

# CROSS LOC TRADE- MITIGATING CONFLICT

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**Abstract** *Cross LOC trade in Kashmir was initiated as a confidence building measure (CBM) between India and Pakistan on October 21st, 2008. Its success can be measured by the fact that it is growing, though the relations between the two countries have turned hostile on a number of occasions. The great symbolic and political value with which the trade was started needs to be kept alive to build on the gains more so for peace and economic implications than just emotions and symbolism. The paper aims to understand and present the special issues associated with this trade. Cross LOC trade has been successful in presenting the mutual interdependence and peaceful coexistence that Kashmir has been striving for. Now it is needed to consolidate on these gains for economic growth and stability of the region which is economically lagging behind because of the conflict. The slow yet steady pace of progress that this trade is showing can convince the reader that there is light at the end of the tunnel, notwithstanding the problems and challenges that this sensitive trade presents. The paper strives to make a modest attempt to understand and address the problems faced by all the stakeholders of this trade.*

**Keywords:** *Blind Trade, Conflict, Line of Control, Proxy Trade.*

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## INTRODUCTION

The Kashmir conflict is the outcome of the partition. The roots of the crisis extend to the catastrophic partition of the two countries in 1947, when the British government left the region after a 250-year period of rule characterized by exploitation and divide-and-conquer tactics. The LOC is the line that separates the two parts of Kashmir. Initially referred to as the cease fire line, it emerged when after partition, India and Pakistan fought a war on Kashmir. This war resulted in the partitioning of Kashmir, with the United Nations negotiating the “ceasefire”. This cease fire line was redesignated as Line of Control following the Simla Agreement. Since then the hostilities between the two countries rose with the armed struggle in the early 90’s in J&K. However the last decade has seen a number of initiatives from India and Pakistan towards peace and confidence building. The “ceasefire” declared along the LOC between the two countries in November 2003 (after both the countries started deploying troops in thousands along the LOC in 2002 following a string of terror attacks in India) paved the way for initiating the cross LOC travel in April 2005 between Srinagar and Muzaffarabad. This was followed by a bus service between Poonch and Rawlakot in January 2006. Cross LOC trade commenced from 21<sup>st</sup>

October 2008. On the day 13 trucks crossed over to Pakistan and 14 trucks came to J&K. Thus looking at the trend one can assume that the relations between the two countries have improved. The solution of the conflict in Kashmir has many stakeholders. India is the third largest economy in the world. However authors believe that the greatest hindrance to growth and cooperation in South Asia has been the fifty six year old Kashmir crisis between India and Pakistan. Various writers and think-tanks have given their views on conflict. The Kashmir conflict is multi dimensional; however the source of conflict can be traced back to the disputed territory between India and Pakistan which has received international attention.

## REVIEW OF LITERATURE

The liberal theory of economic interdependence, states that by increasing the economic incentive for peace, trade-driven interdependence brings amelioration of interstate conflict as a welcome political externality. A rational approach by beneficiaries can promote commerce as there are costs involved in the conflict. Interstate conflict is likely if the size of the two countries is large and they lie in close proximity (Hegre et al., 2009). Economic progress and poverty reduction combined with greater openness to international

trade in general are more significant drivers of peace between nations like India and Pakistan, rather than the independent contribution of a common democratic polity. So it is more economic interdependence rather than politics which is likely to contribute towards peaceful relations between India and Pakistan in the near future. Authors who have proposed models for resolution of conflict include Khanna and Sanskaran (2003). They propose a SAARC framework with increased cross border trade in their study.

## IMPORTANCE OF STUDY

Cross LOC trade has successfully completed four years. In this context, the paper attempts to present the gains from the trade- political as well as economical.

## OBJECTIVES

The study aims to understand the implications of cross LOC trade in mitigating hostilities between India and Pakistan, in general and the people of Kashmir, in particular taking into account the economic development that the trade can bring about in the conflict-torn region.

## METHODOLOGY

The research design employed for the study is descriptive, and both primary and secondary data are included:

- Secondary Data: Secondary data was extensively used for the study and included journals, articles, and news articles.
- Primary Data: Primary data collection was done through personal interviewing of traders, associations/unions involved in the LoC Trade.

## CROSS LOC TRADE RATIONALE

Trade is not a new term in Kashmir. Indian subcontinent was connected to the grand silk route through a myriad of sub-routes through Greater Kashmir. These trans-Kashmir routes promoted trade and resulted in assimilation of cultures and faiths. The trade was a source of employment for millions of people. The traders, travelers and missionaries brought with them knowledge and expertise of various arts and crafts. A genesis of a new culture formed by the fusion of Central Asian and Kashmir culture furthered the trade rationale in Kashmir. Kashmir became famous for its arts and crafts as far as Europe and America. Thus the role and importance that trade through the silk route played till 1947 cannot be underestimated. However after the partition, the only link available to Kashmir to the outside was reduced to the national highway through Jawahar tunnel. This once active

and prosperous hub of trade and commerce was now reduced to a geographically isolated area. It is this perception that ultimately precipitated the popular demand to open alternate trade routes via Muzaffarabad. Geographical isolation ultimately gave rise to a psychological suffocation. A general feeling of being kept dependent on New Delhi precipitated in the minds of people thus calling for opening of more routes.

The economic backwardness and absence of capital investments in industrial infrastructure has alleviated the unemployment and poverty. The only opportunity is through the state employment sector which is already in debt for financing the “employees salary and pension. According to J&K Budget 2010-2011, 30% of the state’s exchequer goes into power, interest payments, security and other expenditures, about 30% goes into social welfare, healthcare and rural development and 40% of the state’s expenditure goes to paying salaries and pension. Agriculture, which is one of the main sources of livelihood for the people in the state, is only contributing 19% to the GDP (VMV Analytical Services). Steps to create further employment in this sector are missing. It is reported that there are more than 6 lakh educated unemployed youth in the state. Inculcating entrepreneurial spirit is the need of the hour. The agro based industries in horticulture, floriculture etc can help in reducing unemployment and creating job opportunities. Thus entrepreneurial attitude for trade can ensure employment and economic growth for the state.

The cross LOC trade is a duty free barter system restricted to primary products from Kashmir. Since its initiation in October 2008, the trade is restricted to 21 items, all of which are products of primary produce. The number of trading days has been increased from two to four starting from Tuesday through Friday between 9:00 am to 4:00 pm. With trade in its Sixth year, the items in the list haven’t been reviewed as per the standard operating procedures guidelines. Traders argue that the 21 items on the positive list do not conform to the market realities. Out of the 21 items only 4 items were mentioned to be of market value across LOC. Items like *Gabba* and *Namda* (traditional woollen furnishing used in Indian part of Kashmir) are not viable across LOC market as the region has higher temperatures. Kashmiri carpet which is valued in Gulf and European countries too does not have many buyers across as it is very expensive and has cheaper substitutes in machine woven carpets. Also size of the markets across LOC is not very attractive owing to their small size.

Transit trade which will involve goods to reach Pakistan and Central Asian countries will address this issue and will also help in boosting trade as the traders see it as an attractive opportunity. Otherwise cross LOC trade will result in a repetition of Nathu La cross border trade in Sikkim between China and India which was a failed attempt owing to its restrictive nature like LOC trade.

## Challenges

**Banking:** 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. There is no legal framework in support if any trader dupes or turns a defaulter.

**Communication:** There has been a long withstanding demand for improving the communication lines between the two parts. There is no direct international dialing to communicate directly through telephone across LOC. A few hotlines have been installed at the Trade Facilitation Centers, however traders complain that these hotlines don't serve much purpose as the trade dealings are to be done in the mandi and traders from far off areas cannot travel to the TFC to negotiate with their counterparts and reach back. The importance of information in trade cannot be overemphasized. As Hegre, Russett and Oneal (2009) point out "The use of force reduces the gains from trade and imperils the flow of information necessary for the development of mutual understanding."

**Transport:** The infrastructural constraints allow only 1.5 metric ton per truckload. The small consignment offsets the profits due to handling, fuel, and other costs. The goods are unloaded at check points, from where they are loaded onto local trucks to reach their final destination. This increases the overall transportation costs and also poses problems for perishable products. The manual security check also poses problems for commodities. Transportation and other transaction costs increase with distance; thus trade is inversely related to the distance, separating the countries. Hence the importance to reduce the transportation costs becomes imperative.

**Blind Trade:** The trade is characterized as blind as the traders cannot cross over to the other side. This poses a problem as the markets cannot be assessed. Traders from across the LOC should be given permission to assess the markets. The traders demand a multiple entry pass (single entry permanent visa) to establish personal contacts and assess market conditions.

**Proxy Trade:** Marginalises local entrepreneurs. There are reports that business tycoons from Delhi and Islamabad have hijacked the business and profits.

**Barter Trade:** The duty free trade still follows the medieval barter system. Even in Barter trade there is no guarantee of equal return and recovery of differential amounts from counterparts across the LOC. Trade is mostly confined to the

divided families and blood relations for fear of them being duped if new business alliances are made.

**Security Concerns:** The current trading arrangement is fraught with stringent bureaucratic impediments. There is a feeling that the popular demand for increased trade remains confined due to security reasons.

Apart from these issues, there is a need of the joint chamber to go for more proactive approach. A rational approach and ability to influence national policy by the stakeholders can yield greater returns. An important aspect in this regard has been the proactive approach taken up by the traders in negotiating for greater measures. The protests by traders in May 2011 resulted in making the trade VAT exempted. Similarly the number of trading days has been increased from 2 to 4.

The trade, which is restricted to goods can provide long term gains if it is diversified to trade in services. As opined by Yusuf (2009), owing to economic similarities across LOC, real long term gains lie in trade in services.

Currently the list of items comprises only primary products. However as Suba Chandran (2008) points out that the manufacturing sector of Jammu has developed as an Industrial belt, JCCI would be very keen to trade in manufactured goods like tyres and surgical instruments. As opined by Chowdhary (2010), fruit processing and floriculture are some of the sectors which may be viable for cross LOC trade. Traders are pushing for a revised list of 84 items which is yet to be implemented. Traders listed stationery items, readymade garments, sports goods, bats, tubes and tyres, surgical items and flour as viable items for PAK markets. Cotton, embroidery work suits from PAK are items of good commercial value in J&K (Interview with traders).

## DISCUSSION

Four and a half years of trading indicate that with the meagre assistance provided by the Government and other challenges, the trade would present a dismal picture. However the figures are quite impressive taking into account the various barriers and procedures that the trade suffers with. As can be seen from the following tables:

As the figures indicate, the cross LOC trade has a vast potential if proper incentives for growth are regularly injected into it.

The progress of trade can be analysed under three perspectives

**Conflict perspective:** With trade completing 4 years, trade has never been suspended owing to any conflict related incident

**Table 1: Value of goods exported to PAK**

Dated	From	To	Amount(INR) in crores*
	21-10-2008	31-03-2009	1.3
	01-04-2009	31-03-2010	71.8
	01-04-2010	31-03-2011	156.4
	01-04-2011	31-03-2012	281.4
	31-03-2012	30-11-2012	186.4

**Table 2: Total value of goods exported to PAK**

Dated	From	To	Amount (PNR) in crores
	21-10-2008	30-11-2012	697.30

**Table 3: Total Value of Goods Imported From PAK**

Dated	From	To	Amount(PNR) in crores
	21-10-2008	30-11-2012	1111.25

**Table 4: No. of Vehicles Crossed LOC from 21-10-2008 to 30-11-2012**

Import	Export
15081	15923

There are 750 traders associated with the trade. The trade has generated employment for nearly 30,000 people including laborers, shopkeepers, tea stalls etc

(\*1 crore is equal to 1 billion)

(\*\* to convert Pakistan currency in to Indian currency multiply by 1.8)

(Source: Data collected by the author from reports and traders)

**Economic perspective:** From the economic standpoint, trade has shown high growth, hence suggesting immense potential.

**Political perspective:** Cross LOC trade has also helped in re-initiating the peace building measures between India and Pakistan. The meeting between Indian External Affairs Minister S.M. Krishna and Pakistani counterpart Ms. Hina Rabbani Khar in 2011 found mention of cross LOC trade. The two sides agreed to continue discussions with the objective of reaching a peaceful solution by narrowing divergences and building up on convergences. The ministers concentrated on facilitating trade and travel across the Line of Control (LOC) as a means of easing tensions by facilitating trade and people-to-people ties between the Kashmiris on either side of the LOC.

## SUGGESTIONS

1. Trade items should be increased from 21. Traders demand the removal on barriers and on restrictions on trading items. The revised list should incorporate data from the market. The present study has identified a number of items to be included in the trade basket. This can only be achieved if the markets across LOC are studied. JCC has already proposed multiple entry pass for traders to move across to facilitate trade and recovery of sales proceeds from both the sides. Lack of assessing markets, which is so necessary for trade to flourish, seems to be missing in this trade.
2. Improvement in infrastructure, roads, bridges, facilitation centers are needed for smooth trade.

3. The additional freight charges due to unloading of goods at checkpoints can be minimized if the trucks are allowed to unload at the destination sites. This will also check losses of perishable goods. For allaying the security concerns, specific truck companies and drivers should be issued passes to be renewed on a regular basis.
4. Opening up of more trade routes: Additional routes of Chumb-Pallanwala on the Bhimer-Jammu side and Khoiratta-Noshehra on the Kotli-Rajauri side as these are the shortest and most viable routes for cross LOC trade.  
 Jammu- Sialkote Road: This route can be used as goods from Jammu could reach Lahore in 4 to 6 hours.  
 Kargil – Skardu: Apart from the economic gains and adventure tourism, this route will improve the dependence on half yearly impassable Zojila road.<sup>30</sup> Opening this route will also address symbolic value and regional aspirations for people of Kargil like the opening of routes across LOC in Jammu and Srinagar.
5. Transit Trade: Policy makers are exploring opportunities of transit trade by studying the ancient silk route. Jammu owing to its industrial production and its location along the historic Jammu- Sialkote Road can find an attractive and viable route for its goods to reach Karachi port rather than Mumbai ports.
6. The goods from either side should be marketed properly. A trader revealed that almonds and carpets from PAK are less costly than what is available in the local market. So branding the items from across will further increase its demand.

## CONCLUSIONS

Even before the cross LOC trade initiation, authors have suggested that the trade to Kashmir rather than through Kashmir cannot sustain. The symbolism with which the trade was started needs to be kept alive. This serves both the political initiative for peace and economic initiative for development. However as the study presents, the present state of affairs—be it the conservative approach of the bureaucracy or lack of proactive attitude of the business community in pressing for more measures to enhance the trade cannot sustain the trade beyond the symbolic value of its initiation. A forward looking progressive approach by all the stakeholders can truly yield the full returns—political as well as economical. Nothing much has been done to provide the trade the boost and support it needs. The figures are sufficient evidence to indicate that the trade has huge potential. Even with all the restrictions and barriers in trade, trade is flourishing though not to its real potential (major goods that are traded number only 4). One can only imagine the economic gains from the trade if the above recommendations are applied.

There has also been a demand for moving from primary products to manufactured goods, services, joint tourism, and power projects. The demand for transit trade as an opportunity to trade not only with Pakistan but other Central Asian countries also needs to be studied. The three year trading experience shows that it has generated a sizeable economic activity and has offered employment opportunities. The cross LOC trade can provide a platform for further CBMs and negotiations between the two countries. The trade has surely opened up avenues for reducing conflict in the region.

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