



RESEARCH PAPER

Analyzing the Laws and Practices of Disputes Resolutions in Bilateral Investments: A Case Study of China Pakistan Economic Corridor (CPEC)

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ABSTRACT

The China Pakistan Economic Corridor (CPEC) prove to be an important component of China's Belt and Road Initiative (BRI) and potentially revolutionize regional connectivity, drives economic growth, and enhances intra-Asian trade. But the project also has major issues, like concerns about politics, security and the absence of dispute resolution mechanisms between local investors and foreign investors. This article examines and evaluates the laws and practices related to dispute resolutions in Pakistan and China particularly the bilateral investment agreements pertaining to CPEC. It reviews how disputes are handled among all the parties involved, including government, private sector entities, and local communities. This study also establishes the significance of having clear, fair, and workable mechanisms of dispute resolution systems that could resolve conflicts emerging during the various phases of a project. The research findings show that the initiative holds the potential to generate economic growth, create jobs, and strengthen regional integration, but this will only happen if critical risks are addressed.

KEYWORDS Pakistan , China, International Investments, China Pakistan Economic Corridor, Dispute Resolution Mechanisms

Introduction

Pakistan's and China's relationship lasting decades, has been evolving into geo-strategic and economic partnership to develop mega projects that fall under the China-Pakistan Economic Corridor (CPEC). (Mukhtar, 2021) The mega projects will create a much-needed bilateral cooperation under the investment umbrella of major projects undertaken by China in different infrastructural setups of Pakistan as part of their joint efforts towards achieving regional connectivity and economic development. This huge investment of \$46 billion for energy and infrastructure development in CPEC will definitely transform Pakistan's economy and make it a gateway to the Middle East, Africa, and Central Asia. It may integrate Pakistan more into its regional economy while elevating the status of Islamabad in South Asia and extend the strategic influence of China from the South China Sea to the Indian Ocean and Arabian Sea. (Rahim, Khan, & Muzaffar, 2018; Khan, Changgang, Ahmad, & Wenhao, 2018) CPEC is a prestigious undertaking under One Belt One Road strategy of China, which creates a great amount of potential through not only completing the energy supplies of China, but also generating regional stability as a result of economic integration.

Nevertheless, beneath the assurance of economic advancement are complex legal issues and prospective obstacles that may impact the effective execution of the project. One of the issues that has been raised within the legal fraternity in relation to CPEC is the question of how commercial and investment disputes arising from CPEC would be resolved in the future (Aziz & Batool, 2019). While the project provides many opportunities for both China and Pakistan, it also raises a number of concerns that require careful consideration of the legal frameworks applicable. This study aims to understand

the legal challenges of the China-Pakistan Economic Corridor (CPEC), more particularly the bilateral investment treaties and their dispute resolution mechanisms.

It seeks to elaborate on legal structures through comprehensive research, thus adding depth to the understanding of legal dynamics in global economic partnerships. The research also aims to identify potential impediments to the execution of the project and suggest remedies to enhance the efficiency of mechanisms for dispute resolution.

CPEC the flagship project of BRI, is considered as both promise and challenge. Even as it has been described as the economic game-changer for Pakistan, CPEC is a multilateral investment agreement with dimensions as varied as energy, infrastructure, and logistics. The investment agreements in CPEC are inherently complex due to the different jurisdictions of parties involved with various legal systems, regulatory frameworks, and economic interests (Ain, Muzaffar & Yaseen, 2024).

CPEC is considered as a "game changer" for Pakistan's economy. However, the pace of this initiative has been quite behind schedule. Chinese counterparts are reportedly not satisfied with the pace of CPEC projects in Pakistan as it has been slowed down in recent years, (Rehman, Ahmed & Siddiqui, 2022) and because of that many disputes may arise in the future and the lack of a cohesive and robust dispute resolution mechanism in CPEC, may also result into a challenge to complete this project (Shah, Muzaffar, & Yaseen, 2020). Unlike established international trade and investment agreements that usually have clearly defined arbitration and dispute resolution clauses, BRI projects are often dependent on bilateral agreements. The latter are often unclear and inconsistent and therefore uncertain regarding the management of disputes. The difference in the legal systems of Pakistan and China creates further complications for the resolution of disputes under CPEC.

Pakistan's dispute resolution mechanism, regulated by outdated legislation such as the Arbitration Act of 1940, fails to completely conform to modern international norms. Regardless of recent improvements, like the Alternative Dispute Resolution (ADR) Act of 2017, lots of limitations remain. In comparison to that, China has created advanced establishments, such the China International Commercial Courts (CICC) and Belt and Road Mediation Centers; however, these practices are not designed to handle the different bilateral challenges related with CPEC agreements. The scarcity of a precisely defined, effective, and harmonized set of conflict resolution frameworks will threaten the long-term stability of CPEC. Disputes that emerge from changes in laws, disagreements over agreements, or interpretations of investment conditions can undermine investor confidence and delay initiative's implementation, as a result compromising the bilateral ties between China and Pakistan.

International benchmarks, including the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules, the International Centre for Settlement of Investment Disputes (ICSID) Convention, and the New York Convention on Arbitral Awards, provide essential resources to tackle these issues. However, including these international benchmarks as disputes resolution mechanisms in CPEC has come into considerations but incorporating them into both of the participating jurisdictions is quite a difficult task.

Literature Review

The following literature review explores existing scholarly works, legal documents, and case studies related to CPEC, bilateral investment agreements, and dispute resolution mechanisms to identify potential academic niche on this topic. Yetty Komalasari Dewi and Arie Afriansyah, explain in their article the importance of dispute mechanism in bilateral investments. The importance of dispute resolution mechanisms in bilateral investment

agreements stems from their crucial role in providing protection that ensures fair, equal, and non-discriminatory treatment. (Dewi & Afriansyah, 2019) However, the article did not cover dispute resolution laws in bilateral investment agreements. Bilateral Investment Treaty (BIT) between Pakistan and China was signed on 12th February 1989 for investors' confidence and their investment protection (Ministry of Planning, Defense and Special Initiatives, 2015). It was the first-ever document signed between China and Pakistan for investment protection. Then in 2006, China and Pakistan signed the Preferential Trade and Investment Agreement (PTIA). Axel Berger provides valuable insight into the Preferential Trade and Investment Agreement (PTIA) in his paper, his work explains that PTIA is a fundamental bilateral agreement covering trade, investment, and monetary sectors. Chapter 9 of the Pakistan PTIA includes all standard provisions that can be found in second-generation Chinese BITs negotiated with developing countries. These include a definition of investment and the investor; admission clause; fair and equitable treatment; national and MFN treatment; expropriation; free transfer of funds; and ISDS (Berger, 2013). The China-Pakistan Free Trade Agreement (FTA), concluded in 2006 and enforced in July 2007, boosted trade volume between the two countries to \$13 billion by 2013. Articles 53 to 74 specifically address dispute resolution mechanisms within this agreement (Pak-China Free Trade Agreement in Goods & Investment - Ministry of Commerce: Government of Pakistan, 2018). The China-Pakistan Free Trade Agreement (FTA) was again revised in 2019. In 2013, a Memorandum of Understanding for the China-Pakistan Economic Corridor (CPEC) was signed, followed by the signing of the China-Pakistan Economic Corridor (CPEC) as a bilateral investment agreement in 2015 (Mardell, 2020). However, China's approach to BRI is different compared to other investment agreements. So, the aforementioned agreements between China and Pakistan are distantly related to any dispute settlement agreements concerning the Belt and Road Initiative (BRI). Jiangyu Wang in his article explains the nature Belt and Road Initiative, he states that in BRI China has always touted this project for cooperation under the paramount principle of 'gongshang, gongjian, gongxiang' (extensive consultation, joint contribution, and, shared benefits). In this spirit, all BRI countries should settle disputes through dialogue, resolve differences through discussion, enhance cooperation and mutual trust, and reduce mutual misgiving (Wang, 2020). CPEC is also a BRI initiative, so only one intersection clause is written in this agreement regarding dispute resolution. Amna Hassan and Ahmed Hassan Khalid discussed the details related to the Intersection clause in CPEC, the intersection clause states that it requires the aggrieved parties to pick either a nearby court or ICSID arbitration to determine the investment dispute where the matter cannot be settled within six months (Hassan & Khalid, 2019). The literature on the nearby court clause and the International Centre for Settlement of Investment Disputes (ICSID) arbitration clause offers limited detailed explanations of the dispute resolution mechanisms, including the laws that will be applied during this process. Rana Sajjad Ahmed in his articles discusses the establishment of three international commercial courts as part of its Belt and Road Initiative (BRI). These courts, situated in Xi'an for the land-based Silk Road Economic Belt, Shenzhen for the Maritime Silk Road, and Beijing as the headquarters, were launched by China's Supreme People's Court (SPC). They provided litigation, arbitration, and mediation services, aiming to resolve disputes arising from BRI projects. There was a perspective suggesting that China intended to route all BRI-related disputes through these courts, underscoring its commitment to ensuring neutrality, efficiency, and investor confidence within the BRI framework. From a procedural standpoint, an international commercial court offers certain advantages that combine international arbitration and litigation in a national court (Ahmed, 2018). While the inclusion of these courts in the CPEC agreement has not been confirmed or explicitly mentioned, China retains the option to utilize them for dispute settlement given their alignment with the Belt and Road Initiative. Rashida Abbas and Others in their article discussed China's interest in promoting mediation stems from its recognition of mediation's advantages, particularly its speed and cost-effectiveness compared to arbitration. However, one potential drawback of mediation is that the decision of the mediator is no-binding which means parties are required to give consent for the mediation

to get the decision (Abbas, Ahmed & Qasim, 2022). Nevertheless, international mediation is gaining traction, even for resolving complex international investment disputes. Therefore, although the CPEC agreement does not explicitly mention mediation, China may still consider utilizing this method for dispute resolution given its preference for this system. Similarly, in line with the China-Pakistan Economic Corridor (CPEC), China has bilateral agreements and MOUs with African nations. To address disputes, it established joint arbitration centers, like the 'China Africa Joint Arbitration Centre' introduced with South Africa in 2015 (Kanokanaga, 2022). These centers operated branches in both countries, enabling the resolution of conflicts arising from economic activities locally, thus bypassing domestic courts and international arbitration bodies. Therefore, while the CPEC agreement may not explicitly mention this approach, China may still consider leveraging such methods for dispute resolution, given its inclination towards this system. In the second part of the intersection clause, disputes within the CPEC agreement could be directed to the International Centre for Settlement of Investment Disputes (ICSID). However, China has concerns over unfavorable arbitration outcomes and Arbitration Institutions like ICSID are subject to Western countries' soft power (Haver & Leutert, 2020). Many Western countries always give their opinion as they already know the result of the arbitration that China will lose in every case in international arbitration (Ying, 2016). To address this, China introduced mechanisms like international commercial courts, dubbed "Belt and Road courts," which provide arbitration and mediation services. Nevertheless, there remains doubt about the use of these courts by Belt and Road Initiative (BRI) nations. With scholars exploring deeper into the intricacies of bilateral investment agreements within the China-Pakistan Economic Corridor (CPEC), a significant research gap is found in non-doctrinal methods. This void can be seen in the lack of research on the specific legal provisions underpinning the dispute resolution mechanisms in CPEC, particularly highlighting the uniqueness of agreements as opposed to treaties in this regard. Even after China has established international commercial courts and joint arbitration centers to address disputes in other Belt and Road Initiative (BRI) nations, there still exists a huge deficit in comparable provisions or even discussion pertaining to CPEC, leaving policymakers and scholars struggling with doubts over how future conflicts will be resolved under this process. In addition, there is limited research on whether or not CPEC disputes should be resolved through international arbitration institutions, and more needs to be researched on their feasibility, benefits, drawbacks, and implications. Moreover, with the intersection clause in CPEC enabling aggrieved parties to opt for a nearby court, Pakistan also has the right to set up its arbitration mechanism similar to that of China. Accordingly, Pakistan will have to go through an extensive review of all mechanisms at its disposal so as to clearly understand their implications prior to putting forth and agreeing upon one with China since only an effective and trustworthy mechanism will be able to provide mutual benefits and long-term viability, noting a future research gap in studying CPEC dispute resolution mechanisms.

Material and Methods

This study adopts a qualitative, library-based methodology, entailing critical examination of pertinent legal regimes and practices. Through extensive consultation of academic writing, legal works, cases, and other related materials, the research seeks to explore the complex facets of mechanisms for resolving disputes in bilateral investments, with specific reference to the China-Pakistan Economic Corridor setting. The critical analysis enables a detailed scrutiny of the intricacies involved, providing insightful perspectives into the changing dynamics and challenges of international investment law.

Primary data has included an exhaustive array of sources such as pertinent treaties, conventions, Pakistani legislation, Chinese legislation, project agreements, regulatory policies, environmental impact studies, public consultation reports, and infrastructure development proposals. These references have been used to critically

investigate the regulations and frameworks for the resolution of disputes under bilateral trade, specifically in the context of the China-Pakistan Economic Corridor.

International best practices to be utilized when analyzing the legislations of China and Pakistan with respect to the conflict resolution structures of bilateral initiatives and their management, those standards are: the United Nations Commission on International Trade Law Arbitration Rules, International Centre for Settlement of Investment Disputes, Convention and Rules, United Nations Conference on Trade and Development's investment policy framework for sustainable development, Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises, International Bar Association Guidelines on Conflicts of Interest in International Arbitration, the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and Transparency International's principles for transparency and integrity in lobbying.

These benchmarks raise the standards for evaluating whether dispute resolution frameworks are clear, honest, and effective, ensuring they integrate with international well reputed institutions in investment legislations and ADR rules. Adhering to these best practices guarantees whether the Pakistani and Chinese legislations sufficiently protect investors' rights and deliver a transparent environment for international trade.

China has passed laws such as the Mediation Law of 2010 due to the fact that China promotes the use of mediation in resolving BRI disputes. The Arbitration Law (1994, amended in 2017), special institutions such as the China International Commercial Courts (CICC) and the International Mediation Centre for Belt and Road Initiative (BNRMC) are established for proper management of disputes, particularly those related to the Belt and Road Initiative (BRI).

In Pakistan, the laws such as the Arbitration Act of 1940, the Foreign Private Investment (Promotion and Protection) Act of 1976, and the Alternative Dispute Resolution (ADR) Act of 2017 govern how challenges and conflicts are resolved within or outside the country. These legislations appreciate ADR mechanisms rather than litigating. The compliance with such global standards and the involvement of specialized institutions confirm both countries' commitment to implementing fair and effective systems of settling disputes in conformity with international best practices and norms. Secondary data comprised an extensive study of legal writings such as books, research studies, commentaries, contracts and court rulings as well as official government reports, news outlets, NGO publications and other academic sources. These resources provided contextual backdrop, theoretical construct and comparative comparison to make case study meaningful enabling full comprehension regarding legal intricacies surrounding CPEC framework.

Results and Discussion

Critical Analysis of Laws and Practices Governing Dispute Resolution in China

China's commercial legislations reflects a difficult and evolving system that complements domestic objectives, international conventions, and China's exceptional economic and political structure. The legal structure originates from the interplay among national regulations, municipal rules, and judicial precedents, creating a framework that holds both profits and challenges for investors. This is a critical research on the elements of the legal mechanism governing local and international investments in China.

Domestic Investment Legislations and their Practical Impact

Domestic investment legislation, such as the Company Law, Partnership Enterprise Law (Howson, 2015), and the Law on State-Owned Assets of Enterprises (Szamosszegi,

2011), laid the foundations of China's investment structure. The main objective of these legislations are to create a legal base for multifaceted business entities, such as private companies and state-owned enterprises (SOEs). Even so, a number of challenges exist.

Strengths

The Company Law establishes a stable legal mechanism for the development and control of business entities, with clear explanation of shareholder rights, corporate administration standards that should be followed, and auditing of finances. The Law of Promotion of Small and Medium-sized Enterprises (SMEs) stresses the advertisement and growth of SMEs, which play a significant role in the development of country's economy and technological innovation in China. Tax concessions, subsidies, and government projects reduce financial costs to these companies (Chen, 2006).

Weaknesses

Although China's has achieved economic development, the continuance of power hold by state-owned companies (SOEs) in significant industries has been a signal that there are still many industries exposed to state interference. The Law on State-Owned Assets of Enterprises, whose main purpose was to enhance governance inside SOEs, frequently results to inefficiencies and decreased competitiveness related to private firms. Foreign Investors may face limitations or difficulties in transactions involving state-owned enterprises (SOEs). Although the Partnership Enterprise Law permits greater flexibility in business arrangements, the regulatory framework predominantly favors conventional business structures, potentially hindering the integration of emerging business models, such as technology startups or gig economy platforms.

Taxation and Environmental Considerations

The Enterprise Income Tax Law of China stipulates a corporation tax rate of 25%, offering favorable rates for high-tech and regionally focused firms.

Strengths

This tax framework seeks to entice investments in critical sectors such as technology and sustainable businesses. However, the high tax rate may still be burdensome for smaller or newly established businesses, and reliance on tax incentives can lead to misallocations of resources. The Environmental Protection Law mandates comprehensive environmental impact assessments for major projects, an important step toward sustainable development.

Weakness

The enforcement of the above mentioned legislations has been irregular not only domestically but also internationally, and this has raised concerns regarding corruption or acceptance for ecologically destructive initiatives, specifically in locations with faulty regulatory capacity (You, 2015).

International Investment Laws: Opportunities and Barriers

The 2020 Foreign Investment Law represents a crucial approach towards transforming China's foreign investment position, mainly with respect to improving intellectual property rights and concessions in foreign ownership limitations. This legislation aims to develop a more transparent and clear mechanism for foreign investors, marking a withdrawal from the initial Sino-Foreign Joint Venture rules that often

documented that foreign companies gain market excess through joint ventures with domestic players.

Strengths

A significant addition in the revised international Investment Law is the elevated safeguard of intellectual property (IP), an essential issue of foreign business men in China. This has appreciated the reputation of China as an investment destination for innovation and technology-based business entities. This law strengthen global market access and formulate a more open regulatory regime for foreign organizations to set up fully owned enterprises in China.

Weaknesses

Even though many changes were introduced by the 2020 Foreign Investment Law, the National Security Law remains a crucial hurdle to foreign investors. The broad scope and ambiguous interpretation of the rules mostly leave foreign investments in confusing position, such as technology or construction sector, open to governmental control and restriction. This reduces transparency and fairness of the investment environment. The Foreign Exchange Control system place limitations on repatriation of profits, capital flows, and currency transactions. Though legislations have been modernized over the years, they continue to have the tendency of challenging nature for foreign investors to move profits in and out of China without restrictions.

Critical Analysis of Laws and Practices Governing Dispute Resolution in Pakistan

The legal structure governing foreign and domestic investments in Pakistan is one that offers an organized structure of tackling issues relating to investments. With a closer look, it would be easy to identify that, despite the steps toward the formulation of an overall legal structure, enormous gaps and obstacles still persist in Pakistan, particularly in comparison to more developed economies such as China. The content presents the advantages and disadvantages of Pakistan's investment regulations, which can be a sound foundation of comprehension on the overall implications for investors.

Strengths in Pakistan's Legal Framework

Comprehensive Legislative Framework

Well-Defined Legislative Framework: Pakistan has provided a well-defined framework for domestic and foreign direct investments. Companies Act, 2017 (Niazi, 2021), the Securities and Exchange Commission of Pakistan rules (Sheikh& Asghar, 2014), and the Partnership Act, 1932 have a robust legal framework for corporate governance, partnership dynamics, and securities regulation. The 1872 Contract Act provides for the enforceability of contracts, and the Income Tax Ordinance of 2001 addresses tax compliance, which is another factor of certainty for investors.

Dispute Resolution Mechanisms for International Investments

Pakistan has signed significant treaties, including the New York Convention and ICSID treaties, thus allowing foreign investors to access the world's most renowned arbitration centers. The Arbitration Act of 1940 (Mukhtar, 2016) and The Recognition and Enforcement (Arbitration Agreements and Foreign Arbitral Awards) Act of 2011 (Ghauri, 2012) are intended to bring the legal system of the country in line with international best practices, thus making the country a prime destination for investment.

Protection of Foreign Investments

The Foreign Private Investment (Promotion & Protection) Act of 1976 (Hayat, 2016) and the Protection of Economic Reforms Act of 1992 give the country protective measures against unfair treatment and expropriation and further protections for investors, thereby encouraging a favorable environment for the inflow of foreign investment.

Weaknesses in Pakistan Legal System

Inefficient and Inconsistent Dispute Resolution: Notwithstanding the above-discussed strengths, the mechanism for settlement of disputes by foreign investors is still a contentious point. A majority of foreign investors favor international arbitration centers such as the International Chamber of Commerce (ICC) or the London Court of International Arbitration (LCIA) as compared to local courts or domestic arbitration entities. This is a result of absence of faith in Pakistan's capability to provide transparent, honest, and practical solution of conflicts.

Regional Differences in Judicial Effectiveness

The paper also mentions differences in judicial effectiveness across different regions of Pakistan. Although the national legislation provides almost same legal foundations, its enforcement might differ depending on domestic terms. This spatial disparity could lead to differing interpretations and results in investment arbitration cases, thereby compromising investor confidence. Such inconsistency represents an important flaw for both foreign and domestic investors, as it fosters uncertainty and unpredictability within the legal framework.

Complexity in Compliance and Bureaucracy

Pakistan has a comprehensive and complex legal structure at times due to the administrative inefficiency involved. The Anti-Money Laundering Act of 2010 (Ali, 2010) encourages transparency in finances, but regulation enforcement could be slow and disorderly. Navigating all legal processes to get required permission and ensuring numerous regulatory standards compliance may become exhaustive and time consuming for the investors. This administrative inefficiency undermines the overall convenience of conducting business in Pakistan.

Comparison between China and Pakistan

The comparison of Pakistan's investment climate with that of China brings to light a glaring deficiency in Pakistan's dispute settlement framework. China's strong institutional system, in particular CIETAC, provides a better and more established mechanism for resolving foreign investment disputes. On the other hand, Pakistan's dispute resolution system is viewed as less reliable, a significant factor in the investment decision regarding capital allocation. Pakistan's law and judicial system, as perceived in many quarters, might discourage potential investors from investing because this sector usually requires a high level of legal certainty for substantial initiatives such as the China-Pakistan Economic Corridor.

Regulatory Fragmentation

Although Pakistan has enacted legislation to promote foreign investment, such as the Board of Investment (BoI), the regulatory structure is fragmented. Different regulatory bodies govern various aspects of investment, which can lead to a lack of clarity and inefficiencies for foreign investors. The absence of a unified entity that consolidates

regulatory procedures for overseas investors may pose entrance hurdles, deterring prospective international collaborators.

China-US Rivalry and Its Impact on CPEC

The economic and strategic competition between China and the United States has a profound impact on the China-Pakistan Economic Corridor, which is an essential element of China's Belt and Road Initiative. For China, the CPEC is a key route to bolster its economic hegemony in South Asia, ensure access to energy resources, and enhance connectivity with global markets. As the United States identifies this infrastructure development within the larger frame of its geopolitical competition with China, it views this undertaking as specifically dangerous to its supremacy in the region. The United States has enunciated concerns regarding the security risks emanating from the increasing footprint of China, particularly in the Indian Ocean and Central Asia, and has been trying to counteract that impact by consolidating alliances with nations like India. The confrontation also highlights the two-faced aspect of CPEC, an economic corridor and a strategic battleground in the international struggle for power and influence (Imtiaz, Yaseen & Muzaffar, 2023; McLaughlin, 2024).

Lack of State Sovereignty and its Implications for CPEC

The changing geo-economics environment, characterized by the growing overlap between national security and economic policy, raises serious issues of state sovereignty, particularly for countries like Pakistan involved in massive infrastructure projects like the China-Pakistan Economic Corridor (CPEC). The deluge of billions of dollars from Chinese investments in CPEC and similar ventures offers tremendous economic opportunities for Pakistan, but it also raises concerns about the dilution of its sovereignty. China's enormous economic power often leads Pakistan to advance Chinese interests over its own, possibly sacrificing its own legal or policy systems. This inequality highlights the tensions between national sovereignty and the interests of international investors, demonstrating the challenges that countries like Pakistan face in balancing growth and the protection of their sovereignty (Shaffer & GAO, 2020).

India's Strategic Opposition

Gwadar Port, a pivotal component of CPEC, is sometimes referenced as an aspect of China's "String of Pearls," a series of vital naval installations in the Indian Ocean. India sees this as a challenge to its maritime supremacy, apprehensive that China's expanding influence may destabilize the area. Although China officially denies any military intentions in the Indian Ocean, the creation of its inaugural overseas military post in Djibouti in 2015, together with allegations of prospective military sites in Cambodia and the UAE, intensifies skepticism. India, in conjunction with the US and Japan, perceives Gwadar as a security threat, exacerbating the geopolitical tensions associated with CPEC (Brewster, 2018).

Internal Security Issues in Pakistan

The internal security of Pakistan, encompassing terrorism, separatism, and religious extremism, presents considerable obstacles to the success of CPEC. CPEC initiatives are anticipated to mitigate economic disparities and diminish radicalization in Pakistan's war-affected areas; nonetheless, there are apprehensions that the government's hesitance to tackle jihadist groups, due to fears of inciting conflict, has permitted these security challenges to endure. Furthermore, China's growing influence in Pakistan has elicited apprehensions regarding the diminishment of Pakistan's sovereignty, since Chinese objectives occasionally supersede local political priorities (Brown, 2018).

Climate Change and Labor Productivity

Environmental problems, especially climate change, pose substantial threats to the sustainability of CPEC. A recent study on China's foreign investments suggests that impending heatwaves may significantly diminish labor productivity, especially in high-demand industries like agricultural, food processing, and construction. Regions like East Asia and the Pacific, where several CPEC projects are situated, are anticipated to have the most substantial reductions in workability owing to heat stress. These interruptions may postpone projects and diminish their overall efficiency, underscoring the necessity of including climate resilience into CPEC planning (Liang, 2024).

Flooding and Infrastructure vulnerability

The infrastructure projects of CPEC, like as hydropower plants and other essential utilities, are situated in areas susceptible to flooding. Climate change may result in increasingly severe weather phenomena, such as floods, which might impair infrastructure and impede energy production. Certain projects, like hydroelectric facilities, may gain from augmented precipitation; nonetheless, the heightened danger of floods presents considerable obstacles, necessitating comprehensive climate adaption strategies to safeguard investments and guarantee sustained sustainability (Liang, 2024, p 13).

The risk of Debt Traps

The substantial loans extended by China to finance CPEC projects have elicited apprehensions over Pakistan's financial sustainability. The escalating debt burden threatens to position Pakistan in a comparable predicament to Sri Lanka, which succumbed to a debt trap following substantial borrowings from China for development initiatives. In the face of significant debt repayments and continuous renegotiations, fears are growing that Pakistan may not be able to meet its financial obligations. This could lead to a loss of control over critical infrastructure, which would undermine Pakistan's sovereignty and economic security (Sautman & Hairong, 2019).

Lack of impartial Dispute Resolution

The CPEC projects are exacerbated by institutional issues, especially with the openness and impartiality of dispute resolution. The China International Commercial Court (CICC) has faced criticism for its pronounced Chinese bias, which diminishes trust in its impartiality. Overseas investors can be hesitant to engage in arbitration through Chinese-controlled institutions, fearing that results can be pro-China. Lack of an independent and clear mechanism for resolving disputes can lead to inefficiencies, delays, and loss of confidence, thus hampering the successful implementation of CPEC projects (Cai & Godwin, 2019).

South China Sea Dispute

Nationalist forces, particularly from countries like India and Indonesia, increasingly erode regional support for CPEC. Among Indonesian youth, students in the cities have increasingly suspected China, seeing its economic dominance through the Belt and Road Initiative (BRI) and its militarization in the South China Sea as threats to regional security. Such feelings are often deepened by fears of China's military superiority and economic exploitation. These attitudes can impede China and Pakistan's ability to generate broader regional support for CPEC and the BRI (Karim, Rahman, & Suwarno, 2024).

Conclusion

Dispute resolution structures in bilateral investment are significant to the success of the China-Pakistan Economic Corridor (CPEC). This article has investigated the contemporary legal frameworks governing resolution in Pakistan and China, with both strengths and weaknesses. China's legal system, with the establishment of current ADR institutions and new policies, provides a more stable framework for dispute settlement, while Pakistan's legal structure is still transforming, posing serious concerns to foreign businesses involved in CPEC initiative.

The findings of this study shows crucial gaps in the dispute settlement frameworks of both countries, which can risk smooth enforcement of CPEC projects. China's legal framework faces hurdles due to governmental interference, mainly regarding state-owned enterprises. At the same time, Pakistan's legal system is fragmented by corruption, geographical differences, and an inconsistent ADR system, all of which cause risks for foreign investors.

Still there is hope of development in dispute resolution mechanisms and this growth can be achieved through a harmonized and fair legislative structure that positions with global best practices, empowering Pakistan's ADR system, reduction of political interference in China. By resolving these problems, both China and Pakistan can develop a more investor-friendly environment that appreciates long-term development and stability for CPEC agreements.

Recommendations

A detailed review of the legal systems governing dispute resolution of bilateral investments between China and Pakistan, particularly with respect to the China-Pakistan Economic Corridor (CPEC), presents a number of key suggestions to enhance and enhance the current mechanisms. These recommendations aim to harmonize the legal systems of both countries.

Harmonizing Legal Frameworks between China and Pakistan

One of the main recommendation for CPEC is to have only one legal mechanism which provides the best standards of the two countries. China and Pakistan need to have a harmonized strategy to the resolution of conflicts. It should include amending and updating any BIAs to position them with international best practices, mainly the dispute resolution frameworks.

The objective of this suggestion is to create a structure that provide investors from both countries access to unbiased, fair, and effective methods of resolving conflicts. This may include the establishment of a dedicated CPEC dispute resolution institution that could work within both legal frameworks, providing for fast and equitable resolution of any disputes arising within CPEC construction. (Cai & Godwin, 2019).

Resolving CPEC Disputes: Lessons from CAJAC Johannesburg

The CAJAC Johannesburg under the Arbitration Foundation of Southern Africa (AFSA) is a fair and significant institution to resolve investment disputes between China and South Africa and enhance bilateral trade. Its success has highlighted the viability of opening an identical arbitration center for the China-Pakistan Economic Corridor (CPEC) to address controversies impartially. Using expertise gained, modernized facilities, and non-court means of conflict settlement (alternative dispute resolution), as such center may serve as prompt resolutions to disputes regarding CPEC. Applying an uncomplicated legal paradigm and the inducement to mediate at an early stage would in turn enable both Pakistan and China to retain an optimistically smooth, stable economic relationship.

Balancing Geopolitical Rivalries

Pakistan operates in a very complex geopolitical environment, with China and the United States competing for strategic superiority. The success of CPEC requires Pakistan to remain neutral and logical. Proactive diplomacy is essential in order to balance the relations with both powers so that the rivalry does not affect the objectives of CPEC. This can be achieved by stressing on Pakistan's role as a bridge between East and West, to be placed at a mediator position rather than as a party in the conflicts happening globally (McLaughlin, 2024)

Improving Internal Security

Terrorism and religious extremism have made Pakistan face critical problems for its internal security; all these hinder the smooth operation of CPEC projects. A strong strategy is required to address these problems and establish a stable environment conducive to development. Boosting the fight against terror, guarding borders, and dismantling dangerous networks should be top priorities. Just as crucial is promoting growth in poor and war-torn regions. Projects aimed at unemployment, education, and healthcare can help reduce economic disparities and alleviate grievances that fuel radicalization (Brown, 2018).

Incorporating Climate Resilience

Climate change is now considered as a major concern to the future of international infrastructural investments like CPEC. With more risks from severe weather like floods, heatwaves, or droughts, there must be discussion about climate change in every step of planning and implementing CPEC. This will involve constructing infrastructure with a view to the worst-case scenario. It will involve the construction of infrastructure that is aware of the extreme weather conditions (Liang, 2024).

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