geopolitical reality.

Le and Tran (2021), utilizing a large sample spanning 1995-2018, discovered that geopolitical risk is inversely related with business investment. The negative impact of geopolitical risk on company investment is particularly evident in enterprises with a higher level of investment irreversibility. Firms with larger cash reserves, on the other hand, can better minimize the unfavorable impact (Lopushynskyi, *et al.* 2021). Overall, the authors demonstrate that geopolitical risk is a significant macroeconomic shock impacting business investment.

The policy consequences and trade-offs associated with increased geopolitical risk are intimidating and complicated, thus it is worth noting here the need of developing financial and operational resilience across several dimensions - both domestically and internationally.

CONCLUSION

As noted above, political and financial risks in the implementation of any international projects are closely intertwined, due to the multi-vector impact of various factors of influence, both economic and non-economic, mainly geopolitical influence. At the same time, the composition and degree of influence of these factors is often difficult to predict. Meanwhile, the risks of financial management, both at the level of regulators and market players, constitute a system with all systemic properties. It is obvious that entropy in this system poses a very serious, and in some circumstances, a critical threat to national security (Litvinova, *et al.* 2020). Therefore, one of the further directions of research in this area should be the development of a methodology and tools for a systemic analysis of financial management risks in the landscape of the global financial system and global investments, taking into account national security patterns.

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