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Factor of Infrastructure in the Modern System of International Relations

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Abstract—**The importance of infrastructure development for economic growth has been confirmed by a number of scientific studies, and at present this thesis is practically not in doubt. Nevertheless, the most countries cannot solve the challenges facing them in the field of infrastructure on their own. That is why the infrastructure sphere is becoming more and more important element of international relations, both at the bilateral and multilateral levels.**

Keywords—Belt and Road; infrastructure; international relations; Japan; quality infrastructure; USA

I. Introduction

Much interest in the topic of the role of infrastructure in the economy appeared in the early 90s. Research has confirmed the positive effects of infrastructure investments on total factor productivity [1]. Based on this conclusion infrastructure investments began to be seen as one of the tools to ensure economic growth. In particular, the development of infrastructure was called one of the causes of rapid rise of Asian countries [2]. Researchers put forward several "channels" of impact, including cost reduction due to improved infrastructure, providing additional opportunities for capital, expanding domestic demand, and stimulating investment in other sectors of the economy.

Close attention to the infrastructure development in recent years has been largely due to the need to find new incentives to support economic growth. So, after 2008, the issue of increasing investment in infrastructure began to be considered at the level of the G20, created to overcome crisis consequences in the global economy. Already in the first G20 declaration, it was noted that "restore emerging and developing countries' access to credit and resume private capital flows which are critical for sustainable growth and development, including ongoing infrastructure investment" [4].

As a result of the 2010 G20 Seoul summit, approaches to stimulating investment in infrastructure became an integral part of the Seoul Development Consensus for Shared Growth adopted by the G20 for the benefit of overall economic growth. This document, in particular, contained the obligation of the G20 countries to facilitate the implementation of infrastructure projects in developing countries. At the same time, the problem of infrastructure investment deficit was recognized as one of the "bottlenecks" that prevented the overcoming of the consequences of the financial crisis and the global economy entering a sustainable growth way [5]. Its decision was called the priority of the joint work of the G20 countries.

In general, in conditions of global uncertainty, investments in infrastructure began to be considered as a factor necessary to maintain economic growth. Infrastructure development was included in the list of measures that contribute to increasing the countries' international competitiveness, creating additional incentives to ensure domestic demand, and expanding regional trade [6]. However, to achieve such results, it was necessary to ensure a massive flow of funds into the infrastructure. Calculations carried out by the McKinsey Global Institute showed that in this case the annual total financing of the global infrastructure should be at least $ 3.3 trillion [7].

At the same time, the implementation of infrastructure programs was faced with a significant shortage of funds, which primarily concerned developing countries. The solution of this problem in a significant number of cases was impossible at the national level and required collective action by the international community.

II. Approaches and Results

Initially, the central role in the implementation of globally agreed measures to mobilize capital was to multilateral development banks (MDB). It was assumed that these institutions will offer mechanisms to increase investments in infrastructure from a wide range of investors, primarily from individuals.

The concept proposed within the G20 was based on the availability of qualified experts in the MDBs, whose work was trusted by participants of financial markets. They are also characterized by political independence from the countries' authorities, lower cost of financing, as well as the ability to use their own risks mitigation tools. Thus, the role of the institutions was determined by the fact that, due to their reputation and high credit ratings, they could attract more funds than national institutions, thereby playing the role of a catalyst for investment in the infrastructure.

However, the proposed mechanisms could not show high efficiency. In 2013–2018 private investments continued to show negative dynamics, remaining significantly below the 2012 record level (about $ 160 billion). In 2018, the total investments received amounted to about $ 90 billion, compared with $ 93 billion in 2017 [8]. Increased funding was observed only in some countries, mainly in developed ones. In developing economies, private investments in infrastructure, on the contrary, tended to be reduced, and budget financing and investments by state-owned companies remained prevailing, accounting for at least 70% of investments [9].

Given the low efficiency of the mechanisms proposed by the G20, international cooperation in the infrastructural sphere began to develop to a large extent within the framework of programs promoted by individual countries.

The first major project, the key element of which was called infrastructure, was the Belt and Road initiative (BRI) launched by China in 2013. The basis of the concept proposed by China was «to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multitiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries» [10], and one of the priorities (second in importance) is called infrastructure connectivity. This thesis implied the coordination of plans for the construction of a national infrastructure and the formation of infrastructure network connecting all subregions in Asia, and between Asia, Europe and Africa. As incentive measures, China additionally proposed the gradual simplification of customs, visa and other procedures to facilitate the activities of national companies from participating in the initiative countries, increase settlements in national currencies and establish free trade zones within the framework of the created transport corridors [10].

In just a few years, China was able to significantly expand the scope of the initiative it implements and give it a global scale. So, in September 2013, proposing a new model of cooperation to the Central Asian countries, the President of China Xi Jinping called to «form overall regional cooperation» as the ultimate goal [11]. However, by 2019, agreements on participation in the BRI were signed by more than 130 countries and about 30 international organizations as well [12]. According to the Ministry of Commerce of the PRC, BRI countries accounted for about 27% of China's total foreign trade volume ($ 1.2 trillion, according to data for 2018), 13% of its foreign investments (15, 6 billion dollars) and more than half of its abroad construct contracts (89.3 billion dollars) [13].

The significance of the initiative for China's foreign policy was reflected in a special publication ("Building the Belt and Road: Concept, Practice and China's Contribution") created to promote the idea of building the BRI by the Leading Group for the Belt and Road Initiative, responsible for the planning, coordination and implementation of the initiative. In it, in particular, it was emphasized that, in the face of intensified global challenges, the initiative is «Chinese proposal whose aim is to promote peaceful cooperation and common development around the world… to build a new system of global economic governance» [14]. The main tools were promoting infrastructure connectivity of the BRI countries and expanding the scope of their economic cooperation, while China's interest in implementing the initiative reflects the fact that "China, as the largest developing country and the world's second largest economy, shoulders its wider responsibilities" [14] and its willingness to interact with all countries interested in participating in this project.

The promotion of the infrastructure connectivity is defined by the document as the main tool for the construction of the Belt and Road. At the same time, elements of interaction between the BRI countries were specified, among which were docking project plans, aligning quality and technological systems (cooperation related to standards, measurement, certification and accreditation), enhancing transport (facilitation of transport), promoting relevant infrastructure projects (implying China's assistance in their financing), connecting energy facilities, building an information network (laying cross-border optical cables and building a communications network)

In October 2017, the definition of the Belt and Road Initiative as one of the key mechanisms of the PRC foreign policy was incorporated into the Constitution of the Communist Party of China (CPC). The amendments adopted during the 19th CPC Congress establish that China «following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative» [15]. Subsequently, the expansion of cooperation within the framework of the BRI began to be widely included in China's foreign policy documents. So, in the White Paper "China and the World in the New Era", issued by the State Council Information Office of the People's Republic of China, it is noted that this initiative is a platform proposed by China for multilateral economic cooperation based on the principles of mutual benefit, openness and inclusiveness [12]. The goal of its implementation is the building a global community of shared future and promoting world peace and development.

The widespread and fairly successful use of infrastructure by China for the development of its international relations has become the reason for closer attention to this area from other major economies. Changes in their foreign policy doctrines were largely associated with increased competition from the PRC in the large and promising infrastructure market, which is of great interest to the national companies of these countries. As a result, developed countries, primarily the United States and Japan, presented their own programs of international cooperation in the field of infrastructure, which are largely opposed to the Chinese initiative. They envisaged not only expanding cooperation with interested countries in this field (on a bilateral and multilateral basis), but also taking measures to counter China and the Belt and Road initiative.

So, the thesis about the need to limit China's influence in the infrastructure sphere was enshrined by the United States in the National Security Strategy in 2017. The document, in particular, noted that the PRC is using investments in the infrastructure of other countries to gain competitive advantages with the US in the international arena. In turn, the United States announced its readiness to expand cooperation with partner countries in the field of infrastructure and offer the developing countries an alternative model of assistance in its development. It was assumed that this investment model, in contrast to China's recognized low-performing government investments, will be based on the principles of "transparent financing" of "quality infrastructure" [16]. These terms have increasingly been used by the US to emphasize the distinctive features of their approaches, especially in comparison with the Chinese model.

An important aspect of US infrastructure policy was not only the desire to formulate its own cooperation program, but also an active criticism of China, recognized as the main competitor in this field. China was accused of pursuing policies leading the debtor countries to the "debt trap" [17], as well as implementing inefficient projects, creating preferential conditions for Chinese companies, etc. The demanding response was called, for example, the difficulties of US enterprises in obtaining contracts for the construction of infrastructure facilities [18].

In addition, significant efforts by the US authorities were aimed at expanding cooperation with other potential investor countries that share US attitude towards the Belt and Road. In 2017-2018 the format of US interaction with Australia, India and Japan was expanded. At the White House's proposal, the Quad's agenda included the formation of a joint infrastructure initiative in the Asia-Pacific region. After lengthy negotiations in 2019, these countries came up with a joint initiative "Blue Dot Network" aimed at setting international standards for large infrastructure projects [19]. This program, although it does not imply the allocation of additional funds for projects in third countries, can, however, significantly affect the existing mechanisms of international cooperation in the infrastructural sphere. At the same time, the United States does not refuse to implement its own initiatives providing for the provision of assistance on a bilateral basis, in such areas as increasing the digital connectivity, facilitating access to electricity, and building critical infrastructure [18].

In turn, a change in Japan's approaches to interacting with other countries in the infrastructure sector began with a review of development assistance policies. A key element of changes was the inclusion of assistance in ensuring "quality growth" into the priorities of Japan's cooperation with developing countries [20]. This term was most widely used in the infrastructure sphere, where the principles of a "quality infrastructure" began to be contrasted with, in Japan's opinion, the shortcomings of the Chinese Belt and Road initiative.

The approaches proposed by Japan were based on a paradigm similar to that used by the PRC, which determines the strengthening of transport connectivity and the modernization of infrastructure as an important factor in ensuring economic growth. At the same time, they implied taking into account the environmental and social impact of ongoing projects, controlling financial risks, ensuring a positive economic effect during the operating period of infrastructure facilities, their resistance to natural disasters, providing new jobs, etc. Promotion of these principles in the international arena allowed Japan, according to researchers, create additional incentives for infrastructure-related exports, which occupy a significant share in the country's foreign trade [21].

For the first time, this approach was used by Japan in 2015 in the program "Partnership for Quality Infrastructure". The Japanese initiative suggested that $ 110 billion be allocated to developing countries for the implementation of infrastructure projects in 2016–2020 [22]. Moreover, the provision of funds was provided not only by Japanese development institutions, but also by other donors, the first of which was the Asian Development Bank. The program was further increased (up to $ 200 billion). Japan also took measures to increase the efficiency of the tools used and attract new investors [23].

In addition, in recent years, Japan has been quite actively involved in multilateral initiatives. Since 2017, a joint program "Asia-Africa Growth Corridor" has been implemented jointly with India. The project was designed to unite the efforts of both countries with the support of infrastructural projects in Asian and African countries. In addition, Japan took part in the Quad dialogue and, together with USA, Australia and India, began to agree on approaches to supporting infrastructure projects in the developing world.

At the same time, Japan made significant efforts to promote its position at the international level. The concept of "quality infra-structure" began to be used in bilateral agreements on cooperation in the infrastructure sector (for example, with India in 2017). An important step in this direction was the adoption by the G7 in 2016 of Japan's proposed Principles for Promoting Quality Infrastructure Investment. They included recommendations on ensuring a high level of project management and monitoring their economic efficiency throughout the entire life cycle, assessing the possibility of creating additional jobs, taking into account social and environmental risks, and matching projects to national economic strategies, actively attracting private capital, including mechanisms of public-private partnership [24].

As a chairman of the G20, Japan identified infrastructure issues as one of G20 priorities for 2019. As a result, Japan managed to agree on the adoption of a separate document formulating the principles of investing in this area [25], and also include the thesis on the need to ensure compliance with the principles of transparency and debt sustainability of sovereign borrowers to the G20 declaration, thereby substantially promoting its concept of "quality infrastructure".

III. Conclusion

In general, infrastructure is becoming an important element of foreign policy of many countries. Increased competition in the global infrastructure market is characterized not only and not so much by the expansion of investment opportunities to finance infrastructure, but by the struggle of the proposed ideologies of interaction between investor states and recipient states. Although the views promoted by various parties are largely identical, that opposition leads to increased confrontation between the largest market participants and the widespread use of the infrastructure factor in different areas of international relations.

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