

PAKISTAN: FROM EMERGING TO EMERGENCY ECONOMY!!!

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ABSTRACT

An economy rich in all kinds of resources very seldom suffers from economic precariousness; however the current economic condition of Pakistan reflects a dismal picture. An economy so rich in every kind of resource is made to succumb mainly because of those who are at the helm of decision making. Lack of governance capabilities, ineligibility to the offices they hold, lack of interest, lack of faithfulness and being self centred individuals have made it extremely difficult for Pakistan to provide its people what they deserve. The impact of their poor governance and lack of sincerity towards their own people creates and portray even worse picture of the economy worldwide. Apart from others, factors like energy and power crisis, depreciation of rupee, increasing burden of foreign debt and the adverse impact of growing cross-borders smuggling into Pakistan, spotted as the key aspects responsible for the misfortune of potentially emerging economy. The outcomes of these adverse situation results in declining productivity, soaring inflation, increasing reliance on foreign loans, black money and a deteriorating balance of payments. The study compared autocratic-civilian regime initially and then emphasize the factors responsible for the catastrophe economic condition of Pakistan.

KEYWORDS: Emerging Economy, Policy Formulation, Democracy, Autocratic Regimes, Pakistan

INTRODUCTION

Government's performance in Pakistan on the frontage of finance and economic has generally been very poor. There has been no solid step taken in the economic field except that the country has been driven into the debt trap ever since its inception. The acquiescence of the donor's conditions in the country has severely affected the standard of living. The supply of basic amenities is made deplorable and has made life miserable causing severe damage to the agriculture and industrial sector. The industrial outcome has fallen very rapidly between 2007 and 2012 as 30-40% of the textile industries which is about 60 percent of entire industries, have been closed or producing below capacity because of the crisis of power and energy in the country.

During the period between 2007 and 2012 the burden of foreign loans has jumped from 36 billion dollars to over 60 billion dollars with IMF loans also have raised many folds. With the depreciation of rupee these foreign loans raised humongous and it seems the hope of emerging as a strong economy was laid down to rest in peace forever. There is a huge rise in unemployment and flight of resources from the country continues silently. Almost 50 per cent of the population, i.e. between 8-9 billion people live below poverty line and this statistics expected to increase more severely if these problems not being addressed properly. This is besides the corruption and political interference in the process.

The record of the current government of governance is highly unsatisfactory as governance is hardly seen anywhere. The Transparency International has affirmed 2011-12 as the worst among their all previous years with respect to corruption and commissions that are unbridled. During the year, the rupee value in the international market decline significantly because of which the burden of foreign loans has doubled. Furthermore the economy of Pakistan has harshly

been injured by smuggling in multi aspect ways. It is destabilizing the economy of the country by weakening the local markets and industries; disheartening the legal ways of import thereby narrowing down the volume of revenues gathered through duties and taxes. The impact of these resulting in terms of reduced production, soaring inflation in the country, mounting dependency on the overseas loans and assistances, high redundancy rate and intensely growing poverty, increasing rate of crime, depreciation of rupee in open the market and a deteriorating balance of payments have all combined to create a deepening economic crisis. The situation turns worse considering the appetite for money and power at the highest level of government, damaging the economy so harshly that once an emerging economy is now sinking as emergency economy.

POLITICO- ECONOMIC DILEMMA OF PAKISTAN

In Pakistan, democratic rule is becoming unpopular due to performance of the present government at all fronts of administration. The present economic situation of Pakistan is fragile as political leaderships have shown no mercy and belongingness for the country and its residents. The responsibility of the disastrous economic circumstances is due to the fact that civil leaders exposed no appetite for sustainable economic and social modifications. The strong economic performance and their effects easily distinguished and translated into somewhat more meaningful way in military regime for the commoners of Pakistan as compared to democratic rule. The efficiency of the government-based organizations brought excellent dividends on economic front during autocratic rule. Obstinate in reserves utilization, the democratic governments portrayed and execute very poorly disciplined approach and always focussed and led to higher non-development expenditures. The huge amount of money allocated for the non-productive means is simply the waste of resource. Such resource require planning and execution of much better programs in order to use them part of building strong economy instead of becoming burden.

At present, Pakistan is facing multiple crises and this quandary is becoming more and more severe with every passing day. Our incompetent and incapable democratic leaders have no such policy or capacity to lead us out of it. The most obvious truth about the economy of Pakistan is that the economy possess huge amount of natural and human resources but mismanagement of the governance has not allowed us to reap true benefits out of its treasures of resources. Wisely, executed economic policies, lasting improvements in infrastructure and the construction of a sound base for self-sustaining economic development, can give Pakistan a means to prosper. Democracy always believed to be the best option to provide necessities to the people by the people. Coming from the centre of the people, civil leadership in Pakistan unfortunately has become less preferable over the autocracy nowadays. The economy has seen competent, promising and successful policies and its implementations during autocratic power. Following discussion is about the factors that have contributed towards reflecting once an emerging economy into an emergency economy.

CIVILIAN REGIMES VS. AUTOCRATIC REGIMES

The first autocratic rule (1958-69), is regarded as one of the best periods with respect to the stability in Pakistan. First military rule known as the 'Decade of Development' as Pakistan was at the top most position in Asia in terms of industrial growth and their productivity. The industrial growth rate and production was 72% in comparison to other Asian countries having average growth rate of 55%. With this good economic growth management, inflation was checked strictly and hovered around 3% only. Different plants of secondary industries were also established in order to create additional employment opportunities for the people at that time. The subsequent civilian government's policy of nationalisation seriously affected the investor's confidence and resulted in the derailment of all the programs and pushed Pakistan from the journey toward modernization and economic prosperity towards disappointed economy. East Asian countries, which were

lagging far behind in terms of growth and economic development during 60s have overtook and have become huge success stories.

During the second military regime (1977-88), Pakistan was at the doorsill of graduating in the group of middle-income countries. The socialist experiment was halted and policies were formulated to boost-up the confidence level of the private investors and promote the interests and wellbeing of Pakistani citizens. The expansion of trade and industry during the rule of autocratic government continued from 1977-88 with strict control on prices of different commodity affects the life of common people. The autocratic government attained average growth rate of 6% annually and the industrial sector expansion under second military rule was equally impressive. During 1980s, the per capita income was close to \$500 per head in comparison of India's \$390. An average Pakistani was in a better position, fed, and clothed than Indians; only 11% of Pakistanis were below the poverty line as compared to India's 52%. However serious blemish stamped against that government was its active involvement in the wars of superpowers, the repercussions of which the economy is still facing.

In third era of autocratic rule (1999-08), economic stability and progress was excellent as Pakistan was pronounced to have attained the takeoff stage with 7% of the economic growth and joining the Global Emerging Economies Club. Many new fields were identified for businesses, resulted in creating and shaping opportunities for youth to grow. Educated, talented, sincere and patriotic people who were competent enough were brought forward to put the financial system back on tracks. Priorities given to the areas much neglected in all political rules. Military government that came into power after some interval due to the incompetency, corruption and mismanagement in financial affairs, took revolutionary steps and announced clear-cut policy and plans for deep-rooted changes in the government including denationalisation of industries, workers welfare, local government devolution plan and well-defined reforms intended to end the unfair social and economic structures.

In contrast, the first civilian government (1947-58), seen decade of economic and financial infancy, second civilian government (1970-77) had been the decade of catastrophe and third term of civilian government (1988-99) had been labelled as the decade of economic and political fiasco. The present democratic civilian government (2008-to date) has left nothing for imagination in terms of rampant corruption and mismanagement at the highest levels of administration resulting in appalling economic conditions. Law and order situation could be seen at its nadir, as in the name of ransom, extortion and target killing investors are being harassed and fraught to move their life and assets to other safe heavens. The outcome is resulting in the form of poverty and unemployment, the repercussions of which could be observed in the shape of escalated crime rate, poor healthcare facilities and below standard education. Financial assistance and skills needed to run the industries have not adequately been made available and hence the unskilled labour with insufficient financial resources harshly handicapped the industrialization process. Furthermore the negligence in agriculture field aggravated with shortages of food, Pakistan has to import food to fulfil the domestic requirements resulting in higher import bills.

The poor governance in economic, political and institutional sectors despite of having rich natural resources, Pakistan has now entered into the situation of worse than ever. Foreign investments not only flying rapidly from Pakistan but also for the first time the local investors have started investing their money outside Pakistan due unfavourable socio-economic condition. The confidence of the people in the government has badly shaken and the graph of the people's abhorrence for the rulers at present is higher than that of the dictator's government at the time of election 2008. However, this is very incongruous that all three autocratic regimes were successful, although they do not have the civilian knowledge, exposure or assistance to work within the common people but still they made the difference. This is a strict lesson for those claimed to be the representatives of the people, come with their votes and have no mercy for them at all. It appears that the policies of the autocratic leaders, healthy foreign aid, strong technocratic management, and political

stability contributed to the better economic performance during military regimes. The following chart reflects how the economic stability of Pakistan has gradually been sinking as the government changes from military to civilian regime during the last decade.

General Indicators of Economic Development

Year =>	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP, constant prices (percentage changes)											
	3.11	4.73	7.48	8.96	5.82	6.82	3.69	1.72	3.76	2.56	3.80
GDP, current prices (U.S. Dollars)											
	72.69	83.50	98.09	109.60	127.49	143.20	163.89	161.82	176.87	204.08	233.76
GDP, current prices (national currency)											
	4452.	4875.6	5640.6	6499.8	7623.2	8673.	10242.8	12723.9	14836.5	17506.5	20715.85
GDP, constant prices (national currency)											
	3745.	3922.1	4215.6	4593.2	4860.8	5191.7	5383.0	5475.7	5681.5	5827	6048.40
GDP, corresponding to fiscal year, current prices (national currency)											
	4452.	4875.6	5640.6	6499.8	7623.2	8673.0	10249	12724	14836	17506.	20715.8
GDP on purchasing power parity (PPP) per capital GDP (current international dollar)											
	1868.	1949.1	2083.1	2231.0	2392.6	2583.2	2690.2	2646.9	2720.5	2791.8	2869.59
GDP on purchasing power parity (PPP) share of world total (percent)											
	0.58	0.59	0.59	0.60	0.60	0.61	0.62	0.64	0.63	0.62	0.62
GDP per capital, current prices (U.S. Dollars)											
	507.7	596.00	655.48	718.52	820.55	905.37	1018.1	962.18	1029.9	1164.1	1306.57
GDP per capital, current prices (National Currency)											
	31100.	33224.	37691.	42613.	49064.	54833.	63631.	75656.	86394.	99860.	115787.
GDP per capital, constant prices (National Currency)											
	26158.	26726.	28169.	30113.	31283.	32823.	3441.0	32558.	33084.	33238.	33806.5
GNP savings (percent of GDP)											
	20.48	21.62	18.42	17.68	18.23	17.72	13.59	12.49	13.13	14.04	12.34
Investment (percent of GDP)											
	16.58	16.76	16.58	19.08	22.14	22.52	22.05	18.22	15.37	13.83	14.00
Implied PPP conversion rate (National Currency per current international dollar)											
	16.65	17.505	18.09	19.10	20.51	21.23	23.65	28.58	31.76	35.77	40.35
Inflation, average consumer prices (percent change)											
	2.50	3.10	4.57	9.28	7.92	7.77	12.00	20.78	11.73	13.92	14.00
Inflation, average consumer prices (average)											
	126.38	130.30	136.25	148.89	160.98	173.17	193.94	234.23	261.71	298.14	339.88
Inflation, end of period consumer prices (index)											
	128.40	130.51	141.54	153.90	165.67	177.27	215.43	243.74	274.67	310.72	348.01
Import volume of goods and services (percent change)											
	5.95	12.29	11.48	28.53	22.52	6.91	26.07	-10.78	2.59	-1.60	0.17
Export volume of goods and services (percent change)											
	-2.88	17.15	2.29	16.86	2.59	-8.32	-9.66	-17.70	18.63	6.43	4.55

Source: International monetary fund (IMF)

ENERGY CRISIS CLUTCHING ECONOMIC PROSPERITY

Pakistan is suffering from severe energy and power crisis and the horrible repercussions of it seriously affecting economic growth and development in terms of decreasing productivity in all sectors. This deepening crunch is hitting industrial output badly and causing loss of billions of rupees daily and as a result, industrialists shifting their industrial units to other countries like Bangladesh, Malaysia and Saudi Arabia etc. The consequences of pessimistic industrial progression have decreased the production, fewer exports, low revenues collection targets and immense level of redundancy. In general value added export is losing more than \$10 billion annually alone due to power shortage and failure. Trade deficit increasing and causing loss of approximately 230 billion annually and depriving about 0.4 million people of jobs and as a result of which inflation and interest rates have crippled the industry severely.

Furthermore, massive increase in the electricity tariffs also contributing towards increasing prices of the daily usage products. Industrialist already in a gloomy situation, doing high costs business in critical law and order situation and having low morale workforce, as they see job losses due to electricity and gas shortage ultimately creating unrest among them. The ceaseless upward revision in the tariffs cannot be helpful in tackling the serious issue of circular debt.

Unreliable and high cost power supply is proving fatal for the industries running but also discouraging the fresh investors. The gravity of the problem could be observed in the textile industry which is facing enormous problem in recent years with the shortage of electricity and gas supply and high cost of utilities, making it uneconomical to compete. The textile industry contributes about 60% of the total export with a size approx. \$10 billion and 46% of the total output produced in Pakistan and is the eighth largest exporters of textile in Asia. The cost of production also increases as the industrialists spend extra money on alternate sources of power generation to continue productivity.

At present mostly IPPs are not operating on their full capacity of generating power because of the existence of enormous amount of circular debt payments which reaches to millions of dollars. A number of government organizations wedged up in inter-corporate circular debt of Rs. 258.5billion last year until April and by now ballooned of Rs. 275billion in comparison to Rs. 103.9billion during the same period last year that signifying an increase of 147%. Paying off their dues is the first step towards narrowing demand and supply gap otherwise load shedding would remain on as a curse. The installed power generating capacity in the country is 19,000MW that has not been touched due to the presence of intricate circular debt in the energy sector. Most of these IPPs receive oil on credit, but find it difficult to repay their obligations because they do not generate sufficient money due to power stealing, power losses and non-payments of electric bills.

Energy production of Pakistan largely relies on expensive furnace oil and gas and due to the interruption in gas or oil, supply leads to discontinuation of energy generation at the required pace. Conversely the cheapest way to produce electricity is the hydropower generation that costs around Rs. 2/- per unit whereas the electric generation with oil or gas used by the IPPs and rental power plants costs around Rs. 14/- per unit. It is very unfortunate that 64% of electricity comes from IPPs and only 34% comes from hydro petroleum in our national grid.

Practical and visionary policies and projects desperately needed by Pakistan to survive economically and financially. Mega dams were built 40 years back and they are still vital for us. Last mega dam was finished in 1974 and after that, none of the government built any mega dam in the country. Thermal power plants were constructed in 1990s but because of the furnace oil prices, it has become very costly and government has to arrange huge annual subsidy. This is becoming impossible, which is why the circular debt of power companies has increased and they have the option left to operate their plants at low load or shut down them. Coal reserves discovered in 1995 but still after 17 years we are only generating 2.27% energy through coal, while world is generating 41.61% energy through it. Inexpensive energy can only generated by the dams and 7-8 years needed to complete and start working. Mega project to generate power from coal would also need 5-6 years of time to complete but energies from solar and wind can be produce in shorter time but they cost a bit expensive.

CALAMITY OF GOVERNANCE AND ECONOMIC QUANDARY

Most critical and intense kind of problems emerging today and facing by the nation were never before in the history of Pakistan. Economic and financial systems are on edge of disaster, security, law and order situation is truly terrible, shortage of water, food electricity, gas, and other necessities making life miserable. The educated unemployed youth are increasing at an alarming rate. The country is facing multi dimensional governance crisis as corruption at all levels of government tiers is the order of the day.

Poor governance is the constant dilemma of the civilian government at present that has generated lack of trust, destabilized adept and obscure deliverance of public services and the implementation of unorganized programs made life hell for the people. The poverty level is increasing at an alarming rate, and in just four years, it has reached over 40% from 17.13% in 2008. They have to struggle hard to meet the ends and facing challenges in acquiring even the basic staples of life. Poverty is so intensified in this regime that there is hardly any hope left for achieving high growth rate, even in long run.

The international donor agencies and economies are constantly urging Pakistan to introduce the fiscal reforms throughout the country by eliminating all the subsidies in order to broaden the tax-to-GDP. An alternate could be the reduction in the their lavish life style to pass on the relief to the ordinary people, but the so-called leaders constantly engaged in finding new avenues of fund generation, without taking into any consideration about its impact. Pakistan is a high tax country with a narrow base and largely loose network.

The increasing burden of tax and its regulations has given rise to parallel economy. The government has failed to provide essential services to their citizens but cover empty slogans by resorting high taxes to control the lives of the commoners. The people in government are rent seekers in shape of politicians, privileged groups; civil and military bureaucrats have gathered for their self-interests and cause to manipulate the policies for their own benefits and detriment for others.

DEPRECIATION OF RUPEE

Since the beginning of 2008 there is almost 30% depreciation of Pakistani rupee against the USD that halted the economic and financial growth in the country and hits almost all areas of economy from agriculture to industry, manufacturing products, imports, and consumers. Pakistan has to import items like food, oil, fertilizers, machinery and industrial raw materials that severely affected the industrial, manufacturing and agricultural areas and the businesses prospects here by the continuous depreciation of rupee that served additional costs to them.

Our economy is in slouch as all the sectors of economy indicating the pessimistic growth and warns that any more depreciation in rupee will cause harm and reduction in the economic activity that leads to reduced tax revenue for government and huge foreign debt. The great concern for policy makers is because of the continuous reduction in exchange rates and it moves on despite the foreign exchange reserves having almost the doubled.

The depreciation of rupee with the present speed cannot push up the exports, but in fact inflate the import bills more sternly. The gold prices will incessantly surge as the depreciation of rupee against US dollar, reduced with the same pace. Petroleum prices also escalate further reaches to the unbearable height for the first time in the history of Pakistan in three digits. It does not stops here but the prices of all commodity increases to intolerable height never thought and seen before.

EXTERNAL DEBT; THE NEXT BIG CATASTROPHE

Pakistan is facing severe problems in recent years and currently facing mountains of debt and huge budget deficits that hamper its efficiency to create jobs for redundant people. The growth rate of the country is lowest among all the countries in the region and economy is in worse shape. The external debt management has been a key macroeconomic problem. The external debt is rising rapidly and has grown enough to control the large percentage of national income. The economy faces sombre implications due to mounting pace of external debt. Debt sustainability is dependent on a number of major macroeconomic factors such as growth, interest, inflation, exchange rates and rupee devaluation or depreciation and

current and fiscal account deficits. To narrow down the volume of debt liability and make certain debt repayment procedure and economic and financial restructuring, IMF imposed Structural Adjustment Policy. The policy implementation required cutting down the expenditures on services like health, education and development programs and priority should be given to the scheduling of external debt repayments and economic policies.

Pakistan has a brittle economy and the current government seeks \$7.6 billion aid package from IMF as they came in power. It is expected that there will be steep increase in the stock of external debt in the next few years and the government will need \$6 billion additional to service this debt. It is likely that debt crisis would step into the danger zone when the country starts repaying instalments of total \$11.3 billion of IMF. Pakistan's external debt increased by additional \$2 billion in 2011-2012 and will cross over \$72 billion by 2015-2016, according to IMF. Autonomous financial experts deem that annually approximately \$3 billion requires for the normal debt servicing and the government need extra \$3 billion to leave the IMF debt.

Pakistan has to return \$1.2 billion in 2012 and \$230 million as an interest imbursements to the IMF, \$2.9 billion in the year 2013, \$4.3 billion in 2014 and \$2.6 billion in 2015. By 2017, Pakistan has to start returning the rescheduled loan \$8.9 billion of the Paris Club and with that, even most horrible condition has to begin. Due to the imbalance situation of fiscal, it undermines the performance of several areas of economy that are directly dependent now on long and short term borrowing loans that results in ever increasing pace of foreign debt servicing, which has now gone up too high that almost unmanageable levels. These economic and debt imbalances adversely affected the sovereignty and the independent decision making capabilities of the lending countries and exactly same happening with Pakistan that international financial institutions have influencing Pakistan's sovereign decisions in acquiring their own vested interests that needs to be reinstate.

SMUGGLING AND ITS IMPACT ON ECONOMY

The economy of Pakistan has harshly damaged by smuggling in multidimensional ways. It is destabilizing the economy by weakening the local market and industry; disheartening the legal ways of import and narrowing the volume of revenues gathered through duties and taxes. The impact of smuggled items cause severe harm to our local market and everybody is well aware of the fact that without the participation of corrupt officials of law enforcement agencies, this would never be possible. No actions was ever taken against them, automatically encourages the illegal means and the businesses going on and flourishes with ease and as a result, closure of thousands of the industrial units or cause to be sick due to the availability of these smuggled items in our open markets, become one of the big reason. Local markets and shops are fully loaded with smuggled items and brands from different countries and spread countrywide. These smuggling goods coming into Pakistan from the borders of Iran, Afghanistan, China and through Afghan Transit Trade and the volume of it increases up to 50-60% of the formal economy that reduces the rightful levies of customs and excise duties worth hundreds of billions of rupees which is a disturbing situation for any country but no one bothers here.

Afghan transit trade is the major source of smuggling into Pakistan, annually damaging for about 2.5 to 3 billion dollars, its approximate volume annually has been 5 to 6 billion dollars and is about 70% of the total revenue loss, which has been tripled during 2008 to 2010, and it's a huge setback to our economy and trade. This parallel economy run with the help of Afghan traders arranged to back smuggling into Pakistan through Afghan Transit Trade and it is difficult to determine the exact amount of revenue loss and size of the black money and transfer of money abroad. World Bank estimated the amount lost during 2001-2009 due to Afghan Transit Trade alone is approx USD 35 billion, which hardly raises any eyebrows nor stirs the slightest fear of the law.

Smuggling is now become routine part of our economic activities. Challenges of measuring and countering massive governmental income seepages and black money issue facing by Pakistan these days due to negligence or involvement not only the concerned government authorities but also the officials of law enforcement agencies. The volume of the smuggling is three times the regular economy. Mounting and contributing the climate of fear countrywide is due to the smuggled improvised explosive devices coming from Afghanistan. These smuggled stuffs assist the militants groups to prepare explosive bombs, suicide jackets and other types of explosive laden vehicles and the involvement of Pakistan customs officials cannot be ruled out in this smuggling activity.

Another doorway used for smuggling opened for the Afghan Transit Trade by this government through Wahga border would result in a big chunk of Indian items in local domestic markets. The trade started between Afghanistan and India through Pakistan but our markets and shops would soon be over loaded with Indian goods, and that would be an additional and adverse blow to the Pakistan's dwindling economy after impact of war on terror and Afghan Transit Trade.

RECOMMENDATIONS

In the light of the above topic, research objective, discussions, data related to the topic and analysis of the current scenario and devastating economic problems few recommendations are given below:

1. Among one of the poorest country's list, Pakistan still have the potential to emerge as an economic power if leadership learn to resolve things from previous mistakes and harness the resources towards the sustained and fruitful endeavour to promote development. Pakistani policy makers must realise the need of sound and well-defined strategy to cope-up with the devastating issues of informal economy that lie in the form of black money.
2. Reforms in financial and monetary policy are much needed in order to strengthen the economy.
3. Curtail the lavish and unnecessary expenditures at all levels, minimise the non-development programs, avoid debts and reduce fiscal deficits.
4. Restrain the large volume of smuggling activities by strict enforcement of laws, proper and strict checking throughout their routes along with the construction of boundaries especially along the borders of Afghanistan.
5. There should be a uniform taxation mechanism on imports with the consent of both Pakistan-Afghanistan governments and revised the transit agreement and implementation of transparent and viable anticorruption and anti smuggling laws as well.

CONCLUSIONS

Pakistan is one of the fewest countries in the world rich in natural, mineral and human resources but still is placed among the poorest countries list. Having all the sufficient and necessary resources available to build strong and prosperous economy, it only requires true, faithful and sincere leaders. To overcome the problems Pakistan must find ways to fight corruption, poor governance, energy crises, external debts and smuggling in order to be claimed as an emerging economy. The impact of these calamity indicators of economy directly transfer their impacts in the form of decreased level of agricultural growth and business activities that ultimately results in growing redundancy, rapidly increasing poverty, steadily increasing crime rate, diminished health care and decreasing education facilities and opportunities for the residents of this country. There is a strong need of correct realization of the situation, sound economic and monetary policies as without taking serious, well-coordinated and multidimensional steps, practical and well-defined restructuring would not be possible, required to revive the economy.

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