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India-Pakistan Detente: Its Significance is More Than for Restoring Bilateral Relations

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Abstract

On 2 November 2011, Pakistan's cabinet decided to grant India the Most Favoured Nation (MFN) status, which it should have done soon after the two countries joined the World Trade Organization (WTO). That was 15 years ago. India gave Pakistan the MFN status; Pakistan held it back until now in the hope that it could leverage the MFN issue to get concessions out of New Delhi on Kashmir. This, of course, did not happen. The grant of MFN to India should begin to normalise economic and trade relations between the two countries. That notwithstanding, this paper suggests that the significance of this move goes much beyond bilateral relations between the two countries. It could – perhaps would – influence Pakistan's tattered relations with the United States (US) and to help bring peace to the South Asian sub-continent.

Introduction

Pakistan and India had close economic and trade relations when the two countries were carved out of British India to become independent states. In 1947, India was Pakistan's largest trading partner accounting for two-thirds to three-fourths of its imports and exports. This relationship changed suddenly two years later, when in 1949, India severed trading

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relations with Pakistan. The reason was Pakistan's refusal to devalue its currency with respect to the American dollar as was done by all other members of what was then known as the Sterling Area, and is now the Commonwealth. Pakistan's decision not to readjust the value of its currency meant that the rate of exchange between its rupee and that of India's changed from parity to 144:100. India, not prepared to accept such a steep devaluation of its currency, stopped all trade with its neighbour. This is where the situation has remained for the last 62 years. China and the US are now the largest trading partners respectively for India and Pakistan. This is a tenable situation for India since the 'gravity model of trade' postulates that the direction of trade should be determined by the size and distance between two trading partners. It makes sense for India to have neighbouring China as its largest trading partner. For Pakistan, India and China should be in that role not the US.

Grant of MFN Status by Pakistan to India

There has been rapid warming of relations between the two countries. This is the result of the recognition by India that unless it has peace on its north-western borders – the border with Pakistan – its claim to the status of an emerging superpower would not be credible. As discussed below in the case of Pakistan – in particular its powerful military – there is a growing appreciation that with deteriorating relations with the US, it would be prudent to arrive at an understanding with India. In July, the foreign ministers of India and Pakistan met in New Delhi and agreed to move forward on a number of fronts. Special efforts were to be made to restore trade to 'normal' levels – the level expected by the application of the gravity model to trade between these two neighbours. This meeting was followed in September by that between the commerce ministers. At this meeting, Pakistan pledged to work towards the grant of MFN status to India. This pledge was fulfilled on 2 November 2011.

The Washington Post noted while commenting on the decision by Pakistan to grant the 'most favoured nation' status to India in matters pertaining to trade, 'in recent weeks, India backed Pakistan's bid for a non-permanent seat on the United Nations (UN) Security Council, and Pakistan backed India's nominee for the Commonwealth secretary general's role. When an Indian helicopter was forced to land in Pakistani territory because of bad weather last month, the crew was freed almost immediately – something that might not have happened in the past.'² It appears that the easing of relations would not be restricted to trade.

The decision on 2 November by the Pakistani cabinet to award India the MFN status is a tectonic shift in the country's relations with its large neighbour. India took that step in 1996 soon after joining the WTO. Pakistan was also obliged to give to all members of WTO – and that included India – the same status. But Islamabad refused to act in the mistaken belief that

² Shaiq Hussain and Simon Denyer, 'Pakistan normalises trade ties with India, signals new warmth', *The Washington Post*, 3 November 2011, p.A9.

it could use it as a lever to get concessions from New Delhi on Kashmir. As most economists have argued, improving trade and economic relations with India would bring greater benefits to Pakistan, the smaller of the two economies, than to India. If trade were to be used as a lever, India has greater power than Pakistan.

The Pakistani decision concerning the grant of MFN status was received with enthusiasm by the Indian leadership. Anand Sharma, India's Commerce Minister, hailed it as part of a 'paradigm shift' and said that New Delhi 'deeply appreciated' the move. It will be beneficial for both countries, he said. Pakistan's initiative had the support of its powerful military which had continued to look at India with suspicion.³ The military's approval was implied by Firdous Ashiq Awan, Pakistan's Information Minister in announcing the cabinet's decision. 'This was a decision taken in the national interest and all stakeholders, including our defense institutions, were on board,' she told the press.⁴

The business community on both sides of the border applauded the move. Many believed that there will be almost immediate benefits in terms of reducing the transaction costs of doing business between the two countries. The Federation of Indian Export Organisations (FIEO) estimated that trade between the two nations could double from current levels of about \$2.7 billion a year simply by the rerouting of goods currently sent via Dubai as well as through some other channels, including Singapore. But according to one newspaper report, 'the Confederation of Indian Industry cautioned that road blocks such as stringent visa rules, non-tariff barriers and communication problems still need to be dismantled and more trade routes opened up' for full benefits to be realised.⁵

Larger Consequences of the MFN Move by Pakistan

But the real significance in this breakthrough will go much beyond increasing India-Pakistan trade. It will provide foreign policymaking in Pakistan with a new base, moving the country away from total preoccupation with the US. At this time, relations with America have become highly strained. Improving relations with India will certainly help to place the dealings with Washington in a new context. Although the ground on which Pakistan has sought to structure its relations with the US over the past six decades has continuously moved, it always included concerns about India. This should cease to be the case as relations between the two nations continue to improve.

Pakistan got close to America as a part of its effort to build its defences to protect itself from the threat it then perceived was posed by India. That was essentially the reason why Ayub

³ Mathew Green and James Lamont, 'Pakistan boosts links with India', *Financial Times*, 3 November 2011, p.5.

⁴ Shaiq Hussain and Simon Denyer, 'Pakistan normalises trade ties with India, signals new warmth', *The Washington Post*, 3 November 2011, p.A9.

⁵ *Ibid.*

Khan, first as Defence Minister and later as the country's President, negotiated a series of defence agreements with the US. Pakistan bound itself in arrangements that covered a wide geographic front, stretching from the Mediterranean to the Pacific. Good relations with Washington also brought economic help to the country at the time Pakistan was attempting to speed up the rate of economic growth. That was a by-product not the real motivation behind the effort to get close to Washington.

Later, during the presidency of General Zia ul Haq, while economic assistance from the US became the main motive for association with Washington, concern with India remained at the back of policymakers' mind. Both economic considerations and the need to strengthen its defences against India were the reason why Zia famously turned down the offer of help by US President Jimmy Carter in return for Islamabad's assistance to throw the Soviet Union out of Afghanistan. He famously called the American offer 'peanuts'. Islamabad wanted more from the US than Carter's America was prepared to give. Carter's defeat in the elections of 1979 brought Ronald Reagan to power as President. The new head of the American state was prepared to do much more than his predecessor to destroy what he called the 'evil empire', referring to the Soviet Union. Pakistan's willingness to align itself with America to achieve this objective was welcome news in Washington. In return for Islamabad's support to expel the Soviet Union from Afghanistan, America was prepared to provide copious amount of military and economic help.

By becoming a member of the American alliances in the 1950s and 1960s, Pakistan was making a hypothetical commitment. It would support the US in any activity directed to stop the advance of Communism in Asia and the Middle East. However, in the 1980s, association with the US meant providing active support in a military campaign – the one fought by the US in Afghanistan with the help of a number of proxies. This change produced new dynamics in Pakistan's situation. It shifted focus to Afghanistan in the making of policy and, at the same time, the country had to contend with many unanticipated consequences being an active player in a battlefield close at hand. Among the latter were the rise of Islamic extremism in the country, weaponisation of the Pakistani society and culture, and ethnic conflict between some of the communities in the country. The large-scale migration of Afghans to Pakistan was to increase the Pashtun population in Karachi. The consequence of this particular development is still being felt in Pakistan's largest city. While the persisting concern with India was at the base of Pakistan's Afghan policy, the entry of Afghanistan as a variable in the making of policy was to acquire increasing significance after the terrorist attacks on the US. Under General Pervez Musharraf and, after his departure, under the successor civilian government, curbing the rise of Islamic extremism and international terrorism associated with it became the basis of relations with the US. However, Islamabad has been reluctant to move against one particular group of Islamic extremists that has given enormous headache to the US as Washington begins the process of pulling out of Afghanistan. The group is known by the name of its leader, Jalaluddin Haqqani. The Haqqanis have had a long and close relationship with Pakistan's main intelligence agency, the Inter-Services Intelligence (ISI).

The ISI has supported the Haqqanis to safeguard Pakistan's interests in Afghanistan and to counter India's growing influence in that country. Once again the fear of India complicated Pakistan's position in external affairs.

Conclusion

However, with the easing of tensions with India, relations with the larger neighbour will become less of a factor in the crafting of foreign policy. A different kind of relationship with India would introduce a new variable in the way Pakistan looks at the world outside its borders. This will affect the country's relations with the US as well and should place all of South Asia on a trajectory of sustainable peace.

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