

Most Favoured Nation: Notes for UPSC Economy

The title of the Most Favored Nation (MFN) is a status or level of treatment given by one country to another with respect to international trade. This ensures that the country conferring the title must give all sorts of trade benefits to the most-favored-nation.

This topic is relevant for all IAS exam aspirants.

Definition of Most Favoured Nation

In international economic relations and international politics, the most favoured nation (MFN) is a status or level of treatment accorded by one state to another in international trade. The term means the country which is the recipient of this treatment must nominally receive equal trade advantages as the "most favoured nation" by the country granting such treatment.

What are exceptions for MFN?

GATT members recognized in principle that the "most favoured nation" rule should be relaxed to accommodate the needs of developing countries, and the United Nations Conference on Trade and Development (established in 1964) has sought to extend preferential treatment to the exports of the developing countries.

Another challenge to the "most favoured nation" principle has been posed by regional trade blocs such as the European Union and the North American Free Trade Agreement (NAFTA), which have lowered or eliminated tariffs among the members while maintaining tariff walls between member nations and the rest of the world. Trade agreements usually allow for exceptions to allow for regional economic integration.

What are the rules of the World Trade Organisation regarding MFN?

Under rules of the World Trade Organisation (WTO), a member country is not allowed to discriminate between trade partners and if a special status is granted to one trade partner, the country is required to extend it to all members of the WTO. In a nutshell, MFN is a non-discriminatory trade policy as it ensures equal trading among all WTO member nations rather than exclusive trading privileges.

What are the advantages of the Most Favoured Nation title?

The advantages of the most-favored nations are:

1. These nations get access to a wider market for better trade.
2. They pay a lesser cost on their exports due to the reduction in trade barriers.

3. Due to the above opportunities, they get better options in terms of growth in business and competitiveness.

When did India grant the most-favored-nation to Pakistan?

India granted MFN status to Pakistan in 1996.