POLICY BRIEF October 2020

PEACE-THROUGH-TRADE AT THE LINE OF CONTROL

– Afaq Hussain & Nikita Singla

21st October 2020 marks the twelfth anniversary of Cross-Line of Control (LoC) trade.

The LoC between India and Pakistan was conceived as a part of the Simla Agreement in 1972. It was 33 years later that the governments of the two nations decided to set wheels in motion; on 7 April 2005, the then Indian prime minister, Dr Manmohan Singh, flagged off the first cross-LoC bus service—titled Karwaan-e-Aman, or peace caravan—that connected Srinagar to Muzaffarabad. The cross-LoC bus service was a humanitarian reform that helped reunite the divided families and friends on either sides of LoC.

Later, in 2008, the governments of India and Pakistan decided to further exploit the potential of existing transport routes by establishing cross-LoC trade. In May 2008, the respective foreign ministers of the two countries decided to finalize modalities of intra-Kashmir trade and truck service. Cross-LoC trade, established as a barter, began five months later, across two routes—Uri-Muzaffarabad and Poonch-Rawalakot. Traders on either side of the LoC were permitted to exchange 21 mutually-agreed items. On 21st October 2008, the first truck, carrying rice, turmeric and red chillies, reached Uri by crossing the Jhelum river via the Kaman Aman Setu bridge. A signboard at the bridge, across the LoC, echoed the people-to-people connect shared between locals on both sides, notably stating, 'From home to home, we extend a very warm welcome to our Kashmiri brethren'.

Given the underlying conditions, trade was seen as an important measure to build confidence and foster peace in the Jammu and Kashmir region. It was aimed at tapping the social interconnectedness of the two sides along the LoC in order to develop commercial interdependence. Cross-LoC trade has been an important CBM towards promoting economic and social development in the frictious regions along the LoC. Many traders, businesses, transporters and labourers have benefitted from this trade, and are invested in keeping the trade process active.

Cross-LoC trade would have died in its infancy if not for the spirit of the people involved. It is much more than a mere commodity exchange. This cross-LoC barter was not set up to be an isolated economic activity, but to open a new chapter of building bridges and (re)connecting communities. Despite many negative allegations, wrong perceptions, and intermittent suspensions - including indefinite suspension in April 2019 - associated with cross-LoC trade, this CBM has survived more than a decade, based on the following features:

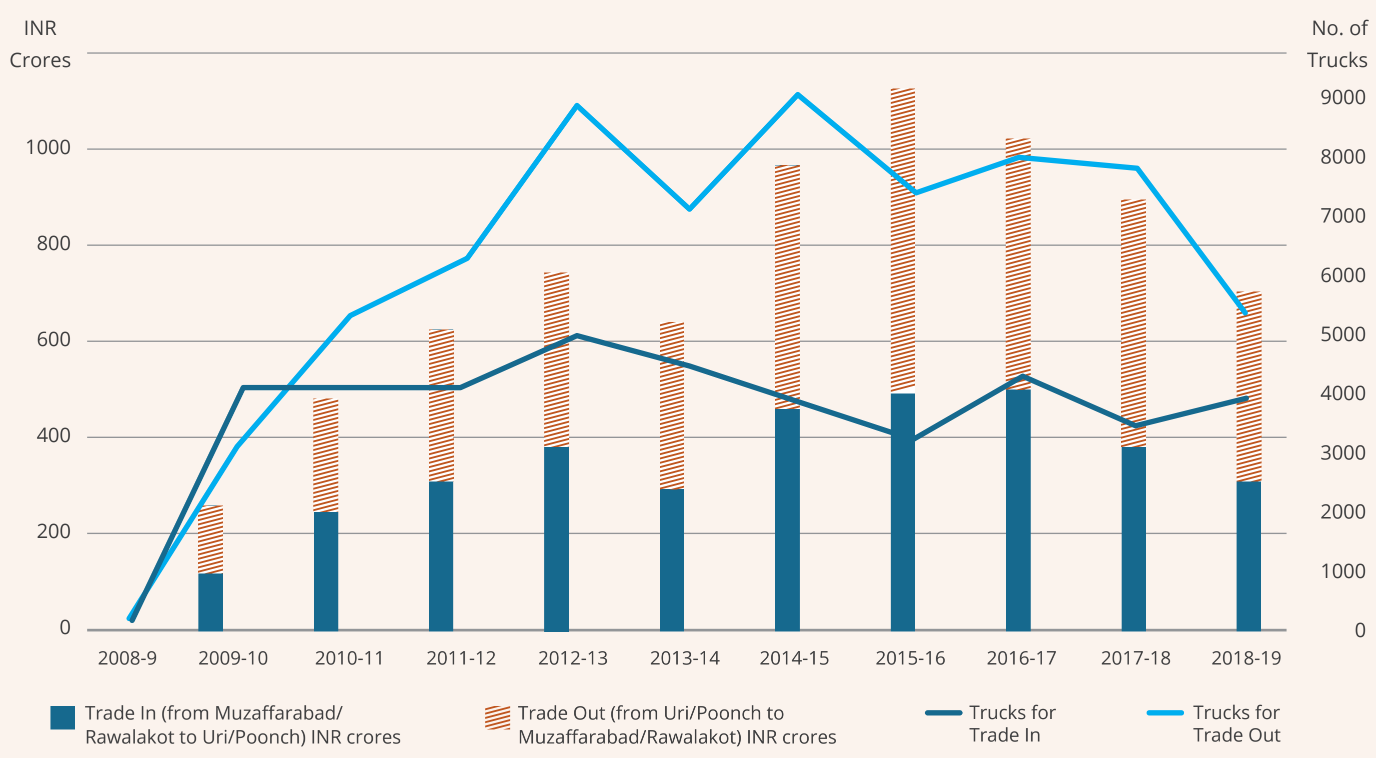
- Two trade routes were identified, Uri-Muzaffarabad and Poonch-Rawalakot. The two routes were developed taking into consideration the ease of conducting trade on pre-existing bus transport routes.
- The most unique feature of this trade was that it followed barter system, where goods were exchanged for goods. There was no financial transaction involved, and barter between trade-in and trade-out was balanced every three months.
- A list of 21 tradable items was mutually agreed between India and Pakistan. The list included items like fruits, vegetables, carpets, medicinal herbs and dry fruits. The list was not based on HS code.
- It was a 'zero duty trade', traders were not charged any kind of trade duties on either side of the LoC.
- The trade took place 4 days a week. A total of about 70 trucks were exchanged every day.

To ensure smooth trade across the LoC, trade facilitation centers were set up at four posts (Chakoti, Tatrinote, Salamabad, Chakan-Da-Bagh) for safe and easy movement of goods across the LoC. After an order was placed with a trader on the Indian side, the truck loaded with goods moved to a trade facilitation center. Here, the truck underwent a security check, before being issued a permit, and was then moved across the LoC. After delivering the goods, the trucks returned to the Indian side the very same day. A number of institutions are involved to ensure cross-LoC trade functions efficiently. At the apex level, India's Ministry of Home Affairs and Pakistan's Trade and Travel Authority (TATA) take decisions on facilitating cross-LoC trade and transit. The Jammu and Kashmir Joint Chamber of Commerce and Industry (JKJCCI) is another prominent institution that works to facilitate cross-LoC trade.

A Decade of Cross-LoC Trade

Despite intermittent suspensions and ceasefire violations, cross-LoC trade and bus service had survived more than a decade, until this trade was suspended by India in April 2019. Between 2008-19, INR 7,500 crores worth of trade was recorded across the LoC. This trade generated more than 1,70,000 job days, and freight revenue of about INR 66.4 crores for transporters in Jammu and Kashmir, on account of 1,11,113 trucks exchanged so far and INR 90.2 crores paid to labourers. While these numbers may be only a miniscule part of India's overall economy, the impact of such CBMs go beyond standard metrics; the cases of thriving businesses and reunited families on both sides of the LoC stand testimony to the effectiveness of these measures.

Decade of Cross-LoC Trade



Source: Data Collected from Trade Facilitation Centres, Uri and Poonch, 2019

Since October 2008, besides direct benefit to traders, cross-LoC trade has also resulted in:

- **Employment generation:** Cross-LoC trade has helped generate employment for the locals of the Jammu and Kashmir region on both sides of the LoC. On the Indian side, from 2008-19, more than 1,70,000 job days were generated, cross-LoC trade providing various employment opportunities–truck loading-unloading, driving and transiting cargo and working at trade facilitation centers, among others.
- **Peace Building:** Cross-LoC trade was not coined to be an isolated economic activity. It also aimed at opening a new chapter of building bridges and (re)connecting communities. Over the last decade, cross-LoC trade was seen as an important measure to build confidence and foster peace in the Jammu and Kashmir region.
- **Regional co-operation:** Cross-LoC trade and travel has not only facilitated commercial interdependence but also social interconnectedness, creating a noteworthy link between trade, trust and people-to-people connections. The mutual trade of goods enabled people on either side of the LoC to connect with each other, thereby adding to the dynamics of India-Pakistan relations, which drive regional cooperation in South Asia.
- **Formal institutes of co-operation:** Institutions like the Jammu and Kashmir Joint Chamber of Commerce and Industry (JKJCCI) were formed as a by-product of cross-LoC trade. Trade and industry stakeholders on both sides of the LoC came together through the common platform offered by the JKJCCI, suggested reforms and subsequently implemented many of those measures. In terms of spirit and role played, JKJCCI is the first-of-its-kind, with its presidency rotating between Chamber of Commerce and Industry Jammu, Kashmir Chamber of Commerce and Industry, and Mirpur Chamber of Commerce and Industry.

Breaking Bridges and Losing Livelihoods at LoC

After three wars between India and Pakistan, the opening of the line of control in 2005 came as a step towards freer movement of people across the line of control. It held emotional value for the people of Jammu and Kashmir on both sides, particularly for the divided families. Till 2005, the divided families did not have any former arrangement of crossing the LoC to visit their families. Opening of LoC for travel in 2005 was followed by opening for trade in 2008. This barter trade achieving a turnover of INR 7500 crores in ten years, saw over one lakh trucks crossing the LoC. The common cultural heritage alongwith the longing to see one's ancestral home or place of birth across the line of control, was critical in giving the initial impetus to this trade and travel resulting in stronger bonds between the people on both sides. Given the absence of any monetary exchange for goods, vulnerability to frequent trade suspensions and the limited interactions between the traders of two sides, some of the economic success of this barter trade, often referred to as blind trade, can be attributed to the trust between the people on both sides.

On 18 April 2019, Ministry of Home Affairs, Government of India, announced the suspension of cross-LoC trade via its two trade facilitation centres - Salamabad and Chakan-da-Bagh - in Jammu and Kashmir. It cited concerns about misuse by Pakistan-based elements, involving illegal inflows of weapons, narcotics and currency into India. In addition, the Indian government was, reportedly, concerned about the zero-tariff barter arrangement with Pakistan being violated through under-invoicing and the exchange of third country items[1].

The sudden and indefinite suspension of Cross LoC trade on 18 April 2019 might eventually weaken the bridges gradually built through the exchange of goods and people to people contact. Trade community, mostly belonging to the border areas of

Baramulla and Poonch, have suffered losses because of the suspension of trade. Over the last decade, the volume of trade vis-à-vis the two concerned routes, Uri-Muzaffarabad and Poonch-Rawalakot, accounted for more than INR 7,500 crores, showcasing the economic capital created through this trade.

On-the-ground interactions with stakeholders reveal that about 600 merchants and 300 labourers that were all directly involved in the day-to-day trade operations across the LoC were most hit by the trade ban. In addition, there has been an indirect impact on: manufacturers and farmers that provided goods for this trade; end consumers, who now have to pay higher prices for same commodities; and shops, restaurants and mechanics in the border area that depended on this trade and transit. Economic activity—in this case, cross-LoC trade—helped enhance connectivity for the otherwise far and isolated border areas of the districts of Poonch and Baramulla. It connected them not just across the LoC, but also to other local districts such as Jammu and Srinagar.

Case study—Uri-Muzaffarabad route: A deeper analysis—based on interactions with stakeholders, including traders, transport and labour communities—of losses incurred due to the suspension of cross-LoC trade via the Uri-Muzaffarabad route, substantiates the concerns of the participants. Estimates of cross-LoC trade in 2008-19 and interactions with merchants at Uri suggest that about 7,340 trucks would have been used to transit goods via the Uri-Muzaffarabad route for 31 weeks since 8 March 2019[2] in the absence of the trade ban; of these vehicles, 3,000 would be used for trade-in of goods and 4,340 for trade-out of

Traders

Profit of INR 15 crores could not be realized

(additional loss on account of damage to perishable goods, market price fluctuation, loss on account of balancing)

Transport

Estimated Loss of INR 5.5 crores

Labor

Estimated Wage loss of INR 95 lakhs for labour at TFC

Srinagar Mandi labour (loading-unloading): Wage loss of INR 65 lakhs

Support Staff

Agents, representatives, middlemen, etc.

Wage loss of INR 85 lakhs

Losses at Uri-Muzaffarabad route due to suspension of LoC trade (31 weeks post 8 March 2019)

Post 8 March 2019	Movement of Trucks	Traders	Transport Community	Labour
Route	Uri-Muzaffarabad	Uri-Muzaffarabad	Srinagar-Chakoti	Srinagar-Chakoti
Trade In	3,000	INR 6 crores	INR 1.2 crores	INR 48.6 lakhs
Trade Out	4,340	INR 8.68 crores	INR 4.34 crores	INR 46.8 lakhs
Assumptions, if any		INR 20,000 Profit per truck	INR 4000 for a truck used for trade-in, INR 10,000 for a truck used for trade-out	Amount given to labour: INR 1.8/ kilogram on truck used for trade-in, INR 1.2/kilogram on truck used for trade-out; Weight: 900 kilograms
Total Loss		INR 15 crores	INR 5.5 crores	INR 95 lakhs

Source: Direct Interactions with LoC traders in Uri goods. With so many trucks crossing over the LoC, potential freight earnings of INR 5.5 crores from trucks transiting to and fro via the Srinagar-Chakoti route were lost. Assuming that traders average a profit of INR 20,000 per truck, potential profit of INR 15 crores for the 7,340 trucks that would have crossed the LoC, could not be realized by the traders in Uri. In addition, they faced losses on account of barter balances; damage to perishable goods that remained in transit; and market-price fluctuations after the cross-LoC trade was suspended.

Beyond the trading and transport communities, an estimated loss of over INR 85 lakhs was incurred by concerned support staff, daily-wage labourers, middlemen and agents in 31 weeks after 8 March 2019. Interactions with labourers suggest they cumulatively lost about INR 160 lakhs – wage loss of INR 95 lakhs by the labour at the Salamabad trade facilitation centre and nearly INR 65 lakhs foregone in labour wages at the Srinagar mandi, where many trucks are loaded and unloaded. The trade ban has not just affected the wages of these labourers, but has rendered most of them unemployed amid few alternative job opportunities. As cross-LoC trade is a barter, the financial implications—including disturbed payment cycles—from not closing barter balances between traders on either side of the LoC make shifting to completely new business avenues difficult for these merchants.

From Line of Control back to Line of Commerce

When the two countries start looking at reviving the confidence building measures across the LoC, it will be crucial to address the concerns around transparency of cross-LoC trade. A revised strategy will be needed to re-initiate this trade, for which a few modifications in trade operations and the standard operating procedure (SOP) have been suggested below:

- **HS-Code based product list:** The present commodity list of 21 product categories should be replaced with a mutually agreed list of items based on HS code, addressing the issue of misinterpretation and misrepresentation of commodities.

- **Verification of traders:** A monitoring cell may be constituted of officials from state and central agencies, to keep a check on merchants and trade practices associated with cross-LoC transactions. This team can periodically study day-to-day cross-LoC trade practices—registration of traders, invoicing, exchange of goods, and trade balancing, among others—in order to ensure transparency. Trade data and other relevant information pertaining to each registered trader should compulsorily be recorded in electronic formats by a trade-facilitation officer, and shared with the cell regularly for analysis and other real-time checks. The requirements for registration and verification should be detailed, and traders should be mandated to register. Past bank statements; income-tax returns; trade records; and details regarding goods and services tax registration numbers, and tax identity cards—such as permanent account number card—among other required documents, should be scrutinized in order to ensure all traders are verified. All traders should be required to submit their income-tax returns to the trade-facilitation officer annually.

- **Digitization of barter management:** Setting up an IT platform would be a major step towards enhancing transparency in cross-LoC trade. All the transactions of trade-in and trade-out should be recorded as digital invoices pertaining to the concerned traders. A record of details regarding commodity, value, and buyer information, among other particulars should be kept. Apart from the time limit of 3 months, there should be an additional value limit on the outstanding amount for barter in order to ensure timely and transparent completion of transactions. For example, if a limit of INR 50 lakhs is set and the trader crosses that limit in terms of the outstanding amount across the LoC, his/her next invoices should not get accepted in the system for trade out till the outstanding barter is brought below the threshold.

- **Base price for commodities:** A committee for setting base prices for commodities should be organized at trade facilitation centres. Such a body would help address concerns of under-invoicing. A base price will ensure a bare minimum is paid, thus keeping traders from lowering prices beyond the minimum in order to avoid taxes.

- **Capacity building of traders:** Developing the competency and capacity of traders, for example, on accounting practices, documentation, taxation and use of digital platforms is crucial to help enhance transparency of cross-LoC trade.

- **Currency conversion rate:** Conversion rates between INR and PKR to be used for the invoicing should be formally announced at TFC every 15 days. Given that the US Dollar is being used as the medium for this conversion and both INR and PKR fluctuate greatly against USD, fixing of the conversion rate every 15 days will help traders with accurate conversions as well as reduce room for wrong doings based on currency conversion.

Concerns over transparency have plagued cross-LoC trade over the last decade. These apprehensions need to be addressed across the complete trade ecosystem, including enhancing transparency in the standard operating procedure, invoicing, goods and service tax (GST) norms, and trader registration. Clarifications on HS codes to prevent misrepresentation of commodities; setting up a rules of origin framework to avoid import of third-country goods; devising rules pertaining to goods and services tax rates and inter-state taxation to prevent evasion; and trader-registration policies to ensure credibility of the traders involved are immediate steps that need to be taken in order to address long-standing concerns over cross-LoC trade.

Digitization of systems and procedures at trade facilitation centers is an important step that can help boost cross-LoC trade. Globally, when we look at trade facilitation, international as well as domestic, digitization of procedures and lower human intervention are the two major pillars that drive trade across borders. And today, more than ever before,

there is an increasing focus on improving ease of doing business ranking in India. Hence, similar steps are needed with respect to cross-LoC trade as well. Digital platforms to monitor invoicing, traders' records, barter balancing and truck information, among other details, will enable real time check by the authorities, leaving lesser room for misuse.

The current suspension of cross-LoC trade could be seen as a window of opportunity to address these issues and revive this trade in a stronger and more organized manner.

When the governments of India and Pakistan decide to begin talks over cross-LoC CBMs, putting forth stronger and more transparent cross-LoC trade mechanisms could give greater economic incentive to find amicable solutions. Cross-LoC trade in this improved framework could continue to affirm the liberal economic theory of peace-through-trade.

Endnotes

1 "Line of caution: On Suspension of cross-LoC trade. 2019. The Hindu.https://www.thehindu.com/opinion/editorial/line-of-caution/article26914676.ece."

2 Trade along the Uri-Muzaffarabad route temporarily suspended on 8 March 2019 for repair of a bridge over a water channel in parts of Chakothi sector

Photo Credits: Kashmir Life and Rising Kashmir

About the Authors

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Afaq has over fifteen years of experience working on International Trade and Logistics, and Regional Cooperation in South Asia, with a special focus on India and Pakistan. Most of his work has been on trade, non-tariff barriers, trade facilitation reforms and informal trade in South Asia. Prior to BRIEF, he was leading research on non-tariff barriers and free trade agreements at Indian Council for Market Research.

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