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**PAKISTAN'S ECONOMIC RELATIONS WITH CHINA (2015-2023):  
CHALLENGES, OPPORTUNITIES AND POLICY LESSONS**

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**Abstract**

Pakistan's economic relationship with China is a cardinal manifestation of the bilateral ties. The mutually beneficial economic engagement has a long history and continues to grow consistently. Presently, Chinese investment under China-Pakistan Economic Corridor (CPEC) and bilateral trade ties are the prominent features of Pakistan-China economic relationship. CPEC has gained international attention while Free Trade Agreement is an important development in their economic relations. However, Pakistan has to overcome the challenges and capitalize on the opportunities to realize the full potential of economic ties with China. CPEC promises infrastructure development, energy production and actualization of Gwadar port as hub of international trade. Nonetheless, the development of CPEC projects, particularly Special Economic Zones (SEZs), faces delays and trade surplus remains heavily in favour of China. Drawn on Rostow's model of economic development and using qualitative research approach, this paper identifies challenges and opportunities for Pakistan in the context of its economic relations with China. In the light of these challenges and opportunities, the study also proposes policy lessons for Pakistan to pursue a robust and favourable economic relationship with China.

**Keywords:** China-Pakistan, CPEC, SEZs, trade balance, Gwadar port, challenges, opportunities, policy lessons.

**Introduction**

Despite different histories, cultures and political systems, the commonality of geopolitical interests, shared regional vision and mutually beneficial economic relationship serve as binding

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force between the two countries. Today, Pakistan-China relations are characterized as one of the glaring examples of friction-free interstate interaction in the anarchic international system. For Pakistan, China remains a reliable source of diplomatic support, investment, trade, weaponry and technology. For China, Pakistan is a reliable strategic partner and a key participant in the Belt and Road Initiative. Lately, China has grown into an economic powerhouse symbolizing a shift in the center of economic gravity from the West to the East. Being the second largest economy on the planet, Beijing has assumed greater importance than ever before. It has emerged as Pakistan's largest trading partner, top investor and all-weather strategic partner.

An expanded economic collaboration between Pakistan and China is a relatively recent development, largely influenced by China's broader external strategies rather than an initiative stemming from Pakistan's economic ambitions. Pakistan-China economic engagement has gained momentum following the launch of Belt and Road Initiative (BRI) and China-Pakistan Economic Corridor (CPEC). In the absence of these external drivers, Pakistan may not have been able to offer an appealing economic partnership to China. With \$62 billion investment under CPEC, China is presently by far the largest source of Foreign Direct Investment (FDI) in Pakistan. Likewise, China stands out as the largest trading partner of the country though trade balance is hugely in favour of the former.

The economic relationship between Pakistan and China is characterised by intricate challenges and opportunities. Following the conclusion of China-Pakistan Free Trade Agreement Phase II in 2019, bilateral trade has significantly increased but Pakistan has only few products to export. Consequently, it cannot take full advantage of free trade between the two parties. While Chinese investment under CPEC provides much needed infrastructure development and connectivity, Pakistan's inadequate institutional framework, lack of skilled labour force and poor productivity hinder its ability to fully utilize these investments. Nevertheless, the CPEC projects have the potential to reshape Pakistan's economic growth landscape with increased opportunities for industrial growth, regional connectivity and energy security.

Conceptually, this paper is structured into two parts. Part I lays down the pattern of Pakistan's imports and exports in relation to China. It also gives a brief description of CPEC in its present form. Part II underlines opportunities and challenges for Pakistan to establish a more balanced and valuable economic partnership with China. Based on these opportunities

and challenges, the paper, finally, draws policy lessons for Pakistan to gain economic primacy and establish a viable economic partnership with China.

### **Theoretical Framework**

In view of the phases of social development and economic growth, countries are generally characterized as developed (industrialized), developing (emerging), and underdeveloped. This concept of development is based on the process of economic modernization. Many economists have introduced scores of theories and models to understand the economic growth process of a country. Walt White Rostow, an American economist, presented an economic development model called Rostow's Model of Economic Development (Rostow, 1990). This model embraces five progressive stages of economic growth and explains how countries move from immature level to an advanced society. A state must follow these five stages to become fully industrialized. The theory was presented in 20<sup>th</sup> century and was used to guide less developed states in terms of economic development. The first stage of the model is called 'traditional society' that illustrates low level of development. The second stage is termed as 'preconditions to takeoff,' at which the countries start developing international networks and gaining growth through external assistance or foreign investment. The third stage is known as 'take-off' that is categorized by sustainable and rapid growth. The fourth stage is called 'drive to maturity' that witnesses further expansion of development in industrial and economic sectors. At this stage, people see significant upgradation in their living standards. The final stage is the 'age of high mass consumption' that is connected with the concept of capital economy. At this stage, countries gain high growth rates and a dominant position in global economy (Osafo-Gyimah, 1972, p. 13-27).

Rostow's model proposes that economic growth is determined by the degree of industrialization that defines the level of socio-economic development. Industrialization plays pivotal role in the transformation of states from traditional to developed societies. In terms of Pakistan-China relations, CPEC project is characterised as a transformative opportunity for Pakistan that can lead Pakistan to gain economic take-off and hence experience fast and sustainable economic growth. This project involves infrastructure development including highways, railways, energy, aviation and ports. The successful development of these sectors on modern lines has the potential to serve as the backbone for economic growth, industrial development and economic integration. Notably, the development of Special Economic Zones (SEZs) and Gwadar port aim to integrate Pakistan with global economy, improving its industrial production and export potential, and turning it into an international trade hub. While

CPEC can bring about Pakistan's economic take off, the challenges associated with the SEZs including delays in construction, lack of facilities, poor economic governance, and security problems are keeping the country from the realization of this potential.

### **Literature Review**

The article *Pakistan-China Relations: An Analysis* by Farhana Kosar offers a comprehensive analysis of cooperation between Pakistan and China. It provides valuable insights of various phases of their cooperation as well as the strategic dependence between the two states. The author underlines the potentials of the two countries to meet the demands of the changing global geoeconomic dynamics and mutual interests that make them unique from other alliances (Kosar, 2021).

Muhammad Khan in research article "*Prospects of Sino-Pak Relationship*" identifies that since the establishment of diplomatic relations, China cooperated with Pakistan and Pakistan also supported China in its era of international isolation. The author explains the economic and political cooperation, defense and nuclear cooperation, collaboration on international platforms in detail. He also highlights the past and future prospects of the two countries that share mutual interests bilaterally, regionally and internationally (Khan, 2011).

Shakeel Ahmad Ramay in his research "*China Pakistan Economic Corridor: A Chinese dream being materialized through Pakistan*" concludes that China is progressing by leaps and bounds, especially in economy, and hence has become world's second largest economy. The author explains the importance of CPEC for both countries as well as for regional connectivity of South and Central Asia. CPEC is one of the most significant projects under BRI that will fulfill the Pakistan's energy demands and open doors for the land locked countries of Central Asia (Ramay, 2016).

The article "*Pakistan and China's Strategic Ties: Challenges and Opportunities in Trade Perspective*" elaborates the rise of China as an economic power and its repercussions for the global economy, underlining how national interests shape foreign policies of the countries. The author explores China's collaborative ties with the major powers like Russia and US reflecting the changing dynamics of international political structure. Within the context of Pakistan-China strategic relations, the author identifies the challenges connected with regional security and economic imbalances. These areas need improvement for enhancing bilateral and regional trade relations (Yaseen et al., 2017, p. 16-30).

Muhammad Munir in his research paper "*Pakistan-China Strategic Interdependence: Post-9/11 Imperatives*" examines the phases of Pakistan-China relations from diplomatic

cooperation to a strategic partnership describing the two countries as ‘Iron brothers.’ The author argues that growing engagement of China in South Asia and India’s competing regional goals and growing partnership with the US further expand the Sino-Pakistan cooperation. The author explains how Indo-US strategic alignment has added new dimension to Pakistan-China strategic relationship (Munir, 2018, p. 21-42).

The above-mentioned literature elaborates the importance and relevance of Pakistan-China economic relations within the context of their longstanding strategic relations. Pakistan-China relations are rooted in history and based on strategic connections. Further, cooperation between the two states exists at bilateral, regional and international levels. In this context, they are ready to adjust their relations in response to changing global geoeconomic dynamics. Broadly, the literature underlines regional connectivity as the major potential of the CPEC, whereas it points out regional security and economic imbalances as main challenges. However, the literature lacks debate on CPEC from policy perspective within the context of Pakistan-China emerging economic partnership. While existing literature highlights the potential benefits and challenges of CPEC, this study uniquely focuses on actionable strategies for Pakistan to overcome the challenges related to trade deficit and CPEC. In this pursuit, it complements prior works by providing empirical policy recommendations for Pakistan to realize the opportunities presented by CPEC.

### **Research Methodology**

The research is qualitative in nature and focuses on Pakistan-China economic relations with focus on trade and investment. The research has been conducted using descriptive and analytical technique. Pakistan-China economic relationship in the areas of trade and investment has been described in the form of statistical tables and graphs. Based on this description, challenges, opportunities and policy lessons for Pakistan have been analyzed. The time period selected for the study is 2015-2023. The study underlines the developments and changes in Pakistan-China relations in this period to identify the challenges, opportunities and policy lessons for Pakistan. In this sense, it offers a longitudinal analysis of Pakistan-China economic relations to examine the incremental change. Primary data has been collected from the websites of the UN Comtrade and the Ministry of Planning, Development & Special Initiatives. Further, the data has been collected through interviews of the subject experts and focus group discussions (FGDs). Finally, data has also been collected from the secondary sources including books, journals, Policy papers and newspapers.

### Pakistan-China Trade Relations (2015-2023)

Cordial relationship with China is the cornerstone of Pakistan's foreign policy. The two countries have developed 'all-weather' historical, economic and strategic relations over the years. Economic relationship, particularly in trade and investment, has gradually evolved and gained momentum following the launch of China-Pakistan Economic Corridor (CPEC) in 2015.

Pakistan-China trade relations are governed by the Free Trade Agreement that came into effect in 2007 while its trade in services component entered into force in 2009. Later, China-Pakistan Free Trade Agreement (CPFTA) phase-II was introduced in 2019. CPFTA phase-I included zero tariffs for 28.9%, moderate tariffs for 57.9% and full tariffs for 13.2% of Pakistan's exports to China (China-Pakistan FTA (CPFTA) Phase-II FAQs). Under CPFTA phase-II, Pakistan gets much more tariff concessions. 45% of the Pakistani tariff lines have now duty-free access to the Chinese market while 40% of the products enter the Chinese market on reduced tariffs (Afraz et al., 2019, p. 1).

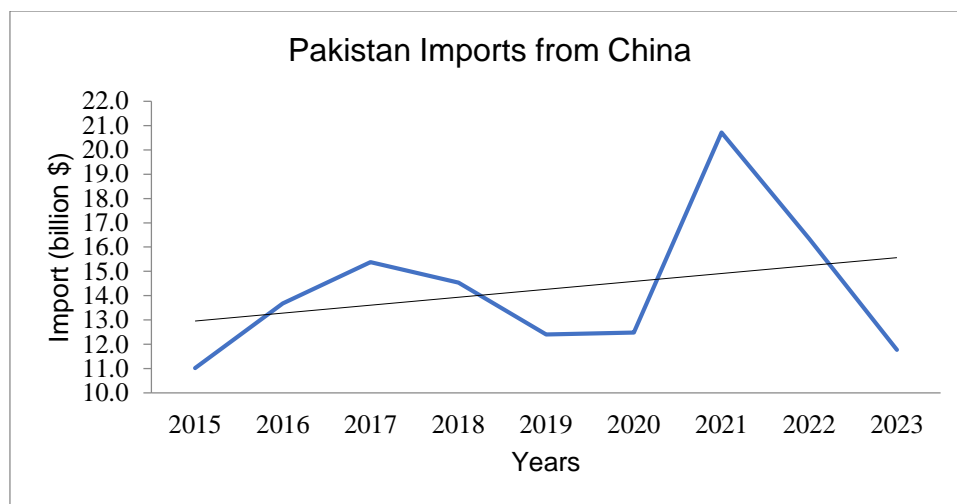
Though Pakistan-China trade has recorded significant increase during 2015-2023, Pakistani exports remain far below the potential. Consequently, trade balance has been hugely in favor of China as the table 1 and Table 2 indicate.

**Table 1: Pakistan Imports from China (billion \$)**

Year	Import (b\$)
2015	11.0
2016	13.7
2017	15.4
2018	14.5
2019	12.4
2020	12.5
2021	20.7
2022	16.3
2023	11.8

Data source: UN Comtrade, 2024

**Figure 1: Pakistan Imports from China (2015-2023)**



Data source: UN Comtrade, 2024

The above table and figure illustrate the trend of Pakistan's imports from China showing the yearly value from 2015-2023. The pattern represents a huge shift over the years, indicating a general upward line. During 2015 and 2017, there was a steady increase in Pakistani imports from China while there was a decline in 2019. In 2020, again there was a regaining while the year 2021 saw a sharp upsurge, where imports touched their highest value of around \$21 billion. However, the years 2022 and 2023 have witnessed a drastic decline in Pakistani imports from China, valuing around \$16 billion and \$12 billion respectively. The given data reflects substantial increase-decrease in Pakistan's imports from China. Various factors account for this up and down in imports from China including demand for machinery and equipment in the context of development projects under CPEC, increased demand for consumer goods, rise in demand for imported raw materials in view of local assembly business, decrease in imports from other countries, and increase in formal trade following the signing of CPFTA (Kamal, 2017).

On the other hand, Pakistan's exports to China remain very low despite significant tariff reductions available to Pakistan under CPFTA. China has huge trade surplus with Pakistan as it generally has with other countries in the world. Pakistani exports to China are mainly concentrated in cotton and rice, thus lacking diversification and competitiveness of exports. Pakistani exports to China have recorded an increase after the CPFTA phase-II came into effect. Following table and figure show trends in Pakistan's exports to China.

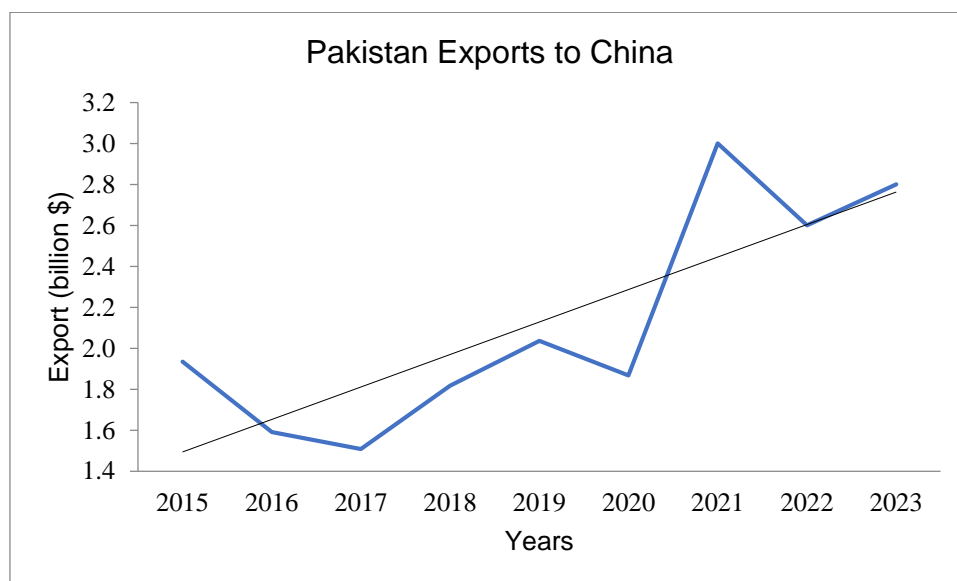
**Table 2: Pakistan Exports to China (billion \$)**

Year	Export (b\$)
2015	1.9

2016	1.6
2017	1.5
2018	1.8
2019	2.0
2020	1.9
2021	3.0
2022	2.6
2023	2.8

Data source: UN Comtrade, 2024

**Figure 2: Pakistan’s Exports to China (2015-2023)**



Data source: UN Comtrade, 2024

Above table shows Pakistan’s exports to China from 2015-2023. Observation of yearly trends in Pakistani exports to China shows significant change from \$1.9 billion in 2015 to \$1.5 billion in 2017. Nevertheless, the years 2018 and 2019 mark a recovery phase with an increase in exports from \$1.8 billion to \$2 billion. In 2020, the exports slightly dropped to \$1.9 billion. However, Pakistan recorded exports to China worth \$3 billion in 2021, the highest so far. After this peak, the exports decreased to \$2.6 billion in 2022, but recovered to \$2.8 billion in 2023. Overall, the data shows a positive progress in Pakistani exports to China irrespective of annual differences. Notwithstanding the relative increase, Pakistan’s exports to China remain low and much below the potential.



Cumulatively, the trading arrangements have imparted a healthy impact on increasing the volume of bilateral trade between Pakistan and China. Pakistan's trade with China continued to witness a steady growth during the evaluation period from 2015 to 2023. Resultantly, China has emerged as the second largest export market for the Pakistani goods while the country has also become the top source of imports for Pakistan.

### **China-Pakistan Economic Corridor**

Launched in 2015 as a flagship project of China's Belt and Road Initiative (BRI), CPEC encompasses a web of energy projects, transportation arteries, special economic zones, and industrial ventures. The project entails \$62 billion investment over a period of 15 years.

The CPEC is considered as a growth axis and development initiative featuring complementary advantages, mutual benefits, collaborations, and common prosperity of both countries. Starting from an industrial cooperation and transportation corridor, it would further concrete growth and trade cooperation, cultural communication, people-to-people exchange between both countries. CPEC is a major collaborative set of projects for socio-economic development, livelihood improvement, industrial growth, and prosperity of both countries, extendable to various regions. CPEC Centre of Excellence has produced detailed blueprints of each project undertaken and planned under CPEC and BRI.

The China-Pakistan Economic Corridor (CPEC) and its related Special Economic Zones (SEZs) are facing significant obstacles as they transition into Phase II. A primary concern is security, as ongoing terrorist attacks from extremist factions create a perilous atmosphere for both domestic and international participants. Notable incidents, including assaults on Chinese citizens and their convoys, greatly diminish investor confidence and present serious risks to the advancement of SEZs. These security issues not only endanger the safety of individuals but also discourage prospective foreign investments and disrupt the essential stability required for effective economic growth. Moreover, CPEC initiatives are hindered by logistical and operational difficulties. Regular power shortages, particularly in SEZs such as Rashakai and Faisalabad, impede industrial output and operational efficiency. The absence of a skilled and vocationally trained workforce exacerbates the situation, as many employees lack the necessary technical skills for sophisticated industrial tasks.

### **Challenges for Economic Primacy in Pakistan-China Relations**

Pakistan-China relations are characterised by strong cooperation in trade, investment and infrastructural development. China is Pakistan's largest trading partner and biggest investor in energy and infrastructure projects. Chinese investment in Pakistan is based on the centrality of

CPEC, which is a flagship project under China's Belt and Road initiative. However, Pakistan has capacity issue to reap the maximum benefits from the CPEC investment. Moreover, Pakistan has a substantial trade deficit with China. Therefore, CPEC is generally regarded as more beneficial for China than Pakistan. Based on the discourse analysis of Pakistan-China relations and complexion of investment and trade between the two countries, many challenges for prioritising economic agenda between them can be identified.

### **Trade Deficit**

Balance of trade (BOT) is a very important component of a country's balance of payment (BOP). A country that exports more goods and services than it imports has trade surplus while a country imports more and exports less goods and services, drives into trade deficit. Trade surplus has been the defining feature of Chinese economy since decades. Being the biggest exporter of goods and services in the world, Chinese trade surplus has been rising substantially. On the contrary, Pakistan suffers from trade deficit due to number of factors. Pakistan seriously lacks in economic competitiveness. Pakistan lacks export diversification as its exports are highly centered on the agriculture, textile and clothing sectors only. China, on the other hand, has highly competitive economy in the world and Pakistan lacks the capacity to compete in the Chinese markets. Due to the lack of economic competitiveness, the benefits of Chinese investments in Pakistan are more tilted towards China. A persistent economic deficit will have several economic implications for Pakistan including rising inflation, strain of foreign exchange reserves, more dependence on foreign loans and economic vulnerability.

### **Challenges Related to CPEC**

CPEC is an epitome of Pakistan-China economic relations and promises to bring economic boost, long-term prosperity and stability for Pakistan. However, the project is facing number of domestic challenges. Being the largest Chinese investment project, the security of CPEC is of grave importance. The recurring wave of terrorism and substantial militant attacks on Chinese workforce in Pakistan is a matter of serious concern that raises doubts about successful completion of CPEC (Ahmad, 2024). Similarly, the political instability and lack of national consensus among political parties can significantly impact the progress of CPEC. The security and political instability combined affect the confidence of foreign investors. The protest culture in Pakistan causes closure of economic activities and hence delays in projects' completion.

### **Challenges Related to Special Economic Zones**

CPEC has entered in its second phase, in which the development of Special Economic Zones (SEZs) in nine geographical regions of Pakistan is in process of planning or construction. The SEZs have tremendous potential for attracting significant foreign and domestic investment

in Pakistan. Therefore, peace and stability are important prerequisites. Currently, the SEZs face serious delays in construction work and power supplies as well as bureaucratic red tapes (Zaidi, 2023). These issues coupled with the governance problems in relation to the investment regime in Pakistan, undermine the SEZs potential for attracting FDI.

### **Lack of Human Resource**

For the sustainability of economic development, quality labour force is crucial. Labour quality involves good professional knowledge, skills, creativity and ability to acclimatize to changing environment. A well-trained workforce translates into operational efficiency within industries, contributing to increased production. Pakistan's human resource is not adequately aligned with the specific requirements of industries. Large population of Pakistan lacks vocational and technical training for work. Therefore, recruitment of unskilled labour is a common practice that results in poor productivity. As CPEC has opened hundreds of employment opportunities for the Pakistanis but the lack of skilled labour has become a hurdle for government in maximizing economic benefits from the project (Riazuddin, 2023). Possibly, the lack of skilled labour in Pakistan might result in foreign companies' inclination towards foreign workers. Therefore, there is an immense need to develop technical and vocational training institutes across Pakistan to train maximum people for employment opportunities under CPEC.

### **Challenges Related to Productivity**

China is known as the sole manufacturing power of the world for having attained highest levels of production capacity. Various factors account for the Chinese competitive production capacity including advanced manufacturing, skilled labour force, extensive infrastructure development, export orientated economy and technical innovations. On the other hand, Pakistan lacks production capacity to get maximum benefits from the CPEC projects. Pakistan faces number of challenges in production capacity. It produces mostly raw materials and lacks capacity to manufacture products carrying quality, innovation, value-addition and diversification (Bokhari, 2024). As CPEC aims infrastructure development in Pakistan, the shortcomings in raw materials, transportation, qualified labour force and energy supplies tend to hinder the overall progress. Above all, the insufficient integration of local business in CPEC project can reduce the economic benefits. For lacking production capacity, local businesses will not be able to benefit from connectivity through CPEC and the local market may ultimately face disadvantage and stress in terms of market competitiveness.

## **Opportunities for Economic Primacy in Pakistan-China Relations**

Notwithstanding certain challenges for realizing the true potential of CPEC, the project offers unprecedented opportunities for Pakistan to achieve infrastructure, connectivity, industrial development and economic growth. Based on the discourse analysis of Pakistan China official exchanges and developments in connection with investment and trade between them during 2015-2020, number of opportunities for prioritization of economic agenda in Pakistan-China relations can be identified.

### **Infrastructure Development**

The CPEC project is the central economic development between Pakistan and China in building infrastructure, transportation networks, Special Economic Zones (SEZs) for industrial development, energy power plants and Gwadar port. By virtue of the size of investment and huge potential for connectivity and industrial development, CPEC has been termed as game changer for Pakistan. Upon completion, the Gwadar port will make Pakistan a major commercial and trade hub providing opportunities for maritime infrastructure and free trade zones. Additionally, Pakistan's collaboration with China in digital advancement will provide e-commerce platforms, technology parks and 5G networks, strengthening its capacity for digital economy. Likewise, network of roads and high-speed railways and Karachi Circular railway (Siddiqui, 2021) will expand its transportation networks and connectivity for business both within and outside the country. As long as CPEC continues to progress successfully, its potential for transforming Pakistan's economic landscape is becoming a reality.

### **Foreign Direct Investment**

In the context of Pakistan-China economic relations, the development of special economic zones (SEZs) can serve as vital platform for boost in domestic business, multiplication of FDI, expansion and diversification of exports, and hence economic growth. Chinese investors are experienced in setting up manufacturing industries linked to local markets, enhancing local resources, pushing local producers to improve the quality of their products, and increasing connections with global supply chains which provide access to foreign markets and promote technology transfer (Nigar et al., 2021). SEZs are pivotal in attracting FDI and realizing industrialization in Pakistan. Pakistan has always struggled for FDI, and CPEC provides major opportunity in this regard.

### **Energy Security**

For long, Pakistan has experienced poor investment, production and industrialization because of huge energy shortfalls. Therefore, an important component of CPEC investment is

dedicated for energy production. In view of importance of energy security, the energy projects were made part of the first phase of CPEC. China and Pakistan are cooperating on renewable energy projects including solar, wind and hydropower projects to overcome Pakistan's energy problems. China is also investing in coal projects in Pakistan to further strengthen its capacity in coal-based energy production (Ali, 2021, p. 179-198). In addition, China is supporting in increased generation of nuclear energy through expansion of Karachi nuclear power plant to enhance and diversify Pakistan's energy generation. Pakistan's energy security will make a significant contribution to its efforts for industrialization and economic growth.

### **Human Resource Development**

Chinese firms are developing energy and infrastructure projects in Pakistan that increase employment opportunities for the Pakistani workforce. However, Pakistani labour needs technical training, knowledge transfer and skill development to qualify for jobs under CPEC projects. Therefore, Pakistan and China should develop a mechanism for training the Pakistani workforce in the usage of new technologies, project management practices and enhancing skills in engineering sectors. The two countries already have cooperation in educational programmes and human resource development. China offers various scholarships and exchange programs for Pakistani students and workforce to develop expertise in IT and engineering fields. However, the development of industries in Pakistan and enhancing employment opportunities necessitate that a dedicated programme is initiated for skill development of the Pakistani workforce. This may be made part of cooperation under CPEC.

### **Boost in Exports**

Pakistan has endured an import intensive economy with weak performance in exports. Development of CPEC and CPFTA provides an opportunity for significant boost in Pakistan's exports. Pakistani companies working with the Chinese companies have learnt business and trade techniques. The global firms are already looking for the affordable locations to establish their industries for production and trade. The SEZs provide a platform to local and foreign firms to invest in various sectors. This will expand Pakistan's industrial base, resulting in surplus production and increased exports (Ishtiaq, 2019, p. 349-365). In addition, CPEC provides infrastructure development for enhancing regional and international trade. With the development of Gwadar port and road and rail networks under CPEC, Pakistan will be able to realize its potential as hub for regional trade. The port will serve as a gateway for the Central Asian, Pakistani and Chinese exports to global markets and vice versa.

## **Policy Lessons for Economic Primacy in Pakistan-China Relations**

In the light of challenges and opportunities for the prioritisation and upgradation of Pakistan-China economic relations, Pakistan needs to address the issues related to governance, productivity, competitiveness and economic diplomacy. Given that the CPEC stands as the major economic engagement between Pakistan and China, most policy lessons for Pakistan given here are based on its experience with this enterprise.

### **Strategic Planning**

Given Pakistan's persisting economic challenges and expectations associated with the CPEC, there is need of strategic planning centered on a comprehensive and long-term economic vision. Such a large project cannot be carried out with ad hoc arrangements. In this regard, Pakistan should adopt two strategies. Firstly, all stakeholders of CPEC in Pakistan should develop a national consensus expressing commitment to its ownership, smooth continuity and successful completion. Pakistan's internal divides in political and social spheres should not translate into divisive politics vis-à-vis the CPEC project, a vital national interest. Secondly, Pakistani governments have to ensure that CPEC projects are not instrumentalized just as short-term quick fixes for economic problems. Rather, these should be integrated into long-term economic growth and development strategy (International Crisis Group, 2022). The project should serve as a model for sustainable development taking into account the interrelated factors pertaining to economic growth, social development and environmental protection.

### **Institutional Viability**

Pakistan has weak institutions in terms of professionalism, performance and accountability. According to World Governance Indicators, Pakistan is ranked among the countries showing poor institutional and governance performance. While it experiences continuous decline in performance, it is ranked 140th among 180 countries in terms of transparency. Pakistan needs to take several measures to enhance institutional efficiency. Foremost, economic institutions should have appointments based on educational relevance, professional competence and professional integrity. Pakistan needs competent and professional economic teams having capacity to do economic planning, prepare economic agenda for international economic relations and carry effective negotiations for international trade agreements and foreign investment. Secondly, Pakistan needs to enhance institutional capacity for national policy coordination both horizontally and vertically. It has to improve policy coherence among federal economic institutions as well as between federal and provincial institutions. Finally, the country has to improve institutional accountability and transparency. Digitalization and e

government can improve institutional transparency and efficiency, particularly in the context of increasing public demand for open access to information.

### **Human Capital Development**

Pakistani education system lacks relevance and linkages to industry. Since CPEC projects involve both development and modernization of infrastructure projects, there is need of skilled and specialized human resource for employment in CPEC related projects. In this regard, Pakistan should plan a comprehensive training programme for skill development and vocational training (Ahmed et al., 2020). These trainings should be tailored for developing the vocational skills of the Pakistani labour required to meet the technical needs of the CPEC projects. In this regard, Pakistan can set up more technical training centers dedicated for the sectors directly related to the CPEC projects and industry being established in SEZs. Further, a partnership can be established with the Chinese universities and institutions for designing CPEC-specific training programmes and transferring technical know-how. At the level of higher education, there is need to upgrade curriculum of universities and technical institutes to include courses related to modern infrastructure and international trade. Through exchange programmes, students and faculty can join Chinese universities for education in engineering, business and industry. Finally, business incubators should be expanded for providing entrepreneurial training to small and medium sized enterprises.

### **Regional Connectivity and Cooperation**

As CPEC aims to establish regional connectivity, its success should not be limited to connectivity only with China. For wider regional outreach, it should be extended to other regional countries including Afghanistan, India, Iran, India and Central Asian states. To this end, Pakistan should invest in economic diplomacy centered on the country's pivot to geoeconomics for regional economic cooperation (Amir, 2016). It should expand bilateral trade with all regional states. Pakistan's improved diplomatic relations and enhanced trade with the regional states will enhance the strategic benefits of CPEC and make it regional hub for connectivity and trade. To achieve this objective, Pakistan needs policy shift from geopolitics to geoeconomics in accordance with its National Security Policy 2022-2026.

### **Economic Diversification**

Pakistan's economy remains highly concentrated in terms of industrial production, exports and international economic relations. Its industrial production is majorly limited to agriculture, and textile and clothing sectors. Consequently, its exports mainly comprise textile and clothing sector. Pakistan has only few countries as significant trading partners. For FDI, it is merely dependent on China. All these indicators are signs of an unhealthy and vulnerable economy.

Therefore, Pakistan needs economic diversification in respect of production, exports goods, exports destinations and sources of investment. Here, key issue is connected with production. Pakistan should capitalize on the CPEC investment to expand its production beyond traditional sectors to manufacturing, technology and services (Nitza-Makowska, 2020).

### **Debt Management**

Pakistan's economy remains heavily indebted for years. According to an IMF report, Pakistan's debt-to-GDP ratio was around 75% in 2022, with total foreign debt reaching the staggering amount of \$125.7 billion (Wahid, 2023). Pakistan has now become one of the top borrowers of the IMF loans in the world. In addition, it has debt obligations with friendly countries including Saudi Arabia, UAE and China. Finally, it is accumulating the Chinese debts under the CPEC investments. According to media reports, Pakistan has accumulated \$26.6 billion worth Chinese debt as of 2024, and this is more than any other country in the world. CPEC is criticized as a 'debt trap' for the participating countries. In this context, Pakistan has to adopt a strict fiscal management policy, assessment of debt sustainability, growth strategy for due returns under the CPEC investment, and transparency in the terms and conditions and implementation of CPEC projects.

### **Conclusion**

Historically, Pakistan-China economic relations have evolved gradually. The advent of new millennium has ushered in a new era of trade and investment relations between the two states. They have adopted Free Trade Agreements, and launched China-Pakistan Economic Corridor to deepen and widen the economic engagement in line with the dynamics of the 21st century. Particularly, China-Pakistan Economic Corridor has added a new dimension and depth to the strategic economic partnership between the two countries. Presently, CPEC has become the key feature of economic cooperation between the two countries. Bilateral trade is another important component of Pakistan-China economic relationship. In both cases, Pakistan has challenges as well as opportunities in terms of upgrading the engagement and optimizing the short-term and long-term benefits.

Trade surplus remains heavily tilted in favour of China while CPEC's potential for becoming the game changer is yet to be realised. Various factors account for the lack of economic output on part of Pakistan regarding its trade and CPEC relations with China. Pakistan lacks trade diversification and productivity in terms of goods, services and skilled labour force. CPEC projects and Special Economic Zones have experienced slow progress because of political, security and governance challenges. However, Pakistan's upgraded



economic relations with China offer several opportunities to the country. Through infrastructure development and industrialization, CPEC promises to attract more international investment, create employment opportunities, increase productivity and boost exports. To this end, Pakistan needs proper planning, continued policies, conducive governance and improved productivity both in quantitative and qualitative terms.

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