ARTICLE 5

Cross-Line of Control Trade through Jammu and Kashmir: Impediments and Way Forward

Afaq Hussain*

Abstract: *Cross-Line of Control (LoC) trade, the most successful confidence building measure (CBM) between India and Pakistan was suspended in April 2019. Limited in visibility but extensive in impact, LoC trade not only created monetary value but also emotional value. Till its suspension, LoC trade had formulated a trade ecosystem of its own by generating a cumulative trade of around US$ 1270 Million. Its suspension has impacted livelihoods of several stakeholders including traders, businesses, transporters and labourers. This paper discusses the challenges that were being faced by stakeholders prior to suspension, estimates the losses associated with suspension and proposes several steps that are needed to facilitate the trade across the LoC in a smoother, faster and more transparent manner.*

Keywords: Confidence Building Measures (CBM), India, Pakistan, Trade, Line of Control, Trade Facilitation

JEL codes: F10, F13, F50

Views are author's own. Usual disclaimers apply.

*Co-Founder & Director, Bureau of Research on Industry and Economic Fundamentals (BRIEF), New Delhi, e-mail: afaq@briefindia.com

1. INTRODUCTION

South Asia has been waiting to reap its full benefits of economic cooperation within the region. Though limited bilateral level cooperation is flourishing between the countries, the vital factor hampering the progress of South Asian regional cooperation is the volatile political relationship between India and Pakistan. While there are tremendous gains to be realised from cooperation, the relationship between the two countries has been subject to wars, lack of trust and hasty politics, which has hampered the constructive economic integration between the two countries and within the South Asian region.

The impact of volatile political relations on trade can be witnessed the most in the year 2019. In the wake of the Pulwama attack in February 2019, India decided to withdraw the Most Favoured Nation (MFN) status to Pakistan and subsequently imposed 200 percent customs duty on all Pakistani goods coming into India. After the Balakot airstrikes, again in February 2019, India and Pakistan closed their airspace, with Pakistan keeping the ban in place for nearly five months. In April 2019, India suspended trade across the Line of Control in Jammu and Kashmir citing misuse of the trade route by Pakistan-based elements. Post the Jammu and Kashmir Reorganisation Bill in August 2019, Pakistan cut off diplomatic and economic ties with India—expelling the Indian envoy, partially shutting airspace and suspending bilateral trade (Hussain and Singla, 2020).

A review of the economic relationship between the two countries does suggest that there have been multiple phases of "good" political relations which have had a positive impact on the levels of economic cooperation. Post 2011-12, when the trade normalisation dialogue between the two countries began, multiple steps by both governments resulted in elevated trade ties between the two countries. Trade increased from US$ 1.93 billion in 2011-12 to US$ 2.6 billion in 2012-13 and had been hovering around US$ 2-3 billion since then. This value is well-below its estimated potential of US$ 37 billion (Kathuria, 2018). This significant trade potential could not be realised due to multiple non-political factors as well, including impediments in transport and transit facilities, restrictive visa regime, continuation of large informal trade flows and presence of 'perceived' non-tariff barriers to trade between India and Pakistan (Taneja *et al.*, 2013).

The bilateral economic engagement between India and Pakistan has existed in multiple forms, including the regular international trade, barter trade through LoC in Jammu and Kashmir and indirect trade via third countries:

- International trade between India and Pakistan takes place via air, sea, road and rail routes following all the policy regulations related to international trade. The trade via land route happens through Attari-Wagah border in Amritsar while the trade through rail takes place through goods train and passenger train (Samjhauta Express). The international trade has been often hampered owing to the bilateral political tensions and has been subjected to several tariff and non-tariff measures imposed by both countries. In 2018-19, bilateral trade was recorded at US$ 2.56 billion. Trade balance has been in favour of India with around US$ 2 billion being exported from India to Pakistan and around US$ 500 million being imported from Pakistan to India. This trade eventually succumbed to the political tensions between the two countries and was suspended by Pakistan in August 2019.

- Barter trade across two points on the LoC in Jammu and Kashmir was initiated in October 2008. LoC trade, which is a duty-free trade and without any financial mechanisms, was initiated as a confidence building measure (CBM) between India and Pakistan. The trade takes place across two routes of Srinagar-Muzaffarabad in Kashmir and Poonch-Rawalakot in Jammu with the provision of 21 listed commodities that can be exchanged through this trade. The total trade across the LoC in 2018-19 was US$ 95 million (Hussain and Singla, 2020), which is minuscule in comparison to the overall international trade between India and Pakistan. This trade was initiated to create a peace constituency and connect the divided families of Jammu and Kashmir through economic engagement. Cross-LoC trade was suspended by the Government of India in April 2019 citing security reasons and is yet to be resumed (Government of India, Ministry of Home Affairs. 2019).
- Informal trade that has been taking place in large volumes, mostly via third countries such as Dubai. This trade is a sort of “evasion” mechanism for traders from the volatile political situation. It is the trust deficit and the lack of confidence on direct trading mechanism by the business community in the two countries that this trade thrives on. A study by Bureau of Research on Industry and Economic Fundamentals (BRIEF), estimates the informal trade between India and Pakistan to be close to US$ 2.34 billion in 2018. About 92 percent of this trade takes place via United Arab Emirates (Singla and Arora, 2020).

While there has been a plethora of studies on India-Pakistan economic engagements covering the aspects of direct international trade between India and Pakistan and the informal trade between the two countries exists, the literature on the Cross-LoC trade is minimal with a limited research focusing on this subject (Hussain and Singla, 2020; Hussain and Sinha 2016; Padder, 2015; Kira, 2011; Pattanaik and Anant, 2010). Against this backdrop, the objective of this article is to describe the background of commencement of cross-LoC trade and examine the institutional framework governing cross-LoC trade. The article also assesses the trends in the cross-LoC trade. Since its inception, while cross-LoC trade has shown a surge in volumes, it has also been hampered by multiple infrastructural and policy bottlenecks. Based on the past ground research conducted by the author and interaction with the various stakeholders related to Cross-LoC trade, the article highlights the gaps which have hindered the growth of this trade in the past. The paper concludes with the way forward by suggesting necessary reforms to facilitate the trade in a smooth and transparent manner across the Line of Control. Rest of the article is arranged as follows: Section 2 presents the background, institutional policy framework and modalities of cross-border trade. Trends in cross-LoC trade and challenges to cross-LoC trade are then discussed in Section 3 and Section 4, respectively. Section 5 presents Conclusions and way forward.

2. CROSS-LOC TRADE: BACKGROUND, INSTITUTIONAL POLICY FRAMEWORK AND MODALITIES

Continuous political engagement at the highest level between New Delhi and Islamabad during the years 2003 to 2005 culminated in fructification of two of the biggest confidence building measures between India and Pakistan: Cross-LoC Travel and Cross-LoC Trade. Travel along the Line of Control in Jammu and Kashmir was officially opened for the first time in 2005. This was followed by the commencement of trade across the LoC in October 2008 through two trade routes, namely, Srinagar–Muzaffarabad in Kashmir and Poonch–Rawalakot in Jammu. The announcement and implementation of these confidence building measures was expected to enhance economic cooperation between the two sides of Kashmir and was much appreciated by people on both sides as it created some sense of "economic engagement" across the Line of Control.

2.1 Background of Cross-LoC Trade

The process of establishing Cross-LoC confidence building measures gained momentum after the ceasefire between India and Pakistan in 2003. Post a meeting between the then Prime Minister of India, Atal Bihari Vajpayee and President of Pakistan, Parvez Musharraf on the sidelines of the SAARC Summit in Islamabad in 2004, President Musharraf assured Prime Minister Vajpayee that any part of the territory under Pakistan's control would not be allowed to be used to support terrorism against India. This event—which marked a new beginning, entailing implementation of CBMs in Kashmir—led to the two countries agreeing in February 2004 to commence the process of Composite Dialogue (Pattanaik and Anant, 2012). The foreign secretaries of both the countries met in the same month to start the same.

Trade and travel across the LoC were among the key elements in the multiple CBMs proposed by India. In 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". This gave the necessary impetus towards the implementation of the CBMs of cross-LoC trade and travel. The modalities of cross-LoC travel were finalised in February 2005, following which the Srinagar–Muzaffarabad bus service was inaugurated on April 7, 2005 and Poonch–Rawalakot route was opened for travel on June 20, 2006.

The year 2008 witnessed major developments as far as trade across the LoC is concerned. The foreign ministers of both the countries, in a meeting held on May 21, 2008, agreed to allow intra-Jammu and Kashmir trade and truck services. Subsequently, in a meeting of the India-Pakistan Joint Working Group (JWG) on July 18, 2008, focus was on simplifying the procedure of issuing cross-LoC travel permits, increasing the frequency of Srinagar–Muzaffarabad bus service launching a postal service between the two cities, expediting cases of inadvertent crossings of the LoC and discussing the items to be allowed for trade through the truck service. On September 22, 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. Following this, cross-LoC trade on the Srinagar–Muzaffarabad and Poonch–Rawalakot routes commenced from October 21, 2008 (Padder, 2015). Twenty-one items were allowed for duty-free passage from each side.

Table 5.1 Background of Cross-LoC Trade: Chronology of Events

November 2003	India and Pakistan declared ceasefire along the LoC and lay ground for initiating a peace process.
September 2004	The then foreign ministers of India and Pakistan, Natwar Singh (2004-05) and Khurshid Kasuri (2002-07), respectively, conducted a meeting in New Delhi. Indian authorities proposed 72 CBMs in various spheres, including trade and travel across the LoC.
December 2004	Shyam Sharan, a former Indian foreign secretary (2004-06), announced that pertaining to the humanitarian issues affecting people on both sides of the LoC, India has put forward "a proposal for meeting of families in Kashmir at five places, on designated days and periods of time, under joint security arrangements". The proposed places included Mendhar, Poonch, Suchetgarh, Uri and Tangdhar.
February 2005	The modalities of cross-LoC travel were finalised. Foreign Minister Khurshid Kasuri announced this in Islamabad in a joint statement with his Indian counterpart Natwar Singh after talks between the two.
April 2005	First bus service from Srinagar to Muzaffarabad was flagged off by then Indian Prime Minister Manmohan Singh.
June 2006	Cross-LoC bus service was inaugurated from Poonch to Rawalakot through Chakan-Da-Bagh and Tatrinote points.
May 2008	The foreign ministers of India and Pakistan agreed to a series of Kashmir-specific CBMs—a triple-entry permit to facilitate crossing the LoC and increase the frequency of Muzaffarabad–Srinagar and Rawalakot–Poonch bus services from a fortnightly to a weekly basis and to finalise modalities for intra-Kashmir trade and truck services.
September 2008	The modalities regarding the movement of trucks, code of conduct for drivers, permits, security, timings and list of items to be traded under cross-LoC trade were agreed upon between India and Pakistan.
October 2008	Trade across the LoC commenced with the first truck crossing the LoC through Srinagar–Muzaffarabad route. This trade was limited to 21 items and scheduled to take place two days each week. A second trade route across the LoC was opened, connecting the cities of Rawalakot and Poonch.
July 2011	The then foreign ministers of India and Pakistan, S M Krishna (2009-12) and Hina Khar (2011-13), respectively, met in New Delhi to discuss ways to improve travel and trade across Kashmir.
February 2014	Trade across the LoC in Kashmir resumed after being suspended for a month, after Indian authorities detained a Pakistani truck driver for allegedly carrying 114 kilograms (250 pounds) of heroin.
March 2019	Trade along the Srinagar–Muzaffarabad route temporarily suspended for repair of a bridge over a water channel in parts of Chakothi sector.
April 2019	India's Ministry of Home Affairs ordered suspension of cross-LoC trade citing misuse by Pakistan-based elements for funneling illegal weapons, narcotics and fake currency.

Source: Hussain and Singla (2020)

Since the commencement of Cross-LoC trade in 2008, as part of a CBM between India and Pakistan; the measure is considered to be one of the most significant CBMs taken by the two countries in recent history. This was expected to enhance economic cooperation between the two sides of Kashmir and eventually between India and Pakistan. Though initially this trade was in the limelight and did serve its purpose, but over time the trade came into scrutiny for multiple unfavourable reasons which eventually also became the reason for the suspension of this trade in April 2019. A snapshot of the chronology of events leading to the initiation of Cross-LoC trade is given in Table 5.1.

2.2 Institutional Framework of Cross-LoC Trade

Barter trade involving no-financial transaction was permitted across the LoC between India and Pakistan via the land route on the Srinagar–Muzaffarabad (at Uri) and Poonch–Rawalakot trade route on October 21, 2008. No goods of third country origin are allowed to be traded through these routes. The trade framework is guided by a Standard Operating Procedure (SOP[1]) issued by the Ministry of Home Affairs, Government of India. On the Pakistan side, Trade and Travel Authority (TATA) is the regulatory authority for Cross-LoC trade. The SOP, agreed between India and Pakistan, lays down the conditions of the trade regarding the protocols for movement of trucks, security protocols, commodities to be traded, number of trucks to be exchanged, frequency of trade days, etc. The LoC trade is a "zero-tariff trade" which does not involve any duty payment and trade balancing ("Trade In" balanced with "Trade Out") happens every three months.

Box 5.1: Key Features of Cross-LoC Trade

- Nature of the trade is 'barter'.
- Agreed list of 21 commodities (not based on HS Code) can be exchanged.
- Trade is allowed through Srinagar–Muzaffarabad and the Poonch–Rawalakot routes.
- Cross-LoC trade is governed by a Standard Operating Procedure (SOP) issued by the Ministry of Home Affairs, Government of India.
- Trade takes place 4 days a week on Tuesday, Wednesday, Thursday and Friday. A total of about 70 trucks are exchanged every day.
- Since cross-LoC trade is not international trade, the exports and imports are called 'traded out' and 'traded-in' goods, respectively.

Source: Hussain and Singla (2020)

Initially, the trade was allowed to take place on two days (Tuesday and Wednesday) and 25 trucks from both sides were allowed to cross the LoC on each of these trade days. However, following Foreign Ministerial level talks between Pakistan and India in July 2011, this trade was allowed to take place on four days a week, Tuesday, Wednesday, Thursday and Friday (Government of India, 2011).

A list of 21 tradable items was mutually agreed upon by both the countries which comprised of items such as fruits, vegetables, carpets, medicinal herbs and dry fruits. It is important to mention that the list of tradable items is not based on the Harmonised System (HS) of international trade classification. The list of tradable items is given in Table 5.2.

[1] SOP can be accessed online at http://jkindustriescommerce.nic.in/Guidelines/SoP%20of%20Cross%20LoC.pdf.

Table 5.2 List of Items Allowed to be Traded Across the LoC

S. No	Trade-In Products (in J&K)	Trade-Out Products (from J&K)
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: Hussain and Singla (2020)

While the product list consisted of 21 commodities, the trade was being conducted in a select list of products given the demand and viability aspects (Table 5.3). The major commodities traded through Uri on the Srinagar–Muzaffarabad trade point included kinnow, mango, medicinal herbs, banana, chilli flakes, jeera, seasonal fruits and vegetables. Hard shelled almonds, imli, medicinal herbs, grapes, banana and walnut were the major items exchanged at Poonch through Poonch–Rawalakot route.

Table 5.3 Top Products Actually Traded across the LoC (2018-19)

S. No	Trade-In Products		Trade-Out Products	
	To Uri	To Poonch	From Uri	From Poonch
1	Kinnow	Hard-shelled almond	Banana	Jeera
2	Mango	Medicinal herbs	Jeera	Imli
3	Medicinal herbs	Walnut	Chilli flakes	Banana
4	Walnuts		Embroidered items	Grapes
5	Dates		Almond giri and almond	Pineapple
6	Pista		Seasonal fruits and vegetables	

Source: Hussain and Singla (2020)

2.3 Modalities of Cross-LoC Trade

The cross-LoC trade is facilitated through Trade Facilitation Centre (TFC) set up at Salamabad, Uri on the Srinagar–Muzaffarabad route and Chakan-Da-Bagh on the Poonch–Rawalakot route. The cargo once cleared at the TFC Salamabad and TFC Chakan-Da-Bagh can cross the line of control. At TFC, the custodian of goods is the Trade Facilitation Officer (TFO) who follows the SOP issued towards this trade. The cargo can cross the LoC only after being cleared by the respective TFOs designated at the TFCs. The role of the TFO is to check whether the items being traded are falling under the agreed list of 21 tradable items along with the documentary compliance. Required documents include proforma invoice, cargo manifest, packing list, single-entry permit (with driver and truck details) and security wingcertificate. Being a barter trade, quarterly trade balance statements are submitted by traders to the TFO. Trade balance is maintained by each authorised trader wherein the person has to ensure that trade-out is equal to trade-in for each quarter, for a particular trader.

As mentioned in Table 5.4, there are around 610 traders operating in Jammu and Kashmir (Uri and Poonch), whereas around 500 traders are operating from the other side of LoC at Muzaffarabad and Rawalakot point. While registered traders is high, the actual traders doing trade is significantly lower. This trade has primarily been taking place through middlemen since trade balancing is to be done by each trader, i.e. balancing the trade-in with trade-out or vice-versa in three months. It is difficult for a trader who is getting goods (trade-in), from Muzaffarabad/Rawalakot, to send goods (trade-out) within three months given the market conditions, demand supply, costing, etc. A trader is supposed to undertake both trade in and trade out to comply with the barter trade balance, which may not be a normal case for a trader. As a result of this compliance, traders sometimes have to incur losses and the profits earned due to previous trading get hampered. This has given rise to middlemen who have networks on both sides of the LoC and deal in multiple commodities with both trade in and trade out options. As a result of the middlemen framework, lesser number of actual business communities are involved and more middlemen/commission agents are prevalent in this trade.

Table 5.4 Number of Registered Traders (2018-19)

TFC	Number of Registered Traders
Chakothi (Muzaffarabad)	120
Tetrinote (Rawalakot)	350
Salamabad (Uri)	230
Poonch	380

Source: Hussain and Singla (2020)

Security is one of the prime concerns for this trade. Multiple security agencies including Jammu and Kashmir Police, CID, Border Security Force, etc are involved in the screening of the trucks at various points from the time trucks cross into Salamabad (Uri)/Poonch till they reach TFC, which is located around eight km from the LoC in Uri. The trucks are escorted by the security vehicles from the LoC till the TFC, where the documentary compliances and security protocols are undertaken. At the TFC, goods are unloaded from the trucks for the documentary compliance and security checks which include scanning as well as physical inspection are carried out. After unloading the goods, empty trucks return back to Muzaffarabad/Rawalakot on the same day. Post documentary compliance and security clearance, 'out pass' is issued for the goods to be moved out of the TFC, in the local J&K truck, to its destination in Srinagar/Jammu or other location. Similarly, incase of 'trade out' of goods from Salamabad Uri trading point on the Srinagar–Muzaffarabad route, goods will arrive at the TFC Salamabad and will go through the multiple security checks including the verification of the drivers/cleaners. Post clearance, the goods will cross over through the LoC and reach Muzaffarabad TFC wherein documentary and security formalities will be undertaken as per the SOP before empty trucks arrive back in Salamabad TFC. Figure 5.1 summarises the movement of trucks/goods from Muzaffarabad TFC to Salamabad TFC in Uri (Srinagar–Muzaffarabad route).

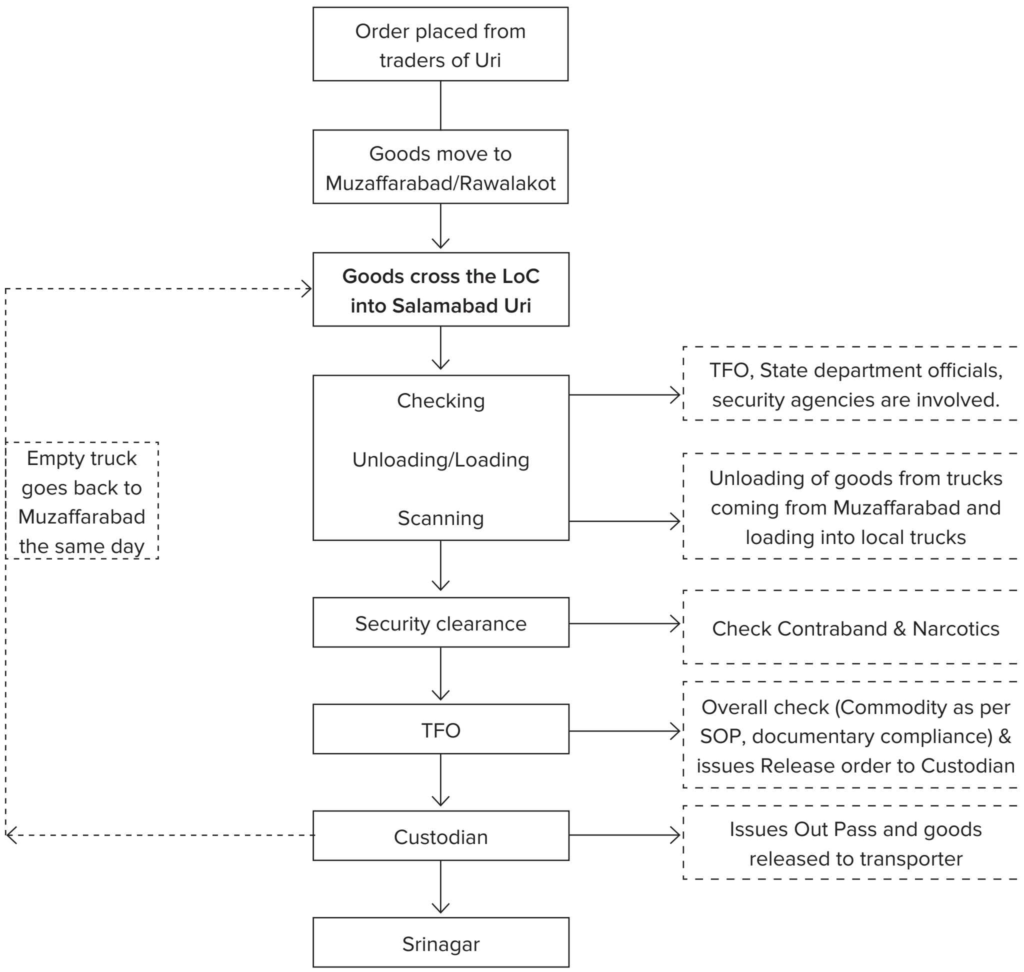

Fig. 5.1 Modality of Movement of Goods from Muzaffarabad to Srinagar[2]

[2] Based on author's interaction with traders.

3. TRENDS IN CROSS-LOC TRADE

Beginning October 2008, cross-LoC trade was operational for almost over a decade before it was suspended in April 2019, by the Ministry of Home Affairs, Government of India citing concerns about misuse by Pakistan-based elements, involving illegal inflows of weapons, narcotics and currency (Government of India, 2019).

The volume and value of cross-LoC trade is significantly low in comparison to overall trade between India and Pakistan and has accounted for less than 1 per cent of total India-Pakistan trade during the period 2008-19. The annual value of trade has increased from US$ 0.77 million in 2008-09 to US$ 95.9 million in 2018-19 (Hussain and Singla, 2020).

In over 10 years, cumulative trade of US$ 1270.20 million from two trading points was carried with Srinagar–Muzaffarabad trade points having around 75 per cent share of this trade. The trade value was steady over the years with some dips in between primarily due to temporary interruptions on account of operational stoppages and political skirmishes between India and Pakistan. The trade showed positive trends since inception with considerable rise in 2014-15 and 2015-16, post which there was consistent decrease in the trade value till it was suspended in April 2019. In 2016, the trade came into the scrutiny of various government agencies for issues like narcotics, hawala, misrepresentations, etc. As a result, the agencies conducted raids and investigations across the TFCs which also resulted in the decline in trade.

Over the years the trade also created its ecosystem which included multiple stakeholders. This trade has engaged over 600 traders at two trading routes of Srinagar–Muzaffarabad and Poonch–Rawalakot recording a cumulative value of over US$ 1270.2 million (Table 5.5). It has also resulted in economic development of other stakeholders in the ecosystem which include transport operators, labourers at trade facilitation centers, goods suppliers, commission agents, labourers/agents/middlemen at mandi in bigger towns, etc. As a result of this trade, 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 till April 2019 and INR 90.2 crores was paid to labourers. Transport sector in J&K has been one of the key beneficiaries of this trade with around 1,11,113 trucks being exchanged at the two trading points, out of which over 75000 trucks have been exchanged through Srinagar–Muzaffarabad route alone (Table 5.6). The impact of cross-LoC trade has been immense on the overall ecosystem of political economy constituted by this confidence building measure which may be beyond the financials generated by this trade.

Table 5.5 Cross-LoC Trade, by Value, 2008-19 (US$ million)

Year	Salamabad, Uri			Chakan-da-Bagh, Poonch			Total Yearly	Exchange Rate	
	Trade In	Trade Out	Total	Trade In	Trade Out	Total		US$/INR	US$/PKR
2008-09	0.33	0.30	0.62	0.07	0.08	0.15	0.77	45.93	75.61
2009-10	11.12	15.14	26.25	14.63	14.39	29.02	55.27	47.44	83.12
2010-11	30.47	34.34	64.82	20.38	20.40	40.78	105.60	45.56	85.46
2011-12	46.23	50.99	97.22	14.19	15.63	29.82	127.03	47.92	88.2
2012-13	59.13	59.69	118.82	9.49	8.82	18.31	137.13	54.4	95.85

Year	Salamabad, Uri			Chakan-da-Bagh, Poonch			Total Yearly	Exchange Rate	
	Trade In	Trade Out	Total	Trade In	Trade Out	Total		US$/INR	US$/PKR
2013-14	39.39	45.02	84.41	10.53	12.43	22.96	107.37	60.5	102.89
2014-15	60.59	61.79	122.38	19.81	21.44	41.25	163.63	61.14	100.87
2015-16	62.69	81.33	144.01	19.32	16.53	35.84	179.86	65.46	103.94
2016-17	56.91	54.37	111.28	25.03	24.34	49.38	160.66	67	104.73
2017-18	47.41	63.12	110.52	9.38	17.06	26.44	136.96	64.63	108.1
2018-19	34.13	46.26	80.39	4.85	10.69	15.54	95.92	69.85	130.61
Total	**448.38**	**512.34**	**960.73**	**85.7**	**89.27**	**309.47**	**1,270.20**		

Source: Hussain and Singla (2020)

Table 5.6 Number of Trucks Crossed for Cross-LoC Trade, 2008-19

Year	Salamabad, Uri			Chakan-da-Bagh, Poonch			Total Yearly
	Number of Trucks for Trade-Out	Number of Trucks for Trade-In	Total	Number of Trucks for Trade-Out	Number of Trucks for Trade-In	Total	
2008-09	180	219	399	42	23	65	464
2009-10	1,830	2,662	4,492	1,492	1,560	3,052	7,544
2010-11	3,650	2,413	6,063	1,836	1,626	3,462	9,525
2011-12	4,406	2,960	7,366	2,020	1,255	3,275	10,641
2012-13	7,519	4,119	11,638	1,514	905	2,419	14,057
2013-14	5,152	3,299	8,451	2,151	1,231	3,382	11,833
2014-15	5,476	2,458	7,934	3,675	1,296	4,971	12,905
2015-16	4,323	2,179	6,502	3,220	1,063	4,283	10,785
2016-17	4,726	2,653	7,379	3,418	1,682	5,100	12,479
2017-18	5,193	2,539	7,732	2,770	999	3,769	11,501
2018-19	3,912	3,251	7,163	1,494	722	2,216	9,379
TOTAL	**46,367**	**28,752**	**75,119**	**23,632**	**12,362**	**35,994**	**1,11,113**

Source: Hussain and Singla (2020)

4. CHALLENGES TO CROSS-LOC TRADE

Before its suspension in April 2019, the cross-LoC trade had been operational for over a decade but the trade was continuously in focus due to various security and operational concerns. Some of these concerns were linked to the infrastructural and policy level deficiencies. Absence of scanners, lack of digital platforms to track the transactions, gaps in the SOP are some of the challenges that had hampered this trade to function smoothly and transparently. Based on past field survey and stakeholder consultations, this paper lists down several challenges that are imperative to resolve for re-initiating this trade with trust and transparency.

4.1 Infrastructural Challenges

4.1.1 Lack of Truck Scanners

According to the traders, the infrastructure at the trading points is insufficient. Absence of full body truck scanners leads to delays in the security examination of the goods which happens manually for each truck. The process of offloading the goods and then screening each consignment is cumbersome and would sometimes cause damage to the goods specially the perishable items. Given the security concerns at the trading points and the consistent increase in the number of trucks crossing every day, the delays and damage to consignments caused due to physical inspection and screening, in the absence of full body truck scanners, is inevitable.

4.1.2 Road and Allied Security Infrastructure

Once goods are cleared at the TFC, the trucks move to the crossing point (Kaman Post in case of Srinagar–Muzaffarabad Point) for the crossover to the other side of the LoC and deliver the goods at the TFC in Muzaffarabad. The road condition of nine km from Salamabad, Uri TFC to the Kaman post has been a point of concern for the traders as the roads are not in a very suitable condition. The condition of the road poses a threat to the truck movement along the road.

Additionally, X-ray machines, warehouses, CCTV cameras are in need of upgradation at the TFCs. In the absence of proper security infrastructure, the traders are suffering from delays in the clearance of the consignment which leads to additional transportation cost for the traders.

4.2 Absence of HS Code-Based Item List

As per the SOP issued by the Ministry of Home Affairs, 21 commodities are allowed to be exchanged through the cross-LoC trade. The commodity list given in the SOP is generic and does not refer to the HS code of the allowed items. This results in the ambiguity towards the items to be exchanged. For example: ‘Fruits and vegetables’ is allowed as per the SOP, while fruits and vegetables may consist of hundreds of individual items like apples, banana, kinnow, etc. Hence, in the absence of specific HS code-based product list, there are chances of misrepresentation of goods and under-invoicing. Over the years, absence of specific or HS code-based item list has resulted in confusion, towards the items to be allowed, among the traders as well as the regulatory authorities at the trading points. There have been instances in the past wherein trucks loaded with banana have reached the TFC, but have not been allowed to cross due to sudden ban leading to loss for the traders.

4.3 Ambiguity in ‘Rules of Origin’ Norm

The SOP is not clear on the rules of origin for the items to be exchanged through the LoC trade. In the absence of rules of origin in the SOP, it is open to interpretation by the traders and can sometimes lead to exploiting the market conditions and defying the ‘country of origin’ by exchanging goods which may not have been allowed like the goods from other countries like Sri Lanka, the US, etc. Sometimes absence of rule of origin also gets interpreted as trade between the two sides of Kashmir i.e. only the goods originating from Jammu and Kashmir can be exchanged with the other side and vice-versa. This lack of clarity has also lead to suspension of a particular commodity in the past.

As a result of the lack of clarity on the ‘rules of origin’ there have been growing misapprehensions among the LoC traders and international India-Pakistan traders in Amritsar. The traders in Amritsar have been complaining that cross-LoC trade is being misused as a trade route and is restricting the market and competitiveness of India-Pakistan international trade through the international border at Attari in Amritsar.

4.4 Absence of Digital Platform

The trade procedures at the TFCs involve multiple documents and agencies before clearance to a consignment is granted. The documentation procedure has not been digitised at the TFCs. The traders submit their documents manually at the TFC and each agency processes the documents manually which results in delays for regulatory clearances. In the absence of digital platforms, advance submission of documents and consignments’ details through online platform is not possible, resulting in clearance delays.

4.5 Lack of Awareness about Trading Practices

Traders involved in the cross-LoC trade have been vulnerable to multiple inefficiencies and undesirable trading practices. Lack of awareness of the trading mechanisms and best practices, particularly the accounting practices has been a roadblock in moving towards transparent cross-LoC trade. Given the background of the traders, there is a lack of understanding about the accounting formalities, record maintenance, tax regulations, financial management, etc. This has resulted in multiple irregularities in the trading patterns of traders which have also led to the scrutiny of various traders by the government investigation agencies in recent past.

Additionally, direct line of communication through telephone lines is restricted as the calling between the two sides of LoC is not allowed. Even though, traders are using online platforms and applications to make calls but the uncertain internet connectivity has hampered this communication as well. Other impediments like lack of clarity in the GST provisions while goods are moving out of Jammu and Kashmir resulting in domestic tax evasions and lower interaction among the trading communities of the two sides of the LoC resulting in prolonged trade disputes between parties have also been hampering the smooth functioning of this trade over the last decade.

5. CONCLUSIONS AND WAY FORWARD

Cross-LoC trade would not have sustained the political and security skirmishes between India and Pakistan if the emotional capital associated with this trade would not have existed. This trade was beyond the trade volumes and numbers. The barter exchange across the LoC opened a new chapter in the India-Pakistan engagements especially when it comes to initiatives on Jammu and Kashmir. It was this sentiment and the political will that this trade survived in one of the tense political scenarios i.e. in the aftermath of Mumbai terror attacks in November 2008, which was just one month after this trade started. Cross-LoC trade did manage to connect the two divided sides of Jammu and Kashmir, thereby creating a constituency of peace in an otherwise tense region. Even though economically speaking, the trade volumes may be meager, but the emotional capital attached to this trade is way beyond the numbers (Hussain and Singla, 2019). At times, the term LoC has also been referred to as Line of Commerce and Line of Cooperation. The externalities generated by the trade in terms of its benefits to the local communities and connecting the divided sides of J&K has made this 'blind trade' flourish and continue in even the toughest political situations between India and Pakistan (Hussain, 2015).

Till its suspension in April 2019, the cross-LoC trade had formulated a trade ecosystem of its own by generating a cumulative trade of around US$ 1270 million, since its inception in 2008. The trade suspension has impacted livelihoods of several stakeholders including traders, businesses, transporters and labourers. As per a study by Bureau of Research on Industry and Economic Fundamentals, 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. The study delved deep into the Srinagar–Muzaffarabad route and estimated loss of potential freight earning of INR 5.5 crores from trucks transiting to and fro via the Srinagar route. These estimations are for a period of 31 weeks from March 8, 2019. Additional potential profit of INR 15 crores for the 7,340 trucks that would have crossed the LoC through the Srinagar–Muzaffarabad route could not be realised by the traders involved through this route. There were also 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 the concerned support staff, daily-wage labourers, middlemen and agents in 31 weeks after March 8, 2019. Labourers also suffered potential loss of 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 (Hussain and Singla, 2019). In addition, there has been an indirect impact on the 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. Ground evidence suggests that all the stakeholders are anxiously waiting for the trade to re-start so that they can revive their livelihoods. Economic activity—in this case, the cross-LoC trade—also 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.

India and Pakistan are now at a point where the oscillating political situation between the two is expected to shape future dialogue and economic discourse. Any pursuit of long-term peace between India and Pakistan necessitates separation of politics from economics and continuation of creating stakeholders that push for greater economic cooperation. Before the re-initiation of the cross-LoC trade, governments need to re-strategise the framework of this trade through initiatives that enhance the security aspects associated with this trade, while simultaneously inducing trust and transparency.

Over the last decade, cross-LoC trade has been suffering due to both infrastructural as well as policy bottlenecks as mentioned in the previous sections. In this regard, steps must be taken to address the concerns surrounding this trade in terms of infrastructure and policy gaps particularly in the areas of product identification through HS codes, implementation of digital platforms, clarity of tax regulations and 'rules of origin', etc. This study proposes the following steps that are needed to facilitate the trade across the LoC in a smoother, faster and more transparent manner.

5.1 Infrastructural Upgradation

Government should undertake infrastructural upgradation to improve the physical infrastructure at the TFCs. The roads connecting the TFC and the line of control, though a short distance of a few kilometers should be upgraded to ensure smooth and secured movement of trucks in the sensitive area. Security infrastructure including the full body truck scanners and X-ray machines in the warehouses should be installed. This will help in faster security checks and reduce any wrongful activity in terms of smuggling and any illegal trading activity. There have been discussions by the Ministry of Home Affairs, Government of India for procurement of scanners at the two TFCs of Salamabad and Poonch. This would ensure complete check of the goods being exchanged and will also reduce unloading-loading in case of trade-out trucks as the checking happens manually at the moment. This will particularly be beneficial for perishable items, which are also one of the key items being traded. These initiatives should be implemented before the trade is re-started to ensure faster and secured trade through the LoC.

5.2 Revised Item List in-line with HS Code System

The item list to be traded should be based on the HS codes to allow transparency in the tradable items. This will remove any ambiguity towards the items that can be traded which at present is not clear given the broad item list in the SOP. The item list should be revised and made as per the demand and supply of the items within the region. HS code-based list will also ensure that the traders are guided by the specific items they can trade without any misinterpretations and ambiguities. There have been representations by the traders regarding the revision of item list. The governments should consider that list while finalising the revised item list based on HS code system.

5.3 Digital Infrastructure

In today's economies, digital platform is the main pillar of any trading ecosystem. The digital trading platforms ensure smooth, faster and transparent trading activities. Given the sensitive nature of this trade, it is important to create a digital ecosystem where trader details, trader background, consignment details, invoice history, truck details, driver details, trade balance details, etc. are secured. Since there are multiple security agencies involved at the TFCs, it would be imperative to have a digital platform for smooth information sharing with each agency and fasten the trade procedures as well.

A monitoring cell may also be constituted consisting of officials from the state and central agencies. This team can periodically monitor the daily trade practices like registration of traders, invoicing and exchange of goods, trade balancing, etc. to address the allegations of hawala money, under invoicing, misrepresentation of goods, etc. Trade data and information for each registered trader should be mandatorily recorded in electronic formats by the TFO and shared with the cell at regular intervals for analysis and other real time scrutiny (Hussain, 2017).

5.4 Protocols for Trading Practices

An SOP for trading practices may be outlined by the government which each of the traders should strictly adhere to. Compliance for maintenance of documents, accounting practices, tax compliances, annual returns, PAN details, invoices, trade-balance details, etc. may be issued and traders should maintain the same and furnish to the authorities at regular intervals (perhaps annually). This would result in transparency in the trade practices from the trader's end and also ensure that the right people are involved in this trade. Option of imparting training to the LoC traders may also be explored. With support from excise and security agencies, training sessions should be conducted on the SOP of this trade as well as proper accounting practices such as maintenance of financial documents/record. This would help the traders and the government agencies in monitoring the trade, as well as put the onus on the trader for ensuring proper practices.

5.5 Cross-LoC Trade as Part of National Chambers

Steps need to be taken to incorporate the cross-LoC trade related stakeholders as part of the national level chambers and institutions. This will help in the capacity building and mainstreaming this community in terms of understanding of the domestic economic framework and also enhance the opportunities of the trade community. It will also give them an opportunity to collectively raise the concerns as well as learn from other trade formats and best trading practices.

REFERENCES

Government of India, Ministry of External Affairs (2011, July 27). Joint Statement following meeting between S.M. Krishna, Minster of External Affairs of India and Hina Rabbani Khar, Minister of Foreign Affairs, Pakistan.

Government of India, Ministry of Home Affairs (2019, April 18). Notification towards suspension of LoC trade at Salamabad and Chakan-da-bagh in J&K.

Hussain, A. (2017, August 10). The goods exchange: the Resumption of Cross-LoC Trade. *The Hindu*. Retrieved from https://www.thehindu.com/opinion/op-ed/the-goods-exchange-the-resumption-of-cross-loc-trade/article19459148.ece.

Hussain, A. (2015, December 30). Secure the Line of Commerce with Pakistan. *The Hindu*. Retrieved froms.

Hussain, A., & Singla, N. (2019, October 21). A Time-tested Way to Trade Away Conflict. *The Hindu*. Retrieved from https://www.thehindu.com/opinion/op-ed/a-time-tested-way-to-trade-away-conflict/article29752763.ece.

Hussain, A., & Singla, N. (2020). Unilateral Decisions Bilateral Losses. *Bureau of Research on Industry and Economic Fundamentals (BRIEF)*. Retrieved from http://briefindia.com/wp-content/uploads/2020/06/Unilateral-Decisions-Bilateral-Losses.pdf.

Hussain, A., & Sinha, R. (2016). Trading Confidence: A Compelling Case for Cross Line of Control Trade. *Bureau of Research on Industry and Economic Fundamentals (BRIEF) and Conciliation Resources*. Retrieved from http://briefindia.com/wp-content/uploads/2017/05/CLT-report-V10.pdf.

Kathuria, S. (2018). *A Glass Half Full: The Promise of Regional Trade in South Asia*. The World Bank. Retrieved from https://openknowledge.worldbank.org/handle/10986/30246.

Kira, A. (2011). *Cross-LoC trade in Kashmir: From line of control to line of commerce*. Indira Gandhi Institute of Development Research, Mumbai Working Papers 2011-020. Retrieved from http://www.igidr.ac.in/pdf/publication/WP-2011-020.pdf.

Padder, S. (2013). Cross-Line of Control Trade: Problems and Prospects. *Journal of South Asian Studies*. Retrieved from https://esciencepress.net/journals/index.php/JSAS/article/view/559/454.

Pattanaik, S., & Anant, A. (2010). Cross-LoC Confidence Building Measures between India and Pakistan: A Giant Leap or a Small Step towards Peace? *Manohar Parrikar Institute for Defence Studies and Analyses*. Retrieved from https://idsa.in/system/files/CrossLoCCBMbetweenIndiaandPakistan.pdf.

Singla, N., & Arora, P. (2020). The Dubai Angled Triangle. *Bureau of Research on Industry and Economic Fundamentals (BRIEF)*.

Taneja, N., Mehra, M., Mukherjee, P., Bimal, S., & Dayal, I. (2013). Normalizing India Pakistan Trade. Working Paper No. 267. *Indian Council for Research on International Economic Relations*. Retrieved from https://icrier.org/pdf/working_paper_267.pdf.