

CPEC AND INVESTMENT PROTECTION LAWS IN PAKISTAN: A LEGAL PERSPECTIVE

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Abstract

China-Pakistan Economic Corridor (CPEC) is one of the most important investments in Pakistan's history and it was an initiative of China's Belt and Road Initiative (BRI). While CPEC boasts of a revitalized economy for Pakistan, local infrastructure upgrades, and increased regional connectivity, it also foregrounds the advantages and shortcomings of Pakistan's legal and regulatory system to protect investments. This paper critically analyzes the existing legal and regulatory framework for investment protection in Pakistan as it relates to CPEC, outlining the available protections, institutions, protections available for dispute resolution for foreign investors in Pakistan. The paper argues that Pakistan has made significant strides in creating investment treaties and laws but it still suffers from breaches in implementation, vagueness as to legal meaning, and a lack of a policy of judicial consistency which has a negative effect on investor confidence. It includes a comparison of investment protections with countries that have a long track record of investment protection like China and Malaysia, and highlights the need for legislative clarity, institutional capacity building and improved transparency. Finally, it includes legal recommendations for improvement of investment protections to allow for positive outcomes for CPEC in the context of Pakistan's broader economic development and sovereignty agenda.

Introduction

The China-Pakistan Economic Corridor (CPEC), initiated in 2015 as part of China's Belt and Road Initiative (BRI), represents a significant moment in Pakistan's economic and geopolitical future. As a comprehensive multi-transportation network of roads, railways, energy projects and industrial zones, CPEC aims to connect China's Xinjiang region to Pakistan's Gwadar Port, and will improve regional connectivity and stimulate foreign direct investment in Pakistan's economy, which has long been held back by lack of infrastructure and political instability.¹ CPEC's projected cost to

¹ "Ministry of Planning, Development & Special Initiatives," accessed June 25, 2025, https://pc.gov.pk/web/press/get_press/1412.

entitle over USD 60 billion means that it represents a single foreign investment source in Pakistan's history.²

Nevertheless, the legal architecture that underwrites this enormous investment push is weak, patchy, and sometimes unclear. Although Pakistan has ratified a number of bilateral investment treaties (BITs) - including its 1989 treaty with China - and passed domestic statutes, including the Foreign Private Investment (Promotion and Protection) Act 1976, serious doubts remain regarding the effectiveness and enforceability of these legal instruments.³ Foreign investors continue to share experiences marked by inconsistent regulatory practices, weak institutional enforcement, and uncertainty about dispute settlement.⁴ Concerns about the lack of transparency surrounding many CPEC contracts, and the limited public access to project-specific legal documents, have only elevated concerns about the adequacy and seriousness of Pakistan's legal commitments with respect to investor protection.⁵

These concerns are not hypothetical. Pakistan's involvement in significant investor-state disputes “eg Kharkey Karadeniz Elektrik Uretim A.S. v. Islamic Republic of Pakistan”, shows systematic weaknesses in the legal regime governing investment protection, and signals the importance of improving certainty and the rule of law to foreign investors.⁶ At the same time, the attention devoted to CPEC, given the geo-political nature of Chinese ambitions and Pakistan's economic vulnerabilities, emphasizes the importance of improving the credibility, transparency and enforceability of Pakistan's legal architecture governing investment protection.

This paper presents a critical review of the legal regime of investment protection in Pakistan in relation to CPEC. The paper examines whether existing laws and treaties provide enough protection to investors while protecting Pakistan's regulatory autonomy. It further examines different institutional, judicial, and legislative weaknesses, surrounding investment protections, that threaten to undermine the value of those protections.

The paper looks to comparative experiences in China and Malaysia, both of which successfully dealt with large-scale investment projects in a coherent manner, for legal reform ideas that could restore investor confidence and possibly lead to sustainable development through CPEC. It is a big deal. If Pakistan does not have a coherent, effective, and enforceable legal regime, it could hinder future foreign investment, promote arbitral claims, and avert negotiating from an advantageous position. The aim of this exploration is to not only look at where there is lack of protection but provide a legal pathway that balance investment protection with national development, environmental sustainability, and democratic accountability.

Historical Evolution of Investment Law in Pakistan

The legal foundations of investment protection in Pakistan have been shaped by the country's political economy, marked by alternating waves of central planning, liberalization, and

² “Full Article: All Geopolitics Is Local: The China–Pakistan Economic Corridor amidst Overlapping Centre–Periphery Relations,” accessed June 25, 2025, <https://www.tandfonline.com/doi/full/10.1080/01436597.2022.2128329>; Munazza Fatima and Arooj Goheer, “INSPIRING THE NEXT GENERATION OF INDEPENDENT MEDIA IN PAKISTAN JULY 202,” n.d.

³ “Foreign Private Investment (Promotion and Protection) Act, 1976,” accessed June 25, 2025, <https://pakistancode.gov.pk/english/UY2FqaJw1-apaUY2Fqa-bpuUZWRv-sg-jjjjjjjjjjjj>.

⁴ A. R. Kemal, “Regulatory Framework in Pakistan,” *The Pakistan Development Review* 41, no. 4 (2002): 319–32.

⁵ Kamran Yousaf, “Pakistan Seeks to Heal Ties with India,” *The Express Tribune*, April 19, 2024, <https://tribune.com.pk/story/2463120/pakistan-seeks-to-heal-ties-with-india>.

⁶ “Case Details | ICSID,” accessed June 25, 2025, <https://icsid.worldbank.org/cases/case-database/case-detail?CaseNo=ARB/13/1>.

deregulation. Since independence in 1947, Pakistan has gradually constructed a legal architecture to attract and regulate foreign direct investment (FDI), albeit with varying degrees of success. The historical trajectory of investment law in Pakistan can be divided into four distinct phases: post-independence regulation, the 1970s nationalization era, the liberalization reforms of the 1990s, and the contemporary regime influenced by international investment agreements and mega-projects like the China-Pakistan Economic Corridor (CPEC).

Post-Independence and Early Regulation (1947–1970s)

In its formative years, Pakistan adopted a mixed economy approach, wherein the state dominated strategic sectors such as energy, banking, and heavy industry. Foreign capital was permitted but subjected to bureaucratic scrutiny and sectoral limitations. The absence of a codified foreign investment law during this period contributed to investor uncertainty.⁷ It was not until 1976 that Pakistan enacted its first comprehensive investment protection law “**The Foreign Private Investment (Promotion and Protection) Act**” which guaranteed protection against expropriation, allowed the repatriation of profits, and signaled a shift toward a more open investment policy.⁸ However, this legal development was somewhat paradoxical, occurring in the wake of Prime Minister Zulfikar Ali Bhutto’s extensive nationalization campaign in the early 1970s, which had already damaged investor confidence.⁹

Liberalization and BIT Expansion (1990s–2000s)

The 1990s ushered in a wave of economic liberalization, influenced by structural adjustment programs and global trends favoring market economies. Pakistan initiated reforms aimed at privatizing state-owned enterprises, deregulating key sectors, and creating a more attractive investment climate. It was during this period that the **Board of Investment (BOI)** was established under the Prime Minister’s Secretariat to serve as the central agency for investment promotion.¹⁰ Concurrently, Pakistan entered into a flurry of **Bilateral Investment Treaties (BITs)**, signing over 40 agreements by the early 2000s, to offer enhanced legal protection to foreign investors, including China in 1989.¹¹ These BITs generally provided clauses on fair and equitable treatment (FET), protection from unlawful expropriation, and access to international arbitration forums such as ICSID or UNCITRAL.¹²

Despite these positive developments, implementation remained inconsistent. Regulatory bodies lacked capacity, inter-agency coordination was weak, and judicial enforcement of investor rights was uncertain. Corruption and administrative discretion continued to undermine legal predictability.¹³

Judicial Approach to Investment Disputes

⁷ “Pakistan | Political and Economic History Since 1947 | Omar Noman | Ta,” accessed June 25, 2025, <https://www.taylorfrancis.com/books/mono/10.4324/9780203037966/pakistan-omar-noman>.

⁸ “Foreign Private Investment (Promotion and Protection) Act, 1976.”

⁹ Ignacio Lago and Santiago Lago-Peñas, “An Economic Explanation of the Nationalization of Electoral Politics,” *Electoral Studies* 44 (December 1, 2016): 409–18, <https://doi.org/10.1016/j.electstud.2016.10.011>.

¹⁰ “Home | Board Of Investment,” accessed June 25, 2025, <https://www.invest.gov.pk/node?page=13>.

¹¹ “Pakistan | International Investment Agreements Navigator | UNCTAD Investment Policy Hub,” accessed June 25, 2025, <https://investmentpolicy.unctad.org/international-investment-agreements/countries/160/pakistan>.

¹² Bakht Munir, “CRITICAL ANALYSIS OF BILATERAL INVESTMENT TREATIES IN PAKISTAN,” *SSRN Electronic Journal*, 2024, <https://doi.org/10.2139/ssrn.4916580>.

¹³ “National Integrity System Assessments - Transparency.Org,” accessed June 25, 2025, <https://www.transparency.org/en/national-integrity-system-assessments>.

The Pakistani judiciary's approach to investment-related disputes has historically been shaped by nationalist legal reasoning, often privileging state sovereignty over investor protection. Notable international arbitration cases, such as *Karkey Karadeniz v. Pakistan*, reflect a pattern of judicial or administrative actions later found to be in breach of treaty obligations.¹⁴ In that case, the ICSID tribunal held Pakistan liable for unlawful expropriation and awarded damages exceeding USD 1.2 billion to the Turkish energy firm.¹⁵ Such high-stakes outcomes have revealed deep institutional weaknesses and highlighted the urgency of aligning domestic legal practices with international commitments.

CPEC and the Shift Toward Strategic Investment Governance

The launch of CPEC in 2015 marked a new chapter in Pakistan's investment legal framework. CPEC not only dwarfed prior FDI in scale but also introduced unique legal and diplomatic complexities, including sovereign guarantees, state-to-state contracts, and hybrid public-private ventures. While Pakistan continued to rely on pre-existing instruments like the 1976 Act and the BIT with China, it lacked a **tailored legal regime** to govern mega-infrastructure projects.¹⁶ The resulting vacuum has left many CPEC investments exposed to regulatory ambiguity, intergovernmental friction, and gaps in dispute resolution mechanisms.

Legal and Institutional Framework Governing CPEC Investments in Pakistan

The legal governance of CPEC investments in Pakistan is characterized by a combination of general foreign investment laws, sector-specific regulations, bilateral treaties, and administrative frameworks. However, the absence of a unified and purpose-built legal instrument for CPEC projects has resulted in a patchwork regime marked by ambiguity, overlapping jurisdictions, and regulatory inconsistency. This section evaluates the primary components of Pakistan's legal and institutional infrastructure relevant to CPEC investments, highlighting areas of convergence and fragmentation.

1. Domestic Investment Laws and Special Economic Zone (SEZ) Legislation

At the core of Pakistan's domestic investment framework lies the "*Foreign Private Investment (Promotion and Protection) Act, 1976*", which assures investors against unlawful expropriation, guarantees repatriation of profits, and pledges non-discriminatory treatment.¹⁷ This law, however, applies generically to all foreign investment and does not account for the complex contractual and infrastructural dimensions of CPEC projects.

In parallel, Pakistan's *Special Economic Zones Act, 2012*, governs the legal framework for SEZs, many of which are developed under CPEC. The Act provides fiscal incentives, one-window facilitation, and relaxed regulatory oversight, but its implementation has suffered from delays, poor inter-agency coordination, and lack of uniform interpretation by provincial governments.¹⁸ Furthermore, while the Act delegates authority to SEZ Authorities and provincial boards, their regulatory competence remains underdeveloped and often politically influenced.¹⁹

2. Bilateral Investment Treaty (BIT) with China

¹⁴ "Case Details | ICSID," accessed June 25, 2025, <https://icsid.worldbank.org/cases/case-database/case-detail?CaseNo=ARB/13/1>.

¹⁵ "Case Details | ICSID."

¹⁶ "Case Details | ICSID."

¹⁷ "Foreign Private Investment (Promotion and Protection) Act, 1976."

¹⁸ "SEZAct2016e," n.d.

¹⁹ "Analyzing the Legal Framework of Special Economic Zones (SEZ) in Pakistan: Insights from China's SEZ Experience by Maryam Mukhtar, Ayesha Siddiqah :: SSRN," accessed June 25, 2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4996591.

The Pakistan–China Bilateral Investment Treaty, signed in 1989 and in force since 1990, serves as the legal foundation for Chinese investor protection under CPEC. The treaty provides for fair and equitable treatment (FET), full protection and security (FPS), and recourse to international arbitration mechanisms such as ICSID or ad hoc tribunals under UNCITRAL rules.²⁰ While this treaty was progressive at the time of its signing, it lacks modern clauses addressing transparency, environmental safeguards, and public policy exceptions, features common in post-2010 BITs.²¹ Consequently, investors benefit from strong protections, but the treaty limits Pakistan’s regulatory autonomy in sensitive sectors like energy, land acquisition, and taxation.²²

3. CPEC Authority and Institutional Overlaps

In 2019, Pakistan established the CPEC Authority through a presidential ordinance to centralize coordination among federal and provincial entities. Though intended to streamline project approval and monitoring, the Authority’s legal mandate remains weak, and its interactions with other regulatory bodies such as the Planning Commission, the Board of Investment (BOI), and line ministries are poorly defined.²³ Institutional overlaps between federal and provincial agencies, particularly in land law, taxation, and environmental regulation, further complicate governance.²⁴ The 18th Constitutional Amendment, which devolved significant powers to provinces, has created legal ambiguity over whether federal authorities can unilaterally negotiate or enforce obligations under CPEC. This constitutional tension is especially problematic in projects requiring cross-provincial coordination or involving local community rights.²⁵

4. Dispute Resolution and Legal Remedies

Pakistan is a party to the **Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID)** and has incorporated this into domestic law through the *Arbitration (International Investment Disputes) Act, 2011*.²⁶ This provides foreign investors with access to binding international arbitration. Nonetheless, enforcement of arbitral awards remains inconsistent. For instance, Pakistan has previously resisted enforcement of unfavorable ICSID decisions, citing national interest or judicial independence.²⁷

²⁰ “Download (1),” n.d.

²¹ “World Investment Report 2024: Investment Facilitation and Digital Government | UN Trade and Development (UNCTAD),” accessed June 25, 2025, <https://unctad.org/publication/world-investment-report-2024>.

²² “View of BALANCING INVESTOR PROTECTION AND SOVEREIGNTY: THE EVOLUTION OF BILATERAL INVESTMENT TREATIES AND INVESTOR-STATE DISPUTE SETTLEMENT IN INTERNATIONAL INVESTMENT LAW,” accessed June 25, 2025, <https://westerneuropeanstudies.com/index.php/4/article/view/2402/1656>.

²³ “Ordinance,” n.d.

²⁴ “CPEC: Governance and Security Challenges—Implications for the Belt and Road Initiative | Chinese Political Science Review,” accessed June 25, 2025, https://link.springer.com/article/10.1007/s41111-018-0109-z?wt&error=cookies_not_supported&code=8b10e900-51ec-4c6b-9f5e-0550e18bbbf7.

²⁵ “Constitution (Eighteenth Amendment) Act, 2010,” accessed June 25, 2025, <https://www.pakistani.org/pakistan/constitution/amendments/18amendment.html>.

²⁶ “The Arbitration (International Investment Disputes) Act, 2011 (Act No. IX of 2011), Pakistan, WIPO Lex,” accessed June 25, 2025, <https://www.wipo.int/wipolex/en/legislation/details/15831>.

²⁷ “International Aviation Labour Law by Andrea TRIMARCHI. Abingdon, Oxfordshire: Routledge, a Member of the Taylor and Francis Group, 2022. 248 Pp. Hardcover: GBP £135.00; Paperback: GBP £39.99; eBook: GBP£39.99. Doi: 10.4324/9781003288107 - Labour Relations in Aviation by Jacomo RESTELLINI. Alphen Aan Den Rijn, The Netherlands: Kluwer Law International, 2022. Xxviii + 376 Pp. Hardcover: £129.00; eBook (PDF): £129.00. Doi: Unknown | Asian Journal of International Law | Cambridge Core,” accessed June 25, 2025, <https://www.cambridge.org/core/journals/asian-journal-of-international-law/article/abs/international-aviation-labour-law-by-andrea-trimarchi-abingdon-oxfordshire-routledge-a-member-of-the-taylor-and-francis-group-2022->

At the domestic level, Pakistan's civil courts lack specialized benches or procedures for foreign investment disputes. The absence of dedicated commercial or investment courts delays adjudication and contributes to investor insecurity.²⁸ Furthermore, while mechanisms like the BOI's investor grievance portal exist, they function more as administrative tools than legally binding recourse mechanisms.

Comparative Perspectives: Legal Approaches in China and Malaysia

A comparative analysis of investment protection frameworks in jurisdictions that have successfully managed large-scale foreign direct investment (FDI) projects provides valuable insights for Pakistan's legal reform under CPEC. China, as the principal investor in CPEC, and Malaysia, as a country with extensive experience in balancing foreign investment with domestic regulatory control, offer useful models. Both jurisdictions present varying approaches to reconciling state sovereignty with investor security while maintaining legal certainty, procedural efficiency, and national interest safeguards.

1. China's Investment Protection Regime: Structured Authoritarianism

China has transitioned from a highly controlled, state-led economy to a legal environment that selectively incorporates global investment norms while maintaining centralized political oversight. The enactment of the "**Foreign Investment Law (FIL) of 2019**", effective from January 1, 2020, marked a significant shift in China's treatment of foreign investors.²⁹ The FIL consolidates previous laws and emphasizes equal treatment between domestic and foreign investors, while guaranteeing protection against expropriation, access to dispute resolution, and administrative transparency.

Notably, China has strategically used **investment treaties**, particularly in Africa and Asia, to promote its outbound investments, often incorporating strong investor protections including dispute resolution clauses under ICSID or UNCITRAL rules.³⁰ However, domestic enforcement remains subject to political discretion, and arbitration enforcement in China continues to be shaped by judicial deference to state policy.³¹

For Pakistan, China's model illustrates the possibility of enacting broad legislative protections while maintaining central control over investment governance. However, this model presumes institutional coherence and judicial subordination, conditions that differ significantly from Pakistan's fragmented and federalized system.

2. Malaysia's Hybrid Investment Regime: Legal Certainty with Flexibility

248-pp-hardcover-gbp-13500-paperback-gbp-3999-ebook-gbp3999-doi-1043249781003288107-labour-relations-in-aviation-by-jacomo-restellini-alphen-aan-den-rijn-the-netherlands-kluwer-law-international-2022-xxviii-376-pp-hardcover-12900-ebook-pdf-12900-doi-unknown/2FEF96FAEAFE748D8233077E3C356958.

²⁸ "UNLEASHING THE POTENTIAL OF FOREIGN INVESTMENT IN PAKISTAN: A CRITICAL ANALYSIS OF THE LEGAL FRAMEWORK, FLAWS, AND RECOMMENDATIONS FOR PROMOTING SUSTAINABLE ECONOMIC GROWTH | Pakistan Journal of International Affairs," accessed June 25, 2025, <http://www.pjia.com.pk/index.php/pjia/article/view/1086>.

²⁹ "【Foreign Investment Law of the People's Republic of China】-National Development and Reform Commission (NDRC) People's Republic of China," accessed June 25, 2025, https://en.ndrc.gov.cn/policies/202105/t20210527_1281403.html.

³⁰ "Wir2025_ch02_en," n.d.

³¹ "China's New Foreign Investment Law and Its Contribution Towards the Country's Development Goals in: The Journal of World Investment & Trade Volume 22 Issue 3 (2021)," accessed June 25, 2025, https://brill.com/view/journals/jwit/22/3/article-p388_3.xml.

Malaysia offers a more relevant model for Pakistan due to structural similarities in federal governance and developmental policy objectives. Its Investment Incentives Act, 1986, along with the Malaysian Investment Development Authority Act, creates a cohesive regulatory regime for both domestic and foreign investors.³² Malaysia's legal system, rooted in common law, provides greater predictability in contract enforcement, judicial independence, and institutional accountability compared to many developing countries.³³

Malaysia has also signed over 70 bilateral investment treaties and several regional trade agreements that contain investment protection chapters. These treaties emphasize transparency, public interest exemptions, and procedural safeguards for both investors and the host state. Malaysia's legal approach demonstrates that a middle ground is achievable, one that upholds investor rights while preserving policy space for environmental regulation, labor rights, and public interest governance.³⁴

Unlike Pakistan, Malaysia has also invested in institutional competence, establishing dedicated commercial courts, specialized investment tribunals, and transparent dispute resolution mechanisms. These reforms have reduced arbitral claims and promoted confidence among foreign investors, even in politically sensitive sectors like oil, mining, and infrastructure.

Challenges in Pakistan's Investment Protection Regime

Despite the formal existence of investment protection laws and bilateral treaties, Pakistan's legal environment for foreign investors, particularly within the framework of the China-Pakistan Economic Corridor (CPEC), remains marred by structural, institutional, and procedural challenges. These challenges manifest not only in the form of legal uncertainty and regulatory fragmentation but also through systemic governance weaknesses that erode investor confidence.

1. Legal Ambiguity and Overlapping Jurisdictions

One of the primary challenges facing CPEC-related investments is the lack of a dedicated legal framework that specifically addresses the scale, complexity, and nature of strategic infrastructure projects. Existing laws such as the 1976 Foreign Private Investment Act or the 2012 Special Economic Zones Act were not designed to accommodate multi-billion-dollar cross-border state-to-state collaborations.³⁵ The result is a fragmented regime in which various sectors (e.g., energy, land, tax, environmental regulation) fall under different federal and provincial jurisdictions, often leading to contradictory rules and bureaucratic delays.³⁶

The institutional landscape is similarly disjointed. The creation of the **CPEC Authority** in 2019 was intended to harmonize coordination among stakeholders, but its legal authority remains ill-defined and has been repeatedly challenged by provincial governments and parliamentary bodies.³⁷ This legal uncertainty hampers effective governance and has the potential to derail projects at critical stages of implementation.

2. Weak Dispute Resolution Mechanisms

³² "Incentives - MIDA | Malaysian Investment Development Authority," accessed June 25, 2025, <https://www.mida.gov.my/setting-up-content/incentives/>.

³³ "Malaysia_report," n.d.

³⁴ "ASEAN-Comprehensive-Investment-Agreement-A-Guidebook-for-Businesses-and-Investors," n.d.

³⁵ ASEAN, ed., *ASEAN Comprehensive Investment Agreement: A Guidebook for Business and Investors* (Jakarta: ASEAN Secretariat, 2016).

³⁶ ASEAN.

³⁷ "Ordinance."

Another key challenge is Pakistan's limited capacity for resolving investor-state disputes through both domestic and international mechanisms. While Pakistan is a signatory to the ICSID Convention and the New York Convention, enforcement of arbitral awards is inconsistent. In the *Reko Diq* and *Karkey* cases, Pakistan's resistance to compliance with arbitral decisions attracted international criticism and financial penalties.³⁸ Although the *Arbitration (International Investment Disputes) Act, 2011* incorporates ICSID obligations into domestic law, Pakistani courts have shown reluctance in issuing enforcement orders, citing sovereignty and public policy exceptions.³⁹

Furthermore, the absence of specialized commercial or investment courts means that disputes must be routed through Pakistan's overburdened civil judiciary, where delays, lack of technical expertise, and procedural opacity discourage investors from seeking local remedies.⁴⁰

3. Inconsistent Regulatory Practices and Political Interference

Foreign investors operating under CPEC have frequently raised concerns over **inconsistent application of rules**, arbitrary regulatory changes, and politically motivated interference. Changes in tariff structures, delays in tax refunds, and retrospective modifications to contractual terms have undermined the sanctity of agreements signed under CPEC.⁴¹ Provincial governments, in particular, have exercised discretion over land acquisition, labor policies, and environmental clearances, occasionally stalling federally-approved projects.⁴²

Moreover, political transitions have often resulted in policy reversals, further deepening investor concerns about regulatory continuity. Pakistan's civil bureaucracy, widely regarded as inefficient and politicized, lacks the institutional autonomy to enforce contractual obligations or investment protections without interference.⁴³

4. Lack of Transparency and Public Accountability

Transparency is another persistent issue. Many CPEC agreements remain classified or inaccessible to the public and civil society, raising concerns about corruption, conflict of interest, and unfair terms.⁴⁴ The absence of mandatory disclosure requirements, combined with limited parliamentary or judicial oversight of these agreements, creates an opaque environment where neither investors nor local communities can reliably ascertain their rights or obligations.⁴⁵

This lack of transparency not only weakens Pakistan's negotiating power but also contributes to public opposition, especially in regions where land acquisition or displacement issues arise. The

³⁸ "Pakistan Annual Research Journal" 53 (2017).

³⁹ Shahzad Manzoor Khan et al., "An Analysis of the Practices of International Commercial Arbitration in Pakistan and the UK," *Indus Journal of Social Sciences* 3, no. 1 (March 2, 2025): 594–605, <https://doi.org/10.59075/ijss.v3i1.749>.

⁴⁰ "Judicial Delays Hamper Economic Growth," accessed June 25, 2025, <https://www.thenews.com.pk/print/1295261-judicial-delays-hamper-economic-growth>.

⁴¹ "Judicial Delays Hamper Economic Growth."

⁴² "National Integrity System Assessments - Transparency.Org," accessed June 25, 2025, <https://www.transparency.org/en/national-integrity-system-assessments>.

⁴³ "Pakistan's Foreign Minister Pitches More Global Aid and Investment—and 'Less Chaos' - Atlantic Council," accessed June 25, 2025, <https://www.atlanticcouncil.org/blogs/new-atlanticist/pakistans-foreign-minister-pitches-more-global-aid-and-investment-and-less-chaos/>.

⁴⁴ "LEGAL IMPLICATIONS OF CPEC FOR PAKISTAN | Journal of Media Horizons," accessed June 25, 2025, <https://jmh.com.pk/index.php/journal/article/view/67>.

⁴⁵ "NSC-PerformanceReport2023-2024," n.d.

failure to institutionalize stakeholder consultation and social impact assessments exacerbates the legitimacy crisis facing CPEC governance.

Recommendations for Legal Reform and Investor Protection

To secure the long-term success of the China-Pakistan Economic Corridor (CPEC) and restore investor confidence, Pakistan must undertake comprehensive legal and institutional reforms. These reforms should aim not only at strengthening the protection of foreign investment but also at harmonizing regulatory functions, enhancing judicial capacity, and aligning domestic law with international best practices. The following recommendations address both legislative and administrative dimensions of reform.

1. Enact a CPEC-Specific Investment Protection Law

Pakistan should consider drafting and enacting a **CPEC-specific investment protection law**. Such legislation should consolidate existing rights and obligations under bilateral investment treaties, domestic statutes, and project agreements. It must provide clear definitions of expropriation, outline the scope of fair and equitable treatment (FET), and establish special procedures for fast-track arbitration and administrative redress. A dedicated statute would address the current fragmentation and offer project-specific legal clarity.⁴⁶

Additionally, this law should explicitly define the roles and powers of federal and provincial governments, including mechanisms for resolving inter-jurisdictional conflicts that often delay implementation. This will strengthen governance under the constitutional framework established by the 18th Amendment.⁴⁷

2. Strengthen Institutional Coordination and Regulatory Capacity

Pakistan's investment governance suffers from overlapping mandates and weak institutional capacity. There is an urgent need to redefine the legal relationship between the CPEC Authority, Board of Investment (BOI), and Planning Commission, ensuring clear lines of authority and avoiding inter-agency conflicts.⁴⁸ These institutions should be empowered through legislative mandates, provided with professionalized staff, and audited regularly for performance.

Capacity-building should also extend to regulatory bodies involved in tax, land, and environmental governance, with formal training on investor-state dispute mechanisms, treaty obligations, and transparency standards.

3. Establish Specialized Investment and Commercial Courts

Judicial delay and lack of specialization remain persistent challenges in Pakistan's dispute resolution framework. The creation of specialized investment and commercial courts, staffed by judges trained in international economic law—would significantly improve the speed and quality of decisions.⁴⁹ These courts should be empowered to recognize and enforce international arbitral awards under the ICSID and New York Conventions without requiring extensive procedural review.

⁴⁶ Chris Ortiz-Gonzalez, "Navigating Tensions: Security and Political Implications of the China-Pakistan Economic Corridor," *Honors College Theses*, May 17, 2025, <https://digitalcommons.georgiasouthern.edu/honors-theses/1029>.

⁴⁷ "Constitution (Eighteenth Amendment) Act, 2010," accessed June 25, 2025, <https://www.pakistani.org/pakistan/constitution/amendments/18amendment.html>.

⁴⁸ "Ordinance."

⁴⁹ "68-Disputes-Arising-out-of-Foreign-Direct-Investments-in-Pakistan-a-New-Look-at-Legal-and-Political-Issues," n.d.

Additionally, Pakistan may consider establishing a CPEC Dispute Resolution Forum, modeled on regional hubs such as the Singapore International Arbitration Centre (SIAC), to handle technical and commercial disputes arising from corridor projects.⁵⁰

4. Enhance Transparency and Public Accountability

To reduce legal uncertainty and promote trust, all CPEC-related investment agreements and regulatory decisions should be published, subject to national security exceptions, on a publicly accessible platform.⁵¹ Parliamentary oversight must also be institutionalized through mandatory reporting and review mechanisms.

Furthermore, laws should mandate public consultations and impact assessments before finalizing large-scale infrastructure projects, particularly those involving land acquisition and environmental impact. This participatory model would mitigate opposition and align legal reforms with democratic accountability.

5. Modernize Pakistan's BIT Model and Treaty Practices

Pakistan's existing bilateral investment treaties, including the one with China, are outdated and overly favorable to investors, lacking adequate public interest safeguards.⁵² The government should develop a revised model BIT, incorporating modern clauses such as right to regulate, transparency requirements, environmental and labor protections, and exhaustion of local remedies before international arbitration.

Moreover, treaty negotiation teams should include legal experts in investment law and be backed by impact assessments to avoid entering into agreements that compromise regulatory sovereignty or generate disproportionate liabilities.

Conclusion

The China-Pakistan economic corridor (CPEC) presents both a unique opportunity as well as a major legal challenge for Pakistan. As a flagship bilateral initiative, the CPEC aims to transform regional connectivity, stimulate growth, and entrench long term bilateral relations with China. While CPEC holds great promise for Pakistan, its success is dependent upon Pakistan's ability to offer an investment climate that is predictable, transparent, and enforceable for foreign investment. The current legal landscape in Pakistan is composed of outdated laws, overlapping institutions, and inconsequential dispute resolution mechanisms that cannot adequately meet the needs of CPEC's pervasive and complex strategic infrastructure and energy projects.

A comparative analysis of China and Malaysia highlights the importance of the ability of the relevant institutions to coordinate, the efficiency of the courts, and the currency of the treaties governing those investments or risks to investment, toward managing large-scale investments. The fragmentation of legal regimes in Pakistan presents regulatory ambiguity, investor uncertainty, and the costly possibility of arbitration in international environments. As long as these deficiencies persist, risk will both deter Chinese investors and future investors that otherwise might participate in CPEC, and impair the long-term sustainability of CPEC.

In order to remedy these deficiencies, Pakistan should pursue a number of legal reforms avenues. Pakistan needs to enact an investment protection statute for foreign investment related to CPEC; adopt a better practice approach to BIT approach; develop specialized project investment courts;

⁵⁰ "Administered Arbitration - Singapore International Arbitration Centre," accessed June 25, 2025, <https://siac.org.sg/administered-arbitration>.

⁵¹ "PILDAT," accessed June 25, 2025, <https://pildat.org/>.

⁵² Jason Webb Yackee, "SACRIFICING SOVEREIGNTY: BILATERAL INVESTMENT TREATIES, INTERNATIONAL ARBITRATION, AND THE QUEST FOR CAPITAL," n.d.

improve parliamentary oversight over both specific investment contracts and over project agreements related to CPEC projects. It will be equally important to promote transparency and public accountability, and to amend the relevant statutes to ensure due process for local communities and the national interest along with the interests of foreign definitive investments through CPEC.

Ultimately, CPEC is not merely an economic project; it is a trial of Pakistan's legal maturity in dealing with the competing pressures of globalization, development, and sovereignty. In order for the legitimacy of the corridor to develop its full potential, a cohesive, inclusive, and, above all else, enforceable legal regime should be established that could also provide testament for an investment governance model in other developing countries.

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