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# SPECIAL REPORT

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## ABOUT THE REPORT

This report examines the newly formed Federation of Jammu and Kashmir Chamber of Commerce and Industry to suggest ways in which this nebulous entity can play an instrumental role in ensuring further expansion of cross-Line of Control (LoC) ties. The United States Institute of Peace's Center for Mediation and Conflict Resolution commissioned this report, which builds on two earlier reports published by USIP that analyze the possibilities and practicalities of managing the Kashmir conflict through softening the LoC to allow the easy movement of people, goods, and services. With neither India nor Pakistan able to impose its preferred solution to the conflict, the impasse in this six-decade-old war has gradually pushed leaders on both sides to show more flexibility in their traditional positions on Kashmir, without officially abandoning them. Both governments have repeatedly endorsed the "making borders irrelevant" concept—softening borders instead of redefining or removing them—giving it promise as a creative and pragmatic approach to the conflict. Because steps to implement this approach have been limited thus far, this in-depth consideration of the Joint Chamber provides a concrete illustration of the opportunities and challenges of the way forward.

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SPECIAL REPORT 230

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*Moeed Yusuf*

## Promoting Cross-LoC Trade in Kashmir

### An Analysis of the Joint Chamber

#### Summary

- Since 2005, Pakistan and India have pursued out-of-the-box thinking on Kashmir and have allowed nominal human interaction and economic exchanges across the Line of Control (LoC).
- One of the most promising recent developments has been the formation of the Federation of Jammu and Kashmir Chamber of Commerce and Industry (Joint Chamber), the first formal joint establishment across the Line of Control, which is poised to play a central role in future efforts at increasing economic collaboration.
- The Joint Chamber is still in its infancy and faces a number of critical challenges that are indicative of the potential stumbling blocks any effort at enhancing economic collaboration across the Line of Control is likely to face.
- Currently, a consensus is missing on the future direction of the Joint Chamber. Not only are the central governments in Islamabad and New Delhi skeptical about according this new body a pivotal position in cross-LoC trade, but even the business communities in the Indian and Pakistani parts of the state suffer from internal differences on the scope of the Chamber's activities.
- Perhaps most worrisome is the Kashmiri business community's reluctance to lobby proactively for expansion of ties beyond trade in goods. Investment, joint ventures, and transit trade through Pakistani Kashmir and Pakistan hold the real potential if economic interdependence is to ameliorate the long-standing political tensions over Kashmir.
- The Joint Chamber members need to agree on a clear vision for the Chamber, preferably including concerns not only relevant to goods trade but also to trade in services, investment, joint ventures, and transit trade. To cover this broad horizon the Chamber would have to increase its capacity by involving entities such as trade associations and the civil society at large.

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- Before tangible gains can be made, the Joint Chamber needs a number of scoping exercises to determine the true potential for economic collaboration on all fronts. The current dearth of information is a major shortcoming in determining the specific areas that could expand the hitherto nascent cross-LoC interaction.
- The Joint Chamber is already engaged in advocating for an increase in the nominal goods trade initiated across the LoC in October 2008. Protocols for physical travel and communication between traders, marketing and banking facilities, and an expansion of the scope of engagement are obvious next steps for this process.
- The key to the Joint Chamber's success is to strike a delicate balance between nudging the governments to open up and remaining pragmatic about the necessarily incremental nature of the gains.

## Introduction

The India-Pakistan dispute over Kashmir has proved to be one of the most intractable in the world. Traditionally, these two countries 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 have nudged Islamabad and New Delhi 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 Pakistani and Indian Kashmir—previously no direct contact was permissible between the two parts of the state. The hope is that enhanced economic interdependence would act as a catalyst for ameliorating the conflict by creating a strong, indigenous constituency that can push the two states toward peaceful resolution of the dispute.

Commendably, Pakistan and India have not only proclaimed the goal of enhancing cross-Line of Control ties but have already made tangible progress toward this end. Shortly after the initiation of the bilateral peace process in 2003, a mutually agreed cease-fire was enforced along the LoC. Since then, bus service was initiated between Srinagar and Muzaffarabad in 2005 and between Poonch and Rawalakot. Fourteen months later, five LoC crossing points were opened for relief assistance in the aftermath of the devastating earthquake in the region in October 2005, and an understanding was reached to conduct cross-LoC trade in selected primary products of Kashmiri origin in 2006.

Although critical in their own right, all stakeholders, including the Indian and Pakistani governments, acknowledge that these steps are only the beginning of a process of economic collaboration that could ultimately make the LoC irrelevant for economic and human exchanges. Most analysts remain convinced that only such expanded cross-LoC interaction can generate the kind of interdependence necessary to stabilize the area.

While intermittent tensions between India and Pakistan since 2006 have dampened the initial euphoria regarding cross-LoC ties, two developments in October 2008 have provided renewed impetus for normalizing relations across the divided state: Islamabad and New Delhi initiated cross-LoC trade and business communities from Indian and Pakistani Kashmir established a joint body to promote economic interaction—the Federation of Jammu and Kashmir Chamber of Commerce and Industry (hereafter Joint Chamber). Although still tenuous and not yet an effective platform to facilitate cross-LoC business interests, the chamber is still the first formal joint establishment across the LoC and thus poised to play a central role in any future effort to enhance economic exchange. Moreover, the organization is the first nongovernmental body of note; its presence complements the hitherto exclusively

top-down approach to cross-LoC collaboration. In essence, the Joint Chamber provides a concrete opportunity to push forward the dream of an “irrelevant” LoC.

This report examines the Joint Chamber in detail. It outlines the basic features of this new structure, analyzes the outlook of the key stakeholders regarding its potential, weighs the challenges ahead, and recommends means to transform the Joint Chamber into a body capable of playing an instrumental role in expanding cross-LoC economic collaboration. The report is designed to provide both the business communities and policymakers with a clear sense of the steps needed to optimize the role of the Joint Chamber in enhancing cross-LoC interaction. The analysis carries a broader message: the case study of the Joint Chamber— independent of the fate of the Chamber itself—highlights the clash of interests among the key stakeholders as well as the constraints on them, factors that constitute stumbling blocks for any effort to expand cross-LoC economic exchange.

## The Joint Chamber

In September 2008, on the sidelines of the U.N. General Assembly session in New York, Pakistani President Asif Ali Zardari and Indian Prime Minister Manmohan Singh agreed to implement the previously reached understanding to allow trade in primary products across the LoC. The Pakistan-India Joint Working Group on cross-LoC confidence building measures, which had already held meetings to negotiate the issue, was tasked to finalize trade modalities; subsequently, October 21, 2008, was set as the initiation date for cross-LoC trade.

The decision to commence trade also provided an incentive to the business communities on both sides of the LoC to come together and discuss ways to optimize trade relations. Thus, from October 9–16, 2008, a nineteen-member delegation from the Azad Jammu Kashmir (AJK) Chamber of Commerce and Industry visited Srinagar and Jammu to meet their counterparts.

The deliberations between the business communities during the AJK Chamber’s visit led to the creation of the Joint Chamber. The presidents of the Chamber of Commerce of Pakistani Kashmir, Indian Kashmir (Valley), and Jammu formally agreed to set up a joint body to bolster cross-LoC economic interests. The Joint Chamber is limited to the three Chambers; other business entities such as traders’ associations or sector-specific groupings from the region are not represented in the body. The new structure’s board will comprise thirty-two individuals, sixteen of whom will be nominated by the AJK Chamber and sixteen jointly by the Indian Kashmir and Jammu Chambers. The Joint Chamber is headed by a president who is appointed on a rotational, two-year basis, with the Pakistani and Indian Chambers alternating the title. The president will act as the executive and will be assisted by two senior vice presidents, one each from the Pakistani and Indian part of the state, and four vice presidents, two from each side. As a goodwill gesture, the Indian side offered the inaugural presidency to Mr. Zulfiqar Abbassi, the current president of the AJK Chamber, for an initial one-year term. He is to hold the title until October 2009, after which the Joint Chamber members will select a new president for a full two-year stint; the next term is likely to be awarded to a nominee from the Indian side of the LoC.

Neither side had envisioned creating a joint body prior to their meetings. The Kashmir Chamber in the Valley had only planned to offer a memorandum of understanding to the AJK Chamber.<sup>1</sup> However, the AJK group, encouraged by the positive mood during the meeting, suggested taking the arrangement a step further by instituting the joint group.<sup>2</sup> After some hesitation, the Kashmir Chamber accepted the proposal. The Jammu Chamber was not part of these discussions; it was only brought on board when the AJK delegation visited them following their visit to the Valley.

***The national governments on both sides reserve the right to prevent the state governments from recognizing the Joint Chamber.***

The absence of any prior internal deliberations by either side regarding a joint set-up, however, meant that the Joint Chamber could not move beyond mere formal agreement during the delegation's visit. As it stands, the organization exists only on paper: the Chamber has not been launched formally,<sup>3</sup> neither side has finalized its list of members, no formal charter or mandate exists, no decision has been made on establishing a physical presence, no meeting schedule has been determined, and financing for the body remains uncertain.

The Chamber also faces potential legal complications. For example, in Pakistani Kashmir, article 8 and 31 (3) (d) of the Constitution prohibit the AJK government from starting any international joint trade venture on its own; the Government of Pakistan retains complete jurisdiction over such matters.<sup>4</sup> Similarly, article 370 of the Indian Constitution enables the central government to take charge of international trade in Jammu and Kashmir when it deems it necessary. In short, the national governments on both sides reserve the right to prevent the state governments from recognizing the Joint Chamber. These stipulations also imply that the Chamber cannot be officially registered as a joint entity unless Islamabad and New Delhi are on board. While both sides could separately register the new body without approval from the national governments, doing so would render the entity no different than the individual Chambers that already exist.

Although the three relevant business communities realize that the decision to set up the Joint Chamber is a beginning, their vision to solidify the body's presence lacks coherence. That said, the following themes do find widespread support as potential future objectives for the Joint Chamber:

- to increase contact between the two business communities through regular meetings; these interactions would allow the members to discuss avenues for closer cooperation and to gain greater exposure to each other's markets and peoples
- to provide a forum to raise mutual concerns as well as a symbol of progress in intra-Kashmir relations
- to act as a pressure group to nudge state and national governments to implement their official vision of enhancing cross-LoC collaboration beyond mere symbolism
- to serve as an expert body that deliberates issues related to trade and investment and provides concrete advice regarding trade modalities and avenues for trade expansion to the governments
- to lobby for improved "governance of cooperation"; this amounts to easing restrictions that do not strictly fall within the trade and investment ambit—primarily security and bureaucratic hurdles—but directly affect business activity
- to galvanize other stakeholders in the economy—small-scale producers, retailers, transporters, marketing outfits, technical experts, academics, and civil society at large—to support the initiative, thereby creating a sense of ownership and empowerment among a large section of the population on both sides of the LoC.

Since the Srinagar and Jammu meetings, the Joint Chamber has remained largely dormant. The body's only tangible output thus far has been a set of recommendations, heavily focused on improving the current cross-LoC trade regime, which were passed on to the Pakistani and Indian governments for consideration.<sup>5</sup> Apart from this, the Chamber's decision to form working groups to identify items that could be added to the current cross-LoC trade list has been held in abeyance. Similarly, a proposed reciprocal visit by the Indian Kashmir and Jammu Chambers across the LoC is on hold. The present lull stems from the sudden spike in Indian-Pakistani tensions in the wake of the terrorist attack in Mumbai on November 26, 2008.<sup>6</sup> The sense of despondence that has prevailed among the business community on both sides since the Mumbai attack suggests that the status quo may remain until political tensions diminish.

## The Lay of the Land: the Actors and their Preferences

The preferences of the key stakeholders, namely, the Chambers on both sides of the LoC, the state governments in Indian and Pakistani Kashmir, and the Pakistani and Indian authorities in Islamabad and New Delhi respectively, are paramount to the evolution of the Joint Chamber. Other entities such as traders' associations, small-scale producers, and retailers—which are known to wholeheartedly support enhanced cross-LoC cooperation—remain outside the loop. Moreover, there seems to be little interest in exploring the possibility of expanding representation in the near term; a leading figure from the Kashmir Chamber in the Valley told the author that the business community strongly preferred other, smaller bodies to explore options of similar arrangements with their counterparts independently of the Joint Chamber.

### *The AJK Chamber*

The decision to form the Joint Chamber was a bold turnaround for the business community in Pakistani Kashmir. Previously, the business enclave as well as the state government in Muzaffarabad had been reluctant to pursue trade liberalization. For over two years, the AJK Chamber had deferred an invitation from their Indian counterparts to visit Srinagar and Jammu to discuss trade related issues, it did not extend a reciprocal invitation until recently, and its members did not attend workshops intended to allow the two business communities to interact.<sup>7</sup>

The AJK business community's skepticism was in large part driven by market realities. Pakistani Kashmir has significantly weaker economic prospects than the Indian part of the state; the situation was further skewed toward the Indian side after the 2005 earthquake that devastated Pakistani Kashmir's economy. The Pakistani side of the LoC is severely underdeveloped: approximately 88 percent of the 4.4 million people there depends on agriculture and forestry as their principal source of livelihood while the manufacturing sector is in poor shape, with many of the 917 industrial units having been declared "sick."<sup>8</sup> Although Indian Jammu and Kashmir is one of the least developed states in India, its agrarian economy is rapidly industrializing—particularly in Jammu—and it already has a multifold advantage in productive capacity over its Pakistani counterpart. In short, there is little doubt that in the near-to-medium term, the direction of trade would overwhelmingly favor Indian Kashmir.

The proactive approach taken by the AJK Chamber in proposing the idea of the Joint Chamber then is somewhat puzzling. On the one hand, there is general agreement across the region's business community that economic interaction with Indian Jammu and Kashmir should increase. It also appears certain that the AJK Chamber will not reverse itself on the issue of the Joint Chamber's existence when the ongoing deliberations among the region's business enclave are completed.<sup>9</sup> On the other hand, the business community is not unanimous on the pace at which they would like cross-LoC ties to expand or on the role they envision for the Joint Chamber.

Two competing visions exist in the AJK Chamber. In addition to the philosophical difference on the utility of trade expansion, these two visions also reflect the fault line along which power politics plays out within the Chamber. The political economy dimension is obvious when one examines the makeup of the two groups. Those involved in industries such as textiles and apparel in which their Indian Jammu and Kashmir counterparts are more competitive tend to be circumspect about swift liberalization. On the other hand, individuals interested in areas such as power generation where potential for mutual gains is high form the most vocal support base for enhanced interaction.

At the core, all AJK Chamber members remain mindful of the necessity to cater to local industry interests. However, those supporting swift movement toward relatively free trade

are upfront in stating their belief that enhanced ties would ultimately benefit consumers and producers on both sides; for Pakistani Kashmir they see the interaction providing impetus to investors from Pakistan-proper to set up manufacturing units in the state, thereby enhancing productive capacity and employment. This group views the Joint Chamber as a stepping stone to fulfill this ambition. Perhaps not surprisingly, the AJK delegation that proposed the joint body had strong representation from proponents of this view.

While proponents of the opposing view do not challenge the logic of this argument, they are much more focused on the short term. This faction calls for a more graduated approach whereby Pakistani Kashmir's own potential is taken into account before putting promises on the table and is less enthused about the Joint Chamber's abrupt announcement. At least one influential businessman who shares this outlook conveyed to the author his bitterness about the body's formation, arguing that the possibility of a joint body was not on the list of talking points communicated to Pakistani Kashmir's business community prior to the delegation's departure.<sup>10</sup> This more cautious cohort is likely to push for a thorough internal debate on the scope of the Joint Chamber's activities before developing a unified stance on the issue.

### ***Indian Kashmir (Valley) and Jammu Chambers***

An interesting dynamic exists regarding preferences on the Indian side of the LoC. Both the Chamber hosted in Srinagar as well as the one in Jammu remain committed to expansion of economic ties. Individually, both entities have voiced support for the Joint Chamber. This makes sense given the disproportionate gains in the short- to-medium term for the Indian side. However, somewhat counterintuitive is the absence of any joint efforts by the two entities to capitalize on their mutual interest. Thus far, the Kashmir and Jammu Chambers have not met to discuss the body's future.

The anomaly has at its root the brewing tensions between the two Chambers. The palpable political differences between Jammu and the Kashmir Valley, which led to a rupture between the Muslims of the valley and the Jammuites in May 2008, resulted in the two Chambers being hesitant to establish any serious contact with each other. It was because of this falling-out that the AJK delegation had to meet separately with the Kashmir and Jammu Chambers; it ended up conducting the bulk of its negotiations in the Valley and only later sought concurrence of the Jammuites. The internal politicking between the business entities on the Indian side also explains concerns among segments of the business community, especially in the Valley, about including the "other" Chamber in the arrangement (some members of the AJK delegation returned with this perception). The Federation of Chamber of Industries in Kashmir (FCIK), a Valley-based group also showed reservations about handing over the founding presidency to the AJK Chamber even though the Jammu Chamber had accepted the arrangement without any apparent reservations.

This situation leads to a conundrum whereby both Indian Chambers remain committed to the existence of the Joint Chamber yet are unwilling to complement each other's lobbying efforts. Unlike Pakistani Kashmir, however, the challenge in Indian Jammu and Kashmir is not to convince the Chambers of the merit of liberalizing cross-LoC economic ties. Rather, it is to disaggregate the broader political tussle within the state from the relationship between the business communities. Only then can the Valley and Jammu Chambers arrive at an internal understanding about the division of labor in their roles within the Joint Chamber and develop a combined negotiating stance for devising strategies with their Pakistani counterparts. Finally, some level of goodwill on the part of the Jammu and Indian Kashmir Chambers is necessary to accept an equal representation and voice since the AJK group has a significantly less impressive portfolio.

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## ***The State Governments***

The Joint Chamber can expect a much more conciliatory attitude from the state governments on both sides of the LoC. Authorities in Srinagar and Muzaffarabad seem committed to exploring avenues to further liberalize cross-LoC interaction. The government in Pakistani Kashmir that left office in January 2009 had made cross-LoC interaction a major pillar of its political program. Arguably, the AJK delegation's offer to set up a Joint Chamber rather than just signing a memorandum of understanding in Srinagar was a reflection of their confidence in the state government's support for moves designed to expand cross-LoC economic ties. Indeed, the relationship between the outgoing government and the AJK Chamber's leadership is widely believed to have been the most cordial in recent history; the latter exercised substantial clout in political circles, a fact that led the already amenable government to wholeheartedly back the Chamber's ambitions to play a proactive role in cross-LoC trade. The business community does not expect the incoming government to fundamentally change its predecessor's stance, although it may have to face renewed lobbying efforts by proponents of both views—accelerated versus gradual liberalization—that exist among the AJK Chamber members.

The mindset is even more encouraging in Indian Jammu and Kashmir. The lopsided near-term gains make it natural for the state government in Srinagar to view the prospect of enhanced trade favorably. The enthusiasm of state officials was evident from their outright support of the idea of the Joint Chamber during the AJK Chamber's visit. Barring any negative directives from New Delhi, the Indian Jammu and Kashmir government is likely to remain proactive in its efforts to expand cross-LoC interaction.

## ***The National Governments***

The national governments in Islamabad and New Delhi continue to hold the key to the future of intra-Kashmir relations. Notwithstanding the ultimate ambition of allowing Kashmiri civil society to have a larger stake in decision-making, both the Indian and Pakistani governments remain unchallenged in their ability to veto any Kashmiri aspirations. Without their agreement, developments like the Joint Chamber are highly unlikely to succeed. That said, neither Islamabad nor New Delhi has yet signaled its intentions regarding the joint body; neither capital has responded to the list of recommendations the Joint Chamber communicated to them after the creation of the body. Of course, it seems unlikely that the business communities would have gone ahead with formation of the Joint Chamber had they known that such a measure would cross Pakistan or India's redlines. Yet, the fact that the national governments are amenable to the structure in principle, encouraging as it is, does not imply that they would quickly buy into its ambitions.

This is not to say that either side is likely to attempt to undo the process. In fact, the symbolism of the development suits them; it is in line with their official stance of allowing interdependence between the two parts of Jammu Kashmir. Beyond mere symbolism, however, realizing the Joint Chamber's vision is likely to prove extremely challenging given that both Pakistan and India, despite having moved away from their traditional maximalist stances, remain wedded to a security-centric paradigm in their outlook toward the dispute. The two countries see each other through a zero-sum lens whereby granting unilateral concessions is a sign of weakness. The strongest opposition on both sides comes from the bureaucracies—the Foreign Office and the military in Pakistan and the Ministries of External Affairs and Home Affairs in India—even though the political leadership seems to have softened their stances considerably. Various elements within the Indian bureaucracy remain wary of Pakistan's propensity to use freer human and economic exchange as a means to create greater unrest in Indian Kashmir. Both parties also feel that increased interaction would

***The two countries see each other through a zero-sum lens whereby granting unilateral concessions is a sign of weakness. The strongest opposition on both sides comes from the bureaucracies.***

lead to heightened intelligence deployment by the other across the LoC. These concerns apply not only to trade between Pakistani and Indian Kashmir, but even more so to transit trade, investment, and joint ventures through which relocation of personnel across the LoC for extended periods would be legalized, trade and investment facilitation would become necessary, and, consequently, the governments' hold on the process would inevitably be diluted.<sup>11</sup> Therefore, while a process that crawls along under the close watch of the two governments is diplomatically attractive, fast-track liberalization is not.

Concerns from Islamabad and New Delhi are not just security related. Within the economic realm, one concern that both India and Pakistan have—Pakistan more so than India—is the potential for intra-Kashmir trade to become an excuse for Indian goods to find their way into the Pakistani market and vice versa. At the core, the worry stems from a realization of the weak trade governance capacity in the two countries: both sides know that irrespective of the monitoring and policing measures put in place to check flows beyond the border of Jammu Kashmir, a truly liberalized trade regime would lead to products from the other's heartland flowing into theirs. Pakistan has already had a bitter experience with the Afghan Transit Trade facility whereby goods destined for Afghanistan regularly make their way back into Pakistan, creating significant perversions in the local market. This fear, combined with the absence of any Rules of Origin agreement specific to Jammu and Kashmir, has forced officials in both countries to exercise extreme caution when negotiating cross-LoC trade modalities.

## **Current Cross-LoC Trade<sup>12</sup>**

The current trading arrangement is fraught with stringent bureaucratic impediments. Trade is restricted to duty-free access for twenty-one items, all of which are primary products produced within the state of Jammu and Kashmir.<sup>13</sup> Moreover, goods on the positive list do not seem to correspond to market realities. A number of items defy trade rationale as they are already available at lower cost within the importer's market or the exporter has a more lucrative market available domestically.<sup>14</sup> Moreover, there is no marketing setup to promote goods from across the LoC; this limits the appeal even for goods not suffering from an adverse cost differential.

At present, trade can be conducted only on Tuesdays and Wednesdays between 9 a.m. and 4 p.m. Transportation is another major impediment. No more than 1.5 metric tons (MT) per truckload can cross the LoC due to infrastructural constraints on both sides. The small consignment size makes trade unviable as the fuel, handling, freight, insurance, and other miscellaneous costs are not necessarily proportional to the consignment weight.<sup>15</sup> In addition, neither side has permission to transport goods to their final destination. Trucks must be unloaded at checkpoints near the LoC, then reloaded onto local trucks and hauled to the destination. Apart from the cost element, this is especially problematic for perishable items.

Furthermore, traders have no means to meet regularly. The visa restrictions continue to be extremely stringent for all residents, including businessmen. Even members of divided families, for whom cross-LoC buses were instituted in 2005 and the visa regime supposedly liberalized, have underutilized the service—only nine thousand people have traveled in over three years—due to the highly cumbersome clearance procedures.<sup>16</sup> Moreover, people in Indian Kashmir do not even have the international direct dialing facility to communicate with their counterparts across the LoC via phone.

The absence of banking facilities and the lack of permission to use Pakistani and Indian rupees for transactions is another concern shared by the business communities on both sides. The Joint Chamber has already voiced its preference to trade in the local currencies,

with the U.S. dollar as the reference for exchange purposes. On the banking front, the situation is even more troublesome as neither the Jammu & Kashmir Bank on the Indian side nor the AJ&K Bank on the Pakistani side has branches across the LoC; they also have no direct correspondence and thus do not allow cross-referenced transactions. In essence, apart from cash purchases or informal credit mechanisms, no official closure is possible.<sup>17</sup>

There is already empirical evidence of the impact of the glaring banking anomaly. Fruit growers from Indian Kashmir suspended cross-LoC shipments within twenty days of the initiation of the process, citing lack of proper communications and payment mechanisms as the major reason. The transaction closure and payment process continued to cause confusion, ultimately resulting in arrears of around 3.5 million Indian rupees.<sup>18</sup> Traders of other products have also threatened to follow suit.

## **The Challenges Ahead: Looking Beyond the Current Trade Regime**

In the Kashmiri context, the underlying rationale for bodies like the Joint Chamber is to create bottom-up pressure to hasten the process of normalization between the two parts of the state. Ultimately, permanent improvement in intra-Kashmir relations presupposes substantial economic interdependence across the LoC such that the costs of reversal become unbearably high. Interdependence, in turn, requires not only a robust cross-LoC relationship among the stakeholders in the economic sphere but also a streamlined focus on specific aspects within the overarching relationship that are capable of creating the interdependence.

Ideally, the Joint Chamber should be looking to explore avenues that would provide the business community with attractive returns, thus creating a genuine economic rationale instead of merely a symbolic one. The absence of such a focus at present stands out as a critical challenge to the entity's future viability. Currently, the business communities are focusing almost exclusively on trade in goods between Pakistani and Indian Kashmir. It is only within this traditional trading sphere that businessmen seem to have a concrete action plan; virtually all other avenues are considered too far-fetched to receive any serious attention at the moment.

The impulse to focus on trade in goods is understandable and welcome given the stringent restrictions in place under the current regime. That said, the Joint Chamber cannot afford to concentrate its energies so narrowly, especially when goods trade between the two parts of the state is the least attractive aspect of the economic relationship. Two critical links missing from this picture are the potential for Indian Jammu and Kashmir to use the Pakistani part of the state as a transit route and exploring trade in services, investment, and joint ventures.

The expected gains for the Srinagar and Jammu Chambers from trading with Pakistani Kashmir notwithstanding, Indian Jammu and Kashmir's business communities have often raised concerns about the market across the LoC being too small for it to be a major attraction.<sup>19</sup> Indeed, this is legitimate, not only because of the limited size of the population on the Pakistani side of the LoC but also because of its meager purchasing power. Ideally, the Indian side is vying for a passage through Pakistani Kashmir to Pakistan-proper, the Persian Gulf countries, and beyond. This is true for both Chambers in the Indian part of the state. Jammu would like to make use of Pakistani transport infrastructure to export from the ports of Karachi and Gwadar, which are much cheaper and more efficient than Mumbai, the port Jammu producers currently utilize. In fact, given Jammu's strength in industrial production and its geographical location, the option of exporting manufactured goods through the historic Jammu-Sialkot (Pakistan) route is even more attractive than trading across the LoC. For the Srinagar Chamber, the appeal of the transit facility is twofold. For one, the current transport route available to the geographically isolated Valley is highly undependable. There

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are frequent complaints of perishable items being damaged by the time they reach their final destinations in India.<sup>20</sup> Second, transiting through Pakistani Kashmir implies reduced dependence on Jammu as the Kashmir Valley's sole outlet to the rest of India.<sup>21</sup>

In light of the above, it is highly surprising that the Joint Chamber has not deliberated the possibility of transit trade and that there has been no push from the Chambers on the Indian side, jointly or individually, to advocate early approval of the facility. The dynamic is rather interesting. On the one hand, the keenness to move from the "to" to the "through" arrangement with Pakistani Kashmir is evident among the Indian Jammu and Kashmir business community. In fact, some members are categorical in highlighting that transit trade is their *only real* interest. However, leaders of the respective Chambers argue that the decision not to include transit trade in the list of recommendations communicated by the Joint Chamber to the governments was deliberate; it was believed to be too controversial for the authorities to consider seriously.

The disconnect between the desire for tangible gains among the business community on the Indian side—hence the interest in transit trade—and the passive effort to move to the "through" arrangement implies that there is insufficient pressure on the governments in Islamabad and New Delhi. This is self-defeating because the present trade arrangement is bound to disillusion many in the business community; the danger is that an extended period without movement beyond cross-LoC goods trade will cause the Chambers to lose interest altogether and thus make them indifferent to a de facto reversal of the minor gains achieved thus far. This is a concern that some influential businessmen acknowledged during conversations with the author.

The concern is even graver on the trade in services and investment fronts. Past studies have established that the real potential for a holistic cross-LoC economic relationship lies beyond goods trade.<sup>22</sup> The similar nature of the economies on the two sides of the LoC makes trade in goods useful only as a starting point. The prospects for real long-term gains lie in eight service sectors: tourism, forestry, waterways, power generation, information technology, education, anti-poverty programs, and disaster management.<sup>23</sup>

Although the Joint Chamber mentioned joint ventures in tourism, exchange in software industries, and contact between educational and technical institutions as potential avenues for consideration in its recent communication to the governments of Pakistan and India, the business communities are unprepared to pursue these ventures seriously.

There is a lack of information on the specific avenues to explore regarding investment and joint ventures in the short to medium term. The business community often mentions broad areas, focusing only on the macro, sectoral-level picture. Thinking about nongoods exchanges remains extremely tentative. The lack of movement within the community is evident in the fact that the Joint Chamber set up working groups to identify items that could be added to the current trade list, but ignored the need to start parallel work on investment and joint ventures.

The internal contradiction in the stance of the business enclave is obvious: while they are bitter about government restrictions, they have been unable to formulate a unified position, let alone pursue it, on issues related to transit trade, services trade, investment, and joint ventures. The business leaders seem willing to take a more conservative approach than is perhaps ideal for a body set up to alter the status quo in an intensely hostile environment. In fact, an overwhelming majority seems resigned to the fact that politics will continue to trump the aspirations that underlie the Joint Chamber. While that is certainly true at present, and is likely to remain so in the near-to-medium term, deferring the future of the Joint Chamber to the political domain undermines the very rationale for its existence, that is, to create bottom-up pressure despite the adversarial framework. In essence, those who are

***The internal contradiction in the stance of the business enclave is obvious: while they are bitter about government restrictions, they have been unable to formulate a unified position.***

## Areas of Interest for Investment and Joint Ventures as Identified by a Previous Pugwash Study (supported by USIP)

**Tourism:** (1) Establish a Joint Travel Management Board; (2) Set up hotel management training institutes in Indian Kashmir where individuals from both sides would be allowed to train; (3) Set up vocational training institutes specific to the tourism industry on both sides.

**Forestry:** (1) Involve communities in Joint Forest Management projects with assistance from civil society; (2) Institute public-private partnerships in the forestry sector; investors from the same or opposite side of the LoC could lease out land for regeneration and harvesting.

**Waterways:** (1) Hold joint environmental clean-up exercises; (2) Regularly exchange data on water flows and quality.

**Power generation:** (1) Conduct a careful study of the power generation potential to gauge the amount of electricity that can realistically be brought to the grid; (2) Explore the possibility of a joint power generation project on the LoC.

**Information Technology:** (1) Pakistani Kashmir should utilize the software development capacity across the LoC by outsourcing assignments; (2) Request Indian IT professionals to teach at small IT training centers in Pakistani Kashmir; IT students from Pakistani Kashmir could also be sent to study in the proposed Indian Technology Institute in Indian Kashmir; (3) The Indian side could help their Pakistani counterparts in setting up software technology parks and other such IT ventures.

**Education:** (1) Initiate a small student exchange program for postgraduate institutions; (ii) Share experiences on improving the quality of education; educational administrators (including nongovernmental ones) on the Pakistani side could build on their existing programs for teacher training, either by sharing best practices or exchanging master trainers at teacher training institutes across the LoC.

**Anti-poverty programs:** (1) Replicate the Rural Support Program (RSP) from Pakistan's Federally Administered Northern Areas structure in Pakistani and Indian Kashmir; RSP top brass could conduct orientation and training courses for their Indian counterparts and/or set up the program in a few model villages in Indian Kashmir.

*Source: Moeed Yusuf, Exploring the Potential for Economic Development and Cross-LoC Collaboration in Jammu Kashmir, Pugwash, Issue Brief, March 2007*

most desperate for tangible gains—the business communities—are unwilling to follow the path that is most likely to lead to those very dividends. The current mindset creates a self-fulfilling prophecy.

## The Way Forward: Making the Joint Chamber Deliver

The following recommendations suggest both steps the Joint Chamber itself needs to take and areas in which the body needs to lobby the state and national governments.

### *Viability of the Joint Chamber*

**Bringing the Stakeholders Together.** The very idea of the Joint Chamber presupposes a consensus within the business community on the existence and objectives of the body. Neither side can claim to have fulfilled this prerequisite yet. The foremost requirement then is for business communities to be on board in unison. In Pakistani Kashmir, an internal convergence of opinion is required whereby proponents of both views discussed earlier (accelerated versus gradual liberalization) are comfortable with the entity. As for Indian Jammu and Kashmir, both Chambers have to work out a mechanism to ensure that their interaction in the Joint Chamber is immune to intrastate political turbulence. Specifically, the Kashmir Valley and Jammu businessmen need to chart a common negotiating stance vis-à-vis New Delhi.

***Business communities from the two sides also suffer from a trust deficit thanks to decades of state-led propaganda.***

The Joint Chamber's creation notwithstanding, business communities from the two sides also suffer from a trust deficit thanks to decades of state-led propaganda. The fragility of the relationship was evident during the AJK Chamber's visit across the LoC. For instance, the delegation found it offensive that Pakistani Kashmir was referred to as Pakistan "Occupied" Kashmir in one of the postdeliberation communiqués issued by the hosts. As mentioned, the FCIK was also not too enthused about granting the first presidency of the Joint Chamber to an AJK representative. These minor episodes signal the need for dedicated efforts to trust building. While increased contact should help, both sides need to remain mindful of each other's sensitivities and exercise caution in their interactions. Moreover, the Indian Chambers might consider making initial concessions in their trade and investment approach even if they defy economic logic.<sup>24</sup> Such goodwill toward the weaker side could go a long way to increasing trust and diluting skepticism in Pakistani Kashmir.

The Joint Chamber must take the national governments into their confidence. This is essential to satisfy legal concerns as well as to ensure smooth functioning of the entity. An immediate task concerning all Chambers is to create a strong constituency in support of the Joint Chamber in Islamabad and New Delhi. Chamber delegations should meet with relevant ministry officials periodically in the coming months to explain the rationale of the joint body and ease concerns harbored by the bureaucracies. Regular contact with the national governments should allow the business communities to gauge Islamabad and New Delhi's redlines. Keeping these in mind, the Joint Chamber should develop a stance that neither ruptures their relationship with the respective governments nor defers wholly to the authorities on issues of utmost business interest. At present, their outlook errs substantially toward the latter.

**Permanence and Vision of the Joint Chamber.** The Joint Chamber needs to bring permanence to its own existence. Based on the internal convergence of opinion on both sides, working groups from the thirty-two-member body should determine the precise nature of the entity and its activities. The body should formulate a concise vision and specific aims and agree upon issues such as the Chamber's physical presence, funding, meeting schedule, and other relevant concerns. Specifically, Chamber members should seek legal advice to work out means to register and locate the body as a joint entity. The Joint Chamber should also issue a formal charter.

Delineating a clear vision for the Joint Chamber would also require a fundamental decision on the body's scope. As previously mentioned, there is currently a disconnect between the normative aim of acting as the pivot for any issues related to cross-LoC economic interaction and the overwhelming focus on goods trade. The Joint Chamber, being the only common platform, must approach the issue holistically by including concerns relevant to

trade in goods, services, investments, and joint ventures in all sectors of interest. Without such an approach, the business community is certain to lose interest.

Should the above course be pursued, the Joint Chamber members would have to revisit their capacity. Currently, the body suffers from an extremely narrow membership base. The Chamber will have to bring within its fold representatives of service sectors with cross-LoC potential, investment consultants, smaller trade associations, technical experts, academics, and perhaps even members of the media. Although these representatives do not need to be permanent members, they should be invited regularly to provide guidance. Such input could often end up having a multiplier effect by generating new ideas for cooperation.

Broadening the Joint Chamber's representation will assist the new entrants as well. Their inclusion will provide them a channel to voice their sector-specific demands. For example, members of the education sector have not even lobbied for implementation of recommendations by previous working groups on the subject in part because they lack organization and a platform to do so, something the Joint Chamber would be able to provide.<sup>25</sup>

**Addressing the Communication Gap.** The above tasks presume an ability on the part of the Joint Chamber members to remain in contact, and meet physically and relatively freely. Business communities on the two sides cannot afford to wait while governments consider requests for relaxation of visa and communication restrictions. Even a favorable decision in this regard will likely only come after protracted negotiations between the national governments. Two alternatives could be pursued. First, outside actors could assist in creating opportunities for business community representatives and other relevant stakeholders to meet periodically. Donor groups and independent facilitating organizations could arrange meetings such as dedicated workshops and conferences where one or two days are reserved for Joint Chamber meetings.

A second, less preferable, but innovative idea is to set up a joint Web site to exchange information and negotiate trade deals. A model exists in the form of the Jammu and Kashmir Chamber of Traders and Manufacturers Cooperative Limited.<sup>26</sup> This is a limited liability entity conceived by the president of the Jammu Chamber, Ram Sahai, to promote cross-LoC interaction. While the cooperative is largely symbolic at this point, a key aspect of it is a "joint Web site," which is supposed to symbolize cross-LoC unity. Taking this idea as a starting point, the Joint Chamber Web site could become an interactive communication and data center for businessmen: it would contain updated information allowing businessmen to gauge market price data, trends, and other relevant statistics. If agreeable, it could also house a secure portal where business deals could be negotiated and closed.

The information gap between the business communities on both sides of the LoC and organizations such as the United States Institute of Peace, Pugwash, Conciliation Resources, and South Asia Free Media Association who are committed to facilitating intra-Kashmir normalization must be overcome. The business communities should be forthcoming in communicating requests for assistance that can be addressed by these outside actors. By the same token, interested parties should continue to explore avenues for supporting the process. Clearly, the Chambers remain the key actors to tap. However, these organizations should also consider broadening their contacts to include much the same cohorts as the Joint Chamber: smaller trade associations, technical experts, service sector individuals, and investment consultants. Furthermore, greater attention should be paid to sector-specific expertise. For example, academics from both sides, who remain tentative in approaching their counterparts across the LoC, could be brought together to discuss publishing joint papers or holding conferences at neutral venues that could be implemented within a set time frame. Likewise, members from the tourism sector could be brought together to discuss specific avenues, modalities, and requirements to jump-start the industry.

## *Laying the Foundations for Expanded Trade and Investment*

**Information Collection: The Need for Concrete Research.** Arguably, the most serious impediment to a long-term plan for trade expansion is the absence of accurate data on the market structure in Kashmir. Lack of interaction between the two sides over the years has meant that neither has specific information about the precise nature of the market across the LoC. More alarming is the fact that information is scant even within the respective parts. For instance, Pakistani Kashmir lacks a detailed market study of its own potential as well as up-to-date, disaggregated data capturing production and trade information. This makes it virtually impossible to project the impact of trade liberalization, and thus convince skeptics—be it businessmen or governments—about the potential gains from enhanced interaction.

Only detailed market studies on both sides will highlight the respective comparative advantages and allow traders to sensibly agree on the amount and scope of trade in the short- to-medium term. That said, none of the Chambers have the wherewithal to conduct such a comprehensive study themselves. Independent organizations or consultants would have to undertake the work in collaboration with the respective Chambers. Ideally, researchers from within the state should be identified to participate; the AJK and Jammu & Kashmir Universities would be the obvious institutions to tap.<sup>27</sup> That said, these exercises could be designed such that they maximize the involvement of and interaction among Chamber members, thereby simultaneously building trust and enhancing capacity.

The need for a scoping research exercise is as acute in the investment sphere. Currently, virtually no information exists at the subsector level, a necessary prerequisite to identifying the viability of specific investment and joint venture projects and the steps required to enact them. Again, researchers, preferably from within the state, should be tasked to conduct detailed investment studies at the subsector level.<sup>28</sup>

The potential flow of trade through Pakistan, should Islamabad allow Indian Jammu and Kashmir to use its territory for transit purposes, should also be researched. A scenario-based exercise could forecast the potential revenue gains for Pakistan and Pakistani Kashmir under various royalty tariffs. This would give Islamabad and Muzaffarabad a clear sense of the benefits likely to flow from the arrangement. Thus far, no concrete information is available due to data deficiencies on the Indian side, where disaggregated data for trade and production is not easily accessible.

## *Approaching the Governments*

The suggestions put forward thus far are required to make the Joint Chamber a viable entity as well as to provide it with an empirical basis to pursue its agenda of cross-LoC economic interaction. Once the joint body is on a sound footing and has a clearer agenda of specific measures it would like to see implemented, it should begin lobbying the state and national governments. Its efforts should span the entire economic spectrum—trade in goods and services, investment, and joint ventures.

The Joint Chamber is already focused on the present trade arrangement. Some of the trade facilitation measures that need to be pursued have been communicated to the national governments, both by the Joint Chamber as well as sanctioned groups such as the Indian Working Group on strengthening cross-LoC relations. Overall, the following measures deserve attention; a number of these are applicable to aspects of the economic relationship beyond traditional goods trade.

**The Composition of Current Trade.** Trade should be allowed seven days a week. In addition, the number of items on the approved list should be increased and these items should be

*Once the joint body is on a sound footing and has a clearer agenda of specific measures it would like to see implemented, it should begin lobbying the state and national governments.*

selected based on market realities, not arbitrary choices by Pakistani and Indian officials. The India-Pakistan Joint Working Group on cross-LoC Confidence Building Measures is mandated to review the list of items periodically.<sup>29</sup> The Joint Chamber should lobby the Working Group to expand the list at their next meeting, if not sooner. As a start, items proposed by one side but not included during the negotiations should be revisited. From India, these would include cricket bats, silk products, pharmaceuticals, gems and jewelry, honey, and cut flowers while from Pakistan the expanded list would contain precious stones, salt, marble, onions, garlic, and pine nuts. Other items which could potentially be traded across the LoC (the actual scope for doing so will depend on the results of the market studies recommended earlier) include: silverware, copperware, seeds, sewing machines, fluxes and chemicals, juices and jams, canned food (from India), fertilizers and rice (from Pakistan), and leather and leather shoes (two-way flow).

Moving beyond primary goods would be a natural and urgently needed subsequent step. The FCIK has already communicated to the state government in Jammu and Kashmir that cross-LoC trade would only be attractive to it if the export of manufactured products from the state were allowed. The group has forwarded a list of fifty-two items that it wants included on the approved list.

If the two sides allow the trade of manufactured goods across the LoC, a mutually acceptable Rules of Origin framework specific to Jammu and Kashmir will have to be devised by India, Pakistan, and the state governments. While the South Asian Free Trade Area (SAFTA) provides a ready framework, it is highly unlikely that New Delhi and Islamabad would allow the respective Chambers to issue certificates of origin. The concern is obvious: the other side could allow goods not meeting the origin criteria to be exported in the guise of intra-Kashmir trade. That said, as technically challenging as this issue may be, without a Rules of Origin agreement, it would be impossible to move beyond trading in primary items produced wholly within Jammu and Kashmir. One option could be to allow the Chamber from the opposite side to verify each Certificate of Origin after examining facts about a particular product's supply chain. However, this assumes transparency in information sharing and physical access to the other side.

Finally, to allow local ownership of the trade facilitation process, a Kashmir Trade Agent, nominated by the respective business communities and approved by the state government, should be appointed on both sides of the LoC to oversee the process and act as a liaison between the business enclave and the national governments.

### ***Facilitating Transport and Travel***

A number of actions could be taken to improve movement and access:

- Currently, only the Srinagar-Muzaffarabad and Poonch-Rawalakot routes are operational. All historic routes, including Mirpur-Naushara, Tithwal-Chilhan, Gurez-Astore-Gilgit, Chumb-Pallanwalla, Kargil-Skardu, and Kotti-Rajori,<sup>30</sup> should be examined for traffic and trade potential and reopened where appropriate. If transit of Indian Kashmiri goods through Pakistan were permitted, the Sialkot-Suchetgarh route, both road and rail, would also become appealing.
- Full truck loads of twelve to fifteen MT should be allowed in order to lower per unit expenditures for the traders.
- Necessary infrastructure should be prepared to ensure smooth operations, including strengthening roads and bridges.
- Trucks should be allowed to carry goods to their final destination rather than having to unload at the LoC; specific truck companies and drivers could be issued security clearances

and passes that would be renewed periodically. Trucks could still be subject to security checks.

- The trade centers and truck terminals that are already planned at each LoC crossing point must be designed with the expansion of trade volume in mind. Specifically, trade centers should be able to host cross-LoC business meetings, trade fairs, and small-scale retail markets rather than serving simply as formal facilitation complexes.
- A travel permit system should be initiated whereby traders (and other stakeholders relevant to economic facilitation) could be issued security clearances and trade passes; cleared businessmen could then be allowed to travel across the LoC in their own vehicles rather than having to use the bus service or at least be allowed to cross over and park at the trade centers and use local transportation to reach their final destination.
- In order to enhance interaction and exposure to the other side, periodic trade fairs and industrial exhibitions should be organized on both sides. As mentioned, these could be held at the trade centers if the infrastructure permits.
- Small-scale retailers of products on the permissible list and edible items could be issued a cross-over permit and allowed to set up daily bazaars in the trade centers across the LoC.

**The Essentials for Trade: Marketing, Communications, Banking.** If the items to be traded and the infrastructure to move them are the “hardware” of trade, then marketing, communications, and banking are the “software.”

- Legal provisions should be made to allow marketing companies from both sides to operate across the LoC. As a start, exporters from one part could be allowed to hire local marketing companies from the other side.
- Efficient trading patterns are unlikely to develop without regular phone contact. Indian Kashmir must allow international direct dialing to enable Jammu and Valley businessmen to call their Pakistani Kashmir counterparts freely. At present, cell phones can be used but most individuals avoid these given the potential for harassment by intelligence agencies.
- The absence of postal and courier services between the two sides is also a hindrance to trade. Postal services should be allowed as they are across the international Indian-Pakistani border; local and international courier agencies should also be allowed to operate.
- In the absence of banking services, trade and investment ventures cannot be expected to flourish. The Joint Chamber should continue to press the Indian and Pakistani governments to allow AJK Bank branches in Srinagar, Jammu, and Poonch, and Jammu and Kashmir Bank branches in Mirpur, Muzaffarabad, and Rawalakot. Furthermore, SAFTA’s currency stipulation allowing for trade to take place in local currencies should be applied to intra-Kashmir trade.

**Beyond the Traditional Trade Sphere.** Regarding services trade, investment, and joint ventures, the scoping exercises suggested previously are a necessary prerequisite to formulating a concrete action plan going forward. In light of the facts revealed by the market and investment studies, the Joint Chamber should put together a priority list of future actions—related specifically to concrete projects—and lobby the governments in parallel with their efforts on the traditional goods trade front. Initiatives that are less likely to be controversial in the current security-centric environment in Islamabad and New Delhi should be given preference.

Finally, accurate estimates of the potential revenues from transit trade may spur interest in the Pakistani Kashmir and Pakistan governments. This will be especially true if the multi-million dollar Gwadar port project undertaken by Islamabad fails to deliver the kind of dividends Pakistan expects from the inflow of Central Asian goods transiting the facility. The

turmoil in Afghanistan makes this all but inevitable; estimates of future returns are already being scaled back. Therefore, the Pakistani authorities are likely to look for other potential clients; Indian Kashmir, and India-proper, are obvious choices. Depending on the outcome of the number-crunching exercise suggested in this report, it is not inconceivable that the potential returns from a transit facility arrangement would trump concerns about some of the goods leaking into the Pakistani market, especially if the modalities allow the Pakistani side complete logistical control once the consignments have entered its territory.

## Conclusion

The six-decade-long Kashmir dispute has caused tremendous human and economic costs. This is an aspect of the conflict that is often overlooked. The present thaw in Indo-Pak relations has provided an opportunity to use cross-LoC relations as a means not only to increase the prosperity levels of Kashmiris on either side but also to use the interaction as a means of ameliorating conflict. This hope is based on the liberal theory of economic interdependence, which argues that by increasing the economic incentive for peace, trade-driven interdependence brings amelioration of interstate conflict as a welcome political externality.

Allowed to reach its true potential, cross-LoC trade in Jammu Kashmir could produce the kind of interdependence liberal trade theorists envision. While further expansion in trade in goods is the obvious next step, the mainstay of the interaction over the medium-to-long term is likely to be in the trade in services, joint ventures, and cross-LoC investment spheres. Moreover, transit trade facilities for Indian Kashmir are certain to create an added incentive to maintain normalized ties. Finally, the human interaction between these divided peoples that economic ties will inevitably create will perhaps be a potent force against regression toward active hostilities over the territory.

This is where efforts from a body like the Joint Chamber become so important. Presently, the governments of India and Pakistan manage issues regarding cross-LoC activity closely. Given their security-centric outlook, the economic interaction remains unpredictable, and indeed unattractive. Under such circumstances, it is only bottom-up pressure from nongovernmental bodies that can hope to inject a broader perspective into the official mindset. This requires a delicate balance in the Joint Chamber's approach; the body's members need to remain pragmatic, avoiding an overly aggressive attitude that would unnecessarily provoke the governments to clamp down on their aspirations and an overly deferential posture that would leave the Joint Chamber at the mercy of political relations between Pakistan and India.

No matter how challenging, measures necessary to keep the business community interested in cross-LoC interaction must be pursued; the enormity of the challenge cannot be allowed to dissuade the business enclave. After all, few believed prior to the initiation of the peace bid that duty-free cross-LoC interaction, as it stands today, would be possible. And certainly no one could have imagined that a joint platform would be formulated and accepted, even if notionally, by the governments of Pakistan and India. Yet both are reality today.

## Acknowledgments

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## Notes

1. Author's phone interview with Mubeen Shah, president of the Kashmir Chamber of Commerce and Industry, in Valley, February 7, 2009.
2. Author's interview with Zulfiqar Abbassi, president of the Azad Jammu & Kashmir Chamber of Commerce and Industry, in Islamabad, Pakistan, January 15, 2009.
3. The formal launching was to take place during a reciprocal visit by the Indian Jammu and Kashmir business communities. The visit is still pending and continues to be delayed by lingering political tensions within Indian Jammu and Kashmir, as well as between Pakistan and India.
4. Azad Government of the State of Jammu & Kashmir, "Azad Jammu & Kashmir Interim Constitution Act, 1974."
5. Federation of Jammu and Kashmir Chamber of Commerce and Industry, "Joint Recommendations to Facilitate Cross LoC Trade," No. FJ&KCCI-01/08, October 30, 2008.
6. The city of Mumbai was attacked by ten armed militants who managed to defy Indian security forces for sixty hours during a rampage that killed almost two hundred people. India alleged that the attackers had been trained in and dispatched from Pakistan. The Mumbai carnage is the most serious crisis between the two sides since the bilateral peace process began in 2003. See Andrew Buncombe and Jonathan Owen, "Just Ten Trained Terrorists Caused Carnage," *The Independent*, November 30, 2008, URL=[www.independent.co.uk/news/world/asia/just-ten-trained-terrorists-caused-carnage-1041639.html](http://www.independent.co.uk/news/world/asia/just-ten-trained-terrorists-caused-carnage-1041639.html) (accessed July 16, 2009).
7. The Indian Jammu and Kashmir business community had a standing invitation to the AJK Chamber since 2006 but the visit was repeatedly delayed until October 2008. There was also a seeming reluctance (although this is denied by Pakistani Kashmir's traders) on the part of the AJK business community to participate in joint meetings organized by third parties. For example, the AJK Chamber was not represented at a meeting hosted by Pugwash and supported by the United States Institute of Peace in Colombo in March 2008 to bring together businessmen and civil society members from the two parts of the state.
8. Moeed Yusuf, "Exploring the Potential for Economic Development and Cross-LoC Collaboration in Jammu Kashmir," *Pugwash Issue Brief* 5, no. 1 (July 2007): 3; Shahid Javed Burki, "The Problem in Search of a Solution," *United States Institute of Peace Peace Works*, no. 59 (March 2007); Official Web site of the Government of Azad Jammu and Kashmir, URL=[www.ajk.gov.pk/site/index.php?option=com\\_content&task=view&id=2302&Itemid=94](http://www.ajk.gov.pk/site/index.php?option=com_content&task=view&id=2302&Itemid=94) (accessed July 16, 2009).
9. The AJK Chamber has been deliberating the future of cross-LoC trade in general and the Joint Chamber in particular since the return of the cross-LoC business delegation. However, an impending change in the de facto leadership of the Chamber has occupied the business elite, thus delaying a consensus on the issue.
10. Author's interview with Ch. Muhammad Saeed, former president of the Federation of Pakistan Chambers of Commerce and Industry and of the AJK Chamber of Commerce & Industry, in Islamabad, Pakistan, January 13, 2008.
11. For instance, there exists a strong perception in the Kashmir Valley that New Delhi's reservations toward liberalization of trade ties are linked to the fact that the Valley, currently completely dependent on India, would acquire an alternate outlet through Pakistani Kashmir, a fact that would loosen the central government's hold on the restive region. See D. Suba Chandran, "Cross-LoC Trade Challenges and Opportunities in J&K," *Institute of Peace and Conflict Studies Issue Brief*, no. 66 (May 2008): 2.
12. The facts about trade modalities discussed in this section were obtained from the Ministry of Foreign Affairs, Government of Pakistan.
13. The positive list includes carpets, rugs, wall hangings, shawls and stoles, namdas, gabbas, embroidered items, furniture, wooden handicrafts, fresh fruits, saffron, aromatic plants, fruit bearing plants, black mushrooms, Kashmiri spices, rajmah, honey, paper mache products, foam mattresses, cushions/pillows and quilts, and medicinal herbs.
14. For instance, fresh fruits and handicrafts that are to be exported from Indian Jammu and Kashmir have a much larger market in India. For Pakistan, export of basmati rice and maize flour remains unviable; these items are 55 Rupees/kg and 15 Rupees/kg cheaper in Indian Kashmir. "Kashmir Inc. Seeks Inclusion of Industrial Products in Cross-LoC Trade," *Kashmir News*, November 16, 2008, <http://kashmirnewsupdates.info/?p=77>; K. D. Maini, "Cross-LoC Trade: Prospects and Problems," *Institute of Peace and Conflict Studies*, Article No. 2785, January 21, 2009.
15. Federation of Jammu and Kashmir Chamber of Commerce and Industry, "Joint Recommendations"; according to the Jammu Chamber President, each truck consignment from Poonch to Rawalakot presently costs approximately 3,200 Indian rupees, an exorbitant amount given the small consignment size.
16. Reuters, "Trucks Cross Frontier in Disputed Kashmir," October 21, 2008.
17. The only formal mechanism for transactions is to go through a bank in Pakistan, which will credit the amount to a bank in India and then on to a bank in Indian Jammu and Kashmir (and vice versa). To avoid this circuitous arrangement, traders have tried to arrange bank deals between Pakistani and Indian Kashmir through bartering. However, even this mechanism has not been successful as exporters, especially on the Indian side of the LoC have complained of delayed or unreasonably low payments. See Iftikhar Gilani, "Trade Across LoC Reduced to Trickle," *Daily Times*, February 14, 2008, URL=[www.dailytimes.com.pk/default.asp?page=2009\02\14\story\\_14-2-2009\\_pg7\\_5](http://www.dailytimes.com.pk/default.asp?page=2009\02\14\story_14-2-2009_pg7_5) (accessed on July 16, 2009).
18. "Fruit Growers in J-K Suspend Cross Border Trade with Pakistan," *The Indian*, November 13, 2008, [www.thaindian.com/newsportal/india-news/fruit-growers-in-j-k-suspend-cross-border-trade-with-pakistan\\_100118757.html](http://www.thaindian.com/newsportal/india-news/fruit-growers-in-j-k-suspend-cross-border-trade-with-pakistan_100118757.html) (accessed on July 16, 2009).

19. Chandran, "Cross-LoC Trade Challenges," 3.
20. The Kashmir Valley has to rely on a single, rather unreliable route through Jammu to connect with the rest of India. The road is poor and susceptible to banditry. On average, trucks take about thirty-six hours to reach Delhi from the Valley while Islamabad is a mere eight to ten hours away. See Ibid; P. R. Chari and Hasan Askari Rizvi, "Making Borders Irrelevant in Kashmir," United States Institute of Peace Special Report no. 210 (September 2008): 9.
21. The current arrangement is unsustainable from the Valley's perspective given underlying political and social tensions between the two parts of the state. A strong reminder of the vulnerability the Valley faces came in May 2008 when the Government of India and state government of Jammu and Kashmir reached an agreement to transfer one hundred acres of forest land to the Shri Amarnathji Shrine Board in the Kashmir Valley to set up temporary shelters and facilities for the Hindu pilgrims who visit every year. The land transfer led to a massive backlash in the Valley and a counterreaction in Jammu in which Jammuites blocked the access road to the Kashmir Valley, essentially causing an economic blockade of the region. The situation deteriorated to the point that thousands of demonstrators from the Valley marched toward Muzaffarabad and threatened to cross the LoC.
22. Yusuf, "Exploring the Potential for Economic Development."
23. Ibid., 7-13. Other studies that do not necessarily highlight the same sectors but still delve into the investment potential in detail include: Chari and Rizvi, "Making Borders Irrelevant," 8-11; and Mubeen Shah, "Intra-Kashmir Economic Cooperation," discussion paper prepared for presentation at a workshop on this topic, Pugwash meeting 335, Colombo, Sri Lanka, March 15-16, 2008.
24. One possibility that the Pakistani Kashmir business community seems excited about is for Indian Kashmiri manufacturers to set up plants on the Pakistani side and repatriate excess production back to Indian Jammu and Kashmir or export it elsewhere. While the AJK Chamber members who support this view believe otherwise, the fact is that realities on the ground do not provide any incentive for the Indian side to take this step; neither the labor cost differential nor the human and physical capacity on the Pakistani side is adequate to provide an enticing prospect. Yet, a move to set up a limited number of manufacturing plants would reflect tremendous goodwill and provide an upper hand to the AJK Chamber cohort advocating swift trade liberalization.
25. Other obvious avenues for collaboration exist as well. For instance, the Azad Jammu and Kashmir University offers a tourism major while the University of Jammu has a tourism concentration in the Business and Management Department. These two institutions could lead empirical research on tourism on their side of the LoC and then come together through the Joint Chamber to devise a concrete plan to jump-start cross-LoC tourism.
26. Syed Junaid Hashmi, "J&K, Pak Traders Bridge Divide with a Common Web site," *Kashmir Times*, October 13, 2008, URL=[www.kashmirtimes.com/archive/0810/081014/news3.htm](http://www.kashmirtimes.com/archive/0810/081014/news3.htm) (accessed on July 16, 2009).
27. Currently, there is no academic connection between educational institutions and the Chambers. Only the Jammu Chamber members maintain periodic contact with universities in the state but that is mostly to recruit graduates.
28. In this regard, the United States Institute of Peace has commissioned an in-depth study on the potential for cross-LoC tourism. The study is being conducted by a two-member team comprising P.R. Chari from India and H. A. Rizvi from Pakistan.
29. The Working Group is to meet quarterly to review trade modalities. However, meetings have been suspended due to the spike in India-Pakistan tensions in the wake of the Mumbai attacks.
30. The routes mentioned here are the ones the local communities deem the most viable in the near-to-medium term. Other documents such as the report of the working group set up by the government of India to address cross-LoC relations mention seven routes, some different from the ones listed here.

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