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Business Set-Up in Pakistan: Key Regulatory Framework and Practical Considerations

03.12.2025

This is the fourth article of the 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 remains an important destination for foreign enterprises, especially for German companies active in industrial machinery, automotive components, chemicals, engineering services, and renewable energy —while ongoing reforms aim to improve the business environment. The legal framework governing market entry has become more structured and transparent over the past decade, but successfully establishing a presence requires a skilful navigation of regulatory layers.

While foreign investment is formally protected under the **Foreign Private Investment Promotion and Protection Act, 1976 ("FIPPA")**, and repatriation of capital is legally guaranteed through the **Foreign Exchange Regulation Act, 1947 ("FERA")**, the practical reality is that market entry depends on careful sequencing of approvals and selection of legal forms, accurate documentation, and a clear understanding of which activities

require federal, provincial, or sector-specific permissions.

This article outlines the main types of business structures available, the key authorities involved, and the practical legal considerations that foreign investors should anticipate.

II. Choosing the Right Set-Up

Foreign investors have several options when entering Pakistan. The most appropriate structure depends on the intended business activities, degree of operational control, and long-term strategic objectives.

1. Wholly-Owned Private Limited Subsidiary

The most common route is the incorporation of a wholly-owned private limited subsidiary, which is governed by the **Companies Act, 2017 ("CA")** and registered with the Securities and Exchange Commission of Pakistan ("**SECP**"). This set-up is treated as a separate legal entity with limited

liability for its shareholders and is permitted to undertake full commercial operations, hire staff, and enter into contracts in its own name. Subsidiaries also benefit from tax incentives available under Pakistan's industrial policies, including special schemes for manufacturing and export-oriented units. This set-up is typically suitable for foreign companies seeking long-term operational presence—particularly in engineering, industrial services, or manufacturing.

2. *Branch Office of a Foreign Company*

This set-up functions as an extension of the foreign parent company rather than an independent entity. Branches are commonly used for executing specific projects, providing technical or advisory services, or delivering after-sales support. Because a branch cannot undertake commercial / trading activities, their permitted scope is / should be limited to executing a particular contract or specific project for which the branch office was intended to be opened.

3. *Liaison Office*

For companies that wish to explore the market without engaging in commercial transactions, the liaison office remains a viable option. Also regulated by the BOI, a liaison office may only undertake non-revenue-generating activities such as market research, networking, quality control inspections, or coordination with local partners. Because it cannot enter into contracts for the sale of goods or services, it serves primarily as a

representative or communication office. Liaison offices must renew their permissions periodically and submit annual activity reports, and any deviation into commercial activity may result in regulatory sanctions.

4. *Joint Venture*

This business set-up can take form either as an incorporated entity under the CA or as contractual alliances governed by the law of contract. Joint ventures are especially prevalent in regulated industries such as energy, automotive assembly, and construction, where local participation or sector-specific licensing is required. Depending on the industry, approval from regulators such as National Electric Power Regulatory Authority, Oil and Gas Regulatory Authority, or the Drug Regulatory Authority of Pakistan may be necessary before operations commence. For German companies entering complex or highly-regulated sectors, joint ventures can provide local expertise while satisfying regulatory thresholds.

5. *Special Economic Zone (SEZ) Entity*

Last but not least, foreign investors may choose to establish operations within SEZs under the Special Economic Zones Act, 2012 ("**SEZ Act**"), which offer significant fiscal incentives. Entities operating within SEZs benefit from a 10-year income tax holiday and duty-free import of plant and machinery, in addition to streamlined customs and regulatory procedures. Entry into an SEZ, however, requires approval from both the BOI and the relevant SEZ

authority, and companies must comply with zone-specific conditions relating to production, employment, and investment levels. For manufacturing-oriented German investors, SEZs can offer a competitive cost structure and simplified operational processes.

III. Key Regulatory Authorities

Every foreign business in Pakistan must interact with a core set of regulators that collectively oversee incorporation, investment permissions, foreign exchange compliance, and taxation. The first and most critical of these is the **SECP** which is the body responsible for regulating the entities registered under the CA. Its role goes beyond initial registration; SECP enforces corporate governance standards, monitors annual filings, and oversees changes in shareholding or directorship.

Foreign entities that intend to operate in Pakistan as a branch or liaison office must also obtain prior approval from the **BOI**. The BOI serves as the government's central investment facilitation body. BOI approval defines the scope of permissible activities for branches and liaison offices, and these activities cannot be expanded without further authorization. In addition to issuance and annual renewals, BOI plays an important role in coordinating inter-ministerial approvals, supporting work visa endorsements, and facilitating communication with line ministries through their integrated one window operations. Complementing this, the Special Investment Facilitation Council ("**SIFC**") offers a higher-level platform that provides cross-agency coordination, fast-track processing of investment approvals, and an escalation channel for resolving

regulatory bottlenecks—particularly in strategic or capital-intensive projects.

For many foreign investors—particularly those executing projects or providing specialized services—the BOI approval stage effectively determines the boundaries of what they can and cannot do in Pakistan.

Another key authority is **SBP** as it regulates foreign exchange under the FERA and the SBP Foreign Exchange Manual (as updated). SBP's oversight begins as soon as foreign capital is remitted into Pakistan for incorporation, project funding, or operational expenses. Proper registration of these inflows through authorized banks is essential; without it, future repatriation of profits, dividends, intercompany charges, or technical fees may be delayed or denied. SBP also regulates outward remittances, including royalties, service fees, branch profit repatriation, and payments under cross-border contracts. Because banking channels enforce SBP rules rigorously, early alignment with the Foreign Exchange Manual's documentation and coding requirements is crucial for smooth long-term operations.

Another mandatory touchpoint is the **Federal Board of Revenue ("FBR")**, which administers taxation under the Income Tax Ordinance, 2001 and the Sales Tax Act, 1990. All companies—foreign and domestic, must obtain a National Tax Number ("**NTN**") from the FBR, and those dealing in taxable goods or services must also secure sales tax registration. FBR's role extends well beyond initial compliance: it oversees withholding tax obligations, transfer pricing rules for intercompany transactions, treaty benefits under the

Pakistan–Germany Double Taxation Agreement, and annual corporate tax filings. Foreign companies often underestimate the practical impact of FBR rules, particularly with respect to withholding obligations and the documentation required to support outward remittances or intra-group payments.

Once operations begin, foreign companies must register with the relevant provincial labor and industrial departments, which oversee workplace safety and social security compliance etc., requirements that apply uniformly to all employers despite provincial variations in legislation.

IV. Set-Up Roadmap



V. Practical Legal Considerations

1. Align Documentation Across Authorities

Successful set-up in Pakistan becomes significantly smoother when corporate documents are harmonized from the outset. Because SECP, BOI and SBP each request differently certified materials, preparing an aligned documentation pack—legalized, notarized and consistently formatted—reduces queries and accelerates approvals.

2. Align Capital and Payment Flows with SBP Requirements

Foreign exchange compliance is a function of sequencing. When capital injections and cross-border payments follow the formats set out in the Foreign Exchange Manual, banks process them efficiently and repatriation remains predictable. Early coordination with authorized banks ensures that inward remittances are registered correctly and that future dividends, royalties or service fees move through the system without friction.

3. Localize Contracts and Operational Frameworks to Pakistan Rules

Global template agreements that may be inadequate always need localization to function effectively in Pakistan. Adjusting contracts to reflect SBP requirements, withholding obligations, dispute resolution norms and sector-specific approvals, enhance enforceability and ensures payments flow without delay. When commercial and legal documents are adapted to the local regulatory environment,

operational execution becomes considerably more efficient and predictable.

4. Structuring Governance, Control and Liability Before Incorporation

One of the most important—but often overlooked—set-up considerations is how governance, decision-making authority and liability exposure are structured before incorporation. The CA imposes personal obligations on directors, including fiduciary duties, filing responsibilities and statutory liabilities for certain regulatory breaches. Foreign investors frequently appoint group executives or expatriates as directors without fully considering these obligations or their exposure in Pakistan. A legally sound structure requires determining which decisions will be delegated to local management, which will remain with the parent company, and whether alternate directors or corporate representatives should be appointed. Careful drafting of the company’s charter documents, board resolutions, internal delegations of authority and shareholder agreements at the outset help foreign companies protect group executives, maintain parent-level oversight and avoid inadvertent director-level liability.

5. Protecting Intellectual Property, Technology and Commercial Rights

Foreign investors often begin market entry activities—branding, negotiations, technical demonstrations or pilot services—before fully securing intellectual property rights in Pakistan.

Whereas, a legally robust set-up process requires early trademark filings with IPO-Pakistan, well-drafted confidentiality and technical collaboration agreements, and clear IP ownership provisions in local employment contracts. Taking these steps before commencing operations or entering partnerships materially reduces the risk of IP leakage or disputes, and ensures enforceability if infringement occurs.

VI. Emerging Legal Developments

As Pakistan continues its regulatory modernization drive, several developments in 2025 have materially changed the compliance landscape for foreign investors—and will shape how foreign investors prepare for market entry in 2026. These changes are not always visible in statutory texts but emerge through practice, regulatory guidance, and inter-agency coordination. Understanding them early allows investors to structure operations in a way that avoids future disputes and accelerates regulatory clearance.

1. SECP’s Enhanced Transparency Requirements for “Ultimate Beneficial Ownership” (UBO)

SECP has strengthened its review of ultimate beneficial ownership under the Companies (Significant Beneficial Ownership) Regulations, 2018, in line with Pakistan’s APG/FATF commitments. This shift is intended to align Pakistan’s corporate transparency standards with international best practice. For foreign entrants—especially those operating through multi-jurisdictional holding

structures—this means that early preparation of clear shareholding charts and apostilled UBO declarations greatly accelerates incorporation and subsequent filings.

2. Enhanced Structured Review of Cross-Border Service and Royalty Payments

SBP and authorized banks have gradually moved toward a more structured, evidence-based review of cross-border service fees, royalties, and intercompany charges under the Foreign Exchange Manual. This development reflects an effort to standardize practices across banks and align remittance procedures with international compliance expectations. While banks may now request clearer documentation of the underlying services, companies that prepare well-defined service agreements, maintain contemporaneous records, and align pricing with transfer-pricing principles experience faster and more predictable remittance processing.

3. Increasing Alignment Between BOI, SECP and SBP

A key development in 2025 has been the gradual integration of BOI, SECP and SBP data under Pakistan's

expanding Single Window framework. This has improved consistency in regulatory processing and reduced duplication of filings. It also means that foreign investors benefit when corporate records, activity descriptions and capital structures are aligned across all submissions from the outset.

VII. Conclusion

Establishing a business presence in Pakistan has become more structured and legally predictable. Albeit the process demands careful planning, clear documentation and an understanding of how different regulators interact. For German and other foreign investors, success depends not only on selecting the right entry structure but also on anticipating legal requirements across SECP, BOI, SBP and tax authorities from the outset. As 2025's regulatory developments continue to shape the landscape—particularly in transparency, cross-border payments and inter-agency coordination, foreign companies that take a proactive, legally informed approach will enjoy smoother market entry and more efficient operations. A well-prepared set-up strategy is no longer just good governance; it is a practical advantage in securing long-term commercial success in Pakistan.

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.

About Schlüter Graf

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.

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