

# EAG Vision Document: Executive Summary

The *EAG Vision Document* presents a vision for economic transformation, with a focus on understanding key factors which have prevented this from happening in the case of Pakistan. It draws from the experience of other emerging economies and leading economic research on how countries have successfully transformed their economies by letting their productive structures adapt and evolve over time. In this respect, the current document is a significant departure from the traditional focus on achieving growth by reinforcing existing structures of the economy. While such traditional approaches did deliver many episodes of growth spurts, these always proved to be short lived, often leading to the build-up of large imbalances and, ultimately, crises.

A key requirement for any economy to undergo significant transformation is that economic resources must be allowed to move from less productive to more productive activities. In a market economy, this critically depends on whether the incentive structure is allowed to evolve such that returns from investing in more productive activities are indeed higher than those from less productive activities. This document argues that the key reason why Pakistan has not undergone a similar transformation as, let's say Vietnam, is because excessive protection and lack of structural reforms have prevented economic resources from getting reallocated to more productive endeavours. Businesses that become unproductive and are unable to compete must be allowed to fail for economic resources to move towards more productive businesses that are better able to compete globally. Unless this issue is addressed, any desire on the part of policymakers to see the structure of the economy transform towards the production of more value-added goods and services will remain a pipedream.

While the policy areas identified and suggestions put forward in the *EAG Vision Document* are diverse, they are all geared towards putting in place an incentive structure which transforms Pakistan's economy into an economy with high degree of economic complexity, and hence greater relevance and potency in the context of the 21st century globalized world. We organize our suggestions under four themes: revisiting pricing regimes which currently govern agriculture and commodities sectors; revamping of the education system with the aim to introduce and mainstream pathways for vocational training at the level of higher and post-secondary education; reduction in tariff and non-tariff trade restrictions and greater integration with regional trade blocs; and, finally, rethinking industrial policy with special emphasis on moving away from picking winners to rewarding innovators, improving land-use within cities, and simplification of the tax code.

We believe that it is only through these policies that the economy can progress beyond its outdated and ossified structure. A change of mindset and a putting in place an incentive structure which is aimed at building capabilities and continuously allocating resources from less productive to more productive activities is necessary for achieving any meaningful transformation.