ASIEN 154/155 (Januar/April 2020), S. 129–149

Refereed article

On the Institutional Quality of the Belt and Road Initiative as a Hybrid International Public Good

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Summary

In the emerging world of multipolarity, which is characterized by political and economic oligopolistic spheres of influence, the creation of international public goods (IPGs) involves different sets of hybrid regimes. The term "hybridity" refers to the need for balanced and virtuous cross-fertilization between the newly emerging and the established systemic considerations such as openness versus autonomy/sovereignty and the market versus the state to cope with their spatial/supranational and intergenerational spillovers. Chinese authorities presented the Belt and Road Initiative (BRI) as such an endeavour to serve as a hybrid governance platform for bringing cooperative solutions to existing infrastructure deficits, mainly in Asia and Africa. This article questions the governance quality of the BRI in bringing cooperative and win-win solutions through the lenses of the comparative institutional economic perspective. The paper concludes that despite its striking quantitative achievements, BRI's weak institutional structure has already caused several managerial-coordination problems, geopolitical rivalries, and global tensions that might prevent its evolution with the qualities of a needed hybrid IPG. The article suggests that for BRI to adequately address both the conflicting and overlapping demand and supply conditions of a needed hybrid public good, it should effectively align with the existing rules-based and structured multilateral cooperation architecture.

Keywords: Public goods, governance, Belt and Road Initiative, cooperation

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Introduction

The Belt and Road Initiative (BRI) was announced in 2013–2014 when the world was still deeply struggling with the negative repercussions of the global economic crisis during 2007–2010 period, both having far-reaching implications. Among others, the global economic crisis highlighted not only the urgent need for new sources of sustainable growth but also the creation of international public goods (IPGs) to bring collaborative solutions to the existing infrastructure gap in the broader Eurasian landscape. However, the rise of the multiplex world, which is characterized by the incompatible paradigm of competition/conflict versus cooperation/compromise, has constrained the surrounding for taking the required leadership initiatives (Acharya 2017, 2018; Allison 2017, 2018; Mearsheimer 2019).

On the demand side, according to a recent Organisation for Economic Co-operation and Development (OECD) report (2018: 4–6), globally the annual investment needs range from between USD 2.9 trillion to USD 6.3 trillion. At current investment trends, this is expected to translate into a cumulative investment gap of between USD 5.2 trillion by 2030, or as high as USD 14.9 trillion by 2040—to reach the Sustainable Development Goals (SDGs) of the United Nations (UN). Globally, by sector, the most substantial investment needs lie in transport and energy infrastructure, which are expected to comprise around 60 percent thereof. However, on the supply side, rising multipolarity, tendencies toward bilateralism, strategic competition, as well as protectionism have all added new dimensions to the necessity of cooperation in the provision of IPGs.

Among other things, intensifying tensions between the current and rising powers have undermined the hegemonic leadership capacity to find solutions to global challenges. Before the current fragmentation and potential deadlock go further in undermining the ideals of multilateralism — a vision of international law-based cooperation and an open world economy—, intensifying challenges must be met by developing new and relevant institutions. To that end, China’s endeavor to lead the creation of infrastructure-oriented IPGs such as the BRI represents a decisive step taken in fulfilling such rising demands. Not only did China add the BRI to the state constitution in March 2018 to make it an absolute priority in its diplomatic intercourse with full state support but also the UN mentioned it in its February 2017 resolution to endorse the initiative too. Likewise, several other prominent multilateral institutions such as the OECD, World Bank, European Bank for Reconstruction and Development, and the International Monetary Fund (IMF) were quick to announce their full support as well as their partnerships. That means Chinese leadership to lead a needed IPG with the BRI came at the right time and in the right area. The BRI Progress Report (April 23, 2019) confirms that, since its launch in 2013, China has forged closer trade ties worldwide, signing cooperative documents with 126 countries and 29 international organizations to counter the mentioned deficit.

Notwithstanding huge expectations and significant quantitative achievements, in the last five years of its full implementation after 2015 several criticisms have been directed at the BRI so far. The initiative is now subject to severe hurdles and challenges due to its lack of institutionalization and multilateralization. This is particularly true with regard to solving multifaceted participation constraints and collective-action problems, namely through the proper addressing of the principal-agent relations (PARs).

It is hypothesized in this paper that in the absence of an overarching political authority, any act of global cooperation reflects a mismatch between the scope of the problems faced and the authority of the decision-making bodies attempting to address them; and thus goes beyond the policy endeavors of any single state. Based upon this hypothesis, it is recommended that the full multilateralization of the BRI with regard to its governance and coordination platforms would serve as a crucial IPG for the regulation of the interdependencies between the major stakeholders. This would be achieved by structuring the authority and collaboration to allocate resources and coordinate economic activities, so that agency issues and collective-action problems are minimized. Such a hybrid form of governance, which harmonizes approaches between Chinese system1 and Western approach and also balances their experiences in institution-building and IPG creation, can mobilize global cooperation in across-the-board infrastructure development.

The organization of the paper is as follows: After briefly discussing the nature of public goods (PGs) in the newly emerging global environment and the latter's potential impact on PG provision in the article's second part, the third section then deals with the nature of the needed hybrid governance structures with the properties of IPGs. The fourth and fifth sections focus directly on the governance structure of the BRI, and through the emerging empirical evidence on the quality of its implementation so far. The concluding part offers key policy recommendations.

On IPGs

Conceptual clarifications

Compared to private goods, which are both excludable and rivalrous, PGs are subject to a complicated and imperfect market environment. According to Samuelson's (1954) classic definition, goods that are nonrivalrous in use, and nonexcludable for potential users, are called PGs. That means nobody can be excluded from their use, nor does their use make them unavailable or less available for further use by others. PGs are created through collective choices, paid for collectively, and supplied without charge (or below cost) to recipients; as such, they result in extensive free-riding. As Olson (1971) argues, these are the key

1 Officially, it is described as: "Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era" (习近平新时代中国特色社会主义思想).

reason for the market failure and collective-action problems in their provision — whether national or international. Nonexcludability constitutes the source of coordination and financing problems, whereas nonrivalry creates complications in providing the optimal quantity of goods to be produced. Apart from private and public goods, there are "club goods" that are nonrivalrous but excludable, and therefore serve only the members of the club. Finally, there are also "common goods" that are nonexcludable but rivalrous, and therefore the use of these resources exhausts them at the expense of other potential beneficiaries.

By considering the spillover effects of PGs, Kanbur et al. (1999) envision a range thereof on a spectrum from the global to the local, with the international, regional, and national in between. National PGs acquire global dimensions when their benefits cross the borders of a single state to cover several countries, social groups, and generations and therefore possess IPG assets. When the benefits or costs of a good are of nearly universal reach, so that it could potentially affect anyone anywhere, it is called a global public good (GPG). In the current world of "contagious connectivity" and interdependency, even some local PGs can potentially turn out to be GPGs (or sometimes vice versa). In that sense, through the provision of local and national PGs, countries can positively contribute to the provision of IPGs (Morrissey et al. 2002). Overall speaking, as these differences are mostly semantic; local and national PGs aside, the remainder can be categorized and used in this paper as IPGs (Barrett 2002).

As the last pandemic (COVD-19) of 2019-2020 has shown, when emerging common global "bads" such as climate change, the spread of epidemic disease, international terrorism, migration, and financial contagion, are not adequately addressed through proper IPGs and linger in a state of under-provision; they can potentially escalate into a global crisis. In contrast, their provision would serve in reducing risk, enhancing capacity, and directing the offer of utility. To that end, PGs are composed of core and complementary (intermediate) activities. Core activities aim to provide IPGs whose benefits spill over to other users beyond national borders, whereas complementary activities are mostly national but assist countries to consume the services or benefits of IPGs. Moreover, core activities can be neither confined solely to the economic field nor reduced to their immediate direct benefits, in the form of material utilities and services.

Kaul et al. (1999) underline three categories of IPG that might be relevant to our discussion here. 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/financial regulations, human rights). By concentrating on the third category, this article deals with the establishment of global or regional institutions or governance platforms aiming to coordinate and guide the provision of, rather than directly providing, different varieties of infrastructure connectivity. In other words, rather than the services that IPGs directly provide, particular concern is on their governance quality in stimulating global cooperation with the final aim of providing the mentioned services.

Although governance platforms are no silver bullet for all problems, they can be seen as the medium for — if not the key to — effective and efficient governance modes creating the right incentives for various actor groups to contribute their fair share to the attainment of agreed-upon goals. The Bretton Woods Conference (1944), for instance, represented such a profound and across-the-board answer to the long-lasting global stalemate toward the end of World War II, when the United States (US) assumed leadership through international cooperation and united efforts in the provision of several IPGs for the achievement of common goals (Jin 2019).

However, the world is now subject to radically different surroundings. Particularly in the post–Cold War era, 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. Not only have most of the global challenges begun to share the same characteristics as PGs but their negative consequences or effects have transcended national borders and also achieved intergenerational reach. The most significant progress from the viewpoint of our current topic is that, with the unintended results of the intended globalization over the last 20 to 30 years, the conventional conception of PGs has changed, and the provision of core activities for IPGs has become a matter of urgency. Because of such a radically shifting global conjuncture, China has become a candidate to lead the next stage of globalization under the terms and conditions of its own civilization — the BRI being a novel tool of implementing such diplomacy.

New constraints on public good creation

With their evolutionary characteristics, social construction, globality, and publicity, IPGs exhibit not only strong interdependencies and national policy frameworks but also, as compared to the Cold War era, are subject to several new challenges in the emerging multiplex world. The latter is described by Acharya as follows:

> [It refers] broadly to formal and informal interactions among states and other actors, at global and regional levels, based on 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 (2017: 7).

At such a juncture, one of the appropriate but perhaps still limited technical terms to describe the evolving international environment is the rise of oligopolistic economic and political markets as a form of systemic competition between different powers and the economic spheres that they either directly or indirectly control (Pascha 2019a). Such a market with diversified factors, geographies, and profound interdependencies is potentially open to various cooperative as well as collusive behaviors. As Allison (2017) notes, an extra complicating factor coming at the expense of wide-range collaboration is not only the withdrawal of the US from the existing IPGs that it has pioneered thus far but also its resistance to the rise of any other alternative powers and their legitimate demands for reforming current international organizations (including the IMF, World Bank, and World Trade Organization). That resistance also explains why China, rather than becoming more compatible with the international system, has tended to set up alternative institutions such as the Asian Infrastructure Investment Bank (AIIB), the Shanghai Cooperation Organization, and, more recently, the BRI (Subramanian 2011).

Within the conceptualization of the multiplex world and in the specific context of the Eurasian heartland, China is also not alone in these efforts to decouple from the post-war statuesque. Major alternative initiatives include Japan’s operations in South and Southeast Asia under the banner of the Japan Partnership for Quality Infrastructure; the Free and Open Indo-Pacific Strategy, on which US-Japan and India-Australia-New Zealand are actively cooperating; and, the EU’s strategy for Connecting Europe and Asia (19 September 2018). These each offer different degrees of cooperative as well as competing solutions. All such progress makes the situation quite complicated and unpredictable, in the sense that, on the one hand, systemic competition in an era of significant power transition might hamper cooperation. On the other, the return on cooperation can also be so enormous that even geopolitical rivalries might not prevent it (Bodansky 2012). This represents a situation describable as “coopetition” in the language of game theory. For instance, the existing trade conflicts between China and the US notwithstanding, the active participation and cooperation of several US companies in BRI projects as well as several high-level representatives from the State of California at the Second BRI Forum held in Beijing (April 25–27, 2019) underline the idiosyncrasies of the mentioned consent-conflict paradigm standing between the rising and current powers.

In the outlined context, the United Nations Development Program’s (Honghui and Ting 2016; Kaul et al. 1999; UNDP 2017) approach to infrastructure connectivity underlines the three qualities of IPGs: 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 them in their development planning. Second, the setting of common standards pertaining to sustainability criteria in environmental, societal, and governance terms, such as accountability, transparency, local inclusion, information provision, social-responsibility disclosure, and multifactor assessments of the projects at the stage of tendering, funding, and construction (as well as at the operational stages too). Third, helping developing countries in their multidimensional capacity-building so that they can derive benefits from the connectivity projects offered and developed by IPGs. The analysis given above provides a sufficient toolkit to evaluate the quality of the needed hybrid governance models (HGMs) that address the requirements of the rising global geopolitics.

Hybrid governance as PG

A HGM is defined as a set of cooperative arrangements between different national, international, private, public, and for-profit/nonprofit stakeholders to facilitate the functioning of both private- as well as public-good markets (Khanna 2012; Post et al. 2017). It is self-evident that in the multiplex world of PG creation, there is no "one size fits all" template that can guide the process of constructing an ideal governance mechanism that fulfills the quality of an IPG. As there is no central authority to police the actions of self-interested actors such as superpowers, nation-states, businesses, and individuals, different forms of governance platforms would enable them to avoid noncooperative outcomes (i.e. the prisoner's dilemma) or prevent collective-action failures in their repeated interactions by constraining, structuring, and defining their motivational payoff matrix (Axelrod 1984).

In other words, in the choice of a governance structure the existence, breadth, and quality of the surrounding institutions of governance — such as the norms and laws regarding private property, courts, enforcement units, and markets — have a crucial role to play (Rangan et al. 2006). The emergent global context which complicates the supply of IPG and requires more pluralistic and diversified governance structures is described by Jessop as follows:

> [They] are characterized by different and changing degrees of hegemony and hierarchy, overlapping spheres of influence, national components and transnational influences, interdependences and pockets of self-containment, embryonic and dying regions, marginal spheres and areas of confrontation. (2013a: 8)

Given the stock of literature, there are several issues to be addressed in the provision of HGMs that might also be applicable to the BRI, which is presented by the Chinese authorities as a new generation hybrid IPG (Hongcai 2017). That situation calls for different institutional responses to cooperation strategies to reflect the proliferation of transnational challenges, the diffusion of new ideas, and the expansion of actors and processes envisioned. It seems that the currently heightened competition between the Western and the Asian (and increasingly Chinese) paradigms of governance will determine the future course of the global and regional governance models. Former one supports structured, centralized organized, and rigid cooperation to properly structure PARs by defining the rules of the game and enforcing contracts . For instance, in the European Union(EU)'s style of governance, the delegation of sovereign power to a supranational or transnational body has been the main rule (Berkofsky 2005). However, a number of recent cases, such as the reaction of the EU member states to the global economic crisis, the so-called China offer, and crisis-prone situations — as the case of Brexit have shown, such rigid, top-down, and static governance is subject to considerable weaknesses in adapting to external challenges (de Grauwe 2016).

On other hand, the Asian models promote nonstructured, contingency, and flexible models. Grimmel and Li (2018) contend that because of existing contextual or path dependencies — such as heterogeneous and diverse civilizational, cultural, and political-economy systems, as well as different development levels — the EU model of governance is neither necessary nor indeed feasible in the hardcore geography of the BRI meanwhile. The situation in Asia weakens mutual trust, and prevents the setting of standard rules and the maintaining of them across such a vast geography. Considering these facts, located in China's geopolitical proximity to Asia, the BRI reflects various facets of the Chinese style of regionalization, governance and cooperation based on seemingly legitimate reasons for existence. More specifically, it prefers institutional minimalism — such as small secretaries, informal structures, nonbinding decisions, and pragmatic, loose, flexible, and dynamic integration models. As compared to EU, the BRI limits its sphere of influence to broad-based economic integration without any political repercussions, such as the delegation of sovereignty to a centralized authority. As compared to the EU, with these propensities, in a continuously changing external environment the BRI seems to be more adaptable and functional (Esteban and Lee 2017).

Be it less Western and more Asian/Chinese in style, in principle, a HGM develops if there are cooperation rents to capture, and if the benefits of coordination outweigh costs (Menard 2004, 2010). In the absence of hegemonic powers and automatic processes that lead to cooperation, 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 (Kindleberger 1981). In that, the chosen strategic perspective — and the way it is disseminated through numerous networking activities — are quite decisive. One such approach in the emergent multiplex world would be the offer and design of HGMs with the capacity to address topics such as openness, autonomy/sovereignty, and market orientation on the regulatory agenda, as well as to handle distributional implications (Huylenbroeck et al. 2009).

For instance, unlike the past, when sovereign nation-states pursued policies within relatively closed national borders and organized their affairs mainly along geographic and sectoral lines, many of the current national PGs like trade-investment regimes, human rights norms, the provision of law and order, health, education, and taxation have in our time achieved IPG characteristics (Kanbur et al. 1999). Therefore, the challenges in the creation and sustaining of IPGs go beyond only free-riding considerations and also extend to the management of the spatial/supranational and intergenerational spillovers of IPGs. That is because they reflect the three property of excludability, rivalry, and aggregation (summation) technologies. With these features, they further complicate the enhanced cross-border management of externalities. Relatedly, the emerging trade-offs such as openness versus autonomy/sovereignty and market versus state — reflecting what Rodrik (2011) refers to as the globalization trilemma, according to which national sovereignty, globalization, and democracy cannot coexist — also lead to collective-action problems (Barrett 2002; Pascha 2019b).

For example, financial-market integration has allowed the contagion effects of related crises to spread more quickly and widely. On the other hand, developing countries that 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 requirements for further opening and cross-border policy harmonization (Kaul 2012, 2013). As a principle, a country should exercise its sovereign rights in such a way not to infringe upon the self-determination of other nations by creating direct or indirect adverse effects on them, which are not part of its decisions made. Khanna and Khanna, for instance, argue at this point that HGMs have evolved "to respond to such constraints and demands of globalization, which requires faster-paced bodies that are more responsive and more technocratic to harness capital flows while asserting national political control"(2012:3).

Moreover, in terms of market versus state constraints, the design of the HGM should also be concomitant with the fundamental principles of the market economy (such as competition and efficiency) both domestically as well as internationally to preserve reciprocity and to avoid retaliatory measures (Mair et al. 2019). As discussed before, with its peculiar characteristics the PG market is an action arena occupied by a public body demanding services and private agents able to provide them, and it requires different approaches to organizing economic activity (North 1990). For instance, in the absence of "benevolent" hegemonic leadership in the supply of IPGs and the way the emerging trade-offs mentioned above are managed might lead either to competition or collusion, cooperation or conflict, or multilateralism or bilateralism. Against all odds, when individual actors lack the necessary resources or assets for that, and when uncertainty about the likely outcomes dominates, a well-designed HGM would help not only to fill the leadership gap and lower transaction costs but also to create the required transaction itself (Cerna 2013; Milner 1997).

Regarding the issues of decentralization related to the HGMs and funding of the PGs, Huylenbroeck et al. (2009) offer the following demarcation criterion: When the amount of the required specific assets to be pooled and uncertainty and safeguards are all low (high), relatively loose or flexible (rigid, centralized) coordination or information centers are sufficient (necessary). The issue is also related to fairness in the creation of PGs, as there are crucial distributional implications. The fair contribution of finance involves the issue of measuring the both current and future streams of the costs as well as the intangible benefits of a particular PG so as to determine the payment amounts beneficiaries should contribute. Some empirical studies, such as Sandler (1998, 2014), 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 all are of decisive importance (Morrissey et al. 2002: 40). Also, through a balanced approach between fairness and efficiency, the real contribution should come not only from the beneficiaries of the PGs under consideration but also from a rich, responsible, idealistic, and benevolent hegemon (Kindleberger 1986).

To sum up, notwithstanding these constraints, when properly designed HGMs would play a crucial role in preventing loose, selective, pragmatic, and ideological interpretations of international agreements by nation-states that may not necessarily be compatible with global exigencies and goals — those triggering the necessary incentive scheme for cooperation.

Evidence on the BRI as a HGM

The conclusions reached above can be a helpful guide in the following discussion of the BRI's governance mechanism and of its institutional quality from the viewpoint of hybrid IPGs. First, emphasized has been the need for pluralism in the design of the desired HGM, in order to solve participation constraints by providing strong-enough incentive schemes. Second and relatedly, 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 can gather for the purpose of engaging in cooperative behavior. Third, among other things, the contribution of the major IPG providers to institutionalized governance mechanisms is quite crucial, including via their financial support. Such leadership contributions would provide the initial incentive for all stakeholders to reach a *modus vivendi* for the final form of a governance model that defines the rules of the game, such as strengthening property rights, regulatory institutions, and conflict-resolution mechanisms for better contracts. Fourth, and to be discussed in this section, is the structures of coordination and flexibility/rigidity in the way international negotiation fora are set up, the capacity to pool resources, and the ability to direct them toward the most efficient production of IPGs.

By focusing on functionality and also on adaptability to the continuously changing external environment, 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 (Xi 2018a, 2018b). To satisfy these priorities, first, the BRI relies on institutional minimalism, which requires high-level flexibility, small secretariats, rather informal structures, and nonbinding joint decisions. Second, it also refrain from delegating sovereign rights to a higher authority (Jessop 2013b: 5). Third, it is more flexible and contingent in reacting to dynamically changing situations. By these features, it is also open to learning by doing and to trial-and-error processes (for further analysis see also Chen 2014; Berkofsky 2005; de Grauwe 2016).

By considering its structure as well as implementation so far, there are both optimistic and pessimistic outlooks on the BRI's governance quality as an IPG. Briefly put, the optimistic view (Grimmel and Li 2018; Wong 2018) — reflecting mainly the Chinese perspective — 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 it will be determined through constant communication and consultation with other stakeholders, as well as via the constructive criticism / contributions they might put forward. Optimists also take the ever-rising number of members and the volume of the commercial and financial business as the tipping point for the BRI to become a multilateral public-cooperation platform (BRI Progress Report, BRI Forum, April 29, 2019).

On the other hand, the pessimistic view (Avdaliani 2019; Hillman 2018; Horsley 2017; Parameswaran 2019) reflects the Western perspective on the governance of PGs, focusing more on qualitative factors than on quantitative data. By noting that the soft and positive tone of the BRI's official texts and speeches are just tactical maneuvers to fend off the ever-increasing hostile international reactions, proponents of this view go 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, participatory, rules-based, and multilateral initiative — in the real sense of these terms. There is also no convincing evidence so far about how Chinese collaborative and shared values are efficiently put into practice via measurable and sustainable models. On the contrary, the BRI does not have a governance model; China uses uncertainties and contingencies as a tactical maneuver to turn the emerging asymmetric dependencies on the Chinese system into strategic benefits through its bilateral diplomacy, memorandums of understanding (MoUs), and opaque contracts. In that regard, the BRI should be seen more like a multidimensional strategy to meet the needs of China and to reduce its own risks in the coming period.

Finally, other than these criticisms concerning governance issues, there are also several managerial ones reflective of the initiative's weak governance. The BRI's sectoral as well as geographic focus and coverage are so broad that existing gaps created by its institutional minimalism only complicate effective contracting. With these features, it is subject to an "elephant syndrome" with its ever-growing body (qualitative growth) but only small brain (governance) to control it. An OECD (2017) work states that when the number of countries increases, management of these contingencies created by China's bilateral diplomacy between theoretically equal but asymmetric partners will become even more complicated and unsustainable. To conclude this part, earlier experiences in the creation of IPGs recommend that overcrowded platforms without clear territorial boundaries, focused areas of interest, and narrowly defined goals may not fulfill their role in the longer term; thus, more focused and narrowly defined geographic coverage should be the priority.

Early evidence on the BRI

Available evidence on the implementations since its announcement paints a bleak picture on the progress of the BRI: it has exhibited striking achievements in terms of quantitative criteria but not so much regarding its institutional quality. Several institutional loopholes can be listed here. The first such issue is the lack of an information platform for data collection, compilation, monitoring, and classification. Existing BRI statistics are based not on centralized, transparent, reliable, and scientifically standardized and classified sources. Rather the contrary: data are published via various state-controlled or -owned media channels.[2] With these features rhetoric prevails over substance, and the BRI is full of self-fulfilling aggregations.[3]

As such, there appear to be many different comments and evaluations made regarding the performance of the BRI. Such an emerging measurement and assessment crisis is the result of China's deliberately fostered uncertainty that comes with opaque contracts and contingency-based management preferences, which is the first key criticism to note here. Unlike the Western governance models, where formal contracts are legally binding and enforceable in a court of law, 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*). These were the linchpin of socioeconomic and political life for centuries, opening the door to their discreet or ad hoc management (Gilmore 1977).

In terms of concrete evidence, the first criticism is, as noted, the lack of inclusion and openness. In that, the state-owned enterprises (SOEs) operating under China's central government had almost 10,800 overseas companies in 185 countries and regions at the end of 2018, and they carried out a total of 3,116 investment projects in the regions of the BRI. With that performance, SOEs account for half of the infrastructure projects and more than 70 percent of the combined value of contracts launched under the initiative — with total overseas assets exceeding USD 1 trillion and combined annual profits of USD 15.3 billion (*Global Times*, October 31, 2018; *Xinhuanet*, October 30, 2018). Some alternative calculations show that a significant share (ranging from between 55 to 89 percent) of Chinese-funded

2 Main state media channels are *Global Times*, Xinhua News, Chinese Central TV (CCTV), and *People's Daily*.

3 Ultimately these problems have motivated several research institutions such as MERICS in Berlin, Germany, REFINITIV BRI Tracker in China, and jointly the American Enterprise Institute and The Heritage Foundation (as China Global Investment Trackers in the US) to calculate alternative statistics.

projects are carried out by native companies. Only 7.6 percent are undertaken by local companies (meaning ones headquartered in the same country where the project is taking place), and 3.4 percent by foreign companies (non-Chinese ones 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 2018a; Horsley 2018: 5).

The second key criticism is about the broad-based sustainability of the projects. Although under mounting international pressure and with domestic disasters the concept of corporate social responsibility (CSR) was included in Chinese corporate law in 2006, with the number of CRS disclosures since then having significantly increased, China has already localized global norms with Chinese characteristics in this field as well (Mullins 2020). In the absence of robust control mechanisms, not only do almost 75 percent of the companies involved not disclose CSR matters but also their quality is somewhat weaker too — mainly in terms of localizing their impacts, because Chinese companies and the Chinese state do not disclose the details of the many contracts concluded and prefer behind-closed-doors bargaining (Hillman 2018b). China calls them a bilateral, interstate negotiation or MoU,[4] but in reality they shield the process from public criticism, expert discussion, and the cross-checking of international arbitration mechanisms. In the absence of a clearly defined set of rules, guidance, and cross-checks, therefore, several small and vulnerable countries have failed to perform reliable feasibility studies to estimate the growth, trade, employment, income, debt, and environmental effects of the BRI projects in the long term.

China's debt-book or debt-trap diplomacy has ended up as opaque contracts, predatory loan practices, corrupt deals, and unsustainable levels of money owed. As a result, several projects have seen not only higher overall costs but also even witnessed cancellations, political backlashes, and the transferring of strategic national assets to China when the involved countries failed to meet their scheduled debt repayments (Chatzky and McBride 2020). It has been calculated that about 270 of the 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 (Kong et al. 2019; *The Economist Intelligent Unit*, April 29 2019; *Financial Times*, May 20, 2019). For instance, in a sampling of 95 large 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

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

than estimated, with three-quarters of transportation projects in China coming in over budget (Higgins 2019; Meyer and Zhao 2019).

Venezuela in Latin America, Montenegro and Ukraine on the periphery of Europe, Sri Lanka, Malaysia, and Pakistan in Asia, Djibouti, Kenya, and Zimbabwe in Africa — countries that have all sought Chinese help in the recent past — have since requested the renegotiation of contracts with reduced project sizes and financial outlays. However, that has come at the price of the continuation of overdependence. Moreover, China's responses to these different debtors have been quite inconsistent and also have not followed the best practices adopted by international lenders when working with developing countries. Sometimes, the debt has been forgiven; other times, disputed territory or control of infrastructure or the transfer of a strategic asset to China has been demanded as recompense (*Financial Times*, April 15, 2019, June 25, 2020; *Nikkei Asian Review*, May 23, 2019) In Sri Lanka, the port of Hambantota (*The New York Times*, June 25, 2018), in Tajikistan the strategically important Wakhan Corridor (plus several mining sites with gold and uranium deposits) were transfer to China in return for debt relief, therefore creating massive political turbulences in these countries (*The National Interest*, August 23, 2018; *Financial Times*, May 2, 2019). With these characteristics, obviously, the BRI undercuts the sovereignty principle in many developing countries, denying them their long-term, self-sustaining growth (Chandran 2019). In that sense, arguments for the so-called model of bilateral bargaining, dialogue, and broad consultation — or the motto of "one BRI, many recipes" — fail to address the previously discussed issues of collective-action and agency problems. Not only competition but also envisaged cooperation have so far remained premature expectations (Brombal 2018).

In terms of environment sustainability, its accumulated expertise and growing domestic needs have motivated China — both before and after the inception of the BRI in 2013 — to concentrate on energy and transportation projects, with shares in such endeavors of 44 and 30 percent respectively (de Soyres 2018; Pérez and Scissors 2018). The Silk Road Fund, which was set up to finance BRI projects, has made over 90 percent of its energy-sector investments in fossil fuel-related initiatives (Hillman 2019). However, the failure of Chinese companies to comply with the best practices of multilateral development banks and international organizations vis-à-vis sustainability criteria would result in the mounting criticism that Chinese projects negatively impact the local environment and also serve to crowd out low-carbon power-generation alternatives.

To counter these criticisms abroad and promote domestic sustainability, China focused on the recalibration of its projects before the launch of the BRI in 2013 — and has stepped that up particularly since 2017. In the latter year, several Chinese governmental departments published critical documents regarding the greening of the BRI, such as the "Guidance on Promoting Green Belt and Road," and participated in the International Green Development Coalition to streamline international cooperation on green development along the BRI (being officially launched during the Second BRI Forum). That 2019 Forum also oversaw the signing of the “Green Investment Principles” regarding the BRI by 27 financial institutions from Asia and Europe, dealing specifically with low-carbon projects. Finally, the Chinese organizers also broadcast the Everbright “Belt & Road” Green Fund as one of the Forum’s deliverables. This Fund aims at investment in green energy, manufacturing, and living in countries and regions situated along the BRI (Rolland 2019).

Despite its commitment to the Paris Agreement on climate change and the aforementioned green-finance commitments and initiatives pursued between 2014 and 2017, the post-2017 push for green finance has not brought about any significant progress. Because of its top-down and multilayered structure that involves numerous different actors, the BRI has faced coordination issues; furthermore, most Chinese foreign loans and outward direct investments in the energy and transportation sectors have resulted in the financing of unsustainable projects that run counter to sustainability principles. The officially announced recalibration is resisted on the ground by powerful vested interests that benefit from continued involvement in unsustainable (high-carbon) projects, such as Chinese state-owned coal, oil, and gas companies. In other words, “greenwashing” is made more real by the lack of rigid, unified green-finance compliance or commitment mechanisms adhering to binding environmental standards. Green finance in the context of the BRI, being voluntary in nature, still only has to adhere then to recipient countries’ less strict environmental standards.

These pieces of evidence show quite convincingly that in the absence of a multilateral negotiation forum and governance platform, the BRI — with its so-called HGM — cannot manage emerging differences through bilateral relations, reciprocity, or different combinations of negotiations within the paradigm of repeated “give-and-take bargains.” This is mainly because of the rising transaction costs associated with wasted time, repeated contract renewals, and a weakened trust and image among stakeholders. That is why emerging trade patterns such as import penetration that are occurring at the expense of local enterprise, and coming with technological and financial dependency — as coupled with environmental, political, and social instabilities too — have triggered a wave of opposition to the BRI as well as increased tensions internationally (Meyer and Zhao 2019).

Conclusions

The creation of a needed hybrid IPG requires a balanced, inclusive, and comprehensive approach in the interactions between the current rules-based liberal world order and the state capitalism of China. This is so in order to bridge the core and complementary activities in such a way as to create a smart, interactive, open, and responsive setting in which to provide the necessary data, expertise, consultation, and exchange of ideas. Thereby, so doing would help achieve a satisfactory convergence between the competing interests of the various stakeholders and thus minimize collective-action and agency problems. To that end, the transformative or game-setting capacity of the BRI is primarily conditional upon, first, its capacity to mitigate the evolving systemic differences between the liberal/multilateral status quo and the state capitalism of China and, second, its capacity for shared, diffuse, and networked leadership in synchronizing the demand and supply conditions on the basis of innovative ideas, technologies, and organizing principles (e.g. governance structure).

Depending on the fulfilling of these conditions, the BRI could incorporate ex ante rules-based contracting, for instance at the stages of tendering, funding, construction, and operation, and ex post performance-based analysis so as to accurately measure the costs and benefits of the services it provides. These are key to marshalling the required resources, preventing free-riding, and eradicating collective-action problems. Although absorbing transferable institutional lessons from the Western experience of PG provision would make the BRI less Chinese and more multilateral, so as to become more local in terms of integrating the so-called connectivity projects into the national development plans of the host countries, any simplified binary approaches such as the West (US)-East (China) divide in institution-building should be avoided.

However, China's insistence on an institution-less and a contingency model of governance prevents the rise of a BRI possessing the aforementioned characteristics. The BRI's fragmented, multicentric, multilayered, and multipivotal subnetworks of interconnected, interwoven regional and international contact as well as diplomacy have not allowed the participation of third parties wielding the credibility and experience of international best practices that could engage Chinese companies in a rules-based, win-win game. Therefore it has thus far failed to fulfill the propensities displayed by a needed IPG, at least in providing the conditions of "non-excludability" — and so still resembles a "club good." The mentioned institutional loopholes that allow China to export its systemic aspects through the BRI has triggered dangerous retaliatory acts from the US, increased requests from the European Council (2019) for further reciprocity on a wide range of economic activities, and opposition in many developing countries.

In order to overcome these and many other potential problems, the BRI's governance mechanisms should adequately deal with 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 with the long funding cycles, opaque contracts, and the potential for waste and corruption all marking infrastructure development. The accomplishment of these Herculean tasks requires addressing several agency issues in ways that the provision of an incentive-compatible payoff matrix could facilitate, through the fixation of fairness and efficiency issues as well as regarding the net benefits of the BRI as a hybrid IPG.

To that end, institutionalized flexibility and dynamism would prevent not only contingent and ad hoc negotiations and enhances long-term decision-making capacity at the expense of short-term and self-interested behavior but would also help the accumulation of social capital such as trust over time. The visions of participants might thereby converge vis-à-vis the creation of common goods. Only then can the BRI hope to 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 having PG characteristics. Thereby, voluntary cooperation that eliminates participation constraints would be the consequence.

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