Volume 25
Issue 3 *Thematic Issue: Internationalization and Foreign Direct Divestment Flows in Central and Eastern European Economies*

Article 3

September 2023

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Recommended Citation

Gorbunova, M., Komarov, I., & Komarova, T. (2023). Economic Model of Unipolar World Order: Divestment in Central and Eastern European Countries. *Economic and Business Review, 25*(3), 146-163.
https://doi.org/10.15458/2335-4216.1324

ORIGINAL ARTICLE

Economic Model of Unipolar World Order: Divestment in Central and Eastern European Countries

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Abstract

Research relevance: Investment processes are not free from the influence of the political situation and relations between states. The Central and Eastern European countries (CEE) take part in a liberal segment of the global financial system and have a comparatively peripheral position as latecomers to the EU. Due to this fact their economic model is the most consistent with the principles of the liberal world order.

Purpose: The purpose of this paper is to assess and interpret the investment/divestment process in Central and Eastern European countries and comparable financial systems in the political economy and geopolitical framework to consider the divestment process as a phenomenon connected to the world-order evolution, industrial and financial globalization.

Structure/methodology/approach: We propose to consider the evolution of foreign direct and portfolio investment, together with other macroeconomic indicators that may shed light on the recovery process, as capital outflows have occurred in five CEE countries since 1990 till nowadays. This period covers both the time before and after the 2008 crisis.

The study of the research *methodology* is both qualitative and quantitative. We used existing and target indicators, such as the difference between GNI and GDP, and the surplus/deficit of accumulated capital over savings, to see the broader financial context and the impact of the foreign sector on well-being through a descriptive methodology. While using the regression analysis, we found a greater impact of foreign direct investment on capital accumulation than on savings accumulation, compared to portfolio investment, although both types of investment are positively correlated with "excess" capital accumulation.

This *approach* allows us to make an assessment of the manifestations of the liberal model in the context of the transformation of the world order in states that are not the key beneficiaries of the world order, which include CEE.

Findings: We tested theoretical developments concerning the impact of the world-order stages on investment and divestment flows in the peripheral economies, as exemplified by the former socialist countries of Central and Eastern Europe. Instrumental financial inclusiveness toward the considered peripheral economies is limited to foreign direct investment flows in 1995–2021. Portfolio investment flows have been moving towards divestment since 2008, the beginning of the destabilization of the current world-order architecture, which also had a negative impact on the cycle of "savings–capital formation," showing the effects of subordinated financial integration spoiling the growth resources of peripheral economies.

Originality/value: We explained the essence of the economic model of unipolar world order. At its beginning the beneficiary countries of the Cold War, with high per-capita incomes and significant financial resources, brought the former socialist countries—the periphery of Europe—into the industrial globalization through foreign direct investment. Then a similar process has occurred in portfolio investment, indicating involvement of CEE in financial globalization. This

Received 3 August 2022; accepted 21 March 2023.
Available online 5 September 2023

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https://doi.org/10.15458/2335-4216.1324

financial integration has been accompanied by the systematic negative value of foreign-sector income balance, indicating a withdrawal of income from all groups of states under consideration. After the 2008–2010 global financial crisis, the highest point of the unipolar world order, the negative effects of financial globalization affected the "savings–capital formation" cycle in the peripheral Central and Eastern European economies. As a descriptive analysis of macroeconomic data revealed, the divestment is a process characteristic to the declining stage of stable world order, and it may be envisaged in the outflow of portfolio investment alongside a relatively scarce transfer of domestic savings to domestic capital formation.

The regression analysis revealed a superior impact of foreign direct investment inflows, i.e., industrial globalization, over the "excess" of capital formation in the peripheral economies in comparison to the portfolio investment flows, a financial globalization proxy indicator. It means that the divestment by outflow of FDI, although non-present for now, may have a more relevant impact on the transformation of domestic savings into capital. Therefore, the order and disorder alternation in international relations has an explication in the financial and investment process in the peripheral economic systems.

The deglobalization in its financial component had a rather negative impact on the difference between domestic capital formation and savings in CEE due to their subordinated financial integration.

Keywords: Divestment, Unipolar world order, Global disorder, Political economy of foreign direct investment, Political economy of portfolio investment, CEE

JEL classification: P33, F21, F36

Introduction

Both foreign direct and portfolio investment issues are quite politicized (Bastiaens, 2015; Zheng, 2011). Since the international monetary system is characterized by an asymmetry between countries, financial resources have an uneven distribution. The majority of financial resources is in the possession of and/or under the management of big countries, mainly those with high per-capita income and massive savings (Nederveen, 2012).

Central European countries (CEE or CEE states) are a group of states belonging to the eastern periphery of the EU. Börzel and Langbein (2019) indicated the interdependence of the dynamics of political and economic divergence in the CEE development, which furthermore confirms the correctness of our use of an interdisciplinary approach. Medve-Bálint and Šćepanović (2019), while studying the implementation of the EU cross-border industrial policies (transnational industrial policies), claimed the economies of Central and Eastern Europe were dependent markets, and the group of states was classified as Europe's Eastern periphery.

The periphery is a manifestation of non-diminishing inequality among countries laid down in the current version of global capitalism and leads to grossly asymmetric power relations (Robinson, 2015). The peripheral status of the national financial and economic system imposes certain limitations on states in their functioning and development. In the context of the topic of this special issue, the first such limitation is financial restrictions, part of which is the phenomenon of foreign direct (FDI) and portfolio investment (PI). Andrade and Prates (2013) noted the key problem of peripheral monetary economies is that in times of increasing uncertainty, the assets of emerging peripheral countries are the first victims of the capital flight toward countries with strong currencies due to the monetary and financial asymmetries present in the current financial post-Bretton Woods order.

Kaltenbrunner and Painceira (2015) observed the changing nature of developing and emerging countries' financial integration has created new forms of external vulnerability, causing large and volatile capital movements. They later (Kaltenbrunner & Painceira, 2018) named this process subordinated financial integration and financialization. The finding of Gualerzi (2007) about the concentration of direct investment in a few countries indirectly supports the hypothesis on an insufficient investment flow coming into the peripheral countries.

Russian researchers Viktorov and Abramov (2019) also raised the issue of achieving monetary power autonomy in emerging markets and developing countries. The problems of the financial systems of peripheral states are linked to industrial difficulties. Bruszt and Langbein (2020) state that according to the dominating perspective in the literature, transnational market integration decreases the room for development in peripheral economies that do not have enough economic and political power.

This situation gives rise to a divestment process, the direct content of which is the withdrawal of capital to other countries. Traditionally, the focus is on foreign direct investment, whose flows are related to business decisions (internationalization) of multinational corporations, primarily due to the availability of statistics on direct investment as portfolio investment data are relatively new in the World Bank and IMF databases.

The reasons for carrying out direct and portfolio investments in different countries are studied in a considerable number of works, starting with classical works such as Dunning (1988), Globerman and Shapiro (1999). Therefore, we present a review of the articles on investment in the former socialist countries, nowadays EU member states. Bitzenis (2007) investigated the FDI determinants in Bulgaria, a country with an economic model and status like the CEE countries, in the late 1990s. The identified parameters are market size and prospects for growth, low labor cost and export-oriented companies, political and economic stability, the presence of an investment link to neighboring countries, geographical proximity, cultural proximity, historical links, cultural ties, etc.

While studying FDI in the CEE region, Bitzenis et al. (2013) found that, first, it is characteristic of deeper integration. Second, the developed European countries use FDI to promote stability and peace on the continent in order to ensure the stability and integration of the EU.

Vukov (2019) suggested that the inflow of direct investments in this category of states is related to a deep integration with the EU, which builds state capacities exclusively for FDI-development, based on and carried out under the guidance of MNCs, which makes it virtually impossible for host countries to increase the number of beneficiaries of market integration.

The literature on recovery is less extensive. As a rule, withdrawal of investments is considered in the literature as carried out by MNCs or generally by private companies. It implies a transfer of industrial assets from the home country to one or more host countries in order to improve the efficiency of the organization (Wright & Thompson, 1987), business growth prospects (Benito, 1997), considerable inter-ethnic distance (Pattnaik & Lee, 2013), or industrial excitement to achieve the right economy of scale and size of the affiliate network (Myna, 2017).

We believe that, given the politicization of the investment process, it is necessary to analyze the relationship between the world-order evolution and international business in general, and investment flows in particular. Shenkar (2004) suggested the diverse political landscape and the various constituencies affected multinational enterprises deal with when seeking to launch or expand foreign investment. This is broadly in line with the findings in the article by Aluko et al. (2020), namely that there is unidirectional causality from social and political globalization to FDI.

An important conclusion based on the evidence presented in the study is that the causal relationship between globalization and foreign direct investment may depend on the time. Thus, it is obvious that international transactions in general and investment flows may depend on the world-order evolution. We further plan to develop the theory of the influence of the evolution of the world order on investment processes in non-central and peripheral states, as well as prove it on the example of the CEE and other EU states in a similar position.

Therefore, the research purpose is to consider the foreign investment and other macroeconomic indicators through the length of world-order evolution, i.e., the alternation of stable (order) and unstable (disorder) periods. The usage of quantitative methods as historical descriptive statistics and regression analysis may shed light on investment and divestment processes in peripheral and financially subordinated economic systems.

1 The political economy of foreign investment/divestment in the peripheral countries and the world-order evolution

The battle for prosperity and financial resources to ensure growth plays an important role in the evolution of international relations. The evolution of the system of international relations is a series of periods of stable architecture of the world order dominated by one, two, or more leading powers, and inter-order transitional periods or disorder. This alternation might have an impact on investment flows, since globalization, being an international development vector, is largely connected to or even consists of the cross-border investment process (Bojnec & Fertő, 2017; Lejko & Bojnec, 2012).

Tierney (2021) also focuses on two states of international relations—order and disorder—in the optics of liberalism, although he perceives them in a permanent balanced combination, not in a pure form. The disorder element mobilizes the USA as a hegemon to form a consensus in the internal national political system for the implementation of counterbalancing "ordering" foreign policy. He recognizes furthermore that without a disorder element US global activism may lead to rather contradictive consequences.

We share the idea that order and disorder are periods alternating in time. During periods of stable order ("polar architecture"), the predominantly economic expansion and globalization trends prevail, while in turbulent periods of transition, the military power projection and role of geopolitics have more influence (Khanna, 2010; Rosencrance, 1986). At the center of the picture, there is a stable world order that preceded the current disorder. It was called the unipolar

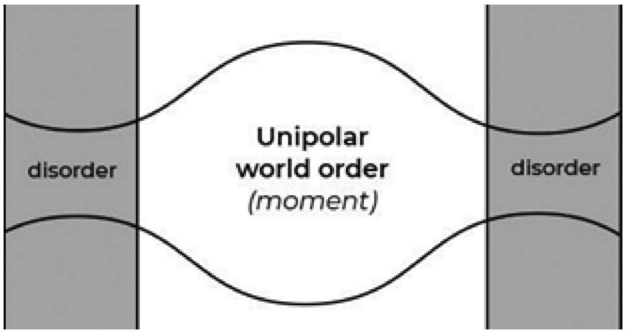

Fig. 1. Order and disorder alternation in international relations: the unipolar world order (moment) and disorders (transition periods).

moment (Krauthammer, 1991) or the unipolar order (Hansen, 2000).

Fig. 1 presents the recent evolution of the world order from the end of the Cold War to the present. According to experts, in international relations there is currently a disorder—a transition period to a stable world order (Haas, 2017; Nye, 2015). It was preceded by a period of disorder, characterized by the disintegration of the socialist system and the USSR, the declaration of transition to a market economy, a transformational decline.

In the picture there are two disorder periods embracing the unipolar order in time. The first one dates back to the late 1980s and early 1990s; the second, current, one started in the 2010s. The current period milestones are the confrontation related to Ukraine since 2014 and the beginning of the US trade war with China in 2018. The driver of the current confrontation is the economic stagnation after the 2008–2010 global financial crisis, which led to the reduction of markets and the translation of great powers' rivalry into the political and military planes. The disorder of the early 1990s was not marked by a direct confrontation of the great powers. However, a number of major political events and processes, among them the disintegration of the socialist bloc, the collapse of the USSR and a number of other Central, Eastern, and Southern European states, led to a situation of re-start in the world order. As political and economic agreements were reached between the Western countries, Russia (the successor of the USSR), and the increasingly market-oriented People's Republic of China, a globalization vector replaced the geopolitical trend. Globalization implies liberalization, intensification of trade and investment relations, growth of openness (dependence) of different national economies.

The economic situation of the former socialist countries of Europe deteriorated in the 1980s and underwent a transformational decline in the early 1990s. Against the backdrop of China's gradual expansion, the world economy provided the necessary growth impulses. At the same time, the Western states won the Cold War and gained the status of absolute beneficiaries of the end of disorder (transition period). When a stable architecture of the world order was formed, the capitalist states had the best resources available not only to the European socialist countries (defeated in the Cold War), but also to the People's Republic of China. Given the differences in per-capita income and savings, this position predetermined the expansion of Western capital into the former socialist countries that opened to it.

Synthetically, our conceptualization of the impact of the evolution of the world order on investment and financial processes in peripheral countries is presented in Table 1. First, we distinguish between financial globalization (Liang, 2012) and, preceding it, industrial globalization (World Bank, 2002).

The disorder periods minimize both the foreign direct and portfolio investment flows to peripheral financial systems suffering from political problems. Then, during a first expansionist stage of order, the countries subordinated in financial terms receive foreign direct rather than portfolio investment since the stock markets are malfunctioning in a deficit of national savings. When the order is at a plateau stage, the peripheral systems face economic growth, national savings strengthen, and the growing stock market attracts portfolio investment. At the order decline stage, the diversification of local capital and the risks faced by the peripheral financial systems lead to an outflow of portfolio investment.

Table 1. World order and investment implications.

Stage of world order	Dynamics
Disorder (transitional period)	Resetting the inflow of foreign direct investments from developed (domineering) to the peripheral financial systems
Order expansion	Industrial globalization—FDI inflow to the peripheral financial systems
Order plateau	Positive financial globalization—PI inflow to the peripheral financial systems
Order decline	Negative financial globalization—PI outflow from the peripheral to developed (domineering) financial systems capturing local savings due to diversification
Disorder (transitional period)	Resetting the inflow of foreign direct investments from developed to the peripheral financial systems (upgraded lists)

Source: Authors.

Several works on aspects of the world financial system are in line with Table 1. Nederveen (2012) and Wang (2020) have shown the importance of monetary issues in global financial governance. This financial power of the leading states includes the following phenomena. First, the IMF and the World Bank impose monetary discipline on developing countries. Second, the status of the US dollar as an international liquidity and a major reserve currency is a key element of the unipolar order and its stability. Third, the liberal economic models of developed countries assume a leading role for financial rather than industrial capital. Fourth, Western countries are the main recipients of portfolio investment. Fifth, under the current conditions of the unipolar world, most of the world's economies have become characterized by growing imbalances in debt and trade. Therefore, the West as a whole and the US have the dominant status in the international monetary system, while most medium-sized and small states have no leverage either in the global situation or in their own situations.

For the former socialist countries, a process was launched which Kaltenbrunner and Painceira (2018) later called subordinated financial integration. The integration began with loans and foreign direct investment as elements that enabled transition economies to restructure to implement market reforms.

The Washington Consensus policy was realized in most parts of the world in the 1990s (Lee et al., 2011). The flow of financial resources in the initial phase of stable (polar) architecture promoted the development of peripheric countries. The predominance of liberal values in world politics and economy has contributed to the improvement of the material conditions of a large part of the world population (Hirono, 2001).

The global financial crisis of 2008 revealed shortcomings of the Washington Consensus and neoliberal free-market economic thinking reforms (Li et al., 2010). The focus of the subsequent financial order has shifted to international finance as leverage to US and its allies' growth. Vermeiren (2013) called the US phenomenon the finance-led growth regime.

However, the current state of the world order is far from ideal. Haas (2017) called it global disarray. After the global crisis of 2008, the world economy has essentially exhausted the resources of growth in the current world economic order dominated by the US economic hegemony and its partners creating prerequisite to demand for transformation (Gökay & Whitman, 2010; Siddiqui, 2016). The implementation of the scenario of "new normality" led to a deglobalization (Komolov, 2020). Regarding the process of struggle for leadership in the world order, Roberts (2019) observes that the United States follows the line of "weaponization of finance."

At the same time, the divestment process can also be considered in a political economy optics, being conceived as an element of the capital redistribution from developed countries to developing ones and vice-versa. These inflows and outflows are conditioned by the difference in their financial and economic models. We believe that the tools of financial control created in the colonial period, when Europe and North America accumulated their historical wealth (Bhambra, 2021), have persistent effects on the current world economic order. The former metropolitan areas having higher per-capita income, higher savings, and more developed banking and investment institutions became the main investors or lenders in their former colonies and other similar developing states lacking financial resources. The negative consequences of these models for developing economies are presented in Cho (2014) and Okafor and Tyrowicz (2009), as well as in multiple papers on trade and financial relations between China and the United States; see the literature review in Wang (2020).

The phenomenon of constant alternation in financial inflows and outflows of different natures, which are difficult to manage in the era of capital account liberalization, has become the essence of the current wave of globalization ending now in the geopolitical tensions, since there are risks of losing control over the externally exposed components of national savings existing in developing countries (Okafor & Tyrowicz, 2009), due to the United States finance-led growth regime mentioned by Vermeiren (2013). Kapingura (2018) has shown for the Southern Africa Development Community (SADC) region that there is a relationship between domestic investment, domestic savings, and FDI, pointing out that FDI help in overcoming the limits on the domestic capital formation through permitting a rate of investment which is in excess of that which can be generated by domestic savings. In our opinion, there is a low-income growth, mentioned also in Bulman et al. (2016). The SADC region having low income in comparison to many other global macroregions is only drawn into a unipolar world order formed on the basis of liberal economic values. Therefore, the transformation of the inclusive effects of economic financial globalization into extractive ones is lagging behind. In addition, the article discusses the period between 1980 and 2013, which, according to our theoretical assumptions, does not allow to see a turning point from the situation where domestic capital formation exceeds domestic savings to the opposite.

The paper focuses, first of all, on the foreign direct and portfolio investment (FDI and PI); second, on the difference between capital formation and savings; third, on the difference between GNI and GDP of

Table 2. Globalization and investment implications.

Metrics	Type of globalization	The parameters of host-subordinated peripheral financial system	Dynamics of investment
Foreign direct investment	Industrial	Sample: low-income and lower middle-income countries (with a significant consumer market)	Stable or declining as per-capita income rises (disinvestment)
Portfolio investment	Financial	Sample: upper middle-income countries (former low and lower middle-income countries) (growth of savings)	Volatile Diversification of savings flow from emerging to developed markets ("magnetization" of local savings)

Source: Authors.

CEE. The interpretation of foreign investment flows is clear; direct investment means industrial globalization; portfolio investment represents financial globalization (see Table 2).

The positive difference between capital formation and savings means an injection of additional resources from outside, which ensures rapid growth, while the negative difference means at least unproductive use of domestic savings and pumping "future development opportunities" out of the country. A positive difference between the GNI and GDP reflects that the state receives additional net income from interaction with the outside world (*foreign-sector income*), and conversely—a negative difference means that the state systematically "gives" part of the domestic annual income to other states.

Thus, the aim of the article is to study the political economy of international investments, the cycle of "savings–capital formation," and the foreign-sector income balance, taking into account the evolution of the world order as the alternation of the periods of post-Cold War disorder, unipolar order (moment), and current disorder. Batrancea, Rathnaswamy et al. (2020) used similar indicators to show how savings impacted the GDP of 10 Central and Eastern European and Baltic nations.

The research hypotheses are following.

H1. *Alternation of periods of stable and unstable world order of the unipolar world should be reflected in cross-border financial flows—investment (investment flows) and the resulting income flows from the external sector (foreign-sector income balance).*

Direct investment by MNCs is determined by market size and wage differentials. The CEE states have a lower per-capita income than the EU core, surpassing some of them in number, making the direction of FDI obvious.

H1a. *Direct investment predominates at the beginning of the order expansion and the integration of the new peripheral states (CEE and other similar groups of states) into the market economy (capitalist system) and into the European Union, as a promise of development and its sources.*

Portfolio investment is more politicized and volatile, lagging behind foreign direct investment because it requires a strong financial infrastructure and higher per-capita incomes, which should allow for savings to be channeled to the stock market. After the start of the destabilization of the world order—the decline of globalization and the growth of the trend towards geopolitics—capital flight (divestment) of portfolio investments, from jurisdiction to jurisdiction according to their risk rating, should be observed.

H1b. *Inflow of portfolio investment in the CEE follows direct investment at the expansion and plateau stages of the unipolar order, more volatile; in conditions of financialization of the world economy, the volume of portfolio investment should exceed direct investment and not decrease, because the savings of the wealthier population will grow. Due to high liquidity, foreign portfolio holdings will decline in a transition period (disorder) at a time of maximum geopolitical tension.*

Researching investment/divestment processes, we consider it expedient to study not only foreign direct and portfolio investment itself, but also the result of interaction of the national economy with the external sector, considering foreign-sector income balance (difference between GNI and GDP) as a parameter reflecting the financial flows of the current year, but also the results of previous investment activity; however, this indicator takes into account not only financial but also foreign trade conditions.

H1c. *Foreign-sector income balance (difference between GNI and GDP) can take positive and negative values. For developing and emerging economies, the difference is negative during periods of structural adjustment of the economy with the attraction of foreign resources. In our case, this applies to the first of the considered periods of disorder of the late 1980s–the early 1990s, when CEE was in transition* *to a market economy. As peripheral economies strengthen their institutions, deficits should be reduced by improving the business climate, investment risk, and reducing shadow economies. For the CEE states, this should be supported by the positive effect of EU accession.*

Traditionally, both researchers and policy makers focus on investment/divestment in relation to cross-border (investment, not banking) capital flows. Theorists study investments in order to analyze their factors and impact on the economy. Practitioners seek to ensure that investments are attracted to the economy, especially peripheral or developing ones. Such a methodology leaves aside, in fact neglects, concomitant financial processes significant to national economies concerning capital formation, savings, and income issues.

H1d. *At the initial stage of growth and stabilization of the world order architecture (unipolar order), the foreign-sector income balance is beneficial (positive) to the peripheral (the CEE states) financial system, or when it is negative, it is less than the inflow of both direct and portfolio investment. This means in a sense an inclusive orientation of investors (beneficiaries of the first period of disorder, Western countries). At the stage of narrowing and destabilizing the architecture of the unipolar world order, the extractive orientation of the beneficiaries appears when the withdrawal of the CEE product/income exceeds the inflow of both direct and portfolio investments.*

While researching investment/divestment processes, we consider it appropriate to take into account not only foreign direct and portfolio investment, foreign-sector income balance, but also the internal cycle of transforming savings into investments. Alternation of periods of stable and unstable world order of the unipolar world is reflected in the national mechanism of transforming savings (gross savings) into investments (gross capital formation).

H2. *Both inflows of foreign direct and portfolio investment have a positive impact on domestic capital formation, helping to overcome the limits of national savings. This effect decreases as national per-capita income increases.*

H3. *Industrial globalization, a determinant of financial globalization, is more relevant to the process of capital accumulation. This means that the impact of FDI inflows on the periphery economy is greater than that of portfolio flows.*

H4. *At the initial stage of growth and stabilization in world-order architecture, the savings of countries defeated in the Cold War (including CEE) are smaller than capital formation, so the funds are given by the beneficiaries. At the stage of deglobalization and destabilization of world order, the extractive properties of the beneficiaries are manifested, so the CEE economies have smaller capital formation than savings.*

All these statements fit our view as well as the assumptions about geopolitically driven investment/divestment processes (Komolov, 2020; Woo, 2008) in the framework of the concept of "subordinated financial integration and financialisation" proposed by Kaltenbrunner and Painceira (2018).

2 Understanding the world-order transformation through investment/ divestment processes in CEE countries

2.1 Data sources and methodology

The present study analyzes selected macroeconomic variables reflecting financial models of CEE for the period 1995–2021. We used, on the one hand, a number of direct indicators from the World Development Indicators Database distributed by the World Bank, including Foreign direct investment, net (BoP), Portfolio investment, net (BoP), Gross capital formation, Gross domestic savings, GNI, and GDP. The period starts in 1995, for which the earliest common data are available, and ends in 2021, the most recent available year. For all these indicators deflation through the World annual GDP deflators was carried out.

Some of the indicators were used not only directly but also indirectly. We calculated a number of derived indicators using the above and some other indicators, all from the same database, the World Development Indicators (see Table 3 for the explanation and interpretation of calculated (derived) indicators).

From the methodological point of view, the study represents an explorative case study of panel data aimed to interpret the changes in the world order concerning relations between the traditional powers and rising powers through investment and divestment processes.

In comparison, we have taken two samples of countries similar in economic development, located on the periphery of Europe. The first group is the Baltic States (BS), which includes Estonia, Latvia, Lithuania. The second group is the states of Southern Europe, Southeastern European EU (SEE EU) member states, which includes Bulgaria, Romania, Croatia. The grouping is in accordance with the IMF.

Fig. 2 shows average GDP per capita for the groups of countries analyzed. Central and Eastern

Table 3. Definition and data sources of derived variables with expected signs: macroeconomic parameters.

Title of indicator	Mode of calculation	Sense and the expected sign
Foreign direct + Portfolio investment, net (deflated bn US$)	*A sum of Foreign direct investment, net (BoP), and Portfolio investment, net (BoP), deflated*	Negative when the increase in the foreign liabilities inside a country (or group of countries) exceeds the increase in the outside assets (net capital attraction) Positive when the increase in the outside assets for a country (or group of countries) exceeds the increase in the foreign liabilities inside (net capital spending)
GNI − GDP (deflated bn US$) "Foreign-sector income balance"	*The difference between GNI and GDP, deflated*	Positive when a country (or group of countries) gains income through the interaction with the rest of the world Negative when a country (or group of countries) loses income through the interaction with the rest of the world
Capital Formation – Savings (deflated bn US$)	*The difference between Gross capital formation and Gross domestic savings, deflated*	Negative when a country (group of countries) spends less in capital formation than it saves; it means a malfunction of saving–investment cycle Positive when a country (or group of countries) spends more in capital formation than it saves, systemically leaving internal or external debt

Source: World Development Indicators (WDI), available at: https://databank.worldbank.org/source/world-development-indicators

European Countries (CEE) and Baltic States (BS) have similar per-capita incomes, and in more detail the graph shows that prior to the 2008 crisis, GDP per capita in CEE was higher than in the BS. After the crisis, the income situation was reversed. Considering that the Baltic States joined the EU at the same time as the Central and Eastern European countries, the dynamics of the financial parameters considered, i.e., investment, capital, savings, foreign-sector income balance, should be the same for both groups. The Southeastern European EU member states (SEE EU) have a lower average GDP per capita, meaning that within the EU this group of states has the highest potential for low-income growth (Bulman et al., 2016). In addition, Bulgaria and Romania entered the EU in 2007, while Croatia did so in 2013, so the financial investment/divestment and other indicators to be considered in this paper should demonstrate the same but lagged dynamic patterns.

2.2 *Descriptive statistical analysis of investment/divestment process in CEE and other peripheral EU countries*

The deflated CEE macroeconomic parameters were obtained and reproduced in the following figures:

- overall foreign direct and portfolio investment flows,
- adequacy of capital formation in comparison to magnitude of savings,

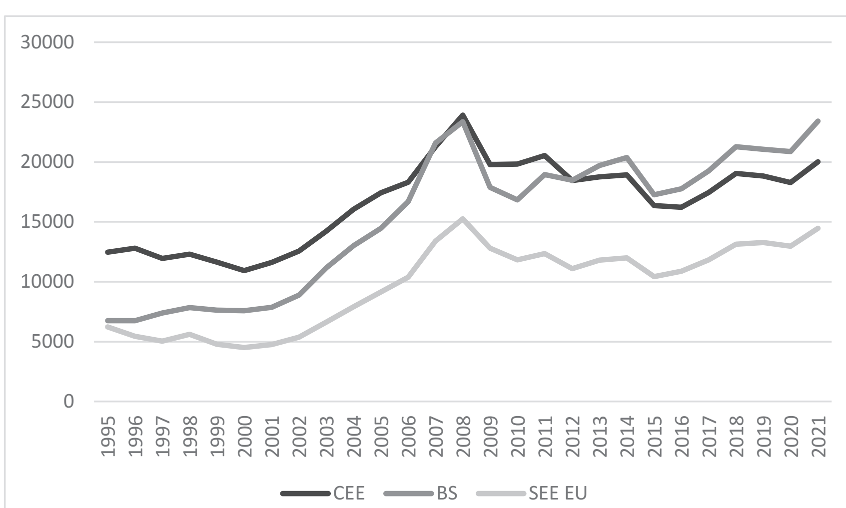

Fig. 2. Average GDP per capita in Central and Eastern European countries (CEE), Baltic States (BS), Southeastern European EU member states (SEE EU). Source: Authors, based on World Development Indicators.

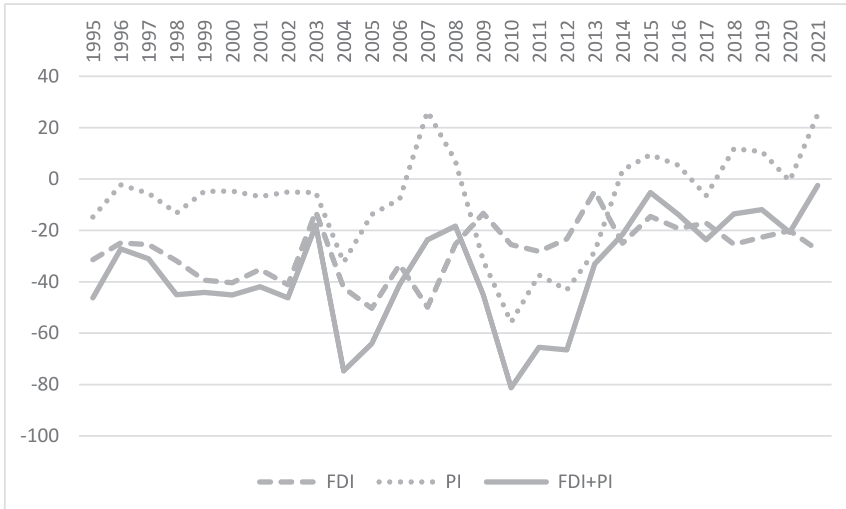

Fig. 3. Foreign direct (FDI), portfolio (PI), and overall (FDI+PI) investment flows in Central and Eastern European countries (deflated bn US$). Source: Authors, based on World Development Indicators.

– appropriation of income through international economic relations calculated as the difference between GNI and GDP, which we call the *foreign-sector income balance.*

Charts in Fig. 3 reflect the direct and portfolio investments in the countries of Central and Eastern Europe in the period from 1995 to 2021. In the period 1995–2004, direct investments dominated. This is due to the transition of the CEE countries to market economies and the low level of development of the stock institutions.

In 2003 and 2004 there is a significant inflow of direct and portfolio investments due to the change of status: the entry of the states under consideration into the EU has influenced the reduction of political risks. In subsequent years there has been an outflow of portfolio investment, which means a speculative nature—short-term investor orientation. For recipient states, this development offsets the overall positive effects of capital inflows as a source of development. This is consistent with the ideas expressed in Bruszt and Langbein (2020), namely that once a former transition economy joins the EU, it has limited tools to address domestic needs. Such negative attitudes in peripheral societies suggest that only monetary incentives can inculcate liberal values.

Hypothesis 1a says that direct investment dominates the initial stage of integration of the CEE states into the EU—in 1995–2009, except for the period 2002–2004, it was used by speculators for short-term investments and income generation.

Hypothesis 1b, that inflow of portfolio investment in CEE lags behind direct investment at the beginning of the unipolar order period, is partially supported. The turning point of portfolio financial flows to divestment began in 2010, earlier reaching the maximum of geopolitical tensions, as hypothesized. Thus, the political economy of portfolio investment suggests that divestment of portfolio investment is a consequence of the financial crisis and is thus associated with a liberal world order, no less than with moments of geopolitical tension. According to our calculations, the total effect of foreign investments—the sum of direct and portfolio investments—reached zero by the end of the observed period. That is, at the national level, inflows of direct investment (FDI) are fully offset by outflows of portfolio investment, as can be seen in the case of CEE.

Fig. 4 shows the foreign-sector income balance (difference between GNI and GDP) in the considered CEE countries is negative, indicating that the Czech Republic, Hungary, Slovak Republic, and Slovenia altogether experienced a loss from interaction with the outside world (foreign-sector income) during the entire period of observation.

Thus, Hypothesis 1c, that foreign-sector income balance (difference between GNI and GDP) takes negative values at the beginning of the period, with deficit reduction and possible transition of foreign-sector income balance into positive figures, is partially confirmed. It should be noted that the survey period covers all available statistics for the states under review available in the World Bank's World Development Indicators database. Having started to fall since the beginning of 2000, the part of the domestic annual product systematically given to other states passed from fixed values of 10 billion dollars up to 40–50 billion dollars. Maximum outflow values were observed in 2006 and 2011.

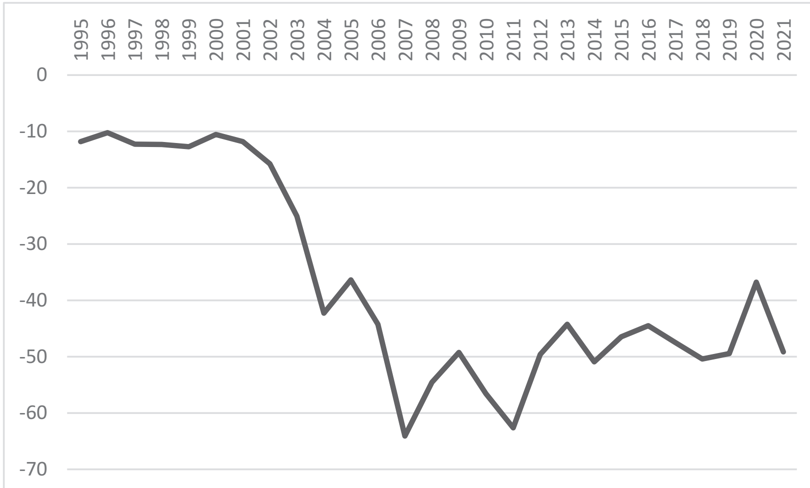

Fig. 4. Foreign-sector income balance (GNI to GDP difference) in Central and Eastern European countries (deflated bn US$). Source: Authors, based on World Development Indicators.

There is a certain contradiction. On the one hand, foreign investment (Fig. 3) in CEE states increased or was at least more likely to reflect the growth of foreign assets in the country (resource inflows), reflecting the element of inclusiveness on the part of foreign investors (Western states). On the other hand, Fig. 4 shows that the systematic withdrawal of income is understood as the resulting extractive orientation. Change in magnitude of the foreign-sector income balance (difference between GNI and GDP) after EU accession to a new stationary state, which under the liberal world order had a subordinated financial system typical of peripheral countries, goes from the state of resource injection to the state of pumping, as peripheral states grew incomes and savings. This seems logical from the point of view of the logic of financial capitalism. Advanced rich economies diversify assets by investing in emerging markets, so when emerging markets save, diversification leads to a financial flow in the opposite direction. Capital outflows from peripheral developing or transit markets are exacerbated by the conditions of financial globalization, which determine the status of the financial system of CEE as subordinated in terms of Kaltenbrunner and Painceira (2018).

Fig. 5 reflects the situation in the domestic financial sphere of the states under consideration in the transformation cycle "savings–investment (capital

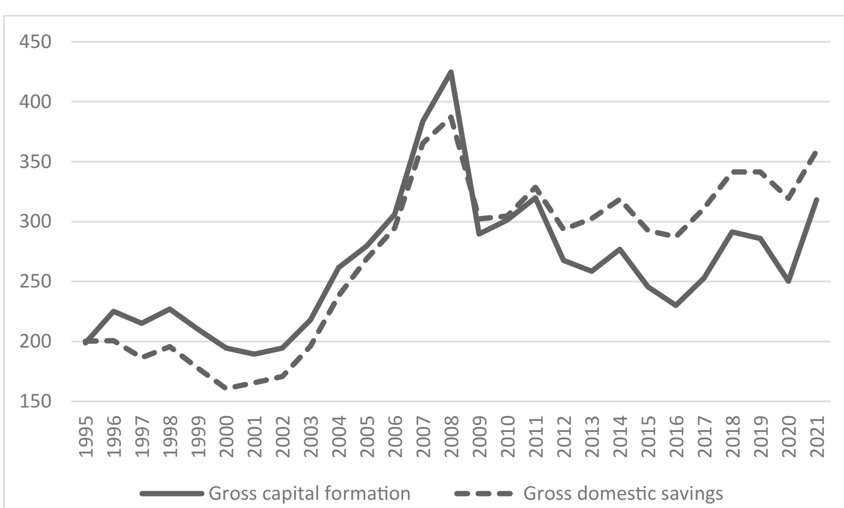

Fig. 5. Gross capital formation and domestic savings in Central and Eastern European countries (deflated bn US$). Source: Authors, based on World Development Indicators.

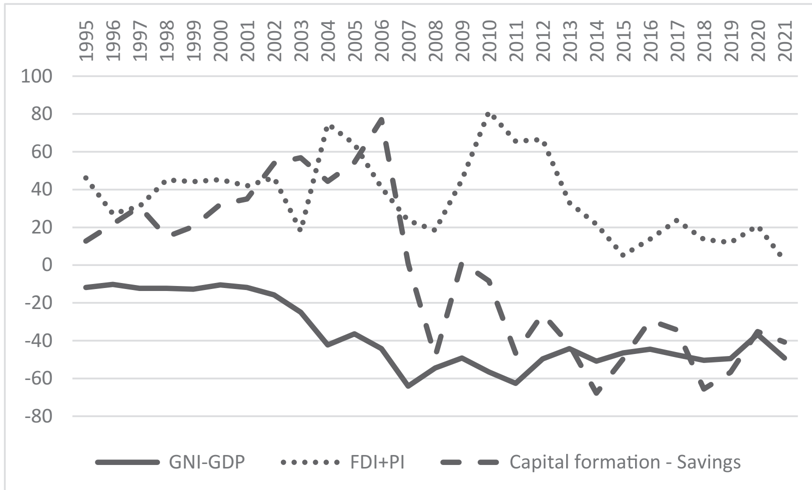

Fig. 6. Foreign investment (inversed), foreign-sector income balance, and cycle "capital formation–savings" in Central and Eastern European countries (deflated bn US$). Source: Authors, based on World Development Indicators.

formation)." During the observation period, the capital formation and savings changed their relationship with each other. At the beginning of the period, capital formation exceeded domestic savings. That is, there was an injection of additional resources from outside, which provided accelerated capital formation (renewal) and subsequent rapid growth.

After the 2008–2010 global financial crisis, savings started to exceed capital formation, which means at least the unproductive use of domestic savings and, most likely, the drain from the country of "resource opportunities for future development." If we compare Fig. 5 with Fig. 1, we can conclude that the 2008–2010 global financial crisis was a turning point when the globalization wave launched by the unipolar world order reached its maximum "height." And then the world order began to move to the quotient through confrontation over the launch of deglobalization.

Thus, Hypothesis 4 is confirmed.

Fig. 6 shows that in CEE countries the situation with capital formation, savings, and foreign income sector balance is not good. In fact, there is a cycle that partially validates Hypothesis 1d. The main contradiction is that the foreign-sector income balance of CEE is negative across the entire period of observation. Thus, beneficiaries of the first period of disorder, Western countries, demonstrated their extractiveness to former socialist countries in the transition period. At the beginning of the period, Hypothesis 1d is valid in a sense; despite the negative balance in foreign-sector income, the overall inflow of both direct and portfolio investment by its magnitude makes up for this negative value in CEE.

Then, the destabilization of the unipolar order began, and the extractive orientation of the beneficiaries appeared, since the negative income balance of CEE foreign sector exceeds the overall inflow of both direct and portfolio investment.

This situation reflects the content of the political economy of foreign investment/divestment in the peripheral countries and the world-order evolution.

To ensure the representativeness of our theoretical concepts of influence and the hypotheses put forward, we compare these generalized financial concepts with Fig. 6 in groups of states: Central and Eastern European countries (CEE), Baltic States (BS), and Southeastern European EU member states (SEE EU).

Fig. 7 presents foreign investment (the graph is reversed), foreign-sector income balance, and cycle (difference) "savings–capital formation" for the Baltic States. Despite simultaneous accession to the EU with the CEE states, the performance of the Baltic States is different.

While comparing overall investment flows (FDI+PI), the Baltic States had outflows of both types of investment in 2008–2009. CEE countries did not. At the same time, investments were highly volatile. This is due to the different sizes of the markets and population of the CEE and the Baltic states, which determine the different investment attractiveness for foreign direct investment. The Baltic countries have the best access to the sea, which is an advantage for globalization; most of the CEE states are landlocked countries. However, the market attractiveness of CEE states is higher, and they have a stable inflow of foreign direct investment.

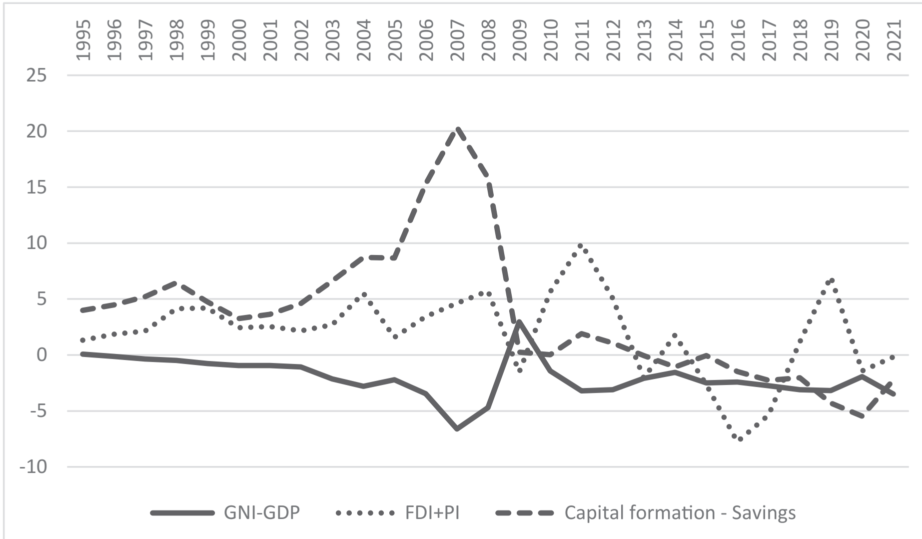

Fig. 7. Foreign investment (inversed), foreign-sector income balance, and cycle "capital formation–savings" in the Baltic states (deflated bn US$). Source: Authors, based on World Development Indicators.

The situation of the Baltic States with foreign-sector income balance (difference between GNI and GDP) is less worrying, as there was a positive indicator in 2009, and the transition to higher fixed levels of negative values of foreign-sector income balance did not happen.

The only similarity in the manifestation of the impact of deglobalization on the cycle of "savings–investment": like in CEE countries, national savings exceed capital formation (investment).

Fig. 8 shows foreign investment (reversed), foreign-sector income balance, and cycle (difference) "savings–capital formation" for Southeastern European EU member states (SEE EU). These states have lower per-capita incomes and joined the EU later. The development of indicators also differs from CEE.

While comparing overall investment flows (FDI+PI), the SEE EU countries, like the CEE countries, had no net outflow of investment, but less volatility. These states have an FDI cushion due to an investment area for both European capital and a point of entry for extraregional players (players outside the region) to the EU market as a whole. Moreover, it is indicative that by the end of the period—in 2019–2020—there was an inflow of total foreign investment.

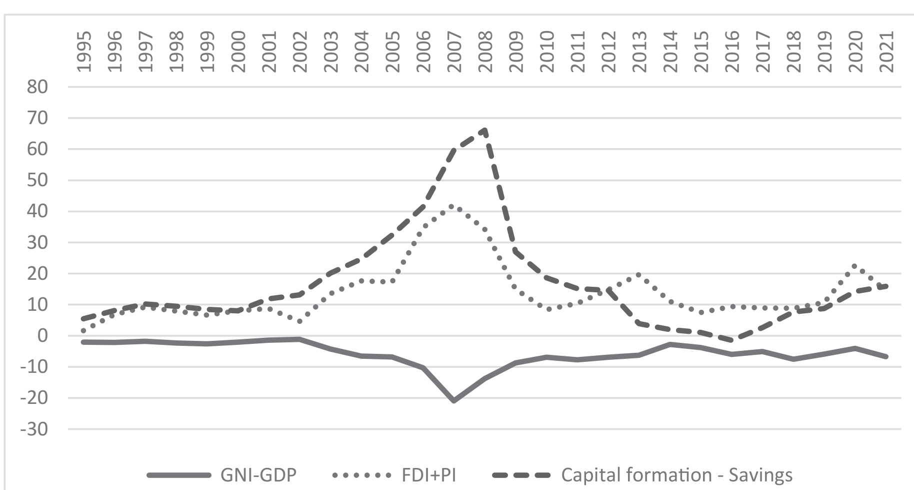

Fig. 8. Foreign investment (inversed), foreign-sector income balance, and cycle "capital formation–savings" in the Southeastern European EU member states (SEE EU), (deflated bn US$). Source: Authors, based on World Development Indicators.

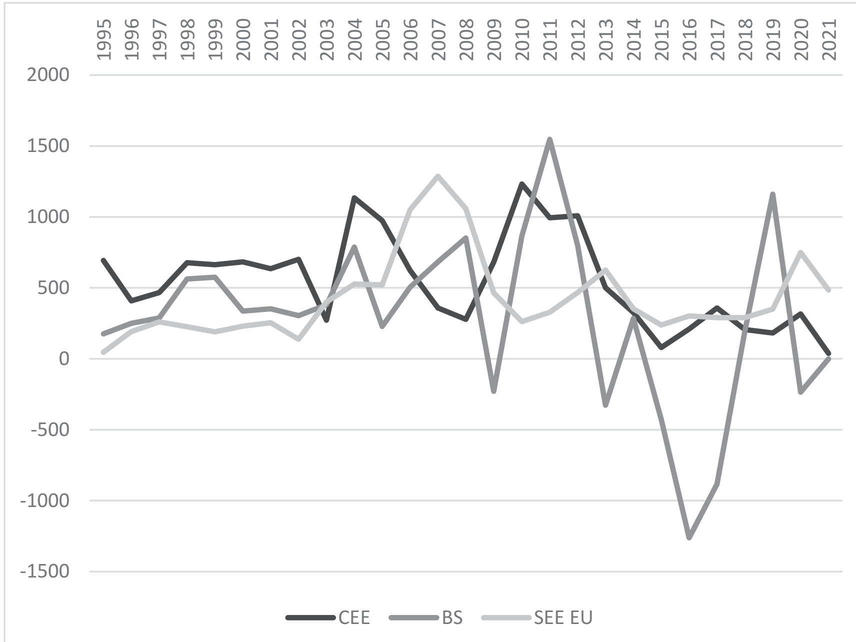

Fig. 9. Overall Foreign direct and Portfolio investment (FDI + PI) flows ("reversed") in Central and Eastern European countries, Baltic States, and Southeastern European EU member states, per capita (deflated US$). Source: Authors, based on World Development Indicators.

The SEE EU situation with the foreign-sector income balance (difference between GNI and GDP) is also less worrying, as the transition to the higher fixed negative values of foreign-sector income balance did not occur after the peak in 2008.

The cycle of "savings–investment" also unfolded after the recession that began in 2009, which makes these countries similar to CEE and the Baltic countries, but then took place in parallel with the inflow of foreign investments. For these countries, low-income growth continues to exist.

Moving on, we calculated all the derived variables (from Table 3) in per-capita terms, meaning foreign investment (inversed) (as shown in Fig. 9), foreign-sector income balance (see Fig. 10), and cycle "savings–capital formation" (see Fig. 11) in Central

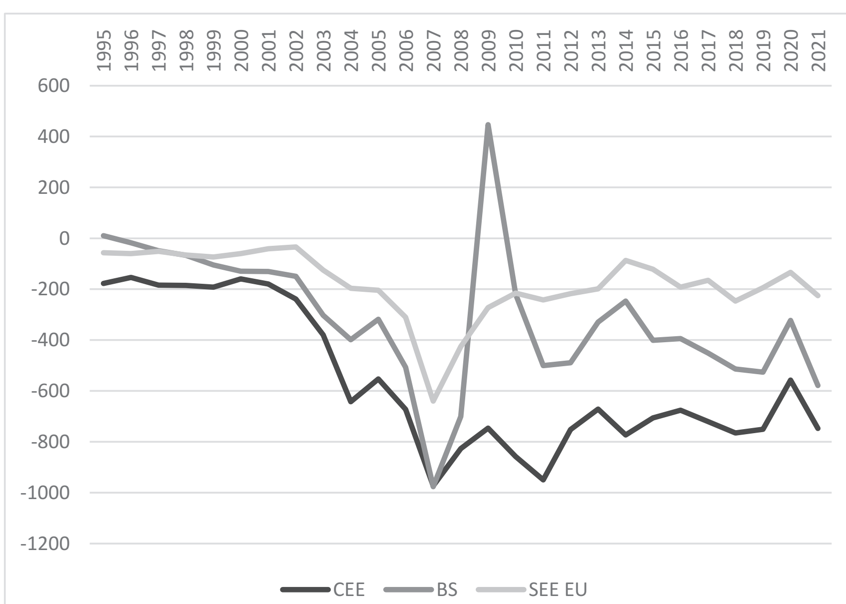

Fig. 10. Foreign-sector income balance (GNI to GDP difference) in Central and Eastern European countries, Baltic States, and Southeastern European EU member states, per capita (deflated US$). Source: Authors, based on World Development Indicators.

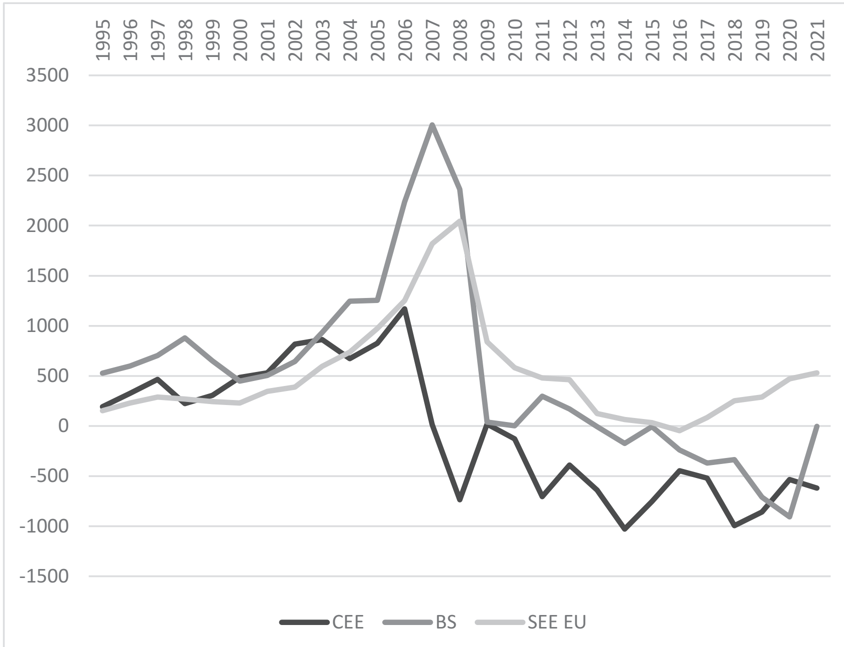

Fig. 11. Cycle "savings–capital formation" in Central and Eastern European countries, Baltic States, and Southeastern European EU member states, per capita (deflated US$). Source: Authors, based on World Development Indicators.

and Eastern European Countries (CEE), Baltic States (BS), and Southeastern European EU member states (SEE EU) for more accurate comparative analysis.

The dynamics of overall foreign investment flows (FDI + PI) show that the Southeastern European EU member states caught up with CEE by 2017 and later on (Fig. 9). This can be interpreted to mean that the SEE EU states still have low per-capita income, as shown on Fig. 2, which is not sufficient to create savings and channel them to the stock market and to involve national financial markets in financial globalization. The Baltic states have a high volatility of this indicator due to the small participation in industrial globalization and the status of the transit grey investment zone between the EU and the Russian Federation. As for foreign-sector income balance (GNI to GDP difference), the most unfavorable situation is in CEE, as for these countries a cycle of inclusion during the establishment of the unipolar world order and deglobalization indicating a decline of world order toward the current disorder has formed fully.

In a certain sense this indicator—foreign-sector income balance—tells more about divestment in CEE states than investment performance or overall FDI + PI flows considered in Fig. 9, since outflow of investments (divestment in the strict sense) is a category for instrumental extractiveness of outside investors, while foreign-sector income balance, when negative, is a metric of total resulting extractiveness.

The balance of "savings–capital formation" in its inversed version in the Baltic States and Central and Eastern European countries is negative, with the trend of modular growth. This is evidenced by the fact that the Baltic States and the Central and Eastern European countries simultaneously entered a period of the US-led (and EU-shared) unipolar liberal order decline, earlier than the Southeastern European EU member states. This is why the Baltic States and Central and Eastern European countries appear to suffer more from subordinated financial integration and peripheral economic status than considered low-income Southeastern European countries.

2.3 Correlation and regression analysis of difference between domestic capital formation and savings

To support or reject Hypotheses 2 and 3, we have considered the general sample of 11 countries, the new EU member states, as well as the three separate samples, Central and Eastern European (CEE) and Southeastern European EU (SEE EU) countries and Baltic States (BS), for the purpose of the regression analysis. We grouped the data into 4 samples—for the countries of Central and Eastern Europe, the Baltic States, the countries of Southeastern Europe (EU members), and the general sample. The sampling period is 1996–2021. Descriptive statistics are presented in Tables 4 and 5.

Table 4. Descriptive statistics.

Variable	Mean	Std. Dev.	Min.	Max.
All countries, 292 observations				
Dependent variable				
Cap − Sav, million US$	4769.53	8323.37	−9677.05	55,058.51
Independent variables				
FDI, million US$	3951.17	5036.67	−2879.38	27,345.53
PI, million US$	840.86	5156.48	−12,522.85	39,569.04
Central and Eastern European countries, 135 observations				
Dependent variable				
Cap − Sav, million US$	6610.92	9990.07	−9677.05	55,058.51
Independent variables				
FDI, million US$	5566.85	6019.71	−2879.38	27,345.53
PI, million US$	1634.34	7103.22	−12,522.85	39,569.04
Baltic States, 76 observations				
Dependent variable				
Cap − Sav, million US$	1392.72	2530.97	−4319.49	9968.98
Independent variables				
FDI, million US$	1025.45	847.67	−1371.62	3869.87
PI, million US$	−366.43	1620.51	−4987.04	3019.50
South European EU member states, 81 observations				
Dependent variable				
Cap − Sav, million US$	4868.90	7807.63	−4174.05	41,965.93
Independent variables				
FDI, million US$	4003.49	4241.15	252.17	20,225.95
PI, million US$	651.18	2609.73	−3628.69	15,896.26

Note: The panel data set for the Baltic States has a reduced sample due to an omission in data for Estonia before 2000.

Table 4 shows that all indicators analyzed, especially portfolio investments, are highly volatile. On average, the excess of capital formation over savings is almost equal to the total flow of direct and foreign investment. This and the relationship between capital formation, savings, and balance-of-payments components suggest the usefulness of a linear, additive regression model estimated with the OLS. A discrepancy is limited to the Baltic States, which, unlike the other two samples, represent outflows of portfolio investments (net growth of national portfolio assets).

Table 5 shows a moderate correlation between the difference Capital formation – Savings (Cap − Sav), direct investment, and portfolio investment. Foreign direct investment (growth of foreign assets in the country) shows a higher correlation to Cap − Sav than portfolio investment. In addition, the lack of correlation between direct and portfolio investment supports, to a certain degree, our framework assumption on two different, essentially independent, globalizations—industrial and financial.

As mentioned above, we used a linear additive model for the four samples represented in a panel way. This approach is in line with works of Batrancea et al. (2020), Batrancea, Rathnaswamy et al. (2020), and Batrancea et al. (2022).

$$\mathrm{Cap} - \mathrm{Sav}_{y,c} = \alpha + \beta\,\mathrm{FDI}_{y,c} + \gamma\,\mathrm{PI}_{y,c} + \varepsilon_{y,c}$$

where $\mathrm{Cap} - \mathrm{Sav}_{y,c}$ represents the difference between capital formation and savings in country c, in year y. $\mathrm{FDI}_{y,c}$ and $\mathrm{PI}_{y,c}$ are reversed values of the "Foreign

Table 5. Correlation matrix.

	Cap − Sav	FDI	PI
Total sample, 292 observations			
	Cap − Sav	FDI	PI
Cap − Sav	1		
FDI	.690	1	
PI	.314	.113	1
Central and Eastern European countries, 135 observations			
	Cap − Sav	FDI	PI
Cap − Sav	1		
FDI	.618	1	
PI	.322	.076	1
Baltic States, 76 observations			
	Cap − Sav	FDI	PI
Cap − Sav	1		
FDI	.468	1	
PI	.045	−.106	1
South European EU member states, 81 observations			
	Cap − Sav	FDI	PI
Cap − Sav	1		
FDI	.820	1	
PI	.199	−.008	1

Table 6. Regression of Capital formation − Savings difference (Cap − Sav) on FDI and PI: CEE, SE, BS, and the total sample.

Independent Variable Cap − Sav	CEE	BS	SE	All
Intercept	460.12896	−17.5200	−1584.6539*	118.5714
FDI	0.9904***	1.4289***	1.5121***	1.0898***
PI	0.39003***	0.1502	0.6142**	0.3837***
No. Obs.	135	76	81	292
Multiple R-squared	.4581	.2285	.7142	.5292

***, **, and * indicate significance at 0.1%, 1%, and 5%, respectively.

direct investment, net" and "Portfolio investment, net" indicators from the World Development Indicators database in country c, in year y. All indicators are deflated. We omitted the foreign-sector income balance, i.e., difference between GNI and GDP, since in the chosen form of additive regression in all the samples, the Cap − Sav indicator is rather positive, while the GNI − GDP difference is negative. So, the negative value of foreign-sector income balance, although evident and relevant, does not obstruct capital absorption.

The regression analysis results in Table 6 support Hypothesis 2; hence, for the considered peripheral financial system, capital inflows from abroad, in either direct or portfolio form, contribute to overcoming the limited national savings.

The regression results for the Central and Eastern European states in comparison to other samples showed their lesser reliance (dependence) on foreign direct and portfolio investment. It may be ascribed to a higher per-capita income correlated to more substantial domestic savings. For the Baltic States and the Southern European EU countries, the role of inflows and outflows of foreign direct investment in a capital formation excess is more significant. Portfolio inflows are also important (beneficial) for the Southern European EU countries. The Baltic States sample shows a higher volatility and unpredictability to get a representative result of regression analysis.

The higher regression ratio of direct investment versus portfolio investment supports Hypothesis 3 on a greater impact of direct investment on domestic capital formation, i.e., a more positive role of industrial globalization in the development of peripheral states in comparison to the financial globalization. In addition, considering Table 4 revealing significantly increased volatility of portfolio investment, and Figs. 3 and 6 indicating the recent increase in net outflows of portfolio investment from Central and Eastern European States, the negative effects of financial globalization on them will continue to increase. It may lead to an "underinvestment" of national savings in the economy. The data on the Southern European EU countries show that economies with relatively low incomes continue to enjoy the positive effects of both the industrial and financial globalization, since they do not face disinvestment and its consequences.

All the paper findings and conclusions shed light on the essence of the economic model of a unipolar world order in the context of the disinvestment of peripheral economies in the investment, income, and savings components.

3 Conclusions

The current situation of global disorder is an undisputed research interest; however, this phenomenon can be considered in an evolutionary manner, together with the previous period of relatively stable US-led architecture of the world order—and the period of disorder that occurred as a result of the end of the Cold War. As the object of the study, we have chosen CEE—a group of states for which this change in the architecture of the world order was associated with the transition period to the market economy, in which they entered as defeated states.

Western countries, which had benefited from the Cold War, had high per-capita incomes and considerable financial resources. As part of globalization expansion, they have involved the former socialist countries—the periphery countries of Europe—in industrial and then financial globalization, which has also affected foreign investment flows (direct and portfolio). The foreign investment flows to CEE states are characterized by relatively stable foreign direct investment flows as well as by relatively high portfolio investment volatility. It means that the path of industrial globalization is more predictable and anchoring than the path of financial globalization. After the global 2008–2010 crisis and the beginning of the process of deglobalization, portfolio investment from CEE began to move systematically, to the extent that the outflow of portfolio investment was equal to the inflow of direct investment. Thus, there is a divestment of portfolio rather than foreign direct investment.

Contrary to expectations that the growth of per-capita income of the CEE states should lead to a decline in the competitiveness of their industrial sector and a respective foreign direct divestment, the

FDI inflow continued to be positive, creating a stable component of national financial systems opposing a volatile nature of the portfolio-investment part.

Nevertheless, we believe that the foreign direct and portfolio investment indicators do not fully reflect the financial integration of the CEE states into the global system and the EU system. So, we proposed and calculated two derived financial indicators based on existing World Development Indicators.

The first index is a foreign-sector income balance (the difference between GNI and GDP), which can be interpreted as follows: positive when a country (or group of countries) gains income through interaction with the rest of the world; negative when a country (or group of countries) loses income through interaction with the rest of the world.

The second index cycle, "savings–capital formation" (calculated as inversed difference, i.e., the difference between capital formation and domestic savings), can be interpreted as follows: negative when a country (or group of countries) spends less in capital formation than it saves, which means a malfunction of the saving–investment cycle; positive when a country (or group of countries) spends more in capital formation than it saves, systemically leaving internal or external debt.

To better understand the financial situation in Central and Eastern European countries, we calculated similar figures for the Baltic States and Southeastern European EU member states. The situation on the calculated financial indicators is not beneficial for the CEE countries. There is a systematic withdrawal of the product from all groups of states under consideration, as the indicator of foreign-sector income balance is consistently negative with one observed year of a positive value in the Baltic States. This has a negative impact on the dynamics of the cycle "savings–capital formation," which shows that in the Central and Eastern European countries and Baltic States, national savings are not invested in their own development, as they exceed capital formation. This confirms the set of our theoretical developments and advanced hypotheses, namely that the expansion, plateau, and decline periods of the unipolar order have several effects on economies with subordinated financial systems, in our case, former socialist peripheral countries in Europe.

Instrumental inclusiveness is evident only for direct investment flows (the Baltic States, because of the size of their markets, are not sufficient recipients). Portfolio investment flows have been moving into divestment since the beginning of the destabilization of the world-order architecture. The carried-out regression analysis supports this conceptual line, revealing the greater influence of foreign direct investment as a component of industrial globalization. Taking into consideration the stable net inflow of direct investment in all the considered samples of countries, this greater impact coefficient means a persistent positive influence of industrial globalization on the peripheral economies.

The same is true of the capital formation–savings difference. It is noteworthy that the foreign-sector income balance shows that the liberal financial architecture has consistently extracted from subordinated financial integration. Western capital, as part of the outflow of financial resources from the Central and Eastern European countries, also takes domestic financial resources, given that local capital balances its risks by placing capital in developed markets. The exceptions are the Southeastern European EU member states, which do not yet have sufficient per-capita incomes, and therefore savings, which are able to break up national financial markets and be involved in financial globalization, whose effects on peripheral economies are negative.

The research should be extended to other similar cases of peripheral economies to support, reject, or clarify our insights about the role of world-order evolution in the global financial and investment processes.

Funding statement

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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