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From the Director's Desk

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The Centre for Public Policy and Governance (CPPG) welcomes its second batch of students to the Executive Masters in Public Policy program. This year we are expecting a larger and diverse group of professionals to join, as in addition to the Punjab Government, the private sector, NGOs and individuals working for international organizations have shown greater interest. We have also received several inquiries about the possible launch of our regular two year Masters and PhD programs and it gives me pleasure to share that we are gearing towards that goal. We continue to selectively expand our faculty—this year two young, talented and foreign qualified Economists have joined our team, we welcome them. Our Seminar Series is attracting participation from serious minded academia, policy makers and researchers, which is morale boosting for us. Besides refurbishing our existing programs, we are strenuously trying to set an agenda for our forthcoming research publications. We have launched a new initiative of seeking solicited articles from reputable scholars which are being put through the Peer Review process. Dr. Tayyeb Shabbir's article is first of the series. In short we are making progress and need your continued support and constructive feedback on how to improve the quality and content of our programs.

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CENTRE FOR PUBLIC POLICY
AND GOVERNANCE

Especially Invited Paper

Financial and Economic Impact of the Global Financial Crisis of 2007-2009 on Pakistan

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Introduction

The Global Financial and Economic Crisis of 2007-2009 with its epicenter in the United States ultimately had its reverberations felt around the world though the degree as well as the exact mechanism of the spread of these ill-effects has differed for different parts of the world. Pakistan certainly has not been immune to the contagion from this crisis – in fact; in this case, the global crisis impacted the country when it had been already struggling rather precariously with structural macroeconomic stresses that were unrelated to the global crisis. The goal of this paper is to analyze the various facets of the financial and economic impact of this global financial crisis on Pakistan.[1]

> "...crisis-induced reduction in aggregate demand resulted in significant reductions in global trade volumes"

By virtue of it being the world's sixth most populace country and the second largest economy of South Asia commanding unquestioned geo-political significance, analyzing the impact of this crisis on Pakistan is certainly of great importance.

The above global financial crisis had its genesis in the so-called 'Sub-prime' crisis in the U.S. that started in earnest during late summer, 2007. Since the early 2000s, the United States had pursued 'easy' monetary policy that kept interest rates low. Combined with a lax regulatory regime in issue of credit especially for housing mortgages, this set the stage for a huge housing asset bubble. In addition to the U.S., there were similar 'bubbles' that had developed in European and other Advanced Economies. In the relevant literature, it is often hypothesized that the global imbalances (large current account surpluses and deficits across countries) of late 1990s and early 2000s had precipitated an environment of 'cheap' money where surplus funds were chasing yield and excessive risk taking had become the norm[2].

In this backdrop of evident excessive risk taking and high leverage which was certainly the case in the U.S. housing market, financial innovation known as securitization went awry and proved to be an immediate trigger for the financial crisis that ensued. This otherwise positive financial innovation of 'securitization' (Mortgage Backed Securities or MBS and Collateralized Debt Obligations or CDO) proved to be 'faulty' since it failed to work properly with the existing structure of financial institutions. In addition, 'lending exuberance' manifesting itself in lax underwriting standards at a time when real estate boom was waning in 2006, deficiencies in assessments of rating agencies (as well as 'over reliance' of investors on these assessments to the exclusion of other due diligence measures) and evident regulatory failures were the various factors that ultimately led to a serious yet uncertain degree of impairment of the values of MBS and CDO securities. This pervasive uncertainty created serious practical difficulties. The various financial institutions holding these securities were faced with illiquid markets and rapidly falling market values of their assets and, as a result, they started deleveraging to conserve capital[3]. This resulted in a 'credit squeeze' with its severely negative repercussions on the real sectors of the Advance Economies where households and businesses pulled back from spending. This crisis-induced reduction in aggregate demand resulted in significant reductions in global trade volumes and, in particular, reductions in exports from the rest of the world to the Advanced Economies. This global trade effect then became the most important channel of transmission of the crisis-induced recession to the Developing Economies.

Besides the afore-mentioned behavioral mechanism related to the banking sector's credit freeze and the consequent reduction in aggregate spending by the private sector, the other main channel of contagion was the 'crisis of confidence' unleashed by the breakdown of the securitization market and the very onset of the recession in the U.S. in December, 2007. By the end of 2008, the U.S. 'Sub-prime' crisis had become a full blown global financial and economic crisis.

The remainder of this paper analyzes the following issues in turn: (a) the state of Pakistan's Economy on the eve of the outbreak of the global economic crisis (b) observed impact of this crisis on important macroeconomic variables for Pakistan (c) main channels of transmission of the effects of this crisis from its epicenter in the U.S. and Advanced Economies (d) the governmental policy responses to combat the effects of this crisis and (d) the medium to long run prognosis for the Pakistan economy in the wake of this global financial crisis.

State of the Pakistan Economy just prior to the advent of the Global Economic Crisis

Even prior to the advent of the global financial crisis, Pakistan's economy was in a dire macroeconomic state. The macroeconomic mismanagement of several years since 2005-06 often characterized as the era of 'twin' deficits of current account (CA) and fiscal balance was only exacerbated immensely by the arrival of another 'twin' shock, this time external, in terms of the global fuel and food price surges of 2007 and early 2008. Buffeted by these pair of 'evil twin' phenomenon, to coin a term, Pakistan was certainly in very vulnerable situation when in late 2008 and early 2009, the full recessionary brunt of the global crisis impacted many a developing countries including Pakistan.

As reflected in a simultaneous rise in fiscal as well as current account deficits, macroeconomic imbalances in Pakistan had been building up since FY 2004-05. A fiscal surplus of 3.7 percent of GDP in FY03 turned into a deficit of 2.3 percent of GDP in FY04, which was the start of an adverse trend of annual fiscal deficits. Again, a CA surplus of 4.9 percent of GDP of FY03 turned into a deficit in FY05 and joined the above negative trend. Amongst the multitude of factors for these 'twin' deficits are: country's loss of competitiveness in a post-WTO regime for multi-fiber export markets, a growth strategy that was consumption driven rather than export-driven and financed in large part via foreign savings, and a failure to rationalize the fuel import price increases that had just started to edge up in 2004-2005. As can be seen in Table 1, as a consequence of these factors, FY06 and FY07 were clearly years when both the fiscal as well as CA deficits were on the rise (a trend that, in fact, had started earlier in FY05).

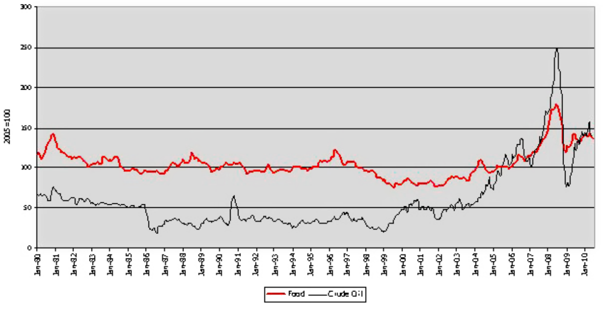
"The macroeconomic mismanagement of several years since 2005-06 often characterized as the era of 'twin' deficits of current account (CA) and fiscal balance was only exacerbated immensely by the arrival of another 'twin' shock, this time external, in terms of the global fuel and food price surges of 2007 and early 2008."

The macroeconomic imbalances for Pakistan were only made much worse by the unexpected global surges in fuel as well as food prices in 2007 and early 2008. This only exacerbated the 'twin' deficits syndrome and these deficits grew to almost twice the order of magnitudes in FY08 as compared to FY07. These fuel and food price 'shocks' are considered perhaps the most relevant factor that characterized the harmful impact of the 2007-09 global financial crisis on South Asia and thus they are worthy of a little more attention[4].

Fuel and Food 'Twin' Price Shocks: As can be seen from Figure 1, the world-market fuel prices that had been on an upward trend since early 2004 really took off in early 2007 and reached a peak in early 2008 (300% increase between January 2007 and January 2008) whereas the world food prices started rising in the middle of 2006 and peaked in early 2008 as well (175% increase between January 2006 and January 2008).

This twin 'shock' in terms of a significant surge in food and fuel prices was bad news for many a developing countries that needed to import these commodities. This was certainly the case for Pakistan as well as for other South Asian countries. Besides having negative effects on the current account balances and accelerating inflation, these developments worsened the fiscal deficits too as the governments ended up subsidizing the domestic cost of these items in a bid to protect the consumers.

: Figure 1 Food and Oil World Price Indices 1980-2010



Source: IMF and ODI, "Rising Food Prices: A global crisis", Briefing Paper # 37

Pakistan has a significant dependence on imported oil (almost 50% of its energy needs) to meet the needs of its transportation sector and other modern sectors of its economy. During 2006-2008, Pakistan imported 0.28 to 0.33 million barrels of oil/day (Pakistan imports 80% of its crude oil) and, more broadly, during the same period, energy imports comprised almost 25% to 33% of Pakistan's Total Merchandise Imports. The oil import bill almost tripled from 2004-05 to 2007-08 as it rose from $ 4.7 billion to $ 11.4 billion during this time period.

Given the extent of dependence on Energy imports, it should not be surprising that inflation rates for Pakistan (in fact for all South Asian countries) spiked in 2008. For Pakistan, it increased from 7.8% in 2007 to 12.0% in 2008 (on its way to 20.8% in 2009); for India, inflation rate increased from 4.7% in 2007 to 8.7% in 2008; for Bangladesh it increased from 7.2% in 2007 to 9.9% in 2008 and, finally, for Sri Lanka, inflation rate increased from 15.8% in 2007 to 22.6% in 2008. Energy import price spike was a major contributor to the above inflationary surge in all these South Asian countries[5].

Besides the oil price surge, inflationary spike in imported food was also problematic. As noted earlier with reference to Figure 1, world prices for the 'Food' category which includes cereals, pulses and edible oils increased sharply by 175% between January 2006 and January 2008. During 2006-07, Pakistan imported 9.5% of the 'Food' it consumed, which raised its 'overall inflation rate'; in fact, 'food inflation rate' generally exceeded the 'overall inflation rate' (for instance, for 2007-08, 'food inflation' was 17.5% for Pakistan whereas its 'overall inflation rate' was 12%). Of course, this has meant a greater burden on the relatively poorer households who spend as much as one third to one half of their budget on food as compared to only 8% in Advance Economies like the United States.

Generally speaking, in addition to being inflationary, the net imports of fuel and food, translated into worsening Current Account as well as fiscal balance for Pakistan. The primary impact was on the Current Account since these imports were paid for in U.S. dollars. Due to this surge in import bill, Pakistan's year over year International Reserves dropped by almost 5 percent. Again, the commodity price surges, especially in the case of oil, resulted in increases in fiscal budget deficits since the governments tried to subsidize the domestic price in order to protect the local consumer. Thus the commodity price shocks of 2007 and early 2008 considerably worsened the macroeconomic imbalances that Pakistan had been experiencing since 2005-06. This was no way to 'meet' the additional distress that the global financial crisis was about to visit on Pakistan (and of course much of the rest of the world).

Observed Impact on important macroeconomic variables for Pakistan due to the global financial crisis

Arriving on the heels of the terms-of-trade shocks resulting from the imported food and fuel price hikes, the global financial crisis had a significant impact on the Pakistan economy resulting in a serious deceleration of economic growth, worsening current account balances, widening fiscal deficits, accelerating inflation, dwindling International Reserves and domestic currency depreciations.

Real or Inflation-Adjusted GDP Growth Rates : In the ten to fifteen year period prior to the global crisis of 2007-2009, the Pakistan economy along with that of South Asia region had enjoyed a moderately high real GDP growth rate. According to the World Bank, South Asia's real GDP growth rate averaged 6.0% per annum for the period 1995-2005 which accelerated to 9.0% and 8.5% in 2006 and 2007 respectively, years immediately preceding the crisis. However, this rate decelerated to 5.7% in 2009 with there being a significant diversity in the experience of individual countries in the region.

In order to provide a regional perspective to Pakistan's experience, let us note the changes in real GDP growth for a few of the South Asian countries. As is evident from Table 1, India and Bangladesh as well as Sri Lanka fared relatively well while Pakistan suffered the largest decline in the observed real GDP growth rate. As noted in the last column of Table 1, Pakistan's real GDP declined by 4.9 percentage points in 2009 as compared to 2007, whereas, for the same time period, Bangladesh's growth rate decline, which was relatively the smallest, amounted to only 0.5 percentage points[6].

Pakistan's precarious outcome has been due to an unfortunate confluence of pre-crisis vulnerability due to terms-of-trade shock, political instability and geo-political trauma on account of terrorism related security concerns. As a result, Pakistan witnessed a sharp decline in economic growth from an average of 7.3 percent during 2004-07 to 4.1 percent in 2008 which further decelerated to 1.9 percent in 2009 as the security environment deteriorated even more.

Besides affecting real GDP growth rates, the crisis also adversely affected a myriad of other important macroeconomic indicators such as current account deficits and inflation rates. In order to present a more complete picture of the observed economic impact of this crisis episode, we now turn to data on these various macroeconomic indicators for Pakistan as presented in Table 2.

Pakistan's CA deficit which was already at a relatively high level of 4.8 percent of GDP in 2007 almost doubled in 2008 and was slow to recover. Closely related, Trade Balance deficit reflects a longer term trend (that goes as far back as 2004-05) of slow growth or declines in exports without concomitant declines in imports, thus widening Trade Balance deficits. Of course, it will be most desirable to have exports grow relatively fast so as to allow imports to keep growing as well without precipitating serious Trade Balance deficits.

The FY09 has across the board 'bad' numbers since this is when the full brunt of the global financial crisis impacted Pakistan. Thus Foreign Direct Investment (FDI) as a representative of Capital Inflows declined, as did Foreign Exchange Reserves (bottomed out in FY08). One 'bright' spot was worker's remittances which stayed up and are expected to play the role of an increasingly important source of foreign capital inflows in the future. Of course, the especially disturbing development was the low grade hyper-inflation in FY09 (20.8%). Inflation rate soared not only due to monetization of ever-growing fiscal deficit by direct borrowing from the central bank but also because of the unusual global price surge in fuel and food prices during 2007 and early 2008. The fiscal deficits rose to 7.6 percent of GDP in FY08 from 4.4 percent of GDP in FY07 due primarily to government's subsidy programs to prevent the full pass-through effect of rising import prices of fuel and food to reach domestic consumers. As a result, the month-on-month headline CPI inflation surged to 25.3 percent by August 2008 compared to 6.5 percent in August 2007.

As has been discussed later on, Pakistan is currently a part of an IMF Stabilization program which has entailed a relatively tight monetary policy as well as, initially at least, a tight fiscal policy in order to bring inflation down and stabilize the economy. Along with abatement of 'supply shock' of fuel and food prices, this is expected to moderate inflation. However, it seems that Pakistan may still have some ways to go in this regard.

In addition to the above effects, domestic currencies

:Table 1 Impact of Global Crisis on Real GDP Growth Rate of South Asian Countries (%)

Country	2007	2008	2009	2010	Decline 2007 minus 2009
India	9.7	9.0	6.9	7.0	3.0
Pakistan	6.8	4.1	1.9	3.7	4.9
Bangladesh	6.4	6.2	5.9	5.2	0.5
Sri Lanka	6.8	6.0	4.0	6.0	1.4

Source: SBP and Economic Surveys of the respective countries and author's calculations.

depreciated in most of the South Asian countries on account of outflow of capital due to the global financial crisis. Most significantly, Pakistani rupee depreciated by almost 25% in 2009 as compared to Indian currency that depreciated by approximately 14% in 2008.

Transmission or Contagion of the Crisis to Pakistan

In the initial phases of the 2007-2009 financial and economic crisis, there was a significant amount of speculation that the adverse impact of this crisis will not spread beyond its place of origin in the U.S. and Europe on account of "decoupling" of the Asian and Emerging Economies in general. This hypothesis received some apparent support from the fact that these Emerging Economies seemed to continue to grow even in the face of the onset of crisis in Advanced Economies. However, given the severity of the shock and, equally importantly, the presence of a multitude of channels of transmission it proved to be only a matter of time for the contagion to take effect.

As is the case for all Emerging Economies, there are two main external channels that are capable of transmitting the impact of the global financial crisis to Pakistan – foreign financial flows and international trade. We will discuss the above transmission channels in turn.

(a) Financial Channel: The immediate impact of the crisis would certainly manifest itself in terms of a 'crisis of confidence' resulting in a 'sudden stop' or even a 'reversal' of capital inflows. This would imply an adverse impact on foreign capital inflows both in the equity as well as the debt markets.

Generally speaking, in the wake of the global financial crisis, international capital inflows to all countries of South Asia including Pakistan declined. For instance, according to the World Bank, for South Asia, these inflows in the form of equities dropped by 0.7 percentage point between 2007 and 2009 (as a share of GDP) while bank lending and bonds-related inflows (also as a share of GDP) dropped by 1.5 and 0.5 percentage points respectively between the same time period.

Clearly the above adverse effects operating through the financial channel would be proportional to the degree of global financial integration of a given Emerging Economy. Ironically enough, being relatively less integrated in the world's financial infrastructure which is a negative characteristic in the long run sense, in the short run, Pakistan like the other South Asian countries was spared the full brunt of the financial sector mayhem experienced by the Advance Economies. Nevertheless significant adverse effects both in the stock markets as well as the debt markets were experienced by Pakistan.

Equity Markets: The stock markets around the world declined dramatically as the investor confidence plunged in the wake of the global financial crisis. The Dow Jones Index for the U.S. declined by almost 50% over a seventeen month period from its peak on October 9, 2007 to its trough on March 9, 2009 which included historic declines on September 15, 2008 and the days that immediately followed the shocking bankruptcy of the Lehman Brothers. The reverberations of this 'crisis of confidence' in investor confidence were also felt keenly in South Asia in general and in Pakistan as well. From the relative peak value of January, 2008 to the trough in January, 2009, Pakistan's stock market value as measured by MSCI (or Morgan Stanley Capital International) Index in U.S. dollars fell by 75%; in comparison, the corresponding decline in the MSCI Index for 'All Emerging Markets' was 52 % while India's stock market experienced a 66% decline.

While India's economy and capital market are more integrated relative to those of Pakistan and on that account alone, one may have expected India's stock market to have actually declined more during the time period in question, however, Pakistan experienced political turmoil and stock market disruptions unrelated to the global financial crisis which resulted in Pakistan's equity markets declining relatively further[7].

Debt financing via international capital markets: Financing via international capital markets comprises of gross bond issue, bank lending and new equity placement and this is an important measure of the extent to which the global market is tapped for financing investments. Practically speaking, this is a good measure of the utilization of international markets for debt financing.

Pakistan's measure of these gross inflows declined from a high of 2.42 percent of GDP in 2006 to only 0.39 percent of GDP in 2008 reflecting a significantly reduced activity in the international debt market for the country.

Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI): Both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are important sources of foreign capital for South Asian economies – the former perhaps is a more significant contributor to economic growth as it represents longer term commitment by foreign capital. FDI is not only a source of financial capital it is also a conduit for managerial and technological expertise.

In general, all the South Asian economies, experienced a significant drop in FDI in year 2009 as compared to year 2008 which was clearly due to the liquidity crunch and the economic slowdown experienced by the Advance Economies. Pakistan suffered a significant decline in late 2008 (from $1842 million of FPI in 2007 to $19.3 million in 2008) and an outright outflow in 2009 with FPI equal to - $ 510 million. Being relatively more volatile and 'fickle', FPI tends to react much more quickly to changes in investor confidence. These significant declines in FPI for the South Asian economies clearly reflected the 'crisis of confidence' that accompanied the global financial collapse.

(b) International Trade Channel : After a period of strong growth since the beginning of the decade, international merchandise trade plunged about 20 percent in real terms (35% in U.S. dollar terms) from the pre-crisis peak to its trough in early 2009 (Figure 2). This very sharp decline in global trade was precipitated by a multitude of factors related to the crisis. These factors included (a) severe recession in the Advanced Economies that reduced aggregate spending in general including on imports, (b) extreme uncertainty about economic future as well as lack of credit financing that led to a postponement of purchases of durable goods by consumers and investment goods by businesses – both these categories figure prominently in international merchandise trade and (c) reduced availability of trade financing that also impinged on the volume of international trade.

Generally speaking, the severe and sudden collapse in the global merchandise trade was the most important channel that transmitted the adverse effects of the financial crisis of 2007-2009 unto the Emerging Countries many of which were heavily trade dependent especially in Asia. This mechanism was certainly also found to be at work in Pakistan and other countries in South Asia though with a caveat. By virtue of the fact that Pakistan and in fact

: Table 2 Key Economic Indicators for Pakistan (Fiscal Years 2006-2011)

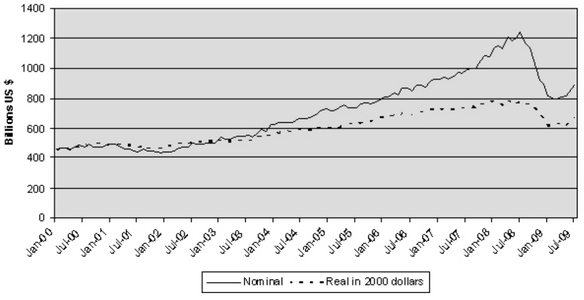
	FY06	FY07	FY08	FY09	FY10	FY11
Growth Rate in percent						
Real GDP	5.8	6.8	4.1	1.9	3.7	3.0
CPI Inflation	7.9	7.8	12.0	20.8	11.5	7.5
In billion U.S. $						
Trade Balance	-8.4	-9.6	-15.0	-12.6	-12.3	-13.2
FDI	3.5	5.0	5.3	3.7	2.9	3.5
Total Liquid FE Reserves	13.2	16.6	11.6	12.8	16.7	16.99**
Remittances	4.6	5.5	6.5	7.8	7.3*	-
In percent of GDP						
Current Account Balance	-3.9	-4.8	-8.4	-5.6	-3.8	-4.0
Fiscal Balance	-4.3	-4.4	-7.6	-5.2	-5.1	-4.2

Sources: The World Bank South Asia Economic Update 2010; State Bank of Pakistan (SBP)

South Asia as a region, exhibits above-average reliance on service exports as a proportion of its total exports, the adverse effects of the crisis-related collapse of global merchandise trade were mitigated somewhat as services tend to decline relatively less in demand with income reductions.

Even though Pakistan got some 'protection' due to having a higher proportion of its exports in Services, being fairly well-integrated into the world trade nexus, it suffered a significant negative impact via the trade channel. Let us illustrate the above observation with some relevant data.

: Figure 2 Global Merchandise Exports 2000-2009



Data Source: Speech given by FED Chairman, Bernanke on October 19, 2009. http://www.federalreserve.gov/newsevents/speech/bernanke20091019b.htm

According to an analysis by the Federal Reserve, the various countries experienced declines in real GDP in 2008 in proportion to their measure of 'trade openness' as measured by the sum of exports and imports as a proportion of the countries 2007 nominal GDP. The calculated measure of 'trade openness' for Pakistan (30.94%) is below sample mean of 82.00% for the sample of 23 Asian as well as non-Asian countries used in this study[8]. This is consistent with the earlier observation that Pakistan and, in fact, South Asia as a group suffered less compared to the other groups of East Asian and Emerging Countries that were relatively more "open" according to the above measure.

Buffers against the adverse effects of the global financial crisis: In the wake of the Global Financial Crisis of 2007-2009, while foreign private financial flows and trade flows were "bearers" of adverse effects for the South Asian countries, there were several other factors which acted as "buffers" to soften the impact of the crisis on these countries. In this regard, we will now discuss remittances and the abatement of global commodity inflation during the middle of 2008.

Worker's Remittances: For most of the South Asian countries, remittances from expatriate nationals working primarily in the Middle East are a very important source of inflow of resources which are in "hard" currency. These resources not only provide foreign exchange at the national level, they are often a vital poverty alleviating 'transfer' at the household level.

Pakistan's remittance flow has held up relatively well especially the approximately two-thirds of the remittances that originate in the Middle Eastern countries. About 20% comes in from expatriates in the United States. Though non-Middle Eastern countries will continue to be important sources for remittances for Pakistan, during this crisis, the Middle Eastern countries have been a relatively more resilient source since in the immediate aftermath of the global crisis these economies were relatively protected from the effects of the global recessionary upheaval on account of the accumulated oil-revenue based surpluses and relatively insular economies. Thus hiring and retention of migrant labor has continued (except in the case of Dubai because its earlier real estate market collapse).

In any event, though remittance inflows have held up well in the period immediately following the onset of the global crisis, the lagged impact of the global slowdown on the Gulf and Middle East economies may translate into a slowdown in the rate of growth of remittances inflows in South Asia -- something that the policy-makers will need to keep in mind. In any event, generally speaking, a lot of hope is being pinned on remittances as an increasingly important prospective source of foreign capital inflows for countries like Pakistan.

Abatement during mid 2008 of World prices of Fuel and Food: The worldwide economic slowdown that ensued following the onset of the Global Financial Crisis of 2007-2009, had a second order "beneficial" effect since it significantly moderated the global commodity inflation that had started in early or mid 2007.

Based on the IMF data, during the middle of 2008, global Energy as well as Food prices dropped approximately

62.5% and 37% respectively from the corresponding peaks in mid-2008. (Figure 1)

This abatement of the earlier upsurge in global food and fuel prices that had started in 2007, provided a much needed relief to the South Asian countries including Pakistan which, as we have noted earlier in this paper, have a fairly significant dependence on imported fuel and, to a lesser degree, imported food. However, while this price moderation certainly provided a welcome relief, it can hardly be relied upon as a long run structural panacea especially since these commodity prices are expected to be increasingly volatile with an upward trend.

Pakistan's Policy Responses

In general, the policy-makers in the South Asian countries responded to the crisis in a pro-active fashion by relying on expansionary fiscal and monetary policies. However, since in practice, the expansionary credit policy failed to lower the cost of funds, the de facto 'weapon of choice' was an expansionary fiscal policy with additional spending on infrastructure and development programs to act as stimulus to combat recessionary effects of the crisis. Monetary Policy's goal, on the other hand, was generally more nuanced since besides providing aggregate demand support, it also had to contend with liquidity crunch GDP in FY09 compared to 7.6 percent in FY08, the current account deficit narrowed to 5.6 percent of GDP in FY09 from a record high 8.4 percent in FY08. It was planned for the country to engage in moderately expansionary fiscal policy in FY10 and FY11 by increasing development expenditure to 3.8 percent of GDP and to 4.7 percent of GDP respectively. However, the recent floods which have devastated a large part of the crop land and also necessitated huge relief effort will unfortunately handicap fiscal stimulus efforts and will make it very challenging to achieve accelerated economic growth in the near future.

Pakistan did not follow or rather could not afford to follow the traditional stimulatory polices in the face of the recessionary effects of the global crisis since it was beset by 'twin deficits' of fiscal policy and current account as well as relatively high inflation rate. As discussed earlier, this economic vulnerability was the result of a trend of consumption-driven (vs. exports-driven) growth, which worsened current account deficits as imports rose disproportionately. Inflation rate soared not only because of monetization of ever-growing fiscal deficit via direct borrowing from the central bank but also due to the unusual global price surge in fuel and food prices during 2007 and early 2008. The Balance of Payments situation had turned truly precarious -- the import coverage ratio had fallen as low as 8.9 weeks by end-October 2008 and Moody lowered the sovereign rating of Pakistan to B3 from B2 -- in fact, making it costlier for the country to borrow in the international capital market. Clearly, immediate stabilization and injection of capital was thus needed. In November, 2008, Pakistan sought and obtained a Stand By Agreement with IMF whereby, in return of immediate balance of payments support, Pakistan committed itself to following tight monetary and fiscal policies in late 2008 and early 2009 to restore macroeconomic stability.

Thus, at the eve of the recessionary impact due to the global financial crisis, Pakistan found itself in the somewhat paradoxical situation of employing tight monetary and fiscal policies. Of course, this was so because the need for stabilizing balance payments situation and avoiding hyper-inflation took precedence over responding to financial crisis induced economic slowdown.

The tight fiscal policy during FY09 was aimed squarely at stabilizing the macro imbalances of the previous fiscal year. The goal was to contain domestic demand for both domestic and imported goods (to moderate pressure on current account and exchange rate) as well as introduce structural reforms to increase revenue collection. A measure of fiscal consolidation was in fact achieved in FY09 by phasing out of subsidies, cuts in development expenditure and limiting government borrowing from the central bank. As a result, fiscal deficit dropped to 5.2 percent of GDP in FY09 compared to 7.6 percent in FY08, the current account deficit narrowed to 5.6 percent of GDP in FY09 from a record high 8.4 percent in FY08. It was planned for the country to engage in moderately expansionary fiscal policy in FY10 and FY11 by increasing development expenditure to 3.8 percent of GDP and to 4.7 percent of GDP respectively. However, the recent floods which have devastated a large part of the crop land and also necessitated huge relief effort will unfortunately handicap fiscal stimulus efforts and will make it very challenging to achieve accelerated economic growth in the near future.

In terms of its monetary policy, considering the upsurge in domestic inflation in FY08, the State Bank of Pakistan (SBP) had considerably tightened its policy by raising the discount rate by 250 basis points during FY08 and it stood at 15% by November 2008. This was in addition to an increase in reserve requirements in May 2008. However, by October, 2008, the domestic banking system faced a liquidity/confidence crisis which forced SBP to inject Rs. 270 billion as well as ease reserve requirements, though policy rates were not reduced, thus there was a continued signal of a tight monetary policy. Nevertheless, with the easing of inflation in the subsequent months (primarily due to moderation in global commodity prices) SBP continuously reduced policy rate by 100 bps in April 2009 and then again in August 2009 by another 100 bps. The IMF's SBA allowed SBP to introduce some key structural reforms to improve monetary transmission.

Relative success in stabilization led to Moody marginally upgrading Pakistan's sovereign rating in August 2009, making international capital markets more accessible. The global crisis had made it easier for Pakistan to survive its U.S dollar denominated variable rate external debt, however, the crisis having resulted in a depreciation of the U.S. dollar against major international currencies has resulted in significant translation losses in terms of Pakistan's external debt.

Finally, while Pakistan suffered a significant negative effect of the global financial crisis through the Trade channel as country's exports declined due to lower aggregate demand in Advanced Economies, the relative 'saving' grace was that due to only a marginal degree of integration in the global financial and capital markets, the financial channel was muted when it came to contagion due to the global crisis. Thus no significant policy measures such as structural regulatory reform initiatives were needed on that account and as a matter of fact, the banking sector had been strengthened by the relatively successful financial sector reforms of the previous few years.

Prognosis for the Medium Term

Though, as a region, South Asia is considered to have survived the Global Financial and Economic Crisis of 2007-2009 rather well and while in its latest update, the World Bank paints a rather cheery picture for the region as a whole, there are very significant intra-regional differences in prospects of recovery and post-crisis growth profile[9].

Pakistan may, in fact, be an exception to the rather upbeat assessment of post-crisis South Asia. While the region as a whole is expected to grow at 6.9 percent in 2010 and nearly at 8 percent in 2011 (making it the second-fastest growing region after East Asia & Pacific), Pakistan's expected growth rate is only 3.0 percent in 2011 which follows an estimated 3.7 percent growth in 2010--- this is sub-par prospects relative to the country's long term historical growth rate. Though the IMF Stabilization Program that was initiated in November 2008 has helped stabilize inflation rate and some of the macroeconomic fundamentals, there is much progress that is still needed in this regard. One positive dimension is the relative resilience shown by the inflow of remittances through the crisis. However, the domestic political uncertainty as well as the geopolitical stresses of dealing with terrorism continues to be major impediments. Further the devastating floods of summer of 2010 have destroyed vast amounts of cropland, infrastructure, and homes and adversely affected 20 million people making it an extremely challenging situation that may be further drag on a fragile economy.

Finally, with the ascendancy of East Asia and Pacific region, South Asian countries are being urged by the multilateral organizations such as the World Bank and the IMF to integrate themselves more and more into the rising East Asia to benefit from the 'New Normal'—the brave new post-crisis fast-growing world. However, it is not clear that Pakistan, unlike some other South Asian countries, is convincingly positioned to take advantage of this new trend. The country may be too distracted by security concerns elsewhere and perhaps even not sufficiently integrated in the South Asian regional mechanism that may dovetail naturally with the supply chain and economic infrastructure of East Asia.

Concluding Remarks

The global financial crisis of 2007-2009 has been a significant 'shock' to the economies around the world. It precipitated the 'Great Recession' in the U.S. with its reverberations felt globally, underscoring the interdependence that continues to bind countries of the world. Pakistan, like the rest of the South Asia region, was impacted by the recessionary repercussions of this crisis at a time when it was already reeling from the fuel and food price 'shocks' of 2007 and early 2008. The global crisis found its way to the Pakistan economy mainly through the 'trade channel' as exports from the country became depressed. There were also significant capital outflows as well as capital market and banking sector distresses though, due to only a partial integration with the world's banking and capital markets, the 'financial channel' of contagion was somewhat muted. The adverse impact of the global financial of crisis of 2007-2009 on the Pakistan economy was a significant one and it manifested itself in the form of decelerating economic growth, worsening already skewed current account and fiscal deficits, accelerating inflation and precipitating social distress especially for the relatively most vulnerable parts of the populace.

While overall South Asian region is starting to recover quite smartly, the recovery is not uniform across countries or macroeconomic indicators. India is recovering the fastest with perhaps the best prospects of returning quickly to its long term potential. Pakistan, beset by structural economic vulnerabilities as well as the need to deal with security and geo-political distress and natural disasters such as the recent floods, is expected to enjoy only a modest recovery at best. Again, while GDP growth has started to recover across the board for South Asian countries, other macroeconomic indicators such as the inflation rate and fiscal deficits bear watching. Finally, the economic recovery from the global crisis masks the ill-effects on the most vulnerable parts of the populace and, going forward, appropriate measures will be needed to address these concerns. One major prospective source of vulnerability is a possible repeat of the global food and fuel price surge of the kind we experienced in 2007 and early 2008.

Presently Pakistan is expected to grow at a rate of 3-4 percent, which is below its historical trend real GDP growth rate. While the challenges facing the country are surely daunting, judging from its historical economic performance, the country can certainly return to its potential trend path in a sustainable fashion given the right circumstances.

End Notes

1 For an analysis of the impact on South Asia, see Tayyeb Shabbir, *"Global Financial Crisis of 2007-2009: Economic and Financial Impact on South Asia,"* Working Paper, California State University, June, 2010. The present paper relies in part on this earlier work by the same author.

2 There are two schools of thoughts regarding the nature of the causal link between the global imbalances and the global financial crisis of 2007-2009. One rather plausible characterization of this link is provided by Maurice Obstfeld and Kenneth Rogoff, "Global Imbalances and the Financial Crisis: Products of Common Causes," paper presented at the Federal Reserve Bank of San Francisco Asia Economic Policy Conference, Santa Barbara, CA, October 18-20, 2009.

3 For a representative model of how financial institutions were forced into deleveraging, see Tayyeb Shabbir, "Anatomy of America's Subprime Mortgage Crisis of 2007-08: Channels of Contagion", in *Conference Proceedings of the Global Academy of Business and Economic Research*, Houston, March, 2008.

4 See Bruno Carrasco et al., "The Impact of the Global Crisis on South Asia," ADB Working Paper Series No. 1, Asian Development Bank, February, 2010.

5 See Tayyeb Shabbir (2010), op. cit., for much of the supporting data for this paper that is not already noted here explicitly.

6 A study by Rashid Amjad and Musleh ud Din, "Economic and Social Impact of Global Financial Crisis: Implications for Macroeconomic and Development Policies," Final Report, Pakistan Institute of Development Economics, Islamabad, Pakistan, July, 2010, uses Keynesian multiplier to quantify the impact on South Asian countries. Their analysis projects Bangladesh would be least affected by the crisis and Sri Lanka the most.

7 For an accounting of the political as well institutional trading related factors that caused a stock market crash in Pakistan during July, 2008 see http://www.time.com/time/world/article/0,8599,1824461,00.html

8 Ben Bernanke, "Asian and the Global Financial Crisis", Speech given October, 2009. http://www.federalreserve.gov/newsevents/speech/bernanke20091019a.htm

9 World Bank, "Moving Up, Looking East", World Bank South Asia Economic Update 2010

Faculty Seminar Series

: Mr. Hasaan Khawar, a consultant with the Punjab Resource Management Program (PRMP) and a former civil servant was invited by the Centre for Public Policy & Governance (CPPG) to deliver a talk on *"Public Private Partnership: Showing Punjab"* on the 1st of February, 2010. Khawar opened his remarks by explaining that Public

Private Partnership (PPP) was part of the broader private sector development umbrella including an enabling policy regime, business development support services, cluster development and common facility centres. According to different perceptions currently in vogue, a company formed by government's investment and run by the private sector, and a policy dialogue involving Public and Private sectors may be referred to as PPP but technically speaking they were not. Internationally the term PPP was used in the context of Project Financing. PPP could be defined as long term contractual arrangements between the Public and Private Sector company for provision of infrastructure services with a fair allocation of risk. Thus conceptually, PPP entailed the following four components:

- Partnership between Public Sector and Private Sector Company.
- Longer term contract rather than a one off transaction
- Provision of infrastructure services, e.g. roads, water, sanitation and solid waste management services etc.
- Transfer part of the risk to the private sector

Elaborating these components, Khawar specified different forms of PPP including service contracts, management contracts, lease contracts, concessions and finally various notions of Build-Operate-Transfer (BOT) suggesting that the responsibility of the private sector increased as one moved down the list from service contracts to BOT. Khawar then explored the project life cycle of a PPP project. It began with *project inception* stage in which the government picked a project for PPP from a list of projects it wanted to undertake; the second stage was *project preparation* which involved creating a feasibility study of the project detailing modes of services, and aspects of financial bidding thus providing the necessary requirement for negotiation; the third was *transaction execution* stage involving the selection of private partner by the government. This process could either be done very quickly without lengthy paper work or involve extensive transparency. The last stage was *construction, operation and transfer* depending on the modalities agreed upon by the Government and the Private Party involved.

Khawar then asked the question "What and why was there a need for PPP?" to the audience before beginning to answer it. He stated a number of reasons beginning with *investment needs*. He argued that historically PPPs was undertaken in areas that were traditionally part of government's domain but lacked financial resources. While in the case of serious fiscal constraints, Government of Punjab could not finance needed projects, but even in the absence of fiscal constraints, it was not possible to finance every project due to scarcity of resources, opportunity costs or lack of expertise. Additionally PPP helped improve the efficiency of public investments. With limited government resources, it helped Government undertake lower priority initiatives that the Government did not have funds for. PPP also allowed the government to get better value for money through projects costing less than government constructed projects. But for developing countries, financial constraints were the most important reason behind PPP supported by the fact that close correlation existed between Infrastructure Investment and GDP growth, thus PPP could improve GDP growth with unchanged government resources. China had been investing about 9-10% of their GDP to sustain a 12% GDP growth rate. Malaysia was investing 6% of its GDP before 1997 with GDP growth rate at around 8%. Though its investment rate fell to 2-3% of GDP after the Southeast Asian financial crisis, it was now back on track. For Pakistan, the infrastructure development investments were not up to the required level hampering sustainable development as could be observed especially in the energy and transport sectors.

Khawar stated that according to World Bank estimates, one percent increase in a country's infrastructure stock led to one percent increase in the level of GDP. While Asian Development Bank suggested that middle income countries spend at least 3.6% of their GDP as they had more established infrastructure available, low income countries needed to spend about 6.3% of their GDP. Evaluating Punjab, Khawar stated that though the total Development Fund for Punjab was Rs. 100B this fiscal year, a requirement of at least 6% GDP investment meant a infrastructure financing gap of Rs 265B over and above the current spending based on the Medium Term Development Framework (MTDF).

Discussing PPP examples in the Punjab and Centre, Khawar argued that there was no institutional support or uniform guidelines for PPP projects. The IPP projects of 1996 formulated under the then Power Policy, apart from kick back scandals provided all sorts of guarantees (furnace oil prices, rate of return) to private parties but did not properly structure risk allocation. The Lahore-Islamabad Motorway generally believed to be a Build-Operate-Transfer (BOT) contract was actually a Build-Transfer (BT) contract as the private party acted as the main financier, leaving the project to the government after completion. The government paid back the private party (DAEWOO) on an agreed schedule by recovering the money through the operator- Frontier Works Organization (FWO). The Lahore-Sheikhupura-Faisalabad highway, widely quoted as a successful example of PPP fell into the BOT mode but the problem was that FWO, which led the consortium of three other private partners was not a private sector firm. This arrangement had been an outcome of direct negotiations thus additionally violating the core PPP principal of transferring risk to the Private Sector.

The Government of Punjab had also done some small PPP projects in the social sector. The Punjab Education Foundation was an example and CARE, an NGO had adopted about one hundred government schools. Similarly Fatima Jinnah Memorial Hospital had been training nurses based on a service contract with the Government. But curiously the Punjab Government itself had been the private sector partner in some PPP projects. The last example Khawar gave was of the composting plant at Mehmood Booti, a PPP project of District Government, Lahore. It treated about 700 tons of waste a day, which amounted to about 10% of Lahore's waste. The land was provided by the City District Government which had a 10% share in gross profits but the project was not yet profitable. One reason was that contrary to general belief, the composition included higher percentage of inorganic waste, which was not composting friendly.

Khawar then detailed the current status of PPP in the province and centre. According to the constitution, power generation was a concurrent subject but while both the federal and provincial government could construct power plants only the federal government could cause them to be constructed. Thus private participation in power generation solely fell in the purview of the federal government. Only in 2002, did the federal government approve a policy where by allowing provincial governments to cause construction of power projects under 50MW.

> “...the need for framework, law and policy was not because government could not execute PPP projects without it but because it provided certainty and confidence both to the private party as well as to public sector decision makers ...”

The Punjab cabinet had approved a PPP policy in 2009 while the promulgated PPP ordinance had expired and the draft law was being tabled soon. This draft PPP law covered both infrastructure and social sectors as was the international practice while the draft federal law did not specify any sectors. Additionally the Punjab Draft Law covered all three aspects needed for transparency including institutional arrangements, evaluation and contract structure while the Federal Law did not cover evaluation. For adequate regulatory arrangements, the law recommended regulation by contract initially, to be managed later by regulatory authorities. The Punjab PPP policy prescribed the needed institutional arrangements through a PPP network which was in the staffing stage and not yet operational. It comprised of a high level PPP decision making steering committee headed by the Chief Secretary, a PPP cell in the Planning and Development Department, PPP nodes in each department and a Risk Management Unit (RMU) in the Finance Department. A Risk Management Policy for fair risk sharing was still being formulated and needed to include a guarantee fund that took responsibility to provide guarantees to the private sector. Government of Punjab had also instituted a rotating Project Development Facility Fund of $1 million further supplemented by $7.5 million from the Asian Development Bank (ADB) for supplementary financial arrangements to support departments in project preparation. Additionally, an Infrastructure Project Financing Facility had been conceived at the federal level to perform a banking role and provide funding for PPP projects at commercial rates. Lastly, full cost recovery had been ensured in the policy.

In conclusion while discussing key issues in the formulation and execution of PPP projects, Khawar argued that the need for framework, law and policy was not because government could not execute PPP projects without it but because it provided certainty and confidence both to the private party as well as to public sector decision makers - the secretaries. In regards to project inception, he argued that the government should always have a priority list of PPP projects (profit oriented versus social sector projects) to generate interest among investors. Additionally the government should put in the time and effort to run feasibilities (project preparation). Although feasibilities took 6-10 months depending on the size of the project, without them, few private parties got interested, negotiation took years and generally the projects did not see the light of day. He argued that inviting private investors by sharing prioritized prepared projects during a foreign trip had much higher changes of success than the process currently followed. In the context of project execution, he raised three points. First, the *bid evaluation criteria* needed to be objective. Best practices suggested giving pass/fail on the technical proposal and then base financial bidding on a single financial parameter. Second, *public disclosure* be made a part of the contracts for reasons of transparency as only an open and transparent process would give private sector the confidence in government. Third, a good PPP model was based on *fair risk allocation,* and *full cost recovery* (including cost of capital) for the private partner. In case the project could not generate enough funds, the government needed to fill the financing gap through viability gap funding. For project operations, the government's most important role was of a *regulator* either through contracts or through regulatory authorities such as Pakistan Telecommunication Authority (PTA), PEMRA, and OGRA

In answering a question regarding why the government was not interested in feasibility studies, Khawar suggested three reasons. Firstly, no uniform guideline was available for departments to ensure a study. Secondly, the sense of urgency among political governments usually forced them to shy away from 6 month – 1 year feasibility. Thirdly, usually departments facing budgetary constraints did not have funding for feasibility and additionally also lacked adequate capacity. But the Project Development Facility should take care of it as departments could now hire a private company for project preparation.

Answering a question regarding what could be learnt from the IPP experience, Khawar argued that in the case of IPPs, transaction structuring was poor and there was a lack of transparency but regulation was appropriately managed by NEPRA, which also negotiated the rates. He suggested that Government should do Regulation by Contract rather than setting up independent regulatory authorities for few contracts. Additionally, sufficient capacity should be built within line departments to regulate the contracts but this also required that contract's performance parameters were well defined.

Answering a question regarding Joint Ventures and Unsolicited Proposals, Khawar argued that joint ventures were a problem because if the government were an equity partner, then it would want to maximize its return to equity thus hampering its regulatory role. He suggested that the international practice of managing unsolicited proposals was the Swiss Challenge Approach. If the proposal was not on the government priority list, then the party was asked to run feasibility. But still, the project was offered to the market for open bidding while allowing the party to match the lowest bid. If the party did not match the lowest bid then the successful bidder was asked to give the party project preparation costs. The key was appropriate compensation for a private partner had done work on the project.

: Mr. Patrick Kevin Doherty, an International Tax Consultant with Government of Punjab, a former President of Institute of Revenue Rating and Valuation Council and Deputy Director of Finance, Harrogate Borough Council gave a talk on *Tax Reforms in Punjab: Challenges and Opportunities* on April 15, 2010 at CPPG.

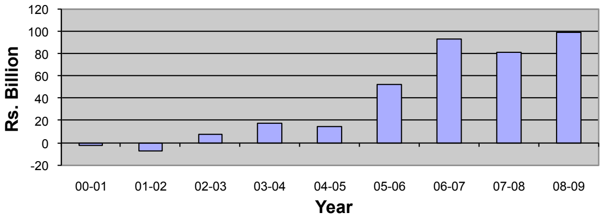
Patrick Doherty opened his talk with the question "Why should there be tax reforms in the Punjab?", remarking that he perceived a great opportunity as the people of Pakistan, as a nation, were under-taxed. Pakistan with a tax to GDP ratio of 8.9% stood in the bottom pile with a high capacity to increase taxes. He argued that the only reason to have tax was to provide services to the citizens and thus the tax ethos should be based on the kind of services needed by citizens. But the reality was that the demand for services increased further as more services were provided. While Government of Punjab realized the importance of promoting the level of social services, it was under severe financial constraints to realize this goal as its income versus expenditure gap had been widening for the past three to four years owing to constrained revenue collection through taxation. Financing (taxes) had not kept pace with aspirations of service delivery (expenditures) and this trend showed an increasing gap, which stood at Rs. 98.41billion (B) in 2008-09. The equation at the national level was not much different as Pakistan had a 5.1% deficit with Public Sector expenditures at 14% of GDP whereas tax to GDP ratio stood at 8.9%. He argued that no country could go on like this, as the only option left was to print money, which led to massive inflation. IMF in their recent analysis had suggested that tax to GDP ratio must increase to 15% over three years to bridge the gap and wanted to see this ratio at 11.3% by next year.

With two years of experience working with the Revenue, and Excise & Taxation (E&T) Departments, Doherty articulated the reasons behind this widening gap as political instability, inconsistent policies and a lack of planning, capacity issues and an archaic administrative structure. Exploring *policy planning*, he stated that he had been surprised that no new tax had been levied in the last seven years, while the government had introduced new tax exemptions in E&T further overloading the alarming debt burden. Thus in actuality, taxes in real terms had gone down.

Property Tax had last been revalued in 2001 when the old rental value system had given way to a table oriented system (which actually represented a downgraded form of a rental value system). Thus the tax base had not changed in 9 years while the tax rate had yet to change since 1958 leading to declining revenue in real terms. Usually tax rates were set for 5 years while the base value increased at least according to inflation year after year. Punjab had collected Rs. 2.8B in property tax last year but if inflation rate (Consumer Price Index) was applied to the tax base value, the Punjab government's losses amounted to Rs. 3.3B since 2001 surpassing the collection for a whole one year. Doherty thus argued for at least keeping the income in line with inflation. He then identified the problem of Differential Rating disagreeing that rented and owner occupied property be treated differently costing the exchequer over Rs. 2B a year. Instead, the income from rental should be part of income tax while property tax should be based on property ownership and not income. But the biggest problem was horizontal to vertical equity. He stated that Punjab with a population of 88M only had 1.2 million (M) taxable properties, which according to international standards (1 property for 8-9 people) should have around 10-11M properties. Even if a big majority could not be taxed because of poverty, still a conservative estimate

> "... income versus expenditure gap had been widening for the past three to four years owing to constrained revenue collection through taxation."

: Table 1: Punjab Government Financing Gap



would entail 3-5M taxable properties, at least 3 times the current number. Thus property tax could be increased three folds given the 1958 legislation was changed to remove exemptions for rural areas (properties in new growth areas around Lahore were still considered rural and thus not taxed), widows and 5 marla houses. He further said that there had been no analysis on how much those exemptions actually cost. Additionally there was not even an actual figure of the number of properties, as some districts did not record the exempt properties. So 2.6M properties in the E&T database of which 1.2M were taxed and 1.4M were exempt, was not even a correct figure.

> "... no new tax had been levied in the last seven years, while the government had introduced new tax exemptions in E&T further overloading the alarming debtburden."

Briefly mentioning other taxes, he said that the Motor Vehicle Tax had increased in real value since 2000 but this was due to an increase in the number of vehicles, which compensated for decreased real value per unit. Additionally, in his analysis of mutation fee comprising of three processes, he had found nine gaps leaving it open to issues of mishandling.

Adding insult to injury, he expressed dismay that there was no R&D or policy development in the departments leaving senior management in a difficult position to lead. He argued that departments with a strength of 13,000 required full time staff for statistics, analysis and research to support proper policy planning and management.

Doherty was emphatic in arguing that massive capacity issues existed in many departments but especially in departments related to revenue collection in the Punjab. The E&T Department not only lacked in physical capacity but also provided no appropriate trainings catering to personal and professional development, or basic job related skills to the existing staff. In the two massive departments, he saw no computers except on the manager's desk. Arguing that Punjab had one of the brightest, cleverest and best qualified manpower in terms of academic qualificatithat he had come across, but this had to be bridged with pragmatic and practical management. The other issue was a complete lack of training & development for subordinate levels, which was extremely important to increase the effectiveness and efficiency of the department. From one of his queries, he had found that the general departmental staff had not received any training in the last 10 years. Continuous and rigorous human capacity building in government departments was thus the need of time along with the provision of good office environment.

Describing the archaic administrative systems, Doherty argued that a system, which had three levels, those who joined the lowest level stayed there while those at the top moved around the system, was devoid of the necessary ambition and motivation. Additionally there could be no accountability in this system because senior managers (secretary) stayed in one job for 11 months on average while the junior staff took 15 years to move up two grades. While arguing that the change in organizational structure needed to be a long-term strategy, he inquired, who would take responsibility for a five year reform program as it at least required stability at the senior manager level? Further exploring, he critiqued the Dispersed Management Structure of the Board of Revenue (BoR), which had a head office while most of the staff worked in the districts. The district staff thus reported to two bosses, one in district administration and the other in the Centre, seldom knowing what their priorities were. Giving an personal example, he said that during a meeting, the person in charge was called and sent away on a 10 minute notice which was definitely not good management, good use of resources or people friendly.

In term of administrative planning and efficiency, he articulated the lack of departmental budgeting and unrealistic target setting as hindering departmental accountability. In the E&T department, all taxes were administered centrally while property tax was with the districts. But for either the BoR or E&T Department, there was no collated budget describing the departmental cost because the Secretary, the Director General and the districts all prepared their own budgets. Additionally unrealistic budget setting to match GDP figures was instead a de-motivating factor, especially because news reports incessantly criticized the department. He stated that while the target set for property tax was Rs. 6B, only Rs. 2.8B (over the years collection had been 1.9 – 2.3B) was collected which was the highest collection since 2001. This year again, the target was set at 6.6B. Tackling departmental efficiency and human resources, he argued that Collection Level (collection measured against current year debit – arrears) stood at 75% in Punjab while it ranged from 89.9% - 99.8% for authorities in the UK. Asking the question, what would happen when the person managing files spanning a 100 years in a dusty room for the last 40 years retired?, he argued that computerization was important but a bigger need was Human Resources trained to manage management information systems and compensated according to their own and departmental performance. He suggested a Graphical Information System (GIS), which acted as a central store for the information fed through core systems such as the property tax system.

Lastly Doherty concentrated on the reform process stating that there was no such thing as discretionary reforms. He argued that the fiscal imbalance menace needed to be tackled by increasing revenues through Tax to GDP ratio of 11% by the next two years. This entailed restructuring tax policies, better effectiveness and efficiency of the system and most importantly changing the culture of evasion encouraged by the working practices of the department. *Training, development, appropriate salaries and incentives, and proper targets were necessary to do the job along with inculcating the missing concept of customer service.* He stated that designing a new financial management tax system was never the issue but instead the incorporation of local customs, culture and laws into its design to make it workable based on ground realities. While the British had introduced a good property tax system in many parts of the world including Pakistan, the same system had long been rdesigned and reformed in the UK. He argued for a moderate paced reform process agreeing with the World Bank report suggesting that a new property tax system would take 5 years and $34million to implement. He stated that the Federal Board of Revenue (FBR) reforms, which had been going on since 1996 through a multi-staged process were a good model to follow. Under these reforms, the department had received computers and information technology literacy training multiple times over the last two years, which was remarkable as compared to any other department.

> “... tax base had not changed in 9 years while the tax rate had yet to change since 1958 leading to declining revenue in real terms.”

He further argued that administrative management was a problem everywhere in a federal structure because power was always pulled towards the center with the argument that provincial or local bodies did not have the

Period	2008-2009 (Actual as of February- 09)		
Revenue Source	Stamp Duty Rs.bn	Registration Rs.bn	Mutation Fee Rs.bn
Original Budget	10,000,000,000	3,500,000,000	4,202,000,000
Revised Budget	6,400,000,000	2,183,604,000	3,953,000,000
Actual Collection	6,823,000,000	2,187,000,000	4,537,000,000
%age collected against original estimates	68%	63%	108%
%age collected against revised estimates	107%	100%	115%

needed experience or resources. Thus local government was always the weakest tier unless the law, outlook and culture changed as tried under the 2001 devolution plan. Though accepting that challenges existed, Doherty saw an incredible opportunity for reforms arguing that the people in departments were willing to talk and to get involved in the reform process.

> "... a system, which had three levels, those who joined the lowest level stayed there while those at the top moved around the system, was devoid of the necessary ambition and motivation."

Answering a question as to why so many reform projects ran out of steam, Doherty argued that most tax reforms were half cooked rather than involving proper preparation, plumbing and the right team. Though an inte tional consultant himself, he was a big believer of internal reforms but argued that sometimes it was necessary to invite an outsider for a wakeup call. One of his suggested intervention was to setup a Change Management Unit directly accountable to the Chief Minister and not to the ever changing Secretary. It should be initiated with an external advisor to get the right people, to train and give people appropriate skills, and after 6-12 months handed over to a senior person to be driven internally. His disagreed with setting up a normal Project Unit under the department arguing that frequent changes in leadership will leave it non-functional and additionally running a project in addition to daily responsibilities was not feasible.

Answering a question regarding fairness of the tax structure, he argued that rather than having differentials (widows, 5-marla houses etc.), it was important to have a working relief regime ensuring that those who could not afford did not pay tax. Currently no law or process existed where by relief could be given to people who could not pay and no law allowed a write off of tax debt. He argued that the number of taxpayers needed to be increased to lessen the average tax burden. Punjab should be one rating area and there should not be an urban rural divide but instead the valuation of properties should take care of the difference in values. Additionally rather than a pay period of two months, a longer period would make it easier for people to pay property tax.

When asked if there was willingness of the staff for change management?, his answer was a categorical yes. But the difficulty was the size of the departments and the question of where to start from. The system did not encourage change as it lacked stability, ownership, accountability or responsibility. In two years, he had seen two Secretary's and five Director Generals change. He argued that blame should be placed on the bureaucracy and not the bureaucrats as the bureaucracy needed to be resolved before resolving the bureaucrat. For Doherty, the big question was "Where is the politician brave enough to say that we need a change and then carry it through?"

> "Training, development, appropriate salaries and incentives, and proper targets were necessary to do the job along with inculcating the missing concept of customer service."

Dr. Shabib Haider Syed, Chairman Department of Economics, Forman Christian College was invited to share his research titled *"Poverty, Inequality, Political Instability and Property Crimes in Pakistan: A Time Series Analysis"* at the Centre for Public Policy & Governance on the 12th of April 2010.

Dr. Syed opened his remarks by stating that when he chose to pursue his doctoral research on the topic of "Crime and its linkages with poverty, inequality and political instability", he was discouraged as it was considered an unusual topic where data collection would be a difficult task. Despite the constraints he took the challenge of collecting data, visiting prisons, dealing with the judiciary and police, and conducted research on the topic. But given the sensitive nature of the data, he had made a commitment to government officials to maintain confidentiality and had waited ten years before releasing and sharing his research work.

Dr. Syed examined how crime impacts the functioning of economic markets thus making it a pertinent subject. To substantiate his point, he referred to the World Development Report 1997, which argued that development of markets required effectively implemented and enforced property rights. To assess the effectiveness of property rights, Syed further quoted that the following three conditions must be met; first, people's lives and property should be secure and they should not be victimized by theft, violence or other acts of predation. Second, they should be protected from arbitrary government actions and third that there must be a reasonably fair and predictable judiciary. Precluding these conditions would impair the smooth functioning of markets.

Crime was perceived differently by academics across different disciplines; an economist's perception varied significantly from that of a criminologist or a psychologist. Criminologists and psychologists attributed crime to factors influencing the psychological state of the criminal or peculiarities of his environment and life provoking him to commit a crime. Economic theory of crime, however, propounded that all criminals were rational beings and they made their decisions by weighing the expected benefit against the expected costs of committing a particular crime. Syed's research looked at crime from an economics perspective; the hypothesis being that criminals on average acted rationally to the incentives and deterrents offered by their socioeconomic environment and the criminal justice system.

> "Economic theory of crime, however, propounded that all criminals were rational beings and they made their decisions by weighing the expected benefit against the expected cost of committing a particular crime."

Explaining the research methodology, he listed the five researched categories of crimes; dacoity, burglary, robbery, cattle theft and theft. A three simultaneous equations model had been implemented to explore respected causal relationships. The first *Supply of Crime* equation assessed the impact of the probability of conviction, expenditure on law enforcement, fine, per-capita income, income inequality, poverty, unemployment and population share of 15-25 year old on the crime rate. The second *Production Function of Law Enforcement* equation explored the performance of the legal system by measuring the probability of conviction against government expenditure on law enforcement, political instability, fine and the crime rate. The third *Demand Function for Law Enforcement* equation assessed per capita government expenditure on Police and Justice against aggregate crime and the crime rate. Each of the five categories of crime was explored through the three simultaneous equation model, thus entailing a total of 15 equations.

Dr. Syed was forceful in suggesting that his research brought out insights regarding the crime situation as well

as the criminal justice system of Pakistan. In terms of the crime rate, the research showed that controlling inequality and poverty could reduce crime but reducing unemployment did not necessarily have the same impact. Thus he claimed that crime control could be greatly improved by appropriate fiscal measures and socio-economic reforms. Investment in educational systems, offering quality education and equal opportunities for the rich and poor could have significantly positive impacts. Such policy choices addressing income inequality and poverty could empower the poor and create better earning opportunities for them, to help reduce the crime rate.

> “... the probability of conviction had a greater effect on crime control as compared to the severity of punishment.”

Focusing on the criminal justice system, he argued that the probability of conviction had a greater effect on crime control as compared to the severity of punishment. Thus an improvement in the legal system should concentrate on increasing the probability of conviction. This could be brought about not by mere increases in government expenditure but rather by systematic and sensible allocation of funds, which would serve to improve the system's efficiency and functioning. One example for a more productive allocation of government funds could be that instead of increasing police officials' salaries, investment should be made in techniques and technology for better crime investigation. Additionally resources needed to be diverted towards achieving higher conviction rates rather than administration of severe punishment as the former had proved more effective in Pakistan. Political instability was another important factor that reduced the probability of conviction, making the system more inefficient. Thus suggesting that the overall political environment had an impact on the crime rate.

Further exploring the working of the criminal justice system in relation to government expenditure, research findings showed that the government expenditure rose in response to a rise in crime, but how far the expenditure served to alleviate crime was another matter. Some individual crimes did not elicit an increase in government expenditure implying that the government did not give these crimes due importance. However, in aggregate, the increase in crime rates also raised the government expenditure on law enforcement.

> “... more importance was given to crimes against a person as compared to crimes against property...”

Reflecting on how police reforms should be designed to improve the efficiency and performance of police; Syed pleaded for changing the cultural norms in society as they directly influenced the functioning of the legal and judicial systems. In Pakistan, the lower courts were rampant with corruption while according to prescribed norms a criminal might actually be treated with more respect than an innocent person at a police station. He argued that societal norms played an important role in curbing crime rate in a society. In our case, the legal system was inefficient once a criminal was identified and thus the probability of getting him convicted was low. Another difficulty was that more importance was given to crimes against a person as compared to crimes against property, thus property rights did not get due attention. In many cases, either police reduced the intensity of the crime - changed dacoity into robbery and robbery into theft or put hurdles in the filing of the FIR to reduce their liability to the bosses. For a common person, the cost of reporting a minor crime such as theft was extremely high, as significant amount of time was needed just to convince the police to register the FIR. Additionally a society, which allowed criminals to secure employment as easily as any other citizen after being released from jail exempted them from bearing any real or substantial consequence of committing a crime. Thus policies needed to incorporate reforms to change the culture as well as to increase the stakes of crime.

> “Even if the Supreme and High Courts were relatively efficient, the crime situation could not be changed unless systems were improved at the grass roots level.”

In conclusion, while making an overall appraisal of the criminal justice system, Syed argued that the criminal justice system had failed to deliver not in the upper courts including the High court or the Supreme Court, but the lower courts which catered to the masses and dealt with crimes affecting the underprivileged classes. Even if the Supreme and High Courts were relatively efficient, the crime situation could not be changed unless systems were improved at the grass roots level.

When asked how he convinced jail authorities to share the data, he responded by stating that data collection was an art in itself. Researchers had to be very flexible and intelligent especially if their subject of choice required acquiring sensitive data. While responding to a question that he had concentration on the linkages between crime, poverty and inequality without mentioning crimes committed by the rich and powerful, Syed explained that crimes committed by the wealthy and influential were usually unidentified or unrecorded, and thus without availability of data they could not become a potential area for research.

: Dr. Danial N. Nelson, a former employee of the US Department of State and Defense and Senior Fellow at the Center for Arms Control and Nonproliferation in Washington D.C. was invited to deliver a talk on *Civil Military Relations under Democracy* at the Centre for Public Policy & Governance on the 20th of May 2010.

Dr. Nelson started his talk by examining the changing dynamics of the civil-military relations globally in a broad theoretical perspective. He explained how in recent years, the definition and scope of ‘civil’ as ‘individuals in top positions of government’ has expanded to include non-government agencies such as press, universities, and students as well. Similarly the military over the years has also outsourced some of the traditional military roles to private security companies; hence the terminology of ‘military’ has also acquired new meaning.

> “... have laws that required periodic reporting by the military regarding allocation of funds as well as the policies and activities that were being pursued”

He then proceeded to explain five mechanisms that needed to be employed to create an effective, and durable civil-military relationship. The first step entailed creating a constitution: a set of laws defining the parameters of civilian control over the military. According to these laws, clear reporting, monitoring and forecasting of military activities should be kept in check by the civil leadership. In the US, President was the Chief of Armed forces, regardless of whether he had served in the military or not. Such superiority of a higher civilian official over the military was necessary but not sufficient; it was even more important to have laws that required periodic reporting by the military regarding allocation of funds as well as the policies and activities that were being pursued. He argued that writing these laws in the constitution was critical to developing efficient working civil-military relations and inexperienced countries could learn from previous experiences, giving the example of Eastern Europe where various countries had written their constitutions after the fall of communism with the help of Western Europe and America.

> "...have structures and processes in place that could channel and thus regulate the behavioral pattern of defense department, intelligence agencies and security companies."

The second point of importance was a need for "cultural shift". Observing that some countries that had been favoring democracy in the past had recently started expressing more faith in military rule, he argued that it was important not only to focus on what "is" but what ought to be, keeping in mind the norms, values and beliefs which were changing over time. Civilian authorities and civil society ought to seriously articulate the need and the value of having military under civilian control. Additionally civil society needed to be vigilant regarding the role and activities of intelligence agencies and other security apparatus.

The third point of importance was having structures and processes in place that could channel and thus regulate the behavioral pattern of defense department, intelligence agencies and security companies. Giving examples, he stated that a presidential appointed commission reporting back to the President had the decision-making authority to open, close or retire military bases in the US. Similarly, following the debacle related to weapons of mass destruction in Iraq when numerous intelligence agencies had not shared intelligence, President George W. Bush appointed commission's report led to an Intelligence Reform Act. Hence military reforms were regulated through civilian decision-making bodies.

Fourth, he emphasized the need for greater transparency in order to have healthier civilian control. Narrating his work as a senior staff member of the United States House of Representatives, he said that one of his duties was to get defense and intelligence information for the majority leader of the House of Representatives, and the need for transparency was greatly felt to execute this task. To encourage transparency, he suggested; first, there should be public hearings and testimonies of military generals and senior officials of intelligence agencies, and disclosure should be demanded. Second, the civilian experts must be fully trained on the functions of military so that military secrets could be easily shared and understood by the civilians.

Finally, he discussed the issue of budgetary allocation observing that in most countries with partial civilian control over the military, the military disclosed insufficient and vague description of their budget spending. This had also been the case in Great Britain where spying agencies, MI5 and MI6, used to be unwilling to provide anything more than a one line item statement: "MI5 requires of Her Majesty's government, X billions of pounds".

> "... the civilian experts must be fully trained on the functions of military so that military secrets could be easily shared and understood by the civilians."

Nelson suggested that these mechanisms may not fit perfectly in Pakistan, but the principles were worth a consideration. Elaborating he said, a country could graduate from these steps and implement them incrementally. These strategies had worked for various countries with diverse socio economic conditions and could be modified and customized for implementation in Pakistan. South Korea, Argentina, Chile and Turkey had all followed a similar route in proceeding forward and hence, it was definitely doable in Pakistan as well. Thus Pakistan should compare its situation with countries that have made the transition from high military involvement in politics to a more neutral and state-focused military.

The talk evoked several questions among the participants.

Responding to a question regarding the dynamics of civil-military relations in the US, he said that the State Department (representing the civilian control of foreign policy) and Pentagon (representing the Defense department) were interdependent and worked in coordination. The military attaché for each embassy essentially had two bosses. He reported to the State Department as well as to the Pentagon. Additionally in case of war, the military needed to provide complete information to the State Department.

When enquired about the reasons for the closeness of Pakistani military to politicians in Washington DC, he explained that Pakistan military had been an important ally of the US and had worked with the US during the cold war and the ongoing "War on Terror". However he argued that these relations did not imply that US supported a military regime in Pakistan.

Answering a question if ethnic divide hindered the creation of adequate civil-military relations in Pakistan, he responded that it should not, giving the example of racial divide among Hispanic, Black and Whites in the US. Additionally, he explained the case of Indonesia, which had established working civil-military relations despite a high degree of segmentation and a history of civil military conflict. Pakistan could learn from such examples.

When asked how other countries' progress towards greater civilian control compared to Pakistan, he exemplified Indonesia, which like Pakistan had a large Muslim population and was also divided into ethnically diverse regions. Although the military had ruled for decades and had an inclination towards imposing dictatorial regimes, the situation had changed to greater civilian control. Argentina was another example, where the military ruler had lost the war facilitating transition to civilian supremacy through incremental strategies and mechanisms. He argued that a similar transition could also be undertaken in Pakistan.

Responding to a question regarding the impact of armed conflict on democracy, he stated that armed conflict would affect democracy negatively in any country and posed a challenge to any democracy. He gave examples of the American Civil War when President Lincoln eliminated Habeas Corpus, a vital part of rule of law. Similarly, during World War II, President Roosevelt had confined Japanese Americans to camps till the end of war.

> "In case of their inability to deliver, the public would be let down not only by the current government but by the institution of democracy which could potentially distort civil military relations."

Responding to a question regarding the role of political parties, the current government, judiciary and other institutions in contributing towards civilian control, he elaborated that the legal community including judiciary, lawmakers, lawyers and policemen all contributed towards creating a culture of law, which shaped the nature and degree of civilian control over the military. With regards to political parties, he argued that they bore a heavy responsibility in making greater effort to meet public expectations. In case of their inability to deliver, the public would be let down not only by the current government but by the institution of democracy which could potentially distort civil military relations. Thus civilians needed to enhance their capacity for better performance during democratic rule. In comparison with India, he argued that India's strength was a critical mass of prepared civilians who could operate government institutions effectively even with assassinations and insurgencies. He further added that the public needed to bear in mind that challenges faced by the current government were enormous and unprecedented given that world-wide recession, and the war against terrorism had limited government's capacity to improve the economy and the security situation.

Dr. Clarence Lausane, an expert in US and global race relations and the author of books "Colin Powell and Condoleezza Rice: Foreign Policy, Race and the American Century" and "No Easy Victories: A History of Black Elected Officials", was invited to deliver a talk on *The Rise of Afro-Americans in American Politics* at the Centre for Public Policy & Governance on the 5th of March 2010.

Dr. Lausane started off by providing a broad historical overview of African Americans in US politics. He argued that though the US constitution of 1787 was a revolutionary document in defining the relationship of people as citizens rather than subjects of government and in providing checks and balances among state institutions, still a compromise between the North and South (with a slave economy) led to the constitution facilitating enslavement. It allowed 20 more years of slave trade while the enslaved with no representation were counted as 3/5 of a person for the proportional representation of States in the US Congress. Thus giving Southern Legislatures a 60% advantage over the North for the next 100 years. It was only the American Civil War (1861-65), which provided citizenship rights to the Blacks through the 13th (end of slavery), 14th (citizenship rights to slaves) and 15th constitutional amendments (voting rights to black men). Consequently there was an explosion of Black participation and 22 blacks were elected to the Congress. But following a compromise between the two political parties leading to the removal of the federal army protecting Black voting rights in the South, the backlash 10-12 years after the Civil War led to the removal of elected Black officials from public offices. The next change came between the two world wars with massive African American migration to the North pulled by Industrialization, and pushed by the Klu Klux Klan and segregation in the South. Additionally Blacks gravitated towards a more receptive Democratic Party in the North leading to a rise in activism. It was the 1950s Civil Rights Movement comprising of various organizations and led by Martin Luther King that created a push towards the removal of legal segregation and barriers to voting through the Civil Rights and Voting Rights legislation. Thus with federal government taking over the election process in the South, 2000 Blacks were elected to office as compared to 300 before the legislation.

"... Obama turned this weakness into strength recognizing people's want to get rid of personalities who had dominated politics for too long."

African American aspiration for the White House began soon after, and the first serious campaign by a Black emerged in 1972 raising the issues of class, gender and race. Later Jesse Jackson, a civil rights activist ran for the Democratic Primary getting 3 million (1984) and 7 million (1988) votes with the effect that he was able to push through reforms, which later became critical for Obama. Lausane stated that there were 9000 elected Black officials today including 43 members of Congress. It had seemed impossible fifty years ago that by 2010 the head of the Republican Party and the Democratic Party (the president) would both be African Americans. But a single glance across the American political scenario clearly indicated how much the dynamics had changed.

Thus in discussing Obama's rise to power and factors that contributed to his success, Lusane remarked that "Obama made history but history also made Obama". He attributed Obama's victory to three major reasons. First, he projected himself as an embodiment of change and his message clearly dictated it. A relative new comer to politics who was virtually unheard off in comparison to the Clintons, Obama turned this weakness into strength recognizing people's want to get rid of personalities who had dominated politics for too long. Second, Obama brought with him an intriguing personal merit; he was bi-racial, an Ivy-league graduate, came from an interesting background, had an international presence, and most importantly he seemed capable of creating history. Of course, this did not mean that Obama didn't face any hurdles in his Presidential campaign as ironically early on, it seemed that the Blacks preferred Hillary Clinton over him while the Whites found him more attractive.

The third factor leading to Obama's success was his unique strategy. Recognizing that he was pitted against a family as influential as the Clintons, his advisors devised a well-thought out two pronged strategy. First, Obama decided to target the smaller States; whereas Clinton remained focused on the bigger ones, miscalculating and assuming that even if Obama won the smaller States, her winning larger States would give her the majority. However, with Democratic Party's rules dictating proportional representation (winning 30% of the votes would give 30% of the delegates) rather than winner takes all, Obama was able to attain control of a significant number of delegates from smaller states before Clinton realized what was exactly happening. On the other hand, the Republican Party's choice of a relatively colourless presidential candidate and an equally weak vice-presidential choice proved beneficial as Obama won 53% of the Presidential vote. Demographically, he got 95% of the Black vote, 67% of the Hispanic vote and 42% of the White vote.

Lausane perceptively analyzed the centrality of race in American electoral politics and society. Deducing from the electoral strategies of other presidential campaigns and focusing on Clinton's strategy, he pointed out that Obama's race was used by Clinton to create apprehensions in the public through a quasi Southern Strategy. He explained that when Nixon ran for President in 1968, his targeted strategy to attain White votes while ignoring Blacks came to be called the 'Southern Strategy'. Naturally, it caused a great deal of frustration and enhanced racial divide in the country. This strategy re-emerged in 2008 when it became clear that Blacks would overwhelmingly vote for Obama while the Latino vote was deviating, thus only the White vote remained at the end of the day. In short, Clinton and Republicans did "racialize" the whole campaign. Additionally the Obama campaign had to fight accusations all along: concerns over Obama's interaction with a "terrorist" some forty years ago, pictures of him dressed up in traditional Indonesian clothes, rumors of him not being an American and in fact being a Muslim were played up, and gained significant media attention. This unexpected twist during the campaign led the Secret Service to intervene and warn the McCain campaign. In fact, at a McCain speech, as a supporter stood up from the crowd and declared Obama to be a secret Muslim, McCain reacted by denying this statement and further stating that even if he was a Muslim, that should not be a problem.

Obama's election as President also roused what has been termed as the 'Demographic Panic'. As Black representation in US politics increased alongside an increase in Asian and Hispanic immigrants, this demographic diversity was perceived as a threat by many, to a degree that many Republicans proclaimed that American politics would soon be all black courtesy of Obama's rise to power. Concluding his remarks, Lusane showed a certain degree of optimism stating that Obama's election represented a post racial America where race was no longer an obstacle to achievement and success. However, it did not imply that all race-related issues had been resolved as disparities and differentiating impact of some policies harming Black and colored communities were still felt. Elaborating, he gave the example of political disenfranchisement as a result of having a criminal record. In many states across the country, going to prison also meant losing voting rights for a short time or permanently. For example in Florida, 400,000 African Americans had lost their voting rights because of this reason alone.

Dr. Lusane's talk roused several questions. He responded affirmatively when asked if the support of the Kennedy family contributed to Obama's success. It mattered especially because it was assumed that the Kennedy's would support Clinton. Ted Kennedy in particular was most forthcoming in supporting Obama, whose message of change was well received by the Kennedy's. Moreover the Kennedy's felt that it was about time that the torch was passed on.

In response to a question on Obama's stance on the Iraq War, he replied that it was probably what made Obama more popular during the initial part of his Senate campaign in 2004, but as time went on, more and more politicians became strongly opposed to the Iraq War. Hence, this made Obama's opposition towards the War less significant. Regarding the Afghan War and its impact on Obama's presidency, he considered it less alarming than the Iraq War because of lesser media attention to the scale of devastation. He did not consider the Afghan War as one of Obama's main or urgent priorities and was uncertain of it determining Obama's entire political future. Instead, he argued that foreign relations with countries such as North Korea, Iran, the Middle East and Pakistan would have a more direct impact on his re-election bid. Thus, a great deal of surprise was felt when Obama decided to increase troop levels in Afghanistan soon after winning the Nobel Peace Prize.

> "...foreign relations with countries such as North Korea, Iran, the Middle East and Pakistan would have a more direct impact on Obama's re-election bid."

In response to a question of carrying the campaign's theme of Change to the presidential agenda, Lusane explained the constraints of the implementation process. While a great deal of change could naturally be brought about through the Congress, the Congressmen and Senators were not so quick in their agreements even when the president's party was in majority. Additionally, the administration's attention to bipartisanship not realizing the degree of opposition had instead shaped politics entirely. The opposition's strategy to completely block out Obama's agenda could be seen when a piece of legislation was passed in the Congress without a single Republican vote. However, Obama had stressed that he would rather be a one-term president carrying out all the needed reforms and creating a significant impact than go for a second term and not get much done.

Visitors and Activities

11 January, 2010
Mr. Aneel Salman gave a talk on *Sustainable Well-being and Climate Change in Pakistan: "Case of the Keti Bunder Coastal Ecosystem"* at the Centre.

20 January, 2010
The Director, CPPG participated in the Second Round of Consultations with academics regarding the *World Bank: Pakistan Country Assistance Strategy (CAS) FY 2010 – 2013* at Avari Hotel, Lahore.

28 January, 2010
The Centre organized a policy dialogue on *"Improving Governance in Punjab"* in collaboration with the Punjab Resource Management Program (PRMP).

01 February, 2010
Mr. Hasaan Khawar gave a talk on *"Public Private Partnership: Showcasing Punjab"* at the Centre.

02 February, 2010
Mr. Patrick Kevin Doherty, an international tax consultant held a meeting with the Director on public policy issues specifically tax policy.

11 February, 2010
The Centre held a policy dialogue among stakeholders titled *"Consultative Meeting on Agriculture Policy Implementation"* in collaboration with the Punjab Agriculture Research Board (PARB).

22 - 24 February, 2010
The Centre held a three day short-term training on *Chart of Accounts, Basic Budgeting & Financial Control* under the Public Financial Management Series, in collaboration with Punjab Resource Management Program (PRMP).

25 February, 2010
Mr. Richard A. Detweiler, President Great Lakes Colleges Association (GLCA) held a meeting with the Director, CPPG to discuss collaborative opportunities.

1 - 2 March, 2010
The Centre organized a two day workshop on *"Social Science Theories, Research and the Enhancement of Social Knowledge"* in collaboration with the National Institute of Historical & Cultural Research (NIHCR).

05 March, 2010
Dr. Clarence Lusane gave a talk on *"The Rise of Afro Americans in American Politics"* at the Centre.

9-11 March, 2010
The Director, CPPG participated in the 10th Annual Population Research Conference on *"Population, Peace and Development"* as President, Population Association of Pakistan (PAP) and presented a paper titled *"Demography, Security and Governance: Implications for Pakistan"*

16 March, 2010
The Director, CPPG was invited to give a talk on *"Population Growth & Implication on National Security"* by the National Defence University, Islamabad.

18 March, 2010
Dr. Magid Shihade gave a seminar on "*Retaliation or Aggression? Gaza as a recent milestone in the Palestine question"* at the Centre.

2 – 4 April, 2010
The Director and Research Fellows participated in the 5th Humanities & Social Science Conference titled *"Pakistan and India: shifting identities in culture, history and justice"* held at Lahore University of Management Sciences (LUMS).

4 April, 2010
The Director gave an interview to the Voice of America on *"Global Terrorism"*

12 April, 2010
Dr. Shabib Haider, Head of Economics Department, FC College gave a seminar on *"Poverty, Inequality, Political Instability and Property Crimes in Pakistan: A Time Series Analysis"* at the Centre.

15 April, 2010
The Centre arranged a seminar by Mr. Patrick Doherty, an international tax consultant with the Government of Punjab on *"Tax Reform in Punjab: Challenges and Opportunities"*

4 May, 2010
The Director, CPPG gave an interview to the Voice of America on *"US – Pak Relations"*, to ARY TV on *"India Pakistan Peace Process"* and to an FM Radio on "Situation in Baluchistan"

13 May, 2010
The Director, CPPG chaired the 33rd meeting of the Board of Governors of the *Sustainable Development Policy Institute (SDPI)* in Islamabad

17 May, 2010
Dr. Siegfried O.Wolf, Lecturer Heidelberg University South Asia Institute visited the Centre to discuss *"Democracy & Civilization in seven Asian countries"*

20 May, 2010
The Centre arranged a seminar by Dr. Daniel Nelson on *"Civil Military Relations Under Democracy"*

22 June, 2010
Ms. Sabrina Tavernise, Correspondent for The New York Times visited the Centre to discuss *"US – Pakistan and Civil Military Relations"*

28 June, 2010:
Ms. Catherine Brown, a PhD candidate visited the Centre to share her research on the issue of *"Media in Afghanistan and Pakistan"* and to seek feedback.

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Board of Advisors

: Dr. William B. Eimcke is the founding director of the Picker Center for Executive Education of Columbia University's School of International and Public Affairs.

: Barrister Shahid Hamid, former Governor of Punjab currently manages his own Law Firm.

: Dr. Salman Humayun, Deputy Chief of Party, Education Sector Reform Assistance Program (ESRA).

: Dr. Akmal Hussain, a development economist specializing in action research. He runs a private manufacturing firm, Sayyed Engineers (Private) Limited.

: Dr. Saba Gul Khattak, former Executive Director SDPI specializes in comparative politics and state theory.

: Dr. Anjum Khurshid (MBBS, MPAFF), Assistant Professor and Director of the Health and Behavioural Risk Research Centre, University of Missouri.

: Khushnood Akhtar Lashari, a DMG officer currently serving as the Federal Secretary of Health.

: Dr. Naushin Mahmood, Senior Researcher at Pakistan Institute of Development Economics (PIDE) specializes in demography and population issues.

: Javed Masud, former Managing Director and CEO The Pakistan Credit Rating Agency Limited.

: Dr. Jack Nagel, Professor of Political Science, Business and Public Policy, Wharton, University of Pennsylvania.

: Jean-Luc Racine, Senior CNRS Fellow at the Center for South Asian Studies, School for Advanced Studies in Social Sciences, Paris focuses on geopolitics of South Asia.

: Kamran Rasool, former Chief Secretary Punjab, Federal Defense Secretary and Chairman PIA.

: Babar Sattar, LLM, a Rhodes Scholar who writes on social, political and legal issues and runs a law firm AJURIS.

: Dr. Shafqat Shehzad, Associate Professor Comsat University, Islamabad and former Research Fellow at SDPI specializes in health economics.

: Dr. Ayesha Siddiqua is a security studies expert specializing in defense decision-making and civil-military relations in South Asia.

: Dr. Rukhsana Zia, Director, Directorate of Staff Development (DSD), Punjab specializes in curriculum and management issues in education.

CENTRE FOR PUBLIC POLICY AND GOVERNANCE

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