

VOLUME 32, ISSUE 1, JANUARY - MARCH, 2025

ISSN 0972-5563

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# Journal of Peace Studies

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*A Peer-Reviewed Journal of the International Centre for Peace Studies (ICPS)*



ISSN 0972-5563

Journal of Peace Studies

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**PRINTED & PUBLISHED BY**

SHEIKH KHALID JEHANGIR

International Centre for Peace Studies

**Printed at:**

A.M. Offsetters  
Kotla Mubarakpur, New Delhi  
PIN- 110 003, TEL: 2463 2395

**Office Address:**

157/9, Block 4, Second Floor,  
Kishangarh, Vasant Kunj, New Delhi-  
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**SUBSCRIPTION**

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**In India**

This Copy	
(Two Issues):	Rs. 600.00
Annual	
(Individual)	Rs. 1200.00
(Institutional)	Rs. 1800.00

**Overseas (Air Mail)**

This Copy:	US\$ 15.00
	UK£ 9.00
Annual:	US\$ 60.00

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## **Pakistan's CPEC Gamble: Balancing Economic Needs Against the Cost of Dependence**

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**Mohmad Waseem Malla\***  
**Kazima Zargar\*\***

### ***Abstract***

*The China-Pakistan Economic Corridor (CPEC), a 2015 Belt and Road Initiative (BRI) flagship, has become central to China and Pakistan's evolving relationship. Though framed as a win-win solution for Pakistan's infrastructure needs and China's geostrategic concerns like the 'Malacca Dilemma', CPEC also creates deeper imbalances. Pakistan hopes for economic revitalization, energy security, and better connectivity. However, a Dependency Theory perspective highlights risks: increased debt, preferential treatment for Chinese companies, and reduced regulatory control. Security costs strain public services, and financing claims obscure high-interest burdens. Balochistan's resource extraction intensifies local grievances, raising sovereignty and justice issues. Concerns about future Chinese military involvement heighten fears of external control. Ultimately, CPEC illustrates the dangers of asymmetric partnerships, where Pakistan's dependence on China could jeopardize its policy autonomy and stability.*



### **China-Pakistan relations: The Backdrop**

The Sino-Pak  
relationship has evolved gradually

over the last seven and half decades, facilitated by their converging geostrategic interests in the region. Pakistan became one of the earliest states to extend diplomatic recognition to the People's Republic

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of China in 1950, and the two countries subsequently formalised their bilateral diplomatic relations in 1951.<sup>1</sup> Despite its strategic alignment with the United States-led Western bloc through anti-communist security arrangements, Pakistan concurrently pursued a policy of strategic reassurance vis-à-vis Beijing, affirming that its geopolitical positioning was not adversarial to Chinese interests.<sup>2</sup> These assurances helped the two countries engage in a considerable degree of military entente, and by the 1960s, Beijing not only began supplying the Pakistan Army with a comprehensive weapons system but also started facilitating its indigenous armaments production by helping establish military-industrial infrastructure in Pakistan.<sup>3</sup>

Their strategic cooperation was further consolidated by the Sino-India border conflict of 1962, by engendering a convergence of their threat perceptions and positioning India as a mutual geostrategic counterweight. These mutual perceptions of regional security dynamics pushed the two sides into signing a border treaty in 1963, wherein Pakistan ceded the control of Shaksgam Valley to China. It is well-known that this valley was part of the princely state of Jammu and Kashmir, which had acceded to India on 26 October 1947. Beijing returned this benevolence by extending

economic and military assistance to Islamabad.<sup>4</sup> The two sides also formalised a trade agreement in the same year, which is seen as a foundational one determining the scope and content of their subsequent economic cooperation that has culminated in CPEC.

The reluctance of the United States, its foremost Western ally, which had facilitated its participation in the Central Treaty Organisation (CENTO) in 1955, also dubbed the Middle Eastern NATO, to back Islamabad's military aggressions with India further influenced Pakistan's interest in nurturing this Trans-Karakoram relations. For instance, during the 1965 Indo-Pak war, when Washington placed an arms embargo on both New Delhi and Islamabad, China emerged as a solid partner by not only extending its diplomatic support but also supplying critical military hardware to sustain its war effort.<sup>5</sup> However, what emerged as the most visible marker of their solidified bilateral cooperation was the construction of the Karakoram Highway, also called the China-Pakistan Friendship Highway, connecting Kashgar (also written as Kaxgar) in western Xinjiang Uyghur Autonomous Region (XUAR), China, with Hasan Abdal in Punjab, Pakistan. This 1300 km long highway, which was completed in 1979 before being opened to the public in 1986, became

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a critical infrastructural artery that would emerge as an important component of the China-Pakistan Economic Corridor (CPEC), around which the cooperation was expanded.

Pakistan reciprocated China's strategic overtures by supporting its diplomatic ascendancy, as signified by its endorsement of Beijing's 1971 bid to secure permanent membership in the United Nations Security Council (UNSC). Interestingly, China utilised its first-ever UNSC veto in 1972 to oppose the recognition of East Pakistan as Bangladesh as it split away from Pakistan and emerged as a sovereign nation on 16 December 1971, following a protracted ten-month bloody liberation war that saw Pakistan Army "engaging" in what has been termed as genocidal violence against the Bangla people. Over subsequent years, Pakistan consistently aligned itself with China's geopolitical imperatives by endorsing its positions on contentious issues such as Xinjiang, Taiwan, Hong Kong, Tibet, and the South China Sea. In contrast, Beijing maintained a policy of strategic convenience or inconsistency on the issue of Kashmir, something that works for the military establishment of Pakistan.<sup>6</sup>

Another signifier of the qualitative deepening of Sino-Pakistani strategic

collaboration that underlined Beijing's commitment to bolstering Islamabad's strategic capabilities was the civil nuclear agreement of 1986, which laid the foundation for the subsequent development of Pakistan's nuclear power infrastructure. The dissolution of the Soviet Union and the concomitant ascendancy of the US-led capitalist bloc, heralding the end of the Cold War, necessitated a recalibration of their bilateral entente. This reconfiguration was particularly manifest in the realm of defence cooperation, wherein China progressively supplanted the United States as Pakistan's principal arms supplier. The realignment was precipitated by various arms embargos the US imposed on Islamabad—like the Symington Act of 1979 and Pressler's amendment of 1990—which not only endured but were further exacerbated in the aftermath of Pakistan's nuclear tests in 1998.

Following the signing of civil nuclear agreement between India and the US in 2005, against the backdrop of the relationship between Pakistan and China deepened further. The bilateral dynamic experienced a definitive reconfiguration in 2013, catalysed by President Xi Jinping's launch of the One Belt, One Road (OBOR) initiative—subsequently rebranded as the Belt and Road Initiative (BRI)—

a grand geostrategic architecture seen as China's response to the United States' strategic reorientation towards the Asia-Pacific.<sup>7</sup> This recalibrated strategic outlook necessitated the cultivation of deeper geopolitical entrenchment with regional actors, thereby positioning Pakistan as a linchpin in China's broader geoeconomic calculus. This strategic imperative was underlined by Beijing's sustained diplomatic and economic overtures aimed at institutionalising Islamabad's integration within the BRI framework, which ultimately culminated in the formal inauguration of the China-Pakistan Economic Corridor (CPEC) in 2015 as its flagship project and a manifestation of renewed Sino-Pakistani geoeconomic-cum-strategic symbiosis. Today, the relationship between the two countries is hailed by the Chinese as 'iron-clad friendship'. As the spokesman of the Chinese foreign ministry recently said:

*China and Pakistan are all-weather strategic cooperative partners. Our iron-clad friendship has taken deep roots among our peoples. Attempts to undermine the mutual trust and cooperation between the two countries will not succeed. China will continue to support Pakistan in developing its economy and society and improving people's life. We will firmly carry out cooperation with*

*Pakistan in various fields for the benefit of the two peoples.*<sup>8</sup>

As Huang Jing (2010) asserts, the Sino-Pakistani strategic relationship, despite its inherent structural asymmetry, has been characterised by mutual interdependence. However, this interdependency is markedly skewed, with Islamabad's strategic reliance on Beijing far exceeding the reciprocal imperative, rendering Pakistan an indispensable yet subordinate node within China's broader geostrategic calculus.<sup>9</sup>

### **CPEC and its Significance**

The CPEC was inaugurated in April 2015 as the flagship project within the broader strategic ambit of the BRI. It constitutes multidimensional infrastructural interventions, including road networks, high-capacity railways, and energy projects, among others. Spanning an extensive 3,000-kilometer trajectory, CPEC connects Kashgar in the Xinjiang Uyghur Autonomous Region of western China to Pakistan's strategically vital deep-sea port of Gwadar in Balochistan.<sup>10</sup> Beyond its ostensible objective of increasing Sino-Pakistani trade cooperation, the corridor also envisioned to ensure regional economic integration, facilitating China's strategic outreach into West Asia, Central Asia, and the African littoral.<sup>11</sup> By enhancing

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transcontinental trade linkages, CPEC serves as an essential artery within Beijing's broader geoeconomic calculus. The cumulative investment corpus allocated to CPEC has substantially increased over successive years, with various estimates valuing the project worth within the ambit of \$62–65 billion as of 2024, thereby underlining its significance within China's expansive economic diplomacy.

The major components of the CPEC involve energy projects, an extensive multimodal transportation network of roads and railways, the development, expansion and operationalisation of the Gwadar port, and the establishment of Special Economic Zones (SEZs) designed to catalyse industrialisation and foreign direct investment.<sup>12</sup> Rooted in the oft-invoked rhetoric of "all-weather friendship" and "Iron Brotherhood," the CPEC framework symbolised a strengthening of the Sino-Pakistani strategic entente, reinforcing their long-standing geopolitical synergy.<sup>13</sup>

The Pakistani establishment initially promoted the project as both an economic panacea and a geostrategic counterweight with the potential to afford it the means to revitalise its stagnated economic landscape while concurrently recalibrating the regional balance of power vis-à-vis India's ascendant military and economic domination in

South Asia.<sup>14</sup> Conversely, for China, CPEC constituted an important component of its grand strategic calculus, functioning as a critical geoeconomic lever to mitigate its reliance on the vulnerable chokepoint of the Malacca Strait—commonly termed the "Malacca Dilemma"—by providing a viable overland alternative to its sea lines of communication (SLOCs) and enhancing its strategic depth in the Indian Ocean Region (IOR).<sup>15</sup>

One of the major developments within the CPEC arrangement has been China's control over the development and operationalisation of Pakistan's strategic deep-sea Gwadar Port in Balochistan province under a 40-year lease arrangement. Gwadar Port's CPEC integration within Beijing's geoeconomic and maritime security calculus assumed significance as it lessened its energy security vulnerabilities by reconfiguring its maritime logistical conundrum, reducing its traditional SLOCs of approximately 10,000 kilometres to 2,500 kilometres, followed by an overland transit of approximately 2,800 kilometres to Kashgar in the Xinjiang Uyghur Autonomous Region. By providing an optimised, cost-efficient route for trade and energy imports, this reorientation mitigates China's reliance on the volatile chokepoint of the Malacca Strait.<sup>16</sup>



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Furthermore, given that Gwadar's location amplifies its role as an important maritime transshipment hub, it offered China, as the official operator of the port, with most advantageous commercial access to the hydrocarbon-rich Gulf region, the African littoral, besides renewed connectivity with the resource-abundant yet landlocked economies of Central Asia, including Afghanistan, Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan. The resultant decrease in logistical expenditures and transit time not only affords China with the means to drive economic cooperation internationally to help consolidate its ascendancy within the global economic landscape,<sup>17</sup> the project also provides it with direct access to the Indian Ocean Region alongside the opportunity to strengthen its influence in southern and central Asia and beyond.

For Pakistan, as CPEC envisioned a transformative geoeconomic model that could recalibrate the structural underpinnings of its national economy, it significantly focused on remedying the country's chronic power deficits through a diversified portfolio of energy infrastructure projects encompassing thermal power generation, hydropower development, and the augmentation of renewable energy capacity. As of

2024, fourteen CPEC energy projects were successfully executed, with two additional under implementation and five more under active deliberation.<sup>18</sup> Parallely, it focussed on establishing industrial enclaves and Special Economic Zones (SEZs) designed to function as catalysts for foreign direct investment (FDI), manufacturing sector expansion, and large-scale employment generation. Other significant infrastructure projects undertaken under the ambit of CPEC include the modernisation of the Main Line (ML)-1 Railway Project and the implementation of the Lahore Orange Line Rail Transit Project.<sup>19</sup> As such, the Pakistani establishment of the time, then under Prime Minister Nawaz Sharif, exhorted that these projects would collectively unleash an economic boom to lead the country towards industrialisation, which could generate thousands of employment opportunities and hence help it address the country's socio-political precariousness, including the persistent challenge of terrorism within Pakistan.<sup>20</sup>

Moreover, a number of agrarian modernisation initiatives were introduced with the objective of fostering structural transformation within Pakistan's agricultural sector. These interventions included the adoption of modern farming techniques along the CPEC route, the

promotion of corporate farming, the management of water resources, and the transfer of advanced technology to optimise agricultural productivity for food security. Beyond infrastructural expansion,

CPEC-driven advancements aimed to substantively reduce logistical inefficiencies, curtailing both time and cost burdens associated with the transportation of agricultural commodities, thereby enhancing market accessibility and ensuring supply chain fluidity. Concurrently, while most of the funds sponsoring CPEC projects have been loaned from various Chinese financial institutions and the government, mostly in the form of loans, there has been an entente between financial institutions of the two countries through initiatives like the establishment of renminbi (RMB) clearing arrangements in Pakistan and streamlining cross-border transactions, thereby reinforcing the yuan's regional economic foothold.<sup>21</sup>

Nevertheless, the data shows that a number of projects have been implemented under CPEC, highlighted by increasing Pakistan's electricity generation by 8,000 megawatts (MW) with 886 kilometres of high-capacity transmission infrastructure, the infusion of approximately \$25.4 billion in direct investment, and the construction of over 510 kilometres of highway networks, thereby

augmenting its intra-country connectivity and fortifying its prospects of integration within the broader regional geoeconomic matrix.<sup>22</sup>

### **Key Issues and Challenges**

From the very outset, the implementation of the China-Pakistan Economic Corridor has been fraught with formidable challenges, including, most significantly, Pakistan's worsening internal security due to persisting terrorism, political instability, ethnic tensions, and economic mismanagement.

Firstly, take the case of Pakistan's internal security challenges, which have created significant obstructions to the smooth implementation of infrastructural and economic initiatives under CPEC, with an enduring pattern of targeted attacks by various armed groups directed at Chinese personnel, project facilitators, and critical infrastructure.<sup>23</sup> Empirical data from the Islamabad-based Centre for Research and Security Studies (CRSS) highlights the gravity of the security crisis in Pakistan, documenting approximately 2,546 fatalities, including civilians, security operatives, and militant combatants, during 2024 alone.<sup>24</sup> Concurrently, the Pakistan Institute for Conflict and Security Studies (PICSS) has recorded a minimum of 71 armed attacks in

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November 2024 alone, predominantly concentrated in the restive provinces of Khyber Pakhtunkhwa (KP) and Balochistan, resulting in the killing of at least 127 insurgents by state security forces.<sup>25</sup>

According to the National Counter Terrorism Authority (NACTA)<sup>26</sup>, which informed the Pakistan National Assembly in December 2024, 20 Chinese citizens had been killed and 34 injured in terrorist attacks since 2021 in 14 terrorist attacks targeting them, out of which eight attacks took place in Sindh, four in Balochistan and two in KP. NACTA also mentioned that there were 20,000 Chinese nationals in Pakistan, which included personnel for CPEC projects. The Interior Ministry of Pakistan formed a high-level core group comprising members from the police, security, intelligence and other departments to provide security to these Chinese citizens.

The CPEC has been persistently marred by security challenges, manifested by recurrent attacks against various China-linked facilities like Gwadar Port, including Chinese nationals working thereon. The principal opposition to CPEC originates from Baloch separatist factions, which consider it an existential threat to their ethno-nationalist aspirations for secession from or, at the least, greater autonomy within the Pakistani state. For them,

CPEC is an instrument of economic subjugation, facilitating systemic expropriation of Balochistan's indigenous resources for the benefit of external stakeholders while simultaneously perpetuating the region's impoverishment. Furthermore, Baloch nationalists posit that the Pakistani state is using CPEC to engineer a demographic re-configuration of Balochistan and marginalise locals in their own land by facilitating a large influx of non-Baloch populations.<sup>27</sup>

Consequently, these grievances have translated into escalatory militant violence in the region, with Baloch insurgent groups led Balochistan Liberation Army (BLA) conducting a series of high-profile assaults targeting Chinese-linked projects and nationals alike. Most recently, BLA affiliates targeted a convoy carrying Chinese workers right outside the Jinnah International Airport in Karachi on 7 October 2024, killing two Chinese engineers and injuring ten others.<sup>28</sup> Prior to this, in March 2024, Baloch insurgents had attacked the highly guarded Port Complex at Gwadar, housing the offices of the China-operated Gwadar Port Authority. Such attacks within the perimeter of highly fortified places like the Karachi Airport and Gwadar Port Authority Complex did not only demonstrate the lethal capabilities of these groups but also raised concerns about the

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efficacy of the Pakistani state forces in securing both CPEC material assets as well as Chinese nationals working on such facilities.

Concurrently, jihadist entities like *Tehreek-i-Taliban Pakistan (TTP)* and Islamic State of Khorasan Province (ISKP), both espousing ideological opposition to the Pakistani state, considering it an apostate regime, have also targeted CPEC facilities and Chinese workers in the hinterland of KP.<sup>29</sup> For instance, an ISKP suicide bomber targeted a Chinese workers convoy *enroute* from Islamabad to Dasu Hydropower Plant at Besham in KP on 26 March 2024, killing five Chinese workers along with their Pakistani driver. Interestingly, these groups frame their hostilities against Chinese interests within the rhetoric of broader global jihad, citing Beijing's 'alleged' persecution of Uyghur Muslim minorities in Xinjiang as a pretext for actions. Such a confluence of ethno-separatist insurgency and jihadist militancy highlights intricate security dilemmas confronting CPEC, thereby necessitating a multi-dimensional counterinsurgency framework to mitigate threats to its long-term viability, something Pakistan seems to be implementing inadequately in the absence of a political consensus over its nature.<sup>30</sup>

Secondly, political instability constitutes another formidable

obstacle to the sustained progress of the CPEC, exacerbating uncertainties in policy continuity and project implementation. Pakistan remains in perpetual instability with growing civil-military tensions, which have been further accentuated in the aftermath of the ousting of former Prime Minister Imran Khan through a no-confidence motion in April 2022. The ensuing political crisis has triggered heightened antagonism between the military-dominated establishment, fronted by Prime Minister Shahbaz Sharif-led government and the aggrieved political opposition, led by Khan's Pakistan Tehreek-e-Insaf (PTI). The resultant political ruptures have manifested in mass protests and acts of violence against military installations (9 May 2023 anti-establishment violence), further deepening societal polarisation and engendering apprehensions about its potential to decelerate CPEC's developmental trajectory. It may be recalled that during CPEC's initial years, Pakistan witnessed disagreements among many political parties over infrastructural allocations and the course of transportation corridors, aggravating inter-provincial tensions. For instance, Khyber Pakhtunkhwa parties decried structural asymmetries in federal resource distribution, alleging systemic favouritism towards Punjab at the

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expense of equitable regional development.<sup>31</sup> Concurrently, Baloch parties rued that despite Balochistan's resources fuelling CPEC's operationalisation, the province remained perennially marginalised, with the federal government systematically denying its developmental share. As such, these entrenched regional disparities and contestations have continued to undermine the project's smooth trajectory, thereby highlighting how the country's enduring politico-economic cleavages have permeated its internal governance in relation to CPEC's implementation.

Thirdly, this 'flagship' BRI project has been mired in *allegations of chronic corruption, both political and systemic*, from the very outset, which eroded public confidence in the initiative. Take, for instance, the case of former CPEC Authority chairman Lt. Gen. Asim Saleem Bajwa, former DG Inter-Services Public Relations (ISPR) of the country's armed forces. Lt. Gen. Bajwa was caught up in allegations of illicit asset accumulation and non-disclosure of substantial financial holdings during his tenure, which exemplifies the prevalence of financial malfeasance within the project's administrative apparatus. Corruption watchdogs and Chinese officials even expressed apprehensions that a proportion of CPEC investments, estimated at over 80 per cent, were potentially

siphoned off through corrupt practices.<sup>32</sup> Such concerns highlighted the fragility of Pakistan's regulatory mechanisms overseeing the CPEC, which raised apprehensions about the long-term viability of the project as an engine of sustainable economic transformation.

Moreover, within Pakistan, questions have persisted over the *procedural opacity and preferential allocation of project tenders*, with Chinese firms receiving undue advantages in the bidding processes, often by circumventing regulatory scrutiny and taxation frameworks.<sup>33</sup> These concerns about the lack of competitive transparency have reinforced public perceptions of systemic clientelism, wherein political elites purportedly engaged in quid pro quo arrangements to sustain entrenched patronage networks. As such, the interplay of political factionalism, civil-military power dynamics, and interprovincial contestations underlines the complexities of Pakistan's engagements within CPEC.

Fourthly, *Pakistan's protracted economic crisis* has also become an impediment to the realisation of CPEC's purported developmental dividends in itself. Far from acting as a panacea of its economic malaise, empirical trends suggested how it, though paradoxically, exacerbated

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Islamabad's financial vulnerabilities, with China becoming its predominant bilateral creditor, with an estimated \$29 billion in outstanding loans, mostly for CPEC projects, as of 2024.<sup>34</sup> As such, the country's economic landscape remains beset by long-lasting structural problems, including persistent balance-of-payment imbalances, growing fiscal deficits, hyperinflationary pressures, severe foreign exchange shortages, and an entrenched reliance on multilateral financial assistance, coupled with a resultant drain of skilled human resources. These loans, primarily channelled into capital-intensive infrastructure projects under CPEC, were predicated on the assumption of robust economic returns. However, their suboptimal economic dividends have compounded Islamabad's loan repayment challenges, something that has further undermined its institutional incapacity and systemic inefficiencies in implementing the projects.<sup>35</sup>

Furthermore, there have been accusations that Beijing used CPEC astutely to push Pakistan into what many experts have dubbed "debt-trap diplomacy", wherein China allegedly uses its financial leverage to trap economically vulnerable countries within the debt cycle to fulfil its geoeconomic dominance, as exemplified by its takeover of Sri

Lanka's Hambantota Port after the country defaulted in its debt repayments.<sup>36</sup> In Pakistan's case, for instance, as a 2021 report by *AidData*, a US-based research lab tracking international aid flow, underscores, the vast majority of Chinese financial flows to Pakistan between 2000 and 2017 were structured as loans rather than grants, often extended at or near commercial interest rates.<sup>37</sup> As such, this has raised apprehensions that Beijing might be eyeing Pakistan's strategic assets as the country defaults in its debt servicing.

With CPEC-aggravated debt accumulation, Pakistan risked sovereign debt default by mid-2022, which forced it to secure a record 24<sup>th</sup> bailout package from the International Monetary Fund (IMF) to reverse its deteriorating fiscal position. While the IMF initially extended a \$3 billion bailout package in 2023, Islamabad had to secure yet another package worth \$7 billion even as the global funding agency preconditioned its capital infusion in Pakistan's economy to its implementation of structural reforms. Interestingly, the IMF also cautioned Islamabad over its increasing dependence on Chinese credit lines while raising concerns over the long-term sustainability of its external debt obligations. Nevertheless, IMF prerequisites led to heightened taxation in the country,

thereby aggravating public discontent against the establishment and its developmental interventions.<sup>38</sup>

Moreover, the decade-long trajectory of CPEC substantiates the claims that the project was inherently designed to benefit China, as revealed by preferential tax exemptions and investment incentives for Chinese enterprises. These interventions have, in turn, facilitated an influx of Chinese exports into Pakistan's domestic markets, thereby intensifying competitive pressures on local industries.<sup>39</sup> The sluggish pace of CPEC implementation has further accentuated these concerns, with, for instance, only 14 of the proposed 21 power projects reaching completion, a mere 6 out of 24 transport infrastructure initiatives materialising, and none of the nine designated Special Economic Zones (SEZs) being operationalised as of 2024.<sup>40</sup>

### **Implications for China-Pakistan Cooperation**

The cumulative effect of Pakistan's deteriorating security, economic mismanagement and political instability has mounted various challenges for the smooth implementation of the CPEC in the country. Most prominently, it has pushed China to adopt a two-

pronged approach towards Pakistan. Firstly, Beijing has taken a relegation from broadening the infrastructure-driven expansion of the CPEC, including slowing down the implementation of already announced projects, while resisting Pakistan's persistent requests for more projects. Secondly, and paradoxically, it has become overtly assertive with Islamabad, manifested by its demands for a direct role in securing Chinese nationals working on multiple CPEC projects across the country.

For instance, as security concerns increased throughout 2024 following a series of insurgent attacks that left many Chinese citizens dead, Beijing upped its ante. It started pressurising Islamabad into adopting a more assertive posture in safeguarding Chinese nationals and CPEC assets. Multiple reports highlight how Chinese authorities persistently advocated for an expanded operational mandate that included deploying Chinese private security personnel in Pakistan, a proposition that underlines Beijing's deep-seated concerns regarding the efficacy of Pakistan Army-led security apparatus. It further insists on inking an anti-terrorism cooperation accord to institutionalise counterinsurgency measures.<sup>41</sup> In a bid to assuage Chinese apprehensions, Pakistan had to create a Special Security

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Division, a dedicated paramilitary contingent mandated to protect Chinese personnel and CPEC infrastructure.<sup>42</sup>

Moreover, at China's insistence, Islamabad also announced the launch of '*Operation Azmi-Istehkam*' (Resolve for Stability), a large-scale nationwide counter insurgency initiative, in June 2024. For instance, in November 2024 alone, Pakistani forces conducted hundreds of targeted military offensives under this campaign against groups like BLA, which has claimed multiple attacks against Chinese nationals and China-linked development projects in Balochistan province.<sup>43</sup> As such, any progress on advancing CPEC will inextricably rest on Pakistan's ability to restore China's investor confidence by demonstrating its capacity to neutralise the persistent security threats posed by armed insurgencies.

Closely associated with Pakistan's precarious security landscape and its enduring macroeconomic fragilities are their formidable challenges to China's ability to recover its extensive financial outlays in CPEC through loans and grants. Unless and until such a scenario is reversed in Pakistan, it will growingly impact the financial health of various Chinese lending institutions, which have primarily funded the majority of the CPEC projects in the country. This is

something that Beijing can hardly afford in light of the global economic slowdown of recent years, especially due to the COVID-19 pandemic.

Additionally, the conditionalities attached to Pakistan's latest IMF bailouts have further compounded these complexities, as the agreement mandates the cessation of preferential fiscal policies, including tax exemptions and investment subsidies, previously extended to Chinese enterprises liberally by the Pakistani establishment. Consequently, Beijing's financial commitments in Pakistan have exhibited a visible reduction, with Chinese investments declining from 25 per cent in 2023 to 22 per cent in 2024, as per the World Bank's International Debt Report 2024.<sup>44</sup>

Nevertheless, China's increasing attempts to influence Pakistan's decision-making have exacerbated anxieties over the erosion of Pakistan's national sovereignty, especially with its demands of stationing Chinese security personnel within sensitive regions such as Balochistan. Such scenarios further apprehensions about the deepening asymmetry in their bilateral relations.

## **Conclusion**

As China and Pakistan embark on implementing CPEC 2.0, its second



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phase, the project continues to be burdened by persistent structural, security and economic challenges that raise serious concerns about its long-term viability and impact on Pakistan's developmental trajectory. Despite concerted efforts by both countries to recalibrate policies and address emerging challenges, the structural asymmetries and patterns of dependency have only deepened, heightening concerns over Pakistan's economic sovereignty, internal stability, and the shifting balance of power in its relationship with China.

From a structural standpoint, CPEC was envisioned as a mutually beneficial undertaking—reviving Pakistan's stagnating economy while helping China overcome geostrategic bottlenecks such as the 'Malacca Dilemma.' However, this narrative has failed to translate into substantive and equitable outcomes for Pakistan by entrenching Pakistan into a cycle of dependency on Chinese loans, infrastructure, and technology, often extended under the veneer of concessional financing but carrying high-interest obligations that have exacerbated Pakistan's fiscal distress. This financial overreliance has constrained the state's developmental choices, forcing it to divert critical resources from essential public services like health and education and

necessitating regulatory shifts that disproportionately favour Chinese enterprises at the cost of local industries.

China's heavy economic footprint in the country has pushed the Pakistani state to make increasing security commitments, including deploying vast security personnel to protect Chinese nationals and infrastructure, particularly in politically volatile provinces such as Balochistan and Khyber Pakhtunkhwa. While Islamabad has launched multiple military offensives against insurgent groups threatening CPEC's implementation over the last one decade, the long-term efficacy of this militarised approach is questionable. Instead of alleviating tensions, such tactics risk intensifying alienation among marginalised communities, particularly in resource-rich but underdeveloped regions of Balochistan and KP. Local grievances—fuelled by perceptions of exploitation, lack of inclusion in decision-making, and ecological degradation—have led to growing resistance against what is increasingly perceived as a neo-colonial project benefiting external actors more than the local populace while fueling an enduring cycle of instability. Ideally, Pakistan's cause would be served if it adopts a nuanced approach by integrating its

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counterinsurgency model with strong socio-political engagement, something that could help it address the underlying grievances fuelling local resistance against its CPEC interventions, especially in Balochistan; however, it is highly unlikely that Islamabad would be open to adopting such a policy.

Dependency Theory offers a compelling analytical framework to explain these patterns. By situating Pakistan as a peripheral state subordinated to the strategic and economic imperatives of a more dominant core, China, the theory then explains how structural inequalities manifest in the form of constrained policy autonomy for Pakistan and resource extraction and externally dictated developmental agendas by China. In this light, the increasing pressures from Beijing on Islamabad to allow Chinese security deployments on Pakistani soil—once unthinkable—signals a further erosion of its sovereignty and a deepening of the power asymmetry between the two nations. Such a scenario not only reinforces Pakistan's peripheral status but also

exposes it to significant external vulnerabilities. Any downturn in China's economic performance or shifts in its global strategy could deliver systemic shocks to Pakistan's already fragile macroeconomic framework.

Yet, despite these evident risks, Pakistan is unlikely to disengage from the CPEC framework. The severity of its economic vulnerabilities—compounded by dwindling foreign reserves, limited industrial capacity, and persistent energy deficits—leaves it with few viable alternatives. As such, Islamabad will likely continue to double down on CPEC, even at the cost of increased dependence and strategic compromise. Moving forward, unless Pakistan adopts a more balanced and inclusive approach—one that integrates socio-political engagement, addresses local grievances, and safeguards national policy space—the promise of CPEC as a developmental lifeline may prove illusory. Instead, it may become emblematic of the very traps Dependency Theory warns against: externally driven development that entrenches underdevelopment. ■

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