

# *AJISS-Commentary*

**The Association of Japanese Institutes of Strategic Studies**

**IIPS**

Institute for International  
Policy Studies

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The Japan Institute of  
International Affairs

**RIPS**

Research Institute for  
Peace and Security

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Online Publisher:

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No.144. 2 March 2012

## **A METAMORPHOSIS OF THE INDIA-PAKISTAN RELATIONSHIP?**

***Takenori Horimoto***

In November, India and Pakistan saw a major breakthrough in their fragile relationship. Pakistan finally announced that it would grant India Most Favored Nation (MFN) status. India offered Pakistan MFN status way back in 1996, but Pakistan had been hesitant to reciprocate. What is behind Pakistan's recent move and what will be its implications?

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

The biggest factor is Pakistan's economic predicament. The country has long been troubled by fiscal problems, with its annual economic growth stalling at 2.4 percent in the fiscal year 2010-2011. Financial assistance from Washington is expected to significantly drop when American forces withdraw from Afghanistan as scheduled by 2014. The current US-Pakistan relationship can already be likened to a state of loveless marriage mainly merely sustained by mutual needs: Islamabad provides Washington a supply route to Afghanistan, and Washington provides Islamabad economic aid in return.

Pakistan's grant of MFN status to India is apparently an attempt to offset the expected drop in aid from Washington. Trade volume between India and Pakistan stood at US\$1.4 billion in fiscal 2010-2011. Furthermore, the two countries' trade barriers have spawned contraband trade whose total volume is estimated at twice or three times that of official trade. If this unofficial trade is properly incorporated into formal trade, Pakistan will be able to increase its tariff revenues and, above all, stimulate its economy. Pakistan, whose gross domestic product stands at US\$0.16 trillion, would greatly benefit from its neighbor, the world's ninth largest economy, boasting a GDP of US\$1.73 trillion and an annual growth rate of around 7 percent in fiscal 2010-2011. Following Pakistan's decision to grant India MFN status, the two countries have also agreed to work on a Professional Trade Agreement (PTA).


The Kashmir dispute and terrorist attacks in India by Islamic extremists linked to the region have long been the stumbling blocks to relations between India and Pakistan. In the past decade, bilateral relations deteriorated to the verge of war after a terrorist attack on the Indian Parliament in 2001. Thanks to US mediation, the two countries began strategic dialogue in 2004. Washington wanted to direct the focus of the Pakistani forces toward Afghanistan rather than India. However, the 2008 Mumbai terrorist attack, which killed some 160 people, jeopardized efforts to improve relations. As had been the case on earlier occasions, India blamed the Pakistani army, particularly its main intelligence agency, the Inter Service Intelligence, for assisting extremist groups. Pakistan denied India's allegation.

Out of fear of the growing power next door, Pakistan at one time tried to maintain the geopolitical balance with India by threatening it from east and west. After East Pakistan became independent as Bangladesh, the separation movement in disputed Kashmir and extremist activities supporting the movement took over as the best counter-balance measure against India. It is the Pakistani armed forces that have been promoting this balancing policy. Countering India is their *raison d'etre* and the military has maintained strong influence on Pakistan's India policy.

When American forces withdraw from Afghanistan, the Pakistani military will revert to its traditional counter-India policy, which will make it want to see the establishment of a pro-Pakistani Taliban regime in Afghanistan. Civil-military relations are deteriorating in Pakistan to the point that a military coup could happen at any moment. If the military takes over Pakistan's regime again, the prospects for improving relations with India will become even more uncertain.

The fact that Pakistan granted India MFN status despite all this suggests that the chief reason behind Pakistan's recent move lies in Pakistan's deteriorating economy. Initially, the military was reportedly reluctant to grant MFN to India. Information Minister Firdous Ashiq Awan emphasized the need to get the military's agreement by telling reporters that "This was a decision taken in the national interest and all stakeholders, including our military and defense institutions, were on board." The MFN grant may mark a political development driven by economic conditions, a familiar phenomenon observed in many parts of the world. If economic relations between India and Pakistan expand, the business community that has had a relatively weak voice within Pakistan may come to have a stronger say and demand that greater emphasis be placed on economic policies than on politics, terrorism and Kashmir.

Given the mutual distrust between India and Pakistan, which fought three wars in the past six decades, it is unlikely that the grant of MFN status will instantly bring about an improvement in bilateral relations. There will be a lot of twists and turns. A metamorphosis of the bilateral relationship is possibly taking place gradually. India dislikes third-party involvement when it comes to its relations with Pakistan, yet it would also be in Japan's interest to help resolve

conflicts between India and Pakistan that undermine the stability of South Asia. Japan may well consider utilizing the bilateral Global and Strategic Partnership, which it formed with India in 2006, for this wider global purpose. 

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