



*Pugwash Workshop on Intra-Kashmir
Economic Cooperation*

**Colombo, Sri Lanka, 15-16 March
2008**

**Workshop Report
by Moeed Yusuf**

**INTEGRATING JAMMU AND KASHMIR WITHIN THE INDO-PAK PEACE
PROCESS**

1. The following recommendations constitute a holistic plan for cross-LoC collaboration in terms of human and economic exchange. A number of avenues are explored, each of which can potentially bring gains in its own right. However, ideally, the sector-specific proposals need to be tackled within an overarching framework. As shall be clear shortly, a number of aspects of the proposed plan are inter-linked and would either lose their utility or would be impossible to implement without tackling other concerns simultaneously.

Kashmir Conflict and its Impact

2. The dispute over the princely state of Jammu and Kashmir continues to prevent Pakistan and India from realizing the true benefits of economic integration between geographically contiguous states. Indeed, the brave move from Pakistani and Indian leaders to pursue a normalization course on Kashmir has undermined vested interests to some extent and has already provided a real opening for peace in Jammu and Kashmir. However, the initial momentum is subsiding as residents on both sides of the Line of Control (LoC) have not experienced the kind of beneficial interaction they had initially expected.
3. The immense losses that the Kashmir conflict has caused for Pakistan and India- and thus the benefits installed in the normalization process for both sides- cannot be exaggerated. Pakistan has foregone economic growth of 2.5-3 percent annually for the entire sixty year period. The country's Gross Product

today would have been 3.4-4.4 times higher, the GDP would have been greater by a factor of 3.5 and the per capita income would have approximated \$ 2,200 had it not born the costs of the Kashmir conflict. For India, the costs incurred should be obvious from the fact that till the onslaught of the Kashmiri insurgency, the Central government had to loan 80 percent of Indian Kashmir's budget instead of the 20 percent that it contributed towards other states. Since the insurgency began however, the state's entire budget has been born by the government in New Delhi. The direct costs of fighting the insurgency which approximate \$ xx are in addition to this.

4. Were the following proposed plan for increased collaboration across the LoC executed in its entirety, over a ten-year period, an additional \$ 40 million can be generated as income for the two parts of Kashmir. This would correspond to a 9.5 percent increase in the state's GSDP. Moreover, the per capita income would rise to \$ 745 which would be comparable to Pakistan and India's projected level over the next decade.

The Proposal

Human Exchanges

5. The most urgent need is to enhance human interaction across the LoC. Success in such an endeavor would underpin the entire collaboration framework. Indeed, this was the realization that led Pakistani and Indian leaders to order the initiation of the Muzaffarabad-Sri Nagar bus service in 2005. The service allowed divided families to connect after over five decades of complete isolation. Notwithstanding, this service was only an initial step that was never likely to have more than a marginal impact given the stringent nature of the travel regulations. While those who stand to gain from a slow down of the normalization process in Kashmir are already pointing to the sharp decline in peoples' interest to travel on the bus, the reality is that people remain deeply interested in the freedom of travel. It is only the narrow focus on divided families as well as the excessive procedural hurdles and fear of reprisal from intelligence outfits that have kept people from making better use of the facility.
6. To realize the full potential of human exchange, we suggest expanding the scope of the bus service to include all Kashmiri residents from both parts and streamlining the travel documentation requirements. This would allow not only

private citizens but also the community based organizations, de politicized community leaders, social workers, business community members, and religious and youth organizations to interact regularly. Permit procedures need to be simplified to allow speedy approval of applications. One option could be to allow the Government of Azad Jammu Kashmir (AJK) on the Pakistani side and the Jammu and Kashmir state government on the Indian side to administer the permit issuing process. A ceiling limit on the time for processing of permits could also be instituted to prompt administrations to hasten the bureaucratic processes. Visa issuing centers could be opened on the five LoC “meeting points” already in place to facilitate applicants. Moreover, loosening of the permit regime to allow for multiple entry permits must be considered. A group visa policy for tourists and traders should also be initiated; such facilities are essential as they underpin the economic development and commercial exchange plan we have presented.

7. A subsequent step would be to allow Kashmiris from the Indian side to visit Pakistan and vice versa, as well as for Pakistanis and Indians to visit the part of the Jammu Kashmir state across the LoC. For this purpose, a dual travel documentation requirement could side-step the bureaucratic hurdles. A travel permit should suffice for Kashmiris to travel within the state but passports should be required to enter Pakistani and Indian territory beyond Jammu and Kashmir. For Pakistanis and Indians not belonging to Kashmir however, passports would be required to cross the LoC.
8. Political interaction could provide the overarching framework for human interaction. The visa free regime for Pakistan and Indian Parliamentarians should be extended to the AJK legislature on the Pakistani side and the Jammu and Kashmir state assembly on the Indian side. A joint Indo-Pak parliamentary committee should be mandated to meet periodically to identify and propose avenues for cooperation in areas of common interest. Corresponding working groups at the local government levels should also be set up to work out modalities for various initiatives.
9. We see intellectual interaction as a specific subset within the context of human interaction. This is so since collaboration between university faculties and students in Kashmir could have a significant multiplier effect in terms of generating new ideas for cooperation in addition to altering mindsets towards the ‘other’ among the upcoming generation. Student exchanges are already taking place between Pakistan and India. Even the University of Jammu is in the process of signing MoUs for student exchanges with the Lahore University of Management Sciences in Lahore. The precedent thus exists for such arrangements to be reached between the University of Jammu and/or the

planned Indian Institute of Technology in Indian Kashmir and the University of Azad Jammu Kashmir across the LoC.

10. There is tremendous potential for joint research projects and interactive teaching on subjects that are neutral to sensitivities of both sides. The AJK University has initiated a Kashmir Studies Program that focuses on Kashmir's economy, art, culture, disaster management, post-conflict resolution and other such cross-cutting aspects that are pertinent to students and faculty throughout the Kashmiri state. This program could be used as a starting point for educational collaboration and be expanded over time. A semester-long deputation for faculty could be instituted to allow them to teach in the Kashmir Studies Program jointly. As for students, a facility similar to the study abroad programs instituted in western universities could allow students to spend one-year of their education in institutions across the LoC with credits being transferred to their parent institutions. Of course, such arrangements would only be viable in programs offered by universities on both sides.
11. Once the dividends of initial intellectual exchanges become evident, the governments of Pakistan and India could consider establishing a joint university with multiple campuses spanning both sides of the LoC. The framework would be similar to that of the proposed SAARC University. This would allow cross-registration for students and provide the faculty an option to teach courses of their choosing at any of the campuses.
12. In addition to collaboration between established educational institutions, human capacity building will be required across sectors of economic interest. For this purpose, not only would both sides need to enhance their vocational training capacity but would also need to develop synergies in training especially in sectors that necessitate joint operations. Both sides could consider setting up joint vocational training institutes on the LoC or share master trainers to standardize training quality on both sides. Key sectors where such collaboration is envisioned include the tourism industry that will require much enhanced capacity for tour operators, travel group managers, hotel staff, tourist guides, and the like. IT specialists will be required to modernize the two economies. Moreover, processing industries such as high value added furniture would also gain from vocational training.
13. The media has been a potent force in bringing vibrancy to the Pakistani civil society. It has allowed communities a voice and participatory mechanism despite lack of genuine democracy in the country. Similar benefits can be accrued in Jammu and Kashmir should media freedom be granted. Both governments should allow a select number of TV and radio channels to be aired

on both sides of the LoC. For their part, the Indian and Pakistani media should encourage joint current affairs TV and radio shows. The programs could be hosted by channels viewable in Kashmir. The shows could be hosted alternatively from Muzaffarabad and Sir Nagar with guests from both sides of the LoC; even Pakistani or Indian experts on the subject could be invited. Such an initiative has already been a great success in the Israel-Palestine context. To maximize gains, Pakistani and Indian TV and radio channels can be persuaded to air a “Kashmir series” that would allow at least one or two programs a month to focus solely on various aspects of the Kashmir problem.

14. Pakistan must also extend the current proposal of legalizing Indian films within Pakistan to AJK and the Northern areas. The entertainment industry in Pakistan/ Pakistani Kashmir should be allowed to hold formal viewings of films and dramas produced in India and vice versa. Again, much like intellectual exchanges, a multiplier effect would be evident as producers would see this as an opportunity to develop features focusing on the positive aspects of peace and collaboration in Kashmir. This is sure to impact mindsets positively on both sides over the long run.

Economic Collaboration

15. Despite the fact that discussions about potential for economic cooperation have been part of the agenda throughout the Kashmiri peace process, there is still little concrete information on the precise complementarities between the two parts of the Jammu Kashmir state. While we do point to the sectors of interest and possible initiatives, the first order of the day should be to generate accurate and specific information on the qualitative and quantitative gains installed for both sides. Governments in Islamabad and New Delhi should coordinate joint survey/ information gathering exercise on all potential avenues of cooperation. This arrangement will have to be instituted immediately and is distinct from the parliamentary and local government interaction proposed for Kashmiri elected representatives above. The urgency for fact finding is borne out of the obvious compulsion to base any formal arrangements to cooperate on solid information regarding the current state of affairs. This will also help Islamabad, New Delhi, Muzaffarabad, and Sri Nagar to generate political support for joint initiatives.

Trade in goods

16. In order to maximize gains from trade in goods, we propose a sub-regional arrangement within the SAFTA auspices but one that will not only include trade in goods but also protocols for trade in services and joint ventures. Under the sub-regional arrangement, the entire state of Jammu and Kashmir could be accorded the status of a quasi-state and granted rights equivalent to those of the LDCs in South Asia. Both Pakistan and India would allow duty free access to Kashmiri goods from the opposite side of the LoC. This would necessitate an agreement on the Rules of Origin. However, neither side should hesitate to implement such a regime since Jammu Kashmir does not have the kind of production potential that could flood Pakistani and Indian markets.
17. We recognize that a sub-regional arrangement may only be possible over the long-run. As a first step- to optimize current trade potential- the foremost requirement is to remove all tariff and para-tariff barriers to inter-Kashmir trade. The preferential arrangement would allow for cross-LoC duty free access of raw materials and value added goods. No sensitive lists ought to be prepared, thus allowing all Kashmiri products to be traded free of duties.
18. Both sides must explore the option of establishing border markets at designated points to cater to demand for residents across the LoC and tourists alike. Three obvious locations could be the Poonch-Rawala Kot route, Uri, and Chakothei. Border markets should serve as the center of commerce activity where people from across the LoC are allowed to visit, using officially stipulated travel documents. Not only could such border markets act as retail hubs, but they could also provide opportunities for traders on both sides, be they farmers, craftsmen or producers of other value added products, to meet and conclude future business deals. Moreover, were a quota for a certain proportion of rural producers (especially for agricultural producers) to set up retail stations in the markets would ensure easier market access for the rural poor. Arguably, enhanced interaction could lead producers on both sides to gauge consumer preferences and specialize products, especially crafts and value added goods.
19. Extremely beneficial for both sides would be an arrangement where Pakistani Kashmir serves as a transit route for Indian Kashmiri goods destined for the rest of the world. A similar arrangement could be instituted for imports coming into Indian Kashmir. The framework could replicate the Afghan Transit Trade (ATT) facility that allows Afghan goods to travel to India via Pakistan and vice versa. Since none of these items will be destined for the Pakistan market, sensitive issues such as Rules of Origin, authenticity of the documents, and the

like would not arise. Pakistan would charge royalties in return for providing the transit facility.

20. The transit arrangement has great scope as the pre-partition transport routes between Jammu and Sialkot and Sri Nagar and Muzaffarabad remain much more economical for traders in the Indian state of Jammu and Kashmir even today. For items such as woolen shawls, wooden artifacts, and animal skins, Lahore's new airport can provide feeder services for onward shipment to the rest of the world. For goods more suited to sea-shipment, the much improved facilities of the Port Bin Qasim and Karachi Port Trust are more attractive propositions than Mumbai for traders on the Indian side of the LoC. Finally, if Pakistan's plan to upgrade the Karakoram Highway does materialize in the medium term, it could provide a convoluted, yet economical route for Kashmiri goods to find their way into China and Central Asia.
21. While the transit facility could be operationalized utilizing the current road links available across the LoC (GoP has already expressed interest in starting a truck service between Muzaffarabad and Sri Nagar), its true potential would only be realized after the transport links have been upgraded. A number of new transport links have already been identified as key to increasing commercial exchange. These include Jammu-Sialkot, Turtuk-Khapulu, Chamb Jurian-Mirpur, Gurez-Astore-Gilgit, Tithwal-Chilhan, and Nowshera-Mirpur-Kotli, and Skardu-Kargil. The revival of the traditional rail link between Jammu and Sialkot and a link between Sri Nagar and Muzaffarabad through rail, continuing onwards to Abbotabad and Rawal Pindi are equally important.

Joint Collaboration

Hydroelectricity

22. Perhaps the greatest potential for the state of Jammu and Kashmir is with regard to generation of hydroelectricity. The Indus Water Treaty (IWT) delineated the use of water from rivers flowing through Kashmir but ended up leaving the electricity generation potential of the state under-utilized. The Treaty need not be altered- only reinterpreted- to allow for joint hydroelectric production. An integrated power grid which is based on an extension of the current distribution systems on both sides of the LoC is permissible under the IWT and could provide 5,000-7,500 megawatts of readily utilizable power. A less ambitious plan could be to jointly develop a power generation projection project around the LoC.

23. The hydroelectricity generation plan would automatically bring experts from both sides of the LoC together to devise the mechanism for cooperation. This could be best achieved under a sub-regional agreement, which is also necessary as surplus electricity would be exported to India, Pakistan and even other Central Asian states and would thus necessitate a revenue sharing arrangement. A sub-regional arrangement specific to energy could be framed or else, the overarching sub-regional agreement mentioned earlier could provision for such collaboration.

Tourism

24. The beauty contained within the state of Jammu and Kashmir makes it naturally suited for a thriving tourism industry. The state used to attract a large number of tourists prior to partition. Indian Kashmir remained a popular tourist spot until the insurgency broke out in 1989. The first order of the day is for both sides to determine the accurate potential in terms of volume, attractive sites, and infrastructure needs for the development of this industry. There is need to set up a joint consultative mechanism with officials from tourism departments and prominent members of the tourism industry from both sides. The group would be tasked to identify concrete measures to enhance the tourism potential across the LoC.

25. The most obvious activities that could make Kashmir an attractive tourist destination includes mountaineering, skiing resorts, and water sports. In addition, if Kashmir's history could be captured through museums, it is sure to interest Chinese and other East Asian nations that trace back their roots to this part of the world. With direct road links with China and reports indicating that as many as 100 million Chinese tourists may be interested in joining the global tourist industry as clients, Kashmir could benefit immensely. Two rather innovative but concrete proposals are already on the table and will have tremendous spin-off effects. One is premised on the visible inclination from both Pakistan and India to demilitarize the Siachen glacier. The Siachen and Boloto glaciers could be converted into a scientific park. The scientific merit for this project has already been established. A similar initiative could be taken in the area covering the Central Karakoram National Park. A joint management committee with relevant public and private stakeholders from both sides could manage these facilities under IUCN guidelines.

26. Once the industry takes off, the joint consultative group could act as the Tourism Development Board that would coordinate tourism activities. The industry should be privately managed with the tourism board authorizing registered privately owned travel facilitation companies to have all formalities cleared for their clients. Logistically, inter-Kashmir tourism could be conducted by offering joint travel packages that provision for visits to sites across the LoC utilizing the Muzaffarabad-Sri Nagar road link. For all foreign tourists, national passports should suffice for cross-LoC travel. Kashmiris could utilize facilities by virtue of their travel permits.
27. Of course, physical infrastructure in terms of five star hotels, an expanded road network, communication systems, banking facilities, and health facilities would all have to meet international standards for the tourism industry to generate the expected dividends. Equally important is the need to have trained human resources who could manage such a specialized industry. In this regard, India could gain from its existing human capacity building track record to set up hotel management institutes in Sri Nagar, where Kashmiris from both sides could be trained. As already mentioned, other more specific vocational training institutes for personnel to be involved in various capacities in the industry could be set-up and utilized by residents of both sides.

Forest and Environment

28. Both sides of Kashmir are rich in forests, albeit ones that have been degraded severely over the years. Consequently, the furniture industry in Kashmir, especially Walnut furniture that was once a well-known product of the state, has disappeared. In order to revive the furniture industry, joint forest management (JFM) experiences on both sides need to be studied. While measures to improve forest cover will be largely unilateral, a consultative group could share best practices on forest management. Moreover, processing industry needs to be revitalized at the behest of the private sector corporations. Private investors should be allowed to invest in forest resources and furniture production on both sides of the LoC. In order for both sides to accrue comparable benefits however, Indian and Pakistani parts of Kashmir should supply similar volumes of wood to processing units.
29. Kashmir's waterways intrinsically link Pakistan and India. All three major rivers of Pakistan, the Indus, Jhelum and Chenab flow through Jammu Kashmir. The fact that watersheds lie across the LOC implies that Pakistan is directly affected by the state of rivers in Indian Kashmir. A joint group across

the LoC could be set up to exchange data on water flows and assess water quality. Constant gauging of the water quality could also allow the group to determine the optimal irrigation practices that would ensure sustainable use of water resources by agricultural communities on both sides of the LoC. Moreover, a periodic joint environmental clean-up exercise could also be mandated. However, since this initiative may require buffering water flows, a political consensus on such collaboration would have to be reached in advance.

Information Technology

30. The role of the IT industry on both sides is multifaceted. The entire economy ought to move towards automation in order to ensure efficiency in trade deals as well as to promote investor friendliness. The demand for IT services on both sides of the LoC could be expected to increase tremendously once Kashmir transforms into a modern economy and banking, e-commerce, and e-governance practices are instituted. Moreover, the industry could become the mainstay of Jammu Kashmir's marketing and information projection strategy.
31. Given the above, there is a need for Pakistani Kashmir to accelerate IT development in the state. In order to develop human resource capacity for long term sustainability, Indian IT professionals could be requested to teach at small IT training centers that could be set up in Pakistani Kashmir. Moreover, IT students from Pakistani Kashmir could study in the proposed Indian technology institute in Indian Kashmir. The Indian side could also help their Pakistani counterparts in setting up software technology parks and other such IT ventures. While the principal beneficiary of which cooperation may seem to be the Pakistani Kashmir, the fact is that without enhanced capacity in this area, much of the other collaborative efforts may fall short of realizing their benefits. Indian Kashmir therefore has an interest in uplifting the IT capacity across the LoC.
32. Efficient communication links underpin any modern economy. There is virtually no possibility of integration between the two parts of the state unless telecommunication and internet facilities parallel those in Pakistan and India. Currently, people on the Indian side of Jammu and Kashmir have no telephone connections with residents across the LoC. Since cellular and satellite-linked communications are already accessible (this undermines the security based argument for restricting communications), land-line communication should also be allowed. This is essential if attractive cross-LoC tourism and trade regimes are to be instituted.

Disaster Management

33. The 2005 earthquake was a stark reminder of the effects the artificial divide between the people of Jammu and Kashmir could have in crisis situations. People from both sides of the LoC were in close proximity to each other but could not cross over to help their brethren. While such an exchange was allowed eventually, it was much delayed and largely symbolic.
34. Since Jammu and Kashmir is projected to be home to active seismic activity for the foreseeable future, both governments should consider setting up a joint disaster planning group which can work out a common protocol to interact and cooperate in case of disasters. Specifically, the plan could provision for disaster response centers close to the LoC as well as a provision for people to assist across the LoC should normal food supplies be cut off for either side or if extensive loss of human life seems imminent. The group could specify the kind of cooperation in terms of number of people or type of machinery that could be exchanged should a natural disaster occur.
35. The civil society could take the lead role in instituting community based training programs seeking to integrate traditional coping mechanisms with modern techniques for disaster mitigations. It could even liaison with relevant government functionaries to ensure the necessary disaster prevention infrastructure is available to each community in the region. Again, Indian and Pakistani governments would have to allow civil society organizations to coordinate on both sides of the LoC for this purpose. Perhaps, a small number of civil society outfits could be allowed to maintain presence in Indian and Pakistani Kashmir.

Financing the Plan

36. The entire plan is likely to cost between \$20-35 billion. Therefore, local resources will be inadequate. Both governments would thus have to encourage foreign investment in its state of Jammu and Kashmir. Realistically, the plan would have to be run at the behest of the IFIs and bilateral donors with a heterogeneous mix of local investors complementing international lending.

37. To begin with, a sector-by-sector financial plan should be developed with the help of technical experts dealing with various facets of the program. Next, feasibilities for various identified projects could be carried out. Subsequently, the plan could be floated to seek investor interest. Simultaneously, the World Bank's Foreign Investment Advisory Service could also be requested to conduct a detailed investment climate survey of the region. In terms of IFI lending, the World Bank and ADB should be approached to finance the plan through special low-interest loans typical of post conflict economies. This would have to be done through the governments of India and Pakistan who would underwrite the loans. Each agency could opt for projects that fall within its priority areas. For example, ADB's focus on infrastructure and water and sanitation would lure it to such initiatives.

38. The IFIs also have a role in planning with the concerned governments to channel private investment into the State. Granted, Kashmir's troubled law and order situation on the Indian side and relative lack of development on both sides implies that the terms of private investment would have to be overly attractive. Notwithstanding, the level of private investment in large part will depend on the extent to which the public sector agrees to give up its monopolies. The Kashmiri diaspora could prove to be a major resource bank. Expatriate investors could be targeted to involve themselves in sectors of their interest. Another option would be to float international bonds, say the "Kashmir bonds" to raise resources

39. The domestic banks will also have a role to play in terms of supporting small-scale investment. Financial competition within banks and other lenders such as micro-credit institutions therefore needs to be increased. Commercial banks should be allowed to open their branches on both sides of Kashmir. The Bank of Jammu is already interested in opening branches in Pakistan. If the governments signaled their interest and provisioned for Pakistani, Indian, and especially Kashmiri banks to enhance their presence on both sides of the LoC, all investment and trade transactions could be settled electronically. This way, both governments would also be able to track transmission of all funds, thus allaying any security concerns that may have.

Seeking a transformation in Jammu and Kashmir's economy

40. The ultimate objective of the economic development plan would be to create a win-win whereby the public sector could withdraw gradually, thus reducing its

burden while inviting private sector competition with attendant efficiency gains.

41. Industrial production and services industries like tourism and IT must be driven by private sector involvement to ensure efficiency. Private sector involvement would also be key in Kashmir's image projection and industrial marketing around the world. There is substantial role for the private sector in the forest sector. Civil society involvement in the services and social sectors would also be essential. Consequently, the public sector monopolies would have to give way, with the sector's role being limited to one of a loose regulator. The most important function for the public sector would be to guarantee an investor friendly climate with clearly defined regulatory and legal frameworks, facilitate business processes by reducing bureaucratic red-tape, enhance transparency and accountability in official mechanisms, and most importantly provide clear boundaries for permissible interaction within which governments would refrain from invoking security concerns.