

## CPEC's Next Phase: Geo-economic Realities, Security Hazards, and Regional Power Alignments

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### **Abstract**

The second phase of the China–Pakistan Economic Corridor (CPEC) marks a strategic transition from infrastructure development to industrialization, agricultural cooperation, technological connectivity, and regional economic integration. This study examines the geo-economic significance of CPEC Phase-II and evaluates the security challenges and regional power dynamics associated with its implementation. The research argues that Phase-II has the potential to transform Pakistan into a regional trade and connectivity hub by enhancing Special Economic Zones (SEZs), energy cooperation, and digital infrastructure. However, the corridor also faces complex security risks including terrorism, separatist movements, cyber threats, and geopolitical competition in South Asia and the Indo-Pacific region. The study further analyzes how major regional and global actors – particularly India, China, the United States, Iran, and Afghanistan – perceive and respond to CPEC's expanding strategic role. Using a qualitative and analytical methodology, the paper explores how economic diplomacy and strategic partnerships influence regional alignments and power politics. The findings suggest that while CPEC Phase-II offers substantial opportunities for economic growth and regional connectivity, its success largely depends on political stability, effective governance, regional cooperation, and sustainable security mechanisms. The study concludes that CPEC has evolved beyond a bilateral economic project and now represents a critical component of China's Belt and Road Initiative (BRI) and the broader geo-economic transformation of the region.

**Keywords:** CPEC Phase-II, Geo-economics, Regional Security, Belt and Road Initiative, Power Politics, Pakistan-China Relations, Strategic Connectivity.

### **Discussion One: The Geo-economic Framework of CPEC Phase-II**

The China-Pakistan Economic Corridor (CPEC) Phase-II represents a significant transition from conventional infrastructure development toward a broader framework of geo-economic cooperation, industrial integration, and regional connectivity. While the first phase primarily focused on highways, power generation projects, and transport infrastructure, the second phase emphasizes industrialization, Special Economic Zones (SEZs), technological cooperation, digital connectivity, and regional trade integration. In the contemporary international system, geo-economics has emerged as a decisive factor in shaping interstate relations, and CPEC is increasingly viewed as one of the most influential manifestations of China's Belt and Road Initiative (BRI).

Scholars of international relations argue that economic corridors are no longer merely commercial routes; rather, they function as strategic instruments for regional influence, economic interdependence, and political stability. In this context, Pakistan's geographical location has acquired immense strategic significance due to its connectivity with South Asia, Central Asia, the Middle East, and the Arabian Sea. Andrew Small observes:

"CPEC is not simply an infrastructure initiative; it represents China's broader strategic and economic vision to integrate Pakistan into a regional network of trade, connectivity, and industrial development."<sup>1</sup>

This observation highlights that CPEC should not be interpreted solely as a bilateral development project; rather, it reflects a larger geo-economic strategy aimed at regional integration and economic interdependence. The corridor provides China with shorter access to the Arabian Sea while simultaneously offering Pakistan opportunities for industrial growth, foreign investment, and regional trade expansion. Siegfried O. Wolf further explains:

"The second phase of CPEC aims at strengthening industrialization, agricultural modernization, and socio-economic development in Pakistan through enhanced Chinese investment."

Wolf's analysis demonstrates that the strategic orientation of CPEC Phase-II has shifted toward productive economic sectors. Industrial cooperation, export-oriented production, agricultural modernization, and employment generation have become central objectives of the project. This transformation reflects a broader policy shift from connectivity-based development toward sustainable economic integration.

### **Transition from Infrastructure Development to Industrial and Economic Cooperation**

One of the defining features of CPEC Phase-II is the transition from physical infrastructure development to industrial and economic cooperation. During the initial phase, emphasis was placed on roads, railways, energy projects, and port development in order to establish the foundational infrastructure necessary for long-term connectivity. However, the second phase seeks to capitalize on this infrastructure by promoting industrial

productivity, manufacturing, and trade facilitation. According to the World Bank:

“CPEC has the potential to shift Pakistan’s economic geography by improving connectivity and reducing transportation costs, thereby facilitating industrial expansion and regional trade.”<sup>2</sup>

This assessment reflects the economic rationale behind Phase-II. Infrastructure alone cannot ensure sustainable development unless accompanied by industrialization and market integration. Consequently, Pakistan and China have increasingly focused on joint ventures, industrial relocation, technology transfer, and export-oriented economic policies.

Chinese industries seeking lower production costs and access to emerging markets may find Pakistan an attractive destination. Simultaneously, Pakistan can benefit from employment generation, technological learning, and increased industrial productivity. This evolving cooperation illustrates how geo-economics has become intertwined with national development strategies.

### **Special Economic Zones (SEZs) and Regional Trade Connectivity**

Special Economic Zones constitute one of the most important pillars of CPEC Phase-II. These zones are intended to promote industrial clustering, attract foreign direct investment, enhance exports, and strengthen regional trade connectivity. SEZs also aim to integrate Pakistan into regional and global value chains. Iqrar Ahmad Khan remarks:

“SEZs under CPEC can become engines of industrial growth by attracting domestic and foreign investment and by creating employment opportunities across various sectors.”<sup>3</sup>

The establishment of SEZs reflects China’s own development model, where industrial zones played a crucial role in economic modernization. Through these zones, Pakistan seeks to improve industrial competitiveness and facilitate export-led growth. Furthermore, SEZs may contribute to reducing regional economic disparities by promoting development in underdeveloped provinces.

Other scholars also emphasize the regional implications of trade connectivity under CPEC. Michael Kugelman notes:

“CPEC could transform Pakistan into a regional commercial hub connecting China, Central Asia, the Middle East, and South Asia.”<sup>4</sup>

This perspective underlines the broader regional dimensions of CPEC. Enhanced road networks, rail connectivity, and trade routes may increase economic interaction among neighboring states and potentially reshape regional trade dynamics.

### **Energy Cooperation, Digital Corridors, and Technological Integration**

Energy cooperation remains one of the central components of CPEC. Pakistan’s chronic energy shortages had severely affected industrial productivity and economic growth for decades. Through CPEC-related

investments, several power generation projects have contributed to improving electricity production and reducing energy deficits. According to Shahid Javed Burki:

“Chinese energy investments under CPEC have helped Pakistan address critical energy shortages that constrained industrial and economic growth.”

The significance of energy cooperation extends beyond electricity generation. Reliable energy infrastructure creates the foundation for industrial activity, technological advancement, and investor confidence. In Phase-II, cooperation has increasingly expanded into digital infrastructure, fiber-optic connectivity, e-commerce, and technological integration.

The concept of a “Digital Silk Road” has become increasingly associated with the broader BRI framework. Huawei technologies, fiber-optic networks, and digital communication systems are viewed as essential components of modern economic connectivity. These developments indicate that contemporary geo-economics is deeply connected with technological competitiveness and digital infrastructure.

### **Gwadar Port as a Strategic Geo-economic Hub**

Gwadar Port occupies a central position in the geo-economic vision of CPEC. Located near the Strait of Hormuz, one of the world’s most critical energy transit routes, Gwadar has immense strategic and commercial importance. The port provides China with direct access to the Arabian Sea and potentially reduces dependence on longer maritime routes through the Strait of Malacca.

David Brewster observes:

“Gwadar’s strategic location gives China an opportunity to secure vital trade and energy routes while enhancing Pakistan’s regional economic significance.”<sup>5</sup>

Gwadar’s importance extends beyond maritime trade. The development of free zones, logistics centers, industrial parks, and transportation networks around the port may transform it into a regional commercial hub. Moreover, Gwadar could facilitate trade access for landlocked Central Asian states, thereby strengthening regional economic integration.

Many analysts also consider Gwadar a symbol of the changing balance between geopolitics and geo-economics in the Indian Ocean region. Economic connectivity, maritime trade routes, and energy security have become deeply interconnected strategic concerns for regional and global powers.

### **The Belt and Road Initiative (BRI) and Pakistan’s Regional Importance**

CPEC is widely recognized as the flagship project of China’s Belt and Road Initiative. The BRI seeks to enhance connectivity through infrastructure, trade, investment, and cultural cooperation across Asia, Europe, Africa, and the Middle East. Within this broader framework, Pakistan occupies a

strategically vital position.

Xinhua described CPEC as:

“A flagship project of the Belt and Road Initiative that symbolizes China-Pakistan friendship and regional connectivity.”<sup>6</sup>

Pakistan’s geographical position provides China with access to maritime trade routes and strengthens Beijing’s regional economic outreach. Simultaneously, Pakistan views CPEC as an opportunity to modernize infrastructure, attract investment, and enhance regional influence.

However, scholars also caution that the success of CPEC Phase-II depends upon political stability, institutional efficiency, transparency, and regional security. Economic corridors require long-term policy consistency and effective governance mechanisms to achieve sustainable outcomes.

Overall, the geo-economic framework of CPEC Phase-II reflects a transformation in regional economic strategy where infrastructure, industrialization, energy cooperation, technological integration, and maritime connectivity collectively shape the future of regional development and interstate cooperation.

### **Discussion Two: Internal and External Security Risks to CPEC Phase-II**

The success of the China-Pakistan Economic Corridor (CPEC) Phase-II is closely linked with the security environment of Pakistan and the broader regional order. While the corridor has been presented as a transformative geo-economic initiative capable of reshaping regional connectivity and industrial development, it simultaneously faces a range of internal and external security challenges. These challenges include militancy, insurgency, political instability, cyber threats, institutional weaknesses, and geopolitical rivalries. In strategic discourse, economic corridors are rarely insulated from security dynamics because large-scale connectivity projects inevitably intersect with political interests, ethnic grievances, regional competition, and transnational security concerns.

CPEC’s strategic importance has elevated its profile not only as an economic project but also as a geopolitical instrument within the broader Belt and Road Initiative (BRI). Consequently, various state and non-state actors perceive the corridor through competing strategic lenses. Some regard it as a catalyst for economic cooperation and regional prosperity, whereas others view it as a challenge to existing regional balances of power. This duality has intensified debates concerning the security architecture necessary for the protection of CPEC-related infrastructure and personnel. Sajjad Ashraf remarks:

“CPEC is as much a security project as it is an economic one because its sustainability depends upon internal stability and regional strategic balance.”<sup>7</sup>

This observation reflects the broader reality that economic integration cannot flourish without political stability and effective security management.

The interconnection between development and security has therefore become one of the defining features of CPEC Phase-II.

### **Militancy, Extremism, and Threats to Chinese Personnel**

Militancy and violent extremism remain among the most significant threats to the implementation of CPEC projects. Over the past decade, several attacks targeting Chinese engineers, workers, and installations have raised serious concerns regarding the security of foreign personnel operating in Pakistan. Militant organizations often perceive CPEC as a symbol of state authority, foreign influence, or strategic alignment, making Chinese interests vulnerable to targeted violence. The International Crisis Group observed:

“Attacks on Chinese nationals in Pakistan demonstrate how militant groups increasingly view CPEC as a high-value strategic target.”<sup>8</sup>

The targeting of Chinese personnel has implications extending beyond immediate security concerns. Such incidents may undermine investor confidence, delay project implementation, and create diplomatic sensitivities between Islamabad and Beijing. In response, Pakistan has established specialized security divisions dedicated to the protection of CPEC-related projects and foreign workers.

At the same time, scholars argue that security measures alone cannot eliminate the roots of militancy. Socio-economic deprivation, ideological radicalization, weak governance, and regional instability continue to contribute to extremist violence. Hassan Abbas writes:

“Counterterrorism strategies in Pakistan require not only military operations but also institutional reform, socio-economic inclusion, and ideological moderation.”<sup>9</sup>

This broader analytical framework demonstrates that long-term security for CPEC depends upon comprehensive state-building measures rather than exclusively coercive approaches.

### **Insurgency and Security Challenges in Balochistan**

Balochistan occupies a central place within the CPEC framework due to the strategic significance of Gwadar Port and related infrastructure projects. However, the province has long experienced insurgency, ethnic grievances, economic disparities, and political alienation. Several separatist groups have opposed CPEC projects, arguing that local populations have not adequately benefited from development initiatives. Frederic Grare notes:

“The insurgency in Balochistan is rooted in political exclusion, uneven resource distribution, and long-standing tensions between the center and the province.”<sup>10</sup>

The persistence of insurgency presents both security and political challenges for CPEC Phase-II. Attacks on infrastructure, transportation routes, and security forces disrupt economic activities and create uncertainty regarding long-term investments. Furthermore, instability in Balochistan affects Pakistan’s broader regional connectivity ambitions because Gwadar

functions as a key component of the corridor's maritime strategy.

Some analysts contend that inclusive development policies, local participation, employment opportunities, and provincial autonomy are essential for addressing these concerns. Without meaningful socio-economic integration, security operations alone may prove insufficient to ensure lasting stability.

### **Cybersecurity Threats and Digital Infrastructure Protection**

As CPEC Phase-II increasingly incorporates digital corridors, technological integration, and smart infrastructure, cybersecurity has emerged as a major area of concern. Modern economic corridors rely heavily on digital communication systems, financial networks, surveillance technologies, and data-sharing mechanisms. Consequently, cyberattacks against digital infrastructure could disrupt trade, energy systems, and communication networks associated with CPEC. Richard A. Clarke explains:

"Cybersecurity has become a critical dimension of national security because economic infrastructure and digital networks are increasingly interconnected."<sup>11</sup>

This perspective is particularly relevant to CPEC's evolving technological framework. Fiber-optic projects, digital trade systems, e-governance mechanisms, and telecommunications infrastructure require robust cybersecurity protections. Vulnerabilities in these systems could expose sensitive economic and strategic information to hostile actors.

In addition, concerns regarding data security, technological dependency, and digital surveillance have become part of wider global debates surrounding the Digital Silk Road. Scholars increasingly argue that cyber resilience is now an indispensable component of national economic security.

### **Political Instability and Institutional Constraints in Pakistan**

Political instability represents another major challenge to the successful implementation of CPEC Phase-II. Frequent changes in political leadership, policy inconsistency, bureaucratic inefficiency, and institutional fragmentation can delay project execution and weaken investor confidence. Ishrat Husain observes:

"Sustainable economic development in Pakistan requires institutional continuity, governance reforms, and political stability."<sup>12</sup>

The complexity of CPEC demands effective coordination among federal institutions, provincial governments, regulatory authorities, and security agencies. However, governance challenges often create administrative delays and disputes over resource allocation, project prioritization, and provincial representation.

Political polarization within Pakistan has also influenced public discourse surrounding CPEC. Competing political narratives sometimes frame the project either as a transformative economic opportunity or as a

source of financial dependency and unequal development. Such debates may affect policy continuity and long-term planning.

Moreover, transparency concerns, debt-related discussions, and bureaucratic inefficiencies have occasionally generated skepticism among domestic and international observers. Effective institutional governance therefore remains essential for maximizing the economic potential of CPEC Phase-II.

### **Hybrid Warfare and Foreign Intelligence Interference**

The strategic significance of CPEC has intensified regional geopolitical competition, leading many analysts to discuss the role of hybrid warfare and foreign interference. Hybrid warfare refers to the use of non-conventional methods such as disinformation campaigns, cyber operations, proxy actors, economic pressure, and covert destabilization strategies aimed at undermining strategic projects without direct military confrontation. Frank G. Hoffman defines hybrid warfare as:

“A blend of conventional weapons, irregular tactics, terrorism, and information operations employed to achieve political objectives.”<sup>13</sup>

Within the context of CPEC, concerns have emerged regarding propaganda campaigns, sabotage attempts, cyber espionage, and the possible involvement of hostile intelligence networks seeking to disrupt regional connectivity initiatives. Pakistani security analysts frequently argue that foreign actors may exploit internal divisions, separatist movements, or extremist organizations to undermine the corridor.

At the international level, strategic competition between major powers has further complicated the security environment surrounding the Belt and Road Initiative. Rival geopolitical interests in the Indian Ocean, South Asia, and the broader Indo-Pacific region influence perceptions regarding CPEC's strategic implications.

Scholars therefore emphasize that Pakistan's response to hybrid threats must include not only military preparedness but also information security, diplomatic engagement, institutional resilience, and strategic communication. The protection of CPEC increasingly requires a multidimensional security framework capable of addressing both conventional and non-conventional threats.

In conclusion, the security risks confronting CPEC Phase-II are multifaceted and interconnected. Militancy, insurgency, cybersecurity vulnerabilities, political instability, and hybrid warfare collectively shape the strategic environment in which the corridor operates. The long-term sustainability of CPEC depends not merely upon economic investment but also upon Pakistan's ability to establish political stability, institutional efficiency, social inclusion, and comprehensive national security mechanisms capable of safeguarding this ambitious geo-economic initiative.

### **Discussion Three: Regional Power Politics and Strategic Competition**

The China-Pakistan Economic Corridor (CPEC) is not merely an economic initiative; it is deeply embedded within the broader framework of regional power politics and strategic competition in Asia. As the flagship project of China's Belt and Road Initiative (BRI), CPEC has significantly altered the geopolitical and geo-economic landscape of South Asia, the Indian Ocean Region (IOR), and adjacent regions. The corridor has generated both cooperation and contestation among regional and global powers, each interpreting its implications through distinct strategic perspectives.

In contemporary international relations, infrastructure corridors increasingly function as instruments of strategic influence, economic diplomacy, and regional integration. Consequently, major powers perceive CPEC not only in terms of trade and development but also through the lenses of security, maritime access, regional alliances, and geopolitical balance. The project's location at the intersection of South Asia, Central Asia, the Middle East, and the Indian Ocean has intensified strategic calculations among China, India, the United States, Russia, Iran, and other regional actors. David Malone observes:

"Economic connectivity projects in Asia are increasingly intertwined with strategic competition and the evolving balance of power among regional states."<sup>14</sup>

This perspective demonstrates that regional connectivity initiatives cannot be separated from geopolitical realities. CPEC has therefore emerged as both an economic opportunity and a strategic concern for various international actors.

### **China-India Rivalry and Indian Opposition to CPEC**

One of the most significant geopolitical dimensions of CPEC is its relationship with the enduring rivalry between China and India. India has consistently opposed the project, particularly because a portion of the corridor passes through Gilgit-Baltistan, a territory linked to the broader Kashmir dispute. From the Indian perspective, CPEC carries implications for sovereignty, regional influence, and strategic encirclement.

C. Raja Mohan writes:

"India views the China-Pakistan partnership through the prism of strategic encirclement and regional power competition."<sup>15</sup>

India's objections are not limited to territorial concerns alone. Many Indian strategists argue that CPEC enhances China's strategic presence in South Asia and the Indian Ocean Region. The development of Gwadar Port, Chinese investments in regional infrastructure, and expanding Sino-Pakistani cooperation are frequently interpreted within India as elements of a broader Chinese strategy to increase regional influence. Brahma Chellaney similarly argues:

"The Belt and Road Initiative represents not only an economic vision but also a geopolitical instrument for expanding Chinese influence across

Asia."<sup>16</sup>

This strategic competition has contributed to heightened tensions within South Asia. India's growing partnerships with the United States, Japan, and Australia under the Indo-Pacific framework are often viewed as balancing mechanisms against China's regional expansion.

### **The United States and its Strategic Interests in South Asia**

The United States has maintained longstanding strategic interests in South Asia due to the region's geopolitical importance, nuclear dynamics, counterterrorism concerns, and maritime routes. Washington's perception of CPEC and the broader BRI framework is influenced by concerns regarding China's expanding global influence and strategic ambitions. According to Robert D. Kaplan:

"The Indian Ocean will be a key arena of twenty-first century power politics because it connects the energy supplies, trade routes, and strategic interests of major powers."<sup>17</sup>

From the American perspective, China's growing presence in ports, digital infrastructure, and connectivity projects raises concerns about strategic dependency and regional influence. Consequently, the United States has promoted alternative regional initiatives and strengthened strategic cooperation with India under the broader Indo-Pacific strategy.

At the same time, American policymakers recognize Pakistan's geographic significance and the economic potential of regional connectivity. However, concerns regarding transparency, debt sustainability, and strategic implications continue to shape Washington's cautious approach toward CPEC.

Daniel S. Markey observes:

"China's investments in Pakistan enhance Beijing's regional leverage while simultaneously complicating America's strategic calculations in South Asia."<sup>18</sup>

The United States therefore approaches CPEC through a dual framework: acknowledging the importance of regional development while remaining concerned about China's expanding geopolitical footprint.

### **Russia's Expanding Role in Regional Connectivity Projects**

Russia has increasingly shown interest in regional connectivity initiatives involving South Asia, Central Asia, and Eurasia. Although Moscow was initially cautious regarding China's Belt and Road Initiative, recent years have witnessed greater coordination between Russian and Chinese regional economic strategies. Alexander Lukin explains:

"Russia increasingly views Eurasian connectivity projects as opportunities for economic cooperation and regional strategic balance."<sup>19</sup>

Russia's interest in Pakistan has also evolved significantly. Historically aligned more closely with India, Moscow has gradually expanded defense, energy, and diplomatic engagement with Islamabad. This shift reflects

broader geopolitical transformations within Eurasia and the desire to diversify regional partnerships.

Furthermore, Russia recognizes the economic potential of transport corridors linking Central Asia, Pakistan, and the Arabian Sea. Such connectivity may enhance regional trade and reduce dependence on traditional maritime routes. Russian participation in regional energy projects and transport networks demonstrates the growing complexity of Eurasian geopolitics.

Scholars argue that Russia's expanding engagement in South Asia contributes to the emergence of a multipolar regional order in which connectivity projects increasingly shape diplomatic alignments and strategic cooperation.

### **The Strategic Position of Iran, Afghanistan, and Central Asia**

The geographical location of Iran, Afghanistan, and Central Asian states gives them considerable strategic importance within the broader framework of CPEC and regional connectivity. These regions serve as potential transit corridors linking South Asia with Eurasia and the Middle East.

Iran occupies a particularly significant position due to its proximity to Gwadar Port and its own development of Chabahar Port in cooperation with India. Some analysts perceive Gwadar and Chabahar as competing ports, while others emphasize their potential complementarity within broader regional trade networks. Nader Entessar notes:

"Iran's strategic location makes it an indispensable actor in regional connectivity and energy transportation."<sup>20</sup>

Afghanistan also holds critical importance because regional stability and transit connectivity are closely linked with Afghan peace and security. Persistent instability in Afghanistan affects trade routes, energy projects, and regional integration efforts associated with CPEC and Central Asian connectivity.

Central Asian republics, rich in energy resources and strategically located between major powers, view connectivity corridors as opportunities for trade diversification and economic development. Access to Gwadar Port could provide these landlocked states with alternative routes to global markets.

Many scholars therefore regard CPEC as part of a larger Eurasian connectivity framework extending beyond bilateral China-Pakistan cooperation.

### **Maritime Competition in the Indian Ocean Region (IOR)**

The Indian Ocean Region has emerged as one of the most strategically contested maritime spaces in the contemporary world. Major powers increasingly compete for influence over sea lanes, ports, naval access, and maritime trade routes due to the region's central role in global commerce and

energy transportation. Geoffrey Till states:

“Control and protection of maritime trade routes remain central to the strategic calculations of major powers.”<sup>21</sup>

Within this maritime environment, Gwadar Port significantly enhances the strategic relevance of CPEC. The port’s proximity to the Strait of Hormuz, through which a substantial portion of the world’s oil supply passes, increases its geopolitical importance. China’s expanding maritime presence in the Indian Ocean has therefore generated concern among rival powers, particularly India and the United States.

The concept of the “String of Pearls” is frequently invoked in strategic discussions concerning China’s port development projects across the Indian Ocean. Although Chinese officials describe these initiatives as primarily commercial, critics argue that such infrastructure could eventually support broader strategic objectives. James R. Holmes remarks:

“The Indian Ocean is becoming an arena where economic connectivity and naval strategy increasingly overlap.”<sup>22</sup>

This evolving maritime competition demonstrates that economic corridors and port infrastructure possess strategic implications extending far beyond commercial activity. Maritime security, naval presence, energy routes, and geopolitical influence are now deeply interconnected within the Indo-Pacific strategic environment.

In conclusion, regional power politics and strategic competition constitute a central dimension of CPEC Phase-II. The China-India rivalry, American strategic calculations, Russia’s expanding engagement, the geopolitical significance of Iran and Central Asia, and maritime competition in the Indian Ocean collectively shape the strategic environment surrounding the corridor. CPEC thus represents not only a developmental initiative but also a major geopolitical phenomenon influencing the future balance of power, regional connectivity, and strategic alignments across Asia.

#### **Discussion Four: Economic, Strategic, and Diplomatic Impacts of CPEC Phase-II**

The second phase of the China-Pakistan Economic Corridor (CPEC) represents a decisive stage in the evolution of Pakistan’s economic and strategic landscape. Unlike the initial phase, which concentrated primarily on infrastructure and energy projects, Phase-II seeks to deepen industrial cooperation, enhance economic productivity, promote technological integration, and strengthen regional connectivity. As one of the flagship components of China’s Belt and Road Initiative (BRI), CPEC has generated extensive debate among policymakers, economists, diplomats, and strategic analysts regarding its long-term implications for Pakistan and the broader region.

Supporters of the project view CPEC as a transformative opportunity capable of modernizing Pakistan’s economy, improving industrial competitiveness, creating employment opportunities, and strengthening

regional trade integration. Critics, however, raise concerns regarding debt sustainability, institutional capacity, transparency, and the possibility of strategic dependency. Consequently, CPEC Phase-II has become both an economic project and a subject of geopolitical and intellectual contestation. Jean-Marc F. Blanchard observes:

“Economic corridors are not merely development projects; they reshape regional political economies and influence strategic alignments among states.”<sup>23</sup>

This assessment illustrates the multidimensional nature of CPEC. Its impacts extend beyond economics into the domains of diplomacy, regional influence, and strategic competition.

### **Economic Transformation and Industrial Modernization in Pakistan**

One of the central objectives of CPEC Phase-II is the economic transformation and industrial modernization of Pakistan. The transition from infrastructure construction toward industrial cooperation reflects an effort to create sustainable economic growth through manufacturing, export expansion, and technological advancement.

According to the Asian Development Bank:

“Industrial modernization and regional connectivity are essential for Pakistan’s long-term economic competitiveness and integration into global value chains.”<sup>24</sup>

The establishment of Special Economic Zones (SEZs), industrial clusters, and logistics networks is intended to attract domestic and foreign investment while encouraging export-oriented production. Pakistan’s industrial sector has historically faced challenges such as energy shortages, outdated technology, limited infrastructure, and low productivity. Through Chinese investment and technological cooperation, policymakers hope to address these structural weaknesses.

Chinese industrial relocation also presents opportunities for Pakistan to become part of regional manufacturing networks. Labor-intensive industries relocating from China due to rising production costs may contribute to industrial diversification within Pakistan. This process could strengthen local manufacturing capacity and increase economic competitiveness. Shahid Javed Burki writes:

“CPEC offers Pakistan an opportunity to shift from a consumption-oriented economy toward an investment and production-based economic model.”<sup>25</sup>

The broader significance of industrial modernization lies in its potential to transform Pakistan’s economic structure from dependence on imports and limited industrial output toward a more integrated and productive economy.

### **Employment Opportunities and Human Capital Development**

Employment generation constitutes one of the most widely discussed

dimensions of CPEC Phase-II. Economic corridors often generate direct and indirect employment through infrastructure development, industrial activity, transportation networks, logistics services, and technological sectors. The Pakistan Institute of Development Economics noted:

“CPEC-related industrialization has the potential to create substantial employment opportunities, particularly for youth and semi-skilled labor.”<sup>26</sup>

In a country with a rapidly growing population and high youth unemployment, employment creation remains a critical national priority. SEZs and industrial projects may contribute to workforce expansion, vocational training, and entrepreneurship development.

However, economists emphasize that sustainable employment depends not merely upon investment but also upon human capital development. Education, technical training, and institutional reform are essential for enabling local populations to benefit from industrial growth. Amartya Sen argues:

“Human capital development remains fundamental to sustainable economic progress and social advancement.”<sup>27</sup>

This perspective is highly relevant in the context of CPEC Phase-II. Without investment in education, technical expertise, and vocational skills, Pakistan may struggle to maximize the long-term benefits of industrial cooperation and technological integration.

Furthermore, some scholars have raised concerns regarding the equitable distribution of employment opportunities among provinces and local communities. Inclusive development policies are therefore considered essential for ensuring social cohesion and economic balance.

### **China’s Expanding Strategic Influence in the Region**

CPEC has significantly enhanced China’s strategic presence in South Asia and the Indian Ocean Region. Through investments in infrastructure, ports, digital networks, and industrial development, China has expanded its economic and diplomatic influence across the region. David Shambaugh remarks:

“China’s economic diplomacy increasingly serves strategic purposes by expanding Beijing’s regional influence through connectivity and investment.”<sup>28</sup>

Gwadar Port, in particular, has become a symbol of China’s growing maritime and strategic outreach. Although Beijing consistently describes CPEC as an economic initiative, rival powers frequently interpret Chinese investments through geopolitical lenses. The integration of trade routes, energy corridors, and digital infrastructure contributes to China’s broader vision of regional connectivity under the Belt and Road Initiative.

This expanding influence has implications for regional strategic balances, particularly in relation to India and the United States. China’s deepening partnership with Pakistan strengthens bilateral strategic

cooperation while simultaneously increasing Beijing's role in South Asian affairs.

At the same time, many developing countries view Chinese investment as an alternative source of economic cooperation outside traditional Western-led financial frameworks. This has contributed to the emergence of new patterns of economic diplomacy and multipolar regional politics.

### **Diplomatic Challenges and Opportunities for Pakistan**

CPEC has created both diplomatic opportunities and strategic challenges for Pakistan. On one hand, the corridor enhances Pakistan's international relevance by positioning it as a central hub of regional connectivity linking South Asia, Central Asia, the Middle East, and Western China. Husain Haqqani observes:

"Pakistan's geographic location has historically provided strategic significance, but connectivity initiatives such as CPEC may convert geography into sustainable economic advantage."<sup>29</sup>

Through CPEC, Pakistan has strengthened its strategic partnership with China and increased its participation in regional economic diplomacy. The corridor also offers opportunities for broader regional cooperation involving Central Asian states, the Gulf region, and potentially Afghanistan and Iran.

However, CPEC has simultaneously complicated Pakistan's diplomatic environment. India's opposition to the project, American concerns regarding China's strategic expansion, and broader geopolitical rivalries place Pakistan within an increasingly competitive regional framework.

Diplomatic balancing has therefore become a crucial challenge for Islamabad. Pakistan seeks to maintain strong relations with China while simultaneously avoiding excessive strategic polarization with Western powers and neighboring states.

Additionally, questions regarding transparency, environmental sustainability, and provincial equity occasionally influence international perceptions of the project. Effective diplomacy, institutional credibility, and regional engagement are thus essential for strengthening Pakistan's international standing.

### **Debt Sustainability, Economic Dependency, and Critical Debates**

One of the most debated aspects of CPEC concerns debt sustainability and the possibility of economic dependency. Critics argue that large-scale borrowing associated with infrastructure development may increase Pakistan's financial vulnerabilities, particularly if economic returns fail to meet expectations. Deborah Brautigam explains:

"The narrative of 'debt-trap diplomacy' often oversimplifies complex financial relationships, yet concerns regarding debt management and economic sustainability remain important."<sup>30</sup>

The debate surrounding debt sustainability has become prominent in discussions about the Belt and Road Initiative globally. Some analysts warn that excessive dependence on external financing may constrain policy autonomy and increase long-term economic risks.

Conversely, supporters of CPEC argue that infrastructure investment is necessary for economic growth and that long-term benefits such as industrialization, connectivity, and trade expansion may outweigh short-term financial pressures. The International Monetary Fund observed:

“Sustainable debt management requires transparency, fiscal discipline, and efficient utilization of development financing.”<sup>31</sup>

This perspective highlights the importance of governance and institutional management rather than viewing debt solely through geopolitical narratives. Economic dependency is influenced not merely by borrowing itself but by the effectiveness of investment utilization, export growth, and domestic economic reforms.

Scholars further argue that Pakistan’s long-term economic success under CPEC depends upon institutional transparency, industrial productivity, policy continuity, and equitable distribution of development benefits. Without structural reforms and sustainable economic planning, even large-scale investment projects may fail to achieve their intended outcomes.

In conclusion, CPEC Phase-II carries profound economic, strategic, and diplomatic implications for Pakistan and the broader region. It offers opportunities for industrial modernization, employment generation, regional connectivity, and enhanced international relevance. Simultaneously, it raises important questions regarding strategic influence, diplomatic balancing, debt sustainability, and economic governance. The future trajectory of CPEC will therefore depend not only upon infrastructure and investment but also upon Pakistan’s ability to strengthen institutions, develop human capital, maintain diplomatic equilibrium, and pursue sustainable economic policies within an increasingly competitive regional environment.

#### **Discussion Five: Future Prospects of CPEC Phase-II and Regional Stability**

The future trajectory of the China-Pakistan Economic Corridor (CPEC) Phase-II is closely connected with the broader dynamics of regional stability, economic integration, and geopolitical transformation in Asia. As the flagship component of China’s Belt and Road Initiative (BRI), CPEC has evolved beyond a bilateral infrastructure project into a multidimensional framework involving trade connectivity, industrial cooperation, technological integration, maritime development, and strategic diplomacy. Its long-term success depends not only upon economic investment but also upon sustainable security mechanisms, political stability, institutional efficiency, and regional cooperation.

In contemporary international relations, economic corridors increasingly function as instruments of strategic interdependence. They create

new opportunities for economic growth while simultaneously reshaping regional political alignments and patterns of cooperation. The future of CPEC Phase-II therefore carries implications not only for Pakistan and China but also for the wider Asian region. Wang Yi remarks:

“Connectivity and shared development are essential foundations for regional peace, prosperity, and mutual trust in Asia.”<sup>32</sup>

This perspective reflects the broader philosophy underlying the Belt and Road Initiative, which emphasizes economic integration as a pathway toward regional stability and cooperative development.

### **Regional Economic Integration and Cross-border Cooperation**

One of the most significant future prospects of CPEC Phase-II lies in its potential to promote regional economic integration and cross-border cooperation. The corridor connects Pakistan with Western China while also providing possible access to Central Asia, the Middle East, and the broader Indian Ocean Region. Such connectivity may contribute to the development of transnational trade networks and regional supply chains.

According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP):

“Regional connectivity enhances trade efficiency, reduces transportation costs, and promotes economic interdependence among neighboring states.”<sup>33</sup>

Economic interdependence often creates incentives for cooperation and stability. Enhanced trade routes, energy corridors, and transportation networks may encourage regional states to pursue collaborative economic policies rather than confrontational strategies.

CPEC’s future expansion toward Afghanistan and Central Asia could significantly increase Pakistan’s importance as a regional transit hub. Similarly, cooperation with Iran and Gulf states may strengthen regional energy and trade connectivity. Scholars argue that if effectively managed, such integration could transform Pakistan from a geopolitically contested state into a geo-economic bridge connecting multiple regions. Parag Khanna writes:

“Connectivity infrastructure is reshaping the geopolitical map of Asia by creating new patterns of economic interdependence.”<sup>34</sup>

This evolving regional framework demonstrates that the future of CPEC depends largely upon the ability of regional actors to prioritize economic cooperation over strategic rivalry.

### **Security Mechanisms for Sustainable Corridor Development**

Security remains a decisive factor in determining the long-term sustainability of CPEC Phase-II. Economic corridors require stable political environments, secure transportation routes, and reliable institutional protection mechanisms in order to attract investment and maintain operational continuity. The Stockholm International Peace Research Institute

observed:

“Economic development projects in conflict-prone regions require integrated security frameworks combining military, political, and socio-economic approaches.”<sup>35</sup>

Pakistan has already established dedicated security divisions for the protection of CPEC projects and Chinese personnel. However, long-term security cannot rely solely upon military arrangements. Sustainable stability requires addressing underlying socio-economic grievances, promoting inclusive governance, and strengthening local participation in development processes.

Balochistan remains particularly significant in this regard due to Gwadar Port’s strategic importance and the persistence of insurgent activity. Inclusive development policies, local employment opportunities, and political engagement are increasingly viewed as necessary components of corridor security.

In addition, cybersecurity has emerged as an essential dimension of future corridor protection. As CPEC increasingly incorporates digital infrastructure, smart logistics, and technological integration, safeguarding communication networks and data systems becomes strategically important.

Scholars therefore argue that the future security architecture of CPEC must combine conventional security measures with economic inclusion, digital resilience, and institutional coordination.

### **The Future of Pakistan-China Strategic Partnership**

The Pakistan-China relationship has historically been described as an “all-weather strategic partnership.” CPEC has further strengthened this relationship by deepening economic, diplomatic, and strategic cooperation between the two countries.

Zhang Youyi notes:

“CPEC has elevated Pakistan-China relations from traditional strategic cooperation to comprehensive geo-economic partnership.”<sup>36</sup>

The future of this partnership is expected to extend beyond infrastructure development toward industrial modernization, technological cooperation, digital connectivity, agricultural development, and educational exchange. China’s continued investment in Pakistan reflects Beijing’s long-term strategic interest in regional connectivity and maritime access.

At the same time, Pakistan views China as a reliable economic and diplomatic partner capable of supporting infrastructure modernization and economic transformation. The partnership has also gained significance within the context of shifting global power structures and increasing multipolarity.

Nevertheless, scholars emphasize that the sustainability of this relationship depends upon mutual economic benefit, transparency, and effective project management. Pakistan must ensure that domestic institutions possess the capacity to maximize the benefits of Chinese investment while

safeguarding national economic interests.

The future Pakistan–China partnership is therefore likely to evolve into a broader strategic and developmental framework encompassing economics, security, technology, and regional diplomacy.

### **CPEC and the Emerging Asian Geo-political Order**

CPEC occupies a central position within the changing geopolitical landscape of Asia. The rise of China, the growing significance of the Indo-Pacific region, regional connectivity initiatives, and the emergence of multipolar politics have collectively transformed the strategic environment in which CPEC operates. Henry Kissinger observes:

“The center of gravity of international politics is gradually shifting toward Asia, where economic growth and strategic competition increasingly intersect.”<sup>37</sup>

Within this emerging Asian order, CPEC symbolizes the growing importance of geo-economics as a tool of strategic influence. Infrastructure, trade corridors, maritime routes, and digital networks are increasingly shaping political alignments and regional power dynamics.

China’s expanding regional role through the Belt and Road Initiative has challenged traditional geopolitical structures while encouraging new forms of regional cooperation. Simultaneously, rival powers such as India and the United States remain cautious regarding China’s expanding influence in South Asia and the Indian Ocean Region.

The evolving Asian order is therefore characterized by both cooperation and competition. CPEC exists at the intersection of these dynamics, functioning simultaneously as a development initiative and a strategic project with regional and global implications.

Some scholars argue that economic interdependence generated through projects like CPEC may reduce regional tensions by creating shared economic interests. Others caution that strategic rivalries may continue to shape regional responses to connectivity initiatives.

### **Policy Recommendations for Stability, Economic Growth, and Regional Peace**

The future success of CPEC Phase-II depends upon the adoption of comprehensive and balanced policy measures aimed at promoting stability, sustainable growth, and regional cooperation. Policymakers, scholars, and strategic analysts have proposed several recommendations for strengthening the corridor’s long-term effectiveness.

First, Pakistan must prioritize institutional reforms, transparency, and governance efficiency. Effective project implementation requires coordination among federal institutions, provincial governments, regulatory bodies, and security agencies.

Second, greater emphasis should be placed on human capital development through education, vocational training, and technological

learning. Sustainable industrial growth depends upon a skilled workforce capable of participating in modern economic sectors.

Third, inclusive development policies are essential for reducing regional disparities and addressing local grievances. Communities directly affected by CPEC projects should receive tangible economic and social benefits through employment opportunities, infrastructure access, and social development initiatives.

Fourth, regional diplomacy should focus on economic cooperation rather than geopolitical confrontation. Expanding connectivity with neighboring states, including Afghanistan, Iran, and Central Asian republics, may enhance regional trade integration and mutual economic dependence.

Fifth, Pakistan should strengthen cybersecurity frameworks and digital infrastructure protection mechanisms to address emerging technological threats associated with digital corridors and smart connectivity systems. The World Economic Forum stated:

“Long-term economic stability depends upon resilient institutions, regional cooperation, and sustainable development policies.”<sup>38</sup>

Ultimately, the future of CPEC Phase-II will depend upon the ability of Pakistan and China to balance economic ambition with political stability, strategic prudence, and inclusive development. If effectively managed, CPEC may contribute not only to Pakistan’s economic transformation but also to broader regional connectivity, cooperation, and peace within the evolving Asian geopolitical order.



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