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INSTITUTE OF
EAST ASIAN STUDIES

İBRAHİM ÖZTÜRK

**The Belt and Road Initiative
as a Hybrid International Public Good**

NO. 125

WORKING PAPERS

**WORKING PAPERS
ON EAST ASIAN STUDIES**

NOVEMBER 2019

UNIVERSITÄT
**DUISBURG
ESSEN**

Offen im Denken

İBRAHİM ÖZTÜRK

Visiting Scholar (Humboldt Foundation / Philipp-Schwartz Scholarship holder) at the Institute of East Asian Studies at the University of Duisburg-Essen

E io@na.edu

Institute of East Asian Studies / Institut für Ostasienwissenschaften

University of Duisburg-Essen

Duisburg Campus, Forsthausweg

47057 Duisburg, Germany

T +49(0) 203 37-94191

F +49(0) 203 37-94157

E in-east@uni-due.de

ISSN: 1865-8571 (Printed version) / 1865-858X (Internet version)

Download: https://www.uni-due.de/in-east/news/green_series.php

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İBRAHİM ÖZTÜRK*

The Belt and Road Initiative as a Hybrid International Public Good

WORKING PAPERS ON EAST ASIAN STUDIES, NO. 125, DUISBURG 2019

Abstract

The Belt and Road Initiative (BRI) is a Chinese endeavor to create an international public good (IPG) for bringing a cooperative solution to existing infrastructure deficits, mainly in the Eurasian landmass. This article aims to question the institutional quality of the BRI as a global governance platform with IPG characteristics in emerging political and economic oligopolistic markets. The central hypothesis of the article is that in order to successfully address both the conflicting and the overlapping demand and supply conditions in the rising multiplex world, the BRI should blend the Western experience of IPG creation in the post-World War II era with that of China's recent development. Such an amalgamation would also support China's integration in the global system as well as complement its weaker aspects. This type of synthesis of diverse experiences would help the BRI to evolve as a new brand of "hybrid IPG." In terms of methodology, an institutional economic theory with an interdisciplinary approach is employed in addressing collective action problems and agency issues and, therefore, in offering a win-win game in infrastructure-oriented cooperation. We found that although the BRI has striking achievements in terms of quantitative criteria, because of qualitative issues concerning its institutional governance structure, not only is the emergence of several managerial-coordination problems unavoidable, but destructive geopolitical rivalries and conflicts would also be triggered. The article concludes that, first, by applying the principles of international "good governance," the BRI would become a fully rule-based multilateral initiative; and second, China needs to show through working modalities and measurable outcomes along the BRI how its systemic values would contribute to the provision of such a hybrid IPG.

Keywords

Global governance, international public goods, infrastructure connectivity, sustainable development, Belt and Road Initiative, multiplex world, cooperation, agency issues

JEL Classification

F02, H4, P48

* The author would like to thank Prof. Werner Pascha, chair of Japan-Korea Economic Studies and the Institute of East Asian Studies (IN-EAST), University of Duisburg-Essen, for their hosting as well as providing partial funding for the research. Special thanks also go to the Alexander von Humboldt Foundation / Philipp Schwartz Initiative (PSI) for providing the most significant part of the research funding. Moreover, the author would also like to thank Scholars at Risk (SAR), which from the very beginning very actively cooperated with the above-mentioned organizations in hosting and funding. Finally, the author thanks Professors Werner Pascha, Markus Taube, and Yuan Li from IN-EAST for their contribution to this paper.

1 INTRODUCTION

China announced the Belt and Road Initiative (BRI) at a juncture when the *demand* for global or international public goods (GPGs/IPGs) to bring cooperative solutions to emerging global challenges, such as protectionism, climate change, new technological shifts, further marginalization of fragile states that triggers migration and security challenges, and inadequate infrastructure was intensifying. On the *supply* side, however, the rise of oligopolistic economic and political markets that are characterized by the lack of decisive leadership in the post-hegemonic era, multipolarity (or the multiplex world), bilateralism and thus the strengthening of strategic competition have added new challenges to the necessary cooperation in the provision of IPGs.

Before the current global fragmentation and stalemate go further in undermining the ideals of multilateralism – a vision of global relations based on international law and a long-term strategy of cooperation and thus the trust in the idea of an open world economy, new challenges must be met by developing new and relevant institutions. To that end, China's recent candidacy to lead the next stage of globalization and provide the necessary leadership for IPGs is a positive sign in addressing those challenges. Despite its unspecified sectoral definition and geographic contours, the BRI represents the Chinese endeavor for the provision of regional as well as global public goods mainly in physical connectivity projects across the Eurasian landscape, with far-reaching global implications. The concept of a "community of a shared future for mankind," frequently hailed by Chinese commentators as an element of the new global governance model in connection with the BRI, was incorporated for the first time in a United Nations (UN) resolution in February 2017 and added to the Chinese state constitution in March 2018.

For reasons to be discussed below, such a complicated task goes beyond the policy endeavors

of any single state, reflecting a mismatch between the scope of the problems and the authority of the decision-making bodies attempting to address them. Therefore, in the absence of an overarching political authority, a "global governance" would serve as a crucial public good for the regulation of interdependent relations by structuring authority and collaboration to allocate resources and coordinate or control activity in the society or economy, so that agency and collective action problems can be minimized.

For the mobilization of global cooperation in the specific area of across-the-board infrastructure development, the BRI needs an interdisciplinary perspective so as to reflect the nature of the rising international order in balancing the Eastern and Western, more specifically, Chinese, as well as American/European approaches, in IPG provision. Moreover, the BRI's strategic, pragmatic, or opportunistic "use" or its instrumentalization with the aim of maximizing short-term national interests by countries should be carefully avoided to prevent collective action problems. Within that specific context, this article deals with the BRI as an example of the expected and needed "hybrid IPGs" that reflect the nature of the emerging multiplex world.

In this paper, after briefly discussing the peculiarities of the new global environment, with the significant potential impact on the rise of the BRI as an IPG in the second section, the third section will focus on the organization and governance models of IPGs as institutionalized process. The aim of that section is to underline the peculiarities of the rising international juncture, which necessitates the rise of hybrid IPGs, to be discussed in Section 3. The fourth section deals with the proper structuring of principal-agent relations (PAR) in such a newly emerging global political economy and among the major players along the BRI to avoid agency issues. The article ends with concluding observations and recommendations.

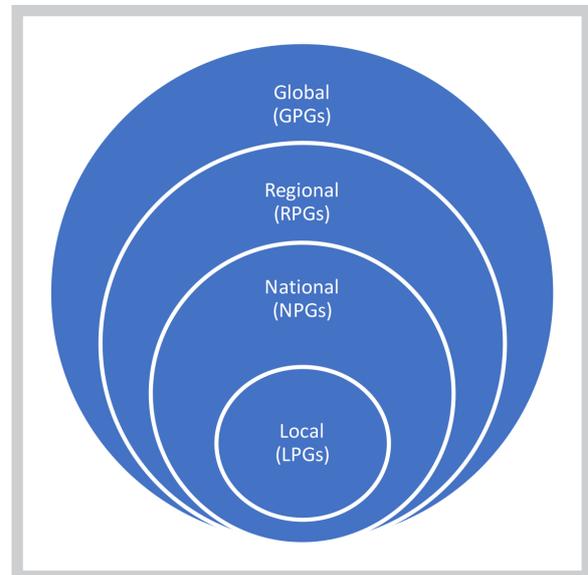
2 ON INTERNATIONAL PUBLIC GOODS

2.1 CONCEPTUAL CLARIFICATION

Compared to normal private goods, public goods are subject to a complicated and imperfect market environment. According to Samuelson's (1954) classic definition, goods that are *non-rivalrous* in use, *non-excludable* for potential users, and exhibit externalities are called public goods (PGs). These dimensions result in extensive *free-riding*, a key reason for the collective action problem in their provision, whether national or international (Olson 1971). Non-excludability is the source of coordination and financing problems, whereas non-rivalry is the source of problems in providing the optimal quantity of goods to be produced. They are created through collective choice, paid for collectively, and supplied without charge (or below cost) to recipients.

PGs help in reducing risk, enhancing capacity, and directing the provision of utility. To that end, PGs are composed of *core* and *complementary* (intermediate) activities. Core activities aim to *provide/produce* IPGs, whose benefits spill over to other users beyond national borders. *Complementary activities*, on the other hand, are mostly national in character but prepare or assist countries to consume the services or benefits of IPGs. As shown in Figure 1, in terms of their *spill-over or spatial range* to which the benefits apply, Kanbur et al. (1999) envision a range over the spectrum from global to local, with international, regional and national ordered in between. As Morrissey et al. (2002) note, although there is no clear delineation of each point on the spectrum, the least evident line of demarcation is between GPGs and IPGs. If a good's benefits or costs are of nearly universal reach, spreading across all countries, or if it could potentially affect anyone anywhere, it is called a GPG. Together with regional public goods (RPGs), GPGs constitute the category of IPGs or transnational public goods (TPGs).

Figure 1: IPGs: Spatial Reach from Local to Global



Source: Author

The gist of the argument here is that public goods acquire global dimensions when their benefits cross the borders of a single country to cover several countries, social groups, and generations and therefore possess IPG assets. In this world of contagious dependency, even some local public goods can potentially turn out to become IPGs (or sometimes vice versa). In that sense, through the provision of local and national PGs, countries can positively contribute to the provision of IPGs. As the given analysis shows, many of the differences are essentially semantic, and with the exception of local and national public goods (NPGs), the remainder of public goods can be categorized under IPGs (Barrett 2000).

The core activities that are provided through IPGs/GPGs/TPGs cannot be confined solely to the economic field nor reduced to their immediate direct benefits in the form of material utilities and services nor to national boundaries. For instance, the Universal Declaration of Human Rights adopted by the United Nations in 1948 argues that the rights presented in the dec-

laration must be “publicly provided” for every human being. In that regard, Kaul et al. (1999) clarify differences between three categories of IPGs/GPGs. They underline, first, the *natural global commons* such as the oceans or the ozone layer; second, the *global policy outcomes* such as financial stability, or global peace; and third, the *global human-made commons* such as international networks, regimes, and norms (trade regulations, human rights, and financial regulations). In that regard, the establishment of global institutions or governance platforms such as the BRI to coordinate the provision of, if not to directly provide, different varieties of infrastructure connectivity projects would serve the core activities that lead to the provision of IPGs. That is, to the extent that the BRI stimulates global cooperation through core activities of a rule-based multilateral governance system in the provision of not only regional and global but also national public goods, it would function as an IPG. The problem is that when several emerging common challenges are not properly addressed through adequate provisioning of IPGs and linger in a state of under-provision, they can potentially escalate into a global crisis. Considering that fact, more strategic issues are related to the “core activities” in the creation of global governance mechanisms to set the rules of the game for an effective cooperation. For the reasonable reasons improved governance is not a “silver bullet” that solves all problems. However, they can be seen as the medium, if not *the* key, for effective and efficient governance that can create the right incentives for various actor groups to contribute their fair share to the attainment of agreed-upon goals (Kaul 2012, 2013).

The Bretton Woods Conference (1944), for instance, represented such a profound and across-the-board answer to the long-lasting global stalemate towards the end of World War II (WW2), when the US assumed the leadership through international cooperation and united efforts in the provision of several IPGs for the achievement of common goals. Overall, the

Bretton Woods ideal of “structured cooperation” worked quite well; it has helped to establish ground rules, standards, benchmarks, and peer learning to level the playing field and help policymakers deliver better policies for better lives. However, like any medicine that comes with significant side effects, its successes were not free from the genes of its self-destruction. The shifting wealth of nations, the speed of technology and digitalization, and the intensification of global flows of people, goods and services, money, data, and ideas have quickly reshaped the world with unpredictable consequences.

In other words, intended globalization came with unintended results, to be managed in a quite different international conjuncture: Not only have most of the global challenges begun to share the same characteristics as public goods (non-rivalry, non-excludability, and externalities), but their negative consequences or effects have transcended national borders and achieved inter-generational reach.

On the other hand, although the Bretton Woods system has changed the world in many respects, what has not changed at a similar pace is the design and thinking of the international economic and financial architecture. Based on these developments, the conventional conception of public good and the governance platforms have been questioned in the last twenty or thirty years, when the United Nations Development Programme (UNDP, 1999) took the leading role during the 2000s.

2.2 IPGS IN OLIGOPOLISTIC MARKETS

With their evolutionary characteristics, social construction, globality, and publicity, IPGs exhibit not only strong interdependencies and national policy frameworks but are also subject to several new challenges as compared to the classic perception of multilateralism during the Cold War era. In order to address that global conjuncture, Acharya (2017, 7) describes the emerging surroundings as the “Multiplex World”:

“... [it refers] broadly to formal and informal interactions among states and other actors, at global and regional levels, on the basis of common principles and institutions that are not dominated by a single power or group of powers. Instead, leadership is diffuse and shared among actors that are not bound into a hierarchical relationship linked to differential material capabilities.”

In such a surrounding, one of the appropriate but perhaps still limited technical terms to describe the evolving international environment is the rise of *economic and political oligopolistic markets*. That market structure, with its diversified actors, factors, geographies, and profound interdependencies is potentially open to various cooperative as well as collusive behaviors. As opposed to economic rationality, which supports cooperation, however, systemic competition in an era of major power transition might hamper it (Bodansky 2012). Alternatively, the return on cooperation can be so enormous that even geopolitical rivalries may not prevent it. To that end, emerging national and global divergences call for measures of “incentive tipping” in order to align countries’ willingness to engage in international cooperation and to agree on taking corrective action.

Several recent cases can be found to support (negate) the idea of optimists (pessimists) for (against) global cooperation. On the one hand, competition and substitution, emphasized in traditional economic thinking, are gradually giving way to notions of *complementarity, connectivity, and cooperation*. In that regard, as Jin (2019, 92) puts it, wider economic geographies, which are increasingly characterized by networks of technologies, firms, banks, and global supply chains, should also be supported or complemented by better infrastructure that connects countries into these networks to trigger productivity gains through numerous transmission mechanisms.

However, with greater interdependence comes the need for a rethinking of the international

politico-economic architecture that considers networks to be of a transnational nature. For instance, the existing trade conflicts between China and the US notwithstanding, the active participation and cooperation of a number of American companies in BRI projects as well as several high-level representatives from the state of California at the Second BRI Forum (April 25–27, 2019) in Beijing underline the oscillatory nature of the “consent-conflict” paradigm between the rising and existing powers.¹ The economic opportunities that China offers are, indeed, so attractive that even the aforementioned power politics cannot entirely block cooperation, underlining the rise of a new type of game: “co-opetition.”

The good news is that the need for the provision of multilateral, rule-based global platforms to cooperate in providing more global “good” and preventing the rise of “bad” has stimulated some positive reactions globally. In addition to the existing ones, new alternatives such as regional development banks (e.g., the Asian Infrastructure Investment Bank [AIIB] and the New Development Bank [NDB], sponsored by China) and three informal groups of countries (the G7), composed of the seven largest IMF-described advanced economies in the world; since 2008 the G20, which includes the leading emerging economies and the EU; and the World Economic Forum (WEF), an open civil-society discussion platform) have also been influential.

Apart from such a positive conjunctural progress, however, the long-term trend shows

1 With the 10th largest economy in the world, California sent representatives who expressed their aim “to consider how the BRI can drive positive action around this global threat” to fight climate change, a crucial issue the Trump administration has already withdrawn from, and also to “[cooperate] through agreements signed with the National Development and Reform Commission and ... [close engagement] with the regional pilot programs.” China Daily, <http://www.chinadaily.com.cn/a/201905/03/WS5ccc5467a3104842260b99f9.html> (Accessed: January 10, 2019)

that multipolarity in the last two decades has strengthened strategic competition rather than multilateralism, bolstered by the lasting great power politics in the desperately troubled geography of the Eurasian heartland since the 19th century (Mackinder 1962). While the “belts” of the BRI pass through that geography, its “roads” pass through several critical chokepoints in the Strait of Malacca and the Taiwan Strait in the Indian Ocean and the South China Sea, respectively, where America’s containment policy of China is intensifying.

The current problem is that the US is not only withdrawing from the existing IPGs that it has pioneered thus far, but is also resisting the rise of any other alternatives and their legitimate demands such as the reforming of current international organizations (Allison et al. 2004). Almost one century of such power politics from the second half of the 19th century until the end of WW2, mainly between the US and European military and industrial forces such as the UK, France, Germany, and Russia underlines the general observation that the status quo forces always want to prevent and even sabotage the rising powers, no matter what they do and how, while on the other hand, it explains why China, rather than becoming more compatible with the international system, has tended to set up alternative institutions such as the AIIB, BRI and the Shanghai Cooperation Organisation (SCO) (Subramanian 2011).

However, apart from American resistance to its rise, China also has several other reasons to promote its own initiatives such as the BRI. First of all, the need is urgent and gigantic. The Asian Development Bank (ADB) recently increased its already very high estimates of the amount of infrastructure needed in the region to USD 26 trillion as of 2030, or USD 1.7 trillion per annum.² With better connectivity across Asia, deepening

integration and rerouting flows of goods-services, money, and people, the BRI could reconfigure geopolitical relationships and connect the regional economic giants (China, Russia, Iran, India, and Europe) into a loosely affiliated geo-economic bloc and expand prosperity. Therefore, the BRI might carry the longer-term implications of shifting the global balance of power within and between states in ways never before seen and would come with the following Chinese goals:

- i** Broadening its strategic hinterland while stabilizing and developing its western periphery and inland provinces, through which a network of overland pipelines will pass to help secure China’s access to energy imports;
- ii** Offsetting its strategic vulnerability at several chokepoints through alternative connectivity projects such as the Gwadar maritime port in Pakistan, the Khorgos dry port and the Special Economic Zone (SEZ) on the border with Kazakhstan, the Hambantota port in Sri Lanka, the Doraleh Container Terminal in Djibouti, and the like;
- iii** Leveraging China’s economic cooperation with its neighbors to rebalance US influence;
- iv** Boosting the Chinese economy by exporting its excess industrial capacity; and
- v** Establishing an economic presence and exerting political leverage in the BRI countries with the help of selected state-owned enterprises (SOEs).³

It is because of that potential that China introduced the BRI as “the project of the century,” “a game-changer,” “earth-shaking,” and “para-

² Earlier estimation was an increase from USD 1.4 trillion to as high as USD 8 trillion through 2030.

³ Despite such highly centralized governance, the Communist Party failed to prevent the fragmentation of the state into numerous regional and bureaucratic realms of influence with different interests and targets, undermining the proper enforcement of the new rules and regulations.

digm-breaking.” On the other hand, China is not alone in the Eurasian heartland. Other than the BRI itself, the rise of alternative initiatives is also significant in terms of offering cooperative as well as competing solutions. Some of them include Japan’s operations in South and Southeast Asia under the banner of the Japan Partnership for Quality Infrastructure (PQI); the Free and Open Indo-Pacific Strategy (FOIP), on which the US-Japan and India-Australia-New Zealand are actively cooperating; and the EU’s strategy for “Connecting Europe and Asia” (19 September 2018), Western Balkan Strategy (2018) on the westernmost side of Eurasia and the Central Asia Strategy (2019). This suggests that increasingly more crowded international political and economic oligopolistic markets are becoming potentially open to both cooperation and collusion. As Kindleberger (1981) has argued, in the absence of hegemonic powers and automatic process destined to lead to cooperation, the gist of the point lies in the chosen strategic perspective and the way it is disseminated through numerous networking activities. For instance, in terms of mobilizing the possible maximum level of international cooperation in IPG provision, some critical issues such as openness, autonomy/sovereignty, market-orientation issues pertaining to the regulatory agenda, and distributional implications should be addressed.

2.3 BALANCING GLOBALIZATION AND SOVEREIGNTY

The management of the increased openness of national borders, which has led to an ever-closer intertwining of national public domains and deepening interdependence among countries, has created further challenges for the creation of IPGs. That is because along with the intended processes of globalization such as the creation of more integrated markets has come the unintended globalization of former NPGs like trade-investment regimes, human rights norms, the provision of law and order, health, education, and taxation. In that regard, unlike the NPGs, the problem goes beyond free-riding in the creation

and sustaining of IPGs because of their nearly universal reach. Therefore, different from the recent past, when sovereign nation-states pursued policies in relatively closed national borders and organized policy affairs mainly along geographic and sectoral lines, today the realm of national policymaking is subject to managing major dualities such as “openness versus autonomy/sovereignty” and “market versus state” (Barrett 2000). The main concern in the enhanced cross-border externality management by both industrialized and developing countries (DCs) is that, first, the exercise of sovereignty by one country with direct or indirect allocative as well as adverse distributive implications on other countries that are not party to the decisions taken should be managed so that it does not infringe on the self-determination of other countries; second, for the sake of fair competition and efficiency criteria, fundamental principles of market economy should be protected both domestically as well as internationally in order to preserve reciprocity and prevent the motivation for retaliatory measures.⁴

Concerning the globalization of the domestic policymaking realm, the transmission or contagion process works through a set of connectivity, complementarity, and interdependency mechanisms. For example, financial market integration has allowed the contagion effects of financial crises to spread more quickly and more widely. As Kaul (2012) notes, parallel to a world that is going through significant adjustments in its growth and development paradigm, DCs, which are still in the process of building up their national policymaking capacity, want to retain their right to national self-determination in a meaningful way while at the same time fulfilling the

4 For instance, after the Asian financial crisis of 1997, because of the possibility of financial contagion, the issues pertaining to the corporate insolvency law and therefore financial stability were declared as GPGs by the World Bank, IMF, and ADB. The same perception is valid for pollution due to its contamination effect on the rest of the world, and therefore environmental issues are dealt with as important “global commons” that require collective action.

requirements for further opening and cross-border policy harmonization.

Another dimension regarding market economy principles and sensitive issues of sovereign rights concerns systemic incompatibilities between capitalism and communism, a topic that came to the agenda after the collapse of central planning in the early 1990s. With the assumed victory of Western capitalism over alternative systems, proponents of the pure market economy assumed that former central planning countries like Russia and China would not only converge with Anglo-American standards, they would also increasingly integrate into the Western world order that progressed under American hegemony in the post-WW2 era. It can also be argued that Japan's post-war experience in economic and industrial development has somehow partly confirmed the expectations of the "convergence hypothesis" (Pascha 2004). Moreover, as these expectations have also been positively supported by the considerably successful deregulatory measures in economies in transition, their access to the post-war Western international organizations such as the WTO, IMF, and WB was encouraged by the Western countries. However, after almost three decades of their partial convergence with Western-type market practices, which brought China path-breaking successes in its industrialization and development, as a response to several factors, such as the global economic crisis of 2007–2010, that process has stalled, even reversed. During the Xi Jinping era, since 2013, China has demanded a liberal-free economy in the world but domestically promulgates a "socialist-capitalist political-economic system" that involves massive and arbitrary market intervention: industrial policies for the projected winners in strategically chosen industries. For that, substantial favors, mainly to the state economic enterprises, such as shielding them from foreign competition, providing subsidies, easy access to both government finance and non-transparent bidding processes, and exemption from transparency requirements are provided. Other than these positive but defi-

nitely unfair supports of domestic companies, foreign companies are also subject to a series of pressures and restrictions though enforced technology transfers in strategic industries and the creation of a Communist Party cell in domestic as well as foreign companies to allow a party member to be represented on company boards, however, without assuming any legal responsibility.

In sum, through several methods of direct or indirect limitations on property rights, China sends the message that the economic activities of investors are monitored and restricted for ideological reasons. The Chinese government tends to defend and legitimize all these implementations under the arguments of independence, respect for sovereignty, and non-interference in domestic affairs. However, when the size of its economy and population is considered, unless China fully confirms the rules of the game in the global space, these practices undermine the global rules and governance and therefore will hinder the rise of the BRI as an IPG. Therefore, considering these issues, the governance mechanisms of IPGs should be more open to binding multilateral decisions, further monitoring, reporting, and coordination by states to prevent loose, selective, pragmatic, and ideological interpretations of international agreements by nation-states to protect their national interests that may not necessarily be compatible with global exigencies and goals, and therefore might lead to a zero-sum game.⁵

5 For instance, China and the US, at least on paper, support many of the major global institutions and regimes, such as the UN system (and the Security Council), the Nuclear Non-Proliferation Treaty (NPT), the Bretton Woods institutions (WB and IMF), the WTO, the G20, the Asia-Pacific Economic Cooperation (APEC) forum, and the Montreal Protocols. Yet they resist other institutions and treaties such as the jurisdiction of the International Court of Justice (specifically, rulings on sovereignty and security issues), and China has not joined the International Criminal Court, the Ottawa landmines treaty, the Comprehensive Nuclear Test Ban Treaty, or the Convention on Cluster Munitions. Beijing has also opposed calls for the reform of the UN Security Council (Ikenberry and Lim 2017).

2.4 MANAGING DISTRIBUTIONAL IMPLICATIONS

As previously mentioned, the uncompensated (or unpaid-for) benefits to the free-riders of the services that come with IPGs would create negative distributional implications for those who paid and therefore result in the under-provision of public goods. That problem takes us to the crucial issue of financing and fair contribution to them by DCs. However, even if the users or actors agree to pay for their use, the complications in measuring their cost and benefits would constrain the design and quality of IPGs. The complexities in measuring their intangible and future flow of benefits, which are related to spatial/supranational and inter-generational spillovers, are endemic in three dimensions of IPGs: excludability, rivalry, and aggregation (summation) technologies, which also lead to collective action problems (Kanbur and Sandler 1999).⁶ In principle, through a balanced approach between fairness and efficiency, the real contribution should come not only from the beneficiaries of the public goods under consideration (Morrissey *ibid.*, 40), but also from the rich, responsible, idealistic, and benevolent hegemon (Kindleberger 1986). Some empirical studies such as Sandler (1998) show that in the removal of the mentioned constraints and uncertainties, a high share of nation-specific benefits, a limited number of essential participants and the presence of an influential leader-nation have decisive importance, pointing to the necessity of a global governance platform.

⁶ Together with regional public goods, global public goods constitute the category of transnational public goods. However, an international public good does not imply or guarantee measurable benefits for everybody in every country or nation; it does require that the benefits are available to the global public.

2.5 EARLY FINDINGS ON HYBRID IPGS

According to the analysis provided in this section, the needed hybrid GPGs or IPGs should be able to address the newly emerging issues in the multiplex world of post-hegemony, characterized not only by a lack of decisive leadership but also by the complex structure of political and economic oligopolistic markets, potentially open to competition versus collusion, cooperation versus conflict, and bilateralism versus multilateralism. Despite the fact that the Cold War has ended and central planning has disappeared as an alternative, the two big players, China and Russia, after a temporary and partial convergence with Western capitalism, have in recent years started to disseminate their own way of doing things and accordingly impose some of their non-Western and non-market values and standards on international society, which underlines the need for hybrid IPGs to manage these systemic challenges. Another striking development, which has a repercussion similar to that of the above-mentioned systemic rivalries, is the further globalization of former national policy areas that also requires a balanced approach to competition versus market intervention (i.e., the use of different combinations of industrial policies) and openness-integration versus priority for protecting national autonomy or sovereignty.

The biggest challenge for the formation of a hybrid IPG is related to its capacity to trigger the necessary incentive scheme for cooperation, which might include, internationally, the enormous size, scale and scope of several common challenges, such as climate change and security challenges (contagious diseases, immigration, terrorism, fundamentalism); and internally, the rising business opportunities that China increasingly offers in terms of its expanding domestic market, the bulk of its financial resources, and its development experiences. In the following section, the accomplishment of such a task in the case of the BRI will be discussed.

3 ON THE BRI'S GOVERNANCE MODEL

There are different approaches to the issues of effective cooperation in resolving emergent global challenges. As opposed to the pessimistic perspective of the Realist School, which argues that uneven distribution of global coercive material capacity will eventually result in a "clash of civilizations" to maximize national interests (Mearsheimer 2001), the Institutional School concludes that cooperation is both possible and rational provided that certain conditions are met (Keohane 1984). Quite similar to the post-WW2 experience, new combinations of structured cooperation would bring the necessary solutions in the next era.

Currently, in a world of self-interested actors such as superpowers, businesses and individuals, where there is no central authority to police their actions, and agents, only institutionalized and multilateralized governance structures would enable them to avoid non-cooperative outcomes (i.e., the prisoner's dilemma) or prevent collective action failures in their repeated interactions by constraining, structuring and defining their motivational pay-off matrix (Axelrod 1984). However, in the current multiplex world, there is no "one size fits all" template that can guide the process of constructing an ideal IPG. The proliferation of transnational challenges, the diffusion of new ideas, and the expansion of actors and processes envision a more pluralistic and diversified architecture of global governance. As Jessop (2013a, 8) writes:

"... regions, governance models and structures are characterized by different and changing degrees of hegemony and hierarchy, overlapping spheres of influence, national components and transnational influences, interdependencies and pockets of self-containment, embryonic and dying regions, marginal spheres and areas of confrontation."

Therefore, surrounded by multilevel, multifactor, and multisector parameters, the provision of

IPGs comes in different varieties, calling for different institutional responses pertaining to the necessary cooperation strategies. These factors make an inter-disciplinary approach between behavioral, institutional, and public economics and issue-specific literature such as that on global environmental, financial, trade, and health issues more than a necessity.

3.1 STRUCTURED VS. NON-STRUCTURED MODELS OF COOPERATION

Apart from its different mixed internalized norms, the foremost responsibility of an IPG is to provide a meeting and negotiating platform, venue, and secretariat where large groups of major stakeholders who are facing collective action problems would gather with the purpose of cooperative behavior. In that regard, unlike popular expectations, the leadership contribution of the major IPG providers to institutionalized governance mechanisms is more crucial than anything else, including their financial support. That platform would allow participants to reach a *modus vivendi* for the final form of a governance model that defines the rules of the game and strengthens property rights, regulatory institutions, and conflict resolution mechanisms for better contracts along the BRI. Current discussion regarding the governance of the BRI is rather between the so-called Western models that support organized and structured cooperation and the Asian (and increasingly Chinese) models that promote flexible and non-structured contingency cooperation. The critical issue is related to the structures of coordination and flexibility-rigidity in the way international negotiation fora are set up, the capacity to pool resources and to direct them towards the most efficient IPG production.

Regarding the recent evolution of the BRI's governance model, there are optimistic and pessimistic as well as more realistic approaches. Overall, the proponents of both optimistic and

pessimistic views give selective reference to the expressions of the top Chinese authorities at different national and international fora (i.e., the first and second BRI Forums, the Bai Forum, the WEF) as well as different outcomes and experiences along the BRI in support of their arguments. Briefly put, the optimistic view argues that by its very nature, multilateralism is always a work in progress and that the BRI is a dynamically evolving process and living entity in continuous flux, the final form of which will be determined through constant communication and consultation with other stakeholders as well as the constructive criticism/contributions they might direct. Obviously, the most optimistic person is Chinese President Xi Jinping, who argued that the BRI will not serve as a “China club” (Wong 2018) and went on to say that “the BRI is still in its planning stage and its implementation will start in 2021, and by establishing a better and more efficient platform, it will be opened to the technology transfer, poverty reduction, green growth and other areas” (BRI Forum, 29 April 2019). These are the kinds of arguments that optimists take for granted, that Chinese authorities have reacted constructively to the mounting criticism by further institutionalizing the BRI. Finally, optimists take the ever-rising number of members and the volume of commercial and financial business as the tipping point for the BRI to become a multilateral public cooperation platform.

Compared to the optimists, Grimmel and Li (2018) might be accepted as a more balanced approach to the BRI’s evolving governance model. As compared to the conventional multi-level governance models (MLG) that reflect the European and old Soviet experiences, and network governance models (NGM) which mirror the Asian experience, a hybrid governance model (HGM) along the BRI still retains some of their characteristics, however gives a much more dynamic reaction to the emerging peculiarities and challenges of the rising multiplex world. Given the fact that the post-Cold War environment has laid the groundwork for further changes and adjustments in state autonomy and that a differ-

ent understanding of sovereign rights and the ever-internationalized global challenges have complicated the previously discussed global and regional governance divides, rigid, top-down governance structures such as the EU and the old Soviet models have experienced problems of adaptation vis-à-vis external developments such as the rise of China (De Grauwe 2016), a process that stimulated the rise of HGMs in both Europe and Asia (Chen 2014; Berkofsky 2005).

As Jessop (2013b, 5) describes, by focusing on functionality and adaptability to the continuously changing external environment, as a hybrid model of an IPG, the BRI aims, first, to secure the conditions for the flow of goods, services, technologies, and capital; second, to achieve new divisions of labor across different territories such as networks of cities and interdependent centers of production; third, to form different center-periphery relations and scales of social organization that may not coincide with territorial boundaries; and fourth, to form different sets of social bonds based on mutual trust. Within that context, the BRI relies on “institutional minimalism,” which requires high-level flexibility, small secretariats, rather informal structures and non-binding joint decisions.

Finally, the pessimistic view (Avdaliani 2019; Parameswaran 2019; Hillman 2018; Horsley 2018) comes mainly from the supporters of the Western governance models. That view points to qualitative factors rather than quantitative data in support of its views. After contending that the official texts that have been published one after another since 2014 and also that the soft tone of official speeches are just tactical maneuvers to fend off the ever-rising international reactions, it goes on to argue that, in fact, since 2014, no precise permanent institutional mechanisms or modalities have been implemented to make the BRI a more open, rule-based, and multilateral initiative. There is also no convincing evidence so far how Chinese “collaborative” and “shared values” are efficiently put in practice via measurable and sustainable models. To the contrary,

they argue that the BRI does not have any governance models and that China uses uncertainties and contingencies as a strategy to turn emerging asymmetric dependencies into strategic benefits through its bilateral diplomacy, memorandums of understanding (MoU) and opaque contracts. In that regard, it should be seen more like a multi-dimensional strategy to meet the needs of China and to reduce its risks in the coming period. As such, China has refrained from turning the BRI into a multinational, rule-oriented platform of the desired size and format.

With a performance-based (ex-post) analysis, that view pays attention to the rising failures and weak implementations along the BRI that result in financial and environmental, political, and social instabilities as well as the increasing inter-country political tensions, to be summarized later in this article. With its deliberate “institutional holes,” the HGM of the BRI exhibits a high degree of uncertainty, inequality, and asymmetry regarding contractual arrangements in easing or balancing the contradictions between sovereignty and openness, and between market principles and regulation/intervention in a way that is comparable to the Bretton Woods institutions (IMF, WB), the WTO, or more recently the AIIB, which China leads.⁷

With these aspects, the motto of “One BRI, many recipes” opens a Pandora’s box to dissent/consent or cooperation/conflict because of its failure to clearly address collective action and agency problems. First, unlike what is propagated, the exclusion of a multilateral open negotiation platform has made the BRI a tool of “state-to-state” diplomacy, supported by MoUs and bilateral dialogue or diplomacy.⁸ As will be shown later, with the existence of asymmetric dependence, this would work against the weaker members of the BRI. Second, unlike the Western gover-

nance models, where collaboration is sustained through formal institutions such as *contracts and courts*, in the Chinese approach, besides conventional and contemporary contracts that are open to court decisions, contracts are also maintained through several informal institutions such as networks or connections (Guanxi), the linchpin of socioeconomic and political life for centuries that opens the door to their discreet or *ad-hoc* management (Gilmore 1977). A contract is defined as a specific type of agreement that by its terms and elements is legally binding and enforceable in a court of law (Coase 1937; North 1990). Thus, the view that emerging differences along the BRI can be managed through bilateral relations, reciprocity, or different combinations of negotiations within the paradigm of repeated “give-and-take bargains” does not work in the long term due to the rising transaction cost associated with the waste of time, repeated contract renewals, and the weakened trust and image among stakeholders.

Third, earlier experiences in the creation of IPGs recommend that overcrowded platforms without clear territorial boundaries or focused areas of interest and with narrowly defined goals may not fulfill their role as an IPG in the longer term, and thus more focused and narrowly defined geographic coverage should be the priority. However, the BRI’s sectoral as well as geographic focus and coverage are so broad that existing gaps created by its “institutional minimalism” would only complicate effective contracting. When the number of countries increases, management of these contingencies created by China’s bilateral diplomacy among theoretically equal but asymmetric partners would become

7 For some experts, the BRI is a “Chinese Marshall Plan,” meaning that it is a state-backed campaign for global expansion and a stimulus package for a slowing economy (Kuo and Kommenda 2018).

8 On the one hand, it is stated in China’s MoU that countries are subject to domestic law and their responsibilities under international law, while on the other, China established an international trade arbitration court under strict state control. In principle, countries are free to choose either international or China-led international arbitration; however, it remains to be seen how it functions in practice.

even more complicated and unsustainable. Here what we observe is an ever-growing body (qualitative growth) that lacks an effective brain (contract-based governance) to control it.

Based on the analysis in this and the previous section, a working definition of the hybrid IPG attached to the case of the BRI is that, as Acemoglu and Robinson (2008) have shown, pragmatic and ideological approaches to the contracting institutions should be avoided as they limit the ability of private agents to settle disputes, diversify against risks, form large markets and choose optimal organizational structures. The relatedly important issue, therefore, is the need to go beyond over-simplified, short-sighted, and even extreme binary approaches such as the West (US)-East (China) divide in institution building. To that end, the BRI's governance mechanisms should properly deal with the following two broad major issues: (i) the impact on decision making and the implementation process presented by the diverse political, economic and social factors, regulatory regimes, and unfamiliar on-the-ground circumstances involved in cross-border infrastructure projects; and (ii) the long funding cycles, low interest rates, and the potential for waste and corruption that distinguish infrastructure development. With the help of possible transferable institutional lessons from the Western experience of public good provision, the Chinese contribution would help the BRI to emerge as an alternative hybrid IPG.

3.2 WESTERN CONTRIBUTION TO THE BRI'S EVOLVING MODEL

The first significant channel of Western contribution is institutional. It prevents contingent and *ad-hoc* negotiations and enhances long-term decision-making capacity at the expense of short-term and self-interest-oriented behavior for higher return so that social capital such as trust accumulates over time and the visions of participants can converge for common goods, benefits, and cooperative solutions, thus reducing the cost of transactions (Cerna 2013; Milner 1997).

As a matter of fact, the Bretton Woods system and spirit shaped the post-WW2 era not so much because of the specific agreements reached but because of the commitment to the institutionalized (structured) cooperation it embodied.

The second contribution comes through the accumulated experiences of the current international organizations such as the UNDP, IMF, WB and OECD. That comes mainly in two broad categories: first, promulgation of the free market economy (such as the provision of fair competition, free entry and exit, free trade and reciprocity, rule of law, property rights, and the supporting or complementary institutional framework); and second, fulfillment of the multilevel sustainability criteria in governance, social, and environmental aspects. Within that framework, UNDP's approach in the creation of IPGs in the field of physical and virtual/digital infrastructure offers lessons in three broad categories: first, the provision of an up-to-date knowledge platform for infrastructure investments (e.g., energy, transportation, and communications) so that countries can absorb and incorporate it in their development planning; second, the setting of common standards in environmental, societal, and governance sustainability, such as accountability, transparency, local inclusion, information provision, social responsibility disclosure, and multi-factor assessment of the projects at the stage of tendering, funding and construction as well as the operational stages; and third, helping DCs in their multidimensional capacity building so they can derive the benefit of the connectivity projects developed and offered by multilateral platforms such as the BRI. The experience of international institution building underlines that whatever the preferred model of governance, it should satisfy these criteria to make the BRI more global and less national through further opening it to third-party participation, including multilateral organizations (MLOs), countries, and companies. With their substantial resources, command of relevant knowledge, extensive experience, convening power, and analytical and advisory expertise, third parties could play the

following critical roles: (i) the *multilateralization* of the BRI's governance structure by narrowing the space for asymmetric bilateral diplomacy; (ii) the *marketization* of the connectivity projects by diversifying the lenders, providing background information for country risk assessment and project design and thereby minimizing the margin for inefficiency, diluting concerns that the BRI follows a China-funded tag to securitize the credit and to syndicate the risk; (iii) *localization* of the projects by integrating them into national development plans to stimulate production, trigger more employment, generate income, and promote export; and (iv) motivation of *structural reforms and good governance* by supporting coalitions among governments, civil society, and the private sector to implement international best practices so that the BRI would positively contribute to, rather than complicate, China's drive to achieve joint development, connectivity, and prosperity, while at the same time advance better global and local governance.

3.3 CHINESE CONTRIBUTION TO THE BRI

The above criticism of the BRI's China-based model and the experience of the Western countries in the field of IPG provision during the Cold War era do not necessarily negate or undermine China's potential contribution to the BRI to make it truly an IPG. Rather, to the contrary, as discussed earlier, there is a potential gap that makes it possible for China to successfully contribute to the international community through

its leadership in across-the-board public good creation. To start with, Xi Jinping's 2018 presentation of China as a "responsible, benign, altruistic, and benevolent ... member of the community of the same destiny" might be quite a constructive reference in introducing the BRI with desired public good properties. As summarized in Table 1, the Chinese approach offers an alternative paradigm of "collaborative globalization" to evolve and serve through "mutual consultation, joint construction, and shared benefits" in the creation of a "win-win" game along the BRI.

However, the given analysis so far recommends that the transformative or game-setting capacity of the BRI is primarily conditional upon, first, its capacity to mitigate the current systemic differences (for details see Taube and in der Heiden 2015) between the liberal-multilateral *status quo* and Xi Jinping's Chinese Socialism (Xi-Na)⁹ so that the BRI evolves as a hybrid IPG in a way to reflect the peculiarities of the rising multiplex world and also address insufficient infrastructure across Eurasia with global reach in terms of both scale and scope. Second, it also depends on China's capacity for a shared, diffused, and networking leadership in orchestrating the necessary coalitions for bridging demand and supply conditions that reflect the BRI's "creative destruction" in terms of its innovative ideas, tech-

9 It is officially defined as "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era," <https://www.chinadailyhk.com/articles/30/151/154/1508473873989.html> (Accessed: July 19, 2019)

Table 1: China's Offer for Collaborative Globalization and the BRI

Globalization	Values and Principles for	BRI
	Community of Common Destiny	Ethical Conduct of Self-interest
	Relational (Guanxi) Interactions	Symphony, not Solo
	Responsible Behavior	One BRI, Many Recipes
	Geniality	Independent Choice
	Non-interference	Interdependent Act
	Mutual Respect	Joint Contribution
	Equality	Shared Benefits

Source: Derived from the National Development and Reform Commission of China (NDRC), 2015.

nologies, and organizing principles (e.g., governance structure) to minimize collective action problems and agency issues. However, the quality of China's leadership in different categories such as structural leadership in the provision of material resources; entrepreneurial leadership in terms of its political skills; intellectual leadership in positively shaping international perceptions; and its legitimate leadership in leading the overall process of power transition are quite controversial (Pascha 2019). Harmonization and synthesis of Chinese values and the cumulative Western experience through effective and efficient participatory governance modalities in both the process and outcome stages are the *sine qua non condition* of introducing the BRI as a desired hybrid IPG.

With the help of a smart, interactive, open, and responsive setting, the BRI can provide the necessary data, expertise, consultation, and exchange of ideas to help achieve a satisfactory convergence among the competing interests of the stakeholders to minimize collective action and agency problems. Though, under limited circumstances, some degree of flexibility and certain positive discriminations or privileges might be granted to the DCs, the overall principle is that for the evolution of the BRI as a desired IPG, rule-based contracting at the beginning and a performance based-analysis at the end should be addressed for the reliable measurement of the cost-benefits (Brombal 2018). The so-called rules of the game are the common standards for good

governance at the stages of tendering, funding, construction, and operation. For that to happen, as shown in Figure 2, in terms of its governance structure the BRI needs to be less Chinese and more multilateral (glocal) to become more local in terms of integrating the so-called connectivity projects into the national development plans of the host countries. A key aspect of the BRI that supports its "hybrid" nature and distinguishes it from the earlier experiences of public goods is its capacity to successfully bring together its core activities at the international level with complementary activities at the local/national level so that its overall benefits can be enjoyed by the consumers, mainly, along its six economy corridors.

The last, but not least, issue is that in terms of the values of a "hybrid" IPG, China needs to show how its indigenous civilizational values (Table 1) could contribute to the BRI through working modalities, as depicted in Figure 2, in fulfilling more global responsibilities. This expectation is quite reasonable because the Chinese contribution to the BRI has appeared so far mostly in terms of quantitative terms rather than institutional qualitative criteria. Because of that, it is still not a Western type of conventional strict, rule-based, open, multilateral top-down IPG nor does it reflect any dominant values, model or implementations that make it different and alternative. As will be shown in the next section, addressing the agency issues along the governance structure of the BRI would make it necessarily more Western and "glocal" but less Chinese.

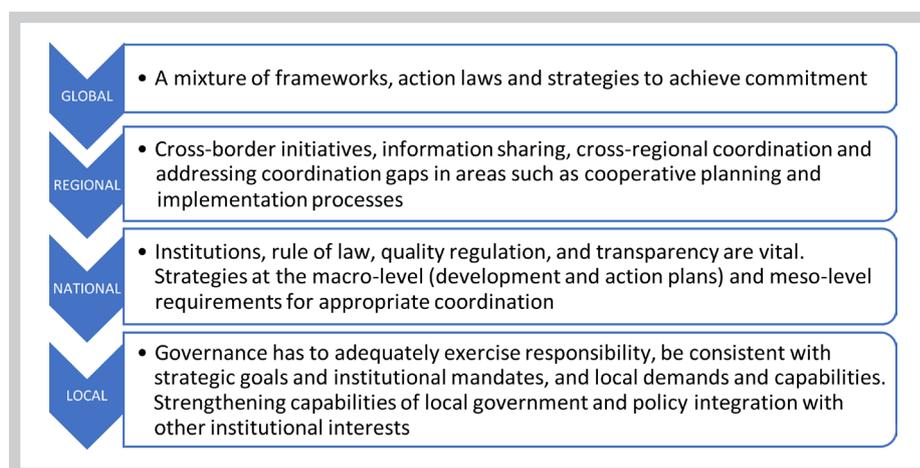


Figure 2:
The BRI as a Hybrid IPG

Source: Reproduced by the author from Inter-American Development Bank (IDB), "What is sustainable development? A Framework to Guide Sustainability Across the Project Cycle," March 2018.

4 AGENCY ISSUES IN THE BRI

The creation of IPGs is not only about the strategies in setting the standards, shared values, and reference points, but also about the policies for generating satisfactory outcomes from the implementation or execution process, a topic that is explored by the so-called agency theory. From that perspective, the quality of institutions as governance platforms such as the BRI can be observed in their structuring of principal-agent relations (PAR) with the right mix of incentives and constraints among public or private-sector organizations as well as individuals for achieving the declared common goals.

4.1 SOME THEORETICAL CLARIFICATIONS

In terms of Pareto-optimality criteria the BRI offers significant potential opportunities for the redistribution of resources within its sectoral and geographic coverage for their most efficient use so that all participants would be better off without making anybody worse off. However, the attainability of such goals, among others, depends on the proper structuring of PAR to minimize agency problems (asymmetric information, moral hazard and adverse selection) that not only increase the cost of transactions but also undermine the logic of transacting in the longer term. The problems mentioned emerge in most

governance structures due to the separation of ownership (principal) from management or control (agent) during the delegation of some rights and responsibilities to individual or institutional agents (Figure 3).

The source of the problem is the misalignment of interests between principal and agent (PA), who engage in cooperative behavior but have differing goals and differing attitudes toward risk. In agency theory, principals and agents are subject to a set of assumptions. Given the lack of proper monitoring due to a diffused ownership structure, under the given assumptions about people (e.g., self-interest, bounded rationality, risk aversion), organizations (e.g., goal conflict among members), and information (e.g., information is a commodity that can be purchased), their efforts to maximize their interests lead to the several varieties of conflicts known as principal-agent problems (PAP). As Eisenhardt (1989, 58–59) puts it,

“The agency structure is applicable in a variety of settings, ranging from macrolevel issues such as regulatory policy to microlevel dyad phenomena, to organizational phenomena such as compensation, acquisition and diversification strategies, board relationships, ownership and financing structures, vertical integration, and innovation.”

Figure 3: Players in the BRI



Source: Author

Despite the fact that agency issues appear most frequently in the finance and economic literature, they have been widely witnessed in various academic fields such as accounting, political science, sociology, organizational behavior, and marketing. From that point of view, the organizational and governance aspects of IPGs as instituted process highlight agency theory as a useful tool for addressing several aforementioned critical agency-related issues.

As briefly mentioned before, in agency theory the unit of account is the *contract*, which co-aligns the preferences of agents with those of the principals so that the conflicts of self-interest are reduced. The main problem in achieving a reliable contract for a win-win game is that, as viewed from the principal's perspective, since a complete *ex-ante* or *ex-post* verification of the skills or abilities of agents by principals is not likely, serious issues of *adverse selection* arise. Moreover, information asymmetries between managers (agents) who are delegated the job or responsibilities and are aware of all the information related to the so-called business, and owners (principal) who depend on the managers to get the information are also the source of many agency issues.

However, as Perrow (1986) properly noted, not only agents but also principals might be the source of many problems. From the viewpoint of agents (managers), principals can also deceive, shirk and exploit due to *moral hazards* that emerge when agents work for the principal in good faith, whereas the principals utilize their knowledge and skill in risky projects, although the agents are unaware of the risk attached to the investment decision. That is, the agents might be unknowingly dragged into a hazardous working environment where principals act opportunistically. That means agency problems appear, first, between PA due to the information asymmetries and variances in risk-sharing attitudes; second, between the major and minor owners (shareholders) because big owners might take decisions for their benefit at the expense of the

small shareholders; and third, between the owners and creditors, when the owners take more risky investment decisions against the will of the creditors (Panda and Leepsa 2017).

4.2 PLAYERS IN THE BRI

In terms of fixing conflicts of interest, the two most complicated but high priority tasks along the BRI are, first, to separate and define whose status is that of principal or agent due to many inter/cross-dependencies and mutual transitivity; and second, to design policies properly so that agents behave for collective or mutual benefits (Kolodko 2006).

Although the issue of categorization is quite a complex issue, as Figure 3 shows, overall, principals are the sovereign host (local) countries that legally own and also pay for the financing of the BRI-related projects, regardless of whether they initially borrow from China or other third parties, but for several reasons delegate their construction to some agents. Agents, in turn, are the contractors, supposedly serving the interests of the principals (host countries) according to a mutually agreed contractual model.

4.2.1 THE PRINCIPALS

As the discussion of IPGs has highlighted, measuring the value of infrastructure to the host and other countries is a crucial issue. Therefore, DCs question the long-term implications of the BRI-related connectivity projects for their national interests. As DCs dominate the BRI's six main economy corridors, the alleviation of poverty still remains the major common challenge, for which they try to attract different categories of investment and loans/credit as well as official development assistance (ODA).

In that regard, for many of the host countries, such as Pakistan and the Central Asian and Southeast Asian countries, the BRI is a unique and historic opportunity for fostering their development in otherwise economically marginalized regions. On the other hand, the BRI projects are

subject to many risks and uncertainties because most of them deliver the expected benefits only in the longer term in DCs, which have quite different levels of development, political-economic systems, strategic locations, demographic structures, and qualities of infrastructure.

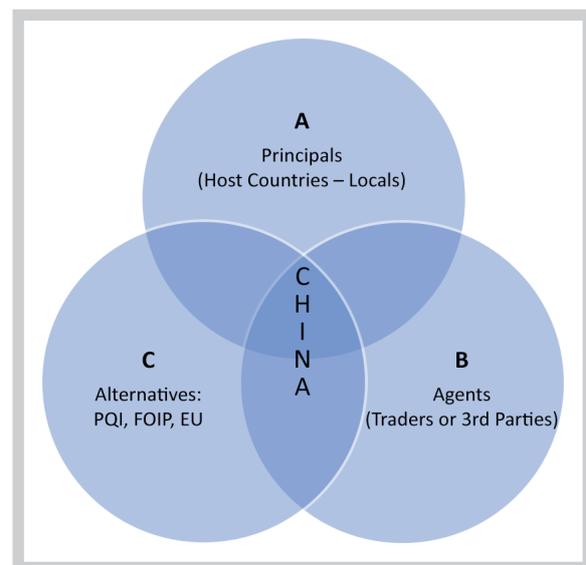
The development process is about setting priorities necessitated by multiple bottlenecks ranging from finance to human resources and institutional capacity. Incidentally, despite the fact that critical large infrastructure projects are of great importance for the development of the host countries, the lopsided deployment of their limited resources in a single big project can trigger many other problems, such as the deterioration of income distribution in favor of certain sectors, regions, or agents; neglect and postponement of other development-oriented projects; and finally, financial overdependence on other countries that leads to difficulties in debt service. In fact, some enormous projects could more serve the interests of some big powers as it would take a longer time to integrate them with the localized needs of the economy.

Another issue is the existing complex interdependencies regarding the big projects (Figure 4). For instance, although the ports of Gwadar (Pakistan), Hambantota (Sri Lanka), Doraleh (Djibouti), the dry port of Khorgos (on the Kazakh border) and the Laos-China railway could potentially contribute to the development of these countries in the long term, their strategic and economic value to China as compared to these countries is open to discussion but difficult to factor out. As the recent tensions between India and Pakistan across the disputed parts of Kashmir – a vitally important passage for the China-Pakistan Economic Corridor – show, these projects have both economic and strategic value and implications in their wider region, though most of them are NPGs and thus legally owned by the host countries in the region.

That observation highlights the importance of not only the necessity of better management

and the integration of the BRI connectivity projects into domestic national plans, but also the fair contribution of host countries to them. The biggest challenge is how DCs, as principals, would motivate or force several asymmetrically powerful “agents” to behave to their benefit.

Figure 4: Interdependencies in the BRI



Source: Author; PQI: The Japan Partnership for Quality Infrastructure; FOIP: The Free and Open Indo-Pacific Strategy

4.2.2 AGENTS: CHINA AND THE ‘OUTSIDERS’

Players such as countries, MLOs, and (multinational) companies¹⁰ along the BRI function as “traders” whose priority is the search for profit rather than following direct geopolitical influence or ideological interests. In addition to pri-

¹⁰ For instance, Dubai-based DP World, Germany’s DHL and Siemens, America’s HP and General Electric (GE), and Britain’s HSBC. GE is partnering with over 30 Chinese engineering and procurement and construction (EPC) companies in more than 70 markets in BRI countries. Siemens is partnering with more than 100 Chinese EPC companies in more than 60 overseas markets, and it expects the Silk Road to represent a cumulative potential of more than 1 trillion USD over the next decade. Partnerships with multinational companies are also commonplace in regions where the Chinese presence is relatively new and foreign players have comparative advantages. For more see EIU (2018), Forbes (2017).

vate profit, MLOs might also pursue the ideals of IPGs as part of their mission.

On the other hand, although big players such as China, Russia, the US, and the EU are categorized as agents similar to traders, they undertake some functions of principals provided they go beyond pursuing narrow-minded profit targets, avoid conflictual or counter-balancing geostrategic interests and set the rules of the game by providing complementary regional public goods in the Eurasian heartland. In other words, big players perform more than the requirements of an agency role by enforcing their terms and conditions in the BRI projects and therefore shaping the eventual contracts.

On the other hand, depending on their technological strength and know-how in international project development and management as well as their fundraising capabilities, traders have been invited by several different Chinese authorities to cooperate in connectivity projects. In return for their contribution, mainly to China, this cooperation may enable traders to access barely tapped expanding markets while cementing a better foothold in China itself. Among the agents, China, as the initiator, if not owner of the BRI, should be given a special category because it not only takes the lead in the progress of the BRI and provides the bulk of financing but also supplies the required expertise and know-how as well as invites third parties (traders) to cooperate in the connectivity projects. Due to its control over the procedures, terms and conditions in the BRI through MoUs and other methods of bilateral bargaining, China sometimes acts as a “pseudo-principal.” That is why it is not surprising to observe that other agents (third parties) are invited not generally by the principals (host countries) to participate in the projects but by another agent, China. As a creditor, China is the principal, but as a constructor/contractor of those projects that are owned by other host countries, China is an agent who must serve the interests of the hosts. From that angle, China has multiple identities and conflicting roles

of agent and principal. With such incompatible roles from many perspectives, China has projected the derivation of manifold benefits from using its financial competence and labor force as well as its capital goods such as machinery and equipment, expertise, and technology to tap external markets and establish political, economic, and, for some experts, even strategic control of some countries. In that regard, in addition to financing, borrowing, and repayment issues, an ex-post evaluation of the contracts should also consider factors such as the local content, employment-income creation, export generation, environmental and safety standards, protection of intellectual property and reciprocal market access for foreign businesses in China as well as partnership with Chinese players in overseas markets.

Taken together, depending on the openness and inclusiveness of the BRI and the preferences of the agents, their contributions to the governance quality of the BRI by balancing short-term profit targets with their long-term ideal of creating and supporting an IPG would play quite a significant role. For instance, a developed country with a positive image for implementing international best practices can serve as an effective agent (trader) to act not only in the interest of host countries (principals), but also in the collective interest by partnering with China in the BRI geography. Or alternatively, as the recent membership of Italy in the BRI has shown, the status of such developed countries would change into that of a principal when they host China and other third parties in their local projects. That observation suggests that depending on their key technological capacities and know-how which China needs to assimilate in the long term, developed countries, MLOs, and global companies can become more than an effective agent to monitor and support the optimal contracts and thus contribute positively to the evolution of the BRI into a hybrid IPG. Finally, other alternative or complementary initiatives from Japan or others can effectively contribute in the multilateralization of the BRI.

4.3 ADDRESSING THE PAP IN THE BRI

The goal of the BRI platform as an IPG is a constrained optimization between the principals (hosting countries) and agents (contractors) and that the BRI projects be brought together through a multilaterally designed and institutionalized hybrid governance model.

Potentially, China with its ever-growing large economy, financial muscle, technological strength, and development experience can create significant externalities and exert even more decisive influence on the development of the DCs in the broader region. Better-managed connectivity through efficient transport infrastructure can facilitate regional integration, supply and value chain networks and trade expansion; attract foreign direct investment (FDI); enable more efficient production networks; and, finally, accelerate the industrialization process, economic growth, and poverty alleviation.¹¹

As previously discussed, poor governance is a major reason why complex infrastructures often fail to meet their timeframe, budget, and service delivery objectives. Cross-border infrastructure projects add even deeper and wider challenges, making it more complex and vulnerable to misconduct. Among others, issues such as long funding cycles, concessional loans, and low interest rates pertaining to infrastructure development open the way to waste, corruption, and strategic-political implications. Of these factors, special emphasis should be given to finance, which has been considered the broadest avenue for exercising influence such as extracting political concessions, shaping project specifics, and setting repayment terms. Disbursement of funds allows a lender to reward supporters of

the hegemonic interests or to withhold funding. Repayment can also be leveraged if the recipient is overly indebted and unable to fulfill the initially agreed-upon terms.

When China's vested interests in several geo-strategically driven projects (e.g., the ports at Gwadar in Pakistan and Hambantota in Sri Lanka) and the overall political economic situation in DCs come together, both the willingness and capability of DCs to react properly to China in their bargaining for the BRI projects are weakened. Above anything else, DCs are not capable of assessing the complicated contracts and multi-billion-dollar projects because of their lack of institutional and human capital expertise. Moreover, China's disproportionate power and a fragmented state structure without well-synchronized goals also add additional elements to the list of coordination failures and inefficiencies.

As Eisenman and Heginbotham (2018) note, a DC's ability to derive benefits from its relationship with China depends primarily on the existence and implementation of a coordinated national strategy that carefully considers the three characteristics of China's approaches to doing business. The first issue relates to China's mismanagement of the existing asymmetries in its relations with DCs. In the early stage of their internationalization (globalization), Chinese companies' way of doing business as they would in China in different complex environments may not be compatible with existing international best practices. Lack of conditionality combined with weak oversight and reduced corporate citizenship opens the door for rent-seeking and corruption. Second, China also pursues a package approach that brings economic, political, and other means together, albeit imperfectly. That would also open the door to the *instrumentalization* of the BRI towards buying political and strategic influence through infrastructure diplomacy. Third, China advances its interests in a network of interlocking and self-reinforcing bilateral, regional, and global engagements. When that strategy is combined with the opportunistic,

11 According to some forecasts, the trade impacts of connectivity might bring even more robust results mainly in the land-locked BRI countries such as those in Central Asia and some Eastern European and Balkan countries as well as in the western provinces of China (Baniya et al. 2019; ING 2018).

populist, and pragmatic approach of the leadership in the DCs, such an interaction would result in the lasting political capture of the entrenched interests and with the passage of time, that new *status quo* would constitute an “axis of inertia” with China.

However, the long-term implication of such a *symbiosis* with kleptocratic states would not be to the benefit of China, either. Although in the absence of a robust legal and institutional environment, closeness to the political authorities would bring some advantages in the near term such as speed, a short period of impact assessment, and less need to cooperate and bargain with the local stakeholders, in the longer term it would cause damage to both sides as it changes the motivation in the wrong direction, such as reward for building as quickly as possible even if performance in other areas such as cost, quality, safety, local contribution, environmental impact, and public consultation processes suffers.

Moreover, when the leaders that China works with are incompetent, corrupt, greedy or unpopular, dissatisfaction with Chinese projects can rub off on the local leaders, thus heightening political risk. That is why China and Chinese projects have been subject to poisonous domestic political debates during national election campaigns in many countries, including Malaysia, Sri Lanka, Pakistan, and more recently Turkey (Reuters, May 20, 2019). Their concern focuses mainly on the asymmetric dependence of DCs on China because of the non-transparent nature of the contracts, which, they argue, leads to unfeasible and astronomically expensive projects as well as the sacrifice of national sovereignty.

When host countries – with their unfavorable, fragile, domestic political-economic system exhibiting a weak capacity for assessment and comprehension of opaque contracts – interact with China, a much larger, more prosperous, and generally better-coordinated state, through the uncharted institutional governance of the BRI in a wide range of sectoral areas and geogra-

phies, that transaction can end up with several sub-optimal results, reflecting the inefficient structuring of the PAR. Within that framework, it is unlikely that DCs would protect their interests in the absence of a multilateral body of governance. This concern is legitimate because even the most developed countries complain about China undermining the market economy, the level playing field and global governance models, thus narrowing the realm for mutual gain.¹² The analysis above recommends that reliance on the multilateral mechanism is the most viable and practical option for high-quality contracts, that is to say, multilateral arrangements, to bring solutions to agency problems. It, in turn, depends on the capacity of the BRI as an IPG to bridge the interests of all stakeholders for an “incentive tipping” in aligning countries’ willingness to engage in international cooperation and to agree on taking corrective action.

4.4 EMPIRICAL EVIDENCE ON THE BRI

As P.F. Drucker skillfully phrased it, “Quality in a service or product is not what you put into it. It is what the client or customer gets out of it.” A multitude of statistics collected from various sources regarding the core activities (declaration of the rules of the game and multilateralized cooperation and governance platform) across the BRI economic corridors confirm the above-given concerns and underline the institutional weaknesses along the BRI in terms of emerging outcomes. That is to say, in terms of rough quantitative criteria such as the number of members and volume of business, the BRI has reached a tipping point for triggering further

12 Apart from the US’s position vis-à-vis China’s way of globalizing its economy, the major EU organs such as the EU Commission have described China as “an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance” and ask China to become a more “responsible stakeholder” and provide more reciprocity regarding the BRI, the Made in China 2025 strategy, and several other domestic policy implementations (EC – The European Council 2019; BDI 2019).

global acceptance and participation. In order to show that, through a simple horizontal summation of the partial and non-transparent data, several organizations repeat the same statistics and almost similar forecasts. To that end, 36 heads of state (the number was 28 in 2017) and more than 6,000 participants from 150 countries and 92 international organizations, including the heads of the IMF and UN, participated in the second BRI forum, held in Beijing, April 25–27, 2019. According to the WEF (2019), during the 2019 forum a total of USD 64 billion in projects was signed, while the BRI parties agreed on 283 projects in transportation, taxation, trade, auditing, technology, culture, and media. In terms of cumulative figures, since 2013 it has concluded some 2,220 deals worth USD 1.2 trillion in more than 80 countries since the scheme's inception (Financial Times, March 9, 2019).

However, the BRI forums should go beyond serving as an “international project fair” and should focus more on creating shared values, well-accepted reference points, and common standards in order to serve as an IPG. As viewed in terms of these quality criteria, there is still a long way to go. Despite an abundance of legal amendments that encourage Chinese enterprises to act as good corporate citizens by respecting local laws and observing international best practices when they operate in host countries, the enforcement capabilities of the mentioned regulations have been quite unsatisfactory. Emerging literature that concentrates on the evidence-based progress fails to qualify the concrete contribution of the BRI as of 2019. (For recent work see BRI Progress Report 2019, Baniya et al. 2019; World Bank 2019; Lu et al. 2018; and de Soyres 2018.) These studies, with the help of different theoretical models such as Gravity Theory, the Global Trade Analysis Project (GTAP), and Computable General Equilibrium (CGE), try to develop different scenarios and simulations to bring about reliable forecasts on the potential contribution of the BRI. By utilizing earlier infrastructure experiences at different periods of time and in different geographies, they con-

clude that earlier studies and experiences show a positive and statistically significant association between transportation infrastructure, or connectivity, and economic integration mainly through bilateral trade. However, in these studies there has been no direct and convincing reference to the overall performance of the BRI so far.

For instance, the World Bank study forecasts that among participating countries the initiative might increase trade flows by up to 4.1 percent, total FDI flows by 4.97 percent, and the overall GDP of DCs in East Asia and the Pacific by 2.6–3.9 percent on average. As is stated in these studies, the most significant barrier for reliable quantitative studies is the lack of a reliable, consistent and transparent data set. The most important source of data is the state-run or controlled media. Therefore, as mentioned before, some research organizations have recently been trying to develop their alternative sources of statistics and evaluation models accordingly. Moreover, despite the rising volume of overall bilateral business between China and the BRI countries along its six main corridors across Eurasia, an impression is emerging that the BRI project is failing to make a convincingly positive impact on their real economies and also that its infrastructure diplomacy, carried out primarily in lower income countries plagued by corruption and instability, has the potential to undermine global norms of governance (Horsley 2018, 2). For instance, it was calculated that about 270 of 1,814 BRI projects undertaken since 2013 – representing roughly 32 percent of total project value – were in trouble over unsustainable debt, labor policies, performance delays, and national security concerns (Financial Times, May 20, 2019).

Two of the biggest issues are the lack of accountability and the inclusion of the third parties for cross-check and international best practices. Overall, almost 75 percent of Chinese companies abroad do not disclose a CSR report. Not only Chinese companies but China itself does not

disclose the details of the many contracts and prefers “behind the door bargaining,” shielding it from public criticism, expert discussion and the cross-checking of international arbitration mechanisms. President Xi repeatedly warned during China’s recent debates with Pakistan, Malaysia, Sri Lanka, and others regarding their infamous payment crisis that “friends should talk to each other, not to the public or to the international society,” underlining China’s non-transparent business-making culture.

As part of the same transparency issues, in terms of cost advantages, Chinese project finance seems to be cheaper in the beginning but quite expensive at the end; projects are faster in terms of completion but quite unsatisfactory in terms of sustainability and quality. From a comparative perspective, China provides cheaper credit or concessional loans and also does not seek conditionality. However, the terms of their contracts are quite opaque and not properly disclosed to the public. According to a recent study, almost half of Chinese lending to DCs is “hidden” from their citizens/society, the IMF, and the WB, which hinders their proper assessment according to various criteria. It is beyond discussion that for transparency and accountability reasons, the voters (principals) should know how the national taxes are being used by the rulers (agents), be they politicians or bureaucrats. According to our perspective, for reasons of efficiency the IMF, and for sustainability reasons the WB and UNDP, should also become involved so that the BRI will serve as a hybrid IPG reflecting Western experience and Chinese values in the emerging multiplex world.

Also, in a sampling of 95 big Chinese road and rail transportation projects over the last three decades, project completion was by and large on time or ahead of schedule; however, actual construction costs averaged 30.6 percent higher than estimated, with three-quarters of transportation projects in China coming in over budget. Therefore, the process may end up not only higher in overall cost but could also even lead to

the transfer of strategic national assets to China when countries fail to meet their scheduled debt service.

What is crucial regarding the indebtedness of the DCs is that although the lion’s share of DCs’ sovereign debt is not owed to China, the largest part of the more recent debt incurred within a shorter time interval belongs to China, tied to a couple of gigantic projects and subject to sovereign guarantees. In terms of multilateral, institutional quality criteria, a transparent and objective project assessment of the connectivity projects as well as an overall macroeconomic evaluation of the several DCs would not allow them to borrow and take on such an unmanageable risk. It is an appropriate stage to give more statistics which show that the BRI is not open to either local or third actor participation, as previously discussed, so as to improve the quality of credits and projects. Despite its banner of “One BRI, many recipes,” almost 89 percent of the Chinese-funded projects are carried out by Chinese companies, whereas only 7.6 percent are by local companies (companies headquartered in the same country where the project is taking place), and 3.4 percent are foreign companies (non-Chinese companies from a country other than the one where the project is taking place). In comparison, out of the contractors participating in projects funded by multilateral development banks, 29 percent are Chinese, 40.8 percent are local, and 30.2 percent are foreign (Hillman *ibid*, 3; Horsley 2018, 5). To the extent that international best practices with the inclusion of third parties are limited, such a process will continue producing weak linkages in terms of integrating the so-called connectivity projects with the national development agenda, which requires a higher contribution to local content, job creation, human capital formation, empowerment of supply-chain linkages, and sufficient export penetration in the host countries.

Such outcomes have led to the widespread perception that cooperation with China along the BRI has not resulted in a win-win game in trade,

employment, or income generation (for a recent case, see Higgins 2019). As a result of its weak shared values, sustainability dimension, and compliance with local regulations, some countries (Kenya, Sri Lanka, Malaysia, Maldives, Pakistan, Uganda, and Zambia) have either withdrawn from BRI projects or renegotiated the terms and conditions to decrease the cost of finance and increase the local content and contribution of these projects to their respective countries (Chandran 2019). Malaysia, for instance, has not only been given an almost 30 percent discount, but China has also agreed to “barter” a large amount of palm oil in return for debt service (South China Morning Post, May 20, 2019). However, these kinds of discretionary measures, negotiations, and concessions through bilateral diplomacy might weaken trust in China and the

credibility of the BRI for lacking a rule-based, open, transparent, and accountable way of doing business for a “win-win game.”

To conclude, these findings are obviously not supportive of the highly romanticized assertion that “China is not singing solo, but in a chorus of countries along the BRI.” Rather, to the contrary, due to China’s highly “unique” or *sui generis* business model and culture, emerging results contradict China’s “Five Principles of Peaceful Coexistence” such as “respect for sovereignty” and “non-interference in domestic issues.” In an environment of oligopolistic interdependency, shared and effective leadership is closely identified with the achievement of trust, which is fortified by the outcome or actual performance, not the attributes of fanfare speeches.

5 CONCLUSIONS

When the major challenges of the post-hegemonic era are considered, China’s endeavor along the BRI to marshal an international collaboration for infrastructure development and integration into the national development plans of DCs should be considered a promising act of IPG provision. That is because today, not only the public good provision in that specific field but also other global issues are subject to many constraints due to the already discussed oligopolistic rivalries in the multiplex world. For instance, the globalization of several formerly domestic policymaking domains has made cross-border externality management even more complicated.

This article has shown that creation of an effective IPG in that connection requires a more balanced, inclusive and comprehensive approach in the interactions of the current rule-based liberal world order and Xi Jinping’s China, *Xi-Na*, in bridging the core and complementary activities to make the BRI a thoroughly hybrid IPG. That is to say, with an eclectic interdisciplinary ap-

proach, by also profiting from the existing international transferable lessons in the creation of IPGs, a cross-fertilization between the Western contribution of institutionalized and structured cooperation and China’s possible indigenous contributions, which are said by the Chinese authorities to include “collaborative globalization” and “diffused/responsible/law abiding leadership through mutual consultation, joint construction, and shared benefits for the creation of a harmonious society,” might provide alternative paradigms in the provision of alternative hybrid IPGs.

Only through addressing several agency issues such as providing an incentive-compatible payoff matrix that comes through addressing fairness as well as efficiency issues and fixing the net benefits of its physical and digital connectivity, can the BRI cross-fertilize, nurture, and balance China’s formative strength in complementary activities (mostly national) with its weaker recorded experience of across-the-board core activities with public good characteristics, and

therefore inspire voluntary cooperation and thus eliminate participation constraint.

Considering the BRI's fragmented, multi-centric, multi-layered and multi-pivotal sub-networks of interconnected and interwoven regional and international cooperation, the participation of third parties with the credibility and experience of international best practices would oblige and engage Chinese companies in a rule-based, win-win game. Although such changes in line with the Western experience of governance would make the BRI less Chinese, more global and local (glocal) for the time being, the incorporation of indigenous Chinese values would make it neither Western nor Chinese *per se*, but a thoroughly hybrid paradigm of global cooperation.

However, China's experiences in the first five years of the BRI's trial and error process have shown that it is not yet clear if China will be able to assume leadership in creating the needed IPGs. That is because in addition to China's willingness, motivation, financial prowess, and experience in development, the quality of both governance and implementation should also be satisfactory so that China can cultivate the necessary global inspiration and build up the required trust and confidence. Recent retaliatory acts from the US and increasing requests from the EU for further reciprocity in a wide range of economic activities indicate that China's demand for a liberal order outside and socialism inside, and therefore its construction of the BRI on this divide, are not compatible or sustainable.

GLOSSARY

AIIB	Asian Infrastructure Investment Bank	NDRC	National Development and Reform Commission
APEC	Asia-Pacific Economic Cooperation	ODA	Official development assistance
BRI	Belt and Road Initiative	PA	Principal and agent
DCs	Developing countries	PAP	Principal-agent problem
FDI	Foreign direct investment	PAR	Principal-agent relations
FOIP	Free and Open Indo-Pacific Strategy	PQI	Japan Partnership for Quality Infrastructure
GPG	Global public good	RPG	Regional public goods
GDF	Global Development Finance	SCO	Shanghai Cooperation Organisation
HGM	Hybrid governance model	SEZ	Special Economic Zone
IMF	International Monetary Fund	SOE	State-owned enterprises
IPG	International public good	UNDP	United Nations Development Programme
MLG	Multi-level governance	WEF	World Economic Forum
MLO	Multilateral organizations	WTO	World Trade Organization
MOU	Memorandum of understanding		
NDB	New Development Bank		
NGM	Network governance model		

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