



India Revokes MFN Status to Pakistan

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In a major diplomatic move, **India withdrew the Most Favoured Nation (MFN) status accorded to Pakistan** in its bid to convey a strong message to the country in the aftermath of Pulwama terror strike.

What does Most Favoured Nation mean?

- **Article 1 of General Agreement on Tariffs and Trade (GATT), 1994**, requires every World Trade Organization (WTO) member country to accord MFN status (or preferential trade terms with respect to tariffs and trade barriers) to all other member countries.
- Accordingly, India accorded MFN status to all WTO member countries, including Pakistan, from the date of entry into force of the so called Marrakesh Agreement, establishing the WTO.

Note:

- Established in 1995, WTO replaced General Agreement on Trade and Tariffs (GATT) that has been in existence since 1946 to promote international trade after World War II.
- The bulk of the WTO's current work comes from 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT).
- Although it sounds as if MFN offers preferential treatment, it only **ensures non-discriminatory trade**.
- It makes sure that any country receiving MFN status avoids any disadvantageous situation in comparison to the granter's other trade partners.
- According to the World Trade Organisation rules, countries cannot normally discriminate between their trading partners.
- If one country is granted a trade concession such as, for example, lower import duties, then all WTO members must be extended the same concessions.

- This principle is known as the Most Favoured Nation treatment. Despite repeated promises, Pakistan has never granted MFN status to India.
- Therefore, MFN is a non-discriminatory trade policy as it ensures equal trading among all WTO member nations rather than exclusive trading privileges.
- Since India and Pakistan are part of the WTO, both are required to grant MFN status to each other and other partner countries.

What does revoking MFN mean?

Revoking it means India can levy whatever import tariffs it wants. India can now make it very expensive for Pakistan to export its goods or services to India.

What happens now?

The commerce ministry will now write to WTO in order to revoke MFN status given to Pakistan by invoking Article 21 of WTO, also known as the Security Exceptions Article.

Impact Analysis

- So far, India has only revoked the MFN status. It has not altered the import duties on Pakistan. However, if it does hike them, then this will likely have an impact on that country.
- The scale of that impact is questionable because as per Commerce Ministry data India's total trade with Pakistan is only \$2.4 billion in 2017-18, with just \$488.56 million of this being imports from Pakistan which is meagre. Therefore, revoking Pakistan's MFN status seems to be more of a symbolic move.
- It may further give a push to the illegal trade between the two countries, which takes place through border gaps and via third countries.
- It could also give a handle to extremist elements in Pakistan to scale up the rhetoric against India.
- However, the decision by India to withdraw MFN status to Pakistan is intended to isolate Pakistan diplomatically and squeeze the country's industry.
- This move will adversely affect the image of Pakistan as a trade partner and investment hub.