

of challenges need to be overcome and bottlenecks removed to fulfil this potential.

#### a. Communication restrictions

Notwithstanding the creativity demonstrated by traders in exchanging onions to ascertain quality, it is important to give traders opportunities to make market assessments rather than rely on the current “blind trade” system. The establishment of five points from which traders on the Indian side can make calls is a positive development, but it limits 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 limited by these communications difficulties and therefore with their greater linkages and available capital are able to exert considerable influence over the trade. Traders across the LoC need to have freer access to each other’s markets and two-way telephone communication in order to strengthen their direct engagement in the trade. Without compromising security, Islamabad and New Delhi will need to make bold decisions to serve the larger objective of both states from the cross LoC interactions: achieving peace.

#### b. Restrictions on goods and crossing points

As a central confidence building measure in the peace process, cross LoC trade needs to expand well beyond the capacity of two crossing points working two days per week. There are traditional trade routes that cross the LoC, the opening of which would enhance trade, and there are routes such as Kargil-Skardu that could be opened to facilitate contacts for divided families and in due course could create opportunities in trade or services, such as tourism. Similarly, the extremely restrictive list of goods eligible for trading should be revised to better reflect the demands and potentials of the markets across the LoC.

#### c. Ownership, finance and banking

The current bartering system can only limit trade. It needs to move to a modern transactional basis that allows strategic business planning. Business finance needs to be encouraged to operate in Kashmir. The Joint Chamber and other civil society members have proposed the opening of a branch of the J&K Bank in Muzaffarabad and a branch of the AJK Bank in Srinagar. This will pose practical difficulties but has the potential to generate significant benefits. Credit will no doubt continue to be a problem in this underdeveloped economy. This restricts the involvement of small traders who cannot afford to keep their money locked in the

barter trade, but only through the encouragement of a financial infrastructure for the indigenous businesses can they assert ownership of the trade within their region, and build wider constituencies with a stake in trade. At the moment, many traders are forced to take partnerships with traders from Punjab and Gujarat. While these partnerships provide finance and market intelligence they undermine the local capacity to plan for growth that will have a positive effect on the regional economy.

#### d. Security and infrastructure facilities

Traders describe the weighty security apparatus and laborious checks, which slow down trade and increase costs. Although relaxation of the security regime may be required in order to expand the trade, it will need to be measured against security concerns. Modern technology can assist to a certain extent, for instance through the installation of more effective x-ray and scanning equipment that can speed up and make security checks more thorough.

Likewise, if the infrastructure – in particular warehouses, cold storage and loading facilities – at the trade facilitation centres on both sides were to be upgraded this would be beneficial. This would serve to preserve perishable goods and improve the time management for conveying goods across the LoC.

## 5. Conclusion – trade with a peacebuilding focus

Cross LoC trade, despite all the difficulties associated with it, has already demonstrated the possibility of change and points the way to alternative futures. Trade offers important new economic opportunities. It reconnects people and acts as a significant confidence building measure in the current situation of Kashmir as well as a building block for normalisation between India and Pakistan. This will require the authorities to concentrate on how to build trust so that a necessary emphasis on security does not diminish the potential for trade to transform attitudes and relationships and thereby behaviour.

A foundation for economic development and peacebuilding has been put in place but in both cases the potential has yet to be fully exploited. As one trader in Poonch stated: “Once this trade gets strengthened with basic facilities, the economic opportunities will force people to leave behind the perceptions of conflict.”



# Intra Kashmir trade

## Policy Brief

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## 1. Executive summary<sup>1</sup>

Since the introduction of trade across the Line of Control (LoC) in Kashmir in 2008, as a confidence building measure under the Indo-Pak composite dialogue, traders have established a regular exchange of goods. There have been economic gains, despite considerable challenges posed by the situation. The peacebuilding aspects of the trade have also been considerable. The cross border relationships of trust developed through trade have proved to have resilience to political turmoil and have begun to establish a “bottom up” approach to peacebuilding. Trade has attracted divided families and some former combatants and provided a non-violent role and an alternative vision for change and conflict transformation.

However, traders face considerable obstacles, primarily from the heavy constraints that govern their activities. They seek easing of limitations on communication and travel and an extension of trading through existing and potential routes across the LoC and in the list of goods that can be traded. If trade is to continue to grow it needs to be placed on a modern economic basis with proper banking services and communications facilities. Whilst restrictions remain in force, traders across the LoC are limited to barter and therefore will be unable to fulfil the economic and peacebuilding potential of the trade.

## 2. Cross LoC trade

Since 2003, both India and Pakistan have moved from a position of confrontation to nascent cooperation in seeking a solution in Kashmir and have been seeking ways of “making borders irrelevant” without compromising their stated positions. Structural changes in regional dynamics following the 2001 attack on the World Trade Centre have bolstered softer approaches.

In 2005 bus services to enable divided families to travel across the LoC started between Srinagar and Muzaffarabad and between Poonch and Rawalakot in 2006. Five foot crossing points were opened in 2005 to facilitate relief and rehabilitation following the earthquake that brought extensive destruction to Kashmir. Then in 2008, after 60 years, trade across the LoC was initiated as a further confidence building measure over two routes (Srinagar-Muzaffarabad and Poonch-Rawalakot). A limited trade regime was envisaged to provide opportunities for economic growth and development across the divide. The objective to revitalise the economic potential of the region was one side of the equation in which governments also

sought to enhance people-to-people contact and normalise relations.

Trade currently takes place on two days per week on a barter basis due to the absence of banking facilities to transfer funds across the LoC. Trade is restricted to 21 items, mainly agricultural and horticultural produce originating from the region, with goods such as cardamoms, dahl and onions featuring prominently. Critical to the establishment of the trade was the decision of New Delhi and Islamabad not to impose trade tariffs on goods.

After two years trade figures seem impressive – the average weekly import of goods from the Pakistani to the Indian side of Kashmir during 2010 was eight crore Pakistani rupees or four and a half crore Indian rupees<sup>2</sup>. In this context, despite 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 the trade is sustained as much by emotion as by economic rationale. In the towns where the crossing points for the trade routes are located the trade has acted as a catalyst for economic invigoration, as contractors and labourers 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 not just for the traders – the continued expansion of trade could act as an engine for wider development in the region.

## 3. Peacebuilding impact of trade

Despite these limitations, trade has been a meaningful confidence building measure. Linking economic cooperation to conflict resolution accommodates the ethno-political diversity and divisive trends within the region and speaks to people’s immediate needs and interests.

### a. Ownership

Perhaps one of the most important aspects of cross LoC trade is the agency it gives those involved. Traders are, of course, interested in economic return but they, and others in their communities – divided families, ex-combatants, labourers and drivers benefiting from employment opportunities, and civic actors – are

strongly aware of the value of cross LoC activity to promote understanding between the communities, and of the role they can play, independently of government and politics. Two years of cross LoC trade have created sizeable constituencies in the region with a stake in normalcy and an increasing opposition among them to any resumption of hostilities.

### b. Resilience of trade to political dynamics

The initiation of trade since 2008 has increased contacts across the LoC, which is welcomed 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 bombing in 2008, which halted the composite dialogue. Moreover, political unrest in the Valley in recent summers, which has created substantial instability, has not curtailed the trade. In the words of a trader from Poonch: “We are insulated by a shield of mutual trust. We have not allowed diplomatic acrobatics between New Delhi and Islamabad to affect us in any manner.” 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. This is not to ignore day-to-day politics, which permeate trade circles as they do other sectors of society, but trade provides one of the few direct incentives to rise above political difference.

### c. Non-violence

Reportedly 40 former combatants, many on the Muzaffarabad route, have chosen to take part in trade for the economic opportunities but many also see the potential for conflict transformation in this cross LoC activity. Militant organisations, which were initially not very supportive of the intra Kashmir trading, gradually joined in, realising the potential of the trade to contribute to normalisation. One observer noted that people involved with trade had mostly kept away from the agitation of 2009 and 2010. The potential of trade to turn people away from violence bolsters the determination of other merchants to carry on with their trading activities. “...We are determined to trade whatever sacrifices are demanded because we want to help our brothers who are across the border and who joined the trade and abandoned the armed path.”

### d. Building peace constituencies and civil society

One entrepreneur described the emotional scenes at the opening of the cross LoC trade point and stated “I suddenly realised it’s not just a trade venture but can become a tool for people-to-people diplomacy”. However, others feel that the level of operational restrictions imposed by the authorities inhibits people-to-people contacts from expanding. Despite this there is now a constituency of traders on both sides of the LoC with stakes in maintaining a level of stability in order to be able to carry on trading.

The Jammu and Kashmir Joint Chamber of Commerce and Industry demonstrates the potential of traders from both sides of the LoC to work together. It is the only cross LoC non-governmental organisation and is the first indication of the possibility of region wide formal civil society initiatives. Such an organisation can act as a pressure group to galvanise other stakeholders in the economy. Comprised of separate Chambers of Commerce in different regions across the LoC, the Joint Chamber needs strengthening in order to be able to fulfil its potential. Some constituents of the Joint Chamber on the Indian side lobbied politicians, notably Prime Minister Manmohan Singh, on his visit to the Valley in June 2010, to explain how government at all levels can help support LoC trade.

### e. Creative determination

Creativity and determination are the hallmark of successful peacebuilding and both are demonstrated by the establishment of trade across the LoC. Kashmir is an underdeveloped, low income region and traders based there grapple with the security problems of re-engagement across a conflict line whilst dealing with all the other problems of economic underdevelopment and restrictions that affect the trade. Despite these obstacles, traders have become established, often inventing creative solutions to circumvent obstacles.

Notwithstanding the enthusiasm to create trade mechanisms, there was a lull after the official opening of the routes. In the absence of being able to visit or telephone traders on the other side, the traders were not sure how to open the markets. However, business cards were sent backwards and forwards through truck drivers, who were permitted to traverse the LoC, so they began to develop a sense of trading counterparts. One trader from Poonch describes being asked to send onions to a Rawalakot trader and being surprised by receiving a truckload of onions in return. Then, he understood. The onions he received were cheaper and better quality so he stopped sending onions and sent garlic. Thus in the absence of accessible telephone communication the traders have created their own, limited, means of communication to aid the trading.

## 4. The potential of LoC trade and challenges to be overcome

The achievement of traders in establishing trade to its current level belies the difficulties under which they operate. There is a need to consolidate the trade they have built and bolster the gains of trust and confidence as well as build an economic basis for the future. Creating a more normal trading climate has the potential to provide an entry point to help build confidence in the India-Pakistan peace process and to strengthen the capacity of people in Kashmir to make a contribution to peacebuilding there. A number

1. This briefing is published by Conciliation Resources in partnership with the Institute of Peace and Conflict Studies (New Delhi) and the Pakistan Institute of Legislative Reform and Transparency, (Islamabad). It is based upon discussion papers published in December 2010 by Conciliation Resources entitled Jammu and Kashmir: Trade Across the Line of Control. The discussion papers build on previous publications and for the first time present the experiences and analysis of local authors from diverse backgrounds from across the LoC.

2. This is the equivalent of approximately £600,000 a week. This figure is provided in a statement by the Minister for Industries and Commerce in the government of Jammu and Kashmir on 13 January 2011.