**Confusing Causation with Correlation!**

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One takes it that SIFC’s mandate now stands enhanced to also include the tasks of addressing the problems faced by domestic investors and fixing the ills of the economy. Very well, since these are rather broad, but nevertheless very important areas and perhaps collective authority may bring in the desired results. On the former bit: Unfortunately, right from start of the trend in seeking foreign experts to solve local problems, Pakistani investors have been short-changed in comparison to the foreign investors, supposedly in order to lure the much touted FDI (foreign direct investment) and/or ‘parachute’ revenues. Ironically, given the blanket incentives and in absence of any clarity of which type of FDI are we looking for or will accept, majority of such capital not only promotes market distortions, capital whitening and money laundering, but also shortly thereafter becomes a burden on the external account. Countries who have successfully attracted productive FDI have done so by first framing strict rules on the quality, purpose and the long-term impacts of direct foreign investments; sadly no such desire here in Pakistan, as the mantra has been to grab dollars without ever bothering about the associated repercussions - let the next generation worry about it! On to the latter bit, which one takes as the larger economic vision (reckon, the former being nothing, but a part of this broader mandate): In fixing the ills of the economy, the challenge really lies in undertaking the long-term reforms, meaning in ascertaining where do we want to see our economy over the next 25 years, albeit even more importantly what type of an economy do we want construct and how. Regrettably, focusing on these very elements of economic vision - as we have thus far seen in the economic history of our country - have proved elusive. Mainly, because more often than not they tend to clash with prevailing personal and institutional interests of the powerful governing structure. If this is something that SIFC is willing to tackle (take the bull by its horns), then to ring these reforms truthfully cum meaningfully a lot of introspection will be required followed by course corrections and then finally by creating a firewall to prevent the incoming lots from returning back to the old ways!
Reforms and change management requires a dedicated and professional team backed by the will of the state. The idea is to undertake policy measures that aim to, a) make Pakistan’s domestic economic space, both competitive and self-sustainable to unleash growth that is indigenous and not externally driven, b) revisit trade agreements with a singular purpose of generating trade surplus, c) re-strategise investment aimed to embark on import substitution & exports, and link FDI outflows to the very initial investment and thereafter with the annual foreign exchange it generates (India & China to quite an extent work in this manner), and last but not least d) institutionalise economic policy making by constituting an apex regulatory to monitor the decision makers. Time and again we see economic decisions emanating from quarters with little understanding or perhaps scant awareness about corporate governance requirements on transparency & disclosures, arm’s length decision making to avoid any conflict-of-interest, prevention of rent seeking, fair competition, SWOT analysis, sustainability and ensuring returns cum accountability to ‘all’ stakeholders. It may not be very democratic, but perhaps a necessary firewall to prevent economic decision making of the calibre that we have seen over the last half a century.
Implying that building on the recent short-term successes from the market/border operational-measures undertaken by the current government is going to be the real litmus test on SFIC’s workings. Perhaps the most effective tool that economics has developed in modern day management is that of identifying causation from correlation. Meaning, a problem that econometrics invariably encounters on a regular basis is that a statistical correlation does not necessarily imply causation or the other way round. For example, just because one wore mismatched socks to a job interview and didn’t get the job does not prove the hypothesis that the wardrobe malfunction was what killed your chances. And naturally one cannot test the hypothesis by rerunning the interview with matched socks, referred to as the ‘fundamental problem of casual inference’. In reality, the key to success in finding the most suitable recipe for a specific economic revival is by basing one’s strategy on the real world outcomes. The beauty is in finding fruitful natural experiments based on similarities; something which requires not just cleverness but a deep understanding of the phenomenon itself. Half-baked initiatives or the ones not based on a long-term sustainable pinning leave room for slippage, because to succeed in today’s global world the attention to the facts is important, since they enable managers to determine where the limit to causation ends and when the need to develop a new correlation starts. This is why it is important for the present economic managers to understand that the current successes are merely short-term and while laudable, this success needs to be followed up by comprehensive long-term measures to rebuild the complete underlying structure of the current Pakistani economy. The question though is that is the longevity of the SFIC itself designed in a way that it allows it adequate time to successfully take up such a long-term task!