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Risk Perceptions and Mitigation Strategies of Chinese Companies Investing in Pakistan

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Abstract

A study under the auspices of Institute of International Relations & Media Research revealed that Foreign direct investment (FDI) from China plays a crucial role in addressing Pakistan's development challenges and driving investment-led growth. However, Chinese companies face significant risks, primarily security volatility, economic uncertainty, instable policies, bureaucratic quagmires and political limbo. Frequent changes in government, whether through multiple factors or others influences often lead to shifts in economic policies, regulatory frameworks, and investment priorities.

This Research involving insights and interviews of hundreds of Chinese companies working in Pakistan revealed that on Risk Chart 1-5 (valuing 5 maximum risk and 1 the lowest risk) security concerns ranked as highest gravest risk, with 4. 83 severity level (almost 96.6 percent), encompassing safety threats from non-state actors and geopolitical pressures. Economic uncertainty followed with a 3.67 severity level (almost 73.4 %), stemming from fluctuating economic policies influenced by internal and external factors. Other risks include political unrest, global geopolitical influences, and structural challenges. Role of non-state actors, often operating at the behest of global powers under geopolitical agendas also pose a significant risk for Chinese investments.

To mitigate these risks, Chinese companies identified hiring local talent and partnering with local businesses as the most effective strategies. Local hiring help minimize risks for foreign companies. Engagement with local hiring and local businesses create an environment in which employees feel sense of ownership with Chinese companies' stakes and prospects. Local employees help companies to align with indigenous economic & market dynamics, cultural influences, social influences and religious influences.

On Mitigation Strategy Chart 1-5 (Valuing 5 maximum effectiveness and 1 lowest effectiveness), Hiring local talent achieved 4.17 effectiveness level (almost 83.4%), while partnering with local businesses scored 73.4 % effectiveness. Despite these challenges, most companies consider Pakistan a viable long-term investment destination.

Introduction

The relationship between Pakistan and China has long been regarded as a model of bilateral cooperation, with both nations sharing strategic, economic, and cultural ties. This partnership, solidified through initiatives such as the China-Pakistan Economic Corridor (CPEC), represents a cornerstone of Pakistan's developmental ambitions. Chinese investments have been pivotal in addressing Pakistan's infrastructure deficits, enhancing energy production, and creating avenues for sustainable growth. However, the realization of these goals is contingent upon mitigating the risks faced by Chinese companies operating in Pakistan, particularly those associated with security and political stability[3]

Security concerns hold paramount importance in shaping the success or failure of Chinese investments in Pakistan. The safety outlook directly impacts the functionality of projects, influencing investor confidence and operational viability. Persistent threats from non-state actors, many of whom operate under the guise of broader geopolitical agendas, exacerbate vulnerabilities for foreign investors. These actors, often backed by global powers, destabilize regions and create environments of uncertainty. For Pakistan, a nation striving to

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position itself as a reliable investment destination, addressing these security challenges is not just an economic imperative but a fundamental requirement for its global standing[4]

Equally concerning is the role of political instability in undermining investor confidence. Frequent changes in government have often resulted in inconsistent economic policies. These shifts are further complicated by the deep-rooted influence of the establishment, which manipulates political systems to safeguard its interests. Such instability discourages long-term planning, leading to project delays, financial losses, and increased operational costs for Chinese companies. External pressures, fueled by regional and global power dynamics, further exacerbate these challenges, creating a volatile environment that stirs disinvestment fears among Chinese stakeholders[5]

The interplay between economic policy shifts and security risks highlights the need for robust mitigation strategies to safeguard Chinese investments. Ensuring the safety of personnel and assets, stabilizing governance structures, and fostering a predictable policy environment are crucial for sustaining foreign direct investment (FDI) inflows. These measures are vital not only for protecting Chinese interests but also for advancing Pakistan's broader developmental goals. A stable Pakistan, with secure and thriving Chinese investments, can serve as a lynchpin for regional prosperity and global development, reinforcing the significance of this bilateral partnership.

In this context, the following report delves into the risk perceptions of Chinese companies operating in Pakistan, emphasizing security, economic uncertainty, and political instability. It also explores effective mitigation strategies, providing insights into how both nations can strengthen their collaboration and realize their shared vision of growth and development.

As mentioned by Siddique, et al. (2024)[6], The enduring civil-military rift in Pakistan has long been a source of instability, undermining the country's development and its ability to attract foreign investment. Pakistan has consistently faced challenges due to weak civil-military relations, which have been exacerbated by frequent political instability, military interventions, and economic policy reversals. The narrative of weak civil-military ties has overshadowed more pressing issues faced by the population, creating an image of a fragile and failing state. This instability not only disrupts governance but also contributes to a perception of Pakistan as a risky environment for investment.

For Chinese companies, this rift significantly increases operational risks. The frequent changes in government, often driven by the military's interference in the democratic process, create an unpredictable business environment. Non-democratic regimes have historically led to economic disruptions, policy reversals, and a breakdown of institutions, which exacerbates uncertainty. The lack of continuity in political leadership and policy frameworks undermines confidence among foreign investors, particularly Chinese companies, which rely on stability for long-term planning and investment.

Furthermore, geography plays a defining role in shaping the China-Pakistan relationship. The two countries share a 523-kilometer border, linking Pakistan's northern regions of Gilgit-Baltistan and Azad Jammu and Kashmir with China's Xinjiang Uyghur Autonomous Region. This geographic proximity, formalized through a border agreement in 1963, became a cornerstone of their bilateral ties. China's historical and cultural emphasis on maintaining strong relationships with its neighbours further reinforced this bond. This policy, rooted in ancient traditions like the tribute system, has been upheld by modern Chinese leaders through the peaceful resolution of border disputes, including with Pakistan. Pakistan's broader geostrategic location adds another dimension to this relationship. Situated at the crossroads of South, West, and Central Asia, Pakistan is bordered by India (2,912 km), Afghanistan (2,430 km), Iran (909 km), and the Arabian Sea (1,046 km). This positioning places Pakistan close to energy-rich regions like Central Asia and the Middle East and at the intersection of critical communication networks, including roads, railways, air routes, and proposed energy pipelines. Historically, this location drew international attention, particularly from the U.S., during the Cold War, the Soviet Afghan conflict, and the post-9/11 War on Terror, all of which had implications for China. The geostrategic significance of Pakistan gained further prominence with the announcement of the China-Pakistan Economic Corridor (CPEC). Leveraging Pakistan's location, CPEC promises economic, political, and strategic benefits for both countries. Infrastructure projects like the Karakoram Highway, modernized in 2010 to remain operational year-round, highlight the importance of geographic connectivity. As a permanent and immutable factor, Pakistan's geography will

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[4] Khan, Hafeez Ullah. "Regional security threats to CPEC: a strategic overview." *Journal of the Research Society of Pakistan* 56, no. 1 (2019): 181.

[5] Ali, Sharaf, and Ghulam Shabbir. "The Ever-haunting Political Instability in Pakistan and the Future of CPEC: A Contextual Perspective." *Annals of Human and Social Sciences* 4, no. 3 (2023): 798-807.

[6] Siddique, H., Farooqi, U., & Sanaullah, I. (2024). Framing Civil-Military Relations: A Content Analysis of Pakistani Print Media from 2008 to 2018. *Remittances Review*, *9*(2), 1313-1339.

continue to serve as a foundation for its evolving partnership with China[7]**.**Pakistan and China continue to have a strong economic relationship as China continues to be Pakistan's largest single trading partner due to their geographical proximity and amicable political ties. In October 2024 alone, Pakistan's import volume from China was worth around 1.53 billion dollars while Pakistan's export volume to China was worth around 284 million dollars, according to the OECD Economic Complexity Observatory[8]

Problem Statement

In previous research, much attention has been given to the challenges of the China-Pakistan Economic Corridor (CPEC), with a focus on geopolitical, geostrategic, and geo-economic obstacles beyond the direct relationship between China and Pakistan. For instance, critics highlight the influence of the US-China rivalry and the increasing proximity between the US and India on the success of CPEC. Studies have argued that the US maintains a strategic balance, seeking a stable and economically advanced Pakistan while ensuring no harm to its relationship with India (Fair, 2004)[9].

The economic partnership between **Pakistan and China**, particularly under the **China-Pakistan Economic Corridor (CPEC)**—a flagship project of China's **Belt and Road Initiative (BRI)**—has drawn criticism from the United States. One key criticism is that China's terms for financing projects under the BRI are perceived to be more favourable to itself than to its partner countries. This is primarily because Chinese loans often come with **higher interest rates**, short repayment periods, and tied conditions, such as awarding contracts to Chinese firms or utilizing Chinese labour and materials. This has led to concerns about **debt dependency** and limited economic benefits for host nations, including Pakistan.In response to China's growing influence through initiatives like the BRI, the **United States and its G7 partners** introduced the **Build Back Better World (B3W)** initiative in **2021**. This initiative aimed to provide an alternative framework for global infrastructure development, emphasizing transparency, sustainability, and inclusivity principles. However, B3W faced challenges in gaining traction and delivering tangible outcomes.In **2022**, the U.S. and G7 rebranded and expanded the initiative as the **Partnership for Global Infrastructure and Investment (PGII)**. The **PGII** commits to mobilizing **$600 billion** over five years to address global infrastructure gaps and counterbalance China's BRI. Unlike the BRI, the PGII focuses on:

- **Democratic governance** and transparent financing.
- **High-quality infrastructure** that meets environmental and social safeguards.
- Projects that promote **inclusive economic growth** and do not create dependency.[10].

This research identifies a critical gap in the existing literature: the lack of a comprehensive analysis of the operational, regulatory, and security challenges faced specifically by Chinese enterprises investing in Pakistan. **Building on this gap, Research aims to explore the following objectives**:

Objectives of the Research:

1- Objective No 1

To identify and rank the key perceived risks and challenges encountered by Chinese enterprises investing in Pakistan.

2- Objective No 2

To assess the most prevalent mitigation strategies employed by Chinese companies and

3- Objective No 3

To offer actionable policy recommendations to foster a more conducive investment environment in Pakistan and encourage future foreign direct investment from Chinese enterprises.

8Ali, Ghulam, and Nian Peng. "Geography: The Geopolitics of China–Pakistan Relations." *Pacific Focus* 39, no. 3 (2024): 646-669..
9 Fair, C. C. (2004). The counterterror coalitions: Cooperation with Pakistan and India (Vol. 141). Minnesota Historical Society
10 https://journals.carc.com.pk/index.php/CRISS/article/view/167/111

Research aims to address key challenges faced by Chinese enterprises investing in Pakistan, focusing on identifying and ranking perceived risks, assessing mitigation strategies, and offering actionable policy recommendations. By systematically analyzing a range of challenges, including regulatory inefficiencies that complicate compliance and administrative processes, security risks that threaten operational stability and investor confidence, and cultural barriers that hinder effective communication and collaboration, the research offers comprehensive insights into the most pressing issues impacting Chinese investors. These findings not only highlight the critical obstacles faced by investors but also provide a nuanced understanding of the broader investment environment, enabling stakeholders to develop targeted strategies for fostering smoother and more mutually beneficial investment ventures.

Evaluating prevalent mitigation strategies will highlight effective practices, such as localized hiring and robust risk management frameworks, which can serve as benchmarks for future enterprises. The study's findings will enable Pakistani policymakers to design evidence-based interventions that streamline bureaucratic processes, enhance security measures, and foster an investor-friendly climate. These improvements will not only attract additional Chinese investment but also boost Pakistan's economic growth through increased job creation and infrastructure development. Furthermore, addressing these challenges will strengthen the China-Pakistan Economic Corridor (CPEC), a cornerstone of bilateral relations, ensuring the success of ongoing projects and encouraging future collaborations. By fostering a more conducive investment environment, the study will contribute to building investor confidence, promoting regional stability, and enhancing Pakistan's position as a competitive destination for foreign direct investment. Ultimately, this research supports long-term economic development while reinforcing the mutual benefits of the China-Pakistan economic partnership.

This study aims to address three critical research questions that explore the challenges, strategies, and policy interventions related to Chinese enterprises investing in Pakistan. By systematically analyzing these questions, the study seeks to provide actionable insights to enhance the investment environment for Chinese enterprises and strengthen the broader economic partnership between Pakistan and China.

Research Question (1)

"What are the primary risks and challenges perceived by Chinese enterprises when investing in Pakistan, and how do these shape their investment decisions?" Understanding these risks—ranging from geopolitical tensions and regulatory complexities to socio-economic and infrastructural barriers—will allow the study to provide a comprehensive overview of the factors that deter or hinder Chinese enterprises' investments.

Research Question (2)

"What mitigation strategies are employed by Chinese enterprises to address these challenges, and how effective are these strategies in enhancing investment outcomes?" This involves identifying and assessing the approaches Chinese investors adopt, such as partnerships with local firms, risk-sharing mechanisms, and reliance on specialized legal or financial advisory services, and evaluating their impact on overcoming specific challenges.

Research Question (3)

"How can the Pakistani government and policymakers create a safer, more investment-friendly environment to attract and sustain foreign direct investment from Chinese enterprises?" By leveraging insights from Chinese investors' experiences and recommendations, this research aims to provide policymakers with evidence-based strategies to reform policies, improve infrastructure, and foster a supportive investment climate.

Addressing these research questions will contribute significantly to creating a robust framework that benefits both Chinese enterprises and Pakistan's economic development. This approach underscores the study's aim to offer practical, evidence-based recommendations for a more sustainable and mutually beneficial investment partnership

Literature Review

Their economic relations have considerably strengthened over the past decade after the inception of the China-Pakistan Economic Corridor (CPEC) under China's Belt and Road Initiative (BRI). Figure 1 shows major projects that were targeted under CPEC. CPEC aimed to create linkages between the Gwadar Port in Pakistan and Xinxiang in the north-western regions of China. It focused on developing highways, railway tracks, optical fibers and oil and gas pipelines to develop these linkages. Under CPEC, construction of a 2700-kilometer highway was initiated between Kasghar to Gwadar through Khunjerab. Construction of highways and railway tracks would make trade and transport of goods between the two countries more efficient. Multiple industrial zones and special economic zones were also developed along these highways to attract investments and improve Pakistan's economic conditions[11] (Farooqui & Aftab, 2018) **Farooqui, M. A., & Aftab, S. M. (2018, September). China-Pakistan Economic Corridor; Prospects and Challenges for Balochistan, Pakistan. In *IOP Conference Series: Materials Science and Engineering* (Vol. 414, p. 012046). IOP Publishing.**

It is estimated that Pakistan's GDP is expected to increase by 2.5% annually by 2030 and approximately 700,000 jobs would be created as a direct result of CPEC. Since its inception in 2013, there has been a considerable increase in trade between the two countries.

China-Pakistan Trade Investment

Over the past decade, trade between Pakistan and China has exhibited significant growth, yet it reflects an imbalanced relationship dominated by imports as shown in Table 1. Pakistan's exports to China increased modestly from $2.60 billion in 2013 to $2.79 billion in 2022, with annual percentage changes ranging from a slight decline of 1.2% in 2016 to a modest rise of 6.5% in 2015. Export growth was driven by increased demand for textiles, agricultural products, and early benefits from the China-Pakistan Economic Corridor (CPEC). However, the overall growth in exports remained limited, with frequent fluctuations due to market volatility and a lack of diversification.

In contrast, Pakistan's imports from China surged from $6.60 billion in 2013 to $21.00 billion in 2022, reflecting robust annual growth rates, particularly during the early years of CPEC. Imports grew by as much as 22% in 2017, driven by a heavy reliance on Chinese machinery, energy equipment, and construction materials to meet the demands of infrastructure and industrial projects. By 2022, imports experienced another sharp increase of 28%, largely due to rising demand for technology-related goods and raw materials.

The trade deficit expanded dramatically, from $4.00 billion in 2013 to $14.6 billion in 2024, marking a 265% increase over the decade. This widening gap underscores Pakistan's dependence on Chinese imports and its struggle to boost exports effectively. To address this imbalance, Pakistan must focus on diversifying its export portfolio, promoting value-added industries, enhancing trade facilitation, and leveraging CPEC to foster technology transfer and industrial capacity building.

Table 1 Trade trends between Pakistan and China over the past decade, from 2013 to 2024

Figure 1 Major Projects of China - Pakistan Economic Corridor

Year	Pakistan's Exports to China (USD Billion)	Pakistan's Imports from China (USD Billion)
2013	2.60	6.60
2014	2.25	9.60
2015	1.90	11.00
2016	1.60	12.10
2017	1.68	17.70
2018	1.85	18.50

[11] Source: Farooqui et al. (2018). China-Pakistan Economic Corridor; Prospects and Challenges for Balochistan, Pakistan

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2019	2.08	19.10
2020	2.16	19.50
2021	2.55	20.30
2022	2.79	21.00
2023	2.56	14.51
2024	2.71	17.30[12]

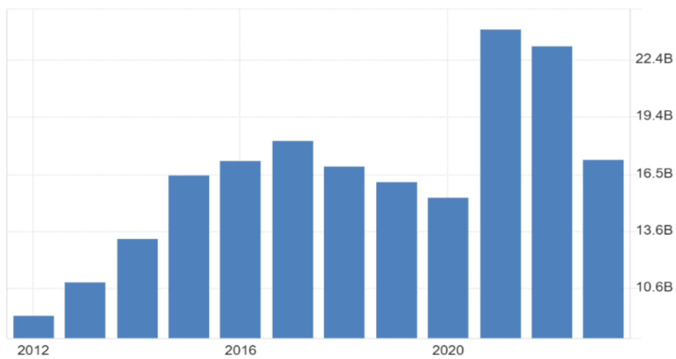

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Figure 2 China Export to Pakistan

In addition to that, this initiative (CPEC) has resulted in significant foreign direct investments from China into Pakistan's infrastructure, energy and industrial sectors. China is currently the biggest investing country in Pakistan in terms of its foreign direct investments. From 2008 to 2013, a period directly before the inception of CPEC, a total of 172.8 million dollars was invested by China in Pakistan. However, from 2014 to 2018, a period directly after the inception of CPEC, a total of 5,103 million dollars' worth of investments from China were recorded. This indicates that CPEC significantly increased the inflow of direct investments from China to Pakistan and underscores the importance of the agreement. China contributed 469 million dollars of foreign direct investments during July-November FY25 alone, according to the State Bank of Pakistan (Business Recorder). Since the implementation of the initiative, China has invested over 25.4 billion dollars in direct investments overall from the start of the CPEC agreement till August 2023.

China emerged as the largest investor in Pakistan in fiscal year 2024 (FY24) with a net foreign direct investment (FDI) of **$568.2 million**, according to data issued by the State Bank of Pakistan (SBP)[14].

CPEC Long-Term Plan 2017-2030

The economic relationship between China and Pakistan has grown significantly, underpinned by the China-Pakistan Economic Corridor (CPEC). Official documents, such as the **"Long Term Plan for CPEC 2017-2030"**, developed collaboratively by the planning commissions of both nations, outline areas of cooperation in energy, infrastructure, and socio-economic development. The plan envisions

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12 China Exports to Pakistan 2025 Data 2026 Forecast 1992-2023 Historical **https://tradingeconomics.com/china/exports/pakistan**

13 https://tradingeconomics.com/china/exports/pakistan

14 Agencies. "China Top Investor in Pakistan With $568m FDI in FY24: Report." *The Nation*, July 26, 2024. https://www.nation.com.pk/26-Jul-2024/china-top-investor-in-pakistan-with-dollar-568m-fdi-in-fy24-report.

transformative changes, aiming to operationalize key economic functions by 2025 and achieve sustainable growth in Pakistan by 2030, aligning with Pakistan's Vision 2025[15].

Phased Development of CPEC

CPEC is structured in phases to address Pakistan's immediate and long-term economic challenges:

1. **Initial Phase (2017-2020)**: Focused on addressing Pakistan's critical energy shortages through fast-track power projects, including hydropower, coal, and solar energy. This phase aimed to curb power outages, which had been reducing Pakistan's GDP growth by 2.5% annually
2. **Second Phase (2020-2030)**: Focused on infrastructure development, agriculture modernization, poverty alleviation, and industrial growth, including the establishment of Special Economic Zones (SEZs).

Special Economic Zones, Agricultural Modernization and Social and Economic Development:

SEZs under CPEC offer tax incentives to attract industrial investments, fostering export-led growth and earning foreign exchange. The China-Pakistan Economic Corridor (CPEC) has significantly contributed to Pakistan's social and economic development. As a flagship project of China's Belt and Road Initiative (BRI), CPEC has focused on enhancing infrastructure, energy, and industrial sectors, while also prioritizing social welfare initiatives to uplift local communities. Under the CPEC framework, numerous projects have been undertaken to address poverty alleviation, education, healthcare, and employment generation. For instance, the development of Gwadar's smart port city master plan and the construction of modern hospitals in rural areas demonstrate China's commitment to improving the quality of life in Pakistan. By the end of 2022, CPEC had attracted direct investments totaling $25.4 billion, resulting in the creation of approximately 236,000 jobs in Pakistan, thereby significantly reducing unemployment rates[16].Table 3 and 4 shows the list of initiatives under Industrial Cooperation and Special Economic Zones (SEZs) as part of the CPEC framework.

Table 2 List of Social and Economic Development under CPEC

#	Project Name	Status
1	Provision of Vaccine Storage and Transportation Equipment to NDMA	Completed
2	Poverty Alleviation Training	Completed
3	Emergency Relief Supplies for Enhancing NDMA Disaster Preparedness Capacity	Completed
4	Pakistan Vocational and Technical Education Capacity Build-Up Project	Completed
5	Pakistan Vocational Schools Equipment Upgrading and Renovation Project	Completed
6	Provision of Medical Equipment and Materials	Completed
7	Gwadar Hospital Project	Completed
8	Gwadar Desalination Plant	Completed
9	Gwadar Vocational and Technical Project	Completed
10	Drinking Water Equipment	Completed
11	China-Pakistan Joint Agricultural Technology Laboratory	Under Construction

[1515] Mir, S. T. Economic Relations Between China And Pakistan In The Last Decade And Its Impact On Us-Pakistan Bilateral Relations.
[1616] Desk, "Majority of Pakistanis Perceive CPEC Positive for Pak Economy: Report.

12	Provision of Agricultural Equipment and Tools	Under Construction
13	Establishment of 50-Smart Classrooms for Higher Education in Pakistan	Under Construction
14	Maintenance and Renovation for 50 Schools in Newly Merged Districts	Under Construction
15	Provision of 20,000 Overseas Student Scholarships	Under Construction
16	China-Pakistan Joint Agricultural Demonstrations	Under Construction
17	Establishment of Burn Centres in Punjab, KP, Balochistan, AJK, and Gilgit Baltistan	Under Construction
18	10,000 Solar-Powered Lighting Equipment for Balochistan	Under Construction
19	Medical Emergency Center in Quetta, Balochistan	Under Construction
20	Cooperative Project Pak-Austria Fachhochule: Institute of Applied Sciences & Technology	Under Construction
21	Bacterial Grass (JunCao) Technology Training and Promotion Project	In-Pipeline
22	Brightness Journey in Pakistan	In-Pipeline
23	Pakistan Agricultural Vocational Training	In-Pipeline
24	Provision of Teaching Equipment for Primary and Secondary Schools	In-Pipeline
25	China-Pak Joint Telemedicine Network	In-Pipeline
26	Rural Poverty Reduction Joint Research Project	In-Pipeline
27	Punjab-Tianjin University of Technology Project	In-Pipeline[17]

[17] CPEC Secretariat, Ministry of Planning, Development, & Special Initiatives https://www.cpec.gov.pk/social-sector-development-projects

Table 3 List of Industrial Cooperation/Special Economic Zones (SEZs) under CPEC

#	Project Name	Status
1	Rashakai Special Economic Zone	Under Construction
2	Allama Iqbal Industrial City	Under Construction
3	Dhabeji Special Economic Zone	Under Construction
4	Bostan Special Economic Zone	Under Construction
5	ICT Model Industrial Zone	In Pipeline
6	Industrial Park on Pakistan Steel Mill Land	In Pipeline
7	Mirpur Industrial Zone	In Pipeline
8	Mohmand Marble City	In Pipeline
9	Moqpondass Special Economic Zone	In Pipeline[18]

The agricultural component focuses on improving crop yields and introducing advanced farming techniques to alleviate rural poverty, as agriculture remains Pakistan's economic backbone [19]. Recognizing the significant potential of Pakistan's agriculture sector for economic development, China and Pakistan have intensified their collaboration in this field by forming a Joint Working Group (JWG) under the CPEC framework. In November 2018, both nations signed a Memorandum of Understanding (MOU) aimed at fostering agricultural cooperation. This initiative seeks to improve agricultural productivity, promote technology adoption, and enhance value addition, contributing to food security and economic prosperity.

Highlights of Agricultural Cooperation under CPEC

The governments of Pakistan and China have signed various protocols to enable the export of agricultural products, including vegetables, fruits, dairy, and meat, from Pakistan to China. These agreements also encourage Chinese businesses to invest in Pakistan's agriculture sector.

Several impactful initiatives have emerged:

1. **Buffalo Genetics and Milk Production**: Royal Group, a Chinese enterprise, has set up a specialized genetics lab and a dairy farm in Lahore to improve buffalo genetics and milk production.
2. **Chili Farming and Processing**: CMEC has launched large-scale chili farming and processing operations, focusing on exports to China. This initiative has already enabled the export of red chilies from Pakistan to China.
3. **Canola Cultivation and Oil Extraction**: Qingfa Seeds, a subsidiary of the China National Agricultural Development Group, has introduced high-quality seed production and modern cultivation practices for canola. The company has also established farmer training centers to teach advanced farming techniques and plans to develop oil extraction facilities to support Pakistan's canola oil industry.

Tourism and Financial Cooperation

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[18] CPEC Secretariat, Ministry of Planning, Development, & Special Initiatives https://www.cpec.gov.pk/special-economic-zones-projects

[19] Irtaza, M. (2019, March 11). Pakistan entering CPEC Phase-II. Retrieved from The Nation: https://nation.com.pk/11-Mar-2019/pakistan-entering-cpec-phase-ii

Enhanced connectivity is expected to boost tourism in northern Pakistan and Gwadar's coastal areas. Financial cooperation includes currency swap mechanisms and trade in Chinese Yuan to reduce dependence on the US dollar. These measures are designed to streamline trade, enhance economic resilience, and foster a robust bilateral economic partnership.

Geopolitical Dynamics and Shifting Alliances

CPEC is a flagship project of China's Belt and Road Initiative (BRI), symbolizing China's strategic shift in global influence, particularly in Asia. The US's declining role in Pakistan, coupled with growing Sino-Pak cooperation in economic, military, and socio-political spheres, highlights a broader shift in global power dynamics. Pakistan's economic ties with China have expanded, while economic assistance from the US has dwindled.

Energy and Infrastructure Development

Power projects, accounting for $28 billion in investments, are central to CPEC's initial phase. By addressing energy shortages, Pakistan's industrial productivity and export competitiveness were targeted for improvement. Infrastructure projects include enhanced road networks, highways connecting northern Pakistan to Gwadar, and IT advancements, such as the completion of an optic fiber link and satellite navigation via China's Beidou system [20]. Table 4 and Table 5 below present the projects under the CPEC initiative, focusing on Energy and Transport Infrastructure respectively.

Table 4 List of Energy Projects Under CPEC

Project Name	MW
Completed Projects	
1. 1320MW Sahiwal Coal-fired Power Plant	1320
2. 1320MW Coal-fired Power Plant at Port Qasim Karachi	1320
3. 1320MW China Hub Coal Power Project, Hub Balochistan	1320
4. 660MW Engro Thar Coal Power Project	660
5. 1000MW Quaid-e-Azam Solar Park (Bahawalpur)	400 / 600
6. 50 MW Hydro China Dawood Wind Farm, Gharo, Thatta	50
7. 100MW UEP Wind Farm, Jhimpir, Thatta	100
8. 50MW Sachal Wind Farm, Jhimpir, Thatta	50
9. 100MW Three Gorges Second and Third Wind Power Project	100
10. Matiari to Lahore ±660 KV HVDC Transmission Line Project	4000 MW **EC**.
11. 720MW Karot Hydropower Project, AJK/Punjab	720
12. 330MW HUBCO Thar Coal Power Project (Thar Energy)	330
13. 1320MW SSRL Thar Coal Block-I 7.8 mtpa & Power Plant (2×660MW) (Shanghai Electric)	1320
14. 330MW HUBCO ThalNova Thar Coal Power Project	330

[20] Abi-Habib, M. (2018, December 19). China's 'Belt and Road' Plan in Pakistan Takes a Military Turn. Retrieved from The New York Times:https://www.nytimes.com/2018/12/19/world/asia/pakistan-china-belt-road-military.htm

15. 884MW Suki Kinari Hydropower Project, KP	884
In-Pipeline Projects	
16. 300MW Coal-Fired Power Project at Gwadar	300
17. 1124MW Kohala Hydropower Project, AJK	1124
18. 700.7MW Azad Pattan Hydropower Project, AJK/Punjab	700.7
19. 1320 MW Thar Mine Mouth Oracle Power Plant & surface mine	1320
20. 50MW Cacho Wind Power Project	50
21. 50MW Western Energy (Pvt.) Ltd. Wind Power Project	50[21]

Table 5 List of Transport Infrastructure Projects under CPEC

#	Project Name	Length (KM)
Completed Projects		
1	KKH Phase II (Havelian - Thakot Section)	120
2	Peshawar-Karachi Motorway (Multan-Sukkur Section)	392
3	Orange Line Metro Train - Lahore	27
4	Cross Border Optical Fiber Cable (Khunjrab - Rawalpindi)	820
5	Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	
6	Hakla - D.I Khan Motorway	297
Under Construction Projects		
7	Zhob - Quetta (Kuchlak) (N-50)	305
8	Khuzdar-Basima Road (N-30)	106
9	Hoshab - Awaran Road Section (M-8)	146
10	KKH Alternate Route Shandur - Chitral Road	153
11	Nokundi-Mashkhel Road	103
In-Pipeline Projects		
12	Up-gradation and Dualization of ML-1 and establishment of Dry Port near Havelian	1733
13	Up-gradation of D.I.Khan (Yarik) - Zhob, N-50 Phase-I	235
14	KKH Alternative Route Gilgit-Shandur Road	213
15	Realignment of KKH Phase-I Thakot - Raikot Section	250

[21] CPEC Secretariat, Ministry of Planning, Development, & Special Initiatives https://cpec.gov.pk/energy?utm_source

16	Peshawar - D.I.Khan Motorway	360
17	Awaran - Khuzdar Road Section (M-8)	168
18	Dir Expressway	29.6
19	DTMB-A (Digitalize the existing three sites of PTV)	
Long Term Projects		
20	Mirpur-Muzaffarabad-Mansehra Road	200
21	Karachi Circular Railway	43
22	Mashkhel - Pangur Road	200
23	Quetta Mass Transit	
24	Greater Peshawar Region Mass Transit	[22]

Pakistan: A Strategic Paradise for Chinese Investment

Chinese companies invest in Pakistan due to a multitude of reasons. With a population of over 240 million, Pakistan offers a substantial consumer market for Chinese goods. This provides economic opportunities for Chinese firms to dominate various industries, such as telecommunications, construction etc. By tapping into Pakistan, Chinese companies can meet the public demand, while also using Pakistan as a gateway to export to various South Asian countries. Secondly, Pakistan is rich in natural resources, such as coal, oil, minerals, agriculture, which are useful for resource-intensive industries in Pakistan. This ensures that the supply chain is maintained alongside a rapid industrial growth in Pakistan. For instance, the Thar Coal Project under CPEC exemplifies how China is capitalizing on Pakistan's untapped energy resources to meet its increasing energy demands. China often grants low-interest loans and grants aimed at infrastructure and energy projects in Pakistan. These loans, while benefiting Pakistan in the short term, ensure that Chinese firms remain integral to the development process, often as contractors or suppliers.

Beside that China have interest in Pakistan is significantly rooted in its aim to access new markets and resources. Pakistan offers a strategic consumer base, with infrastructure projects such as Gwadar Port facilitating trade routes to the Middle East and Africa This access complements China's export-driven economy by creating alternative routes that bypass chokepoints like the Strait of Malacca [23]Energy security is another critical motivator for Chinese investment. By investing in Pakistan's energy sector, including coal and hydroelectric projects, China ensures a diverse and stable energy supply [24].

Chinese Companies in Pakistan

The Pakistan China Joint Chamber of Commerce and Industry (PCJCCI) shows that approximately 2,300 Chinese companies, ranging from small to large scale, are currently operating in Pakistan. These companies are making significant investments across diverse sectors, including those under the China-Pakistan Economic Corridor (CPEC). For detailed sector-wise information on Chinese companies registered in Pakistan, visit the PCJCCI website: PCJCCI Chinese Companies Registered in Pakistan.

Chinese companies are actively investing in sectors such as electronics, automotive, education exchange programs, insurance, agriculture, textiles, shoe manufacturing, chemicals, battery recycling, and real estate. This diverse investment portfolio highlights the robust economic collaboration between the two nations. The chemical industry, which provides essential inputs for sectors like textiles, agriculture, food and beverages, pharmaceuticals, plastics, and sugar, has the potential to establish a strong global reputation for "Made

[22] CPEC Secretariat, Ministry of Planning, Development, & Special Initiatives https://cpec.gov.pk/infrastructure
[23] Shah, S. H., Kamal, M. A., & Yu, D. L. (2022). Did China-Pakistan free trade agreement promote trade and development in Pakistan? *International Journal of Finance & Economics*, *27*(3), 3459-3474.
[24] Kugelman, M. (2016). Managing energy and climate policy challenges in Pakistan: Modest progress, major problems. In Handbook of Transitions to Energy and Climate Security (pp. 312-326). Routledge.

in Pakistan" products. Pakistan, as the 8th largest exporter of textile products in Asia, has a textile sector contributing 9.5% to the GDP and employing approximately 15 million people, representing 30% of the country's workforce. To further strengthen this sector, collaboration with the All-Pakistan Textile Mills Association and the Punjab Board of Investment and Trade is recommended to help local manufacturers upgrade outdated technology. Pakistan also stands to benefit from China's advancements in the biochemical industry, which have revitalized traditional chemical processes and opened new development opportunities. With the rapid growth of biotechnology, the biochemical sector has emerged as a new engine of growth for the chemical industry, presenting significant potential for mutual collaboration. The PCJCCI is committed to acting as a bridge between the business communities of Pakistan and China, facilitating new opportunities in the commercial and industrial sectors. Supporting initiatives to enhance knowledge and technology transfer will further empower young entrepreneurs and businesses in Pakistan.

Chinese companies have significantly diversified their investments in Pakistan beyond the scope of the China-Pakistan Economic Corridor (CPEC). While CPEC has attracted approximately $25.4 billion in direct investments[25], Chinese enterprises are also engaged in various non-CPEC projects across multiple sectors, including textiles, steel, telecommunications, and power. In the energy sector, Chinese firms have undertaken numerous projects. For instance, Power China has collaborated with Pakistan's Frontier Works Organization to construct the Diamer Basha Dam, a significant infrastructure project aimed at enhancing water storage and power generation capabilities[26].

The automotive industry has also seen substantial Chinese investment. Changan Automobile Company, in partnership with Pakistan's Master Group of Industries, has established a car assembly plant in Karachi, marking a significant development in Pakistan's automotive sector[27]. Chinese enterprises have also made significant inroads into Pakistan's mobile manufacturing industry. Brands such as Tecno, Vivo, Realme, and Redmi have established a strong presence in the Pakistani market, contributing to the growth of the local mobile phone manufacturing sector.[28]

Despite these substantial investments, Chinese companies face challenges operating in Pakistan, including security concerns, economic uncertainty and political instability. Incidents targeting Chinese nationals and projects have raised safety issues, prompting calls for enhanced security measures to protect these investments and ensure the safety of Chinese personnel working in the country.

Diversification of Chinese Investments in Pakistan Beyond CPEC

Chinese enterprises are actively investing and operating in Pakistan across various sectors beyond the China-Pakistan Economic Corridor (CPEC). Their interest in Pakistan stems from multiple factors, including the country's strategic geographical location, abundant natural resources, and growing consumer market. Pakistan offers a cost-effective business environment with low labor costs, favorable tax incentives, and untapped opportunities in various industries. The country's access to regional markets in South Asia, Central Asia, and the Middle East further amplifies its appeal as a hub for trade and investment. Moreover, the diversification of Chinese investments beyond CPEC aligns with China's broader global economic strategy to mitigate risks, explore new avenues for growth, and strengthen bilateral ties. This comprehensive overview examines the diverse range of Chinese investments and activities in Pakistan, highlighting key sectors, projects, and trends

I. Energy Sector

a) Power Generation

Sub-Sector	Details	Key Players
Solar Energy	Chinese companies hold a significant market share in solar power projects.	Jinko Solar, LONGi Solar

[25] CPEC brings $25.4bn investment, creates 236,000 jobs in Pakistan, says Chinese envoy - Profit by Pakistan Today
[26] China's Pakistan investments a double-edged sword - Asia Times
[27] China's BYD plans car plant in Karachi as part of Pakistan entry | Reuters
[28] Reporter, Our Staff. "25 Major Chinese Companies Keen to Invest Heavily in Pakistan." The Nation, September 28, 2024. https://www.nation.com.pk/28-Sep-2024/25-major-chinese-companies-keen-to-invest-heavily-in-pakistan?

Wind Energy	Investments in Sindh province's wind corridors for sustainable energy.	Goldwind, Envision Energy
Hydropower	Major projects like Karot and Kohala hydropower plants.	Three Gorges Corporation
Coal Power	Investments in Thar Coal and Port Qasim Coal Power Plant.	Shanghai Electric Group

b) Energy Infrastructure

Sub-Sector	Details	Key Players
Transmission Lines	Upgrading electricity grids to reduce transmission losses.	State Grid Corporation of China
Smart Grid Technology	Introducing modern power distribution systems to enhance efficiency.	Huawei Energy Solutions

II. Manufacturing Sector

a) Textile Industry

Sub-Sector	Details	Key Players
Raw Material Production	Setting up plants to support Pakistan's textile supply chain.	Jiangsu Lianfa Textile
Garment Manufacturing	Establishing production facilities for export-oriented garment units.	Shandong Ruyi Technology Group

b) Automotive Sector

Sub-Sector	Details	Key Players
Vehicle Assembly	Manufacturing passenger and commercial vehicles.	FAW Group, Changan Automobiles
Auto Parts Manufacturing	Local production to meet growing automotive industry demands.	Geely, BYD Auto

c) Electronics

Sub-Sector	Details	Key Players
Smartphone Production	Establishing facilities for local assembly and potential exports.	Vivo, Xiaomi
Home Appliances	Manufacturing appliances like refrigerators and air conditioners.	Haier, Gree Electric

Information Technology and Telecommunications

a) Telecom Infrastructure

Sub-Sector	Details	Key Players
Telecom Expansion	Zong 4G has expanded digital access and introduced 5G technology.	China Mobile Pakistan (CMPak)

Fiber Optic Networks	Expanding broadband through China-Pakistan Fiber Optic Backbone.	Huawei, China Telecom

b) Digital Platforms

Sub-Sector	Details	Key Players
E-commerce	Investment in platforms like Daraz and Temu to expand the online marketplace.	Alibaba, Temu
Fintech Solutions	Digital payment systems and micro-lending platforms.	Tencent, Ant Financial

III. Agriculture and Food Processing

Sub-Sector	Details	Key Players
Modern Farming Techniques	Introduction of hybrid seeds and precision agriculture technologies.	Wuhan Qinfa Seed, Syngenta (Chinese-owned)
Food Processing	Setting up facilities to add value to agricultural produce.	COFCO Corporation
Agricultural Machinery	Developing equipment tailored for local farming needs.	YTO Group

IV. Mining and Mineral Extraction

Sub-Sector	Details	Key Players
Copper and Gold Mining	Investments in Saindak and Rekodiq mining projects.	MCC Resources Development
Coal Mining	Operations in Thar Desert for power generation.	China Machinery Engineering Corporation
Mineral Exploration	Exploring resources in untapped regions.	Zijin Mining Group

Infrastructure Development

Sub-Sector	Details	Key Players
Urban Transportation	Developing metro and bus rapid transit systems in Lahore and Karachi.	CRRC Corporation
Water Management	Desalination plants and irrigation infrastructure projects.	China Water Resources Beifang Investigation
Housing Projects	Affordable housing units and urban development projects.	China State Construction Engineering

V. Healthcare and Pharmaceuticals

Sub-Sector	Details	Key Players
Medical Equipment	Supplying state-of-the-art medical technologies to hospitals.	Mindray

Pharmaceutical Production	Establishing facilities for local and export markets.	Fosun Pharma
Telemedicine	Digital healthcare solutions for remote areas.	Ping An Good Doctor

VI. Education and Cultural Exchange

Sub-Sector	Details	Key Players
Confucius Institutes	Promoting Chinese language and cultural education in universities.	Hanban
Vocational Training	Centers for skill development in collaboration with Chinese enterprises.	China Vocational Education Society
Educational Partnerships	Joint research and dual degree programs with Pakistani universities.	Tsinghua University

Overview of CPEC Decision-Making Bodies and Policies

Several decision-making bodies have been established to oversee the implementation and progress of the China-Pakistan Economic Corridor (CPEC) as shown below at Table 6. These include entities such as the Joint Cooperation Committee (JCC), the Cabinet Committee on CPEC, the CPEC Authority, and the Pak-China Relations Steering Committee. These structures reflect the centralization of decision-making, driven by both external requirements from China and internal political dynamics within Pakistan.

The Pak-China Relations Steering Committee stands out for including representatives from provincial governments, the military, and intelligence agencies, tasked with guiding and coordinating CPEC projects. The CPEC Authority, established in 2019, institutionalized military influence over CPEC and centralized operations, but it faced criticism for excluding provincial representation. Despite its abolition in 2022, military and intelligence roles continued through the Steering Committee. CPEC has also influenced center-province relations, with provinces often voicing concerns about exclusion and uneven benefits, such as the recurring critique of the project being labeled the "Punjab-China Economic Corridor." These dynamics underline the tension between federal centralization and provincial autonomy, further complicated by the civil-military interplay within Pakistan's political system.

Table 6 Decision-Making Bodies Established for CPEC

Decision-Making Structure	Year of Creation	Chair	Provinces Included	Current Status
Joint Cooperation Committee (JCC)	2013	Minister for Planning (Pakistan) and Vice-Chairman of the National Development and Reform Commission (China)	Only since 2016	Active (11 meetings held)
Cabinet Committee on CPEC	2018	Minister for Planning, Development & Reform	No	Active (46 meetings between 2017–2020)
CPEC Authority	2019	Appointed Head	No	Abolished in August 2022
Pak-China Relations Steering Committee	2021	Minister for Planning, Development and Reform	Yes	Active (4 meetings up to Dec 2021)[29]

[29] Adeney, K., & Boni, F. (2024). Global China and Pakistan's federal politics: 10 years of the China–Pakistan Economic Corridor. *Commonwealth & Comparative Politics*, *62*(3), 275–295. https://doi.org/10.1080/14662043.2024.2354568

The Pakistani government has also adopted some favorable policies to attract Chinese investments in the recent years. In 2019, Pakistan and China entered the second phase of the China-Pakistan Free Trade Agreement (CPFTA), enhancing trade liberalization by reducing tariffs on a range of products. This agreement aimed to boost bilateral trade and attract Chinese investment into Pakistan's manufacturing and export sectors. Moreover, Pakistan has established several SEZs as part of the China-Pakistan Economic Corridor (CPEC) initiative. These zones offer incentives such as tax holidays, duty-free import of machinery, and streamlined regulatory processes to attract Chinese investors and promote industrial collaboration.

Table 7 List of Policies and Laws

Category	Details	Relevance to Chinese Investment
Investment Policies		
Target Sectors	Medical appliances, plastics, clothing, leather, edible meat, fruits & vegetables, waste, and fodder.	Diversifies investment opportunities for Chinese firms, leveraging expertise in manufacturing and agriculture.
Visa Facilitation	Online visa application, reduced processing times, multiple-entry visas, extended validity for long-term investors.	Simplifies travel for Chinese entrepreneurs, encouraging business visits and long-term investments.
Security Measures	Enhanced project site security, dedicated personnel, intelligence sharing, regular audits.	Addresses safety concerns, ensuring secure operations for Chinese workers and investments.
Special Economic Zones (SEZs)		
Incentives	Tax holidays (up to 10 years), duty-free imports, one-window operation, streamlined customs procedures.	Makes SEZs financially attractive for Chinese manufacturers and exporters.
Infrastructure	Provision of utilities and infrastructure.	Ensures operational efficiency and reduces setup costs for Chinese firms.
Relocation of Chinese Firms	1,200 firms ready to relocate to SEZs.	Facilitates relocation of Chinese manufacturing operations, enhancing industrial cooperation under CPEC.
Repatriation Policies		
Profit Repatriation	Allowed under the Foreign Private Investment Act 1976.	Enables smooth transfer of profits to Chinese investors, boosting confidence in Pakistan's investment policies.
Capital Repatriation	Includes original investment, reinvested profits, or appreciation.	Protects Chinese investors' financial interests, encouraging reinvestment in Pakistani markets.
Foreign Employee Remittances	Allowed for dependents' maintenance abroad.	Supports Chinese expatriates working in Pakistan, facilitating family maintenance abroad.

IT Sector Incentives	100% repatriation of profits, tax exemptions until 2025, 100% foreign ownership allowed.	Attracts Chinese technology companies to invest and expand in Pakistan's IT and ITeS sectors.
Legal Framework		
Key Laws	Foreign Private Investment Act 1976, SEZ Act 2012, Companies Act 2017, Protection of Economic Reforms Act 1992.	Provides robust legal protections, fostering a secure investment climate for Chinese businesses.
FDI Safeguards	Equal treatment, protection against expropriation, continuity of policies.	Ensures fairness and stability for Chinese investors, encouraging long-term commitments.
Foreign Exchange Manual 2002	Outlines repatriation procedures and foreign currency transaction guidelines.	Facilitates financial operations, ensuring compliance and ease of repatriation for Chinese investors.
Registration Process		
Steps	Obtain BOI permission, submit documents, undergo security clearance, SECP registration, NTN acquisition.	Simplifies business setup for Chinese companies, reducing entry barriers.
Facilitation	SECP provides guidance, document preparation assistance, fast-track processing.	Eases regulatory compliance, ensuring a smooth start for Chinese firms in Pakistan.
Sector-Specific Policies		
Energy & Infrastructure	Incentives for renewable/conventional energy, fast-track approvals for CPEC projects.	Encourages Chinese investments in Pakistan's power and infrastructure sectors, aligned with CPEC goals.
IT and ITeS	100% ownership and repatriation, tax exemptions until 2025.	Appeals to Chinese tech companies seeking ownership flexibility and tax benefits.
Manufacturing	Reduced customs duties, tax credits for machinery investment.	Lowers operational costs, attracting Chinese manufacturers to invest in production facilities.
Agriculture	Duty-free machinery imports, tax exemptions for corporate farming.	Encourages Chinese investments in modernizing Pakistan's agriculture sector.
CPEC Initiatives		
Phase 2 Focus Areas	Industrial cooperation, agricultural modernization, socio-economic development, enhanced connectivity.	Expands collaboration opportunities, fostering deeper economic integration between China and Pakistan.

Oversight	CPEC Authority and fast-track approvals.	Ensures streamlined project execution, providing a clear framework for Chinese investors.
Laws Applicable to Chinese Investors		
Foreign Private Investment Act 1976	Provides protection for foreign investments against expropriation, guarantees repatriation of profits and capital, equal treatment with domestic investors.	Builds investor trust, offering security for Chinese investments.
Protection of Economic Reforms Act 1992	Ensures continuity of policies, safeguards fiscal incentives for foreign investors, prohibits retrospective application of laws.	Provides a stable investment environment, encouraging long-term Chinese engagements.
Investment Policy 2013	Reaffirms profit and capital repatriation rights, simplifies procedures for foreign investments, promotes sectoral diversification for investments.	Facilitates ease of entry and diversification, appealing to Chinese investors across various sectors.
Special Economic Zones Act 2012	Provides incentives such as tax holidays and duty-free imports, facilitates SEZ development under CPEC.	Strengthens industrial ties under CPEC, making SEZs an attractive destination for Chinese firms.
Foreign Exchange Manual 2002	Regulates foreign exchange transactions, outlines procedures for repatriation of funds and profits.	Ensures transparency and smooth financial operations for Chinese investors.
Companies Act 2017	Governs incorporation and operation of companies, sets corporate governance and disclosure requirements.	Provides regulatory clarity, fostering confidence for Chinese business ventures.
Board of Investment Ordinance 2001	Establishes the Board of Investment as a one-stop agency for foreign investments, provides aftercare services and investment facilitation.	Simplifies investment processes, offering continuous support for Chinese enterprises.
China-Pakistan Free Trade Agreement (FTA)	Reduces tariffs on goods, liberalizes trade in services, promotes bilateral investment protection.	Enhances trade benefits and investment returns, encouraging Chinese businesses to expand operations.
Public-Private Partnership Authority Act 2017	Enables private sector involvement in infrastructure projects.	Encourages joint ventures, opening avenues for Chinese investments in infrastructure.
National Electric Power Regulatory Authority (NEPRA) Act 1997	Regulates power sector investments, ensures fair returns for foreign investors.	Secures Chinese investments in Pakistan's energy sector, guaranteeing returns and operational stability.

Risks Faced by Chinese Companies

Research shows that despite CPEC contributing to a significant increase in foreign direct investments from China intro the industrial and energy sectors of Pakistan, Chinese investors are also discouraged from committing to investing in Pakistan in the long-term due to the perceived risks of security concerns and economic uncertainty, among others. This literature review summarizes the contemporary research on the risks faced by Chinese companies investing and operating in Pakistan, their mitigation strategies and highlights gaps in the literature that can be investigated further.

Chinese expatriates in Pakistan face significant challenges, including restricted social mobility, high security risks, and personal safety concerns, which negatively impact their quality of life. Security threats such as kidnapping and violent attacks confine many Chinese nationals to their residences or company premises, limiting their ability to engage in normal social activities or access medical care in emergencies. Companies attempt to mitigate these risks by providing bulletproof vehicles, but the prohibitive costs make their regular use impractical, forcing employees to compromise on safety during routine travel. Additionally, the ongoing security situation prevents many expatriates from bringing their families to Pakistan, fearing for their safety and limiting access to local educational institutions for their children. These challenges collectively contribute to a strained and uncomfortable living environment for Chinese nationals, undermining their well-being and satisfaction.

Security Threats

Security concerns including infrastructure damage, terrorism, kidnapping and cyber threats targeted towards Chinese companies is one of the most prevalent risks associated with investing in Pakistan in the existing literature. According to Ahmad (2024), multiple terrorist groups have conducted attacks on infrastructure developed as part of CPEC in areas in Balochistan and KP. These attacks have put Chinese nationals working on these projects in danger and cultivated a perception of risk around investing in critical areas associated with CPEC such as the Gwadar port. Chinese companies in Pakistan face significant security risks, primarily due to domestic insurgent groups like the Baloch Liberation Army (BLA) and the Tehrik-i-Taliban Pakistan (TTP), as well as regional tensions with India. These groups have targeted Chinese nationals and projects, particularly those under the China-Pakistan Economic Corridor (CPEC). In response, the Chinese government has raised concerns, deploying special forces and pushing for better intelligence sharing with Pakistan.

Political & regional Instability

In addition to that, the prevalent political instability and changes in regulations is also highlighted as a major deterrent to Chinese investments in Pakistan by numerous studies. For instance, MDPI (2022) show that the frequently changing political leadership and government policies make the business and investment climate of Pakistan highly uncertain for Chinese investors. Undefined taxation policies, legal ambiguities, slow contract enforcement and government inefficiencies make operations more time consuming and expensive for companies and deter Chinese investors from further investments[30]. The table 8 summarize the issues and challenges related to the Pakistan-China One Belt One Road Project (CPEC)

Unsteady Economic Policies & Strategies

Unsteady economic policies and strategies in Pakistan present significant risks for Chinese companies operating within the country. Frequent shifts in economic policies, driven by changes in government and external pressures, create an unpredictable business environment, making long-term planning difficult. The country's persistent fiscal challenges, including high inflation, a growing trade deficit, and a weakening currency, contribute to ongoing economic instability.

Lack of Ease of Doing Business

The lack of ease of doing business in Pakistan is a significant barrier for Chinese companies operating in the country, aggravating investment risks and discouraging further economic engagement. One major issue is the difficulty foreign companies face in repatriating profits to their home countries. The complex regulatory framework, coupled with delays in the approval processes for financial transactions, often hampers Chinese companies from transferring earnings or profits efficiently. This creates liquidity issues, as companies are unable to move their funds freely across borders.

Unskilled Human Capital in Pakistan

The lack of skilled human capital in Pakistan presents a considerable risk for Chinese companies investing in the country. While there is a large labor force, the shortage of qualified and well-trained professionals poses a significant challenge for businesses seeking to maintain high operational standards. Many sectors in Pakistan face a mismatch between the skills needed by industries and the qualifications of available workers. This gap in human capital not only affects the productivity and efficiency of operations but also

[30] "MDPI - Publisher of Open Access Journals," n.d. https://www.mdpi.com/.

raises costs for companies, as they are often forced to invest heavily in training and development programs for their local workforce. For Chinese companies, the challenge is compounded by the need to operate with a workforce that may not be familiar with international business practices, advanced technologies, or specific industry standards. This can lead to inefficiencies, delays, and lower overall output, undermining profitability and competitiveness. Moreover, the shortage of skilled professionals in key fields such as engineering, information technology, and management makes it harder for Chinese companies to staff critical roles with qualified local talent, further straining resources. As a result, Chinese businesses in Pakistan may face challenges in scaling operations, maintaining quality, and ensuring long-term sustainability, as they are forced to rely on a less skilled labor force in a competitive global market.

Change of Agreements with Power Producers

The change of agreements with Independent Power Producers (IPPs) like the Sahiwal Power Plant presents a significant risk to Chinese investments in Pakistan, particularly due to the financial implications of infrastructure changes. When agreements with IPPs are altered, it often leads to the renegotiation of terms, which can result in unexpected financial burdens for foreign investors. In the case of the Sahiwal Power Plant, any required infrastructure changes or updates to the plant may necessitate substantial additional investments. Chinese companies, which have heavily invested in these energy projects, could be forced to bear the costs of these changes, increasing their financial exposure. Such unanticipated expenses can impact the overall profitability of the projects and affect the confidence of Chinese investors in Pakistan's investment climate.

Table 8 List of issues and challenges related to the Pakistan-China One Belt One Road Project (CPEC)

Category	Details	Impact on CPEC
Regional Security Challenges	➢ Security concerns in Afghanistan post-U.S. withdrawal. ➢ Tensions with India. Regional peace and stability critical for economic growth.	Threatens regional stability, delaying project implementation and investment.
Internal Factors	➢ **Balochistan's Security**: a. Separatist movements and opposition from leaders like Brahamdagh Bugti. b. Attacks on project-related logistics (e.g., fuel tankers). Claims of inequitable benefits favoring Punjab. ➢ **Protests in Gilgit-Baltistan:** a. Demands for fair share in the project. b. Entry point to CPEC but dissatisfaction among locals.	Undermines trust and cooperation among provinces, potentially stalling key projects.
External Threats	➢ Opposition from India, U.S., and Israel viewing CPEC as counter strategic. Allegations of RAW funding disruption efforts ($300 million). ➢ Increased militancy and terrorism in critical areas.	Heightens security risks, increases project costs, and delays timelines.
Political Instability	➢ Fragmentation within Pakistan's political landscape. Opposition from nationalist groups claiming federal route changes favour eastern regions.	Weakens coordination, creating hurdles in policymaking and implementation.

	Lack of alignment between provincial and federal governments.	
Security Concerns	➢ Targeted attacks by militant groups like ETIM, TTP, and BLA. Threats to Chinese workers and infrastructure. ➢ Cross-border terrorism exacerbated by foreign agencies like RAW, CIA, and Mossad.	Endangers project continuity and discourages further Chinese investment.
Corruption	➢ Allegations against officials, such as Lt. Gen. Asim Saleem Bajwa, for unreported wealth. ➢ Estimated 80% of investments at risk due to corruption. ➢ Leakage of financial resources affecting project efficiency.	Erodes confidence in governance, reduces investment efficiency, and impacts economic returns.[31]

Political instability in Pakistan has emerged as a significant obstacle to Chinese investments, particularly those associated with CPEC. Since the inception of CPEC in 2013, Chinese officials and businesses have had to navigate multiple changes in government, each marked by protests, agitation, and uncertainty. Frequent changes in government have directly impacted the continuity and implementation of CPEC projects, leading to policy inconsistencies and delays. Protests by the government, such as those in 2014 that postponed Chinese President Xi Jinping's visit and disrupted progress for months, highlight the tangible effects of political volatility on project timelines.[32].

The bureaucratic structure in Pakistan presents another significant layer of complexity for Chinese companies, particularly those involved in CPEC. Red tape and procedural delays are pervasive, with prolonged official documentation processes impeding project progress. The centralized nature of decision-making further compounds these issues, as delays in approvals and lack of delegation create uncertainties for investors. Rent-seeking behavior within the bureaucracy has also increased project costs and complexities, complicating the operational landscape for Chinese enterprises. Resistance to change is another challenge, with entrenched traditional practices hindering the adoption of innovative approaches or advanced technologies introduced by Chinese companies.

Table 9 Impact of Political Instability and Bureaucratic Challenges on Chinese Enterprises in Pakistan

Issues	**Subcategory**	**Details**	**Impact on Chinese Companies in Pakistan**
Political Instability	Frequent Government Changes	Pakistan has experienced four different governments since CPEC's launch in 2013.	Policy inconsistencies disrupt planning and project continuity.

[31] Rehman, B., Ahmed, S., & Siddiqui, S. (2022). Challenges and Opportunities of China-Pakistan Economic Corridor (CPEC): An Analysis. *Annals of Human and Social Sciences*, *3*(2), 536-543.
[32] Rafiq, A. (2021). The China–Pakistan Economic Corridor: The Lure of Easy Financing and the Perils of Poor Planning. In *Great Potential, Many Pitfalls* (pp. 58-70). Routledge.

		Each government brought its own approach to CPEC, causing delays.	Increased costs and uncertainty in long-term investments.
	Project Delays	Protests in 2014 delayed Chinese President Xi Jinping's visit, paralyzing Islamabad for months.	Prolonged timelines for key CPEC projects, affecting cost management.
		Resulted in significant setbacks for infrastructure development.	Eroded trust in project commitments and feasibility.
	Investor Confidence	Unpredictable political environment eroded investor confidence.	Reduced FDI inflows and cautious approach by Chinese enterprises.
		Made long-term planning difficult for Chinese enterprises.	Limited expansion of existing projects and hesitation for new ventures.
	Policy Inconsistency	Changes in government prompted a reassessment of Pakistan-China relations.	Increased risks of renegotiation or cancellation of agreements.
		Vested interests of political parties caused policy shifts.	Delayed implementation and reduced efficiency in operational planning.
	Provincial-Federal Tensions	Disagreements between provincial and federal governments delayed CPEC implementation.	Disrupted supply chains and escalated administrative challenges.
		Resulted in additional project complications.	Slower execution of projects due to prolonged decision-making processes.
	Economic Uncertainty	Political instability contributed to volatile macroeconomic conditions in Pakistan.	- Difficulty in forecasting operational costs and returns on investments.
		Made long-term investments challenging for Chinese companies.	Increased reliance on risk assessments and contingency planning.
Bureaucratic Challenges	Red Tape and Procedural Delays	- Documentation processes are often prolonged, delaying project progress.	Increased operational costs and frustration for project stakeholders.
	Centralized Decision-Making	Centralized authority struggles with quick and firm implementation of decisions.	Stalled projects due to slow approvals and lack of delegation.
	Rent-Seeking Behavior	Prevalence of rent-seeking behavior increases project costs and complexities.	Reduced profitability and increased project delays.
	Resistance to Change	Resistance to adopting new approaches hinders innovation and technology integration.	Barriers to introducing advanced techniques and modern solutions.
		Bureaucracy relies on traditional methods, avoiding modern solutions.	Limited flexibility and adaptability for international firms.
	Capacity Issues	Lack of skilled personnel to manage complex international projects.	Compromised project execution and inefficiencies in operations.
	Inter-Departmental Coordination	Poor coordination between government departments creates navigation difficulties for Chinese companies.	Prolonged approval processes and miscommunication on project deliverables.

	Transparency Issues	Lack of transparency in decision-making and approvals hampers investment confidence.	Increased perceived risks and reduced enthusiasm for future investments.

The combined impact of political instability and bureaucratic inefficiencies has significantly affected CPEC and Chinese investments in Pakistan. Delays in project implementation are common, with many transport infrastructure projects yet to start or still under construction. These delays contribute to cost overruns, as political and bureaucratic hurdles increase financial burdens on projects. The slow pace of CPEC projects has strained bilateral relations between China and Pakistan, with Chinese officials expressing frustration over the challenges. In response, China has strategically recalibrated its investments, adopting a more cautious and selective approach, focusing on projects aligned with its strategic interests. This has resulted in a shift towards smaller, more manageable projects, emphasizing efficiency and strategic value in response to the operational and bureaucratic challenges in Pakistan.

Security Measures Taken by Pakistan for Chinese Investments

Chinese enterprises and personnel in Pakistan have increasingly become targets of violent attacks, particularly those associated with the China-Pakistan Economic Corridor (CPEC). In a recent incident in August 2023, a convoy of Chinese engineers near Gwadar was attacked by terrorists, resulting in casualties and heightened concerns over the safety of Chinese nationals[33].

Such attacks underscore the persistent security challenges faced by Chinese stakeholders in Pakistan, necessitating robust and multifaceted security measures. To address these risks, Pakistan has implemented a series of comprehensive security measures aimed at safeguarding Chinese enterprises, personnel, and infrastructure. These measures include the deployment of specialized security forces, enhanced technological surveillance, and policies tailored to mitigate specific threats.

Table 10 Comprehensive Security Measures for Chinese Enterprises and Investments in Pakistan

Security Initiative	Department/Agency Responsible	Details	Impact on Chinese Enterprises
Special Security Division (SSD)	Pakistan Army	A dedicated force comprising approximately 15,000 personnel tasked with safeguarding CPEC projects, infrastructure, and Chinese nationals across Pakistan.	Enhanced physical security for Chinese workers and reduced risks of targeted attacks.
Maritime Security Force (MSF)	Pakistan Navy	Protects Gwadar Port, its surrounding maritime routes, and Chinese vessels against piracy and other maritime threats.	Secured maritime operations and logistics for CPEC-related trade.
National Action Plan (NAP)	Ministry of Interior	A comprehensive counter-terrorism framework launched in 2014 to address extremism, ensure law enforcement capacity building, and dismantle terrorist networks.	Safer operational environment for Chinese investments, particularly in volatile regions like Balochistan.

[33] Staff, Al Jazeera. “Pakistan Security Forces Kill Two After Attack on Chinese Convoy.” *Al Jazeera*, March 27, 2024. https://www.aljazeera.com/news/2023/8/13/pakistan-security-forces-kill-two-after-attack-on-chinese-convoy-in-gwadar?utm_source=chatgpt.com.

Police Protection Units (PPU)	Provincial Police Departments	Provincial-level specialized units provide localized security to Chinese personnel and project sites in high-risk areas such as Gwadar and Khyber Pakhtunkhwa.	Increased localized safety measures and prompt response capabilities.
Cybersecurity Framework	Pakistan Telecommunication Authority (PTA)	Protects sensitive digital infrastructure of Chinese enterprises through enhanced regulatory oversight and cybersecurity measures.	Improved digital security for operations, reducing risks of cyberattacks on Chinese companies.
Bulletproof Vehicles for Personnel	Ministry of Interior and Provincial Authorities	Provision of bulletproof cars for high-ranking Chinese officials and key project leaders to ensure their safety in transit.	Increased personal safety for Chinese executives and officials in high-risk zones.
Intelligence Coordination Units	Inter-Services Intelligence (ISI)	Coordinates intelligence sharing and threat monitoring to preempt attacks on CPEC-related infrastructure.	Real-time threat detection and mitigation, minimizing risks to personnel and assets.
Quick Response Forces (QRF)	Pakistan Army and Provincial Police	Rapid deployment teams stationed near critical sites to provide immediate security reinforcement in case of emergencies.	Improved response times in the event of security breaches or attacks.
Special Protection Units (SPU)	Punjab Police	Established in Punjab to exclusively safeguard Chinese nationals and CPEC assets through a highly trained force.	Focused protection for Chinese employees and critical infrastructure in the Punjab region.
Security Audits and Risk Assessments	Ministry of Interior and Provincial Authorities	Conducts regular assessments of security protocols and site vulnerabilities, with targeted updates to counter evolving threats.	Proactive adaptation to emerging risks, enhancing the overall security framework.
Anti-Terrorism Legislation	Parliament and Law Enforcement Agencies	Enacts stringent laws to prosecute and deter activities that threaten foreign investments and personnel, such as the Anti-Terrorism Act (ATA).	Strengthened legal deterrents against terrorism, boosting investor confidence.
Counter-Terrorism Departments (CTD)	Provincial Home Departments	Established specialized units in all provinces to investigate and neutralize threats targeting foreign nationals and strategic infrastructure.	Reduced risk of terrorism-related disruptions to Chinese operations.

Community Policing Initiatives	Provincial Police Departments	Engages local communities to foster trust and cooperation in securing CPEC infrastructure.	Enhanced collaboration between law enforcement and communities, reducing local resistance to Chinese projects.
Aviation Security Enhancements	Pakistan Civil Aviation Authority (CAA)	Strengthened airport security measures to ensure the safe transit of Chinese personnel and equipment.	Secured travel for Chinese workers and improved logistical efficiency.
Surveillance and Monitoring Systems	Pakistan Army and Law Enforcement Agencies	Deploys drones, CCTV networks, and other advanced technologies to monitor critical project sites and detect potential threats.	Improved situational awareness and preemptive security measures.
Public-Private Partnerships	Ministry of Planning, Development, and Reform	Collaborates with Chinese firms to co-develop security solutions tailored to specific project needs.	Customized security strategies that address unique challenges faced by Chinese enterprises.
Gwadar Security Task Force	Pakistan Navy and Balochistan Police	Task force established to oversee the security of Gwadar and its surrounding areas, including roads, pipelines, and power plants critical to CPEC.	Enhanced operational safety in Gwadar, a key node in the CPEC framework.
Crisis Management Centres	National Disaster Management Authority (NDMA)	Establishes dedicated centres to manage emergencies related to CPEC projects, ensuring continuity and safety of operations.	Mitigated impact of unforeseen incidents, such as natural disasters or security breaches.

Pakistan's security framework reflects a dedicated effort to safeguard Chinese enterprises and investments from evolving threats. The deployment of specialized forces, enhanced surveillance systems, and localized protection initiatives exemplifies the country's commitment to mitigating risks. Continued updates to these measures, particularly in volatile regions, will be crucial to sustaining the confidence of Chinese stakeholders and ensuring the long-term success

A significant gap in the literature exists regarding policy recommendations for enhancing the attractiveness of Pakistani as a long-term destination for Chinese investments. Most studies focus on regulatory reforms and economic stabilization to be performed by the Pakistani government. This study adds to the literature by obtaining and analyzing recommendations suggested by the Chinese companies that have already invested in Pakistan. These key stakeholders reveal valuable insights from their experience and challenges to provide actionable recommendations for the government as well as suggestions for potential investors.

Methodology

Primary data was collected for this research using offline and online survey that was circulated to representatives of various Chinese companies operating in Pakistan. Various Chinese companies operating in Pakistan were randomly selected for the survey. The survey collected data on the years of operation, sector, number of employees, products produced by the company and their export status in order to understand the demographic details of the companies within the sample. In addition to that, the company representatives were asked qualitative questions to evaluate their company's reasons for investing in Pakistan and the impact of various perceived risks on their investment strategies.

The representatives were asked through **Risk Chart to rate the severity of various risks on a scale of 1-5 with 1 being very low risk and 5 being very high risk.** These variables were used to understand the perception of the companies regarding the following perceived investment risks in Pakistan that were highlighted in the literature: security concerns, political instability, economic uncertainty, bureaucratic challenges. Average ratings for each perceived risk were calculated in order to obtain a ranking of the most pressing issues faced by Chinese companies that may discourage them to further invest in Pakistan and reduce future foreign direct investments from new enterprises.

Similarly, the respondents were asked through **Mitigation Strategy Chart to rate the effectiveness of various mitigation strategies on a scale of 1-5 with 1 being very ineffective and 5 being very effective.** These variables were used to evaluate the perceived effectiveness and prevalence of utilization of the following strategies amongst Chinese companies operating in Pakistan that were found in contemporary research studies: partnering with local businesses, hiring local talent, engaging with government bodies, obtaining insurance coverage and diversifying investments. Average ratings for each mitigation strategy were calculated to obtain a ranking of the perceived effectiveness of the strategies which could potentially indicate the prevalence of their utilization.

Furthermore, qualitative questions were asked to obtain actionable recommendations from the Chinese companies in the sample for the Pakistani government that could make the investment climate more favorable and attract greater investment inflows from Chinese FDIs. They were also asked to provide recommendations and critical factors that would assist future Chinese investors to succeed in the investment and economic climate of Pakistan. Thematic qualitative analysis was performed in order to highlight the most prevalent recommendations.

Pearson Correlation Analysis was performed in order to evaluate the strength of the linkages between various perceived investment risks and potential mitigation strategies used by Chinese companies in order to minimize the adverse effects of the aforementioned risks. Multiple Linear Regression was performed seeks to evaluate the impact of the perception of the severity of various investment risks on the likelihood of Chinese companies partnering with other companies, controlling for the sector of the company, years of operation and its number of employees which serves as a proxy for the size of the company. Perceived severity ratings of risks including economic uncertainty, security concerns, political instability and poor infrastructure were used as the main independent variables while partnering with another company was used as the main dependent variable of interest in the model.

Results

Chinese companies in Pakistan face numerous risks to their investments such as **security issues, political instability** and **economic uncertainty** which have caused them to focus on risk assessment and adopt a more conservative approach when making investment decisions in Pakistan. Despite these risks, these companies continue to operate in Pakistan and believe it to be a viable investment destination in the long-term because they use effective risk mitigation strategies such as hiring cost effective local talent and partnering with local businesses.

The offline and online surveys were conducted with representatives of a sample of many Chinese companies in Pakistan of various sectors and sizes. Figure 2 shows that the representatives belonged to companies from the agriculture, energy and manufacturing sectors while one firm classified itself as a port and free zone operations firm. It also shows that 50% of the companies in the sample belonged to the manufacturing sector.

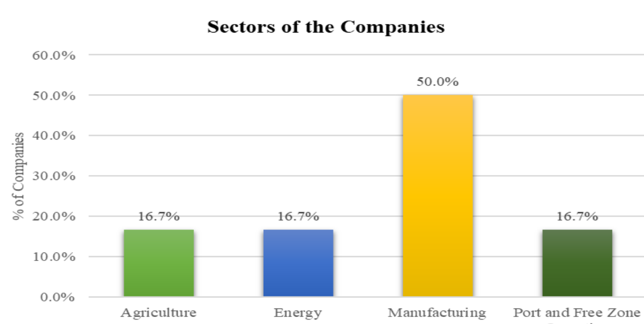

Figure 3 Sectors of the Survey companies

The company representatives were in various positions in their respective companies including owner, chairman, deputy CEO, regional manager and commercial manager. 66.7% of the representatives were in top leadership positions while the rest were in managerial positions. Figure 3 shows that the majority of the companies in the sample were large in scale as 50% of the companies had between 101-500 employees while 33.3% of them had more than 500 employees.

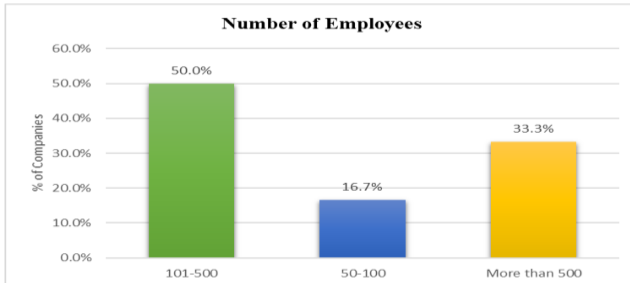

Figure 4: Number of employees of the companies

Figure 4 shows that half of the companies in the sample were exporting companies while the other half only sold in domestic markets. 50% of the companies sell locally in Pakistan only, 33.3% of them export from Pakistan to China and 16.7% of them export from Pakistan to other companies.

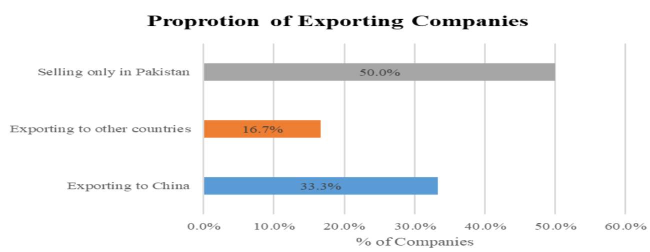

Figure 5 Proportion of exporting companies

According to the representatives, their companies chose to invest in Pakistan due to cheap labour **costs.** One agriculture-based company highlighted the importance of good weather and the country being an agriculture based country. One exporting company highlighted the economic significance of Gwadar as it provides the shortest land and maritime routes to different countries. The benefits of investing in Pakistan are low tax rates and high tax incentives, accessibility to large domestic and international markets and cost-effective labour.

As displayed by Figure 6, safety issues, economic uncertainty and political instability were perceived to be the most severe risks faced by Chinese companies investing in Pakistan. This is implied by the fact that on a risk severity scale of 1-5, the companies gave security concerns the highest average rating of 4.83. **Economic Uncertainty**

This was followed by economic uncertainty with an average risk severity rating of 3.67. This was followed by political instability and infrastructure issues, each having an average risk severity rating of 3.5.

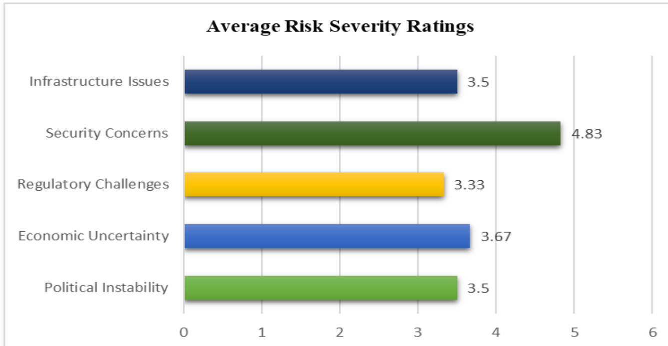

Figure 6 Average Risk Severity Ratings

Figure 7 shows that **83.3% of the companies stated that these risks had influenced their investment approach in Pakistan.** Of those who stated that these risks have affected them, they highlighted that these risks prevented them from making further investments. Moreover, they have increased their focus on making risk assessments for risk control and using more conservative investment strategies.

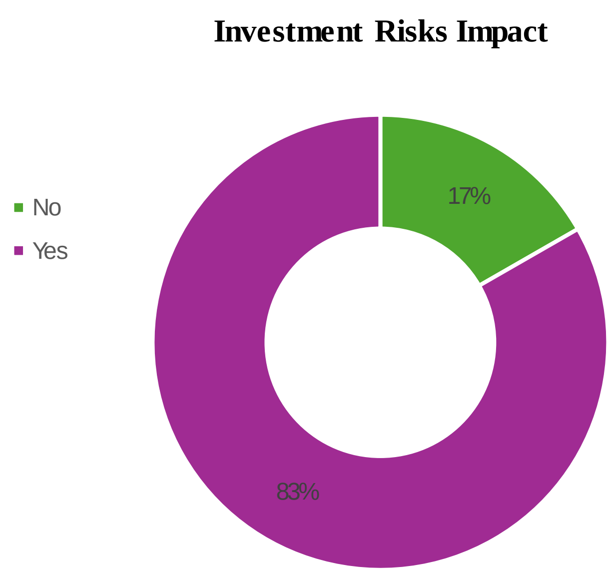

Figure 7 Have investment risks influenced the investment approach of companies

Figure 8 shows that companies label best mitigation strategies include hiring local talent partnering with local businesses, Hiring local talent and partnering with local businesses are the most effective risk mitigation strategies while investing in Pakistan. This is implied by the fact that on a mitigation strategy effectiveness scale of 1-5, the companies gave an average effectiveness rating of 4.17 to hiring local talent for work. This was followed by partnering with local businesses with an average effectiveness rating of 3.67. Engaging with government bodies was given an average rating of 3. While obtaining insurance coverage and diversifying investments were given average ratings of 2.8 and 2.5 respectively. Despite partnering with other businesses being perceived as an effective risk mitigation strategy, only 33.3% of the respondents stated that their companies collaborated with other companies to manage risks.

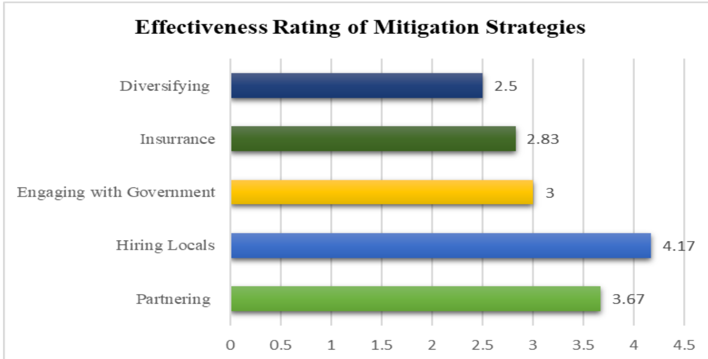

Figure 8 Effectiveness rating of mitigation strategies

Pearson Correlation Analysis

Pearson correlation analysis was performed to identify the relationship between perceived risks and mitigation strategies used by the Chinese companies in the sample. Table 11 shows the correlations between various perceived risks of investing in Pakistan by Chinese companies and different mitigation strategies used. The indicators for mitigation strategies are defined in the horizontal rows whereas the indicators for perceived risks are defined in the vertical columns.

Table 11 Pearson Correlations between Indicators for Perceived Risk and Mitigation Strategies

Mitigation Strategies		Perceived Risks				
		Political Instability	Economic Uncertainty	Regulatory Challenges	Security Concerns	Infrastructure Issues
Partnering with Local Businesses	Pearson Correlation	0.59	-0.50	-0.40	-0.80	-0.36
	Sig. (2-tailed)	0.22	0.31	0.43	0.06	0.49
Hiring Local Talent	Pearson Correlation	0.29	**0.80**	-0.20	0.20	0.53
	Sig. (2-tailed)	0.57	0.06	0.70	0.70	0.28
Engaging with Government	Pearson Correlation	0.38	-0.39	-0.39	-0.77	0
	Sig. (2-tailed)	0.46	0.45	0.44	0.07	1
Insurance Coverage	Pearson Correlation	-0.31	**0.77**	0.70	0.35	**0.81**
	Sig. (2-tailed)	0.55	0.07	0.12	0.50	0.05
Diversifying Investments	Pearson Correlation	-0.29	-0.8	-0.40	-0.20	-0.53
	Sig. (2-tailed)	0.57	0.06	0.43	0.70	0.27

Most perceived risks have a positive correlation with mitigation strategies. Particularly, **economic uncertainty and the hiring of local talent by Chinese companies have a strong and significant positive correlation** with a Pearson correlation value of 0.8. Similarly, economic uncertainty and insurance coverage have a strong and significant positive correlation with a Pearson correlation value of 0.77. This implies that Chinese companies tend to focus more on hiring local talent and obtaining insurance coverage as perceived economic uncertainty increases. Furthermore, obtaining insurance coverage and infrastructure issues have a strong and significant positive correlation with a Pearson correlation of 0.81. This suggests that these companies focus on obtaining insurance coverage more as

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perceived infrastructure issues increase. Overall, the correlations suggest that the perceived risks of investing in Pakistan have increased the propensity to use mitigation strategies to minimize the impact of these risks.

Regression Analysis

The main regression model of this research seeks to evaluate the impact of the perception of the severity of various investment risks on the likelihood of Chinese companies partnering with other companies, controlling for the sector of the company, years of operation and its number of employees which serves as a proxy for the size of the company. As established earlier, **Chinese companies perceive partnering with local companies as one of the most effective mitigation strategies for investment risks** faced by them. Due to this, partnering with other companies was chosen as the main dependent variable of interest.

Table 12 The Impact of Risk Perceptions on Partnerships with Other Companies

	(1)	(2)	(3)	(4)
Variables	**Partnered**	**Partnered**	**Partnered**	**Partnered**
Economic Uncertainty	0.746**			
	(0.0326)			
Sector	0.287*	0.1000	-0.0917	0.0720
	(0.0237)	(0.995)	(0.745)	(0.137)
Years of Operation	0.114	0.600	0.354	0.570
	(0.0283)	(2.615)	(0.592)	(0.181)
Number of Employees	0.211*	0.100	0.227	0.254
	(0.0208)	(0.995)	(0.529)	(0.138)
Security Concerns		-0.500		
		(5.652)		
Political Instability			-0.162	
			(0.823)	
Infrastructure Issues				0.314
				(0.0943)
Constant	-3.839**	0.800	-0.157	-2.847
	(0.167)	(20.38)	(4.909)	(0.917)
Observations	6	6	6	6
R-squared	0.999	0.325	0.345	0.944

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

As shown in Table 12, an increase in the perceived severity of economic uncertainty is significantly related to partnership with other companies. As the perceived severity of economic uncertainty increases by one score on the severity scale, the associated increase in the likelihood of partnering with other companies is 74.6 percentage points. This effect is statistically significant at the 5% significance level. This result implies that Chinese companies tend to partner with other companies in order to mitigate the perceived risk of economic uncertainty in Pakistan.

Recommendations

To ensure a favorable investment climate for Chinese companies, Pakistan must enhance security measures by deploying specialized security forces, engaging local communities to foster ownership, and fortifying digital and physical infrastructure to counter threats. Prioritizing Gwadar port development and expediting the completion of Special Economic Zones (SEZs) are vital for enhancing trade capacity and attracting export-oriented industries.

Stabilizing macroeconomic indicators, simplifying regulatory processes, and providing financial incentives for partnerships with local businesses are critical for creating a stable investment environment. Collaborative efforts across provinces and political parties are essential to promote peace and align mutual interests for CPEC's success.

Encouraging local talent utilization through vocational training and knowledge-sharing initiatives will create a skilled workforce and facilitate knowledge transfer. Emphasizing education and training programs will uplift local communities and foster sustainable development. Diversifying risk mitigation strategies, such as affordable insurance schemes and regional investment diversification, is essential. Strengthening bilateral collaboration through strategic dialogue forums and transparent oversight mechanisms will ensure equitable development and align objectives. Focusing on regional connectivity and managing perceptions through transparency and targeted public relations campaigns will position Pakistan as a competitive and trusted destination for foreign direct investment. These efforts will drive economic, commercial, and cultural progress while ensuring long-term growth.

Table 2 Pathway to Enhancing Investment Climate for Chinese Companies in Pakistan (Theory of Change)

Components	Details
Goal	To enhance the investment climate for Chinese companies in Pakistan by addressing risks and optimizing mitigation strategies.
Challenges Identified	Security concerns (4.83/5 severity). Economic uncertainty (3.67/5 severity). Political instability and infrastructure issues (3.5/5 severity each).
Inputs	Government policies and reforms. Local business partnerships and workforce development. Infrastructure investments. Security enhancement measures.
Activities	Strengthening security infrastructure (physical and digital). Streamlining regulatory processes and offering clear policy guidelines. Promoting local partnerships through incentives. Enhancing vocational training programs for local labour. Developing SEZs and improving Gwadar port facilities.
Outputs	Improved security for foreign investments.

	Simplified regulatory processes and reduced bureaucracy. Increased local employment and skill development. Enhanced operational efficiency in SEZs and ports.
Outcomes	Reduced investment risks and increased confidence among Chinese companies. Higher adoption of local partnerships and talent utilization. Growth in infrastructure and industrial development. Strengthened bilateral trade and economic ties.
Impact	Sustainable long-term foreign direct investment (FDI) inflows from China. Economic growth and regional stability under CPEC. Improved socio-economic conditions through job creation and technology transfer.

Conclusion

Chinese companies investing in Pakistan face significant risks, including security concerns, economic uncertainty, and political instability, which compel them to adopt conservative investment strategies. However, their continued operation and interest in expanding investments reflect optimism about Pakistan's long-term potential as an attractive investment destination. **Security concerns**, particularly in regions like Balochistan and Khyber Pakhtunkhwa, were rated as the most severe risk,. **Economic uncertainty** followed with a severity rating, while political instability and infrastructure challenges further contribute to an investment environment requiring cautious navigation. Despite these constraints, the strategic advantages offered by Pakistan, including its geographical significance, cost competitiveness, and market potential, position the country as a promising hub for sustainable foreign direct investment (FDI), particularly under the China-Pakistan Economic Corridor (CPEC).

Effective mitigation strategies somehow enabled Chinese companies to manage these risks, with local talent utilization and partnerships with domestic businesses emerging as key measures. Hiring local talent not only reduces operational costs but also fosters local acceptance, enhances project sustainability, and builds a skilled workforce. Partnerships with local businesses create synergies, improve regulatory navigation, and build trust within communities. However, only 33.3% of surveyed companies actively pursue collaborations with local firms, indicating untapped potential for enhancing operational stability through such partnerships. The analysis further revealed a strong correlation between economic uncertainty and mitigation strategies, such as hiring local talent (80% effectiveness) and insurance coverage (77% effectiveness), underscoring the importance of diversified approaches in managing risks and sustaining investments.

To maximize the potential of Chinese investments and mitigate existing risks, Pakistan must prioritize several strategic policy measures. Strengthening security in high-risk regions, such as Gwadar and SEZs, is critical. The establishment of specialized security forces and community-based security initiatives can protect infrastructure and personnel while fostering local cooperation. **Stabilizing economic policies, including transparent taxation frameworks and consistent regulatory processes,** will minimize uncertainties and encourage sustained investments. Streamlining bureaucratic hurdles through digital platforms can further enhance the ease of doing business for foreign investors. Promoting local partnerships between Chinese companies and domestic firms is essential for mutual benefits and operational risk reduction. Financial incentives, such as tax breaks for collaborative ventures, can foster integration and local economic development. Simultaneously, vocational training programs tailored to the needs of Chinese industries operating in Pakistan can address labor shortages, ensuring a steady supply of skilled workers. Collaborative training initiatives between Chinese firms and local institutions can also enhance knowledge transfer and capacity building, strengthening Pakistan's human capital.

Infrastructure and connectivity development remain pivotal for industrial growth and export competitiveness. Accelerating the completion of SEZs with high-quality utilities and transport links will attract large-scale investments in manufacturing and export-oriented industries. Modernizing Gwadar port facilities to enhance operational efficiency and connectivity will further bolster Pakistan's role as a regional trade hub. Transparent governance, equitable benefit distribution, and public relations campaigns highlighting successful Chinese investments can build investor trust and attract new opportunities. **Encouraging the adoption of risk mitigation strategies**, such as affordable insurance schemes and geographical diversification, can further reduce investment risks. Promoting investment opportunities in less volatile regions of Pakistan will balance risk exposure and encourage regional development. Regular strategic dialogue forums between Chinese companies and Pakistani policymakers can address emerging challenges, facilitate insight-sharing, and strengthen bilateral collaboration. Enhanced oversight mechanisms for CPEC projects, including transparent monitoring and evaluation, will ensure accountability and equitable progress.

By addressing these recommendations, Pakistan can transform existing challenges into opportunities, creating an investment-friendly environment that aligns with the needs of Chinese companies. The strengthened bilateral cooperation under CPEC will not only enhance economic ties between the two nations but also drive regional stability, job creation, and socio-economic development. While risks persist, the resilience of Chinese companies in Pakistan underscores the country's immense potential. Targeted reforms and collaborative partnerships will unlock the full benefits of Chinese investments, ensuring sustainable growth and mutual prosperity under the CPEC framework.This study was carried out under the auspices of the **Institute of International Relations & Media Research.**