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TRADING CONFIDENCE

A Compelling Case For Cross Line of Control Trade

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Trading confidence

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Afaq Hussain and Riya Sinha

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Abbreviations

AJK	Azad Jammu and Kashmir
AJKCCI	Azad Jammu and Kashmir Chamber of Commerce and Industry
ASSOCHAM	The Associated Chambers of Commerce and Industry of India
BSF	Border Security Force
BSNL	Bharat Sanchar Nigam Limited
CBM	Confidence Building Measure
CID	Crime Investigation Department
CII	Confederation of Indian Industry
CPDR	Centre for Peace, Development and Reform
Cr	Crore
CVD	Countervailing Duty
FBTS	Full Body Truck Scanners
FCIK	Federation Chamber of Industries, Kashmir
FICCI	Federation of Indian Chambers of Commerce and Industry
FIJ	Federation of Industries, Jammu
FJKCCI	Federation of Jammu and Kashmir Chambers of Commerce and Industry
FPCCI	The Federation of Pakistan Chambers of Commerce and Industry
G-BCCI	Gilgit-Baltistan Chamber of Commerce and Industry
HS	Harmonized System
IaJK	India Administered Jammu and Kashmir
ICEGATE	Indian Customs Electronic Data Interchange (EDI) Gateway
INR	Indian Rupee
ISD	International Subscriber Dialling
J&K	Jammu and Kashmir
JKJCCI	Jammu and Kashmir Joint Chamber of Commerce and Industries
JWG	Joint Working Group
KCCI	The Kashmir Chamber of Commerce and Industry
KIG	Kashmir Initiative Group
LCCI	The Lahore Chamber of Commerce and Industry
LDC	Least Developed Countries
LoC	Line of Control
MEA	Ministry of External Affairs
MHA	Ministry of Home Affairs
Mn	Million
MoC	Ministry of Commerce
MoF	Ministry of Finance
MT	Metric Tonnes
NLDC	Non-Least Developed Countries
NOC	No Objection Certificate
PaK	Pakistan Administered Kashmir
PKR	Pakistani Rupee
PPP	Pakistan People's Party
PQ	Plant Quarantine
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SOP	Standard Operating Procedure
TATA	Trade and Travel Authority
TFC	Trade Facilitation Centre
TFO	Trade Facilitation Officer
TLP	Tariff Liberalization Programme
USD	United States Dollar

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Foreword

Cross Line of Control (LoC) trade in Kashmir, initiated as a confidence building measure (CBM) between India and Pakistan, has completed eight years in 2016. Its success can be evidenced by the fact that it is growing and has received support from the business communities on both sides of the LoC, as well as a range of other stakeholders.

The trade has also been successful in paving the way for mutual interdependence and peaceful coexistence of the region. The progress that this trade has displayed is suggestive of its role in maintaining an engaging platform for collaboration. Indeed, the cross-LoC trade CBM has continued to be an emblem of peace, collaboration and constructive engagement in spite of challenges.

The great symbolic and political value with which the trade was started needs to be kept alive to build on the gains. There is also a need to consolidate on these gains for peace, stability and economic growth in the region.

As well as addressing the challenges imposed by infrastructural, logistical and policy level impediments, this report offers a compelling case for the peacebuilding significance, economic benefits, political relevance and future potential of cross-LoC trade.

Tahir Aziz

South Asia Programme Director
Conciliation Resources

Mohammed Saqib

Chief Executive Officer
BRIEF

Executive Summary

It may appear paradoxical that Kashmir presents the most contentious issue for India-Pakistan relations, often being the reason for stalling bilateral dialogue, while at the same time trade takes place across the Line of Control (LoC) which divides the Indian and Pakistan administered territories of Jammu and Kashmir[1]. Commonly known as Cross-LoC trade, this trade has been supporting significant numbers of stakeholders in the state and has the potential to act as a harbinger of peace between the two countries. In recent years, trade volumes across the LoC have shown substantial increase – so much so that in the period from 2008 to 2015, commodities worth USD 699[2] million were traded. This has given rise to a sizeable community of traders, transporters and labourers, who have benefitted from the process and who have a stake in keeping the trade process active. However, due to the numerous challenges it faces today, the initial euphoria associated with the trade has declined to some extent and its economic viability – and subsequently its sustenance - has been called into question.

OBJECTIVE

These challenges have provoked many to ask: is the cross-LoC trade economically viable and sustainable? Do the economic and political benefits accrued by the trade outweigh its deficiencies? And what is the future trajectory of the trade process? In order to answer these questions, this report sets out to achieve three tasks: to evaluate the current status of the inherent challenges faced by the trade over the last eight years; to analyse the economic impact of LoC trade in terms of potential revenue for the Government of India and at the local level; and to suggest reformatory measures to the trade to enable sustainable growth.

BACKGROUND

India and Pakistan mutually agreed to start trade across the LoC in October 2008. This has been by far the most celebrated and successful Confidence Building Measure (CBM) between India and Pakistan. There are five features that define this trade:

1. Trade is allowed through the Uri-Muzaffarabad, and Poonch-Rawalakot routes on a mutually agreed list of 21 items.
2. The nature of the trade is "barter".
3. Due to the LoC not being accepted as an international border between India and Pakistan, the terms 'trade out' and 'trade in' goods are used instead of 'exports' and 'imports', respectively.
4. The trade is carried out according to the Standard Operating Procedure (SOP) signed between India and Pakistan.
5. The trade takes place 4 days a week (Tuesday, Wednesday, Thursday and Friday) and 100 trucks a day are allowed to cross the LoC. The trucks are mandated to have J&K or AJK registration numbers and cannot weigh more than 9 tonnes.

[1] For the purpose of this report, Jammu and Kashmir (J&K) refers to the erstwhile undivided princely state of Jammu and Kashmir. The terms India administered Jammu and Kashmir (IaJK) and Pakistan administered Kashmir (PaK) are used to denote the part of J&K administered by India and Pakistan, respectively.

[2] This refers to the total value of trade in and trade out goods since the inception of cross-LoC trade. The figure is in dollar value and the exchange rate has been provided in the report.

PROJECT APPROACH

The research carried out for this report had a four pronged approach: (a) an evaluation of available secondary literature and its gaps, (b) first-hand assessment of the prevailing scenario in Uri and Poonch (IaJK), and discussions through Skype with traders and business chambers in PaK to understand the trade process, the challenges it faces and the needs of the traders, (c) visits to Amritsar to understand the concerns of mainstream India-Pakistan traders regarding the cross-LoC trade and traders, and (d) roundtable discussions separately between the government and traders in New Delhi, and between the mainstream India-Pakistan traders and LoC traders in Amritsar.

FINDINGS

- Infrastructural challenges, such as poor quality of road infrastructure, in addition to lack of truck scanners, continue to be an issue at the trading points. Despite allocation of budget for these in mid-2016 by both the Indian and Pakistani governments, no further steps have been taken towards installation.
- Policy challenges such as those owing to the barter nature of trade, the lack of a bilateral communication channel between traders, the limited list of items allowed to be traded, the existing item list not being based on the Harmonised System of Coding (HS Code), an absence of clarity on rules of origin with respect to the Standard Operating Procedure (SOP) and a lack of dispute settlement mechanisms continue to date. Despite several attempts to address these shortcomings, the issues continue to affect the trade process.
- The concerns of mainstream India-Pakistan traders, who trade through the Attari-Wagah Integrated Check Post, regarding cross-LoC trade have been recorded and addressed in the report. These concerns include the issue regarding rules of origin, the misrepresentation of products, the economic impact of duty exemption and the issue of smuggling. Similarly, LoC traders expressed their concerns with the former group with respect to the issue of proxy traders (wherein it has been accused that the mainstream India-Pakistan traders are using the LoC traders to send their products across the LoC under zero duty scheme) and interference in the smooth operation of the trade.
- Concerns regarding the negative impact of cross-LoC trade on the Indian economy, in terms of loss to the exchequer through customs duty (tariff) exemptions, have also been addressed. Based on a simple mathematical exercise, it has been estimated in this report that the government could potentially have obtained a revenue of USD 5.6 million if it collected duty on the most traded items across LoC in 2012-13, which amount to 0.016 percent of the total import duty collected pan India. However, this amount is not significant especially if it is weighed as a cost for peace and its numerous benefits at both the geo-political and local levels.
- This trade has successfully acted as a source of employment for several traders as well as unemployed and vulnerable youth. In IaJK, in the period from 2008 to 2015, cross-LoC trade generated employment of 50,000 manpower days at a total income of INR 804 crore (approximately USD 117 mn). As well as this, transporters also reported a benefit of INR 45 crore (approximately USD 6 mn) and a labourer approximately earns INR 1400 (approximately USD 21) per day. Thus, the annual economic activity generated through cross-LoC trade amounts to much higher than the duty exemption (or tax expenditure). Similarly, in PaK, PKR 1000 (approximately USD 9.5) per labour per truck is earned in a day.
- At an institutional level, bodies such as the Jammu and Kashmir Joint Chamber of Commerce and Industries (JKJCCI), the Kashmir Initiative Group (KIG), and local level institutions in IaJK and PaK, have made efforts to ensure the sustainability of cross-LoC trade and create a positive constituency for this trade. These institutions have performed several important functions, such as acting as a grievance redressal platform, facilitating dialogue between the traders and the government authorities, and as

platforms for information exchange.

RECOMMENDATIONS OF THE REPORT

To build on the success achieved over the past eight years and in order to maintain the upward trajectory of trade volume, it is pertinent that the challenges faced by the trade are addressed. The report proposes recommendations categorised into three sub-categories: infrastructural, policy oriented, and finally, associated developmental reforms that the governments of India and Pakistan could undertake to complement the first two.

INFRASTRUCTURAL REFORMS

- Installation of full body truck scanners either at check-posts or at Trade Facilitation Centres to ease the process of inspection and minimise damage to the traded goods
- Up-gradation of road infrastructure to make the trade economically viable

POLICY REFORMS

- Replacement of the barter trading system with a monetised form of trade to reduce instances of loss to the traders
- Establishment of a formal communication channel between traders
- Augmentation of the list of tradable items and the introduction of HS Codes to address the issue of misrepresentation of items
- Introduction of additional guidelines for regulation of the Rules of Origin norm by the respective Ministries of Home Affairs and Commerce in India and Pakistan
- Strengthening of the institutions supporting LoC trade

OTHER DEVELOPMENTAL MEASURES

- Re-contextualisation of cross-LoC trade in terms of South Asian Association for Regional Cooperation (SAARC) trade through innovative models like Intra-regional Cluster Trading in order to free up the trade from the political issues affecting bilateral India-Pakistan relations
- Organisation of periodical Border Haats (rural markets) at the LoC to enhance economic well-being of border (in this case, at the LoC) communities, formalise informal trade and build trust
- Development of a permanent LoC mandi (market) to facilitate exhibition and sale of LoC products and attract consumers
- Development of value added industries in Indian administered Jammu and Kashmir (IaJK) and Pakistan administered Kashmir (PaK) to ensure more local participation and that the local benefit of the trade is maximised
- Opening of more trade routes in IaJK and PaK to enhance people-to-people contact and make trade and travel geographically easier
- Inclusion of LoC traders in national level chambers in India and Pakistan such that their developmental needs can gain more traction and awareness can be generated about the LoC products in different markets

CONCLUSION

Cross-LoC trade has played a key role in maintaining space for collaboration and positive transformation between the two conflict-ridden parts of J&K and between India and Pakistan. The growth in this trade and the incentives for stakeholders have shown consistent positive developments and the potential for further augmentation is considerable. However, it warrants reformatory measures and policy interventions. The requisite reforms promise to have a trickle-down effect on the disputes between the mainstream India-Pakistan traders and the LoC traders, leading to smoother functioning of the trade.

With sound political will, there is immense potential to transform the Line of Control into a Line of Commerce or even a Line of Cooperation. Such a transformation can potentially act as a driver of peace between India and Pakistan, who can then move away from viewing Kashmir as a subject of contention and rather see the area as a bridge for cooperation and regional integration.

LIMITATIONS OF THE REPORT

An attempt has been made to focus equally on the challenge faced by LoC trade in both IaJK and PaK. However, given the challenge of accessibility from New Delhi to PaK, some elements of the report, such as the infrastructural challenges, have been easier to research in IaJK than in PaK. Due to these accessibility challenges, some of the information is limited as far as PaK is concerned. Apart from this, data pertaining to year-on-year commodity-wise volume was unavailable, despite attempts to discover this information.

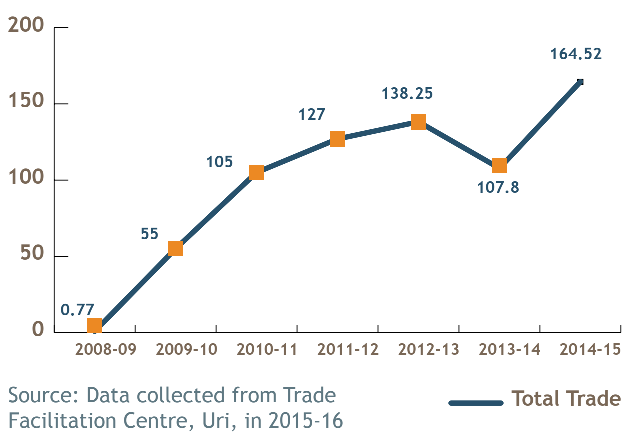
CHAPTER - 1

Context of the Study

INTRODUCTION

India and Pakistan mutually agreed to commence barter trade across the Line of Control (LoC) along the Uri-Muzaffarabad and Poonch-Rawalakot routes on October 21, 2008. Uri falls in the Kashmir division and Poonch is in the Jammu division of India administered Jammu and Kashmir[3] (IaJK); Muzzafarabad and Rawalakot are in Pakistan administered Kashmir (PaK). Cross-LoC trade is the second Confidence Building Measure (CBM)[4] in Jammu and Kashmir (J&K), after the initiation of cross-LoC travel in 2005. It is considered important because of several reasons- the initiation of LoC trade marked a paradigm shift in New Delhi and Islamabad's approach in dealing with the sensitive topic of Kashmir ever since the subcontinent was partitioned in 1947, and further, this trade was expected to unleash the economic dividend between the two sides of J&K and eventually help reap the peace dividend.

Figure 1: Total Trade through LoC (USD mn)



Source: Data collected from Trade Facilitation Centre, Uri, in 2015-16

In recent years, the term LoC has often been touted as the 'Line of Commerce' and even 'Line of Cooperation.' This is not surprising as trade volumes have shown a substantial increase over the years along both routes (Figure 1). Cumulatively, during 2008-2015, commodities worth USD 699 million[5] have been traded across the LoC (Table 2). The growth has been sustained irrespective of the changing landscape of tensions across the LoC and India-Pakistan bilateral relations, except in 2013-14, wherein the trade volume witnessed a slump due to ban on few commodities (explained further in Chapter II). It is pertinent to mention here that the cross-LoC trade remained active even after the most recent tension in Uri on September 18, 2016 (Ehsan, 2016). Over the years, this trade has created a sizeable community of traders, transporters and labourers, who have a key stake in keeping the trade process active. In October 2016, cross-LoC trade completed 8 years of operations. Nonetheless, the initial euphoria associated with it has decreased to some extent today and concerns over its economic viability loom large, when the question of its sustenance is deliberated upon.

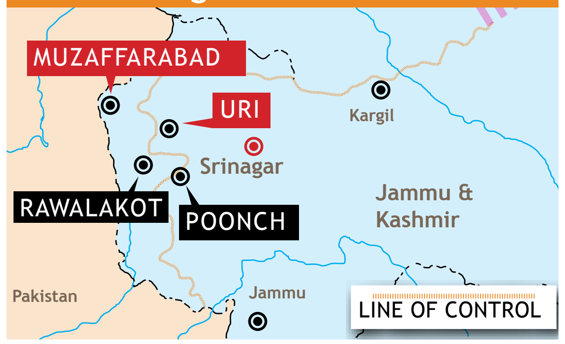
Since its inception, LoC trade has faced numerous inherent impediments including those associated with the barter exchange of goods, lack of communication and banking channels, an absence of legal contract enforcement mechanism, a limit on tradable commodities, and structural difficulties in free movement of goods. Apart from this, there is a lack of availability of trade data in the public domain from 2012 onwards which is a serious impediment while studying the potential of the trade. Also, there is limited literature on the negative perception developing among mainstream India-Pakistan traders from Amritsar and New Delhi on the issue of rules of origin, proxy traders, trading of third-country goods, and perceived loss to economy. This is exemplified from the fact that despite several representations to the government, both by the mainstream India-Pakistan traders and by the cross-LoC traders, no concrete steps have been taken towards revision of the Standard Operating Procedure (SOP) of LoC trade. The Ministry of Home Affairs, New Delhi has issued two circulars on the matter of third-country goods, but has not defined the term 'third country' specificaly. These issues, along with other inherent impediments, have been discussed in detail in Chapter V of the report.

[3]For the purpose of this report, Jammu and Kashmir (J&K) refers to the erstwhile undivided princely state of Jammu and Kashmir. The terms India administered Jammu and Kashmir (IaJK) and Pakistan administered Kashmir (PaK) are used to denote the part of J&K administered by India and Pakistan, respectively.

[4]Confidence Building Measure(s) (CBM) are agreement(s) between two or more conflicting parties to undertake actions that can potentially reduce military tensions before, during or after an actual conflict.

[5]This refers to the total value of trade-in and trade-out goods since the inception of cross-LoC trade. The figure is in dollar value and the exchange rate is given in table 2.

Crossing the line for trade



KEY FEATURES OF CROSS-LOC TRADE

The definitive features of this trade, as decided by both governments, include:

1. The nature of the trade is 'barter'
2. Trade is allowed through Uri-Muzzafarabad and the Poonch-Rawalakot routes on an agreed list of 21 items
3. The trade is carried out according to a Standard Operating Procedure (SOP) signed between New Delhi and Islamabad
4. The trade takes place 4 days a week on Tuesday Wednesday, Thursday, and Friday. The trucks must have J&K or AJK registration number and should not weigh more than 9 tonnes
5. Due to the non-acceptance of LoC as an international border between India and Pakistan, the exports and imports are called 'traded out' and 'traded-in' goods, respectively

Background of Cross-LoC Trade: Chronology of Events	
November, 2003	India and Pakistan declare ceasefire along the LoC and lay ground for initiation of peace process
September, 2004	Foreign Minister Natwar Singh and his Pakistani counterpart Khurshid Mahmud Kasuri met in New Delhi. A set of 72 CBMs were suggested in various areas by India, which included cross-LoC trade and travel
September, 2004	Pakistan President Parvez Musharraf and Indian Prime Minister Manmohan Singh met in New York and agreed that "confidence building measures (CBMs) of all categories under discussion between the two governments should be implemented keeping in mind practical possibilities."
December, 2004	India's Foreign Secretary Shyam Sharan, announced that given the humanitarian issues affecting the people on both sides of the LoC, India has put forward "a proposal for meeting of families in Kashmir at five places, designated days and periods of time, under joint security arrangements." The proposed places were Mendhar, Poonch, Suchetgarh, Uri and Tangdhar along the Neelam Valley
February, 2005	The modalities of cross-LoC travel were finalised
April, 2005	Srinagar-Muzzafarabad Bus Service was inaugurated by then Indian Prime Minister Dr. Manmohan Singh

Background of Cross-LoC Trade: Chronology of Events	
June, 2005	Poonch-Rawalakot Bus Service was inaugurated
September, 2006	Pakistan President Parvez Musharraf and Indian Prime Minister Manmohan Singh agree to further strengthen relations along the LoC
May, 2008	The Foreign Ministers of India and Pakistan met on May 21, and agreed to increase the frequency of Srinagar- Muzaffarabad and Poonch-Rawalakot bus services and allow intra-Kashmir trade and truck services
July, 2008	The JWG on cross-LoC CBMs met in Islamabad with the following agenda: • To simplify the procedure for issuing cross-LoC travel permits • To increase the frequency of the Srinagar-Muzaffarabad bus service • To launch a postal service between the two cities • To discuss the list of items to be allowed for trade through the truck service.
September, 2008	The modalities regarding the movement of trucks, code of conduct for the drivers, permits, security, timings and list of items to be traded were agreed upon between India and Pakistan to conduct cross-LoC trade
October, 2008	Cross-LoC trade- the second CBM between India and Pakistan - commenced on October 21, 2008 in two districts, Uri – Muzzaffarabad through Kashmir, and Poonch – Rawalkote through Jammu.

In this context, this report sets out to (a) evaluate progress on the existing challenges of the trade, (b) to analyse the economic impact of LoC trade in terms of potential revenue for the union government as well as at the local level, and (c) to suggest reformatory measures to enable sustainable growth.

While compiling the report, we have looked at the profile of cross-LoC trade, with focus on the year-on-year trade volumes, number of trucks exchanged since 2008, listing of the allowed and actual commodities traded, and the number of active traders versus the number of registered traders. This has been followed by

listing the modalities of cross-LoC trade based on the official SOP. The flow of trade from place of origin to place of delivery has also been identified. Further, a detailed examination of the infrastructural and policy impediments associated with the trade and their current status has been conducted. A separate section addresses the concerns highlighted by the mainstream India-Pakistan traders, who perceive cross-LoC trade as a loss to the economy. This has been achieved through calculation of the revenue loss (through duty exemption) and the Indian government's expenditure towards 'cost of peace' in IaJK. Apart from the above, the study also has taken cognizance of the role played by the institutions and stakeholders involved in this process, namely, the trade bodies, chambers and the civil society. Their initiatives have been highlighted, along with suggestive measures to further engage with institutions at the centre and state level, such as the national-level business associations.

Finally, the report suggests reformatory measures that potentially have a twofold impact; (a) facilitation of existing governmental initiatives and highlighting new areas of improvement; and (b) peripheral steps that can be taken to re-contextualise the trade in a regional framework.

METHODOLOGY

This report has been based on a case-study approach. It focuses on the adjoining, cross-LoC region of Jammu and Kashmir, namely India administered Jammu and Kashmir (IaJK) and Pakistan administered Kashmir (PaK). An attempt has been made to focus equally on the challenges faced by the LoC trade in both IaJK and PaK. However, given the challenge of accessibility from New Delhi to PaK, some elements of the report, such as the infrastructural challenges, have been easier to research in IaJK than in PaK. Due to these accessibility challenges, some of the information is limited as far as PaK is concerned.

The information elicited in this report had a four pronged approach. First, an evaluation of secondary literature available on cross-LoC trade such as journal articles, books, magazines, and newspapers, was conducted, and the literature gaps were identified. Subsequently, discussion guidelines for primary study were prepared and stakeholders were identified

In the second part, a first-hand assessment of the prevailing scenario in IaJK was undertaken through visit to the LoC in Uri, Kashmir and Poonch, Jammu, to understand the process of trade flow and the challenges it faces, particularly in terms of infrastructure. Personal interviews with traders, businessmen, women's groups, journalists, academicians, local level industry associations, and government authorities, were also conducted during the primary study. We also conducted Skype interviews/discussions with traders and business chambers in PaK.

In the third step, visits to Amritsar, Punjab (India) were also undertaken to understand the perceptions of mainstream India-Pakistan traders, who trade through the Attari-Wagah border in Punjab. This step was crucial towards creating a 'positive constituency' for LoC trade as the mainstream India-Pakistan traders have repeatedly expressed their concerns to the government in New Delhi about the modalities of LoC trade as well as the tradable commodities. Several Right to Information (RTI)[6] were filed with the Ministry of Home Affairs, New Delhi, to get access to official notices with respect to LoC trade. The report of the Working Group on Cross-LoC CBMs was also accessed and studied for the purpose of this research.

Finally, two roundtable discussions were organised throughout the course of the study, one each in New Delhi and Amritsar. The first discussion in New Delhi saw the participation of representatives from government (both from IaJK and New Delhi), traders and policy influencers. The second discussion was held between the mainstream India-Pakistan traders and the LoC traders in Amritsar. The roundtables were instrumental in terms of discussions on challenges and way forward while also giving an opportunity to understand the perceptions and concerns of the mainstream India Pakistan Traders with cross - LoC Trade and vice-versa.

[6]Right to Information (RTI) is an Act (Right To Information Act, 2005) in India to "provide for setting out the practical regime of right to information for the citizens to secure access to information under control of public authorities, in order to promote transparency and accountability in the working of every public authority..."

CHAPTER 2

Profile of Cross-LoC Trade

VOLUME

Since its inception, cross-LoC trade has shown a surge in volumes. While the volume of trade differs between the Uri-Muzzafarabad and Poonch-Rawalakot trade routes, total trade has generally shown an upward trend, except in 2013-14 when there was a decline of 7 percent in volume (Figure 1). This decline can be attributed to the ban on trading commodities like moong dal, coconut and spices across the LoC (discussed further in Chapter V). Cumulative trade across the LoC for the period 2008-2015 was worth approximately USD 699 Million (Table 2).

Table 1 provides a glimpse of the year-on-year trade volume at both the trading centres in IaJK, represented in local currencies. As the data was collected from the Trade Facilitation Centre (TFC) in IaJK, trade-in products have been recorded in Pakistani Rupees and trade-out products in Indian Rupees. This data is maintained by the Trade Facilitation Officer (TFO) from the Cargo Manifest accompanying the cargo at the TFCs. Officially, the trade value is not recorded in USD, as it is not considered an international trade. However, for the purpose of this study, the value of trade in USD has been recorded in Table 2 along with the yearly conversion figures.

Table 1: Trade Trends: Uri-Muzzafarabad and Poonch-Rawalakot

	Salamabad, Uri		Chakan-da-Bagh, Poonch		All J&K	
Yea[7] (Indian Financial Year)	Trade In (Import) PKR (Cr)	Trade Out (Export) INR (Cr)	Trade In (Import) PKR (Cr)	Trade Out (Export) INR (Cr)	Trade In (Import) PKR (Cr)	Trade Out (Export) INR (Cr)
2008-09	2.46	1.37	0.55	0.35	3.00	1.71
2009-10	92.42	71.80	121.63	68.25	214.04	140.05
2010- 11	260.43	156.48	174.17	92.93	434.60	249.40
2011- 12	407.72	244.35	125.14	74.89	532.87	319.24
2012- 13	566.75	324.73	91.00	47.97	657.75	372.70
2013-14	405.27	272.39	108.35	75.20	513.62	347.60
2014-15	611.20	377.78	199.81	131.08	811.02	508.85
Total	**2346.24**	**1448.89**	**820.65**	**490.65**	**3166.89**	**1939.54**

Source: Data Collected from Trade Facilitation Centre, Uri in 2015-16

[7]This is represented in Indian Financial Year. Note that in India, the government's financial year runs from 1 April of the previous calendar year to 31 March midnight. Whereas in Pakistan, the government's fiscal year starts on 1 July of the previous calendar year and concludes on 30 June midnight.

Table 2: Trade Figures (in USD mn)

Year	Salamabad, Uri				Poonch				Total Yearly		Exchange Rate	
	TradeIn (Import) USD	TradeOut (Export) USD	Import + Export USD	Growth(%)	Trade In (Import) USD	Trade Out (Export) USD	Import + Export USD	Growth (%)	Import + Export USD	Growth (%)	USD/INR	USD/PKR
2008-09	0.33	0.30	0.62	0	0.073	.075	0.15	0	0.77	0	46	75
2009-10	11.13	14.96	26.09	4087	14.65	14.22	28.87	19424	54.97	7028	48	83
2010- 11	30.70	34.02	64.66	147	20.49	20.20	40.70	41	105.35	91	46	85
2011- 12	46.33	50.91	97.24	50	14.22	15.60	29.82	-26	127.06	20	48	88
2012- 13	59.66	60.13	119.79	23	9.58	8.88	18.46	-38	138.25	9	54	95
2013-14	39.35	45.40	84.75	-29	10.52	12.53	23.05	25	107.80	-22	60	103
2014-15	61.12	61.93	123.05	45	19.98	21.49	41.47	80	164.52	52	61	100
Total/ Average	**248.56**	**267.64**	**516.20**	**47**	**85.70**	**89.27**	**174.97**	**16**	**698.72**	**30**		

Source: Data Collected from Trade Facilitation Centre, Uri in 2015-16

Barter trade is based on the mechanism of equal exchange of goods. In case of cross-LoC trade, the SOP allows for the goods to be exchanged within three months to balance the value. However, from Table 2, it can be observed that there has been a trend of negative trade, with the trade-in goods in IaJK amounting for less than the trade-out goods. This has created the problem of trade imbalance and subsequent loss to traders in both IaJK and PaK (explained further in Chapter V).

NUMBER OF TRUCKS

According to official statistics (Ministry of Home Affairs, New Delhi), from October 21, 2008 to February 28, 2015, a cumulative of 46,274 trucks were exchanged at the Uri-Muzzafarabad route and 20,668 trucks at the Poonch-Rawalakot Route (Table 3). The difference in the number of trucks at the two routes can be accounted for by the following reasons: a) larger size of Indian trucks as compared to the Pakistani trucks; b) imbalance of trade in terms of volume and value through barter; and c) better trade performance through the Salamabad-Chakoti route than Poonch-Rawalakot[8].

Table 3: Total Number of Truck Movements October 21, 2008- February 28, 2015

Trade Route	Number of Trucks from IaJK to PaK	Number of Trucks from PaK to IaJK	Total
Salamabad- Uri	27981	18293	**46,274**
Poonch-Rawalakot	12415	8253	**20,668**

Source: Ministry of Home Affairs, New Delhi

[8]This is due to the fact that the traders of Jammu, being in close proximity to the Attari-Wagah Trade Route, are not solely dependent on the LoC route for trade.

TRADEABLE PRODUCTS

Cross-LoC trade is conducted on a list of items decided mutually by the Governments of India and Pakistan. Annexure A and B to the SOP contain the list of items to be traded-out and traded-in to IaJK, respectively. Currently, 21 items from both sides are allowed to be traded (Table 4).

Table 4: List of Items Allowed to be Traded Across the LoC

S. No	Trade-Out Products (from PaK)	Trade-out Products (From IaJK)
1	Rice	Carpets
2	Jahnamaz and tusbies	Rugs
3	Precious stones	Wall hangings
4	Gabbas	Shawls and stoles
5	Namdas	Namdas
6	Peshawari leather chappals	Gabbas
7	Medicinal herbs	Embroidered items including crewels
8	Maize and maize products	Furniture including walnut furniture
9	Fresh fruits and vegetables	Wooden handicrafts
10	Dry fruits including walnuts	Fresh fruits and vegetables
11	Honey	Dry fruits including walnuts
12	Moongi	Saffron
13	Imli	Aromatic plants
14	Black mushrooms	Fruit bearing plants
15	Furniture including walnut furniture	Dania, moongi, imli and black mushrooms
16	Wooden handicrafts	Kashmiri spices
17	Carpets and rugs	Rajmah
18	Wall hangings	Honey
19	Embroidered items	Papier mache products
20	Foam mattresses, cushions and pillows	Spring, rubberised coir/foam mattresses, cushions, pillows and quilts
21	Shawls and stoles	Medicinal herbs

Source: Ministry of Home Affairs, New Delhi

Of the 21 products, only a handful (five or six items) are actually being traded in practice (Indus Research Foundation; Centre for Peace, Developments and Reforms, 2016). This is because of the commonality in tradable commodities from both sides of the LoC (Table 4). Furthermore, the product profile each year varies with the demand. In 2014-15, the trade-in items from Salamabad (Uri) included kinnow, almonds, medicinal herbs and carpets, while the trade-out items include banana, red chilli, chilli seeds, embroidered clothes, jeera, almond giri, almond and seasonal fruits and vegetables. From Chakan-da-bagh (Poonch), the trade-in items included almond and almond giri, anardana, seasonal fruits, medicinal herbs, walnut giri and embroidered items, while the trade-out items included banana, red chilli, chilli seed, jeera and imli (Table 5).

Table 5: Actual list of Products Traded Across the LoC (2014-15)

S.No	Trade-in Products from PaK		Trade-out Products from IaJK	
	To Salamabad	To Chakan-da-bagh	From Salamabad	From Chakan-da-bagh
1	Kinnow	Almond & almond giri,	Banana	Banana
2	Almonds	Anardana	Red chilli & chilli seed	Red chilli & chilli seed
3	Medicinal herb	Seasonal fruits	Embroidered clothes	Jeera
4	Carpets	Medicinal herbs	Jeera	Imli
5		Embroidered items	Almond giri & almond,	
6		Walnut giri	Seasonal fruits & vegetables	

Source: Personal interview with traders conducted in 2015-16

Similarly at PaK, the trade-out products are limited to dry fruits, pulses, oranges and embroidered fabrics.

Since 2009, the traders of both IaJK and PaK have demanded an enhancement in the product list due to lack of comparative advantage. The product listing is similar for both trade-out goods and trade-in goods. This defies economic logic which bases trade on the concept of comparative advantage - if one side specialises in producing goods where they have a lower opportunity cost, then there will be an increase in economic welfare if there is trade. However, there is no comparative advantage as such for products that are on the traded list. This, coupled with the fact that trade delegations from either side of the LoC cannot assess the market on the other side, has limited the realisation of the actual economic potential of cross-LoC trade. Although the traders have submitted a proposed 72-item list to the Ministry of Home Affairs (MHA) New Delhi, in 2015, there seems to be little progress on this front.

The profile of actual products traded has resulted in a discord between the mainstream India-Pakistan traders and LoC traders, as the former disapprove of items like banana being traded through Cross-LoC trade, reasoning that banana is not a produce of J&K. Their concerns have been discussed in greater detail in Chapter V.

NUMBER OF TRADERS

Across all trade points on both sides of the LoC, there is a huge difference in the number of registered and active traders . In 2015-16, the number of active traders was approximately 18 percent of the number of registered traders (Table 6). Since the inception of the trade, there has been a gradual decline in the number of active traders. A number of reasons are attributed to this; (a) the inherent challenges of the trade (as discussed in Chapter V) have, to some extent, declined the euphoria associated with this trade, such that the traders have found it difficult to sustain the challenging conditions of barter trade; and (b) there exists a lobby of traders that prevents competition. Chapter VII of the report suggest reformatory measures to overcome these challenges.

Table 6: Number of Registered and Actual Traders (2015-16)

Area	TFC	Number of Registered Traders	Number of Active Traders
PaK	Chakoti (Muzzafarabad)	290	50
	Tetrinote (Rawalakot)	250	35
IaJK	Salamabad (Uri)	362	80
	Poonch	300	30

CHAPTER 3

Modality of Cross-LoC Trade

Being based on a barter system, the modalities of cross-LoC trade are unique. The process is based on a Standard Operating Procedure (SOP) mutually agreed by the Ministry of Home Affairs (MHA) and the Foreign Affairs Office of India and Pakistan, respectively. The operational aspect related to the movement of trucks, code of conduct of the drivers, permits, security, timings and list of items to be traded have been listed in the SOP.

The modalities of cross-LoC trade cannot be studied in isolation. The whole process of flow of goods, from placing of an order to the final distribution of goods, needs to be analysed to identify the points of intervention and suggest a concrete and sustainable way forward. In this chapter, the modalities of the trade and the stages of movement of commodities after crossing the LoC have been identified.

The Jammu and Kashmir Division of MHA, New Delhi, has the mandate to regulate the trade in IaJK. Whereas in PaK, the Travel and Trade Authority (TATA) was set up in 2010 through an ordinance issued by the PaK government as the primary agency mandated to regulate and facilitate LoC travel and trade (Ali S. , 2012). TATA functions through the Ministry of Industries & Commerce, Islamabad, under the Chairmanship of the Chief Secretary, Government of PaK. It is responsible to a management board consisting of secretaries of various departments of the Government of PaK.

TRADE CENTRES

To carry out the trade, Trade Facilitation Centres (TFCs) have been set up at the LoC points by both countries – at Salamabad, Uri, and Chakan-Da-Bagh, Poonch in IaJK, and at Chakoti, Muzzafarabad, and Tetrinote, Rawalakot in PaK – where the process of scanning of papers and inspection of goods takes place. At the TFC, the custodian of goods is the Trade Facilitation Officer (TFO), appointed either by MHA in case of IaJK and the Trade and Travel Authority (TATA) in case of PaK. The cargo can cross the LoC only after being cleared by the respective TFOs in IaJK and PaK. The role of the TFO is to check the traders' compliance with the agreed list of 21 tradable items, and the submission of the requisite paperwork.

DOCUMENTATION

The documents that are required to be presented include a proforma invoice, a cargo manifest (signed by TFO), a packing list, a single entry permit (driver and truck details) and security wing-certificate/No Objection Certificate (NOC). It is also mandatory that the LoC traders submit their trade reconciliation statements (to confirm that trade-in is equal to trade-out) every 3 months to the TFO. Further, any truck crossing the LoC is required to have a J&K or AJK number plate.

SECURITY AGENCIES

Security agencies also play a key role in trade facilitation at the LoC. Twenty four hours prior to the release of a truck from PaK to IaJK, identity verification of the truck driver is conducted by the Central Investigation Department (CID) Government of India, based on the details provided by the TFO and security agencies in PaK. The truck is allowed to cross the LoC only if the clearance is provided by IaJK. Once the truck crosses the LoC at Kaman Post or Chakan-da-Bagh, three security agencies inspect the truck, namely, Jammu and Kashmir police (IaJK local police), Border Security Force (BSF) and the Indian Army. Different parts of the truck such as the cabin, cavity and roof are inspected by these agencies. From the LoC, the trade-in trucks are escorted by the Indian Army to the TFC, where further inspection of goods takes place in the presence of the IaJK Police, Indian Army and the TFO. Similarly, for a truck crossing the LoC from IaJK to PaK, the Indian Army first inspects the truck in IaJK, only then it is allowed to cross the LoC. Upon crossing, inspection (by Pakistan Rangers) of the truck is first done at LoC, after which it is allowed to proceed to the TFC. At the TFC, the local police of PaK and TATA screen the truck by unloading goods. The facilitation charge is paid by the trader only if the screening rules out any mishandling. The trucks are also scanned post offloading of goods and upon return to the place of origin.

CHARGES AND TARIFF

A number of charges are incurred by the cross-LoC traders while transporting the goods across the LoC. At the TFCs in IaJK, the charges includes labour charge for loading and unloading of cargo from trucks, which comes to INR 14/kg, and a contribution to welfare fund of INR 150 (approximately USD 2.25) per truck. In addition to this, the transportation cost for a truck crossing the border varies between INR 2,500 and 1,5000 (approximately USD 37.4 – 224.7), depending upon the distance and the size of the truck. It must be noted that the distance from Poonch to the LoC is only 2 Km, while the distance from Salamabad to Kaman Post 14 km. At the TFCs in PaK, a cumulative facilitation charge of around PKR 4000 is levied per truck (approximately USD 38), which is inclusive of screening charges and labour charges. The transportation charges range from PKR 15,000-30,000 (approximately USD 143-286) per truck depending on the distance and size of trucks (example: Rawalpindi to Chakoti is PKR 25,000 i.e USD 239). For a truck traveling from TFC (Muzzafarabad/Rawalakot) to Lahore, the charges vary between PKR 30,000-50,000 (approximately USD 440-733). Thus, on an average the expenditure incurred by a trader to send goods across the LoC is INR 15,900 (approximately USD 238) and PKR 20,500 (approximately USD 196) per truck in IaJK and PaK, respectively (Figure 2 and 3).

Domestic sales tax is also levied on products like Chuarra and Giri. The tax rate currently is 13 per cent of the total value of the commodity being traded within the state of IaJK. If the products are sent out of the state, 5 per cent tax is levied against the Form-C[9]. In PaK, district tax of PKR 2000 (approximately USD 19) is levied.

Figure 2 and 3 trace the movement of goods in accordance with the official modalities.

[9]Form C, under Sales Tax Act 1956, is the proof that the purchaser of goods has made sale to another registered dealer in a different state. This lowers the rate of tax paid in the exporting state. This, however, will be revised with Goods and Services Tax Act coming into effect in 2017.

Figure2: Modality of Moment of Goods from PaK to Srinagar, IaJK

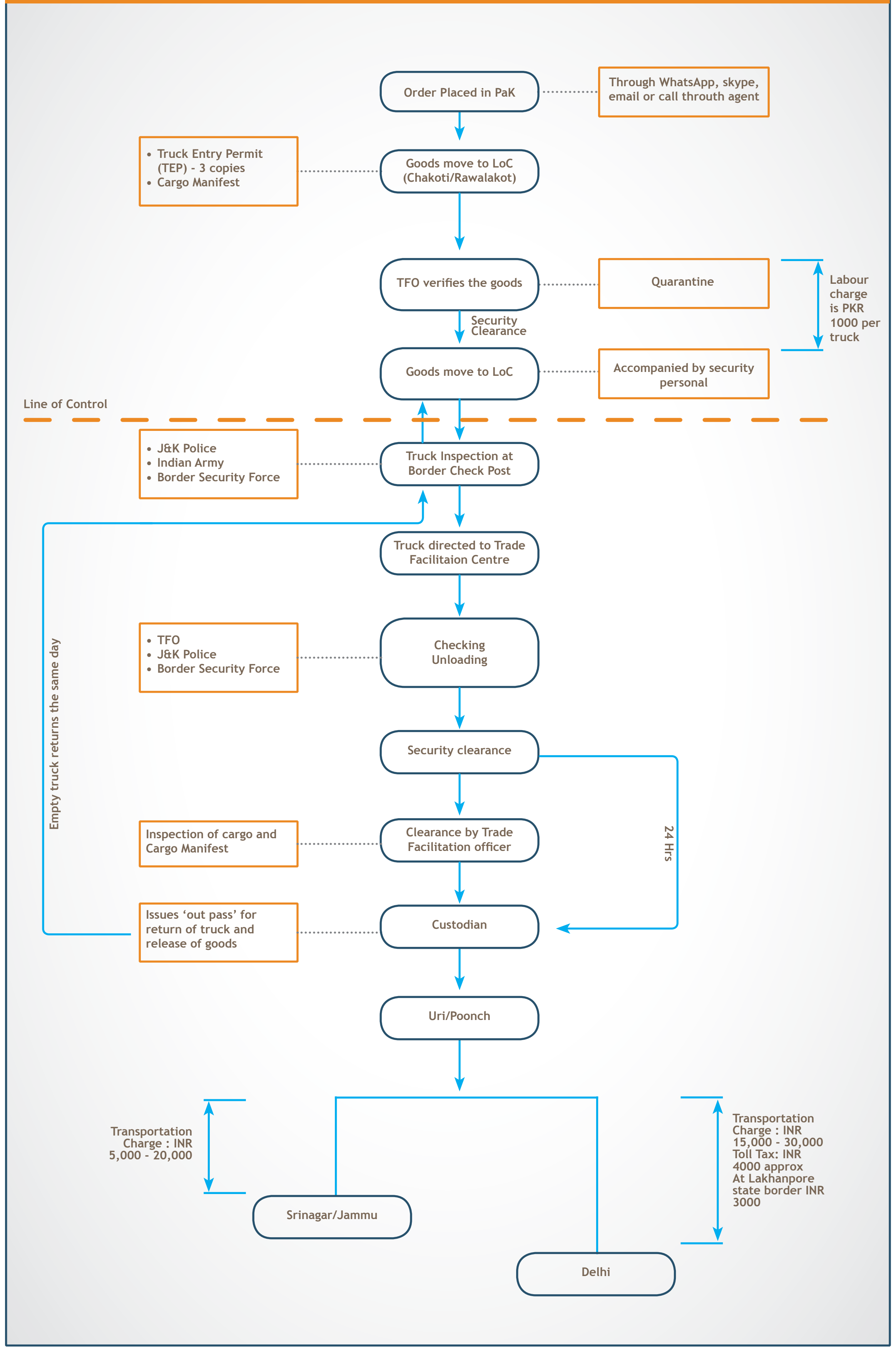
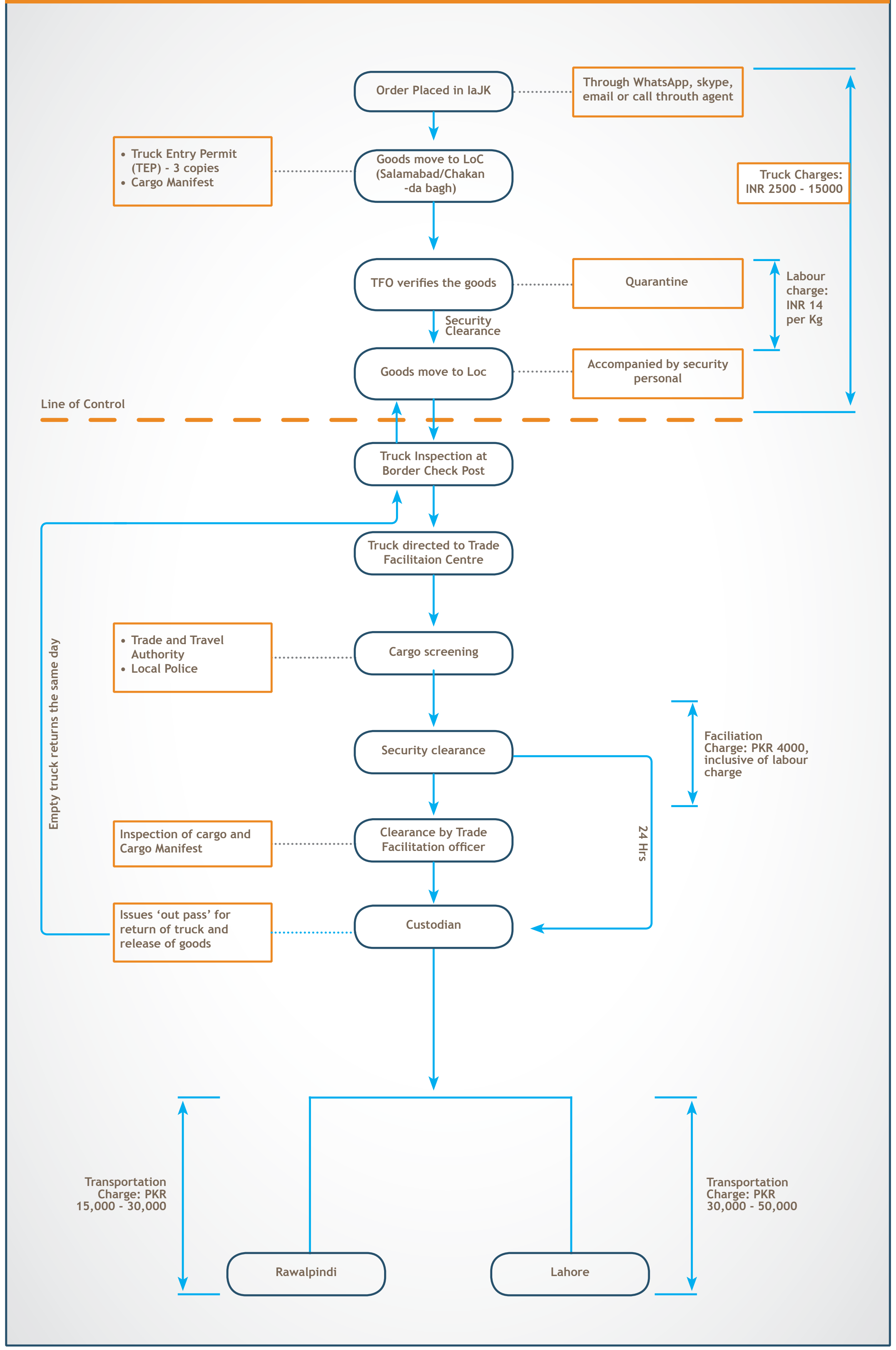


Figure 3:Figure2: Modality of Moment of Goods from IaJK to Rawalpindi and Lahore, Pakistan



Source: Primary Survey

CHAPTER 4

Institutionalizing Cross-LoC Trade

Many stakeholders, including traders, journalists, academicians, and policy makers, have made personal investments to ensure the sustainability of cross-LoC trade (Akhtar & Choudhry, 2013). These investments, in terms of efforts put in by these stakeholders, have given rise to institutions that have taken up the mantle of trade reforms. These institutions have performed several important functions, namely that of acting as a platform for grievance redressal, facilitating dialogue between traders and the government authorities. They also have served as platforms for information exchange. For the purpose of this study, 65 respondents comprising of various stakeholders including government authorities, policy makers, state and national level industry associations, traders, journalists, researchers, academicians etc. were interacted with in Jammu and Kashmir. The interactions were in the form of in-depth discussions based on a pre-set guideline and roundtable discussions. In fact, during the stakeholder engagements, the indirect or informal dialogue generated by these institutions was perceived to be one of the strongest factors for supporting the smooth flow of trade over the last eight years.

JAMMU AND KASHMIR JOINT CHAMBER OF COMMERCE AND INDUSTRY

One institution that deserves a special mention is the Jammu and Kashmir Joint Chamber of Commerce and Industries (JKJCCI). The premise of this body is to represent traders and their interest in both IaJK and PaK. The Chamber was first formed on October 15, 2008, then known as Federation of Jammu and Kashmir Chamber of Commerce and Industry (FJKCCI) (Ali M. , 2008). The Chamber became functional on October 16, 2008, five days before the commencement of trade across the LoC. At that time, the Joint Chamber primarily included the Kashmir Chamber of Commerce and Industry (KCCI) and the Azad Jammu and Kashmir Chamber of Commerce and Industry (AJKCCI). The discussion on the formation and modalities of the FJKCCI was primarily concluded by these organisations under the leadership of Mr. Zulfiqar Abassi from AJKCCI, who also became the Joint Chamber's first president, and Dr. Mubeen Shah, the then president of KCCI. However, the FJKCCI was limited in representation because it did not include the traders' associations and/or sector-specific groups from the region (Yusuf, 2009)

In 2011, the FJKCCI was reorganised, with support of Conciliation Resources – a London-based civil society organisation - to include a total of 10 major business institutions. With the drafting of a constitution and terms of association, the Chamber, now known as JKJCCI (Centre for Peace, Development, and Reforms, 2011), became the first 'non-governmental, formal, inclusive and elected' apex body representing the stakeholders from both sides of the Cross-LoC trade. FJKCCI is made up of 44 members (22 from each side) (Greater Kashmir, 2011), headed by a President and supported by two vice-presidents. The President's term is annual and rotational between IaJK and PaK. The institutions represented in JKJCCI are:

- Kashmir Chamber of Commerce and Industry (KCCI)
- Jammu Chamber of Commerce and Industry (JCCI)
- Azad Jammu and Kashmir Chamber of Commerce and Industry (AJKCCI)
- Federation Chambers of Industry, Kashmir (FCIK)
- Federation of Industries, Jammu (FIJ)
- Gilgit-Baltistan Chamber of Commerce and Industry (G-B CCI)
- Merchants Association Ladakh
- Intra-Kashmir Trade Union
- Salamabad Cross-LoC T raders' Union
- Chakan-da-bagh Cross LoC Traders' Union

Over the years, the JKJCCI has been predominantly active in advocating for reforms in the cross-LoC trade process such as easing of restrictions on the travel and meeting of traders across the LoC, reviewing and increasing in the list of tradable items, making the LoC a transit trade route for accessing Afghanistan and beyond, increasing access to communication facilities, facilitating the establishment of banking channels, and promoting tourism.

In IaJK, few other institutions have independently been making representations to the State and Union Government in New Delhi for reform on Cross-LoC trade. For instance, on May 4, 2016, a delegation of the Kashmir Chamber of Commerce and Industry (KCCI) met J&K Chief Minister Mehbooba Mufti and suggested the lifting of ban on commodities like cement through the LoC. They also advocated for exchange of trade delegation from IaJK and PaK in order to assess the markets and needs. It should also be noted that upon being sworn in as Chief Minister, Ms. Mufti laid special emphasis on the development of cross-LoC CBMs in Jammu and Kashmir.

KASHMIR INITIATIVE GROUP

The Kashmir Initiative Group (KIG) is another institution that has taken up several matters for reforming the functioning of cross-LoC trade at various forums. The institution was formed in 2011 to represent the voice of the civil society in Kashmir at a time when the decision on the Jammu and Kashmir issue were being solely taken up by the union governments on both sides. The KIG includes representatives from both sides of Kashmir, consisting of journalists, academicians, and civil society and thought leaders. It advocates for people-to-people connect through intra-Kashmir dialogue, in areas such as education, cultural linkages, disaster management, travel and trade. The group has published a series of policy briefs on CBMs, the impact of Afghanistan transition on Kashmir and youth engagement.

At the local level, in IaJK, the LoC traders have formed their own associations to mitigate day-to-day issues at their own level. This includes the Salamabad Cross-LoC Traders Union in and the Chakan-da-Bagh Traders' Union in Kashmir and Jammu, respectively. It is still in the nascent stages but there seems to be an optimistic outlook among the traders about these associations.

> “It could be possible because of the joint chamber of commerce that the people from all the divided regions are now taking ownership of this trade that would make it irreversible. JKJCCI is a back bone for intra Kashmir trade.”
>
> *- Raja Arshad, Member Jammu Kashmir Joint Chamber of Commerce & Industries*

SUPPORTING INSTITUTIONS IN PAKISTAN ADMINISTERED KASHMIR

In PaK, the stakeholders have banked on similar institutions and associations for local level redressal of grievances and their representation inlarger platforms in the state as well as with the Pakistani government. The local level associations in PaK include LoC Traders' Union, Chakoti (Muzzafarabad) and LoC Traders' Union, Poonch-Tetrinote (Rawalakot). These two associations have recently been inducted in the JKJCCI. They play a key role in maintaining dialogue with their counterparts in Salamabad and Chakan-da-Bagh through various modes of digital and online communication such as email, skype, whatsapp etc.

The Centre for Peace, Development and Reforms (CPDR), PaK, has been playing a key role in generating dialogue about cross-LoC trade in the mainstream policy circles in PaK. They have been engaging within PaK as well as in mainland Pakistan with various stakeholders to create a positive environment for this trade. They carry out developmental activities in association with other institutions like Indus Research Foundation and Conciliation Resources. The activities include training of traders and organising meetings of the JKJCCI in PaK, The focus of these engagements is to create positive perception about this trade through roundtables, researches, dialogues, etc. They also reach out to the relevant authorities to suggest measures for enhancing this trade. It is also due to the activities of such institutions that cross-LoC trade has become a part of political dialogue in Islamabad and PaK. For instance, cross-LoC trade formed an integral part of the Pakistan People's Party (PPP) election manifesto in PaK during elections that concluded on July 22, 2016. Upon being elected, the PPP, has laid emphasis on strengthening the trade. The installation of full-body truck scanners at the TFCs in PaK has also been announced and a budget has been allocated for the same.

To conclude, several institutions on both sides (trade bodies and civil society) have played a strong role in promoting trade across the LoC and sustaining the dialogue between stakeholders. These institutions are aimed at pursuing active and continuous reforms to the trade process in terms of enhancng the product list, reviewing the SOP, including a formal grievance redressal mechanism and institutionalising a banking system for the trade.

CHAPTER 5

Challenges

Cross-LoC trade has resulted in many benefits for the local economy. However, numerous challenges hinder the realisation of its full economic potential. The trading community has repeatedly highlighted several concerns that affect the operations on a day-to-day basis. While some issues have been taken up by the various cross-LoC trade associations and institutions, there are many more issues that require policy measures from the state government and mutual intervention by the union governments in Islamabad and New Delhi.

We can broadly categorise the challenges faced by cross-LoC trade into two:

a) Infrastructural challenges b) Policy challenges.

A. INFRASTRUCTURAL CHALLENGES

i. **Lack of truck scanners:** Since the inception of LoC trade, manual inspection of cargo has been conducted by the security agencies on either side of the LoC. This often results in damage to the commodity during the process. This is a problem especially for perishable products. The traders have been demanding the installation of scanners at the TFCs. In April 2015, the Ministry of Home Affairs (MHA), Government of India allocated INR 120 crores for two scanners to be installed at Salamabad and Chakan-da-Bagh (Pargal, 2015). The MHA was authorised to purchase the scanners by floating global tenders. However, to date no development has been observed on this front. On June 19, 2016, IaJK Industries and Commerce Minister Chander Prakash Ganga assured in the Legislative Assembly that scanners would be installed within a timeframe of one year (Ali M., 2016). A similar demand for scanners is being pursued in PaK. In the most recent development, following elections in PaK on July 22, 2016, the incumbent government has allocated budget for the installation of scanner.

ii. **Road infrastructure:** The quality of physical infrastructure has an important role in the facilitation trade. Currently, the roads and bridges connecting to the trading points are of poor quality. This often leads to delays in the movement of trucks and to an increase in transaction costs. This has been brought up by traders in various forums. Furthermore, owing to the terrain of the region, the roads are prone to landslides, thereby worsening the transport situation. This problem is more severe at Rawalakot, PaK. There is an urgent need for the governments to develop the roads to allow seamless flow of trade. Going further, given an expected surge in trade volumes, it is imperative to put in place quality supporting infrastructure (x-ray machine in warehouses, good quality roads, warehouse facilities, full body truck-scanners, etc.). 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 (Kira, 2011).

B. POLICY ISSUES

i. **Issues due to barter:** The trade across the LoC is barter in nature and is based on product exchange, without involving any financial transaction. A major issue for the traders is that they do not have any choice in the products allowed to be exchanged and traded under barter. Further, when there is price fluctuation in the markets, the mechanism of barter becomes a problem especially when traders have to balance trade within 3 months. For instance, let's assume an IaJK trader sends a certain product A worth INR 2 lakh (approximately USD 3000) to a trader based in PaK. As per the barter trade rules, the PaK trader has to send back goods, product B, worth the same amount within a period of 3 months instead of receiving money. This may result in loss to the trader as the prevalent market price of product B in IaJK at the time of balancing may be lower than the price at which it was traded in. In effect, the IaJK trader, as he has to sell the product B at a lower value in IaJK. This phenomenon, which is very similar to distress imports[10], leads to negative trade. Due to the barter system, the receiver of product (trade-in) has no choice but to get the goods even if they have to sell it at a lower price as the trader is supposed to reconcile their trading accounts (trade in and trade out) within three months. Many traders from both sides have complained of severe loss due to this process. This issue has resulted in a decline of active LoC traders.

ii. **Lack of banking facility:** Cross-LoC trade is solely based on barter with no banking system in place. Since the inception of cross-LoC trade there has been a demand for installation of a banking facility. In 2010, talks were held between the business chambers of both sides, namely the Kashmir Chamber of Commerce and Industries, IaJK, and the Federation Chambers of Industry and Commerce (FCIK), PaK, to prepare a proposal on two types of possible banking system – a. Escrow Account based, and b. Trade Facilitation Account in Banks. However, these proposals did not come to fruition. As recent as April 28, 2016, the Reserve Bank of India (RBI) approved installation of banking facility for cross-LoC trade (Express News Service, 2016). The Government of IaJK also further directed the Department of Industries and Commerce to work out modalities for the installation of a banking system based on Trade Facilitation Accounts. However, till date, no banking system has been put in place at the TFCs. The IaJK Minister for Industries and Commerce, Chandra Prakash Ganga, reiterated in June 2016 that India and Pakistan have been discussing the process although nothing has yet been authorised (Daily Times, 2016). A banking system is an urgent need for cross-LoC Trade to overcome the limitations of barter trade.

> " When the trade started thousands of traders from Pakistani administered Kashmir joined it but due to the complicated process and lack of facilitations many of them left the trade."
>
> *- Ajaz Ahmed Meer, Secretary Information, Jammu Kashmir Joint Chamber of Commerce & Industries.*

iii. **Lack of a bilateral communication channel:** There is an absence of a direct communication line across the LoC from IaJK traders to their counterparts in PaK. In contrast, a trader from PaK is allowed to call his counterpart in IaJK. Security is often the justification provided for this skewed policy. However, the present process of having unilateral communication channels makes the process of trading difficult. In 2010, the Indian MHA set up five telephone line in Uri and Poonch exclusively for the cross-LoC traders to make calls to their coiunterparts in PaK. However, the LoC traders were reluctant to use these lines as they had to make a call under the supervision of a government authority (Chandran & Choudhry, 2010). In June 2014, a three member team led by the Joint Secretary (Kashmir Affairs), MHA, New Delhi, visited the TFCs and approved the installation of International Subscriber Dialling (ISD) lines for the traders. They had asked the state government to submit a proposal in consultation with local network provider Bharat Sanchar Nigam Limited (BSNL) (Ali M. , 2014). However, this development did not materialise. It is important to note here that there is no rationale to put this restrictive communication policy in place since the traders are already making use of applications like Skype and WhatsApp to communicate. The government needs to take cognisance of these developments and ease the telecommunication policy currently prevalent in IaJK.

iv. **Limited list of items to be traded:** Cross-LoC Trade is conducted on a list of 21 items mutually agreed upon by New Delhi and Islamabad. The Ministry of Home Affairs in India was responsible for finalisation of the product list. The items were based on the products specific to Kashmir Valley rather than on the larger economic questions of demand and supply in the region. The list comprises mainly agricultural and handicraft items, but there are no manufacturing items in the list. The SOP provides for the review of trade flow, the list of items and modalities every quarter by the TFOs for each route. However, no review of the permissible list has been undertaken so far. The traders have been demanding revision of the product list since 2009. In March 2015, the State Government and IaJK traders submitted a list of 72 items to the MHA for consideration in addition in the existing list. If approved by the MHA, this would then be discussed with Islamabad through the External Affairs Ministry in New Delhi (India Today, 2016). The proposed list of 72 items is based on demand for the products on each side. This development is yet to see further progress.

[10]When the rate of import is higher than the prevailing rate in the destination market

v. **No HS Code based item list:** The list of products allowed to be traded are not based on Harmonized System of Classification (HS Code)[11]. This is based on the reasoning that LoC trade is not considered to be international trade. The absence of an HS Code makes it difficult to identify the exact product, and also value, record and track the product. This often leads to ambiguity and confusion among traders as to which product is allowed for trade as the existing permissible list of items is more of broad product categories. For instance, coconut is traded under the 'fruits and vegetables' head, and embroidered suits are being traded under the 'embroidered items' head. In addition, this often results in unwarranted items being traded. If we consider the category "fruits and vegetables", there are several hundreds of eight-digit HS codes that are part of this category. There is a need to revise the list and base the product list on HS codes to address the issue of misrepresentations and unwanted items being traded.

vi. **Absence of rules of origin norm:** Neither the SOP nor the additional guidelines to the SOP (issued on July 4, 2012) explicitly state that the products to be traded across the LoC are to be of IaJK or PaK origin. It is something that is deemed to be 'understood' by the trading community and authorities. However, in the absence of no specification of a 'country-of-origin' rule in the SOP, traders have been in a position to interpret this provision in their own way, to exploit the market situation in their favour and defy 'country-of-origin' norms. Many perceive it as 'trade through Kashmir,' implying that goods to and from mainland India and Pakistan can be traded through Kashmir to other parts of the world, and that of 'trade to Kashmir,' implying that the trade is exclusively for products of IaJK and PaK origin and to be traded only by local traders. This has led to the issue of 'third country' goods allegedly being traded across the LoC. This has often been a bone of contention between cross-LoC traders and the mainstream (inclusive of IaJK and PaK) traders of India and Pakistan.

vii. **Conflict between mainstream India-Pakistan traders and cross-LoC traders on the issue of origin and proxies:** Non-J&K traders, based primarily in Punjab in both India and Pakistan, have expressed their concerns about cross-LoC trade, citing that these traders are not only affecting their trade through the Attari-Wagah border, but are also indulging in 'informal trade' by bartering non-J&K based items and produce. Several issues regarding this have been raised by the non-J&K traders to the MHA in New Delhi in an effort to voice their concerns. Some of the arguments made include:

- 'Illegal trading' of third-country goods such as American almonds, as well as other items produced in mainland Pakistan such as dal (pulses) and printed cotton fabrics, and those produced in mainland India such as bananas and suits.
- Cross-LoC trade, being a 'zero duty' trade, is usurping the "right of doing genuine business" for the non-J&K traders by affecting the trade volume through the Wagah-Attari border in Amritsar. This has particularly been the complaint of dry fruits traders based in Punjab.
- Cross-LoC trade is leading to huge losses to the Indian economy through its zero-duty scheme by giving rise to illegal trading.
- Cross-LoC trade has become a route for pseudo-smuggling between India and Pakistan[12].

The LoC traders have also voiced their concerns about the activities of non-J&K traders to the government. These concerns include:

- **Affecting seamless flow of trade:** It has been observed that the concerns of non-J&K traders and their reach within the mainstream policy circles (in particular at the Ministry of Home Affairs, which is the nodal agency for cross-LoC trade), has rendered the cross-LoC trade vulnerable to suspension on a number of instances. During the one-to-one discussions conducted, it was reported that there have been instances where it was believed that trucks full of goods have been stopped at Salamabad TFC, Uri after directions from the MHA.
- **The issue of proxy traders:** It has been observed that the non-J&K traders based in Punjab and New Delhi are using the IaJK traders as proxy agents to exploit the zero-duty scheme. While cross-LoC traders of IaJK have no direct communication line with their counterparts in PaK, the traders of New Delhi and Punjab face no such problem. Therefore, it is alleged that the mainstream India-Pakistan traders use this access to channelise their goods through IaJK at zero duty. This has raised concerns about the benefits of zero duty received by the mainstream India-Pakistan traders.

The concerns of both cross-LoC traders and India-Pakistan traders cannot be refuted in absolute terms. In case of the concerns related to the rules of origin, the MHA has no specific definition of 'third country' good[13]. The grey areas in the SOP and the additional guidelines (issued on July 4, 2012), have made the trade vulnerable to irregular practices. To date, one instance of smuggling has been registered, when on February 6, 2015, Jammu and Kashmir (IaJK) police seized 12 kg of narcotics from a PaK truck at the Trade Facilitation Centre in Salamabad, Uri. The narcotics were concealed in boxes of oranges (Ehsan & Akhzer, 2015). Trade was resumed on 13 February 2015 after a brief period of suspension.

To address the concerns of both cross-LoC and mainstream India-Pakistan traders, it is a foremost necessity to make the existing SOP comprehensive

viii. **Lack of a dispute settlement mechanism:** Being a blind trade (due to the absence of communication channels and banking), the cross-LoC trade is susceptible to inefficiencies and conflicts. Most of the conflicts arise due to imbalances in the value of traded goods. For instance, if a trader does not receive any product through barter for the goods he has sent out within the stipulated time of three months, there is no mechanism for claim settlement in the SOP. Further, if a trader receives damaged products, there is no provision for compensation or settlement. The JKJCCI and other institutions provisionally act as grievance redressal platforms. However, their authority is not binding on any trader.

ix. **Reluctance of women traders to participate:** While this issue is not explicitly a policy issue, it is the outcome of policy deficits that affect cross-LoC trade. There is a small number of women registered as traders for cross-LoC trade, however, according to findings, none of them are active traders to date. The reason for this is threefold - (i) Women cite security concerns as the principal hindrance to becoming active traders as they are not aware what they will receive in barter for the products that they send; (ii) Lack of dispute settlement mechanism; and (iii) instances, where few male traders have registered their wives or sisters as traders and carry out trade under their name, were also reported. There is a need to devise measures and incentive schemes to encourage the direct participation of women in cross-LoC trade for the trade to fulfil its potential.

> "We recently formulated the Women Chamber of commerce in Pakistani Administered Kashmir which aim is to organize the business women in this part of Kashmir. We are very much inspired by the idea of joint chamber of commerce and preparing ourselves to take part in intra Kashmir trade.
>
> *- Rahat Farooq, Member Women Chamber of Commerce PaK*

[11]The Harmonized Commodity Description and Coding System generally referred to as "Harmonised System" or simply "HS" is a multipurpose international product nomenclature developed by the World Customs Organisation (WCO). It comprises about 5,000 commodity groups; each identified by a six digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification.

[12]In a letter to Home Ministry, dated 14/02/2015, Indian Importers' Association raised the issue of pseudo smuggling through the LoC trade route

[13]As quoted in a reply to RTI filed by BRIEF dated 24 April 2016

CHAPTER 6

Cross LoC Trade as a Function of Peace

Over the years, the positive growth of cross-LoC trade has been confronted by heightened concerns among certain sectors about its negative impact on the Indian economy. Interactions with stakeholders[13] of mainstream India-Pakistan trade revealed their concerns about the negative impact of cross-LoC trade in terms of a "huge loss to the Indian economy" due to exemption from customs duty (tariff) collection. Stakeholders have even raised this concern in the policy circles of New Delhi at various forums. This chapter aims to analyse this concern. It does so through calculating the possible revenue that could have been generated under the usual conditions of duty collection and, based on these calculations, make an assessment as to whether it really is leading to a substantial losses to the government's exchequer.

Employing barter trade to promote peace in a conflict-ridden region is not unique to the Kashmir context. Many countries like Kenya, Myanmar and China use barter trade as a peace-building tool to support the well-being and self-sufficiency of people affected by conflict (Changemakers, 2005). For instance, in Kenya, the barter system of trade was started to assist the rural and tribal people in developing and manufacturing self-help products so that their support for non-state actors is lowered. All the CBMs including cross-LoC Trade require support of the governments in various forms. Different kinds of incentives are provided by governments all over world to encourage barter trade such as creation of barter centres, the establishment of satellite communication systems in remote areas, providing transportation facilities etc. In a similar manner, Islamabad and New Delhi decided to incentivise cross-LoC trade through exemptions from duty/ tariff collection, thereby rendering it a 'zero duty trade.' This means that goods that are traded-in through Jammu and Kashmir are exempt from paying duty applicable on the products. The reason for this is twofold: a) cross-LoC trade does not have the status of international trade and is treated as a domestic trade; and b) to encourage the participation of greater number of people to participate in trade activities. Apart from duty exemption, the governments of India and Pakistan have committed towards undertaking the requisite developmental activities for the trade, such as upgrading infrastructure.

This chapter estimates the potential revenue that could have been generated had goods been traded under the umbrella of South Asian Free Trade Area (SAFTA). In recent years, India has taken several measures to reduce tariff and facilitate trade in the SAARC region. India offers tariff concessions separately to Non-Least Developed Countries (NLDCs - Pakistan and Sri Lanka) and Least Developed Countries (LDCs – Afghanistan, Bangladesh, Bhutan, Maldives and Nepal). Concessions offered to NLDCs are applicable only to Pakistan, since India has a Free Trade Agreement with Sri Lanka. Under the Tariff Liberalisation Programme (TLP) in SAFTA, India has already reduced tariffs to the 0-5 per cent range for NLDC members. This is applicable on all items, except for a list of sensitive items for NLDCs which is comprised of 614 items (SAARC, 2010).

In this section, a simple exercise has been conducted in which the revenue generated for the products exchanged in cross-LoC trade has been calculated as per SAFTA applicable rates for 2012-13[14]. The exercise has been conducted using 8 most traded commodities (by value) for the same year (Table 7). The median value of the duty applicable on these products has been used to calculate the possible revenue loss[15]. The overall median value obtained is 4.5. Thus, the 4.5th value in the Table 7 is the median, which is the average of values of 4 and 5. Based on this calculation the median duty comes to be 9.20 percent.

[13]This includes a sizeable community of traders, based mainly in Punjab and New Delhi, who trade with Pakistan through the Attari-Wagah road route.

[14]The year 2012-13 has been considered duty to data availability of the top 8 products traded in this year

[15]If observations of a variable are ordered by value, the median value corresponds to the middle observation in that ordered list. The formula applied is: Median duty = {(n+1)/2} Th..............................(Formula 1)

Where n is the number of values in the data set.

Table 7: Applicable SAFTA Duty on Trade-in Products of Cross-LoC Trade

S.no	Product[16]	SAFTA Duty (%)
1	Dry Fruits incl walnuts	0*
2	Fruits &Vegetables	0*
3	Mungi	8.00
4	Medicinal Herb	9.20
5	Medicinal Herb Honey	9.20
6	Shawls and Stoles	18.13
7	Embroidered Items	18.13
8	Carpets and Rugs	25.19

Source: Indian Customs EDI Gateway (ICEGATE) Note; *indicates that SAFTA duty on these products is zero

As per the results of the analysis conducted, the government could have obtained a revenue of USD 5.6 million, if it were to collect duty on the most traded items in 2012-13. This result has been obtained by calculating the duty based on the median value (9.20 per cent) of SAFTA duty for the total trade-in in 2012-13[17](Table 7).

Table 8: Estimation of Potential Revenue Generated through LoC Trade in IaJk (2012-13)

Import Duty Collected across India (INR Cr.)	Total Revenue generated by GOI (INR Cr.)	Total Government Budget/ Expenditure on Development Schemes (INR Cr.)	Estimated Duty on LoC Trade (INR Cr.)	Estimated Duty in LoC Trade as a percentage of Column A	Estimated Duty in LoC Trade as a percentage of Column B	Estimated Duty in LoC Trade as a percentage age of Column C
A	B	C	D	E	F	G
158580 Cr.	742115 Cr.	2882.09 Cr.	26.89 Cr.	0.016	0.003%	0.93

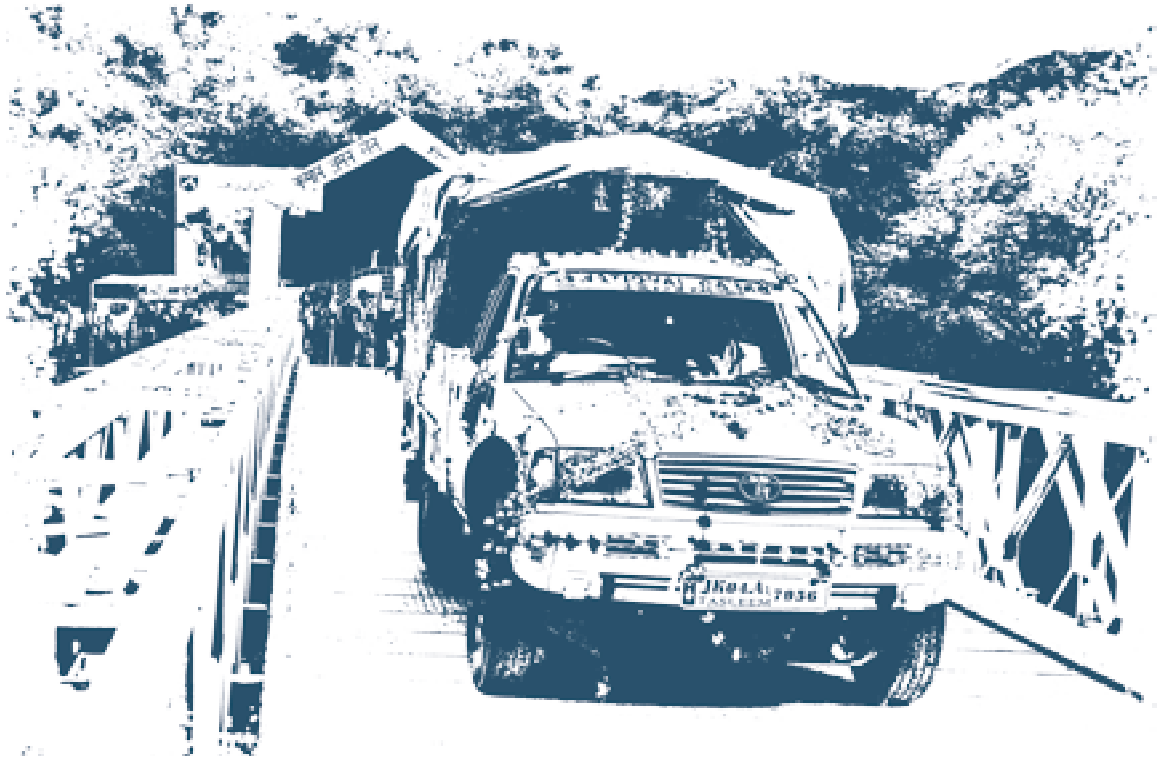
In terms of INR, the total revenue that could have been collected would amount to approximately INR 26.89 crore[18]. In the same year, INR 1,58,580 crore i.e approximately USD 29.3 billion (India Budget, 2013) was collected as import duty pan-India. The total revenue generated by the Government of India in the same year was INR 7, 42,115 crore (approximately USD 137.4 billion). Thus, from the total import duty collected pan India, an exemption of INR 26.89 crore amounts to a meagre 0.016 percent. Further, as part of the total revenue generated by GOI in the same year, the duty exemption constitutes only 0.003 per cent.

However, there are some limitations to the analysis conducted here. Firstly, there is lack of transparency of product-wise volume data of cross-LoC trade. While the product-wise duty/tariff can be estimatedthrough the SAFTA guidelines, the actual volume of each cross-LoC trade commodity exchanged in 2012-13 is not known. Secondly, since the range of products is arbitrary for cros-LoC trade, the median value is used to obtain the duty that might be applicable. This is an approximation and the figure obtained should be considered as an estimation or assumption only.

[16]The list is an aggregation of the top 8 trade-in products across the LoC in the year 2012

[17]=9.2% x $60.50 million = $5.6 million

[18]USD 1:INR 54 (2012)



Further, in order to understand and assess whether the duty exemption on cross-LoC trade is causing a substantial loss to the economy, it is imperative to compare this exemption Cross-LoC trade with the expenditures incurred on various social and development schemes employed by the Government of India administered Jammu and Kashmir, and the union government of New Delhi (Table 9).

Table 9: Government (both State and Union) Budget for Development Schemes 2012-13 in IaJK

S.no	Scheme	Total Government Budget in 2012-13 (in INR Cr.)
1	Cumulative Social Services (As Allocated in State Budget)	2532.09
2	Himayat (Skill Empowerment and Employment in IaJK)	235.00
3	Sher-e-Kashmir Employment and Welfare Programme for Youth	115.00
4	Cross-LoC Trade	26.89*

Source: 1. J&K Finance; 2. & 3. Epilogue Vol 4 Issue 4 April 2010. *according to calculations in the report

For 2012-13, the government spent INR 2882.09 Cr on social security and employment schemes across the country (including IaJK); it spent only 0.93% of this amount (INR 26.89 crores) by giving duty-free exemption to trade via LoC, which can be considered as a developmental expenditure for a step towards maintaining peace in the state (Table 8).

Few research studies have investigated the impact of duty exemption and subsidies provided by the State on the economic activity (Lerch, 2004). It is noted that such exemptions do have a direct impact on the state's economy, which may be weakened or strengthened by the design of the exemption (Lerch, 2004). However, the economic impact of these exemptions is likely to be small and less important than other factors such as labour cost and productivity. In the case of cross-LoC trade, this exemption from the duty can be regarded as the 'Cost of Peace' for the Government of India because of the economic activity it has generated in Jammu and Kashmir.

The potential duty loss to the government needs to be weighed against its numerous benefits at local level. Keeping aside the long-term peace dividends, this trade has successfully acted as a source of employment/ income for several traders, as well as for the unemployed and vulnerable youth. On July 20, 2011, The Hindu reported,

"Traders on both sides of Kashmir — billed as a potential nuclear flashpoint — now have a stake in other's welfare. There are reports of at least 40 former militants helping to sustain the trade; thereby not only enlarging the constituency of peace but also developing stakes in the stability of the region and providing an alternative narrative on the vexed Kashmir issue."

- The Hindu

In a perception survey by Conciliation Resources (2015-16) in IaJK, the majority of the traders engaged in cross-LoC trade were reported to be below 40 years of age. It was also reported that cross-LoC trade has generated employment of 50,000 manpower days in seven years (2008-2015), and a total income of INR 804 Cr (approximately USD 117 mn). On top of this, transporters have also reported benefits to the tune of INR 45 Cr (approximately USD 6 mn) just by plying trucks from Uri to Srinagar (a distance of about 100 kms). The labour cost at TFCs is INR 14 per kg per labour, which means for 100 kg of Kinnow, INR 1400 (approximately USD 21) is earned per labour per day. Thus, the annual economic activity generated through cross-LoC trade amounts to much higher than the duty exemption provided.

At the macro level, it cannot be denied that the government has forgone potential revenue by allowing tariff exemption for the trade, especially in the face of consistent year-on-year growth in volumes. In the seven years of existence of cross-LoC trade (2008-2015), a substantial amount of revenue could have been generated. However, this figure turns out to be miniscule compared to other social security and developmental expenditure.

At a local level, the ripple effects of these exemptions hold a larger stake which can be viewed optimistically. These effects can be seen in the form of employment generation, reduction in instances of cross-border violence in the respective trade regions, creation of a sizeable community that has a stake in the trade though institutions and associations, and the growing demand for reform of the SOP and addition of products by the traders. Positive effects are visible in the local markets of Jammu and Kashmir which are bustling with locals who are enthusiastic about the products from PaK, and vice-versa. Given the natural growth prospects of any trade activity and on the other hand, the prevalent frustrations at the local level due to the recent shut down in IaJK, there are high chances that as the cross-LoC trade grows, more number of people shall be willing to get involved in the process, thereby resulting in the enhancement in the size of the community.

CHAPTER 7

The Way Forward

Since its inception in October 2008, cross-LoC trade between India and Pakistan has grown irrespective of the politically tense and volatile trajectory of New Delhi and Islamabad. The trade has been sustained despite various instances of tension at the highest level of diplomacy. For example, when the Foreign Secretary level talks between India and Pakistan were cancelled due to a standstill on the Kashmir issue in August 2014, trade across the LoC was growing at a rate of approximately INR 200 crore (approximately USD 30 Million) annually. This is suggestive of the fact that the cross-LoC trade has an important role in maintaining a positive space for collaboration as part of the peace process. This belief has been reiterated not just by the stakeholders, but the potential of cross-LoC trade as a driver of peace also seems to be recognised by both the governments.

The positive growth of the cross-LoC trade is also fraught with associated problems such as of poor infrastructure, policy issues and limited channels of communication. The traders trading through other land routes often describe the cross-LoC trade as “illegal”, alleging that it has become a cheap way to trade goods that have origins outside Jammu and Kashmir. Further, critics often argue that the barter nature of cross-LoC trade is translating to considerable losses on the government exchequer. Concerns over the negative impact on the overall economic revenue arising from duty exemption is not significant when weighed against the positive impact this trade has had on the local economy through employment generation. Further, significant labour, welfare, transportation charges, and local taxes are levied on the trade, which generates revenue. Impact at the local level is further seen in the growing number of institutions that have a stake in its sustainability. Given the aspiration of the local community associated with this trade, coupled with the cultural and linguistic affinity of people across the LoC, the development of this trade is most desired today.

In order to enhance the cross-LoC trade and ensure its smooth functioning, a number of steps should be taken. The reforms can be categorised into three subheadings: infrastructural, which includes restructuring the physical requirements of the trade; policy oriented, which includes addressing the inherent gaps in the functioning of this trade; and associated developmental reforms, which are peripheral activities that both New Delhi and Islamabad can undertake to compliment the first two.

1. INFRASTRUCTURE REFORMS

- **Installation of scanners:** There is a need to install Full Body Truck Scanners (FBTS) at all four TFCs to scan the products efficiently without any damage. There are various types of FBTS (see Box 1), the installation of which is based on two factors: cost and time efficiency. Cost includes the expenses pertaining to the purchase and installation of the scanner, which ranges between INR 30-60 Cr per scanner, depending on the type of scanner. Time efficiency refers to the average per hour throughput of the scanner, apart from the time required to obtain affirmation for scanning from the custodian. Given that there is a limitation in timings for the trucks to cross the LoC 1300 hours for both trade-in and trade-out trucks), the latter factor is of prime importance, to be considered during installation of the scanner. The type of FBTS to be installed will also depend on the availability of space at the TFCs.

Box 1: Types of Full Body Truck Scanners

Type	Throughput* (Trucks per hour)
Mobile Scanner	20 trucks per hour
Gantry Scanner	20-30 trucks per hour
Fixed Scanner	30 – 180 trucks per hour

*The amount of material than can pass through a system at a given time

Source: Primary research

The benefits of installation of FBTS at all four TFCs is summarized in the table below:

Table 10: Benefits of Full Body Truck Scanner Installation

Parameter	Existing Model	Proposed Model	Benefits
Number of interventions	Multiple points and authorities for checking the truck cavities and for physical verification of cargo at TFC increasing risk of damage to cargo	Single point screening and inspection of truck and cargo	Reduced procedural delays, cost efficiency, increase security, and decreased turn-around-time of trucks
Scanning/ Inspection	Time consuming procedure; rough scanning of all the cargo	100 percent scanning within minutes with no damage to cargo	Assurance of examination and thorough check on possible illicit activities.
Cost factor	Per kilo labour charges that are borne by traders. Handling by labourers at times lead to damage of cargo, translating to depreciation of cargo value	Single point, truck-wise charges, without any damage to cargo	Time and cost efficiency

- **Upgradation of road infrastructure:** To sustain the growing trade volumes, it is necessary to provide good quality road infrastructure. For instance, in Kashmir (IaJK), the 12 km stretch from Salamabad TFC to Kaman Post, warrants seasonal maintenance of roads as most of the areas are affected by landslides. Similarly, from Muzzafarabad (PaK), the road leading to Kaman Post needs to be re-laid. Further, given the hilly terrain, high quality bridges with higher weight thresholds are also needed near all four TFCs to ensure that more than one truck can cross at a time without delay. Currently, 1.5 metric tonnes (MT) of cargo is handled per truck, while it is capable of handling volumes between 3 to 9 MT[19]. Resolution of this issue would ensure that the cost of logistics is minimised in the trade, making it more economically viable. These roads and bridges are the lifeline of this trade, and the governments need to dedicate more attention and funds towards their maintenance.

[19]Road Cargo Transportation in India (2008), Premier Road Carriers Ltd.

2. POLICY REFORMS

- **Exploring monetized form of trade instead of existing barter trade:** To overcome the challenges of barter system and recurrent losses to the traders, installation of banking facility is an urgent need for Cross-LoC trade. As sanctioned by the Reserve Bank of India in April 2016, a Trade Facilitation Account (TFA) is to be maintained with the local state banks on both sides of the LoC. The main features of this TFA include[20]:
  - Under the credit based model, the exporter can get the money on day one, with the bank parting with its funds, and subsequently the importer depositing the amount which is credited into the same TFA.
  - Interest payable for transactions based on credit should be included in the facilitation fee
  - The facilitation fee, for credit based transactions, would include interest, documentation charges and handling charges, among others
  - Under the collection based model, where the importer deposits the amount into the TFA, which is later collected by the exporter, and no interest is charged
  - Goods shall be invoiced in the exporter's domestic currency, thus ruling out any exchange risk for exporters
  - Any exchange risk will be borne by the importer
  - The settlement would be done in US Dollar with the cross rates between the two currencies arrived via dollar rates

This facility of monetary exchange for trade through a TFA would foster instant transactions through a bank account (as compared to the current three month waiting period for trade balancing), lessen the impact of market fluctuation on the exporter, and reduce the instances of disputes. Furthermore, it would also encourage transparency of transactions between the traders, and make it easier for the government to record, review and check the trade for any illicit activities.

However, if the barter form of trade is to be continued, it is pertinent to address the existing challenges with the recommendations mentioned below, to ensure its sustainability and smooth flow:

- **Establishment of a formal communication channel:** The demand for opening up of formal communication channels in the form of telephonic line from IaJK to PaK has been reiterated by the traders since the inception of this trade. Though the governments have made some progress on this front, it is yet to be implemented. The government needs to establish a nodal telephone line for the cross-LoC traders. This can be established either through the local chambers such as the KCCI, or JCCI, or through the joint chamber, JKJCCI. This would also entail augmentation in the number of telephone lines. Such measures would enable the traders to track the status of their consignments, and also reduce instances of dispute between traders on both sides, which arise primarily as a result of miscommunication.
- **Augmentation of tradable items list based on HS code:** There is a need for periodic revision of the list of tradeable items, based on an empirical study of markets across the LoC and consultations with the traders. Further, the products need to be categorised according to their 8-digit HS Code to reduce the current ambiguities in the trade. It can be beneficial in several ways:
  - An increase in the product list through consultation with traders on both sides would ensure that the list is based on the needs and demands of the local markets
  - This would further contribute towards increasing the number of traders involved in the process, thereby increasing peoples' stakes in the CBM
  - With the introduction of the HS coding, there would be clarity on goods that can/cannot be traded across the LoC.
  - It would aid the process of valuation of the product.
  - Levying domestic taxes on goods would become easier.
  - It would address the issue of 'third country' goods being traded across the LoC, by specifically mentioning products that can be traded.
  - The HS Coding would also bring much needed clarity on the goods that can be traded across the LoC - like the goods which are being traded through the Wagah-Attari border, thus reducing the instances of disagreements

For this process, apart from the Ministry of Home Affairs (MHA), New Delhi, there is need for an active

[20]Rising Kashmir, 28 April 2016

participation from Ministry of Commerce (MoC), Ministry of Finance (MoF) and Ministry of Foreign Affairs (MEA). The MoC and MoF would play the role of listing the products to be included in the trade according to the demand, and the subsequent categorisation of the old and new tradable commodities according to their HS Code. The MEA would be responsible for representing this matter in the next meeting of the Joint Working Group (JWG) on LoC trade. It is also important that all the three ministries work in collaboration.

Similar steps need to be taken by the relevant ministries in Pakistan.

- **Additional Guidelines for regulation of rules of origin norm by MHA and MoC:** Both the MHA and the MoC need to provide clarity on the rules of origin norm for cross-LoC trade. While the additional guidelines for the trade issued on April 4, 2012 do not allow trade of 'third country' goods, there is no specific definition of 'third country.' Thus, the MHA, in collaboration with the MoC, needs to bring out another set of guidelines to clarify issues regarding rules of origin issues. There are two recommendations for this:

  Recommendation 1: If the rules of origin is to be restricted to the state of IaJK, then there needs to be an urgent revision of the list of commodities as it is currently based on similar products being exchanged from both sides (Table 6). This is necessary for the trade to be sustained, and the profitability of the traders to be maintained. It further needs to be complemented with other developmental measures like LoC markets within the state for sale of the products.

  Recommendation 2: If the rules of origin is not restricted to the state of IaJK and PaK, then both augmentation in the number of products and introduction of HS coding of the same needs to be carried out on an urgent basis. This is required to clarify any ambiguity in the tradeable commodities, and for levying of domestic taxes such as thecounter vailing duty (CVD) and sales tax on the products crossing Lakhanpore (IaJK state border) and Kohala (PaK state border) to mainland India and Pakistan, respectively.

  The resolution of this issue would also ease the tension between the mainstream India-Pakistan traders and the LoC traders. It would address the recurrent ban on the imposed trade of items like coconut, garlic and ajwain, which are touted to originate outside J&K.

- Strengthening the JKJCCI: JKJCCI is the only institution with membership spanning across the Line of Control. It is important to further strengthen the chamber to accrue maximum benefits from its initiatives. This can be done in the following ways:
  - **Increased inclusiveness:** This requires that border traders, labour unions and transport unions from both sides also be made a part of the institution
  - **Formal recognition by state and central government authorities:** This is a necessary step for the institution to act a nodal point for government to access all the stakeholders at one place
  - **Binding authority on members:** This would ensure that JKJCCI's role in dispute settlement is binding on its members so that instances of dispute can be minimised
  - **Need to gather foothold in the policy circles of the capitals:** For headway to be made in the development of cross-LoC trade, there needs to be one recognised body that can comprehensively represent cross-LoC trade and take up matters pertaining to it in New Delhi and Islamabad

3. OTHER DEVELOPMENTAL MEASURES

- **Re-contextualisation of cross-LoC trade in terms of SAARC trade through the innovative models like intra-regional cluster trading:** For any substantial development to take place for cross-LoC trade, it needs to be isolated from the political issues surrounding Kashmir, with the focus solely on trade. One of the ways this can be achieved is through the formation of 'clusters' of similar trade within the SAARC region - between sub-regions and countries that have historical cultural and community links. The clusters can include border areas of West Bengal-Bangladesh, Tamil Nadu-Sri Lanka and Gujarat (India)-Kutch (Pakistan). When these four clusters of trade (including cross-LoC trade) are formed, cross-LoC trade can been seen through the larger ambit of SAARC rather than through the bilateral prism of India and Pakistan. With an increase in stakeholders through the intra-regional cluster trading model, there would be a positive movement towards the impending developmental work for the trade. Such a step would require active involvement of the SAARC Chamber of Commerce. This could be a subject of further research.
- **Organisation of Border Haats at the LoC:** Border Haats (literally translating to rural markets) are aimed at promoting the well-being of the people dwelling in remote areas across the borders of two countries, by establishing traditional system of marketing the local produce thorough local markets in the local currency and/or on a barter basis (Press Information Bureau, 2016). India and Bangladesh signed the MoU for initiation of border haats in 2010, and currently 4 are in operation. Border haats are expected to enhance the economic well-being of border communities, formalise informal trade, build trust and lead to higher trade openness. Establishment of similar border haats on/near the LoC would significantly help the traders by reducing the logistical cost involved in the trade. It can potentially help in poverty reduction in these areas by generating employment in the haats. Further, it could also encourage the participation of women, since the concept does not entail movement of goods across the LoC and exchange takes place in the physical presence. The LoC haat could be organised on a monthly or seasonal basis.
- **A permanent LoC mandi needs to be established in main cities:** In order to store and consume the traded-in products within the state, a permanent LoC product mandi (market) needs to be established in or near Srinagar, Muzzafarabad, Jammu and Rawalakot. This would facilitate exhibition and sale of LoC products by attracting traders and consumers. The state governments of IaJK and PaK need to make provisions for organising such a mandi. Such measures would also increase support for cross-LoC trade. There has been some development on this in Muzaffarabad. Based on our interactions with stakeholders from PaK, it was gathered that land has been identified for a mandi in Muzaffarad.
- **Need for value-added industries in IaJK and PaK:** Value-added industries such as manufacturing and packaging of local produce can be an important addition to the state economy. Currently, none of the traders associated with the trade are manufacturers. They are dependent on supply from within or outside the state. It is important that the state governments provide incentives towards the establishment of industries to facilitate growth in the state of Jammu and Kashmir on both sides of LoC, which can further be maintained towards the growth of cross-LoC trade. For instance, since apples are a product of Kashmir, production of apple juice in J&K to be traded across LoC can be a value-added industry. Secondly, if any good is to be traded from outside the state (in the scenario of a non-ambiguous rule of origin), the processing could be done in the IaJK to PaK before trading-out the products. This would ensure that local benefit of this trade is maximised. Another significant step can in the form of impetus from the Government of India to encourage the stakeholders and locals from J&K to be a part of the 'Make in India' initiative. Setting up of these ancillary industries would also provide new avenues of employment, and encourage more traders to participate in cross-LoC trade.
- **Opening of other trade routes in IaJK and Pak:** Since the inception of cross-LoC trade across two locations – one in Jammu and one in Kashmir- there has been a demand for opening other historical trade routes in J&K such as Tithwal-Chilhan (across Neelum Valley) and Suchetgarh-Sialkot. The demand comes in light of the local bid to increase people-to-people contact and make the trade and travel in the region geographically easier.
- **Inclusion of cross-LoC traders in national level chambers:** To sustain cross-LoC trade, it is important that the trade is made a part of the policy circles in the capital cities. National level chambers such as Federation of Indian Chambers of Commerce and Industry (FICCI), Federation of Pakistan Chambers of Commerce and Industry (FPCCI), Confederation of Indian Industry (CII), The Lahore Chamber of Commerce and Industry (LCCI), The Associated Chambers of Commerce and Industry of India (ASSOCHAM), etc. need to play an active role in this. Measures such as organisation of discussions and workshops by the chambers would play a defining role in developing cross-LoC trade. Further, representation through the national chambers could also add weight to the developmental needs. Cross-LoC traders can participate in the occasional exhibitions that the chambers hold in the other countries (apart from India and Pakistan) to generate greater awareness about their local market and products.

To conclude, Cross-LoC trade has played a key role in transforming a conflict-ridden region into an area with significant economic activity. The trade has provided employment to former militants and youth of Jammu and Kashmir. Many erstwhile hostile districts like Uri and Muzzafarabad now witness a surge in different associated economic activities, coupled with enthusiasm about cross-LoC products in the market. The trade has generated more stakeholders than some of the social security schemes applied in the state. It has also facilitated trust building of trust between the states and the policy circles of New Delhi and Islamabad.

The growth in trade and the stakes involved have reached a pedestal from which it should be developed further through requisite policy interventions. This warrants that reformatory measures like banking through TFAs, establishment of bilateral communication channels, augmentation of list of tradable items and clarity on the issue of rules of origin be enforced as soon as possible. This would have a trickle-down effect on the dispute between the mainstream India-Pakistan traders and the cross-LoC traders, leading to smoothening of trade modalities.

With sound political will, there is immense potential to transform the Line of Control into a Line of Commerce. Such a transformation can act as a driver of peace between India and Pakistan, who can then view Kashmir not as a subject of contention but as a subject of economic interest.

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BRIEF
B-59, South Extension Part II
New Delhi-110049
India
+91-11-41066328
www.briefindia.com

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Conciliation Resources
Burghley Yard, 106 Burghley Road
London NW5 1AL
UK
+44 (0)20 07359 7728
+44 (0)20 7259 4081
cr@c-r.org
www.c-r.org