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## CROSS-LINE OF CONTROL TRADE: PROBLEMS AND PROSPECTS

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### ABSTRACT

The India-Pakistan dispute over Kashmir is one of the most intractable disputes in the contemporary world. Generally, both countries have pursued policies that revolved around their concerns about territoriality and sovereignty over Kashmir. However, in the last decade or so particularly after the revival of Composite Dialogue process in 2004, both countries are moving slowly from the state-centric to a people-centric approach by encouraging movement of people, goods and ideas across the heavily militarized Line of Control (LoC). One significant development in recent years has been the beginning of Cross-LoC trade in October 2008. It was 65 years ago in 1947 that trade across LoC had stopped. This paper deals with the nitty-gritty of Cross-LoC trade. It examines how business entities and individuals in the state view trade transactions with the other side and perceptions about the economic viability of Cross-LoC trade. It also investigates into the problems and prospects of conducting this duty free trade. Cross-LoC travel and trade has the potential to create transformational spaces which will help ease tensions over Kashmir and bring in the people of state to the centre stage in addressing the Kashmir issue.

**Keywords:** Kashmir Conflict, India-Pakistan Relations, Peace, Cross-LoC Trade, Confidence Building Measures.

### INTRODUCTION

The state of Jammu and Kashmir (J&K) is landlocked region with a total area of 2, 22,236 sq. km. Of this, 78,114 sq. km falls under Pakistan Administered Kashmir and 37,555 sq. km under China. In addition to this, 5,180 sq. km. of J&K territory were ceded to China by Pakistan under the March 1963 Sino-Pak Boundary agreement (The Dawn, 1963)<sup>1</sup>. The state shares a 221-km international boundary with Pakistan in the Jammu region and 365 km with China along Ladakh. The Line of Control (LoC), which divides the Indian and Pakistan administered parts of Jammu and Kashmir, is 1001-km long border (Jammu - 205 km, Valley - 460 km and Ladakh/Siachen area - 336 km) (State Development Report of Jammu and Kashmir, 2003: 366-368). The high land area under peripheries of the state exposes its inhabitants to diverse problems arising out of the distinct geo-physical situation, the high military presence and concomitant socio-economic conditions. This becomes ever harder given the lack of basic infrastructural facilities. More than eight districts and 44

blocks in J&K fall within surroundings of many sovereign countries and out of total 6652 villages 235 are uninhabited, mostly located along the LoC (State Development Report, 2003).

The issue of Kashmir has achieved the distinction of being 'one of the most intractable disputes in the contemporary world' with scholars having analyzed the political dimension thoroughly. The economic dimensions of the problem have received much less attention (Schaffer, 2005: 13). Traditionally, India and Pakistan have remained preoccupied with concerns about territoriality, sovereignty, principle of equality and moral legitimacy when approaching the issue. However, their failure to find a breakthrough and the high costs associated with maintaining the status quo has nudged New Delhi and Islamabad to consider fresh ideas for resolving the dispute. Perhaps the most promising development in recent years has been their amenability to normalizing the state through enhanced economic and human interaction between the Indian and Pakistani Administered parts of Jammu and Kashmir as previously no direct contact was permissible between these two parts of the state. The hope is that the enhanced economic interdependence would act as a

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catalyst for ameliorating the conflict by creating a strong, indigenous constituency that can push the two states towards peaceful resolution of the dispute.

One of the dimensions of Kashmir issue has been the de facto division of the state after the 1948 India-Pakistan war (Baba, 2007: 215). This factor has socially and economically strangled the people of the state. It needs to be noted that historically, Kashmir has been at the crossroads of civilizational, social and economic currents. That is why it has had very close trade and cultural relations with places in China, Tibet, Central Asia, Afghanistan and Iran, not to speak of close connections with the north and more particularly northwestern Indian subcontinent (Baba, 2007: 215).

**GEOGRAPHICAL SIGNIFICANCE OF KASHMIR VALLEY**  
Surrounded by lofty Himalayan ranges and in absence of road fit for wheeled carriage, the Kashmir valley was till the end of the nineteenth century difficult to access. This geographical factor was responsible for restricted flow of trade with rest of India or even with its neighboring regions (Bamzai, 2007: 78-82). During the middle and later part of nineteenth century, the region enhanced its trade ties with other areas that surrounded it. In 1847,

the routes mainly used were:

- The Imperial road from Bhimber to Srinagar leading over the Pir Panjal Pass.
- Route from Jammu to Srinagar over the Banihal pass.
- Route following river Jhelum and leading to Muree.
- Route over the Zoji-la to Ladakh and thence to Lhasa and Yarkand.
- Route over the Burzil-la to Gilgit, Hunza, Nagar and Shinshinaki republics (Kira, 2007: 04).

Among these routes, the Jhelum Valley road via Muzaffarabad has been the most important link that connected the Valley of Kashmir with the rest of the world for trade, people-to-people contact and exchange of cultural and social influences. The 1947 political developments, resulting in the division of the Indian subcontinent and the de facto division of Jammu & Kashmir, the placement of its two parts under the actual control of two different and hostile states, and the resultant hardening of borders, pushed the Valley to a number of social, psychological, political and economic disadvantages. Kashmir was relegated to the status of a secluded periphery (Baba, 2007: 215).



Map 1: Jammu and Kashmir and Surrounding Areas.

Source: Courtesy of the University of Texas Libraries, The University of Texas at Austin.

## OVERVIEW OF INDIA-PAKISTAN RELATIONS AND KASHMIR-SPECIFIC CONFIDENCE BUILDING MEASURES

Relations between India and Pakistan have been strained by a number of historical and political issues, and are defined by the violent partition of British India in 1947, the Kashmir dispute and the numerous military conflicts fought between the two nations. Consequently, even though the two South Asian nations share historic, cultural, geographic, and economic links, their relationship has been plagued by hostility and suspicion. There have been numerous attempts to improve the relationship - notably, the Tashkent Declaration (1966), the Shimla Agreement (1972), the Lahore Summit (1999) and the Agra Summit (2001). Since the early 1980s, relations between the two nations soured particularly after the Siachen conflict, the intensification of Kashmir insurgency in 1989, Indian and Pakistani nuclear tests in 1998 and the 1999 Kargil war. Both sides have mobilized their troops along the international border and LoC<sup>ii</sup> in Kashmir after the 2001 attack on India parliament. Fortunately, a ceasefire was brokered between the two states in November 2003. The ceasefire was followed by the revival of Composite Dialogue<sup>iii</sup> process. Both India and Pakistan have moved from a position of confrontation to nascent cooperation in seeking a solution in Kashmir and have been looking for ways of 'making borders irrelevant' without compromising their stated positions (*The Hindu*, 2007)<sup>iv</sup>.

**Inauguration of Srinagar-Muzaffarabad bus Service:** The LoC was slightly softened when the Srinagar-Muzaffarabad bus service was inaugurated on April 7, 2005 and the Poonch-Rawalakote route was opened for travel in June 20, 2006. The resumption of cross-LoC bus services was welcomed by majority of the Kashmiris living on both sides of the LoC barring a section of All Parties Hurriyat Conference (APHC)<sup>v</sup> and the Kashmiri insurgents. The Srinagar-Muzaffarabad service was disrupted for some time after the road was damaged in the 2005 earthquake. Despite procedural delays, divided families have regularly been crossing the LoC over the last eight years. According to AJK official sources nearly 20,000 people have travelled since the bus services were resumed in 2005 (Akhtar, 2012: 14). The mainstream political leaders as well as members from the APHC and media persons were also allowed to cross the LoC. Defending the Indian Government's decision to allow cross-LoC interactions, the then India's Minister of External Affairs, Pranab Mukherjee

said in the parliament, "The expansion of people-to-people contacts, including through trade and commerce will provide an effective platform to develop and strengthen bilateral relations" (Unstarred Question in Lok Sabha, 2008). The start of bus service in Kashmir added momentum to calls to allow the resumption of trade across the LoC. The Working Group on Cross-LoC CBMs<sup>vi</sup> constituted by the Indian Prime Minister, Dr. Manmohan Singh in 2006 has also highlighted the need for cross-LoC trade as a legitimate aspiration of the people of J&K (Chandran, 2008: 2). The people of Kashmir Valley feel psychologically suffocated, as the only physical link of the Valley with the rest of world is through the Jawahar Tunnel. There is also a feeling in the Valley that New Delhi deliberately wants to keep the Jawahar Tunnel as the sole outlet for the Kashmiris to make them completely dependent on India (Chandran, 2008: 02). Therefore, allowing the movement of goods across the LoC will address this psychological perception as well.

**Start of Cross-LoC trade and Public Mobilisation for Business:** In 2006 an understanding was reached between India and Pakistan to start cross-LoC trade in selected primary products of Kashmiri origin (Yusuf, 2009: 02). The Foreign Ministers of both countries met on May 21, 2008 to discuss new and existing Kashmir-specific Confidence Building Measures (CBMs), and agreed to increase the frequency of Srinagar-Muzaffarabad and Poonch-Rawalakote bus services and allow intra-Kashmir trade and truck services (Pattanaik and Anant, 2010: 4-5). On July 18, 2008, the India-Pakistan Joint Working Group on cross-LoC CBMs met in Islamabad to simplify the procedure for issuing cross-LoC travel permits; to increase the frequency of the Srinagar-Muzaffarabad bus service; to launch a postal service between the two cities; and discussed the list of items to be allowed for trade through the truck service. On September 22, 2008, the modalities regarding the movement of trucks, code of conduct for the drivers, permits, security, timings and list of items to be traded were agreed upon between India and Pakistan to conduct cross-LoC trade. Following this, cross-LoC trade on the Srinagar-Muzaffarabad and Poonch-Rawalakote routes commenced from October 21, 2008. Twenty-one items were identified for duty free passage from each side (Table 1). Most of the items in the trading list are agricultural commodities, which makes it more of a commodity trade rather than a free trade between the two regions.

Table 1. List of Trade-out and Trade-in Agriculture Commodities on the Srinagar-Muzaffarabad and Poonch-Rawalakote routes.

S. No	List of goods exported (traded-out) from Salamabad to Chakoti and Chakan-da-Bagh to Rawalakot as per SOP*	List of goods Imported (traded-in) from Chakoti to Salamabad and Rawalakot to Chakan-da-Bagh as per SOP*
1	Carpets	Rice
2	Rugs	Jahnamaz and Tusbies
3	Wall Hangings	Precious stones
4	Shawls and stoles	Gabbas
5	Namdass	Namdass
6	Gabbas	Peshawari leather chappals
7	Embroidery items including crewel	Medicinal herbs
8	Furniture including walnut furniture	Maize and maize products
9	Wooden handicrafts	Fresh fruits and vegetables
10	Fresh fruit and vegetables	Dry fruits including walnuts
11	Dry fruit including walnuts	Honey
12	Saffron	Moongi
13	Aromatic plants	Imli
14	Fruit bearing plants	Black Mushroom
15	Dhania, Moong, Imli and Black Mushrooms	Furniture including walnut furniture
16	Kashmiri spices	Wooden handicrafts
17	Rajmah	Carpets and rugs
18	Honey	Wall hangings
19	Paper Mache products	Embroidered items
20	Spring, rubberized coir/foam mattresses, cushions, pillows and quilts	Foam mattresses, cushions and pillows
21	Medicinal herbs	Shawls and stoles

\*Standard Operating Procedure

Source: J&K Economic Survey 2009-10, Directorate of Economics & Statistics, Planning and Development Department, Government of Jammu & Kashmir: 359.

The mainstream Kashmiri political parties on both sides of the LoC and majority of the APHC leaders supported the reopening of the Srinagar-Muzaffarabad road for trade (Akhtar, 2012: 17) as it would provide an alternative trade route to ensure uninterrupted flow of consumer items into the valley and for exporting fruit and other items from there. The business and trade community across the LoC welcomed the beginning of trans-LoC trade. They felt that trade would bring the people closer across the LoC and reduce tension between the two countries while strengthening the peace process. Shortly, before the beginning of cross-LoC trade a 19-member delegation of AJK<sup>vii</sup> Chamber of Commerce and Industry (AJKCCI) visited Srinagar from October 9-16, 2008 (Ibid). The delegation met their counterparts from Srinagar and Jammu region and discussed in detail the potential, volume, modalities and

other issues related to the conduct of cross LoC trade. Their interaction led to the creation of a Joint Chamber of Commerce-Intra Jammu & Kashmir Chamber of Commerce & Industry (IJ&KCCI). As a goodwill gesture, Zulfiqar Abbasi, president of AJKCCI, was appointed president of the Joint Chamber for an initial one year-term up to October 2009(Ibid). The Joint Chamber prepared a set of joint recommendations for the facilitation of trade and submitted it to the governments of India and Pakistan in October 2008.

**Recommendations of Joint Chamber of Commerce & Industry and Efforts for the Written and Signed Agreement:** Some of The Major Recommendations Included;

- Expansion of the list of items for trade;
- Facilitation of travel and traders access to each other’s markets;

- Infrastructure facilities like the trade facilitation centers;
- Financial facilities like banking services etc;
- Use of dual currency of both countries as the mode of payment with the US dollar as the reference point;
- Inclusion of services sector in trade; and
- Opening of more trade routes like Kargil-Skardu etc.

The Joint Chamber remained only on paper and could not be launched formally as a reciprocal visit by the businessmen from the Indian Administered Kashmir could not materialize due to escalation in India-Pakistan tensions in the wake of the Mumbai attacks in November 2008.<sup>viii</sup> But the representatives of Chambers across the LoC did not give up and continued their efforts to iron out issues in the cross-LoC trade and institutionalize linkages between the respective chambers and emerging traders associations on both sides of the divide.

After four years of struggle made by Chamber representatives, in November 2011, in a meeting held at Istanbul, Turkey facilitated by the London-based Conciliation Resources (Greater Kashmir, 30 November 2011) ten major business organizations including the heads of four major Chambers and Federations of Industries from both sides of divide have decided to form a formal, inclusive and properly elected apex Joint Chamber of Commerce and Industry.<sup>ix</sup> The first ever written and signed agreement on first non-governmental cooperation between different organizations of mutual interest from both sides of the LoC between Jammu and Kashmir was arrived at after a three-day long meeting held in Istanbul, Turkey from November 26 to 28, 2011.

The agreement was reached between Presidents and other elected representatives of the Kashmir Chamber of Commerce and Industry (KCCI), the Jammu Chamber of Commerce and Industry (JCCI), the AJK Chamber of Commerce and Industry (AJK CCI), the Federation Chambers of Industries Kashmir (FCIK), the Federation of Industries Jammu (FIJ), the Gilgit-Baltistan Chamber of Commerce and Industry (G-B CCI), the Merchants Association Ladakh, the associations and councils of cross LoC traders from all four trading points (Chakan-da-Bagh-Tetrinot on Poonch-Rawalakote route and Salamabad-Chakothei on Srinagar-Muzaffarabad routes) and the Intra-Kashmir Trade Union (Ibid).<sup>x</sup> It was agreed that the Jammu and Kashmir Joint Chamber of Commerce and Industry (J&K JCCI) shall be comprised of 44 members equally drawn from both sides of Line of

Control. Further, the agreement clearly spelled out breakup of membership between all partner organizations. The eight members of the General Body will be reserved for the cross-LoC traders, four from each side (Chakan-da-Bagh-Tetrinot and Salamabad-Chakothei trading points) and the J&K JCCI shall integrate the Joint Federation of cross-LoC Traders after its proper establishment. First of its kind of civil society initiative to put in place a formal structure of cooperation was in inherent desire of the stakeholders to compliment a series of India-Pakistan CBMs on reviving ties across the LoC between both sides of Jammu and Kashmir. To emerge as a formally constituted, properly elected and fully representative body of industry and trade organizations drawn from all regions in both, Indian and Pakistani, sides of LoC, the meeting discussed and agreed that the Joint Chamber of Commerce and Industry shall represent not only interests of the ongoing Cross-LoC trade but also work towards other possibilities of cooperation across the LoC with larger objective of building peace and trust between the regions. Presently Dr. Mubeen Ahmed Shah, eminent businessman of Srinagar and former president of Kashmir Chamber of Commerce and Industry, is the president of the J&K JCCI.

#### **SIGNIFICANCE OF CROSS-LOC TRADE**

Cross-LoC trade has a strong economic logic due to the economic backwardness of the state of Jammu and Kashmir. There are various constraints under which the state economy operates. Of these, the first emanates from the overdependence of the state on the centre and its debt liabilities. After subsidizing the state economy for many years, the Indian government has reversed its policy of liberal financing and substituted the aid given so far with a loan. As a result, debt and interest repayments began comprising a large part of state budget expenditure (Chowdhary, 2010: 14). The state industry suffers not only from lack of capital investment but also infrastructural resources. The problems of power, expensive raw material and transportation costs have been disincentives for the private sector investment. Because of these economic problems and political uncertainties, the processes of globalization, liberalization and privatization have escaped the state. Therefore, it is both in the physical isolation of Kashmir and the contestation of the division of the state that one can find a strong support in the Valley for reopening traditional routes for free movement of people and

trade. It is important to mention here that as compared with an average 36 hours to reach Delhi market, it takes merely six to eight hours to reach Islamabad. Similarly, compared to Mumbai port, where the Kashmiri traders presently take their goods, Karachi port is about 1,200 km nearer to Kashmir. As against the distance of 3,000 km between Mumbai and Srinagar, Karachi is only 1,800 km away from the Valley. By taking the products to Karachi port, the apple industry alone is expected to save around Rs. 1,400 crore on freight alone (Baba, 2007: 216).

The people of Jammu have a pure economic logic for supporting the cross-LoC trade. Jammu is a trading centre controlling the wholesale trade not only of the distant parts of the region but also of the valley of Kashmir. For the traders, therefore, opening routes across the LoC makes a good business sense. Stakeholders of the cross-LoC trade are not limited to the urban centers of Jammu and Srinagar but are also located in distant areas like Poonch and Uri and many other points, especially those close to the LoC. For Poonch, which is quite backward and marginalised, the trade has provided new opportunities for its economy. With the softening of LoC demands for the opening of other traditional routes also gained momentum. The people of Ladakh region also demand the opening of traditional trade routes of the region in order to remove their over-dependence on Srinagar-Leh route which remains open for only few months a year. It is felt that this distant, landlocked area will benefit greatly from trade through the Kargil-Skardu and Turtuk-Skardu routes. It is because of the multiple stakes in the cross-LoC trade in various parts of the state that trade's significance for conflict resolution is enhanced.

During the meeting of foreign Ministers of India and Pakistan on July 27, 2011, the issue of cross-LoC trade and trade facilitation for Jammu & Kashmir was discussed. A few CBMs on Kashmir were expectedly announced after this meeting. The outcome was underwhelming and far lesser than the expectations. It has been making a news for long that some CBMs could include starting a Kargil-Skardu bus, increasing the frequency of the Srinagar-Muzaffarabad bus, a banking mechanism to replace the existing barter system, enhancing the list of items allowed to be traded, and increasing the number of trading days from two to four every week. While the list of CBMs, as laid out in the Joint Statement, does sound rather long, most of it is full

of promises. There are, in fact, only two concrete measures among the list: (i) The number of trading days stands enhanced from 2 to 4 days per week. Truck movements shall take place on Tuesdays, Wednesdays, Thursdays and Fridays, both on Srinagar-Muzaffarabad and Poonch-Rawalakot routes. (ii) Both sides will expedite the processing time for applications, which shall not be more than 45 days (Joint Statement, July 27, 2011).<sup>xi</sup>

#### **PROBLEMS OF CROSS-LoC TRADE**

A feeling is now gaining ground that the opening of cross LoC trade was more a symbolic affair (The Kashmir Times, 2008). The modalities for smooth trade were not worked out. Thus, presently the cross-LoC trade is marred by several infrastructural and operational problems;

**Inadequate Infrastructure:** Over the years, the infrastructural facilities at the trade facilitation centers on both sides of LoC have considerably improved.<sup>xii</sup> The Chief Minister of Jammu & Kashmir, Mr. Omar Abdullah formally opened the Salamabad Trade Facilitation Centre on November 30, 2013 (*The Economic Times*, Nov. 30, 2013).

The traders demand that there is need of a full body truck X-ray scanners at TFCs as the process of offloading and reloading for screening causes damage especially to fresh fruits whose value depreciates greatly. From a meager two trucks a week, the quantum of the cross-LoC trade has jumped to 250 trucks (Ali, 2011). Therefore, the traders demand that the storage facility should be further improved.

**Limited Trade:** As already discussed, the cross-LoC trade is limited to only 21 items. It is generally perceived as stifling the potential for trade in other items. Upon opening the Salamabad Trade Facilitation Centre on November 30, 2013 the Chief Minister of Jammu and Kashmir Mr. Omar Abdullah underlined the importance of tranquility on borders as key to the smooth operation of trade activities across LoC as also safeguarding the life and property of the people living in frontiers. On the occasion the traders while presenting their memorandum to the Chief Minister demanded inclusion of milk and milk products, mineral water, canned trout fish, juices and jams, wheat and wheat products, sports items, Kashmiri willow, wazwan, marble and gypsum to be included in the export goods list and all type of pulses, oil seeds, feeds, leather and leather products, tea and coffee, all types of tyres and tubes, milk products,

lubricants, hosiery and cosmetics goods, electric goods, textiles items, surgical items, fertilizers, food grains and spices, spare parts of automobile and poultry products in the import list of goods (Kashmir Life, 2013).

**Lack of Communications:** The lack of proper communication facility is another severe impediment to normal trade. As they have no direct connection with the traders on the other side, traders on the Indian side of J&K have to follow a circuitous route for communication. Citing security reasons, the government of India has banned the international direct dialing system from within J&K to any part of Pakistan, including the Pakistan Administered Kashmir. It is also not possible for traders to visit their counterparts on the other side of the LoC. Theoretically, they can use the bus service, mainly meant for residents, to freely move to the other side but in practice the service has not been opened to the public and remains restricted to 'divided families'.

**Barter Trade and Lack of Financial Arrangements:** The most important constraint on trade is the absence of modern financial provisions. No decision has been taken on the currency to be used for trade and no banking system has been provided. In a meeting with the representatives of Salamabad-Chakoti Trade Union on May 10, 2011, the Minister for Finance, Government of Jammu and Kashmir, Abdul Rahim Rather assured them that the Reserve Bank of India has framed a comprehensive scheme which is under consideration of the governments of India and Pakistan. He said that once the scheme gets the nod, banking facilities would be put in place to conduct LoC trade as per the urges and aspirations of the traders (*The Indian Express*, 2011). But still no decision has been taken in this regard by the Governments of India and Pakistan. Hence, trade takes place through the most medieval barter system. Adam Smith characterizes the barter trade as the primitive, crude and unrefined system of exchange.

#### **OUTCOMES OF CROSS-LoC TRADE**

For these reasons, today, both the business community and the civil society are disappointed with the working of Cross LoC trade. Expressing his cynicism Bilal Turkey, General Secretary of the Salamabad-Chakoti Traders Association said, "We don't expect from the government to provide us the banking and proper communication facilities. Let government come open with its plans on the cross-LoC trade. It is not only business but our emotions are attached with it. Kashmiris have given huge sacrifices to make it a reality. We have been paying

from our own pockets for any kind of repair work or other arrangements needed from time to time at the Trade Centre. How can government now turn their back on us?" (Ali, 2011). The traders allege that certain quarters in the establishment are hell bent on sabotaging the cross-LoC trade as they do not want expansion of any economic activity between the two parts of Kashmir.

There are 472 traders belonging to ten districts of Kashmir province and two districts of Jammu province registered for trade through Salamabad-Chakoti sector and 165 traders belonging to only three districts of Jammu province and two districts of Kashmir province registered for trade through Chakan-da-Bagh-Tetrinot sector (IRF & CPDR, 2014). On the Pakistani side of Line of Control, there are around 2,200 traders but only 600 of them have reported active (Dipanker Sengupta et al, 2013: 11). Besides traders, there are around 10,000 people who earn their livelihood directly or indirectly from the intra-Kashmir trade (Ali, 2011).

The Kashmir Chamber of Commerce and Industry (KCCI) officials favor the expansion of trade to those items which are produced in other parts of the two countries outside the erstwhile state of Jammu and Kashmir. They were perceptibly apprehensive that attempts to limit this trade to goods produced in the erstwhile state of Jammu and Kashmir would hinder this trade. In-fact, Mr. Mubin Shah, president J&KCCI felt that the trade could even be extended beyond Pakistan and that Kashmir can emerge as a major transit point for trade with Iran and Central Asia (Pattanaik and Anant, 2010: 12). But unfortunately India and Pakistan have banned trading of goods manufactured or grown outside the erstwhile state of Jammu and Kashmir.

The traders from Jammu complain that they are not benefiting from the current list of 21 items; they want the list to be expanded to include manufactured goods that could be marketed at lower prices across the LoC. More importantly they felt that other historical routes closer to Jammu must be opened to economize on the cost of transport. These are Nowshera-Jhangar route, Palanwala-Cham route and the Suchetgarh-Sialkot route. The distance from the border to Sialkot is only 11 kilometers and the road is in good condition. However, this trade will not qualify as cross-LoC trade between the divided parts of J&K state, as Sialkot lies in the Punjab province of Pakistan.

Though the LoC trade is incrementally picking up, many

locals in Poonch district alleged that it is the people from outside the state who are benefitting more from it. Nishu Gupta, a local trader in Poonch alleged that the big traders from outside the state carry out the trade by proxy through registered traders in Poonch and take the benefit of tax free trade (Headlines India, 2011). The cross-LoC trade is tax free and locals say the traders from neighboring Punjab who used to earlier do business with Pakistani counterparts through Wagah border have now shifted to Poonch by proxy. It is hardly benefiting the Poonch locals for whom the cross-LoC trade began. Even the Chief Minister of Jammu and Kashmir Mr. Omar Abdullah affirmed in the J&K Legislative Assembly that instead of traders of Jammu and Kashmir, it were the businessmen of Pathankot, Amritsar and other parts of Punjab, who are benefitting out of cross-LoC trade on Poonch-Rawalakote and Salamabad-Uri routes as there is no telephonic contact or banking transaction system for the traders of two parts of divided state (Pargal, 2012).

#### **THE PROSPECTS OF CROSS-LoC TRADE**

The initiation of trade since 2008 has increased contacts across LoC, which is welcome across the board. The relationships created through trade have sustained despite the ebb and flow of relations between the Indian and Pakistani governments, in particular, in the aftermath of the Mumbai terror attacks in 2008 which halted the Composite Dialogue process. Moreover, political unrest in the valley in recent summers, which has created substantial instability, has not derailed the trade. This demonstrates both the potential of economic interests to serve as a calming measure in Kashmir during periods of tension and the aspiration to deepen contacts. Despite all the obstacles and problems faced by the traders, trade has not only continued but is carried out with enthusiasm and vigor, especially on the Poonch-Rawalakot side. Traders on the whole see much business rationale in the trade across the LoC but for this they demand revision of the permitted trading items according to market logic. During a joint meeting of traders from both sides organized by the local administrators of Poonch and Rawalakot, a demand was made that traders be given the freedom to trade according to day-to-day market needs (Chowdhary, 2010: 17).

Despite all the obstacles there are undoubtedly traders making profits. Nonetheless, the fact that an overwhelming majority of traders come from divided

families, whose engagement is sustained by familial ties, reflects that trade is sustained as much by emotion as by economic rationale. In the towns where the crossing points for the trade routes are located, trade has acted as a catalyst for economic invigoration, as contractors and laborers have been drawn into the process and local properties have been turned into storage units. However, it has to date had more limited impact beyond the profits for traders and the benefits for the economic hinterland of the trade routes. Strengthening the economic impact of the trade is important for a variety of reasons. The continued expansion of trade could act as an engine for wider development in the region. In order to expand the horizons of Cross LoC trade, Kashmir Valley's apex industrial body, FCIK urged for inclusion of services in the LoC trade. At a meeting with the former Prime Minister of Pakistan Administered Kashmir, Barrister Sultan Mehmood Chaudhary, who visited the Valley in 2011, the FCIK members pleaded for inclusion of services into the LoC trade since presently it is confined to the goods only (Greater Kashmir, 22 September 2011).

The trans-LoC trade has been sustained by the divided families and there has been a steady rise in the number of the trucks crossing the LoC and in bilateral turnover. The volume of Cross LoC trade (the sum of trade in the sectors) has generally been on the upward trend growing from approximately 138 crores Indian rupees in 2009-10 to 315 crores in 2011-12 (one way trade) (Sengupta, 2013: 14). Given below are two tables that show the volume of Cross-LoC Trade through both crossing points, i.e. Salamabad-Uri as well as the Chakkan-da-Bagh-Poonch.

#### **RECOMMENDATIONS FOR INCREASING CROSS-LoC TRADE**

If the cross-LoC trade has to flourish, the most important step is to find a banking mechanism to replace the existing barter system. In this regard the proposal put forward by the Joint Chamber and other civil society members for the opening of a branch of the J&K Bank in Muzaffarabad and a branch of the AJK Bank in Srinagar would be of great significance (Padder, 2012: 15). Besides, no modern trade can work on barter system of 21 items undertaken by two parties who are not even in direct communication with each other. It is important to give traders an opportunity to cross the LoC to make market assessments that will allow them to go beyond the 'blind trade' system that they operate within.

Table 2. Trade Facilitation Centre, Salamabad, Uri

Year	Export to AJK			Import from AJK		
	No. of trucks	Quantity in qtls.	Value in crores (Ind. Rs)	No. of trucks	Quantity in qtls.	Value in rores (Pak. Rs)
2008-09	180	3987.31	1.3625	219	7293.39	-
2009-10	1830	119004.75	71.8046	2662	193221.06	92.4149
2010-11	3650	247235.20	156.4756	2413	159907.58	260.4339
2011-12	4406	350079.81	244.3543	2960	201376.71	407.7228
2012-13*	6070	498081.77	275.5556	2880	200186.43	456.3789
Total	16136	1218388	749.55	11134	761985	1216.95

\*(Ending 01/2013)

Source: Sengupta, D. et al. "Cross-Line of Control Trade: Peace Building and Economic Potential", Research Report, Conciliation Resources, June 2013, p. 15.

The establishment of five points from which traders on the Indian side can make calls is a positive development, but it limits the trade to those with access to these lines and curtails the involvement of those in rural areas. Traders beyond Kashmir in Punjab, Sindh and Gujarat are not stifled by these communication difficulties and therefore with their greater linkage and available capital, are able to exert considerable influence on the trade. The traders across the LoC need to have a freer access to each other's markets and two-way telephone communication to strengthen their direct engagement in the trade. It is also important to open new trade routes. The Working Group on Strengthening Cross-LoC Relations<sup>xiii</sup> recommended opening up of other routes including Kargil-Skardu, Jammu-Sialkote, Turtuk-Khapulu, Chahamb-Jorian to Mirpur, Gurez-Astoor-Gilgit, Titwal-Chilhan (across Neelam Valley), Jhangar (Nowshera)-Mirpur and Kotli. It also recommended opening additional meeting points in Ladakh region - Hundurman on Kargil-Skardu route and at a suitable point at Turtuk-Khapulu route (Chowdhary, 2010: 17). Without compromising security, New Delhi and Islamabad will need to make bold decisions to serve the larger objective of both states from the cross-LoC interactions.

Through a fully active cross-LoC trade, it is possible to develop the stagnated and backward economy of the state and free it from its dependency. The borders, which have so far played an obstructionist role, making it landlocked, will on the contrary help boost economic growth and make it dynamic. The state which is known as the 'nuclear flashpoint', could become the 'economic and trade flashpoint' between India and Pakistan. Rather than remaining a source of conflict between the two countries, it will become a bridge between the two.

This in itself will change the character of the economy of the state. Many problems of the state's economy arise from its conflict-ridden status. Once the role of the state reverses from being a 'problematic' to an economically active zone between India and Pakistan, it will be able to receive all the benefits of liberalization and globalization. Private investment will be forthcoming and financial institutions will not be shy of investing. Generating this kind of economic activity will help the state fully explore its trade and industrial potential. Industries with potential for immediate growth in Kashmir include the furniture industry - especially walnut wood furniture; horticulture - especially fruit processing; and floriculture. There is also a huge manufacturing sector located in Jammu, which will be boosted. Once trade relations are properly established, it would make way for further cooperative measures between the two sides of Jammu and Kashmir across the LoC. The Working Group on Strengthening the Cross-LoC Relations has recommended a number of joint activities that can be undertaken by both sides. It also talks about exploring 'scope for cooperation on subjects of common interest like environment protection, water management, natural disaster management and forestry'. Suggestions have also been made about joint tourism and power projects. Since the Hydel power projects in the J&K state often become controversial issues between India and Pakistan, the option of joint venture projects among the stake holders from both sides of J&K can be explored to benefit population on both sides. Similarly joint venture projects can be established in mining sector as there are huge mining reserves in the area of LoC spread across both sides of J&K.

## CONCLUSION

Cross LoC trade can serve as a conduit for peace in J&K. There is close proximity and socio-cultural and ethnic affinity between the two divided parts of the state. This trade along the two routes of Salamabad-Muzaffarabad and Chakan-da-Bagh-Rawalakot opened traditional routes, broke the barriers between the two divided parts of Jammu and Kashmir after a gap of more than 65 years and set a stage for further cooperation between the two regions. Since the beginning of the trade in October 2008, interactions along the LoC and trade volumes have grown substantially, despite host of restrictions to the trade process. The benefits of the steps taken so far to promote Cross-LoC trade have, however, been too short of the trade potential, due to the difficulties being faced at the operational level. The trade is neither categorized as international nor domestic and hence has a unique structure. Exports are named as 'traded-out' and imports are called 'traded-in' goods. After going on for almost five years, the trade can possibly be categorized as being economically feasible rather than having only the sentimental value, notwithstanding the widespread pessimism amongst the trading community. There appears to be no reason of not enhancing and extending the trade since it encourages mutual friendship and trust.

Confidence building measures play an important role in conflict resolution and Cross-LoC trade has acted as a starting point. Free flow of trade and transit across LoC will help the communities on both sides of Jammu and Kashmir to become key stakeholders in the peace process. The trade has had a spillover effect particularly among communities living along the LoC as laborers, drivers and civic actors have benefitted from the employment opportunities it has offered. Good institutions and policies, together with free interface across the LoC are the key factors for taking the peace process forward. A positive initiative in the form of Cross-LoC trade, suggests that more sustainable measures are within reach including removing the current bottlenecks and developing right institutional framework for integration of two economies across the LoC that has remained impermeable since 1947.

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<sup>i</sup> After the 1962 Sino-Indian war, China came closer to Pakistan. On March 2, 1963, the Sino-Pak Border Agreement was signed in Peking by the Foreign Ministers of China and Pakistan. The Government of India strongly condemned the agreement. See, *The Dawn*, 3 March, 1963.

<sup>ii</sup> The term Line of Control (LoC) refers to the military control line between the Indian and Pakistani-controlled parts of the former princely state of Jammu and Kashmir—a line which, to this day, does not constitute a legally recognised international boundary but is the de facto border. Originally known as the "Cease-fire Line", it was re-designated as the "Line of Control" following the Simla Agreement, which was signed on 3 July 1972.

<sup>iii</sup> The Composite Dialogue is a type of structured dialogue process between Indian and Pakistan. Under this dialogue process eight issues of bilateral dispute are being discussed. The eight issues are: (i) Peace and Security including CBMs (ii) Jammu and Kashmir (iii) Siachen (iv) Wullar Barrage Project/Tulbul Navigation Project (v) Sir Creek (vi) Terrorism and Drug Trafficking (vii) Economic and Commercial Cooperation and (viii) Promotion of Friendly Exchanges in various fields. The Composite Dialogue process was originally started in 1997 but due to the Kargil war it got halted. It was only in 2004 that the dialogue process was revived by General Pervez Musharraf and Prime Minister Vajpayee in Islamabad.

<sup>iv</sup> During a press conference in Srinagar Indian Prime Minister Dr. Manmohan Singh said, "My vision of India-Pakistan relations is that both countries situate their bilateral relations in a cooperative framework of mutual understanding. We seek the normalisation of our relations with Pakistan, a solution of all issues that cause estrangement, including Jammu and Kashmir through dialogue and peaceful negotiations in an atmosphere free of violence. While we cannot change borders, we can make them irrelevant". See *The Hindu*, October 11, 2008.

<sup>v</sup> The All Parties Hurriyat Conference is an alliance of secessionist parties in the Indian Administered Kashmir. It was formed on March 10, 1993. The organisation believes that Jammu and Kashmir is a disputed territory and India's control on it is not justified. It supports the Pakistani claim that Kashmir is the 'unfinished agenda of Partition' and needs to be solved as per the aspirations of the people of Jammu and Kashmir.

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<sup>vii</sup> The former Princely State of Jammu and Kashmir got divided between India and Pakistan in 1947-48. The part of Kashmir which is under the administration of Pakistan is popularly called Azad Jammu and Kashmir (AJK).

<sup>viii</sup> Mumbai terrorist attacks of 2008 were the multiple terrorist attacks that occurred on November 26–29, 2008 in the Indian financial capital city of Mumbai. The attacks were carried out by 10 gunmen who were believed to be connected to Lashkar-e-Taiba, a Pakistan-based terrorist organisation. As a result of these attacks, the Composite

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Dialogue process between India and Pakistan was suspended for an unforeseeable future with imminent threat of war between the two nuclear powers.

<sup>ix</sup> Press Release, "Jammu and Kashmir's first Cross-LoC body of Cooperation Agreement signed on Joint Chamber of Commerce and Industry", Centre for Peace, Development and Reforms, Mirpur, Azad Jammu and Kashmir. Retrieved from: <http://cpdr.org.pk/index.php/2011/11/29/jammu-and-kashmirs-first-cross-loc-body-of-cooperation-agreement-signed/>

<sup>x</sup> Ibid.

<sup>xi</sup> For details see joint statement following meeting between the Minister of External Affairs of India and Minister of Foreign Affairs of Pakistan at New Delhi, July 27, 2011. Retrieved from: [www.mea.gov.in](http://www.mea.gov.in)

<sup>xii</sup> For details, see, Physical Verification Reports of Trade Facilitation Centres at Salamabad and Chakan-da-Bagh, prepared by the Chief Ministers Secretariat, Government of Jammu & Kashmir, 2013.

<sup>xiii</sup> The Working Group on 'Strengthening Cross-LoC Relations' was headed by former Foreign Secretary Shri M.K. Rasgotra. It submitted its report to the Prime Minister Dr. Manmohan Singh in 2007. In its report, it laid out possible contours for cooperation between the two parts of Jammu and Kashmir. Besides other things, it suggested that "a joint consultative group or committee of 10 members each of the legislatures of both sides may be constituted to exchange views periodically on social, economic, cultural and trade-related matters of mutual interest". In addition, "joint consultative groups of professionals may be set up for horticulture, tourism promotion and environment protection".