



Risk-Profit Rebalancing Model in International Infrastructure Projects

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Motivating Problem

Currently, scholars reason the high renegotiation rate in BOT/PPP projects with two opposite views:



Process Specificity (Chang 2007)

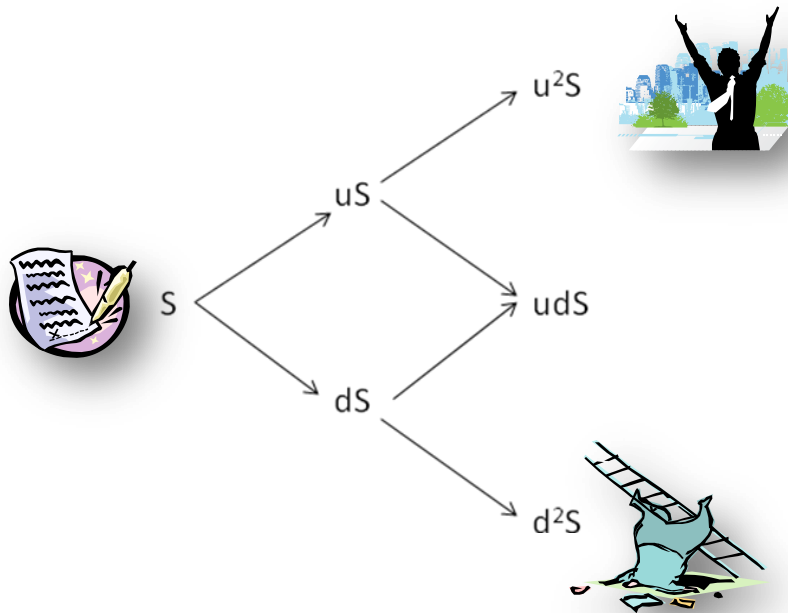
Opportunistic investors hold up progress, initiate renegotiation, or seek government rescue (Ho 2006)



“Obsolescing Bargain” (Vernon 1971)

Opportunistic governments initiate renegotiation when they are less dependent on investors

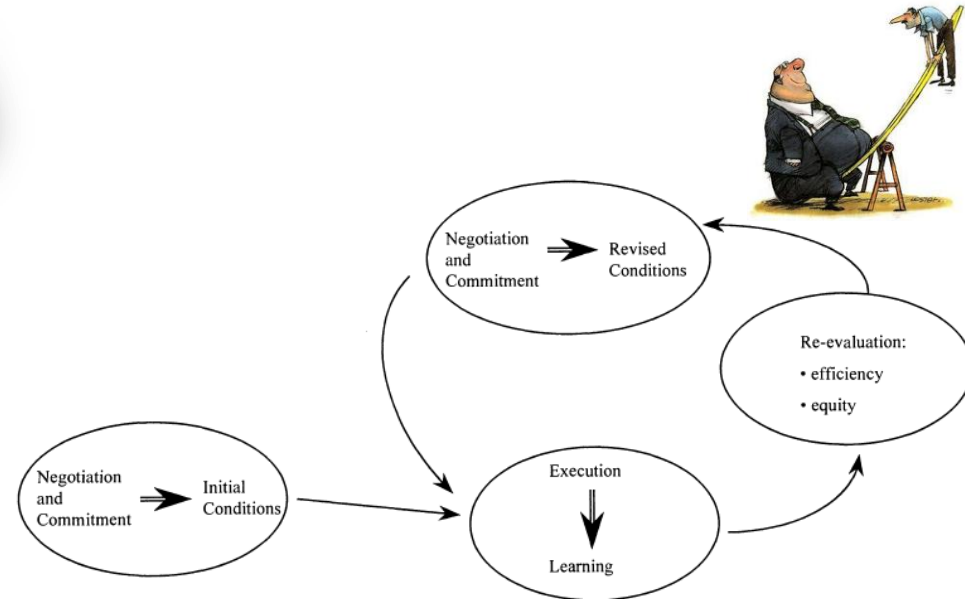
Points of Departure



Real Options Pricing (RO)
(Myers 1976)

CEM Research using RO:

- Flexibility in pre-project planning (Ford et al 2002)
- Guarantee or renegotiation (Ho and Liu 2002)
- Deferment value (Garvin and Cheah 2004)
- MRG and Abandonment (Huang and Chou 2006)

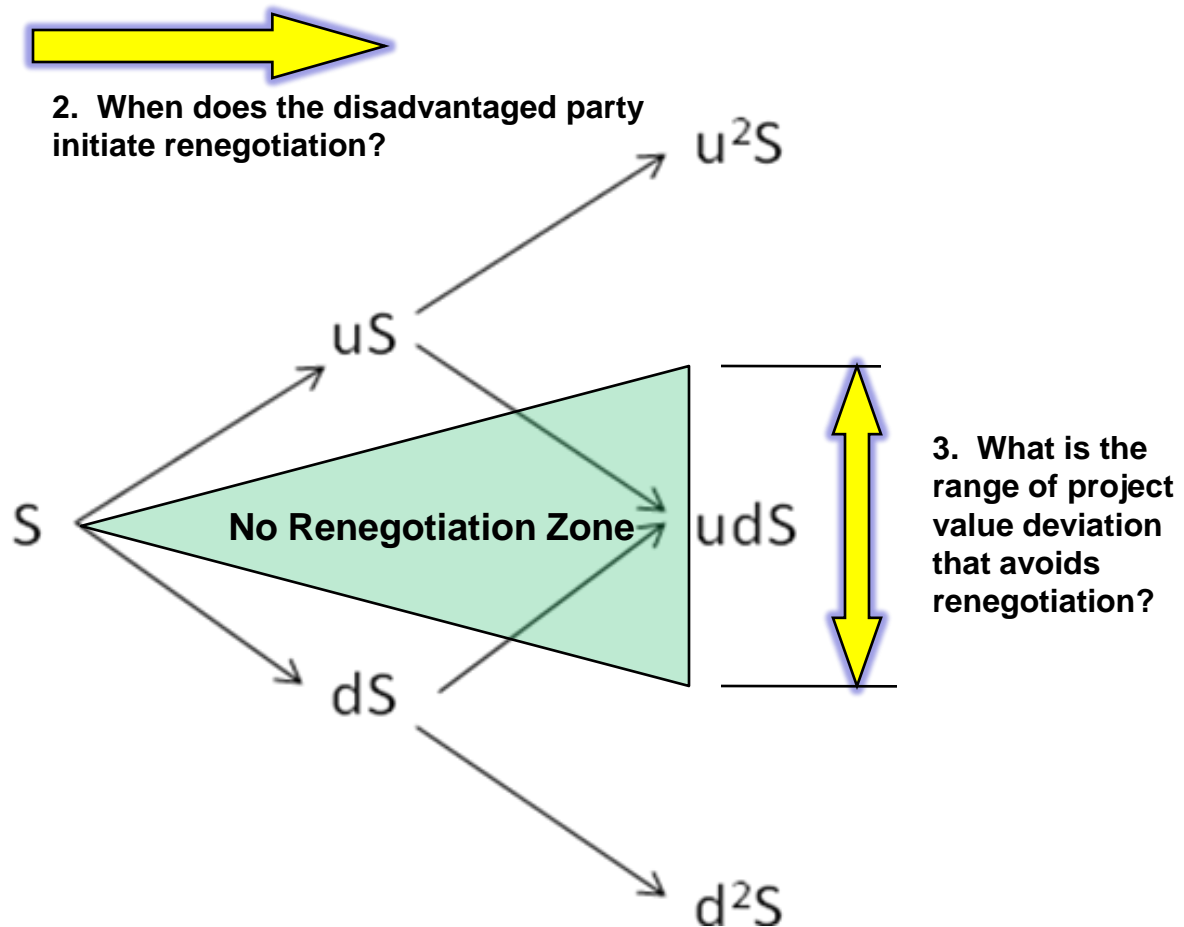


Model of Collaborative Venture Evolution
(Ariño and de la Torre 1998)

Equity business partners go through the cycle of learning, re-evaluation, and renegotiation to achieve balance of shared risk and benefits

Research Questions

1. To what extent does the risk-profit rebalancing model fit empirical renegotiation cases?



Research Approach and Method

Theory testing through case studies

- small sample size of representative cases
- thorough understanding of the political, economical, and legal dimensions of each of the project is imperative

Steps

1. Identify cases
2. Determine the evolving project value at various stages using RO pricing model
3. Test the hypothesis with the selected cases
4. Refine the hypothesis



Status and Findings to Date

Currently:

- identifying case study projects
- assembling committee team

Summer '08:

- collaborating with RO scholar in Taiwan
- presenting in various Taiwanese universities

Soon:

- posting working paper on CRGP website

