

# Mfn status to india – pakistani perspective



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MFN Status to India Introduction More than 16 years after it became a founding member of the World Trade Organisation, Pakistan has finally decided to live up to one of its most important obligations under that treaty: granting Most Favoured Nation status to India. In a decision that came after several hours of reportedly heated debate, the cabinet – ultimately unanimously – chose to approve the commerce ministry's proposal to grant MFN status to India.

New Delhi had already granted that status to Pakistan in 1996 and had been demanding that Islamabad reciprocate, particularly during the most recently concluded round of trade talks, held last month in Mumbai. Trade could not be allowed until the Kashmir issue was resolved to Pakistan's satisfaction. So after the 1965 war with India, all trade was banned, except a short list of necessary items. What it means? The decision to grant MFN status to India essentially just means that Pakistan will no longer discriminate against India and treat it the same as it treats over 100 other countries.

It does not mean an automatic removal of the barriers that currently exist to trade with India, though it makes removing them easier. Although granting MFN does not mean any out of the ordinary trading facilities, yet it signifies that the same importance is given to the products imported from India as is provided to other countries. The World Trade Organisation (WTO) bounds its members not to use discriminatory methods against other member countries for both tariff and non-tariff regulations.

Therefore, Pakistani businessmen will be allowed to import nearly 2, 000 out of 10, 000 plus products, which are registered on the positive list by the

Government of Pakistan. Consequently, this would ease restrictions on Indian products. The debate is continuing on two planes — one economic and the other political. Arguments in Favor \* Opposition to MFN status for India was based on ignorance. It has also been pointed out that by treating India as a most favoured nation Pakistan will only be fulfilling its obligations under the WTO Protocol and reciprocating New Delhi's decision of 1996. Trade was already taking place illegally. We have just regularised it \* After economically benefiting from Pakistan, New Delhi may decide to settle the outstanding political issues that will help to normalise relations between the two countries. \* Pakistani consumers will be able to get cheap goods specifically medicines, automobiles and, to a certain extent, raw materials for the industries. \* The government will be able to earn revenue in the form of import duties, since many Indian products currently available in the markets were smuggled. Is it fair to increase the liabilities of the future generations only for the sake of covering up the muddle-headedness of the past and the present generations? Leave economists and traders aside, common sense alone can guide any citizen to answers in accord with the national interest and reason. True, the creation of a new trade regime cannot be a push-button affair, but wisdom lies in starting the process sooner rather than later. \* For years illegal/informal trade between India and Pakistan has been twice as much as the trade through official channels.

The gap will continue to grow and both the state and the people will be the losers. \* There is no doubt that the people of Kashmir have a just cause and to the extent their cause is supported, regardless of their views on the territory's future, Pakistan will have an objective worth struggling for — of

course, short of war. This struggle cannot be conducted by an unstable, non-democratic, aggressively theocratic, politically divided and economically dependent Pakistan. Nobody will lift a finger for Pakistan unless it achieves political cohesion and economic strength under a democratic canopy. Why India should be kept out especially since, as compared to China, transport costs were lower across the borders and also because certain Pakistani exporters stood to benefit from reciprocal trade facilities with India. \* Feasibility reports commissioned by the Commerce Ministry under the Benazir Bhutto regime in the mid 1990s which proved that there were significant benefits to Pakistan from trading with India. \* In 1998, Nawaz Sharif made a tentative move to dent this equation. Pakistan had surplus sugar and electricity for which there was demand in India and profits to be made in Pakistan by both the private and public sector.

The nuclear tests had led to a US squeeze on the Pakistani economy and Sharif sought to break out of his regional straightjacket. But there were no significant transport facilities to enable such exports. The Indians wanted security guarantees that if they built such facilities on their side of the border these would not be left stranded in the event of any future conflict with Pakistan. So Sharif opted for " bus diplomacy" in February 1999 with India's PM to create the political space to expand trade and commerce.

He also launched a back channel to resolve Kashmir. But the military sabotaged this initiative by launching an operation in Kargil and overthrowing Sharif. \* Now MFN status has been granted to India because of two compelling reasons. The first is economic: the Pakistani economy is in a bind again because relations with America have soured and adversely

impacted the aid pipeline; the IMF has pulled out because we are not ready to tighten expenditures and raise revenues, and inflation, unemployment and poverty are weighing on the public.

Cheap imports from India will help in controlling inflation just as exports to India will help the balance of payments. The second is political: the military is embroiled in a serious conflict on its western borders and wants to stitch up the eastern border with India so that it is not distracted from the job at hand.

\* The lobbies whose interests have been entrenched over decades on the basis of animosity with India cannot bear any betterment in relations. The life of these lobbies depends on India-enmity. The other Side Some claim that the WTO regime does not make it binding to grant a bilateral MFN status to every country. \* The most commonly advanced argument against normalisation of trade with India is that the economies of the two countries are competitive and not complementary and that Pakistan's export potential is much less than India's. India stood to benefit more from it than Pakistan by running huge trading surpluses. \* Pakistan and India had about \$1.7 billion worth of bilateral trade in 2010. The trade is tilted heavily in India's favour, with Indian exports to Pakistan totalling \$1.5 billion whereas Pakistan exported about \$275 million worth of goods to India. \* The Indian Prime Minister, Dr Manmohan Singh, is a very cautious person and man of few words. But when he called his Pakistani counterpart, Yousuf Raza Gilani, a 'man of peace', Dr Singh drew flak from many in India, including the Bhartiya Janata Party (BJP). Perhaps, he got a little carried away because Pakistan granted the Most Favoured Nation (MFN) status to India that would lead to increased trade and easy access of Indian products to Pakistani market.

How this is going to work is yet to be seen, but one thing is clear: Several Pakistani industrial units will be under increased pressure after the market is flooded with cheap Indian products. Anyway, this does not mean that Pakistan will be unable to protect itself, if the balance of payment equilibrium is disturbed to dangerous levels. Also, Pakistani Foreign Minister Hina Rabbani Khar was optimistic about the emerging scenario and stated that “ ties between Pakistan and India had entered a positive zone. She maintained that Pakistan will not hesitate to invest in India or Afghanistan, as it had a vital interest in maintaining regional peace. But while she predicted that the two countries were moving towards an environment that may lead to a result-oriented dialogue, the Minister forgot to mention how it would happen without resolving the Kashmir issue. Further, some economic wizards in Pakistan have not only questioned the MFN status, but also termed it as a premature move by the federal government. Some believe, rightly, that liberalising trade will price out several Pakistani goods and increase the existing trade imbalance. \* Since the basic condition for trade remains competition, the Indian administration is most likely to maintain high tariffs on goods of export interest to Pakistan. \* However, a serious setback can occur in case the benefits of liberal trade are not evenly distributed leading to more tensions between the two countries. \* India may secretly subsidise some of the exports to Pakistan, specifically to compete with the Chinese products that are cheaper and easily available. it will mean abandonment of Pakistan’s stand on Kashmir. How could the “ enemy” which was throttling Pakistan’s “ jugular vein in Kashmir” be a most favoured nation? \* India did not give any trading concessions to Pakistan after granting it the MFN status. This gave the signal that this decision was mere point-scoring in the

international arena. \* It is not prepared to give way on the Kashmir issue and its rulers have utterly forgotten that the logic which led them to occupy Hyderabad means also meant that Pakistan had a right to Kashmir.

Conclusion \* Keeping in mind the history of bilateral relations between India and Pakistan, the decision of granting India the MFN status was taken in pure militaristic fashion. Neither was it discussed in parliament, nor in the Senate. Political parties from across the board were also not consulted or taken into confidence. No discussions were conducted in the media either. The decision was taken abruptly by the Cabinet; the information minister announced it promptly after.

Given this rushed manner of things, the furore that followed was to be expected. \* This is not how decisions are taken in a democracy. Especially decisions that relate to the foreign policy, and the most sensitive matter in the foreign policy that will affect the day to day lives of common people at that. It's worth noting that India has already given Pakistan the MFN status some time back but no Pakistani government was able to take the requisite reciprocal step. This means that their existed strong resistance to the issue.

Then why did the government adopt this militaristic approach rather than trying to iron out public opinion? Such approaches are bound to have negative fallouts and this is what happened. \* Pakistan should also try to move swiftly on all outstanding issues, most notably the Kashmir dispute, to see the sincerity of the Indians as to whether they honestly want a change for the better. In case they continue to stall on issues, like the distribution of

water and deny the right of self-determination to the Kashmiris, this euphoria will not last long.

Therefore, while increased trade and easing of restrictions on travel would be a sign of improvement in ties, it should not mean that those who advocate the rubbing off the scars of partition be allowed to dominate Islamabad's policy. It must be understood that the line dividing India and Pakistan is a permanent feature and the talk of 'one culture' and 'one people' holds no water, since it is not the truth – a phenomenon that must be respected, if the neighbouring States want to move forward and live in peace!