

LINE OF CONFIDENCE

Relevant for: International Relations | Topic: India - Pakistan

In the last decade, the Line of Control (LoC) in Jammu and Kashmir has often been re-interpreted as the line of commerce and co-operation. This paradigm shift was the result of initiation of two [confidence-building measures](#) (CBMs) between India and Pakistan — cross-LoC trade and cross-LoC travel. It was representative of a constructive bilateral engagement process in the midst of political upheavals. Stakeholders were hopeful that while cross-LoC travel would connect divided families, cross-LoC trade would foster economic ties between Jammu and Kashmir and Pakistan-occupied Kashmir (PoK) that would eventually help reap the peace dividend. However, on April 18, the government of India announced the [suspension](#) from midnight of trade at the two designated points expressing concerns over 'illegal inflows of weapons, narcotics and currency' in the country. 'A stricter regulatory regime' is expected for re-initiation of trade.

Cross-LoC trade is an intra-Jammu and Kashmir trade, in the form of barter of goods on a reciprocal basis. Started on October 21, 2008, the trade has been conducted through a standard operating procedure (SOP) mutually agreed by New Delhi and Islamabad. The SOP enlists the 21 categories of items to be traded on zero tariffs. LoC trade takes place four days a week, wherein traders are allowed to exchange 70 trucks per day. The trade-in (import) and trade-out (export) goods have to be balanced to zero for each trading firm within a period of three months.

Will closing LoC trade end terrorism?

The total number of traders registered at the Salamabad Trade Facilitation Centre (TFC), Uri, and Chakan-da-Bagh TFC, Poonch, is approximately 600. Since 2008, trade has shown an average year-on-year growth of about 19%, reaching a cumulative value of over 6,500 crore to date. Furthermore, it has generated more than 1.6 lakh job days. To date, more than 1 lakh trucks laden with goods have been exchanged, generating approximate freight revenue of 66.50 crore for transporters of Jammu and Kashmir. These figures are indicative of the potential that this trade holds for social and economic development within Jammu and Kashmir.

Line of caution: On suspension of cross-LoC trade

Despite its success in generating economic benefits, the operational and policy level deficiencies render the trade vulnerable to misconceptions and malpractices. Lack of clarity in the SOP towards rules of origin, items list, goods and services tax (GST)/local taxation mechanisms are some of the limitations. To further exemplify, a practice of 'trade number selling' was prevalent at the TFCs wherein few trading firms sell their registration/token numbers to other trading firms to send the latter's goods across the LoC out of turn in the roster system. This practice has created a gap between the number of genuine traders and traders involved only in 'trade number selling'. The issue is compounded by the presence of 'seasonal traders', that is, traders who are active only for few months, thereby leaving a negative balance overall in the barter trade.

These issues, coupled with a number of infrastructural issues such as a non-functional weighbridge, lack of CCTV cameras and truck scanners, and an absence of regular communication channels warrant reforms in the trade practices.

The unexpected suspension of the trade has affected locals. Traders have incurred significant losses as most of the goods were in transit while some goods were sold at a lower price in the

local markets of Jammu and Kashmir. Traders who were awaiting the trade-in goods in exchange of the goods sent earlier have also incurred heavy losses and a negative trade balance against their firms.

Streamlining LoC trade would require both infrastructural and policy level interventions. First, a revision in the SOP is required to highlight the trader re-registration process; we need clarity on the 'rules of origin' of goods; tradeable commodities need to be identified that will benefit the local economy of Jammu and Kashmir, and further eight-digit HS (harmonised system) codes must be assigned to ensure clarity on the items. The SOP must also specify the modality of movement of trucks across the LoC as well as clarity on filing of GST/other local taxes. A token system on a first-come-first-serve basis should be explored. This will check the misuse of trade registration number in the roster system.

Second, digitisation of the TFCs must take place to make the process of record keeping easy, transparent and accessible to various regulatory agencies. Third, the digitised TFCs should be enabled with a 'trader notification system' for timely reminders to achieve zero barter balance for continuation of trade.

Fourth, in case of non-compliance, a strict 'trader de-listing policy' needs to be put in place wherein any trader with a negative balance in barter for more than the designated time period can be suspended from conducting trade. Fifth, regular meetings must also be held between the trade facilitation officers of both sides of the LoC to ensure co-ordination of such activities and exchange of the list of suspended/banned traders.

Finally, infrastructure upgradation such as installation of truck scanners, functional CCTV cameras for security, and calibration of weighbridges, are essential to check the inflow of banned items, narcotics and weapons.

The gains made by India and Pakistan through initiation of cross-LoC trade and travel have manifested themselves in the form of recent talks of opening the Sharda Peeth corridor in PoK as another CBM. An important lesson is to be learnt here, optics and rhetoric aside, is that the sustenance of a CBM requires regular policy and operational-level interventions.

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