

# China-Pakistan Economic Corridor: A Study of Chinese Investment in Pakistan

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## Abstract

The paper discusses the historical development of China-Pakistan diplomatic and economic relations, tracing the two nations' path from the early PRC era to their present strategic partnership. It highlights the common objectives that have formed the basis for this enduring alliance, starting with Pakistan's formal recognition of the PRC in 1951. It explores the evolution of their relationship, which has expanded into diplomatic, economic, and military cooperation since the 1990s, focusing on the China-Pakistan Economic Corridor (CPEC) as a key component of their economic partnership. It examines the rationale behind China's substantial investments in Pakistan, particularly through CPEC, and its potential to reshape global trade routes as part of the Belt and Road Initiative (BRI). The discussion of the main infrastructural projects associated with CPEC: projects at Gwadar Port, the Karakoram Highway, and energy projects, and then the economic and political implications these initiatives may have for Pakistan. Further, the challenges and criticisms of CPEC involving debt sustainability, geopolitical tension, environmental concerns, and the socioeconomic impacts on the local communities are tackled in the paper. While exploring the various dimensions, the paper develops the idea of the importance of China-Pakistan relations in defining not only regional but also global dimensions, focusing on the strategic and economic dimensions of their partnership.

**Keywords:** Investment China Pakistan Economic Corridor, Chani Pakistan Free Trade Area, Infrastructure, Gwadar Sea Port, Economic Cooperation, Belt and Road Initiative, Development.

**关键词:** 中巴经济走廊投资、中巴自由贸易区、基础设施、瓜达尔海港、经济合作、“一带一路”倡议、发展。

## Introduction

### 1.1. Diplomatic and Economic Ties Between China and Pakistan: A Historical Overview

China and Pakistan's diplomatic and economic interconnections date back to the early establishment of the People's Republic of China (PRC). Pakistan was one of the first states to recognise the PRC following its establishment in 1949 and formally established diplomatic relations with it in 1951. It was upon strengthening the regional and global alliances that Pakistan's aspirations were to be based; these events coincided with the growing tensions of the Cold War. However, the bilateral relationship was fundamentally established on mutual interest of counterbalancing each other in order not to get dominated by the influence of India, particularly after the India-China border conflict (War) which had occurred in late 1962 and also following Indian aggressions against Pakistan during 1965 and 1971 wars

(Bhattacharya, 2022; Boni, 2019). China sees Pakistan as a vital partner in the suppression of Indian ascendance in its region, and Pakistan views China as an all-weather great power that supports it with much-needed resources against India. This is the idea behind a term used to describe this relationship on several occasions: an "all-weather friendship" due to its complex and durable nature (Niaziet al, 2020; Hussain et al, 2020).

### **1.2.China-Pakistan Strategic Partnership**

Since the 1990s, China and Pakistan have built a quasi-religious strategic partnership with dimensions ranging from diplomatic to economic cooperation to military cooperation. Mutual trust has marked their relationship, and both sides understand each other's strategic interests in this region. The two sides have forged closer coordination on counter-terrorism, increased intelligence-sharing and military cooperation, with both sides regularly conducting joint military exercises and engaging in bilateral defence collaborations over the decades (Gul et al, 2022; Wei, L. T. 2016).

### **1.3.Economic Cooperation**

The economic partnership between China and Pakistan has also intensified since the closing decades of the 20th century. Bilateral trade has been increasing steadily, making China our largest trading partner. A highlight of this bilateral economic partnership is the China-Pakistan Economic Corridor (CPEC), which was announced in 2013 as part of the Belt and Road Initiative (BRI) pursued by China. CPEC is a pipeline of economic and trade links between China's western Xinjiang region and Pakistan's port city of Gwadar. With \$59 billion in investments in infrastructure, energy and transport projects, China is already playing a pivotal role in Pakistan's development. In return, Pakistan grants China access to important trade routes while providing a reliable ally in South Asia (Wolf, 2020; Ali, 2022).

### **1.4.The aim and scope of the paper**

This paper aims to analyse critically Chinese economic investment in Pakistan, specifically known as China Pakistan Economic Corridor (CPEC). CPEC, a multinational infrastructure project started in 2015, links China's Xinjiang province with Gwadar port in Pakistan to promote trade and economic growth between the two countries. It is one of the cornerstones of the Belt and Road Initiative (BRI), in which China aims to reshape global trade routes, improving its orbiting economic influence (Mobley, 2019). This paper will discuss the potential reasons for China investing in Pakistan via CPEC and why both countries' economic, geopolitically and overall significance matters on a larger scale.

### **1.5.Timelines**

The CPEC development is divided into phases, primarily focusing on transportation, energy, and infrastructure. A timeline starts with a full deal in 2013, shortly before work begins. The first significant part was launching the Gwadar Port development - which would become an important sea-house from China to the Middle East and Africa industry - in 2015. This was followed by more projects, such as roadways, railways, power generation, and special economic zones (SEZs), introduced over the years.

### **1.6.Key Stakeholders**

The main stakeholders in CPEC are:

**China** — The main investor and developer of CPEC projects is the Chinese government through various state-owned enterprises (SOEs). Many infrastructure and energy projects under CPEC involve Chinese firms at the construction, financing and operational levels.

**Pakistan:** The country's government is crucial in supporting the implementation of CPEC projects, offering land, regulatory input and security. Besides, providing security for infrastructure and stability in CPEC areas is another role the Pakistani military plays.

**International and Regional Stakeholders:** Though the primary stakeholders remain the Chinese & Pakistani governments, other regional actors gathered in the summit held at the start of 2016 for its launch in a broader perspective, including Iran, India & Afghanistan, who also want to contribute or have some stake over it. There have been concerns raised by India, in particular, regarding the project's fit with its strategic interests in the region.

### **1.7. Investment and Finance related matters**

CPEC boasts an overall investment of \$62 billion, but that number is set to rise as details of the project develop. Overall, CPEC is a \$62 billion program initially with space and possibilities for expansion and diversification in the future (Surendra, 2023). The funding includes Chinese grants, loans, and direct contributions from Pakistan. Out of the \$62 billion, nearly \$33 goes toward energy projects, \$11 billion is for transport infrastructure, and a little over an additional 18 are shared across various industrial and urban development projects (Shahzad et al, 2023; Syed & Tariq 2017).

## **2.0. Joint Ventures under CPEC**

### **2.1. Karakoram Highway – 08th Wonder Of The World**

Karakoram Highway's (KKH) relationship with China-Pakistan Friendship Highway is one of the major joint ventures in CPEC. It links the Xinjiang region of China to Gilgit-Baltistan in Pakistan and forms an important trade and transport corridor. Its passage connects both countries and improves regional connectivity, which is of substantial importance in trade (Zhao et al, 2022).

### **2.2. Pakistan Aeronautical Complex(PAC)**

PAC in Kamra is an important CPEC-related major industrial project in Pakistan for aircraft manufacturing, maintenance, and repair. PAC has developed an often high-level aerospace development capability via joint ventures typically between China and Pakistan, whereby China typically transfers technology or provides technical support (for example, in the case of recent JF-17 Thunder fighter jet production (Swati et al, 2024; Hussain, 2017).

### **2.3. Chashma Nuclear Power Plant**

An incomplete project of China in Pakistan, the Chashma Nuclear Power Plant, is one of the types, that helps Pakistan strengthen its energy setup. This venture has resulted in many nuclear reactors being built by China, renowned nuclear experts, adding vast energy capacity to Pakistan.

### **2.4. Indus Highway**

It is the core domestic international road infrastructure project of CPEC, for improved domestic and International connectivity. It will connect major Pakistani cities and it would decrease transportation costs and enhance trade efficiency.

### **2.5. THAR Coal Development**

Sindh has emphasised on Thar Coal project as a major energy project under CEPC to exploit the richer coal reserves. These projects are designed to mine and generate power for Chinese firms, generating electricity from local resources, which can augment the energy security of Pakistan.

### **2.6. Saindak Metal Project**

The Saindak Copper-Gold project is a joint venture between China and Pakistan that mines and processes copper and gold in Balochistan (Idris, 2024). The cooperation has also been beneficial in the extraction and exploitation of mineral resources vital to Pakistan's economic potential (Mengal et al, 2023)

### **2.7. PC and I C. — Pakistan Cycle and Industrial Cooperative**

Another industrial product in the field of Pakistan-China joint ventures is manufacturing bicycles and

other products under the Pakistan Cycle and Industrial Cooperative. The initiative fosters local manufacturing and strengthens domestic industrial capacity (Javed, 2021).

## 2.8. Gwadar Deep Sea Port

At the centre of CPEC is the Gwadar Port, running under China Overseas Port Holding Company (COPHC). Deep sea port enables maritime trade, propelling Pakistan closer to global shipping routes. Its development is critical to the CPEC's aim of enhancing regional trade as well as the economic relationship between China and Pakistan (Wolf, 2020). The Gwadar Deep Sea Port is considered a vital infrastructure project. The port has a strategic importance for regional trade and connectivity between China, Pakistan and regional countries along with being one of the mainstays of the China Belt and Road Initiative (BRI). The development of the port embodies wider economic, geopolitical and strategic ambitions for both countries.

The fundamentals guiding and enforcing the key elements of success are the strategic location (Iqbal et al., 2021; Zhao & Munadi, 2023; Hussain, 2020), infrastructure development (Kardon et al, 2020); and economic and geopolitical cooperation (Ali, 2022). The importance of Gwadar extends into the realm of China's energy strategy, as it provides a direct line for Middle Eastern oil and gas pipelines. They will assist in fulfilling the rising energy demands of China while avoiding potentially volatile maritime routes. Moreover, as the economic corridor attracts Chinese Investment particularly in the energy sector (under CPEC), the development of Gwadar helps Pakistan meet its energy shortfalls (Ali, 2020).

### 2.8.1. Challenges and Threats of the Gwadar Deep Sea Port

**Environmental Impact:** The speed at which Gwadar and its port facilities are being constructed also opens the door to offset costs on natural capital — particularly local ecosystems and fishing communities. Environmental sustainability continues to be an important parameter for the survival of the port.

**Debt Sustainability:** Perhaps the most critical challenge is its rising debt burden on Pakistan, which has borrowed extensively from China to fund much of Gwadar-led development. Although the port provides economic benefits in the long run, it is uncertain whether this money will be well invested.

### 3.1. Belt and Road Initiative (BRI) has a CPEC Component.

CPEC is the most important segment of China's ambitious Belt and Road Initiative (BRI), a Sino-global infrastructure development strategy launched in 2013 by President Xi Jinping. BRI is expected to upgrade global trade routes and promote economic growth in Asia, Africa, and Europe by developing transportation, energy, and communication infrastructure. CPEC is a part of the "Silk Road Economic Belt" and "21st Century Maritime Silk Road," which the BRI centres on (Wang, 2020).

While the BRI itself is more focused on building trade and economic connectivity throughout the Asia-Pacific region, CPEC, in particular, connects China's landlocked westernmost Xinjiang region to international markets through Pakistan's infrastructure at Gwadar Port. This alliance is important for China due to its importance in accessing world markets and as a significant strategic step towards energy security. In doing so, China is cementing its foothold in the region through infrastructure development in Pakistan, providing access to strategic natural resources and a more direct route for energy imports from the Middle East. This is an important pointer towards both China's liberation of ocean security and economic clout in global energy markets. Through CPEC, China can create a more secure and potentially cost-effective trade route that bypasses traditional maritime chokepoints like the Strait of Malacca, allowing Chinese economic activity to be safer from disruption and contributing to its broader national security agenda.

### **3.0 China-Pakistan Free Trade Agreement (CPFTA)**

Perhaps the most critical segment that underpins economic ties is the China-Pakistan Free Trade Agreement (CPFTA) which has progressed in two distinct phases. Phase 1 was initially signed in 2006 and implemented in 2007 and enterprises to increase bilateral trade and economic cooperation. (Sahibzada 2021; Khan et al., 2024 Dastgeer et al., 2023). In 2020, Phase 2 was implemented to address the imbalances and challenges that emerged in Phase 1 and made the agreement more beneficial for the parties involved (Shah, 2022; Khan et al., 2024 Dastgeer et al., 2023).

### **4.0.Effect of CPEC on the Economic Development of Pakistan**

#### **4.1.Infrastructure Development**

Pakistan's infrastructure has experienced a monumental transformation with the advent of CPEC (China-Pakistan Economic Corridor). Roads, highways & railways such as Condor Highway and Gwadar-Khuzdar Road linking central cities with commercial hubs would facilitate regional trade and economic integration (Zhao & Munadi 2023). Gwadar Port has become a regional trade centre with a dramatic effect on the world trading system and it turned Pakistan into an important energy incentive transport pathway between Middle East countries to China (Wang, 2020). This transport infrastructure expansion is critical to improving the efficiency of domestic logistics, lowering average transport costs, and connecting the country with regional and global markets. The project will significantly benefit Pakistan by developing the infrastructure, creating jobs and reducing energy deficits.

#### **4.2.Energy Sector Investments**

CPEC has been a colossal investment in Pakistan's energy sector with coal, photovoltaic and hydro-power initiatives. Such initiatives target Pakistan's long-standing energy shortage, like the Sahiwal coal power plant and Quaid-e-Azam Solar Park. Yan et al., (2024) state that Chinese investments are crucial to bridging the energy gap through the augmentation of generation, the enhancement of reliability and a steady supply of power which is a requisite for industrial growth and economic stability.

#### **4.3.Job Creation and Employment**

A lot of jobs have been created because of the CPEC Projects. Construction/infrastructure projects alone create thousands of employment opportunities for skilled/unskilled workers. In addition, in the long term, these programs yield labour market effects due to the development of requisite skills through training programs; the quality of human capital is being improved.

#### **4.4.Enhanced Trade and Regional Connectivity**

CPEC is crucial for the trade promotion between China, Pakistan and the region. Transport corridors have also fostered economic integration, creating pipelines for goods in and out of China and moving goods through South Asia and the Middle East. With that connectivity, new trade routes opened for exploration—the most obvious example being Gwadar, which has the potential to lessen Pakistan's dependency on conventional Arabian Sea-linked trade routes (Wang 2020).

#### **4.5.Political Consequences for Pakistan**

Chinese investment is economically beneficial and, at the same time, geopolitically limiting as well as impacting Pakistan's domestic politics and governance. Increasing Chinese control of essential sectors, especially energy and infrastructure, is raising fears about Pakistan's sovereignty and autonomy. The implications of this are two-fold: how much latitude would Pakistan have in controlling CPEC projects and what could the political and economic ramifications be due to deepening Chinese presence?



#### **4.6. Sustained Economic Growth and Development**

This is so because, long-term economic growth with better infrastructure, energy supply and regional connectivity characterises CPEC. Nevertheless, the reliance on Chinese investments has raised alarm bells as detractors fear that such an influx of Chinese capital could put Pakistan in a debt trap and reduce its economic independence. Striking the right balance between reaping the benefits of foreign investment and following sustainable economic policies is important for Pakistan to utilise CPEC as a project that can trigger decades-long economic prosperity without putting any long-term adverse implications into effect. Pakistan can also stimulate domestic and regional infrastructure through its role in CPEC which is in line with China's greater goal of strengthening connectivity at the BRI level, thus consolidating its position as a global economic power (Hussain, 2020).

#### **5.0. CPEC Project Challenges and Criticism**

##### **5.1. Debt, Deleveraging and the Sustainability of Finances**

China-Pakistan Economic Corridor (CPEC) has an immediate key concern that is related to Pakistan's financial status with China, as the loans taken by Pakistan from China are increasing its debt burden. The colossal financing mechanism, which is mostly based on Chinese loans, casts doubt on the endurance of such financial commitments. Pakistan owes much of its debt to China, and as reported recently the sum has grown substantially; some analysts are raising alarms over whether Pakistan will be able to fulfil repayment conditions, which could risk crippling the ailing economy. There is criticism that this reliance on debt may increase the fiscal problems of Pakistan, with some even warning against the economic dependency of Pakistan over China.

##### **5.2. Geopolitical reactions and regional tensions**

The CPEC has faced stiff opposition from India, as it runs through disputed areas, including India-claimed Gilgit-Baltistan which he believes is part of the territorial dispute in Kashmir. India's objection to CPEC in Pakistan indicates its larger regional apprehensions regarding the expanding Chinese footprint in South Asia (Chaudhury, 2023) However, some of the neighbouring countries such as Afghanistan even went so further to raise their voice regarding the project being quite strategic and possibly triggering greater Chinese presence in that area that could disrupt regional power balance (Khan et al., 2020).

##### **5.3. Regional and Ecological Issues**

Its route in Pakistan under the much-publicised China-Pakistan-Economic-Corridor (CPEC) is causing some of the most robust opposition over its impact on the communities and ecosystems it traverses. Rural populations have particularly been disrupted by infrastructure projects (roads and energy plants), national resources or land acquisitions (Ali, 2020) Similarly, environmentalists have sounded the alarm over the ecological damages created by large-scale development and energy projects, particularly in regard to coal plants which cause a negative environmental impact as well as lower air quality of neighbouring areas. Thirdly, CPEC projects have faced criticism regarding labour practices, which have allegedly included poor working conditions and low benefits for local workers, showing socio-economic inequalities.

#### **6.0. Conclusion**

The China-Pakistan relationship has evolved into a multifaceted strategic partnership with significant regional and global implications. While facing challenges, the alliance continues to play a crucial role in shaping the geopolitical landscape of South Asia and beyond. Future research could focus on the long-term sustainability of this partnership and its impact on regional stability and development.

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