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Changes in the Principles of International Economic Relations as a Factor in Development of the International North–South Transport Corridor



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ABSTRACT

The context of ongoing changes in the directions of cargo flows passing through the territory of the Russian Federation, as well as a rethinking of the basic principles of world trade regulation generates an additional interest in the study of the impact of these processes on the dynamics of implementation of projects for development of the International North–South Transport Corridor.

The paper refers to the analysis of the main reasons and trends in changing the principles of international economic relations highlighting the development prospects and growing demand for

the North–South ITC, the importance of creating effective mechanisms for advanced attraction of investment resources to provide new projects for development of the corridor with sources of financing. Approaches are proposed for appropriate adaptation of the process of preparing investment projects aimed at developing the infrastructure of the North–South ITC. The study notes the importance of conducting further research aimed at increasing the economic efficiency of design, construction and operation of this corridor.

Keywords: principles of international economic relations, transport, North–South ITC, investment projects, financing, foreign investors, transport policy.

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BACKGROUND

The starting point in the process of transformation of the principles of international economic relations is considered to be 2016. The transition from the previously dominant paradigm of globalisation of the world economy to formation of bilateral interstate economic relations, initiated by the largest world economy, provoked a weakening of the previously applied norms of international economic relations (IER).

The traditional pillars of international economic relations were considered to be non-confrontationism, free movement of labour and capital, objectivity, mutual benefit. The materialisation of these foundations occurred, among other things, in the principles of the World Trade Organisation, which included:

- the principle of most favoured nation, which enshrines a non-discriminatory regime in relation to «goods and suppliers from foreign member states of the organisation» [1];

- the principle of transparency, which implies the non-application of unpublished regulatory legal acts to foreign suppliers of goods and services;

- the principle of national treatment, which establishes a non-discriminatory regime for foreign goods and services in comparison with national market participants.

At the same time, to create unilateral advantages for their own national economy, a number of states began to actively apply the mechanism of tariffs and duties to protect the domestic market from more competitive economies. This phenomenon was described in classical German economic theory. Friedrich List, who formulated five stages of development of each country, became famous for developing the theory of protectionism:

- «primitive undeveloped stage (the savage);
- the pastoral;
- the agricultural;
- the agricultural and manufacturing;
- the agricultural, manufacturing, and commercial» [2].

At the same time, it should be noted that the German scientist, who is often referred to by supporters of protectionist approaches, pointed out the advisability of using protective duties exclusively during the transition from an agricultural system to an industrial one, believing that barriers to international trade are inappropriate.

This trend received additional development with the beginning of the active use of the

mechanism of restrictive sanctions. If in the context of tariffs and duties we can talk about the need to support national producers during periods of «difficult economic situations» [3] and the use of dumping mechanisms by foreign states, then the goal of the sanctions policy is to influence the development of individual sectors of the economy of foreign countries. This policy creates barriers to world trade and directly affects the rate of global economic growth due to emerging problems with «financing new projects» [4], the supply of goods and services, and their movement across state borders.

In these conditions, we can talk about a round of regionalisation of the world economy, when ignoring WTO norms and rules coincides with the active development of regional economic associations that «collectively» [5] apply tariffs and duties. An example is the discussion on imposing temporary tariffs on the PRC imports, including on electric vehicles¹.

The objective of the study, the main results of which are presented in the article, is to analyse the impact of the transformation of the main principles of world trade regulation on implementation of large interregional transport and infrastructure projects using the example of the development of International North–South Transport Corridor (ITC). The main research tools were methods of economic comparative analysis, as well as factor and system methods.

RESULTS

The sanctions pressure and the use of prohibitive duties have also significantly influenced the development vector of the transport component of the Russian economy. The radical degradation of economic relations with the largest partner, the European Union, and the reorientation of exports and imports flows from the East–West direction to the North–South ITC have affected the priorities for development of the national transport system.

The main component of international transport corridors on the territory of the Russian Federation is the railway component. The Russian railways system, due to the measures implemented by JSC Russian Railways to develop the ITCs passing through the country's territory, was able to cope with these changes,

¹ EU Goes on China Trade Offensive After Getting 'Played' [Electronic resource]: <https://www.bloomberg.com/news/articles/2024-04-15/eu-goes-on-china-trade-offensive-after-getting-played-for-years>. Last accessed 15.04.2024.



defining the creation of conditions «for further growth of foreign trade cargo flow» [6] as a priority task. Starting from 2022, in terms of railway transport, we can state a dynamic change in the directions of international cargo flows. Rail transportation is actively developing with friendly countries, whose share in exports in 2023 exceeded 81 %. The freight transportation has grown by 2–3 times in some directions²

The main directions of transportation of international goods are approaches to the ports of the North-West part of the country, the Azov-Black Sea basin, and the Eastern direction, including the Eastern polygon. However, in the new conditions, priority is given to «development of the International North–South Transport Corridor» [7]. An increase in the volume of cargo transportation is noted on all branches of the corridor (Western, Eastern and Trans-Caspian routes)³. 11,59 mln t of goods were transported by railways through North–South ITC in 2023 as compared to 10,21 mln t in 2022⁴. For this reason, the priority activities are development of the Derbent railway checkpoint and the transfer of the Derbent – Samur section to an AC traction system, as well as construction of the Rasht – Astara railway section.

Several authors point to the significant potential of the North–South ITC and various aspects of its development [8–11].

In such conditions, the need to implement new corridor development projects will only increase. This implies the need to attract private capital from interested parties to their implementation. From the point of view of the influence of global economic transformation processes, the most susceptible elements of project assessment will be the risk assessment system and guarantees of return on invested capital.

² The growth in 2023 of international freight transportation was highlighted by Russian Railways [In Russian]. RBK news agency. 19.03.2024. [Electronic resource]: <https://www.rbc.ru/industries/news/65f9b0c69a79472ffbdbeb04>. Last accessed 10.04.2024.

³ Volume of cargo transportation on the North–South International Transport Corridor since the beginning of 2023 [In Russian]. Website of JSC Russian Railways. [Electronic resource]: <https://company.rzd.ru/ru/9401/page/78314?id=213166&ysclid=m20i6vytrw149477316>. Last accessed 10.04.2024.

⁴ The volume of sea cargo transported via North–South ITC has increased by 55 % during 2023 [In Russian]. Website Marine News of Russia. 12.02.2024. [Electronic resource]: <https://morvesti.ru/news/1678/107534/>. Last accessed 10.04.2024.

Ensuring repayment in public-private partnership projects, the most common format for implementing transport infrastructure development projects with private capital, in the described new economic realities can be achieved in the following ways.

Firstly, this is the state guaranteeing the financial sustainability of the project subject to changes in economic conditions in the country. This can be implemented through the state guaranteeing payment for provision of infrastructure, regardless of its degree of its loading; facilitating the use of the «take or pay» mechanism in relations between the carrier and the shipper; state subsidising tariffs for transportation in the context of negative market conditions for transportation, formed through no fault of the carrier.

Secondly, in case of a significant impact of sanctions on the parameters of the project, a mechanism can be provided for its early transfer to the perimeter of the state with fair compensation for the costs incurred by investors for its implementation or an increase in the nominal share in the project by the state through an additional issue that does not lead to a change in the project management process.

The most important factor in the return on investment of projects that ensure economic relations between states in the context of changing principles of international economic relations, leading to a change in the direction of cargo transportation, is the state's guarantee of the application of non-discriminatory regulatory and support measures in relation to various sectors of the transport system.

The risk assessment of the project for development of the transport infrastructure of the North–South ITC must equally be adapted to the modifications of IER. This approach is largely consistent with the concept of multi-criteria assessment in decision-making in transport policy [12].

Thus, taking as a foundation a risk assessment system based on the stages of project implementation («construction stage, operation stage» [9]), it is necessary to supplement the assessment results with adjustments for the counterparty risk at the end of each stage, which will be the state, absorbing both country and geopolitical risks. In this context, when updating or making adjustments to a project, it is necessary to describe the risk scenarios and index them depending on the degree of influence on the project and the likelihood of implementation.

The risk categories that should be considered in the projects for development of North–South ITC should include:

- sanctions against shippers; banking institutions working with them; logistics operators,
- conventional restrictions adopted for political reasons that have a medium- and long-term impact on transportation volumes,
- military and political situation,
- refusal by the state to continue implementing the project,
- failure by the state to fulfil its obligations due to the lack of available funds in the budget.

Each corridor project will have its own indexation according to the specified parameters, which will allow for derivation of a parameter for adjusting the risk assessment results.

BRIEF CONCLUSIONS

In general, the growing demand for the North–South ITC as an important factor in transport and logistics connectivity demonstrates the productive adaptation of large transport, infrastructure and logistics projects to the process of changing the principles of IER and the resulting conditions.

An important task in this context is the transformation of the elements of the economic assessment of transport corridor projects to ensure its attractiveness for private investors, whose capital is a necessary condition for intensive development of the North–South ITC.

The elements that require the greatest attention in this context are the mechanism for ensuring the return on investment and assessing project risks, and approaches to their revision in the current conditions.

The proposals that be developed based on the above can be implemented in the practices of project management of large infrastructure companies and the development of state policy in the field of development of the North–South ITC.

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