

## Executive Summary

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Pakistan's economy has reached a decisive inflection point. Decades of short-term stabilization -driven by political cycles, shifting policy "recipes," and postponed structural reforms - have produced a familiar pattern: weak investor confidence, chronic balance-of-payments stress, and stop-go growth that prevents sustained income and productivity gains. This paper argues that structural transformation is no longer optional – it is the only viable path to restoring competitiveness, building resilience, and expanding economic opportunity.

At the core of Pakistan's fragility lies a widening competitiveness gap. Despite repeated policy initiatives, Pakistan's export base has failed to adapt to changes in global production, technology, and demand. As a result, the economy has not generated the foreign exchange required to finance investment, industrial upgrading, or macroeconomic stability. The contrast with regional peers is stark: between 2005 and 2024, Pakistan's exports merely doubled, from US\$16.0 billion to US\$32.5 billion, while India expanded four-fold, Bangladesh six-fold, Indonesia three-fold, and Vietnam nearly sixteen-fold. Pakistan's export-to-GDP ratio has fallen by an average of 1.6 percent per year since the mid-1990s, confirming that the problem is structural rather than cyclical. This performance also reflects persistent execution failures. Under the Strategic Trade Policy Framework (2020–25), exports were expected to reach US\$57 billion by 2025, yet they remain near US\$32 billion. Pre-mature tariff liberalization worsens the stability of the external account. The report therefore calls for a disciplined, implementation-driven export strategy, anchored in institutional coordination, regulatory reform, and market-oriented incentives, aimed at achieving the growth target of US\$60 billion in exports by 2029.

Digital transformation is another critical pillar of the reset. Pakistan possesses a large and youthful population, nearly 67 percent under the age of 30, but this demographic advantage has not translated into productivity growth. Digital technologies contribute only about 1.5 percent to GDP, compared with more than 10 percent in India. This gap reflects not just technology shortfalls but deep structural and distributional barriers: fixed broadband penetration remains at 1.3 percent; digital access varies sharply across districts; and a pronounced gender divide persists, with mobile ownership at 86 percent for men versus 53 percent for women. Although financial inclusion has risen to 35 percent, financial literacy remains just 22 percent, limiting the ability of households and firms to fully participate in the digital economy. Without coordinated investments in connectivity, skills, and trust, digitalization risks reinforcing inequality rather than raising national productivity.

Environmental stress has also become a binding macroeconomic constraint. Pakistan has entered absolute water scarcity, with per-capita availability around 930 cubic meters per year and storage capacity of only about 30 days. Climate variability now directly threatens agriculture, food security, and incomes, while rising flood and heat risks are projected to cut GDP by 18–20 percent by 2050 if left unaddressed. These shocks are already feeding into undernourishment, poor health outcomes, and declining labor productivity, making climate resilience a central economic, not just environmental, priority.

Energy insecurity and infrastructure weaknesses further undermine competitiveness. Despite vast domestic potential in hydropower, coal, and solar, Pakistan has become increasingly dependent on imported energy, with the import share rising from 36 percent in FY2010 to 44 percent in FY2024. This dependence fuels inflation, drains foreign exchange, and contributes to recurring IMF programs. At the same time, logistics inefficiencies raise the cost of trade: Pakistan ranks 122<sup>nd</sup> out of 160 in the World Bank's Logistics Performance Index, port dwell

times exceed those of regional peers, and rail freight has collapsed to under 5 percent of cargo movement, forcing reliance on more expensive road transport.

The erosion of human capital is now a binding economic constraint. Pakistan's Human Capital Index stands at only 0.41, implying that Pakistan's workforce is operating at only 41% of its potential productivity, well below the Global Average of 0.56 (World Bank, 2020). When widespread unemployment, underemployment, and informal work are taken into account, effective labor productivity falls closer to 20 percent. This undermines export competitiveness, weakens fiscal capacity, and traps households in low-income, low-skill equilibria. Chronic underinvestment in health, education, and nutrition, and lack of focus in these areas, despite international benchmarks set by WHO and UNESCO, has therefore become not only a social failure but a macroeconomic liability.

The report is structured in a way that aligns URAAN Pakistan's targets and priorities with the proposed policy measures, ensuring a clear path towards transformative change. The central conclusion emphasizes that Pakistan's economic challenges, spanning human development, exports, digitalization, climate resilience, and energy, are underpinned by weak governance and execution capacity. Fragmented institutions, elite capture, inconsistent policies, and poor federal–provincial coordination have prevented both economic and social investments. Public spending is routinely absorbed by administrative inefficiencies, leakages, and misaligned incentives rather than reaching classrooms, clinics, or firms. As a result, Pakistan underperforms not because of lack of plans, but because of lack of delivery. Rebuilding state capacity, through legal system modernization, civil-service reform, performance-based budgeting, empowered local governments, and integrated service-delivery systems, is therefore the foundation of Pakistan's economic reset, enabling both productivity-driven growth and inclusive human development.

Pakistan's choice is now clear: continue managing crises through short-term stabilization, or undertake a disciplined, governance-led transformation capable of restoring growth, resilience, and national economic sovereignty.