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Foreign Investment and Trade in Pakistan: A Legal Perspective

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This article marks the launch of a collaborative legal series between AHK and Schlüter Graf Legal Consultants LLC, featured in this Quarterly Newsletter. This initiative brings together AHK's commitment to supporting German and international businesses in Pakistan with Schlüter Graf's legal expertise. The series will explore key legal and regulatory topics relevant to doing business in Pakistan, including foreign investment and trade, supply chain operations, business set-up and structuring, employment and labour matters, and dispute resolution. This series aims to equip businesses with the legal knowledge needed to navigate the complexities of operating, investing, and growing in Pakistan with clarity and confidence.

I. Introduction

Pakistan's foreign investment landscape in 2025 reflects significant efforts toward legal and institutional reform aimed at enhancing the country's attractiveness to international investors. After a period of economic and political volatility, Pakistan is undertaking strategic measures to stabilize its investment environment, modernize regulatory frameworks, and improve operational ease—particularly in sectors such as manufacturing, logistics, renewable energy, and digital technology. The current investment climate in Pakistan presents significant opportunities for German companies in sectors such as automotive supply, precision engineering, and industrial services.

This article provides a legal and strategic overview of the current foreign investment and trade environment in Pakistan, highlighting key reforms, sectoral priorities, and emerging opportunities shaping the investment climate in 2025.

II. Foreign Investment in Pakistan: Key Features and Benefits to Investors

Pakistan's foreign investment framework offers a range of features designed to create a conducive and secure environment for international investors. The following highlights the core features that make Pakistan an attractive destination for foreign direct investment.

1. **100% Foreign Ownership Allowed**

   Permitted under the Companies Act, 2017 (CA), and regulated by the Securities and Exchange Commission of Pakistan (SECP), Pakistan permits 100% foreign equity ownership in most sectors, including manufacturing, industrial services, logistics, renewable energy, and e-mobility. Only a few sensitive industries, such as defense and nuclear energy, require prior government approval or restrict foreign ownership, giving investors significant control and flexibility.

2. **Profit and Capital Repatriation**

   Foreign investors are allowed full repatriation of profits, dividends, and capital in foreign currency through formal banking channels. The right of repatriation is guaranteed under the Foreign Private Investment (Promotion and Protection) Act, 1976. This facilitates transparent and hassle-free transfer of funds back to investors' home countries, subject to compliance with regulatory requirements and the forex climate of the country. With a readily improving forex situation in the country, it seems that future repatriation for the foreign investors will be hassle free.

3. **No Minimum Capital Requirements (Except Regulated Sectors)**

   Except for highly regulated sectors like banking and insurance etc., Pakistan does not impose minimum capital requirements (as outlined by the CA and sector specific regulations), which lowers entry barriers and enables more accessible market entry for foreign investors.

4. **Special Economic Zones (SEZs) and Export Processing Zones (EPZs)**

   Governed by the Special Economic Zones Act, 2012 (amended 2023) and the Export Processing Zones Authority Ordinance, 1980, SEZs and EPZs provide key incentives to investors, including up to a 10-year income tax holiday (subject to ongoing fiscal reforms), full exemptions from customs duties and sales tax on imported plant and machinery, dedicated land allotments, and single-window facilitation for approvals and licensing. These benefits are administered by the Board of Investment (BOI) and respective SEZ authorities to promote export-oriented and industrial projects.

5. **Tax Incentives and Double Taxation Agreements**

   Pakistan provides tax holidays and incentives for export-oriented and industrial projects. It also maintains Double Taxation Avoidance Agreements (DTAs) with over 66 countries, including Germany, enabling investors to benefit from reduced withholding tax rates and avoid double taxation on cross-border income.

6. **Special Investment Facilitation Council – Fast-Track Investment Coordination**

   Established in 2023, the Special Investment Facilitation Council (SIFC) serves as a high-level inter-agency platform designed to fast-track foreign investment in Pakistan's priority sectors. It consolidates representation from federal ministries, provincial governments, the military, and key regulatory authorities, providing a single-window framework for investor facilitation.

   For international businesses navigating Pakistan's complex regulatory terrain, the SIFC offers a practical pathway to accelerated project execution and government engagement.

By centralizing approvals, resolving inter-agency coordination hurdles, and ensuring time-bound decision-making through its dedicated Secretariat, the SIFC helps streamline processes that would otherwise be prone to bureaucratic delays.

This structure is particularly advantageous for foreign investors involved in large-scale infrastructure, energy, and industrial projects, where coordinated policy support and high-level oversight are critical for timely implementation.

7. **Legal Structures**

Foreign investors in Pakistan can commonly choose from several legal structures tailored to their business goals. The most prevalent option is the Private Limited Company (PLC), governed by the Companies Act, 2017. PLCs can be fully registered online through the SECP, requiring at least two shareholders and directors. Foreign directors are permitted, subject to security clearance, and are not required to reside in Pakistan. Another option is establishing Branch or Liaison Offices, primarily for non-revenue-generating activities such as market research, after-sales support or project specific activities. Additionally, Joint Ventures with local partners are common in sectors like infrastructure, mobility, and energy, where foreign expertise complements local market access, making Pakistan a flexible and attractive environment for diverse investment strategies.

III. Legal Reforms in 2025: A New Investment Infrastructure

Four key legal developments in 2025 stand out for their direct impact on current and prospective foreign investors in Pakistan:

1. **Trade Policy Reform under the National Tariff Policy 2025–2030**

A major structural shift in Pakistan's trade and investment environment that is seen as a highlight in 2025, is the launch of the **National Tariff Policy 2025–2030**, which introduced sweeping reforms to simplify tariffs, reduce input costs, and align trade incentives with industrial development.

Key measures include reducing the maximum customs duty to 15% (from 20%), consolidating five tariff slabs into four (0%, 5%, 10%, and 15%), and phasing out Additional and Regulatory Duties (ACDs and RDs) on thousands of tariff lines over the next five years. These reforms are designed to cut production costs—especially for export-oriented and import-dependent sectors like automotive supply chains—by lowering base duties on over 2,700 tariff lines focused on raw materials and industrial inputs. Complementing the tariff reforms are commitments to reduce non-tariff barriers by simplifying certification, licensing, and standards regimes.

For foreign investors, particularly in sectors like manufacturing, logistics, and engineering, this reform enhances predictability, improves cost structures, and reinforces Pakistan's integration into global supply chains—critical considerations for German firms evaluating long-term sourcing or production investments in the region.

2. Digital FDI Platform

Launched in 2025 in collaboration with the World Economic Forum and the Digital Cooperation Organization (DCO), Pakistan's Digital Foreign Direct Investment (DFDI) platform marks a transformative step in how foreign companies register and operate in the country. Built around four core pillars—digital infrastructure, adoption, service exports, and emerging digital activities—the initiative brings together key institutions including the SECP, BOI, and the Ministry of Information Technology and Telecommunication (MoITT). The ultimate goal is to develop a unified, one-window digital platform that streamlines the entire investment process for foreign investors.

A significant advancement within this framework is the SECP's eZFile system, which allows investors to complete company incorporation fully online—from name reservation to submission of constitutional documents and regulatory filings—eliminating the need for cumbersome paperwork. Additionally, digital signatures for company directors are now issued electronically via the National Institutional Facilitation Technologies (NIFT), enabling a seamless, paperless onboarding experience.

This digital transformation drastically reduces compliance burdens and enhances transparency, facilitating quicker market entry. It holds particular relevance for tech-driven sectors such as automotive supply chains and logistics, where operational agility and efficiency are critical. By minimizing reliance on intermediaries and simplifying processes, the DFDI platform addresses longstanding concerns of German businesses operating in South Asia, offering them a more accessible and transparent investment environment.

3. Pakistan Sovereign Wealth Fund (PSWF)

Established under the Pakistan Sovereign Wealth Fund Act, 2023, and operational since early 2025, the Pakistan Sovereign Wealth Fund (PSWF) serves as a key vehicle for strategic investments aimed at accelerating Pakistan's economic growth. Capitalized initially with USD 8 billion, the PSWF has broad legal authority to invest in and manage assets across various sectors, form partnerships, and participate in joint ventures, including with foreign investors.

The Fund's strategic focus emphasizes collaboration in priority sectors such as energy transition technologies (solar, wind, battery storage), transport and logistics infrastructure (rail, ports, electric mobility), and telecom and digital infrastructure. This approach aims to leverage foreign expertise and capital to catalyse development in these critical areas, underpinned by transparent contracts and legal safeguards to protect investor interests.

For German industrial firms interested in long-term contracts or government-supported projects, collaborating with the PSWF can offer a more structured and transparent investment environment. The PSWF's focus on priority sectors like energy transition, transport, and digital infrastructure may help facilitate regulatory processes and coordination. Additionally, with ongoing reforms aimed at liberalizing state-owned enterprises, the PSWF could provide avenues for strategic investment opportunities. While these advantages reflect the fund's intended role and Pakistan's reform trajectory, they should be seen as practical expectations rather than explicit guarantees.

4. SEZ Legal Amendments and Automotive Supply Chain Prioritization

Recent changes to the **Special Economic Zones Act** (amended 2023, implemented fully in 2025) have introduced important changes to the operational framework of SEZ authorities. While the government has begun phasing out the 10-year tax holiday over the coming decade as part of broader fiscal reforms, SEZs continue to offer exemptions from customs duties and sales tax on imported machinery, along with streamlined land allotment and licensing processes within designated zones.

In parallel, the Special Investment Facilitation Council (SIFC) has identified automotive components, e-mobility infrastructure, and light engineering as priority subsectors, reflecting Pakistan's push toward electrification and industrial modernization. These sectors benefit from fast-track SEZ approvals and are supported by government initiatives such as the National Electric Vehicle Policy 2025–2030, which encourages investment in electric vehicle manufacturing and charging infrastructure.

For German Tier-1 and Tier-2 suppliers, particularly those engaged with Pakistani Original Equipment Manufacturers (OEMs) and regional export markets via ports like Gwadar and Karachi, these developments offer strategic opportunities bolstered by policy support and sector-specific facilitation through SIFC.

IV. Conclusion: Navigating Legal Progress

Pakistan's evolving foreign investment landscape in 2025 reflects a significant legal and institutional recalibration designed to foster long-term investor confidence, particularly for foreign firms in automotive, renewable energy, and digital sectors. The introduction of streamlined entry mechanisms—such as fully digital company incorporation via the SECP's eZFile system and a unified DFDI platform—demonstrates clear progress in reducing traditional bureaucratic barriers.

The legal frameworks governing SEZs, the PSWF, and trade reforms under the National Tariff Policy offer well-defined incentives and targeted sectoral prioritization that can enhance competitive positioning.

While these developments represent meaningful advances, some aspects of the investment climate continue to evolve. For instance, the enforcement of foreign arbitral awards and the detailed operationalization of co-investment frameworks under the PSWF are areas to watch as practical implementation unfolds. Fiscal reforms, including the gradual phasing out of certain SEZ tax benefits, reflect a broader commitment to fiscal sustainability but may require investors to adapt their cost projections. Similarly, currency fluctuations and regulatory changes, although increasingly managed through digital platforms, underscore the importance of proactive risk management and close monitoring of the legal environment.

Nonetheless, Pakistan's trajectory toward enhanced legal clarity, sector-specific facilitation, and digital modernization creates a compelling proposition for foreign businesses willing to engage with the market's nuances.

By leveraging the new investment platforms, participating in priority sectors through the PSWF, and capitalizing on tariff simplifications, foreign investors can access a rapidly transforming economy offering cost efficiencies and strategic regional connectivity. With prudent legal due diligence and active engagement with evolving regulatory frameworks, Pakistan stands out as a promising frontier for foreign direct investment and trade in South Asia.

<u>About Schlüter Graf</u>

Schlüter Graf is a law firm with a track record of over 30 years in the Middle East as a leading corporate & commercial boutique firm. We maintain an extensive network of offices and co-operations across the region, allowing us to cover Germany, all jurisdictions of the Middle East (including the United Arab Emirates, the Kingdom of Saudi Arabia, Oman, Bahrain, Qatar, Kuwait, Egypt, Lebanon, Iraq, Iran) as well as emerging markets, in particular Ethiopia and Pakistan.

From straightforward legal advice and representation to complex multi-jurisdictional corporate and commercial matters, at Schlüter Graf, we have the team, the passion, and the experience to look at the law from every angle and we work hard to make the law work for you.

The dedicated Pakistan team at Schlüter Graf can gladly assist you across all legal, regulatory, and structuring matters—from market entry to ongoing compliance, as well as disputes. For any Pakistan related queries please reach out to Mr. Usama Munir, Head of Pakistan Practice at Schlüter Graf.

About AHK

AHKs stand side by side with the German business community—at more than 150 locations in over 90 countries worldwide. Their teams are deeply embedded in local markets and serve as trusted partners for companies on matters related to market entry and expansion, legal frameworks, and cultural context.

About AHK UAE

The German-Emirati Chamber of Industry and Commerce (AHK UAE) officially represents the interests of German business in the United Arab Emirates. In addition, AHK UAE coordinates activities in Iraq, Qatar, Kuwait, Oman, and Pakistan. As a membership-based organization, AHK UAE offers a strong local network, supports German companies in entering regional markets, and promotes bilateral exchange through a variety of events, delegations, and tailored services.

Pakistan at AHK UAE

Activities related to Pakistan at AHK UAE are led by Florian Walther, Pakistan Representative.

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