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CPEC AND INTERNATIONAL INVESTMENT LAW: A CRITICAL ANALYSIS

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Abstract

The China Pakistan Economic Corridor (CPEC) is one of the largest foreign investment projects in Pakistan and is a part and parcel of the Belt and Road Initiative (BRI). Although international investment law is of immense economic importance, scholarship on CPEC has paid little attention. This study critically examines the legal regime for investments within the framework of CPEC, Pakistan's commitments under bilateral investment treaties, effectiveness mechanisms, and the legal and institutional issues for investment governance. A qualitative doctrinal research design was used. The primary sources were bilateral investment treaties, the ICSID Convention, domestic investment law, arbitration awards, and policy documents, and the secondary sources were scholarly literature, legal commentaries, and institutional reports. The standards of investor protection, dispute resolution mechanisms, and governance issues were analyzed through comparative legal analysis and thematic interpretation. The results indicate that CPEC investments are governed by a multi-layered legal framework that combines domestic and international laws and legal commitments. Foreign investors are well protected by the Pakistan–China Bilateral Investment Treaty and ICSID arbitration mechanisms, thereby improving investment confidence. However, issues of transparency, regulatory fragmentation, environmental compliance, and institutional coordination were identified. Financial and reputational risks to which Pakistan may be exposed, in view of regulatory inconsistencies and contractual management failures, were also highlighted during the Karkey Karadeniz and Tethyan Copper (Reko Diq) arbitral proceedings. The study concludes that sustainable investment governance under CPEC can be balanced, preserving investors' rights without compromising the sovereignty and autonomy of states in investment governance (Khan, Ahmad, & Munir, 2020). To maximize the developmental benefits of CPEC and ensure the sustainability of its investments, strengthening treaty provisions, increasing transparency, coordinating institutions, and implementing effective mechanisms to prevent conflicts are crucial.

1 INTRODUCTION

The pattern of international economic connections has been significantly altered by globalization, particularly in emerging nations, where FDI is essential to economic expansion and infrastructure modernization (Ghani et al., 2025). International investment law has become a key legal regime for the rights and obligations of States and foreign investors in this context. It is a regime of BITs, multilateral agreements, arbitration

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procedures, and customary international law to foster and protect cross-border investments (Kasuri et al., 2024). Such agreements are often negotiated by developing nations to attract foreign investment, enhance industrial productivity, and boost economic integration into the global market. Yet, foreign investment has also created legal and regulatory issues regarding sovereignty, investor protection, dispute resolution, and state liability (Shah & Zakir, 2022). Officially inaugurated in 2015, CPEC is a multidimensional mega infrastructure and investment initiative. It is seen as a strategic priority for the two countries as it contributes to economic connectivity, regional trade, energy security, and geopolitical cooperation (Mahmood, Ali, et al., 2026). CPEC has been seen by Pakistan as a game-changer that will solve the country's problems, such as energy shortages, poor infrastructure, an underdeveloped industrial base, and inadequate foreign investment inflows.

CPEC is an economically important project that has raised a number of pertinent legal issues within the purview of international investment law. Large-scale foreign-funded projects need a robust, clear legal structure to ensure investor security and maintain the host state's sovereignty (Anwar & ul Haq, 2025). The provisions of bilateral investment treaties, investment contracts, and international arbitration conventions have therefore become more relevant to the governance of CPEC-related investments in Pakistan. A host of issues regarding the expropriation of foreign investors, fairness and equity, foreign investor protection, taxation policy, environmental regulation, and dispute resolution procedures have attracted considerable scholarly and policy interest.

A vital aspect of international investment law within the framework of CPEC is the investor–state dispute settlement (ISDS) infrastructure, particularly the ICSID arbitration process. Pakistan has also previously been in dispute with foreign investors in international arbitration cases, incurring major financial damages and reputation risks (Butt, 2021). The lessons learned from these experiences underscore the need to assess the readiness of Pakistan's legal and institutional environment to address the challenges of implementing large-scale foreign investment projects such as CPEC (Mahmood, Baig, et al., 2026). Additionally, issues of transparency, governance, contracts, and coordination between the federal and provincial governments continue to affect discussions about the legal viability of CPEC investments.

In this context, it is important to conduct a detailed analysis of the treaties, regulatory frameworks, and dispute settlement methods that regulate such projects, especially in the context of the intersection of international investment law and strategic economic projects like CPEC. Research on the international investment law aspects of the CPEC is limited compared with research that focuses on the CPEC's geopolitical and economic issues, several of which have been published in the last two decades. Research on international investment law aspects of the CPEC is relatively sparse compared to geopolitical and economic studies of the CPEC, which have been published in the past 20 years (Mahmood et al.). So, the objective of this study is to critically review the laws related to investment in CPEC, investigate Pakistan's investment commitments under CPEC, explore the dispute resolution mechanism, and critically review the effect of CPEC on Pakistan's investment climate and the new investment governance system.

CPEC is one of Pakistan's largest foreign investment projects and holds great potential for economic opportunities, as well as legal and regulatory issues. The commencement of CPEC is expected to yield significant progress in the energy sector, trade connectivity, industrial development, and infrastructure development, but its implementation has also raised serious concerns about the inadequacies of Pakistan's laws regarding foreign investment. The increasing involvement of Pakistani State Enterprises and foreign investors requires a strong legal environment, which is capable of ensuring investment protection and security, and at the same time safeguarding the sovereignty of Pakistan's regulations and the public interest. The

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interplay between Pakistan's investment laws and its international investment obligations under BITs, arbitration conventions, and ISDS mechanisms is one of the main issues in this regard. The country's previous cases in international arbitration proceedings are exposing the problems in contractual management, uniformity of the rules, and governance within international institutions. Also, unclear transparency, environmental policy, tax, and federal-provincial co-ordination issues are present. While CPEC is growing in importance, very little has been written in the academic literature solely on the legal implications of CPEC under the framework of international investment law (IIL). Therefore, the purpose of this study is to critically analyze the legal safeguards, the treaty commitments, arbitration mechanisms, and regulatory changes to ensure good governance and sustainability of the investments under CPEC.

Several studies have examined the economic, political, and strategic significance of CPEC, but little scholarly research has examined the treaty obligations, protections, and dispute settlement procedures for foreign investments under the CPEC. As such, this research is a valuable addition to the existing literature on international investment law and the CPEC. An important policy implication of the study is that Pakistan is an important player in foreign direct investment in Pakistan's economic development strategy. The study could help design legal and institutional reforms to enhance transparency, regulatory consistency, and investor confidence by identifying flaws in Pakistan's investment governance system (Khan, Munir, & Ahmed, 2020).

Moreover, the research holds value in grasping the practical effects of the mechanism of investor–state dispute settlement, especially as provided by ICSID. Therefore, this study offers useful suggestions to Pakistan on investor protection and balancing the national interest concerns. The study also has international implications as CPEC is a part of China's BR), which has profoundly affected the investment landscape and infrastructure financing in the world.

This study assesses the institutional and regulatory obstacles to investment governance, transparency and legal certainty in the context of CPEC. It is a doctrinal and qualitative legal analysis of the treaties, legislation, arbitration cases, policy documents and scholarly literature.

It is not an empirical and field-based study, nor a statistical analysis nor a quantitative economic evaluation of the CPEC projects. While CPEC has significant political, geopolitical and security implications, these have only been discussed in so far as these relate to investment governance and international legal obligations. Likewise, the study does not offer a detailed economic assessment of the profitability and financial viability of specific projects in CPEC. The analysis is limited further to the legal relationship between Pakistan and the foreign investors, particularly China's investments through the BRI. Comparative references to other international investment disputes and BRI-related projects are only provided to aid legal analysis and context of the investment dispute. Hence, the study still exclusively concentrates on the implications of CPEC on Pakistan's investment regime and the changing landscape of international investment law.

Evolution of International Investment Law

International investment law has undergone a substantial development over the last century to become a legal instrument for regulating and safeguarding FDI between states and private investors (Imran et al., 2024). Foreign investment protection was mostly achieved through diplomatic protection of their nationals abroad by strong states in the early twentieth century. Foreign investment protection was mostly based on diplomatic protection extended by strong states on behalf of their nationals overseas in the early twentieth century. But the surge in international trade and globalization following World War II brought a greater demand for a more organized legal structure that regulates foreign investments (Mahmood et al., 2025). These documents established the legal precepts of national treatment, most-favored-nation treatment, protection against illegal expropriation, and fair

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and equitable treatment. By providing a platform for independently resolving investment issues, an independent arbitration tribunal based on the International Centre for resolution of Investment issues (ICSID), founded in 1965, significantly institutionalised investor-state conflict resolution (Ullah et al., 2021).

Gradually, the scope of international investment law shifted from investment protection towards issues of sustainable development, environmental law and state sovereignty. As investment treaties were created countries that are still developing started to think about whether these treaties were really good for them. They thought that these treaties helped investors too much and limited what the countries could do to govern themselves. Now when people talk about investment law they want to find a balance between what's good for investors and what is good for the country where the investment is happening. They also want to make sure the country has the power to make its decisions about the economy and social issues. Investment treaties and investment law are important because they affect the country and the investors so people are working to find a way to make investment treaties and investment law work, for both the country and the investors.

Bilateral Investment Treaties (BITs)

BITs are bilateral treaties signed between two countries for the protection and promotion of investments made by investors in one of the countries in the territory of the other. Since the 1960s, BITs have proved to be one of the most significant legal mechanisms in international investment law as they provide binding commitments to provide a safe and stable investment climate (Baig et al., 2025). The main goal of BITs is to facilitate FDI through the reduction of political and legal risks for the investors in the host state. Many BITs also contain ISDS clauses which enable foreign investors to sue directly against host governments before international arbitration tribunals, such as ICSID. These are for the purpose of providing fair and equitable ways to resolve disputes without relying on local courts. Pakistan has bilateral investment treaties with various countries such as China for smooth facilitation of foreign investment and economic cooperation. The Pakistan – China BIT is important for India with respect to the China – Pakistan Economic Corridor (CPEC) in terms of investor protections and dispute settlement (Khan et al., 2023). However, the problem is that certain aspects of BITs can threaten the regulatory sovereignty of the host states and provide grounds for costly arbitrations by developed countries. Therefore, the efficiency and proper functioning of BITs remain the object of debate within the legal community.

The ICSID System and Investor–State Dispute Settlement

The ICSID is one of the most significant organisations in the field of international investment law. Founded under the auspices of the ICSID (Khan & Xu, 2021). The ICSID is one of the most significant organisations in the field of international investment law. ICSID, a specialised framework for resolving investment disputes between foreign investors and host states through arbitration and/or conciliation, was established under the auspices of the ICSID Convention of 1965. The ruling of an ICSID arbitration is binding on the parties to the arbitrations and can be enforced in member states under the terms of the ICSID Convention. This enforceability has boosted investors' confidence and helped to expand FDI in the world. Even though it was important, the ICSID system has been subject to significant criticism. Investor–state dispute settlement mechanisms in many developing countries are seen as favoring foreign investors and restricting the sovereign powers of states to regulate. Earlier, there have been concerns about transparency, arbitral rulings that are inconsistent, and the cost of arbitration proceedings (Ali et al., 2023). Pakistan's past engagements with international arbitration have revealed that ISDS mechanism not only carries practical and financial risks but also poses significant challenges in large-scale infrastructure and investment projects, like CPEC.

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Belt and Road Initiative and Investment Governance

One of the biggest projects in international relations in present times is the BRI by China that was launched in 2013. The project is intended to enhance economic connectivity, strengthening of trade cooperation and regional integration through investments in transportation, energy, communication and industrial infrastructure in Asia, Africa, Europe and Middle East (Fazal et al., 2023). The CPEC is an integral part of the BRI, which is China's policy of building partnerships and strengthening transnational connectivity via big infrastructure and investment in foreign countries. Due to the fast pace of BRI projects development, the topics of investment governance and BRI regulations have attracted growing attention from academics and the legal profession. The BRI projects are characterized by the significant amount of foreign direct investment, long-term contracts and the role of state-owned enterprises, which in turn demands good legal systems to provide investment protection, transparency, and dispute settlement.

Investment governance under BRI has been highlighted as being subject to a number of challenges, such as debt sustainability issues, weak institutional governance, environmental risks and the domestic legal inconsistencies. Arbitration, treaty obligations, sovereignty over regulation and enforcement mechanisms are all issues that have gained special importance in the host countries, including Pakistan (Rajput et al., 2022). The BRI has thus been part of the current discussions on the reform of international investment law and the importance of a fair balance between economic development goals and the principles of legal accountability, sustainable governance and state sovereignty.

Critical Review of Previous Studies

From an economic, geopolitical and strategic perspective, recent studies have subjected CPEC to a thorough examination in the past five to six years; however, a comparative amount of focus has been put on its legal ramifications under international investment law (Ullah et al., 2024). Much of modern literature focuses on the economic potential of CPEC for enhancing the infrastructure, foreign direct investment and trade connectivity in the region of Pakistan. A number of studies have taken a special interest in the energy and transportation projects of CPEC, which can solve the issue of chronic energy scarcity and industrial underdevelopment in Pakistan with massive investment and investment in infrastructure by China (Khan, Munir, & Riaz, 2020). In general, these studies see CPEC as a game-changing development project that can foster long-term economic development (McLaughlin, 2024).

Meanwhile, recent studies have been accentuating issues in governance, transparency, debt sustainability, and institutional capacity gaps in CPEC implementation. The regulatory framework in Pakistan was found to have issues like ambiguous policies, inefficient bureaucracy, weak contractual enforcement, and lack of transparency of investment agreements in the studies. The lack of coordination between the institutions can hamper the investor's confidence and the overall sustainability of CPEC projects, these analyses concluded (Rana, 2022). In addition, there are several studies on Special Economic Zones (SEZs) that doubt the preparation of Pakistan's domestic legal system for regulating the activities of foreign investments in large scale with transparency and accountability (Awan & Ali, 2022).

A review of cases heard at the ICSID has raised the concern that arbitration can impose significant financial obligations and restrictions on developing states. In terms of Pakistan, studies on past arbitration cases have illustrated how inadequate contractual administration and unpredictable regulatory regimes can lead to international claims against the state at high costs (Hassan, 2024). Further, a recent literature search on the Belt and Road Initiative (BRI) in China has explored the overarching legal and governance issues that arise in cross-border infrastructure investments. The studies have revealed some problems, including lack of a unified legal regime for projects under the BRI, geopolitical competition, debt dependency, and

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environmental regulation. While few studies discuss bilateral agreements and dispute resolution processes as part of BRI investments, legal analysis of CPEC is still lacking in details. At the whole picture, past studies have offered useful insights into the economic and strategic aspects of CPEC, but have generally not addressed in detail the principles of international investment law, treaty obligations, arbitration procedures, and investment governance issues (Farooq et al., 2023). Hence, a targeted doctrinal legal study of the intersection of CPEC and international investment law in the Pakistani regulatory and institutional framework is still needed.

Much of the literature on the CPEC has been limited to the economic, geopolitical and strategic aspects of the project, with less emphasis placed on the implications of the project under international investment law. While the majority of recent research focuses on the infrastructure and connectivity aspects, energy security, and economic development dimensions of CPEC, the legal dimensions of foreign investment governance, treaty obligations, and dispute settlement mechanisms have been largely neglected. Similarly, Belt and Road Initiative (BRI) studies tend to be more of general policy and economic studies, rather than doctrinal legal discussions of investment protection and arbitration, other than perhaps in the context of the CPEC project.

Moreover, while there is much literature on BIT and investor–state dispute settlement (ISDS), no literature is available specifically with respect to the application of these legal mechanisms in Pakistan's regulatory realm with respect to investments in CPEC. Moreover, existing studies also fail to comprehensively deal with the capacity of institutions, investment policy in Pakistan and arbitration risks of Pakistan in respect to the huge investment by China. Thus, there is a gap in research on the relationship between CPEC and international investment law in relation to treaty obligations, investor protections, regulatory sovereignty, and dispute resolution mechanisms. This study aims to bridge that gap by conducting a doctrinal analysis of CPEC in the context of international investment governance in a focused manner.

Theoretical Framework

Liberal Investment Theory

The liberal theory of investment pays attention to the necessity of free markets, economic openness and foreign direct investment to foster economic development and international cooperation. In this view, investment treaties and international legal instruments illustrate the desire to lower political and regulatory risks and promote investment to pursue cross-border economic activities (Ahmed et al., 2023). To explain how such legal guarantees through the bilateral investment treaties and international arbitration mechanisms can attract foreign investment and boost infrastructural and industrial development in Pakistan in the context of CPEC, the liberal investment theory is applied. The theory is based on the assumption that investment protection can help to stimulate modernization of the economy, enhance trade and promote integration into the world economy.

Sovereignty versus Investor Protection Debate

The sovereignty/investor protection dispute is about the clash between the right of foreign investors and the regulatory powers of host states. International investment treaties are known to offer comprehensive legal protections to investors, including investor–state dispute settlement regimes (Islam & Cansu, 2020). This protection may limit a state's power to address issues of public policy, the environment, taxation, and national development, however, critics argue. This discussion is particularly relevant in the context of CPEC as Pakistan has to ensure that the obligations are met with the sovereignty rights that must be maintained in the interests of the country and its people.

Regulatory Autonomy Theory

Regulatory autonomy theory focuses on the need to maintain host state autonomy in setting and enforcing its domestic policies against undue interference from others. The theory suggests that

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international investment agreements should not infringe on the scope of a state's power to govern social, economic, environmental and developmental issues for public good. The concept of regulatory autonomy is significant when it comes to CPEC because Pakistan needs enough law flexibility to tackle the governance issues, environment issues, labour standard issues and economic priorities of big foreign investment projects (Khan et al., 2020). The theory thus confirms the need for a balanced form of investment system that safeguards the interests of investors and at the same time ensures state sovereignty and policy independence.

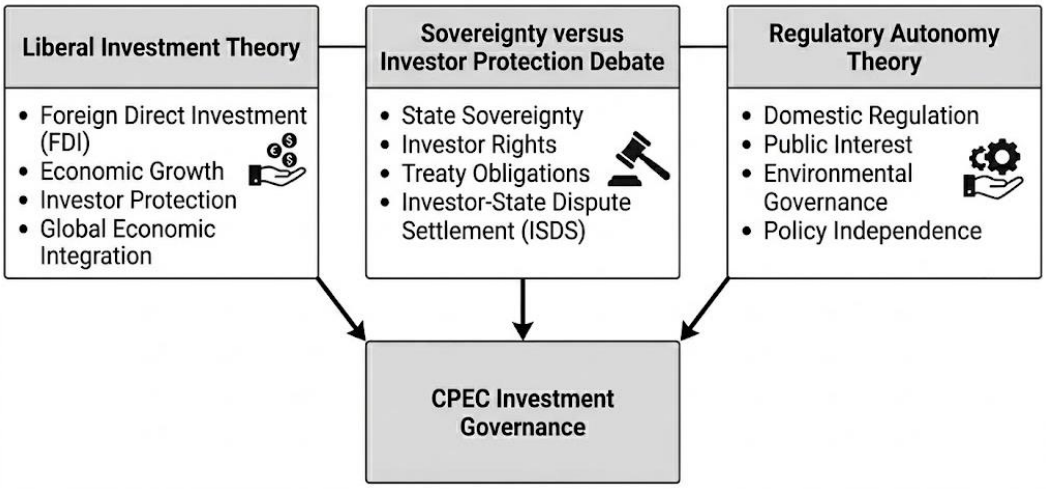


Figure 1 Theoretical framework diagram

Research Methodology

The methodology aimed at providing a critical analysis of investment treaties, dispute settlement processes and regulatory framework of foreign investments in Pakistan. The qualitative doctrinal legal approach was used as the study involved not collecting numerical data, but rather interpretation of legal principles, treaties, arbitration cases and statutory provisions. Additionally, the chapter included details on the research design, data collection methods, analysis processes, reliability, ethical issues, and limitations faced in the research process, providing clarity and establishing academic credibility.

The study was a doctrinal legal research that took a qualitative approach to analyze the relationship between CPEC and international investment law. This design was deemed suitable due to the fact that the research was mostly about the analysis of legal instruments, judicial decisions, investment treaties, arbitration frameworks and statutory provisions on foreign investment governance. The research design allowed for a systematic analysis of the rights and obligations of investors and host States under international investment agreements. A descriptive and analytical method was also employed to evaluate the effectiveness of Pakistan's laws with respect to CPEC investments, and to identify problems/issues faced with investment protection and dispute resolution mechanisms.

While doctrinal legal analysis has been the major approach to interpretation and evaluation of the legal material concerning the investments in the CPEC, the other approach employed has been comparative legal analysis.In addition to doctrinal, comparative legal analysis has been applied to the legal materials pertaining to the CPEC investments. This method included a detailed analysis of bilateral investment treaties, international conventions, home investment laws, arbitration decisions, law of investor protection, etc. The doctrinal approach was used to evaluate the coherence of Pakistan's national legal system, with respect to its international investment commitments. It was particularly emphasised that

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fair and equitable treatment, protection from expropriation and investor–state dispute resolution are key principles. The method also enabled critical discussions on legal ambiguities, regulatory gaps and institutional issues in the investment governance framework of Pakistan.

The research adopted the case study approach to analyze some relevant investment disputes and arbitration cases in the context of Pakistan and other investment disputes and arbitration cases in the context of Belt and Road initiative of similar nature. The method was chosen to give practical knowledge on the application of international investment law in practical investment disputes between foreign investors and investment countries. A series of arbitration cases involving contractual disagreement, investor protection issues and issues of regulatory controversy were reviewed to point to common legal and institutional issues. The case study approach also helped to analyze the impact of investor–state dispute settlement mechanisms and the outcomes of arbitrations on the investment climate, regulatory sovereignty and governance of Pakistan investment projects related to CPEC.

For the study, primary and secondary sources of legal data were used so as to give comprehensive and reliable analysis. The primary sources comprised bilateral investment treaties, the ICSID Convention, Pakistan's Investment Laws, arbitral awards, policy documents, official agreements and constitutional provisions pertaining to foreign investment governance. Secondary sources comprised academic journal articles, books, research reports, legal commentaries, and publications of international organisations/policy institutions. These materials consist of material sourced from online legal databases, University libraries, government and international institutional archives. To enrich the legal research, the researchers employed both primary and secondary sources of data, and it provided depth and an interpretation of legal research.

In the analysis of collection legal materials, qualitative doctrinal interpretation and comparative legal analysis method is used. This study covered the provisions of the treaties, arbitrations and statutory instruments and scholarly arguments of the principles governing foreign investment protection under CPEC. It was done to compare the domestic legislations of Pakistan with international investments' standards, so as to find overlaps and difference. Themes were also used to classify major issues in the context of investor protection, state sovereignty and dispute settlement and regulatory governance. This analytical approach enabled the study to critically review the effectiveness of legal mechanisms which could potentially be implemented in the investments under CPEC and areas where there is a need for legal and institutional reforms.

The reliability and the validity of the legal sources were maintained through the research processes, using their authenticity and authority. To be accurate and consistent in the legal interpretation, international documents, awards, arbitration decisions and peer-reviewed academic literature were consulted. To minimize the analytical bias and increase the credibility of analysis, several sources of law and literature were consulted and cross-referenced. The study also ensured its validity by using the principles of doctrinal legal research and consistency between the objectives of the research, research questions and analytical conclusions. This methodological approach has enhanced the level of certainty of the legal analysis that was incorporated in the study.

Academic integrity and professional legal scholarship were maintained throughout the research process with regard to the ethical considerations. Citations and referencing were used correctly in all legal materials, scholarly works and institutional documents that were used in the study. The research did not show plagiarism, misinterpretation of the legal texts, and using selective evidence that might impact the analytical objectivity. The study did not include any participation of humans nor confidential personal information because it has been based exclusively on documentary and secondary legal sources. The analysis was neutral while sticking to the objective assessment of legal aspects of investment

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governance under CPEC and international investment law.

The study was faced with some limitations in doctrinal legal research, as well as the fact that it was not possible to obtain official information about the agreements and arrangements of CPEC investment. However, some contractual documents and investment agreements for CPEC projects were not publicly available, due to confidentiality concerns, and therefore in-depth analysis of specific contractual clauses was not possible. The study did not also conduct any empirical fieldwork, no interviews were held and no quantitative economic impact of investments was assessed. Moreover, the developing nature of international investment law and the continuous developments in the Belt and Road Initiative, posed challenges in accurately determining the future legal implications with absolute certainty.

Analysis and Discussions

The following chapter summarizes the results of doctrinal analysis, comparative study of investment treaties, study of arbitration decisions and evaluation of policy and legislative documents covering CPEC investments. The results are presented in the following order: the research aims and thematic areas that appeared in the analysis. To appreciate the legal regime that regulates foreign investment under CPEC, 28 legal sources were reviewed which comprise bilateral investment treaties, international conventions, arbitral awards, domestic laws, investment policies, and academic articles. The analysis reveals an analytical framework of interaction between international commitments and domestic legal mechanisms in investment governance in the CPEC. Special attention was given to investor protection, dispute resolution, institutional framework and regulatory independence of Pakistan. The results reveal some of the positive aspects of the current legal framework and the ongoing challenges in relation to investment governance.

Legal instruments review shows that CPEC investments are based on multi-layered legal frameworks comprising of international conventions, bilateral cooperation documents, contractual arrangements and domestic laws. The main domestic instruments that were identified are Foreign Private Investment (Promotion and Protection) Act, Special Economic Zones Act and the Investment Policy of Pakistan. The main international laws on investor protection and dispute resolution are the Pakistan-China Bilateral Investment Treaty and ICSID Convention. The analysis showed that the majority of the legal safeguards offered to the Chinese investors are treaty-based, and not foreign laws. The elements of national law on substantive guarantees for fair treatment, protection from expropriation and access to international arbitration are mostly treaty-based, while elements of national law on procedural facilitation and administrative incentives are also enacted. This dual structure has enhanced the security of investments, but has also boosted Pakistan's vulnerability to legal claims from the outside world.

Table 1 International and Domestic Legal Instruments Governing CPEC Investments

Instrument	Category	Primary Function	Relevance to CPEC
Pakistan–China BIT	International Treaty	Investor protection and dispute settlement	Provides substantive protections for Chinese investors
ICSID Convention	International Convention	International arbitration	Facilitates investor–state dispute resolution
Foreign Private Investment Act	Domestic Law	Investment promotion	Guarantees protection against nationalization
SEZ Act 2012	Domestic Law	Industrial regulation	Provides incentives for CPEC Special Economic Zones

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Investment Policy 2023	Policy Instrument	Investment facilitation	Offers tax and administrative incentives

Pakistan's Obligations under International Investment Law

Bilateral investment treaties and international conventions show that Pakistan has taken on far-reaching duties for foreign investors to invest in CPEC projects. These responsibilities involve treating investors fairly and equitably, protecting their assets from unlawful appropriation, guaranteeing regulatory non-discrimination, and allowing independent forums for investor rights' resolution. The provisions of the treaties indicate that Pakistan is likely to maintain a stable and predictable legal framework that will provide protection for the investors' legitimate expectations. The conclusions do suggest, however, that broad applications of treaty standards could constrain the power of the state to reform its policies in taxation, environmental protection, and industrial development. Based on the previous arbitration cases of Pakistan, one can see that a lot of financial burden comes from contractual ambiguity and lack of consistency in government policies. Therefore, meeting the commitments to international obligations, while maintaining sovereign policy space, is one of the greatest legal challenges facing the country.

Effectiveness of ISDS in CPEC-Related Investments

It was concluded that Investor–State Dispute Settlement mechanisms were an important part of investment protection within CPEC. A review of arbitration literature and of the arbitral history of Pakistan indicates that ISDS mechanism offers an unbiased forum to foreign investors away from domestic courts. Particularly, ICSID arbitration was recognized as providing increased enforceability of awards and strong procedural certainty. However, the results do show some concerns over long processes, high legal fees and a lack of a balance in rights of investors and the regulatory role of the state. The government's involvement in large arbitration cases has showcased that if the government's contract management is not adequate, and there is a lack of coordination of institutions, it can lead to unfavorable award with a significant financial impact on the government. Nevertheless, ISDS mechanisms are still building investors' confidence, minimizing the political risk and ensuring that investors can engage in legal proceedings, known to the international community, to resolve a dispute (Khan, Ahmad, & Munir, 2020).

Legal and Governance Issues Affecting CPEC Investments

During the review, the following legal and institutional gaps were identified, which impact CPEC implementation. One of the most repeated concerns that came up was taking into account the level of transparency in the investment agreements, as well as limited public access to contract information. Furthermore, there were issues of duplication of responsibilities between federal and provincial levels which increased delays in project approvals, land acquisition and environmental clearance. Analysis has shown that there are differences in tax policies and environmental regulations in various provinces. The regulatory fragmentation may create uncertainty for the investor and hence influence the sustainability of investments. The results also indicate that weak institutional capacity and insufficient coordination between institutions are responsible for governance inefficiencies. These problems would not only enhance investment administration, but also, boost the public's trust in the administration of large-scale infrastructure projects.

Findings in Light of Theoretical Perspectives

This study basically confirms the assumptions of Liberal Investment Theory, which states that freedom of action and legal guarantees and treaties promote foreign investment and economic integration. CPEC is a good example of how international legal commitments can be used to

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promote infrastructure development and enhance bilateral economic cooperation. But, the results are also a continuation of an ongoing issue of investor protection versus state sovereignty. It is possible that the broad treaty requirements and access to investor-state arbitration limit the Pakistani state's ability to flexibly regulate matters of public welfare, environmental protection and fiscal policy. The Regulatory Autonomy Theory is thus an important theory to analyze the need to maintain the autonomy of domestic policy making. The overall results indicate that there is no effective solution of either too much investor freedom or total regulatory autonomy. A balanced regime of investment which protects the investors and provides policy autonomy seems more suitable for Pakistan's long-term economic interest.

Proposed Legal and Policy Reforms

The results suggest that there are several legal and institutional changes that need to take place in order to strengthen the governance of investments in CPEC. Bilateral investment treaties should be renegotiated to include more explicit rules on the concept of indirect expropriation, public interest exceptions and fair and equitable treatment. At a domestic level, there is a need to increase the synergy between the investment policies of the federal and provincial governments to eliminate delays and inconsistencies in the procedures. Specialized legal units within the relevant ministries could further help to enhance compliance with the treaties, keep track of contractual obligations, and offer technical support in investment negotiations. Transparency can also be improved by partial disclosure of investment agreements, which can also strengthen accountability and public trust. At the last, capacity building programs of the government officials engaged in investment management can play a beneficial role in minimizing arbitrations risks and creating a sustainable investment environment under CPEC.

Table 2 Proposed Legal and Institutional Reforms for Sustainable CPEC Governance

Area of Reform	Current Gap	Proposed Measure	Expected Outcome
BIT Provisions	Broad treaty language	Clarify FET and expropriation clauses	Reduced arbitration risk
Institutional Capacity	Weak coordination	Dedicated investment dispute unit	Improved treaty compliance
Contract Management	Limited legal review	Pre-signing legal assessments	Fewer contractual disputes
Transparency	Confidential arrangements	Regular reporting and oversight	Enhanced accountability

Case Law Study

Karkey Karadeniz Elektrik Uretim A.S. v. Pakistan

One of the biggest investment arbitration cases against Pakistan is the case brought by Turkish power company Karkey Karadeniz Elektrik Uretim A.S. against the country. The case came about due to an agreement for the rental power project signed in 2008 to overcome the electricity deficit in Pakistan. Under the contractual arrangement approved by the Pakistani government, Karkey provided floating power generation unit (Afzal et al., 2023). However, the claim of corruption and irregularities in the process prompted investigations by the national accountability bodies and ultimately the end of the project.

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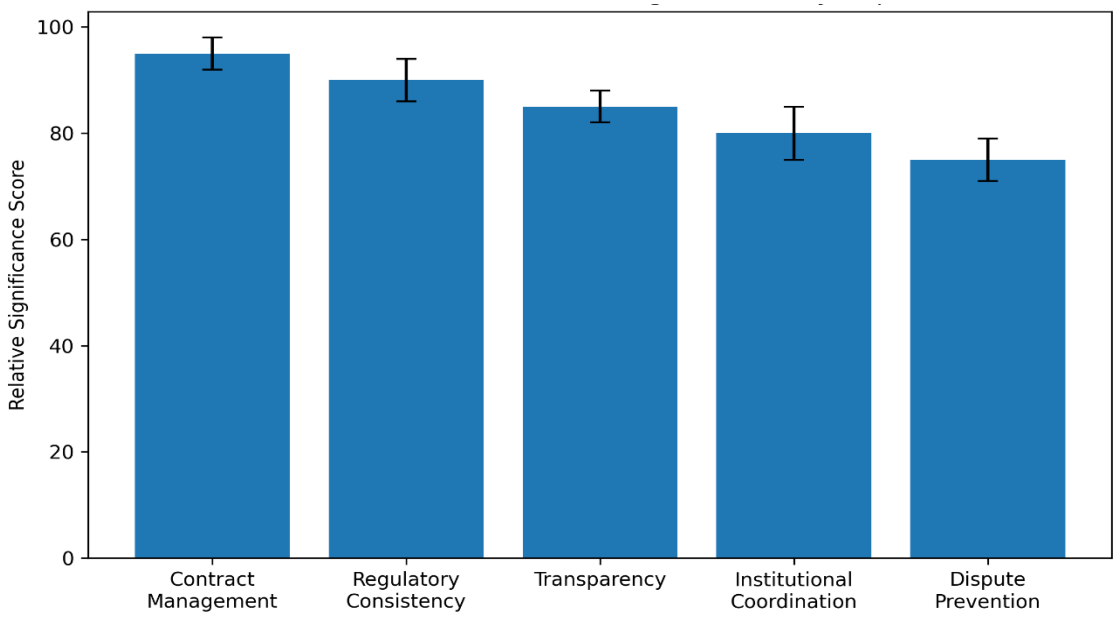


Figure 2 Key Governance Weaknesses Identified in Karkey Arbitration

The arbitration tribunal determined that Pakistan had not treated the investor fairly and equitably and had directed that the investor should get a significant compensation from Karkey. The case exposed deficiencies, lack of consistency and coordination between the government institutions in contractual management. It showed how the exercise of domestic administrative powers can lead to international legal obligations arising when foreign investments are covered by bilateral investment treaties. The conflict also brought to the fore the need to be clear about decision-making and treaty observance in large-scale infrastructure schemes. As far as investments are concerned related to CPEC, the case of Karkey also proves that regulatory uncertainty and failures of institutions may lead to high arbitration costs and also damage the reputation of Pakistan in the international arena.

Table 3 Karkey Karadeniz v. Pakistan

Aspect	**Details**
Investor	Karkey Karadeniz Elektrik Uretim A.S. (Turkey)
Sector	Energy / Rental Power Project
Legal Basis	Pakistan–Turkey Bilateral Investment Treaty
Dispute Cause	Termination of rental power project and regulatory actions
Arbitration Forum	ICSID
Key Legal Issue	Fair and equitable treatment and investor protection
Tribunal Finding	Pakistan breached treaty obligations toward investor
Outcome	Compensation awarded to investor
Governance Weaknesses Identified	Contract management, transparency, institutional coordination
Relevance to CPEC	Highlights risks of inconsistent regulatory decisions in large foreign-funded projects

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Policy Lesson	Need for treaty compliance, dispute prevention, and stronger legal oversight

Tethyan Copper Company (Reko Diq) v. Pakistan

The Tethyan Copper Company (TCC) arbitration in the case of the Reko Diq mining project is one of the biggest international investment cases in Pakistan. TCC (Foreign Investors' Joint Vent) was awarded exploration rights for the development of copper and gold reserve in Balochistan. After years of exploration and investment, the Government of Balochistan refused to give the mining lease, which was necessary for the development of the project (Ahmad et al., 2025). TCC claimed that this refusal infringed on its rights under the relevant BILT, and brought an arbitration action against the government before ICSID. The tribunal found Pakistan guilty of violating its treaty obligations and decided toward damages in billions of dollars.

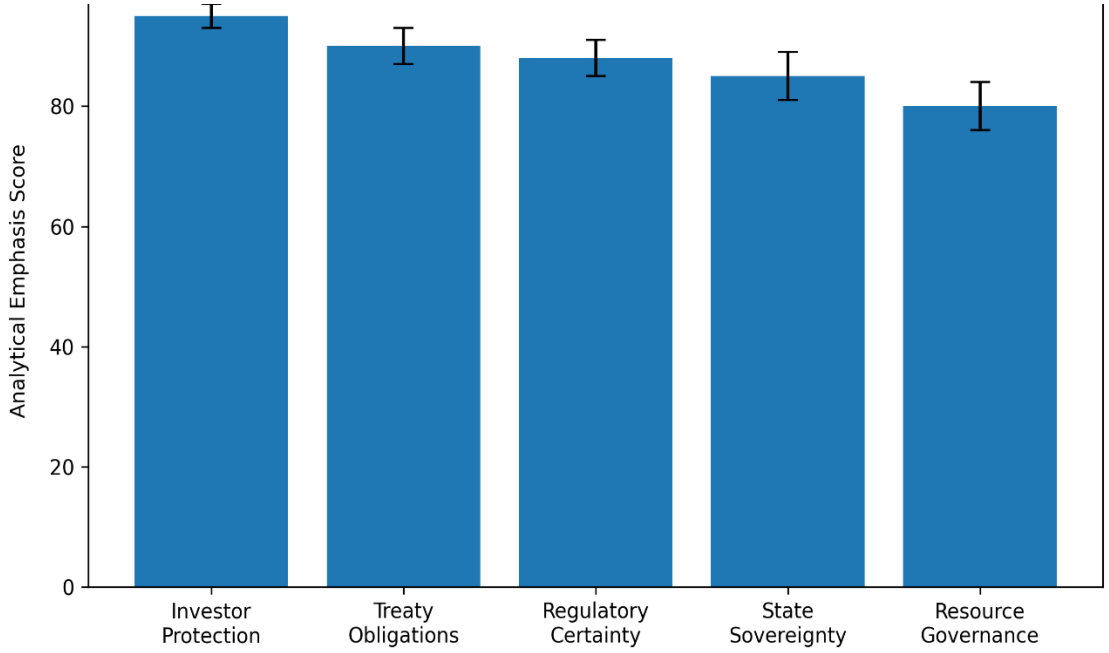


Figure 3 Major Legal Themes Emerging from the Reko Diq Arbitration

The case was widely discussed as a result of the magnitude of the prize and the lessons for foreign investment governance. The arbitration highlighted the impact of opaque regulation, conflicting governments' decisions and inadequate regulation of investment contracts. It also demonstrated that between Pakistan and investors, the conflict between investor protection and states' sovereignty existed because investors were relying on protection of their investment through guarantees provided under the treaty whereas Pakistan was protecting its natural resources. It is a historic case of the risks of mega foreign investment projects. The lessons from Reko Diq are relevant to CPEC, and underscore the need for legal certainty, transparency in the licensing process, the importance of dispute prevention, and national institutional capacity to engage with the challenges of investment relations, whilst protecting national interests.

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Table 4 Tethyan Copper (Reko Diq) v. Pakistan

Aspect	Details
Investor	Tethyan Copper Company (TCC)
Sector	Mining (Copper and Gold)
Project Location	Reko Diq, Balochistan
Legal Basis	Applicable Bilateral Investment Treaty protections
Dispute Cause	Refusal to grant mining lease after exploration activities
Arbitration Forum	ICSID
Key Legal Issue	Investor rights, licensing decisions, and treaty obligations
Tribunal Finding	Pakistan found in breach of treaty commitments
Outcome	Multi-billion-dollar damages award
Governance Weaknesses Identified	Regulatory inconsistency, licensing uncertainty, weak investment governance
Relevance to CPEC	Demonstrates importance of legal certainty in major foreign investment projects
Policy Lesson	Strengthen institutional capacity, transparency, and regulatory predictability

From this research, it is revealed that the legal control of investments under CPEC is a multi-faceted phenomenon, which is embodied in a combination of domestic legislation, bilateral investment treaties (BITs), international arbitration mechanism and contractual agreements (Hassan et al., 2022). The findings support existing studies which indicate that effective legislation is an effective driver for FDI inflows to developing countries and economic integration. These would have helped China invest in the sectors of infrastructure, energy, transportation, industrial development under the umbrella of the CPEC (Ali & Rizwan, 2024). The study also captures governance issues that are often discussed in the current investment law literature such as fragmentation of regulation, transparency problems, environmental compliance issues and institutional coordination gaps. The weak investment governance has manifest consequences, which can be seen in the case of the Karkey Karadeniz arbitration. It emphasized the international responsibilities of Pakistan due to the gaps in its decision-making and contractual management framework.

The case showed how the regulatory decision making and contractual management process can expose Pakistan to liability before the investment treaties of other countries. Similarly, the Tethyan Copper (Reko Diq) issue brought to light the financial and reputational danger of the murky licensing procedure and governmental actions. The high damages that were awarded in both cases demonstrate the need for legal certainty, adherence to treaties, and mechanisms in effective dispute prevention (Khan & Bukhari, 2024). The case studies emphasize that the study's findings with respect to the failure of investment governance could result in domestic political disputes becoming costly international arbitration cases. The results are further relevant to a discussion of the balance between investor protection and state sovereignty. International investment agreements provide valuable investor protections, however, general offshore agreements can negatively affect a state's ability to enact environmental protection, tax, natural resource management and socio-economic development policies. The outcome allows to confirm the Regulatory Autonomy Theory that emphasizes the need to keep regulatory authority in the home and

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investor confidence. In conclusion, the findings of the study indicate the need for a balanced investment governance mechanism in Pakistan, ensuring the security of foreign investors while also securing the interests of the nation's development (Hussain et al., 2023). More transparency, institutional coordination, modernization of the treaties and strengthening of legal capacities are required to make CPEC investments sustainable and minimize future arbitration risks.

Conclusion

The research, in a critical manner, analyzed the legal regime under CPEC. Findings indicate that CPEC investments are based on a multi-layered legal framework comprising of the investment laws of the countries, bilateral investment treaties, contractual agreements, and international arbitration procedures. Of these, the Pakistan–China Bilateral Investment Treaty (BIT) and the ICSID Convention were found to be the most influential treaties. Such pledges have helped to foster investor confidence and enabled massive Chinese infrastructure, energy and industrial development investments. But the research revealed that the governance issues were also found to be persistent, such as regulatory inconsistencies, lack of proper institutional coordination, lack of transparency, dispute prevention mechanism, and environmental compliance issues. The inclusion of the arbitration proceedings related to the Karkey Karadeniz and Tethyan Copper (Reko Diq) investment cases also highlighted how the flaws in investment governance impact on the practice of arbitration. The two cases demonstrated the potential reputational and financial risks to the state of the application of international investment law due to contractual ambiguities, regulatory uncertainty and institutional weaknesses. The study recommends the establishment of a balanced investment governance framework which ensures state of safeguard to investors, enhanced autonomy of regulators and national interests. The key areas for reforms include better treaty drafting, transparency, improved federal–provincial coordination, strengthening institutional capacities, and effective dispute prevention. This will help ensure sustainable foreign investment governance and will maximize the developmental benefits of CPEC in the long term, minimize future arbitration risks.

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