The political economy of cross-LoC trade

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Introduction

The Line of Control (LoC) dividing the two parts of Jammu and Kashmir (J&K) was slightly softened with the starting of bus services between Uri and Muzaffarabad in April 2005 and between Poonch and Rawlakote in January 2006. Five foot-crossing points, meanwhile, were opened in October 2005 for the purposes of relief and rehabilitation following the massive earthquake that affected large parts of Pakistan Administered Kashmir (PaK).¹ In May 2008 steps were taken to initiate cross-LoC trade during the visit of Pranab Mukherjee, Indian Foreign Minister, to Islamabad. Final affirmation was given by the Indian Prime Minister, Manmohan Singh, and his Pakistani counterpart, Asif Ali Zardari, during the sidelines of the UN General Assembly session in New York in September 2008. The Joint Working Group on Cross-LoC Confidence Building Measures (CBMs) finalised terms and conditions for trade between the two parts of J&K on 22 September 2008. It decided on duty-free trade for 21 items initially.² On 21 October 2008, cross-LoC trade started from two routes: Muzaffarabad-Uri and Poonch-Rawlakote.

¹ These points were: Nauseri-Tithwal, Chokothi-Uri, Hajipur-Uri, Rawalakot-Poonch, and Tattapani-Mendhar
² The 21 items approved for import and export included: carpets, shawls, namdas, gabas, embroidery items, fruits, vegetables, dry fruits, saffron, imli, rajmash, kashmiri spices, foam mattresses, medicinal herbs, jahnamaz, tusbies, precious stones, peshawari chapple, maize, maize products, honey and rice.
Conflict resolution through the irrelevance of borders

- Concept of ‘irrelevance of borders’

Formally launched in 2004, the peace process sought to tackle the intractable nature of ‘Kashmir conflict’ through a more innovative concept of the ‘irrelevance of borders’. This concept went beyond the conventional categories of ‘sovereignty’, ‘territory’, ‘boundaries’ and ‘borders’, seeking a movement forward through ‘people’, ‘economy’ and ‘trade’. Through this concept, it was possible to break through the non-negotiable and maximal positions of India and Pakistan and to find a way out of the competitive nationalisms – Indian, Pakistani and Kashmiri – which had made the conflict almost impossible to resolve.

The contours of the peace process were established with Pakistan insisting it would not agree to a resolution that was based upon the status quo and India making it clear it would not agree to a resolution that would involve changing of boundaries, redrawing maps or compromising sovereignty.

The concept of irrelevance of borders implies that the Line of Control (LoC) that symbolised the division of the State of J&K as well as its unsettled and unresolved status is to assume more dynamic character. Rather than being a barrier, it is to be animated so that interaction between the two sides of J&K can be possible through free movement of people, goods and services.

Cross-LoC trade and the irrelevance of borders

- Symbolic and political value of cross-LoC trade

Economic integration across the Line of Control remains central to the conflict resolution process. It is considered very important for generating interest from people on both the sides of LoC. The idea is to create so much economic stake in the peace process that a ‘bottom up pressure’ can be built to ‘hasten up the process of normalisation between the two parts of the state’ and to sustain it long term. Rather than merely providing a point of exit from the conflict, it offers a new paradigm of

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3 In specific terms, the concept of irrelevance of borders, in the words of Chari and Rizvi, include a ‘wide range of measures … proposed to promote interactions across the LOC and enable the two parts of Kashmir to develop a multifaceted relationship.’ Classified into four categories, these measures include: ‘Promoting people-to-people contact, increasing trade and commerce across the LOC, encouraging humanitarian aid and development, improving governance, including security administration …’ P. R. Chari and Hasan Askari Rizvi, ‘Making Borders Irrelevant in Kashmir’, Special Report, United States Institute of Peace - USIP (September 2008): 6-7
mutual dependence and development.

Cross-LoC trade as the basis of conflict resolution has substantial potential since it has symbolic as well as real value. Also it has considerable future possibilities. The report of the Working Group constituted by the Prime Minister on Strengthening Relations Across the Line of Control emphasises the ‘importance of people-to-people contacts and freer travel facilities for the persons residing on the two sides of the LoC for promotion of friendly and beneficial cooperation and strengthening of peace in the region.’\(^5\) According to the report, ‘The opening up of routes for trade and commerce would help in not only improving the economic conditions on both the sides but would also be an important step towards normalisation of the situation.’\(^6\)

That the trade, to begin with, was to have more instrumental than real value has been generally acknowledged. When trade started it was highlighted by many as a ‘humble beginning’\(^7\) and a ‘very significant event in symbolic terms’\(^8\) that would help ‘bridge the divide between the two sides of Kashmir’\(^9\) and ultimately lead to the ultimate resolution of Kashmir issue\(^10\).

- **Economic logic of cross-LoC trade**

Cross LoC trade has strong economic logic, mainly due to the economic backwardness of the state. 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 subsidising the state economy for many years, the centre 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

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\(^5\) Five Working Groups were constituted during the Round Table Conferences (RTCs) convened by the Prime Minister of India. The RTCs were organised to generate a debate and evolve a consensus on various issues related to Jammu and Kashmir.


\(^7\) At the day of initiation of trade, Governor N.N. Vohra stated it was an important day for people across LoC as the opening of the historic Jehlum-Valley Road for trade would cement relations between people across LoC. He said although this is a humble beginning, it is going to be a step towards the revival of the economy. “Though it would be symbolic in the beginning but we hope that the activity would also grow on the routes in future.” *Greater Kashmir*, 22 October 2008

\(^8\) On the occasion of the inauguration of the trade activity, Amin Hashwani, President of the Pakistan-India CEP’s Business Forum emphasised the symbolic basis of the trade activity. He said: ‘It is a good beginning and should be seen positively but more steps are needed to take the process forward. The trade will increase people-to-people contacts and give a sense of hope to Kashmiris on both sides’. http://www.merinews.com/article/history-in-making-cross-loc-trade-starts-in-kashmir/145484.shtml

\(^9\) Sardar Attique Khan, the then Prime Minister of Pakistan Administered Kashmir, cited in *Greater Kashmir*, 22 October 2008

state budget expenditure.

Though agriculture remains the main source of livelihood, the only opportunities provided to the expanded middle class are through the state employment sector. However, the state is already running an overloaded administrative structure with around 400,000 government employees. Salaries have been the state’s biggest liability. Much of the budget goes into financing wages. 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 globalisation, liberalisation and privatisation seem to have escaped the state.

- Multiple stakeholders in cross-LoC trade

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. Although much of the response towards opening borders is sentimental, there is also a view that it will remove economic dependence on the only available route. Opening borders is also considered important for ensuring ‘uninterrupted flow of consumer items in the valley and for exporting fruits and other items from Kashmir.’\(^1\) As compared with an average 36 hours to reach Delhi market, it takes merely six to eight hours to reach Islamabad.\(^2\) Others who can benefit from trade include those in the carpet and furniture industry.

While there are political, psychological and emotional reasons for the support of cross-LoC trade in Kashmir, in Jammu one can find solid economic logic. Jammu is a trading city controlling the wholesale trade not only of distant parts of the region but also Kashmir. For the traders therefore, opening routes across the LoC makes good business sense.

Stakeholders of the cross-LoC trade are not limited to the urban centres 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.

The LoC passes not only through the regions of Jammu and Kashmir

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but also the Ladakh region and there is therefore demand for opening traditional trade routes. It is felt this distant, landlocked area will benefit greatly from trade through the Kargil-Skardu route.

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 – more so due to political divergence within the state, which becomes a problematic in evolving political consensus. The conflict has specificity and is located in the ethno-nationalist politics of Kashmir. It does not extend itself in the same manner in Jammu and Ladakh as it manifests itself in the Valley.

Against the sharp political divide expressed often between the Kashmir Valley on the one hand and Jammu and Ladakh on the other, the route openings and trade process provide a common interest and therefore a common stake in the peace process.

**Political and economic constraints for trade**

- **Trade at the symbolic level**

  Though the initiation of trade has the purpose of developing stakes in the peace process, the trade itself is hostage to the peace process. It was expected that over time the trade would be expanded. However since the peace process has stalled, trade continues to operate at a minimum. The traders involved have lots to complain about. They argue the list of tradable items does not follow economic rationale and is not based on reality.

  There are also basic issues related to economic facilities and infrastructure. The lack of communication facility from the Indian side and a banking facility, are seen as the two most important impediments to normal trade. Because 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 has banned the international direct dialling system from within J&K to any part of Pakistan, including the Pakistan Administered Kashmir. (Though a few hotlines have been installed now.) 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’.

  The most important constraint on the trade, however, is defined by the absence of a financial arrangement. No decision has been taken on the currency to be used for trade and no banking system has been provided. Hence, trade takes place through the most
medieval barter system.

- **Regional imbalance in the trade relations**
  
  Because of the symbolic basis of the trade there is a gradual regional imbalance developing in the trade. It is mainly on the Jammu side that trade is sustained. On the Kashmir side, it is a picture of dismal trade. Rather than economic logic, what prevails is the political value of the trade; it is being sustained for its ‘significance’ and for its ‘potential’ or its ‘emotional value’. Yet the longer it fails to develop an economic interest the less significant the other values will be.

  The regional imbalance in the trade is due to several reasons, the most important being the role of the large numbers of divided families located in Jammu region rather than Kashmir. The two districts of Rajouri and Poonch are cut across the LoC and are home to the most divided families. Geography is also a factor. It is more convenient to trade from Jammu side than Kashmir. That is why many Muzaffarabad firms started trading through Rawalakot route and a few traders from Kashmir have shifted their trade from Kashmir side to Poonch Rawalakot side. Furthermore, there is a trading culture in Jammu, so traders of Jammu have played a role in promoting the trade.

- **The security concerns**
  
  There is overwhelming popular demand for expanding the cross-LoC trade but it remains confined due to security concerns. Despite the shift in the approach to the conflict’s resolution, the conventional approaches continue and therefore fear remains that LoC routes will be used for infiltration of militants and arms from the other side. This seems to be a major reason for the Indian government remaining slow on the trade process.

- **Lack of coordination between the Kashmir and Jammu’s trading groups**
  
  Due to the political divergence that exists between the two major regions of the state, Jammu and Kashmir, trade interests within the state suffer a lot. However, rather than a linear one-to-one relationship between business and politics, there is a rather complex relationship between the two. Generally, there is much mutual trade interest between the traders of Jammu and Kashmir (hence generally trade is seen as a silent basis for cementing political differences between the two regions and evolving a space for common interest and consensus), but there are also times when the political divergence overtakes economic rationale and the business community in the two regions takes a hostile position against each other. This happened during the Amarnath

13 Dar and Gul, ibid.
agitation in 2008, which caused political tension between the two regions and saw the traders become divided along political lines. Tension between traders were so intense that trade was totally disrupted between Jammu and Kashmir regions.

Mutual dependence apart, there remains a gap between Jammu and Kashmir business communities, which is reflected in the lack of joint efforts to consolidate cross-LoC trade. Despite the two communities being positively attuned to this initiative and each asking for its expansion, there is little joint effort for pushing the trade process. As pointed out by Moeed Yusuf, this is one major reason why the Joint Chamber of Commerce set up between the Indian and Pakistani side of Kashmir could not go beyond its establishment stage.

The prospects of trade

- Trade interests

Despite all the obstacles and problems faced by the traders, trade has not only continued but is carried out with enthusiasm and vigour, especially on the Poonch-Rawlakote side. The number of the trading companies, which was restricted to a few local traders initially, has expanded and new traders from Jammu and local areas have also joined. The traders are quite innovative and have found ways to serve their interest.

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 organised by the local administrators of Poonch and Rawlakote, a demand was made that traders be given the freedom to trade according to day-to-day market needs. There is also a demand from Jammu for opening the trade to the manufacturing sector.

In many ways, the traders have extended trade activities beyond J&K. The goods sent from Indian side, especially fruits, are not only those available from J&K. There is much trade in items like banana and coconut, which the traders procure from other parts of India. There are also situations where outsiders are involved as invisible partners.

- What needs to be done

Overall there is a need for a trading environment, which is totally missing right now. The trade, where it continues, takes place more for sentimental reasons than economic reasons. For trade to serve its purpose of increasing economic activity and creating employment, it needs a proper business environment. The
minimum required is regular financial and banking arrangements so trade can move beyond medieval bartering. The second requirement is the opening of two-way communication. Also 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.\textsuperscript{14}

It is also important to open new trade routes. The Working Group on Strengthening Cross-LoC Relations recommended opening the following routes – 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.

\hspace{1cm} \textbf{Future possibilities}

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.

In three different but related ways, cross-LoC trade will contribute to the economy in Jammu and Kashmir. First, the economic activities of the local traders will be augmented and they could also explore alternative markets across the LoC. Second, trade activities in the long run would not be limited to traders within J&K but would involve those from other areas in India and Pakistan. Once trade interests are entrenched across the borders, the political hostilities would become gradually irrelevant. The state which until now has been known as the ‘nuclear flashpoint’, would 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.\textsuperscript{15} 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 liberalisation and globalisation. Private investment will be forthcoming and

\textsuperscript{14} An effort however is made at times by the district administrations in the trade points to allow traders from both sides to meet. In these meetings, traders are able to establish personal contacts and also assess the market conditions.

\textsuperscript{15} The third Working Group on Economy – sees in the cross-border trade potential beyond the LOC. It says, ‘if trading is permitted across the border, it will open up immense opportunities not only with PaK but also with Pakistan and other Central Asian Countries.’ ‘Economic Development of Jammu and Kashmir: Working Group No. III’, p. 23
financial institutions will not be shy of investing. Finally, 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. Habibullah identifies watershed development, timber industry, fruit processing and power generation as the key investment areas in J&K. According to him, ‘if these sectors were active, they could help jumpstart the entire economy.’

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.

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