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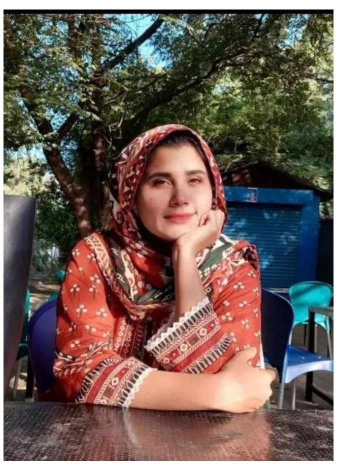
Beyond Bricks and Roads

Reassessing China Pakistan Economic collaboration in an era of global economic uncertainty



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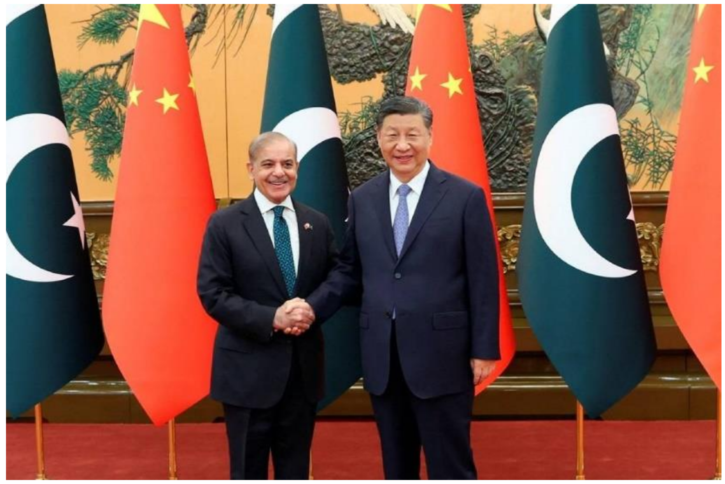
Summary



For a decade, the narration of the China-Pakistan Economic Corridor (CPEC) has denoted concrete infrastructure: highways, ports, and energy initiatives. This narrative is no longer adequate. In fact, it reflects the transition of CPEC to an advanced phase of development. While further strengthening diplomatic engagement, the relationship is transitioning into a new phase of cooperation marked by the CPEC 2.0 framework. This transitional phase is both more contested and more ambitious than its first decade. Both countries agreed to expand mutual collaboration in agriculture, trade, energy, and digital infrastructure while addressing underlying security dynamics. However, scholars are increasingly raising concerns about Pakistan's debt burden, trade imbalance, and government capacity to manage and oversee these initiatives effectively. This brief contends the key concern in 2026 is not whether CPEC succeeded or failed, but whether Pakistan can turn ten years of Chinese infrastructure into a decade of Pakistan-led productivity. It also further assesses that the emerging structure of CPEC 2.0 facilitates that transformation.

The core question is no longer whether CPEC was built. it is whether Pakistan has learned to build on it.

A Relationship Turning to Its Foundational Phase

A week in May 2026 remained one of the most consequential moments in the recent history of Pakistan-China relations. Prime Minister Shehbaz Sharif engaged in talks with his Chinese counterparts. Both countries announced "a new broad consensus" on deepening mutual cooperation and accelerating CPEC as it formally entered an advanced and developed phase. Most importantly, the joint statement was not just diplomatic rhetoric but a clear set of commitments. These included convening the CPEC Joint Cooperation Committee, proceeding with the long-pending Karakoram Highway, and further expanding Gwadar as a major regional centre for connectivity and trade. The statement also emphasized the involvement of third-party participation. This development reflects an explicit invitation for other countries to invest in CPEC, as both countries appear to be positioning it as a broader regional platform. Both are aware that CPEC's advanced phase needs more capital and credibility beyond what either country can supply alone.

The performance of CPEC cannot be judged solely through official statements and investment announcements. The present data shows a more balanced picture. The numbers indicate that by mid-2026, CPEC had delivered important outcomes, including $25 billion in investment and the creation of hundreds of thousands of jobs. It also shows a significant addition to Pakistan's energy sector, with around 9,504 MW of electricity generation capacity. These developments have played a pivotal role in addressing infrastructure and energy shortages that constrained economic growth. Although Gwadar is gaining essential services and facilities, new infrastructure, including desalination plants, special economic zones, and an international airport, is gradually providing the solid foundation required for a more functioning port city. However, Pakistan's trade figures show that important challenges remain. Exports to China continue to be concentrated heavily in commodities such as agriculture, cotton, and copper products, suggesting limited progress towards industrial diversification. While recent trade between the two countries remains meaningful, changes in the bilateral trade pattern overall indicate that Pakistan's efforts to limit imports have not yet translated into a meaningful expansion of exports. The continued trade imbalance remains a challenge, raising concerns about whether economic gains are emerging at the pace that policymakers had hoped.

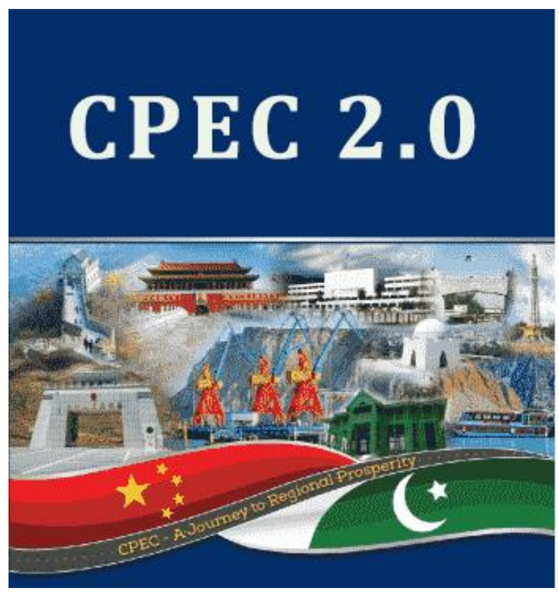
The Debt Question: Results from Available Evidence

The most controversial and debated aspect of CPEC remains the notion of a "debt trap." The research presents a different picture. In 2025, a study showed that around 80% of CPEC initiatives are a mix of equity-based investment, concessional loans, private funding, and grants, rather than debt alone. This statement directly challenges the idea that CPEC is merely a debt-trap project. The study also makes it explicit that Pakistan's debt problem is a pre-existing structural economic problem. Longstanding problems such as a narrow export base, weak revenue collection, and fiscal deficits existed prior to CPEC. They had already led the country into a debt trap. However, there is an estimate that China holds almost 30% of Pakistan's foreign debt. Although the overall interest rates are low compared to commercial borrowing, these obligations remain important and still place pressure on Pakistan's fiscal constraints. Research indicates that power projects create another risk. While borrowing is undertaken by project companies rather than the Pakistani government directly, the country still faces fiscal risks because of sovereign guarantees and the ongoing circular debt crisis in the energy sector. Overall, the results suggest that CPEC should not be viewed as a deliberate debt trap or as entirely free of risk. The key concern lies in Pakistan's effectiveness and ability to manage its finances and ensure that CPEC investments generate long-term economic benefits.

Studies released in 2025 suggest that CPEC has highlighted existing governance problems in Pakistan, including political divisions, weak institutions, and concerns over the decision-making process. Scholars note that infrastructure megaprojects often strengthen existing governance weaknesses rather than contribute to institutional reform. Similar findings suggest that Pakistan's strategic location remains a major strength, while overdependence on China remains a significant concern for CPEC's long-term sustainability. What distinguishes CPEC most in 2026 is its transition from traditional infrastructure to technology-driven cooperation. Bilateral cooperation is increasingly focused on potential developmental sectors such as digital technology, energy exploration, and artificial intelligence. This transformation reflects opportunities for modernization and economic growth for both countries. Yet analysts caution that although digital cooperation offers more opportunities, it may also increase Pakistan's technological reliance on China. Therefore, the future success of CPEC is likely to be measured by Pakistan's ability to balance innovation with strategic independence.

What Makes CPEC 2.0 Distinct

The success of CPEC 2.0 will depend more on addressing the gap between its first and second decades. It largely depends on Pakistan's ability to overcome the absorptive constraints that limited the benefits of earlier investments, rather than on how much additional capital China commits. There are four main priorities that stand out from the findings mentioned above.



A major priority is to diversify the export base beyond raw commodities, because this structure has remained largely unchanged over the past decade. Pakistan's exports to China remain heavily concentrated in cotton and copper. Moving forward, a crucial need is to expand the focus on higher-value products, which will be essential for achieving economic benefits.

Second, sovereign guarantees should be regarded as potential fiscal liabilities, not just treated as technical or minor financial statements. Evidence from Columbia SIPA states that the most urgent issue for Pakistan's debt sustainability is reducing circular debt and power-sector liabilities, not negotiating Chinese loan terms. This is because sovereign guarantees make these obligations a financial risk.

Third, Pakistan needs to build civilian institutional capacity alongside military-led project execution. Research from critical Pakistan studies warns that infrastructure delivery through a limited decision-making elite may undermine long-term accountability and legitimacy.

Lastly, AI, data infrastructure, telecom, and digital-sector agreements should be exercised carefully. Lessons from CPEC's energy phase highlight that long-term reliance in telecommunications and AI can be difficult to reverse over time.

Conclusion: A Corridor at Its Halfway Point

Moreover, seventy-five years into China-Pakistan relations and roughly a decade into concrete projects, the partnership has entered a more structured phase. The first phase was considered an easier phase, where success was measured in kilometers of highways, infrastructure, and energy initiatives. The harder phase, which involves translating these investments into productivity, economic diversification, and institutional resilience, has just begun. The recent 2026 joint statement reflects a growing awareness that both countries recognize this shift. The upcoming stage of CPEC needs a broader approach. The rhetoric of "high-quality development," the focus on industrial cooperation, and third-party participation indicate an understanding that the first model has reached its limit. However, the next phase will entirely rely on Pakistan's ability to make domestic reforms and build the governance capacity needed to implement them. CPEC did not fail to deliver its purpose in the first decade, but it has not yet succeeded in the manner that the state claims. Most accurately, it remains incomplete and in an ongoing phase, whose future will say more about the country's own institutional capacity than about Chinese strategic intentions.

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