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The Extraterritorial Reach of the EU AI Act and Its Implications for Pakistani AI Developers and Freelancers

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Abstract:

The European Union Artificial Intelligence Act (EU AI Act) has appeared as one of the first comprehensive legal framework that is using risk based approach to regulate artificial intelligence. Because of its extraterritorial reach, the Act covers companies founded in the EU as well as third-country providers and deployers whose AI systems are sold in the EU or whose services are utilised there. As a result, Pakistan's rapidly expanding AI ecosystem is anticipated to be significantly impacted by the EU AI Act. This study examines the EU AI Act's extraterritorial application and legal obligations placed on third country AI providers and deployers by the regulatory framework. Particularly, it explores the implications of these obligations for Pakistani AI companies, startups, and Freelancers who design, develop, or provide AI-enabled services to clients within the European Union. Special focus is placed on Challenges related to compliance burden, awareness gap, and potential exclusion from EU market. Beyond its legal reach, the Act also functions as an instrument of regulatory soft power by influencing business practices and encouraging the adoption of its standards outside the European Union. This study serves as an insightful guide for policymakers, shedding light on the potential implications for Pakistani AI developers. The study concludes that the EU AI Act is likely to become a de facto compliance benchmark for Pakistani AI developers looking to enter foreign markets since Pakistan lacks a robust domestic AI regulatory framework.

Keywords: European Union Artificial Intelligence Act, Extraterritorial Jurisdiction, Pakistani AI Developers, Freelancers, Brussels Effect, Global AI Governance.

Introduction:

A new age of international regulation of emerging technologies is ushered in by the landmark EU AI act. In spirit of a risk-based approach that guarantees the protection of fundamental rights, democracy, and the rule of law, the Act seeks to provide a cogent and people-centered legal framework for responsible AI. (Commission Guidelines on the Application of the Definition of an AI System and the Prohibited AI Practices Established in the AI Act: Response of the European Law Institute, n.d.). Similar to the General Data Protection Regulation (GDPR) that came before it, the AI Act has broad ramifications that extend beyond the European Union. The EU purposefully expands its regulatory reach by firmly establishing a "moderate destination approach" to the external market under Article 2(1). The extraterritorial reach means that if an AI system or its output is employed within the Union, any provider or deployer, whether in the Union or a third country, will be subject to the Act's provisions. This design provides an equal opportunity platform and safeguards to EU citizens, but poses complicated jurisdictional challenges under international law and compliance pressures for emerging digital economies that enter into global tech supply chains. (Czerniawski, 2024). At the same time, Pakistan's digital economy has emerged as a vital driver of the country's economic

development, innovation, and job creation. The Information and Communications Technology (ICT) exports saw an outstanding year-on-year increase of 25% during the fiscal year ending June 2024, accounting for approximately 1.4% of Pakistan's GDP (around USD 3.7 billion). The nation's tech exports grew by 143% from 2018 to 2023, thanks to certain initiatives by the government to digitise the country, cybersecurity efforts, and the strong freelancing market globally. Artificial Intelligence is expected to be the major driver of this digital revolution in the coming years, and it is estimated that AI's contribution in healthcare, agriculture, finance, and other sectors could be up to 10 percent of total GDP in Pakistan by 2030, or between USD 10 billion to USD 20 billion. But the Pakistan's high aspirations towards digital transformation, combined with the EU's expansive regulatory footprint, presents a significant structural issue. A significant chunk of Pakistan's IT industry is dependent on freelance programmers and software houses that offer remote based services to the global market, that's why local programmers are becoming a downstream market in EU's IT industry. Pakistani developers and freelancers are currently in a state of legal limbo with no specific legal framework in place to regulate artificial intelligence. They often end up in asymmetric contractual situations, are hit by strict compliance requirements and the unique danger of being excluded from the profitable European market. This regulatory asymmetry creates a pressing legal and economic conundrum. The paper's main objective is to analyse specific impacts of the EU AI Act on third-country entities who lack institutional safeguards at domestic level. This study specifically answers the following question: To what degree and in what ways does the EU AI Act have an extraterritorial effect on Pakistani AI developer companies and freelancers, and what are the specific Challenges that follow from the Act.

Scope and Extraterritorial Reach of EU AI Act:

Determining the extent of the legislation in terms of material and personal aspects is crucial before evaluating how the EU's regulatory reach affects the rights of third-country market participants, particularly Pakistani developers and freelancers. Understanding what constitutes an "AI system" and the particular types of regulated actors are the first two requirements for enforcement. Following that, is the tiered risk framework for assessing compliance weight. An AI system as explained in the act establishes the minimum standard for its implementation. The legislation separates the technical characteristics of autonomy and inference; otherwise, the same characteristics might be present in standard software, which would then be subject to this very strict regime. Article 3(1) of the AI Act provides that an AI system is:

‘a machine-based system that is designed to operate with varying levels of autonomy and that may exhibit adaptiveness after deployment, and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments’ (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024).

The additional context for this definition is provided by the Recital 12 AI Act, which outlines some of the essential features of art. 3(1). It explains that an AI system is a machine-based system that can work with some degree of autonomy, i.e, without direct human intervention. The recital also describes the adaptiveness of AI systems, which can be present but not mandatory, and explains what is meant by self-learning capabilities. Above all, Recital 12 clarifies the difference between the current practice of artificial intelligence and classic software architectures as the function of ‘inference’. It states that the key characteristics of AI systems is the capacity to infer: they can infer models, algorithms or outputs from data using machine learning techniques or logic and knowledge based techniques. The purpose of Recital 12 is to distinguish AI systems from software that simply relies on preprogrammed rules set by human beings, this broadens and clarifies the scope of the act to include those that produce predictions, recommendations, content, or decisions based on inference. (Commission Guidelines on the Application of the Definition of an AI System and the Prohibited AI Practices Established in the AI Act: Response of the European Law Institute, n.d.)

Article 2 (1):

After a software product fulfils the criteria of an AI system, its geographical origin takes a back seat to its intended market destination. The personal scope of this regulation, namely Article 2(1), is the key to the global scope of the regulation. Explicit extraterritorial obligations are found in subsections (a) and (c). This regulation applies to the following:

(a) providers placing on the market or putting into service AI systems or placing on the market general-purpose AI models in the Union, irrespective of whether those providers are established or located within the Union or in a third country;

(c) Providers and deployers of AI systems that have their place of establishment or are located in a third country, where the output produced by the AI system is used in the Union (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024

This clarifies that the Act does not only control the introduction of systems into the market by EU deployers and providers but also systems of third countries whose products are intended for use within the EU.

Understanding Deployer and Provider:

The responsibilities outlined in the Act are fundamentally divided among the many actors in the products lifecycle. The law defines the provider in Article 3(3) and the deployer in Article 3 (4) as follows:

1. Providers:

‘A ‘provider’ means a natural or legal person, public authority, agency or other body that develops an AI system or a general-purpose AI model or that has an AI system, or a general-purpose AI model developed and places it on the market or puts the AI system into service under its own name or trademark, whether for payment or free of charge’ (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024

Providers play a pivotal role within the AI ecosystem and become subject to the AI Act when they either place an AI system on the EU market or put an AI system into service within the EU, regardless of the place where the AI provider is established or located. For third-country software houses or independent contractors, this means that developing a system for an EU client under their own brand immediately triggers strict, top-tier compliance duties.

2. Deployers:

‘A ‘deployer’ means any natural or legal person, public authority, agency or other body using an AI system under its authority except where the AI system is used in the course of a personal non-professional activity’(Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024

A company utilising a third party AI system for customer support, document creation/administration, fraud detection, or workforce surveillance would generally be classified as a deployer. As long as the AI system's output is utilised within the EU, deployers may also be impacted by the AI Act whether the deployment occurs within the EU or in a third country.

Risk-Based Compliance Framework:

The level of legal requirements that can be placed on providers and deployers is directly linked to a four-tier classification of risk, from prohibition to none.

1. Unacceptable Risk

Any AI system that is deemed to pose a direct threat to the safety, life and rights of humans are prohibited. Eight specified practices are banned by the act explicitly:

1. Manipulation and deception with harmful AI.
2. Exploiting vulnerabilities in harmful ways through AI.

3. Social ranking
4. Individual criminal offense risk assessment and prediction
5. The indiscriminate gathering of faces from CCTV footage or the internet in order to create or grow a face database.
6. Recognising feelings in educational and professional contexts.
7. Using biometric categorisation to infer specific protected traits
8. Wireless biometric data collection and identification for law enforcement purposes in public areas.

2. High-Risk AI Systems

AI systems which may have severe consequences for health, safety, or fundamental rights are considered to be high risk. There are stringent requirements before placing high risk AI systems on the market. This class includes most commercial, enterprise AI applications such as:

1. AI safety components in vital infrastructures, like transportation, where a lack of safety puts people's health at risk.
2. AI solutions in educational institutions determining admissions or exams scoring
3. Products with AI safety features, like robot-assisted surgery.
4. AI tools to access self-employment and employment and recruitment (CV sorting software).
5. AI programs that determine who has access to public and private services (like credit scoring).
6. AI systems for retroactive biometric classification, emotion recognition, and remote biometric identification.
7. AI applications in border management, migration, asylum, and law enforcement.
8. The administration of justice, which could contravene fundamental rights.

3. Transparency Risk

This relates to the risks associated with transparency regarding the application of AI. In order to ensure that people are informed when necessary to uphold confidence, the AI Act establishes mandatory disclosure procedures. For example, when people engage with a chat bot, it is important to let them know that they are talking to a machine. Additionally, providers of generative AI services will need to make AI content identifiable. Some outputs, such as a deep fake, a text that informs the public on a public issue, are required to be marked clearly and obviously. The complete enforcement of these transparency rules is scheduled for August 2026.

4. Minimal or no risk

There is no clear provisions for "minimal" or "no risk" AI in the act. To date, most of the AI systems employed in the EU are in this category, ranging from AI-powered video games to spam filters. (European Commission, 2025)

Pakistan's Emerging AI Ecosystem:

As AI continues its rapid growth in the Pakistani tech industry, it has created opportunities and concerns for workforce shifts, productivity and organisational capabilities. In Pakistan, companies driven by AI are increasingly providing remote work opportunities, allowing the population to be part of global AI initiatives. As a result, there's been a 60% increase in freelance AI-related jobs over the last three years, on sites like Upwork and Fiverr. Moreover, the trend of AI-driven entrepreneurship has also gained momentum; AI entrepreneurship grew by 35% in Pakistan. AI tools are also helping small businesses improve their productivity and avoiding mass layoffs (Waseema Batool et al., 2025). Pakistan's Information and Communication Technology (ICT) sector has made significant strides, with more than 30,000 Information and IT enabled Services (ITeS) companies registered by the Securities and Exchange Commission of Pakistan (SECP) as of March 2025, dealing both nationally and internationally. According to the Pakistan Software Export Board (PSEB), ICT service exports grew by US \$541 million (23.7 percent) to reach US \$2.825 billion during the July–March period of FY 2025, compared to US \$2.284 billion during the same period of the prior fiscal year. The IT &

ITeS industry saw the highest surplus in all services, with a trade surplus of US\$ 2.429 billion, up 21.6 percent from the US\$ 1.997 billion in the previous year during the 9-month period in FY 25. The overall services sector, on the other hand, had a trade deficit of US \$2.318 billion. The largest contributor to total service exports remained ICT exports at 45.31 percent of US \$2.825 billion followed by Other Business Services exports at US \$1.229 billion. Moreover, the foreign exchange earnings from Pakistan-based freelancers rose by US \$400 million during this FY 2025 July to March. (Finance Division, Ministry of Finance, Government of Pakistan, 2025)

Some of the top AI development companies in Pakistan are:

Systems Limited: They develop and deploy AI systems for business applications. For example, analytics, intelligent automation, enterprise AI, and predictive AI. These systems are supplied to foreign clients which can be used within the EU, so these are within the scope of the Act.

10Pearls: Their services clearly cover enterprise AI, AI governance, deployment, custom LLMs, GPT integration and AI development, all of which are subject to the Act.

Cubix: It is an AI software development company (SDC) providing regulated systems such as computer vision, speech recognition, predictive models and LLM-based solutions.

Recent data from the State Bank of Pakistan (SBP) indicates that IT and IT-enabled services exports totaled USD 4.18 billion in the July–May period of the 2025-26 fiscal year. This is \$709 million more than the \$3.47 billion in the same 11 months of the previous fiscal year. These export statistics include the revenues from the registered software companies doing business in Pakistan and the revenues of the growing freelance software industry in Pakistan. (Mufti, 2026)

Research Methodology:

This study employed a qualitative doctrinal research approach. It is founded on thorough review of primary legal materials, such as the European Union AI Act, as well as secondary sources, including scholarly works, official government reports, and policy papers. The paper uses descriptive and analytical methodology to examine the extraterritorial application of the EU AI Act and evaluate its practical and legal ramifications for Pakistani AI developers.

Implications for Pakistani AI Developers:

- **Compliance Burden:**

Comprehensive framework for the development and deployment of high-risk AI systems is introduced by the EU AI Act in Chapter 3 section 2. This framework involves the creation of comprehensive risk management and quality management procedures, as well as robust data governance frameworks and data management procedures. In order to prove compliance, they must maintain meticulous technical documentation, and they must use automatic event logging to guarantee that they have comprehensive records. To lower the danger to health, safety, or basic rights, providers should make sure that deployers receive clear instructions and that the systems have human oversight features. Moreover, they must make sure that their systems are accurate, robust and secure according to the appropriate criteria, and that they are continuously monitored post-market to confirm that the AI continues to perform in the desired way. (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024). Apart from these operating duties, providers of high-risk AI systems will also need to prepare an EU declaration of conformance, undergo a rigorous conformity assessment, and affix the CE mark to their systems. Additionally, they must register their AI system in the appropriate national or EU database. In the event that a provider suspects that their system may not meet compliance requirements, they are required to take steps immediately to ensure compliance, remove the system or recall the system. Furthermore, they must fully cooperate with inquiries and notify the appropriate authority of any major incidents. High-risk AI system deployers are subject to stringent obligations of their own. They are in duty of making sure that it is implemented under active human supervision and that the system's functionality is observed in compliance with the provider's

directives. If they continue to be under their control, they must preserve automatically generated logs. When a high-risk AI system is deployed, the deployer must notify end users who interact with the system as well as employees and their representatives who will be directly impacted. In addition, only systems properly registered in the relevant EU or national database can be deployed, with public authorities having an additional responsibility to register deployments in the EU database. They must make sure they are fully complying with authorities and cease using the system and promptly alert the provider and authorities if they believe it poses a danger of harm. Lastly, deployers must obtain judicial approval prior to utilising post-remote biometric identification if exempted usage is permitted. (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024). General Purpose AI (GPAI) models, which exhibit a high degree of generality and are able to execute a variety of specific tasks like GPT-4, DALL-E, and Google BERT, have their own requirements of compliance. Standard GPAI model providers are responsible for ensuring that they have current technical documentation of training, testing and evaluation procedures. They will have to submit a thorough report of the content used to train AI models, comply with EU copyright rules by implementing policies, and publish integration documentation needed by other AI developers. Additionally, in the event of an investigation, they will have to fully cooperate with both the national competent authorities and the European Commission. The provider has additional responsibilities if a GPAI model presents systemic risks, greater impact capabilities with the potential for large, pervasive consequences on public health, safety, security, or basic rights. In addition to their regular GPAI obligations, these providers must update the European Commission on the state of their model. They must conduct recorded adversarial testing, including red-teaming, and advanced model evaluations. Along with maintaining high levels of cybersecurity protection for the model and the actual hosting equipment, they must also continuously assess and address any potential systemic risks, monitor and report any major incidents and corrective actions taken to the EU AI Office and national authorities. The severity of the sanctions for breaking the EU AI Act varies according to the degree of violation. Penalties for using forbidden AI techniques can reach €40 million or 7% of global yearly turnover, whichever is higher. On the other hand, as stated in article 99(4), fines of up to €15 million, or 3% of yearly turnover, will result from noncompliance with other basic standards. (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024). The fines as stated in article 99(5), for giving false information, incomplete information or misleading information to regulators are a maximum of €7.5 million or 1% of annual turnover. Furthermore article 101 imposes Fines of up to €15 million or 3% of the undertaking's annual turnover worldwide, whichever is higher, may be imposed for violating the General-Purpose AI (GPAI) regulation's requirements, such as failing to submit technical documentation or failing to comply with evaluation obligations. (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024). The newly created EU AI Office is exclusively in charge of enforcement compliance among GPAI models, while national market surveillance authorities police the Act's rules for the majority of AI systems under the EU 2019/1020 Market Surveillance Regulation. (Regulation (EU) 2024/1689 — Artificial Intelligence Act (AI Act), 2024). In the end, these regulatory penalties can be but a small part of the financial cost of a non-compliant company as major breaches can also result in significant civil litigation, court fine and major and impact on brands reputation and revenue for years. For developing markets such as Pakistan where the AI landscape is overwhelmingly export-oriented Small and Medium Enterprises (SMEs), early-stage tech startups, and a large number of independent software freelancing workers, these demanding requirements pose major operational, financial and legal challenges. Local developers are often developing custom algorithms, fine-tuning models, or handling the data pipelines for European clients, which means that these strict mandates are imposed indirectly via the supply chain. To meet high-risk AI obligations, Pakistani IT and software SMEs must maintain continuous risk-management processes, rely on third-party conformity assessments, and enforce strict data governance practices. Hiring international legal counsel or acquiring certified compliance tools significantly inflates overhead costs, a burden exacerbated by local currency volatility and a lack of institutional tech-policy guidance. Likewise, for early-stage AI startups that are focused on quick

prototyping, these pre-market requirements such as bias testing, dataset provenance, and continual logging can cause significant delays in product release. Limiting funding for regulatory documentation, rather than product development, reduces the innovation speed and deters founders from expanding into the EU market. Lastly, Pakistan's large freelancer economy is vulnerable under this regulatory regime. Without the corporate legal or compliance protection, individual developers are increasingly expected to contractually commit to compliance with data quality, model explainability, logging standards, etc, through strict indemnities and service level agreements by European clients. Lacking the financial or technical infrastructure to independently audit these requirements, freelancers face severe contractual liabilities, potential disputes, or complete exclusion from high-value European projects.

- **Awareness Gap:**

Since, Pakistani developers are not fully aware of the consequences of the EU AI Act, the extraterritorial jurisdiction puts Pakistani developers at significant risk of falling into a compliance trap, because of lack of understanding of the implications of the Act. Many of the tech workers from Pakistan regularly release AI architectures, fine-tuned models or datasets on open platforms such as GitHub and Hugging Face, unaware that these tools could be adopted by European companies for their commercial use. The policy measures of EU have a worldwide affect, which is termed as the 'Brussels Effect', and Pakistan is not ready for it due to its disjointed regulatory framework, as highlighted by research on Pakistan's AI policy. (Basra et al., 2026) An open source model freely released by a Pakistani developer may then unknowingly be sent down a EU-regulated supply chain, potentially leaving an indirect contractual liability, restriction on licensing or even a reputational risk for the original developer under the Act's strict traceability rules.

- **Exclusion from Market:**

The EU AI Act ensures to promote safe AI however, it is likely to generate an unintended structural barrier to non-EU developers. EU-based deployers may become more cautious with their procurement due to harsh legal requirements and possible fines from regulators. European institutions and corporate clients could possibly just select to collaborate with providers or vendors within the European Union or with jurisdictions that have established compliance frameworks, instead of wading through the legal labyrinth of verifying compliance along international supply lines. The risk-averse attitude of contractors will effectively close the door for Pakistani AI companies, software houses and independent freelancers from high-value European partnerships and public-sector contracts, irrespective of the technical excellence, cost-efficiency, or security of the systems. At the present, Pakistan does not have a well-organised and strategically oriented AI policy that will be able to react to the pressures of the global regulations, as well as to defend the national interests. This loophole puts the nation at risk Pakistani companies might be excluded by such major markets as European Union because of the lack of compliance (Basra et al., 2026).

- **EU AI Act as Soft Power Tool:**

The EU has long played a role in global governance via its regulatory framework, which is most commonly described as regulatory soft power. The EU does not use geopolitical or military powers to enforce international business rules, but instead creates detailed legal rules that foreign business entities must apply if they want access to the European single market. The European Union has become a world leader in the digital regulation in this highly dynamic environment. Building on its successful track record in data protection, EU has introduced its first comprehensive AI Act, which is specially formulated to regulate artificial intelligence. The most important feature of this is not necessarily that it is used in Europe, it is that it is used to affect the standards in the World. (Basra et al., 2026) The EU is the world's biggest single market and most multinationals rely on access to the region. This requires compliance with EU standards. It would be possible for multinationals to have different standards in Europe and different standards in the rest of the world, but scale economies and other advantages of the same production standards make that unlikely. Adopting the most rigorous

standard in the world allows companies to ensure compliance with the standard globally. In this manner, the EU standard can be made a global standard simply via the market rather than through international cooperation or unilateral coercion. (Bradford & LEONARD, 2016) The emphasis on EU values, such as transparency, safety, and respect for basic rights has turned the EU into a regulatory superpower, influencing the process of AI regulation beyond its boundaries. The effect of this can be best explained in terms of the 'Brussels Effect' coined by Anu Bradford, which describes the impacts felt around the world. Brussels Effect, in simple terms, is the phenomenon whereby EU rules are more likely to be followed as world rules, not by foreign countries, but by businesses around the world. Because admittance into the EU market is very precious, Multinational Corporations are likely to use EU-conformable regulations in all their business activities. As a result, EU standards creep into other countries, even in countries outside the scope of the standards. (Basra et al., 2026) Consequently, Pakistani AI software developers, AI software companies, and independent software professionals offering AI-based products or services to European customers are clearly under the radar of the new law. As it is not economically viable to maintain the jurisdiction-specific versions of complex AI models, it is likely that many Pakistani tech firms will implement EU compliant versions of AI models throughout their global operations, thus bringing EU law into the software landscape of Pakistan. Critics argue that such regulatory unilateralism constitutes a form of regulatory imperialism, wherein a dominant economic bloc exports its domestic legal norms globally without international consultation. This imbalance is starker in emerging markets of developing nations like Pakistan, where national AI regulations are still emerging. The Pakistani developers are structurally disadvantaged in the sense that they are required to cover a significant cost of compliance, attending to a range of rigorous risk assessments, technical documentation, human oversight protocols and constant monitoring in order to become competitive in the international supply chains, while they have no institutional representation or voice in the drafting, interpretation or future amendment of European legislation. Ultimately, the Brussels Effect reinforces Pakistan's position as a passive rule-taker in the emerging international AI governance hierarchy. On the contrary, compliance with the act has real commercial implications: it means Pakistani AI developers have access to a market of more than 450 million consumers, without having to endure the heavy burden of trade friction with European partners, and demonstrates high technical credibility to global investors. Conversely, it imposes foreign legal responsibilities on the fledgling technology industry of Pakistan based on the Western economic landscape, instead of the local market.

Conclusion:

The extraterritorial reach of the EU AI Act goes beyond European borders, reshaping the global digital playing field and indirectly governing Pakistani AI providers through market access requirements and supply-chain contractual obligations. The Act is a bold move to create a responsible and trustworthy AI environment; however, the administrative and technical requirements of the Act impose significant financial, operational and legal costs on Pakistan's tech export ecosystem. Pakistani SMEs, startups, and independent freelancers are exposed to a myriad of risks, including high compliance expenses, legal liability, and even market exclusion, in an environment with no unified AI governance and little to no local certification bodies. The EU AI Act, if not accompanied by a proactive approach in the domestic policy making and enhanced institutional support, could end up exacerbating the existing inequalities in the global digital economy, where Pakistani developers would have to adjust to the rules of other jurisdictions, rules that they were not involved in making. Pakistan should create its own national AI governance framework that can ensure compliance with regulations while also focusing on the economic advantages it offers the nation, to avoid regulatory dependency and protect local innovation. The AI Act can be a bridge, not a barrier, through strategic policy alignment, support from the government, and cross-border technological cooperation. The future of global AI governance should be co-written by emerging tech countries, rather than adopted.

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