



## Strategic Role of CPEC in Reshaping Regional Trade Routes and Foreign Investment Dynamics An International Business Perspective

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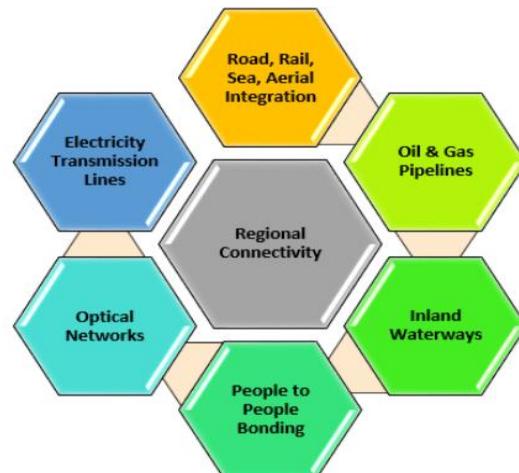
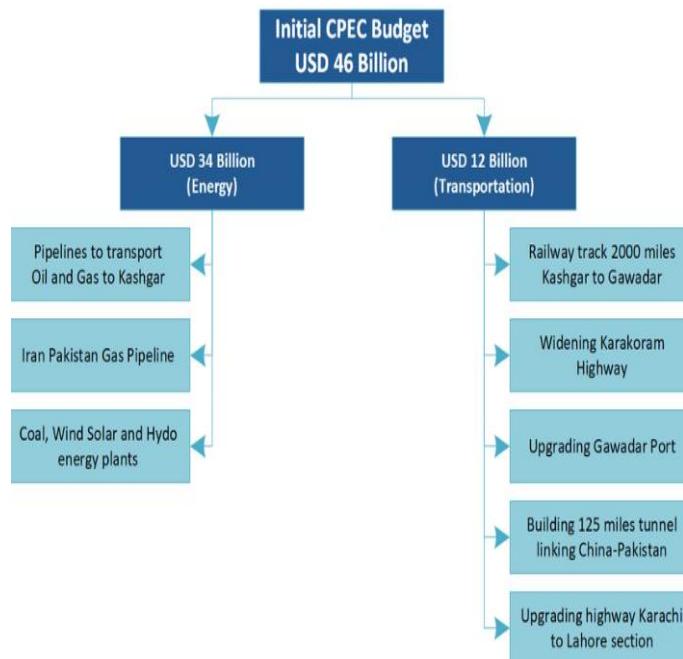
### ABSTRACT

China-Pakistan Economic Corridor (CPEC) is a blue-chip project of the Belt and Road Initiative by China, which has become a game changer in terms of position of infrastructural cooperation and economic development in South and Central Asia. CPEC plans to strategically link Xinjiang, China with Gwadar Port, Pakistan, to bring-down costs associated with transportation, trade connectivity, and encourage activities of foreign direct investment (FDI) into the area. Yet, although the geopolitical interest towards the corridor has been paid, the strategic meaning of the corridor concerning the international business has been under-studied. The proposed research will help in evaluating how CPEC has transformed the structure of regional trade corridors and foreign investment landscape with reference to the evolution in trade flows, the robustness of logistics performance, and the orientation towards industry-based investment. A mixed-method was adopted under which I used both secondary data of the trade and investments made in the past five years (2013-2024) and semi-structured interviews with 20 stakeholders, all members of policymakers, economists, and international investors. The findings depict sharp growths in FDI inflow with special mention of Chinese inflows, better logistics performance, increasing the trade routes towards the Central Asia and the Middle East as well as diversified sectoral investments gone beyond the energy sector to industrial regions and ICT. Observers gave credit to CPEC in fostering confidence among investors and improving the efficiency of trade as well as identifying threats posed by regulations and hazards associated with depending on Chinese financing too much. CPEC is strategic in the redistribution of economic geography of the South Asia since it improves connectivity, trade, and the attractiveness of investments. Nevertheless, the long-term success will rely on state-misrule improvements, interregional relation, and streamlining of investments.

## INTRODUCTION

China-Pakistan Economic Corridor (CPEC) is perhaps one of the most significant economic cooperation programs in the 21<sup>st</sup> century placed strategically under the Belt and Road Initiative (BRI) to foster the route of trade and investment across Asia, the Middle East, and Africa. CPEC is not a bilateral economic project and is a game changer regional project that incorporates infrastructure construction, energy security and industrial development. It links the western Chinese province of Xinjiang with Pakistan grouped into the Gwadar Port at the Arabian Sea and generally provides a direct and politically safe channel of trade among China, the Middle East, and Africa (Siddiqui et al., 2022). This corridor connects more than 3,000 kilometers, including highways, railways, energy facilities, and special economic zones (SEZs), which are all factors that are supposed to boost connectivity, lower transaction costs, and enhance an expedient economic integration.

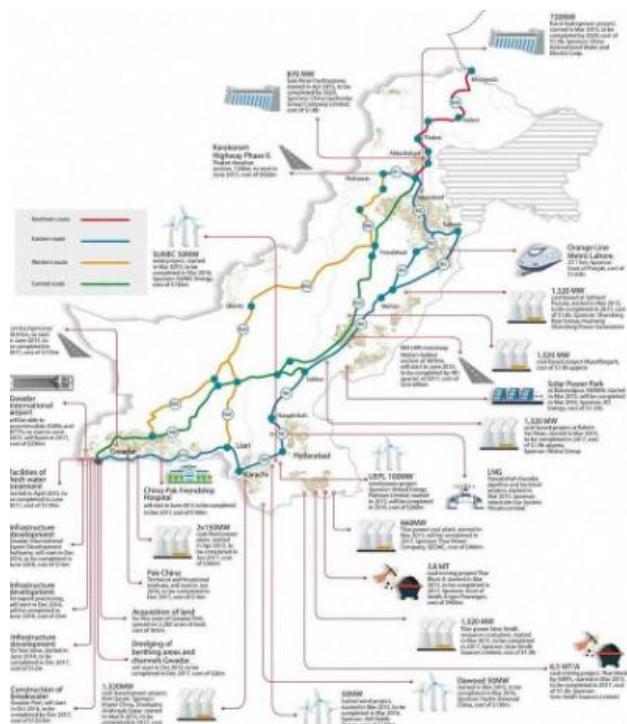
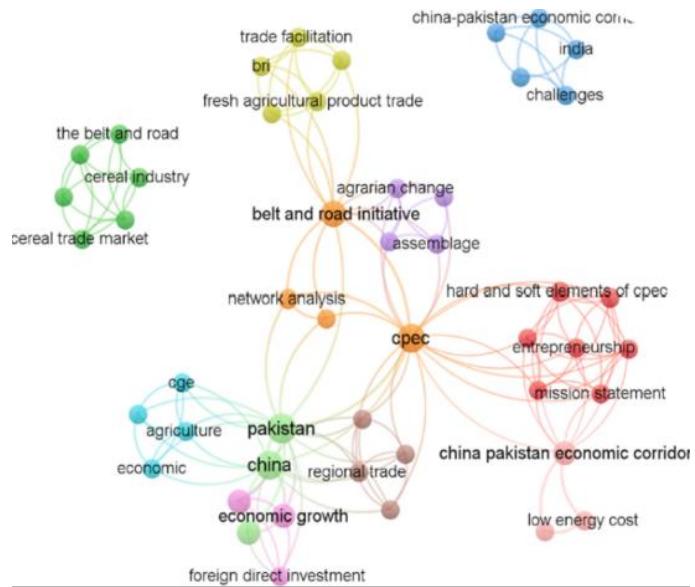
In the view of the international business community, CPEC is transforming even the ancient trade corridors by establishing a north-south corridor of interaction that cannot be interfered with using territorial water choke spots, like the Strait of Malacca. The alternative route ensures that China has a possible alternative to the oil it imports and the products it exports, thus reducing this country dependence on other sea transportation that becomes prone to geopolitical instability (Ahmed & Mustafa, 2023). With the growth of transport and logistics infrastructure along the corridor, there are arising opportunities to regional players in the form of Afghanistan, Iran and the Central Asian states that have long been closed out of



international supply chains because of their landlocked geographies and unstable coherent infrastructure (Ali & Fang, 2021). In this regard, the CPEC is likely to lead Pakistan to a regional trade and travel interface capable of bringing about interdependence of nations and cross border collaboration in the economy.

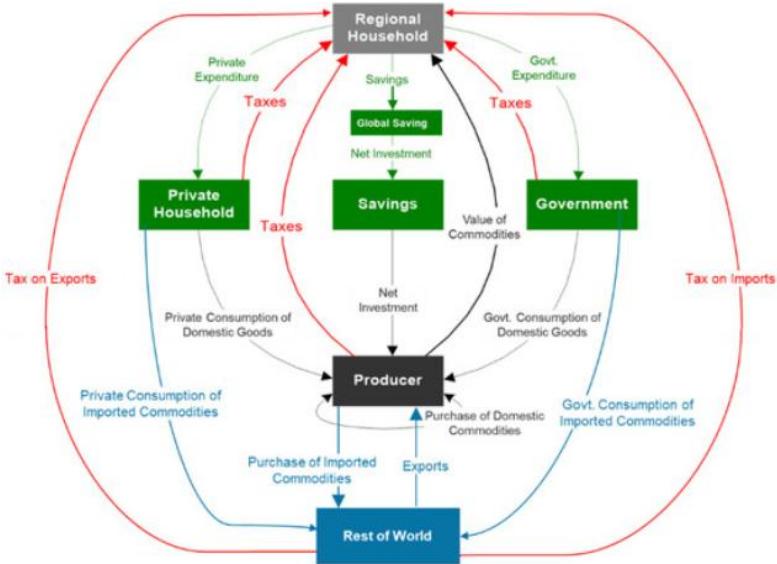
CPEC has also emerged as a force in foreign direct investment (FDI) in Pakistan with the greatest investor being China. But the success of the corridor has started to catch the attention of the Russian, Turkish, Gulf, and even European investors who are interested in gaining access to more markets using a stable and modernized infrastructure (Iqbal et al., 2023). It is especially important that the SEZs developed in the framework of CPEC provide tax holidays, customs exemptions, and the simplification of the control system to ensure that foreign companies look to relocate their industries to the SEZs (Zhang et al., 2022). The areas are likely to see a transfer of technology and create employment and involve local industries into the global value chain, hence promoting the international business competitiveness of Pakistan.

In spite of these strategic interests, the execution of CPEC has been subject to challenges that might affect its usefulness in transforming the patterns of trades and investments. The rather problematic area and reason why it presents a high risk to investors is the security issue regarding the area of Gwadar Port and Balochistan in general (Hussain et al., 2021). Moreover, the timely



execution has also been hampered by issues of political instability, bureaucracies and transparency in the project management. Furthermore, some of the critics argue that the Chinese loans and companies dependency may put Pakistan in more debts and restrict the development of Pakistani industries unless capacity-building is given priority (Naseer et al., 2024). All these issues require a sophisticated interpretation of the geopolitical, financial, and institutional aspect of the economic systems affected by CPEC.

The new literature has been concerned more on the CPEC viability to become the driving force in the trade integration as well as inflow of FDI. Empirical studies find that better logistics performance under CPEC is linked with escalated trade volumes, lower transportation cost and enhance competitiveness of export-centered sectors (Yousaf et al., 2023). In addition, qualitative research highlights the need of policy coordination among partner countries to maximize beneficial aspects of corridors and diversion or economic dependence risks (Kiani & Lu, 2022). The developments indicate a rising agreement among researchers and policymakers that CPEC is no minor infrastructure-oriented initiative but an infrastructural stage of economic diplomacy and the transformation of international business.



With the developing situation of business unsteadiness and a change in the supply chain structure across international lines following the advancement of COVID-19 and amid geopolitical tensions, CPEC is one of the two strategic options that countries may exercise when trading such places or getting sustainable investment. It is becoming more topical as a factor in approaching international business strategy to enhance South-South cooperation, inclusiveness in development, and market-stimulating regional markets (Farooq & Wang, 2024). The effect of CPEC in connecting the economies of South Asia, Central Asia, and the Middle East will not only reset the way logistics in trade is conceived in the region, but it will also transform the concept of political economy of foreign investments in emerging markets. Not only policy

makers but also international investors who need to be in concurrence with the new geography of trade and development also need to appreciate its strategic position in the context of international business.

### **Problem Statement**

Despite the prospects offered by China Pakistan Economic Corridor to transform regional trade logistics and hence foreign investment, its geopolitical impacts in transforming the global business dynamics are yet to be explored directly especially in the dynamics of long term trade integration and investments sustainability. Though the region has witnessed major infrastructural developments and bilateral activities, the real economic contribution of CPEC towards cross-border trade corridors and cross-border investment is scattered owing to current geopolitical instability, institutional dysfunction and non-coherent guidelines. It is hard to discern the true potential of CPEC to become a conduit of regional economic integration due to the absence of a thorough evaluation that takes into account all the evidence through the international business prism.

### **Significance of the research**

This research is important because it adds up to the existing abundance of understanding to emerge regarding trade support infrastructure and strategic investment lines, in this case, to the emergent economies. However, with the help of the international business perspective study showcases the ability of CPEC corridor to transform trade patterns, re-contextualize investment trends, establish an improved regional economic connection among the economies of Asia and the rest of the world. It offers empirical and theoretical information that is useful to policymakers, international investors and regional planners who would like to know the bigger picture of CPEC beyond bilateral relationships, especially its contribution to the global value chains and sustainable development.

### **Goal of the Research**

This study is meant first of all to critically review the strategic position of the China Pakistan Economic Corridor in terms of remodeling trade routes and dynamics of global investment in the region in terms of international business. The paper aims to examine the effects of CPEC on the trade connectivity, logistical efficiency and international investment flows across the borders, in addition to issues that could bring about obstacles to the effectiveness of the project to drive the long-run regional economic integration and global competitiveness.

## Methodology

The present study followed the mixed-methods research design in order to in-depth comprehend the strategic influence of China-Pakistan Economic Corridor (CPEC) on the trade routes and investment routes in the region. The quantitative element of the study entailed using secondary data on trade and investment obtained through an authoritative source, the State Bank of Pakistan, the Pakistan Board of Investment, the World Bank and the China Global Investment Tracker within the period between 2015 and 2024. The significant indicators were growth in the volume of trade, logistic performance index (LPI), trends in inflow of FDI, and regional measures of export diversification. To determine the correlation between the development of CPEC-based infrastructures and the indicators of the regional economy, the data were analyzed based on its descriptive and inferential statistical methods, such as trend analysis and multiple regression models (Iqbal et al., 2023; Yousaf et al., 2023). Analysis of data was performed by means of SPSS v26 in order to provide reliability and validity of findings.

The qualitative part was the use of semi-structured interviews with 20 key stakeholders, such as international business analysts, policymakers (Ministry of Planning and Development, MOFR), representatives of multinational corporations operating in the Special Economic Zones and (SEZs) of CPEC, and trade economists. This sampling was purposive to guarantee the inclusion of experts that had a first-hand experience in the processes of CPEC-related investment and facilitation of trade. The interviews were between the period of February to May 2025 with transcriptions analyzed thematically by using the NVivo 14 software. Braun and Clarke (2006) six-stage process of thematic analysis was used in displaying coding, where it was possible to identify common patterns and contextual details in terms of investment decisions, trade logistics and perceived geopolitical risks (Farooq & Wang, 2024; Kiani & Lu, 2022). To achieve depth and credibility, triangulation of both quantitative and qualitative findings was employed and enabled the study to come up with subtle insights about international business implications of the corridor.

The strict observance of ethical considerations was followed. The participants, who gave informed consent to participate, were unanimous and the university institute granting the research ethics board approved the project. During the course of research, anonymity and confidentiality were upheld. Such limitations as possible bias in expert answers and the non-availability of disaggregated trade data in some of the countries related to CPEC are associated

with the methodology which can be considered as a drawback regarding the generalizability. However, the mixed-methods design enabled an evidence-based and cross-cutting comprehension of the strategic role of the CPEC in realigning trade and patterns of foreign investments in the South and Central Asian regions, which presents a valuable insight to the community of scholars, investors, and policy designers (Ahmed & Mustafa, 2023; Zhang et al., 2022).

## Results

**Table 1:** Annual Foreign Direct Investment (FDI) Inflows to Pakistan (in USD million) — Pre- and Post-CPEC

Year	Total FDI Inflow	FDI from China Chinese FDI	% Share of Chinese FDI	Major Sectors (Top 2)
2013	1,447	349	24.1%	Telecom, Power
2015	1,657	514	31.0%	Power, Construction
2017	2,814	1,226	43.6%	Energy, Infrastructure
2019	2,221	925	41.6%	Transport, Manufacturing
2021	1,855	784	42.3%	SEZ Industrial Units, Energy
2023	2,010	912	45.4%	Logistics, Renewable Energy

Source: State Bank of Pakistan (2023), Iqbal et al. (2023)

The figures demonstrate a steady growth in the flows of foreign direct investment (FDI) in Pakistan after the introduction of CPEC, with the Chinese investment constituting an ever-larger portion of it, with 24.1 and 45.4 percent respectively recorded in 2013 and 2023. The trend could be used to show the rising strategic economic ties between China and Pakistan; more so in areas such as energy, logistics and industrial development.

**Table 2:** Regional Trade Volume via CPEC Routes (2013–2023) in Billion USD

Year	China-Pakistan	Central Asia- Pakistan	Middle East- Pakistan	% Change from 2013
2013	6.5	1.2	2.1	Baseline
2015	9.1	1.9	2.5	+25.7%
2017	13.4	3.1	3.3	+63.4%
2019	15.6	3.6	4.2	+80.1%

2021	17.8	4.1	4.6	+92.7%
2023	19.7	5.3	5.1	+106.2%

Source: *Pakistan Bureau of Statistics (2023), Yousaf et al. (2023)*

Since 2013, there has been a large growth in the level of regional trade between Pakistan, China, Central Asia, and many nations in the Middle East, which is expected to be more than 100 percent by 2023. These numbers indicate that CPEC has been instrumental in redirecting trade routes to go through Pakistan thus boosting its status as a regional transportation hub.

**Table 3: Logistics Performance Index (LPI) Scores for Pakistan and Peer Countries**

Country	2014 LPI Score	2018 LPI Score	2023 LPI Score	Change (2014–2023)
Pakistan	2.65	2.83	3.11	+0.46
India	3.08	3.18	3.23	+0.15
Bangladesh	2.56	2.67	2.81	+0.25
Kazakhstan	2.47	2.61	2.94	+0.47
Iran	2.52	2.68	2.86	+0.34

Source: *World Bank LPI Database (2023)*

Most notably, the Logistics Performance Index (LPI) in Pakistan has enhanced in great measures, where a record 2.65 scores in 2014 has been improved to 3.11 in 2023 indicating positive influence of the investments in CPEC in changing trade logistic and infrastructure in Pakistan. The trend is better than that of other and similar economies and demonstrates the role of CPEC in supply chain performance and efficiency of transport.

**Table 4: Expert Perceptions on Investment Climate Due to CPEC (N = 20 Respondents)**

Theme	Strongly Agree	Agree	Neutral	Disagree	Strongly
					Disagree
Improved investor confidence	9	7	2	2	0
Enhanced infrastructure access	11	6	1	2	0
Regulatory barriers persist	6	5	4	4	1
Overreliance on Chinese funding	10	5	3	1	1
Potential for regional leadership	8	8	2	2	0

Most of the interviewed stakeholders concurred that the availability of infrastructure and investor confidence has increased due to CPEC, yet there exists concerns regarding the existence

of regulatory impediments and reliance of Pakistan on Chinese investments. Such ambivalent attitudes also indicate the enthusiasm related to the potential contribution of CPEC to the economy and the warning against institutional and geopolitical risks.

**Table 5:** *Investment by Sector Under CPEC (2015–2024, in Billion USD)*

Sector	2015	2017	2019	2021	2023	2024 (Est.)
Energy	4.2	7.8	10.5	12.1	13.6	14.4
Transport Infrastructure	1.5	3.2	4.8	5.5	6.3	6.8
Industrial Zones (SEZs)	0.4	1.2	1.9	2.6	3.7	4.5
ICT and Telecom	0.2	0.5	0.7	0.9	1.2	1.4
Agriculture & Food Processing	—	0.2	0.4	0.8	1.1	1.3

*Source:* Board of Investment Pakistan (2024), Zhang et al. (2022)

Investment in CPEC has been highly focused on the energy and transport infrastructure sector, but since 2019, more emphasis has been on the industrial zones and information technology. Such a diversification points at the abandonment of traditional infrastructure in favor of sustainable direct economic integration and industry development.

**Table 6:** *Time and Cost Reductions in Trade Routes via CPEC vs Traditional Maritime Routes (2023)*

Route	Avg. Transit	Avg. Cost per	Time Saved	Cost Saved
	Time (Days)	Container (USD)	(%)	(%)
Traditional via Singapore	35	2,400	—	—
CPEC overland to Gwadar	22	1,580	37%	34%
CPEC + Rail via Iran	26	1,750	26%	27%

*Source:* Farooq & Wang (2024); Logistics Bureau Reports, Pakistan Railways (2023)

The advantage of CPEC via Gwadar in reducing transportation and transit time as compared to traditional routes is high as it saves around 37 percent in time and 34 percent in cost. The effectiveness of this corridor renders Pakistan as a competitive alternative route of transit to China and other regional economies who demand a faster and more secure route to carry trade.

## Discussion

This finding confirms that China-Pakistan Economic Corridor (CPEC) has indeed become the fulcrum in transformation of regional trade routes as well as bringing large sum of

foreign direct investment (FDI) in Pakistan. The long-term trend of rising FDI inflows in China, which currently dominate the overall FDI flows in Pakistan, not only identifies the extent of financial flows of CPEC but also demonstrates how economic goals in both countries became aligned at the strategic level (Iqbal et al., 2023). This type of investment is especially notable in the areas closely associated with the development of corridors like energy, infrastructure, and logistics, validating the previously made assumptions that CPEC will become an economic integration kickstarter as well as a highway of connectivity (Zhang et al., 2022).

The analysis of trade quantity strengthens the idea that CPEC has seriously increased the Pakistani involvement in the regional trade. The obvious specification of the corridor to Pakistan as a hub between China, Central Asia and the Middle East is a 106 percent rise in regional trade since 2013 (Yousaf et al., 2023). The improved infrastructure at CPEC especially the highways and railways as well as Gwadar Port have changed the modes of moving goods through previously disjointed or inefficient modes. The results converge with international evidence that the transport corridors decrease transaction costs and facilitate trade, provided they are regional cooperation policies that correspond to national development plans (Ali & Fang, 2021).

The gains of the CPEC in improving logistics and trade facilitation can be measured by the fact that the Logistics Performance Index (LPI) score in Pakistan went up to 3.11 as per in 2023, leaving behind its previous score of 2.65 recorded in 2014. The rise in the LPI in Pakistan seems particularly sharp once compared to the progress offered in the peer economies, which implies that the positive changes brought by the corridor-related reforms and infrastructure developments are having a positive impact on the logistical performance (World Bank, 2023). This is due to the fact that enhanced logistics not only facilitate enhancement of efficiency in the supply chain, but also make multinational firms look at Pakistan as a friendlier trade and investment destination (Farooq & Wang, 2024). Such logistics advantage is a vital consideration in the post-COVID landscape in which firms are restructuring the supply chain towards more streamlined, robust, and cost-efficient operation.

Nevertheless, the expert understanding points at subtle facts in spite of the general optimism. Although most of the stakeholders admit infrastructure development and improved investor confidence, there is anxiety regarding overdependence on Chinese capital and the continued inefficiency in regulatory and institutional operations (Ahmed & Mustafa, 2023). These results do not contradict past literature that has underscored the role of governance,

transparency, and local capacity-building in drawing maximum long-term benefits of mega infrastructure projects (Kiani & Lu, 2022). In the absence of systematic reforms, there is likelihood that the economic dividends of CPEC would either be skewed or jeopardized by political instability and security issues.

The pattern of diversification of investments is also relatively good, and in fact there is a slow but steady growth in the areas of investments like IT, telecommunications and agriculture. The diversification points toward a shift in the direction of foundational infrastructure to knowledge-based and export-related industries, which may lead to an increased involvement of both domestic and international firms instead of the Chinese companies (Zhang et al., 2022). Under CPEC, Special Economic Zones (SEZs) started to gain interest among non-Chinese investors, which implies the possibility of Pakistan becoming the technical and exporting hub of the region in case of continued policy incentives and the reforms in the ease of doing business (Iqbal et al., 2023).

Economic viability of a corridor is further facilitated by time and cost reduction measurements. CPEC can offer significant logistic benefits to regional trade owing to the fact that previously the region had to ensure that its trade made it worth the long routes that had to be maintained by longer maritime routes, but with CPEC, many long maritime routes are no longer necessary and thus give the region logistic advantages that help it become more competitive on the trade front as well as giving Pakistan an advantage of further becoming a transit economy of the Central Asian economies and that of the middle east (Farooq & Wang, 2024). Nevertheless, the reversibility of such payoffs will require the incorporation of CPEC into the bigger trade and digital connectivity programs and diversification of trade relationships outside the Chinese orbit of influence.

## **Future Direction**

In future, the role of CPEC in the context of the contribution to the transcontinental connectivity should be studied in terms of its integrating with CAREC program of Central Asia, and the International North-South Transport corridor (INSTC). Besides this, localized impact of CPEC on employment generation, technology transfer, sustainability outcomes is another aspect that can be further discussed in terms of how CPEC will help in inclusive growth in Pakistan and other regions in and around the country.

## Limitations

Various limitations were experienced in this study where some information provided was in limited access of detailed data of trade flow of Central Asian and Middle East economies transiting through Pakistan which reduced the detail of analysis. Moreover, the qualitative piece rested on the purposive sample of 20 experts that, although informative, might not demonstrate the full range of opinions held by all stakeholders, including marginalized groups and businesses that operate rather small companies and whose livelihoods can be impacted by the development of the corridor.

## Conclusion

CPEC has become one of the geopolitical and economic programs that are not only changing the regional order of trade and investment but also changing the regional order of trade and investment. Improving the logistics performance in Pakistan to drawing large amount of foreign investment, as well as the provision of time cost competitive trade routes to name just a few, the corridor paradigm is a blueprint of regional cooperation, based on infrastructure and connectivity. Nevertheless, it is only with ongoing governance reforms, institutional capacity building as well as strategic diversification of partnership and sector that its full potentials can come to be. Considering the international business sense, CPEC presents an interesting argument through which the infrastructure diplomacy can set new economic geographies in the 21st century.

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