



INSIDE THIS ISSUE

Pakistan: A Case for Small Government	1
As I Fade Away ...	2
SOS Village: Learning Life	4
Commies in Washington?	5
IMF Loans to Pakistan: History and Current Prospects	6
Rankings	7
Horrorscope	7
Letters	8

FINANCIALS (16th Jan)

Reserves	\$10 B
Foreign Debt	\$45 B
Per Capita Income	\$1045
GDP Growth Rate	5.8 %
Rupee Dollar Parity	Rs79.2
KSE 100	5778
Gold	\$807
Oil	\$35
Cotton	\$48

JULY-DEC 2008

FDI	\$ 2.32B
Remittances	\$ 3.67B
Exports	\$ 9.57B
Imports	\$ 19.1B

ECONOMISTAN

Projections FYr 08-09

FDI	\$ 5B
Remittances	\$ 8B
Exports	\$ 18B
Imports	\$ 35B

Pakistan: A Case for Small Government

WHO WILL MONITOR THE MONITORS?

By Muhammad Saad Sarwar

As the subcontinental saying goes, "Every two miles the water doth change, and every four the dialect". It can be rephrased to represent the reality of Pakistani Government as well... "Every two mile the water doth change, and every four the (governmental) authority".

"Who will monitor the monitors?", a famous quote from the movie "Enemy of the State" starring Will Smith fits well with the case for small governments all around the world. Pakistan's way of dealing with its problems of ensuring quality is the same. Create one authority after another to monitor this or that in order to ensure quality. All around the world governments have given up the job of monitoring different businesses and services. They have instead handed the baton to the private corporations with the premise that they would be able to take care of their customer in a better way without much government involvement. Flat and lean structure of a modern private organization would also result in transparency which government departments seldom offer. Governments all around the world are filled with bureaucratic layers, which make workings of these organizations crawl even at the best of government speeds. This problem is even more pronounced in developing nations such as Pakistan.

The West, however, is also not immune to such problems. Voice is raised every now and then on curtailing the size of the government. Big governments can devour big budgets in no time and hard earned tax payer money is spent in a lost cause. The Food and Drug Administration (FDA) is an agency under the US Department of Health and Human Services charged with the regulatory oversight of many products that affect the health and lives of Americans.

FDA has been under heavy criticism from many segments of the American society regarding its role in the approval and monitoring of drugs. It has also been criticized for being influenced and pressured by the American pharmaceutical industry for approval of certain drugs. Even in Pakistan the drug testing labs have been criticized for receiving kickbacks and allowing or disallowing a drug based on favors given to them by pharmaceutical companies rather than the merit of the drug.

The solution is to create non-profit independent organizations or give the lead to other private companies who can do that particular job in a better way. International organizations can also be developed which are independent of government or operate under the auspices of the United Nations. For approval or disapproval of drugs it could be any private company whether from Pakistan or around the world which is renowned for its independence, vigor, quality and integrity, whose seal of approval could be respected by customers all around the world. The website of this private company could display a list of approved drugs from all around the world, complete with relevant information about the medicine. Any customer should be able to go to its website and find out for him or herself about the nature of the drug and its validity.

International Corporation for Assigned Names and Numbers (ICANN) is a practical example of such an international organization for the internet. It is designed to handover the administration of the internet from the government to private enterprise. It manages domain names and IP addresses for the internet and the World Wide Web for much of the world.



Regulation of Higher Education in the West, especially the US is another example that underlines the role of private enterprise in the garb of regulatory bodies. The public universities or state universities of different states in the US are governed by a board of regents or governors, many of whose members have ex-officio appointments. The respective board of regents of these states prescribe the standards, functions, course guidelines, degrees and funding for the public universities in the different states of the US. All financed through the US tax payer pocket. However, they have no control or authority over private universities operating in the state, which have their own board of governors or trustees. The private universities in the US are accredited by different non-governmental organizations such as the Southern Associate of Colleges and Schools (SACS) which is responsible for accreditation for the schools in the southern states such as Virginia, Florida, Kentucky, Louisiana etc.

The different departments in these schools are accredited by other non-profit non-governmental organizations such as Accreditation Board for Engineering and Technology (ABET) for engineering departments of the universities in the US. In fact, ABET also certifies the engineering departments all around the world. Engineering students, who are the

customers of the colleges and universities would go into any school with an ABET stamp of accreditation on it whether in the US or abroad. If any Pakistani university gets accreditation from ABET for any of its engineering departments it would also be able to attract best students from all around the world who will be willing to join the university for the sake of an ABET accredited degree at a cheaper cost from a developing country. Similarly, Association to Advance Collegiate Schools of Business (AACSB) founded in 1916, a non-governmental organization was charged with accreditation of business schools world wide with Harvard, Yale, Dartmouth, UPENN etc. (the IVY leagues) as founding members. Currently, none of the business schools in Pakistan is a member of AACSB, which is a shame. One of the biggest criteria for me to search for a business school for my business degree was also coincidentally, AACSB accreditation which is recognized all over the world. Any student like the author who has been a graduate from AACSB accredited business schools can boast of such a qualification and is preferred over the rest for job applications. Even the ranking for the universities in the US is done by private corporations such as the Princeton Review or US News and World Report which helps give transparency and objectiveness to the rankings. The role of non-governmental organizations in

regulating educational institutions can never be overestimated and can help keep the size of the government small.

An institution of higher learning can never be deemed legal or illegal, as is being done in Pakistan. Private universities should be encouraged to bud without the threat of sanction from any governmental regulatory body. The customer who is the student is smart in enough to judge for him or herself, whether the school he or she is joining has a good accreditation or none, as is the case in the US. Private enterprise should be allowed to flourish at all costs for the good of the country. Both, in the academic institution role as well as, in the role of the accreditation body. Similarly, other regulatory authorities in Pakistan should be non-governmental to ensure transparency, productivity and integrity of the different domains regulated. This would also result in the cost-effectiveness for our government and tax payer money could be well spent in some other area of development where funds are badly needed. The environmental blight of the green number plate cars would also be reduced while at the same time increasing private job opportunities for the populace where salaries and perks would be much more in congruence to the productivity exhibited by these private non-governmental organizations.

As I Fade Away...

DIARY OF A NOMAD

By Umer Siddique

The other day I saw a group of nomads. It was dusk and their hazy forms were silhouetted against the crimson haze that radiated from the horizon. They had just uprooted their camp and were heading towards some unknown destination; some distant land, where some other sun shone, shrouded in mystery like their own

fading forms. Their hazy figures and amorphous shapes moved away imperceptibly until they disappeared into the oblivion of the darkening evening. The only reminder of their erstwhile presence was the remnants of their camp fire where a few cinders still glowed like ambers in a heap of ash. There was an air of tangible

sadness hanging over that place. I felt a surge of dreary feelings gripping me as I stared at the ashes of the moments that they had spent there. How mirage like the existence of these nomads was, how illusionary!



The only evidence of their existence in this world was the fading ambers of fire and ashes they had left behind them which would soon be wafted about and scattered by the winds. And once the ashes would be scattered by the callous winds, the last proof of their presence would be lost forever. Who knows those silhouettes that I saw fading into darkness might be mere illusions- those nomads only a figment of my imagination- who knows.

There is some strange, invisible thread of association that connects me with these nomads- for all my life I have been a wanderer too. I have wandered both in the spiritual and physical realms- I still am a wanderer. I don't know when and how did it all start- perhaps it runs through the family and was bequeathed to me as a heritage.

Sometimes I wonder if this association started the day when my grandfather was bundled away to Burma by his colonial masters as a conscript to fight the Japanese. He was sent to fight an enemy he had never heard of, had never seen and perhaps found no good reason to fight against. Growing up in a small town of East Punjab, it was rather hard for him to believe that his enemies waited to stalk him somewhere in the Burmese forests. They were just a name to him that was uttered every morning by his commanding British officers - a name that gave a semblance of meaning to his wanderings. Yet he marched through marshes, hacked his way through thick jungles, slept near camp fires, fought pitched battles with mosquitoes, endured endless rains under open skies, cried for his home, wrote letters to his poor mother who could not read them- and wandered in search of his enemies. His wanderings came to an end when he won the war without firing a shot or finding his elusive enemy and returned triumphantly to his home many years

later hoping for a steady life. But it was only a wish.

A few years later he was again a nomad- this time with millions of others that were uprooted as a result of the partition of India. But unlike nomads, he knew he would never be able to set his camp at the same place again. I have reasons to believe that this displacement was somewhat more painful than the last one as it meant leaving behind his entire childhood memories, abandoning the graves of his ancestors, his cozy little home and dreams of a familiar place to greet him every time he returned home. But he never turned back; not even once and stoically marched towards his unknown destination. He lived in refugee camps; once gain sat around camp fires amidst the sobs of thousands of dying, starving people; once again endured endless rains under open skies- and wandered. It all came to an end eventually but not before he passed on the baton to his son who decided to join the military service- and bound in the cruel and inexorable wheel of fate that governed his life, set out again in search of shadows that his own father had chased all his life. He moved from one city to another, scrambling from one place to the other, like a restless piece of chess in the hands of an impetuous player- and that is how I found life when I wandered into this world myself.

I vividly remember how we all waited for some distant event called settling down- perhaps in the same manner in which my grandfather would have waited years ago in the seclusion of the thick tropical forests. Everything revolved around it and at the centre of this whirlwind was my mother who spun it faster and faster with every passing day. I have reasons to believe that she liked her life of eternal banishment initially and fancied moving from one place to another. She liked the romance associated with visiting strange exotic places and

sleepy little towns that she never imagined existed before seeing them herself. But this romance did not last for long, just like a long train journey that begins with a lot of excitement and interest. One looks out at everything that rushes past the window and feels thrilled both by the flux and by the novelty of the scenery. As the time passes by, the excitement wears off and the novelty turns into monotony. That's what every wanderer feels and that's what she felt. She started waiting for the moment when this long journey of perpetual displacements would come to an end eventually.

I remember how my mother would always fondly stack her precious possessions away in boxes that looked like deep pits, waiting for the day when we would settle down. And when that glorious day would come, all the secrets of her treasure chests would be revealed to the world. It was like preparing for some great occasion that deserved special preparation as it would be the culmination of countless dreams and fancies. Those things were too precious to be shown in the middle of the journey - not to be opened in the train apartment. As a kid, when I roamed around in the market with my mother, holding her finger, she would point out towards shop windows and tell me what she would like to buy when we settle down. She talked for hours how our home would look like and how exciting it would be to live at the same place forever. Everything around me whispered the impending great event somewhere in the distant future.

It was a strange world that I inherited from my parents-one that was based upon anxious anticipation. Every face reminded me of it. Every image reinforced its existence.

I can still recall the pains of those wanderings.



They unfurl countless images that float away from me in oblivion. I still remember looking at the sad faces of my grandparents and their moist eyes from the rear screen of the car as it moved away from them. They stood like withered autumn trees, waving sadly at me as they disappeared out of sight. How sad I felt, how fragmented and torn. I remember how as a kid I followed the bus that was taking my father away for many years on a long journey. I wildly paddled on my bicycle as far as I could till I was panting out of breath and the little bicycle was meandering out of control and saw the big bus fading into a speck. How I made friends only to leave them one day -

never to see them again. I remember it all.

After many years the great event did happen for which my mother had been waiting for years. She finally unpacked all the things that she had been fondly collecting for years. But I was not there to see that. A victim of the same stigma, I was far away from her as I too had followed the footsteps of my predecessors and chose a vocation that meant an exile for the rest of the life, in foreign lands.

Sitting thousands of miles away from her, I could image her rummaging

through her boxes, looking for her treasures only to display them on empty walls that echo loneliness. I could hear her weary footsteps in rooms with all those things that she once used to show me through the shop windows. I could picture her taking out all those laurels that I had brought back for her from the school and the photographs that were meant to be finally exhibited at a place of our own.

Like the ashes the nomads left behind them, they would be a sad reminder of the dreams that she cherished all her life only to be lost to the winds of time as I fade into the darkening horizon far away from her.

SOS Village: Learning Life

A UNIQUE OPPORTUNITY TO MAKE A DIFFERENCE

By Ayesha Akhlaq

The summer break had started. I thought I would go interning with some big company this summer, tried for a couple of companies, got into a good one eventually. But then I was having second thoughts: maybe that wasn't how I wanted to spend this summer, because I thought that I'll probably be doing the same thing once I am done with my education... so why not give something else a hit!

I happen to live close to a trust organization: the SOS Village, home to thousands of orphans around the country. I ended up volunteering for teaching at its nursery school. I have had experience with teaching at a private nursery school, and I love being around kids, but this one was

nothing like it. It was dealing with children whom you couldn't tell they should tell their mothers to do homework with them, or ask their fathers to drop them early next morning. It had a different feeling! But I was happy to see that the SOS Village takes good care of the children they have. Provide them a good environment, caring caretakers they call 'mothers', good education, medical facility, and a place called home-only if it could ever be the same! The teachers put in a lot of effort because teaching these children is kind of different from teaching other children: they require a lot more attention and care. The teachers are qualified and hardworking, the administration is efficient and caring,

the village is actually a community where everybody has neighbors and friends and almost everything that would make its dwellers feel home!

At the end of the day, all I had left to think was how those beautiful children could live without a blessing called parents that we so often forget to cherish in our busy lives! The Village people are doing a wonderful job, and I think we should act our part in making the world an easier and better place to live in for those children, who when grow up and leave the orphanage, have to walk with us, compete, and face all the crests and troughs of a normal life!

QUOTE

There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.

SAM WALTON - FOUNDER OF WAL-MART



Commies in Washington?

END OF FREE MARKETS

By Muhammad Saad Sarwar

When Pakistan's central bank blocked foreign currency accounts to control the flight of capital to foreign banks in the aftermath of nuclear tests that it conducted, it was considered as interventionist and the measures were considered anti-economy and opposed to what free markets were all about. A similar thing happened again early this year when Pakistan's main stock market shed more than \$36 billion dollar of market capital in a very short span, the Securities and Exchange Commission of Pakistan put a floor on the points to curtail flight of money. Pakistani rupee also suffered at the hands of the flight of capital and the exchange rate fell from roughly Rs. 60 to a dollar to Rs. 78 to a dollar within a span of a few months. All these measures were criticized around the world because of the interventionist policies of Pakistani institutions who wanted to keep the economy in check.

The collapse of the investment banks like Lehman brothers and Meryl Lynch and firms like Fannie Mae and Freddie Mac along with the imminent fall of the US insurance giant AIG put the global markets in a tailspin. UK responded with a ban on short selling of stocks to arrest the fall of FTSE its main index. The US followed suit with the ban on short selling of stocks for a month. Short selling is speculative in nature with investors betting on a company's stock to fall driving the whole market down. Even profitable investment banks like Morgan Stanley were feeling the pinch because of the short sale. The measures worked and the stock markets around the world recovered within a day with a long and wayward week coming to an end. In the process, the Fed also ended up bailing out the insurance company AIG for a big sum of \$85 billion dollars and it is estimated the cost of the Fed's intervention to the US

taxpayer might amount to \$700 billion dollars overall driving the domestic debt even higher to upwards of \$11 trillion dollars. All these measures, with no clear and definitive answer to whether they will work or would be enough to save the ailing US economy.

All this brings to question an interesting debate of special interest to most Americans, that is, the clash of communism vs. capitalism. With the virtual nationalization of AIG and the mortgage market and the interventionist policies followed by the Fed one cannot help but feel whether the cold war ended with the fall of Soviet Union (collapse of communism/socialism by proxy) or caught on to the same country (the US, champion of capitalism and free markets) which brought about the collapse of the Soviet Union.

Economists have long argued in favor of free markets and held that intervention of the government in economy should be kept to an optimal minimum. I for one, also believe in the same thing with one exception. That is, the speculative use of instruments with techniques like short selling along with liberal credit lending can have a disastrous effect on any economy. Any use of an instrument which is speculative and where the investor has no real interest in the health of the actual company should be banned. The purpose of holding stocks is to have a share in the company's profits and a say in its operations. The long term share holders are the only ones who really care about the future of the company. Gamblers and speculators have always bode ill for the economy and any such use of instruments which encourage these practices should be

reviewed for the benefit of underlying corporations and the populace at large. Liberal credit lending comes with its own problems which become exacerbated in tough economic times of high oil prices and job losses with the result that common people start defaulting on obligations. This eventually goes up to corporation level and the companies also become prone to bankruptcy.

The security commissions of different nations have an important job in regulating use of instruments, especially the curtailment of techniques like short selling which are highly speculative. But these measures have to be pre-meditated and should not come as an afterthought in tough economic times. Exchange authorities should be able to foresee the destructive nature of certain types of sale of securities well in advance and make them illegal. It is high time that all types of sales and uses of securities are reviewed to determine their efficacy for economy. If such measures come as an afterthought after these speculative selling techniques among others have done their damage, then these commissions risk being labeled as interventionists. Markets should be free to function in the construct of rules predetermined to work in an efficient manner. Only in this way can they be left alone in tough economic times i.e. without intervention and interference resulting in increased consumer confidence in the markets. Current trend of increased regulation and interference and nationalization (AIG) seems like the US government is run by commies in Washington.



IMF Loans to Pakistan: History and Current Prospects

IMF LOANS AND BINDS

By Saira Yousaf

IMF loans have been an important source to manage the financial problems of Pakistan such as balance of payment deficits, stabilization of currency, rebuilding international reserves, managing liquidity problems along with enabling the respective countries to meet their short term needs by providing various types of loans which IMF calls as its lending 'facility'. In the last few months, there was a lot of speculation and discussion on the government decision to call for IMF loan to meet its liquidity and financial problems. In spite of effective policy actions taken by State Bank of Pakistan, issues such as sharp depreciation of exchange rate, depletion of foreign exchange reserves of \$5 billion till November 2008, inflation rate of more than 25%, and increase in import bill by 35.2% created immense challenges for the government and State Bank of Pakistan. Finally, the IMF loan of \$7.6 billion was approved to help Pakistan come out of the liquidity and financial crisis albeit with certain IMF conditions. The IMF facility is still an important topic of discussion until the real gains from IMF loans are realized.

To determine the effects of IMF loans on Pakistani economy, it is important to analyze the history of IMF loans to Pakistan briefly. Since 1988 when Pakistan became member of IMF, almost eleven loan arrangements (including the recent IMF loan of \$7.6 billion in 2008) have taken place under various IMF facilities/programs. Almost six loan arrangements were made during the regime of Benazir Bhutto including standby arrangement, Structural Adjustment Programs (SAP), Poverty reduction and Growth Facility (PRGF) and Extended SAP. Two IMF loan arrangements were made during

Nawaz Sharif regime and two standby agreement and PRGF under Musharraf regime to stabilize the economy. It is important to note that in the tenure of last two decades, on average almost 44% of the total lending amount has been drawn from the original 100% agreed upon lending amount because of the failure of the government to act upon the strict measures determined by IMF. For the first time in the year 2000, this tradition was broken in Musharraf regime when Musharraf's government successfully implemented the conditions proposed by IMF and successfully drew the whole lending amount of \$1.3 billion. It is also very interesting to note that only two loan arrangements were made during the military regime whereas nine IMF agreements (including the recent IMF loan) were made during the civilian regime.

The conditions posed by IMF mostly include the close monitoring, reduction of government spending, revision in tax collection policies, change in policy/discount rate etc. to make sure that funds granted to the borrower country are utilized in optimal manner. The IMF loans greatly impact the economic indicators and bring change in the regulatory framework which has both positive and negative impacts on the country. Pakistan saw a decline in GDP growth rate and other economic indicators right after infusion of IMF funds in the economy except in the second last lending arrangement in Musharraf's regime when full amount of loan was drawn from IMF. The economic indicators after IMF loans in the last two decades followed a typical cycle. Usually the trend after IMF loans show immediate decline in GDP growth rate, increased tax revenues to GDP ratio, increased CPI, increased

debt on the country and then restoration of the conditions back to their previous states because of the cancellation of loans in the later years. The cancellation of IMF loan agreements in the previous regimes along with the initial IMF loan effects created quite negative impacts on the economy as a whole which shows that there were very few times when IMF loans were fully optimized.

The current IMF loan is expected to have both positive and negative impacts. The immediate benefits include quick influx of liquidity, improvement in credit rating by reducing the country's default risk, enhancement of foreign exchange reserves, stabilization of rupee (which faced 25% depreciation against U.S. dollar till November), increased investor's confidence in both money and capital markets and increased financial assistance from the friends of Pakistan. However the negative impacts associated with the increase in policy rate include increased costs for the banks, increase in unemployment (because many banks and organizations will go for restructuring and downsizing to reduce their operating costs) and increase in poverty rate.

Owing to the great financial crisis faced by the many economies, Pakistan is pursuing contractionary monetary policy which is quite different from the policies followed by the other economies. The regulator's perspective is quite valid in arguing that our conditions are different from the rest of the economies. For conformance to IMF conditions, the government is taking fiscal measures such as increase in general sales tax by 1%, increase in efforts in tax



collection, removal of subsidies on domestic petroleum products, higher electricity tariffs and effective measures to solve the issue of circular debt.

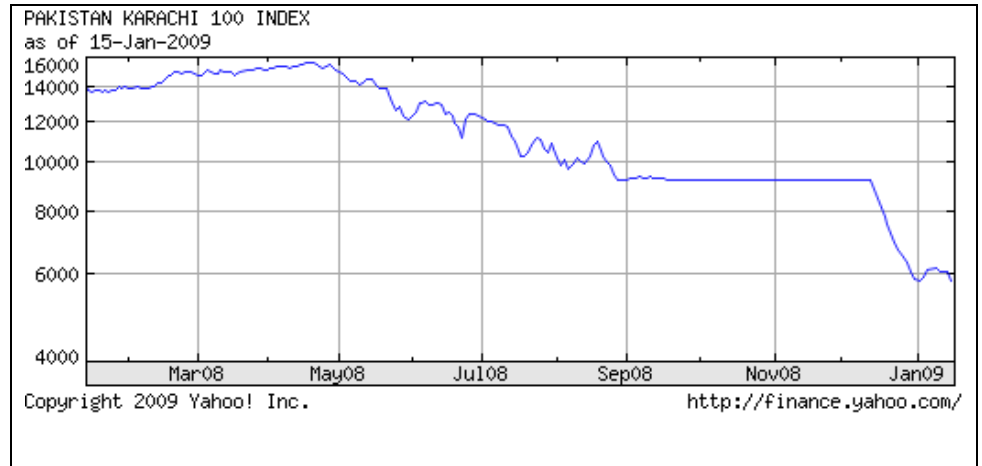
To conclude I would like to opine that the cyclical trend on the macroeconomic indicators after the IMF loans and overall condition of the

economy can be improved with the effective fiscal control and effective policy measures. The negative effects were not seen in the last IMF loan taken in the year 2000 (in Musharraf regime) and improvement in growth indicators were imminent to conclude that the cycle and the negative impacts can be the result of improper implementation of measures

prescribed by IMF. The expected doubts about Pakistan's growth can be removed if government remains committed to proper policy measures and restoration of market mechanisms to make sure that IMF loans are effectively utilized for the betterment of economy.

PAKISTAN'S COMPETITIVENESS RANKINGS IN THE WORLD

IT Outsourcing (Odesk)	2
IT Outsourcing (Rent a Coder)	3
Banking Efficiency (WEF)	5
Broadband Growth(Pointtopic)	4
Mango Production	5
Milk Production	5
Wheat Production	7
Rice Exports	3
Water Footprint(UNESCO)	8
Income dist (poorest 10%)	10



HORRORSCOPE (BAILOUTS AND BUSTS)

MERYLL LYNCH	CITIGROUP
LEHMAN BROTHERS	GM
GOLDMAN SACHS	CHRYSLER
FANNIE MAE	WAMU
FREDDIE MAC	AIG
MORGAN STANLEY	UBS
BANK OF AMERICA	RBS
WELLS FARGO	HBOS
CREDIT SUISSE	ING
DUETSCHKE BANK	FORTIS

IT HAPPENED IN JANUARY - RAGNAR FRISCH DIES JAN 31, 1973(NOBEL LAUREATE)

Frisch was one of the founders of economics as a modern science. He made a number of significant advances in the field of economics and coined a number of new words including econometrics and macroeconomics. His 1926 paper on consumer theory helped set up Neo-Walrasian research. He formalized production theory (1965). In econometrics he worked on time series (1927) and linear regression analysis (1934). With Frederick Waugh, he introduced the celebrated Frisch-Waugh theorem (*Econometrica* 1933) (sometimes referred to as the Frisch-Waugh-Lovell theorem). His 1933 work on impulse-propagation business cycles was one of the principles behind modern New Classical business cycle theory. He also played a role in introducing econometric modeling to government economic planning and accounting. He was one of the founders of the Econometric Society and editor of *Econometrica* for over twenty years. The Frisch Medal, so named in his honor, is given every two years for the best paper published in the aforementioned *Econometrica* in the previous five years. (wikipedia)

QUOTE

Information is power, and the gain you get from empowering your associates more than offsets the risk of informing your competitor.

SAM WALTON - FOUNDER OF WAL-MART

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LETTERS TO THE EDITOR

Letters to the editor along with any contributions to www.economistan.com and the newsletter can be sent at the following email address:

contributions@economistan.com

The letters would be published in the next issue of this newsletter *THE WORLD VISTA*.

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ECONOMISTAN

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