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Pakistan-China Relations: Economic Benefits Vs. Debt Trap Concerns (CPEC)

Awais Ali Ch.

PhD Scholar (Pakistan Studies) (GCUF)

awaisalichaudhry01@gmail.com

Dr Nadia Zaheer Ali

Assistant Professor International Relations, Lahore College for Women University

nadia.zaheer@lcwu.edu.pk

Dr Kinza Tasleem Chaudhry

Assistant Professor International Relations, Lahore College for Women University

kinza.chauhdry@lcwu.edu.pk

Kainat Shahid

Bachelor's in International Relations, Bahria University

kainatshahid2608@gmail.com

Kainat Begum Noonari

Masters in Pakistan Studies, Pakistan Study Centre, Univeristy of Sindh, Jamshoro

kainatnoonari638@gmail.com

Wali Muhammad

Lecturer, Faculty of Social Sciences and Humanities, Balochistan University of Information Technology Engineering and Management Sciences, Quetta, Balochistan

wali.muhammad@buitms.edu.pk

ABSTRACT

The Pakistan-China relationship has witnessed significant transformation with the launch of the China-Pakistan Economic Corridor (CPEC), a flagship project under China's Belt and Road Initiative (BRI). While CPEC promises vast economic benefits—such as infrastructure development, energy generation, job creation, and regional connectivity—it has also sparked growing concerns about Pakistan falling into a "debt trap." This study aims to critically examine the dual narrative of CPEC, weighing its potential to boost economic growth against the risks of unsustainable debt, sovereignty erosion, and economic dependence. By analyzing policy documents, economic data, and expert opinions that are published, the study explores how CPEC has reshaped Pakistan's economic landscape and strategic

position while raising questions about transparency, loan terms, and long-term fiscal implications. The paper concludes that while CPEC offers transformative opportunities, its success largely depends on effective governance, financial discipline, and mutually beneficial cooperation between both nations.

Keywords: CPEC, economic benefits, debt trap, Belt and Road Initiative, infrastructure development, economic dependence, fiscal sustainability.

INTRODUCTION

The diplomatic and strategic alliance between Pakistan and China has been a cornerstone of South Asian geopolitics since the 1950s, marked by consistent cooperation in defense, infrastructure, and regional stability. But the ties have woken to an era of change as the China-Pakistan Economic Corridor (CPEC) was inaugurated in 2013, which is a shining aspect of the grand plan that is the Belt and Road Initiative (BRI) by China. CPEC is projected to be a series of roads taken together with the railways, energy pipelines, and special economic zones (SEZs) or an interconnected chain of roads linking the Chinese Xinjiang province to the Balochistan province in Pakistan by using the Gwadar Port as an intermediary (Wolf, 2019). Riding on the promise to bring regional connectivity and economic prosperity, CPEC has sparked off a lot of discussion within the academia, political and policy quarters regarding whether the benefits of CPEC are worth the long-term perils.

The supporters of CPEC say that the project is an economic game-changer owing to the poor economy of Pakistan. CPEC can give an opportunity to change the state of physical connectivity, receive foreign direct investment (FDI), and boost the economy of a country that suffers chronic energy deficit, poor infrastructural development, and low industrial productivity (Sial, 2014). Worldwide transportation and electricity projects have included thousands of megawatts in the national grid of Pakistan, and the highway and railway projects are expected to interconnect the distant areas to the larger cities to enhance logistics and trade (Ahmed & Mustafa, 2016).

In addition, Gwadar Port, which has a strategic position bordering Strait of Hormuz, increases its geopolitical importance considering that it will lead to the creation of a regional trade hub. Conversely, it is regarded as unsustainable by critics to discuss the costs of CPEC in the long-term, especially since Pakistan is already economically weak and relies increasingly on foreign borrowings. At the end of 2023, the total external debt of Pakistan exceeded 130 billion; the country has already several times addressed to the International Monetary Fund (IMF) asking them to provide a bailout (Hussain & Hussain, 2022).

The argument raised against CPEC is that the concessionary loans and commercial borrowings resulting in it may create a typical debt trap scenario that will result in a loss of economic sovereignty of the nation with future generations being burdened with unsustainable debts (Hurley, Morris, & Portelance, 2018). This has been increasing with the case of the Hambantota Port in Sri Lanka that was leased to one of the Chinese state-owned firms when the receiving government was not able to repay the Chinese debt. The other issue that comes out on the debate is the absence of transparency of CPEC agreements. Though Pakistani government has always maintained that economic rationale and possible strategic advantages of the corridor are true, little has been known of the details of loans, interest rates, the period of repaying the loans, and terms of SEZs establishment (Malik, 2021).

Such a lack of transparency casts very serious doubts regarding the fairness of

the spoil-sharing, the actual costs of the projects as well as the national vs. the interests of the elite captures. Besides, poor governance factors like bureaucracy, corruption, and political uncertainties have held back implementation to the derailment of the general feeling of the people in the project. Geopolitically speaking CPEC rewrites the South Asian strategic calculus as well. It has enhanced Pakistan-China relations to the extent that it has also raised the height of issues on the Indian side, which is averse to the corridor passing through Gilgit-Baltistan a territory that belongs to disputed Kashmir region. Also, growing Chinese presence in the Pakistani economy should be regarded with suspicion by the West as an endeavor by China to increase its geopolitical power by the broad brush of economic growth (Small, 2020).

This means that CPEC is not just a fiscal project but a multidimensional policy tool, which has implications on national security, regional stability as well as world power balance. Notwithstanding the given concerns, the advantages of CPEC are quite hard to ignore. Through empirical evidence, it is indicated that different spheres in the Pakistani economy have already started enjoying the fruits of the early stage of CPEC. According to a study conducted by Qazi and Fatima (2021), it was observed that the employment rate in the region, activity in the labor market, and the capacity of infrastructure improvement increased considerably in those regions which were directly prone to CPEC-related schemes.

In addition, the entry of Chinese technology and knowledge base has provided opportunity to be able to modernize the local industries and increase the scope of activities. Initiating a cooperative industrial life and digitally connecting businesses and people during the second phase of CPEC, further emphasizes the prospects of the development of the corridor in the long-term. But the achievement of this potential will strongly rely on the internal system of government in Pakistan, planning of the economy, as well as the ability of the institutions to be sensible in foreign investment.

The benefits of CPEC may have a limited duration unless there are changes in the tax regimes, the government expenditure and anti-corruption systems, which can be neutralised by fiscal profligacy and elite entrapment. Likewise, Pakistan should be in a bargaining position with strength in terms of allowing future deals to be made out of national interest and ensuring that projects such as those financed by debt ought to be based on commercial viability and sustainability in terms of the environment. Joint planning, openness and effective regulatory monitoring will play a key role in evading the predicaments of debt-dependence and readiness to mutually benefit.

Yet, CPEC poses a conundrum: there is on the one hand an offering to the economic up-lift of a region and economic connectivity with another on the one hand and economic entrapment and strategic over-extension on the other. Pakistan finds itself in such rugged landscape and, as it tries to navigate through it, one needs a clear-eyed grasp of the dynamics of CPEC, which is to be based on empirical examination and open governance. It should not be seen as a success or failure but with the maximization of its benefits and the adverse effects. Most importantly, this paper will endeavor to present this two-fold story through a critical analysis of economic evidence, official policy correspondence and professional appraisals. In this way, it helps develop the more reasonable perception of CPEC as not only the chance but also the threat of the further development of Pakistan.

Statement of the Problem

China-Pakistan Economic Corridor (CPEC) can be described as the flagship programme of the Belt and Road Initiative (BRI) and has been broadly termed as the initiative to advance the transformational economic growth in Pakistan. In its quest to provide massive infrastructure development, improve energy production, and increase

industrial output, CPEC is projected to relieve the country of long arterial challenges like chronic power shortages, poor transport networks and low levels of foreign direct investments. At the same time, it is possible to observe the development of a counter-narrative which brings to the fore the issue of debt sustainability and economic independence.

The exceptionally fast growing external debt of Pakistan which has been further boosted by CPEC debts coupled along with the secrecy of such agreements have led to the raising of concerns of a possible debt trap. The critics argue that the conditions under which Chinese concession loans are made are highly opaque and may be of punitive nature since repayment terms require countries to take excessively long time in settling the dues and this may increase the predisposal of the Pakistani economy. In addition, there is still doubt in relation to the unequal spatial distribution of the projects of CPEC in the jurisdiction of respective provinces, the limited involvement of local industries, and possible loss of national decision-making authority.

Even after countless years of operational practice, the academic environment is yet to be developed to a point where adopting an impartial, empirical-based perspective on the positive and negative effects of CPEC, debt trap and strategic exposure are discussed in relative positions of consideration. The discussion about CPEC has been alternating between rosy propaganda of its potentials and dystopian forecasts of its doom, without being methodically concerned with economics, facts, or policy. This paper thus aims at elaborating a more refined idea behind the effect of CPEC by critically reviewing economic indicators, the organization of project financing, and general geopolitical around which CPEC has been set. This goal aims at explaining whether CPEC is a feasible route to sustainable development or it is a looming debt trap that erodes both the economic and political sovereignty. A research of this nature goes into the making of sound policy and enlightened policy debate.

Research Objectives

1. To analyze the economic benefits of the China-Pakistan Economic Corridor (CPEC) in terms of infrastructure development, energy generation, employment, and regional connectivity in Pakistan.
2. To investigate the concerns regarding Pakistan's rising external debt, focusing on the financial terms, loan structures, and repayment obligations associated with CPEC.
3. To assess the level of transparency and governance in the implementation of CPEC agreements, including issues of public accountability and equitable project distribution.
4. To explore the geopolitical implications of CPEC on Pakistan's sovereignty and regional strategic position, particularly in the context of China's growing influence.
5. To provide a balanced evaluation of whether CPEC represents a pathway to sustainable economic growth or poses long-term risks of debt dependency and economic overreach.

Research Questions

1. What are the key economic gains Pakistan has achieved or is projected to achieve through CPEC in sectors such as infrastructure, energy, and trade?
2. What are the financial and policy-related concerns associated with CPEC, particularly regarding Pakistan's external debt and loan repayment capacity?

3. How transparent and accountable are the CPEC agreements and implementation processes from both the Chinese and Pakistani sides?
4. What are the broader geopolitical consequences of CPEC for Pakistan's economic and political sovereignty in the South Asian and global context?
5. To what extent do the benefits of CPEC outweigh the risks, and what measures can ensure the project's long-term sustainability and mutual advantage?

LITERATURE REVIEW

Economic Potential of CPEC for Pakistan

The potential of China-Pakistan Economic Corridor (CPEC) to revitalize the economy of Pakistan has always been emphasized by the current scholarship. CPEC as envisaged is a multisectoral investment program that holds an advantage of a long-term economic payoff due to the improvements in infrastructure, energy provision, augmented trading, and advanced job opportunity. According to Sial (2014), CPEC is curing the bottlenecks in the infrastructure in Pakistan, which were the bottlenecks to the growth in the GDP in the past. A lot of energy initiatives such as coal, hydro and solar power connection has already boosted the national grid with over 10,000 megawatts and power deficit has been improvement (Ahmed & Mustafa, 2016).

The infrastructure plan of the corridor (including new roads, rail tracks and industrial belts) is to connect the distant parts of Pakistan with local and international trade. One of the core points of the project is the Gwadar Port, which is expected to turn into a logistic hub in the region, in turn, promoting the connection between Central Asia, the Middle East, and South Asia (Wolf, 2019). Other analysts argue that CPEC has been associated with foreign direct investment (FDI) which could not have been achieved should not be the macroeconomic fluctuations of Pakistan been stabilized (Qazi & Fatima, 2021). However, full economic potential of CPEC is dependent upon the ability of the Pakistan to institute the project and govern it successfully. Lack of adequate regulatory control and project implementation delays have hit some of the expected results and this implies that the economic gains might not be evenly spread and clearly visible.

Debt Trap and Financial Vulnerability

The financial visions of CPEC are quite high; however, a growing body of literature indicates an increase in concerns about its financial implications on the Pakistani economy. One of the most common criticisms focuses on the so-called debt trap, which allegedly makes the recipient states saddled by unsustainable lending and, therefore, creates long-term dependencies on Chinese money and the resulting influence. In their review on the BRI-partner countries analysis of debt sustainability, Hurley, Morris, and Portelance (2018) highlight the country of Pakistan as a high-risk nation due to the high ratio of its external debt and IMF bailout occurrence.

According to Hussain and Hussain (2022), most of the CPEC-related debt taken by the country is made of the non-concessional types, i.e., commercial loans that must be paid with interest that is high. An example that can serve as a guide is

that after limits on the repayment of Chinese loans, the Hambantota Port in Sri Lanka was leased to a Chinese enterprise under a 99-year lease, a similar concern is emerging about the financial prospects of Pakistan. Malik (2021) goes further to reveal that absence of publicly reported financing data makes it difficult to transparently determine the total amount of debt load and the possibility of mismanagement of finances is heightened. These are further aggravated by the fact that Pakistan has limited capacity to generate revenue from projects which do not yield instant returns, scarcity in industrial development and low increases in exports. The servicing of the debt may be a source of macroeconomic instability without vigorous growth in either of the spheres.

Transparency, Sovereignty, and Strategic Implications

The understanding of the level of transparency is one of such pertinent dimensions of the existing literature on China-Pakistan Economic Corridor (CPEC). Several analysts argue that contractual arrangements in the CPEC lack transparency and thus democracy and confidence of the people. Malik (2021) finds that both Chinese and Pakistani authorities have not given reliable information on important variables such as interest rates, grace periods, equity shares in joint ventures, hence breeding ideal conditions on speculation and rumors. Geopolitics-wise, the CPEC has changed the balance of forces in the region. India is against the project due to the fact that it passes through the disputed Gilgit-Baltistan region because it claims that its territorial integrity has been violated.

According to Small (2020), CPEC has consolidated Pakistan strategically with China, and this could dissolve the foreign-policy independence of Pakistan. What is more, the Chinese influence in some of the key areas of the economy that include energy, ports, and telecommunications has increased concern over Pakistan economic sovereignty. On the other hand, some scientists argue that there is no real reason to fear and all this is a farfetched construction of the predictions over the rise of China, not of how Pakistan is struggling (Wolf, 2019). They claim that the relationship between Pakistan and China is a bilateral one and it is not based on coercion but is based on years of mutual trust. They however promote the need to advocate sound institutional accountability and open governance so as to ensure that Pakistan controls its national interests and strategic assets.

Theoretical Framework

The given study places itself in two mutually supportive theoretical frameworks, Dependency Theory and Neoliberal Institutionalism, and questions the Pakistan-China economic alliance within the framework of China-Pakistan Economic Corridor (CPEC). In its argument with the dependency theory, less-developed states enjoy economic ties with more-powerful states under asymmetrical economic relations thus resulting into structural dependency, policy restriction, and an authoritative benefit, which shifts to the donor or investing country (Prebisch 1950; Dos Santos 1970). Scholars on this analytical window hold that Pakistan is increasingly becoming dependent on the Chinese credit and infrastructure financing and thus causing asymmetries, limited policy space and creating a modern form of

economic subordination (Ghosal 2018; Shah 2017).

On the other hand, Neoliberal Institutionalism highlights the ability of international cooperation and interdependence to bring an achievement of mutual benefits. The proponents of CPEC characterize it as a win-win operation, which promotes regional integration, minimizing transaction costs and giving impetus to growth due to mutual infrastructure, increase in trade and institutionalized partnerships (Keohane 1984). Using these antagonistic theoretical prisms, the paper makes an attempt to illuminate the question of whether CPEC is a symbol of effective economic cooperation or rather a tool of strategic such as Pakistan to weaken its economic security and long-term national independence.

Conceptual Framework

The conceptual framework is designed to illustrate the relationship between CPEC investment initiatives and their dual outcomes in the context of Pakistan: (1) Economic benefits and (2) Debt-related concerns. The framework also highlights the moderating role of governance and transparency, which can influence the extent to which CPEC projects yield positive or negative outcomes.

Independent Variable (IV)

CPEC Projects & Investments, Infrastructure development (roads, ports, railways), Energy sector enhancement, Industrial zones (SEZs), Foreign direct investment (FDI)

Dependent Variables (DVs)

A. Positive Outcomes (Economic Benefits)

Job creation, Improved connectivity, Energy sufficiency, Increased trade and exports, Regional economic integration

B. Negative Outcomes (Debt Trap Concerns)

Rising external debt, Loss of economic sovereignty, Opaque loan terms, Political dependency, Uneven regional development

Moderating Variables

Governance Quality, Transparency in agreements, Anti-corruption practices, Institutional capacity

Financial Management, Loan utilization efficiency, Debt servicing ability, Economic planning and accountability

RESEARCH METHODOLOGY

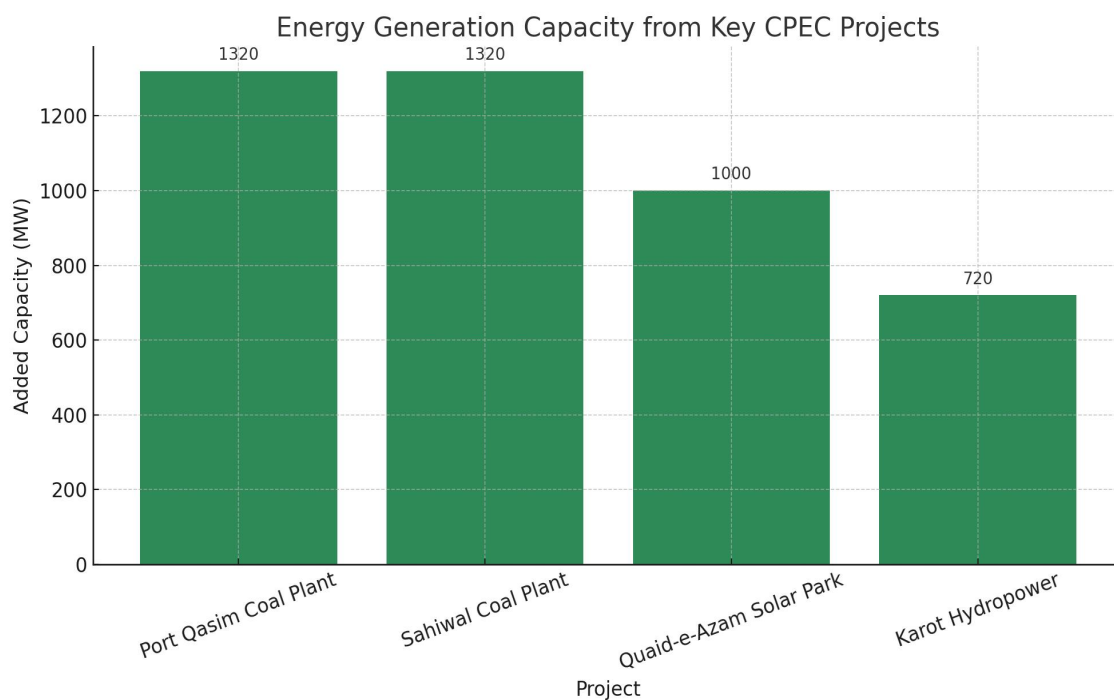
This study adopts a qualitative research methodology to critically examine the dual perspectives surrounding the China-Pakistan Economic Corridor (CPEC)—economic benefits and debt trap concerns. The research is exploratory in nature and aims to generate a deeper understanding of the complex interplay between foreign investment, national development, and financial vulnerability. Data is collected through the analysis of secondary sources, including academic journal articles, government policy documents, economic reports, and publications from international organizations. A purposive selection of expert commentaries and analytical reports from credible institutions such as the Pakistan Institute of

Development Economics (PIDE), the Center for Global Development (CGD), and the International Monetary Fund (IMF) also supports the investigation.

Content analysis is used as the main technique for examining the selected literature and policy texts. The analysis focuses on identifying recurring themes, arguments, and evidence that address the core research questions: the nature and scale of economic benefits CPEC has brought to Pakistan, the structure and sustainability of CPEC-related debt, the degree of transparency in loan agreements, and the strategic implications for Pakistan's sovereignty. Particular attention is paid to the financial terms of CPEC agreements, investment distribution across provinces, and geopolitical positioning in South Asia.

The study also incorporates a comparative approach, using examples from other BRI countries such as Sri Lanka, Kenya, and Laos to assess whether the risks perceived in Pakistan align with broader patterns of Chinese overseas investment. While this research does not employ surveys or interviews, it relies on a wide range of empirical data, such as debt figures, GDP growth rates, project costs, and export-import trends, published in official economic reviews and global databases.

Data Analysis and interpretations



Energy Generation Graph 1

A bar graph can be viewed as an easily interpretable impression of energy capacities of the four major energy developments of the CPEC. Most influential, with the same capacities of 1,320 MW, is the Port Qasim and Sahiwal Coal Plants, which shows that the attachment to coal-fired power plant is of priority to China to meet the extreme energy shortage existing in Pakistan. The Quaid-e-Azam Solar Park, which takes up the remaining spot in the order of capacity, but is a little

smaller is important by virtue of having renewable energy condition, which is exhibited as an intentional choice of providing a stagecut of strategic equilibrium between non-cumulative fossil-derived fuel sources and cumulative sustainable sources of renewable energy.

The Karot Hydropower Project is the 720 MW project that proves the switch to cleaner forms of energy technology at later phases of CPEC implementation. Despite its relatively low power generating capacity, it plays a vital role in lessening the carbon emissions of Pakistan and the country once depended more on the external sources of fossil fuels. All in all, the given visual evidence means that the CPEC energy projects have already significantly increased the installed capacity within the country, thus, securing macroeconomic stability and industrial growth. Nevertheless, a large dependence on the coal generation at the same time presents long-term policy concerns due to the interest in emerging environmental and sustainability issues.

Table 1
Infrastructure Development

| Project | Length (km) | Status |
|----------------------------|-------------|-----------|
| Hazara Motorway | 180 | Completed |
| Karachi-Lahore Motorway | 1152 | Completed |
| Gwadar East Bay Expressway | 19 | Completed |
| Multan-Sukkur Motorway | 392 | Completed |

The infrastructure development table showcases four major road and motorway projects completed under the CPEC framework. The KarachiLahore Motorway (1,152 km) is an important trade corridor among the southern and the central parts of Pakistan. Similarly, the Multi Danish Motorways (392 km) expands intraprovincial traffic in the province of Punjab and rationalises the transfer of supplies between the south and the north. The Hazara Motorway (180 km) and Gwadar East Bay Expressway (19 km) are smaller in size and focus on connection of remote and strategic places, including northern Khyber Pakhtunkhwa and Gwadar Port. Combined, they have significantly cut the time of journey, fuel and transport costs (particularly of cargo) and leading to in-country connectivity. The infrastructure has revived economies of the regions, triggered small scale investments, and opened access to markets and services among disadvantaged groups through provision of routes between key economic centres and the rural or unexploited regions.

Table 2
Energy Sector Improvements

| Project | Added Capacity (MW) | Status |
|-------------------------|---------------------|-------------|
| Port Qasim Coal Plant | 1320 | Operational |
| Sahiwal Coal Plant | 1320 | Operational |
| Quaid-e-Azam Solar Park | 1000 | Operational |
| Karot Hydropower | 720 | Operational |

The energy project table is nothing but the detailed description of the key successes of the China-Pakistan economic corridor (CPEC) in Pakistan. All the four projects listed in the table have supplied the national grid between 720 and 1,320 MW hence alleviating longstanding power shortage in the country. Port Qasim and Sahiwal Coal Plants contributed 1,320 MW each thus making them base-load power plants of high power capacity and are imperative to industrial areas and cities. Among the largest solar farms in Asia is the Quaid-e-Azam Solar Park (1,000 MW) that represents a change in the orientation to renewable energy. Lastly, Karot Hydropower Project (720 MW) provides clean energy and energy mix in Pakistan. These are combined infrastructural developments that have stabilised the energy supply in the country, load-shedding and promoted the growth of the small and medium-scale industries (SMEs); which are fed on stable access to electricity. This has led to increase in the productivity of the economy especially in Punjab and Sindh and has been able to draw investments both foreign and domestic to the energy intensive sectors like textiles, cement and information technology.



Rising External Debt: A CPEC-Linked Burden Graph 2

As shown in the graph below, there is a steady increasing tick in the amount of external debt of Pakistan, as it started off at nearly USD 60 billion in 2013 and is now in the realm of nearly USD 130 billion in 2023. Much of this growth also took place at the same time this country was launching the China Pakistan Economic Corridor (CPEC) between 2015 and 2021. The steep slope is associated with the transfusion of Chinese funding, in particular non-concessional and tied structurally to huge infrastructure and energy projects. This massive growth has elicited a strong fear of the ability of Pakistan to meet its obligations considering that the country has been growing its exports at a tepid rate and is still facing the need to be bailed out by the IMF on an annual basis. As compared to more conventional developmental aid that the multilateral institutions have been extending, most of the CPEC-based loans are project-oriented and carry some commercial rate of interest and have a minimal grace period, hence, increasing the chances of default.

Table 3
Breakdown of External Debt (CPEC vs. Non-CPEC Loans)

| Year | CPEC-related Debt (USD Billion) | Non-CPEC Debt (USD Billion) | Total External Debt (USD Billion) |
|------|------------------------------------|--------------------------------|--------------------------------------|
| 2015 | 10 | 55 | 65 |
| 2017 | 18 | 57 | 75 |
| 2019 | 26 | 64 | 90 |
| 2021 | 35 | 75 | 110 |
| 2023 | 43 | 87 | 130 |

The growth of the external debt in Pakistan is clearly exhibited in above table 3, as the progressive trend is made clear through the statistics of the corresponding growth over the expressed period of time between 2015 and 2023. At the center of these trends, is the steep increment in the Chinese projects under China-Pakistan Economic Corridor (CPEC) that has jumped to a projected amount of 43 billion dollars after it was only 10 billion in the year 2015, and this has led to an increase in share of the total external debt stock (which has increased to 33 percent). The growth is not limited to the volume itself since the debt with CPEC involvement now comprises an even larger percentage of the overall needing and therefore it may be believed that along with improved infrastructure and power, the projects have increased the pace of debt as well. This dependence on Chinese investment creates doubts as to whether such countries could be able to service their debts especially since revenues have been growing slowly with an ineffective export base and a series

of International Monetary Fund (IMF) bailouts.

Table 4
Comparison of Loan Terms (CPEC vs. IMF/ADB)

| Loan Source | Average Interest (%) | Grace Rate Period (Years) | Repayment Period (Years) | Transparency Level |
|------------------------------|----------------------|---------------------------|--------------------------|--------------------|
| CPEC (Chinese Banks) | 5.2 | 2 | 15 | Low |
| IMF | 2.0 | 4 | 25 | High |
| Asian Development Bank (ADB) | 2.5 | 3 | 20 | High |

As shown in Table 4, CPEC loans contractual terms are juxtaposed with those of the two leading multilateral lenders, IMF, and Asian Development Bank (ADB). There is pledged interest rate in the form of the average rate promising interest rate pledged by Chinese banks at 5.2 percent which is far more than that pledged by IMF which is 2 percent and the ADB with interest rate 2.5 percent. No less important, the CPEC loans have shorter grace periods 2 years as compared to 4 years in the case of IMF and 3 years in the case of ADB and are at a higher payment schedule. Another issue is the lack of transparency of agreements in CPEC that is characterised by bilateral negotiations without regular overscheduling either by the general citizens or parliaments. Such obscurity increases the levels of concern about the future financial or budgetary doom and the responsibility behind the borrowing backed by CPEC.

Table 5
Provincial Distribution of CPEC Projects

| Province/Region | No. of Major Projects | Estimated Investment (USD Billion) |
|--------------------|-----------------------|------------------------------------|
| Punjab | 12 | 18 |
| Sindh | 9 | 14 |
| Balochistan | 4 | 6 |
| Khyber Pakhtunkhwa | 5 | 5 |
| Gilgit-Baltistan | 2 | 2 |

Table 5 accounts the representation of the CPEC projects and investors in every region of Pakistan, and a strong imbalance in assigning key undertakings is

revealed. Pakistan has richest and most populated provinces: Punjab and Sindh. These provinces have clinched the big monetary large-scale projects as far as 12 projects with an estimated outlay of approximately \$18 billion and 9 projects with an outlay of about 14 billion in Punjab and Sindh respectively. Conversely, the ring of hold-value provinces of Balochistan and Gilgit-Baltistan have seen relatively low investments and development of projects even though the provinces have regional significance (Gwadar Port and transit routes). These asymmetries run the risks of increasing grievances and undermining the national integration goals of CPEC.

Table 6
Strategic Concerns in BRI-Affected Countries

| Country | Major Project | Loan Risk | Default | Chinese Asset | Control | of Transparency Issues |
|-----------|--------------------|-----------|---------|---------------|----------------------|------------------------|
| Pakistan | CPEC - Gwadar Port | High | | | Partial (lease) | Yes |
| Sri Lanka | Hambantota Port | Occurred | | | Full (99-year lease) | Yes |
| Kenya | Mombasa Port | Moderate | | | Partial | Yes |
| Laos | Laos-China Railway | High | | | Joint Control | Yes |

Table 6 recalls the strategic debt risks and asset control patterns between the nations that become a part of China Belt and Road Initiative (BRI). The episode of partial control of Chinese lease at Gwadar Port places Pakistan in a wide range of similar instances, such as Sri Lanka, where the Hambantota Port was returned to Chinese possession under a lease of 99 years in the wake of defaulting and Kenya, as well, where a major bridge is still in joint hands following a defaulted episode, and finally Laos, where default has led to a partial control of a major dam. In both cases, cloudy terms of loans are a source of concern raising the risk of the diminishment of sovereignty. The participation of Pakistan in this tendency proves the importance of having a powerful control over finances and renegotiating terms in order to avoid the possibility of the long-term strategic dependence.

DISCUSSION

1. Economic Benefits of CPEC in Pakistan–China Relations

China- Pakistan Economic Corridor (CPEC) is one of the core developmental projects of the wider Pakistan-China ties, which leads to regional integration and development, energy security and commerce. The project has been accomplished through a wide range of infrastructure and energy-related investments, which significantly improved the road networks in Pakistan-a project that is represented,

among other, by the completion of Karachi Lahore Motorway, and the East Bay Expressway of Gwadar.

The role played by CPEC in energy sector in Pakistan has also been tremendous. As at 2021, energy projects under CPEC have resulted in over 7,000 megawatts (MW) being injected into the national grid consequently abating perenity electricity defrise in the country. Other legacy projects are Sahiwal and Port Qasim coal power plants and Quaid-e-Azam Solar Park, which all strengthened reliability of the system (Wikipedia contributors, 2025d). In addition, the involvement of both solar and hydropower plans within the programme implies a tactical shift to renewable energy, which contributes to economic productivity and environmental protection in concert (Bensadi, 2024). CPEC has also promoted remarkable inflows of capital and creation of jobs: more than 25 billion US dollars worth of Chinese investment was already achieved, whereas the project has created about 75,000 direct jobs, as well as increased the labour-force accessibility, thus boosting the household economic growth (Arsalan, 2025).

Simultaneously, the programme supports industrial and special economic regions, which form a pretext of an export-oriented industrialisation in the future (Ahmed et al., 2020). Disregarding all these macro-level dividends, the distribution of benefits is uneven, which is demonstrated by the focus on investments and projects in the province of Punjab and Sindh instead of Balochistan and Gilgit-Baltistan. This inequality has to be redressed, not only to foster long-term national unity but also to prevent the development of a certain political tension that prospectively can hinder the goals and interests of development (Brookings Institution, 2020).

2. Debt Trap Concerns and Strategic Implications

Despite the recent improvements in the economic performance, the long-terms criticism remains regarding the effect of the project of China-Pakistan Economic Corridor (CPEC) on the debt sustainability of the country. The total external debt (2015-2023) increased to reach \$130 billion out of which the amount of debt due to CPEC-related things was estimated as \$43 billion (Ahmed et al., 2020). The Chinese credits as opposed to the multilateral instruments like those offered by the IMF or ADB, have been characterised by the increase in nominal interest rates (on average of 5.2 percent) compressed grace period, and by a lack of transparency (Burki et al., 2021).

These are the features that have had people panicking about debt-trap diplomacy, i.e., the prospects that cash-strapped states are likely to trade their strategic assets in exchange of debt write-offs. The episode of the Hambantota Port in Sri Lanka, in which default led to the long-term lease of the facility to Chinese companies can be the warning case (Brookings Institution, 2020). The Gwadar Port, which is under the mixed control of the Chinese authorities, is often mentioned by the observers when the same context is invoked (The Guardian, 2025).

Security tropes have also escalated CPEC areas because of some factors that may be attributed to the perspectives of economic marginalisation of the locals in the

Balochistan region. The recent episodes of protests, armed attacks in Gwadar and Quetta emphasize the need to enhance more inclusive and socially responsive plans of development (Time, 2021). The result is reputational risk in the case of China and long-term sovereignty over its most important infrastructure, in the case of Pakistan. More so, the continuous objection of India against CPEC passing through Gilgit-Baltistan makes the foreign policy of Pakistan and its security situation more complicated (Reuters, 2024). With that, considerable benefits brought about by CPEC have been offset by augmented fiscal vulnerability, magnified regional tensions, and boosted strategic susceptibility.

3. Recalibrating Pakistan–China Economic Ties: A Way Forward

Pakistan is right now trying to make some policy adjustments that would guarantee the continued soundness and sustainability of the Pak-sino economic collaboration in the long term. First, it is increased transparency: the conclusion of contracts, terms of loans, and project-selection criteria should be available to the population, allowing conducting them with the help of parliamentary control and an independent audit (Brookings Institution, 2020).

The second issue of concern is that of financing diversification as well as negotiation of more favorable terms of repayment in order to reduce the fiscal vulnerabilities in the future. The co-financing with multilateral institutions and seeking concessional loans is likely to bring better financial strength (Ahmed et al., 2020). Last of all, the principle of regional balance has to be maintained. All CPEC projects must look after the underdevelopment areas like Balochistan and Gilgit-Baltistan in which local stakeholders should be included and the benefits should be distributed in the country. Without these strategies, various issues of strategic reliance, local unsteadiness, and external opposition elevated in the mind will always challenge the implementation of the goals of CPEC.

CONCLUSION

The CPEC is a strategic turning point in terms of the partnership between Pakistan and China in regard to geographical and economic strategies. Being one of the most popular projects of the Belt and Road Initiative (BRI), the CPEC has made significant contributions to the development of the infrastructure in Pakistan, the generation of energy, the creation of employment, and integration between different regions. It has strengthened the geopolitical importance of Pakistan and also allowed China to capture important trade routes, grow its influence in South Asia and the world (Anis 2024; Bensadi 2024). Still, economic gains of CPEC are complemented with a high level of risks. The level of external debt in Pakistan has significantly increased and most of this debt has been incurred due to the CPEC project-related borrowings under lagging and perhaps non-rewarding financial conditions (Ahmed et al. 2020; Arsalan 2025). The increasing reliance on Chinese investments, as well as, the lack of the state controls bring this issue to question as the fiscal-wise sustainability, strategic independence, and predisposition to political coercion or sovereignty (Brookings Institution 2020). Moreover, the regional imbalances in

investment and lack of social participation, especially in less developed regions, may be a source of internal imbalance and the cause of political instability (Burki et al. 2021). The long-term risk also consists in the security situation in the regions of CPEC threatening both the economy sustainability and bilateral trust. This is a dual storyline of hope and suspicion, which characterizes the present stage of the Pakistan and Chinese relations. To achieve its potential as the game-changer of the Pakistani economy and an example of regional cooperation, CPEC will have to undergo structural changes. These involve instilling transparency in terms of the project agreements, refinancing of the terms of loan on to more financial terms, diversification of the sources of investments and adherence to the ideology of development that is inclusive to all parts in equal terms economically. As a conclusion, CPEC is on the cross roads. The success or failure of it is going to define the economical future of Pakistan as well as the global understanding of the Chinese growth policy. Therefore, transparency, accountability of one to the other, and balanced partnership should be given primary consideration to both the nations so that sustainable, inclusive, and sovereign-led growth can be presented through CPEC.

Policy Recommendations

- All loan agreements, project details, and financial obligations under CPEC should be made publicly accessible. Parliamentary review, third-party audits, and disclosure of contract terms will build public trust and protect Pakistan's fiscal sovereignty.
- Pakistan should seek to restructure existing CPEC-related loans with longer grace periods, lower interest rates, and concessional terms. A hybrid financing model involving multilateral institutions can reduce dependency on a single creditor.
- CPEC planning must ensure that underrepresented provinces—especially Balochistan, Khyber Pakhtunkhwa, and Gilgit–Baltistan—receive a fair share of investment. Special Economic Zones (SEZs) should be expanded and aligned with local development needs.
- Future CPEC projects should include clauses requiring Chinese contractors to hire and train local labor. This will not only reduce unemployment but also help transfer technical expertise to Pakistan's workforce.
- For long-term stability, the government must engage local communities in CPEC regions through inclusive dialogue, compensation, and infrastructure investment. A security framework that protects both workers and assets while respecting local dynamics is essential.

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