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## Pakistan Grants India Most Favored Nation Trading Status?

BY HUMA YUSUF

**Huma Yusuf**, Columnist for Pakistan's *Dawn* newspaper, explains that Pakistan's recent decision to grant India Most Favored Nation (MFN) status is partly due to Islamabad's strained relations with both Washington and Kabul, which have left Pakistan increasingly isolated. "The MFN decision promises not only to bolster the India-Pakistan bilateral relationship at a time when the latter needs friends in the region, but also to earn Islamabad the applause of Washington and Kabul."

The clumsy manner in which Pakistan announced that it would grant the trade status of Most Favored Nation (MFN) to India indicates the political significance of this decision. Pakistan's Information Minister Firdos Ashiq Awan, on November 2, declared that the federal cabinet had decided unanimously to grant MFN status to India. Two days later, other government spokespeople tempered this message, explaining that the cabinet had simply approved the process of "normalization" of India-Pakistan trade relations, which included granting MFN status. It is now understood that Pakistan will formalize the announcement at some future date after a series of meetings and negotiations with India's Ministry of Commerce and Industry. This cautious approach is a reminder that Pakistan's dealings with India remain fraught in spite of recent confidence-building measures. Why then did Islamabad choose to take up the MFN issue at this time?

To a large extent, the decision is driven by economic logic. The MFN status means that Pakistan's tariffs on Indian imports will have to be the same as the tariffs it imposes on other trading partners. Granting India MFN status would finally fulfill Pakistan's obligations as a member of the World Trade Organization and reciprocate India's gesture of granting Pakistan MFN status in 1996. Lower tariffs on the import of Indian goods would help boost trade between the long-time rivals to the benefit of both economies. Formal trade between India and Pakistan stands at \$2.7 billion annually, while unregulated trade, much of which is routed through the United Arab Emirates, is estimated at \$10 billion. According to the Indian economic research institute ICRIER, potential trade between the two countries could have been as high as \$14.3 billion in 2009, and the label of MFN for India will help achieve that potential.

As part of the trade normalization process, Pakistan will replace a "positive" list of 1,934 permitted Indian imports with a much shorter "negative" list of products that cannot be imported. In turn, Pakistan hopes that New Delhi will offer preferential access to textiles, agri-products and other goods from across the border. A liberal trading regime with India would give a fillip to Pakistan's economy which has lagged in recent years.

By granting India MFN status, Pakistan also strengthens its case for the removal of non-tariff barriers imposed by India. These include visa and travel restrictions, protracted customs clearance procedures, controls on the movement of goods, the maintenance of a limited number of ports and custom posts to handle Pakistani imports, and the excessive use of trade defense measures—all of which create a significant imbalance in bilateral trade to Pakistan's disadvantage.

Pakistan's worsening energy shortfall has also spurred the decision to normalize trade relations with India. The total electricity deficit is now as high as 6,000MW and, according to Pakistan's Ministry of Finance, cost the country two percentage points in



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GDP growth in the 2010-11 fiscal year. On the same day that Pakistan first announced its intention to grant India MFN status, Prime Minister Yousaf Raza Gilani also gave the go ahead for Pakistan to import 500MW of electricity from India. This deal could herald a new era in regional energy cooperation and should therefore unfold against the backdrop of improving trade relations between India and Pakistan.

Of course, political considerations also account for the timing of the announcement. In recent months, Islamabad’s relations with both Washington and Kabul have soured in the context of counterterrorism initiatives, leaving Pakistan increasingly isolated. The MFN decision promises not only to bolster the India-Pakistan bilateral relationship at a time when the latter needs friends in the region, but also to earn Islamabad the applause of Washington and Kabul. The United States has previously emphasized that strong ties between India and Pakistan are the key to regional stability. Meanwhile, Afghanistan fears that Pakistan and India could engage in a proxy war on its territory after the US-led NATO drawdown in 2014. For both these countries, then, strengthened Indo-Pak relations are a positive development.

Pakistan too will want its relationship with India to be on a strong footing in the run up to the US troop withdrawal from Afghanistan. Islamabad fears that New Delhi is trying to gain political influence in Kabul and encircle Pakistan so as to force it into a two-front confrontation in the event of future conflict. Pakistan therefore supports a political role for the ethnically Pashtun Afghan Taliban who, it is believed, will defend Pakistan’s interests in Kabul. In light of these concerns, Pakistan is expected to ask for certain concessions from India—such as reduced Indian involvement in the training of Afghan security forces—during any regional political reconciliation efforts to end the conflict in Afghanistan.

Normalized trade relations and bilateral energy initiatives will increase the likelihood of India addressing Pakistan’s concerns in the Afghan context. India will want to ensure that it can benefit in the same way as other regional partners from a stable Afghanistan through deals such as the transit trade agreement with Pakistan and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas project. With MFN status in place, India can secure involvement in such initiatives without having to plan for an expanded presence on the ground in Afghanistan.

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In an international context, too, the time is ripe for India and Pakistan to try normalizing their bilateral relationship. The two countries are currently serving as temporary members on the UN Security Council and are expected to become full members of the Shanghai Cooperation Organization. Dialogue on regional solutions to the Afghan conflict will be conducted at these multilateral fora in coming months, and the engagement will be more productive if the Indo-Pak bilateral relationship is evolving for the better.

Despite the many reasons guiding Pakistan’s decision to grant India MFN status, the process of normalizing trade relations will be arduous and halting. Influential Pakistani business lobbies fear that the local market will be flooded with cheap Indian goods, and are expected to pressure the Ministry of Commerce to include their products on the “negative” list of domestic goods to be protected from Indian competition. Given that a general election is scheduled in Pakistan for 2013, politicians will be reluctant not to indulge the fears of business groups for fear of losing potential campaign donors and voters. The Pakistan military, which is a major industrialist and economic stakeholder, will also closely monitor the contents of the “negative” list. In a throwback to its historic security preoccupation with India, the ever influential Pakistani military establishment will also be seeking to defend its economic interests and investments from its neighbor.

Huma Yusuf is a Columnist for Pakistan’s *Dawn* newspaper. The views expressed here are solely those of the author and not of any organization with which she is affiliated. She can be contacted via email at [huma.yusuf@gmail.com](mailto:huma.yusuf@gmail.com).